ARENA

HOSPITALITY GROUP

A MEMBER OF PPHE HOTEL GROUP

ANNUAL REPORT & ACCOUNTS 2017

WHO WE ARE

We are a well-established hospitality group which owns, co-owns, leases, operates and develops full-service upscale, upper upscale and lifestyle 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 CEE 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.

KEY HIGHLIGHTS[1]

TOTAL REVENUE (HRK)	NORMALISED PROFIT BEFORE TAX (HRK)[2]
717.2M	**115.9M**
+64.5%	+171.4%
EBITDA (HRK)	EBITDA MARGIN
212.9M	**29.7%**
+61.3%	(60) bps
NORMALISED EARNINGS PER SHARE (HRK)	OCCUPANCY[3]
22.0	**53.2%**
+20.9%	+790 bps
REVPAR (HRK)	AVERAGE DAILY RATE (HRK)
298.0	**560.1**
+39.3%	+18.6%
EBITDAR (HRK)	
250.5M	
+77.9%	

1. The basis for the 2017 Highlights Groups results. The year-on-year comparison is against 2016 financial statistics
2. Also see Chief Financial Officer's Statement on pages 32-36
3. Occupancy is calculated based on the number of days that each property is open

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STRATEGIC REPORT

2017 WAS A VERY SUCCESSFUL YEAR WITH MANY MILESTONES

OUR BUSINESS AT A GLANCE

A DIVERSE PORTFOLIO

We are a European owner/operator company, with a strong asset base and access to dynamic brands and global distribution. Our approach means that we fully understand owners' needs and the power that global brands bring.

CROATIA

8,761

Rooms in operation

Located in Croatia's most prominent tourist region Istria, our diverse accommodation offering spans hotels and self-catering holiday apartment complexes through to campsites, and provides guests with a wide choice of locations. Over the years, Croatia has become a popular leisure destination, showing year-on-year growth in overnights. With over 40 years of experience, we have an unrivalled expertise in providing great accommodation and service in areas of natural beauty.

1 PULA
CROATIA

2 MEDULIN
CROATIA

GERMANY

1,130

Rooms in operation

Our hotels in Germany are located in cities that see excellent results in repeat tourism year-on-year. The hotels are located in prime city-centre locations close to main attractions.

3 BERLIN
GERMANY

4 COLOGNE
GERMANY

5 DRESDEN
GERMANY

6 NUREMBERG
GERMANY

HUNGARY

165

Rooms in operation

Located in Hungary's capital city, a popular tourist destination, art'otel budapest is situated in a prime location overlooking the River Danube and the magnificent Hungarian Parliament building.

7 BUDAPEST
HUNGARY

CHAIRMAN OF THE SUPERVISORY BOARD'S STATEMENT

A TRANSFORMATIVE YEAR

BORIS IVESHA
CHAIRMAN OF THE SUPERVISORY BOARD

A UNIQUE APPROACH

INVESTMENT CASE FOR ARENA HOSPITALITY GROUP

- A dynamic hospitality group based in Croatia with a presence in Germany and Hungary.
- Strong branded hotel portfolio and the exclusive right to operate and develop additional Park Plaza® branded hotels in 18 countries in the CEE region.
- Presence in popular markets with a thriving 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, PPHE Hotel Group.
- Experienced management team.

Dear shareholders,

Welcome to the first annual report under our new name, Arena Hospitality Group d.d. (the "Company"), which reflects our vision to become a leading hospitality owner and operator in the CEE region.

2017 was a transformative year for the Group. In the first half of 2017, we successfully completed a public offering of the Company's shares, which was the largest fundraising recorded since 2007 by a company listed on the Zagreb Stock Exchange. In addition, we became the first Croatian hospitality company with significant hotel operations outside of Croatia, several of which operate under the Park Plaza® brand. Alongside this, the Group was granted the exclusive right to operate and develop hotels under the Park Plaza® brand in 18 countries in the CEE region.

The public offering of shares was deemed attractive to both domestic and international investors, with approximately 20% of the new shares subscribed for by investors located outside of Croatia.

Our capital markets activity was recognised by the Zagreb Stock Exchange as the Company won the Top Turnover Gainer award at the Zagreb Stock Exchange Awards for 2017.

Proceeds from the public offering were used to acquire the remaining 12% of the shares in Sugarhill Investments B.V. ("Sugarhill"), bringing full ownership of Sugarhill into the Group (Sugarhill has interests in eight hotels in Germany and Hungary). This acquisition transformed the Company from a highly seasonal domestic operator into a dynamic international company which operates all year-round.

The remaining funds from the public offering will be used to further invest in our existing portfolio and to expand through new opportunities in the CEE region.

2017 MARKS THE CELEBRATION OF A GREAT YEAR FOR ARENA HOSPITALITY GROUP RECOGNISING EXCEPTIONAL ACHIEVEMENT

The 2017 summer season in Croatia was particularly strong. The popularity of Croatia as a leisure destination continues to increase, attracting interest from both domestic and international holidaymakers, with the Istrian region continuing to lead the way. The region's international airport in Pula is well serviced by both scheduled and charter flights from more than 16 airlines, including low-cost carriers. Our properties' proximity to Pula International Airport means that we are in an excellent position to further capitalise on this growth.

The expansion of the Group's hotel operations beyond Croatia has transformed the Group into an international hospitality business operating throughout the year. The hotels in the Group's new German and Hungarian regions have delivered a good performance during the year.

At the General Assembly of the Company held in August 2017, the Company changed its corporate governance system from a one-tier to a two-tier board, which now consists of a Supervisory Board and a Management Board. Further information regarding the two-tier board structure can be found on page 58.

I would like to extend my sincere appreciation to our team members for their continued dedication and hard work. I would also like to thank our partners and shareholders for their continued support during this next phase of the Group's development.

We remain excited about what lies ahead as we continue to explore opportunities to revitalise our properties in Croatia, Germany and Hungary and pursue new growth opportunities across the CEE region.

We look forward to updating you on our progress throughout the year ahead.

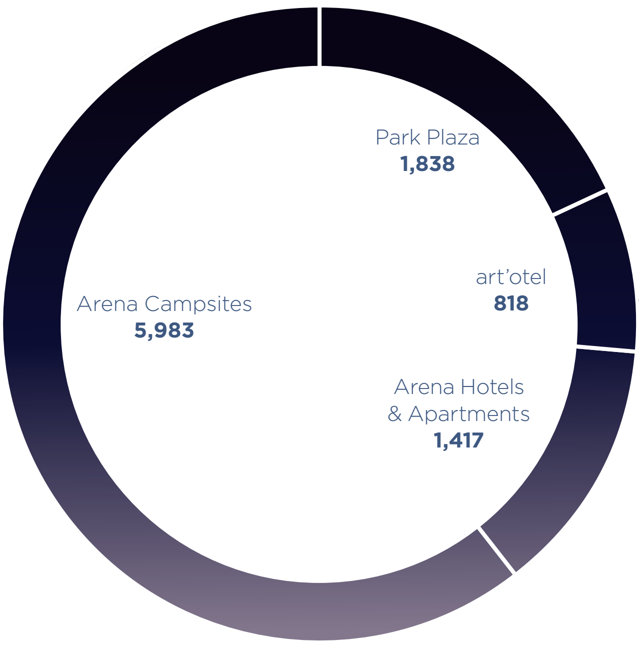
BORIS IVESHA
CHAIRMAN OF THE SUPERVISORY BOARD

OUR BRANDS

TRUSTED, RECOGNISED BRANDS WITH REAL POWER

We believe in the power that trusted and recognised brands offer, delivered through a bespoke approach. Our four core brands, Park Plaza, art'otel, Arena Hotels & Apartments, and Arena Campsites, complement this belief and are vibrant, unique and continually evolving.

ROOMS IN OPERATION BY BRAND



PARK PLAZA

Park Plaza is an upscale and upper upscale hotel brand featuring individually designed hotels in vibrant city centre locations and resort destinations. Park Plaza is renowned for creating memorable moments through its inspiring service, stylish guest rooms and versatile meeting facilities which are perfectly complemented by award-winning restaurants and bars.

parkplaza.com

ART'OTEL

art'otel is a lifestyle 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 it, 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.

artotels.com

ARENA HOTELS & APARTMENTS

Arena Hotels & Apartments is collection of hotels and self-catering holiday apartment complexes offering relaxed and comfortable accommodation within beachfront locations. These properties are located across the historical settings of Pula and Medulin in Istria, Croatia. Each hotel and self-catering holiday apartment complex provides outstanding value and caters for families, couples and friends.

arenahotels.com

ARENA CAMPSITES

Arena Campsites are located in eight beachfront sites across the southern coast of Istria, Croatia. Situated within close proximity of the historic towns of Pula and Medulin, each laidback campsite provides guests with the opportunity to experience Istria's areas of natural beauty and outdoor activities from April to October. Each campsite provides a different offering, with 2018 expected to see the opening of a luxury glamping campsite.

arenacampsites.com

PRESIDENT OF THE MANAGEMENT BOARD'S STATEMENT

A RECORD YEAR

REUEL ('RELI') SLONIM
PRESIDENT OF THE
MANAGEMENT BOARD

Welcome,

2017 was a record year as we continued to transform the Group in line with our strategy, whilst delivering a strong operational performance across the business.

We are proud of the significant progress we have made in achieving our key business priorities of driving growth through expansion of our portfolio in the CEE region whilst maintaining operational efficiency and a high EBITDA margin. We have also made headway in improving the guest experience, increasing employee engagement and delivering shareholder value.

Financial performance

We are delighted to report a strong financial performance with record results. This performance was underpinned by the corporate activities and investments undertaken during the year, including the expansion of the Group's portfolio outside of Croatia and the investment in refurbishment projects at our properties in Croatia ahead of the 2017 summer season.

Total reported revenue increased by 64.5% to HRK 717.2 million (2016: HRK 435.9 million), as the Group benefited from the first-time consolidation of results from our German and Hungarian operations and significant organic growth across our Croatian operations.

On a like-for-like basis, total revenue increased by 8.5% to HRK 669.6 million (2016: HRK 616.9 million).

Reported EBITDA increased by 61.3% to HRK 212.9 million (2016: HRK 132.0 million). This HRK 80.9 million improvement was primarily driven by the first-time consolidation of our German and Hungarian operations, as well as excellent trading throughout the 2017 season in Croatia.

Croatia's tourism industry experienced a marked increase in visitors in 2017 compared with 2016, which generated considerable organic growth for our operations in Croatia. Year-on-year tourism in Croatia has increased by 10% and now accounts for approximately 24.0% of Croatian GDP. The number of visitors to the Istrian region is now estimated to be approximately a third of all tourism in Croatia. [Source: eVisitor] This growth has been supported by an increased number of airlines flying into Pula International Airport, with 16 carriers now offering direct flights from airports such as London Heathrow, Milan and Basel which are key target market areas for Croatia. In addition, many festivals such as the Pula Film Festival and the International Pula Bridge Festival, together with sporting events such as the Ironman 70.3 competition and the Arena Cup international football tournament, also attracted visitors to the region.

The strong financial results represent the seventh year of consecutive EBITDA and revenue growth.

> GOING FORWARD, WE ARE LOOKING TO CONSOLIDATE OUR STRONG PERFORMANCE AND CONTINUE TO EXPAND OUR OPERATIONS

717.2m HRK

Total revenue (€95.6m)

Our strategy

We have made significant strategic progress during the year through corporate activity and investments to position the Group as a leading hospitality company in the CEE region.

We have continued to renovate and develop our existing portfolio of properties; capitalise on the synergies between the Group's operations in Croatia, Germany and Hungary; and pursue expansion through potential acquisitions and partnerships. We have also remained focused on improving and enhancing service quality and the overall guest experience through employee and technology initiatives, such as smartphone applications and team member and guest engagement and feedback.

The progress achieved in 2017 reflects our focus and commitment to the creation and realisation of shareholder value.

Our business model and strategy is set out on page 24 of this report.

Continued transformation

2017 was a busy year of corporate activity:

- In February 2017, we completed the acquisition of the freehold interests of art'otel cologne and art'otel berlin kudamm in Germany.
- The Company was renamed Arena Hospitality Group d.d. in March 2017 to reflect and support our international operations and expansion ambitions.
- We successfully completed the first international public offering by a Croatian tourism company in June 2017. The public offering of 1,854,971 new shares, at a price of HRK 425 per new share, raised gross proceeds of HRK 788.4 million. The public offering increased the number of shares in issue by 56.7% to 5,128,721, of which approximately 20% were subscribed for by international investors.

PRESIDENT OF THE MANAGEMENT BOARD'S STATEMENT CONTINUED

The new capital raised will enable us to accelerate the Group's investment plans aimed at upgrading existing properties and realising further growth through the expansion of the portfolio within the upscale, upper upscale and lifestyle markets in the CEE region.

The Management Board is actively looking for opportunities in key markets in the CEE region. Our flexible business model enables us to consider a range of investment opportunities, including expansion through asset-light projects where the Group enters into a long-term management contract; acquisition by way of joint venture and an associated management contract; and full ownership and management of a property.

Part of the proceeds from the public offering were used to acquire the remaining 12% interest in the German and Hungarian operations of PPHE Hotel Group held in Sugarhill for a consideration of €8.33 million. The acquisition added seven owned, co-owned and/or leased upscale hotels and one managed hotel (branded either Park Plaza® or art'otel®) to our portfolio alongside the exclusive right to operate and develop new hotels in 18 countries in the CEE region under the Park Plaza® brand.

Our expansion into Germany and Hungary has transformed the Group from a highly seasonal Croatian domestic operator to a dynamic international business which operates all year round.

In December 2017, the Group successfully refinanced bank loans of €64.0 million on more favourable terms with Zagrebačka banka d.d. ('Zaba'), reducing the interest expense by an anticipated HRK 13.0 million per annum.

Ongoing investment in our portfolio
Ahead of the 2017 summer season, we invested HRK 52.2 million into upgrading our properties to further improve the quality of our offering and support our market position in Pula and Medulin in Croatia. Projects included accommodation improvements, the addition of facilities at our sports oriented hotel, Park Plaza Belvedere Medulin, as well as improved services and facilities at a number of campsites. Further details are set out in the Operating Review: Croatia on page 38.

In addition, we switched our energy source at our centralised laundry site from oil to gas, which is more environmentally friendly and cost-efficient.

212.9m HRK
Group EBITDA (€28.4m)

52.2m HRK
Investments (€7.0m)

5,128,721
shares

Sales and marketing
Sales and marketing are key areas of focus. Activities are aimed at increasing revenues and profits, enhancing customer loyalty, driving brand recognition, expanding media awareness and cultivating strong partner relationships with key customers.

As well as a dedicated in-house team located in Croatia and Germany which provides communications and marketing support, the Group benefits from the sales and marketing services provided by its largest shareholder, PPHE Hotel Group. This partnership includes access to Carlson Hotels' central reservation system, a global reservation and distribution system, and its various loyalty programmes which have a combined membership of more than 19 million customers worldwide. Alongside this, the Group also has its own loyalty programme in place for guests at its campsites.

Innovation and technology
Innovation is at the heart of our activity and ensures our offering continues to stand out. Throughout 2017, the Group has continued to invest in new technology and digital innovations to ensure our facilities and operations continue to delight leisure and business travellers.

In anticipation of the recent summer season in Croatia, we rolled out mobile applications and travel devices which enhanced our guests' experiences during their stay and improved operational efficiencies at our hotels and campsites:

- *A complimentary smartphone* specifically designed for hotel guests was piloted at all Park Plaza branded properties in Croatia during 2017. Guests were able to use this smartphone both within and outside the properties free of charge during their stay. It provided unlimited local and international calls, unlimited internet access, exclusive brand promotions and pre-set access to hotel services and room-to-room calls. Since the trial commenced, more than 900 hours of calls have been logged demonstrating high interest and usage. Guest feedback was positive and we plan to deploy the smartphone in all our hotels in Germany and Hungary during 2018.
- *A bespoke mobile application ('app')* was developed for Park Plaza branded properties in Croatia. The smartphone app is used by both guests and hotel teams and provides an easy-to-use platform for guests to access services and even to use their mobile phone as a digital room key.

- *An Arenaturist mobile app* was developed for our campsites and non-branded properties. Key features for guests include 'Find my pitch' navigation, a tool to book excursions and notification of events and promotions driving ancillary revenue. This will be renamed as the 'Arena mobile application' in 2018.
- *Hotel Operations app ('Facility for hotels') mobile app* is an easy and intuitive app developed for hotel team members to transform working practices and improve productivity. By using a smartphone, team members can quickly and efficiently report and log issues, which are viewed by facility managers in real-time.

Guest experience

We are proud of the high levels of guest satisfaction scores achieved across our properties, reflecting our investment in our product offering and our commitment to a service delivery above and beyond expectation.

Collective satisfaction scores at our branded operations in Croatia, Germany and Hungary improved by 1% year on year, with our Park Plaza operations in Croatia once again among the best performing Park Plaza branded hotels in Europe. Overall scores for our non-branded hotels, self-catering holiday apartment complexes and campsites have been maintained across the portfolio.

New technology and digital innovations

High levels of guest satisfaction

Creating the next generation of leaders

Investment in our people

Our people are at the heart of our business and we remain focused on ensuring that they are fully supported, engaged, developed and motivated so we can consistently deliver a high service standard and memorable guest experience.

All team members are trained to deliver the highest levels of service. We are committed to attracting and nurturing talent within the business which supports the development of all our teams whilst creating the next generation of leaders.

During the year, a total of 253 training programmes were held and we trained a total of 2,278 team members.

PPHE Hotel Group's Talent Management Programme and Learning and Development you:niversity programmes were launched with Park Plaza branded hotel operations teams. These programmes have been incredibly successful and, as a result, we have decided to roll them out to our non-branded hotels in order to enable our management teams to recognise talented individuals in their operations and develop these individuals' skills and competencies. During the year, 55 team members were enrolled in the PPHE Hotel Group's Talent Management Programme.

In total, the Company employed more than 1,400 people during the year, 371 of whom were permanent employees. Approximately 50 previously seasonal team members worked in Germany either before and/or after the

PRESIDENT OF THE MANAGEMENT BOARD'S STATEMENT CONTINUED

Croatian summer season, highlighting the synergies between our operating regions.

Our employee engagement score for the Group remained high at 85.3 (on a scale of 1-100), an improvement on 2016 (84.9), with 90% of team members completing the survey.

I would like to take this opportunity to thank all our team members for their hard work and dedication during the year.

Industry recognition
We are delighted to see that our hotels and campsites have been recognised through a number of industry awards and accolades.

In Croatia, Park Plaza Verudela Pula, Park Plaza Histria Pula, Park Plaza Arena Pula, Park Plaza Belvedere Medulin and Sensimar Medulin all received the TripAdvisor Certificate of Excellence 2017, which is awarded to properties that consistently achieve outstanding traveller reviews on TripAdvisor.

Sensimar Medulin was recognised in three categories in TripAdvisor Travellers' Choice 2017: 'Top 25 Hotels – Croatia'; 'Top 25 Hotels for Service – Croatia'; and 'Top 25 Hotels for Romance – Croatia'. Park Plaza Arena Pula was also recognised in the 'Top 25 Hotels for Romance – Croatia' category.

1,400+

Company team members

Award Winning

Golden Goat – Best Technological Innovation

85.3

Group employee engagement index

The Company was recognised by the Istria Tourism Board for its marketing initiatives in the tourism industry in Istria. We won the 'Golden Goat – Best Technological Innovation' for the complimentary smartphone available at our Park Plaza branded properties in Croatia. Acknowledgements were also awarded in four categories: Innovative Products, Tourism Products, Visual Communications and Events.

In addition, Park Plaza Arena Pula was the first hotel in Istria and the first à la carte restaurant on the Adriatic coast to offer guests Croatia's first gluten-free standard, known as BOSK.

Arena Kažela Campsite was awarded 'Croatia's Best Campsites 2017' by the Croatian Camping Union, Croatian Chamber of Economy and Croatian Camping Association. The German Automobile Club recognised the campsite with 'ADAC TIPP 2017 – 4*' and The Netherlands Automobile Club & Camping Union ANWB gave it the 'Erkende Camping 4,5 – 2017'. Additionally, Arena Stoja Campsite received the international certificate 'Village for all – V4A' at the 2017 International Quality Brand Hospitality for all awards.

In Germany, two of our art'otels were also recognised; art'otel berlin kudamm and art'otel cologne both received 'Guest Review Award Winner' from booking.com. art'otel cologne also received the 'Sunny Heart Award 2017' accolade from UK tour operator, Thomas Cook.

Supporting our communities

During the year, the Group supported cultural events in Pula and raised funds for a number of causes in the local community, including the Cerebral Palsy Association of the Istria County, which holds its summer camp for children and young people with cerebral palsy at Arena Medulin Camping; NINA, an association which provides assistance to families of children facing malignant diseases; and Mali Svijet, which raises awareness of the needs of children with developmental difficulties. In addition, we provided support to Paralympic athlete Mikela Ristoski from Medulin in her quest to participate in the European Championships.

In Germany and Hungary, a variety of initiatives were undertaken to engage with local communities and raise charitable funds. A key element was our support for local disadvantaged families including: MANNA in Berlin, a family centre committed to supporting children from socially disadvantaged families; Rummelsberger Diakonie, a non-profit society in Nuremberg which takes care of and supports children; and German language support for refugee families in Cologne. During the winter festive season, all hotels in Germany participated in 'Chary-Tree', a charity project whose main goal is to support socially disadvantaged children and provide them with Christmas presents. Team members and our hotels also participated in 'Movember' to raise funds and awareness for men's health which is an international campaign.

More detail is provided in the responsible business report on page 47

More detail is provided in the responsible business report on page 47.

Outlook for 2018 and current trading

2018 trading is in line with our expectations. Operations in Germany and Hungary are year-round, whereas trading in Croatia is seasonal with most of the hotels preparing to open their doors in early spring.

In the year ahead, we will continue to implement our strategy to drive growth through expansion in the CEE region; maintain and enhance operational efficiency; remain focused on delivering a high quality service; ensure our guests have a memorable experience during their stay; and create and realise shareholder value.

We are progressing a number of future investment projects for the 2018 summer season and beyond in Croatia. These include finalising plans for the major renovation of Hotel Brioni to reposition the property as a Park Plaza branded hotel. Within our camping operations, plans are being implemented to provide guests with an upscale 'glamping' experience at Arena Pomer Campsite for summer 2018. We believe the 'glamping' proposition has strong potential and are excited about progressing this new development opportunity.

In Germany and Hungary, we have identified and are reviewing several projects which would further upgrade our portfolio. We are currently working on plans to extensively renovate art'otel berlin kudamm and the public areas of art'otel cologne.

In addition, the Company continues to identify and review a number of specific opportunities in Croatia and the CEE region which meet its investment, development and shareholder objectives.

I am excited about the future and firmly believe the transformed Group is well-positioned to deliver its growth strategy.

REUEL ('RELI') SLONIM
PRESIDENT OF THE MANAGEMENT BOARD

HISTORIC PUBLIC OFFERING, RAISING HRK 788.4 MILLION FOR FUTURE GROWTH

The Company made history with the successful public offering of new shares in May 2017, in what was one of the most exciting years since the Company's inception 40 years ago. This was the largest level of fundraising recorded since 2007 by a company listed on the Zagreb Stock Exchange.

On 12 May 2017, the Company announced it was seeking to raise between HRK 600m and HRK 750m (after expenses) by issuing up to two million new ordinary shares within a price range of HRK 400 to HRK 500 per new share. Approximately 20% of the new shares were subscribed for by investors located outside of Croatia, demonstrating the attractiveness of the public offering to both domestic and international investors.

Following the public offering, the Company issued 1,854,971 new shares at a price of HRK 425 per new share, which resulted in the Company receiving proceeds of HRK 788,362,675 (before expenses).

The public offering gave the Company international recognition, allowing it to be transformed to become a dynamic, international hospitality group. The Company is the first Croatian hospitality company with significant hotel operations outside of Croatia.

The public offering was a significant landmark in the Company's development, laying the foundations to accelerate plans to upgrade properties in Croatia and Germany and to expand operations in the CEE region and the rest of the Adriatic Coast.

This achievement has not gone unnoticed and, in December 2017, the Company was proud to win the 'Top Turnover Gainer' award at the Zagreb Stock Exchange Awards. This award is a fantastic acknowledgement of the work and effort of all our employees in what has been a transformative year.

BECOMING AN EMPLOYER OF CHOICE WITH INTERNATIONAL OPPORTUNITIES

During the 2017 high season in Croatia, we employed a record number of 1,400 people, the vast majority of whom were employed between June and September, reflecting the seasonality of the Croatian operations. This is an increase of more than 100 employees compared to 2016. We have a strong track record of retaining high-performing individuals year-on-year and in 2017, more than 50 team members were awarded the Jubilee Years of Service, which celebrates those that have been with the Company for a minimum of ten years. Of those team members awarded, 28 of them have been employed for 30 years by the Company and 9 of them for 35 years, which is a fantastic achievement.

The Croatian operations had a record number of visitors in 2017 and once again our team members delivered exceptional customer service. The team handled more than 1.9 million overnight stays, prepared 10,000 meals each day and welcomed more than 300,000 guests. This equates to 25,000 guests each day during the high season.

Traditionally, the Company has been a seasonal operator with a large number of team members working in the peak summer months only. As part of the transformation to a dynamic international company which operates all year round,the new company structure in 2017 enables our Croatian team members to support our operations in Germany and Hungary once our Croatian operations close down after the summer season.

In 2017, 50 seasonal team members worked in Germany pre and post the Croatian summer season. In addition, eight team members have entered into one-year employment contracts at a German hotel, further enhancing cross-regional ties and creating all-year round employment opportunities. There are currently twenty team members assigned to support our German operation which are expected to return to Croatia to assist with the 2018 summer season.

By offering our team members international employment opportunities and new learning experiences, we continue to attract and retain top talent. This further demonstrates our transition to a world-class dynamic company which operates all year round and offers all-year-round employment opportunities. This is a fantastic achievement and it is anticipated that this international programme will continue to grow in the foreseeable future.

Driving recruitment and retaining team members

To meet the evolving needs of our guests, the Company continuously looks to develop roles, onboard new talent and ensure operational efficiencies. Throughout the year, a number of initiatives have been implemented to drive recruitment and nurture and develop the next generation of hospitality leaders.

Such activities have included:

- In 2017, five team members successfully completed the Foundation in Management programme. This programme aims to further develop the leadership and management skills and the knowledge and behaviour required of managers to ensure that they are able to further drive performance of our businesses. In November 2017, four team members were selected to attend the 2018 year's programme;
- Four team members were enrolled on the "Campsite Resort Management" programme, which is the first lifelong learning programme for camping management in Croatia designed to enable participants to master specific skills in the field of modern campsite services. The acquired knowledge and competencies will contribute to the development of the overall camping offering in terms of quality differentiation and specialisation, thus achieving a significant competitive advantage of Croatian camping services in the Mediterranean;
- Leveraging long-standing relationships with local high schools in Pula and universities in Pula, Opatija, Rijeka and Zagreb. In 2017, 78 apprentices (from the high school for hospitality and tourism in Pula) joined us for the Croatian winter and summer periods. In addition, nine students (from the Faculty of Tourism and Hospitality Management (FTHM) in Opatija, Faculty of Economics and Tourism 'Dr. Mijo Mirković' Pula, Faculty of Law University of Rijeka and RIT-Rochester Institute of Technology Zagreb) completed in internships at our properties this year;
- IIn collaboration with Diopter University, the Company designed (as a partner) a project titled 'Improving the access of vulnerable groups to the labour market in the tourism and hospitality sector' as part of the ESF Operational Program 'Effective Human Resources 2014-2020' with the purpose of training target groups within the labour market to develop them as hospitality staff complying with industry standards and best practice and acquiring additional language skills. This project has been approved in the second phase (Evaluation of quality) and will be co-financed by the European Union from the European Social Fund. It is expected that the project will be performed in 2018;
- Through PPHE Hotel Group's you:niversity, a programme of workshops and development sessions were provided (STEP-UP programme, PDR and Talent Management workshops, CONNECT!, etc);
- Other initiatives were provided such as: language courses, finance courses, data protection workshops, kitchen staff training, spa courses and chef academies.

50

Team members were awarded the Jubilee Years of Service

1.9m+

Overnight stays

25,000

Guest stays each day during the high season

The Company has proven that its business model and the career opportunities within the Group successfully attract, retain and engage top talented team members at all levels. The feedback received and the engagement scores across the Group demonstrate the transformation from a highly seasonal Croatian employer to a dynamic international company which operates and offers all-year-round employment.


Camping
omer
Istrian
souvenirs

THE GROUP'S CAPITAL INVESTMENT PLAN

The Group's intended use for the majority of the proceeds from the 2017 public offering is to accelerate the implementation of its capital investment plan aimed at upgrading a number of properties in Croatia and to fund the Group's expansion in the CEE Region.

In 2018, the Group expects to open the first campsite in Istria entirely dedicated to 'glamping', located in a peninsula close to Medulin bay, just a few kilometres away from the city of Pula. The new glamping site will offer eight different types of accommodation units which have been designed to offer a luxury vacation in the heart of nature. Apart from offering luxury amenities typically offered by hotels, the campsite will offer a lavishly equipped outdoor wellness area, beach bars, a great offering of local food and drinks and a well thought-out programme of activities for children and adults.

The Group expects to invest approximately HRK 42 million in the new glamping site, which includes investments in new sewage and infrastructure.

The Group is finalising plans for the major renovation of Hotel Brioni to reposition the hotel as an upper upscale Park Plaza branded hotel. We are considering to add approximately 100 rooms to the hotels and restore this iconic and historical building with a view at becoming the most luxurious hotel in Pula. The construction tender is in process and the project is planned to start in late 2018 with a view to re-opening in 2020. The Group expects to invest around HRK 270 million in the hotel.

In Germany, the Group is finalising plans to refurbish art'otel berlin kudamm. All rooms and the public areas will be refurbished, upgrading the hotel to a lifestyle hotel. The Group expects to invest around HRK 26 million in art'otel berlin kudamm.

The Group has advanced plans to continue refurbishing Ai Pini and Zlatne Stijene Resorts and Arena Kažela Campsite which are going through final designs. The Company is looking into advanced models of mobile homes and the possibility of assembling these in Pula.

The Group continues to identify and review potential expansion opportunities in Croatia and the CEE region.

OUR BUSINESS MODEL AND STRATEGY

EXPANDING OUR PORTFOLIO

Our business model and strategy
The Group's strategy is to become a leading owner and operator of hospitality assets primarily in Croatia, Germany and Hungary. Our ambition is to build a portfolio of hotels 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 and self-catering holiday apartment complexes in tourist destinations around the Adriatic Sea.

During the next five years, we intend to invest in the refurbishment and improvement of several of our hotels, self-catering holiday apartment complexes and our sizeable campsite portfolio where we have identified a number of opportunities to enhance our offering and significantly increase revenue and profit.

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

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

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

- continuous investment in our assets, including refurbishment, renovation and proactive cost management in order to maintain operational efficiency and deliver a high EBITDA margin;
- capitalise on synergies between the Group's Croatian, German and Hungarian operations;
- drive growth by expanding our portfolio of upscale and upper upscale Park Plaza® hotels in the CEE region through a variety of business models, including (co)ownership, operating leases and management agreements;
- improve our guest experience through consistent service delivery and product enhancements;
- increase employee engagement through continuous improvement in the working environment and providing operational and management training programmes;
- improve overall performance through innovative revenue generation and marketing initiatives; and
- deliver shareholder value: the Company has not paid a dividend to date, but the Supervisory Board keep this policy under review in light of the growth opportunities available to the Group and may revise it from time to time.

Growth

expanding portfolio in the CEE region

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 Croatia's borders and we now own, co-own, operate and lease hotels in Germany and Hungary, with the ambition and potential to expand and develop further in these markets and beyond.

The Group's current portfolio comprises of 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

The Group owns nine hotels, four self-catering holiday apartment complexes and has a 50% ownership interest in two hotels 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 our 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 was 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.

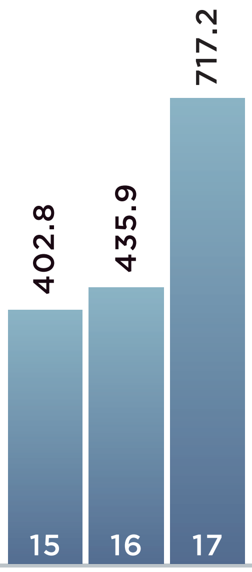
As part of this model, we manage all aspects of the operation of the property; from sales and marketing to reservations, food and beverage and human resources.

Management agreements

The Group has management agreements in place for all 27 properties that it owns, co-owns or leases and for art'otel dresden and Guest House Riviera which it manages. Management contracts with third parties allow property owners to retain ownership of their property, whilst the Group 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.

KEY PERFORMANCE INDICATORS

GROUP FINANCIAL KPIs

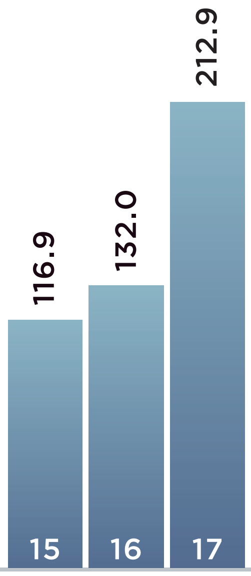


Total revenue
(HRK million)

Definition
Total revenue includes all operating revenue generated by the Group's owned/co-owned and leased hotels, management fees, franchise fees and marketing fees.

Comment
Revenue increased by 64.5% due to a strong performance from our Croatian operations and the first time consolidation of the German and Hungarian operations.

Further information
See Chief Financial Officer's statement page 32

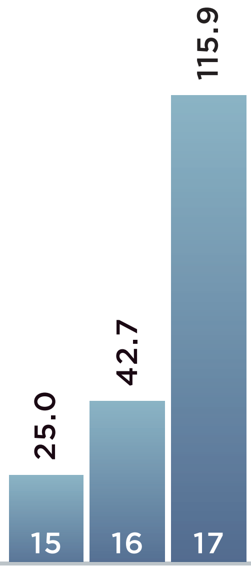


EBITDA
(HRK million)

Definition
Earnings before interest, tax, depreciation and amortisation.

Comment
EBITDA increased by 61.3% year-on-year due to a strong performance from our Croatian operations and the first time consolidation of the German and Hungarian operations.

Further information
See Chief Financial Officer's statement page 32

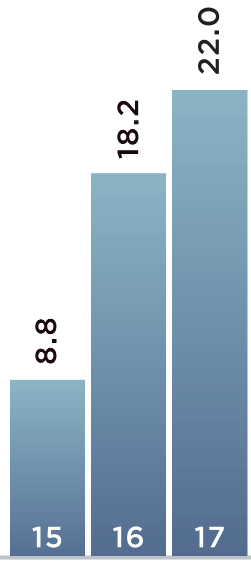


Normalised profit before tax
(HRK million)

Definition
Profit before tax adjusted to remove exceptional or non-recurring items.

Comment
Normalised profit before tax increased by 171.4% in 2017 due to the Sugarhill acquisitions, and the operational restructuring and significant non recurring expenses in 2016.

Further information
See Chief Financial Officer's statement page 32



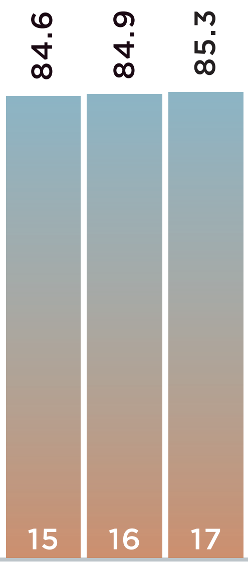
Normalised earnings per share
(HRK)

Definition
Earnings for the year, adjusted to remove exceptional or non-recurring items, divided by the weighted average number of ordinary shares outstanding during the year.

Comment
Normalised earnings per share increased by 20.9% in 2017 due to an increase in normalised profit before tax.

Further information
See Chief Financial Officer's statement page 32

GROUP OPERATING KPIs

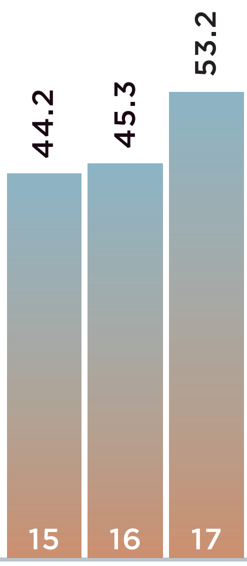


Employee engagement index
(%)

Definition
Measured through annual surveys. Team members are encouraged to share feedback about the Company, their jobs, their teams and their manager.

Comment
Employee engagement index increased by 40 bps.

Further information
See President of the Management Board's statement page 12.
See responsible business page 47.

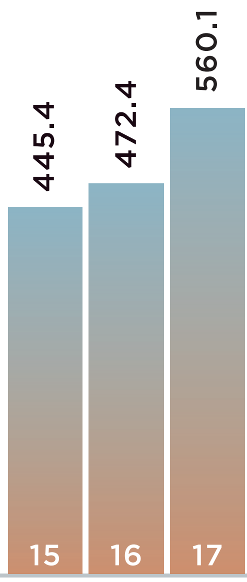


Occupancy
(%)

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 790 bps year-on-year as a result of the first time consolidation of our German and Hungarian operations, which are city based and operate year round.

Further information
See Chief Financial Officer's statement page 32.

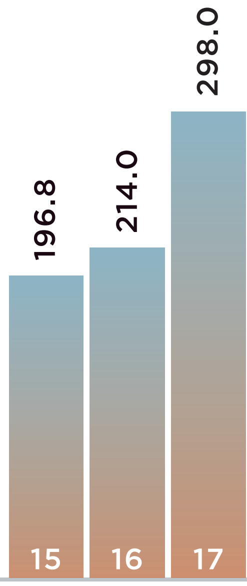


Average daily rate
(HRK)

Definition
The average daily rate per paid occupied room or accommodation unit.

Comment
Average daily rate increased by 18.6% year-on-year due the strong season in Croatia and of the first time consolidation of our German and Hungarian operations, which are city based and operate year round.

Further information
See Chief Financial Officer's statement page 32



RevPAR
(HRK)

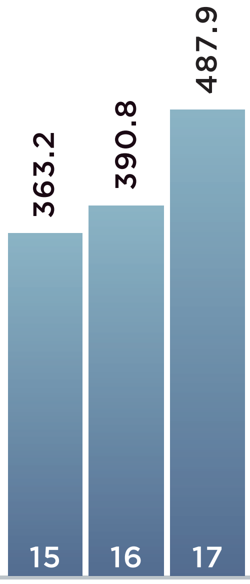
Definition
Revenue per available room or accommodation unit. Total room or accommodation revenue is divided by the number of available rooms or units.

Comment
RevPAR increased by 39.3% year-on-year as a result of the first time consolidation of our German and Hungarian operations, which are city based and operate year round.

Further information
See Chief Financial Officer's statement page 32

KEY PERFORMANCE INDICATORS

COMPANY FINANCIAL KPIs

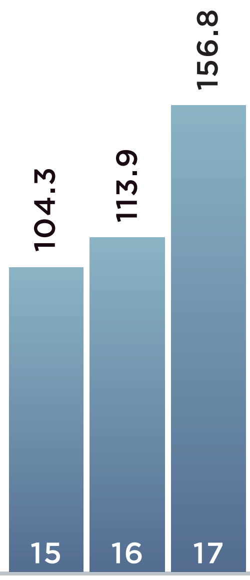


Total revenue
(HRK million)

Definition
Total revenue includes all operating revenue generated by the Company's owned, co-owned and leased hotels, management fees, franchise fees and marketing fees.

Comment
Revenue increased by 24.8% due to improved trading.

Further information
See Consolidated and Company income statement page 69

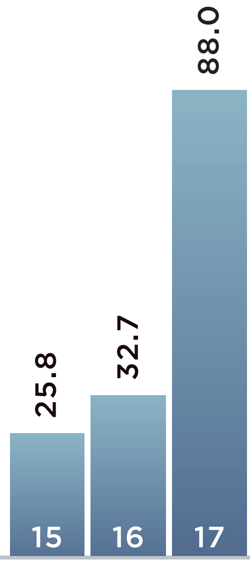


EBITDA
(HRK million)

Definition
Earnings before interest, tax, depreciation and amortisation.

Comment
EBITDA increased by 37.6% year-on-year due to an increase in revenue and tight cost controls.

Further information
See Consolidated and Company income statement page 69



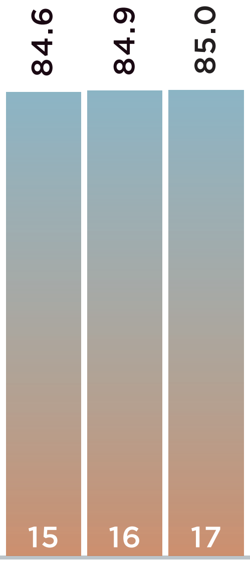
Normalised profit before tax
(HRK million)

Definition
Profit before tax adjusted to remove exceptional or non-recurring items.

Comment
Normalised profit before tax increased by 169.1% in 2017 due to increased revenues.

Further information
See Chief Financial Officer's statement page 32

COMPANY OPERATING KPIs

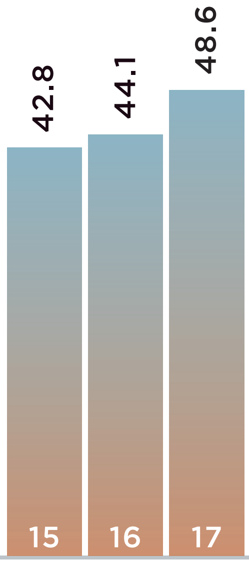


Employee engagement index
(%)

Definition
Measured through annual surveys. Team members are encouraged to share feedback about the Company, their jobs, their teams and their manager.

Comment
Employee engagement index increased by 10 bps.

Further information
See responsible business page 47

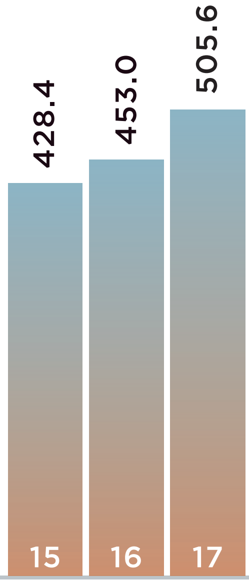


Occupancy
(%)

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 450 bps due to a higher occupancy achieved by the hotels in the peak and shoulder season.

Further information
See Operating review Croatia page 38

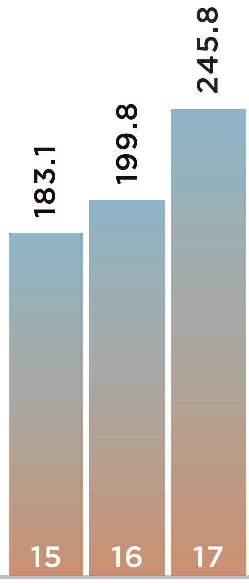


Average daily rate
(HRK)

Definition
The average daily rate per paid occupied room or accommodation unit.

Comment
Average daily rate increased by 11.6% year-on-year due to extensive refurbishment and investment projects.

Further information
See Operating review Croatia page 38



RevPAR
(HRK)

Definition
Revenue per available room or accommodation unit. Total room or accommodation revenue is divided by the number of available rooms or units.

Comment
RevPAR increased by 23.0% year-on-year as a result of increased average daily rate and occupancy.

Further information
See Operating review Croatia page 38

PRINCIPAL RISKS AND UNCERTAINTIES

PRINCIPAL RISKS

RISK AND IMPACT	MITIGATION
Market disruptors	
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.	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 training to ensure that their knowledge is kept up to date.
Seasonality and adverse weather conditions during the high season	
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 self-catering holiday apartment complexes, is influenced by weather conditions and the number of warm and dry weather days during the summer season.	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.
Concession agreements	
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 fees of 50% of the calculated concession fee in accordance with the relevant regulations.	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. 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. This is presented as a provision in the financial statements.

RISK AND IMPACT	MITIGATION
Information technology and systems	
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. 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.	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.
Hotel industry risks	
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.	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.
Foreign exchange rate fluctuations	
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 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.	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.
Capital required to maintain product standards	
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.	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.

CHIEF FINANCIAL OFFICER'S STATEMENT

YEAR-ON-YEAR IMPROVEMENT

MILENA PERKOVIĆ
CHIEF FINANCIAL OFFICER

Welcome,

2017 was a historic milestone in the life of the Company taking into account the financial and operational restructuring.

In May 2017, the Company successfully completed a public offering of 1,854,971 new shares at a price of HRK 425 per new share which resulted in gross proceeds of HRK 788.4 million. The public offering increased the number of issued shares by 56.7% to 5,128,721 shares. Approximately 20% of the new shares were subscribed for by international investors.

In December 2017, the Company entered into a new loan agreement with Zaba in the amount of EUR 64 million (the 'Zaba Facility'). The Company used the Zaba Facility to refinance all of its existing loan agreements. The Zaba Facility is on more favourable terms than the previous loan agreements and will reduce the Company's annual interest costs by approximately 300 bps and reduce the annual amortisation by approximately HRK 33.4 million. Furthermore, the interest rate in the Zaba Facility is fixed, thereby reducing the effect of any increase in market interest rates on the financial performance of the Company.

> 2017
> **A FINANCIAL MILESTONE IN THE HISTORY OF THE COMPANY**

The public offering proceeds and the new favourable terms under the Zaba Facility gives the Group additional resources to enable it to finance future renovations and acquisitions.

Business performance

Reported total revenue increased by 64.5% to HRK 717.2 million (2016: HRK 435.9 million), mainly as a result of the first-time consolidation of revenues from the German and Hungarian operations and a strong performance from our Croatian operations. Of the reported total revenue, 67% is realised from the Croatian operations, 32% from the German and Hungarian operations, and the remaining 1%

The table below sets out the Group's consolidated results of operations for the year ended 31 December 2017.

Consolidated key performance indicators

	Reported[1]			Like-for-like[2]		
	Year ended 31 December 2017	Year ended 31 December 2016	Variance %[3]	**Year ended 31 December 2017**	Year ended 31 December 2016	Variance %[3]
Total revenue (HRK million)	**717.2**	435.9	64.5	669.6	616.9	8.5
Accommodation revenue (HRK million)	**576.4**	353.6	63.0	538.6	483.1	11.5
EBITDAR (HRK million)	**250.5**	140.8	77.9	243.1	194.7	24.9
EBITDA (HRK million)	**212.9**	132.0	61.3	205.5	142.7	44.0
Profit/(loss) before tax (HRK million)	**111.5**	(138.0)	N/A	N/A	N/A	N/A
Rooms available[4]	**1,934,233**	1,652,488	17.0	1,869,628	1,909,420	(2.1)
Occupancy %[4]	**53.2**	45.3	790[6]	53.0	49.5	370[6]
Average daily rate (HRK)[5]	**560.1**	472.4	18.6	543.4	510.8	6.4
RevPAR (HRK)	**298.0**	214.0	39.3	288.1	253.0	13.9

1 The reported 2016 results include the results of the companies Arenaturist Zlatne Stijene d.o.o., Arenaturist Hoteli d.o.o. and Arenaturist Turistička Naselja d.o.o (the 'Bora Companies') as of 1 January 2016. The Company acquired the Bora Companies on 30 June 2016. However, as this acquisition involved the combination of businesses under common control, the retrospective predecessor method of accounting has been applied.
2 The like-for-like comparison figures for 2016 and 2017 include Sugarhill and its subsidiaries (the 'Sugarhill Group') as if they had been acquired on 1 January 2016 with the following exceptions:
– The results of Park Plaza Nuremberg are not included in 2016 and 2017 as the hotel opened in June 2016.
– The like-for-like figures for 2016 do not include the financial effect of the changes to the management agreements with PPHE Hotel Group.
3 % change figures are calculated from actual figures as opposed to the rounded figures included in the above table. Unless otherwise indicated, all figures in this report compare nine months ended 30 September 2017 with nine months ended 30 September 2016. All financial information in this report for accommodation revenue, total revenue, EBITDAR and EBITDA reflects the Group's interest.
4 Rooms available and the occupancy calculation are based on operating days.
5 Average daily rate represents total room revenues divided by the total number of paid units occupied by guests.
6 In Basis Points (bps).

CHIEF FINANCIAL OFFICER'S STATEMENT
CONTINUED

from managed and centralised services. Reported accommodation revenue increased by 63.0% to HRK 576.4 million (2016: HRK 353.6 million).

Like-for-like RevPAR increased by 13.9% to HRK 288.1 (2016: HRK 253.0), reflecting improved trading of our operations in all our regions. This RevPAR growth was achieved through a 6.4% increase in average daily rate to HRK 543.4 (2016: HRK 510.8) and a 370 bps increase in occupancy to 53.0% (2016: 49.5%). As a result, like-for-like accommodation revenue was up 11.5% to HRK 538.6 million (2016: HRK 483.1 million).

Reported RevPAR increased by 39.3% to HRK 298.0 (2016: HRK 214.0). This increase was a direct result of the first time consolidation of our German and Hungarian operations, which are city based and operate year round. Occupancy increased by 790 bps and the average daily rate increased by 18.6%.

Reported EBITDA increased by HRK 80.9 million to HRK 212.9 million (2016: HRK 132.0 million) which represents a growth of 61.3%. The EBITDA margin in 2017 was 29.7%, which is a year-on-year decrease of 60 bps. The positive effect on the EBITDA margin is the result of both strong trading performance in Croatia and the restructuring of the Group's existing operating agreements for its German, Hungarian and Croatian properties (the "Operational Restructuring"). This positive impact was, however, offset by the relatively lower EBITDA margins of Park Plaza Wallstreet Berlin Mitte and art'otel budapest, both of which have long-term leases.

+61.3%
EBITDA growth

HRK 717.2m
Total revenue

Operational Restructuring
Following the Operational Restructuring, the Group benefits as of 1 January 2017 from new operational, licensing, sales and marketing relationships. More specifically, each of the Group's prior operating agreements was amended, restated and novated (as applicable) in order to create two new separate agreements for each of the Group's hotels. As a result, the supervision and operation of the hotels was transferred to a subsidiary of the Company, Arena Hospitality Management d.o.o ('Arena Hospitality Management'), from other members of PPHE Hotel Group, including all obligations of the operator other than sales and marketing services and certain central services such as training. In addition, the relevant hotel owning companies within the Group have been granted a non-exclusive licence by a member of PPHE Hotel Group, including the right to use the 'Park Plaza' brand or, in the case of the relevant German and Hungarian hotels only, the 'art'otel' brand. PPHE Hotel Group will continue to provide certain sales and marketing services under the terms of the separate licence, sales and marketing agreements.

	Consolidated		Company	
	Year ended 31 December (HRK million)			
Normalised profit before tax	**2017**	2016	**2017**	2016
Reported profit before tax	**111.5**	(138.0)	**84.3**	(135.1)
Amortisation capitalised refinanced costs	**4.3**		**4.3**	
Impairment on property, plant and equipment		148.6		148.6
Non-recurring cost of restructuring etc		6.6		6.6
Increase in depreciation due to merger or renovation		12.9		
Fair value movement related party loan		12.6		12.6
Normalised profit before tax	**115.9**	42.7	**88.0**	32.7

Normalised profit before tax
Normalised profit before tax increased by 171.4% to HRK 115.9 million (2016: HRK 42.7 million). The Sugarhill acquisition encompassing the German and Hungarian operations and the Operational Restructuring were the main drivers of the increase. Adjustments made to normalise reported results relate to items that the Group considers unrelated to its day-to-day business activities and important for the understanding of the underlying performance, for which reconciliation is provided in the table above.

Profit before tax
Reported profit before tax increased by HRK 249.5 million to HRK 111.5 million (2016: loss of HRK 138.0 million). The increase in reported profit was due to the significant non-recurring expenses in 2016, the improved performance of our Croatian operations, the effect of the Operational Restructuring and the first-time consolidation of our German and Hungarian operations. All of the above and other minor adjustments are outlined in the table on page 34.

Financial position
The net bank and third party debt as at 31 December 2017 was HRK 120.0 million, a decrease of HRK 366.8 million (as at December 2016: HRK 486.8 million). The HRK 261.2 million increase in total indebtedness to HRK 920.3 million (2016: HRK 659.1 million) was offset by a HRK 628.0 million increase in the cash and deposit position to HRK 800.3 million (2016: HRK 172.3 million).

During the year, the increase in total indebtedness of HRK 261.2 million included, among others, a HRK 359.5 million increase to finance the acquisition of the freehold interests of art'otel cologne and art'otel berlin kudamm in Germany; a HRK 7.5 million increase as part of the refinanced facility of Park Plaza Nuremberg; a HRK 58.0 million decrease following regular amortisation in Croatia; and a decrease of HRK 37.0 million due to additional amortisation under a HBOR loan.

+171.4%
Normalised profit before tax

The increase in the cash and deposit position of HRK 628.0 million is mainly caused by the net proceeds from the public offering amounting to HRK 741.7 million. Part of the proceeds was used to purchase the remaining 12% of the shares in Sugarhill (HRK 61.8 million) and to repay the EUR 9.5 million (HRK 68.1 million) loan from Euro Sea Hotels N.V., which was provided to finance the acquisition of the freehold interests in art'otel cologne and art'otel berlin kudamm. Further, the net cash flow from operations and other financing and investment activities contributed to the remaining increase in the cash and deposit position.

Earnings and shareholder value
Normalised earnings per share was HRK 22.0 (2016: HRK 18.2), an increase of 20.9%. Reported basic/diluted earnings per share for the period was HRK 20.9, compared to a loss of HRK 52.4 in 2016.

Share capital
The Company's shares are listed on the Official Market of the Zagreb Stock Exchange. The Company's share capital changed during 2017 as follows:

- Up and until 7 February 2017, the Company's share capital was 2,182,500, of which 169 were held in treasury.
- On 7 February 2017, the Company registered 1,091,250 new shares following the issue of such shares in December 2016 as consideration for the acquisition of Sugarhill. Following this registration, the issued share capital of the Company was 3,273,750 shares.
- On 31 May 2017, the Company's share capital was increased to 5,128,721 shares.

As at 31 December 2017, the Company had 5,128,721 registered shares, of which 169 were held in treasury. The average number of outstanding shares in 2017 amounts to 4,195,990 shares.

There are more than 4,000 shareholders. The market capitalisation of the Company as at 31 December 2017 amounts to HRK 2,313.9 million (31.12.2016: HRK 1,046.6 million).

Dividend
The Company intends to retain its earnings and use them for growth and therefore does not envisage paying any dividends in 2018. The Company will keep this policy under review in light of the growth opportunities available to the Group and may revise it from time to time.

Looking ahead
After reporting a strong year, the Group is well-placed to continue to invest in the major renovation projects for our Croatian and German assets and to invest in new development opportunities across the CEE region.

Proforma split of return on equity capital employed
The Group's assets and operations have been split into different categories in the table on page 37 and a proforma return on equity has been calculated for each category. This split of assets, liabilities and operational results is relevant for performance assessment and resource allocation by the management. The bank debt in Croatia is not secured on the non renovated hotels and this will make partial debt financing of future renovations possible. The use of debt financing for renovations should result in an increase in the return on capital and equity for this category in line with the renovated properties. The capital employed for campsites is at this moment minimal, however the Group intends in the coming years to make significant investments in mobiles homes, glamping tents and the infrastructure of the campsites. While this investment in campsites will reduce the equity return, in absolute terms the EBITDA and EBIT contribution will increase significantly while maintaining a return on equity of 20% or more for this category.

Following the public offering and the positive cash flow from operations, as at 31 December 2017, the Group has an excess of cash amounting to HRK 658.6 million. The Group will fund the new investments with a mixture of debt and equity. The Group targets an EBITDA return of 10% on investment at the end of the third year of operation. The investment of the surplus cash should have a significant positive effect on the total equity return of the Group. Furthermore, the future reduction of the annual interest costs following the Zaba refinancing amounting to approximately HRK 13 million will also have a significant positive impact on the equity return of the Group.

	Croatia			Germany / Hungary	Managed and centralised services[3]	Surplus Cash	Total
	owned and / or operated						
	renovated	non renovated	Campsites	renovated			
Tangible Fixed Assets[1]	687.9	233.0	124.2	656.2	76.8		1,778.1
Book value non consolidated investments				37.3			37.3
Capital Employed	687.9	233.0	124.2	693.5	76.8		1,815.4
Long term bank and other debt	(456.1)			(426.0)			(882.1)
Short term bank debt debt	(24.5)			(13.7)			(38.2)
Cash and cash equivalents				55.3	86.4	658.6	800.3
Net debt	(480.7)	0.0	0.0	(384.3)	86.4	658.6	(120.0)
Other assets and liabilities				(50.3)	(79.3)		(129.6)
Equity capital employed	207.3	233.0	124.2	258.9	83.8	658.6	1,565.8
Revenues	257.7	84.1	136.5	227.8	11.1		717.2
Adjusted EBITDA[2]	80.4	27.0	68.6	56.2	(19.4)	0.0	212.9
Depreciation, amortisation and impairment	(30.8)	(7.8)	(8.7)	(13.1)	(2.1)		(62.5)
Adjusted EBIT[2]	49.6	19.2	60.0	43.1	(21.5)	0.0	150.4
Share in result of joint venture				(1.0)			(1.0)
Finance charges bank debt and other debt	(24.5)			(14.4)			(39.0)
Other finance income and expenses				0.8	4.6		5.4
Adjusted normalised profit before tax[2]	25.1	19.2	60.0	28.5	(16.9)	0.0	115.9
Capital employed/EBITDA	8.6	8.6	1.8	12.3	(4.0)		8.5
Return on equity capital employed	12.1%	8.2%	48.3%	11.0%	(20.2%)	0.0%	7.4%

1 Assets are reported at cost, less depreciation
2 Management fees genererated by owned and leased properties are added back on the results of these properties
3 The results of managed and centralised services are unallocated central management costs and third party management fees received

OPERATING REVIEW:

CROATIA

The Group's operations in Croatia are of a highly seasonal nature with the majority of guest visits occurring from June to September. The Group's Croatian operations delivered a strong year-on-year financial performance, driven by a record-breaking summer season.

Croatia portfolio performance

The table below sets out the results for the Group's operations in Croatia for the year ended 31 December 2017.

Hotels, self-catering holiday apartment complexes and campsite operations
Key performance indicators

	2017	2016	Variance %
Total revenue (HRK million)	**479.8**	435.9	10.1
Accommodation revenue (HRK million)	**396.5**	353.6	12.1
EBITDAR (HRK million)	**168.0**	154.8	8.6
EBITDA (HRK million)	**159.1**	143.9	10.6
Rooms available[1]	**1,613,398**	1,652,488	(2.4)
Occupancy %	**48.6%**	45.3%	330[4]
Occupancy % 365 days	**24.1%**	23.4%	70[4]
Average daily rate (HRK)[2]	**505.6**	472.4	7.0
RevPAR (HRK)	**245.8**	214.0	14.9
RevPAR 365 (HRK)	**122.0**	110.7	10.2
FTE[3]	**639**	567	12,7

1 Rooms available are based on operating days.
2 Average daily rate represents total accommodation revenues divided by the total number of paid units occupied by guests.
3 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.
4 In Basis Points (bps).

Hotels, self-catering holiday apartment complexes and campsite operations

Performance

Total revenue increased by 10.1% to HRK 479.8 million, primarily due to a strong performance in June, July and August. June was a record month with a significant increase in demand for hotels, self-catering holiday apartment complexes and campsites. The result is 34.5% year-on-year growth for these months. Total revenue in July and August increased by 10.5% and 8.3% respectively compared with 2016.

This growth was underpinned by a 7.0% increase in average daily rate and 330 bps increase in occupancy. As a result, accommodation revenue increased by 12.1% to HRK 396.5 million and RevPAR was up 14.9% compared with 2016.

EBITDAR grew by 8.6% to HRK 168.0 million and EBITDA increased by 10.6% to HRK 159.1 million. This growth was a direct result of increased revenue and effective cost management during the year. There was also a marked increase of 20.5% in bookings through direct Internet channels.

10.1%
Total revenue increase

HRK 52.2m
Croatian operations investments

2017 investment projects

In total, the Croatian operations benefited from HRK 52.2 million of investments across the portfolio ahead of the peak season. This investment included the refurbishment of rooms, public areas and facilities at hotels and campsites, which are detailed on page 14.

Market drivers in Croatia

Trading in Croatia is of a highly seasonal nature, with the majority of visits taking place during the peak summer months (June to September).

In 2017, the record summer season was driven by the increasing attractiveness of Croatia as a destination for holidaymakers and the growth in the number of direct flights to Pula from major European cities.

Istria once again attracted a range of sports events and festivals which provided a further boost to visitor numbers. Major events included the return of the Outlook and Dimensions music festivals to Pula, attracting 10,000 and 6,000 visitors respectively; the International Pula Bridge Festival, the largest bridge tournament in Europe; the Arena Cup, an international football tournament which used the FIFA accredited pitches at Park Plaza Belvedere Medulin; and the Ironman 70.3 competition organised by the World Triathlon Corporation.

OPERATING REVIEW: CROATIA
CONTINUED

Hotel operations
Performance

Total revenue increased by HRK 12.4 million and accommodation revenue increased by 8.7% to HRK 180.7 million, driven by a 10.4% increase in average daily rate and a 90 bps increase in occupancy based on operating days. RevPAR increased significantly to HRK 500.6, a 12.0% increase year-on-year.

EBITDAR and EBITDA decreased year-on-year by 4.3% as the hotels were open for seven fewer days in 2017 than in 2016. In 2016 all costs from central services were not allocated to the hotels. Furthermore the allocation key in 2017 was changed.

Investment projects

The Company invested HRK 23.4 million in its hotels in advance of the 2017 summer season, including the total refurbishment of the rooms and public areas at Hotel Holiday in Medulin, as well as the addition of a third outdoor swimming pool.

At Park Plaza Belvedere in Medulin, which is a sports orientated hotel with facilities especially tailored to cater for sports teams and professionals, two artificial football pitches were constructed in addition to the four grass pitches already in place. All these pitches have received FIFA Quality Pro accreditation.

Due to its excellent geographical location and climate, Croatia is the ideal European destination for sports teams of all ages and levels and Park Plaza Belvedere Medulin is ideally suited for many sporting needs. The hotel is open all year round and is used for training outside of the peak summer period.

Planned investment projects

The planning and designs for the major renovation of Hotel Brioni, located within the Park Plaza Verudela Resort in Pula, are being finalised. This will reposition the property as an upper upscale Park Plaza branded hotel. More details are provided on page 23 and an update on the commencement of works will be provided in due course. We will continue with renovations at Hotel Holiday through the kitchen and restaurant refurbishment and the installation of new lifts. In addition, part of the Verudela Beach self-catering holiday apartment complex will be transformed into an extension of Park Plaza Arena Pula.

Self-catering holiday apartment complexes
Performance

Total revenue from self-catering holiday apartment complexes increased by 10.8% year-on-year to HRK 107.5 million and accommodation revenue increased slightly ahead of this by 13.3% to HRK 85.8 million. This result was driven by a 1,250 bps increase in occupancy and a 3.9% increase in average daily rate. As a result, RevPAR increased by 29.9% to HRK 470.6, compared with RevPAR of HRK 362.2 in 2016.

EBITDA was HRK 37.3 million, an increase of 13.0% compared with 2016. This growth was mainly driven by higher revenues.

Investment projects

In the first quarter of 2017, we undertook works to replace the window blinds and the doors in Park Plaza Verudela Pula.

Branded facilities operations[4]

Park Plaza Histria Pula, Park Plaza Belvedere Medulin, Park Plaza Arena Pula and Sensimar Medulin are branded hotels and Park Plaza Verudela Pula is a branded self-catering holiday apartment complex.

The Group's Park Plaza branded hotel operations continued to perform strongly, benefiting from the brand recognition and the Carlson Reservation System and marketing platform as well as the in-house marketing team activities.

Hotel operations
Key performance indicators

	2017	2016	Variance %
Total revenue (HRK million)	**235.8**	223.4	5.6
Accommodation revenue (HRK million)	**180.7**	166.2	8.7
EBITDAR (HRK million)	**59.5**	62.2	(4.3)
EBITDA (HRK million)	**58.9**	61.5	(4.3)
Rooms available[1]	**360,964**	371,754	(2.9)
Occupancy %	**63.5%**	62.6%	90[3]
Occupancy % 365 days	**38.8%**	39.3%	(50)[3]
Average daily rate (HRK)[2]	**788.3**	713.9	10.4
RevPAR (HRK)	**500.6**	447.1	12.0
RevPAR 365 (HRK)	**305.8**	280.5	9.0

Self-catering holiday apartment complex operations
Key performance indicators

	2017	2016	Variance %
Total revenue (HRK million)	**107.5**	97.0	10.8
Accommodation revenue (HRK million)	**85.8**	75.7	13.3
EBITDAR (HRK million)	**38.1**	35.7	6.6
EBITDA (HRK million)	**37.3**	33.0	13.0
Rooms available[1]	**182,274**	209,035	(12.8)
Occupancy %	**62.2%**	49.7%	1,250[3]
Occupancy % 365 days	**29.3%**	26.8%	250[3]
Average daily rate (HRK)[2]	**757.1**	728.6	3.9
RevPAR (HRK)	**470.6**	362.2	29.9
RevPAR 365 (HRK)	**221.7**	195.2	13.6

Branded facilities operations[4]
Key performance indicators

	2017	2016	Variance %
Total revenue (HRK million)	**259.2**	241.4	7.4
Accommodation revenue (HRK million)	**194.3**	177.9	9.3
EBITDAR (HRK million)	**72.9**	74.2	(1.8)
EBITDA (HRK million)	**72.0**	73.3	(1.7)
Rooms available[1]	**359,522**	372,203	(3.4)
Occupancy %	**62.8%**	59.9%	290[3]
Occupancy % 365 days	**39.9%**	39.4%	50[3]
Average daily rate (HRK)[2]	**860.2**	797.5	7.9
RevPAR (HRK)	**540.6**	477.9	13.1
RevPAR 365 (HRK)	**343.3**	279.6	22.8

1 Rooms available are based on operating days.
2 Average daily rate represents total accommodation revenues divided by the total number of paid units occupied by guests.
3 In Basis Points (bps).
4 Branded facilities operations consists of: Park Plaza Histria Pula, Park Plaza Belvedere Medulin, Park Plaza Arena Pula, Sensimar Medulin and Park Plaza Verudela Pula.

OPERATING REVIEW: CROATIA
CONTINUED

Campsite operations
Key performance indicators

	2017	2016	Variance %
Total revenue (HRK million)	**136.5**	118.3	15.4
Accommodation revenue (HRK million)	**130.1**	111.9	16.3
EBITDAR (HRK million)	**70.5**	57.0	23.6
EBITDA (HRK million)	**62.9**	49.4	27.3
Rooms available[1]	**1,070,160**	1,071,669	(0.1)
Occupancy %	**41.3%**	38.4%	290[3]
Occupancy % 365 days	**19.4%**	18.5%	90[3]
Average daily rate (HRK)[2]	**294.5**	271.7	8.4
RevPAR (HRK)	**121.6**	104.4	16.4
RevPAR 365 (HRK)	**57.3**	50.3	13.8

1 Rooms available are based on operating days.
2 Average daily rate represents total accommodation revenues divided by the total number of paid units occupied by guests.
3 In Basis Points (bps).

Campsite operations
Performance

The Group's campsite operations, which are open between April and September, performed particularly strongly during the peak summer months. Campsite total revenue increased by 15.4% to HRK 136.5 million. Similarly, accommodation revenue increased by 16.3% to HRK 130.1 million.

Revenues rose due to a 290 bps increase in occupancy to 41.3% and a 8.4 % improvement in average daily rate to HRK 294.5.

EBITDA improved significantly to HRK 62.9 million, an increase of 27.3% compared with 2016. This growth was a direct result of increased revenue by HRK 18.2 million and effective cost management during the year. The EBITDA margin increased by 400 bps to 46.1%.

+290 bps
occupancy

+400 bps
EBITDA margin

Investment projects

A number of investment projects were undertaken in early 2017 to improve facilities before the season commenced.

A new sewage system was installed at Arena Pomer Campsite, whilst at Arena Stoja Campsite the diving club was redeveloped. Twelve new mobile homes were purchased for Arena Kažela Campsite and a new reception area was built at Arena Stupice Campsite.

Planned investment projects

For the 2018 summer season, the Group plans to invest in a new upscale 'glamping' offering at Arena Pomer Campsite, providing an alternative premium accommodation option to guests. More details are provided on page 23 and further details will be provided as these plans develop.

CAPTURING THAT LOCAL FLAVOUR

In their daily offerings, our restaurants draw on the inspiration from local Istrian and Mediterranean gastronomy with the inclusion of contemporary food trends and food options, such as gluten-free.

Our chefs have created their own Mediterranean dishes with a modern twist that offer a journey through regional specialities and culinary creations. These signature dishes are reinvented with contemporary ingredients and new-age cooking techniques.

OPERATING REVIEW:

GERMANY AND HUNGARY

Improved trading, first time contributions from Park Plaza Nuremberg and the acquisition of two freehold properties, which were previously leased, improved the EBITDA of Germany.

German and Hungarian portfolio performance

The table below sets out the Group's results of operations in Germany and Hungary for the year ended 31 December 2017.

Key performance indicators

	Reported / Pro forma in HRK[1]			Reported / Pro forma in Euros (€)[1]		Like-for-like in HRK[2]		
	2017[1]	2016[1]	Variance %	**2017[1]**	2016[1]	**2017**	2016	Variance %
Total revenue (millions)	**227.8**	189.0	20.5	**30.5**	25.1	**180.2**	168.1	7.2
Accommodation revenue (millions)	**179.9**	146.6	22.7	**24.1**	19.5	**142.1**	129.3	9.9
EBITDAR (millions)	**70.7**	56.9	24.3	**9.5**	7.6	**59.3**	53.5	10.9
EBITDA (millions)	**42.8**	14.5	195.4	**5.7**	1.9	**31.5**	11.1	183.4
Rooms available[3]	**320,835**	293,325	9.4	**320,835**	293,325	**256,230**	256,932	(0.3)
Occupancy %[3]	**76.3%**	72.3%	400[6]	**76.3%**	72.3%	**80.8%**	76.8%	400[6]
Average daily rate[4]	**734.4**	689.4	6.5	**98.4**	91.6	**686.5**	655.6	4.7
RevPAR	**560.7**	498.7	12.4	**75.2**	66.3	**554.6**	503.2	10.2
FTE[5]	**254**	264	(3,9)	**254**	264			

1 The 2017 results of Germany and Hungary operations are included in the consolidated results of the Group. The 2016 results of Germany and Hungary operations are pro forma results and presented for analytical purposes only.
2 The like-for-like comparison figures exclude Park Plaza Nuremberg in 2016 and 2017 as the hotel opened in June 2016.
3 Rooms available and the occupancy calculation are based on operating days. The hotels in Germany and Hungary are operated every day of the year.
4 Average daily rate represents total accommodation revenues divided by the total number of paid units occupied by guests.
5 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.
6 In Basis Points (bps).

Performance

The Group's operations in Germany and Hungary delivered a strong year-on-year performance.

Total reported revenue grew by 20.5% to HRK 227.8 million (2016: pro forma: HRK 189.0 million), driven by the first full year contribution from Park Plaza Nuremberg, which opened in June 2016. In addition, several of our properties were undergoing renovations in the first quarter of 2016 and markets were relatively soft at that time.

On a like-for-like basis, total revenue increased by 7.2% to HRK 180.2 million, driven by a 400 bps increase in occupancy to 80.8% and a 4.7% improvement in average daily rate to HRK 686.5. RevPAR was HRK 554.6, an increase of 10.2%.

Reported EBITDA increased by 195.4% to HRK 42.8 million (2016: pro forma: HRK 14.5 million), benefiting from the first annual contribution from Park Plaza Nuremberg, the acquisition of the freehold interests of art'otel cologne and art'otel berlin kudamm (which resulted in lower rental payments of HRK 15.1 million associated with the two operating leases previously payable to third parties) and improved trading.

20.5%

Total revenue increase

Planned investment projects

The Group has a number of renovation projects supporting the current portfolio in order to ensure consistency of product quality and guest experience. At art'otel cologne, plans are being finalised for the renovation of the restaurant, bar and lobby area. At art'otel berlin kudamm, the restaurant, bar and approximately half of the room inventory is expected to be renovated during 2018.

Following the success of our complimentary smartphone trial at all Park Plaza branded properties in Croatia, the service will be rolled out across all hotels in Germany and Hungary during 2018, starting with art'otel berlin mitte and Park Plaza Wallstreet Berlin Mitte.

OPERATING REVIEW: MANAGED AND CENRALISED SERVICES

Managed and centralised services
Key performance indicators

	2017	2016	Variance %
Total revenue before elimination (HRK million)	**111.8**	52.7	112.1
Elimination of intra-Group revenue (HRK million)	**102.2**	51.3	99.2
Total reported revenue (HRK million)	**9.6**	1.4	585.7
EBITDA (HRK million)	**10.9**	(11.9)	N/A
FTE[1]	**247**	238	3,6

1 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.

Managed and centralised services
The table above sets out the Group's results for managed and centralised services operations for the year ended 31 December 2017.

In December 2016, the Group acquired a portfolio of seven owned, co-owned and/or leased hotels and one managed hotel in Germany and Hungary, and became the controlling shareholder of Arena Hospitality Management, previously a wholly owned subsidiary of Sugarhill.

In addition, Arena Hospitality Management acquired from PPHE Hotel Group the hotel management agreements for the Group's Croatian properties as well as those of the newly acquired portfolio of hotels in Germany and Hungary.

As such, activities previously performed outside of the Group are now performed within the Group and the Group is now both owner and operator of a large part of its portfolio. As a result, all hotel management revenue related to all hotels is eliminated upon consolidation as intra-Group revenue.

CAPTURING THAT LOCAL FLAVOUR

The modern and bright interiors of our restaurants offer the finest dining and bar experiences with fresh seasonal ingredients and local flavours created for our in-house guests and the local community.

Our restaurant BA Beef Club, a meat-lover's paradise located in the heart of Nuremberg, offers premium quality steaks sourced from local family butchers. The BA stands for Bavarian American, reflecting the two culinary influences fused into a refined menu. In some of our bars, guests can try signature cocktails and small bites from across the Mediterranean while enjoying original art from renowned local and international artists.

RESPONSIBLE BUSINESS

RESPONSIBLE BUSINESS STRATEGY

RESPONSIBLE EXPERIENCES

Inspiring guests

- Guests

Creating centres of excellence

- Investment
- Partners

Developing our people

- Team members
- Potential team members
- Influencers

Being part of our communities

- Local community
- Government

As one of the leading hospitality companies in the CEE region, the Group is fully aware of the impact our actions have on people, the environment and the communities in which we operate.

The Company has committed to working with its controlling shareholder, PPHE Hotel Group, to develop a responsible business strategy called Responsible Experiences, and implement it across all markets and brands in 2018. This responsible business strategy will build upon our corporate social responsibility (CSR) activity of previous years to create a long-term sustainable responsible business model for the whole Group.

The Group's business strategy has always focused on making a difference in preserving the environment for future generations and positively impacting people's lives and the local communities in which it operates. This has been achieved through active involvement in several sustainability initiatives as well as community and charity focused activities driven by a commitment to people, communities and environment programmes.

In 2017, the decision was made to review and develop the CSR approach to ensure it underpins the Group-wide key business strategies, while complying with internationally recognised frameworks and the criteria outlined in environmental, social and governance (ESG) indices. To achieve this required the development of a responsible business strategy that has a broader scope than previous CSR activity alone.

The responsible business strategy has been developed by all our team members in collaboration with PPHE Hotel Group, using the Group's values and behaviours already employed by the hotels, restaurants, bars, spas and their teams. Working together, we have defined a responsible business mission and four pillars reflecting key areas of activity relating to specific audience groups as the basis of our responsible business strategy.

This report focuses on the progress the Group has made in each of the four pillars across the last 12 months.

2018 and beyond

Going into 2018, we plan to report on these measurements and set ourselves targets and key performance indicators (KPIs) for future goals. This way we can track our progress, celebrate our successes and identify areas for improvement.

RESPONSIBLE BUSINESS CONTINUED

Inspiring guests

We place guest experience at the heart of everything we do. It is important for the sustainability of the Group that we build trusted relationships with our guests, creating 'ambassadors' of our brands through exceeding their expectations and constantly delighting them with our individuality and passion.

Guests will always be the primary focus for all Group activity. For this first section, 'Inspiring guests', we focus on the key principles (shown right), which summarise the manner in which the Group expects to conduct its business. The key principles are wholly aligned with the aims of the Group's controlling shareholder, PPHE Hotel Group.

Health, safety, security and risk

The health and safety of our team members and our customers is critical to the Group and is a major priority. We recognise the necessity of safeguarding the health and safety of our own team members while at work and of our our guests when staying at or visiting any of our properties, and operate so as to provide a safe and comfortable environment for team members, guests and the public. Our policy is to manage our activities to avoid causing any unnecessary or unacceptable risks to health and safety and our immediate environments. The Group has an excellent health and safety record and a culture of safety is deeply embedded within the Group.

KEY PRINCIPLES

1

Integrity

- Our team members are expected to deliver services that meet the highest professional, ethical and business standards.
- We continuously strive to build long-term relationships with our guests and business partners by acting honestly, fairly and transparently at all times.

2

Compliance with the law

- All our team members and others to whom these Key Principles apply must comply with the laws, regulations and professional standards of every country in which we operate.
- In the event of any conflict between these Key Principles and the laws of any country in which business is being conducted, the higher standard must always be applied.

3

Anti-bribery and corruption

- Any person involved in our business must not, directly or indirectly, authorise, offer, promise, pay, give or receive (i) a bribe; (ii) a 'kickback'; or (iii) a facilitation payment.
- The amount offered or paid is irrelevant and it need not actually be paid for an offence to be committed.

4

Fraud – zero tolerance

- The Group is committed to the prevention, detection and proper investigation of fraud and seeks a mutual commitment from its business partners in this respect.
- Fraudulent conduct involves deception and dishonesty and includes: (i) fraudulent financial reporting; (ii) misappropriation of assets; (iii) theft; (iv) bribery or corruption; and (v) concealing a conflict of interest.

5

Gifts and hospitality

- The Group's team members or others to whom these Key Principles apply must not accept or offer gifts, meals, entertainment or other benefits that go beyond normal business courtesies, other than in accordance with the Group's Gift and Entertainment Policy.
- A central register of gifts and hospitality is kept. This contains complete details of any entertainment, hospitality or gift accepted.
- The Gifts and Entertainment Policy has further guidance on this.

6

Conflicts of interest

- The Group's team members and business partners must avoid situations where personal interests could conflict with the Group's interests.
- Any potential conflicts of interest must be reported promptly so that they can be managed appropriately.

7

Business partners

- The Group's reputation depends upon the quality of the service that we deliver.
- There must be a solid and documented basis for trusting and appointing a business partner to conduct business on the Group's behalf and sufficient background checks should be carried out.
- We will only pay our business partners in accordance with agreed terms and expect all our business partners to adhere to or adopt equally stringent ethical standards as set out in these Key Principles.
- Our team members are instructed to refer to the Policy on the Use of Agents, Intermediaries and other Third Parties, and the Procurement Code of Conduct, for further guidance on this.

8

Political and charitable donations

- The Group's team members or others to whom these Key Principles apply must not, under any circumstances, make political donations on behalf of the Group.
- Charitable donations may not be made on behalf of the Group without approval by the Legal Department. Charities with political connections must be avoided. A record must be kept of all charitable donations.

9

Books and records

- The Group's team members or others to whom these Key Principles apply, must not create "off book" or secret accounts or documents that relate to any Company business.

10

Reporting irregularities

- It is not enough simply to follow these Key Principles. We must enforce these Key Principles in the event we suspect or witness any breach of its provisions.
- Our team members are encouraged to report any concerns to the contacts set out on page 108. The concern will then be investigated promptly and impartially and any necessary steps can be taken to preserve the Group's reputation.

RESPONSIBLE BUSINESS CONTINUED

Creating centres of excellence
As one of the most dynamic hospitality groups in the CEE region currently offering a portfolio of 27 owned, co-owned, leased and managed properties with more than 10,000 rooms and accommodation units in Croatia, Germany and Hungary, we realise that this is where we have the most impact on our guests, team members, partners, shareholders and the communities in which we operate. It is therefore critical that we develop a blueprint for long-term sustainable development and ethical operational practices.

Implementing our blueprint will form a critical part of our team member and guest education and engagement, having them contribute to our sustainability projects as and when appropriate. We have identified several initial areas of focus such as environmental initiatives, supply chain management, building long-term relationships with strategic partners and enhancing asset value and growing revenues through financial stewardship.

Green Team
As part of our responsible business initiatives, we have created a Green Team which promotes sustainability across all our properties in Croatia, Germany and Hungary. This will help us to reduce our carbon footprint and waste, as well as contribute to better water preservation.

In Croatia, under the Green Team project, 54.0 tonnes of paper and cardboard were collected and recycled in 2017. This is lower than in 2016 (63.5 tonnes) because paper and cardboard waste has been reduced at source. All other types of recyclable waste were separated into 20 different types, including glass, metals, energy saving lamps, batteries, waste oils and food residues from kitchens. Incentive schemes are in place to reward our hotels, self-catering holiday apartment complexes and campsites that achieve the best results in each category.

54.0
tonnes of paper and cardboard were collected and recycled in 2017

2%
reduction in electricity usage

In addition to the initiatives above, we use our own water sources and have waste-to-water recycling schemes in place, in-room towel and bed linen schemes, motion sensor lights, LED lights and combined heat and power (CHP) units, as well as solar thermal collectors. We have also switched our energy source at our centralised laundry site from oil to gas in order to be more environmentally friendly. Gas combustion produces less carbon dioxide (CO_2), carbon monoxide (CO), sulfur (S) and nitrogen oxides (NO_2) than the fuel oil we used before. These are just a few examples of the improvements we are constantly making within our business.

Together, these programmes can help drive change in environmental protection.

In Germany, we passed the recertification under European Energy Efficiency Directive (ISO 50001:2011). The Energy Management System was implemented in 2016 and includes auditing every property with suggestions for improvement. Those are then reflected in our annual planning. In 2017 we further drove the change from conventional bulbs to LED and motion sensors which resulted in a 2% reduction in electricity usage. Corporate programmes such as towel and linen schemes are in place and helped to stabilise water consumption.

Recognition and Certification
While we are developing our new responsible business strategy, it is important for us to know if we are on the right track with our current activities and we therefore highly value external accreditation.

Several of our hotels have worked with relevant CSR authorities and have received a number of required accreditations. We will continue to review similar initiatives for all our hotels.

Hotel / Croatia	Green / CSR Award / Accreditation	Grade (Gold / Silver / Bronze)
Park Plaza Belvedere Medulin	Travel life	Gold
Park Plaza Arena Pula	Caprad'oro 2017 Inovacija	Gold Inovation
Hotel Holiday Medulin	Arenaturist Green Team 2015	
Sensimar Medulin	Travellife	Gold

For a full list of awards and accreditations for the Group, please visit the awards page on our website: www.arenahospitalitygroup.com/en/about-us/awards

Developing our people

We recognise that our team members are central to the success of the Group and how we operate. Our company culture is one of openness, trust, support, caring and connecting, but is also about personal growth. It is critical that we invest in our talent and encourage employee growth by delivering an exciting and forward-thinking work place for employees to develop their skills and knowledge, providing them with the opportunities to grow with our business.

Internal promotions and transfers

Our operating results indicate the success of our properties in 2017. In Croatia, we had a very successful season, and our expansion into Germany and Hungary has transformed the Group into an all year round operator.

Across the Group, we employed more than 1,400 team members in 2017, 371 of whom were permanent team members. Our all-year-round operations in Germany provided the opportunity for 50 previously seasonal team members to work in Germany outside of the Croatian summer season.

More than 50 employees celebrated their long-term employment anniversary this year, of whom 28 have been employed for 30 years and 9 have been employed for 35 years by the Company.

More than half of our employees in the peak season are seasonal employees. We retained 150 high quality seasonal employees through 'permanent seasonal contracts'. The average age of permanent employees in the Group is 47 years.

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

253

training programmes were undertaken in 2017

50+

employees celebrated their long-term employment anniversary this year

Learning and development programmes

253 training programmes were undertaken in 2017, of which 220 were conducted internally. The rest of the programmes were provided 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 2017, we extended the scope of the you:niversity Learning and Development programme to non-branded properties. This programme covers our responsible business 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.

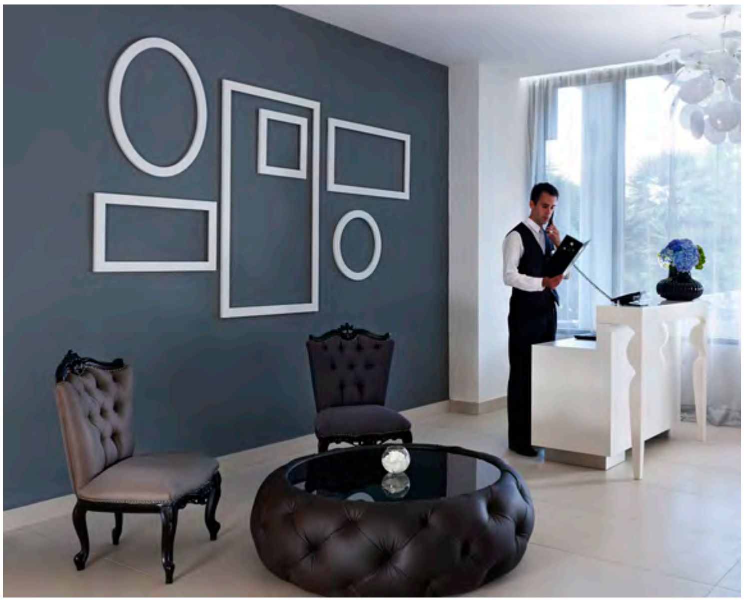
We also delivered the STEP UP programme that supports Heads of Department and Supervisors by maximising their personal and professional development to achieving their growth potential to 11 of our team members.

In 2017, four team members successfully completed the Financial Controlling Academy, a programme consisting of 25 modules that took place over an eight month period. The training programme is certified by the International Group of Controlling (IGC).

Five team members were enrolled in the Foundation in Management programme in 2017 and another four were selected in November 2017 to attend the 2018 course. The programme is available to team members working at our properties, including campsites.

We continue to offer a talent management programme to the management teams of the Park Plaza® branded and non branded properties following the introduction of the programme in 2016. This programme enables our management teams to recognise employee talent and plot them on a training matrix, allowing the Group 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.

RESPONSIBLE BUSINESS CONTINUED



Team member engagement survey

In 2017, we are proud to report that our colleagues once again recognised our efforts through high team member engagement survey scores. In June, we conducted our fifth annual climate analysis–employee engagement survey. Overall, the results for the Group showed a high level of team member engagement with an index score of 85.0 (on a scale of 1-100). The total index derived from the drivers – My Job, My Manager, Our Team and Our Company – was 81.6. These results show a high level of team member engagement and overall satisfaction with employment in the Group. From the results, teams are able to identify areas for improvement and, through action plans, set objectives to improve their working climate.

85.0

high level of team member engagement with the Company index score of 85.0 (on a scale of 1-100)

Team Member Number in Croatia	**2017**	2016	2015
Full-time team members (on 31 December)	**370**	366	354
Part-time team members (on 31 December)	**117**	114	184
Part-time team members (on 31 August)	**1,005**	848	819
FTE*	**855**	806	758
Employee satisfaction/engagement (%)	**85.0**	84,9	84,6

Team Member Number in Germany and Hungary***	**2017**	2016	2015
Full-time team members (on 31 December)**	**208**	301	225
Part-time team members (on 31 December)**	**59**	35	43
FTE*	**254**	264	263
Team member satisfaction/engagement (%)	**86.2**	83.9	84.4

* The FTE number is an estimate based on the total hours paid for all team members 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 above is included for information.

Being part of our communities

We care about our neighbourhoods and making a positive contribution to our local communities and the people who live there. Not only are we actively involved with a number of fundraising activities throughout the year that make a big difference to people's lives and the environment, we are also engaging our local communities through volunteering and local resourcing partnerships and charities.

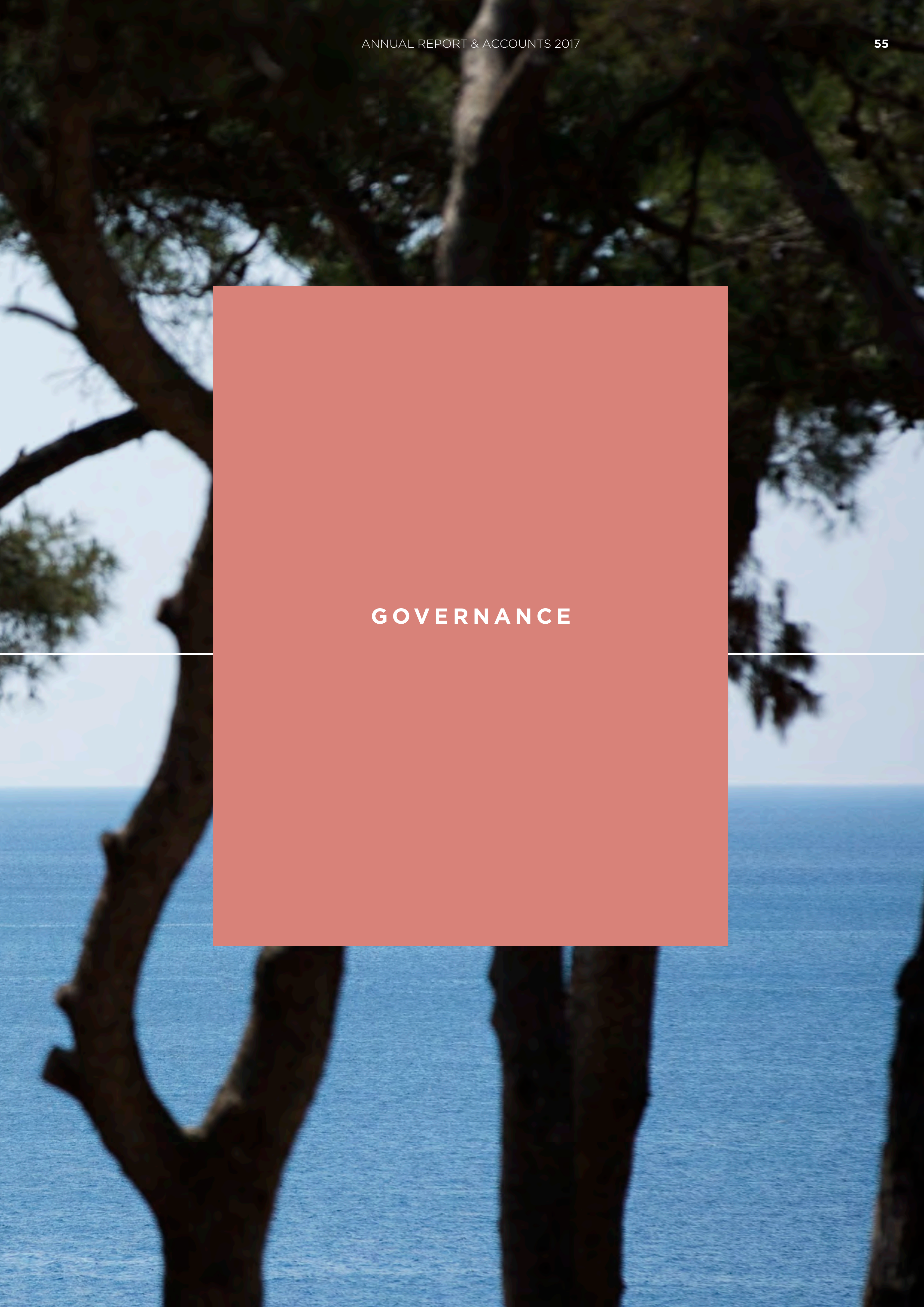
To drive our activities locally, we have created local teams who manage these processes and activities. We are constantly reviewing our community and charitable activity to ensure that it has maximum impact at a local level, but also resonates globally and supports the Group in meeting its objectives and responsibilities in these areas.

Charity initiatives

We support many important causes including the Cerebral Palsy Association of the Istria County; the Big heart to small heart project which brings together doctors, health care staff and parents of children with heart disease; MALI SVIJET (Small World) which raises awareness in the local community to provide care for children with developmental needs and sensory integration difficulties; and Our initiative, someone's alternative, which seeks to provide assistance to families of children who are facing malignant diseases.

Arena Medulin Camping provides a much loved space for children and young people with cerebral palsy and, for several years now, has hosted the Cerebral Palsy Association summer camp.

Sports is an area we are passionate about and as part of this we supported the project Prague-London for Paralympic athlete Mikela Ristoski to receive funding to participate in the European Championships 2017.

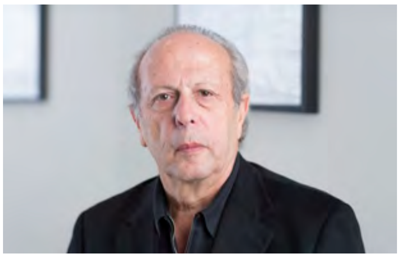


GOVERNANCE

GOVERNANCE

EXPERIENCED LEADERSHIP

SUPERVISORY BOARD



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 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
VICE 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
BOARD MEMBER

Skills and experience

Mr Moravsky is CEO of LabTech Investments Group. Previously he was Deputy Chief Executive Officer (2014-2017) and Chief Financial Officer (2005 – 2017) of PPHE Hotel Group. Prior to that, he was Financial Director of the Red Sea Group (2001-2004). He has extensive experience in the hotel/leisure business and real estate investment market. Previously an Audit Manager at Deloitte, Mr. Moravsky is a Certified Public Accountant (ISR) and has an MBA from the University of Manchester and a Bachelor of Business from the Tel Aviv College of Management.

AMRA PENDE
BOARD MEMBER

Skills and experience

Ms. Pende is currently legal counsel at Uljanik, d.d. where she has worked since 1986. Ms. Pende has acted as the Chairwoman of the Supervisory Board of Uljanik Plovidba d.d. for the last 12 years and for the last three years has been a member of the Board of Directors of the Pula Film Festival. Ms. Pende has a law degree from the University of Zagreb.

LORENA ŠKUFLIĆ
BOARD MEMBER

Skills and experience

Ms Škuflić is a professor at the Faculty of Economics and Business, University of Zagreb and since 2010 has been the Head of the Department of Economic Theory. Prior to this, Ms. Škuflić was employed at the Croatian Chamber of Economy – County Chamber Pula and also with the Institute of Economics, Zagreb. Ms. Škuflić obtained her PhD in economics at the University of Rijeka in 1999. Ms. Škuflić is a member of the boards at the Faculty of Economics and Business, the University of Zagreb and the Ministry of Science and Education, as well as a member of different associations.

VEHBIJA MUSTAFIĆ
BOARD MEMBER (APPOINTED BY WORKERS' COUNCIL)

Skills and experience

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

ABRAHAM THOMAS
BOARD MEMBER

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 PPHE Hotel Group to its present structure.

MANAGEMENT BOARD

REUEL ('RELI') SLONIM
PRESIDENT OF THE MANAGEMENT BOARD

Skills and experience
Reli Slonim joined the Group as Executive Director in 2008. Previously, he was Vice President of Operations and Development and a board member of Isrotel Hotels and Resorts, one of Israel's leading hospitality companies. Prior to that, Mr. Slonim was Vice President Marketing and Sales after having served for ten years as a General Manager of five star resort hotels.

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
MEMBER OF THE MANAGEMENT BOARD

Skills and experience
Milena Perković joined the Group 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 .

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.

GOVERNANCE

CORPORATE GOVERNANCE REPORT

Read more online at: zse.hr

Each year, the Company is obliged to state, in its annual report and on its website, in the required form, whether it complies with the recommendations of a corporate governance code. The Company applies the Corporate Governance Code of the Zagreb Stock Exchange (the ''Code''). The Company complies with the recommendations of the Code based on the principle "comply or explain", so if the Company fails to comply with the recommendations of the Code, it must provide reasons for its non-compliance. The Company abides by this principle and, where relevant, provides reasons for non-compliance with the recommendations of the Code. The Company published its annual corporate governance questionnaire for 2016 on the Zagreb Stock Exchange on 22 March 2017.

General Assembly meetings

During the reported period the General Assembly of the Company held two meetings: one on 22 March 2017 and one on 30 August 2017. The minutes of these meetings are available on the Company's website.

At the General Assembly meeting held on 22 March 2017, the following decisions, amongst others, were adopted:

- change of Company name – from Arenaturist d.d. to Arena Hospitality Group d.d.;
- amendments to the Company's articles of association;
- full exclusion of the pre-emptive right of the existing shareholders of the Company when subscribing to new shares of the Company;
- increase of share capital and issuance of ordinary shares by way of public offering; and
- listing on the Official Market of the Zagreb Stock Exchange of 1,091,250 existing shares, issued in December 2016, and up to 2,000,000 new shares to be issued by way of public offering.

At the General Assembly meeting held on 30 August 2017, the following decisions were adopted:

- decision on covering of loss for 2016;
- decision on granting discharge to the members of the Board of Directors;
- decision on appointment of Ernst and Young d.o.o. as the Company's auditor for 2017;
- decision on conversion of shares with nominal value into shares without nominal value;
- decision on change of corporate governance system from a one-tier to a two-tier board;
- adoption of new articles of association of the Company;
- decision on termination of Board of Directors' function;
- decision on election of Supervisory Board members;
- decision on remuneration of Supervisory Board members; and
- decision on granting the approval to Management Board for acquisition of treasury shares, with exclusion of existing shareholders' pre-emptive right.

Based on the decision of the General Assembly of the Company adopted on 30 August 2017, the corporate governance system of the Company was changed from a one-tier board to a two-tier board which consists of the Supervisory Board and the Management Board.

a) Previous corporate governance system

Board of Directors meetings (until september 2017)

The Board of Directors passed its decisions in meetings or by way of circular, in accordance with the applicable laws and the Company's articles of association.

During the period from 1 January through to 6 September 2017, the Board of Directors reviewed the business strategy and measures in place to guide the transformation of the Company and, in particular, passed decisions to approve the annual report and accounts of the Company for 2016 and the consolidated and standalone quarterly financial statements of the Company for the first quarter of 2017 and first half of 2017, as well as decisions related to the public offering.

The members of the Board of Directors were: Boris Ivesha, Chen Moravsky, Yoav Papouchado, Abraham Thomas, Denis Jukić, Šime Vidulin and Vehbija Mustafić (employee representative),

The majority of the members of the Board of Directors were present at the meetings, or participated by way of circular, and the members voted unanimously on all decisions passed.

Board of Directors committees
The Board of Directors had established an Audit Committee, which consisted of Arnoud Duin, Damir Veizovic and Abraham Thomas. In the first nine months of 2017, the Audit Committee held two meetings: a meeting was held on 18 March 2017 in order to review the annual report and accounts of the Company for 2016; and a meeting was held on 5 July 2017 where it was recommended to the Board of Directors and the General Assembly to change the external auditor and elect Ernst and Young d.o.o. as the new Company auditor. Following the General Assembly meeting on 30 August 2017 and the implementation of the new corporate governance structure, the previously established Audit Committee finished its term.

b) New corporate governance system
Supervisory Board meetings (since september 2017)
The newly established Supervisory Board held its first constitutional meeting following the General Assembly meeting held on 30 August 2017. The members of the Supervisory Board are: Boris Ivesha, Chen Moravsky, Yoav Papouchado, Abraham Thomas, Amra Pende, Lorena Škuflić and Vehbija Mustafić (employee representative).

At the first constitutional meeting, the Supervisory Board:

- appointed Mr. Boris Ivesha as the Chairman of the Supervisory Board and Mr. Yoav Papouchado as the Vice Chairman of the Supervisory Board;
- appointed the members of the Company's Management Board, Mr. Reli Slonim as the President and Ms. Milena Perković as a member, for a term of two years;
- established a new Audit Committee which replaced the previous audit committee and appointed the Audit Committee members: Ms. Dr Lorena Škuflić as the President and Ms. Amra Pende and Mr. Chen Moravsky as members; and
- Established a Nomination and Remuneration Committee and appointed the Committee members: Ms. Amra Pende as the President and Ms. Lorena Škuflić and Mr. Chen Moravsky as members.

Supervisory board committees
Following its establishment, the Supervisory Board has established an Audit Committee and a Nomination and Remuneration Committee.

The responsibilities of the Audit Committee include:

- actively participating in auditing the half-year and annual financial report;
- supporting the Company's accounting, in particular adjustment of the management accounting system related to the 11th Uniform System of Accounts for the Lodging Industry (USALI) edition;
- recommendation of the choice of the external auditor to the Supervisory Board as a part of the preparation for the General Assembly's decision;
- risks and uncertainties management with a focus on IT security; and
- revision of annual and five-year business plan of the Company.

The responsibilities of the Nomination and Remuneration Committee include:

- active participation in selection of candidates for the Company's corporate bodies;
- reviewing and recommending remuneration policies for the Company's corporate bodies; and
- consultations with the Company's corporate bodies regarding nomination and remuneration policies.

Major shareholders
Following the share capital increase in May 2017 and the conversion of shares into shares without nominal value, as at 31 December 2017, the share capital of the Company amounted to HRK 102,574,420 and consisted of 5,128,721 ordinary shares under the ticker symbol ARNT-R-A without a nominal amount of which 169 shares were held as treasury shares.

The table below shows the shareholders with holdings of 3% or more of the Company's registered share capital (excluding treasury) as at 31 December 2017:

1	DVADESET OSAM d.o.o. (a member of PPHE Hotel Group)	51.97%
2	ADDIKO BANK d.d. / PBZ CO OMF-kategorije B	9.13%
3	SPLITSKA BANKA d.d. / AZ OMF kategorije B	8.67%
4	SPLITSKA BANKA d.d. / ERSTE PLAVI OMF kategorije B	6.18%

GOVERNANCE

MANAGEMENT BOARD'S REPORT

The Management Board presents its report and the audited financial statements of the Group and the Company for the year ended 31 December 2017 to the Supervisory Board of the Company.

Principal activities

The Company is registered in the Commercial Court in Pazin, Croatia and, through its owned, co-owned and leased assets in Croatia and controlled subsidiaries in Germany and Hungary (which include owned, co-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® and art'otel®.

The Group 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 of the Supervisory Board's statement, the President of the Management Board's statement, Our business model and strategy, Key performance indicators, the Chief Financial Officer's statement, and the Operating Reviews.

2017 results

The results for the year ended 31 December 2017 are set out in the attached financial statements.

Principal risks and uncertainties

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

The Management Board provides information on the nature of the risks and the actions to mitigate risk exposure. Not all potential risks are listed on pg. 30 and 31. Some risks are excluded because the Management Board considers them not to be material to the Group as a whole. Additionally, there may be risks and uncertainties not presently known to the Management Board, or which the Management Board currently considers immaterial, that may also have an adverse effect on the Group.

Auditors

Ernst & Young d.o.o. are the Company's independent auditor and were appointed for a tenure of one year at the Company's last Annual General Meeting on 30 August 2017.

Going concern

The Management Board believes it is 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 2018 which show that the Group's operations will be cash generative during the period. This, taken together with its conclusions on the matters referred to below and in Note 1.d. to the financial statements, has led the Management Board to conclude that it is appropriate to prepare the 2017 financial statements on a going concern basis.

Financial risk management objectives and policies

Pages 30 and 31 and Note 25 of the 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.

Management Board's responsibilities

Pursuant to the Croatian Accounting Act (Official Gazette 78/15, 134/15 and 120/16), the Management Board is 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 the Group's and the Company's financial performance and its results for the reporting period.

In preparing the financial statements, the Management Board is 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; and
- establishing appropriate and statutory accounting records so that the records disclose, with reasonable accuracy, the financial position of the Group and the Company and their income and expenses.

The Management Board confirms that it has complied with the above requirements in preparing the financial statements.

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

Management Board's declaration

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

Management Board's responsibility statement

Each member of the Management Board confirms to the best of his or her knowledge that the 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 Group and 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 the Group and the Company, and provides information necessary for shareholders to assess the Company's performance, business model and strategies.

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

The Management Board has a reasonable expectation that the Company has adequate resources to continue in business and the going concern principle was applied in preparing these financial statements.

Signed by Management Board members, Reuel Israel Gavriel Slonim (President of Management Board) and Milena Perković (Member of Management Board & Chief Financial Officer).

REUEL ISRAEL GAVRIEL SLONIM
PRESIDENT OF THE MANAGEMENT BOARD

MILENA PERKOVIĆ
MEMBER OF THE MANAGEMENT BOARD & CHIEF FINANCIAL OFFICER

GOVERNANCE

SUPERVISORY BOARD'S DECISION

Supervisory Board
File No: 01-1/18

Pula, 27 February 2018

According to Article 300c and 300d of the Companies Act (Croatian Official Gazette 137/09) and the Management Board's Decision No. 01-4/18 dated 26 February 2018, the Supervisory Board of the Company passed the following decision on 27 February 2018.

DECISION ON APPROVING THE ANNUAL FINANCIAL STATEMENTS AND ON THE PROPOSED PROFIT DISTRIBUTION

The Supervisory Board gives its approval to:

1. The Management Board's Report on the Group and the Company's status and business results for the period from 1 January 2017 to 31 December 2017, which comprises the Strategic Report and the Corporate Governance Report including the Management Board's responsibility statement.
2. The Group's Financial Statements presented as: the consolidated statement of financial position on 31 December 2017, the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and the notes to the financial statements.
3. The Company's financial statements presented as: the statement of financial position on 31 December 2017, the income statement, the statement of other comprehensive income, the statement of changes in equity, the statement of cash flows and the notes to the financial statements.
4. The Report on the audit by the Company's auditors Ernst & Young d.o.o.
5. The proposed decision to distribute the Company's profit for 2017 in the amount of HRK 68.823.676,51 into the Company's legal reserves in an amount of HRK 2.946.221,00 and into retained profits in an amount of HRK 65.877.455,51.

The Supervisory Board hereby states that pursuant to Article 300d of the Companies Act and Article 30 of the Company's articles of association, the Annual Report and Accounts for 2017, the Group's financial statements and the Company's financial statements are considered to be approved by both the Management Board and the Supervisory Board.

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 OF THE SUPERVISORY BOARD

FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ARENA HOSPITALITY GROUP D.D.
REPORT ON THE AUDIT OF THE SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS

EY
Building a better working world

Opinion

We have audited the separate financial statements of Arena Hospitality Group d.d. (the Company), and consolidated financial statements of Arena Hospitality Group d.d. and it's subsidiaries (the Group) which comprise the separate and consolidated statement of financial position as at 31 December 2017, the separate and consolidated income statement, the separate and consolidated statement of other comprehensive income, the separate and consolidated statement of changes in equity and the separate and consolidated statement of cash flows for the year then ended, and notes to the separate and consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the financial position of the Company and the Group as at 31 December 2017 and of their separate and consolidated financial performance and their separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU ("IFRS as adopted by EU").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the separate and consolidated financial statements section of our report.

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

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

Key audit matters

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

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the separate and consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the separate and consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying separate and consolidated financial statements.

Key audit matter	How we addressed key audit matter
Impairment of the tourism property (separate and consolidated financial statements) Refer to Notes 2 (g), 3 (c) and Note 4 of the separate and consolidated Financial Statements. The carrying amount of property, plant and equipment of the Group as at 31 December 2017 was HRK 1,778,099 thousand (Company: HRK 1,121,406 thousand). Property, plant and equipment mostly consists of tourism properties and related assets and is included in the statement of financial position at historical cost less accumulated depreciation and impairment, where required. Management annually conducts a test to identify assets with impairment indicators. When determining impairment indicators management uses significant estimates of future cash flows, applicable discount rates and terminal value multiplier. The estimation process is complex and highly subjective and is based on assumptions. Due to the above factors and significant impact on the separate and consolidated financial statements, impairment of tourism properties was determined as key audit matter.	Our audit procedures related to impairment of property, plant and equipment included, among others: • Assessing the appropriateness of the methodology used for the impairment testing; • Test, on a sample basis, key management's estimates used in the impairment model, including projections of future cash flows, discount rates and terminal value multiplier; • Review of the relevant Company and Group internal reports and comparison of the projections in the model for individual tourism properties with the historical data; • Test, on a sample basis, mathematical accuracy of the calculations in the valuation model; • Assessing the adequacy of related disclosures in the notes to the separate and consolidated financial statements and their compliance with IFRS as adopted by EU.

Other Matter

The separate financial statements of the Company and the consolidated financial statements of the Group for the year ended 31 December 2016, were audited by another auditor who expressed an unmodified opinion on those statements on 20 March 2017.

Other information included in the Company's and the Group's 2017 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Annual Report which includes the Management report and Corporate Governance Statement, other than the separate and consolidated financial statements and our auditor's report thereon. Our opinion on the separate and consolidated financial statements does not cover the Other information including the Management report and Corporate Governance Statement.

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

With respect to the Management Report and Corporate Governance Statement, we also performed procedures required by the Accounting Act. 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 procedures undertaken, to the extent we are able to assess it, we report that:

1. the information given in the enclosed Management report for the 2017 financial year are consistent, in all material respects, with the enclosed separate and consolidated financial statements;

2. the enclosed Management report for 2017 financial year is prepared in accordance with requirements of Article 21 of the Accounting Act;

3. Corporate Governance Statement, included in the Company's and the Group's annual report, includes the information referred to in Article 22., paragraph 1., items 2, 5, 6 and 7 of the Accounting Act; and

4. elements of Corporate Governance Statement containing the information referred to in Article 22, paragraph 1, items 3 and 4 of the Accounting Act, included in the Company's and the Group's annual report are prepared in accordance with requirements of the Accounting Act and are consistent, in all material respects, with the enclosed separate and consolidated financial statements;

In addition, in the 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, Corporate Governance Statement and Annual report. We have nothing to report in this respect.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ARENA HOSPITALITY GROUP D.D. REPORT ON THE AUDIT OF THE SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Responsibilities of management and Audit Committee for the separate and consolidated financial statements
Management is responsible for the preparation and fair presentation of the separate and consolidated financial statements in accordance with IFRS as adopted by EU, and for such internal control as management determines is necessary to enable the preparation of separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Audit Committee is responsible for overseeing the Company's and Group's financial reporting process.

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

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

- Identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit Committee 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 Audit Committee 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 Audit Committee, we determine those matters that were of most significance in the audit of the separate and 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.

Report on Other Legal and Regulatory Requirements
In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of ISAs:

Appointment of Auditor and Period of Engagement
We were appointed as the auditors of the Company and the Group by the General Meeting of Shareholders on 30 August 2017 and our uninterrupted engagement has lasted for one year.

Consistence with Additional Report to Audit Committee
We confirm that our audit opinion on the separate and consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 26 February 2018 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services
We declare that no prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided by us to the Company and the Group. In addition, there are no other non-audit services which were provided by us to the Company and its controlled undertakings and which have not been disclosed in the separate and consolidated financial statements.

The partner in charge of the audit resulting in this independent auditor's report is Berislav Horvat.

Berislav Horvat, President of the Board and Certified auditor
27 February 2018

Ernst & Young d.o.o.
Radnička cesta 50
Zagreb
Republic of Croatia

CONSOLIDATED AND COMPANY STATEMENT OF FINANCIAL POSITION

		As at 31 December			
		Group		Company	
	Note	**2017 HRK'000**	2016 HRK'000	**2017 HRK'000**	2016 HRK'000
Assets					
Non-current assets:					
Property, plant and equipment	4	**1,778,099**	1,344,833	**1,121,406**	1,120,104
Inventories		**8,688**	9,261	**8,688**	9,269
Interest in joint ventures	5	**34,047**	33,294	**-**	-
Other non-current financial assets	6	**3,276**	9,727	**600,983**	460,223
Deferred tax asset	21	**27,990**	29,991	**26,570**	29,513
Restricted deposits and cash		**-**	41,713	**-**	41,713
		1,852,100	1,468,819	**1,757,647**	1,660,822
Current assets:					
Inventories		**4,396**	3,799	**1,924**	1,456
Other current financial assets		**205**	208	**205**	208
Trade receivables	7	**12,970**	21,140	**3,576**	10,415
Other receivables and prepayments	8	**6,604**	18,038	**3,779**	2,875
Income tax receivables		**-**	4,110	**-**	4,016
Cash and cash equivalents	9	**800,101**	130,406	**716,411**	92,464
		824,276	177,701	**725,895**	111,434
Total assets		**2,676,376**	1,646,520	**2,483,542**	1,772,256
Equity and liabilities					
Equity:	10				
Issued capital		**102,574**	43,650	**102,574**	43,650
Share premium		**1,142,742**	-	**1,142,742**	-
Unregistered capital		**-**	460,006	**-**	460,006
Hedging reserve		**(3,317)**	(5,025)	**-**	-
Other reserves		**326,586**	373,305	**570,887**	661,844
Accumulated earnings/(losses)		**(2,829)**	(90,397)	**68,823**	(90,952)
Total equity attributable to owners of		**1,565,756**	781,539	**1,885,026**	1,074,548
Non-controlling interest		**-**	22,705	**-**	-
Total equity		**1,565,756**	804,244	**1,885,026**	1,074,548
Non-current liabilities:					
Bank borrowings	12	**806,959**	520,538	**456,107**	520,538
Liabilities towards related parties		**-**	7,662	**-**	-
Other loans	13	**75,136**	-	**-**	-
Provisions	14	**61,399**	55,300	**61,399**	55,300
Other liabilities		**1,446**	1,880	**1,444**	1,705
		944,940	585,380	**518,950**	577,543
Current liabilities:					
Trade payables		**23,633**	22,946	**8,106**	19,742
Other payables and accruals	15	**64,875**	61,027	**30,261**	22,390
Income tax liabilities		**16,407**	381	**11,049**	-
Liabilities towards related parties		**22,534**	33,970	**5,603**	20,518
Bank borrowings	12	**38,231**	138,572	**24,547**	57,515
		165,680	256,896	**79,566**	120,165
Total liabilities		**1,110,620**	842,276	**598,516**	697,708
Total equity and liabilities		**2,676,376**	1,646,520	**2,483,542**	1,772,256

The accompanying notes are an integral part of the financial statements. Date of establishing of the financial statements 26 February 2018.

REUEL SLONIM
PRESIDENT OF THE MANAGEMENT BOARD

R. Slonim

MILENA PERKOVIĆ
MEMBER OF THE MANAGEMENT BOARD

CONSOLIDATED AND COMPANY INCOME STATEMENT

		Year ended 31 December			
		Group		Company	
	Note	**2017 HRK'000**	2016 HRK'000	**2017 HRK'000**	2016 HRK'000
Revenues	16	**717,162**	435,871	**487,915**	390,757
Operating expenses	17	**(466,618)**	(295,100)	**(322,148)**	(268,362)
EBITDAR		**250,544**	140,771	**165,767**	122,395
Rental expenses and concession fees: land		**(37,682)**	(8,748)	**(9,010)**	(8,543)
EBITDA		**212,862**	132,023	**156,757**	113,852
Depreciation, amortisation and impairment	4	**(62,471)**	(222,511)	**(48,888)**	(204,728)
EBIT		**150,391**	(90,488)	**107,869**	(90,876)
Financial expenses	18	**(39,600)**	(41,007)	**(28,894)**	(37,740)
Financial income	19	**6,061**	136	**9,559**	132
Other expenses	20	**(4,346)**	(6,612)	**(4,231)**	(6,612)
Share in result of joint ventures		**(962)**	–	**–**	–
Profit/(loss) before tax		**111,544**	(137,971)	**84,303**	(135,096)
Income tax benefit/(expense)	21	**(23,462)**	23,716	**(15,480)**	23,160
Profit/(loss) for the year		**88,082**	(114,255)	**68,823**	(111,936)
Profit attributable to:					
Equity holder of the parent		**87,568**	(114,255)	**68,823**	(111,936)
Non-controlling interests		**514**	–	**–**	–
		88,082	(114,255)	**68,823**	(111,936)
Earnings/(loss) per share	22	**20.87**	(52.35)	**16.40**	(51.29)

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

CONSOLIDATED AND COMPANY STATEMENT OF OTHER COMPREHENSIVE INCOME

		Year ended 31 December			
		Group		Company	
		2017	2016	**2017**	2016
	Note	**HRK'000**	HRK'000	**HRK'000**	HRK'000
Profit/(loss) for the year		**88,082**	(114,255)	**68,823**	(111,936)
Other comprehensive income/(loss) to be recycled through profit and loss in subsequent periods:[1]					
Unrealised gains/(losses) on available-for-sale securities		**(5)**	37	**(5)**	37
Foreign currency translation adjustment of foreign operations		**(1,630)**	–	**–**	–
Profit/(loss) from cash flow hedges		**1,708**	–	**–**	–
Other comprehensive income		**73**	37	**(5)**	37
Total comprehensive income/(loss)		**88,155**	(114,218)	**68,818**	(111,899)

[1] 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.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In HRK'000	Issued capital	Share premium	Unregistered capital	Hedging reserve	Other reserve	Capital and reserves of the merged entities	Accumulated earnings Arena Hospitality Group d.d.	Total	Non-controlling interest	Total equity
Balance as at 1 January 2016	43,650	–	–	–	638,801	134,335	20,942	837,728	–	837,728
Profit/(loss) for the year	–	–	–	–	–	(2,916)	(111,339)	(114,255)	–	(114,255)
Other comprehensive income	–	–	–	–	37	–	–	37	–	37
Total comprehensive income/(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	43,650	–	460,006	(5,025)	373,305	–	(90,397)	781,539	22,705	804,244
Profit/(loss) for the year	**–**	**–**	**–**	**–**	**–**	**–**	**87,568**	**87,568**	**514**	**88,082**
Other comprehensive income	**–**	**–**	**–**	**1,708**	**(1,635)**	**–**	**–**	**73**	**–**	**73**
Total comprehensive income/(loss)	**–**	**–**	**–**	**1,708**	**(1,635)**	**–**	**87,568**	**87,641**	**514**	**88,155**
Issue of shares	**58,924**	**1,142,742**	**(460,006)**	**–**	**–**	**–**	**–**	**741,660**	**–**	**741,660**
Acquisition of 12% of Sugarhill shares	**–**	**–**	**–**	**–**	**(68,303)**	**–**	**–**	**(68,303)**	**–**	**(68,303)**
Recycle minority interest Sugarhill	**–**	**–**	**–**	**–**	**23,219**	**–**	**–**	**23,219**	**(23,219)**	**–**
Balance as at 31 December 2017	**102,574**	**1,142,742**	**–**	**(3,317)**	**326,586**	**–**	**(2,829)**	**1,565,756**	**–**	**1,565,756**

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

COMPANY STATEMENT OF CHANGES IN EQUITY

In HRK'000	Issued capital	Share premium	Unregistered capital	Other reserve	Accumulated earnings	Total
Balance as at 1 January 2016	43,650	–	–	638,800	20,984	703,434
Profit/(loss) for the year	–	–	–	–	(111,936)	(111,936)
Other comprehensive income	–	–	–	37	–	37
Total comprehensive income/ (loss)	–	–	–	37	(111,936)	(111,899)
Increase of capital (unregistered)	–	–	460,006	–	–	460,006
Merger of private companies	–	–	–	23,007	–	23,007
Balance as at 31 December 2016	43,650	–	460,006	661,844	(90,952)	1,074,548
Profit/(loss) for the year	**–**	**–**	**–**	**–**	**68,823**	**68,823**
Other comprehensive income	**–**	**–**	**–**	**(5)**	**–**	**(5)**
Total comprehensive income/ (loss)	**–**	**–**	**–**	**(5)**	**68,823**	**68,818**
Issue of shares	**58,924**	**1,142,742**	**(460,006)**	**–**	**–**	**741,660**
Loss allocation: 2016 loss for the year	**–**	**–**	**–**	**(90,952)**	**90,952**	**–**
Balance as at 31 December 2017	**102,574**	**1,142,742**	**–**	**570,887**	**68,823**	**1,885,026**

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

CONSOLIDATED AND COMPANY STATEMENT OF CASH FLOWS

		Year ended 31 December			
		Group		Company	
		2017	2016	**2017**	2016
	Note	**HRK'000**	HRK'000	**HRK'000**	HRK'000
Cash flows from operating activities:					
Profit/(loss) for the year		**88,082**	(114,255)	**68,823**	(111,936)
Adjustment to reconcile profit to cash provided by operating activities:					
Financial expenses	18	**36,349**	24,570	**26,134**	23,182
Financial expenses – related party	18	**3,252**	4,264	**2,760**	2,902
Interest revenue	19	**(967)**	–	**(4,248)**	–
Unrealised foreign exchange gains/(losses)		**(3,914)**	–	**(3,915)**	–
Realised loss from early repayment of related party loan	18	**–**	12,611	**–**	12,611
Income tax (benefit)/charge	21	**23,462**	(23,716)	**15,480**	(23,160)
Share in results of joint ventures		**962**	–	**–**	–
Movements in provisions		**6,099**	5,498	**6,099**	5,498
Depreciation and amortisation	4	**62,471**	73,927	**48,888**	56,144
Impairment of property, plant and equipment	4	**–**	148,584	**–**	148,584
		127,714	245,738	**91,198**	225,761
Changes in operating assets and liabilities:					
Decrease/(increase) in inventories		**(32)**	3,378	**115**	3,507
Decrease/(increase) in trade and other receivables		**19,405**	(2,071)	**5,957**	5,073
Increase/(decrease) in trade and other payables		**(3,128)**	20,563	**(6,357)**	9,930
		16,245	21,870	**(285)**	18,510
Cash paid and received during the period for:					
Interest paid		**(42,284)**	(25,692)	**(32,036)**	(22,942)
Interest received		**175**	–	**167**	–
Taxes (paid)/received		**(1,347)**	(9,542)	**2,430**	(9,465)
		(43,456)	(35,234)	**(29,439)**	(32,407)
Net cash provided by operating activities		**188,585**	118,119	**130,297**	99,928
Cash flows from investing activities:					
Investments in property, plant and equipment	4	**(506,453)**	(38,022)	**(62,696)**	(32,972)
Loans to related party		**–**	–	**(68,377)**	–
Acquisition of Bora companies		**–**	(108,551)	**–**	(108,551)
Decrease/ (increase) in restricted and rent deposits		**48,046**	(41,713)	**41,713**	(35,021)
Advance payment in property acquisitions		**–**	(7,662)	**–**	–
Net change in cash upon merger of Bora companies		**–**	37,932	**–**	32,445
Other (disinvestments)/investment activities		**–**	74	**–**	–
Net cash used in investing activities		**(458,407)**	(157,942)	**(89,360)**	(144,099)

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

	Year ended 31 December			
	Group		Company	
	2017	2016	**2017**	2016
	HRK'000	HRK'000	**HRK'000**	HRK'000
Cash flows from financing activities:				
Proceeds from bank borrowings	**850,865**	224,765	**480,109**	187,315
Proceeds from other long-term loans	**74,602**	–	**–**	–
Proceeds from related-party loan	**68,458**	–	**68,458**	–
Repayment of bank borrowings	**(659,285)**	(42,862)	**(570,454)**	(36,420)
Repayment of related-party loans	**(68,458)**	(159,461)	**(68,458)**	(127,685)
Purchase of shares in non-controlling interest	**(68,303)**	–	**(68,303)**	–
Proceeds from share issuance	**741,658**	–	**741,658**	–
Net cash provided by financing activities	**939,537**	22,442	**583,010**	23,210
(Decrease)/increase in cash and cash equivalents	**669,715**	(17,381)	**623,947**	(20,961)
Net foreign exchange differences	**(20)**	–	**–**	–
Cash and cash equivalents at beginning of year	**130,406**	147,787	**92,464**	113,425
Cash and cash equivalents at end of year	**800,101**	130,406	**716,411**	92,464
Non-cash items:				
Outstanding payable on investments in property, plant and equipment	**1,055**	13,561	**1,055**	13,561

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

NOTES TO THE FINANCIAL STATEMENTS

Note 1 General

a. The financial statements of Arena Hospitality Group d.d. (the Company) and its subsidiaries (together "the Group") for the year ended 31 December 2017 were established by a decision of the Management Board dated 26 February 2018. Following such approval by the Supervisory Board, 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, a Guernsey incorporated company listed on the main market of the London Stock Exchange (PPHE Hotel Group) which owns 51.97% of the registered share capital. The financial statements of the Group are included in the financial statements of PPHE Hotel Group.

In May 2017, the Company successfully completed a public offering of 1,854,971 new shares at a price of HRK 425 per new share which resulted in gross proceeds of HRK 788.4 million. The number of issued shares increased by 56.7% to 5,128,721.

b. In June 2017, the Company purchased the remaining 12% of the shares in Sugarhill Investments B.V. ("Sugarhill") for an amount of EUR 8.33 million as a result of which the Company now owns 100% of the shares in Sugarhill. The payment of the purchase price was funded from the proceeds of the Company's public offering.

c. 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 Group is owning, co-owning, leasing and operating full–service upscale, upper upscale and lifestyle hotels in major gateway cities and regional centres, such as Berlin, Cologne and Nuremberg in Germany and Budapest in Hungary as well as hotels self-catering apartment complexes and campsites in destinations such as in the city of Pula, the largest city in Croatia's Istria region.

d. Assessment of going concern:

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

The Group and Company has entered into a few of loan facilities, the details of which are set out in Note 12. The Board believes that the Group and 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 Group and the Company forecasts that it will be able to comply with debt covenants in the near future.

Note 2 Summary of significant accounting policies

a. Basis of preparation

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

The financial statements of the Group and 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.

Statement of compliance:

The financial statements of the Group and 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 2017 and 31 December 2016 are set out below. These accounting policies have been consistently applied to the periods presented.

Note 2 Summary of significant accounting policies continued

b. Basis of consolidation

The Consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2017. Control is achieved when the Group and the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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. Subsidies are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date on which such control ceases.

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. Significant accounting judgments, estimates and assumptions

The preparation of the Group's and 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 Group's and 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 Group and the Company 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 and 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 Group and 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 21.

Other critical estimates and assumptions which relates to impairment of property, plant and equipment, and estimate of the useful life of the assets are described in Notes "g" and "h".

d. Investment in joint ventures

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 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.

Note 2 Summary of significant accounting policies continued

d. Investment in joint ventures continued

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.

e. 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 the Appendix to this report, which are accounted at cost less impairment.

f. 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 rate prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the 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 the Kuna are translated at the exchange rate prevailing on the reporting date. Income and expense items are translated at the average exchange rate for the period. Equity items are translated at the historical exchange rate. 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 for 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	
	2017 In HRK	2016 In HRK
Euro	**7.51**	7.56
Hungarian Forint	**2.42**	2.43

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

	As at 31 December	
	2017 %	2016 %
Euro	**(0.7)**	(0.8)
Hungarian Forint	**(0.4)**	(0.4)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Note 2 Summary of significant accounting policies continued

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 if appropriate.

h. Impairment of non-financial assets

At each reporting date, the Group and 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 Group and 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.

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

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 and the Company 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 impaired, 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 separated embedded derivatives, are classified as held for trading unless they are designated as effective hedging instruments. The Group and the Company have not designated any financial assets at fair value through profit or loss.

(ii) Fair value

Fair value is the price that would be received on sale of 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 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 and the Company use 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 25 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.

Note 2 Summary of significant accounting policies continued

i. Financial instruments continued

(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 and 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 Group and 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.

(v) Impairment of financial assets

The Group and 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 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 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

i. Financial instruments continued

(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, including food, beverages and crockery 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 is depreciated over its economic life and recorded in operating expenses. Such small equipment includes sheets, towels, cutlery, trays, pillows and similar items.

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.

m. Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and 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 Group and the Company assess their revenue arrangements against specific criteria in order to determine if they are acting as principal or agent. The Group and the Company have concluded that they are 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 and the Company participates in the Club Carlson℠ 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 and 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 Group and the Company concluded that they are acting as principal in such transactions and, in substance, is earning revenue from supplying these awards to its customers. The Group and Company measure these revenues at fair value and recognise 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, concession 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 FINANCIAL STATEMENTS CONTINUED

Note 2 Summary of significant accounting policies continued

n. 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 leased hotels and 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 and the Company, legal or financial advices,

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 and the Company as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

The Group and the Company as lessee

Finance leases which transfer to the Group and 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 Group and 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.

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.

Note 2 Summary of significant accounting policies continued

q. 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. New and amended standards and interpretations

The following new standards and amendments to the existing standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee and adopted by the European Union are effective for the current period:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). These amendments did not have significant effect on the Group's and the Company's financial statements.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The adoption of this amendments had no material impact on the financial statements of the Group and the Company.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Note 2 Summary of significant accounting policies continued

s. New and amended standards and interpretations continued

Annual Improvements Cycle - 2014-2016

Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10-B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. The adoption of this amendments had no material impact on the financial statements of the Group and the Company.

Standards and Interpretations issued by IASB and adopted by the EU but not yet effective

At the date of authorization of these financial statements the following standards, revisions and interpretations adopted by the EU were in issue but not yet effective:

- IFRS 15 Revenue from Contracts with Customers, issued in May 2014 including amendment to IFRS 15: issued in April 2016 (effective date to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2018). Under IFRS 15, revenue is recognized 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 new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group and the Company are planning to adopt the new standard on the required effective date using the modified retrospective method. During 2017, the Group and the Company performed a preliminary assessment of IFRS 15 transition effects. The Group and the Company do not expect material effects on profit for the year, assets, liabilities and equity.

- IFRS 9 Financial Instruments, issued in July 2014 the final version that replaced the IAS 39 Financial Instruments: Recognition and Measurement (effective for annual periods beginning on or after 1.1.2018). IFRS 9 brings together all three aspects of the accounting for financial instruments project: 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. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Group and the Company are planning to adopt the new standard on the required effective date and will not restate comparative information. The Company does not plan to restate comparative information. The Management anticipates that the adoption will have no material impact on the financial statements of the Group and the Company.

- IFRS 16 Leases:IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computers) and short term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

  Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

  In 2018, the Group and the Company will continue to assess the potential effect of IFRS 16 on its financial statements.

Note 2 Summary of significant accounting policies continued

s. New and amended standards and interpretations continued

Standards and Interpretations issued by IASB but not yet adopted by the EU

At the date of authorization of these financial statements the following standards, revisions and interpretations were in issue by the International Accounting Standards Board but not yet adopted by the EU:

IFRS 14 Regulatory Deferral Accounts

IFRS 14 was issued in January 2014 (effective date to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2016). The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard. This standard is not applicable to the Group and the Company.

IFRS 17 Insurance contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. This standard is not applicable to the Group and the Company.

Transfers of Investment Property — Amendments to IAS 40

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if it is possible without the use of hindsight. Effective for annual periods beginning on or after 1 January 2018. Early application of the amendments is permitted and must be disclosed. The Group and the Company will apply amendments when they become effective. The Management anticipates that the adoption will have no material impact on the financial statements of the Group and the Company.

IFRS 2 Classification and Measurement of Share-based Payment Transactions - Amendments to IFRS 2

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group and the Company are assessing the potential effect of the amendments on their financial statements.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Management anticipates that the adoption will have no material impact on the financial statements of the Group and the Company.

Annual Improvements 2014-2016 Cycle (issued in December 2016)

These improvements include:

- IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short term exemptions for first-time adopters. The Group and the Company already applies IFRS. Therefore, this amendment is not applicable.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Note 2 Summary of significant accounting policies continued

s. New and amended standards and interpretations continued

Standards and Interpretations issued by IASB and adopted by the EU but not yet effective continued

- IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice. The Management anticipates that the adoption will have no material impact on the financial statements of the Group and the Company.

- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4. These amendments are not applicable to the Group and the Company.

- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

  The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the de-recognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the transaction date for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the Interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or at the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

  The Interpretation is effective for annual periods beginning on or after 1 January 2018. Early application of interpretation is permitted and must be disclosed. However, since the Company's and the Group's current practice is in line with the Interpretation, the Group and the Company do not expect any effect on their financial statements.

- IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

  The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Management anticipates that the adoption will have no material impact on the financial statements of the Group and the Company.

t. New and amended standards adopted by the Group and the Company

The Group and the Company has adopted the following new and amended standards for their annual reporting period commencing 1 January 2017 which were endorsed by the European Union and which are relevant for the Group's and 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 IFRS 2012–2014 Cycle comprising changes to four standards (IFRS 5, IFRS 7, IFRS 19, IAS 34).
- Annual Improvements to IFRS 2010–2012 cycle.

Note 3 Significant events during the reported period

a. Public Offering

In May 2017, the Company successfully completed a public offering of 1,854,971 new shares at a price of HRK 425 per new share which resulted in gross proceeds of HRK 788.4 million. The public offering increased the number of issued shares by 56.7% to 5,128,721 shares.

b. Acquisition of remaining 12% interest of Sugarhill Investments B.V.

In June 2017, the Company acquired the remaining 12% of the shares in Sugarhill Investments B.V., ("Sugarhill") were acquired from Dvadeset Osam d.o.o. (the controlling shareholder of the Company and a member of PPHE Hotel Group) bringing full ownership of Sugarhill into the Group (Sugarhill has interests in eight hotels in Germany and Hungary). The purchase price of the remaining 12% was HRK 62.7 million which is based on the same fair value determined when the Company acquired initial 88% Shareholding in December 2016. Purchase price is financed from IPO proceeds.

The initial 88% of the shares in Sugarhill were acquired from Dvadeset Osam d.o.o. in 2016 for HRK 460 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 Management d.o.o., a wholly owned subsidiary of Sugarhill.

c. Impairment of property, plant and equipment

In 2016 the Group and the Company reported an impairment loss of HRK 148.6 million.

At each reporting date, the Group and 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 Group and 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 Group's and Company's assets that were performed by independent valuer. As these were indicators that assets may be impaired, the Group and Company estimated the recoverable amount of the assets. Where it is not possible to estimate the recoverable amount of an individual asset, the Group and 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 Group and 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, the Management Board concluded that the recoverable amount was higher than their carrying values and no impairment provision was required.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Note 4 Property, plant and equipment

Group	Land and buildings HRK'000	Furniture, fittings and equipment HRK'000	Property and assets under construction HRK'000	Total HRK'000
Cost:				
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
Accumulated depreciation and impairment:				
Balance as at 1 January 2016	645,043	130,665	–	775,708
Provision for depreciation	57,767	16,161	–	73,928
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)	(6,087)	–	(27,144)
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
Cost:				
Balance as at 1 January 2017	**2,035,753**	**262,007**	**32,322**	**2,330,082**
Additions during the year	**464,762**	**29,424**	**–**	**494,186**
Transfers	**10,277**	**–**	**(10,277)**	**–**
Reclassification	**14,232**	**349**	**–**	**14,581**
Exchange rate differences	**1,942**	**(182)**	**–**	**1,760**
Disposals during the year	**(36)**	**(2,911)**	**–**	**(2,947)**
Balance as at 31 December 2017	**2,526,930**	**288,687**	**22,045**	**2,837,662**
Accumulated depreciation and impairment:				
Balance as at 1 January 2017	**831,623**	**153,626**	**–**	**985,249**
Provision for depreciation	**43,492**	**18,979**	**–**	**62,471**
Exchange rate differences	**163**	**(77)**	**–**	**86**
Reclassification	**14,232**	**349**	**–**	**14,581**
Disposals during the year	**(36)**	**(2,788)**	**–**	**(2,824)**
Balance as at 31 December 2017	**889,474**	**170,089**	**–**	**1,059,563**
Net book value as at 31 December 2017	**1,637,456**	**118,598**	**22,045**	**1,778,099**

a. There was no capitalisation of borrowing costs in 2017 or 2016.
b. For information regarding liens, see Note 11.

Note 4 Property, plant and equipment continued

Company	Land and buildings HRK'000	Furniture, fittings and equipment HRK'000	Property and assets under construction HRK'000	Total HRK'000
Cost:				
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	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
Accumulated depreciation and impairment:				
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	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

Cost:				
Balance as at 1 January 2017	**1,863,335**	**209,958**	**32,737**	**2,106,030**
Additions during the year	**41,102**	**9,211**	**–**	**50,313**
Transfer	**10,692**	**–**	**(10,692)**	**–**
Disposals during the year	**(36)**	**(2,415)**	**–**	**(2,451)**
Balance as at 31 December 2017	**1,915,093**	**216,754**	**22,045**	**2,153,892**
Accumulated depreciation and impairment:				
Balance as at 1 January 2017	**844,840**	**141,086**	**–**	**985,926**
Provision for depreciation	**36,609**	**12,279**	**–**	**48,888**
Disposals during the year	**(36)**	**(2,292)**	**–**	**(2,328)**
Balance as at 31 December 2017	**881,413**	**151,073**	**–**	**1,032,486**
Net book value as at 31 December 2017	**1,033,680**	**65,681**	**22,045**	**1,121,406**

Impairment of property, plant and equipment

The net impairment losses recognised in the income statement during 2016, 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
	148,584

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

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

In 2017, there were no indications of impairment.

Note 4 Property, plant and equipment continued

d. Operating lease commitments – where the Group and the Company are the lessor

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

The operating leases relate to the lease of shops and restaurants or premises and equipment. During 2017, the Group realised rental income in the amount of HRK 9.4 million (2016: HRK 10.1 million).

The future aggregate minimum lease payments receivable of the Group and the Company from operating leases based on lease agreements concluded up to 31 December 2017 are as follows:

	Group		Company	
	2017 HRK'000	2016 HRK'000	**2017 HRK'000**	2016 HRK'000
Up to 1 year	**10,175**	10,336	**10,175**	10,336
From 2 to 5 years	**20,183**	7,629	**20,183**	7,629
Over 5 years	**931**	417	**931**	417
	31,289	18,382	**31,289**	18,382

Note 5 Interest in joint ventures

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

	Group		Company	
	2017 HRK'000	2016 HRK'000	**2017 HRK'000**	2016 HRK'000
Loan to joint ventures*	**33,839**	33,236	**–**	–
Share of net assets under equity method	**208**	58	**–**	–
Interest in joint ventures	**34,047**	33,294	**–**	–

* €4.0 million of the loan is denominated in Euro and bears an interest rate of LIBOR +2.5% per annum. This loan is due for repayment on 7 June 2023.

Note 5 Interest in joint ventures continued

The table below includes the balance sheets as at 31 December of the joint venture companies:

	As at 31 December 2017			
	ABM Hotel Holding B.V.	art'otel berlin Mitte/Park Plaza Betriebsgesell-schaft GmbH	ABK Hotel Holding B.V.	Park Plaza Betriebsgesell-schaft GmbH
Assets				
Non-current assets:				
Property, plant and equipment	62,109	16,864	51,970	7,423
	62,109	**16,864**	**51,970**	**7,423**
Current assets:				
Inventories	–	160	–	111
Receivables from related parties	19,490	–	130	10,482
Trade receivables	5	1,037	5	776
Receivables and other current assets	1	414	22	318
Cash and cash equivalents	5,296	850	10,502	217
	24,792	**2,461**	**10,659**	**11,904**
Total assets	**86,901**	**19,325**	**62,629**	**19,327**
Equity and liabilities				
Equity:				
Issued capital	2	189	2	189
Hedging reserve	(3,304)	–	(3,471)	–
Accumulated (losses)/ earnings	13,657	(27,457)	10,834	(5,224)
	10,355	**(27,268)**	**7,365**	**(5,035)**
Non(current liabilities:				
Bank borrowings	36,996	–	38,855	–
Other liabilities	33,938	9,340	11,074	19,960
	70,934	**9,340**	**49,929**	**19,960**
Current liabilities:				
Trade payables	27	2,885	27	1,770
Other payables and accruals	3,666	14,726	3,291	2,361
Liabilities towards related parties	–	19,642	–	271
Bank borrowings	1,919	–	2,017	–
	5,612	**37,253**	**5,335**	**4,402**
Total liabilities	**76,546**	**46,593**	**55,264**	**24,362**
Total equity and liabilities	**86,901**	**19,325**	**62,629**	**19,327**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Note 6 Other non-current financial assets

	Group		Company	
	2017 HRK'000	2016 HRK'000	**2017 HRK'000**	2016 HRK'000
Investment in Sugarhill Investments B.V.	**-**	-	**528,309**	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**	0
Loan to Germany Real Estate B.V.	**-**	-	**72,457**	-
Rent deposit	**3,099**	9,550	**-**	-
Long term receivables	**177**	177	**177**	177
	3,276	9,727	**600,983**	460,223

Note 7 Trade receivables

a. Composition

	Group		Company	
	2017 HRK'000	2016 HRK'000	**2017 HRK'000**	2016 HRK'000
Trade receivables	**17,267**	25,468	**7,830**	14,525
Less – allowance for doubtful debts	**(4,297)**	(4,328)	**(4,254)**	(4,110)
	12,970	21,140	**3,576**	10,415

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

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

	Group HRK'000	Company HRK'000
As at 31 December 2016	**(4,328)**	(4,110)
Additions	**(182)**	(182)
Deductions	**213**	38
As at 31 December 2017	**(4,297)**	(4,254)

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

			Past due			
Group	Total HRK'000	Undue HRK'000	< 30 days HRK'000	30 to 60 days HRK'000	60 to 90 days HRK'000	> 90 days HRK'000
2017	**12,970**	**5,845**	**4,578**	**1,406**	**393**	**748**
2016	21,140	4,618	4,168	8,752	1,810	1,792

			Past due			
Company	Total HRK'000	Undue HRK'000	< 30 days HRK'000	30 to 60 days HRK'000	60 to 90 days HRK'000	> 90 days HRK'000
2017	**3,756**	**2,610**	**173**	**274**	**121**	**398**
2016	10,415	2,114	314	5,307	1,578	1,102

Note 8 Other receivables and prepayments

	Group		Company	
	2017	2016	**2017**	2016
	HRK'000	HRK'000	**HRK'000**	HRK'000
Prepaid expenses	**3,835**	3,427	**2,172**	2,212
Prepayment for acquisition of freeholds in Germany	**-**	7,558	**-**	-
VAT and other taxes	**1,013**	5,916	**830**	663
Receivable from related parties	**782**	137	**777**	-
Other	**974**	1,000	**-**	-
	6,604	18,038	**3,779**	2,875

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 the Company, and earn interest at the respective short term deposit rates.

Note 10 Equity

a. Share capital:

As at 31 December 2017, the Company's share capital amounted to HRK 102,574,000 (2016: HRK: 43,650,000) and was divided into 5,128,871 (2016: 2,182,500) ordinary shares without a nominal value (2016: nominal value of HRK 20 per share).

b. Hedging reserve

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

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.

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 2017, legal reserves amounted to HRK 2,182 thousand (2016: HRK 2,182 thousand).

As at 31 December 2017, the consolidated other reserves amounting to HRK 326.6 million (2016: HRK 373.3 million) consisted of:

(i) Capital reserves of HRK 638.8 million of which HRK 611.1 million (2016: HRK 611.1 million) due to the share capital decrease, reserves transferred from retained earnings from previous years in the amount of HRK 25.4 million (2016: HRK 25.4 million), reserves for treasury shares of HRK 4,000 (2016: HRK 4,000), revaluation reserves formed from unrealised fair value gains on available-for-sale financial assets of HRK 111,700 (2016: HRK 114,800) and 2.2 million (2016.: 2.2 million) relates to Legal reserves.

(ii) Other capital reserves which amount to HRK 333.6 million negative with regard to the difference between the acquisition price and the net asset value of Sugarhill.

(iii) Other reserves constitutes difference between the purchases price of the Bora Companies and the net asset value of the Bora Companies. The negative goodwill realised on the purchase of HRK 23.0 million was directly recognised in equity.

(iv) Negative exchange rate differences in the amount of HRK 1.6 million.

As at 31 December 2017, the Company other reserves amounting to HRK 570.9 million (2016: HRK 661.8 million) consisted of:

(i) Legal reserves amounting to HRK 2.2 million (2016: HRK 2.2 million) and other capital reserves amounted to HRK 545.7 million (2016: HRK 636.6 million) which is total of HRK 547.9 million (2016: 638.8 million) out of which the amount of HRK 545.7m is distributable (2016: HRK 545.7 million).

(ii) Other reserves for the difference between the purchase price of the Bora Companies and the net asset value of the Bora Companies. The difference realised on the purchase of HRK 23.0 million has been directly recognised in other reserves.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Note 11 Pledges, contingent liabilities and commitments

a. **Pledges, collateral and securities:**
All bank borrowings are secured by a mortgage over Group properties with a net carrying amount of HRK 1,314,352 thousand (2016: 567,659 thousand).

b. **Commitments:**
(i) Management and franchise agreements

1. In December 2016, the Company's operating agreements for its Croatian properties and those properties in Germany and Hungary that comprised the Sugarhill contribution were amended, restated and novated in order to create two separate agreements:

a. an operating agreement with Arena Hospitality Management d.o.o. (a newly formed Croatian management Company), which is part of the Group, 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. The fee revenues generated from properties within the Group are, as the corresponding expenses, eliminated upon consolidation. 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.

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

(ii) Capital and develop commitments

As at 31 December 2017, the Company had capital commitments amounting to HRK 7.1 million for the new tents for the Arena Pomer Campsite.

Guarantees:
The Group, through its subsidiaries ACO Hotel Holding B.V. and ABK Hotel Holding B.V., has an outstanding loan facility with Deutsche Hypothekenbank AG ("Deutsche Hypo") for an aggregate principal amount of EUR 38 million. This facility includes a guarantee issued by PPHE Hotel Group up to the lower of EUR 19 million or 50% of the outstanding debt under the loan. The Company has provided a back-to-back guarantee to PPHE Hotel Group effective as of 1 January 2018.

The Group through its subsidiary Germany Real Estate B.V. has an outstanding loan facility with Versorgungswerk der Zahnärztekammer (Pension Fund of the Dentist Association of Berlin) for an aggregate principal amount of EUR 10 million. This facility includes a guarantee issued by PPHE Hotel Group for the full outstanding debt under the loan. The Company has provided a back-to-back guarantee to PPHE Hotel Group effective as of 1 January 2018.

The Group through its joint ventures ABM Hotel Holding B.V. and PPBK Hotel Holding B.V. has an outstanding loan facility with Deutsche Hypo AG for an aggregate principal amount of EUR 11.5 million. This facility includes a guarantee issued by PPHE Hotel Group for the full outstanding debt under the loan. The Company has provided a back-to-back guarantee to PPHE Hotel Group as of 1 January 2018.

c. **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 2017, provisions for certain legal disputes have been made in the amount of HRK 31.0 million (2016: HRK 29.9 million), as set out in Note 14. The possible uncertainties and risks were taken into account in reaching the best estimate of the provision.

d. **Lease agreements**
The Group operates city hotels (in Germany and Hungary) and occupies certain properties under various lease agreements in which the building, fixtures, furniture and equipment are leased. These tend to be long term arrangements under which the Group leases a hotel from a third party property owner for periods of 20 to 25 years and often 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.

Note 11 Pledges, contingent liabilities and commitments continued

d. Lease agreements continued

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

	Group		Company	
	2017 HRK'000	2016 HRK'000	**2017 HRK'000**	2016 HRK'000
Within one year	**20,392**	43,515	**-**	-
After one year but not more than five years	**64,046**	173,463	**-**	-
More than five years	**36,140**	228,257	**-**	-
	120,578	445,235	**-**	-

Note 12 Bank borrowings

The bank borrowings of the Group are comprised as follows:

As at 31 December 2017

Bank/facility	**Outstanding amount in HRK'000**	**Currency**	**Interest rate**	**Maturity**
Zagrebačka banka d.d.	**480,112**	**EUR**	**2.5%**	**2027**
ADDIKO/HETA Klagenfurt	**542**	**EUR**	**EURIBOR +1.25%**	**2018**
Deutsche Hyphothekenbank AG	**278,321**	**EUR**	**EURSFIXA + 0.99%**	**2026**
Deutsche Hyphothekenbank AG	**88,097**	**EUR**	**EURIBOR +1.09%**	**2027**
	847,072			
Accrued interest	**10**			
Capitalised transaction costs	**(1,892)**			
Total	**845,190**			

	Maturity analysis					
Outstanding amount HRK	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
847,072	38,222	37,800	38,110	38,425	38,774	655,741

For securities and pledges, see Note 11.

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
Deutsche Hyphothekenbank AG	81,057	EUR	EURIBOR +1.6%	Dec 2017
	658,829			
Accrued interest	3,142			
Capitalised transaction costs	(2,861)			
Total	659,110			

	Maturity analysis					
Outstanding amount HRK	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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Note 12 Bank borrowings continued

The bank borrowings of the Company are comprised as follows:

As at 31 December 2017

Bank/facility	Outstanding amount in HRK'000	Currency	Interest rate	Maturity
Zagrebačka banka d.d.	**480,112**	**EUR**	**2.5%**	**2027**
ADDIKO/HETA Klagenfurt	**542**	**EUR**	**EURIBOR +1.25%**	**2018**
	480,654			

	Maturity analysis					
Outstanding amount HRK	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
480,654	24,547	24,005	24,005	24,005	24,005	360,087

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
	577,772			
Accrued interest	3,142			
Capitalised transaction costs	(2,861)			
Total	578,053			

	Maturity analysis					
Outstanding amount HRK	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
577,772	54,373	58,155	57,624	60,472	60,472	286,676

For securities and pledges, see Note 11.

The Group and the Company are required to comply with certain financial covenants as described below:

a. Under the Zagrebačka banka d.d. facility, the borrower must ensure that the debt service coverage ratio ('DSCR') is equal to or greater than 1.2 at year end during the life of the loan. DSCR is calculated as the Company's annual available cash flow, before debt repayment towards banks and other financial institutions, plus cash balances at the start of the financial year, divided by its annual debt service towards banks and other financial institutions. Further, the Company must ensure that the net leverage ratio is equal or lower than 6.0 at year end 2018, is equal or lower than 5.5 at year end 2019, is equal or lower than 5.0 at year end 2020, is equal or lower than 4.5 at year end 2021 and for each succeeding calendar year during the remaining life of the loan. Net leverage ratio is calculated as net financial debt (which includes total liabilities toward bank and other financial institutions) divided by EBITDA (after rental payments).

b. Under the Deutsche Hypo facility for Park Plaza Nuremberg the borrower must ensure throughout the entire term of the loan that the outstanding amount of the loan does not exceed 65% of the value of the property and that the DSCR is not less than 1.80.

c. Under the Deutsche Hypo facility for ACO Hotel Holding B.V. and ABK Hotel Holding B.V., the borrower must ensure throughout the entire term of the loan that the outstanding amount of the loan does not exceed 70% of the value of the property and that the DSCR is not less than 1.10.

For guarantees under the above facility agreements see Note 11.

As at 31 December 2017, the Group and the Company are in compliances with all its banking covenants.

Note 13 Other loans

	As at 31 December			
	Group		Company	
	2017 HRK'000	2016 HRK'000	**2017 HRK'000**	2016 HRK'000
Third party loan	**75,136**	–	**–**	–
	75,136	–	**–**	–

Third party loan relates to a loan facility with Versorgungswerk der Zahnärztekammer (Pension Fund of the Dentist Association of Berlin) in an aggregate principal amount of EUR 10 million. The facility is denominated in Euros and incurs interest at a rate of 6.5% per annum. The facility is repayable in one lump sum in February 2027.

Note 14 Provisions

	As at 31 December			
	Group		Company	
	2017 HRK'000	2016 HRK'000	**2017 HRK'000**	2016 HRK'000
Provision for litigation	**30,987**	29,887	**30,987**	29,887
Provision for concessions land	**30,412**	25,413	**30,412**	25,413
	61,399	55,300	**61,399**	55,300

Movements in the Provisions were as follows

	Group HRK'000	Company HRK'000
As at 31 December 2016	**55.300**	55.300
Additions	**6.099**	6.099
Deductions	**–**	–
As at 31 December 2017	**61.399**	61.399

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 period 1999 to 2012. The total principal claim and potential interest has been provided for and amounts to approximately HRK 31.0 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.

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 and three self-catering holiday apartment compexes, the Republic of Croatia and the Company need to (i) determine the co-ownership parts of 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 three self-catering holiday apartment complexes and to accrue the remaining 50% until determination of the concession agreements, which is presented as a provision in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Note 15 Other payables and accruals

	As at 31 December			
	Group		Company	
	2017 HRK'000	2016 HRK'000	**2017 HRK'000**	2016 HRK'000
VAT and taxes	**13,348**	9,284	**8,531**	965
Employees	**16,091**	13,684	**12,979**	10,631
Received advances	**12,452**	8,900	**4,492**	3,537
Accrued expenses	**12,527**	5,674	**534**	1,759
Accrual lease payable	**6,627**	9,411	**–**	–
Accrued fee for the tourist land concession	**3,366**	3,428	**3,366**	3,429
Liability for land purchase	**–**	10,233	**–**	–
Other	**464**	413	**359**	2,069
	64,875	61,027	**30,261**	22,390

Note 16 Revenues

	As at 31 December			
	Group		Company	
	2017 HRK'000	2016 HRK'000	**2017 HRK'000**	2016 HRK'000
Accommodation	**576,444**	353,583	**396,550**	308,181
Food and beverages	**105,435**	63,769	**64,456**	56,745
Minor operating revenues*	**25,835**	8,448	**17,493**	14,122
Rent revenue	**9,448**	10,071	**9,416**	11,709
	717,162	435,871	**487,915**	390,757

* Minor operating revenue consists of various hospitality services provided, such as hire of sun loungers and umbrellas, foreign exchange fees, certain wellness services and sport activities.

Note 17 Operating expenses

	Year ended 31 December			
	Group		Company	
	2017 HRK'000	2016 HRK'000	**2017 HRK'000**	2016 HRK'000
Salaries and related expenses	**217,396**	125,890	**139,069**	112,169
Food and beverage	**41,326**	28,333	**29,555**	23,965
Franchise fees, reservation and commissions	**40,867**	22,960	**24,712**	19,971
Marketing expenses	**33,634**	11,044	**23,961**	17,696
Utilities	**32,867**	21,992	**23,133**	19,493
Administration costs	**21,077**	12,856	**13,515**	11,322
Maintenance	**18,631**	14,367	**13,836**	12,655
Insurance and property taxes	**14,343**	11,069	**11,588**	9,702
Supplies	**9,135**	5,890	**6,170**	5,196
Laundry, linen and cleaning	**6,609**	3,364	**2,045**	2,969
Travel and transport	**5,018**	2,635	**3,500**	2,347
IT expenses	**4,116**	2,880	**3,087**	2,606
Management fee	**–**	21,404	**16,966**	19,467
Other expenses	**21,599**	10,416	**11,011**	8,804
	466,618	295,100	**322,148**	268,362

The other expenses contain an auditor's fee in amount of HRK 1,233 thousands (2016: HRK 328 thousand) on Group level and an amount of HRK 759 thousands on Company level (2016: HRK 328 thousand).

Note 18 Financial expenses

	Year ended 31 December			
	Group		Company	
	2017 HRK'000	2016 HRK'000	**2017 HRK'000**	2016 HRK'000
Interest and other finance expenses on bank loans	**30,430**	24,570	**24,527**	23,182
Interest on third party loan	**4,174**	–	**–**	–
Interest on related party loans	**3,252**	4,264	**2,760**	2,902
Realised loss from early repayment of former related party loan	**–**	12,611	**–**	12,611
Exchange rate differences	**–**	(779)	**–**	(1,301)
Other	**1,744**	341	**1,607**	346
	39,600	41,007	**28,894**	37,740

Note 19 Financial income

	Year ended 31 December			
	Group		Company	
	2017 HRK'000	2016 HRK'000	**2017 HRK'000**	2016 HRK'000
Exchange rate differences	**5,094**	–	**5,311**	–
Interest revenue on loans given to joint ventures	**792**	–	**–**	–
Other financial revenue	**175**	136	**167**	132
Interest revenue on related party loan	**–**	–	**4,081**	–
	6,061	136	**9,559**	132

Note 20 Other expenses

	Year ended 31 December			
	Group		Company	
	2017 HRK'000	2016 HRK'000	**2017 HRK'000**	2016 HRK'000
Other expenses	**(4,346)**	(6,612)	**(4,231)**	(6,612)
	(4,346)	(6,612)	**(4,231)**	(6,612)

Other expenses in 2017 mostly refer to refinancing expenses in the amount of HRK 4,231 thousands (2016: refers to expense of professional advisors relating to the restructuring activities within the Company).

a. Tax (benefit)/expense included in the income statement

	Year ended 31 December			
	Group		Company	
	2017 HRK'000	2016 HRK'000	**2017 HRK'000**	2016 HRK'000
Current taxes	**21,452**	70	**12,537**	71
Deferred taxes	**2,010**	(23,786)	**2,943**	(23,231)
	23,462	(23,716)	**15,480**	(23,160)

Note 21 Income taxes

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 provisions and accruals HRK'000	Property, plant and equipment HRK'000	Total HRK'000
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)
Balance as at 31 December 2016	–	6,334	23,657	29,991
Amounts credited to income statement	**1,411**	**2,017**	**–**	**3,428**
Amounts charged to income statement	**–**	**(2,036)**	**(3,402)**	**(5,438)**
Adjustment for exchange rate differences	**9**	**–**	**–**	**9**
Balance as at 31 December 2017	**1,420**	**6,315**	**20,255**	**27,990**

The following are the major deferred tax (liabilities) and assets recognised by the Company and changes therein during the period:

	Timing difference on provisions and accruals HRK'000	Property, plant and equipment HRK'000	Total HRK'000
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)
Balance as at 31 December 2016	**5,859**	**23,654**	**29,513**
Amounts credited to income statement	**2,017**	**–**	**2,017**
Amounts charged to income statement	**(1,561)**	**(3,399)**	**(4,960)**
Balance as at 31 December 2017	**6,315**	**20,255**	**26,570**

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			
	Group		Company	
	2017 HRK'000	2016 HRK'000	**2017 HRK'000**	2016 HRK'000
Profit/(loss) before income taxes	**111,544**	(137,971)	**84,303**	(135,096)
Expected tax at the tax rate of Croatia 18% (2016: 20%)	**20,078**	(27,594)	**15,175**	(27,019)
Adjustments in respect of:				
Effect of other Countries tax rate	**1,437**	–	**–**	–
Change deferred tax rate to 18%	**–**	3,332	**–**	3,282
Non-deductible expenses	**2,013**	1,793	**371**	1,578
Utilisation of carry forward losses and temporary differences for which deferred tax assets were not previously recorded	**–**	(1,567)	**–**	(1,452)
Timing differences for which no deferred tax assets was recorded	**–**	386	**–**	–
Non-taxable income	**(66)**	(66)	**(66)**	(52)
Other differences	**–**	–	**–**	503
Income tax (benefit)/expense reported in the income statement	**23,462**	(23,716)	**15,480**	(23,160)

Note 21 Income taxes continued

d. Tax laws applicable to the Companies of the Group:

(i) The Company is subject to taxation under the law of Croatia. The Company was taxed at the standard rate of 18%. However, in 2016 the Company was taxed at standard rate of 20%.

(ii) Foreign subsidiaries are subject to income taxes in their country of domicile in respect of their income, as follows:

a) Taxation in Germany: corporate income tax rate and business rates is 30.2%.

b) Taxation in Hungary: corporate income tax rate is 18%.

c) Taxation in the Netherlands: corporate income tax rate is 25%.

e. Losses carried forward for tax purposes:

The Group and subsidies in Croatia have no carry forward losses for tax purposes at the balance sheet date.

The Group has an amount of HRK 12.8 million of carry forward losses for tax purposes at the balance sheet date in Germany. Deferred tax assets were partially recognised in the amount of HRK 1.4 million.

Note 22 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			
	Group		Company	
	2017 HRK'000	2016 HRK'000	**2017 HRK'000**	2016 HRK'000
Profit/(loss) for the year	**87,568**	(114,255)	**68,823**	(111,936)
Weighted average number of ordinary shares outstanding	**4,195,990**	2,182,331	**4,195,990**	2,182,331
Basic and diluted earnings per share	**20.87**	(52.35)	**16.40**	(51.29)

Basic earnings per share is equal to diluted earnings per share.

Note 23 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 and the Company's chief operating decision maker is the Management Board. Following the management approach of IFRS 8, Operating Segments are reported in accordance with the internal reporting provided to the Management Board who are responsible for allocating resources to the reportable segments and assessing their performance.

For management purposes, the Group's and 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 allocation 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 2017					
Group	**Hotels HRK'000**	**Self-catering holiday apartment complexes HRK'000**	**Campsites HRK'000**	**Central Services HRK'000**	**Elimination HRK'000**	**Total HRK'000**
Revenue						
Third party	**463,584**	**106,045**	**136,477**	**11,056**	**–**	**717,162**
Inter segment	**–**	**1,435**	**–**	**100,702**	**(102,137)**	**–**
Total revenue	**463,584**	**107,480**	**136,477**	**111,758**	**(102,137)**	**717,162**
Segment EBITDA	**101,717**	**37,304**	**62,898**	**10,943**	**–**	**212,862**
Depreciation and amortisation	**(39,569)**	**(12,092)**	**(8,677)**	**(2,133)**	**–**	**(62,471)**
Financial expenses						**(34,506)**
Financial income						**967**
Other expenses						**(4,346)**
Share in result of joint venture						**(962)**
Profit/(loss) before tax						**111,544**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Note 23 Segments continued

	Croatia HRK'000	Germany and Hungary HRK'000	Total HRK'000
Geographical information			
Non-current assets[1]	**1,121,406**	**656,693**	**1,778,099**

1 Non-current assets for this purpose consist of property, plant and equipment.

Group	Hotels HRK'000	Self-catering holiday apartment complexes HRK'000	Campsites HRK'000	Central Services HRK'000	Elimination HRK'000	Total HRK'000
	Year ended 31 December 2016					
Revenue						
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
Segment EBITDA	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 expenses						(6,612)
Profit/(loss) before tax						(137,971)

	Croatia HRK'000	Germany and Hungary HRK'000	Total HRK'000
Geographical information			
Non-current assets[1]	1,119,836	224,997	1,344,833

1 Non-current assets for this purpose consist of property, plant and equipment.

Note 23 Segments continued

Company	Hotels HRK'000	Self-catering holiday apartment complexes HRK'000	Campsites HRK'000	Central Services HRK'000	Elimination HRK'000	Total HRK'000
	Year ended 31 December 2017					
Revenue						
Third party	**235,806**	**106,045**	**136,477**	**9,588**	**–**	**487,916**
Inter segment	**–**	**1,434**	**–**	**60,905**	**(62,339)**	**–**
Total revenue	**235,806**	**107,479**	**136,477**	**70,493**	**(62,339)**	**487,916**
Segment EBITDA	**58,886**	**37,304**	**62,898**	**(2,331)**	**–**	**156,757**
Depreciation and amortisation	**(26,322)**	**(12,092)**	**(8,677)**	**(1,797)**	**–**	**(48,888)**
Financial expenses						**(23,583)**
Financial income						**4,248**
Other expenses						**(4,231)**
Profit/(loss) before tax						**84,303**
Non-current assets	**605,927**	**315,004**	**124,168**	**76,307**	**–**	**1,121,406**

All the Company's non-current assets are located in Croatia.

Company	Hotels HRK'000	Self-catering holiday apartment complexes HRK'000	Campsites HRK'000	Central Services HRK'000	Elimination HRK'000	Total HRK'000
	Year ended 31 December 2016					
Revenue						
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
Segment EBITDA	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 expenses						(6,612)
Profit/(loss) before tax						(135,096)
Non-current assets	609,465	265,706	100,036	685,615	–	1,660,822

All the Company's non-current assets are located in Croatia.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Note 24 Related parties

Parties are considered to be related if one of the parties has the power to exercise control over the other party 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 51.97% of the Company's shares as at 31 December 2017. 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.

a. Balances with related parties

	As at 31 December			
	Group		Company	
	2017 HRK'000	2016 HRK'000	**2017 HRK'000**	2016 HRK'000
Assets:				
Short-term receivables – Park Plaza Hotels Europe B.V.	**10**	27	**10**	27
Short-term receivables – art'otel dresden	**323**	110	**–**	–
Short-term receivables – Euro Sea Hotels N.V.	**448**	–	**–**	–
Short-term receivables – art'otel berlin mitte	**153**	–	**–**	–
Short-term receivables – Park Plaza Betriebsgesellschaft GmbH	**141**	–	**–**	–
Short-term receivables – Park Plaza Nuremberg Operator	**–**	–	**110**	–
Short-term receivables – Arena Hospitality Management d.o.o.	**–**	–	**645**	–
Long-term loans to joint ventures	**33,839**	33,236	**–**	–
Long-term loan to Germany Real Estate	**–**	–	**72,457**	–
Liabilities:				
Non-current liability – Euro Sea Hotels N.V.	**–**	7,622	**–**	–
Trade payables – Sugarhill Investments B.V.	**–**	–	**6**	427
Trade payables – Park Plaza Berlin Prenzlauerberg Betriebsgesellschaft GmbH	**–**	1	**–**	–
Trade payables – Arena Hospitality Management d.o.o.	**–**	–	**1,869**	–
Trade payables – Euro Sea Hotels N.V.	**–**	788	**–**	–
Trade payables – PPHE (Germany) B.V.	**10,688**	13,090	**–**	–
Trade payables – Park Plaza Hotels Europe B.V.	**3,732**	20,091	**3,732**	20,091
Trade payables – Waterloo Hotel Operator ltd.	**2**	–	**2**	–
Other current liability – Euro Sea Hotels N.V.	**8,112**	–	**–**	–

Note 24 Related parties continued

b. Transactions with related parties

	Year ended 31 December			
	Group		Company	
	2017 HRK'000	2016 HRK'000	**2017 HRK'000**	2016 HRK'000
Management fee revenue – art'otel dresden	**1,577**	–	**–**	–
Management fee revenue from joint ventures	**2,508**	–	**–**	–
Service charge revenue – art'otel dresden	**1,527**	–	**–**	–
Service charge revenue – joint ventures	**2,570**	–	**–**	–
Reimbursement of employee expenses – Park Plaza Nuremberg Operator	**–**	–	**429**	–
Reimbursement of employee expenses – art'otel berlin mitte	**–**	–	**112**	–
Reimbursement of employee expenses – art'otel cologne	**–**	–	**124**	–
Reimbursement of employee expenses – Arena Hospitality Management d.o.o.	**–**	–	**6,156**	–
Management fees expense – Park Plaza Hotels Europe B.V. (Note 17)	**–**	21,404	**–**	19,467
Management fees expense – Arena Hospitality Management d.o.o. (Note 17)	**–**	–	**16,966**	–
Other expenses – SUGARHILL INVESTMENTS B.V.	**–**	–	**578**	–
Sales and marketing fees – Park Plaza Hotels Europe B.V.	**28,287**	7,076	**19,176**	6,327
Sales and marketing fees – PPHE (Germany) B.V.	**9,111**	–	**–**	–
Other expenses – Park Plaza Hotels Europe B.V.	**603**	–	**603**	–
Interest expense – Dvadeset Osam d.o.o.	**–**	4,264	**–**	2,902
Interest expense – Euro Sea Hotels N.V.	**3,252**	-	**2,760**	-
Interest income – Germany Real Estate B.V.	**-**	-	**4,081**	-

IPO expenses recognised in equity incudes the amount of HRK 4,444 thousand incurred by Park Plaza Hotels Europe B.V.

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 (Management and Supervisory Board members) for the year ended 31 December 2017:

Group	**Base salary and fees HRK'000**	**Bonus HRK'000**	**Pension contributions HRK'000**	**Other benefits HRK'000**	**Total HRK'000**
Executive Directors/ Management Board	**4,252**	**2,649**	**377**	**197**	**7,475**
Non-Executive Directors/ Supervisory Board	**260**	**–**	**29**	**–**	**289**
	4,512	**2,649**	**406**	**197**	**7,764**

Company	**Base salary and fees HRK'000**	**Bonus HRK'000**	**Pension contributions HRK'000**	**Other benefits HRK'000**	**Total HRK'000**
Executive Directors/ Management Board	**4,252**	**2,649**	**377**	**197**	**7,475**
Non-Executive Directors/ Supervisory Board	**260**	**–**	**29**	**–**	**289**
	4,512	**2,649**	**406**	**197**	**7,764**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Note 24 Related parties continued

c. Significant other transactions with related parties continued

Compensation to key management personnel (Management and Supervisory Board members) for the year ended 31 December 2016:

Group	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

Company	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 25 Financial risk management objectives and policies

The Group's and 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 Group's and the Company's operations. The Group and the Company have 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 and 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 Group's and the Company's accounting policies in relation to derivatives are set out in Note 2.

a. Foreign currency risk

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

The Group and the Company operate internationally and are exposed to foreign exchange risk. Revenues are mainly linked to the Euro, while operating costs are mainly realised in Kuna.

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

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

The Group and the Company maintain 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 2017, if the Euro had weakened/strengthened by 1.0% (2016: 1.0%) against the Kuna, with all other variables held constant, the loss for the year would have been HRK 307 thousand higher/lower (2016: HRK 5,821 thousand), mainly as a result of foreign exchange gains/(losses) on conversion of EUR denominated borrowings, trade payables, trade and other receivables and foreign cash funds. This risk is reduced by the fact that the majority of revenues are contracted in Euro.

b. Interest rate risk

The Group's and the Company's policy is to manage its interest costs using fixed rate debt. To manage its interest costs, the Group enters into interest rate swaps, in which the Group and the Company agrees to exchange, at specific intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed upon notional principal amount. Furthermore, the Company uses fixed interest rate debts. For this reason, the Group's cash flow is not sensitive to possible changes in interest rates.

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

Note 25 Financial risk management objectives and policies

c. Credit risk

The Group and the Company trades only with recognised, creditworthy third parties. They have policies in place to ensure that sales of products are made to customers with an appropriate credit history. The Group's and 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 and the Company trade only with recognised third parties, there is no requirement for collateral for debts with third parties. Furthermore, the Group and the Company have 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 Group and 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 the irrecoverable amount. The result of these actions is that the Group's and the Company's exposure to bad debts is not significant.

With respect to credit risk arising from other financial assets of the Group and the Company, which comprise cash and cash equivalents and investment in securities, the Group's and 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 Group and the Company have 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 Group and the Company are exposed to the risk of adverse outcomes of legal proceedings. The most significant are:

(i) The Group and the Company are 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 Group and the Company based on water consumption and relating to the period 1999 to 2012. The total principal claim and potential interest has been provided for and amounts to approximately HRK 31.0 million. The Group and the Company dispute 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 Group and 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 Group and the Copmany for compensation for the use of such land from December 1997 currently amounting to EUR 8.7 million (around HRK 68.5 million) plus interest. It also demanded transfer of possession of the respective parts of those campsites. The Group and 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 Group and 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 Group and the Company filed a counterclaim against the Medulin Municipality in the amount of HRK 124.5 million as the Group and the Company have 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 Group and 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 Group and the Company are aware, no concession agreement have 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 Group and the Company are aware, the status of the Group's and 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 Group and 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 are presented as a provision in the financial statements.

Note 25 Financial risk management objectives and policies continued

d. Litigation as a risk factor in business continued

(iv) The Group and the Company have 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 Group's and 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 Group's and 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 Group and the Company and separately also by the Republic of Croatia, the City of Pula's decision have 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 Group's and the Company's resorts and hotels' tourist land areas, due to still unresolved ownership matters, the relevant municipality has not been charging the Group and the Company the respective 50% of the "assumed" concession fee and the Group and the Company have 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 Management Board alongside the Group's and the Company's professional advisers are monitoring all litigation and court proceedings carefully and responsibly in order to prevent possible negative outcomes.

e. Liquidity risk

The Group's and 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 table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2017 and 2016 based on contractual undiscounted payments:

	As at 31 December 2017					
	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	**7,161**	**55,739**	**61,794**	**181,942**	**812,230**	**1,118,866**
Accrued fee for the tourist land concession	**–**	**3,366**	**–**	**–**	**–**	**3,366**
Lease liability	**6,627**	**–**	**–**	**–**	**–**	**6,627**
Trade payables	**23,633**	**–**	**–**	**–**	**–**	**23,633**
Liabilities toward related parties	**22,534**	**–**	**–**	**–**	**–**	**22,534**
Other payables and accruals	**–**	**35,417**	**–**	**–**	**–**	**35,417**
	59,955	**94,522**	**61,794**	**181,942**	**812,230**	**1,210,443**

	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 toward related parties	–	33,970	–	–	7,662	41,632
Other payables and accruals	3,142	42,178	–	–	–	45,320
	45,798	219,330	146,121	202,156	321,617	935,022

Note 25 Financial risk management objectives and policies continued

e. Liquidity risk continued

The table below summarises the maturity profile of the Company's financial liabilities as at 31 December 2017 and 2016 based on contractual undiscounted payments:

	As at 31 December 2017					
	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	**545**	**35,852**	**35,251**	**102,154**	**398,279**	**572,081**
Accrued fee for the tourist land concession	**–**	**3,366**	**–**	**–**	**–**	**3,366**
Trade payables	**8,106**	**–**	**–**	**–**	**–**	**8,106**
Liabilities toward related parties	**5,603**	**–**	**–**	**–**	**–**	**5,603**
Other payables and accruals	**–**	**12,352**	**–**	**–**	**–**	**12,352**
	14,254	**51,570**	**35,251**	**102,154**	**398,279**	**601,508**

	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	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
	42,594	85,283	146,121	202,156	313,955	790,109

f. Capital management

The primary objective of the Group's and 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.

	Group		Company	
	2017 HRK'000	2016 HRK'000	**2017 HRK'000**	2016 HRK'000
Interest-bearing bank loans and borrowings	**920,326**	659,110	**480,654**	578,053
Less – cash and cash equivalents	**(800,101)**	(130,406)	**(716,411)**	(92,464)
Less – other current financial assets	**(205)**	(208)	**(205)**	(208)
Less restricted deposit	**–**	(41,713)	**–**	(41,713)
Net debt	**120,020**	486,783	**(235,962)**	443,668
Equity	**1,565,756**	804,244	**1,885,026**	1,074,548
Hedging reserve	**(3,317)**	(5,025)	**–**	–
Total capital	**1,569,073**	809,269	**1,885,026**	1,074,548
Capital and net debt	**1,689,093**	1,296,052	**1,649,064**	1,518,216
Gearing ratio	**7.1%**	37.6%	**(14.3)%**	29.2%

The Group and the Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. The Group and the Company 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 and the Company includes within net bank debt, interest bearing bank loans and borrowings, less cash and cash equivalents and other liquid assets. Capital includes equity less the hedging reserve.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Note 25 Financial risk management objectives and policies continued

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 and 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 into 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.

The fair value of loans from banks approximate their carrying amounts since that loans with fixed interests rate are contacted nearly before the balance sheet date.

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 and the Company is the current bid price. These instruments are included in Level 1. The Group and 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 amount that would be received on sale at 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 fairly 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 25 Financial risk management objectives and policies continued

g. Fair value of financial instruments continued

Fair value hierarchy

The Group and 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 2017, the Group and the Company held the following financial instruments measured at fair value:

	31 December 2017 HRK'000	Level 1 HRK'000	Level 2 HRK'000	Level 3 HRK'000
Available for sale – financial assets	**205**	205	–	–

During 2017, 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 2016, the Group and 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.

Note 26 Subsequent events

There were no significant events occurring after the date of the Financial Statements.

113 Subsidiaries included in the Group

113 Jointly controlled entities

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Subsidiaries included in the Group

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

Jointly controlled entities

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

1 Direct holdings.
2 Indirect holdings.
3 Subsidies (direct and indirect) 100% or 50% owned by Sugarhill.

APPENDICES

GLOSSARY

A

Arena Hospitality Group: Arena Hospitality Group 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 Arena Hospitality Group. www.arenahospitalitygroup.com

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

artotels.com: Brand website for art'otel®.

B

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 CarlsonSM. Carlson Hotels was acquired by HNA Tourism Group in 2016.

CEE region: the Central and Eastern Europe region.

Club CarlsonSM: 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 CarlsonSM programme. www.clubcarlson.com

Company: Arena Hospitality Group d.d., with registered seat in Pula, Smareglina ulica 3, Croatia, registered in the court register of the Commercial Court in Pazin under number (MBS) 040022901, personal identification number (OIB) 47625429199

CSR: Corporate Social Responsibility. Arena Hospitality Group'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.

F – O

Group: Company and its consolidated subsidiaries (companies subject to a requirement to consolidate their financial statements).

Like-for-like: Results achieved through operations that are comparable with the operations of the previous year. Current year's 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.

Management Board: Reuel ('Reli') Slonim (President of Management Board), Milena Perković (Member of Management Board & Chief Financial Officer),

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.

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 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

RevPAR: Revenue per available room. Total rooms revenue divided by net available rooms or ARR x occupancy %.

Revenue Generated Index (RGI): measures a hotel's fair market share of their segment's (competitive set, market, submarket, etc.) revenue per available room. RGI Index is calculated:

(Hotel RevPAR / Segment RevPAR) x 100 = RGI Index: Fair share can be thought of as the subject hotel's "piece of the pie" in the market.

Sugarhill: Sugarhill Investments B.V.

Sugarhill Group: Sugarhill and its subsidiaries.

Supervisory Board: Boris Ivesha (Chairman), Yoav Papouchado (Vice chairman), Chen Moravsky (Member), Abraham Thomas (Member), Amra Pende (Member), Lorena Škuflić (Member) and Vehbija Mustafić (Member appointed by workers' council).

CONTACTS

Supervisory Board
Boris Ivesha, Chairman
Yoav Papouchado, Vice chairman
Chen Moravsky, Member
Abraham Thomas, Member
Amra Pende, Member
Lorena Škuflić, Member
Vehbija Mustafić, Member
appointed by workers' council

Managemant Board
Reuel ('Reli') Slonim, President
of Management Board
Milena Perković, Member of Management
Board & Chief Financial Officer

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Useful Links
Corporate and reservation websites:
arenahospitalitygroup.com
arenaturist.com
arenacamps.com
parkplaza.com
artotels.com

Strategic partner:
pphe.com
carlsonrezidor.com

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