

  
**ARENA**  
TURIST

A MEMBER OF PPHE HOTEL GROUP



## INTRODUCTION

## WHO WE ARE

We are a well-established hospitality group which owns, co-owns, leases, operates and develops full-service hotels, self-catering holiday apartment complexes and campsites in Croatia, Germany and Hungary. We have the exclusive right to operate and develop the recognised international Park Plaza® brand in 18 countries in the Central and Eastern Europe region (the 'CEE region'), allowing us to further grow our Group.

## WHAT WE DO

Our primary objectives are to become a dynamic hospitality group in the upscale, upper upscale and lifestyle market segments in the CEE region, whilst striving to create and realise shareholder value. Our exclusive right to operate and develop hotels under the Park Plaza® brand covers 18 countries and provides us with excellent growth prospects across the region.

## HOW WE DO IT

Our portfolio includes 27 owned, co-owned, leased and managed properties with over 10,000 units located in major gateway cities such as Berlin, Cologne and Budapest, and select resort destinations in Istria, Croatia. Our revenue is generated from different market segments – predominantly holidaymakers in Croatia and a diversified business mix in Germany and Hungary, catering for business and leisure travellers, as well as conference delegates and trade fair attendees.

FRONT COVER IMAGES: ART'OTEL BERLIN MITTE,  
PARK PLAZA NUREMBURG, PARK PLAZA ARENA PULA

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2016 HIGHLIGHTS  
FOR CROATIAN OPERATION<sup>1</sup>

435.9m

+8.2%  
TOTAL REVENUE (HRK)

132.0m

+12.9%  
EBITDA (HRK)

18.2

+106.8% NORMALISED  
EARNINGS PER SHARE (HRK)<sup>2</sup>

214.0

+8.7%  
RevPAR (HRK)

140.8m

+12.0%  
EBITDAR (HRK)

42.7m

+70.8% NORMALISED PROFIT  
BEFORE TAX (HRK)<sup>2</sup>

30.3%

+130 bps  
EBITDA MARGIN

45.3%

+110 bps  
OCCUPANCY<sup>3</sup>

472.4

+6.1% AVERAGE  
DAILY RATE (HRK)

<sup>1</sup> The basis for the financial statistics in this Report are the results from the Croatian operation, excluding Germany and Hungary, unless otherwise stated. The year-on-year comparison is against 2015 financial statistics. All figures in the Strategic Report are taken from the Consolidated financial statements unless otherwise indicated.

<sup>2</sup> Also see Chief Financial Officer's statement on page 22.

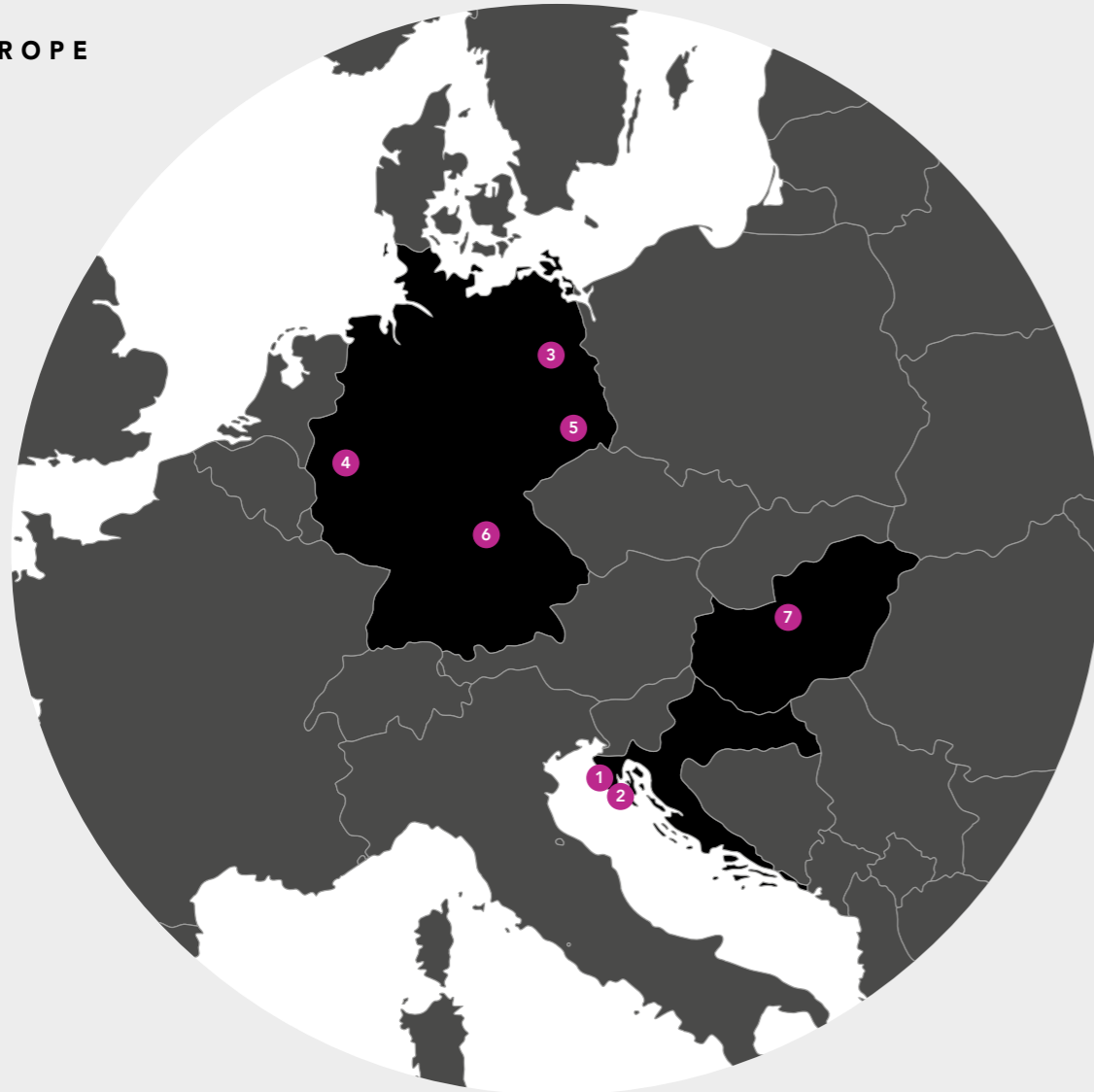
<sup>3</sup> Occupancy is calculated based on the number of days that each property is open. Most of the Company's hotels in Croatia and all of its self-catering holiday apartment complexes and campsites in Croatia are closed during the winter.

This document is a translation of the original Croatian language version of the Annual Report, produced for the convenience of English speaking readers. In the event of any ambiguity or conflict between the text contained herein and the original Croatian version, the relevant text of the Croatian version shall prevail. While all possible care has been taken to ensure that this translation is an accurate representation of the original Croatian document, this translation may not be relied upon to sustain any legal claim, not be used as the basis of any legal opinion and the Company expressly disclaims all liability for any inaccuracy herein.

OUR BUSINESS AT A GLANCE

/  
OUR LOCATIONS

EUROPE



- 1 **Pula**  
Croatia
- 2 **Medulin**  
Croatia
- 3 **Berlin**  
Germany
- 4 **Cologne**  
Germany
- 5 **Dresden**  
Germany
- 6 **Nuremberg**  
Germany
- 7 **Budapest**  
Hungary

INTERNATIONAL HOSPITALITY GROUP



Arenaturist is one of Croatia's best known hospitality groups and in Croatia consists of seven hotels, four self-catering holiday apartment complexes, eight campsites and numerous food and beverage outlets all of which are located in Istria.

In Croatia, the Company caters primarily for tourists. All the properties are located in prime locations on the coast only a short distance from either the 3,000 year-old city of Pula or the touristic town of Medulin.

In December 2016, Arenaturist acquired from PPHE Hotel Group 88% of its German and Hungarian operations, consisting of seven Park Plaza® and art'otel® branded hotels

under ownership/co-ownership/lease and one managed art'otel®, together with an exclusive right in 18 countries within the CEE region to operate and develop hotels under the Park Plaza® brand as well as management contracts for the German and Hungarian operations.

As at 31 December 2016, Arenaturist owns, co-owns, leases or manages 15 hotels (with 2,914 rooms), four self-catering holiday apartment complexes (with 1,060 rooms) and eight campsites.

Arenaturist is now an international hospitality company with operations in Croatia, Germany and Hungary.

<b>15</b> hotels	<b>4</b> Self-catering holiday apartment complexes	<b>8</b> campsites
<b>2,914</b> rooms in operation	<b>1,060</b> apartments in operation	<b>6,075</b> pitches and mobile homes in operation

WORLD-CLASS BRANDS



Individual design, city centre locations and excellent meeting facilities are key features of the upscale and upper upscale Park Plaza® brand, making it ideal for both corporate and leisure guests. The hotels' modern function spaces are flexible for conferences, exhibitions and private event use. Park Plaza® event facilities are perfectly complemented by stylish guestrooms, award-winning restaurants and bars and a reliable service that is flawlessly delivered.

art'otels are a contemporary collection of hotels that fuse exceptional architectural style with art-inspired interiors, located in cosmopolitan centres across Europe. At the brand's core is the art itself. Each hotel displays a collection of original works designed or acquired specifically for each art'otel®, rendering each a unique art gallery in its own right. art'otel®, has created a niche for itself in the hotel world, differentiating it from traditional hotels.

<b>7</b> hotels and self-catering holiday apartment complexes	<b>5</b> hotels
<b>1,838</b> rooms in operation	<b>818</b> rooms in operation

## CHAIRMAN'S STATEMENT

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### STRENGTHENING OUR OFFER



#### Dear shareholders,

Welcome to our 2016 Annual Report. This was a year of many successes and milestones, and was also a year in which we laid the foundations for the newly transformed Arenaturist.

The past year has been a turbulent year for the hospitality industry in many markets around the world. Several holiday and city destinations were negatively impacted by reduced travel demand as a result of geopolitical events. Nevertheless, Croatia benefited from the changes in travel patterns and Arenaturist was no exception, reporting a record performance in revenue.

Our Company's history spans several decades of successfully operating and developing a diverse leisure portfolio in Croatia consisting of hotels, self-catering holiday apartment complexes and campsites. In 2016, we began a new journey which saw us expand beyond the borders of Croatia into the German and Hungarian markets and start to take steps into new markets.

The CEE region is historically underserved by branded hospitality operations and with Arenaturist acquiring the exclusive right to operate and develop hotels as part of the Park Plaza® brand in 18 countries in this region, we will be actively pursuing new growth opportunities.

We have truly transformed Arenaturist from being a highly seasonal domestic operator to a dynamic international company with a well balanced portfolio including city centre hotels, which operate year round, and an appealing and multi-faceted leisure offering. The majority of our hotels operate under world-class brands, which are supported by a strong global distribution and marketing platform and this will assist in delivering growth for our shareholders.

Trust is one of our main corporate values and we are honoured that our new majority shareholder trusts us with making our new journey into a great success. Our long standing and new majority shareholder, and I, have every confidence that our experienced team in Pula, which has been strengthened with the recently acquired regional management team in Berlin, will be able to deliver strong results from our existing operations and drive further growth through new opportunities.

On a corporate level, we were delighted to welcome two of Croatia's major institutional investors as new shareholders in Arenaturist, as well as Yoav Papouchado, Abraham Thomas and Denis Jukić to our Board of Directors.

Arenaturist has convened a General Assembly of its shareholders to be held on 22 March 2017, to approve, amongst others, a capital increase of its issued ordinary shares from 3,273,750 to between 4,273,750 and 5,273,750 ordinary shares by way of a non-preemptive offering of new shares in Arenaturist in the Republic of Croatia.

2016 has been a transformational year and I would like to take this opportunity to thank our Board of Directors and the Executive Directors for their guidance, and the entire Arenaturist team for their support and dedication.

The Board of Directors is excited about what lies ahead as we continue to explore opportunities to revitalise certain of our properties in Croatia, pursue new opportunities for growth in international markets and continue to improve our day-to-day operations.

**BORIS IVESHA**  
CHAIRMAN

## INVESTMENT CASE

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### A UNIQUE APPROACH



Arenaturist is an attractive investment opportunity for Croatian and international investors:

- A dynamic hotel and hospitality group in Croatia with a presence in Croatia, Germany and Hungary
- Strong existing branded hotel portfolio and exclusive right to operate and develop additional Park Plaza® branded hotels in the CEE region
- Presence in attractive markets with a well-invested hotel network
- Powerful marketing and distribution network through PPHE Hotel Group and its partnership with Carlson Hotels
- Proven track record of growth both organically and via acquisitions
- Operational and financial excellence
- Support from the Group's long standing shareholder
- Experienced management team

# CHIEF EXECUTIVE OFFICER'S STATEMENT

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## A SUCCESSFUL YEAR



**“2016 WAS A RECORD YEAR AND WE ARE EVEN MORE EXCITED ABOUT WHAT LIES AHEAD”**

## 435.9m HRK

Croatia Group revenue (€57.7m)

## 132.0m HRK

EBITDA (€17.5m)

# 15<sup>1</sup>

hotels

# 4

self-catering holiday apartment complexes

# 8

campsites

### Welcome

We look back on a successful year for Arenaturist. Our teams delivered an exceptional result and we continued to benefit from our extensive investments in the refurbishment of our hotels, self-catering holiday apartment complexes and campsites in recent years.

### Financial performance

Our total Group revenue increased by 8.2% to a record HRK 435.9 million (2015: HRK 402.8 million), and our EBITDA increased by 12.9% to HRK 132.0 million (2015: HRK 116.9 million). The Croatian economy experienced strong growth in 2016 and tourism was one of the main drivers for this growth. In addition, many traditional and, arguably better known, leisure destinations were affected adversely by geopolitical events, the refugee crisis and/or economic unrest, all of which diverted leisure tourism from those affected countries to Croatia. We expect this trend to continue into 2017.

From 2017, we will consolidate the results of our newly acquired hotels in Germany and Hungary in our profit and loss accounts.

### The transformed Arenaturist

With our controlling shareholder changing in 2016 and the subsequent expansion into Germany and Hungary, we are now in a great position to benefit from our enlarged footprint and deliver on our aim of establishing Arenaturist as a dynamic hospitality company in the CEE region.

Our teams successfully integrated three recently acquired Croatian private operating companies and we contracted to acquire the freehold interests in art'otel berlin kudamm and art'otel cologne which the Group leased and managed (such acquisition completed in February 2017). The main milestone for the year, however, was the acquisition of the 88% shareholding (by way of capital contribution) in the German and Hungarian operations of PPHE Hotel Group consisting of eight Park Plaza® and art'otel® branded hotels, giving us control over these hotels as well as access to an exclusive right to operate and develop hotels under the Park Plaza® brand.

Historically our portfolio has been concentrated in the seasonal Pula and Medulin regions within Croatia, but our network now includes hotels in major business and leisure destinations such as Berlin, Cologne, Nuremberg and Dresden in Germany, and Budapest in Hungary, which operate all year round.

### Capital expenditure in 2016

In 2016, we invested HRK 17.3 million in our Croatian operations with a focus on the expansion and improvement of our portfolio. With carefully planned renovations and the introduction of new facilities for our guests, we have further improved our overall guest experience and enhanced our value proposition.

Hotel Park was transformed and rebranded to Park Plaza Arena Pula in 2015, and was extended by the addition of six new luxurious suites in 2016.

Offering a highly diverse sports and entertainment programme is one of Arenaturist's main strengths in appealing to international holiday makers during high season and to (semi) professional sports teams and athletes in the shoulder season. Our Medulin Sports Centre (which is part of Park Plaza Belvedere Medulin) is now one of the largest football venues in Croatia. It encompasses eight full-sized pitches, two of which are newly built FIFA compliant artificial turf pitches. We have also expanded the Verudela Golf Range with a new golf coaching facility.

Alongside investing in upgrading and expanding our existing properties, we invested HRK 18.9 million in maintenance across many of our properties.

<sup>1</sup> This includes the hotels in Germany and Hungary, which are not included in our 2016 financial data and statistics.

## CHIEF EXECUTIVE OFFICER'S STATEMENT CONTINUED

# 84.9

employee  
engagement index

# 1,219

team members  
in Croatia on  
31 August 2016

### Sales and marketing

In a highly competitive marketplace, constant innovation is of utmost importance to ensure that our brands stand out. Following the successful launch of our guests' services mobile application in 2015, in 2016 we introduced a keyless entry solution for our guests which was rolled out at Park Plaza Arena Pula. Guests can now use our application on their mobile phone as a key to their room. The system is safe and secure and we are planning to implement this in several of our hotels in Croatia in time for the 2017 summer season. We also introduced an additional mobile application for improved communications between internal departments and management.

Creating special holiday moments and long lasting memories is part of our DNA and we are proud that we have been able to help organise or participate in a number of events that will be remembered and treasured by those that attended. To name but a few, in 2016 José Carreras and Robert Plant held concerts in Pula, and the city once again hosted the Dimensions and Outlook festivals. Following its inaugural event in 2015, the IRONMAN triathlon returned to Pula and it was even bigger than the previous year.

In 2013, in partnership with TUI, we introduced a couples hotel in Croatia and, on the back of its success, we agreed with TUI to market this hotel as part of their Sensimar (adults only) brand. This new partnership commenced in 2016 and enabled us to work with TUI to promote our offering to the UK market in particular. In 2017, we expect to see further benefits from the UK market as a result of a new route operated by British Airways with direct flights from London Heathrow to Pula.

### Our people and recognition

Consistently delivering a high quality service to our guests can only be achieved if our teams are fully engaged and motivated. Investing in our team members and their personal development is a priority and 2016 was no exception. In the summer season we employ in Croatia approximately 1,200 team members, of which 371 are permanent employees.

In 2016, more than 40 of our team members celebrated a long-term employment anniversary with 18 of them working for Arenaturist for 30 years and seven for 35 years. This is an outstanding achievement.

To nurture talent, we introduced the Park Plaza Talent Management course during the year for teams working at our Park Plaza® branded operations. This new course will enable our management teams to recognise talent in their operations and develop these individuals' skills and competencies, with succession planning as the primary goal. We have also piloted the new you:niversity coach programme in Croatia. The aims of the programme were to explain the benefits of coaching our team members, explain how people learn, and provide the attendees with the skills to coach effectively. This programme is to be extended to the non-branded property teams in the near future.

Our appeal as an employer has also further improved as a result of our recent expansion into the German and Hungarian hotel markets. Our team members in Croatia now have more opportunities to work within the hospitality industry beyond the summer season. In January 2017, the first 15 team members temporarily relocated to Germany to gain first-hand experience in our newly acquired hotels in Germany.

We are proud to report another high employee engagement index for the year. The employee engagement index for the year was 84.9 (on a scale of 1–100).

Our guests continued to recognise our focus on the consistent delivery of a high quality service and product and our efforts have led to various awards from key travel websites. Park Plaza Histria Pula, Park Plaza Verudela Pula, Park Plaza Belvedere Medulin, Park Plaza Arena Pula, Verudela Beach Resort, Ai Pini and Sensimar Hotel Medulin were all named "Award Winner 2015" by Booking.com and the Kažela Campsite was named among "Croatia's Best Campsites" in 2016 and 2015 by the Croatian Camping Association, Croatian Chamber of Commerce and the Association of Croatian campers. We are proud that all our properties have achieved

enviable results according to the reviews aggregated by TrustYou, the world's largest guest feedback platform. High levels of guest satisfaction were also confirmed by Revinate, a tool we use to measure guest satisfaction based on guest reviews posted on influential websites such as TripAdvisor.com and Booking.com.

### Growth strategy

Arenaturist will pursue a growth strategy focused on ownership and management or, on a selected basis, operational leases. We have defined several key business priorities for our team to focus on, further details of which can be found in the 'Our business model and strategy' section on page 14 of this report.

### Outlook for 2017 and current trading

In 2017, we expect to benefit from the first full year of operation of the newly opened 177-room contemporary Park Plaza Nuremberg, as well as from recently completed renovation works at art'otel berlin mitte. We expect that art'otel cologne will benefit from the strong programme of meetings and trade fairs planned in Cologne during 2017.

In Croatia, we will continue to focus on improving the market position of our existing operations. We will be investing in several new leisure facilities at Park Plaza Belvedere Medulin and Hotel Holiday will be renovated before the summer season starts. The future of Arenaturist in Croatia lies in ensuring continuous improvement of our market position through extensive renovations of our existing assets and expansion.

2017 brings an additional area of focus with the integration of the newly acquired portfolio of eight hotels in Germany and Hungary into our network. We will explore opportunities to further grow those operations as well as new opportunities in these markets and beyond. We completed the acquisition of the freehold interests in art'otel berlin kudamm and art'otel cologne in February 2017 for HRK 408 million (€54.5 million), following which the previous lease expenses were eliminated.

Bookings for the summer 2017 in Croatia are well ahead compared with the same period last year. For our German operations the first months in 2017 started well and the results are in line with the Board of Directors' expectations.

I would like to thank all Arenaturist team members for their hard work and commitment in 2016, a record year and a year of significant transformation. Our track record of operational improvements and improving returns by refurbishing our assets, together with the expansion opportunities offered by our new exclusive arrangements for the Park Plaza® brand, should provide a good platform for growth in 2017.

I am excited about our future and I am confident that we can realise the significant potential of the improved Arenaturist.



**RELI SLONIM**  
CHIEF EXECUTIVE OFFICER



## PPHE HOTEL GROUP, OUR LONG-TERM PARTNER, HAS BECOME OUR MAJOR SHAREHOLDER

PPHE Hotel Group, one of Europe's dynamic owner/operator companies with a strong asset base and access to world-class brands and global distribution, became Arenaturist's majority shareholder in 2016.

PPHE Hotel Group has held a minority share in Arenaturist since 2008, when it acquired a 20% share in a joint venture company which owned a 74.15% shareholding in Arenaturist. As part of a tender process, PPHE Hotel Group was awarded the management agreement for Arenaturist and other companies owned by this joint venture.

In March 2016, PPHE Hotel Group announced that it had entered into an agreement with its joint venture partner to acquire its 80% share in the joint venture company. As a result of the acquisition and pursuant to the Croatian Takeover Act, a mandatory takeover bid to minority shareholders was made. Following the completion of that offer, PPHE Hotel Group sold shares to two Croatian pension funds (9% to AZ OMF and 3% to PBZ CO respectively). On completion of this process, PPHE Hotel Group owned 65.63% of the shares of Arenaturist.

PPHE Hotel Group then started a consolidation process for Arenaturist by selling shares it held in three Croatian private companies, which had been under Arenaturist's management for many years.

Arenaturist's ordinary shares were moved from the Regular Market to the Official Market of the Zagreb Stock Exchange in November 2016.

In December 2016, the Group entered into an agreement to acquire the freehold interests in art'otel cologne and art'otel berlin kudamm, located in Germany, from a third party.

Arenaturist subsequently acquired 88% of the German and Hungarian operations of PPHE Hotel Group, and in return PPHE Hotel Group increased its shareholding in Arenaturist to 77.09%. The German and Hungarian operations consist of a portfolio of eight Park Plaza® or art'otel® branded owned/co-owned/leased/managed hotels. Arenaturist has an option to buy the remaining 12% of Sugarhill at a price per share which is based on the agreed valuation for the 88% capital contribution. The option is exercisable for 18 months following the initial transaction date.



# BUILDING ON OUR STRENGTHS

**PARK PLAZA NUREMBERG  
GERMANY**

*Newly opened 177-room  
hotel in the heart of the city*



**ART'OTEL BERLIN MITTE  
GERMANY**



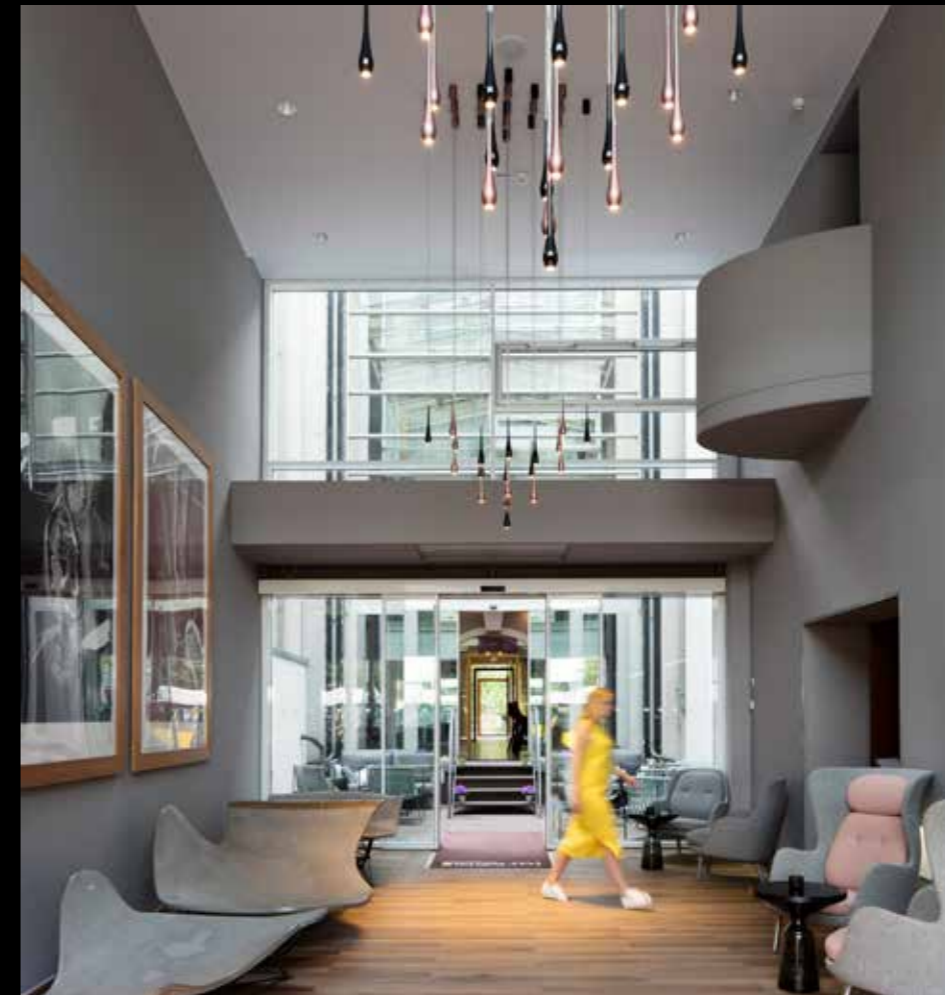
# BEYOND CROATIA

In December 2016 Arenaturist entered into an agreement with PPHE Hotel Group to acquire 88% of a wholly owned subsidiary of PPHE Hotel Group (Sugarhill) by way of capital contribution. With this acquisition, Arenaturist expanded its portfolio of hotels and acquired an exclusive right to use the Park Plaza® brand in 18 countries in the CEE region:

- Sugarhill owns, co-owns, leases or manages eight hotels in major European gateway cities and regional centres – Berlin (four), Cologne, Nuremberg and Dresden in Germany and Budapest in Hungary; and
- an exclusive right to use the Park Plaza® brand in 18 countries.

The addition of the eight owned, co-owned, leased and managed upscale and upper upscale hotels with a total of 1,295 bedrooms will transform Arenaturist's operations from domestic and highly seasonal to international and year-round.

The newly transformed Arenaturist now has the potential and ability to operate and develop branded hotels and hotel operations in a large geographic area with a population of more than 200 million. Arenaturist will be in a position to obtain contracts for management of hotels owned by third parties, which should enable revenue growth without large investments into hotel assets (through 'asset light' strategies).



**PARK PLAZA BERLIN KUDAMM  
GERMANY**



## TRANSFORMATION OF THE BUSINESS BEYOND CROATIA

**ART'OTEL BUDAPEST  
HUNGARY**





## OUR BUSINESS MODEL AND STRATEGY

/

### EXPANDING OUR PORTFOLIO



#### Our business model and strategy

Arenaturist's strategy is focused on becoming a leading owner and operator of hospitality assets primarily in Croatia, Germany and Hungary. Our ambition is to build a portfolio of hotels and self-catering holiday apartment complexes in the upscale, upper upscale and lifestyle markets, in major gateway cities and select resort destinations. We also intend to increase our portfolio of campsites in tourist destinations around the Adriatic.

In the next five years we intend to invest in the refurbishment and improvement of our Croatian hotels and self-catering holiday apartment complexes and our sizeable campsite portfolio where we have identified a number of opportunities to significantly increase revenue and profits.

We will continue to utilise the global partnership that we have with Carlson Hotels through our right to use the Park Plaza® brand, including its reservation systems and sales and marketing platform, as a driver to market Arenaturist and to grow revenue.

Our growth will also be focused on expanding our portfolio of upscale and upper upscale Park Plaza® hotels in other countries in the CEE region. We believe that the region has significant potential.

This strategy will enable us to realise our vision and we will focus on the following key business priorities:

- Driving growth by expanding our portfolio of upscale and upper upscale Park Plaza® hotels in the CEE region. Expansion will be through a variety of business models, including (co)ownership, operating leases and management agreements
- Maintaining operational efficiency and delivering a high EBITDA margin through continuous investment in our assets and proactive cost management
- Improving our guest experience through consistent service delivery and product enhancements
- Increasing employee engagement through continuous improvement in their working environment and providing operational and management training programmes
- Improving overall performance through innovative revenue generation and marketing initiatives
- Delivering shareholder value: Arenaturist has not to date paid a dividend, but the Board of Directors are considering the commencement of dividend payments in the medium term

#### Business model

Having operated only on the Istrian peninsula of Croatia for more than four decades, at the end of 2016 we significantly expanded our business outside the Croatian borders, and we now own, co-own, operate, lease and develop hotels in Germany and Hungary, with the ambition and potential to expand further in these markets and beyond. In addition to owning, operating, leasing and developing full service upscale, upper upscale and lifestyle hotels and self-catering holiday apartment complexes in Croatia, Germany and Hungary, we also own and operate eight campsites in unrivalled locations along the Adriatic.

Arenaturist's current portfolio comprises 15 hotels, four self-catering holiday apartment complexes and eight campsites, offering a total of more than 10,000 rooms and accommodation units. Most of the hotels operate under one of two distinct brands, Park Plaza® or art'otel®.

#### Owned and co-owned properties

Arenaturist owns or co-owns ten of the hotel properties, four self-catering holiday apartment complexes and has a 50% ownership interest in two properties in its current portfolio, all of which are operated by the Group. This model is capital intensive, but enables us to capitalise on any increase in property values and to develop flagship hotels in locations with upside potential. We will continue to expand the portfolio by acquiring ownership interests in hotels and developing hotels where attractive opportunities arise, especially in locations where capital value is likely to appreciate over time.

#### Operating leases

The Group leases two hotels from third parties: Park Plaza Wallstreet Berlin Mitte and art'otel budapest. In December 2016, the Group contracted to acquire the freehold interests in art'otel berlin kudamm and art'otel cologne, which were previously leased. This acquisition completed in February 2017. Operational leases tend to be long-term arrangements under which we lease a property from a third party for a period of up to 20 years. This model requires lower capital investment than owning a property. Within this model, we manage all aspects of the operation of the property, from sales and marketing to reservations, food and beverage and human resources.

#### Management agreements

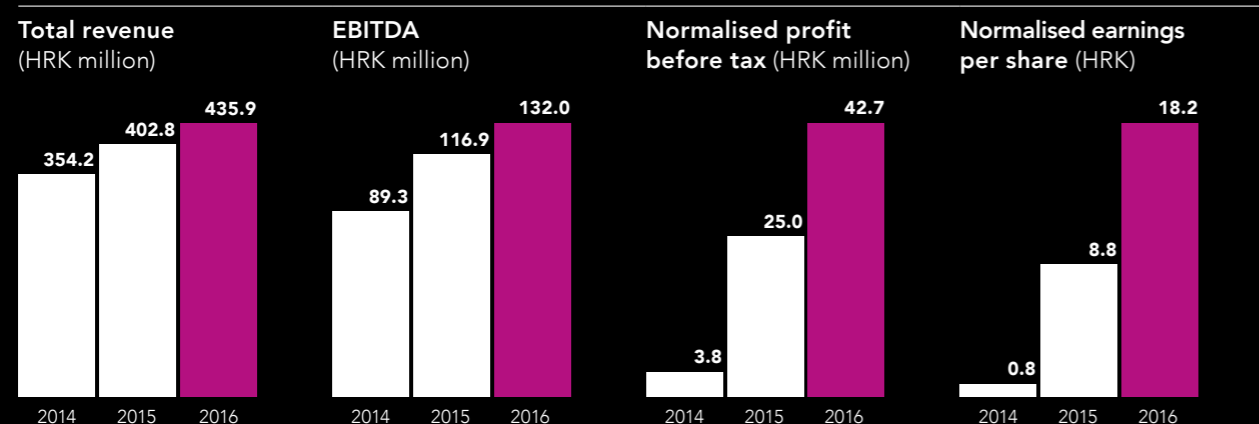
Arenaturist has management agreements in place for all 27 properties that it owns, co-owns or leases and for the property in Dresden that it manages. Management contracts with third parties allow property owners to retain ownership of their property, whilst Arenaturist undertakes the day-to-day management. We believe that the management model has great potential to realise portfolio growth and are actively seeking opportunities to grow our portfolio through this type of agreement.

#### Campsites

Arenaturist's campsites are situated on Croatian tourist land and Arenaturist pays a concession fee to the Republic of Croatia, Ministry of tourism fund for use of the land.

## CONSOLIDATED KEY PERFORMANCE INDICATORS

### FINANCIAL KPIs



**KPI definition**  
Total revenue includes all operating revenue generated by the Group's owned and leased hotels, management fees, franchise fees and marketing fees.

**KPI definition**  
Earnings before interest, tax, depreciation and amortisation.

**KPI definition**  
Profit before tax adjusted to remove unusual or one-time influences.

**KPI definition**  
Earnings for the year, adjusted to remove any unusual or one-time influences, divided by the weighted average number of ordinary shares outstanding during the year.

**Comment**  
Revenue increased by 8.2% due to improved trading.

**Comment**  
EBITDA increased by 12.9% year-on-year due to an increase in revenue and tight cost controls.

**Comment**  
Normalised profit before tax increased by 70.8% in 2016, due to increased revenues.

**Comment**  
Normalised earnings per share increased by 106.8% in 2016 due to an increase in normalised profit before tax of 71.2% and average number of share in issue (2016: 2,182,331; 2015: 2,182,331).

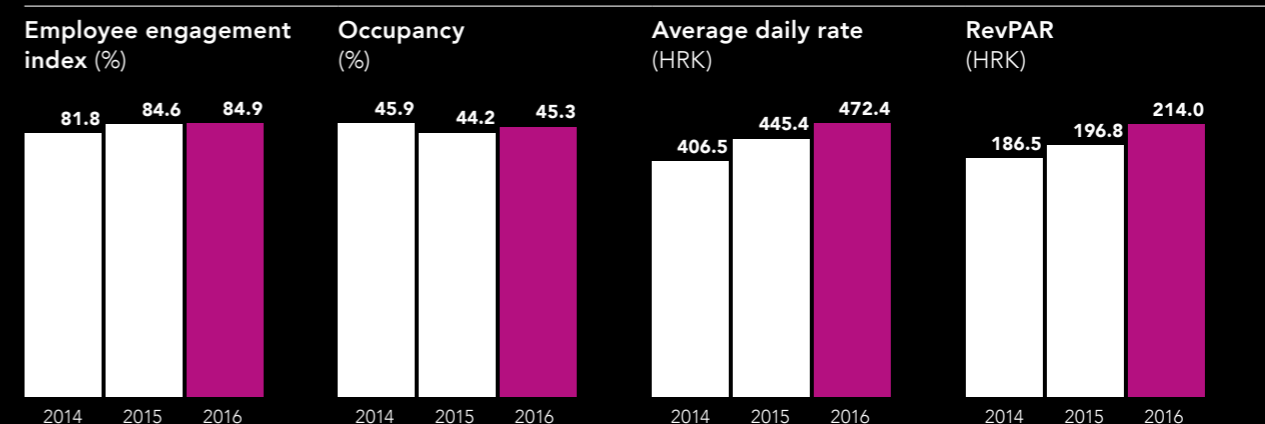
Also see Chief Financial Officer's statement page 22.

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### OPERATING KPIs



**KPI definition**  
Measured through annual surveys. Team members are encouraged to share feedback about the company, their jobs, their teams and manager.

**KPI definition**  
Total rooms occupied divided by the available rooms. Occupancy is calculated based on the number of days that each property is open.

**KPI definition**  
The average daily rate per paid occupied room or accommodation unit.

**KPI definition**  
Revenue per available room or accommodation unit; total room or accommodation revenue divided by the number of available rooms or units.

**Comment**  
Adopted a new measurement method in 2015 providing new insights and enabling us to further strengthen our unique culture. Employee engagement index increased by 30bps.

**Comment**  
Occupancy increased by 130bps due to a higher occupancy achieved by the hotels in the shoulder season.

**Comment**  
Average daily rate increased by 6.1% year-on-year due to extensive refurbishment and investment projects.

**Comment**  
RevPAR increased by 8.7% year-on-year, as a result of increased average daily rate and occupancy.

Also see Chief Executive Officer's statement page 8, Corporate social responsibility statement page 34.

Also see Operating review pages 27 and 28.

Also see Operating review pages 27 and 28.

Also see Operating review pages 27 and 28.

## COMPANY KEY PERFORMANCE INDICATORS

### FINANCIAL KPIs

**Total revenue**  
(HRK million)

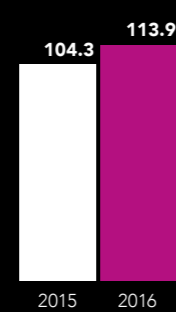


**KPI definition**  
Total revenue includes all operating revenue generated by the Group's owned and leased hotels, management fees, franchise fees and marketing fees.

**Comment**  
Revenue increased by 7.6% due to improved trading.

Also see Company income statement page 101.

**EBITDA**  
(HRK million)

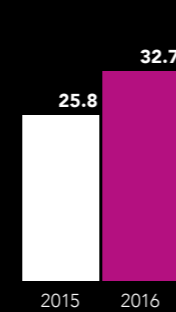


**KPI definition**  
Earnings before interest, tax, depreciation and amortisation.

**Comment**  
EBITDA increased by 9.2% year-on-year due to an increase in revenue and tight cost controls.

Also see Company income statement page 101.

**Normalised profit before tax** (HRK million)



**KPI definition**  
Profit before tax adjusted to remove unusual or one-time influences.

**Comment**  
Normalised profit before tax increased by 26.7% in 2016, due to increased revenues.

Also see Chief Financial Officer's statement page 23.

### OPERATING KPIs

**Employee engagement index (%)**



**KPI definition**  
Measured through annual surveys. Team members are encouraged to share feedback about the company, their jobs, their teams and manager.

**Comment**  
Adopted a new measurement method in 2015 providing new insights and enabling us to further strengthen our unique culture. Employee engagement index increased by 30bps.

Also see Chief Executive Officer's statement page 8, Corporate social responsibility statement page 34.

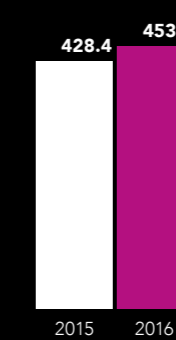
**Occupancy (%)**



**KPI definition**  
Total rooms occupied divided by the available rooms. Occupancy is calculated based on the number of days that each property is open.

**Comment**  
Occupancy increased by 130bps due to a higher occupancy achieved by the hotels in the shoulder season.

**Average daily rate** (HRK)



**KPI definition**  
The average daily rate per paid occupied room or accommodation unit.

**Comment**  
Average daily rate increased by 5.7% year-on-year due to extensive refurbishment and investment projects.

**RevPAR** (HRK)



**KPI definition**  
Revenue per available room or accommodation unit; total room or accommodation revenue divided by the number of available rooms or units.

**Comment**  
RevPAR increased by 9.1% year-on-year, as a result of increased average daily rate and occupancy.

## PRINCIPAL RISKS

RISK AND IMPACT	MITIGATION
<p><b>Market disruptors</b></p> <p>The travel industry has changed considerably in recent years as a result of changes in travel patterns, the emergence of low-cost airlines and online travel agents, new technologies, and changes in customer booking behaviour and travel expectations. This trend is anticipated to persist and the travel industry is expected to continue to be impacted by the rise of online travel agents and other dominant forces such as search engines and social media networks. The Group is exposed to risks such as the dominance of one such third party over another, the loss of control over its inventory and/or pricing and challenges to keep up with developments in the market.</p>	<p>The Group invests in areas such as connectivity to third parties, distribution and marketing of its products, e-commerce and technology. The Group further mitigates this risk by working closely with PPHE Hotel Group, ensuring that global trends are identified and acted upon in a concerted manner, whilst benefiting from the scale, negotiating power, knowledge and skills that such a partnership brings, including the global partnership with Carlson Hotels. Executives and managers regularly attend seminars, workshops and trainings to ensure that their knowledge is kept up to date.</p>
<p><b>Seasonality and adverse weather conditions during the high season</b></p> <p>The Group's business in Croatia is highly seasonal; the majority of guest visits occur from June to September. A high degree of seasonality in revenues in the Croatian market increases the impact of certain weather events on the Group's operating results. The ability to attract visitors to the Group's Croatian properties, particularly the campsites and resorts, is influenced by weather conditions and the number of warm and dry weather days during the summer season.</p>	<p>The German and Hungarian hotels acquired by the Group as a result of the Sugarhill Contribution do not experience such seasonality. New development opportunities in city centre locations within the CEE region are also expected not to experience such seasonality and will operate all year round.</p>
<p><b>Concession agreements</b></p> <p>In accordance with the provisions of the Act on the Tourist and Other Construction Land Not Appraised During the Transition and Privatisation Process (the 'Act'), the Company submitted requests to the Republic of Croatia and the relevant municipality for the award of tourist land concessions for a term of 50 years (the maximum term allowed) in relation to land areas in eight campsites and three tourist resorts in Croatia. In relation to the concession arrangements in respect of the eight campsites, the Republic of Croatia and the Company need to (i) determine the co-ownership parts in the land (based on which definite amounts of the concession fees due on that part of the land owned by the Republic of Croatia would be determined) and (ii) upon granting of the concession by the Republic of Croatia, enter into the respective concession agreements. In practice, the companies that have submitted requests for a tourist land concession regularly pay advance concession fee of 50% of the calculated concession fee in accordance with the relevant regulations.</p>	<p>Since the adoption of the Act in 2010, as far as the Company is aware, no concession agreement has been entered into with respect to tourist land in campsites/tourist resorts in the Republic of Croatia due to ambiguities in the wording of the Act and related regulations. The status of the Company's concession requests is similar to the status of concession requests submitted by other companies in the Republic of Croatia.</p> <p>The Company pays and will continue to pay 50% of the concession fees in respect of the eight campsites and to accrue the remaining 50% until determination of the concession agreements, which is presented as a provision in the financial statements.</p>
<p><b>Information technology and systems</b></p> <p>The Group is reliant on certain technologies and systems for the operation of its business. Any material disruption or slowdown in the Group's information systems, especially any failures relating to its reservation system, could cause valuable information to be lost or operations to be delayed.</p> <p>In addition, the Group and its hotels maintain personal customer data, which is shared with and retained by the Group's partners. Such information may be misused by employees of the Group or its partners or other outsiders if there is inappropriate or unauthorised access to the relevant information systems.</p>	<p>The Group invests in appropriate IT systems so as to obtain as much operational resilience as possible. Further, a variety of security measures are implemented in order to maintain the safety of personal customer information.</p>

RISK AND IMPACT	MITIGATION
<p><b>Hotel industry risks</b></p> <p>The Group's operations and their results are subject to a number of factors that could adversely affect the Group's business, many of which are common to the hotel industry and beyond the Group's control, such as global economic uncertainties, political instabilities and the increase in acts of terrorism. The impact of any of these factors (or a combination of them) may adversely affect sustained levels of occupancy, room rates and/or hotel values.</p>	<p>Although management continually seeks to identify risks at the earliest opportunity, many of these risks are beyond the control of the Group. The Group has in place contingency and recovery plans to enable it to respond to major incidents or crises and takes steps to minimise these exposures to the greatest extent possible.</p>
<p><b>Foreign exchange rate fluctuations</b></p> <p>The exchange rates between the functional currency of the Group's subsidiaries operating inside the Eurozone, and the Croatian Kuna (the reporting currency for the purposes of the Consolidated financial statements) may fluctuate significantly, affecting the Group's financial results. In addition, the Group may incur a currency transaction risk in the event that one of the Group companies enters into a transaction using a different currency from its functional currency.</p>	<p>The Group eliminates currency transaction risk by matching commitments, cash flows and debt in the same currency. After due and careful consideration, the Group decided not to hedge this currency risk.</p>
<p><b>Capital required to maintain product standards</b></p> <p>The Group owns and co-owns many of its properties. As is common in owning such properties, this business model requires capital to maintain the high quality level of the products and facilities offered. In addition to maintenance costs and capex, the Group may be exposed to disruptions in revenue if those properties are to be (part) closed for product improvements.</p>	<p>The Group focuses heavily on preventative maintenance across its portfolio and employs engineers and technicians to ensure that its portfolio is maintained to a high standard. In addition, as part of its operating agreements, the Group has capex reserves for each property to invest in medium to large renovations and replacements of technical installations. To minimise short-term revenue displacements due to renovations, the Group develops – prior to undertaking such renovations – detailed renovation planning programmes which take into account factors such as property closures, phased approaches, seasonality and demand patterns.</p>

## CHIEF FINANCIAL OFFICER'S STATEMENT



Arenaturist's trading performance again improved year-on-year, with total revenue, accommodation revenue, EBITDAR and EBITDA all increasing. Our record over the last three years confirms our strategy of focusing on increasing profitability through raising the quality of accommodation and service and controlling costs.

### Business performance

Total revenue in 2016 increased by 8.2% to HRK 435.9 million (2015: HRK 402.8 million), whilst accommodation revenue increased by 7.3% to HRK 353.6 million (2015: HRK 329.6 million). Hotels generated 47.0% of accommodation revenue, self-catering holiday apartment complexes 21.4% and campsites 31.6%.

EBITDAR increased by HRK 15.1 million to HRK 140.8 million (2015: HRK 125.7 million), which represents a growth of 12%. EBITDA increased by 12.9% to HRK 132.0 million (2015: HRK 116.9 million).

In 2016, EBITDA margin was 30.3%, which is a year-on-year improvement of 130 bps (2015: 29.0%).

### Corporate structure

The Company significantly changed its corporate structure during 2016 by:

- the acquisition in June 2016 of three Croatian companies, Arenaturist Hoteli d.o.o., Arenaturist Zlatne Stijene d.o.o. and Arenaturist Turistička Naselja d.o.o. (the 'Bora Companies');
- the subsequent merger of the Bora Companies into the Company in October 2016;
- the entry into a sale agreement by the Company's newly formed wholly-owned subsidiary, Germany Real Estate B.V., to acquire the freeholds of two hotels in Berlin and Cologne (the 'Berlin and Cologne Acquisition');
- the acquisition of 88% of the shares in the holding company, Sugarhill Investments B.V. ('Sugarhill'), of the German and Hungarian operations of PPHE Hotel Group in December 2016 by way of capital contribution in consideration for 1,091,250 new shares in the Company. Sugarhill owns, co-owns and operates hotels through its subsidiaries in Germany and Hungary. Sugarhill also owns Arena Hospitality Management d.o.o. ('Arena Hospitality'), which holds management contracts for the hotels in Germany and Hungary and the Company's operations in Croatia.

### Business performance

	Year ended 31 December (HRK million)		
	2016	2015	2014
Total revenue	435.9	402.8	354.2
Accommodation revenue	353.6	329.6	290.9
EBITDAR	140.8	125.7	98.2
EBITDA	132.0	116.9	89.3
EBITDA margin	30.3%	29.0%	25.2%

To present the impact of the changed legal structure on the Company's financial position, the results of operations and cash flows are presented as if the Bora Companies have been part of the Group since 1 January 2014.

The balance sheets of Sugarhill and Germany Real Estate B.V. are included in the Company's consolidated balance sheet as at 31 December 2016.

Our trading performance improved year-on-year as measured by revenue, EBITDAR, EBITDA and EBITDA margin, which all increased. Our main revenue generator is accommodation, which generated 81.1% of the total revenue in 2016. The primary reason for the increased EBITDA margin is the increase in revenue as a result of a higher average daily rate and tight cost control.

### Normalised profit before tax

During the three years ended 31 December 2016, the Group incurred a number of non-recurring or exceptional costs that are not part of its usual operations. Excluding these costs, normalised profit before tax shows year-on-year increases of 70.8% to HRK 42.7 million (2015: HRK 25.0 million). The total revenue increased in 2016 with HRK 33.1 million resulting in an increase of normalised profit before tax of HRK 17.7 million, demonstrating strong cost control.

### Additional depreciation

In 2016, there was an additional one-off depreciation charge of HRK 12.9 million made against the book value of some of the assets of the Bora Companies when the Bora Companies were merged with the Company in October 2016. In 2014, an additional one-off depreciation charge of HRK 13.2 million was made to write off certain assets that were no longer in use following the renovation of Hotel Belvedere (now Park Plaza Belvedere Medulin) and Hotel Park (now Park Plaza Arena Pula).

### Non-recurring costs of restructuring and refinancing

In 2016, the Company incurred professional fees relating to the restructuring and refinancing of the Group of HRK 6.6 million. Professional fees were also incurred in 2015 and 2014.

### Fair value movement on related party loan

In 2016, the Group refinanced shareholder loans from Dvadeset Osam d.o.o. The loans had a maturity date of 2021 and carried an interest rate of 15% on the original principal amount. The shareholder loans were repaid early using existing cash resources and HRK 149.8 million of loans from Zagrebačka bank d.d. that carries an interest rate of Euribor plus 5.9%.

Under IFRS, the loans were carried in the balance sheet of the Group at 31 December 2015 at HRK 147.0 million. When the loans were repaid in 2016, the difference between the nominal value and the IFRS carrying value of HRK 12.6 million was recognised.

### Impairment charge

Under IFRS, the Company is required to carry out a fair value review of the carrying value or book value of its operating assets and to impair the value of any asset whose recoverable amount is lower than the carrying value. The independent valuation of the Group for the purposes of the Sugarhill acquisition indicated that an impairment of some of the Group's Croatian operating assets could be required.

The recoverable amount is the higher of an asset's market value (less costs of disposal) and its value in use. The value in use is arrived at by discounting the estimated future cash flows using a pre-tax discount rate that reflects current market rates for the time value of money and the risks associated with an asset. As the Group was not able to establish a market value due to a lack of comparable transactions, the Group calculated the value in use for each of its operating assets.

The results of this exercise were that the total of the value in use of the Group's Croatian operating assets was HRK 1,424 million which was higher than the total carrying value of the Croatian operations before impairment of HRK 1,236 million. However, the value in use of some operating assets was below their carrying value and under IFRS an impairment of those operating assets is required. IFRS does not allow an increase in value where the recoverable amount exceeds the carrying value of an asset unless it is to reverse a previous impairment of the value of an asset.

### Normalised Profit Before Tax

	Year ended 31 December (HRK million) Consolidated			Year ended 31 December (HRK million) Company	
	2016	2015	2014	2016	2015
Reported (loss) before tax	(138.0)	23.7	(10.8)	(135.1)	24.5
Impairment on property, plant and equipment	148.6	–	–	148.6	–
Non-recurring cost of restructuring and refinancing	6.6	1.3	1.4	6.6	1.3
Increase depreciation due to merger or renovation	12.9	–	13.2	–	–
Fair value movement related party loan	12.6	–	–	12.6	–
Normalised profit before tax*	42.7	25.0	3.8	32.7	25.8

\* The normalised earnings per share amount to HRK 18.2, calculated with 2,182,331 average outstanding shares. Normalised earnings are calculated as Normalised profit before tax after deducting the normalised income tax expenses of HRK 3.0 million.

## CHIEF FINANCIAL OFFICER'S STATEMENT

### CONTINUED

The total amount of the impairment of the Croatian operating assets whose recoverable amount was below the carrying value amounts to HRK 148.6 million, of which HRK 98.1 million relates to hotel assets, HRK 45.8 million relates to self-catering holiday apartment complexes and HRK 4.7 million relates to other assets. As required by IFRS the impairment charge of HRK 148.6 million appears in the profit and loss account for the year ended 31 December 2016 (see also Notes 3 and 4 of the Consolidated financial statements).

The impairment was a necessary adjustment to the carrying value of some of our properties. It is a non-cash item and represents approximately

12% of the HRK 1,236 million, carrying value of our operating assets before impairment. As discussed above the total of the value in use of the Group's Croatian operating assets is not affected by this non-cash item and remains at HRK 1,424 million (as at 31 December 2016).

#### Consolidated statement of financial position

The increase in 2016 in the total assets of HRK 173.3 million to HRK 1,646.5 million results mainly from the acquisition in December 2016 of Sugarhill, contributing HRK 326.9 million to the total assets. This increase is set off with the impairment charge on property, plant and equipment amounting to HRK 148.6 million.

	Year ended 31 December (HRK million)				
	2016	2015	2014	Variance 2016/2015	Variance 2015/2014
<b>Consolidated statement of financial position</b>					
<b>Assets</b>					
Non-current assets	1,468.8	1,313.9	1,304.5	12%	1%
Current assets	177.7	159.3	111.1	13%	43%
<b>Total assets</b>	<b>1,646.5</b>	<b>1,473.2</b>	<b>1,415.5</b>	<b>12%</b>	<b>4%</b>
<b>Equity and liabilities</b>					
Equity	804.2	837.7	819.8	-4%	2%
Non-current liabilities	585.3	567.9	527.3	3%	8%
Current liabilities	256.9	67.6	68.3	383%	-1%
<b>Total liabilities</b>	<b>842.2</b>	<b>635.5</b>	<b>595.7</b>	<b>33%</b>	<b>7%</b>
<b>Total equity and liabilities</b>	<b>1,646.5</b>	<b>1,473.2</b>	<b>1,415.5</b>	<b>12%</b>	<b>4%</b>

	Year ended 31 December (HRK million)		
	2016	2015	2014
<b>Cash flow statement</b>			
Net cash generated by operating activities	118.1	93.4	82.4
Net cash used in investing activities	(157.9)	(72.1)	(147.0)
Net cash provided by financing activities	22.4	28.2	95.9
Increase in cash and cash equivalents	(17.4)	49.5	31.3
Cash and cash equivalents at beginning of year	147.8	98.3	67.0
Cash and cash equivalents at end of year	130.4	147.8	98.3

<b>Historic record</b>	2016	2015	2014	2013	2012	2011	2010
<b>EBITDA (HRK million)</b>	<b>132.0</b>	116.9	89.3	86.2	78.2	49.9	46.2

	2016	2015	2014	2013	2012	2011	2010
Share price at end of year (HRK)	468.50	339.98	320.03	182.00	110.99	62.65	50.00

	2016	2015	2014	2013	2012	2011	2010
Market capitalisation (HRK million)	1,022.5	742.0	698.5	397.2	242.2	136.7	109.1

The increase in 2016 in the total liabilities of HRK 206.7 million to HRK 842.3 million results mainly from the acquisition of Sugarhill, contributing HRK 137.6 million to the total liabilities. The other main contributor is a new loan from Zagrebačka banka d.d. ('Zaba') of HRK 74.9 million (€10.0 million) for the acquisition of the Bora Companies in June 2016.

In April 2016, the Group refinanced the outstanding balance of the Dvadeset Osam d.o.o. shareholders' loans amounting to HRK 171.5 million with two new loans received from Zaba amounting to HRK 149.8 million in total. The remaining balance was funded from the cash balances of the Group.

#### Cash flows

2016 was another good year of cash generation from operating activities that was offset by an outflow on investing activities of HRK 157.9 million. The main investments were the acquisition of the Bora Companies (HRK 108.6 million), investments in property, plant and equipment (HRK 38.0 million) and the increase in restricted deposits (HRK 41.7 million). The acquisition of Sugarhill contributed a positive net change in cash of HRK 37.9 million. As a result of the acquisition of Sugarhill, Arenaturist has expanded its operating activities outside of Croatia and now (co)owns, operates and develops hotels in Germany and Hungary.

#### Bank borrowing

Total bank borrowing in 2016 has increased by HRK 266.1 million, which represents a growth of 67.7% due to the following:

- New loans from Zaba amounting to HRK 149.8 million used for repayment of shareholders' loans from Dvadeset Osam d.o.o. on more favourable terms. Previously, the annual interest on these shareholder loans was 15%, and the new bank loans now bear interest of EURIBOR +5.9% which will result in lower annual interest expenses.
- A new loan from Zaba in the amount of HRK 74.9 million (€10 million) used for the acquisition of the Bora Companies.
- A loan from Deutsche Hypothekbank AG in the amount of HRK 81.1 million (€10.7 million) which the Group acquired through the Sugarhill acquisition.
- Annual regular repayment of bank borrowing amounting to HRK 42.8 million.

#### Share capital

The Company's shares are listed on the Official Market of the Zagreb Stock Exchange. The Company's share capital during 2016 was 2,182,500, of which 169 are held in treasury. There are more than 4,000 shareholders.

At the end of 2016 the Company acquired Sugarhill, for which the Company issued 1,091,250 new shares as consideration. The new shares were registered as of 7 February 2017 and following such registration the issued share capital of the Company officially amounts to 3,273,750 shares.

#### Historic record

Arenaturist is managed by the Board of Directors and Executive Directors, who are the legal representatives of Arenaturist. Under their direction Arenaturist has grown into a successful international hospitality company as is reflected in the growth in EBITDA.

#### Looking ahead

Due to the current composition of our portfolio, including Germany and Hungary, 2017 will be an exciting year for us and the team is keen to take advantage of our favourable market position. We will also continue to progress our various investment projects. We will strive to further improve the performance of our existing portfolio by focusing on consistent service delivery, revenue generation initiatives and careful management of our cost base.

**MILENA PERKOVIĆ**  
CHIEF FINANCIAL OFFICER

# OPERATING REVIEW

## /

# CROATIA



The Group saw an increase in average daily rate of 6.1%, occupancy increased by 130bps and consequently RevPAR growth was 8.7%.

### Operating review

	2016	2015	2014
Rooms in operation	1,652,488	1,674,816	1,559,453
Number of rooms sold	748,422	740,198	715,557
Occupancy (%)*	45.3%	44.2%	45.9%
Number of arrivals	318,281	304,618	292,046
Number of overnights	1,826,646	1,843,720	1,803,527
Total revenue (HRK million)	435.9	402.8	354.2
Accommodation revenue (HRK million)	353.6	329.6	290.9
Average daily rate** (HRK)	472.4	445.4	406.5
RevPAR (HRK)	214.0	196.8	186.5

\* Occupancy is calculated based on the number of days that each hotel, apartment complex and campsite is open. Most of the Company's hotels and all of its self-catering holiday apartment complexes and campsites in Croatia are closed during the winter.

\*\* Average daily rate is calculated as the accommodation revenue generated by hotels, self-catering holiday apartments and campsites divided by the number of sold rooms, apartments and pitches.

### Hotels

	2016	2015	2014
<b>Operating review</b>			
Total revenue (HRK million)*	223.4	198.2	158.9
Accommodation revenue (HRK million)	166.2	147.6	116.7
EBITDAR (HRK million)	62.2	45.8	34.0
EBITDA (HRK million)	61.5	45.3	33.4
Occupancy %	62.6%	58.5%	59.8%
Average daily rate (HRK)	713.9	692.8	626.6
RevPAR (HRK)	447.1	405.5	374.5

\* Total revenue includes intersegment revenue; for reconciliation with reported revenue see Note 21 Segments.

Accommodation revenue of the hotels during 2016 amounted to HRK 166.2 million which represents an increase of 12.6% (2015: HRK 147.6 million). Revenue increased as a result of increased occupancy (2016: 62.6%; 2015: 58.5%) and an increased average daily rate (2016: HRK 713.9; 2015: HRK 692.8). EBITDA showed strong growth of 35.9% to HRK 61.5 million (2015: HRK 45.3 million), while RevPAR increased by 10.3% to HRK 447.1 (2015: HRK 405.5).

All KPIs have improved over the last three years. Those hotels that operate under the Park Plaza® brand had the greatest impact on these figures as they generate 72.4% of total hotel and resort revenue.

The investment at Park Plaza Arena Pula (HRK 58.4 million) during 2015/16, which included 175 contemporary rooms and six new luxurious suites, demonstrated the greatest increase in demand.

### Self-catering holiday apartment complexes

	2016	2015	2014
<b>Operating review</b>			
Total revenue (HRK million)*	97.0	88.8	84.8
Accommodation revenue (HRK million)	75.7	72.3	69.5
EBITDAR (HRK million)	35.7	30.2	30.8
EBITDA (HRK million)	33.0	27.2	27.8
Occupancy %	49.7%	53.6%	57.4%
Average daily rate (HRK)	728.6	650.8	605.8
RevPAR (HRK)	362.2	349.1	347.5

\* Total revenue includes intersegment revenue; for reconciliation with reported revenue see Note 21 Segments.

## OPERATING REVIEW CROATIA CONTINUED

Total revenue of self-catering holiday apartment complexes during 2016 was HRK 97.0 million (2015: HRK 88.8 million) which represents an increase of 9.2% year-on-year. Accommodation revenue followed that trend with a 4.7% increase (2016: HRK 75.7 million; 2015: HRK 72.3 million). Revenues rose due to an increase in average daily rate by 11.9% (2016: HRK 728.6; 2015: HRK 650.8), although occupancy decreased slightly (2016: 49.7%; 2015: 53.6%).

EBITDA increased by 21.4% to HRK 33.0 million (2015: HRK 27.2 million), while RevPAR increased by 3.8% to HRK 362.2 (2015: HRK 349.1). Park Plaza Verudela Pula generated 55.0% of total self-catering holiday apartment complex EBITDA.

### Campsites

Operating review	2016	2015	2014
Total revenue (HRK million) *	118.3	116.9	111.3
Accommodation revenue (HRK million)	111.9	109.8	104.8
EBITDAR (HRK million)	57.0	54.0	58.4
EBITDA (HRK million)	49.4	46.5	51.0
Occupancy %	38.4%	37.7%	39.6%
Average daily rate (HRK)	271.7	264.0	252.8
RevPAR (HRK)	104.4	99.5	100.0

\* Total revenue includes intersegment revenue; for reconciliation with reported revenue see Note 21 Segments.

Campsites total revenue increased by 1.2% to HRK 118.3 million (2015: HRK 116.9 million). Accommodation revenue in 2016 amounted to HRK 111.9 million (2015: HRK 109.8 million) which is a year-on-year increase of 1.8%. Total revenue rose due to a higher average daily rate (2016: HRK 271.7; 2015: HRK 264.0). EBITDA in 2016 amounted to HRK 49.4 million (2015: HRK 46.5 million) which is an increase of 6.3%.

Although we have not invested in our campsites over the past ten years, they delivered stable operating results during 2016.

### Centralised Services

Operating review	2016	2015	2014
Total revenue before elimination (HRK million)	52.7	59.1	37.1
Revenue within the consolidated Group (HRK million)	51.3	57.7	35.6
External and reported revenue (HRK million)	1.4	1.4	1.5
EBITDA (HRK million)	(11.9)	(2.0)	(22.8)

The Group has centralised services in Croatia for sales and marketing, maintenance, laundry, and administrative and general services for the properties in Croatia. The direct cost of these services is charged to the operating properties.

### Performance of Branded facilities

Operating review	Year ended 31 December (HRK million)				Variance 2016/2015	Variance 2015/2014
	2016	2015	2014			
Total revenue	241.4	213.3	169.3	13.1%	26.0%	
Accommodation revenue	177.9	157.4	125.3	13.0%	25.6%	
EBITDAR	74.2	57.1	43.4	29.8%	31.7%	
EBITDA	73.3	56.5	42.7	29.8%	32.2%	

The branded properties in Croatia generated 55.4% of the total revenue and 55.5% of the total EBITDA. Branded properties benefit from strong demand from both the leisure and corporate sectors, but primarily from the strength of the Park Plaza® brand and the modern renovated properties being situated in very attractive seaside locations. Commencing in 2012, Arenaturist has refurbished and upgraded four hotels and one self-catering holiday apartment complex, of which four are Park Plaza® branded.

The improved results following investment and rebranding strongly confirms our belief that constant product improvement significantly increases the financial performance value and competitive position.



# OPERATING REVIEW / GERMANY AND HUNGARY



**189.0**

Total revenue  
(HRK million)

**689.4**

Average daily rate  
(HRK)

In December 2016, the Company acquired 88% of the shares in Sugarhill. Sugarhill operates hotels in Germany and Hungary and owns the management rights to operate these hotels and the properties in Croatia. In the table below, the operational results for the hotels owned by Sugarhill are included for 2016, 2015 and 2014. These operational results are not included in the consolidated profit and loss of the Group for 2016, 2015 and 2014. As of January 2017 Sugarhill will contribute to the consolidated results of the Group.

Total revenue in local currency increased to €25.1 million (2015: €22.8 million). On a like-for-like basis total revenue was down by 2.1% to €22.3 million (2015: €22.8 million). EBITDA improved to €1.9 million (2015: €0.2 million) which was positively affected by a €1.2 million lower incentive rent and the opening of Park Plaza Nuremberg.

The performance of some of our hotels in Berlin were affected by renovation works and these hotels therefore were unable to outperform their competitive set. Over time, we expect the performance of these hotels to improve. Our hotel in Cologne outperformed its competitive set in occupancy.

#### Park Plaza Nuremberg renovation

Park Plaza Nuremberg, our new 177-room hotel in Germany, fully opened in September 2016. The hotel is situated in the heart of the old town, opposite Nuremberg's 19th century Central Railway Station. The town is home to Germany's oldest Christmas market and is within close proximity to many local attractions, including Nuremberg Zoo and its 10th century castle. In addition to a fitness centre, sauna and meeting rooms, the hotel has opened the BA Beef Club Restaurant and the Bavarian American Bar. Since it opened, Park Plaza Nuremberg has outperformed its competitive set in average daily rates and RevPAR. Guest feedback has been positive and we look forward to building on its market position further in the coming year.

#### art'otel berlin mitte

The extensive renovation project refurbishing all the rooms and public spaces at art'otel berlin mitte has finished. Guest feedback scores have improved and average daily rates have increased.

#### art'otel budapest

art'otel budapest continued to perform well during the year, significantly outperforming its competitive set in all key metrics: occupancy, average daily rate and RevPAR.

#### The German and Hungarian hotel market\*

The hotels in Greater Berlin reported a year-on-year increase of 3.5% in RevPAR to €74.17. This growth was a result of a 2.6% increase in average daily rate to €96.12 and a 0.8% increase in occupancy to 77.2%.

In Cologne, hotels reported a 0.2% decrease in RevPAR to €80.19. This decrease was a result of a 0.7% decrease in occupancy to 71.2%, slightly offset by a 0.8% increase in average daily rate to €113.04.

In Nuremberg, hotels reported a 15.0% increase in RevPAR to €75.40. This increase was a result of a 12.8% increase in average daily rate to €105.36 and a 1.4% increase in occupancy to 71.6%.

In Hungary, the performance of the hotel market in Budapest continued to improve with RevPAR increasing by 9.4% to HUF 17,829.02. This growth was a result of a 6.5% increase in average daily rate to HUF 23,683.02 and a 2% increase in occupancy to 75.3%.

\* Source: STR Global, December 2016.

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	Reported in HRK			Reported in EUR (€)		
Financial review	2016	2015	2014	2016	2015	2014
Total revenue (million)	189.0	173.7	161.0	25.1	22.8	21.1
Room revenue (million)	146.6	132.8	120.9	19.5	17.4	15.8
EBITDAR (million)	56.9	54.5	53.1	7.6	7.2	6.9
EBITDA (million)	14.5	1.6	8.1	1.9	0.2	1.1
Occupancy %	72.3%	81.8%	82.7%	72.3%	81.8%	82.7%
Average daily rate	689.4	633.4	570.6	91.6	83.2	74.7
RevPAR	498.7	518.2	471.8	66.3	68.0	61.8

**CORPORATE SOCIAL  
RESPONSIBILITY**  
/  
**OUR COMMITMENT TO  
PEOPLE AND COMMUNITIES**



As one of the leading hospitality groups in the CEE region, the Group is fully aware of the impact that our actions and work have on the environment and the communities in which we operate. Therefore, we want to take responsibility and play a leading role in contributing to creating positive changes through:

- taking initiatives that will promote environmental wellbeing in the communities in which we operate;
- being a good employer and creating a working environment where all our colleagues are treated equally and with respect and will have an opportunity for professional growth; and
- being an active participant in the life of the local communities through encouraging initiatives that will provide a better quality of life, especially for vulnerable groups and citizens in need.



**Green Arenaturist**

We take environmental protection seriously and we want all properties across our Group to undertake activities that will contribute to better resource and waste management, and encourage working towards a lower carbon footprint. We want to create an environmentally friendly place where our colleagues and guests can be assured that sustainability is part of everything we do.

To do so, we are following the Corporate Social Responsibility (CSR) strategy developed by our majority owner PPHE Hotel Group. The backbone of this strategy is the TREE programme (which stands for Total Responsibility for Everyone's Environment), which continuously engages all our team members and corporate offices in working towards a low-carbon environment and a sustainable work place. Within this programme, we are continuously monitoring our impact on the environment and our usage of natural resources, which allows us to see in which areas we can improve.

In addition, we are currently developing a comprehensive project within the TREE programme that will help us in further creating a responsible company. As part of the project, we have created an Arenaturist Green Team, which will promote sustainability across all our properties in Croatia, Germany and Hungary and will help us to reduce our carbon footprint and waste, as well as contribute to better water preservation. Under the Arenaturist Green Team project, 63.5 tonnes of paper and cardboard were collected and recycled in 2016. In February 2016, the Arenaturist Green Team awarded our hotels Holiday and Brioni, campsite Kažela and self-catering holiday apartment complex Ai Pini with a special award as leaders of their own categories in waste reduction.

We believe that through small steps we can make big changes. This is why we are using our own water sources, waste to water recycling schemes, in-room towel and bed-linen schemes, light-moving sensors, LED lights and combined heat and power (CHP) units, as well as solar thermal collectors. These are just a few examples of the improvements we are constantly making within our business.

**Being a good employer**

We want to ensure a productive working place for our team members where they will be able to realise their talents and contribute to achieving set business goals. We are proud that our colleagues also recognise our efforts and reward the Company with high scores in the employee engagement survey that we regularly conduct.

**Internal promotions, transfers and new openings**

Operating results indicate the success of our properties in 2016. Arenaturist had a very successful season this year. In high season we employed approximately 1,200 employees, of whom 371 are permanent employees. More than 40 employees are celebrating their long-term employment anniversary this year (18 of whom have been employed for 30 years in our Company and seven of whom have been employed for 35 years).

About half of our employees in the peak of the season represent seasonal employees. We retained about 80 high quality seasonal employees through 'permanent seasonal contracts'. The average age of the employees in Arenaturist is 47 years.

During the year a few new roles were developed to support evolving business needs and we opened several new departments to improve organisational effectiveness.

<b>Employee Number in Croatia</b>	<b>2016</b>	2015	2014
Full time employees (on 31 December)	<b>366</b>	354	346
Part time employees (on 31 December)	<b>114</b>	184	74
Part time employees (on 31 August)	<b>848</b>	819	794
<b>FTE*</b>	<b>806</b>	758	710
<b>Employee satisfaction/engagement (%)</b>	<b>84.9</b>	84.6	81.8
<hr/>			
<b>Employee Number in Germany and Hungary***</b>	<b>2016</b>	2015	2014
Full time employees (on 31 December)**	<b>301</b>	225	230
Part time employees (on 31 December)**	<b>35</b>	43	44
<b>FTE*</b>	<b>264</b>	263	218

\* The FTE number is an estimate based on the total hours paid for all employees divided by the hours paid for an average full time employee to arrive at a total for Full Time Equivalent Employees.  
 \*\* The employee numbers for Germany and Hungary include all the employees for art'otel berlin mitte and Park Plaza Berlin Kudamm which are owned in joint ventures.  
 \*\*\* Germany and Hungary were not part of the Group for the three years ended 31 December 2016 and the table below is included for information.

## CORPORATE SOCIAL RESPONSIBILITY CONTINUED

# 210

training programmes

**Learning and development programmes**  
210 training programmes were conducted in 2016, of which just over 100 were conducted internally. The rest of the programmes were conducted by external companies or our suppliers. Of the internal training sessions, nearly 50% fell under the category of statutory training. The rest of the training programmes conducted were mainly induction training, guest experience training, technical skills training and management and leadership training.

During 2016, we extended the scope of the you:niversity Learning and Development programme to non-branded properties. This programme covered our CSR activities, including every team member's role and responsibility in driving such activities. In addition, all management teams of non-branded properties attended the Connect! programme, which introduced them to the Company Context and Brand Pyramid.

We also delivered the 'Leading the PPHE Way' programme to teams from branded and non-branded properties. This introduced the teams to the new competencies defined by PPHE Hotel Group and helped them understand the behaviours we look for in our team members and leaders.

In May 2016 we also piloted the new Coach programme in Croatia. The aims of the programme were to explain the benefits of coaching our team members, explain how people learn, and provide the team members with the skills to coach effectively. We plan to extend this programme to the non-branded property teams in the future.

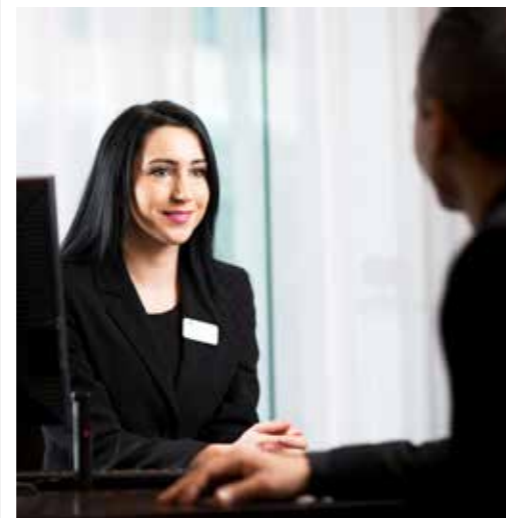
In 2016 we also enrolled four team members in a Financial Controlling Academy. The programme consists of 25 modules that take place over a period of eight months and is certified by IGC (International Group of Controlling).

Three team members were enrolled in the Foundation in Management programme in 2016 and another six were selected in November 2016 to attend the 2017 course. We are very proud that we have extended the programme to the rest of the Arenaturist properties including the campsites.

2016 was also the year in which we introduced a talent management course to the management teams of the Park Plaza® branded properties. This programme will enable our management teams to recognise their talent and plot them on a training matrix, allowing us to keep track of our talent as a resource and further support and develop our team members. Successful talent management will allow us to utilise our talent and enable better succession planning.

### Employee engagement survey

In June 2016 we had our fourth annual climate analysis–employee engagement survey. Overall, the results for Arenaturist showed a high level of team member engagement with an index score of 84.9. The total index derived from the drivers – My Job, My Manager, Our Team and Our Company – was a solid 80.7. These results show a high level of team member engagement and overall satisfaction with their employment in the Company. From the results, teams are able to identify areas for improvement and through action plans set objectives to improve their working climate.



### Social responsibility

We want to play an active role in the communities that we operate in and be a good neighbour. We are encouraging our team members, guests, business partners and local communities to connect because only together can we make a positive impact.

We were actively involved in a number of initiatives throughout the year to contribute to making positive changes.

### Charity initiatives

We supported the charity concert of the legendary Spanish tenor José Carreras in Pula, which was aimed at fundraising for the children's ward KBC Rijeka and Centre for Rehabilitation Veruda in Pula. The ultimate goal was to provide children who suffer from serious diseases with a pleasant stay in the hospital and rehabilitation centre. We have also supported the charity concert 'Christmas in the Istrian National Theatre', which fundraised to furnish a new venue for the Cerebral Palsy Association of the Istria County, and many others.

### Youth development initiatives

Arenaturist intensified its cooperation with universities by supporting a new project, 'Private Sector Youth Initiative' (PSYI), launched by the European Bank for Reconstruction and Development (EBRD) in partnership with the Croatian Employers Association (HUP). This project connects institutions of higher education with companies to enable young people to gain practical knowledge and skills during their studies to increase their employment prospects.

## BOARD OF DIRECTORS

/

### EXPERIENCED LEADERSHIP



**BORIS IVESHA**  
CHAIRMAN

**Skills and experience**

/ Boris Ivesha has been President of PPHE Hotel Group since 1991. Mr. Ivesha brought the Park Plaza® Hotels & Resorts brand to the PPHE Hotel Group in 1994 in collaboration with the Red Sea Group (one of the major shareholders of PPHE Hotel Group) and has been a major contributor in the expansion of PPHE Hotel Group. Mr. Ivesha established the Yamit Hotel, Israel in 1984 and served as its President. He was Director of the Carlton Hotel in Israel (1979–1984). Prior to that he was a General Manager of the Royal Horseguards Hotel in London (1972 – 1979).



**YOAV PAPOUCHADO**  
DEPUTY CHAIRMAN

**Skills and experience**

/ Yoav Papouchado is Chairman of the Board of Red Sea Hotels Limited and has been since 1998. Red Sea Hotels Limited is a group of real-estate companies operating worldwide. Mr. Papouchado holds an MBA as well as a BA in Economics from the Tel-Aviv University.



**CHEN MORAVSKY**  
DIRECTOR

**Skills and experience**

/ Chen Moravsky is Deputy Chief Executive Officer & Chief Financial Officer of PPHE Hotel Group. Prior to which, Mr. Moravsky was Finance Director of the Red Sea Group (2001–2004) and has extensive experience in the hotel/leisure business and real estate investment market. Previously, he was an Audit Manager at Deloitte. He is a Certified Public Accountant (ISR). Mr. Moravsky holds an MBA from the University of Manchester and Bachelor of Business from the Tel Aviv College of Management.



**DENIS JUKIĆ**  
DIRECTOR

**Skills and experience**

/ Denis Jukić has held key positions in the hotel and leisure industry in Croatia during the last 20 years. In his career he was Managing Director of the Adriatic Luxury Hotel Group and President of the Board of Atlas Travel Agency. Mr. Jukic holds a master's business degree in Economics in Tourism from the University of Rijeka.



**ŠIME VIDULIN**  
DIRECTOR

**Skills and experience**

/ Šime Vidulin was Vice President of the Croatian Chamber of Economy from 1999 to 2010. Previously, he was President of the Istrian Chamber of Economy (1985–1999) and Mayor of the City of Pula (1983–1985). Mr. Vidulin was General Manager of Gradine, an Istrian construction company (1979–1983), and General Manager of Siporex Pula (1972–1979).

## EXECUTIVE DIRECTORS



**ABRAHAM THOMAS**  
DIRECTOR

**Skills and experience**

/ Abraham Thomas, formerly Vice President Financial Control of PPHE Hotel Group, has over 35 years experience working in the hotel/leisure business. He previously worked in the Finance Department of PPHE Hotel Group, first as Financial Controller of Park Plaza Victoria Amsterdam in 1993 and then in supporting the growth of the PPHE Hotel Group to its present structure.



**VEHBIJA MUSTAFIĆ**  
DIRECTOR (APPOINTED  
BY WORKERS' COUNCIL)

**Skills and experience**

/ Vehbija Mustafić is an employee of Arenaturist. He works at Hotel Brioni in the position of Shift Chef and is appointed to the Board of Directors by the workers council.



**REUEL ('RELI') SLONIM**  
CHIEF EXECUTIVE OFFICER

**Skills and experience**

/ Reli Slonim joined Arenaturist as Executive Director in 2008. Previously, he was Vice President of Operations & Development and a board member of Isrotel Hotels and Resorts, one of Israel's leading hospitality companies. Before which, Mr. Slonim was Vice President Marketing & Sales after having served for ten years as General Manager of five star resort hotels.

/ Since joining Arenaturist in 2008, he has led a programme of major transformations which include the renovation, upgrading and rebranding of six properties (1,200 rooms) and the growth in EBITDA from €4.0 million in 2008 to €18.0 million in 2016. At the same time, several of the Group's IT systems were updated and a management and training culture has been introduced, which resulted in the Company being recognised as a leading hospitality company in Croatia.

/ Mr. Slonim is an active member of the Pula and Medulin Tourist Board, in the community of Medulin and the city of Pula, and in cultural and sports associations.



**MILENA PERKOVIĆ**  
EXECUTIVE DIRECTOR &  
CHIEF FINANCIAL OFFICER

**Skills and experience**

/ Milena Perković joined Arenaturist in 1986 as Director of Planning, Organisation and Economics and was appointed Vice President in 1999. Mrs. Perković became the Group's Executive Director and Chief Financial Officer in 2008 and together with Reli Slonim has managed the transformation of the Group and its growth into a major force in the Croatian hospitality industry, while maintaining its position and reputation within Pula and the Istrian region. Mrs. Perković was responsible for negotiating the financing of the €54 million renovation, upgrading and rebranding of six properties.

/ Mrs. Perković holds a master's degree in Economics. She is a member of the Council of the Croatian National Tourist Board and a council member of the Istrian County Tourist Board and the Pula and Medulin Tourist Board. She is a member of the Croatian Chamber of Economy for the Istrian region and a member of the council of a number of different professional associations in the hotel industry.

## CORPORATE GOVERNANCE REPORT

Arenaturist is a public company listed on the Official Market of the Zagreb Stock Exchange. The key governing bodies are the General Assembly, the Board of Directors and the Executive Directors, who are elected by the Board of Directors. The specific governance authorities and responsibilities of these governing bodies are regulated by the applicable Croatian legislation, the Company's Articles of Association and other corporate governance regulations or prescribed procedures.

The headquarters are in Pula, which also manages all the operations in Croatia. The German operations have a regional management office in Berlin which is responsible for the operations in Germany and Hungary.

The Arenaturist Board of Directors consists of seven Directors, of which two are independent and one is an employee representative.

### Board Committees

The Board of Directors has established an Audit Committee which consists of Arnoud Duin, Vice President of Finance of the Company (Chairman), Damir Veizović (member) and Abraham Thomas (Director). The Board of Directors intends to amend the composition of the Audit Committee to ensure compliance with the Corporate Governance Code of the Zagreb Stock Exchange.

From time to time, separate committees are set up by the Board of Directors to consider specific issues when the need arises. Each committee and each member of the Board of Directors has the authority to seek independent professional advice where necessary to discharge their duties, in each case at Arenaturist's expense. Arenaturist maintains appropriate Directors' and Officers' Liability Insurance.

### Executive Directors

The Executive Directors are the legal representatives of Arenaturist, and act together jointly.

Currently there are two Executive Directors who were last nominated by the Board of Directors on 8 September 2016.

The Executive Directors who served throughout the year were:

- Reuel ('Reli') Israel Gavriel Slonim (Chief Executive Officer)
- Milena Perković (Executive Officer & Chief Financial Officer)

Alongside their primary responsibilities, the Executive Directors are responsible for investor relations, investment and asset development proposals.

The Executive Directors' mandate will terminate in September 2018.

### Listing of shares

In November 2016, the Company's shares were transferred from the Regular Market to the Official Market of the Zagreb Stock Exchange. This is a significant step for the Company, especially in terms of continuance of the implementation of higher corporate governance and investor relation standards that should raise its profile among domestic and international investors and provide greater flexibility for growth. Furthermore, the transition to the Official Market should enhance liquidity in the Company's shares and provide it with exposure to a wider investor base.

### Corporate Governance Report

#### General Assembly Meetings:

During 2016, two General Assemblies were held as below:

- On 13 April 2016, an extraordinary General Assembly was held, at which the members of the Board of Directors were appointed following the change of ownership.
- On 31 August 2016, a General Assembly was held, at which the Board of Directors considered, amongst others, the Company's financial reports for the year end 2015, election of the auditors, approval of the merger of the Bora Companies and amendment of the Company's Articles of Association.

### Board of Directors Meetings

The Board of Directors meets several times during the year in compliance with its legal obligations and as and when required by the Company's Articles of Association. The Board of Directors is actively engaged in key strategic initiatives and supporting the Executive Directors' decision-making process. The Board of Directors held nine meetings during 2016.

The below table demonstrates the attendance at those meetings:

	4.4.16	13.4.16	6.5.16	16.6.16	18.7.16	8.9.16	15.9.16	15.11.16	23.12.16
Boris Ivesha	●	●	●	●	●	●	●	●	●
Yoav Papouchado	○	●	●	●	●	●	○	○	○
Chen Moravsky	○	●	●	●	●	○	●	●	●
Abraham Thomas	○	○	●	●	●	●	●	○	●
Denis Jukić	○	●	●	○	●	●	●	●	●
Šime Vidulin	●	●	●	●	●	●	●	○	●
Vehbija Mustafić	●	●	●	●	●	●	●	●	●
Marielle Stijger	●	○	○	○	○	○	○	○	○

### Communication with shareholders

The Board of Directors is accountable to Arenaturist's shareholders and as such it is important for the Board of Directors to appreciate the aspirations of the shareholders and equally that the shareholders understand how the actions of the Board of Directors and short-term financial performance relate to the achievement of Arenaturist's longer-term goals.

The Board of Directors reports to the shareholders on its stewardship of Arenaturist through the publication of quarterly results each year. Press releases are issued throughout the year and, along with the Annual Report and Accounts, are available on Arenaturist's website at [www.arenaturist.com](http://www.arenaturist.com). Additionally, the Annual Report contains extensive information about Arenaturist's activities. Enquiries from individual shareholders on matters relating to the business of Arenaturist are welcomed. The Board of Directors also meets with major shareholders to discuss and review the progress of Arenaturist and to understand their issues and concerns, as well as discuss governance and strategy.

The Annual General Assembly provides an opportunity for communication with all shareholders and the Board of Directors encourages the shareholders to attend and welcomes their participation. The Board of Directors and Executive Directors attend the Annual General Assembly and are available to answer questions.

### Major shareholders

As at 31 December 2016, the registered share capital of the Company was 2,182,500 of which 169 shares were held as treasury shares.

Details of the Company's shares are set out below:

Number of issued shares	2,182,500
Held in treasury by Arenaturist	169
Number of issued shares (excluding treasury)	2,182,331

The table below shows the shareholders with holdings of 3% or more of the Company's issued share capital (excluding treasury) as at 31 December 2016:

Account owner (holder)/ Security co-holder (holder)	Percentage
1. Dvadeset Osam d.o.o.	65.63
2. Société Générale–Splitska Banka d.d./ AZ OMF kategorije B – Skrbnički račun	7.63

### Unregistered share capital

The consideration for the acquisition of 88% of the share capital of Sugarhill was the issue of 1,091,250 ordinary shares in Arenaturist. The assets and liabilities of Sugarhill are consolidated in the financial statements of the Group at 31 December 2016. The issue of the 1,091,250 consideration shares had not been approved by the Court on 31 December 2016 and so they are not shown as part of the issued share capital at that date. Further details are provided in Note 10 to the Consolidated financial statements.

## EXECUTIVE DIRECTORS' REPORT

The Executive Directors present their report and the audited financial statements of the Company for the year ended 31 December 2016 to the Board of Directors.

### Principal activities

The Company is registered in the Commercial Court in Pazin, Croatia and, through its owned and leased assets in Croatia and controlled subsidiaries in Germany and Hungary (which include owned, leased, operated and jointly controlled assets), operates and develops full-service, upscale, upper upscale and lifestyle hotels, self-catering holiday apartment complexes and campsites.

The majority of the Group's hotels and one of its self-catering holiday apartment complexes operate under two distinct brands: Park Plaza® or art'otel®.

The Company has the exclusive right from PPHE Hotel Group to operate and develop hotels and self-catering holiday apartment complexes under the Park Plaza® brand in 18 countries in the CEE region.

### Business review

A review of the business during the year is contained in the Chairman's statement, Chief Executive Officer's statement, Our business model and strategy, Key performance indicators, Chief Financial Officer's statement, and the Operating reviews.

### 2016 results

The results for the year are set out in the attached Consolidated financial statements.

### Principal risks and uncertainties

Internal controls and an effective risk management regime are integral to Arenaturist's continued operation. Overall responsibility for the risk management processes adopted by Arenaturist lies with the Board of Directors.

We provide information on the nature of the risks and the actions to mitigate risk exposure. Not all potential risks are listed on pages 20 and 21. Some risks are excluded because the Board of Directors considers them not to be material to Arenaturist as a whole. Additionally, there may be risks and uncertainties not presently known to the Executive Directors, or which the Executive Directors currently consider immaterial, that may also have an adverse effect on Arenaturist.

### Auditors

PricewaterhouseCoopers d.o.o., Ulica kneza Ljudevita Posavskog 31, 10000 Zagreb, Croatia are Arenaturist's independent auditor and were re-appointed for a tenure of one year at Arenaturist's last Annual General Meeting.

### Going concern

The Executive Directors believe they are taking all appropriate steps to support the sustainability and growth of the Group's activities. Detailed budget and cash flow projections have been prepared for 2017 which show that the Group's operations will be cash generative during the period. This, taken together with their conclusions on the matters referred to below and in Note 1.c to the Consolidated financial statements, has led the Executive Directors to conclude that it is appropriate to prepare the 2016 Consolidated financial statements on a going concern basis.

### Financial risk management objectives and policies

Pages 20 and 21 and Note 23 to the Consolidated financial statements set out the Company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposure to credit risk and liquidity risk.

### Executive Directors' responsibilities

Pursuant to the Croatian Accounting Act (Official Gazette 78/15, 134/15 and 120/16), the Executive Directors are required to ensure that the financial statements are prepared in accordance with International Financing Reporting Standards (IFRS) as adopted by the European Union in order to give a true and fair view of Arenaturist's financial performance and its results for the reporting period.

In preparing the Consolidated financial statements, the Executive Directors are responsible for:

- selecting and consistently applying appropriate accounting policies;
- making reasonable and prudent judgments and estimates;
- complying with applicable accounting standards, while reporting and explaining all material departures in the financial statements;
- preparing the financial statements under the going concern principle, unless it is inappropriate due to the Company's actual position; and
- establishing appropriate and statutory accounting records so that they disclose, with reasonable accuracy, the financial position of the Company, and its income and expenses.

The Executive Directors confirm that they have complied with the above requirements in preparing the Consolidated financial statements.

The Executive Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Consolidated financial statements have been properly prepared in accordance with the Croatian Accounting Act (Official Gazette 78/15, 134/15 and 120/16). The Executive Directors are responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Executive Directors' declaration

So far as each of the Executive Directors, who is a director at the time the Executive Directors' Report is approved, is aware, there is no relevant audit information of which the Company's auditor is unaware and each has taken all steps he/she ought to have taken as an Executive Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

### Executive Directors' responsibility statement

The Executive Directors confirm to the best of their knowledge that the Consolidated financial statements, which have been prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit and loss of the Company and the undertakings included in the consolidation taken as a whole.

The Strategic Report includes a fair review of the development and performance of the business and the position of Arenaturist, and provides information necessary for shareholders to assess Arenaturist's performance, business model and strategies.

The Consolidated financial statements contain a faithful presentation of Arenaturist's operating results and development with a description of the principal risks and uncertainties the Company and its undertakings in the consolidation taken as a whole are exposed to.

The Executive Directors have a reasonable expectation that Arenaturist has adequate resources to continue in business and the going concern principle was applied in preparing these Consolidated financial statements.

Signed by Executive Directors Reuel Israel Gavriel Slonim (Chief Executive Officer) and Milena Perković (Executive Officer & Chief Financial Officer).

**REUEL ISRAEL GAVRIEL SLONIM**  
CHIEF EXECUTIVE OFFICER

**MILENA PERKOVIĆ**  
EXECUTIVE OFFICER & CHIEF FINANCIAL OFFICER

## MANAGEMENT BOARD DECISION

### Board of Directors

File No: 01- 5/17

Pula, 20 March 2017

According to Article 300c and 300d of the Companies Act and the Executive Directors' Decision No 01-4/17 dated 15 March 2017, the Board of Directors passed the following decision on 20 March 2017 in Pula:

### DECISION

The Board of Directors gives its approval to:

1. Management Report on the Group and the Company's status and business results for the period from 1 January 2016 to 31 December 2016, which comprises the Strategic Report and Governance Report including the Executive Directors' responsibility statement.
2. Group's Financial Statements presented as: Consolidated Statement of Financial Position on 31 December 2016, Consolidated Income Statement and Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows and Notes to the Consolidated Financial Statements.
3. Company's Financial Statements presented as: Statement of Financial Position on 31 December 2016, Income Statement and Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Notes to the Company's Financial Statements.
4. The Report on the performed audit by the Auditors PricewaterhouseCoopers d.o.o, Ljudevita Posavskog 31, 10000 Zagreb
5. The proposed decision to cover the Company's loss for the year 2016 in an amount of HRK 111,935,424.41 using existing Company's accumulated earnings and other reserves.

The Board of Directors hereby states that Pursuant to Article 300d of the Companies Act, the Annual Reports and Accounts for 2016, the Group's Financial Statements and the Company's Financial Statements, are considered to be approved by both the Executive Directors and the Board of Directors.

Pursuant to Article 121 of the Rules of the Zagreb Stock Exchange, The Zagreb Stock Exchange will be informed of this Decision no later than the opening of trading on the trading day following the approval.

**BORIS IVESHA**  
CHAIRMAN

## CONSOLIDATED FINANCIAL STATEMENTS

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- 94** Subsidiaries included in the Group
- 94** Jointly controlled entities

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF ARENATURIST D.D.:**

**Our opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Arenaturist d.d. ("the Company") and its subsidiaries ("the Group") as at 31 December 2016, 31 December 2015 and 31 December 2014, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted in the European Union (IFRS).

**What we have audited**

The audited financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016, 31 December 2015 and 31 December 2014;
- the consolidated income statement for the years ended 31 December 2016, 31 December 2015 and 31 December 2014;
- the consolidated statement of other comprehensive income for the years ended 31 December 2016, 31 December 2015 and 31 December 2014;
- the consolidated statement of changes in equity for the years ended 31 December 2016, 31 December 2015 and 31 December 2014;
- the consolidated statement of cash flows for the years then ended 31 December 2016, 31 December 2015 and 31 December 2014; and
- the notes to the those accompanying consolidated financial statements, which include a summary of significant accounting policies.

**Basis for opinion**

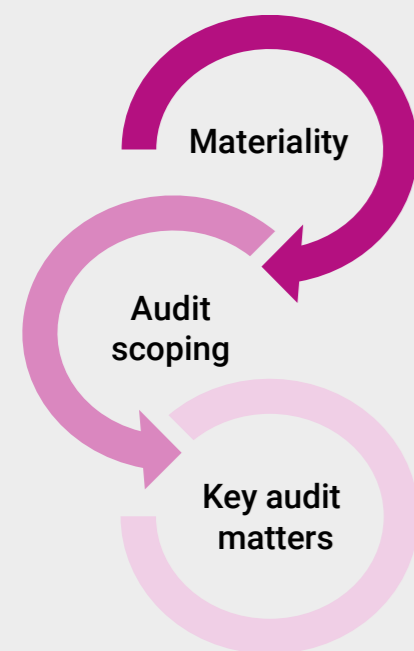
We conducted our audit in accordance with International Standards on Auditing (ISAs).

Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the 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 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.



**Our audit approach**

**Overview**

- Overall group materiality:
  - a) for 2016: HRK 6.1 million, which represents 1% of annual group revenue adjusted for non-recurring items (as described on the next page in paragraph **Materiality**);
  - b) for 2015: HRK 3.7 million, which represents 1% of total revenue;
  - c) for 2014: HRK 3.2 million, which represents 1% of total revenue.
- The group engagement team is the auditor of 1 reporting unit in Croatia and component auditor from other network operated under our instructions in foreign countries.
- In establishing the overall approach to the group audit, we determined the type of work that needed to be performed by us, as the group engagement team, and component auditor from other networks operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.
- The group engagement team visited the following locations: Pula, Medulin and Berlin (where the related component team was located). Our audit scope addressed 100% of the Group's revenues and 100% of the Group's absolute value of underlying loss.
- KAM 1 – Accounting treatment of an under common control acquisition of subgroup Sugarhill Investments B.V.
- KAM 2 – Impairment of hotel real estate properties

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

**Materiality**

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

<b>Overall group materiality</b>	2016: HRK 6.1 million 2015: HRK 3.7 million 2014: HRK 3.2 million
<b>How we determined it</b>	1% of annual group revenue adjusted for non-recurring items
<b>Rationale for the materiality benchmark applied</b>	We have chosen annual group revenue adjusted for certain non-recurring items as the benchmark because, in our view, it is an appropriate measure of underlying performance and the benchmark against which the performance of the Group and other companies in this industry is most commonly measured by users, and is a generally accepted benchmark. The annual group revenue was increased by revenue achieved by subgroup Sugarhill Investments B.V. In our view, those items are considered exceptional and do not reflect the Group's business activity.  We chose 1% which is consistent with quantitative materiality thresholds used for listed companies in this sector.

We would report to Audit Committee misstatements identified during our audit above HRK 305 thousand as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.



**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS  
AND BOARD OF DIRECTORS OF ARENATURIST D.D. :**  
CONTINUED

**Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**Key audit matter**

**Accounting treatment of under common control acquisition of subgroup Sugarhill Investments B.V.**

Refer to Notes 2 a. and 3 a. in the consolidated financial statements.

In December 2016, the Group acquired 88% of the holding company Sugarhill Investments B.V. from Dvadeset Osam d.o.o. The acquisition was settled by the issuance of new shares of Arenaturist d.d. All companies mentioned above were under control of the PPHE Hotel Group Limited prior the acquisition occurred.

Both investment in Sugarhill and new shares issued as a consideration for the acquisition are estimated at fair value by the independent evaluator. Based on these fair values exchange ratio was determined.

In accordance with the Group accounting policies, for such transactions, the Group applies a method commonly referred to as "predecessor accounting method", prospectively, i.e. starting from 31 December 2016. The main principle of this method is that no assets or liabilities are restated to their fair values. Instead, the legal acquirer incorporates predecessor carrying values. These predecessor carrying values are the carrying values that are related to the acquired entity taken from the consolidated financial statements of the highest entity, i.e. PPHE Hotel Group Limited that has common control for which consolidated financial statements are prepared.

Our audit work has been focused on the accounting treatment of this transaction. Particularly, we considered whether this method could be applicable for this particular transaction and whether it was properly applied in the financial statements.

In addition, we focused whether the difference between the consideration and the predecessor values in the amount of HRK 270,795 thousand was reported as a Group capital reserves reduction.

**How our audit addressed the key audit matter**

We have reviewed supporting legal documentation in respect of the acquisition transaction to obtain the proper understanding of the transaction and also reviewed management's procedures for determining the fair value of the acquired 88% shareholding in Sugarhill.

We reviewed management's assessment that the acquisition of Sugarhill sub-group is out of scope of IFRS 3 and may be accounted under predecessor method prospectively. In this area, our audit procedures included, among others, consultation with PwC IFRS expert team, and consideration of available accounting options.

We have tested consolidation procedure of the Sugarhill sub-group.

We tested calculation of the capital reserve reduction as a result of the application of the predecessor accounting method.

Based on the evidence obtained, we have not identified any significant issues with the applied accounting method with respect to the related transaction.

**Key audit matter**

**Impairment of hotel real estate properties**

Refer to Notes 3 c. and 4 c. in the consolidated financial statements.

The company Arenaturist d.d. has reported properties with carrying value of HRK 1,204 million which were presented in the consolidated statement of financial position as at 31 December 2016.

During 2016, an impairment review of those assets were performed when there was an indication that these may be impaired such as changes in operation strategy combined with a change in ultimate controlling party. The management has assessed the recoverable values of properties that included analysis of the financial results of the each cash generating unit, the outlook for the hotel industry and Arenaturist d.d. operating plans. Based on this assumptions the management used discounted cash flow model.

An impairment provision of HRK 148.6 million has been identified and reduced the carrying values of certain hotel properties to their estimated recoverable values.

For the remaining properties, management concluded that the recoverable amount was higher than their carrying values such that no impairment provision was required.

Given the materiality of properties, the recognition of impairment had a significant impact on the consolidated financial statements. We also focused on this area as these conclusions are dependent upon significant management judgement involved in performing the impairment test. In particular the most significant judgements relate to discount rates applied together with the assumptions supporting the underlying forecast cash flows.

**How our audit addressed the key audit matter**

Our procedures in relation to management's impairment assessment of properties included:

- Assessing the methodologies used by management to estimate values in use and fair value less cost to sell;
- Evaluating the independent external valuer's competences, capabilities and objectivity;
- Checking, on a sample basis, the accuracy and relevance of the input data provided by management to the external valuer;
- Assessing management's key assumptions used to estimate value in use based on our knowledge of the hotel industry in Croatia; and
- Considering the potential impact of reasonably possible downside changes in these key assumptions. We have reviewed sensitivities in evaluating the management's assessment performed on discount rate, EBITDA, growth rate.

Based on available evidence we found management's assumptions in relation to the recoverable amount calculations to be reasonable. We found the disclosures in notes 3c and 4c to be appropriate. We consider management's conclusion to be consistent with the available information.

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF ARENATURIST D.D. :

CONTINUED

### How we tailored our group audit scope

We tailored the scope of our audit to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the geographic and management structure of the Group, the accounting processes and controls and the industry in which the Group operates.

From 1 April 2016 the Group has been under control of PPHE Hotel Group Limited and previously it was under control of another controlling party.

The Group consists of 3 parts:

- a) stand-alone Arenaturist d.d. (the parent; "Company") which is audited by the Group audit team;
- b) three companies Arenaturist hoteli d.o.o., Arenaturist zlatne stijene d.o.o. and Arenaturist turistička naselja d.o.o. – In June 2016, these companies were acquired by the Company from related entity Dvadeset devet d.o.o. (subsidiary of PPHE Hotel Group Limited). Subsequently, in November 2016 these entities were merged into Arenaturist d.d. – audit of this transaction and presentation of comparatives were audited by the Group audit team; and
- c) Sugarhill Investments B.V. (the holding company; "Sugarhill") – In December 2016, the Company acquired 88% shareholding of Sugarhill. The Sugarhill sub-group is part of the Group from 31 December 2016 and is consolidated based on prospective predecessor accounting method (it means no influence on 2016 Statement of comprehensive income). The Company applied the predecessor accounting method prospectively as the Company and Sugarhill did not have the same controlling party prior to 1 April 2016. The Sugarhill sub- group consists of 10 solely owned entities and 4 joint venture entities. In substance, Sugarhill sub-group runs 5 solely owned and 2 joint venture city hotels of which 6 in Germany and 1 in Hungary and possess hotel management rights to manage and support Park Plaza and art'otel branded hotel operations in Croatia, Germany and Hungary – we have instructed the component auditors Mazars Germany and Mazars Hungary to perform the 31 December 2016 balance sheet audit on 8 out of 10 entities (2 entities are insignificant) belonging to the Sugarhill sub-group and defined certain limited audit procedure on 1 joint venture company. Our instructions included our ethical requirements, risk analysis, materiality and audit approach for key audit areas.

In respect of Sugarhill, in addition to component auditor's work we have visited hotel operation Park Plaza Wallstreet Berlin as majority of Sugarhill operations is achieved in Berlin city hotels. The Group's consolidation and the financial statement disclosures were audited by the group engagement team. The group engagement team audited the accounting treatment of significant reporting items such as property in Nuremberg and consolidation eliminations.

Overall, our audit procedures covered 100% of the Group in respect of revenue and approximately 99% in respect of total assets.

By performing the above procedures at components, combined with additional procedures at the Group level, we have obtained sufficient and appropriate audit evidence regarding the financial information of the Group as a whole to provide a basis for our opinion on the consolidated financial statements.

### Other information

Management is responsible for the other information. The other information comprises the Annual Report of the Group which includes the Management Report and Corporate Governance Statement (but does not include the consolidated financial statements and our auditor's report thereon).

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

In connection with our audit of the 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 consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Management Report and Corporate Governance Statement, 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 of the Accounting Act, and whether the Corporate Governance Statement includes the information specified in Article 22 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 2016 financial year for which the consolidated financial statements are prepared is consistent with the consolidated financial statements;
- the Management Report has been prepared in accordance with the requirements of Article 21 of the Accounting Act; and
- the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

In addition, in light of the knowledge and understanding of the entity 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 and Corporate Governance Statement. We have nothing to report in this respect.

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

Management is responsible for the preparation and fair presentation of the 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the 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 Group or to cease operations, or has no realistic alternative but to do so.

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

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS  
AND BOARD OF DIRECTORS OF ARENATURIST D.D. :**

CONTINUED

**Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 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 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 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 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 auditor's report to the related disclosures in the 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 auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the 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 we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Siniša Dušić.

PricewaterhouseCoopers d.o.o.

Siniša Dušić

Zagreb, 20 March 2017

Member of the Management Board and Certified Auditor

PricewaterhouseCoopers d.o.o.  
Ulica kneza Ljudevita Posavskog 31  
10000 Zagreb  
Croatia

T: +385 (1) 6328 888  
F: +385 (1) 6111 556

www.pwc.hr

Commercial Court in Zagreb, no. Tt-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.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December		
		2016 HRK'000	2015 HRK'000 (restated)	2014 HRK'000 (restated)
<b>Assets</b>				
<b>Non-current assets:</b>				
Property, plant and equipment	4	1,344,833	1,294,093	1,281,555
Inventories		9,261	12,285	13,306
Interest in joint ventures	5	33,294	–	–
Other non-current financial assets	6	9,727	1,337	3,107
Deferred tax asset	19	29,991	6,204	6,496
Restricted deposits and cash	11b	41,713	–	–
		<b>1,468,819</b>	1,313,919	1,304,464
<b>Current assets:</b>				
Inventories		3,799	1,982	1,416
Other current financial assets		208	171	159
Trade receivables	7	21,140	4,490	2,996
Other receivables and prepayments	8	22,148	4,914	8,232
Cash and cash equivalents	9	130,406	147,787	98,282
		<b>177,701</b>	159,344	111,085
Total assets		<b>1,646,520</b>	1,473,263	1,415,549
<b>Equity and liabilities</b>				
<b>Equity:</b>				
Issued capital	10	43,650	43,650	43,650
Unregistered capital		460,006	–	–
Hedging reserve		(5,025)	–	–
Other reserves		373,305	638,801	638,789
Capital and reserves of the merged entities		–	134,335	135,120
Accumulated (losses)/earnings		(90,397)	20,942	2,260
Total equity attributable to owners of Arenaturist d.d.		<b>781,539</b>	837,728	819,819
Non controlling interest		22,705	–	–
Total equity		<b>804,244</b>	837,728	819,819
<b>Non-current liabilities:</b>				
Bank borrowings	12	520,538	369,463	344,320
Liabilities towards related parties	22	7,662	147,018	138,040
Provisions	13	55,300	49,801	43,420
Other liabilities		1,880	1,660	1,597
		<b>585,380</b>	567,942	527,377
<b>Current liabilities:</b>				
Trade payables		22,946	10,373	24,451
Other payables and accruals	14	61,408	26,180	21,103
Liabilities towards related parties	22	33,970	7,496	2,704
Bank borrowings	12	138,572	23,544	20,095
		<b>256,896</b>	67,593	68,353
Total liabilities		<b>842,276</b>	635,535	595,730
Total equity and liabilities		<b>1,646,520</b>	1,473,263	1,415,549

The accompanying notes are an integral part of the Consolidated financial statements.  
Date of establishing of the Consolidated financial statements 20 March 2017.

RELI SLONIM  
CHIEF EXECUTIVE OFFICER

MILENA PERKOVIĆ  
EXECUTIVE OFFICER &  
CHIEF FINANCIAL OFFICER

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December		
		2016 HRK'000	2015 HRK'000 (restated)	2014 HRK'000 (restated)
Revenues	15	435,871	402,759	354,167
Operating expenses	16	(295,100)	(277,047)	(255,932)
<b>EBITDAR</b>		<b>140,771</b>	125,712	98,235
Rental expenses and concession fees land		(8,748)	(8,771)	(8,903)
<b>EBITDA</b>		<b>132,023</b>	116,941	89,332
Depreciation, amortisation and impairment	4	(222,511)	(59,586)	(69,410)
<b>EBIT</b>		<b>(90,488)</b>	57,355	19,922
Financial expenses	17	(41,007)	(32,385)	(29,447)
Financial income		136	59	95
Other income and expenses	18	(6,612)	(1,297)	(1,416)
<b>(Loss)/profit before tax</b>		<b>(137,971)</b>	23,732	(10,846)
Income tax benefit/(expense)	19	23,716	(5,793)	(1,951)
<b>(Loss)/profit for the year</b>		<b>(114,255)</b>	17,939	(12,797)
<b>Basic and diluted earnings per share</b>	20	<b>(52.35)</b>	8.22	(5.86)

The accompanying notes are an integral part of the Consolidated financial statements.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December		
	2016 HRK'000	2015 HRK'000 (restated)	2014 HRK'000 (restated)
Loss/profit for the year	<b>(114,255)</b>	17,939	(12,797)
<b>Other comprehensive income (loss) to be recycled through profit and loss in subsequent periods:<sup>1</sup></b>			
Fair value gain reclassified to the profit and loss upon disposal of available-for-sale financial assets <sup>*</sup>	<b>37</b>	12	25
Other comprehensive (loss) income	<b>37</b>	12	25
Total comprehensive income	<b>(114,218)</b>	17,951	(12,772)

\* There is no other comprehensive income that will not be reclassified to the profit and loss in subsequent periods.

The accompanying notes are an integral part of the Consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In HRK'000	Issued capital	Unregistered capital	Hedging reserve	Other reserve	Capital and reserves of the merged entities	Accumulated earnings Arenaturist d.d.	Total	Non-controlling interest	Total equity
Balance as at 1 January 2014	43,650	–	–	638,711	138,743	11,487	832,591	–	832,591
Loss for the year	–	–	–	–	(3,623)	(9,174)	(12,797)	–	(12,797)
Other comprehensive income	–	–	–	25	–	–	25	–	25
Total comprehensive loss	–	–	–	25	(3,623)	(9,174)	(12,772)	–	(12,772)
Transfer to legal reserves	–	–	–	53	–	(53)	–	–	–
Balance as at 31 December 2014	43,650	–	–	638,789	135,120	2,260	819,819	–	819,819
Profit for the year	–	–	–	–	(785)	18,724	17,939	–	17,939
Other comprehensive income	–	–	–	12	–	–	12	–	12
Total comprehensive income	–	–	–	12	(785)	18,724	17,951	–	17,951
Other	–	–	–	–	–	(42)	(42)	–	(42)
Balance as at 31 December 2015	43,650	–	–	638,801	134,335	20,942	837,728	–	837,728
Loss for the year	–	–	–	–	(2,916)	(111,339)	(114,255)	–	(114,255)
Other comprehensive income	–	–	–	37	–	–	37	–	37
Total comprehensive loss	–	–	–	37	(2,916)	(111,339)	(114,218)	–	(114,218)
Issue of shares for Sugarhill (unregistered)	–	460,006	–	–	–	–	460,006	–	460,006
Acquisition of Sugarhill	–	–	(5,025)	(288,475)	–	–	(293,500)	22,705	(270,795)
Elimination cost price of Bora Companies	–	–	–	23,007	(131,419)	–	(108,412)	–	(108,412)
Other	–	–	–	(65)	–	–	(65)	–	(65)
Balance as at 31 December 2016	<b>43,650</b>	<b>460,006</b>	<b>(5,025)</b>	<b>373,305</b>	–	<b>(90,397)</b>	<b>781,539</b>	<b>22,705</b>	<b>804,244</b>

The accompanying notes are an integral part of the Consolidated financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December		
		2016 HRK'000	2015 HRK'000 (restated)	2014 HRK'000 (restated)
<b>Cash flows from operating activities:</b>				
Profit for the year		(114,255)	17,939	(12,797)
Adjustment to reconcile profit to cash provided by operating activities:				
Financial expenses	17	24,570	16,930	14,473
Financial expenses – Group companies	17	4,264	13,769	13,645
Realised loss from early repayment of related party loan	17	12,611	–	–
Income tax charge (benefit)	19	(23,716)	5,753	1,951
Depreciation and amortisation	4	73,927	59,586	69,410
Impairment of property, plant and equipment	4	148,584	–	–
		240,240	96,038	99,479
Changes in operating assets and liabilities:				
(Increase) decrease in inventories		3,378	455	(3,394)
Decrease in trade and other receivables		(2,071)	(14)	4,405
Increase in trade and other payables		26,061	(7,645)	7,641
		27,368	(7,204)	8,652
Cash paid and received during the period for:				
Interest paid		(25,692)	(16,930)	(14,473)
Taxes (paid) received		(9,542)	3,567	1,514
		(35,234)	(13,363)	(12,959)
Net cash provided by operating activities		118,119	93,410	82,375
<b>Cash flows from investing activities:</b>				
Investments in property, plant and equipment	4	(38,022)	(72,429)	(146,391)
Net cash invested in merger with Bora Companies	3b	(108,551)	–	–
(Increase) decrease in restricted deposits	11b	(41,713)	–	–
Advance payment in property acquisitions		(7,662)	–	–
Net change in cash upon investment in Sugarhill	3a	37,932	–	–
Other (dis) investment activities		74	305	(641)
Net cash used in investing activities		(157,942)	(72,124)	(147,032)

The accompanying notes are an integral part of the Consolidated financial statements.

	Year ended 31 December		
	2016 HRK'000	2015 HRK'000 (restated)	2014 HRK'000 (restated)
<b>Cash flows from financing activities:</b>			
Proceeds from bank borrowings	224,765	49,816	115,294
Repayment of related party loans	(159,461)	–	–
Repayment of bank borrowings	(42,862)	(21,597)	(19,369)
Net cash provided by financing activities	22,442	28,219	95,925
Increase in cash and cash equivalents	(17,381)	49,505	31,268
Cash and cash equivalents at beginning of year	147,787	98,282	67,014
Cash and cash equivalents at end of year	130,406	147,787	98,282
<b>Non-cash items:</b>			
Outstanding payable on investments in property, plant and equipment	13,561	–	–

The accompanying notes are an integral part of the Consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**Note 1 General**

- a. The financial statements of Arenaturist d.d. (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2016 were established by a decision of the Executive Directors dated 20 March 2017 and submitted to the Board of Directors for approval. Following such approval by the Board of Directors, the financial statements are considered approved according to Article 300d of the Croatian Companies Act.

The Company is a subsidiary of PPHE Hotel Group Limited (together with its subsidiaries, 'PPHE Hotel Group'), a Guernsey incorporated company listed on the London Stock Exchange which, as at 31 December 2016, owned 65.63% of the registered share capital of the Company.

In December 2016, the Company acquired 88% of the shares in Sugarhill Investments B.V. ("Sugarhill") and indirectly its subsidiaries (together, the "Sugarhill Group") from a member of PPHE Hotel Group (see Note 3a). The Company issued 1,091,250 new shares for this acquisition for a price per share of HRK 421.54, representing a value of HRK 460 million. As at 31 December 2016, the new shares were not registered. These new shares were registered on 7 February 2017. This increased PPHE Hotel Group's shareholding in the Company to 77.09%.

The Consolidated financial statements of the Group are included in the financial statements of PPHE Hotel Group.

- b. Description of business and formation of the Company:

The Company is a joint stock company listed on the Official Market of the Zagreb Stock Exchange with its registered office in Pula in the Republic of Croatia. In accordance with the laws of the Republic of Croatia and with the approval of the Croatian Privatisation Fund, the Company was transformed from a state-owned company into a joint stock company in 1994 and registered at the Commercial Court in Rijeka.

The business of the Company is owning, leasing, operating and developing full service upscale, upper upscale and lifestyle hotels in major gateway cities such as Berlin, Cologne and Nuremberg in Germany and Budapest in Hungary and select resort destinations in Croatia's Istria region.

- c. Assessment of going concern:

As part of their ongoing responsibilities, the Executive Directors have recently undertaken a thorough review of the Group's cash flow forecast and potential liquidity risks. Detailed budgets and cash flow projections have been prepared for 2017 and 2018 which show that the Group's hotel operations will be cash generative during the period.

The Group has entered into a number of loan facilities, the details of which are set out in Note 12. The Board believes that the Group currently has adequate resources and in the future will generate sufficient funds to honour its financial obligations and continue its operations as a going concern for the foreseeable future. The Group forecasts its ability to comply with debt covenants.

**Note 2 Summary of significant accounting policies****a. Basis of preparation**

The Consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS).

On 30 June 2016, the Company acquired Arenaturist Zlatne stijene d.o.o., Arenaturist Hoteli d.o.o. and Arenaturist Turistička Naselja d.o.o. (the 'Bora Companies') for a cash consideration of HRK 108.6 million. Both the Bora Companies and the Company were under the common control of the same ultimate controlling shareholder of the Company. Prior to April 2016, certain funds managed by Goldman Sachs were the ultimate controlling shareholder and following April 2016, PPHE Hotel Group became the ultimate controlling shareholder. The Bora Companies were principally engaged in the operation of a hotel and two self-catering holiday apartment complexes in Pula and Medulin and the provision of certain services to the Company. On 31 October 2016, the Bora Companies were merged into the Company.

As this acquisition involved the combination of businesses under common control, this is not a business combination in the scope of IFRS 3, and the retrospective predecessor method of accounting has been applied in the presentation of the Consolidated financial statements for the years ended 31 December 2016, 2015 and 2014. Accordingly, the assets and liabilities of the Bora Companies transferred to the Company have been recognised as historical amounts.

The Consolidated financial statements present the results and changes in equity of the Company and its subsidiaries as if the Group had been in existence throughout the years presented as if the Bora Companies' operations were transferred to the Company as of 1 January 2014. Because of the retrospective accounting for this acquisition all the information for 2014 and 2015 was restated.

**Note 2 Summary of significant accounting policies continued****a. Basis of preparation continued**

On 23 December 2016, the Company acquired 88% of the shares in the Sugarhill Group by way of capital contribution. The Sugarhill Group represents a group of companies under the common control of the current controlling shareholder of the Company. These companies are principally engaged in the ownership, operation and development of hotels in Germany and Hungary and benefit from an exclusive right to use the Park Plaza® brand in the countries of Croatia, Germany, Austria, Bulgaria, Slovenia, Bosnia and Herzegovina, Montenegro, Kosovo, Serbia, Albania, Romania, Moldova, Ukraine, Slovakia, the Czech Republic, Poland, Belarus and Hungary. In consideration for the acquisition of the Sugarhill Group, the Company issued 1,091,250 new shares (amounting to a total value of HRK 460.0 million) to the current direct controlling shareholder of the Company (which was also the former shareholder of the Sugarhill Group).

As this acquisition involved the combination of businesses under common control, this is not a business combination in the scope of IFRS 3. The retrospective predecessor method of accounting could be applied as of 1 April 2016, the date that Sugarhill Group became part of the group of companies under common control. However, this accounting method would not have improved the quality of information provided to stakeholders in the current year and in coming years. For this reason the prospective method has been applied for the acquisition of the Sugarhill Group. Accordingly, the assets and liabilities of the Sugarhill Group transferred to the Company have been recognised as historical amounts.

The accounting policies used in preparing the Consolidated financial statements for the years ended 31 December 2016, 2015 and 2014 are set out below. These accounting policies have been consistently applied to the periods presented.

The Consolidated financial statements of the Group have been prepared on a historical cost basis, except for derivative financial instruments and available-for-sale financial assets that have been measured at fair value.

The Consolidated financial statements are presented in Croatian Kuna (HRK) and all values are rounded to the nearest thousand except where indicated otherwise.

Statement of compliance:

The Consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) which comprise standards and interpretations issued by the International Accounting Standards Board (IASB) and International Financial Reporting Standards Interpretations Committee (IFRIC) and adopted by the European Union.

The accounting policies used in preparing the Consolidated financial statements for the years ended 31 December 2016, 2015 and 2014 are set out below. These accounting policies have been consistently applied to the periods presented.

**b. Basis of consolidation**

The Consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2016.

The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. All inter-company balances and transactions, income and expenses, and profits and losses resulting from intra-Group transactions are eliminated in full.

Non-controlling interests represent the portion of profit or loss and net assets not held by the Group and presented separately in the income statement and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

The Group has interests in hotels, self-catering holiday apartment complexes and campsites in Croatia, Germany and Hungary.

**c. Changes in accounting policy and disclosures****Basis of preparation**

The Consolidated financial statements are presented in Croatian Kuna (HRK) and all values are rounded to the nearest thousand except where otherwise indicated.

The Company decided to change the format and layout of the financial statements to improve the quality of the information provided and to align with the layout used by PPHE Hotel Group. The change in the presentation of the financial statements is to bring it more in line with industry practice. The main changes in the presentation of the Group's income statement are the addition of EBITDAR, EBITDA and EBIT.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### CONTINUED

#### Note 2 Summary of significant accounting policies continued

##### c. Changes in accounting policy and disclosures continued

The main changes in the presentation of the Company's statement of financial position are:

- Bank borrowings and liabilities towards related parties are presented separately in the non-current liabilities
- Provisions and other liabilities are presented separately in the non-current liabilities
- Trade receivables and other receivables and prepayments are presented separately
- Treasury shares were presented separately in the equity and are now included in other reserves
- Long-term inventories are presented separately and are not included anymore in property, plant and equipment

##### d. Significant accounting judgments, estimates and assumptions

The preparation of the Group's Consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

##### Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the Consolidated financial statements:

##### Estimates and assumptions

The key assumptions made in the Consolidated financial statements concerning uncertainties at the reporting date and the critical estimates computed by the Group for which there is a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Group bases its assumptions and estimates on parameters available when the Consolidated financial statements are prepared. However, these parameters may change due to market changes or other circumstances beyond the control of the Group. Such changes are reflected in the assumptions and estimates when they occur.

##### Deferred tax assets

Deferred tax assets are recognised for unused carry forward tax losses and temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilised. The amount of deferred tax assets that can be recognised is based upon the likely timing and level of future taxable profits together with future tax planning strategies. Additional information is provided in Note 19(b).

##### e. Interest in joint ventures

Investment in joint ventures is presented in the statement of financial position together with other long-term interest (loans to joint ventures). The long-term interest is initially recognised as a financial asset by the investor and it is subsequently measured at amortised cost.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Group's investment in its joint ventures is accounted for using the equity method. Under the equity method, the investment in the joint venture is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate or joint venture. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The income statement reflects the share of the results of operations of the joint ventures. The Group's share of changes in other comprehensive income of the joint venture is recognised in the statement of comprehensive income. Where there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture.

The aggregate of the Group's share of profit or loss of a joint venture is shown on the face of the income statement outside EBIT and represents profit or loss after tax and non-controlling interests in the subsidiaries of the joint venture.

The financial statements of the joint ventures are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

#### Note 2 Summary of significant accounting policies continued

##### f. Foreign currency translation

The functional currency of the Company is the Croatian Kuna (HRK). The Consolidated financial statements are also presented in Kuna. Each entity of the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded at the exchange rates prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated into functional currency at the rates prevailing on the reporting date. Profits and losses arising from exchange differences are included in the income statement.

On consolidation, the assets and liabilities of the entities whose functional currency is other than Kuna are translated at exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the period. Equity items are translated at the historical exchange rates. Exchange differences arising on the translation are recognised in other comprehensive income and classified as a separate component of equity (foreign currency translation reserve). Such translation differences are recognised in the income statement in the period in which the entity is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

The following exchange rates in relation to the Kuna were prevailing at the indicated reporting dates:

	As at 31 December		
	2016 In HRK	2015 In HRK	2014 In HRK
Euro	7.56	7.64	7.66
Hungarian Forint	2.43	2.44	2.43

Percentages increase (decrease) in exchange rates during the year:

	As at 31 December		
	2016 %	2015 %	2014 %
Euro	(0.8)	(0.2)	0.2
Hungarian Forint	(0.4)	0.4	5.32

##### g. Property, plant and equipment

Property, plant and equipment are measured at cost, less accumulated depreciation and impairment losses. Depreciation is calculated using the straight-line method, over the shorter of the estimated useful life of the assets or the lease term as follows:

	Years
Hotel buildings	20 to 60
Furniture and equipment	4 to 10

The costs of maintaining property, plant and equipment are recognised in the income statement as they are incurred. Costs incurred that significantly increase the recoverable amount of the asset concerned are added to the asset's cost as an improvement and depreciated over the expected useful life of the improvement.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### CONTINUED

#### Note 2 Summary of significant accounting policies continued

##### h Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the asset is considered impaired and the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but not in excess of the carrying amount that would have been determined had no impairment loss been previously recognised for the asset (cash-generating unit). A reversal of an impairment loss is recognised as income immediately.

##### i. Financial instruments

Financial assets within the scope of IAS 39 are initially recognised at fair value plus directly attributable transaction costs, except for investments at fair value through profit or loss in respect of which transaction costs are carried to the income statement.

After initial recognition, the accounting treatment of investments in financial assets is based on their classification into one of the following categories:

###### (i) Loans and receivables

Loans and receivables are financial assets (non-derivative) with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans and receivables are measured at amortised cost using the effective interest method taking into account transaction costs and less any allowance for impairment. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the systematic amortisation process. Except for available-for-sale financial assets, all financial assets of the Group are classified as loans and receivables.

###### 1. Available-for-sale financial assets

Available-for-sale financial assets are financial assets (non-derivative) that are designated as available for sale or are not classified as loans and receivables. After initial recognition, available-for-sale financial assets are measured at fair value. Gains or losses from fair value adjustments are recognised directly in other comprehensive income in the net unrealised gains reserve (included in other reserves in equity). When the investment is disposed of or in case of impairment, the cumulative gain or loss previously recorded in equity is recognised in the income statement. Interest income on investments in debt instruments is recognised in the income statement using the effective interest method. Dividends earned on investments are recognised in the income statement when the right of payment has been established.

###### 2. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Derivatives, including separate embedded derivatives, are classified as held for trading unless they are designated as effective hedging instruments. The Group has not designated any financial assets at fair value through profit or loss.

#### Note 2 Summary of significant accounting policies continued

##### i. Financial instruments continued

###### (ii) Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses the following hierarchy based on the lowest level input that is significant to the fair value measurement for determining and disclosing the fair value of financial instruments by valuation technique (see Note 24) for specific valuation methodologies:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The fair value of investments that are actively traded in organised financial markets is determined by reference to market prices on the reporting date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow; or other valuation models.

###### (iii) Financial liabilities

Interest-bearing loans and borrowings are initially recognised at fair value plus directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are measured at amortised cost using the effective interest method which also accounts for directly attributable transaction costs. Gains and losses are recognised in the income statement when the loan is derecognised as well as through the systematic amortisation process.

###### (iv) Derecognition of financial instruments

###### Financial assets

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or the Group has transferred its contractual rights to receive cash flows from the financial asset or assumes an obligation to pay the cash flows in full without material delay to a third party and has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

###### Financial liabilities

A financial liability is derecognised when it is extinguished, i.e. when the obligation is discharged or cancelled or expires. A financial liability is extinguished when the debtor (the Group) discharges the liability by paying in cash, other financial assets, goods or services, or is legally released from the liability.

Where an existing financial liability is exchanged with another liability from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is accounted for as an extinguishment of the original liability and the recognition of a new liability and the difference in the respective carrying amounts is recognised in the income statement.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### CONTINUED

#### Note 2 Summary of significant accounting policies continued

##### i. Financial instruments continued

###### (v) Impairment of financial assets

The Group assesses at each reporting date whether the following financial assets or group of financial assets are impaired as follows:

###### Assets carried at amortised cost

Evidence of impairment may include indications that the debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments or other observable data of a measurable decrease in the estimated future cash flows. If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss carried to the income statement is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. In a subsequent period, the amount of the impairment loss is reversed if the recovery of the asset can be related objectively to an event occurring after the impairment was recognised. The amount of the reversal, as above, is credited to the income statement up to the amount of any previous impairment.

###### Available-for-sale financial assets

For debt securities, if any such evidence exists that there is an impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised on equity instruments in profit or loss are not reversed through the income statement; increases in their fair value after impairment are recognised in other comprehensive income and recorded in equity.

###### (vi) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

##### j. Inventories

Inventories include food, beverages and small equipment are valued at the lower of cost and net realisable value. Cost includes purchase cost on a weighted average basis. Small equipment which has an economic life longer than one year is presented as non-current assets. The small equipment is depreciated over its economic life and recorded in operating expenses.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

##### k. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

##### l. Trade receivables

Trade receivables recognised under current assets are stated at amortised cost (which in most cases is equal to their nominal amount) as reduced by appropriate allowances for estimated uncollectable amounts.

#### Note 2 Summary of significant accounting policies continued

##### m. Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised.

###### Owned and leased hotels

Primarily derived from hotel operations, including the rental of rooms, food and beverage sales and other services from owned and leased hotels operated under the Group's brand names. Revenue is recognised when rooms are occupied, food and beverages are sold and services are performed.

###### Customer loyalty programme

The Group participates in the Club Carlson<sup>SM</sup> customer loyalty programme to provide customers with incentives to buy room nights. This customer loyalty programme is owned and operated by Carlson Hotels and therefore the entity retains no obligations in respect of the award credits other than to pay the programme operator for the award credits granted. Customers are entitled to utilise the awards as soon as they have been granted.

The Group purchases these award credits from Carlson Hotels and issues them to its customers in order to enhance customer relationships rather than to earn a margin from the sale of these award credits. The Group concluded that it is acting as principal in this transaction and, in substance, is earning revenue from supplying these awards to its customers. The Group measures these revenues at fair value and recognises these gross from the costs of participating in the programme.

##### n. Key performance indicators

###### EBITDAR

Earnings before interest, tax, depreciation, amortisation, impairment loss and rental expenses, concessions fees of land, share of associate and exceptional items presented as other income expense and tax (EBITDAR) correspond to revenue less cost of revenues (operating expenses). EBITDAR, together with EBITDA, is used as a key performance indicator.

###### EBITDA

Earnings before interest, tax, depreciation and amortisation, exceptional items presented as other income and expense and impairment loss (EBITDA) correspond to gross profit after the operating costs of holding leased hotels.

###### EBIT

Earnings before interest, exceptional items presented as other income and expense and tax (EBIT) correspond to gross operating profit after the operating costs of holding both leased and owned assets.

###### Other income and expenses

Other income and expenses relate to income and expenses which do not directly relate to the operating cost of the owned or leased assets, for example negative goodwill or expenses for legal restructuring of the Group, legal advices, IPO and other related costs.

##### o. 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 a straight-line basis over the term of the relevant lease.

###### The Group as lessee

Finance leases which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the income statement.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the term of the lease.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### CONTINUED

#### Note 2 Summary of significant accounting policies continued

##### p. Borrowing costs for qualifying assets

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

##### q. Taxation

###### Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

###### Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- (i) where the deferred tax liability arises from the initial recognition of goodwill or from an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (ii) in respect of taxable temporary differences associated with investments in subsidiaries, associates and jointly controlled entities, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities and changes in them relating to items recognised directly in equity or other comprehensive income are recognised in equity or other comprehensive income and not in the income statement.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax losses can be utilised, except:

- (i) when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (ii) in respect of deductible temporary differences associated with investments in subsidiaries, associates and jointly controlled entities, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

##### r. Earnings (loss) per share

Basic earnings (loss) per share amounts are calculated by dividing the net profit (loss) for the year attributable to shareholders of the parent company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings (loss) per share amounts are calculated by dividing the net profit (loss) for the year by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

#### Note 2 Summary of significant accounting policies continued

##### s. Standards issued but not yet applied

Standards issued but not yet effective, or subject to adoption by the European Union, up to the date of issuance of the Group's Consolidated financial statements are set out below. The standards set out below are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become mandatory.

The following standards have been issued by the IASB and are not yet effective or are subject to adoption by the European Union.

###### IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The Group has been assessing the full impact of IFRS 9 and expects no significant effect from the application of the standard, except for potential increase in impairment provisions due to application of expected loss model.

###### IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Group has been assessing the impact of IFRS 15 and expects no effects from the application of this standard.

###### IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 Leases (the 'new Standard'). According to the new Standard, a lease is a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration.

According to the new Standard:

- lessees are required to recognise an asset and a corresponding liability in the statement of financial position in respect of all leases (except in certain cases) similar to the accounting treatment of finance leases according to the existing IAS 17 Leases;
- lessees are required to initially recognise a lease liability for the obligation to make lease payments and a corresponding right-of-use asset. Lessees will also recognise interest and depreciation expenses separately;
- variable lease payments that are not dependent on changes in the Consumer Price Index (CPI) or interest rates, but are based on performance or use (such as a percentage of revenues) are recognised as an expense by the lessees as incurred and recognised as income by the lessors as earned;
- in the event of change in variable lease payments that are CPI-linked, lessees are required to remeasure the lease liability and the effect of the remeasurement is an adjustment to the carrying amount of the right-of-use asset;
- the new Standard includes two exceptions according to which lessees are permitted to elect to apply a method similar to the current accounting treatment for operating leases. These exceptions are leases for which the underlying asset is of low value and leases with a term of up to one year; and
- the accounting treatment by lessors remains substantially unchanged, namely classification of a lease as a finance lease or an operating lease.

The new Standard is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted provided that IFRS 15 Revenue from Contracts with Customers is applied concurrently.

For leases existing at the date of transition, the new Standard permits lessees to use either a full retrospective approach, or a modified retrospective approach with certain transition relief whereby restatement of comparative data is not required.

In 2017, the Group plans to assess the potential effect of IFRS 16 on its Consolidated financial statements.

Disclosures regarding future minimum payments relating to operating leases which may be required to be included in financial statements are disclosed in Note 11e.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### CONTINUED

#### Note 2 Summary of significant accounting policies continued

##### s. Standards issued but not yet applied continued

The following amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses  
 Amendments to IAS 7: Disclosure Initiative  
 Clarifications to IFRS 15: Revenue from Contracts with Customers  
 Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions  
 Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

##### t. New and amended standards adopted by the Group:

The Group has adopted the following new and amended standards for their annual reporting period commencing 1 January 2016 which were endorsed by the European Union and which are relevant for the Group's financial statements:

- Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11
- Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38
- Equity Method in Separate Financial Statements – Amendments to IAS 27
- Disclosure Initiative – Amendments to IAS 1
- Investment Entities: Applying the Consolidation Exception – Amendments to IFRS 10, IFRS 12 and IAS 28
- Annual Improvements to IFRS 2012–2014 cycle comprising changes to four standards (IFRS 5, IFRS 7, IFRS 19, IAS 34)
- Annual Improvements to IFRSs 2010–2012 cycle

The adoption of the improvements has required additional disclosures in Note 21.

#### Note 3 Significant events during the reported period

##### a. Acquisition of 88% interest of Sugarhill

On 23 December 2016, the Company acquired 88% of the shares in Sugarhill from Dvadeset Osam d.o.o. (the controlling shareholder of the Company and a member of PPHE Hotel Group) for HRK 460.0 million by way of capital contribution (the 'Acquisition'). The fair value of Sugarhill's share capital against which the Company issued new shares was ascertained by an independent accounting firm which was retained by the Executive Directors. The value has been verified by the auditor appointed by the Court pursuant to the Croatian Companies Act. As a result of the Acquisition, the Company acquired control over a portfolio of seven owned/co-owned and/or leased hotels and one managed hotel, and became the indirect controlling shareholder of Arena Hospitality, a wholly owned subsidiary of Sugarhill. As part of the Acquisition, Arena Hospitality acquired from PPHE Hotel Group the hotel management agreements for the Company's properties as well as those of the newly acquired hotels in Germany and Hungary. The Group also acquired an exclusive right to use the Park Plaza® brand in the countries of Croatia, Germany, Austria, Bulgaria, Slovenia, Bosnia and Herzegovina, Montenegro, Kosovo, Serbia, Albania, Romania, Moldova, Ukraine, Slovakia, the Czech Republic, Poland, Belarus and Hungary.

The Acquisition has been recorded against book values as if it was a transaction between entities under common control. The predecessor method of accounting has been applied prospectively (Note 2a).

The Acquisition was recorded as of 31 December 2016 and therefore did not make a contribution to the Group's revenue and profit in 2016. If the combination had taken place at the beginning of 2016, the total consolidated revenues and loss during the period ended 31 December 2016 would have amounted to HRK 633.7 million and HRK (101.0) million.

Transaction costs arising from this Acquisition were recorded in profit and loss.

The book values of the identifiable assets and liabilities as at 31 December 2016 are presented below:

Book value	2016 HRK'000
Property, plant and equipment	224,997
Other non-current financial assets	42,844
Trade receivables	10,693
Cash and cash equivalents	37,932
Other current assets	10,385
<b>Total assets</b>	<b>326,851</b>
Other non-current liabilities	8
Trade creditors	13,279
Bank borrowings short term	81,057
Other payables and accruals	43,296
<b>Total liabilities</b>	<b>137,640</b>
<b>Net assets</b>	<b>189,211</b>
Total consideration through issuance of new shares	(460,006)
<b>Net result recognised in equity</b>	<b>270,795</b>
Cash flow on acquisition	
Net cash acquired with the subsidiaries	37,932
Cash paid	–
<b>Net cash inflow</b>	<b>37,932</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### CONTINUED

#### Note 3 Significant events during the reported period continued

##### b. Acquisition of Bora Companies

On 30 June 2016, the Company acquired the Bora Companies for a cash consideration of HRK 108.6 million. The Bora Companies and the Company were under the common control of the same ultimate controlling shareholder of the Company. Prior to April 2016, certain funds managed by Goldman Sachs were the ultimate controlling shareholder and following April 2016, PPHE Hotel Group became the ultimate controlling shareholder. The Bora Companies were principally engaged in the operation of a hotel and two self-catering holiday apartment complexes in Pula and Medulin and in the provision of certain services to the Company.

On 31 October 2016, the Bora Companies were merged into the Company. The difference between the acquisition price and net equity value at the merger date amounted to HRK 23.0 million, which has been recorded in other capital reserves.

##### c. Impairment of property, plant and equipment

At each reporting date, the Group reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets may be impaired. The Group established that such indication existed in 2016 including, amongst others, changes in operations strategy and reorganisation of the Group, changes in market interest rates and cost of capital, as well as external valuations of the Company's assets that were performed by independent valuers. As these were indicators that assets may be impaired, the Group estimated the recoverable amount of the assets. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

As the Group was not able to establish the asset's fair value due to a lack of comparable transactions in the market, the Group calculated the value in use of each cash-generating unit. The management has assessed the recoverable values of properties based on analysis of the financial results of each cash generating unit, the outlook for the hotel industry and new operating plans of the Group.

The result of this exercise was that the carrying amounts of some individual cash-generating units were higher than the value in use and for some individual cash-generating units the carrying amounts were lower than the value in use. However, the total value of all cash-generating units of the Group was higher than the consolidated carrying amount.

For the assets or cash generating unit for which the recoverable amount is less than its carrying amount, the asset is impaired and the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses were recognised as an expense and amounted to HRK 148.6 million in 2016 (see Note 4).

For the remaining properties, management concluded that the recoverable amount was higher than their carrying values and no impairment provision was required.

#### Note 4 Property, plant and equipment

	Land and buildings HRK'000	Furniture and equipment HRK'000	Property and assets under construction HRK'000	Total HRK'000
<b>Cost:</b>				
Balance as at 1 January 2014	1,697,836	175,623	13,559	1,887,018
Additions during the year	118,752	27,510	129	146,391
Disposals during the year	(23,721)	(7,787)	–	(31,508)
Balance as at 31 December 2014	1,792,867	195,346	13,688	2,001,901
<b>Accumulated depreciation and impairment:</b>				
Balance as at 1 January 2014	567,079	114,982	–	682,061
Provision for depreciation	55,415	13,995	–	69,410
Disposals during the year	(23,338)	(7,787)	–	(31,125)
Balance as at 31 December 2014	599,156	121,190	–	720,346
Net book value as at 31 December 2014	1,193,711	74,156	13,688	1,281,555
<b>Cost:</b>				
Balance as at 1 January 2015	1,792,867	195,346	13,688	2,001,901
Additions during the year	62,031	10,081	317	72,429
Disposals during the year	(905)	(3,624)	–	(4,529)
Transfer	–	4,440	(4,440)	–
Balance as at 31 December 2015	1,853,993	206,243	9,565	2,069,801
<b>Accumulated depreciation and impairment:</b>				
Balance as at 1 January 2015	599,156	121,190	–	720,346
Provision for depreciation	46,566	13,020	–	59,586
Disposals during the year	(679)	(3,545)	–	(4,224)
Balance as at 31 December 2015	645,043	130,665	–	775,708
Net book value as at 31 December 2015	1,208,950	75,578	9,565	1,294,093
<b>Cost:</b>				
Balance as at 1 January 2016	1,853,993	206,243	9,565	2,069,801
Additions during the year	17,690	11,136	22,757	51,583
Acquisition of Sugarhill	187,120	52,050	–	239,170
Disposals during the year	(23,050)	(7,422)	–	(30,472)
Balance as at 31 December 2016	2,035,753	262,007	32,322	2,330,082
<b>Accumulated depreciation and impairment:</b>				
Balance as at 1 January 2016	645,043	130,665	–	775,708
Provision for depreciation	57,767	16,160	–	73,927
Acquisition of Sugarhill	1,286	12,887	–	14,173
Impairment of property, plant and equipment	148,584	–	–	148,584
Disposals during the year	(21,057)	(6,086)	–	(27,143)
Balance as at 31 December 2016	831,623	153,626	–	985,249
Net book value as at 31 December 2016	1,204,130	108,381	32,322	1,344,833

a. There was no capitalisation of borrowing costs in 2016 (2015: HRK 0.5 million; 2014: HRK 0.5 million at a rate of 5%), which is the average effective interest rate of the specific borrowing.

b. For information regarding liens, see Note 11.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### CONTINUED

#### Note 4 Property, plant and equipment continued

##### c. Impairment of property, plant and equipment

The net impairment losses recognised in the consolidated income statement, as a part of depreciation expense, in respect of property, plant and equipment are as follows:

	2016 HRK'000
Reportable segment	
Hotels	98,048
Self-catering holiday apartment complexes	45,829
Headquarters and other	4,707
	<b>148,584</b>

The recoverable value of the asset is its value in use. The calculation was done on the basis of assets' cash-generating units. Each hotel, self-catering holiday apartment complex and campsite represents a separate cash-generating unit.

The pre-tax rate used in the value in use calculation in the year ended 31 December 2016 was 9.1%.

For information on impairment, see Note 3.

##### d. Operating lease commitments – where the Company is the lessor

Part of the Company's property, plant and equipment is leased out under operating leases.

The operating lease relates to the lease of shops and restaurants or premises and equipment. During 2016, the Company realised rental income in the amount of HRK 10,071 thousand (2015: HRK 9,790 thousand; 2014: HRK 8,908 thousand).

The future aggregate minimum lease payments receivable from operating leases based on lease agreements concluded up to 31 December are as follows:

	As at 31 December		
	2016 HRK'000	2015 HRK'000	2014 HRK'000
(in HRK thousand)			
Up to 1 year	10,336	9,452	9,104
From 2 to 5 years	7,629	9,422	2,760
Over 5 years	417	76	–
	<b>18,382</b>	18,950	11,864

#### Note 5 Loans and investment in joint ventures

For a list of jointly controlled entities, please see the appendices.

##### Investment in joint ventures

	As at 31 December		
	2016 HRK'000	2015 HRK'000	2014 HRK'000
Loan to joint ventures*	33,236	–	–
Share of net assets under equity method	58	–	–
Loan to joint ventures	<b>33,294</b>	–	–

\* HRK 30.0 million (€4.0 million) of the loan is denominated in EUR and bears an interest of LIBOR +2.5% per annum. This loan repayment is due on 7 June 2023.

The Company acquired the shares in and loans provided to the joint venture companies through the Sugarhill acquisition (Note 3a). The table below includes the balance sheets as at 31 December of the joint venture companies:

	As at 31 December 2016			
	ABM Hotel Holding B.V.	art'otel berlin mitte/Park Plaza Betriebs- gesellschaft mbh	ABK Hotel Holding B.V.	Park Plaza Betriebs- gesellschaft mbh
<b>Assets</b>				
Non-current assets:				
Property, plant and equipment	63,160	20,028	52,738	8,646
	<b>63,160</b>	<b>20,028</b>	<b>52,738</b>	<b>8,646</b>
Current assets:				
Inventories	–	166	–	121
Receivables towards related parties	20,194	–	1,882	10,913
Trade receivables	–	1,224	–	967
Receivables and other current assets	–	651	–	129
Cash and cash equivalents	2,177	922	7,565	1,194
	<b>22,371</b>	<b>2,963</b>	<b>9,447</b>	<b>13,324</b>
<b>Total assets</b>	<b>85,531</b>	<b>22,991</b>	<b>62,185</b>	<b>21,970</b>
<b>Equity and liabilities</b>				
Equity:				
Issued capital	–	189	–	189
Hedging reserve	(4,353)	–	(4,572)	–
Accumulated (losses) earnings	10,770	(22,711)	8,532	(2,494)
	<b>6,417</b>	<b>(22,522)</b>	<b>3,960</b>	<b>(2,305)</b>
Non-current liabilities:				
Bank borrowings	38,824	–	40,774	–
Other liabilities	34,509	9,183	12,115	19,597
	<b>73,333</b>	<b>9,183</b>	<b>52,889</b>	<b>19,597</b>
Current liabilities:				
Trade payables	257	1,829	219	967
Other payables and accruals	3,877	3,401	3,424	1,822
Liabilities towards related parties	37	31,100	–	1,889
Bank borrowings	1,610	–	1,693	–
	<b>5,781</b>	<b>36,330</b>	<b>5,336</b>	<b>4,678</b>
<b>Total liabilities</b>	<b>79,114</b>	<b>45,513</b>	<b>58,225</b>	<b>24,275</b>
<b>Total equity and liabilities</b>	<b>85,531</b>	<b>22,991</b>	<b>62,185</b>	<b>21,970</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
 CONTINUED
**Note 6 Other non-current financial assets**

	As at 31 December		
	2016 HRK'000	2015 HRK'000	2014 HRK'000
Long-term receivables	177	1,337	3,107
Rent security deposits	9,550	–	–
	<b>9,727</b>	1,337	3,107

**Note 7 Trade receivables****a. Composition:**

	As at 31 December		
	2016 HRK'000	2015 HRK'000	2014 HRK'000
Trade receivables	25,468	11,183	9,740
Less – allowance for doubtful debts	(4,328)	(6,693)	(6,744)
	<b>21,140</b>	4,490	2,996

Trade receivables are non-interest bearing. The Group's policy provides an average of 30 days' payment terms.

**b. Movements in the allowance for doubtful accounts were as follows:**

	HRK'000
As at 1 January 2014	6,579
Additional provision	165
As at 31 December 2014	6,744
Deductions	(51)
As at 31 December 2015	6,693
Deductions	(2,365)
<b>As at 31 December 2016</b>	<b>4,328</b>

**c. As at 31 December, the ageing analysis of trade receivables is as follows:**

	Total HRK'000	Undue HRK'000	Past due			
			< 30 days HRK'000	31 to 61 days HRK'000	61 to 90 days HRK'000	> 90 days HRK'000
<b>2016</b>	<b>25,468</b>	<b>4,600</b>	<b>4,168</b>	<b>8,752</b>	<b>1,810</b>	<b>6,120</b>
2015	11,183	4,350	1,092	64	101	5,576
2014	9,740	3,182	140	23	320	6,075

**Note 8 Other receivables and prepayments**

	As at 31 December		
	2016 HRK'000	2015 HRK'000	2014 HRK'000
Prepaid expenses	3,427	3,640	3,447
Prepayment for acquisition of freeholds in Germany	7,558	–	–
VAT	5,916	1,250	1,193
Corporate income tax	4,110	24	3,592
Related parties	137	–	–
Others	1,000	–	–
	<b>22,148</b>	4,914	8,232

**Note 9 Cash and cash equivalents**

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

**Note 10 Equity****a. Share capital**

As at 31 December 2016, 2015 and 2014, the Company's share capital amounted to HRK 43,650 thousand and was divided into 2,182,500 ordinary shares with a nominal value of HRK 20.00 per share.

**b. Unregistered share capital**

On 23 December 2016, the Board of Directors of the Company adopted a decision to increase the share capital of the Company by the issue of 1,091,250 new ordinary shares, (with a nominal value of HRK 20.00 each) at a price of HRK 421.54 per new share for a total value of HRK 460,005,525, as consideration for the acquisition of 88% of Sugarhill by way of capital contribution. The full amount of HRK 460,005,525 was allocated to the capital reserves of the Company as the registration of the new shares had not been completed before the year end. (See Note 24 for further details).

**c. Nature and purpose of reserves****Other reserves**

The other reserves mainly consist of results of transactions that affected the equity of the Group with regard to the acquisition of subsidiaries from related companies and the change in fair value of the available-for-sale financial assets.

**Hedging reserve**

This reserve comprises the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

**Legal reserves**

Under Croatian regulations, the legal reserve must be built up to a minimum of 5% of the profit for the year until the total reserves together with the share premium reach 5% of the Company's share capital.

This reserve is not distributable. As at 31 December 2016, legal reserves amounted to HRK 2,182 thousand or 5% of the issued share capital (2015: HRK 2,182 thousand; 2014: HRK 2,129 thousand).

**Other reserves**

As at 31 December 2016, other reserves amounting to HRK 373.3 million (2015: HRK 638.8 million; 2014: HRK 638.8 million) consisted of the following:

- (i) Capital reserve of HRK 638.8 million of which HRK 611.1 million (2015 and 2014: HRK 611.1 million) arose through share capital decrease, reserves transferred from retained earnings from previous years in the amount of HRK 25.4 million (2015 and 2014: HRK 25.4 million), reserves for treasury shares of HRK 4.0 thousand (2015 and 2014: HRK 4.0 thousand) and revaluation reserves formed from unrealised fair value gains on available-for-sale financial assets of HRK 115 thousand (2015: HRK 78.0 thousand; 2014: HRK 66.0 thousand) and legal reserves amounting to HRK 2.2 million (2015 and 2014: 2.2 million).
- (ii) Other capital reserves which amount to HRK 288.5 million negative with regard to the difference between the acquisition price and the net asset value of the Sugarhill Group (see Note 3A).
- (iii) Other reserves for the difference between the purchase price of the Bora Companies and the net asset value of the Bora Companies. This difference of HRK 23.0 million has directly been recognised in equity.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### CONTINUED

#### Note 11 Pledges, contingent liabilities and commitments

##### a. Pledges, collateral and securities

All bank borrowings are secured by a mortgage over hotel facilities with a net carrying amount of HRK 567,659 thousand (2015: 651,655 thousand; 2014: 567,404 thousand).

##### b. Restricted cash

Under three facility agreements with Zagrebačka banka d.d. ('Zaba'), the Company is required to maintain a funded debt service reserve account (the 'DSRA') from 1 September 2016 until such time that the financial covenants of the Group are confirmed to be in compliance on a consolidated basis pursuant to its audited consolidated financial statements for the financial year ending 31 December 2019. The Company must ensure that the DSRA is funded at all times with an amount equal to the amount required to pay the next succeeding two principal instalments, including any accrued interest. The deposits in the DSRA as at 31 December 2016, in the amount of HRK 41.7 million, are presented as restricted cash in the Consolidated financial statements.

##### c. Commitments

###### (i) Management and franchise agreements

- In December 2016, the Group's existing operating agreements for its Croatian properties and those properties in Germany and Hungary that formed part of the Sugarhill Group were amended, restated and novated in order to create two separate agreements going forwards:
  - an operating agreement with Arena Hospitality (a newly formed Croatian operating company) under which each property pays an annual base fee calculated as a percentage of total revenue of the property and an annual incentive fee calculated as a percentage of adjusted gross operating profit. These agreements are for terms of between 15 and 30 years; and
  - a licence, sales and marketing agreement with a member of the PPHE Hotel Group (as licensor) under which each property pays an annual fee calculated as a percentage of total revenue for, among others, certain group services. The term of such agreement follows that of the amended operating agreements.

Up and until such amendment, restatement and novation, the Group paid annual management fees calculated as a percentage of revenue and of adjusted gross operating profit for each of its Croatian properties to PPHE Hotel Group.

- Additionally, as of December 2016, as a result of the Sugarhill acquisition, the Group benefits from an exclusive right to operate hotels under the Park Plaza® brand in 18 countries throughout the CEE region for a period of 30 years.

###### (ii) Capital commitments

As at 31 December 2016, the Company had capital commitments amounting to HRK 435.0 million for the acquisition of the freeholds of two hotels in Germany and HRK 15.0 million for the construction of two artificial turf football pitches and a new swimming pool at Park Plaza Belvedere Medulin.

###### Guarantees:

- The construction facility provided to Park Plaza Nuremberg GmbH is guaranteed by PPHE Hotel Group and as at 31 December 2016, HRK 81.1 million (€10.7 million) had been drawn. PPHE Hotel Group will remain the guarantor under this loan up and until the Company has certification compliance of financial covenants of certain facility agreements of Zaba at 31 December 2017. The Company will provide a back-to-back guarantee to PPHE Hotel Group as of 31 December 2017 following the above-mentioned certification.
- The principal and interest under the €11.5 million (HRK 86.0 million) facility granted by Deutsche Hypothekbank AG to ABM Hotel Holding B.V. and PPBK Hotel Holding B.V. (formerly known as ABK Hotel Holding B.V.) is guaranteed by PPHE Hotel Group. PPHE Hotel Group will remain the guarantor up and until the Company has certified compliance of financial covenants of certain facility agreements of Zaba at 31 December 2017. The Company will provide a back-to-back guarantee to PPHE Hotel Group as of 31 December 2017 following the above-mentioned certification.

#### Note 11 Pledges, contingent liabilities and commitments continued

##### d. Contingent liabilities

The Company is involved in a number of legal disputes, both as defendant and as plaintiff, arising from the ordinary course of business, including the legal dispute with Pula Herculeana d.o.o. which has not yet been determined. In the Consolidated financial statements for the year ended 31 December 2016, provisions for certain legal disputes have been made in the amount of HRK 29.9 million (2015: HRK 30.2 million; 2014: HRK 28.4 million), as set out in Note 13. The possible uncertainties and risks were taken into account in reaching the best estimate of the provision.

##### e. Lease agreements

The Group occupies certain of its hotels under various lease agreements. These tend to be long-term arrangements under which the Group leases a hotel, fixtures, furniture and equipment from a third party property owner for periods of 20 to 25 years and on occasion include options to extend for varying periods. Monthly rental payments are based on a percentage of the operating revenues or gross operating profit of that hotel, subject, in most cases, to a minimum amount which is independent of the operating revenue or gross operating profit. The rental expenses presented in the income statement mainly consist of minimum lease payments.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2016 HRK'000
Within one year	43,515
After one year but not more than five years	173,463
More than five years	228,257
	445,235

#### Note 12 Bank borrowings

The bank borrowings of the Group are comprised as follows:

As at 31 December 2016

Bank/facility	Outstanding amount HRK'000	Currency	Interest rate	Maturity
Zagrebačka banka d.d.	437,360	EUR	EURIBOR + 4.84-5.9%	2023-2031
Zagrebačka banka d.d. (IBRD, HBOR)	35,821	EUR	EURIBOR + 3.45%	2039
Zagrebačka banka d.d. (HBOR)	48,771	EUR	3%	2031
Zagrebačka banka d.d. (HBOR)	16,077	HRK	5%	2027
HBOR	37,034	EUR	3%	2032
Addiko/HETA Klagenfurt	2,709	EUR	EURIBOR + 1.25%	2018
Deutsche Hypothekbank AG	81,057	EUR	EURIBOR + 1.6%	Dec 2017
	658,829			
Accrued interest	3,142			
Capitalised transaction costs	(2,861)			
Total	659,110			

Outstanding amount HRK'000	Maturity analysis					
	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
658,829	135,430	58,155	57,624	60,472	60,472	286,676

For securities and pledges, see Note 11.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### CONTINUED

#### Note 12 Bank borrowings continued

As at 31 December 2015

Bank/facility	Outstanding amount HRK'000	Currency	Interest rate	Maturity
Zagrebačka banka d.d.	241,892	EUR	EURIBOR + 4.84–5.9%	2023–2031
Zagrebačka banka d.d. (IBRD, HBOR)	37,778	EUR	EURIBOR + 3.45%	2039
Zagrebačka banka d.d. (HBOR)	52,610	EUR	3%	2031
Zagrebačka banka d.d. (HBOR)	17,538	HRK	5%	2027
HBOR	37,411	EUR	3%	2032
Addiko/HETA Klagenfurt	5,778	EUR	EURIBOR + 1.25%	2018
<b>Total</b>	<b>393,007</b>			

Outstanding amount HRK'000	Maturity analysis					
	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
393,007	23,544	30,391	28,754	28,203	31,081	251,034

For securities and pledges, see Note 11.

As at 31 December 2014

Bank/facility	Outstanding amount HRK '000	Currency	Interest rate	Maturity
Zagrebačka banka d.d.	242,045	EUR	EURIBOR + 4.84–5.9%	2023–2031
Zagrebačka banka d.d. (IBRD, HBOR)	38,308	EUR	EURIBOR + 3.45%	2039
Zagrebačka banka d.d. (HBOR)	53,630	EUR	3%	2031
Zagrebačka banka d.d. (HBOR)	19,000	HRK	5%	2027
Addiko/HETA Klagenfurt	11,432	EUR	EURIBOR + 1.25%	2018
<b>Total</b>	<b>364,415</b>			

Outstanding amount HRK'000	Maturity analysis					
	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
364,415	20,095	23,054	29,388	27,744	27,189	236,945

The Group companies in the above facilities which are borrowers under the facilities are required to comply with certain financial covenants as described below:

- Under three of the Zaba facilities the Company must ensure that the average debt service coverage ratio ('ADSCR') is equal to or greater than 2.0 at year end 2016; the ADSCR is equal to or greater than 1.75 at year end 2017; the ADSCR is equal to or greater than 2.25 at year end 2018; and that the ADSCR is equal to or greater than 2.5 at year end 2019 and for each successive calendar year for the remaining life of the facilities. ADSCR is calculated as the Group's annual available cash flow after adding back the management fees, before debt repayment towards banks and other financial institutions, plus cash balances and restricted deposits balances at start of the financial year, divided by its annual debt service towards banks and other financial institutions. Further, the Company must ensure that the interest cover ratio is greater than 2.5 at year end 2016 and for each successive calendar year at year end for the remaining life of the facilities. In addition, the Company must ensure that the net leverage is lower than 6.00 at year end 2016; is lower than 4.50 at year end 2017; is lower than 4.00 at year end 2018; is lower than 3.5 at year end 2019; is lower than 2.5 at year end 2020; and is lower than 2.00 at year end 2021 and for each successive calendar year at year end for the remaining life of the facilities.
- Under certain Zaba facilities the borrower must ensure that the DSCR is at least 1.2 and that the sum of the equity and the balances of shareholders' loans is at least equal to the balances of the bank borrowings.

#### Note 12 Bank borrowings continued

- Under the Deutsche Hypothekenbank AG facility for Park Plaza Nuremberg, the borrower must ensure that throughout the entire term of the loan, the amount of the outstanding loan does not exceed 65% of the value of the property and that the DSCR is not less than 140%.

For guarantees under the above facility agreements see Note 11.

As at 31 December 2016, the Group is in compliance with all its banking covenants.

#### Note 13 Provisions

	As at 31 December		
	2016 HRK'000	2015 HRK'000	2014 HRK'000
Provision for litigation	29,887	30,239	28,435
Provision for concessions fee on land	25,413	19,562	14,985
	<b>55,300</b>	49,801	43,420

#### Provision for litigation

The Company is a defendant in five litigations related to the claims of utility companies Pula Herculanea d.o.o. (one) and Vodovod Pula d.o.o. (four), all related to the payment of fees/charges for the maintenance and development of the water supply and sewage infrastructure system charged to the Company based on water consumption in cubic metres and relating to the time period from 1999 to 2012. The total principal claim and potential interest has been provided for and amounts to approximately HRK 29.9 million. The Company disputes this claim and raised a set-off objection to the value of certain investments in the water supply and sewage infrastructure system constructed by the Company.

#### Provision for concession fee on land

In accordance with the provisions of the Act on the Tourist and Other Construction Land Not Appraised During the Transition and Privatisation Process (the 'Act'), the Company submitted requests to the Republic of Croatia for the award of tourist land concessions for a term of 50 years (the maximum term allowed) in relation to land areas in eight campsites and three self-catering holiday apartment complexes in Croatia. Since the adoption of the Act in 2010, as far as the Company is aware, no concession agreement has been entered into with respect to tourist land in campsites/tourist resorts in the Republic of Croatia due to ambiguities in the wording of the Act and other related regulations. The status of the Company's tourist land concession requests is similar to the status of concession requests submitted by other companies in the Republic of Croatia. In relation to the concession arrangements in respect of the eight campsites, the Republic of Croatia and the Company need to (i) determine the co-ownership parts in the land (based on which definite amounts of the concession fees due on that part of the land owned by the Republic of Croatia would be determined) and (ii) upon granting of the concession by the Republic of Croatia, enter into the respective concession agreements. In practice, the companies that have submitted requests for a tourist land concession regularly pay an advance concession fee of 50% of the calculated concession fee in accordance with the relevant regulations. As such, the Company will continue to pay 50% of the concession fees in respect of the eight campsites and to accrue the remaining 50% until determination of the concession agreements, which is presented as a provision in the financial statements.

#### Note 14 Other payables and accruals

	As at 31 December		
	2016 HRK'000	2015 HRK'000	2014 HRK'000
VAT and taxes	8,628	1,045	1,040
Employees	6,379	5,757	5,059
Corporate income taxes	381	5,461	–
Accrued expenses	22,534	9,984	10,880
Accrual lease payable	9,411	–	–
Accrued fee for the tourist land concession	3,429	3,446	3,679
Liability for land purchase	10,233	–	–
Other	413	487	445
	<b>61,408</b>	26,180	21,103

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
CONTINUED

Note 15 Revenues

	Year ended 31 December		
	2016 HRK'000	2015 HRK'000	2014 HRK'000
Accommodation	353,583	329,649	290,905
Food and beverage	63,769	54,992	47,214
Minor operating*	8,448	8,328	7,140
Rent revenue	10,071	9,790	8,908
	<b>435,871</b>	<b>402,759</b>	<b>354,167</b>

\* Minor operating revenue consists of a number of a hospitality services such as rent of deck chairs and sunshades, money transaction fees, a number of wellness services, sport activities, etc.

Note 16

(i) Operating expenses

	Year ended 31 December		
	2016 HRK'000	2015 HRK'000	2014 HRK'000
Salaries and related expenses	125,890	117,232	108,603
Franchise fees, reservation and commissions	22,960	18,622	15,513
Food and beverages	28,333	24,478	20,586
Insurance and property taxes	11,069	11,302	11,587
Utilities	21,992	22,894	23,192
Administration costs	12,856	13,447	12,733
Maintenance	14,367	14,032	12,886
Laundry, linen and cleaning	3,364	2,127	1,822
Supplies	5,890	6,473	5,572
IT expenses	2,880	2,705	2,398
Travel and transport	2,635	1,858	2,289
Marketing expenses	11,044	10,682	9,675
Management fee	21,404	19,752	19,997
Other expenses	10,416	11,443	9,079
	<b>295,100</b>	<b>277,047</b>	<b>255,932</b>

(ii) The other expenses contain auditors fee (2016: HRK 328.1 thousands, 2015: HRK 534.6 thousands, 2014: HRK 460.3 thousands) and tax adviser fee (2016: HRK 90.7 thousands, 2015: HRK 90.0 thousands, 2014: HRK 91.3 thousands).

Note 17 Financial expenses

	Year ended 31 December		
	2016 HRK'000	2015 HRK'000	2014 HRK'000
Interest and other finance expenses on bank loans	24,570	16,930	14,473
Interest on Group loans	4,264	13,769	13,645
Realised loss from early repayment of former related party loan (see Note 22)	12,611	–	–
Exchange rate differences	(779)	1,063	1,189
Other	341	623	140
	<b>41,007</b>	<b>32,385</b>	<b>29,447</b>

Note 18 Other income and expenses

	Year ended 31 December		
	2016 HRK'000	2015 HRK'000	2014 HRK'000
Other expenses	(6,612)	(1,297)	(1,416)
	<b>(6,612)</b>	<b>(1,297)</b>	<b>(1,416)</b>

Other expenses in 2016 refer to expenses of professional advisers relating to the reorganisation activities within the Group in 2016.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
 CONTINUED
**Note 19 Income taxes****a. Tax (expense) benefit included in the income statement:**

	Year ended 31 December		
	2016 HRK'000	2015 HRK'000	2014 HRK'000
Current taxes	70	5,501	–
Deferred taxes	(23,786)	292	1,951
	(23,716)	5,793	1,951

**b. The following are the major deferred tax (liabilities) and assets recognised by the Group and changes therein during the period:**

	Tax loss carry forward HRK'000	Timing difference on provision and accruals HRK'000	Property, plant and equipment HRK'000	Total HRK'000
Balance as at 1 January 2014	1,163	7,284	–	8,447
Amounts credited to income statement	–	1,678	–	1,678
Amounts charged to income statement	(150)	(3,479)	–	(3,629)
Balance as at 31 December 2014	1,013	5,483	–	6,496
Amounts credited to income statement	–	1,969	–	1,969
Amounts charged to income statement	(1,013)	(1,248)	–	(2,261)
Balance as at 31 December 2015	–	6,204	–	6,204
Amounts credited to income statement	–	2,408	29,723	32,131
Amounts charged to income statement	–	(1,574)	(3,438)	(5,012)
Change tax rate to 18%	–	(704)	(2,628)	(3,332)
<b>Balance as at 31 December 2016</b>	<b>–</b>	<b>6,334</b>	<b>23,657</b>	<b>29,991</b>

**Note 19 Income taxes continued****c. Reconciliation between tax benefit (expense) and the product of accounting profit multiplied by the Group's tax rate is as follows:**

	Year ended 31 December		
	2016 HRK'000	2015 HRK'000	2014 HRK'000
Profit before income taxes	(137,971)	23,732	(10,846)
Expected tax at the tax rate of Croatia 20% (2015, 2014: 20%)	(27,594)	4,746	(2,169)
Adjustments in respect of:			
Change in deferred tax rate to 18%	3,332	–	–
Non-deductible expenses	1,793	2,612	5,506
Utilisation of carry forward losses and temporary differences for which deferred tax assets were not previously recorded	(1,567)	(493)	(102)
Timing differences for which no deferred tax asset was recorded	386	–	–
Non-taxable income	(66)	(1,073)	(1,440)
Other differences	–	–	156
Income tax (benefit) expense reported in the income statement	(23,716)	5,793	1,951

**d. Tax laws applicable to the Group companies:**

- (i) The Company is subject to taxation under the law of Croatia. The Company was taxed at the standard rate of 20%. However, due to new tax regulation enacted in December 2016, the corporate income tax rate will be 18% for the financial year 2017 onwards.
- (ii) Foreign subsidiaries are subject to income taxes in their country of domicile in respect of their income, as follows:
  1. Taxation in Germany: corporate income tax rate and business rates is 30.2%.
  2. Taxation in Hungary: corporate income tax rate is 18%.
  3. Taxation in the Netherlands: corporate income tax rate is 25%.

**e. Losses carried forward for tax purposes:**

The Company and its subsidiaries have no carry forward losses for tax purposes.

**Note 20 Earnings per share**

The following reflects the income and share data used in the basic earnings per share computations:

	Year ended 31 December		
	2016 HRK'000	2015 HRK'000	2014 HRK'000
Profit	(114,255)	17,939	(12,797)
Weighted average number of ordinary shares outstanding	2,182,331	2,182,331	2,182,331

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
 CONTINUED
**Note 21 Segments**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments. The Group's chief operating decision-maker is the Board of Directors.

Following the management approach of IFRS 8, Operating Segments are reported in accordance with the internal reporting provided to the Executive Directors, who are responsible for allocating resources to the reportable segments and assessing their performance.

From the total amount of the Group's non-current assets, an amount of HRK 1,201.0 million relates to assets located in Croatia, HRK 8.0 million to assets located in Hungary and HRK 260.0 million to assets located in Germany.

For management purposes, the Group's activities are divided into Hotel Operations, Self-Catering Holiday Apartment Complex Operations, Campsite Operations and Central Services Operations. The operating results of each of the aforementioned segments are monitored separately for the purpose of resource allocations and performance assessment. Segment performance is evaluated based on EBITDA, which is measured on the same basis as for financial reporting purposes in the consolidated income statement.

	Year ended 31 December 2016					
	Hotels HRK'000	Self-Catering Holiday Apartment Complexes HRK'000	Campsites HRK'000	Central Services HRK'000	Elimination HRK'000	Consolidated HRK'000
<b>Revenue</b>						
Third party	222,294	93,841	118,280	1,455	–	435,870
Inter-segment	1,118	3,181	–	51,250	(55,549)	–
Total revenue	223,412	97,022	118,280	52,705	(55,549)	435,870
<b>Segment EBITDA</b>	61,500	32,999	49,437	(11,913)	–	132,023
Depreciation and amortisation	(41,314)	(20,354)	(8,400)	(3,859)	–	(73,927)
Impairment	(98,048)	(45,829)	–	(4,707)	–	(148,584)
Financial expenses						(41,007)
Financial income						136
Other income, net						(6,612)
Loss before tax						(137,971)
Non-current assets	609,465	265,706	100,036	225,771	267,841*	1,468,819

The amount in the elimination relates to the non-current assets acquired through the Sugarhill acquisition (Note 3a). These assets did not contribute to the results in 2016 as they were acquired on 23 December 2016.

**Note 21 Segments continued**

	Year ended 31 December 2015					
	Hotels HRK'000	Self-Catering Holiday Apartment Complexes HRK'000	Campsites HRK'000	Central Services HRK'000	Elimination HRK'000	Consolidated HRK'000
<b>Revenue</b>						
Third party	196,955	87,578	116,842	1,384	–	402,759
Inter-segment	1,207	1,264	–	57,694	(60,165)	–
Total revenue	198,162	88,842	116,842	59,078	(60,165)	402,759
<b>Segment EBITDA</b>	45,270	27,179	46,526	(2,034)	–	116,941
Depreciation and amortisation	(33,051)	(14,094)	(8,521)	(3,920)	–	(59,586)
Financial expenses						(32,385)
Financial income						59
Other income, net						(1,297)
Profit before tax						23,732
<b>Non-current assets*</b>	717,897	323,293	100,444	172,285	–	1,313,919

\* Total non-current assets is located in Croatia.

	Year ended 31 December 2014					
	Hotels HRK'000	Self-Catering Holiday Apartment Complexes HRK'000	Campsites HRK'000	Central Services HRK'000	Elimination HRK'000	Consolidated HRK'000
<b>Revenue</b>						
Third party	158,055	83,443	111,229	1,440	–	354,167
Inter-segment	810	1,320	26	35,621	(37,777)	–
Total revenue	158,865	84,763	111,255	37,061	(37,777)	354,167
<b>Segment EBITDA</b>	33,392	27,800	50,953	(22,813)	–	89,332
Depreciation and amortisation	(42,193)	(14,736)	(8,282)	(4,199)	–	(69,410)
Financial expenses						(29,447)
Financial income						95
Other income, net						(1,416)
Loss before tax						(10,846)
<b>Non-current assets*</b>	688,207	335,000	105,207	176,051	–	1,304,464

\* Total non-current assets is located in Croatia.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
CONTINUED

**Note 22 Related parties**

Parties are considered to be related if one of the parties has the power to exercise control over the other party or is under common control or has significant influence over the other party in making financial or operational decisions. The Company is controlled by Dvadeset Osam d.o.o., which as at 31 December 2016 owned 65.63% of the Company's shares. The ultimate parent is PPHE Hotel Group Limited which owns 100% of the shares of Dvadeset Osam d.o.o. Additionally, all other companies within PPHE Hotel Group are treated as related parties.

All intra-Group transactions are performed within the Company's transfer pricing policy and are under comparable market conditions.

In 2010, Dvadeset Osam d.o.o. provided loans to the Company for which both principal and interest were repaid during 2016.

**a. Balances with related parties:**

	As at 31 December		
	2016 HRK'000	2015 HRK'000	2014 HRK'000
Non-current loan – Dvadeset Osam d.o.o.	–	147,018	138,040
Non-current liability – Euro Sea Hotels N.V.	7,662	–	–
Short-term liability – Dvadeset Osam d.o.o.	–	7,496	2,704
Long-term loans to joint ventures	33,236	–	–
Short-term receivables – Park Plaza Hotels Europe B.V.	27	–	–
Short-term receivables – art'otel dresden	110	–	–
Trade payables – Park Plaza Berlin Prenzlauerberg Betriebsgesellschaft mbH	1	–	–
Trade payables – Euro Sea Hotels N.V.	788	–	–
Trade payables – PPHE (Germany) B.V.	13,090	–	–
Trade payables – Park Plaza Hotels Europe B.V.	20,091	–	–

The loans from Dvadeset Osam d.o.o. had an interest payable maturity date of 31 December 2021. The interest rate on the original principal amount was 15% p.a., which resulted in an effective interest rate of 8.85%. The Company repaid the borrowing early, and in April 2016, the amount due increased by HRK 12,611 thousand based on the difference between the nominal value and carrying value of the loans. The shareholders' loans were repaid from the proceeds of two new bank loans from Zaba amounting in total to HRK 149.8 million (EUR 20.0 million). The remaining outstanding balances were paid from the Group's cash balances.

The loans to joint ventures bear an interest of EURIBOR + 2.5% and have to be repaid in full after ten years, which is 13 January 2024.

The trade payables to PPHE (Germany) B.V. and Park Plaza Hotels Europe B.V. result from the former management agreements with these companies.

**Note 22 Related parties continued**

**b. Transactions with related parties:**

	Year ended 31 December		
	2016 HRK'000	2015 HRK'000	2014 HRK'000
Management fees expense – Park Plaza Hotels Europe B.V.	21,404	19,752	20,964
Reimbursement of expenses – Park Plaza Hotels Europe B.V.	–	–	(967)
Sales and marketing fees – Park Plaza Hotels Europe B.V.	7,076	6,595	5,821
Interest expense – Dvadeset Osam d.o.o.	4,264	13,769	13,645

**c. Significant other transactions with related parties**

- (i) Transactions in the ordinary course of business, in connection with the use of hotel facilities (such as overnight room stays and food and beverages) are charged at market prices. These transactions occur occasionally.
- (ii) Compensation to key management personnel (Executive Directors and Board of Directors) for the year ended 31 December 2016:

	Base salary and fees HRK'000	Bonus HRK'000	Pension contributions HRK'000	Other benefits HRK'000	Total HRK'000
Executive Directors	2,506	53	294	203	3,056
Board of Directors	98	–	24	–	122
	2,604	53	318	203	3,178

Compensation to key management personnel (Executive Directors and Board of Directors) for the year ended 31 December 2015:

	Base salary and fees HRK'000	Bonus HRK'000	Pension contributions HRK'000	Other benefits HRK'000	Total HRK'000
Executive Directors	2,448	44	262	117	2,871
Board of Directors	98	–	24	–	122
	2,546	44	286	117	2,993

Compensation to key management personnel (Executive Directors and Board of Directors) for the year ended 31 December 2014:

	Base salary and fees HRK'000	Bonus HRK'000	Pension contributions HRK'000	Other benefits HRK'000	Total HRK'000
Executive Directors	2,579	28	259	106	2,972
Board of Directors	98	–	24	–	122
	2,677	28	283	106	3,094

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### CONTINUED

#### Note 23 Financial risk management objectives and policies

The Group's principal financial instruments, other than derivatives, comprise bank borrowings, cash and cash equivalents and restricted deposits. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk and credit risk. The Board of Directors reviews and agrees on policies for managing each of these risks which are summarised below. The Group's accounting policies in relation to derivatives are set out in Note 2.

##### a. Foreign currency risk

The Company does not use derivative financial instruments to actively hedge financial risk exposure.

The Company operates internationally and is exposed to foreign exchange risk. Revenues are mainly realised in Euro, while operating costs are mainly realised in Kuna.

The Kuna has experienced a slight tendency to decline in value. The Company's policy is to hold cash reserves in foreign currency on its foreign exchange bank account.

The Company's long-term borrowings are linked to the currency clause (EUR).

The Company maintains an active policy of foreign exchange risk hedging by keeping cash in foreign currency accounts, concluding contracts with banks not using a more favourable exchange rate than the one officially published, and contracting operating liabilities in Kuna without linking to the currency clause.

As at 31 December 2016, if the Euro had weakened/strengthened by 1.0% (2015: 1.0%; 2014: 1.0%) against the Kuna, with all other variables held constant, the profit for the year would have been HRK 5,281 thousand higher/lower (2015: HRK 2,311 thousand; 2014: HRK 2,243 thousand), mainly as a result of foreign exchange gains/(losses) on translation of EUR denominated borrowings, trade payables, trade and other receivables and foreign cash funds. This risk is decreased by the fact that the majority of revenues is contracted in EUR.

##### b. Interest rate risk

The Group's exposure to the risk for changes in market interest rates relates primarily to the Group's long-term debt obligations with a floating interest rate.

The Group has nine variable interest rate loans that are not hedged with interest rate swaps. Based on a sensitivity analysis calculation, management estimates that with an increase/decrease of the three-month market (EURIBOR) interest rate by 50 basis points (bps), the results of the Group would be changed by HRK 3.0 million.

The Group uses short-term deposits (weekly and monthly) for cash balances held in banks.

##### c. Credit risk

The Group trades only with recognised, creditworthy third parties. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history. The Company's policies ensure that sales to customers are settled through advance payments, in cash or by major credit cards (individual customers). Since the Group trades only with recognised third parties, there is no requirement for collateral for debts with third parties. Furthermore, the Group has no dependency on any of its customers. The receivable balances are monitored on an ongoing basis. Management monitors the collection of receivables through credit meetings and weekly reports on individual balances of receivables. Impairment of trade receivables is recorded when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The maximum credit exposure equals the carrying amount of the trade receivables and other receivables since the amount of all trade and other receivables has been written down to their recoverable amount. The result of these actions is that the Group's exposure to bad debts is not significant.

With respect to credit risk arising from other financial assets of the Group, which comprise cash and cash equivalents and investment in securities, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Group has limited concentration risk in respect of its cash at banks.

#### Note 23 Financial risk management objectives and policies continued

##### d. Litigation as a risk factor in business

In addition to financial risk factors, the Group is exposed to the risk of adverse outcomes of legal proceedings. The most significant are:

- (i) The Company is a defendant in five litigations related to the claims of utility companies Pula Herculanea d.o.o. (one) and Vodovod Pula d.o.o. (four), all related to the payment of fees and charges for the maintenance and development of the water supply and sewage infrastructure system charged to the Company based on water consumption and relating to the time period between 1999 to 2012. The total principal claim and potential interest has been provided for and amounts to approximately HRK 29.9 million. The Company disputes this claim and raised a set-off objection to the value of certain investments in the water supply and sewage infrastructure system constructed by the Company.
- (ii) Based on the Medulin Municipality's ownership interest which is registered in the land registry with respect to certain land plots of the campsites Medulin, Stupice and Runke, the Medulin Municipality filed a law suit against the Company for compensation for the use of such land from December 1997 currently amounting to EUR 8.9 million (HRK 66.6 million) plus interest. It also demanded transfer of possession of the respective parts of those campsites. The Company claimed that pursuant to the Act on the Tourist and Other Construction Land Not Appraised During the Transition and Privatisation Process (the 'Act'), the Company acquired co-ownership of the campsites Medulin, Stupice and Runke, together with the Republic of Croatia, and therefore, that the Medulin Municipality is not entitled to claim for payment of land use remuneration and transfer of possession of land plots in the campsites. In addition to objecting to the claim of the Medulin Municipality, the Company filed a counterclaim against the Medulin Municipality in the amount of HRK 124.5 million as the Company has made various investments in the campsites. The first instance proceeding has been suspended until the actual size of the maritime domain areas within the campsites are established in separate proceedings.
- (iii) In accordance with the provisions of the Act, the Company submitted requests to the Republic of Croatia for the award of tourist land concessions for a term of 50 years (the maximum term allowed) in relation to land areas in eight campsites and tourist land in three of its self-catering holiday apartment complexes in Croatia. Since the adoption of the Act in 2010, as far as the Company is aware, no concession agreement has been entered into with respect to tourist land in campsites/tourist resorts/hotels in the Republic of Croatia due to ambiguities in the wording of the Act and other related regulations. So far as the Company is aware, the status of the Company's tourist land concession requests is similar to the status of tourist land concession requests submitted by other companies in the Republic of Croatia. In practice, the companies that have submitted requests for a tourist land concession regularly pay an advance concession fee of 50% of the "assumed" concession fee calculated in accordance with the relevant regulations. As such, the Company will continue to pay 50% of the concession fees in respect of the eight campsites and to accrue the remaining 50% until determination of the concession agreements, which is presented as a provision in the financial statements.
- (iv) The Company has entered into settlement agreements with the Republic of Croatia in regards to all eight campsites whereby it has agreed that the proportions of co-ownership shall be determined based on expert evaluations. The provisions in the Act relating to such expert evaluations are unclear, and, therefore, the Company's requests for the award of tourist land concessions in campsites have not yet been resolved and will likely remain unresolved until the Act and relevant regulations are adequately amended.
- (v) In relation to the properties in tourist resorts and hotels, the Company's requests for award of tourist land concessions have been rejected twice by the City of Pula as the concession grantor. Following the law suit submitted by the Company and separately also by the Republic of Croatia, the City of Pula's decision has been recently annulled by the Administrative court in Rijeka for the second time and the matter was sent back to the first instance concession granting authority (City of Pula), with an instruction to repeat the procedure and establish if the relevant criteria for qualification of the relevant area as tourist land have been satisfied. In relation to the Company's resorts and hotels' tourist land areas, due to still unresolved ownership matters, the relevant municipality has not been charging the Company the respective 50% of the "assumed" concession fee and the Company has not been paying any such fee, but has made provisions in relation to the amount of the "assumed" concession fee for each year since 2011.

The Executive Directors alongside their professional advisers are monitoring all litigation and court proceedings carefully and responsibly in order to prevent possible negative outcomes.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
 CONTINUED

**Note 23 Financial risk management objectives and policies continued**
**e. Liquidity risk**

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans. The Group's policy is to arrange medium-term bank facilities to finance its construction operations and then to convert them into long-term borrowings when required.

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2016, 2015 and 2014 based on contractual undiscounted payments:

	As at 31 December 2016					
	Less than 3 months HRK'000	3 to 12 months HRK'000	1 to 2 years HRK'000	3 to 5 years HRK'000	> 5 years HRK'000	Total HRK'000
Interest-bearing loans and borrowings	19,668	139,628	146,023	202,156	313,955	821,430
Accrued fee for the tourist land concession	–	3,429	–	–	–	3,429
Lease liability	42	125	98	–	–	265
Trade payables	22,946	–	–	–	–	22,946
Liabilities towards related parties	–	33,970	–	–	7,662	41,632
Other payables and accruals	3,142	42,178	–	–	–	45,320
	<b>45,798</b>	<b>219,330</b>	<b>146,121</b>	<b>202,156</b>	<b>321,617</b>	<b>935,022</b>

	As at 31 December 2015					
	Less than 3 months HRK'000	3 to 12 months HRK'000	1 to 2 years HRK'000	3 to 5 years HRK'000	> 5 years HRK'000	Total HRK'000
Interest-bearing loans and borrowings	11,610	28,574	72,315	96,991	311,633	521,123
Accrued fee for the tourist land concession	–	3,446	–	–	–	3,446
Lease liability	48	144	193	110	–	495
Trade payables	10,373	–	–	–	–	10,373
Liabilities toward related parties	–	7,496	–	–	235,345	242,841
Other payables and accruals	9,984	–	–	–	–	9,984
	<b>32,015</b>	<b>39,660</b>	<b>72,508</b>	<b>97,101</b>	<b>546,978</b>	<b>788,262</b>

	As at 31 December 2014					
	Less than 3 months HRK'000	3 to 12 months HRK'000	1 to 2 years HRK'000	3 to 5 years HRK'000	> 5 years HRK'000	Total HRK'000
Interest-bearing loans and borrowings	9,187	27,560	73,991	93,602	285,838	490,178
Accrued fee for the tourist land concession	–	3,679	–	–	–	3,679
Lease liability	46	136	195	266	–	643
Trade payables	24,451	–	–	–	–	24,451
Liabilities toward related parties	–	2,704	–	–	226,367	229,071
Other payables and accruals	10,880	–	–	–	–	10,880
	<b>44,564</b>	<b>34,079</b>	<b>74,186</b>	<b>93,868</b>	<b>512,205</b>	<b>758,902</b>

**Note 23 Financial risk management objectives and policies continued**
**f. Capital management**

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

	2016 HRK'000	2015 HRK'000	2014 HRK'000
Interest-bearing bank loans and borrowings	659,110	393,007	364,415
Less – cash and cash equivalents	(130,406)	(147,787)	(98,282)
Less – other current financial assets	(208)	(171)	(159)
Less restricted deposit	(41,713)	–	–
Net debt	<b>486,783</b>	245,049	265,974
Equity	<b>804,244</b>	837,728	819,819
Hedging reserve	(5,025)	–	–
Total capital	<b>809,269</b>	837,728	819,819
Capital and net debt	<b>1,296,052</b>	1,082,777	1,085,793
Gearing ratio	<b>37.6</b>	22.6	24.5

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. The Group monitors capital using a gearing ratio, which is net bank debt divided by total capital plus net bank debt. The Group's policy is to keep the gearing ratio between 30% and 50%. The Group includes within net bank debt interest bearing bank loans and borrowings, less cash and cash equivalents, restricted deposits which are security for the bank and other liquid assets. Capital includes equity less the hedging reserve.

**g. Fair value of financial instruments**

The fair values of the financial assets and liabilities are included in the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of cash and cash equivalents, trade receivables, trade payables, and other current assets and liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

Long-term fixed rate and variable rate receivables are evaluated by the Group based on parameters such as interest rates, specific country risk factors, and individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken to account for the expected losses of these receivables.

The fair value of loans from banks and other financial liabilities, obligations under finance leases as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

Fair value of available-for-sale financial assets is derived from quoted market prices in active markets. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1. The Group enters into derivative financial instruments with financial institutions with investment grade credit ratings. Derivatives are valued using valuation techniques for swap models, using present value calculations. The models incorporate various inputs, including the credit quality of counterparties, and interest rate curves.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
CONTINUED

**Note 23 Financial risk management objectives and policies continued**

**g. Fair value of financial instruments continued**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques based on a discounted cash flow. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

**Fair value hierarchy**

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique based on the lowest level input that is significant to the fair value so determined:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 31 December 2016, the Group held the following financial instruments measured at fair value:

	31 December 2016 HRK'000	Level 1 HRK'000	Level 2 HRK'000	Level 3 HRK'000
Available-for-sale financial assets	208	208	–	–

During 2016, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

As at 31 December 2015, the Group held the following financial instruments measured at fair value:

	31 December 2015 HRK'000	Level 1 HRK'000	Level 2 HRK'000	Level 3 HRK'000
Available-for-sale financial assets	171	171	–	–

During 2015, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

As at 31 December 2014, the Group held the following financial instruments measured at fair value:

	31 December 2014 HRK'000	Level 1 HRK'000	Level 2 HRK'000	Level 3 HRK'000
Available-for-sale financial assets	159	159	–	–

During 2014, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

**h. Derivative financial instruments**

The majority of the Group's borrowings are at variable interest rates based on LIBOR or EURIBOR. The Group has not limited its exposure to changes in the rates of LIBOR and EURIBOR on its cash flows and interest expense due to the local financial market situation.

**Note 23 Financial risk management objectives and policies continued**

**h. Derivative financial instruments continued**

However, the Group's newly acquired joint venture investments in Germany have entered into an interest rate swap, as described below. The Company meets the relevant criteria in IAS 39 to apply hedge accounting and the fair value changes of swaps in the hedge relationship that are determined to be effective are recorded in other comprehensive income. All fair value movements that are determined to be ineffective are recorded in profit and loss.

- (i) The newly acquired joint venture hotels entered into interest rate swaps with Deutsche Hypothekbank AG with a nominal value of HRK 82.9 million (€11.1 million) with fixed quarterly interest payments at a rate of 3.93% per annum.

**i. Credit quality of financial assets**

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

	31 December 2016 HRK'000	31 December 2015 HRK'000	31 December 2014 HRK'000
<b>Trade and other receivables</b>			
Existing domestic and foreign customers – with some defaults in the past	1,142	4,350	3,181

The Company gave loans and deposits at banks with the following credit ratings by Standard & Poor's:

	31 December 2016 HRK'000	31 December 2015 HRK'000	31 December 2014 HRK'000
<b>Deposits and loans</b>			
Financial institutions – no credit rating	192	340	425
Other companies – no credit rating	33,236	–	–
BB+ (foreign bank)	9,550	–	–
BBB- (domestic bank)	41,713	–	–
	84,691	340	425

The Company deposits cash at banks with the following credit ratings by Standard & Poor's:

	31 December 2016 HRK'000	31 December 2015 HRK'000	31 December 2014 HRK'000
Without rating	434	339	128
BBB- (domestic bank)	86,021	137,078	86,188
BB+ (foreign bank)	37,758	–	–
Domestic banks without rating	6,627	10,370	11,966
	130,406	147,787	98,282

None of the financial assets that are fully performing have been renegotiated in the last year.

**Note 24 Subsequent events**

On 23 December 2016, PPHE Hotel Group contributed 88% of its interest in Sugarhill in exchange for 1,091,250 new shares in the Company. These new shares were registered in the Commercial Court in Pazin on 7 February 2017. This increased PPHE Hotel Group's shareholding in the Company to 77.09%.

In February 2017, the Company, via its wholly owned subsidiaries, acquired the freehold interests in art'otel berlin kudamm and art'otel cologne, for an amount of HRK 412.0 million (EUR 54.5 million) net of any applicable VAT (of which HRK 17.6 million (EUR 2.3 million) is on account of fixtures, fittings and equipment which was paid by the operating companies within PPHE Hotel Group). The consideration for the acquisition was funded by a HRK 287.3 million (EUR 38.0 million) ten year loan from Deutsche Hypothekbank AG secured on the properties and guaranteed by PPHE Hotel Group, a HRK 75.6 million (EUR 10.0 million) loan granted by the sellers and a HRK 83.2 million (EUR 11.0 million) loan from PPHE Hotel Group.



SUBSIDIARIES INCLUDED IN THE GROUP

Name of company	Principal activity	Country of incorporation	Functional currency	Direct and indirect holdings %
Ulika d.o.o. <sup>1</sup>	Holding company	Croatia	HRK	100
Mazurana d.o.o. <sup>1</sup>	Holding company	Croatia	HRK	100
Germany Real Estate B.V. <sup>1</sup>	Holding company	The Netherlands	EUR	100
ACO Hotel Holding B.V. <sup>2</sup>	Holding company	The Netherlands	EUR	100
ABK Hotel Holding B.V. <sup>2</sup>	Holding company	The Netherlands	EUR	100
Sugarhill Investments B.V. <sup>1</sup>	Holding company	The Netherlands	EUR	88
Arena Hospitality Management d.o.o. <sup>2,3</sup>	Management company	Croatia	EUR	100
Park Plaza Hotels (Germany) Services GmbH <sup>2,3</sup>	Management company	Germany	EUR	100
PPHE Germany Holdings GmbH <sup>2,3</sup>	Holding company	Germany	EUR	100
PPHE Nürnberg Operator				
Hotelbetriebsgesellschaft mbH <sup>2,3</sup>	Hotel operation	Germany	EUR	100
Park Plaza Germany Holdings GmbH <sup>2,3</sup>	Holding company	Germany	EUR	100
Park Plaza Nürnberg GmbH <sup>2,3</sup>	Hotel operation	Germany	EUR	100
Park Plaza Hotels Berlin Wallstrasse GmbH <sup>2,3</sup>	Hotel operation	Germany	EUR	100
art'otel berlin city center west GmbH <sup>2,3</sup>	Hotel operation	Germany	EUR	100
art'otel köln mbH <sup>2,3</sup>	Hotel operation	Germany	EUR	100
SW Szállodaüzemeltető Kft <sup>2,3</sup>	Hotel operation	Hungary	HUF	100

JOINTLY CONTROLLED ENTITIES

Name of company	Principal activity	Country of incorporation	Functional currency	Proportion of ownership interest %
art'otel berlin mitte/Park Plaza Betriebsgesellschaft mbH <sup>2,3</sup>	Hotel operation	Germany	EUR	50
Park Plaza Betriebsgesellschaft mbH <sup>2,3</sup>	Hotel operation	Germany	EUR	50
PPBK Hotel Holding B.V. (formerly known as ABK Hotel Holding B.V.) <sup>2,3</sup>	Holding company	The Netherlands	EUR	50
ABM Hotel Holding B.V. <sup>2,3</sup>	Holding company	The Netherlands	EUR	50

<sup>1</sup> Direct holdings.

<sup>2</sup> Indirect holdings.

<sup>3</sup> Subsidiaries (direct and indirect) 100% or 50% owned by Sugarhill. The Company owns 88% of the shares in Sugarhill.

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**INDEPENDENT AUDITOR’S REPORT TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF THE COMPANY:**  
CONTINUED

**Our opinion**

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of Arenaturist d.d. (“the Company”) as at 31 December 2016, and its financial performance and its 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**

The audited separate financial statements comprise:

- the statement of financial position as at 31 December 2016;
- the income statement for the year ended 31 December 2016;
- the statement of other comprehensive income for the year ended 31 December 2016;
- the statement of changes in equity for the year ended 31 December 2016;
- the statement of cash flows for the year ended 31 December 2016; and
- the notes to the those accompanying separate 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 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 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.

**Our audit approach**

**Overview**

<b>Materiality</b>	Overall materiality for 2016: HRK 3.9 million, which represents 1% of annual revenue (as described below in paragraph Materiality)
<b>Key audit matters</b>	KAM 1 – Impairment of hotel real estate properties

We designed our audit by determining materiality and assessing the risks of material misstatement in the separate financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

**Materiality**

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the separate financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the separate financial statements as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

<b>Overall materiality</b>	HRK 3.9 million (2015: HRK 3.7 million)
<b>How we determined it</b>	1% of annual revenue
<b>Rationale for the materiality benchmark applied</b>	We have chosen annual revenue as the benchmark because, in our view, it is an appropriate measure of underlying performance and the benchmark against which the performance of the Company and other companies in this industry is most commonly measured by users, and is a generally accepted benchmark.  We chose 1% which is consistent with quantitative materiality thresholds used for listed companies in this sector.

We would report to Audit Committee misstatements identified during our audit above HRK 195 thousand as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

**Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<b>Key audit matter</b>	<b>How our audit addressed the key audit matter</b>
<p><b>Impairment of hotel real estate properties</b></p> <p>Refer to Notes 3 c. and 4 c. in the separate financial statements.</p> <p>The company Arenaturist d.d. has reported properties with carrying value of HRK 1,018 million which were presented in the separate statement of financial position as at 31 December 2016.</p> <p>During 2016, an impairment review of those assets were performed when there was an indication that these may be impaired such as changes in operation strategy combined with a change in ultimate controlling party. The management has assessed the recoverable values of properties that included analysis of the financial results of the each cash generating unit, the outlook for the hotel industry and Arenaturist d.d. operating plans. Based on this assumptions the management used discounted cash flow model.</p> <p>An impairment provision of HRK 148.6 million has been identified and reduced the carrying values of certain hotel properties to their estimated recoverable values.</p> <p>For the remaining properties, management concluded that the recoverable amount was higher than their carrying values such that no impairment provision was required.</p> <p>Given the materiality of properties, the recognition of impairment had a significant impact on the separate financial statements. We also focused on this area as these conclusions are dependent upon significant management judgement involved in performing the impairment test. In particular the most significant judgements relate to discount rates applied together with the assumptions supporting the underlying forecast cash flows.</p>	<p>Our procedures in relation to management’s impairment assessment of properties included:</p> <ul style="list-style-type: none"> <li>• Assessing the methodologies used by management to estimate values in use and fair value less cost to sell;</li> <li>• Evaluating the independent external valuer’s competences, capabilities and objectivity;</li> <li>• Checking, on a sample basis, the accuracy and relevance of the input data provided by management to the external valuer;</li> <li>• Assessing management’s key assumptions used to estimate value in use based on our knowledge of the hotel industry in Croatia; and</li> <li>• Considering the potential impact of reasonably possible downside changes in these key assumptions. We have reviewed sensitivities in evaluating the management’s assessment performed on discount rate, EBITDA, growth rate.</li> </ul> <p>Based on available evidence we found management’s assumptions in relation to the recoverable amount calculations to be reasonable. We found the disclosures in notes 3c and 4c to be appropriate. We consider management’s conclusion to be consistent with the available information</p>

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF THE COMPANY:

### Other information

Management is responsible for the other information. The other information comprises the Annual Report of the Company which includes the Management Report and Corporate Governance Statement (but does not include the separate financial statements and our auditor's report thereon).

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

In connection with our audit of the separate 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 financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Management Report and Corporate Governance Statement, 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 of the Accounting Act, and whether the Corporate Governance Statement includes the information specified in Article 22 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 2016 financial year for which the separate financial statements are prepared is consistent with the separate financial statements;
- the Management Report has been prepared in accordance with the requirements of Article 21 of the Accounting Act; and
- the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

In addition, in light of the knowledge and understanding of the entity 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 and Corporate Governance Statement. We have nothing to report in this respect.

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

Management is responsible for the preparation and fair presentation of the separate 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, management is responsible for assessing the Company'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 or to cease operations, or has no realistic alternative but to do so.

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

### Auditor's responsibilities for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 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 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 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 ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate 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 auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate 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 Company to express an opinion on the separate financial statements. We are responsible for the direction, supervision and performance of the 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 we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Siniša Dušić.

PricewaterhouseCoopers d.o.o. 

PricewaterhouseCoopers d.o.o.

Siniša Dušić

Zagreb, 20 March 2017

Member of the Management Board and Certified Auditor

## COMPANY STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December	
		2016 HRK'000	2015 HRK'000
<b>Assets</b>			
<b>Non-current assets:</b>			
Property, plant and equipment	4	1,120,104	1,143,549
Inventories		9,269	12,285
Other non-current financial assets	5	460,223	1,271
Deferred tax asset	18	29,513	5,779
Restricted deposits and cash	10b	41,713	–
		<b>1,660,822</b>	<b>1,162,884</b>
<b>Current assets:</b>			
Inventories		1,456	1,380
Other current financial assets		208	171
Trade receivables	6	10,415	3,330
Other receivables and prepayments	7	2,875	4,695
Income tax receivables		4,016	–
Cash and cash equivalents	8	92,464	113,425
		<b>111,434</b>	<b>123,001</b>
Total assets		<b>1,772,256</b>	<b>1,285,885</b>
<b>Equity and liabilities</b>			
<b>Equity:</b>			
Issued capital	9	43,650	43,650
Unregistered capital		460,006	–
Other reserves		661,844	638,800
Accumulated (losses)/earnings		(90,952)	20,984
		<b>1,074,548</b>	<b>703,434</b>
<b>Non-current liabilities:</b>			
Bank borrowings	11	520,538	361,204
Liabilities towards related parties		–	115,076
Provisions	12	55,300	49,701
Other liabilities		1,705	268
		<b>577,543</b>	<b>526,249</b>
<b>Current liabilities:</b>			
Trade payables		19,742	9,317
Other payables and accruals	13	22,390	18,132
Income tax liabilities		–	5,385
Liabilities towards related parties		20,518	1,396
Bank borrowings	11	57,515	21,972
		<b>120,165</b>	<b>56,202</b>
Total liabilities		<b>697,708</b>	<b>582,451</b>
Total equity and liabilities		<b>1,772,256</b>	<b>1,285,885</b>

The accompanying notes are an integral part of the financial statements.  
Date of establishing of the financial statements 20 March 2017.

RELI SLONIM  
CHIEF EXECUTIVE OFFICER

MILENA PERKOVIĆ  
EXECUTIVE OFFICER &  
CHIEF FINANCIAL OFFICER

## COMPANY INCOME STATEMENT

	Note	Year ended 31 December	
		2016 HRK'000	2015 HRK'000
Revenues	14	390,757	363,246
Operating expenses	15	(268,362)	(250,436)
<b>EBITDAR</b>		<b>122,395</b>	<b>112,810</b>
Rental expenses and concession fees land		(8,543)	(8,526)
<b>EBITDA</b>		<b>113,852</b>	<b>104,284</b>
Depreciation, amortisation and impairment	4	(204,728)	(51,900)
<b>EBIT</b>		<b>(90,876)</b>	<b>52,384</b>
Financial expenses	16	(37,740)	(26,623)
Financial income		132	52
Other income and expenses	17	(6,612)	(1,297)
(Loss)/profit before tax		(135,096)	24,516
Income tax benefit/(expense)	18	23,160	(5,791)
(Loss)/profit for the year		(111,936)	18,725
<b>Basic and diluted (loss)/earnings per share</b>	19	<b>(51.29)</b>	<b>8.58</b>

The accompanying notes are an integral part of the financial statements.

## COMPANY STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December		
	Note	2016 HRK'000	2015 HRK'000
(Loss)/profit for the year		<b>(111,936)</b>	18,725
<b>Other comprehensive income (loss) to be recycled through profit and loss in subsequent periods:<sup>1</sup></b>			
Fair value gain reclassified to the profit and loss upon disposal of available-for-sale financial assets		<b>37</b>	12
Other comprehensive income		<b>37</b>	12
<b>Total comprehensive (loss)/income</b>		<b>(111,899)</b>	18,737

<sup>1</sup> There is no other comprehensive income that will not be reclassified to the profit and loss in subsequent periods.

The accompanying notes are an integral part of the financial statements.

## COMPANY STATEMENT OF CHANGES IN EQUITY

In HRK'000	Issued capital	Unregistered capital	Other reserve	Accumulated earnings	Total
<b>Balance as at 1 January 2015</b>	43,650	–	638,788	2,259	<b>684,697</b>
Profit for the year	–	–	–	18,725	<b>18,725</b>
Other comprehensive income	–	–	12	–	<b>12</b>
Total comprehensive income	–	–	12	18,725	<b>18,737</b>
<b>Balance as at 31 December 2015</b>	43,650	–	638,800	20,984	<b>703,434</b>
Loss for the year	–	–	–	(111,936)	<b>(111,936)</b>
Other comprehensive income	–	–	37	–	<b>37</b>
Total comprehensive loss	–	–	37	(111,936)	<b>(111,899)</b>
Increase of capital (unregistered 31.12.2016) (Note 3a)	–	<b>460,006</b>	–	–	<b>460,006</b>
Merger of Private companies (Note 3b)	–	–	<b>23,007</b>	–	<b>23,007</b>
<b>Balance as at 31 December 2016</b>	<b>43,650</b>	<b>460,006</b>	<b>661,844</b>	<b>(90,952)</b>	<b>1,074,548</b>

The accompanying notes are an integral part of the financial statements.

## COMPANY STATEMENT OF CASH FLOWS

	Note	Year ended 31 December	
		2016 HRK'000	2015 HRK'000
<b>Cash flows from operating activities:</b>			
(Loss)/profit for the year		(111,936)	18,725
Adjustment to reconcile profit to cash provided by operating activities:			
Financial expenses	16	23,182	16,357
Financial expenses – Group companies	16	2,902	8,977
Realised loss from early repayment of related party loan	16	12,611	–
Income tax (benefit)/charge	18	(23,160)	5,791
Depreciation and amortisation	4	56,144	51,900
Impairment of property, plant and equipment	4	148,584	–
		<b>220,263</b>	<b>83,025</b>
Changes in operating assets and liabilities:			
Decrease in inventories		3,507	706
Decrease in trade and other receivables		5,073	401
Increase in trade and other payables		15,428	(721)
		<b>24,008</b>	<b>386</b>
Cash paid and received during the period for:			
Interest paid		(22,942)	(16,357)
Taxes (paid) received		(9,465)	–
		<b>(32,407)</b>	<b>(16,357)</b>
Net cash provided by operating activities		<b>99,928</b>	<b>85,778</b>
<b>Cash flows from investing activities:</b>			
Investments in property, plant and equipment	4	(32,972)	(69,102)
Acquisition of Bora companies	3b	(108,551)	–
Increase in restricted deposits	10b	(35,021)	–
Net change in cash upon merger of Bora companies	3b	32,445	–
Net cash used in investing activities		<b>(144,099)</b>	<b>(69,102)</b>

The accompanying notes are an integral part of the financial statements.

	Year ended 31 December	
	2016 HRK'000	2015 HRK'000
<b>Cash flows from financing activities:</b>		
Proceeds from bank borrowings	187,315	49,816
Repayment of related party loans	(127,685)	–
Repayment of bank borrowings	(36,420)	(19,781)
Net cash provided by financing activities	<b>23,210</b>	<b>30,025</b>
(Decrease)/increase in cash and cash equivalents	<b>(20,961)</b>	<b>46,701</b>
Cash and cash equivalents at beginning of year	<b>113,425</b>	<b>66,724</b>
Cash and cash equivalents at end of year	<b>92,464</b>	<b>113,425</b>
<b>Non-cash items:</b>		
Outstanding payable on investments in property, plant and equipment	<b>(13,561)</b>	<b>–</b>

The accompanying notes are an integral part of the financial statements.

## NOTES TO THE COMPANY FINANCIAL STATEMENTS

**Note 1 General**

a. In December 2016, the Company acquired 88% of the shares in Sugarhill Investments B.V. ('Sugarhill') and indirectly its subsidiaries (together, the 'Sugarhill Group') by way of capital contribution from a member of PPHE Hotel Group (see Note 3a). The Company issued 1,091,250 new shares for this acquisition for a price per share of HRK 421.54, representing a value of HRK 460 million.

As at 31 December 2016, the new shares were not registered. These new shares were registered on 7 February 2017.

This increased PPHE Hotel Group's shareholding in the Company to 77.09%.

b. Description of business and formation of the Company

The Company is a joint stock company listed on the Official Market of the Zagreb Stock Exchange with its registered office in Pula in the Republic of Croatia. In accordance with the laws of the Republic of Croatia and with the approval of the Croatian Privatisation Fund, the Company was transformed from a state-owned company into a joint stock company in 1994 and registered at the Commercial Court in Rijeka.

The business of the Company is owning, leasing, operating and developing full service upscale, upper upscale and select resort destinations in Croatia's Istria region.

c. Assessment of going concern

As part of their ongoing responsibilities, the Executive Directors have recently undertaken a thorough review of the Company's cash flow forecast and potential liquidity risks. Detailed budgets and cash flow projections have been prepared for 2017 and 2018 which show that the Company's hotel operations will be cash generative during the period.

The Company has entered into a number of loan facilities, the details of which are set out in Note 11. The Board believes that the Company currently has adequate resources and in the future will generate sufficient funds to honour its financial obligations and continue its operations as a going concern for the foreseeable future. The Company forecasts its ability to comply with debt covenants.

**Note 2 Summary of significant accounting policies****a. Basis of preparation**

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards as adopted in European Union (IFRS).

On 30 June 2016, the Company acquired Arenaturist Zlatne stijene d.o.o., Arenaturist Hoteli d.o.o. and Arenaturist Turistička Naselja d.o.o. (the 'Bora Companies') for a cash consideration of HRK 108.6 million. Both the Bora Companies and the Company were under the common control of the same ultimate controlling shareholder of the Company. Prior to April 2016, certain funds managed by Goldman Sachs were the ultimate controlling shareholder and following April 2016, PPHE Hotel Group became the ultimate controlling shareholder. The Bora Companies were principally engaged in the operation of a hotel and two self-catering holiday apartment complexes in Pula and Medulin and the provision of certain services to the Company.

On 31 October 2016, the Bora Companies were merged into the Company.

On 23 December 2016, the Company acquired 88% of the shares in the Sugarhill Group by way of capital contribution. The Sugarhill Group represents a group of companies under the common control of the current controlling shareholder of the Company. These companies are principally engaged in the ownership, operation and development of hotels in Germany and Hungary and potential benefit from an exclusive right to use the Park Plaza® brand in the countries of Croatia, Germany, Austria, Bulgaria, Slovenia, Bosnia and Herzegovina, Montenegro, Kosovo, Serbia, Albania, Romania, Moldova, Ukraine, Slovakia, the Czech Republic, Poland, Belarus and Hungary.

In consideration for the acquisition of the Sugarhill Group, the Company issued 1,091,250 new shares (amounting to a total value of HRK 460.0 million) to the current direct controlling shareholder of the Company (which was also the former shareholder of the Sugarhill Group).

The accounting policies used in preparing the financial statements for the years ended 31 December 2016 and 2015 are set out below. These accounting policies have been consistently applied to the periods presented. The financial statements of the Company have been prepared on a historical cost basis, except for derivative financial instruments and available-for-sale financial assets that have been measured at fair value. The financial statements are presented in Croatian Kuna and all values are rounded to the nearest thousand except where indicated otherwise.

**Note 2 Summary of significant accounting policies continued****a. Basis of preparation continued**

Statement of compliance:

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) which comprise standards and interpretations issued by the International Accounting Standards Board (IASB) and International Financial Reporting Standards Interpretations Committee (IFRIC) and adopted by the European Union.

The accounting policies used in preparing the financial statements for the years ended 31 December 2016 and 2015 are set out below. These accounting policies have been consistently applied to the periods presented.

**b. Changes in accounting policy and disclosures:****Basis of preparation**

The financial statements are presented in Croatian Kuna (HRK) and all values are rounded to the nearest thousand except where otherwise indicated.

The Company decided to change the format and layout of the financial statements to improve the quality of the information provided and to align with the layout used by PPHE Hotel Group. The change in the presentation of the financial statements is to bring it more in line with industry practice. The main changes in the presentation of the Company's income statement are the addition of EBITDAR, EBITDA and EBIT.

The main changes in the presentation of the Company's statement of financial position are:

- Bank borrowings and liabilities towards related parties are presented separately in the non-current liabilities
- Provisions and other liabilities are presented separately in the non-current liabilities
- Trade receivables and other receivables and prepayments are presented separately
- Treasury shares were presented separately in the equity and are now included in other reserves
- Long-term inventories are presented separately and are not included anymore in property, plant and equipment.

**c. Significant accounting judgments, estimates and assumptions:**

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

**Judgments**

In the process of applying the Company's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the financial statements:

**Estimates and assumptions**

The key assumptions made in the financial statements concerning uncertainties at the reporting date and the critical estimates computed by the Company for which there are risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Company bases its assumptions and estimates on parameters available when the financial statements are prepared. However, these parameters may change due to market changes or other circumstances beyond the control of the Company. Such changes are reflected in the assumptions and estimates when they occur.

**Deferred tax assets**

Deferred tax assets are recognised for unused carry forward tax losses and temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilised. The amount of deferred tax assets that can be recognised is based upon the likely timing and level of future taxable profits together with future tax planning strategies. Additional information is provided in Note 18.

**d. Investments in subsidiaries**

Subsidiaries are those entities in which the Company, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies. The Company has subsidiaries, disclosed in Appendix to this report, which are accounted at cost less impairment.

## NOTES TO THE COMPANY FINANCIAL STATEMENTS

### CONTINUED

#### Note 2 Summary of significant accounting policies continued

##### e. Foreign currency translation

The functional currency of the Company is the Kuna. The financial statements are also presented in Kuna (HRK).

Transactions in foreign currencies are initially recorded at the exchange rates prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated into functional currency at the rates prevailing on the reporting date. Profits and losses arising from exchange differences are included in the income statement.

The following exchange rates in relation to the Kuna were prevailing at the indicated reporting dates:

	As at 31 December	
	2016 In HRK	2015 In HRK
Euro	7,56	7,64

Percentages increase (decrease) in exchange rates during the year:

	As at 31 December	
	2016 %	2015 %
Euro	(0,8)	(0,2)

##### f. Property, plant and equipment:

Property, plant and equipment are measured at cost, less accumulated depreciation and impairment losses. Depreciation is calculated using the straight-line method, over the shorter of the estimated useful life of the assets or the lease term as follows:

	Years
Hotel buildings	20 to 60
Furniture and equipment	4 to 10

The costs of maintaining property, plant and equipment are recognised in the income statement as they are incurred. Costs incurred that significantly increase the recoverable amount of the asset concerned are added to the asset's cost as an improvement and depreciated over the expected useful life of the improvement.

An item of property, plant and equipment, and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

##### g. Impairment of non-financial assets:

At each reporting date, the Company reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

##### g. Impairment of non-financial assets continued

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the asset is considered impaired and the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but not in excess of the carrying amount that would have been determined had no impairment loss been previously recognised for the asset (cash-generating unit). A reversal of an impairment loss is recognised as income immediately.

#### Note 2 Summary of significant accounting policies continued

##### h. Financial instruments

Financial assets within the scope of IAS 39 are initially recognised at fair value plus directly attributable transaction costs, except for investments at fair value through profit or loss in respect of which transaction costs are carried to the income statement.

After initial recognition, the accounting treatment of investments in financial assets is based on their classification into one of the following categories:

##### a) Loans and receivables

Loans and receivables are financial assets (non-derivative) with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans and receivables are measured at amortised cost using the effective interest method taking into account transaction costs and less any allowance for impairment. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the systematic amortisation process. Except for available for sale financial assets, all financial assets of the Company are classified as loans and receivables.

##### b) Available-for-sale financial assets

Available-for-sale financial assets are financial assets (non-derivative) that are designated as available-for-sale or are not classified as loans and receivables. After initial recognition, available-for-sale financial assets are measured at fair value. Gains or losses from fair value adjustments are recognised directly in other comprehensive income in the net unrealised gains reserve (included in other reserves in equity). When the investment is disposed of or in case of impairment, the cumulative gain or loss previously recorded in equity is recognised in the income statement. Interest income on investments in debt instruments is recognised in the income statement using the effective interest method. Dividends earned on investments are recognised in the income statement when the right of payment has been established.

##### (i) Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of an asset or liabilities measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Company uses the following hierarchy based on the lowest level input that is significant to the fair value measurement for determining and disclosing the fair value of financial instruments by valuation technique (see Note 22) for specific valuation methodologies):

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The fair value of investments that are actively traded in organised financial markets is determined by reference to market prices on the reporting date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow; or other valuation models.

##### (ii) Financial liabilities

Interest-bearing loans and borrowings are initially recognised at fair value plus directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are measured at amortised cost using the effective interest method which also accounts for directly attributable transaction costs. Gains and losses are recognised in the income statement when the loan is derecognised as well as through the systematic amortisation process.



## NOTES TO THE COMPANY FINANCIAL STATEMENTS

### CONTINUED

#### Note 2 Summary of significant accounting policies continued

##### h. Financial instruments continued

###### (iii) Derecognition of financial instruments:

###### Financial assets

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or the Company has transferred its contractual rights to receive cash flows from the financial asset or assumes an obligation to pay the cash flows in full without material delay to a third party and has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

###### Financial liabilities

A financial liability is derecognised when it is extinguished, i.e. when the obligation is discharged or cancelled or expires. A financial liability is extinguished when the debtor (the Company) discharges the liability by paying in cash, other financial assets, goods or services, or is legally released from the liability.

Where an existing financial liability is exchanged with another liability from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is accounted for as an extinguishment of the original liability and the recognition of a new liability and the difference in the respective carrying amounts is recognised in the income statement.

###### (iv) Impairment of financial assets

The Company assesses at each reporting date whether the following financial assets or Group of financial assets are impaired as follows:

###### Assets carried at amortised cost:

Evidence of impairment may include indications that the debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments or other observable data of a measurable decrease in the estimated future cash flows. If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss carried to the income statement is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. In a subsequent period, the amount of the impairment loss is reversed if the recovery of the asset can be related objectively to an event occurring after the impairment was recognised. The amount of the reversal, as above, is credited to the income statement up to the amount of any previous impairment.

###### Available-for-sale financial assets:

For debt securities, if any such evidence exists that there is an impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised on equity instruments in profit or loss are not reversed through the income statement; increases in their fair value after impairment are recognised in other comprehensive income and recorded in equity.

#### Note 2 Summary of significant accounting policies continued

##### h. Financial instruments continued

###### (i) Offsetting financial instruments:

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

##### i. Inventories

Inventories include food, beverages, glasses and plates are valued at the lower of cost and net realisable value. Cost includes purchase cost on a weighted average basis. Small equipment which has an economic life longer than one year is presented as non-current assets and it is depreciated over its economic life and recorded in operating expenses. The mentioned small equipment includes sheets, towels, cutlery, trays, pillows and similar equipment.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

##### j. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

##### k. Trade receivables

Trade receivables recognised under current assets are stated at amortised cost (which in most cases is equal to their nominal amount) as reduced by appropriate allowances for estimated uncollectable amounts.

##### l. Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised.

###### Owned and leased hotels

Primarily derived from hotel operations, including the rental of rooms, food and beverage sales and other services from owned and leased hotels operated under the Group's brand names. Revenue is recognised when rooms are occupied, food and beverages are sold and services are performed.

###### Customer loyalty programme

The Company participates in the Club Carlson<sup>SM</sup> customer loyalty programme to provide customers with incentives to buy room nights. This customer loyalty programme is owned and operated by Carlson Hotels and therefore the entity retains no obligations in respect of the award credits other than to pay the programme operator for the award credits granted. Customers are entitled to utilise the awards as soon as they have been granted.

The Company purchases these award credits from Carlson Hotels and issues them to its customers in order to enhance customer relationships rather than to earn a margin from the sale of these award credits. The Company concluded that it is acting as principal in such transaction and, in substance, is earning revenue from supplying these awards to its customers. The Company measures these revenues at fair value and recognises these gross from the costs of participating in the programme.

##### m. Key performance indicators

###### EBITDAR

Earnings before interest, tax, depreciation, amortisation, impairment loss and rental expenses, concessions fees of land, share of associate and exceptional items presented as other income and expense and tax (EBITDAR) correspond to revenue less cost of revenues (operating expenses). EBITDAR, together with EBITDA, is used as a key performance indicator.

## NOTES TO THE COMPANY FINANCIAL STATEMENTS

### CONTINUED

#### Note 2 Summary of significant accounting policies continued

##### m. Key performance indicators continued

###### EBITDA

Earnings before interest, tax, depreciation and amortisation, exceptional items presented as other income and expense and impairment loss (EBITDA) correspond to gross profit after the operating costs of holding campsites under concession.

###### EBIT

Earnings before interest, exceptional items presented as other income and expense and tax (EBIT) correspond to gross operating profit after the operating costs of holding both leased and owned assets.

###### Other income and expenses

Other income and expenses relate to income and expenses which do not directly relate to the operating cost of the owned or leased assets, for example negative goodwill or expenses for legal restructuring of the Group, legal advices, IPO and other related costs.

##### n. 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 Company as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

###### The Company as lessee

Finance leases which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the income statement.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the term of the lease.

##### o. Borrowing costs for qualifying assets

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

##### p. Taxation

###### Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

###### Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- (i) where the deferred tax liability arises from the initial recognition of goodwill or from an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (ii) in respect of taxable temporary differences associated with investments in subsidiaries, associates and jointly controlled entities, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

#### Note 2 Summary of significant accounting policies continued

##### p. Taxation continued

Deferred tax assets and liabilities and changes in them relating to items recognised directly in equity or other comprehensive income are recognised in equity or other comprehensive income and not in the income statement.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax losses can be utilised, except:

- (i) when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (ii) in respect of deductible temporary differences associated with investments in subsidiaries, associates and jointly controlled entities, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set-off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

##### r. Earnings (loss) per share

Basic earnings (loss) per share amounts are calculated by dividing the net profit (loss) for the year attributable to shareholders of the parent company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings (loss) per share amounts are calculated by dividing the net profit (loss) for the year by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

##### s. Standards issued but not yet applied

Standards issued but not yet effective, or subject to adoption by the European Union, up to the date of issuance of the Company's financial statements are set out below. The standards set out below are those that the Company reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Company intends to adopt these standards when they become mandatory.

The following standards have been issued by the IASB and are not yet effective or are subject to adoption by the European Union.

###### IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The Company has been assessing the impact of IFRS 9 and expects no significant effects from the application of this standard.

###### IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Company has been assessing the impact of IFRS 15 and expects no effects from the application of this standard.

## NOTES TO THE COMPANY FINANCIAL STATEMENTS

### CONTINUED

#### Note 2 Summary of significant accounting policies continued

##### s. Standards issued but not yet applied continued

###### IFRS 16, "Leases":

In January 2016, the IASB issued IFRS 16, "Leases" ("the new Standard"). According to the new Standard, a lease is a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration.

According to the new Standard:

- Lessees are required to recognise an asset and a corresponding liability in the statement of financial position in respect of all leases (except in certain cases) similar to the accounting treatment of finance leases according to the existing IAS 17, "Leases".
- Lessees are required to initially recognise a lease liability for the obligation to make lease payments and a corresponding right-of-use asset. Lessees will also recognise interest and depreciation expenses separately.
- Variable lease payments that are not dependent on changes in the Consumer Price Index ("CPI") or interest rates, but are based on performance or use (such as a percentage of revenues) are recognised as an expense by the lessees as incurred and recognised as income by the lessors as earned.
- In the event of change in variable lease payments that are CPI-linked, lessees are required to remeasure the lease liability and the effect of the remeasurement is an adjustment to the carrying amount of the right-of-use asset.
- The new Standard includes two exceptions according to which lessees are permitted to elect to apply a method similar to the current accounting treatment for operating leases. These exceptions are leases for which the underlying asset is of low value and leases with a term of up to one year.
- The accounting treatment by lessors remains substantially unchanged, namely classification of a lease as a finance lease or an operating lease.

The new Standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted provided that IFRS 15, "Revenue from Contracts with Customers", is applied concurrently.

For leases existing at the date of transition, the new Standard permits lessees to use either a full retrospective approach, or a modified retrospective approach, with certain transition relief whereby restatement of comparative data is not required.

In 2017, the Company plans to assess the potential effect of IFRS 16 on its financial statements.

The following amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. These amendments are not expected to have any impact on the Company.

Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses

Amendments to IAS 7: Disclosure Initiative

Clarifications to IFRS 15: Revenue from Contracts with Customers

Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions

Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

##### t. New and amended standards adopted by the Company:

The Company has adopted the following new and amended standards for their annual reporting period commencing 1 January 2016 which were endorsed by the European Union and which are relevant for the Company's financial statements:

- Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11.
- Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38.
- Equity Method in Separate Financial Statements – Amendments to IAS 27.
- Disclosure Initiative - Amendments to IAS 1.
- Investment Entities: Applying the Consolidation Exception – Amendments to IFRS 10, IFRS 12 and IAS 28.
- Annual Improvements to IFRSs 2012-2014 Cycle comprising changes to four standards (IFRS 5, IFRS 7, IFRS 19, IAS 34).
- Annual Improvements to IFRSs 2010–2012 cycle.

The adoption of the improvements has required additional disclosures in the Note 20.

#### Note 3 Significant events during the reported period

##### a. Acquisition of 88% interest of Sugarhill Investments B.V.

On 23 December 2016, the Company acquired 88% of the shares in Sugarhill from Dvadeset Osam d.o.o. (the controlling shareholder of the Company and a member of PPHE Hotel Group) for HRK 460.0 million by way of capital contribution (the 'Acquisition'). The fair value of Sugarhill's share capital against which the Company issued new shares was ascertained by an independent accounting firm which was retained by the Executive Directors. The value has been verified by the auditor appointed by the Court pursuant to the Croatian Companies Act. As a result of the Acquisition, the Company acquired control over a portfolio of seven owned/co-owned and/or leased hotels and one managed hotel, and became the indirect controlling shareholder of Arena Hospitality, a wholly owned subsidiary of Sugarhill.

Transaction costs arising from this Acquisition were recorded in profit and loss under "Other income and expenses".

##### b. Acquisition of Bora companies

On 30 June 2016, the Company acquired the Bora Companies for a cash consideration of HRK 108.6 million. The Bora Companies and the Company were under the common control of the same ultimate controlling shareholder of the Company. Prior to April 2016, certain funds managed by Goldman Sachs were the ultimate controlling shareholder and following April 2016, PPHE Hotel Group became the ultimate controlling shareholder. The Bora Companies were principally engaged in the operation of a hotel and two self-catering holiday apartment complexes in Pula and Medulin and in the provision of certain services to the Company.

On 31 October 2016, the Bora Companies were merged into the Company.

As this merger involved the combination of businesses under common control, this is not a business combination in the scope of IFRS 3. Due to the simplicity reasons the prospective method has been applied for the merger of Bora companies starting from 31 October 2016 which is the legal merger date. Accordingly, the assets and liabilities of the Bora companies transferred to the Company have been recognised at their carrying values. The difference between the cost/acquisition price and carrying value of the net assets at merger date amounted to HRK 23.0 million, which has been recorded under other capital reserves.

The impact of the merger on the financial statements is as follows:

	HRK'000
Property, plant and equipment	134,751
Other non-current financial assets	53
Deferred tax asset	503
Restricted deposits	6,693
Inventories	649
Trade and other receivables	12,051
Cash and cash equivalents	32,445
<b>Total assets</b>	<b>187,145</b>
Bank borrowings	39,808
Provisions	1,715
Trade and other payables and accruals	6,144
Liabilities towards related parties	4,057
Bank borrowings short term	3,893
<b>Total liabilities</b>	<b>55,587</b>
<b>Net assets</b>	<b>131,558</b>
<b>Total consideration</b>	<b>(108,551)</b>
<b>Net result recognised in equity</b>	<b>23,007</b>
<b>Net cash acquired with the subsidiaries (effect of merger at 31 October 2016)</b>	<b>32,445</b>
<b>Cash paid</b>	<b>(108,551)</b>

## NOTES TO THE COMPANY FINANCIAL STATEMENTS

### CONTINUED

#### Note 3 Significant events during the reported period

##### c. Impairment of Property, Plant and equipment

At each reporting date, the Company reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets may be impaired. The Company established that such indication existed in 2016 including, amongst others, changes in operations strategy and reorganisation of the Company, changes in market interest rates and cost of capital, as well as external valuations of the Company's assets that were performed by independent valuator. As these were indicators that assets may be impaired, the Company estimated the recoverable amount of the assets. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

As the Company was not able to establish the asset's fair value due to a lack of comparable transactions in the market, the Company calculated the value in use of each cash-generating unit. The management has assessed the recoverable values of properties based on analysis of the financial results of each cash-generating unit, the outlook for the hotel industry and new operating plans of the Company.

The result of this exercise was that the carrying amounts of some individual cash-generating units were higher than the value in use and for some individual cash-generating units the carrying amounts were lower than the value in use. However, the total value of all cash-generating units of the Company was higher than the total carrying amount.

For the assets or cash generating unit for which the recoverable amount is less than its carrying amount, the asset is impaired and the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses were recognised as an expense and amounted to HRK 148.6 million in 2016 (see Note 4).

For the remaining properties, management concluded that the recoverable amount was higher than their carrying values and no impairment provision was required.

#### Note 4 Property, plant and equipment

	Land and buildings HRK'000	Furniture and equipment HRK'000	Property and assets under construction HRK'000	Total HRK'000
<b>Cost:</b>				
Balance as at 1 January 2015	1,593,490	162,380	12,020	1,767,890
Additions during the year	59,829	9,273	–	69,102
Disposals during the year	(680)	(3,363)	–	(4,043)
Transfer	–	4,440	(4,440)	–
Balance as at 31 December 2015	1,652,639	172,730	7,580	1,832,949
<b>Accumulated depreciation and impairment:</b>				
Balance as at 1 January 2015	546,756	94,787	–	641,543
Provision for depreciation	40,420	11,480	–	51,900
Disposals during the year	(680)	(3,363)	–	(4,043)
Balance as at 31 December 2015	586,496	102,904	–	689,400
Net book value as at 31 December 2015	1,066,143	69,826	7,580	1,143,549
<b>Cost:</b>				
Balance as at 1 January 2016	1,652,639	172,730	7,580	1,832,949
Additions during the year	13,461	8,872	24,199	46,532
Merger of Bora companies (Note 3b)	203,143	33,978	958	238,079
Disposals during the year	(5,908)	(5,622)	–	(11,530)
Balance as at 31 December 2016	1,863,335	209,958	32,737	2,106,030
<b>Accumulated depreciation and impairment:</b>				
Balance as at 1 January 2016	586,496	102,904	–	689,400
Provision for depreciation	43,384	12,760	–	56,144
Merger of Bora companies (Note 3b)	72,284	31,044	–	103,328
Impairment of property, plant and equipment	148,584	–	–	148,584
Disposals during the year	(5,908)	(5,622)	–	(11,530)
Balance as at 31 December 2016	844,840	141,086	–	985,926
Net book value as at 31 December 2016	1,018,495	68,872	32,737	1,120,104

a. There was no capitalisation of borrowing costs in 2016 (2015: HRK 499 thousand, at a rate of 5%), which is the average effective interest rate of the specific borrowing.

b. For information regarding liens, see Note 10.

**NOTES TO THE COMPANY FINANCIAL STATEMENTS**  
 CONTINUED
**Note 4 Property, plant and equipment continued****c. Impairment of property, plant and equipment**

The net impairment losses recognised in the income statement, as a part of depreciation expense, in respect of property, plant and equipment are as follows:

	2016 HRK'000
Hotels	98,048
Self-catering holiday apartment complexes	45,829
Headquarters and other	4,707
	<b>148,584</b>

The recoverable value of the asset is its value in use. Calculation was done on the basis of assets' cash-generating units. Each hotel, self-catering holiday apartment complexes and campsite represent separate cash-generating unit.

The pre-tax rate used in the value in use calculation in the year ended 31 December 2016 was 9.1%.

For information on impairment, see Note 3c.

**d. Operating lease commitments - where the Company is the lessor**

Part of the Company's property, plant and equipment is leased out under operating leases.

The operating lease relates to the lease of shops and restaurants or premises and equipment. During 2016, the Company realised rental income in the amount of HRK 11,709 thousands (2015: HRK 11,749 thousands).

The future aggregate minimum lease payments receivable from operating leases based on lease agreements concluded up to 31 December are as follows:

	2016 HRK'000	2015 HRK'000
Up to 1 year	10,336	11,743
From 2 to 5 years	7,629	18,584
Over 5 years	417	50,467
	<b>18,382</b>	80,794

Total amount has decreased significantly due to merger of Arenaturist Zlatne Stijene d.o.o., since the total future minimum payments receivables in 2015 from merged Company amounted to HRK 61,844 thousand.

**Note 5 Other non-current financial assets**

	2016 HRK'000	2015 HRK'000
Investment in Sugarhill (Note 3a)	460,006	-
Investment in Ulika d.o.o.	20	20
Investment in Mazurana d.o.o.	20	20
Investment in Germany Real Estate B.V.	0	-
Long term receivables	177	1,231
	<b>460,223</b>	1,271

**Note 6 Trade receivables****a. Composition:**

	2016 HRK'000	2015 HRK'000
Trade receivables	14,525	9,107
Less – allowance for doubtful debts	(4,110)	(5,777)
	<b>10,415</b>	3,330

Trade receivables are non-interest bearing. The Company's policy provides an average of 30 days' payment terms.

**b. Movements in the allowance for doubtful accounts were as follows:**

	HRK'000
As at 31 December 2015	5,777
Deductions	(1,667)
As at 31 December 2016	4,110

**c. As at 31 December, the ageing analysis of trade receivables is as follows:**

	Total HRK'000	Undue HRK'000	Past due			
			< 30 days HRK'000	30 to 60 days HRK'000	60 to 90 days HRK'000	> 90 days HRK'000
<b>2016</b>	<b>14,525</b>	<b>2,114</b>	<b>314</b>	<b>5,307</b>	<b>1,578</b>	<b>5,212</b>
2015	9,107	2,298	1,092	64	101	5,552

**Note 7 Other receivables and prepayments**

	2016 HRK'000	2015 HRK'000
Prepaid expenses	2,212	3,301
VAT and other taxes	663	1,039
Related parties	-	355
	<b>2,875</b>	4,695

**Note 8 Cash and cash equivalents**

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates.

NOTES TO THE COMPANY FINANCIAL STATEMENTS  
CONTINUED

**Note 9 Equity**

**a. Share capital:**

As at 31 December 2016 and 2015, the Company's share capital amounted to HRK 43,650 thousand and was divided into 2,182,500 ordinary shares with a nominal value of HRK 20.00 per share.

**b. Unregistered share capital:**

On 23 December 2016, the Board of Directors of the Company adopted a decision to increase the share capital of the Company by the issue of 1,091,250 new ordinary shares, (with a nominal value of HRK 20.00 each) at a price of HRK 421.54 per new share for a total value of HRK 460,005,525, as consideration for the acquisition of 88% of Sugarhill by way of capital contribution. The full amount of HRK 460,005,525 was allocated to the capital reserves of the Company as the registration of the new shares had not been completed before the year end. (See Note 23 for further details).

**c. Nature and purpose of reserves:**

**Other reserves**

The other reserves mainly consist of results of transactions that affected the equity of the Company with regard to acquisition of subsidiaries from related companies and the change in fair value of the available-for-sale financial assets.

As at 31 December 2016, other reserves amounting to HRK 661.8m (2015: HRK 638.8m) consisted:

- (i) As at 31 December 2016 legal reserves amounted to HRK 2.2 million (2015: HRK 2.2 million). Other capital reserves amounted to HRK 636.6 million (2015: HRK 636.6 million) which is total of HRK 638.8 million (2015: 638.8 million) out of which the amount of HRK 545.7million is distributable (2015: HRK 636.6 million).
- (ii) Other reserves for the difference between the purchases price of the Bora Companies and the net asset value of the Bora Companies. The difference realised on the purchase of HRK 23.0m has directly been recognised in other reserves.

**Legal reserves**

Under Croatian regulations, the legal reserve must be built up to a minimum of 5% of the profit for the year until total reserves together with the share premium reach 5% of the Company's share capital.

This reserve is not distributable. As at 31 December 2016, legal reserves amounted to HRK 2,182 thousand or 5.00% of the issued share capital (2015: HRK 2,182 thousand).

**Note 10 Pledges, contingent liabilities and commitments**

**a. Pledges, collateral and securities:**

All bank borrowings are secured by a mortgage over hotel facilities and self catering holiday apartment complexes with a net carrying amount of HRK 567,659 thousand (2015: 591,894 thousand).

**b. Restricted cash:**

Under three facility agreements of Zagrebačka banka d.d. ("Zaba"), the Company is required to maintain a funded Debt Service Reserve Account ("the DSRA") from 1 September 2016 until such time that the financial covenants of the Company are confirmed to be in compliance on a basis pursuant to its audited financial statements for the financial year ending 31 December 2019. The Company shall ensure that the DSRA is funded at all times with an amount equal to the amount required to pay the next succeeding two principal instalments including accrued interest related thereto. The deposits in the DSRA as at 31 December 2016, in the amount of HRK 41.7 million are presented as restricted cash in the financial statements.

**c. Commitments:**

**(i) Management and franchise agreements**

In December 2016, the Company's existing operating agreements for its Croatian properties were amended, restated and novated in order to create two separate agreements going forwards:

- a. an operating agreement with Arena Hospitality (a newly formed 88% indirect subsidiary of the Company) under which each property pays an annual base fee calculated as a percentage of total revenue of the property and an annual incentive fee calculated as a percentage of adjusted gross operating profit. These agreements are for terms of between 15 and 30 years; and
- b. a licence, sales and marketing agreement with a member of the PPHE Hotel Group (as licensor) under which each property pays an annual fee calculated as a percentage of total revenue for, among others, certain group services. The term of such agreement follows that of the amended operating agreements.

Up and until such amendment, restatement and novation, the Company paid annual management fees calculated as a percentage of revenue and of adjusted gross operating profit for each of its Croatian properties to PPHE Hotel Group.

**Note 10 Pledges, contingent liabilities and commitments continued**

**(ii) Capital commitments**

As at 31 December 2016, the Company had capital commitments amounting to HRK 15.0 million for the construction of two artificial turf football pitches and a new swimming pool at Park Plaza Belvedere Medulin.

**Guarantees:**

The construction financing bank facility provided to Park Plaza Nuremberg GmbH, a company acquired through the Sugarhill transaction, (Note 3a) is guaranteed by PPHE Hotel Group and as at 31 December 2016, HRK 81.1 million (€10.7 million) had been drawn. PPHE Hotel Group will remain the guarantor under this loan up and until the Company has certification compliance of financial covenants of certain facility agreements of Zaba at 31 December 2017. The Company will provide a back-to-back guarantee to PPHE Hotel Group as of 31 December 2017 following the above-mentioned certification.

**d. Contingent liabilities**

The Company is involved in a number of legal disputes, both as defendant and as plaintiff, arising from the ordinary course of business, including the legal dispute with Pula Herculanea d.o.o. which has not yet been determined. In the financial statements for the year ended 31 December 2016, provisions for certain legal disputes have been made in the amount of HRK 29.9 million (2015: HRK 30.1 million), as set out in Note 12. The possible uncertainties and risks were taken into account in reaching the best estimate of the provision.

**Note 11 Bank borrowings**

The bank borrowings of the Company are comprised as follows:

As at 31 December 2016

Bank/facility	Outstanding amount in HRK '000	Currency	Interest rate	Maturity
Zagrebačka banka d.d.	437,360	EUR	EURIBOR + 4.84-5.9%	2023 - 2031
Zagrebačka banka d.d. (IBRD, HBOR)	35,821	EUR	EURIBOR + 3.45%	2039
Zagrebačka banka d.d. (HBOR)	48,771	EUR	3%	2031
Zagrebačka banka d.d. (HBOR)	16,077	HRK	5%	2027
HBOR	37,034	EUR	3%	2032
ADDIKO/HETA Klagenfurt	2,709	EUR	EURIBOR +1.25%	2018
	<b>577,772</b>			
Accrued interests	<b>3,142</b>			
Capitalised transaction costs	<b>(2,861)</b>			
Total	<b>578,053</b>			

Outstanding amount	Maturity analysis					
	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
<b>577,772</b>	54,373	58,155	57,624	60,472	60,472	286,676

For securities and pledges, see Note 10.

**NOTES TO THE COMPANY FINANCIAL STATEMENTS**  
CONTINUED

**Note 11 Bank borrowings continued**

As at 31 December 2015

Bank/facility	Outstanding amount in HRK '000	Currency	Interest rate	Maturity
Zagrebačka banka d.d.	232,059	EUR	EURIBOR + 4.84-5.9%	2023 - 2031
Zagrebačka banka d.d. (IBRD, HBOR)	37,778	EUR	EURIBOR + 3.45%	2039
Zagrebačka banka d.d. (HBOR)	52,610	EUR	3%	2031
Zagrebačka banka d.d. (HBOR)	17,538	HRK	5%	2027
HBOR	37,413	EUR	3%	2032
ADDIKO/HETA Klagenfurt	5,778	EUR	EURIBOR + 1.25%	2018
<b>Total</b>	<b>383,176</b>			

Outstanding amount	Maturity analysis					Thereafter
	Year 1	Year 2	Year 3	Year 4	Year 5	
383,176	21,972	28,817	27,181	26,630	29,508	249,068

For securities and pledges, see Note 10.

The Company is required to comply with certain financial covenants as described below:

- Under three of the Zaba facilities the Company must ensure that the average debt service coverage ratio ('ADSCR') is equal to or greater than 2.0 at year end 2016; the ADSCR is equal to or greater than 1.75 at year end 2017; the ADSCR is equal to or greater than 2.25 at year end 2018; and that the ADSCR is equal to or greater than 2.5 at year end 2019 and for each successive calendar year for the remaining life of the facilities. ADSCR is calculated as the Company's annual available cash flow after adding back the management fees, before debt repayment towards banks and other financial institutions, plus cash balances and restricted deposits balances at start of the financial year, divided by its annual debt service towards banks and other financial institutions. Further, the Company must ensure that the interest cover ratio is greater than 2.5 at year end 2016 and for each successive calendar year at year end for the remaining life of the facilities. In addition, the Company must ensure that the net leverage is lower than 6.00 at year end 2016; is lower than 4.50 at year end 2017; is lower than 4.00 at year end 2018; is lower than 3.5 at year end 2019; is lower than 2.5 at year end 2020; and is lower than 2.00 at year end 2021 and for each successive calendar year at year end for the remaining life of the facilities.
- Under certain Zaba facilities the borrower must ensure that the DSCR is at least 1.2 and that the sum of the equity and the balances of shareholders' loans is at least equal to the balances of the bank borrowings.

For guarantees under the above facility agreements see Note 10.

As at 31 December 2016, the Company is in compliance with all its banking covenants.

**Note 12 Provisions**

	As at 31 December	
	2016 HRK'000	2015 HRK'000
Provision for litigation	29,887	30,139
Provision for Concessions land	25,413	19,562
	<b>55,300</b>	49,701

**Provision for litigation**

The Company is a defendant in five litigations related to the claims of utility companies Pula Herculanea d.o.o. (one) and Vodovod Pula d.o.o. (four), all related to the payment of fees and charges for the maintenance and development of the water supply and sewage infrastructure system charged to the Company based on water consumption and relating to the time period between 1999 to 2012. The total principal claim and potential interest has been provided for and amounts to approximately HRK 29.9million. The Company disputes this claim and raised a set-off objection to the value of certain investments in the water supply and sewage infrastructure system constructed by the Company.

**Note 12 Provisions continued**

**Tourist Land Provisions and obligations**

In accordance with the provisions of the Act on the Tourist and Other Construction Land Not Appraised During the Transition and Privatisation Process (the 'Act'), the Company submitted requests to the Republic of Croatia for the award of tourist land concessions for a term of 50 years (the maximum term allowed) in relation to land areas in eight campsites and three self catering holiday apartment complexes in Croatia. Since the adoption of the Act in 2010, as far as the Company is aware, no concession agreement has been entered into with respect to tourist land in campsites/tourist resorts in the Republic of Croatia due to ambiguities in the wording of the Act and other related regulations. The status of the Company's tourist land concession requests is similar to the status of concession requests submitted by other companies in the Republic of Croatia. In relation to the concession arrangements in respect of the eight campsites, the Republic of Croatia and the Company need to (i) determine the co-ownership parts in the land (based on which definite amounts of the concession fees due on that part of the land owned by the Republic of Croatia would be determined) and (ii) upon granting of the concession by the Republic of Croatia, enter into the respective concession agreements. In practice, the companies that have submitted requests for a tourist land concession regularly pay an advance concession fee of 50% of the calculated concession fee in accordance with the relevant regulations. As such, the Company will continue to pay 50% of the concession fees in respect of the eight campsites and to accrue the remaining 50% until determination of the concession agreements, which is presented as a provision in the financial statements.

**Note 13 Other payables and accruals**

	As at 31 December	
	2016 HRK'000	2015 HRK'000
VAT and taxes	965	796
Employees	10,631	8,848
Accrued expenses and received advances	5,296	3,533
Accrued fee for the tourist land concession	3,429	3,446
Other	2,070	1,509
	<b>22,390</b>	18,132

**Note 14 Revenues**

	Year ended 31 December	
	2016 HRK'000	2015 HRK'000
Accommodation	308,181	287,319
Food and beverage	56,745	49,862
Minor operating*	14,122	14,316
Rent revenue	11,709	11,749
	<b>390,757</b>	363,246

\* Minor operating revenue consists of various hospitality services provided such as rental of sun loungers and umbrellas, foreign exchange fees, certain wellness services and sport activities.

**NOTES TO THE COMPANY FINANCIAL STATEMENTS**  
 CONTINUED
**Note 15****(i) Operating expenses**

	Year ended 31 December	
	2016 HRK'000	2015 HRK'000
Salaries and related expenses	112,169	102,820
Franchise fees, reservation and commissions	19,971	16,561
Food and beverage	23,965	20,716
Insurance and property taxes	9,702	9,776
Utilities	19,493	20,292
Administration costs	11,322	11,842
Maintenance	12,655	12,669
Laundry, linen and cleaning	2,969	1,912
Supplies	5,196	4,657
IT expenses	2,606	2,332
Travel and transport	2,347	1,502
Marketing expenses	17,696	17,853
Management fee (Note 21b.)	19,467	17,627
Other expenses	8,804	9,877
	<b>268,362</b>	<b>250,436</b>

(ii) The other expenses contain auditors fee (2016: HRK 328.1 thousands, 2015: HRK 449.2 thousands, 2014: HRK 369.0 thousands) and tax adviser fee (2016: HRK 90.7 thousands, 2015: HRK 90.0 thousands, 2014: HRK 91.3 thousands).

**Note 16 Financial expenses**

	Year ended 31 December	
	2016 HRK'000	2015 HRK'000
Interest and other finance expenses on bank loans	23,182	16,357
Interest on related party loans	2,902	8,977
Realised loss from early repayment of former related party loan	12,611	–
Exchange rate differences	(1,301)	669
Other	346	620
	<b>37,740</b>	<b>26,623</b>

**Note 17 Other income and expenses**

	Year ended 31 December	
	2016 HRK'000	2015 HRK'000
Other expenses	(6,612)	(1,297)
	<b>(6,612)</b>	<b>(1,297)</b>

Other expenses in 2016 refer to expenses of professional advisors relating to the restructuring activities within the Company in 2016.

**Note 18 Income taxes****a. Tax (benefit)/expense included in the income statement:**

	Year ended 31 December	
	2016 HRK'000	2015 HRK'000
Current taxes	71	366
Deferred taxes	(23,231)	5,425
	<b>(23,160)</b>	<b>5,791</b>

**b. The following are the major deferred tax (liabilities) and assets recognised by the Company and changes therein during the period:**

	Tax loss carry forward HRK'000	Timing difference on provisions and accruals HRK'000	Property, plant and equipment HRK'000	Total HRK'000
Balance as at 31 December 2014	1,013	5,132	–	6,145
Amounts credited to income statement	–	1,895	–	1,895
Amounts charged to income statement	(1,013)	(1,248)	–	(2,261)
Balance as at 31 December 2015	–	5,779	–	5,779
Merger of Bora companies	–	503	–	503
Amounts credited to income statement	–	1,706	29,723	31,429
Amounts charged to income statement	–	(1,478)	(3,438)	(4,916)
Change tax rate to 18%	–	(651)	(2,631)	(3,282)
<b>Balance as at 31 December 2016</b>	<b>–</b>	<b>5,859</b>	<b>23,654</b>	<b>29,513</b>

**c. Reconciliation between tax (benefit)/expense and the product of accounting profit multiplied by the Company's tax rate is as follows:**

	Year ended 31 December	
	2016 HRK'000	2015 HRK'000
(Loss)/profit before income taxes	(135,096)	24,516
Expected tax at the tax rate of Croatia 20%* (2015: 20%)	(27,019)	4,903
Adjustments in respect of:		
Change deferred tax rate to 18%	3,282	–
Non-deductible expenses	1,578	1,800
Utilisation of carry forward losses and temporary differences for which deferred tax assets were not previously recorded (relates to CFL of merged companies)	(1,452)	–
Non-taxable income	(52)	(912)
Recognition of deferred tax assets –merger of Bora companies	503	–
Income tax (benefit)/expense reported in the income statement	<b>(23,160)</b>	<b>5,791</b>

**d. Tax laws applicable to the Company:**

The Company is subject to taxation under the law of Croatia. The Company was taxed at the standard rate of 20%. However, due to new tax regulation enacted in December 2016, the corporate income tax rate will be 18% for the financial year 2017 onwards.

**e. Losses carried forward for tax purposes:**

The Company has no carry forward losses for tax purposes at the balance sheet date.



NOTES TO THE COMPANY FINANCIAL STATEMENTS  
CONTINUED

**Note 19 Earnings per share**

The following reflects the income and number of shares data used in the basic earnings per share computations:

	Year ended 31 December	
	2016 HRK'000	2015 HRK'000
(Loss)/profit for the year	(111,936)	18,725
Weighted average number of ordinary shares outstanding	2,182,331	2,182,331

**Note 20 Segments**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments. The Company's chief operating decision-maker is the Board of Directors. Following the management approach of IFRS 8, Operating Segments are reported in accordance with the internal reporting provided to the Executive Directors who are responsible for allocating resources to the reportable segments and assessing their performance.

For management purposes, the Company's activities are divided into Hotel Operations, Self-Catering Holiday Apartment Complex Operations, Campsite Operations and Central Services Operations. The operating results of each of the aforementioned segments are monitored separately for the purpose of resource allocations and performance assessment. Segment performance is evaluated based on EBITDA, which is measured on the same basis as for financial reporting purposes in the income statement.

	Year ended 31 December 2016					
	Hotels HRK'000	Self-Catering Holiday Apartment Complexes HRK'000	Campsites HRK'000	Central Services HRK'000	Elimination HRK'000	HRK'000
<b>Revenue</b>						
Third party	197,246	65,669	118,280	9,562	-	390,757
Inter-segment	-	839	-	32,721	(33,560)	-
Total revenue	197,246	66,508	118,280	42,283	(33,560)	390,757
<b>Segment EBITDA</b>	55,622	24,347	49,437	(15,554)	-	113,852
Depreciation and amortisation	(33,055)	(11,076)	(8,400)	(3,613)	-	(56,144)
Impairment	(98,048)	(45,829)	-	(4,707)	-	(148,584)
Financial expenses						(37,740)
Financial income						132
Other income, net						(6,612)
Loss before tax						(135,096)
Non current assets	609,465	265,706	100,036	685,615	-	1,660,822

The total Company's non-current assets are located in Croatia.

**Note 20 Segments continued**

	Year ended 31 December 2015					
	Hotels HRK'000	Self-Catering Holiday Apartment Complexes HRK'000	Campsites HRK'000	Central Services HRK'000	Elimination HRK'000	HRK'000
<b>Revenue</b>						
Third party	174,424	61,846	116,888	10,088	-	363,246
Inter-segment	4	944	-	35,254	(36,202)	-
Total revenue	174,428	62,790	116,888	45,342	(36,202)	363,246
<b>Segment EBITDA</b>	41,019	21,248	46,525	(4,508)	-	104,284
Depreciation, and amortisation	(29,398)	(10,322)	(8,521)	(3,659)	-	(51,900)
Financial expenses						(26,623)
Financial income						52
Other income, net						(1,297)
Profit before tax						24,516
Non current assets	643,228	248,514	100,444	170,698	-	1,162,884

The total Company's non-current assets are located in Croatia.

**Note 21 Related parties**

Parties are considered to be related if one of the parties has the power to exercise control over the other party or under common control or if it has significant influence over the other party in making financial or operational decisions. The Company is controlled by Dvadeset Osam d.o.o., which owned 65.63% of the Company's shares as at 31 December 2016. The ultimate parent is PPHE Hotel Group Limited which owns 100% of shares of Dvadeset Osam d.o.o. Additionally, all other subsidiaries of PPHE Hotel Group are treated as related parties.

Prior to the Sugarhill contribution, a subsidiary of PPHE Hotel Group Limited provided management services to the Company including management support, strategy, branding and licence services.

All intra-Group transactions are performed within Company's transfer pricing policy and are under comparable market conditions.

In 2010, Dvadeset Osam d.o.o. provided loans to the Company for which both principal and interest were repaid during 2016.

**NOTES TO THE COMPANY FINANCIAL STATEMENTS**  
 CONTINUED
**Note 21 Related parties continued****a. Balances with related parties:**

	As at 31 December	
	2016 HRK'000	2015 HRK'000
Short-term receivables – Park Plaza Hotels Europe B.V.	27	29
Short-term receivables – AT Hoteli Medulin d.o.o.	–	280
Short-term receivables – AT Zlatne Stijene d.o.o.	–	66
Short-term receivables – AT Turisticka Naselja d.o.o.	–	9
Short-term receivables – Park Plaza Hotels Europe B.V.		
Non-current loan – Dvadeset Osam d.o.o.	–	115,076
Trade payables – Sugarhill Investments B.V.	427	–
Trade payables – AT Hoteli Medulin d.o.o.	–	1,377
Trade payables – AT Zlatne Stijene d.o.o.	–	9
Trade payables – AT Turisticka Naselja d.o.o.	–	10
Trade payables – Park Plaza Hotels Europe B.V.	20,091	2,198

The loans from Dvadeset Osam d.o.o had an interest payable maturity date of 31 December 2021. The interest rate on the original principal amount was 15% p.a. which resulted in an effective interest rate of 8.85%. If the Company repaid the borrowing early, the amount due increased by HRK 12,691 thousand based on the difference between the nominal and carrying value of the loans. In April 2016, the shareholders' loans were repaid from both the proceeds of two new bank loans from Zaba amounting to in total HRK 112.3m (€ 15.0 million) as well as from cash resources of the Company.

**b. Transactions with related parties:**

	Year ended 31 December	
	2016 HRK'000	2015 HRK'000
Management fees expense – Park Plaza Hotels Europe B.V. (Note 15)	19,467	17,627
Sales and marketing fees – Park Plaza Hotels Europe B.V.	6,327	5,746
Interest expense Dvadeset Osam d.o.o.	2,902	8,977

**c. Significant other transactions with related parties**

- (i) Transactions in the ordinary course of business, in connection with the use of hotel facilities (such as overnight room stays and food and beverages) are being charged at market prices. These transactions occur occasionally.
- (ii) Compensation to key management personnel (Executive and Non-Executive Directors) for the year ended 31 December 2016:

	Base salary and fees HRK'000	Bonus HRK'000	Pension contributions HRK'000	Other benefits HRK'000	Total HRK'000
Executive Directors	2,506	53	294	203	3,056
Non-Executive Directors	98	–	24	–	122
	2,604	53	318	203	3,178

**Note 21 Related parties continued****c. Significant other transactions with related parties continued**

Compensation to key management personnel (Executive and Non-Executive Board members) for the year ended 31 December 2015:

	Base salary and fees HRK'000	Bonus HRK'000	Pension contributions HRK'000	Other benefits HRK'000	Total HRK'000
Executive Directors	2,448	44	262	117	2,871
Non-Executive Directors	98	–	24	–	122
	2,546	44	286	117	2,993

**Note 22 Financial risk management objectives and policies**

The Company's principal financial instruments, other than derivatives, comprise bank borrowings, cash and cash equivalents and restricted deposits. The main purpose of these financial instruments is to finance the Company's operations. The Company has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. The main risks arising from the Company's financial instruments are foreign currency risk, interest rate risk and credit risk. The Board of Directors reviews and agrees on policies for managing each of these risks which are summarised below. The Company's accounting policies in relation to derivatives are set out in Note 2.

**a. Foreign currency risk**

The Company does not use derivative financial instruments to actively hedge financial risk exposure.

The Company operates internationally and is exposed to foreign exchange risk. Revenues are mainly linked to Euro, while operating costs are mainly realised in Kuna.

The Kuna has experienced a slight tendency to decline in value. The Company's policy is to hold cash reserves in foreign currency on its foreign exchange bank account.

The Company's long-term borrowings are linked to the currency clause (EUR).

The Company maintains an active policy of foreign exchange risk hedging by keeping cash in foreign currency accounts, concluding contracts with banks using a more favourable exchange rate than the one officially published, and contracting operating liabilities in Kuna without linking to the currency clause.

As at 31 December 2016, if the Euro had weakened/strengthened by 1.0% (2015: 1.0%) against the Kuna, with all other variables held constant, the loss for the year would have been HRK 5,281 thousand higher/lower (2015: HRK 2,311 thousand), mainly as a result of foreign exchange gains/(losses) on translation of EUR denominated borrowings, trade payables, trade and other receivables and foreign cash funds. This risk is decreased by the fact that the majority of revenues is contracted in EUR.

**b. Interest rate risk**

The Company's exposure to the risk for changes in market interest rates relates primarily to the Company's long-term debt obligations with a floating interest rate.

The Company has eight variable interest rate loans that are not hedged with interest rate swaps. Based on a sensitivity analysis calculation, management estimates that with an increase/decrease of the three-month market (EURIBOR) interest rate by 50 basis points (bps), the results of the Company would be changed by HRK 2.6 million.

The Company uses short-term deposits (weekly and monthly) for cash balances held in banks.

**c. Credit risk**

The Company trades only with recognised, creditworthy third parties. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history. The Company's policies ensure that sales to customers are settled through advance payments, in cash or by major credit cards (individual customers). Since the Company trades only with recognised third parties, there is no requirement for collateral for debts with third parties. Furthermore, the Company has no dependency on any of its customers. The receivable balances are monitored on an ongoing basis. Management monitors the collection of receivables through credit meetings and weekly reports on individual balances of receivables. Impairment of trade receivables is recorded when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables.

## NOTES TO THE COMPANY FINANCIAL STATEMENTS

### CONTINUED

#### Note 22 Financial risk management objectives and policies continued

##### c. Credit risk continued

The maximum credit exposure equals the carrying amount of the trade receivables and other receivables since the amount of all trade and other receivables has been written down to the irrecoverable amount. The result of these actions is that the Company's exposure to bad debts is not significant.

With respect to credit risk arising from other financial assets of the Company, which comprise cash and cash equivalents and investment in securities, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Company has limited concentration risk in respect of its cash at banks.

##### d. Litigation as a risk factor in business

In addition to financial risk factors, the Company is exposed to the risk of adverse outcomes of legal proceedings. The most significant are:

- (i) The Company is a defendant in five litigations related to the claims of utility companies Pula Herculanea d.o.o. (one) and Vodovod Pula d.o.o. (four), all related to the payment of fees and charges for the maintenance and development of the water supply and sewage infrastructure system charged to the Company based on water consumption and relating to the time period between 1999 to 2012. The total principal claim and potential interest has been provided for and amounts to approximately HRK 29.9 million. The Company disputes this claim and raised a set-off objection to the value of certain investments in the water supply and sewage infrastructure system constructed by the Company.
- (ii) Based on the Medulin Municipality's ownership interest which is registered in the land registry with respect to certain land plots of the campsites Medulin, Stupice and Runke, the Medulin Municipality filed a law suit against the Company for compensation for the use of such land from December 1997 currently amounting to EUR 8.9million (around HRK 66.6 million) plus interest. It also demanded transfer of possession of the respective parts of those campsites. The Company claimed that pursuant to the Act on the Tourist and Other Construction Land Not Appraised During the Transition and Privatisation Process (the 'Act'), the Company acquired co-ownership of the campsites Medulin, Stupice and Runke, together with the Republic of Croatia, and therefore, that the Medulin Municipality is not entitled to claim for payment of land use remuneration and transfer of possession of land plots in the campsites. In addition to objecting to the claim of the Medulin Municipality, the Company filed a counterclaim against the Medulin Municipality in the amount of HRK 124.5 million as the Company has made various investments in the campsites. The first instance proceeding has been suspended until the actual size of the maritime domain areas within the campsites are established in separate proceedings.
- (iii) In accordance with the provisions of the Act, the Company submitted requests to the Republic of Croatia for the award of tourist land concessions for a term of 50 years (the maximum term allowed) in relation to land areas in eight campsites and tourist land in three of its self-catering holiday apartment complexes in Croatia. Since the adoption of the Act in 2010, as far as the Company is aware, no concession agreement has been entered into with respect to tourist land in campsites/tourist resorts/hotels in the Republic of Croatia due to ambiguities in the wording of the Act and other related regulations. So far as the Company is aware, the status of the Company's tourist land concession requests is similar to the status of tourist land concession requests submitted by other companies in the Republic of Croatia. In practice, the companies that have submitted requests for a tourist land concession regularly pay an advance concession fee of 50% of the "assumed" concession fee calculated in accordance with the relevant regulations. As such, the Company will continue to pay 50% of the concession fees in respect of the eight campsites and to accrue the remaining 50% until determination of the concession agreements, which is presented as a provision in the financial statements.
- (iv) The Company has entered into settlement agreements with the Republic of Croatia in regards to all eight campsites whereby it has agreed that the proportions of co-ownership shall be determined based on expert evaluations. The provisions in the Act relating to such expert evaluations are unclear, and, therefore, the Company's requests for the award of tourist land concessions in campsites have not yet been resolved and will likely remain unresolved until the Act and relevant regulations are adequately amended.
- (v) In relation to the properties in tourist resorts and hotels, the Company's requests for award of tourist land concessions have been rejected twice by the City of Pula as the concession grantor. Following the law suit submitted by the Company and separately also by the Republic of Croatia, the City of Pula's decision has been recently annulled by the Administrative court in Rijeka for the second time and the matter was sent back to the first instance concession granting authority (City of Pula), with an instruction to repeat the procedure and establish if the relevant criteria for qualification of the relevant area as tourist land have been satisfied.

#### Note 22 Financial risk management objectives and policies continued

##### d. Litigation as a risk factor in business continued

- (v) In relation to the Company's resorts and hotels' tourist land areas, due to still unresolved ownership matters, the relevant municipality has not been charging the Company the respective 50% of the "assumed" concession fee and the Company has not been paying any such fee, but has made provisions in relation to the amount of the "assumed" concession fee for each year since 2011.

The Executive Directors alongside its professional advisers are monitoring all litigation and court proceedings carefully and responsibly in order to prevent possible negative outcomes.

##### e. Liquidity risk:

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans. The Company's policy is to arrange medium-term bank facilities to finance its construction operations and then to convert them into long-term borrowings when required.

The table below summarises the maturity profile of the Company's financial liabilities as at 31 December 2016 and 2015 based on contractual undiscounted payments:

	As at 31 December 2016					Total HRK'000
	Less than 3 months HRK'000	3 to 12 months HRK'000	1 to 2 years HRK'000	3 to 5 years HRK'000	> 5 years HRK'000	
Interest bearing loans and borrowings	19,668	57,713	146,023	202,156	313,955	739,515
Accrued fee for the tourist land concession	–	12,840	–	–	–	12,840
Lease liability	42	125	98	–	–	265
Trade payables	19,742	–	–	–	–	19,742
Other payables and accruals	3,142	14,605	–	–	–	17,747
	<b>42,594</b>	<b>85,283</b>	<b>146,121</b>	<b>202,156</b>	<b>313,955</b>	<b>790,109</b>
	As at 31 December 2015					Total HRK'000
	Less than 3 months HRK'000	3 to 12 months HRK'000	1 to 2 years HRK'000	3 to 5 years HRK'000	> 5 years HRK'000	
Interest bearing loans and borrowings	11,218	26,837	69,913	221,393	307,428	636,789
Accrued fee for the tourist land concession	–	3,446	–	–	–	3,446
Lease liability	48	144	193	110	–	495
Trade payables	9,317	–	–	–	–	9,317
Other payables and accruals	11,854	–	–	–	–	11,854
	<b>32,437</b>	<b>30,427</b>	<b>70,106</b>	<b>221,503</b>	<b>307,428</b>	<b>661,901</b>

NOTES TO THE COMPANY FINANCIAL STATEMENTS  
CONTINUED

**Note 22 Financial risk management objectives and policies continued**

**f. Capital management:**

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

	2016 HRK'000	2015 HRK'000
Interest bearing bank loans and borrowings	578,053	510,863
Less – cash and cash equivalents	(92,464)	(113,425)
Less – other current financial assets	(208)	(171)
Less restricted deposit	(41,713)	–
Net debt	443,668	397,267
Equity	1,074,548	703,434
Capital and net debt	1,518,216	1,100,701
Gearing ratio	29.2	36.1

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. The Company monitors capital using a gearing ratio, which is net bank debt divided by total capital plus net bank debt. The Company's policy is to keep the gearing ratio between 20% and 40%. The Company includes within net bank debt, interest bearing bank loans and borrowings, less cash and cash equivalents and other liquid assets.

**g. Fair value of financial instruments**

The fair values of the financial assets and liabilities are included in the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of cash and cash equivalents, trade receivables, trade payables, and other current assets and liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

Long-term fixed rate and variable rate receivables are evaluated by the Company based on parameters such as interest rates, specific country risk factors, and individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken to account for the expected losses of these receivables.

The fair value of loans from banks and other financial liabilities, obligations under finance leases as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

Fair value of available-for-sale financial assets is derived from quoted market prices in active markets. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in Level 1. The Company enters into derivative financial instruments with financial institutions with investment grade credit ratings. Derivatives are valued using valuation techniques for swap models, using present value calculations. The models incorporate various inputs, including the credit quality of counterparties, and interest rate curves.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques based on a discounted cash flow. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

**Note 22 Financial risk management objectives and policies continued**

**g. Fair value of financial instruments continued**

**Fair value hierarchy**

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique based on the lowest level input that is significant to the fair value so determined:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 31 December 2016, the Company held the following financial instruments measured at fair value:

	31 December 2016 HRK'000	Level 1 HRK'000	Level 2 HRK'000	Level 3 HRK'000
Available for sale - financial assets	208	208	–	–

During 2016, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

As at 31 December 2015, the Company held the following financial instruments measured at fair value:

	31 December 2015 HRK'000	Level 1 HRK'000	Level 2 HRK'000	Level 3 HRK'000
Available for sale - financial assets	171	171	–	–

During 2015, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

**h. Derivative financial instruments:**

The majority of the Company's borrowings are at variable interest rates based on LIBOR or EURIBOR. The Company has not limit its exposure to changes in the rates of the LIBOR and EURIBOR on its cash flows and interest expense due to the local financial market situation.

**i. Credit quality of financial assets**

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

	Year ended 31 December	
	2016 HRK'000	2015 HRK'000
<b>Trade and other receivables</b>		
Existing domestic and foreign customers – with some defaults in the past	2,114	2,298

The Company gave loans and deposits at banks with the following credit ratings by Standard & Poor's:

	Year ended 31 December	
	2016 HRK'000	2015 HRK'000
<b>Deposits and loans</b>		
Financial institutions – no credit rating	192	340
BBB- (domestic bank)	41,713	–
	41,905	340

**NOTES TO THE COMPANY FINANCIAL STATEMENTS**  
 CONTINUED

**Note 22 Financial risk management objectives and policies continued**

The Company deposits cash at banks with the following credit ratings by Standard & Poor's:

	Year ended 31 December	
	2016 HRK'000	2015 HRK'000
Without rating	434	291
BBB- (domestic bank)	86,021	103,634
Domestic banks without rating	6,627	9,496
	<b>93,082</b>	113,421

None of the financial assets that are fully performing have been renegotiated in the last year.

**Note 23 Subsequent events**

On 23 December 2016, PPHE Hotel Group contributed 88% of its interest in Sugarhill to the Company in exchange for 1,091,250 new shares in the Company. These new shares were registered in the Commercial Court in Pazin on 7 February 2017. This increased PPHE Hotel Group's shareholding in the Company to 77.09%.

**LIST OF SUBSIDIARIES**

Name of company	Principal activity	Country of incorporation	Functional currency	Holdings %
Ulika doo	Holding Company	Croatia	HRK	100
Mazurana doo	Holding Company	Croatia	HRK	100
Germany Real Estate B.V.	Holding Company	The Netherlands	EUR	100
Sugarhill Investments B.V.	Holding Company	The Netherlands	EUR	88

## GLOSSARY

**A**

**Arenaturist:** Arenaturist d.d. is one of Croatia's best known hospitality companies, with operations in Croatia, Germany and Hungary. Its portfolio consists of 15 hotels, four holiday apartment complexes, eight campsites and numerous food and beverage outlets. PPHE Hotel Group has a controlling interest in Arenaturist. [www.arenaturist.com](http://www.arenaturist.com)

**ADR:** Average daily rate. Total room revenue divided by number of rooms sold.

**art'otel®:** A contemporary collection of hotels that fuse exceptional architectural style with art-inspired interiors, located in cosmopolitan centres across Europe. PPHE Hotel Group is the owner of the art'otel® brand worldwide. [www.artotels.com](http://www.artotels.com)

**artotels.com:** Brand website for art'otel®.

**B**

**Board of Directors:** Boris Ivesha (Chairman), Yoav Papouchado (Deputy Chairman), Chen Moravsky (Director), Abraham Thomas (Director), Denis Jukić (Director), Šime Vidulin (Director) and Vehbija Mustafić (Director appointed by workers' council).

**Bora Companies:** Arenaturist Hoteli d.o.o., Arenaturist Zlatne Stijene d.o.o. and Arenaturist Turistička Naselja d.o.o.

**C**

**Carlson Hotels:** One of the largest hotel companies in the world. Hotel brands owned by Carlson Hotels are Quorvus Collection, Radisson Blu®, Radisson®, Radisson Red®, Park Plaza, Park Inn® by Radisson and Country Inns & Suites By Carlson<sup>SM</sup>. Carlson Hotels was acquired by HNA Tourism Group in 2016.

**CEE region:** the Central and Eastern Europe region.

**Club Carlson<sup>SM</sup>:** The hotel rewards programme of Carlson Hotels, including Park Plaza® Hotels & Resorts and art'otel®. The programme is owned by Carlson Hotels. Gold Points® is the name of the currency earned through the Club Carlson<sup>SM</sup> programme. [www.clubcarlson.com](http://www.clubcarlson.com)

**Company:** Arenaturist.

**CSR:** Corporate Social Responsibility. Arenaturist's Corporate Social Responsibility policy is a genuine, active and responsible commitment to our environment and society.

**D**

**Distribution:** Encompasses all the electronic channels of distribution, which include GDS, brand websites and third party intermediaries. These distribution channels can be accessed through the Internet, an intranet or through an interfaced connection.

**E**

**Earnings (loss) per share:** Basic earnings (loss) per share amounts are calculated by dividing the net profit (loss) for the year by the weighted average number of ordinary shares outstanding during the year. Diluted earnings (loss) per share amounts are calculated by dividing the net profit (loss) for the year by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

**EBITDA:** Earnings before interest, tax, depreciation and amortisation.

**EBITDA margin:** EBITDA divided by total revenue.

**EBITDAR:** Earnings before interest, tax, depreciation, amortisation, impairment loss and rental expenses, share of associate and exceptional items presented as other income and tax (EBITDAR) correspond to revenue less cost of revenues (operating expenses). EBITDAR, together with EBITDA, is used as a key management indicator.

**Executive Directors:** Reuel ('Reli') Slonim (Chief Executive Officer), Milena Perković (Executive Director & Chief Financial Officer),

**F – O**

**Group:** The Company and its subsidiaries.

**Like-for-like:** Results achieved through operations that are comparable with the operations of the previous year. Current years' reported results are adjusted to have an equivalent comparison with previous years' results in the same period, with similar seasonality and the same set of hotels.

**Occupancy:** total occupied rooms divided by net available rooms or RevPAR divided by average room rate.

**P – Z**

**Park Plaza® Hotels & Resorts:** Upscale and upper upscale hotel brand. PPHE Hotel Group is master franchisee of the Park Plaza® Hotels & Resorts brand owned by Carlson Hotels. PPHE Hotel Group has the exclusive right to develop the brand across Europe, the Middle East and Africa. [www.parkplaza.com](http://www.parkplaza.com). The Group benefits from an exclusive right to develop and operate the brand in 18 countries in the CEE Region.

**PPHE Hotel Group:** PPHE Hotel Group Limited together with its subsidiaries is an international hotel group that owns, leases, develops, manages and franchises primarily full-service upscale, upper upscale and lifestyle hotels primarily in Europe. The majority of the PPHE Hotel Group's hotels operate under the Park Plaza® Hotels & Resorts brand (part of Carlson Hotels), over which it has exclusive rights in 56 countries in Europe, the Middle East and Africa, or art'otel®, a brand which PPHE Hotel Group fully owns. [www.pphe.com](http://www.pphe.com)

**RevPAR:** Revenue per available room. Total rooms revenue divided by net available rooms or ARR x occupancy %.

**Sugarhill:** Sugarhill Investments B.V.

**Sugarhill Group:** Sugarhill and its subsidiaries.

## CONTACTS

### Board of Directors

Boris Ernest Ivesha, Chairman  
Yoav Arie Papouchado, Deputy Chairman  
Chen Carlos Moravsky, Director  
Abraham Thomas, Director  
Denis Jukić, Director  
Šime Vidulin, Director  
Vehbija Mustafić, Director (employee representative)

### Executive Directors

Reli Slonim, Chief Executive Officer  
Milena Perković, Executive Officer & Chief Financial Officer

### Key Contacts

Arnoud Duin, Vice President of Finance  
Manuela Kraljević, Marketing Director  
Tatiana Zanini Gavrančić, Strategic Controlling Director  
Roberto Erman, Corporate Lawyer

### Head Office

Arenaturist d.d.  
HR-52100 Pula, Croatia  
Smareglina ulica 2  
Tel: + 385 52 223 811

### Legal Advisors

Porobija & Porobija  
HR-10000 Zagreb, Croatia  
Galeria Importanne, Iblerov trg 10/VII  
Tel: + 385 1 4693999

Ivan Kuvara & Sanja Knapić  
HR-52100 Pula, Croatia  
Ciscuttijeva 18  
Tel: + 385 52 380 898

### Company Auditors

PricewaterhouseCoopers d.o.o.  
HR-10000 Zagreb, Croatia  
Ulica Kneza Lj. Posavskog 31/VI  
Tel: + 385 1 6328 888

### Company Public Relations

Madison Consulting d.o.o.  
HR-10000, Croatia  
Mrežnička 2  
Tel: + 385 1 6102 200

### Useful Links

#### Corporate and reservation websites:

[arenaturist.com](http://arenaturist.com)  
[arenacamps.com](http://arenacamps.com)  
[parkplaza.com](http://parkplaza.com)  
[artotels.com](http://artotels.com)

#### Strategic partner:

[pphe.com](http://pphe.com)  
[carlsonrezidor.com](http://carlsonrezidor.com)

**Forward-looking statements**

This Annual Report and financial statements may contain certain 'forward-looking statements' which reflect the Company's and/or the Directors' current views with respect to financial performance, business strategy and future plans, both with respect to the Group and the sectors and industries in which the Group operates. Statements which include the words "expects", "intends", "plans", "believes", "projects", "anticipates", "will", "targets", "aims", "may", "would", "could", "continue" and similar statements are of a future or forward-looking nature. All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause the Group's actual results to differ materially from those indicated in these statements. Any forward-looking statements in this Annual Report and financial statements reflect the Group's current views with respect to future events and are subject to risks, uncertainties and assumptions relating to the Group's operations, results of operations and growth strategy.

These forward-looking statements speak only as of the date of this Annual Report and financial statements. Subject to any legal or regulatory obligations, the Company undertakes no obligation publicly to update or review any forward-looking statement, whether as a result of new information, future developments or otherwise. All subsequent written and oral forward-looking statements attributable to the Group or individuals acting on behalf of the Group are expressly qualified in their entirety by this paragraph. Nothing in this publication should be considered as a profit forecast.



