ANNUAL REPORT & ACCOUNTS 2018

ARENA

HOSPITALITY GROUP

ART'OTEL BERLIN MITTE

A MEMBER OF PPHE HOTEL GROUP

WHO WE ARE

We are an international, dynamic hospitality company 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. In addition to operating and developing our own brand, Arena Hotels & Apartments® and Arena Campsites®, through PPHE Hotel Group Limited (PPHE Hotel Group) (our majority shareholder), we have the exclusive right to operate and develop the international Park Plaza® brand in 18 countries in the Central and Eastern Europe region (the 'CEE region') and manage art'otel® branded properties, allowing us to further grow our presence.

KEY HIGHLIGHTS[1]

TOTAL REVENUE (HRK)	EBITDA (HRK)	EBITDA MARGIN
757.7 M	214.7 M	28.3%
+5.6%	+0.8%	-140 BPS

WHAT WE DO

Since we became an international, dynamic hospitality group in late 2016, our primary objectives are to maintain our profile in the upscale, upper upscale and lifestyle market segments in the CEE region, whilst striving to create and realise shareholder value. Our brand portfolio consists of Park Plaza®, art'otel®, Arena Hotels & Apartments® and Arena Campsites®, across the CEE region, which provide us with excellent growth opportunities.

HOW WE DO IT

Our portfolio includes 26 owned, co-owned, leased and managed properties with approximately 10,000 units located in select resort destinations in Istria, Croatia as well as major cities in the CEE region such as Berlin, Cologne, Nuremberg and Budapest. Our revenue is generated from different market segments which are made up of predominantly holidaymakers in Croatia and a diversified business mix in Germany and Hungary which caters for both business and leisure travellers, as well as conference and trade fair delegates.

EBITDAR (HRK)

250.0 M

-0.2%

PROFIT BEFORE TAX[2] (HRK)

113.8 M

+2.1%

EARNINGS PER SHARE (HRK)

17.3

-21.4%

OCCUPANCY[3]

54.0%

+80 BPS

REVPAR (HRK)

311.3

+4.5%

AVERAGE DAILY RATE (HRK)

576.2

+2.9%

[1] The financial statistics of this report are based on Group results. The comparison refers to the financial statistics from 2017.

[2] Also see Chief Financial Officer's Statement on pages 38.

[3] Occupancy is calculated based on the number of days that each property is open. Most of the hotels in Croatia and all tourist resorts and camps in Croatia are closed during the winter.

10

26

28

Strategic plan

Governance

Financial statements

Appendices

STRATEGIC REPORT

2018 WAS AN INNOVATIVE YEAR WITH MANY MILESTONES

ARENA ONE 99 GLAMPING

A DIVERSE PORTFOLIO

OUR BUSINESS AT A GLANCE

We are an international, dynamic hospitality owner, operator company with a strong asset base and access to multiple brands and a global distribution network through our majority shareholder, PPHE Hotel Group. Our approach means that we fully understand the hospitality industry from both an owner and operator perspective and the power that international brands bring.

CROATIA

8,678

Rooms in operation

Located in one of Croatia's most prominent tourist regions; Istria, our diverse accommodation offering includes hotels and self-catering holiday apartment complexes, through to campsites, and provides guests with a wide choice of locations in Pula and Medulin. Over the years, Croatia has become a popular leisure destination, showing year-on-year growth in overnight stays. With over 40 years of experience, we have an unrivalled expertise in providing great value accommodation, with inspirational 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 major gateway cities, such as Berlin and Cologne. These operate on a year-round basis and provide strong trading results with a balanced mix of business and leisure guests. The hotels are located in prime city-center locations with a high footfall of conference, leisure and business guests.

3 BERLIN **GERMANY**

4 COLOGNE **GERMANY**

5 NUREMBERG **GERMANY**

6 DRESDEN **GERMANY**

HUNGARY

165

Rooms in operation

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

7 BUDAPEST **HUNGARY**

CHAIRMAN OF THE SUPERVISORY BOARD'S STATEMENT

OUR DIFFERENTIATED APPROACH

BORIS IVESHA
CHAIRMAN OF THE SUPERVISORY BOARD

Dear shareholders,

We are pleased to report full year results in line with the Supervisory Board's expectations and another year of growth, building on the record performance achieved in 2017.

Arena Hospitality Group d.d. (the 'Company') and its consolidated subsidiaries (the 'Group') is an international dynamic hospitality business which operates all year round. We have a portfolio of 26 owned, co-owned, leased and managed properties with approximately 10,000 rooms and accommodation units in Croatia, Germany and Hungary.

Our brand portfolio consisting of Park Plaza®, art'otel®, Arena Hotels & Apartments® and Arena Campsites®, provides us with excellent growth prospects across the CEE region. Through our partnership with PPHE Hotel Group, we have the exclusive right to operate and develop the recognised international Park Plaza® brand in 18 countries in the CEE region and we manage the art'otel brand, providing the Group with excellent growth prospects across the region.

Our unique model differentiates our business, both in terms of our owner/operator approach and the diversity of our operations, from coastal hotels and self-catering holiday apartment complexes and campsites to city centre hotels.

2018 Significant events

There were several important milestones for the Group in 2018. We launched our innovative new glamping only concept, a first for Croatia, which transformed an existing campsite into a luxury glamping experience for guests.

We announced positive EBITDA in the first half, which has traditionally generated negative EBITDA due to the seasonality of our Croatian operations. The reversal of this trend is a testament to the diversity of our international operations and improved trading in Germany and Hungary, as well as the benefits of our 2017 investments in high quality sporting facilities at Park Plaza Belvedere Medulin, which trades throughout the year.

On 18 December 2018, trading of all Company's shares migrated from the Official Market to the Prime Market of the Zagreb Stock Exchange.

"

2018 WE LAUNCHED OUR INNOVATIVE NEW ALL-GLAMPING CONCEPT IN CROATIA WHICH TRANSFORMED AN EXISTING CAMPSITE INTO A LUXURY GLAMPING EXPERIENCE FOR GUESTS

Market dynamics

Croatia has continued to grow in popularity as a leisure destination, attracting both domestic and international holidaymakers. Pula Airport is well serviced by both scheduled and charter flights. In 2018 the number of flights increased by 20% year-on-year due to new flight routes added from airports in Switzerland, France, Russia, Germany and the United Kingdom (source: Pula Airport 2018).

The breadth of our hospitality operations in Istria consists of 11 hotels and apartment complexes and eight campsites - and their proximity to Pula Airport means that we are well placed to benefit from this growth. In the first quarter, which is typically low season for the region, the tourism industry experienced a marked increase in visitors to Istria and our overall market share increased by 2.2% (source: Istria Tourist Board).

Our operations in Germany and Hungary delivered a strong year-on-year performance. The most significant contributor in this region was Park Plaza Nuremberg, with the hotel continuing to ramp-up and benefiting from a high volume of fairs and events in the year, which reflected a 21% increase in room nights.

Our team

There were several changes in the Company's Supervisory and Management Board during the year.

Mr. Kevin McAuliffe, Deputy Chairman of PPHE Hotel Group, was appointed as a new Supervisory Board member, effective from September 2018.

We also increased the Company's Management Board, by appointing two new members: Mrs. Manuela Kraljević (effective from September 2018) and Mr. Devansh Bakshi (effective from February 2019).

Mr. Chen Moravsky resigned in June and we thank him for his significant contribution to the Group.

I would like to extend my sincere appreciation to our team members for their dedication, creative flair and professionalism. I would also like to thank our partners and shareholders for their continued support throughout the year.

“

PURSUIT OF EXCELLENCE

PARK PLAZA NUREMBERG

Our prospects

We will continue to reposition and develop assets within in our portfolio as well as focus on development opportunities to deliver further growth in the CEE region. We retain a strong cash position and the Board will continue to consider further assess acquisitions to broaden our portfolio and deliver our target returns on investment.

We are excited about the future and firmly believe that the Group is well-positioned to deliver continued growth, excellent guest experiences and create long term value for shareholders.

BORIS IVESHA
CHAIRMAN OF THE SUPERVISORY BOARD

Park Plaza Hotels & Resorts

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. PPHE Hotel Group Limited is an international hospitality real estate company. It has an exclusive and perpetual licence from the Radisson Hotel Group, one of the world's largest hotel groups, to develop and operate Park Plaza® branded hotels and resorts in Europe, the Middle East and Africa.

parkplaza.com

ARENA HOTELS & APARTMENTS

Arena Hotels & Apartments is a collection of hotels and self-catering apartment complexes. It offers relaxed and comfortable accommodation within beachfront locations across the historic settings of Pula and Medulin in Istria. Arena Hotels & Apartments features contemporary and warm design/interiors accompanied by a welcoming and friendly service. It offers a holiday full of opportunities for exploration and relaxation completed by a food and drink offering with a touch of local flavor. Arena Hotels & Apartments is your destination host and guide, a home away from home that caterings for families, couples and friends.

arenahotels.com

1,845 Park Plaza

OUR BRANDS

TRUSTED, RECOGNISED BRANDS WITH REAL POWER

1,407 Arena Hotels & Apartments

818

art'otel

WE ARE CONFIDENT 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 AND ARE VIBRANT, UNIQUE AND CONTINUALLY EVOLVING.

5,903

Arena Campsites

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 each art'otel®, rendering each location 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. PPHE Hotel Group is owner of the art'otel® brand worldwide.

artotels.com

ARENA CAMPSITES®

Arena Campsites are located in exclusive 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 a distinct offering, along with the opportunity to experience Istria's areas of natural beauty and outdoor activities from April to October. In 2018 Arena Campsite's portfolio was enriched with Croatia's first all-glamping site, a luxury glamping campsite, Arena One 99 Glamping.

arenacampsites.com
arenaglamping.com

PRESIDENT OF THE MANAGEMENT BOARD'S STATEMENT

A STRONG PLATFORM FOR GROWTH

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

INTERNATIONAL DYNAMIC PROFILE

- Successfully transitioned from a highly seasonal domestic company to a year-round international hospitality group
- 5.6% revenue growth in 2018, building on record breaking performance in 2017
- Unique business model combines coastal hotels, self-catering holiday apartment complexes and campsites with prime city hotels
- People are at the heart of the business
- Collaboration with universities
- Certificates of Excellence
- Capitalise on ambitious growth strategy

Welcome,

We are delighted to report another year of good performance and strategic progress. Our operations delivered year-on-year revenue and EBITDA growth.

This was achieved against a backdrop of some operational cost headwinds in the period and a record year in 2017, which provided a strong benchmark to outperform.

The Group has been transformed over the last two years. We have reshaped the business from a highly seasonal domestic company to a year-round international hospitality group and the synergies between our Croatian, German and Hungarian operations are becoming evident.

The business is well funded to support investment projects within our existing portfolio to strengthen our offer and market position. In addition, we continue to seek acquisition opportunities to extend our presence in the CEE region.

Financial performance

Reported total revenue increased by 5.6% to HRK 757.7 million (2017: HRK 717.2 million), as we benefited from an improved trading performance across our operations in Croatia, Germany and Hungary. It is worthwhile highlighting that the first half of the year reflected an improvement in trading outside the summer season which resulted in a positive EBITDA performance in the period for the first time.

Accommodation revenue grew by 6.7% to HRK 615.1 million (2017: HRK 576.4 million), driven by an 80 bps improvement in occupancy to 54% and a higher average daily rate of HRK 576.2 up 2.9% year-on-year.

Croatia's tourism industry goes from strength-to-strength as it continues to grow in popularity, with a record number of passengers (715,000) travelling through Pula Airport in the year. We once again worked hard to extend the high season period by ensuring we have hotels and facilities that can cater for the shoulder months of the year. Our strategy of operating both hotels and resorts, self-catering holiday apartments and campsites as well as city hotels is working well and complementing each other.

Germany has benefited from increased demand and the ramp-up of Park Plaza Nuremberg was the most significant contributor to our revenue growth in the region. We discontinued the management of art'otel dresden effective from 31 July 2018, which resulted in the loss of revenue in the form of management fees from this property.

Reported EBITDA increased by 0.8% to HRK 214.7 million (2017: HRK 212.9 million). This increase was primarily driven by an increase in revenue and lower rental expenses following the acquisition of two hotels; art'otel berlin kudamm and art'otel cologne in Germany in February 2017.

In Hungary, our lease for art'otel budapest, which was due to expire in 2020, has been renewed for a further 20 years with effect from 1 January 2019. This hotel continued to perform well in 2018, reporting double digit year-on-year growth. We plan to invest in the renovation of the public areas (bar, spa and meeting rooms) in early 2019.

There were industry-wide headwinds in the period which put pressure on margins. This includes the growth of labour costs resulting from a shortage of workforce, increased cost of cleaning services, and increased waste management costs due to a new policy that is required for introducing a better quality system and protection of the environment as a fundamental social value. As a result, EBITDA margin in 2018 was 28.3% (2017: 29.7%).

Financial results represent our eighth year of consecutive EBITDA and revenue growth.

Corporate activity

In December 2018, we were proud to become the first hospitality company listed on the Zagreb Stock Exchange's Prime Market, a significant milestone and yet another important step forward for our Group. We began the Company's transformation in 2016 and this migration from the Official Market to the Prime Market clearly shows our constant strive towards excellence, both in our core business and other corporate aspects fundamental to our Group.

In 2017 we raised equity via a Public Offering with the aim of growing the Group further, refurbishing existing assets and expanding our presence regionally and internationally.

We have started deploying the proceeds raised by investing in our campsites with the launch of Arena One 99 Glamping – a campsite dedicated to glamping. We have several investment plans for 2019 some of which have already commenced and some of which we are actively reviewing.

Details of our 2018 investment projects and planned investments for 2019 are set out in the Group's capital investments plan on page 28 and in the Operating review on page 50.

Our strategy

We have a clear strategy to drive growth and create long term value through our property portfolio and our hospitality operations.

In our property portfolio, we take a disciplined, yield-focused approach to capital deployment. We look to optimise the value of our existing portfolio and where appropriate extract value to fund longer-term sustainable growth.

In our hospitality operations, we are consistently working to deliver a refreshed guest experience across our portfolio and leverage our scale and inter-regional synergies. This will drive growth and maintain high-operating margins. We will continue 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.

Our unique business model combines coastal hotels, self-catering holiday apartment complexes and campsites with prime city hotels. This business model has proven to be the way forward; the seasonality of our business in Croatia has been complemented with an all-year-round operation in Germany and Hungary, where we were able to employ some of our seasonal team members from Croatia. This enabled the Group to have dedicated and in-house trained staff, at all properties, and offered the team members international working experience.

We remain focused on investing in renovation and repositioning programs at several of our hotels, self-catering holiday apartments and complexes, as well as our sizeable campsite portfolio. These investments will drive additional growth through


ARENA ONE 99 GLAMPING

an enhanced overall guest experience and create value in our real estate portfolio.

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 social media awareness and cultivating strong partner relationships with key customers.

As well as dedicated in-house teams located in Croatia and Germany who provide communications and marketing support, the Group benefits from the sales and marketing services provided through its partnership with PPHE Hotel Group.

This partnership includes access to the Radisson Hotel Group's central reservation system, a global reservation and distribution system, for the Park Plaza and art'otel brands and its loyalty programme, Radisson Rewards, which has more than 20 million members worldwide. Alongside this, the Group also has its own loyalty program in place for guests at the Arena Campsites. This multi-brand approach enables us to develop

HRK 214.7M	HRK 757.7M	84.1
EBITDA	TOTAL REVENUE	EMPLOYEE ENGAGEMENT INDEX

NOVELTIES

Arena One 99 Glamping

Exceptional service at your fingertips

and operate properties across several segments of the hospitality market and benefit from the solid infrastructure offered and provided by our partners.

Memorable guest experiences

We are passionate about creating and delivering unique experiences for guests in vibrant destinations, whether staying at one of our properties or visiting our restaurants, bars or spa facilities.

We aim to create valuable memories for our guests by delighting them every day through well-invested, high quality products and operational excellence. Constantly striving to improve the guest experience, we have developed two new mobile apps that give all useful information about our hotels, campsites and its related facilities (restaurants, shopping, massage, sports etc.). Moreover, guests can contact the staff at all times directly through the mobile app which enables real-time interaction with staff from anywhere.

Once again, we are proud of the high levels of guest satisfaction scores achieved across our properties. This reflects the appreciation for our ongoing investment in our operations and our commitment to delivering service above and beyond expectation.

The collective satisfaction score at our branded operations in Croatia, Germany and Hungary is 88.4%. 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 were improved to 80.7.

Investing in our people

Our team members are at the heart of our business and like others in the hospitality sector having a highly engaged workforce and attracting and retaining the right talent is a key priority for us and imperative to our success.

We are proud of our high performing culture where engaged team members deliver best in class operations through consistent service delivery. We remain focused on ensuring that they are fully supported, engaged, trained and motivated so we can consistently deliver a high service standard and a 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. This supports the development of all our teams, whilst creating the next generation of leaders.

We have access to PPHE Hotel Group's award-winning Learning and Development programmes, which are part of the platform you:niversity which is used to train all our team members. During the year, a total of 89 training programs were held, and we trained a total of 1,844 team members. In 2018, all team members were trained on the implementation of General Data Protection Regulation (GDPR) and the consequences thereof to the business.

In Germany, art'otel cologne hosted a speed dating event at a job fair held at the Rhein-Energie-Stadion Köln. All hotels in Germany attended several large-scale job fairs organised by national employment agencies across the country.

In Croatia, we continued to work closely with the local School of Hospitality, Tourism and Trade in Pula to offer practical work experiences for students. In 2018, we offered five scholarships to students that are studying to be chefs. This initiative is in collaboration with the Ministry of Tourism. Further outreach included a collaboration with the Faculty of Economics Juraj Dobrila, Pula. In 2018, a contract was signed between the Faculty and the Group pursuant to which training/internship for students in Tourism were offered. The contract also allows our team members to be guest lecturers at the Faculty in their areas of expertise. As a result of this partnership, 12 students started their mandatory internship in December 2018. Together with the Croatian Ministry of Tourism, we have given one scholarship to a student from the Faculty of Economics. In addition, we have signed a contract with the Law Faculty in Rijeka to offer practical on the job training. During the year, we also welcomed two students from RIT Croatia, a division of Rochester Institute of Technology in New York.

Arena Hospitality Group together with the Institute for Labour Market Development is a partner on the EduTurizam project run by Diopter – a training centre based in Pula. The project's goal is to improve the educational system in Croatia for the tourism and hospitality sector. Some 40 unemployed individuals are included in the scheme with the goal to become qualified cooks, barmen, barristas and entertainment officers.

During the period, we have also initiated a dual apprenticeship programme with the International University of Applied Sciences Bad Honnef (IUBH). While art'otel berlin mitte partnered with a refugee project in Berlin to help with recruitment across several of its operational roles.

In total, the Company employed more than 1,440 people during the year, of whom 467 were permanent employees. Approximately five, previously seasonal team members, worked in Germany either before and/or after the Croatian summer season, highlighting the synergies between our operating regions.

Our employee Engagement Index for the Group remained high at 84.1 (on a scale of 1-100), with 92% of team members completing the survey.

Our teams are focused on consistently delivering exemplary service. I would like to take this

PARK PLAZA BELVEDERE MEDULIN

opportunity to thank all our team members for these fantastic achievements and their continued devotion. Our Loyalty index according to the Climate analysis survey is 75.

Industry recognition

We are delighted to see that our hotels and campsites have been recognised through multiple industry awards and accolades.

Arena One 99 Glamping and Arena Kažela Campsite were named as Croatia's best campsites by the Croatian Camping Union; Arena One 99 Glamping was also awarded best glamping offer by the Croatian National Tourist Board and Croatian Chamber of Economy. Arena One 99 Glamping was awarded the "Golden Goat" by Istria Tourism Board as best tourist product of 2018. In addition, Arena Kažela Campsite was awarded 4.5 out of 5 stars for 2019 from the ANWB campsite inspectors.

Across our portfolio, nine of our properties received the TripAdvisor Certificate of Excellence 2018, which is awarded to properties that consistently achieve outstanding traveler reviews on TripAdvisor. In addition, Park Plaza Verudela Pula won TripAdvisor's Traveler's Choice 2018 award.

With ever more focus on sustainability, five of our hotels in Germany won GreenLeader recognition for their commitment and progress to green practices such as recycling, local and organic food, and electric car charging stations.

I am also thrilled to announce that Milena Perković, Member of the Management Board and Chief Financial Officer, was named as the Most Successful Woman in Business in Croatia by the Croatian Association of Women in Business and Croatian Chamber of Economy.

Current trading and outlook

Trading in 2019 has started well and in line with the Management Board's expectations.

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

We are progressing various future investment projects for our properties in Croatia and our hotels in Germany and Hungary, as well as reviewing expansion opportunities in Croatia and the CEE region.

I am excited about the opportunities ahead and firmly believe the Group is well-positioned to capitalise on its ambitious growth strategy.

R. Slonim

REUEL ('RELI') SLONIM

PRESIDENT OF THE MANAGEMENT BOARD

UNIQUE: ARENA ONE 99 GLAMPING

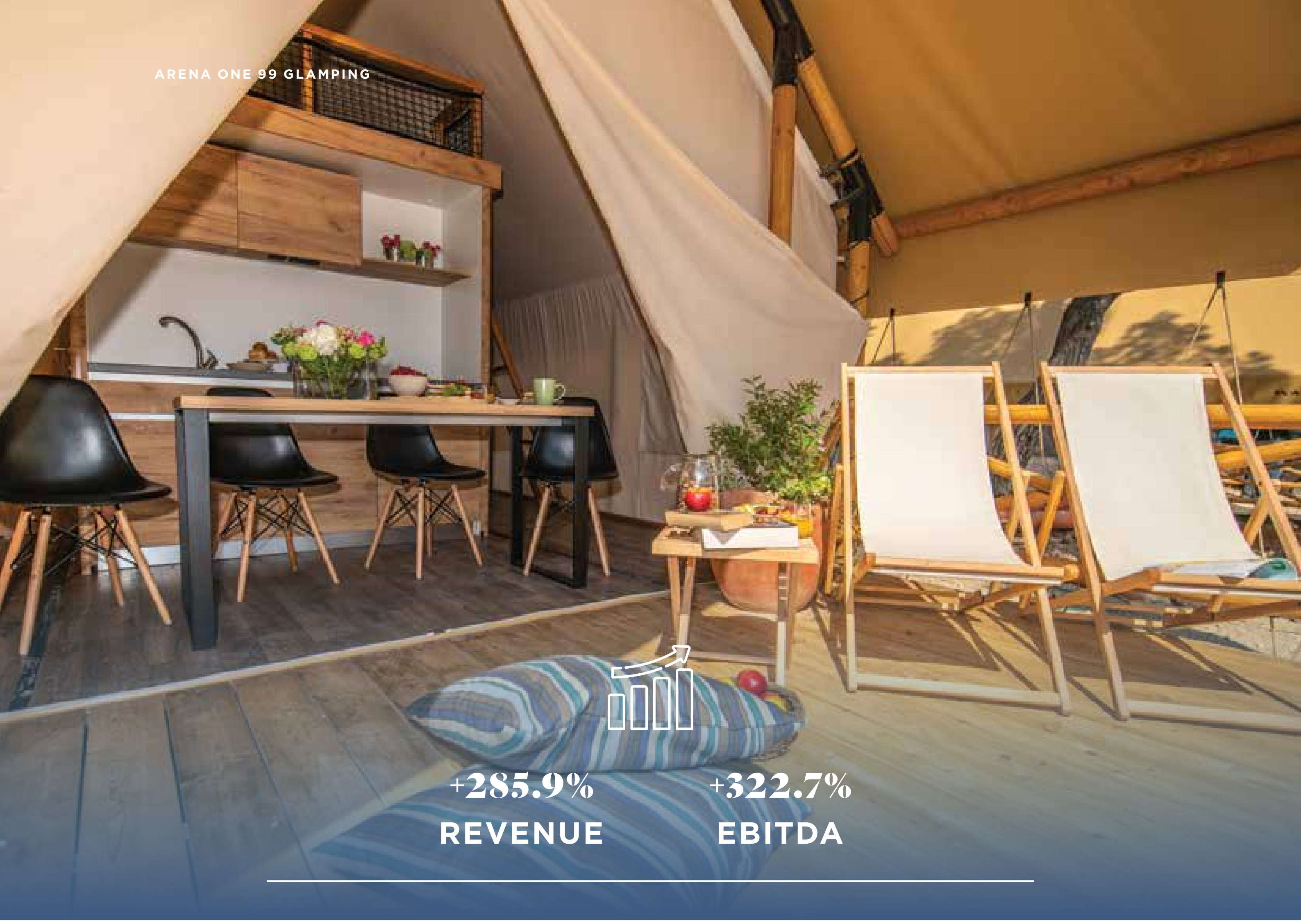
SPOTLIGHT ON A SUCCESSFUL FIRST SEASON FOR CROATIA'S PIONEERING ALL-GLAMPING SITE

ARENA ONE 99 GLAMPING

The heart shaped peninsula of Istria in northern Croatia boasts a plentiful number of secluded spots, crystal blue sea and an abundance of sporting facilities for both professionals and tourists. The Company recognised an opportunity to create Croatia's first all-glamping resort, and so went on to open Arena One 99 Glamping in June 2018.

Located in the peaceful village of Pomer, Pula in southern Istria and formerly a limited service campsite, the Company spotted an opportunity to convert the pitches into glamping sites and create the country's first luxury all-glamping resort in June 2018.

The site stretches over more than four hectares and is surrounded by nature with the very best facilities including; a private beach, an open air wellness area, paddle board yoga, two beach bars and an Illy café. Arena One 99 Glamping showcases tents to sleep up to six people with added luxury levels within the additional categories of Premium Two Bed Safari Loft tents and Premium Three Bed Safari Tents.



NOVELTIES

Croatia's first all-glamping resort

With media flocking to review the site including main international titles such as the Metro in the UK, Stylist, the Sun and various titles in Germany, a key source market for Croatia, it is no wonder that the site had high occupancy during the period it was open. Istria as a region continues to soar in success, seeing UK visitor numbers alone up by 10% based on 2017. Perhaps due in part to the increase in airlines flying directly to Pula and that it is continuously seen as a strong alternative to the main European beaches of Italy and Spain and resort holidays in Egypt, Turkey and Tunisia. The region is particularly popular among German tourists with 1.0 million visitors and 8.7 million room nights, compared to 1.0 million and 8.6 million room nights in 2017.
The season saw high occupancy levels and as a result our booking period is extended to begin mid-April due to the popularity of the offering. In October 2018 Arena One 99 Glamping was awarded the Croatian campsite of the year at the Tourist Flower Awards of the Croatian National Tourist Board. The 2018 season also saw an average google rating of 4.4 out of 5 and an average TripAdvisor of 4 out of 5 for the first season.

FRUITFUL INVESTMENT IN SPORTING FACILITIES

IN 2018 PARK PLAZA BELVEDERE MEDULIN RECORDED 40,000 OVERNIGHTS IN CONJUNCTION WITH ITS SPORT ACTIVITIES

The successful repositioning of hotel Park Plaza Belvedere Medulin into a sport-oriented hotel for pre- and post-season started in 2014 with the total refurbishment of the hotel and its sports facilities.

During 2017, we added complementary facilities, including artificial football pitches, at our football sports centre near the hotel and these additions benefited our operation during the first half of the year.

In 2018, Park Plaza Belvedere Medulin recorded 40,000 overnights in conjunction with its sport activities, including two senior tournaments in collaboration with the local Tourism Board (Arena Cup and Medulin Cup including teams from the region as well as Hungary and Austria), as well as three youth tournaments (including team from the region but also Austria, Switzerland, Finland, Italy, Croatia, Germany). These events further enhance Park Plaza Belvedere Medulin as a leading football training centre.

In 2018, Park Plaza Belvedere Medulin achieved 126.8% more in total revenues and 188.4% higher EBITDA compared to the pre-investment period. It is worth emphasising that the first half of the year historically generated a negative result for the Company but these investments have enabled the Company to turn this negative trend into positive territory for the first time and sustainably going forward.

SUCCESSFUL RAMP UP OF PARK PLAZA NUREMBERG

+16.5%
REVENUE

+41.5%
EBITDA

> 2018 MARKS THE CELEBRATION OF A GREAT YEAR FOR THE GROUP AND RECOGNISES EXCEPTIONAL ACHIEVEMENTS

Park Plaza Nuremberg opened in June 2016. The hotel is located in the city prime position near the shopping and business centre of Nuremberg, opposite the main train station and about 7.7 kilometres (12 minutes by subway) from the city's international airport. Nuremberg is situated in southern Germany, halfway between Munich and Frankfurt, making it a convenient location and international centre for meetings, events and conferences ("MICE") and travel. Nuremberg is also among the most dynamic high-tech cities in Europe well known for a number of leading international trade fairs.

Our Park Plaza Nuremberg hotel generated a revenue increase of 16.5% and EBITDA increased by 41.5% compared to last year.

The continuation of the ramp-up of Park Plaza Nuremberg was the most significant contributor to our revenue growth in our German and Hungarian operations.

Consequently, year-after-year, the hotel is recording the highest guest recognition through customers' feedback, scoring 90.7 on its Global Review Score™.

PARK PLAZA NUREMBERG

+12.1%
occupancy

Park Plaza Nuremberg is outperforming its competitive set in RGI, driven by a strong average rate index of 107.4. In 2018 the hotel managed to improve its occupancy index by 12.1%.

The design of each of the hotel's 177 rooms is influenced by the work of Albrecht Dürer, the legendary Nuremberg-born artist, mathematician and theorist.

THE GROUP'S CAPITAL INVESTMENTS PLAN

ARENA KAŽELA CAMPSITE

During 2018 the Company started with its investment cycle in its campsites with the opening of the first campsite in Istria entirely dedicated to 'glamping': Arena One 99 Glamping, located in Pomer, between Pula and Medulin. In 2019, we will continue with the investments in the Arena Kažela Campsite located on the south part of Medulin, overlooking the Kvarner bay and just a few kilometres away from the city of Pula. The location of Arena Kažela Campsite has been specifically chosen to provide guests with the ultimate peaceful location close to some of the best beaches in Istria. Guests also have immediate access to beaches with designated areas for sunbathing.

Following the investment, Arena Kažela Campsite will offer an additional 152 new, fully equipped premium and family Mobile Homes, alongside the existing, over 1.000 spacious pitches.

The new Mobile Home will be created for modern conscious travellers, searching for eco-friendly choices when on vacation. The sustainable accommodation features ecological and recycled materials and offers 37 m^2 of interior space, more than 25 m^2 of covered terrace as well as 250 m^2 of a private garden.

In addition to the sustainable accommodation, the new facilities are designed to provide a luxurious experience for guests with one pool for sporting activities and one relaxation pool; both with accompanying sundecks, a new entrance and reception, a great offering of local food and drinks, as well as a well-thought-out programme of activities for children and adults.

The Company expects to invest approximately HRK 127.5 million in Arena Kažela Campsite.

READ MORE ON PAGE 55

The Company is finalising plans for the major refurbishment of Hotel Brioni which will reposition the hotel as an upper upscale Park Plaza branded hotel and will include the refurbishment of the existing heritage building. We will build upon the hotel's iconic building status and reputation with the ambition for it to become the most luxurious hotel in Pula and surroundings. The hotel was built in early 1970' and was the most important hotel at Tito's time, many well-known personalities (politicians, artist, actors. etc) have stayed at Hotel Brioni. The project is planned to start in late 2020 with a view to re-opening to the public in 2022. The Company expects to invest approximately HRK 190.0 million in this landmark refurbishment.

In Germany, the Company is finalising plans to refurbish art'otel berlin kudamm. All rooms and the public areas will be upgraded to a contemporary lifestyle hotel. The Company expects to invest around HRK 53.0 million in art'otel berlin kudamm.

The Company has advanced plans to continue refurbishing Ai Pini and Zlatne Stijene Resorts as well as Verudela Beach Resort, which are going through final designs. We are looking into modernising these resorts into modern self-catering accommodation units. We are most advanced with Verudela Beach Resort where we plan to invest approximately HRK 60 million. Upon completion of Verudela Beach Resort and Hotel Brioni, the Company will have refurbished all of its assets on the Verudela peninsula turning it into a well-rounded refurbished destination providing a wide and diverse offering to its guests.

We will continue to identify and review potential expansion opportunities in Croatia and the CEE region.

HRK 127.5M

of investments in Arena Kažela Campsite

HRK 190.0M

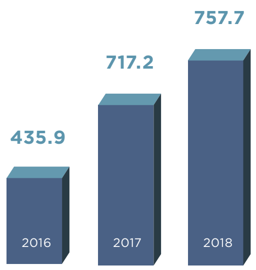
of investments in hotel Brioni

HRK 53.0M

of investments in art'otel berlin kudamm

GROUP

FINANCIAL KPIs



TOTAL REVENUE (HRK MILLION)

DEFINITION

Total revenue includes all operating revenue generated by the Group's owned and leased hotels and management fees.

COMMENT

Revenue increased by 5.6% due to consolidation with Germany and Hungary and improved trading in Croatia.

FURTHER INFORMATION

Also see Member of the Management board and Chief Financial Officer's statement page 38.

EBITDA (HRK MILLION)

DEFINITION

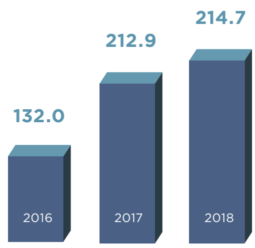
Earnings before interest, tax, depreciation and amortisation.

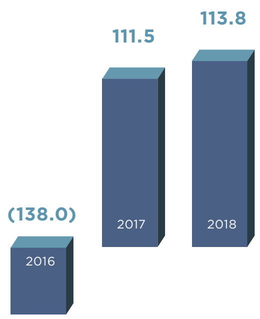
COMMENT

EBITDA increased by 0.8% year-on-year due to an increase in revenue and good results in Germany and Hungary.

FURTHER INFORMATION

Also see Member of the Management board and Chief Financial Officer's statement page 38.





PROFIT BEFORE TAX (HRK MILLION)

DEFINITION

Profit before tax

COMMENT

Profit before tax increased by 2.1% in 2018, due to increased revenues.

FURTHER INFORMATION

Also see Member of the Management board and Chief Financial Officer's statement page 38.

EARNINGS PER SHARE (HRK)

DEFINITION

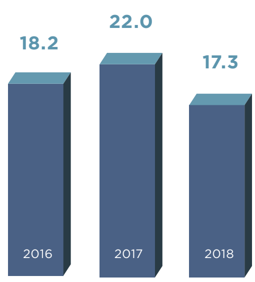
Earnings for the year, divided by the weighted average number of ordinary shares outstanding during the year.

COMMENT

Earnings per share decreased by 21.4% in 2018 due to an increase in weighted average number of ordinary shares outstanding during the year (2018: 5,128,721) (2017: 4,195,990).

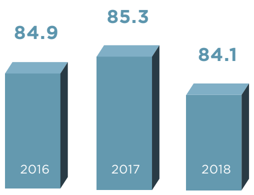
FURTHER INFORMATION

Also see Member of the Management board and Chief Financial Officer's statement page 38.



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

Adopted a new measurement method in 2015 providing new insights and enabling us to further strengthen our unique culture. Employee engagement index decreased by 120 bps.

FURTHER INFORMATION

Also see President of the Management Board's statement page 16, Responsible business page 56.

OCCUPANCY (%)

DEFINITION

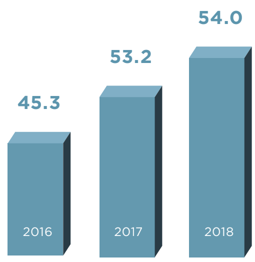
Total rooms occupied divided by the available rooms. Occupancy is calculated based on the number of days that each property is open.

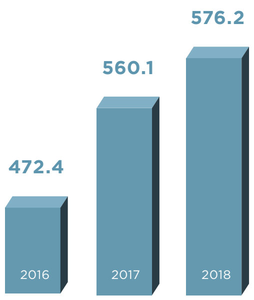
COMMENT

Occupancy increased by 80 bps due to a higher occupancy achieved by the hotels.

FURTHER INFORMATION

Also see Member of the Management board and Chief Financial Officer's statement on page 38.





AVERAGE DAILY RATE (HRK)

DEFINITION

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

COMMENT

Average daily rate increased by 2.9% year-on-year due to extensive refurbishment and investment projects.

FURTHER INFORMATION

Also see Member of the Management board and Chief Financial Officer's statement on page 38.

RevPAR (HRK)

DEFINITION

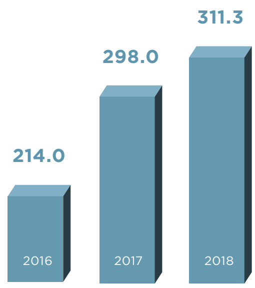
Revenue per available room or accommodation unit; total room or accommodation revenue divided by the number of available rooms or units.

COMMENT

RevPAR increased by 4.5% year-on-year, as a result of increased average daily rate and occupancy.

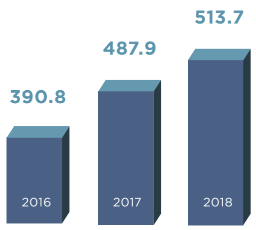
FURTHER INFORMATION

Also see Member of the Management board and Chief Financial Officer's statement on page 38.



COMPANY

FINANCIAL KPIs



TOTAL REVENUE (HRK MILLION)

DEFINITION

Total revenue includes all operating and other revenue generated by the Company.

COMMENT

Revenue increased by 5.3% due to improved trading.

FURTHER INFORMATION

Also see Company income statement page 91.

EBITDA (HRK MILLION)

DEFINITION

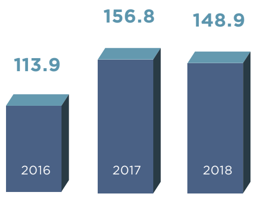
Earnings before interest, tax, depreciation and amortisation.

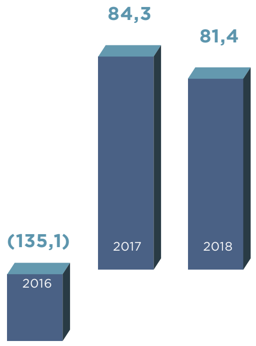
COMMENT

EBITDA decreased by 5.1% year-on-year due to an increase in labour costs, garbage collection and cleaning services costs.

FURTHER INFORMATION

Also see Company income statement page 91.





PROFIT BEFORE TAX (HRK MILLION)

DEFINITION

Profit before tax

COMMENT

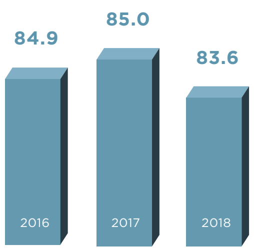
Profit before tax decreased by 3.4% in 2018, due to an increase in labour costs, garbage collection and cleaning services costs.

FURTHER INFORMATION

Also see Member of the Management board and Chief Financial Officer's statement page 38 and Company income statement page 91.

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

Adopted a new measurement method in 2015 providing new insights and enabling us to further strengthen our unique culture. Employee engagement index decreased by 140 bps.

FURTHER INFORMATION

Also see Responsible business statement page 56.

OCCUPANCY (%)

DEFINITION

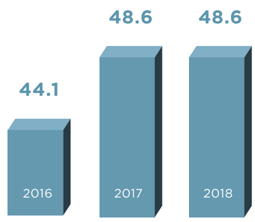
Total rooms occupied divided by the available rooms. Occupancy is calculated based on the number of days that each property is open.

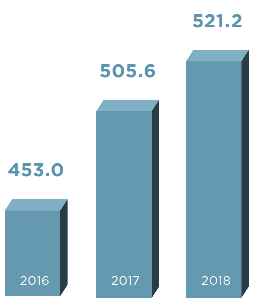
COMMENT

Occupancy remained the same at the Company level. There was a higher occupancy rate in hotels, lower in self-catering holiday apartment complexes while in campsites remained the same.

FURTHER INFORMATION

Also see Operating review page 44.





AVERAGE DAILY RATE (HRK)

DEFINITION

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

COMMENT

Average daily rate increased by 3.1 % year-on-year due to extensive refurbishment and investment projects.

FURTHER INFORMATION

Also see Operating review page 44.

RevPAR (HRK)

DEFINITION

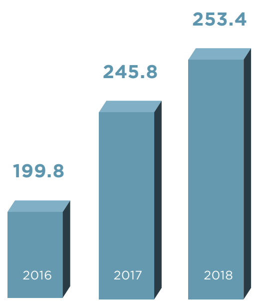
Revenue per available room or accommodation unit; total room or accommodation revenue divided by the number of available rooms or units.

COMMENT

RevPAR increased by 3.1% year-on-year, as a result of increased average daily rate.

FURTHER INFORMATION

Also see Operating review page 44.



PRINCIPAL RISKS AND UNCERTAINTIES

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 Radisson Hotel Group. Executives and managers regularly attend seminars, workshops and trainings 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.

RISK AND IMPACT	MITIGATION
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. During 2018 there were initiatives by the government to address this outstanding issue and the resulting outcome could have an impact of the Group’s business and profitability related to campsites. The outcome of such initiatives and the related timing of such implementation are still uncertain.	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.
INFORMATION TECHNOLOGY AND SYSTEMS	
In addition, the Group and its hotels maintain, to the extent permitted by law, personal customer data, which is shared with and retained by the Group’s partners pursuant to agreements that provide the necessary level of protection of such data. 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. Moreover, the Group has successfully implemented the GDPR regulation which gives additional comfort to our customers in relation to data protection.

RISK AND IMPACT	MITIGATION
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.

RISK AND IMPACT	MITIGATION
LABOUR RELATED RISKS	
The Group is subject to the risk of industrial or labour disputes and adverse employee relations, and these disputes and adverse relations could disrupt the Group's business operations and materially adversely affect the Group's business, financial condition and results of operations and have a material adverse impact on the Group's reputation. Although the Group has not had any material industrial or labour disputes in the past, no assurance can be given that there will not be industrial or labour disputes or adverse employee relations in the future that could have a material adverse effect on the Group's operations in a specific property, country or region which in turn could have a material adverse effect on the Group's business, financial condition and results of operations. The Group's ability to support its business operations may be impaired by its ability to employ, train and retain sufficient personnel necessary to meet its requirements. In Croatia, this is true particularly during the high season of June to September and in Germany, this applies mainly to the Group's operations in Berlin. The Group may be unable to maintain an adequate labour force necessary to operate efficiently and to support its growth strategy. The Group has from time-to-time experienced shortages of certain profiles of employees. For example, the Group has experienced difficulties in hiring sufficient employees to staff its hotels in Berlin. During the high season in Croatia, it can be difficult to employ an adequate number of people and employees are frequently recruited across geographic regions to satisfy demand. However, the supply of experienced hotel industry employees and other skilled workers may not be sufficient to meet current or expected demand. The opening of new hotels may put further pressure on demand and the Group's ability to attract and retain sufficient numbers of qualified employees. If the Group is unable to attract and retain employees with the requisite skills and experience, it may be forced to incur additional training expenses. Labour shortages or increased labour costs could impair the Group's ability to execute its business strategy and growth plans. If the Group experiences shortages of sufficient labour in any of its markets this may have an adverse effect on its business, financial condition and results of operations. Moreover, the Group may encounter pressures arising from increasing labour costs which could have an adverse impact on the profitability of the Group.	The Group focuses on its employees as it recognises the importance of employees to the success of the business. It makes significant efforts to provide a number of extensive training programmes for its employees which are aimed at nurturing and retaining talent, enabling intra-group transfers, and inspiring the workforce, which ultimately serve to improve employee and guest satisfaction scores, which have been growing across the Group's properties year-on-year. This includes access to a wide range of training programmes administered by the PPHE Hotel Group to which the Group's employees have access. The success of the Group's employee initiatives and their overall satisfaction is evident through the Group's high rate of employee retention. The Group intends to continue to create and deliver programmes aimed at further improving employee engagement and satisfaction and pursue further technological initiatives.

MEMBER OF THE MANAGEMENT BOARD AND CHIEF FINANCIAL OFFICER'S STATEMENT

ANOTHER YEAR OF GROWTH

MILENA PERKOVIĆ
MEMBER OF THE MANAGEMENT BOARD AND CHIEF FINANCIAL OFFICER'S STATEMENT

WE UTILISED SOME OF THE PROCEEDS OF OUR CAPITAL RAISED IN 2017 TO FURTHER ENHANCE OUR PROPERTY PORTFOLIO AND GUEST EXPERIENCE

- Successful launch of our first dedicated glamping campsite
- Renewed our lease at art'otel budapest for a further 20 years
- Successful transfer from the Official Market to Zagreb's Stock Exchange Prime Market
- Refinancing of the loan of Park Plaza Nuremberg

Welcome,

2018 was another year of growth as we continued to maintain and grow our position as a dynamic international hospitality company with a year-round operational business.

There were several notable events and activities in the year.

We utilised some of the proceeds of our capital raised in 2017 to invest in our existing property portfolio, in order to maintain and enhance the quality of accommodation and exemplary service, that we offer to our customers. In addition, we are actively seeking opportunities to expand our presence in the CEE region.

Particularly, we have invested HRK 70.0 million in our new Arena One 99 Glamping concept which opened in June 2018. To partly fund this project, we entered into an attractive five-year credit facility for the amount of EUR 5.0 million with Erste bank in June 2018. The maturity profile is back ended with 50% of the loan being repaid at maturity and with an interest rate fixed at 1.95% throughout the life of the loan.

By end of July 2018 we terminated the Hotel management agreement of art'otel dresden as the PPHE Hotel Group reached an agreement with the owner of the property to terminate the lease, as trading at the hotel did not meet our expectations.

HRK 70.0 M

invested in Arena One 99 Glamping

In September 2018, an independent valuation of certain of the PPHE Hotel Group's properties in Croatia and Germany was carried out. The total value of the properties valued by Savills and Zane is HRK 2,426.4 million which reflects improved trading conditions since 2016 and represents a premium to the net book value of HRK 1,750.9 million for those properties at 30 June 2018. The valuations undertaken within the Group are part of the adoption by the Group's indirect controlling shareholder, PPHE Hotel Group, of business performance measures as set out in the Business Performance Reporting (BPR) guidelines of the European Public Real Estate Association (EPRA), such as EPRA Net Asset Value (EPRA NAV) and EPRA earnings. PPHE, in its capacity of indirect controlling shareholder of the Group, fully consolidates the results and balance sheet of Group and therefore Group's assets form part of PPHE's EPRA BPR reporting.

> "THE SUCCESSFUL TRANSFER FROM THE OFFICIAL MARKET TO ZAGREB'S STOCK EXCHANGE PRIME MARKET

In November we repaid the loan from the Pension Fund of the Dentist Association of Berlin in the amount of EUR 10.0 million. The loan was bearing a fixed interest rate of 6.5% and has been successfully refinanced with a new loan from Zagrebačka banka which bears a fixed interest rate of 2.4% and matches the favourable maturity profile of our existing loan with Zagrebačka banka in the amount of EUR 64.0 million signed at the end of 2017.

We have renewed our lease at art'otel budapest for a further 20 years, effective from 1 January 2019. We plan to invest in the property to continue to enhance its position on the market.

Encouraged by the successful transformation of Arena One 99, we budgeted in December 2018 for the refurbishment of Arena Kažela Campsite, which is the largest campsite in our portfolio with 1,412 pitches. The first phase of the refurbishment has started already and valued at approximately EUR 17.0 million. Arena Kažela Campsite will be refurbished and marketed in time for 2019 summer season.

The table below sets out the Group's consolidated results of operations for the year ended 31 December 2018.

CONSOLIDATED KEY PERFORMANCE INDICATORS	Year ended 31 December 2018	Year ended 31 December 2017	Variance %[1]
Total revenue (HRK million)	**757.7**	717.2	5.6
Accommodation revenue (HRK million)	**615.1**	576.4	6.7
EBITDAR (HRK million)	**250.0**	250.5	(0.2)
EBITDA (HRK million)	**214.7**	212.9	0.8
Profit/(loss) before tax (HRK million)	**113.8**	111.5	2.1
Rooms available[2]	**1,975,651**	1,934,233	2.1
Occupancy %[2]	**54.0**	53.2	80[4]
Average daily rate (HRK)[3]	**576.2**	560.1	2.9
RevPAR (HRK)	**311.3**	298.8	4.5

1 Percentage 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 twelve months ended 31 December 2018 with twelve months ended 31 December 2017. All financial information in this report for accommodation revenue, total revenue, EBITDAR and EBITDA reflects the Group's interest.

2 Rooms available and the occupancy calculation are based on operating days.

3 Average daily rate represents total room revenues divided by the total number of paid units occupied by guests.

4 In Basis Points (BPS).

Business performance

Reported total revenue increased by 5.6% to HRK 757.7 million (2017: HRK 717.2 million). This growth is the result of solid trading across our Croatian, German and Hungarian operations.

Of the reported total revenue, 66% is realised from the Croatian operations, 32% from the German and Hungarian operations, and the remaining from managed and centralised services. Reported accommodation revenue, a key metric for the business, increased by 6.7% to HRK 615.1 million (2017: HRK 576.4 million).

RevPAR increased by 4.5% to HRK 311.3 (2017: HRK 298.0), reflecting good trading in all our regions. This RevPAR growth was achieved through a 2.9% increase in average daily rate to HRK 576.2 (2017: HRK 560.1) and an 80 bps increase in occupancy to 54.0% (2017: 53.2%).

Total operating expenses increased by 7.7% to HRK 543.0 million, primarily due to increased labour costs and expenses for waste management and cleaning services.

As a result of these cost headwinds, reported EBITDA increased less strongly than revenues at HRK 214.7 million, an increase of 0.8% (2017: HRK 212.9 million). EBITDA margin is 28.3% (2017: 29.7%) due to higher aforementioned costs.

	Consolidated			Company		
				Year ended 31 December (HRK million)		
NORMALISED PROFIT BEFORE TAX	**2018**	**2017**	**2016**	**2018**	**2017**	**2016**
Reported profit before tax	**113.8**	111.5	(138.0)	**81.4**	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	**-**	-	12.9	**-**	-	12.6
Normalised profit before tax	**113.8**	115.9	42.7	**81.4**	88.0	32.7

Profit before tax

Group's reported profit before tax increased by 2.1% to HRK 113.8 million (2017: HRK 111.5 million). Group's reported profit before tax compared with normalised profit before tax decreased by 1.8% to HRK 113.8 million (2017: HRK 115.9 million). All adjustments are outlined in the table above.

Financial position

The net bank and third-party debt as at 31 December 2018 was HRK 135.4 million, an increase of HRK 15.2 million (as at December 2017: HRK 120.0 million).

In Germany, the refinancing of the loan on Park Plaza Nuremberg for a period of 10 years (from 29 December 2017) has enabled the increase of the debt by additional HRK 31.0 million. The funds were drawn under this credit facility during 2018.

Earnings and shareholder value

Earnings per share was HRK 17.3 (2017: HRK 22.0), a decrease of 21.4%. Earnings per share decreased by 21.4% in 2018 due to an increase in weighted average number of ordinary shares outstanding during the year (2018: 5,128,721; 2017: 4,195,990).

Dividend

The Company reviewed its dividend policy in light of its capital investment plans, aimed at upgrading a number of its properties and expansion in the CEE region. Accordingly, the Company revised its dividend policy in a way that the Company will continue to retain part of its future earnings for investment purposes and may consider paying out to its shareholders up to 25% of its consolidated normalised net profits for the preceding business year. This would commence in 2020 based on the 2019 financial results, assuming no change to the issued share capital of the Company. It would be conditional upon the overall financial position of the Company, its investment plans, working capital requirements, compliance with its current and future debt service requirements and covenants, cash flow generation, situation on the capital markets, situation in the industry and overall economy and other relevant factors at any specific point in time, which taken individually or jointly may affect such dividend distribution.

2.0 M

Overnight stays

250,000

Guest stays each day during the high season

No assurances can be made that the Company will make dividend payments.

The Company's revised dividend policy is available at the web site of the Company (www.arenahospitalitygroup.com) and the web site of Zagreb Stock exchange (www.zse.hr).

Looking ahead

In the year ahead, we will remain focused on investing in our portfolio and continuing to transform and reposition our offering and striving to grow the business and value for our shareholders. We are excited about what is ahead of us.

MILENA PERKOVIĆ

MEMBER OF THE MANAGEMENT BOARD AND CHIEF FINANCIAL OFFICER

PARK PLAZA NUREMBERG

PARK PLAZA NUREMBERG

OPERATING REVIEW CROATIA

PARK PLAZA HISTRIA PULA


PARK PLAZA HISTRIA PULA


PARK PLAZA BELVEDERE MEDULIN

The following table sets out the results for the Group's operations in Croatia for the year ended 31 December 2018:

HOTELS, SELF-CATERING HOLIDAY APARTMENT COMPLEXES AND CAMPSITE OPERATIONS	Year ended 31 December **2018**	Year ended 31 December **2017**	Variance **%**
Total revenue (HRK million)	**503.8**	479.8	5.0
Accommodation revenue (HRK million)	**419.4**	396.5	5.8
EBITDAR (HRK million)	**165.0**	168.0	(1.8)
EBITDA (HRK million)	**155.3**	159.1	(2.4)
Rooms available[1]	**1,654,816**	1,613,398	2.6
Occupancy %[1]	**48.6**	48.6	0
Occupancy % 365 days	**25.4**	24.1	130[2]
Average daily rate (HRK)[3]	**521.2**	505.6	3.1
RevPAR (HRK)	**253.4**	245.8	3.1
RevPAR 365 (HRK)	**132.4**	122.0	8.5
FTE[4]	**579**	548	5.7

[1] Rooms available and occupancy are based on operating days.

[2] In Basis Points (bps)

[3] Average daily rate represents total accommodation revenues divided by the total number of paid units occupied by guests.

[4] The FTE number is an estimate based on the total hours paid for all employees divided by the hours paid for an average full time employee to arrive at a total for Full Time Equivalent Employees.

The Group's operations in Croatia are of a highly seasonal nature. Most guest visits occur in the high season between June to September, with approximately 70% of the Group's revenue in Croatia generated in the third quarter of the year. Total revenue increased by 5.0% to HRK 503.8 million, with year-on-year growth reported in all our segments; hotels, self-catering holiday apartment complexes and campsites. This growth was mainly due to a solid performance in the high season, underpinned by a strong performance in the shoulder season. The improved trading in the low season (October to May) was due to strong demand during the Easter and Pentecost holidays and our 2017 investments in sporting facilities including artificial football pitches, at our sports-oriented hotel Park Plaza Belvedere Medulin.

Accommodation revenue grew by 5.8% to HRK 419.4 million and RevPAR was up 3.1% to HRK 253.4. This improved performance was supported by a 3.1% increase in average daily rate and a 130 bps improvement in occupancy.

It is worthwhile highlighting that the first half of the financial year has typically generated a negative EBITDA. Nevertheless in 2018 this trend was reversed for the first time when we reported a 74.1% increase in accommodation revenue in the first quarter of the year which supported positive first half EBITDA of HRK 0.8 million (first six months of 2017: HRK (first six months of 2018: HRK 0.8 million; first six months of 2017: HRK 41 thousand negative).

However, the increase in revenue was offset by increased pressure on operational costs. These costs included increased labour costs, property taxes (urban land and water protection fees) and the cost of utilities (primarily waste management expenses and cleaning services expenses). As a result, EBITDA was lower year-on-year at HRK 155.3 million (2017: HRK 159.1 million).

HOTEL OPERATIONS KEY PERFORMANCE INDICATORS	Year ended 31 December **2018**	Year ended 31 December **2017**	Variance **%**
Total revenue (HRK million)	**241.7**	235.8	2.5
Accommodation revenue (HRK million)	**185.5**	180.7	2.7
EBITDAR (HRK million)	**57.1**	59.5	(4.1)
EBITDA (HRK million)	**56.4**	58.9	(4.2)
Rooms available[1]	**369,147**	360,964	2.3
Occupancy %[1]	**63.7**	63.5	20[2]
Occupancy % 365 days	**39.6**	38.8	80[2]
Average daily rate (HRK)[3]	**788.6**	788.3	0.0
RevPAR (HRK)	**502.6**	500.6	0.4
RevPAR 365 (HRK)	**312.6**	305.8	2.2

[1] Rooms available and occupancy are based on operating days.

[2] In Basis Points (bps)

[3] Average daily rate represents total accommodation revenues divided by the total number of paid units occupied by guests.

Total revenue increased by HRK 5.9 million and accommodation revenue increased by 2.7% to HRK 185.5 million, driven by a small increase in average daily rate and a 20 bps increase in occupancy based on operating days. RevPAR increased to HRK 502.6, a 0.4% increase year-on-year.

Year-on-year EBITDAR decreased by 4.1% and EBITDA decreased by 4.2% due to higher aforementioned costs.

HRK 22.9M

increased accommodation REVENUE

5.8%

increase year-on-year

PARK PLAZA BELVEDERE MEDULIN

SELF-CATERING HOLIDAY APARTMENT COMPLEXES OPERATIONS KEY PERFORMANCE INDICATORS	Year ended 31 December **2018**	Year ended 31 December **2017**	Variance **%**
Total revenue (HRK million)	**109.7**	107.5	2.1
Accommodation revenue (HRK million)	**88.4**	85.8	3.1
EBITDAR (HRK million)	**34.6**	38.1	(9.0)
EBITDA (HRK million)	**33.8**	37.3	(9.3)
Rooms available[1]	**191,095**	182,274	4.8
Occupancy %[1]	**61.1**	62.2	(110)[2]
Occupancy % 365 day	**30.5**	29.3	120[2]
Average daily rate (HRK) [3]	**757.4**	757.1	0.0
RevPAR (HRK)	**462.8**	470.6	(1.7)
RevPAR 365 (HRK)	**230.8**	221.7	4.1

Total revenue from self-catering holiday apartment complexes increased by 2.1% year-on-year to HRK 109.7 million and accommodation revenue increased slightly ahead of this by 3.1% related to increased rooms sold by 3.1%. This result was driven by a slight increase in average daily rate by 0.04% and ten more operating days. As a result, RevPAR 365 increased by 4.1% to HRK 462.8 (2017: HRK 470.6).

EBITDA was HRK 33.8 million, a decrease of 9.3% compared with 2017 due to higher aforementioned costs.

CAMPSITE OPERATIONS KEY PERFORMANCE INDICATORS	Year ended 31 December **2018**	Year ended 31 December **2017**	Variance **%**
Total revenue (HRK million)	**152.4**	136.5	11.7
Accommodation revenue (HRK million)	**145.4**	130.1	11.8
EBITDAR (HRK million)	**73.3**	70.5	4.1
EBITDA (HRK million)	**65.1**	62.9	3.5
Rooms available[1]	**1,094,574**	1,070,160	2.3
Occupancy %[1]	**41.3**	41.3	0[2]
Occupancy % 365 days	**20.7**	19.4	130[2]
Average daily rate (HRK) [3]	**321.2**	294.5	9.1
RevPAR (HRK)	**132.8**	121.6	9.3
RevPAR 365 (HRK)	**66.4**	57.3	15.9

[1] Rooms available and occupancy are based on operating days.

[2] In Basis Points (bps)

[3] Average daily rate represents total accommodation revenues divided by the total number of paid units occupied by guests.

The Group's campsite operations, which are between April and September, performed particularly strongly during the peak summer months. Campsite total revenue increased by 11.7% to HRK 152.4 million. Similarly, accommodation revenue increased by 11.8% to HRK 145.4 million.

Revenues rose due to a 130 bps increase in occupancy based on 365 days to 20.7% and a 9.1 % improvement in average daily rate to HRK 321.2. The revenue growth was, to a great extent, driven by the opening of our new Arena One 99 Glamping.

EBITDA improved to HRK 65.1 million, an increase of 3.5% compared with 2017. This growth was a direct result of increased revenue by HRK 15.9 million and investments.

BRANDED FACILITIES OPERATIONS[4] KEY PERFORMANCE INDICATORS	Year ended 31 December **2018**	Year ended 31 December **2017**	Variance **%**
Total revenue (HRK million)	**265.2**	259.2	2.3
Accommodation revenue (HRK million)	**198.9**	194.3	2.3
EBITDAR (HRK million)	**68.4**	72.9	(6.1)
EBITDA (HRK million)	**67.5**	72.0	(6.3)
Rooms available[1]	**374,229**	359,522	4.1
Occupancy %[1]	**62.2**	62.8	(60) [2]
Occupancy % 365 days	**39.9**	39.9	0.0[2]
Average daily rate (HRK) [3]	**854.6**	860.2	(0.7)
RevPAR (HRK)	**531.5**	540.6	(1.7)
RevPAR 365 (HRK)	**351.3**	343.3	2.3

[1] Rooms available are based on operating days.

[2] In Basis Points (bps).

[3] Average daily rate represents total accommodation revenues divided by the total number of paid units occupied by guests.

[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 GERMANY AND HUNGARY

ART'OTEL BERLIN KUDAMM

PARK PLAZA WALLSTREET BERLIN MITTE


ART'OTEL BUDAPEST

The following table sets out the Group's results of operations in Germany and Hungary for the year ended 31 December 2018:

	REPORTED / IN HRK			REPORTED EUROS (€)		
KEY PERFORMANCE INDICATORS	Year ended 31 December **2018**	Year ended 31 December **2017**	Variance **%**	Year ended 31 December **2018**	Year ended 31 December **2017**	Variance **%**
Total revenue (millions)	**243.2**	227.8	6.8	**32.8**	30.5	6.8
Accommodation revenue (millions)	**195.7**	179.9	8.8	**26.4**	24.1	8.8
EBITDAR (millions)	**74.1**	70.7	4.8	**10.0**	9.5	4.8
EBITDA (millions)	**49.4**	42.8	15.4	**6.7**	5.7	15.4
Rooms available[1]	**320,835**	320,835	0.0[2]	**320,835**	320,835	0.0[2]
Occupancy %[1]	**81.9**	76.3	560[2]	**81.9**	76.3	560[2]
Average daily rate[3]	**744.7**	734.4	1.4	**100.5**	98.4	1.4
RevPAR	**610.1**	560.7	8.8	**82.3**	75.2	8.8
FTE[4]	**186**	180	3.3	**186**	180	3.3

[1] Rooms available and occupancy are based on operating days.

[2] In Basis Points (bps)

[3] Average daily rate represents total accommodation revenues divided by the total number of paid units occupied by guests.

[4] 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.

Trading in the region once again improved significantly year-on-year and benefited from increased demand for city breaks during the summer months. Reported revenue grew by 6.8% to HRK 243.2 million.

RevPAR increased by 8.8% to HRK 610.1. This was derived from a 560 bps increase in overall occupancy to 81.9% and a 1.4% increase in average room rate to HRK 744.7.

Park Plaza Nuremberg was once again the main driver of this growth as the hotel (opened in mid 2016) continued to mature. It benefited from a high volume of fairs and events in the city, many of which only take place every two years. The region also benefited from the unusually hot weather in the summer.

The most important contributors to the EBITDA performance was Park Plaza Nuremberg which continued to mature and traded strongly, coupled with lower rental payments as a result of the acquisition of freehold interests of art'otel cologne and art'otel berlin kudamm in 2017.

The overall impact in 2018 of the acquisition of these freeholds is lower rental payments in the amount of HRK 4.2 million previously payable to third parties.

It is worthwhile highlighting that Park Plaza Nuremberg (which was opened in mid-2016) experienced a sharp increase in EBITDA of 41.5% from HRK 11.4 million in 2017 to HRK 16.1 million in 2018.

THE GERMAN AND HUNGARIAN HOTEL MARKET

The hotels in the greater Berlin area reported a year-on-year increase of 8% in RevPAR to EUR 79.7. This growth was the result of a 4.8% increase in average room rate to EUR 97.6 and a 238 bps increase in occupancy to 81.6%. In Cologne, the hotels in the upscale and upper mid classes reported a 2.7% decrease in RevPAR to EUR 79.3. This decrease was a result of an 4.3% decrease in average room rate to EUR 105.5 and 118 bps increase in occupancy to 75.2%. In Nuremberg, the hotels in the upscale and upper mid classes reported a 16.3% increase in RevPAR to EUR 80.1. This increase was a result of a 10% increase in average room rate to EUR 107.4 and 409 bps increase in occupancy to 74.6%. In Hungary, the performance of the hotel market in Budapest continued to improve with RevPAR increasing by 5.8% to EUR 61.2. This growth was a result of a 4.2% increase in average room rate to EUR 74.5 and a 239 bps increase in occupancy to 82.1%. (Source: STR Global, December 2018).

OWNED HOTELS

art'otel cologne
art'otel berlin kudamm
Park Plaza Nuremberg

LEASED HOTELS

Park Plaza Wallstreet Berlin Mitte
art'otel budapest

PARTLY OWNED HOTELS*

art'otel berlin mitte
Park Plaza Berlin Kudamm

* Part owned do not count towards any of the figures presented in the table on page 52.

8.8%
RevPAR increased

1.4%
Increase in average room rate

HRK 4.2 M
Overall impact of the Acquisition

15.3%
Increase in EBITDA

OPERATING REVIEW

MANAGED AND CENTRALISED SERVICES

The following table sets out the Group's results of management and central services operations for the year ended 31 December 2018:

KEY PERFORMANCE INDICATORS	Year ended 31 December **2018**	Year ended 31 December **2017**	Variance **%**
Total revenue before elimination (HRK million)	**116.5**	111.8	4.2
Elimination of intra group revenue (HRK million)	**(105.8)**	(102.2)	3.5
Total reported revenue (HRK million)	**10.7**	9.6	11.5
EBITDA (HRK million)	**10.0**	10.9	(8.3)
FTE[1]	**264**	263	0.4

[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.

Arena Hospitality Management d.o.o., a subsidiary of the Company, entered into management agreements with all the properties owned, partially owned, leased or managed by the Group in Croatia, Germany and Hungary. Arena Hospitality Management d.o.o. provides management services to all these properties and generates management fee revenues. Hotel management revenue related to hotels within the Group is eliminated upon consolidation as intra-group revenue. Furthermore, all revenue generated within the Group from centralised services in Croatia and Germany is eliminated upon consolidation as intra-group revenue.

Total revenue grew by 4.2% to HRK 116.5 million as a result of revenue growth across all the regions. EBITDA decreased by 8.3% to HRK 10.0 million due to higher labour costs.

Management of art'otel dresden was discontinued with effect from 31 July 2018, following PPHE Hotel Group's termination of the lease by mutual agreement with the freehold owner of the property. This has resulted in the loss of management fees from this property and impacted revenue in the second half as 174 rooms were removed from the region's inventory.

OPERATING REVIEW

INVESTMENT PROJECTS AND PRODUCT IMPROVEMENTS

During 2018, we invested HRK 126.2 million in upgrading our Croatian operations. Our investments included the refurbishment of rooms, public areas and facilities at hotels, self-catering holiday apartment complexes and campsites. The main refurbishment projects completed until the end of 2018 were:

Arena One 99 Glamping represents the first significant investment to our campsite portfolio. The former Arena Pomer campsite has been converted to a high-end all-Glamping offering area with 183 luxury tents, new infrastructure, reception area, grocery store and restaurant, beach bars and wellness area. Arena One 99 Glamping opened on 23 June 2018.

Park Plaza Histria Pula: refurbishment of the Wellness and Spa area, development of an additional meeting room and refurbishment of the back of house facilities;

Park Plaza Arena Pula: refurbishment of an extension of Park Plaza Arena Pula by adding six rooms via the conversion and refurbishment of an old apartment building previously part of Verudela Beach Resort

Arena Hotel Holiday: refurbishment of the kitchen and restaurant; and

Arena Kažela Campsite: the investment and upgrading of the campsite started in November 2018.

During 2018, we have invested HRK 17.1 million in our German portfolio. Our investments included the upgrading of IT hardware, refurbishment of rooms and additional facilities, worthwhile highlighting:

art'otel cologne: created a new fitness and wellness area;

art'otel berlin mitte: completed the refurbishment of meeting rooms and created a new fitness and wellness area;

Park Plaza Berlin Kudamm: upgraded to a new key card system and prepared sample rooms; and

art'otel berlin kudamm: created final drawings and plans for sample rooms for future refurbishment plan.

NONFINANCIAL REPORT

RESPONSIBLE BUSINESS 2018

Doing business responsibly

A shifting landscape

As one of the most dynamic hospitality groups 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. Our primary activity of developing, owning and operating hotels, resorts and campsites creates an increased level of responsibility to our guests, team members, partners, shareholders and the communities in which we operate. In turn, these stakeholders are placing a higher value on a brand's responsible initiatives and the impact it is making on the world.

A responsible business strategy

Responsible Experiences

As outlined in our 2017 Annual Report, the Group has elected to participate in a responsible business strategy, Responsible Experiences. It has been developed by PPHE Hotel Group and builds on the Responsible business (RB) activity of previous years across the PPHE Hotel Group, to create a long-term sustainable and responsible business model.

Developed by PPHE Hotel Group's team members, the approach is aligned to their current values and the way the properties and their teams already go about their daily work. Responsible business mission and the four pillars reflecting key areas of activity and impacts are shown on page 57. Croatian, German and Hungarian teams part of the PPHE Hotel Group, are involved in strategy implementation.

In 2018 we have been taking positive steps to integrate Responsible Experiences into our business model and day-to-day activity. This has involved setting ourselves goals under each pillar, the majority of which are based on existing activity within our Group, while others have been set to challenge the Group and introduce new areas of activity.

ART'OTEL BERLIN MITTE

INSPIRING GUESTS

1. Improve guest experience
2. Futureproof our organisation
3. Ensure guest health and wellbeing
4. Ensure guest safety and security

DEVELOPING OUR PEOPLE

1. Linking development to learning
2. Attract and retain talent

CREATING CENTRES OF EXCELLENCE

1. Reduce carbon footprint
2. Reduce water usage
3. Reduce waste and recycle more
4. Increase the use of ethically sourced and eco-friendly materials
5. Increase diversity in the workplace

BEING PART OF OUR COMMUNITIES

1. Increase our charity initiatives and volunteering
2. Contributions and investments with our local community
3. Engagement with our local community

Each goal has a series of measures associated with it to help us monitor and evaluate our efforts. We are currently working on internal systems and processes to ensure we can accurately report on these and plan to report on this first set of measures in 2019. For more information on our goals and measures visit pphe.com/responsibility.

The Company has committed to working with its indirect controlling shareholder, PPHE Hotel Group, to ensure that all systems, goals and measures align, which is a committed aim of the PPHE Hotel Group in 2019.

Materiality in 2019

During the summer of 2018, PPHE Hotel Group also conducted a comprehensive online materiality survey with over 4,000 key stakeholders. PPHE Hotel Group is using the results of these findings to prioritise activity within the group and which measures to concentrate on first.

This report focuses on their progress in each of the four pillars across the last 12 months. Where possible, they have highlighted key facts and figures that are considered relevant by their stakeholders and are also important to the success of the PPHE business.

Being a truly responsible business requires PPHE Hotel Group and our Group being responsive to the views of our stakeholders and the needs of an ever-changing world.

Managing Responsible Business at Arena Hospitality Group

We have an effective top-to-bottom two tiers governance structure, providing an environment in which team members are encouraged and supported to do the right thing and work responsibly. This starts at Supervisory Board and Management Board level with dedicated Board members. Management Board and the senior management team ultimately engage with all team members at our Group. We have a Responsible Experiences Project Manager who drives activity and governance and reports to both PPHE Hotel Group and the Management Board.

Our Responsible Business strategy is also part of the 'Feeling Welcome' induction programme for new team members. All colleagues are accountable for doing business responsibly, which is integral to the way we recruit, develop, assess, promote and reward them – from senior management to our trainees. This induction programme includes tailor-made training in areas such as data privacy (GDPR).

Our mission in 2019

We are very proud of the progress we have made with Responsible Experiences in 2018, but we realise that we are at the very start of this process and still have a long way to go before we have achieved our ambitions for this initiative and integrate ourselves in the PPHE Hotel Group model more widerly.

The PPHE Hotel Group has an ambitious plan: "Over the next 12 months our aim is to build a digital data collection tool that ensures the data we collect is up-to-date and accurate. In creating this we will also produce standards and procedures to define what the data is and its source, this will enable us to create consistency across the PPHE Hotel Group, track our progress, celebrate our successes and identify areas for improvement. We can then work together to set targets and define initiatives that will help us achieve our Responsible Experiences goals".

The Group will work in 2019 on progress in each of the four pillars of Responsible Experience concept:

Inspiring guests

Providing excellent guest experiences will always be in the focus for all Group activity. As highlighted in the materiality survey, which PPHE Hotel Group did in 2018, 'Inspiring Guests' was ranked as the most important Responsible Experiences pillar amongst stakeholders. For this section, we focus on how responsible business activity is conducted with the specific aim of creating valuable memories by delighting our guests every day, through engaging service, quality products and inviting places.

Goals:

1) Improve guest experience
2) Future-proof our organisation
3) Ensure guest health and well-being
4) Ensure guest safety and security

128.7 M HRK

Of investments over the last 12 months

The guest experience and future proofing

One of our primary goals is to recognise and create opportunities and develop the properties in our portfolio to reach their full potential. We are committed to investing in the renovation and development of our hotels, self-catering holiday apartment complexes and campsites. Over the last twelve months we have invested HRK 128.7 million in major renovation projects. The feedback from our guests indicates that they appreciate these investments and our customer average overall score is 84.3.

PARK PLAZA BELVEDERE MEDULIN

Health and well-being

We ensure that our products and services are advertised in strict conformity with legal requirements as well as with ethical and cultural standards. We comply the national Statement of Advertising and Market Communication. We commit to complying with applicable consumer-protection regulations and to employing appropriate sales, marketing and information practises in communications with our customers. Customer satisfaction and guest complaints are key to the development of our brands and services. We have a robust process in place that addresses the issue at hand and feeds directly into how we evolve the guest experience. This ensures we build a service offering that responds directly to guest feedback.

Safety and security

The health and safety of our team members and our customers 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 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 team and record, and a culture of safety which is deeply embedded within the Group.

We take the privacy of our customers very seriously. Over the last year we have reviewed our systems and policies to ensure we are GDPR compliant. In order to comply, we identified how we process data and have embedded policies to process it in line with this new European law. We nominated responsible GDPR officer whose duty is to put a system in place to identify when we deviate from the proscribed procedures of processing data and to put in place a training system for all our team members, enabling them to report any misuse of personal data and enabling us to mitigate and prevent further risk.

Human rights

The Group requires its team members to act fairly in their dealings with fellow team members, customers, suppliers and business partners. We introduced a Code of Ethics during 2013 which applies to all Group employees. The Group operates a confidential whistle-blowing policy, which was also introduced in 2013. We have a zero-tolerance Gift policy on bribery and corruption which extends to all business dealings and transactions in which we are involved. This includes a prohibition on making political donations, offering or receiving inappropriate gifts or making undue payments to influence the outcome of business dealings. Our robust policy and guidance in this area are routinely reviewed by PPHE Hotel Group.

Every new team member is required to review and acknowledge our Code of Ethics and Gift policy which are seen by the HR department.

Creating centres of excellence

As one of the most dynamic hospitality groups in the CEE region, owner and operator of 14 hotels, four self-catering holiday apartment complexes, eight campsites and many restaurants, bars and spas in Croatia, Germany and Hungary, it is 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. As highlighted in the materiality survey, 'creating centres of excellence' was ranked as the Responsible Experiences pillar with the most impact.

Goals:

1) Reduce carbon footprint
2) Reduce water usage
3) Reduce waste and recycle more
4) Increase the use of ethically sourced and eco-friendly materials
5) Increase diversity in the workplace

Carbon footprint

The management of our energy use has always been important to the Group and we have had success in reducing our carbon emissions over a long period of time. All our achievements in energy saving have been made possible by the commitment of our local hotel management teams, our technical team, room division manager and Management Board. We actively engage our guests to reducing their impact on the environment through the reduction of water, electricity and cleaning materials used in our properties as well as on waste disposal rules.

Whilst we are proud of our successes to date, we need to ensure that the Group continues to perform well. In 2018 we introduced an online energy monitoring tool for all our properties in Germany. The online tool allows us to receive accurate updates on all our energy consumption. This information provides us with the ability to monitor peaks and troughs in usage. The benefits of this are not only commercial, but will also allow us to explore ways to reduce our carbon footprint.

Water use

We already encourage all our hotels, campsites and self-catering holiday apartment complexes to minimise their water usage. We are monitoring on a daily basis the water consumption across the Company in Croatia and we managing water use in our properties through new technical solutions applied directly on the consumption places (bathrooms, sanitary blocks and kitchens) or on the water supply infrastructure. We plan to implement on line control water usage in Germany, which will be an excellent tool.

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), sulphur (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.

Waste and recycling

As a Group, we encourage all our hotels to reduce their water usage and the amount of waste they produce. This is achieved in many different ways including reducing the use of consumables such as cleaning materials and packaging and paper, with a view to further minimise environmental impact.

As part of the responsible business initiatives, PPHE Hotel Group has created a Green Team which promotes sustainability across all properties. 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, 60.0 tonnes of paper and cardboard were collected and recycled in 2018. 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.

Procurement

A key area of impact we have on the environment and the communities in which we operate is our supply chain – this being the goods and services which we buy both in the countries where we operate and from elsewhere.

It is important that all procurement decisions ensure that our hotels get the goods and services they need to operate effectively, and at the right price.

The issues we face with our supply chain are constantly changing and evolving. It is a continuing process to improve and strengthen our procurement activity to ensure that relevant issues are properly understood and managed in

PARK PLAZA BELVEDERE MEDULIN

each buying decision we make. Our responsible business strategy will help us to identify and prioritise the areas to concentrate on.

PPHE Hotel Group itself is developing a centralised e-procurement system that aims to ensure that procurement activity in the PPHE Hotel Group is properly managed and organised under responsible business strategy principles.

Strategic partners/suppliers

Teamwork is a key value and we like to collaborate with our strategic partners and business suppliers. It will never be our intention to reject strategic partners and business suppliers because they present environmental or social challenges, but only if they refuse to address these. Where issues do emerge, we will always endeavour to work together to address them.

In 2019 PPHE Hotel Group, will be introducing a strategic partner and supplier “code of conduct” policy which will require the partners to be transparent and provide relevant information about the goods or services they provide. The PPHE Hotel Group’s team pointed to: “The “code of conduct” will outline how we expect all our strategic partners and business suppliers to comply with all relevant legislation in the countries where we operate or in those countries where goods or services are sourced. This includes legislation relating to the environment, health and safety and employment, as well as any other regulations relating to the goods or services they provide”.

Equality and diversity

The Group is accepting the PPHE Hotel Group's approach regarding equality and diversity, so it is fully committed to respect and fair treatment for everyone, eliminating discrimination and actively promoting equality of opportunity and delivering fairness to all. In addition to being compliant with equality laws, public duties, and Human Rights Acts (universal and European), the Group supports diversity and promotes equality of opportunity for all team members, students and customers regardless of their:

1) Protected Characteristics (Equality Act):
- age;
- disability;
- gender reassignment;
- marriage and civil partnership;
- pregnancy and maternity (including paternity);
- race (colour, ethnic or national background);
- religion or belief (including non-belief);
- sex/gender; and
- sexual orientation,

2) Caring responsibilities for a ‘protected characteristic’ including dependants;
3) Socio-economic background/grouping;
4) Union activity;
5) Unrelated spent criminal convictions.

Developing our people

We are an international, dynamic hospitality company which employs team members from different nationalities. With such a diverse workforce, it is important that the Company has a strong company culture and leadership that inspires our team members to share our passion to perform.

We recognise that our team members are central to the success of the Company and how we operate. Our company culture is one of openness, trust, support, caring and connecting, and is also about personal growth, which the overall PPHE Hotel Group’s context of ‘placing the guest experience at the heart of everything we do’ supports. The Company accept PPHE Hotel Group’s opinion that it is critical that we invest in our talent and encourage their growth by delivering an exciting and forward-thinking workplace for them to develop their skills and knowledge, providing them with the opportunities to grow with our business.

Goals:

1) Linking development to learning
2) Attract and retain talent

Learning and development

The Group is a part of PPHE Hotel Group's learning and development programmes and team members have the opportunity to be included actively in these programmes.

We see our learning and development programmes as key to the development of our team members and to support the professional and personal growth of every team member, PPHE Hotel Group has developed the 'you:niversity'. This is an extensive resource of learning and development programmes created to enable our leaders and team members to develop the individual and organisational capability needed to achieve their personal growth, career progression potential and our overall business strategy.

205 training programmes were undertaken in 2018, of which approximately 60 were conducted internally. The rest of the programmes were provided by external companies or our suppliers. Of the internal training sessions, nearly 53% 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. Foundation in Management was attended by eight Group's team members last year who have now became a part of the larger group of team members who completed the very high quality program. Some of the young team members in 2019 will take a few of the leading positions in the Company.

Talent management

We place a great amount of effort in recognising and retaining our talents as well as supporting them to grow within the Company. We offer various training programs, such as Foundation in Management, and tuition payments for university programs to those employees that are recognised as talents within the organisation.

Employment

Arena Hospitality Group employs a diverse workforce, with a gender mix of 56% women and 44% men. The average age of permanent employees is 44 years which shows the trend of the Company getting younger. Our workforce age structure is as follows: 18 – 30 (25%), 31 – 40 year olds (27%). Approximately 19% of people are aged between 41 – 50. We employ approximately 24% of people aged between 51 – 60. Only 4% of people are older than 60. We are a dynamic Company and in 2018 we had 129 permanent team members start their career with the Company.

Team member engagement survey

In 2018, we are proud to report that our colleagues once again recognised our efforts through high team member engagement survey scores. In September, we conducted our sixth annual Climate analysis–employee engagement survey. Overall, the results for the Group showed a high level of team member engagement with an Engagement index of 84.1 (on a scale of 1-100). The total index derived from the drivers – My Job, My Manager, Our Team and Our Company – was 80.4. These results show a high average 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.

TEAM MEMBER IN CROATIA	2018	2017	2016	2015
Full-time members (on 31 December)	**469**	370	366	354
Part-time members (on 31 December)	**80**	117	114	184
Part-time members (on 31 August)	**615**	1,005	848	819
FTE[1]	**812**	776	806	758
Employee satisfaction/engagement (%)	**83,6**	85,0	84,9	84,6
TEAM MEMBER IN GERMANY AND HUNGARY[3]	2018	2017	2016	2015
Full-time members (on 31 December)[2]	**269**	278	258	225
Part-time members (on 31 December)[2]	**28**	21	21	43
FTE[1]	**217**	215	222	263
Employee satisfaction/engagement (%)	**85.7**	86.4	84.1	84.4

[1] 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.

[2] 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.

[3] 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

As an owner and operator of hotels, resorts and campsites it is important we care about our neighbourhoods and make a positive contribution to our local communities and the people who live there. We do this in a number of different ways. We are actively involved with a number of fundraising activities throughout the year that make a big difference to people's lives and the environment. We also engage our local communities through volunteering and local resourcing partnerships and charities.

Although 'Being part of our communities' ranked the pillar with the lowest importance and impact, we still have a strong commitment to it and 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.

Goals:
1) Increasing our charity initiatives and volunteering
2) Contributions and investments with our local community
3) Engagement with our local community

Charity initiatives and volunteering

In the last 12 months, the Company sponsored the Sa(n)jam knjige u Istri (Book Fair(y) in Istria), an important cultural festival of books and authors, and is the patron of the Libar za Vajk award (Book for Ever), awarded at the festival for a fourth year in a row.

This year again, in partnership with the City of Pula, the Company sponsored the humanitarian Christmas gala concert traditionally held at the Istrian National Theatre in Pula. Funds collected from ticket sales were donated to "GEA", Association for Support to Breast and Breast Cancer Associates, located in Pula.

The Company also supported an art exhibition to raise funds for the Cerebral Palsy Association of the Istria County, donated a new incubator for the Department of Paediatrics at the General Hospital Pula and supported the education of physiotherapists at local healthcare institution and physical therapy centre, Zlatne Ruke (Golden Hands).

The Company has been sponsoring and participating in the humanitarian operations of the GEA Association for Support to Breast and Breast Cancer Associates for a number of years. This association is giving medical and psychological support to the members. Some of whom are also our female employees or ex-employees.

In Germany the Group's Regional Office arranged a day-trip to Berlin Zoo for 50 children from the Malteser Family Centre, Manna. Christmas trees were also placed in all hotels for Manna and were filled with children's wishes which team members helped fulfil. Finally, Park Plaza Nuremberg hosted a charity Flea Market for the children of day care centre Lichtenhof of the Rummelsberger Diakonie.

Contributions and investments

Apart from the financial contributions we make to our local communities via charity initiatives and fundraising, we work with a number of local organisations on a benefit basis. We are proud that this year, we have hosted and supported the International Sound & Film Music Festival held at the Park Plaza Histria Pula. The ISFMS festival focuses on the promotion of film sound and music as well as education and each year offers a programme composed of lectures, panels and workshops with international guests and music professionals from around the world. This year, for the first time in Croatia, European Camille Awards for the best film composers were awarded at the festival.

Engagement with our local communities

Employing team members who live near our properties is not only good for the environment, but supports our objective to be part of our local communities.

In Germany, art'otel cologne hosted a speed dating style event at a Job Fair held at the Rhein-Energie-Stadion Köln, in the city of Cologne and attended several large-scale Job fairs organised by national employment agencies across the country.

Further outreach includes a cooperation with the International University of Applied Sciences Bad Honnef (IUBH) to commence a dual apprenticeship program. art'otel berlin mitte partnered with a refugee project in Berlin to encourage and support refugees back into the workplace. This enabled the Group to place candidates into operational roles within its outlets.

And aforementioned collaboration with the Faculty of Economics Juraj Dobrila, Pula and the Law Faculty in Rijeka.

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 Responsible Business authorities and have received a number of required accreditations. We will continue to review similar initiatives for all our hotels.

AWARDED BY	TYPE OF AWARD/ RECOGNITION	AWARDED TO	AWARD/RECOGNITION NAME
Trip Advisor	Certificate of Excellence	Park Plaza Histria Park Plaza Arena Park Plaza Verudela Park Plaza Belvedere art'otel Budapest art'otel berlin mitte Park Plaza Waltreet Berlin Mitte Park Plaza Nürnberg	Certificate of Excellence
	Travelers' Choice	Park Plaza Verudela	Travelers' Choice 2018 Winner
	GreenLeader Program	art'otel berlin kudamm art'otel berlin mitte Park Plaza Berlin Kudamm Park Plaza Wallstreet Berlin Mitte	GreenLeader Gold Level GreenLeader Bronze Level GreenPartner GreenLeader Bronze Level
Croatia Camping Union	Croatia's Best Campsites	Arena Kažela Campsite Arena One 99 Glamping	Croatia's Best Campsites 2019
Croatian National Tourist Board and Croatian Chamber of Economy	Turistički cvijet	Arena One 99 Glamping	Best Campsite with Glamping offer
Istria Tourist Board	Golden Goat Award	Arena One 99 Glamping	Best Tourist Product of 2018
Croatian Association of Women in Business and Croatian Chamber of Economy	Mostsuccesful Women in business in Croatia	Milena Perković Member of Management Board and Chief Financial Officer	Top Woman Manager award 2018


IM WASSER SPIEGELT SICH DAS LEBEN – DAS
ZURÜCK – DER WIND SPIELT MIT DEM MEER–
DIE WELLEN EROBERN DEN STRAND – DAS
ZUM SEE–SCHWERE NEBEL ERZÄHLEN IHRE
SANFT DIE ERDE – GROLLEND FÄLLT DAS
STÖRT DEN WEG ZUM FLUSS – UND TAU
LEN MIT DEM BRUNNEN – DAS WEINEN DES
SEES FÜLLEN DIE FLÜSSE – KÖNNEN WOLKEN


ASSER FINDET DEN
HE SCHWIMMEN GE
NOZEROS VERTEID
CHICHTEN – KRI
ER IN DIE T
T DIE PFLA
ASSERS IS
TRÄUMEN?

GOVERNANCE

EXPERIENCED LEADERSHIP

SUPERVISORY BOARD

SKILLS AND EXPERIENCE

Boris Ivesha has been President and Chief Executive Officer of PPHE Hotel Group since 1991. Mr. Ivesha was responsible for bringing the Park Plaza Hotels & Resorts® brand to the PPHE Hotel Group in 1994 in collaboration with Eli Papouchado and the Red Sea Group, and has been a major influencer in the expansion of the PPHE Hotel Group's international portfolio. In previous roles, Boris established the Yamit Hotel in Israel in 1984 and served as its President and was Director of the Carlton Hotel in Israel from 1979 until 1984 and General Manager of the Royal Horseguards Hotel in London from 1972 until 1979.

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.

SKILLS AND EXPERIENCE

Kevin Michael McAuliffe, is the Non-Executive Deputy Chairman of the Group. He was a member of the Society of Trust and Estate Practitioners for 20 years and has held directorships in various regulated investment companies and remains a director of two regulated entities. Retired Chairman of Carey Group (after joining as Chief Executive in 1999), he was also Head of Advisory Services for Paribas International Private Banking and Managing Director of Paribas Suisse in Guernsey (1992-1999). He served as Finance Director of Ansbacher offshore banking group and was appointed as Chief Executive of Ansbacher's Guernsey bank and trust company business in 1994. He also held posts in three different departments in the States of Guernsey (1973-1980).

SKILLS AND EXPERIENCE

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

SKILLS AND EXPERIENCE

Amra 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 twelve 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.

SKILLS AND EXPERIENCE

Lorena Škuflić is a professor at the Faculty of Economics and Business, University of Zagreb and in several mandates has been the Head of the Department of Economic Theory. Since 2018 she has been a Dean of Finance and Business of the Faculty of Economics in Zagreb. 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 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.

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.

EXPERIENCED LEADERSHIP

MANAGEMENT BOARD

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

MILENA PERKOVIĆ
MEMBER OF THE MANAGEMENT BOARD AND CHIEF FINANCIAL OFFICER

SKILLS AND EXPERIENCE

Reuel Slonim joined Arena Hospitality Group as Executive Director in 2008. His previous role was as Vice President of Operations & Development and board member of Isrotel Hotels and Resorts, one of Israel's leading hospitality companies. Prior to that, Mr Slonim was Vice President Marketing & Sales after having served for ten years as General Manager of 5-Star resort hotels. Since joining Arena Hospitality Group in 2008, he has led a programme of major transformations which include the renovation, upgrading and rebranding of six properties (1,200 rooms) and the growth in EBITDA from €4.0 million in 2008 to €29.0 million in 2018. At the same time, several of the Group's IT systems were updated and a management and training culture has been introduced, which has resulted in Arena Hospitality Group being recognised as a leading hospitality company in Croatia. Mr Slonim is an active member of the Pula and Medulin Tourist Board, in the community of Medulin and city of Pula and in culture and sports associations.

SKILLS AND EXPERIENCE

Milena Perković joined Arena Hospitality Group in 1986 as Director of Planning, Organisation and Economics and was appointed Vice President in 1994 when she joined the Board of Directors. Mrs Perković became the Group's Executive Director and Chief Financial Officer in 2008 and together with Reli Slonim has managed the transformation of Arena Hospitality Group and its growth into a major force in the Croatian hospitality industry, while maintaining its position and reputation within Pula and the Istrian region. Mrs Perkovic was responsible for negotiating the financing of the EUR 54 million renovation, upgrading and rebranding of six properties. Mrs Perković holds a master's degree in Economics. She is a member of the the Croatian National Tourist Board Assembly 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. She has got a national Croatian award as the best female manager in 2018 on initiative of the Croatian Association of women in business "Krug" under sponsorship of Croatian Chamber of Economy and Government.

SKILLS AND EXPERIENCE

Manuela Kraljević joined Arena Hospitality Group as Sales and Marketing Director in January 2009. During her previous appointment, Mrs Kraljević covered for six years, the position of Sales and Marketing Director in Croatia, for the renowned hotel chain Sol Melia. Previously to that, for the same company, she was the Contracting Director for both Istraturist Umag and Jadranturist Rovinj for four years. Since joining Arena Hospitality Group in 2009, she has repositioned seven upgraded properties, directed the development of a modern sales and marketing department and the introduction of revenue and yield management, the growth of new digital and online business, the introduction and launch of new technical hotel innovation. Under her leadership, developing and directing marketing and sales strategies for 14 hotels and 12 camping and resorts, Arena Hospitality Group is now gaining market share and penetration in Germany, Hungary and Croatia. Mrs Kraljević has been a Member of the Istrian Tourism Marketing Director's Board since 2003. Her marketing achievements have been recognised with four Golden Goat Awards.

SKILLS AND EXPERIENCE

Devansh Bakshi obtained a Hotel Management degree and started his hospitality career in hotel operations working for Taj Group of Hotels for four years. He then completed his Master of Business Administration in International Business before joining the Finance department at Hilton Hotels Worldwide. He worked for Hilton in London UK for over 10 years, latterly as the Cluster Finance Director. In 2011, Mr. Bakshi subsequently joined the PPHE Hotel Group and worked for over five years as a Regional Financial Controller for the UK region leading a portfolio of owned, managed and franchised hotel finance operations. Mr. Bakshi recently worked as Group Finance Director for Arora Group, which is a diverse real estate business managing hotels, construction and commercial property portfolio in the UK. He is a qualified Chartered Global Management Accountant and Fellow Member of the UK Chartered Institute of Management Accountants. He is also a Financial Management Certified Associate Member of Hospitality Professionals Association in the UK. With over 23 years of experience in the hotel industry covering multiple finance disciplines he brings a wealth of industry experience.

GOVERNANCE

CORPORATE GOVERNANCE REPORT

Corporate Governance Statement

As a shareholder company owned by more than 4.000 shareholders among which PPHE Hotel Group has a majority of 51,97%, the Company is committed to maintain principles of good corporate governance and regulatory compliance. Company has clear corporate structure which includes governing bodies: General Assembly, Supervisory Board led by Chairman with its corresponding delegate committees and the Management Board led by President of the Management Board. Details regarding Corporate Governance are in the following parts of the Report. The specific governance authorities and responsibilities are regulated by the applicable Croatian legislation, Company's Articles of Association and corporate governance code. Company is applying Zagreb Stock Exchange Corporate code as its own.

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 will publish its annual corporate governance questionnaire for 2018 on ZSE by 28 February 2019.

Corporate bodies

Corporate bodies of the Company are the Management Board, the Supervisory Board and the General Assembly. The members of the Company’s corporate bodies are required to perform their rights and obligations in the manner as shall be in the best interest of the Company.

The members of the Supervisory Board and the Management Board are elected and appointed in accordance with the Companies Act and the Company’s Articles of Association, which contain no limitations on diversity in respect age, gender, education or profession.

General Assembly

The meetings of the Company's General Assembly are convened and held in accordance with the Companies Act and the Company's Articles of Association and the General Assembly is competent for matters as set out in the Companies Act and the Company's Articles of Association.

The notices and the decisions proposed for discussion and adopted at General Assembly meetings are publicly announced in accordance with the Companies Act, the Company's Articles of Association, the Capital Market Act and Rules of the Zagreb Stock Exchange, including announcements on the websites of the Company, the Zagreb Stock Exchange and the court register.

Under the current Articles of Association of the Company, there is no requirement for the shareholders to register their attendance at the General Assembly meetings in advance and a shareholder registered in the Company's share register kept by the Central Depository & Clearing Company Inc. on the 21st day before the day of the General Assembly meeting (excluding the day of the General Assembly meeting) is entitled to participate and to vote at the General Assembly.

There are no Company shares with special control rights and there are no limitations to voting rights arising from the Company shares. Each Company share gives right to one vote in the General Assembly of the Company.

The General Assembly is, inter alia, competent for amending the Company's Articles of Association by decision adopted with the majority of 3/4 of share capital represented the General Assembly (except in relation to the authorised share capital, which decision is adopted with qualified majority of 9/10 of the share capital represented at the General Assembly). Under the current Articles of Association of the Company, the Management Board may decide, with the approval of the Supervisory Board, upon authorised share capital by issuing new shares up to an amount of HRK 51,287,210, with exclusion of shareholders' pre-emptive rights in case of share capital increase up to an amount of HRK 20,000,000 in connection with acquisition of shareholdings in companies, or acquisition of assets or rights related to hospitality activities from persons, not affiliated with the Company. Pursuant to the decision of the General Assembly dated 30 August 2017, the Company may acquire treasury shares.

During 2018, two meetings of the General Assembly of the Company were held:

> A General Assembly of the Company was held on 27 April 2018, where the Company's Annual Report for 2017 (consolidated and non-consolidated) was considered and the decisions on use of profit realised in 2017 and on granting discharge to the members of the Supervisory Board and the Management Board for their work in 2017 were adopted.
>
> A General Assembly of the Company was also held on 5 September 2018, where Ernst & Young d.o.o. Zagreb was appointed as the Company's auditor for 2018 and, due to expiry of the mandate of the members of the Supervisory Board of the Company, the following members of the Supervisory Board were (re)elected: Boris Ernest Ivesha, Yoav Arie Papouchado, Kevin Michael McAuliffe, Abraham Thomas, Amra Pende and Lorena Škuflić. In addition, the Company's employees' council reappointed Vehbija Mustafić as the employees' representative to the Supervisory Board.

Supervisory Board

The Supervisory Board of the Company consists of seven members, whereof six members are elected by the General Assembly of the Company and one member may be appointed by the Company's employees' council. Under the Company's Articles of Association, the mandate of Supervisory Board members is up to four years and the current members of the Supervisory Board have been elected and appointed for the mandate from 5 September 2018 until closing of the General Assembly meeting to decide upon granting discharge to members of the Supervisory Board for their work in 2019. A Supervisory Board member may be recalled before expiry of his mandate by decision of the General Assembly adopted with the majority of 3/4 of votes cast or by decision of the Company's employees' council respectively.

The authorities and the operation of the Supervisory Board are regulated by the Company's Articles of Association and the Rules of Procedure of the Supervisory Board, in line with the provisions of the Companies Act.

As at 31 December 2018, the members of the Supervisory Board are: Boris Ernest Ivesha (Chairman), Yoav Arie Papouchado (Vice-Chairman), Kevin Michael McAuliffe, Abraham Thomas, Amra Pende, Lorena Škuflić and Vehbija Mustafić. The Supervisory Board of the Company held seven meetings (including correspondence voting) during 2018.

Pursuant to the Company's Articles of Association and the decision of the General Assembly, members of the Supervisory Board are entitled to a fixed monthly remuneration for their work in the Supervisory Board. Supervisory Board members also acting as members of committees established by the Supervisory Board are not entitled to a special remuneration for their work in these committees. In 2018, the total amount of HRK 1.1 million gross was paid as remuneration of Supervisory Board members.

Supervisory Board Committees

The Supervisory Board has established an Audit Committee and a Nomination and Remuneration Committee.

Audit Committee

The Company's Audit Committee consists of three members appointed by the Supervisory Board amongst its members: Lorena Škuflić (President), Amra Pende and Kevin Michael McAuliffe (members). The operation of the Audit Committee is regulated by decisions of the Supervisory Board, in line with the provisions of the Companies Act, the Audit Act, the Company's Articles of Association and the Rules of Procedure of the Supervisory Board. During 2018, the Company's Audit Committee held three meetings (including correspondence voting): on 20 February 2018 where the Financial Statements of the Company for 2017 (consolidated and non-consolidated) were considered, on 24 July 2018 where the appointment of Ernst & Young d.o.o. Zagreb as the Company's auditor for 2018 was recommended and on 11 October 2018 where the scope and the timing of 2018 audit were discussed.

Nomination and Remuneration Committee

The Company's Nomination and Remuneration Committee consists of three members appointed by the Supervisory Board amongst its members: Amra Pende (President), Lorena Škuflić and Kevin Michael McAuliffe (members).

The operation of the Nomination and Remuneration Committee is regulated by decisions of the Supervisory Board, in line with the provisions of the Companies Act, the Company's Articles of Association and the Rules of Procedure of the Supervisory Board. During 2018, the Company's Nomination and Remuneration Committee held two meetings (including correspondence voting): on 24 July 2018 to recommend the (re)election of Supervisory Board members and the appointment of a third member of the Management Board and on 30 October 2018 to recommend the appointment of a fourth member of the Management Board.

Management Board

The Management Board of the Company consists of min. two and max. five members appointed by the Supervisory Board for the mandate of up to five years. As at 31 December 2018, the members of the Management Board are: Reuel Israel Gavriel Slonim (President), Milena Perković and Manuela Kraljević (members). A fourth member of the Management Board (Devansh Bakshi) was appointed by the Supervisory Board on 30 October 2018 with effect from 1 February 2019. The mandate of appointed members of the Management Board expires on 6 September 2019 and they may be recalled before mandate expiry by decision of the Supervisory Board adopted in accordance with provisions of the Companies Act and the Company's Articles of Association.

The authorities and the operation of the Management Board are regulated by the Company's Articles of Association and the Rules of Procedure of the Management Board, in line with the provisions of the Companies Act. In particular, the Management Board has overall responsibility for the internal control and risk management processes, including that adequate accounting records are maintained and transactions are recorded accurately and fairly. The Management Board provides information on the nature of the risks and the actions to mitigate risk exposure. Some of the potential risks relevant for the Company and/or the Group are listed on pages 34-37.

The most important Management Board meetings held during 2018 were:

- 26 February 2018 where, inter alia, the interim report for the fourth quarter of 2017 and the Annual Report of the Company for 2017 (consolidated and non-consolidated) were adopted;
- 23 March 2018 where, inter alia, the decision on convocation of the Annual General Assembly meeting for 27 April 2018 was adopted;
- 26 April 2018 where, inter alia, the interim report for the first quarter of 2018 was adopted;
- 31 July 2018 where, inter alia, the interim report for the second quarter of 2018 and the half-year report for the first six months of 2018 were adopted;
- 30 October 2018 where, inter alia, the interim report for the third quarter of 2018 was adopted; and
- 5 December 2018 where the application for transition of the Company shares to the Prime Market of the Zagreb Stock Exchange was approved.

Major shareholders and affiliated companies

Following the share capital increase in May 2017, the share capital of the Company is HRK 102,574,420.00 and is divided into 5,128,721 ordinary shares under the ticker ARNT-R-A, each without nominal value.

As at 31 December 2018, 169 shares were held as treasury shares.

Shareholders with holdings of 3% or more of the Company's registered capital as at 31 December 2018 are listed below:

	Percentage holding of Share Capital
DVADESET OSAM D.O.O. (a member of the PPHE Hotel Group)	51.97%
ADDIKO BANK d.d. / PBZ CO OMF-kategorije B	9.14%
SPLITSKA BANKA d.d. / AZ OMF kategorije B	9.13%
SPLITSKA BANKA d.d. / ERSTE PLAVI OMF kategorije B	6.18%
PRIVREDNA BANKA ZAGREB D.D./SKRBNIČKI ZBIRNI RAČUN KLIJENTA	3.99%

PPHE Hotel Group is the Company's indirect controlling shareholder, through its 100% owned subsidiaries: Park Plaza Hotels (UK) Ltd, PPHE Coop B.V., Euro Sea Hotels N.V., Bora B.V. and Dvadeset Osam d.o.o.

Subsidiaries included in the Group are listed in on page 146.

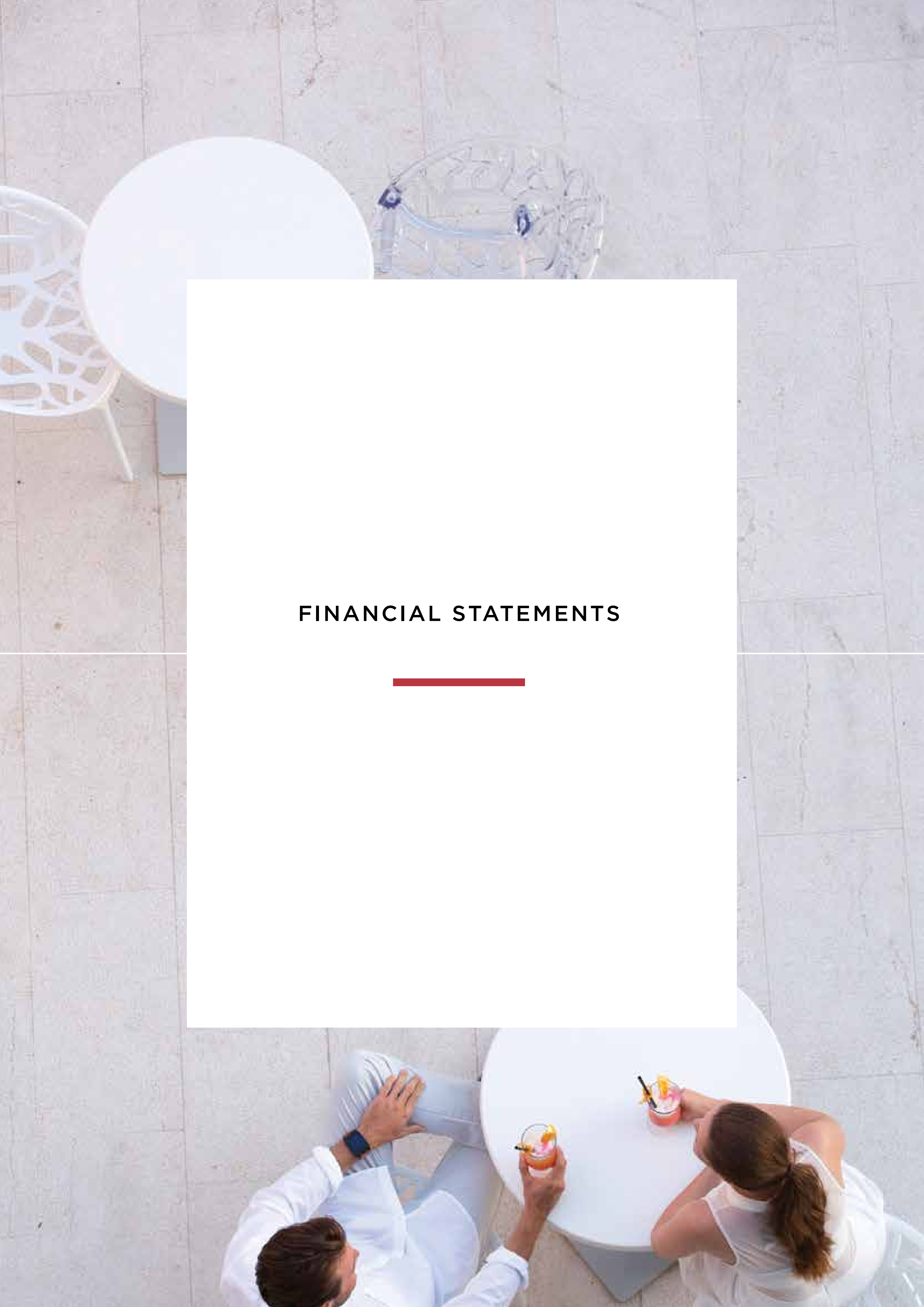
The Company's relations and transactions with affiliated companies, including its subsidiaries and other affiliates, are described in Note 24.b.

VALUATION	2018		
	High	Low	Last
Share price	452.96	340.0	341.0
Market capitalization[1]	2,318,181,892	1,743,765,140	1,748,893,861
Net debt[2]	141,302,781	141,302,781	141,302,781
EV[3]	2,459,484,673	1,885,067,921	1,890,196,642
EV/EBITDA	11.5x	8.8x	8.8x

[1] Market capitalisation calculated as share price multiplied by the number of outstanding shares (5,128,721)

[2] Net debt calculated as current and non-current bank borrowings and other non-current loans less cash and cash equivalents

[3] EV represents the enterprise value, calculated as the sum of market capitalisation and net debt



FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

MANAGEMENT BOARD'S REPORT

The Management Board presents its report and the audited financial statements of the Company (consolidated and non-consolidated) for the year ended 31 December 2018 to the Supervisory Board of the Company.

Principal activities

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

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

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

Business review

A review of the business during the year is contained in the Chairman of the Supervisory Board's Statement, the President of the Management Board's Statement, Our Business Model and the Strategy, Key Performance Indicators, the Chief Financial Officer's Statement, and the Operating Reviews.

2018 results

The results for the year ended 31 December 2018 are set out in the attached audited financial statements of the Company (consolidated and non-consolidated).

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 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 pages 34 - 37 and Notes 25. 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., Radnička cesta 50, 10000 Zagreb, Croatia is the Company's independent auditor appointed by decision of the General Assembly dated 5 September 2018 for the audit of the consolidated and non-consolidated annual financial statements of the Company for 2018.

In 2018, the Company paid the fees of HRK 392,933 to its independent auditor, while fee for half year reveiw was HRK 66,924.

PARK PLAZA BELVEDERE MEDULIN

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 2019 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.c), has led the Management Board to conclude that it is appropriate to prepare the 2018 financial statements of the Company (consolidated and non-consolidated) on a going concern basis.

Financial risk management objectives and policies

On pages 34 - 37 and Note 25 of the consolidated financial statements of the Company 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, 120/16 and 116/2018), 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 Company's financial performance and its results for the reporting period.

In preparing the Consolidated 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 Company and its income and expenses.

The Management Board confirms that it has complied with the above requirements in preparing the financial statements of the Company (consolidated and non-consolidated).

The Management Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable it to ensure that the financial statements of the Company (consolidated and non-consolidated) have been properly prepared in accordance with the Croatian Accounting Act. The Management Board is responsible for safeguarding the assets of 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 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 Company's auditor is aware of that information.

Management Board's responsibility statement

Persons responsible for preparing the annual report: Reuel Israel Gavriel Slonim, President of the Management Board, Milena Perković, member of the Management Board and Chief Financial Officer, Manuela Kraljević, member of the Management Board and Marketing and Sales Director and Devansh Bakshi, member of the management Board and Company Finance Specialist, confirm to the best of their knowledge that:

the financial statements of the Company (consolidated and non-consolidated), which have been prepared in accordance with IFRS as adopted by the European Union, give an objective view of the assets and liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole, and

the Management Report contains an objective presentation of the development and the operating results of the Company and its undertakings in the consolidation taken as a whole, with a description of the principal risks and uncertainties to which they are exposed.

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

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 the financial statements of the Company (consolidated and non-consolidated).

MANAGEMENT BOARD

PRESIDENT:

R. Slonim

REUEL ISRAEL GAVRIEL SLONIM

MEMBERS:

MILENA PERKOVIĆ

MANUELA KRALJEVIĆ

DEVANSH BAKSHI

FINANCIAL STATEMENTS

MANAGEMENT BOARD'S DECISION

Pula, 27.02.2019.

According to Article 250a, 250b, 300a, 300b and 497 of the Croatian Companies Act, Articles 462 and 463 of the Croatian Capital Market Act and Articles 19, 20, 21 and 24 of the Croatian Accounting Act, the Management Board of Arena Hospitality Group d.d. Pula (the "Company") passed the following decision on 27 February 2019

DECISION ON ESTABILISHING THE ANNUAL FINANCIAL STATEMENTS AND THE PROPOSAL OF THE PROFITDISTRIBUTION

I. The Management Board hereby determines the Annual Financial Statements of the Company for 2018 (consolidated and non-consolidated), which comprise of:

- the statement of financial position (balance sheet),
- the income statement,
- the statement of comprehensive income,
- the statement of changes in equity,
- the statement of cash flows, and
- the notes to the financial statements.

The Company's non-consolidated Annual Financial Statements for 2018 refer to Arena Hospitality Group d.d.

The Company's consolidated Annual Financial Statements for 2018 refer to: Arena Hospitality Group d.d., Sugarhill Investment B.V. and Germany Real Estate B.V. (the "Group").

II. The Annual Financial Statements of the Company for 2018 (consolidated and non-consolidated) have been audited by Ernst & Young d.o.o., OIB: 58960122779, Radnička cesta 50, HR-10 000 Zagreb (the "Auditor"), and the Auditor's Report forms an integral part thereof.

III. The Management Board hereby adopts the Company's Annual Report for 2018 (consolidated and non-consolidated), which comprises of:

- Annual financial statements of the Company for 2018 (consolidated and non-consolidated), together with the Auditor's Report,
- Statement on application of the corporate governance code (including Annual questionnaire from the Corporate Governance Code of the Zagreb Stock Exchange),
- Management Report for 2018 (consolidated and non-consolidated), which includes the Strategic Report and the Corporate Governance Report, and
- Statement of the Company's responsible persons.

IV. The Management Board hereby determines the proposal on the use of the Company's profit realised in 2018 in the total amount of HRK 69,633,943.98 in a way that the whole amount is allocated to retained earnings.

V. This Decision, together with the Company's Annual Report for 2018 (consolidated and non-consolidated), is delivered to the Supervisory Board of the Company for consideration and approval respectively.

The Management Board shall convene the Annual General Assembly of the Company after the Supervisory Board approves the Annual financial statements of the Company for 2018 (consolidated and non-consolidated) and adopts thereto related decisions.

VI. This Decision and the Company's Annual Report for 2018 (consolidated and non-consolidated) shall be published in the way and within the deadlines prescribed by the Capital Market Act and the Accounting Act.

MANAGEMENT BOARD

PRESIDENT:

R. Slonim

REUEL ISRAEL GAVRIEL SLONIM

MEMBERS:

MILENA PERKOVIĆ

MANUELA KRALJEVIĆ

DEVANSH BAKSHI

FINANCIAL STATEMENTS

SUPERVISORY BOARD'S REPORT

In accordance with Article 263 Par. 3, Article 300.c and Article 499 of the Companies Act and Article 19 and 30 Par. 4 of the Articles of Association of the company Arena Hospitality Group d.d. (hereinafter: the Company), the Supervisory Board of the Company, at its meeting held on 27 February 2019, determined the following

REPORT
TO THE ARENA HOSPITALITY GROUP D.D. GENERAL ASSEMBLY

I. During 2018, the Supervisory Board of the Company had seven members, namely Boris Ernest Ivesha (Chairman), Yoav Arie Papouchado (Vice Chairman), Chen Carlos Moravsky (until 11 June 2018) and Kevin Michael McAuliffe (from 5 September 2018) respectively, Abraham Thomas, Amra Pende, Lorena Škuflić and Vehbija Mustafić. The Supervisory Board of the Company held seven meetings (including circular voting) in the year 2018:

• on 27 February 2018 where the Annual Report of the Company for 2017 was approved;
• on 26 April 2018 where the quarterly report for the first quarter of 2018 was considered;
• on 6 June 2018 where a related party transaction (purchase of two yachts from PPHE Histria Charter d.o.o.) was approved;
• on 30 July 2018 where the quarterly report of the Company for the second quarter of 2018 and half-year report of the Company for the first six months of 2018 were considered, a third member of the Management Board of the Company, Mrs. Manuela Kraljević, was appointed and a General Assembly meeting was convened for 5 September 2018;
• on 5 September 2018 where, amongst the newly appointed members of the Supervisory Board, Boris Ernest Ivesha was elected as the Chairman and Yoav Arie Papouchado as the Vice-Chairman of the Supervisory Board, and the following persons were appointed as members of the Audit Committee and the Nomination and Remuneration Committee: Mr. Kevin Michael McAuliffe, Ms. Amra Pende (as the President of the Nomination and Remuneration Committee) and Ms. Lorena Škuflić (as the President of the Audit Committee);
• on 30 October 2018 where, the quarterly report of the Company for the third quarter of 2018 was considered, a fourth member of the Management Board, Mr. Devansh Bakshi, was appointed, and a Supervisory Board Planner and Calendar of Important Events were adopted; and
• on 5 December 2018 where the Company's dividend policy was approved in connection with the transition of the Company shares to the Prime Market of the Zagreb Stock Exchange.

II. The Supervisory Board of the Company established the Audit Committee and the Nomination and Remuneration Committee.

During 2018, the Audit Committee had three members, namely Lorena Škuflić (President), Chen Carlos Moravsky (until 11 June 2018) and Kevin Michael McAuliffe (from 5 September 2018) respectively, and Amra Pende, and held three meetings (including circular voting).

During 2018, the Nomination and Remuneration Committee had three members, namely Amra Pende (President), Chen Carlos Moravsky (until 11 June 2018) and Kevin Michael McAuliffe (from 5 September 2018) respectively, and Lorena Škuflić, and held two meetings (including circular voting).

III. In accordance with its responsibilities, the Supervisory Board has performed supervision and examined the Company business books and the Company documentation. The Supervisory Board examined the conduct of the Company's operations based on the detailed information received from the Management Board by way of regular communication, particularly by way of reports of the Management Board on the operations and the status of the Company. Accordingly, the Supervisory Board determined that the Company acts in compliance with the law, the Articles of Association and other acts of the Company and the decisions of the General Assembly.

IV. The Management Board examined the Company's annual report for 2018 (consolidated and non-consolidated), which comprises of:

- Annual financial statements of the Company for 2018 (consolidated and non-consolidated) - statement of financial position (balance sheet), income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes to the financial statements,
- Report of the Company's auditor for 2018,
- Statement on application of the corporate governance code (including Annual questionnaire from the Corporate Governance Code of the Zagreb Stock Exchange),
- Management Report for 2018 (consolidated and non-consolidated), which includes Strategic Report and Corporate Governance Report, and
- Statement of the Company's responsible persons.

The Supervisory Board acknowledges the receipt of the Audit Committee Report dated 27 February 2019 with respect to preparation and issuing of the Annual financial statements of the Company for 2018.

The Supervisory Board has no objections to the Company's annual report for 2018 (consolidated and non-consolidated), including the Report of the Company's auditor (Ernst & Young d.o.o. Zagreb).

The Supervisory Board establishes that the Annual financial statements of the Company (consolidated and non-consolidated) for the year ended on 31 December 2018 were prepared in compliance with the state of the Company's business books and that they correctly show the financial and business state of the Company.

Therefore, the Supervisory Board approves the Company's annual report for 2018 (consolidated and non-consolidated), whereby the Annual financial statements of the Company for 2018 (consolidated and non-consolidated) are considered as approved by the Management Board and the Supervisory Board, pursuant to the provisions of Articles 300.c and 300.d of the Companies Act and Article 30 of the Company's Articles of Association.

V. The Supervisory Board examined the Management Board's Report on related party transactions in 2018, and has no objections to this Report and to the Management Board's statement pursuant to Article 497 Par. 3 of the Companies Act contained in this Report.

VI. Based on the above, the Supervisory Board evaluates the overall business of the Company as well as the work of the Management Board and the Supervisory Board as successful, and emphasises good cooperation with the members of the Management Board.

VII. The Supervisory Board adjoins to the proposal of the Management Board regarding the use of the profit of the Company realised in 2018 i.e. that the General Assembly decides that the profit of the Company realised in 2018 in the total amount of HRK 69,633,943.98 is allocated to retained earnings.

CHAIRMAN OF THE SUPEVISORY BOARD

BORIS ERNEST IVESHA

FINANCIAL STATEMENTS

SUPERVISORY BOARD'S DECISION

File No: 01-4/19
Pula, 27.02.2019.
According to Article 300c and 300d of the Companies Act and the Management Board's Decision No. 01-4/19 dated 27 February 2019, the Supervisory Board of the Company passed the following decision on 27 February 2019

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

I. The Supervisory Board hereby approves the Company's annual report for 2018 (consolidated and non-consolidated), which comprises of:

- Annual financial statements of the Company for 2018 (consolidated and non-consolidated) - statement of financial position (balance sheet), income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes to the financial statements,
- Report of the Company's auditor for 2018,
- Statement on application of the corporate governance code (including Annual questionnaire from the Corporate Governance Code of the Zagreb Stock Exchange),
- Management Report for 2018 (consolidated and non-consolidated), which includes Strategic Report and Corporate Governance Report, and
- Statement of the Company's responsible persons.

II. Pursuant to the provisions of Articles 300.c and 300.d of the Companies Act and Article 30 of the Company's Articles of Association, by the Supervisory Board's approval of the Company's annual report for 2018 (consolidated and non-consolidated), the Annual financial statements of the Company for 2018 (consolidated and non-consolidated) are considered as approved by the Management Board and the Supervisory Board.

III. The Supervisory Board hereby approves the publication of the Company's annual report for 2018 (consolidated and non-consolidated).

IV. The Supervisory Board adjoins to the proposal of the Management Board that the General Assembly decides that the profit of the Company realised in 2018 in the total amount of HRK 69,633,943.98 in a way that the whole amount is allocated to retained earnings

CHAIRMAN OF THE SUPEVISORY BOARD
BORIS ERNEST IVESHA


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

INDEPENDENT AUDITOR'S REPORT

EY
Building a better working world

Opinion

We have audited the separate financial statements of Arena Hospitality Group d.d. (the Company), and the consolidated financial statements of Arena Hospitality Group d.d. and it's subsidiaries (together "the Group") which comprise the separate and consolidated statement of financial position as at 31 December 2018, 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 2018 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 (the separate and consolidated financial statements) Refer to Notes 2 (j) and (k) and Note 3 of the separate and consolidated financial statements. The carrying amount of property, plant and equipment of the Group as at 31 December 2018 was HRK 1,849,759 thousand (Company: HRK 1,203,161 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. In order to determine if there are impairment indicators, management considers occupancy rates, number of sold accommodation units, revenue per available room, gross operating profit and other measures. 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 the sample basis, key Management's estimates used to determine if there are impairment indicators; • 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 including, among other, a comparison of gross operating profit, occupancy rate, average daily rate, revenue per available room, discounted cash flows; • 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 information included in the Company's and the Group's 2018 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.

1. the information given in the enclosed Management report for the 2018 financial year are consistent, in all material respects, with the enclosed separate and consolidated financial statements;
2. the enclosed Management report for 2018 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

Building a better working world

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 Group and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Management Report, Corporate Governance Statement and Annual report. We have nothing to report in this respect.

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 IFRSs as adopted by EU, and for such internal control as management determines is necessary to enable the preparation of the 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 the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the separate and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 initially 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 two years.

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 22 February 2019 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 its controlled undertakings within the European Union. 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.

Report on Regulatory requirements

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 2019
Ernst & Young d.o.o.
Radnička cesta 50, 10000, Zagreb
Republic of Croatia

CONSOLIDATED AND COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 December

		Group		Company	
		2018	2017	**2018**	2017
	Note	HRK'000	HRK'000	HRK'000	HRK'000
ASSETS					
Non-current assets					
Property, plant and equipment	3	**1,849,759**	1,778,099	**1,203,161**	1,121,406
Intangible fixed assets	4	**812**	-	**812**	-
Inventories		**8,586**	8,688	**8,586**	8,688
Interest in joint ventures	5	**35,928**	34,047	**-**	–
Other non-current financial assets	6	**3,236**	3,276	**680,251**	600,983
Deferred tax asset	21	**24,278**	27,990	**23,486**	26,570
Restricted deposits and cash		**11,427**	–	**11,427**	–
		1,934,026	1,852,100	**1,927,723**	1,757,647
Current assets					
Inventories		**3,223**	4,396	**2,055**	1,924
Other current financial assets		**199**	205	**199**	205
Trade receivables	7	**13,950**	12,970	**5,538**	3,576
Other receivables and prepayments	8	**6,916**	6,604	**6,358**	3,779
Cash and cash equivalents	9	**802,514**	800,101	**682,385**	716,411
		826,802	824,276	**696,535**	725,895
Total assets		**2,760,828**	2,676,376	**2,624,258**	2,483,542

		As at 31 December			
		Group		Company	
		2018	2017	**2018**	2017
	Note	HRK'000	HRK'000	HRK'000	HRK'000
EQUITY AND LIABILITIES					
Equity:	10				
Issued capital		**102,574**	102,574	**102,574**	102,574
Share premium		**1,142,742**	1,142,742	**1,142,742**	1,142,742
Hedging reserve		**(5,477)**	(3,317)	**-**	–
Other reserves		**322,627**	326,586	**572,919**	570,887
Accumulated earnings/(losses)		**85,838**	(2,829)	**132,428**	68,823
Total equity		**1,648,304**	1,565,756	**1,950,663**	1,885,026
Non-current liabilities:					
Bank borrowings	12	**891,579**	806,959	**527,208**	456,107
Other loans	13	**-**	75,136	**-**	–
Provisions	14	**67,818**	61,399	**67,818**	61,399
Other liabilities		**4,087**	1,446	**1,587**	1,444
		963,484	944,940	**596,613**	518,950
Current liabilities:					
Trade payables		**19,943**	23,633	**5,834**	8,106
Other payables and accruals	15	**59,829**	64,875	**25,814**	30,261
Income tax liabilities		**4,940**	16,407	**2,335**	11,049
Liabilities towards related parties		**12,090**	22,534	**4,670**	5,603
Bank borrowings	12	**52,238**	38,231	**38,329**	24,547
		149,040	165,680	**76,982**	79,566
Total liabilities		**1,112,524**	1,110,620	**673,595**	598,516
Total equity and liabilities		**2,760,828**	2,676,376	**2,624,258**	2,483,542

The accompanying accounting policies and notes are an integral part of these financial statements.

These financial statements are approved and signed by the Management board of the Company and the Group on 27 February 2019.

R. Slonim

REUEL SLONIM
PRESIDENT OF THE MANAGEMENT BOARD

MILENA PERKOVIĆ
MEMBER OF THE MANAGEMENT BOARD

MANUELA KRALJEVIĆ
MEMBER OF THE MANAGEMENT BOARD

DEVANSH BAKSHI
MEMBER OF THE MANAGEMENT BOARD

CONSOLIDATED AND COMPANY INCOME STATEMENT

		Year ended 31 December			
		Group		Company	
		2018	2017	**2018**	2017
	Note	HRK'000	HRK'000	HRK'000	HRK'000
Revenues	16	**757,712**	717,162	**513,717**	487,915
Operating expenses	17	**(507,757)**	(466,618)	**(355,112)**	(322,148)
EBITDAR		**249,955**	250,544	**158,605**	165,767
Rental expenses and concession fees: land		**(35,284)**	(37,682)	**(9,726)**	(9,010)
EBITDA		**214,671**	212,862	**148,879**	156,757
Depreciation, amortisation and impairment	3	**(69,242)**	(62,471)	**(52,094)**	(48,888)
EBIT		**145,429**	150,391	**96,785**	107,869
Financial expenses	18	**(31,612)**	(39,600)	**(16,936)**	(28,894)
Financial income	19	**820**	6,061	**3,548**	9,559
Other expenses	20	**(1,998)**	(4,346)	**(1,988)**	(4,231)
Share in result of joint ventures		**1,205**	(962)	**-**	–
Profit/(loss) before tax		**113,844**	111,544	**81,409**	84,303
Income tax benefit/(expense)	21	**(25,177)**	(23,462)	**(14,858)**	(15,480)
Profit/(loss) for the year		**88,667**	88,082	**66,551**	68,823
Profit attributable to:					
Equity holder of the parent		**88,667**	87,568	**66,551**	68,823
Non-controlling interests		**-**	514	**-**	–
		88,667	88,082	**66,551**	68,823
Earnings/(loss) per share	22	**17.28**	20.87	**12.98**	16.40

The accompanying accounting policies and notes are an integral part of these financial statements.

CONSOLIDATED AND COMPANY STATEMENT OF OTHER COMPREHENSIVE INCOME

Year ended 31 December

		Group		Company	
		2018	2017	**2018**	2017
	Note	HRK'000	HRK'000	HRK'000	HRK'000
Profit/(loss) for the year		**88,667**	88,082	**66,551**	68,823
Other comprehensive income/(loss) to be recycled through profit and loss in subsequent periods:					
Unrealised gains/(losses) on available-for-sale securities		**(7)**	(5)	**(7)**	(5)
Foreign currency translation adjustment of foreign operations		**(2,841)**	(1,630)	**-**	–
Profit/(loss) from cash flow hedges		**(2,160)**	1,708	**-**	–
Other comprehensive income		**(5,008)**	73	**(7)**	(5)
Total comprehensive income/(loss)		**83,659**	88,155	**66,544**	68,818

The accompanying accounting policies and notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In HRK'000	Issued capital	Share premium	Unreg-istered capital	Hedging reserve	Other reserve	Accumu-lated earnings	Total	Non-con-trolling interest	Total equity
Balance as at 1 January 2017	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
Profit/(loss) for the year	**-**	**-**	**-**	**-**	**-**	**88,667**	**88,667**	**-**	**88,667**
Other comprehensive income	**-**	**-**	**-**	**(2,160)**	**(2,848)**	**-**	**(5,008)**	**-**	**(5,008)**
Total comprehensive income/(loss)	**-**	**-**	**-**	**(2,160)**	**(2,848)**	**88,667**	**83,659**	**-**	**83,659**
Minority shareholders claim	**-**	**-**	**-**	**-**	**(907)**	**-**	**(907)**	**-**	**(907)**
Difference in property tax connected with Sugarhill transaction	**-**	**-**	**-**	**-**	**(204)**	**-**	**(204)**	**-**	**(204)**
Balance as at 31 December 2018	**102,574**	**1,142,742**	**-**	**(5,477)**	**322,627**	**85,838**	**1,648,304**	**-**	**1,648,304**

The accompanying accounting policies and notes are an integral part of these 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 2017	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: 2017 loss of the year	–	–	–	(90,952)	90,952	–
Balance as at 31 December 2017	102,574	1,142,742	–	570,887	68,823	1,885,026
Profit/(loss) for the year	**-**	**-**	**-**	**-**	**66,551**	**66,551**
Other comprehensive income	**-**	**-**	**-**	**(7)**	**-**	**(7)**
Total comprehensive income/ (loss)	**-**	**-**	**-**	**(7)**	**66,551**	**66,544**
Minority shareholders claim	**-**	**-**	**-**	**(907)**	**-**	**(907)**
Profit allocation: 2017 profit for the year	**-**	**-**	**-**	**2,946**	**(2,946)**	**-**
Balance as at 31 December 2018	**102,574**	**1,142,742**	**-**	**572,919**	**132,428**	**1,950,663**

The accompanying accounting policies and notes are an integral part of these financial statements.

CONSOLIDATED AND COMPANY STATEMENT OF CASH FLOWS

		Year ended 31 December			
		Group		Company	
		2018	2017	**2018**	2017
	Note	HRK'000	HRK'000	HRK'000	HRK'000
CASH FLOWS FROM OPERATING ACTIVITIES:					–
Profit/(loss) for the year		**88,667**	88,082	**66,551**	68,823
Adjustment to reconcile profit to cash provided by operating activities:					
Financial expenses		**28,552**	36,349	**14,397**	26,134
Financial expenses – related party		**385**	3,252	**-**	2,760
Interest revenue		**(820)**	(967)	**(3,548)**	(4,248)
Unrealised foreign exchange gains/(losses)		**(6,668)**	(3,914)	**(5,226)**	(3,915)
Income tax (benefit)/charge	21	**25,177**	23,462	**14,858**	15,480
Share in results of joint ventures		**(1,205)**	962	**-**	–
Movements in provisions		**6,419**	6,099	**6,419**	6,099
Gain on disposal of property, plant and equipment		**(58)**	-	**(58)**	-
Depreciation and amortisation	3	**69,242**	62,471	**52,094**	48,888
Disposal of property, plant and equipment		**464**	–	**464**	–
		121,488	127,714	**79,400**	91,198
Changes in operating assets and liabilities:					
Decrease/(increase) in inventories		**1,128**	(32)	**(131)**	115
Decrease/(increase) in trade and other receivables		**(1,570)**	19,405	**(1,261)**	5,957
Increase/(decrease) in trade and other payables		**(8,342)**	(3,128)	**(6,154)**	(6,357)
		(8,784)	16,245	**(7,546)**	(285)
Cash paid and received during the period for:					
Interest paid		**(25,410)**	(42,284)	**(11,061)**	(32,036)
Interest received		**47**	175	**4,379**	167
Taxes (paid)/received		**(32,903)**	(1,347)	**(20,489)**	2,430
		(58,266)	(43,456)	**(27,171)**	(29,439)
Net cash provided by operating activities		**143,105**	188,585	**111,234**	130,297

		Year ended 31 December			
		Group		Company	
		2018	2017	**2018**	2017
	Note	HRK'000	HRK'000	HRK'000	HRK'000
CASH FLOWS FROM INVESTING ACTIVITIES:					
Investments in property, plant and equipment		**(150,429)**	(506,453)	**(134,724)**	(62,696)
Loans to related party		**-**	–	**(87,037)**	(68,377)
Proceeds from sale of property, plant and equipment		**1,125**	–	**1,125**	–
Proceeds from given group loans		**-**	-	**2,422**	-
Decrease/ (increase) in restricted and rent deposits		**(11,420)**	48,046	**(11,427)**	41,713
Other		**(204)**	-	**(204)**	-
Net cash used in investing activities		**(160,928)**	(458,407)	**(229,845)**	(89,360)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Payments to old minority owners		**(907)**	-	**(907)**	-
Proceeds from bank borrowings		**143,087**	850,865	**111,720**	480,109
Proceeds from other long-term loans		**-**	74,602	**-**	–
Proceeds from related-party loan		**-**	68,458	**-**	68,458
Repayment of bank borrowings		**(39,393)**	(659,285)	**(26,228)**	(570,454)
Repayment of related-party loans		**(8,059)**	(68,458)	**-**	(68,458)
Repayment of third party loan		**(74,138)**	-	**-**	-
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		**20,590**	939,537	**84,585**	583,010
(Decrease)/increase in cash and cash equivalents		**2,767**	669,715	**(34,026)**	623,947
Net foreign exchange differences		**(354)**	(20)	**-**	–
Cash and cash equivalents at beginning of year		**800,101**	130,406	**716,411**	92,464
Cash and cash equivalents at end of year		**802,514**	800,101	**682,385**	716,411
NON-CASH ITEMS:					
Outstanding payable on investments in property, plant and equipment		**2,421**	1,055	**2,421**	1,055

The accompanying accounting policies and notes are an integral part of these 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 2018 were established by a decision of the Management Board dated 26 February 2019. Following 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 Premium 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.

b. Description of business and formation of the Company:

The Company is a joint stock company listed on the Premium 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.

c. Assessment of going concern:

As part of their ongoing responsibilities, the Management Board have 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 2019, which show that the Group's hotel operations will be cash generative during the period. The Management Board have determined that the Company is likely to continue its business for at least 12 months from the date of the financial statements.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation

The financial statements of the Group and the 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 2018 and 31 December 2017 are set out below. These accounting policies have been consistently applied to the periods presented, except where otherwise indicated.

b. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2018. 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 Company, using consistent accounting policies.

All intra-Group 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 recognises 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.

c. Significant accounting judgments, estimates and assumptions

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

Judgments

In the process of applying the 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:

Acquisition of companies that are not business combinations

At the acquisition date of companies and groups of assets, the Group and the Company determines whether the transaction constitutes an acquisition of a business in a business combination transaction pursuant to IFRS 3. If the acquisition does not constitute a business as defined in IFRS 3, the cost of purchase is allocated only to the identifiable assets and liabilities of the acquired company on the basis of their relative fair values at the date of purchase and including any minority interest according to its share of the fair value of net identifiable assets at the acquisition date.

In determining whether a business was acquired, the Group and the Company evaluates whether the entity which was acquired is an integrated set of activities and assets capable of being conducted and managed for the purpose of providing a return to investors. The following criteria which indicate acquisition of a business are considered: the variety of assets acquired, the extent to which ancillary services to operate the property are provided and the complexity of the management of the property.

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 “j” and “k”.

d. Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group and the Company elects whether to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest’s proportionate share of the acquiree’s identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group and the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer’s previously held equity interest in the acquiree is re-measured to fair value at the acquisition date through profit or loss. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the income statement in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group and the Company re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

e. Business combinations involving entities under common control

The Group and the Company accounts for business combinations that include entities under common control using the acquisition method provided that the transaction has substance.

f. Investment in an associate and joint ventures

An associate is an entity over which the Group and the Company have significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

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

The income statement reflects the share of the results of operations of the joint ventures. The Group's and the Company'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 and the Company 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 Company and the joint venture are eliminated to the extent of the interest in the joint venture.

The aggregate of the Group's and the Company'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.

After application of the equity method, the Group and the Company determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group and the Company determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group and the Company calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognises the loss as 'Share in result of associate and joint ventures' in the income statement.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group and the Company measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in the income statement.

g. 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.

h. 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	
	2018 HRK	2017 HRK
Euro	7.42	7.51
Hungarian Forint	2.31	2.42

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

	As at 31 December	
	2018 %	2017 %
Euro	(1.2)	(0.7)
Hungarian Forint	(4.5)	(0.4)

i. Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets are amortised using the straight-line method over their estimated useful life and assessed for impairment whenever there is an indication that the intangibles may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the assets are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense for intangible assets is recognised in the income statement.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and recognised in the income statement when the asset is derecognised.

j. 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.

k. Impairment of non-financial assets

At each reporting date, the Group and the Company review 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 estimate the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

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

I. Financial instruments

In July 2014, the IASB issued the final and complete version of IFRS 9, "Financial Instruments" which replaces IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 mainly focuses on the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

IFRS 9 has been applied for the first time in these financial statements retrospectively without restatement of comparative data.

The adoption of IFRS 9 did not have an effect on the financial statements. The Group and the Company continues to measure at amortised cost and fair value those financial instruments it previously held at amortised cost and fair value, respectively.

i) Financial assets:

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's and Company's business model for managing them. The Group and the Company have applied the practical expedient, the Group and Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's and Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group and the Company commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in two categories:

Financial assets at amortised cost (debt instruments)

Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments)

The Group and the Company measures financial assets at amortised cost if both of the following conditions are met:

The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows

And

The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in income statement when the asset is derecognised, modified or impaired.

The Group's and Company's financial assets at amortised cost include trade receivables and loans to Joint Ventures.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows and debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the income statement.

This category includes derivative instruments and listed equity. Dividends on listed equity investments are also recognised as other income in the income statement when the right of payment has been established.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's and Company's statement of financial position) when:

> The rights to receive cash flows from the asset have expired

Or

> The Group or the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement and either (a) the Group or the Company has transferred substantially all the risks and rewards of the asset, or (b) the Group or the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group or the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group and Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group and Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group and Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group or the Company could be required to repay.

Impairment of financial assets

The adoption of IFRS 9 changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

The Group and the Company recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group and the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, the Group and the Company applies a simplified approach in calculating ECLs. Therefore, the Group and the Company do not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

The Group and the Company may also considers a financial asset to be in default when internal or external information indicates that the Group or the Company is unlikely to receive the outstanding contractual amounts in full. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's and Company's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group and the Company that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the income statement.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group and the Company have not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

This is the category most relevant to the Group and the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as financial expenses in the income statement.

This category generally applies to interest-bearing loans and borrowings.

m. 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. Purchase of small equipment during renovation, 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. Replacement of existing small equipment is expensed at the moment of replacement.

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

n. 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.

o. Derivative financial instruments and hedge accounting

As permitted by IFRS 9, the Group and the Company has elected to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements of IFRS 9.

The Group and the Company uses derivative financial instruments such as interest rate swaps to hedge its risks associated with interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge the documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group and the Company will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income, while the ineffective portion is recognised in profit or loss. Amounts taken to other comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised.

p. Revenue from contracts with customers

The IASB issued IFRS 15, "Revenue from Contracts with Customers", in May 2014. IFRS 15 supersedes IAS 11, "Construction Contracts", IAS 18, "Revenue", and related Interpretations, and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with customers. IFRS 15 also specifies the accounting for incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group and the Company adopted IFRS 15 using the modified retrospective method of adoption with the date of initial application of 1 January 2018. The Group and the Company elected to apply IFRS 15 only to contracts that were not completed at this date. The adoption of IFRS 15 as at 1 January 2018 did not have a material effect. In addition, the adoption of IFRS 15 did not have a material effect on the financial statements as at and for the year ended 31 December 2018.

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group and the Company expects to be entitled in exchange for those goods or services. The Group and the Company have generally concluded that this is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer.

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 participate in the Radisson Rewards™ customer loyalty programme to provide customers with incentives to buy room nights. This customer loyalty programme is owned and operated by Radisson Hotel Group ("RHG") 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 purchase these award credits from RHG and issue 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.

Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group and the Company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Trade receivables

A receivable represents the Group's and the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group and the Company have received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group and the Company transfers goods or services to the customer, a contract liability (advance payments received) is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group and the Company performs under the contract.

q. 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.

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, etc.

r. 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.

s. Provisions

Provisions are recognised when the Group or the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group or the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the income statement, net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

t. 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.

u. Taxation

Current income tax

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

Deferred income tax

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

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

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

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

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

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent

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

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

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

v. 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.

w. Standards issued but not yet applied

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

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

IFRS 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 recognise 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 recognise 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 recognise 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, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

Transition to IFRS 16

The Group and the Company plans to adopt IFRS 16 using the modified retrospective approach and will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Group and the Company will elect to use the exemptions permitted by IFRS 16 for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment (i.e., personal computers, printing and photocopying machines) that are considered of low value.

In respect of its current operating leases, at this stage the Group estimates that the initial adoption of IFRS 16 as of 1 January 2019 will result in an increase in assets and liabilities by approximately HRK 242 million. The adoption of IFRS 16 will also result prospectively in the reduction of rental expense and an increase in depreciation and interest expense in profit or loss, resulting in an increase in EBITDA.

The above information is subject to change as the Group and the Company continues to evaluate the effects of IFRS 16 until the date of adoption.

IFRIC 23 uncertainty over income tax treatments

In June 2017, the IASB issued IFRIC Interpretation 23 Uncertainty over Income Tax Treatments (the 'Interpretation'). The Interpretation clarifies of the accounting for recognition and measurement of assets or liabilities in accordance with the provisions of IAS 12 "Income Taxes" when there is uncertainty involving income taxes. The Interpretation specifically addresses the following:

> Whether an entity considers uncertain tax treatments separately.
>
> The assumptions an entity makes about the examination of tax treatments by taxation authorities.
>
> How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credit and tax rates.
>
> How an entity considers changes in facts and circumstances.

The Interpretation is applicable for annual reporting periods beginning on or after 1 January 2019. The Group and the Company is currently assessing the potential effect if any, of the Interpretation on its 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 recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised 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 Group will apply these amendments when they become effective.

Amendments to IAS 28: Long-term interests in associates and joint ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarify that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. The amendments will not have an impact on its consolidated financial statements.

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments will apply on future business combinations of the Group.

IFRS 11 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are currently not applicable to the Group and the Company but may apply to future transactions.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. The Group and the Company do not expect any effect on its financial statements.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Group's and Company's current practice is in line with these amendments, the Group and the Company do not expect any effect on its financial statements.

NOTE 3 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Furniture, fittings and equipment	Property and assets under construction	Total
Group	HRK'000	HRK'000	HRK'000	HRK'000
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
Cost:				
Balance as at 1 January 2018	**2,526,930**	**288,687**	**22,045**	**2,837,662**
Additions during the year	**68,147**	**42,555**	**41,203**	**151,905**
Transfers	**16,832**	**-**	**(16,832)**	**-**
Reclassification to Intangible assets	**(7,902)**	**-**	**-**	**(7,902)**
Exchange rate differences	**(7,828)**	**(1,462)**	**-**	**(9,290)**
Disposals during the year	**(3,536)**	**(8,185)**	**-**	**(11,721)**
Balance as at 31 December 2018	**2,592,643**	**321,595**	**46,416**	**2,960,654**
Accumulated depreciation and impairment:				
Balance as at 1 January 2018	**889,474**	**170,089**	**-**	**1,059,563**
Provision for depreciation	**46,244**	**22,998**	**-**	**69,242**
Exchange rate differences	**(7,090)**	**-**	**-**	**(7,090)**
Reclassification to Intangible assets	**(99)**	**(531)**	**-**	**(630)**
Disposals during the year	**(2,362)**	**(7,828)**	**-**	**(10,190)**
Balance as at 31 December 2018	**926,167**	**184,728**	**-**	**1,110,895**
Net book value as at 31 December 2018	**1,666,476**	**136,867**	**46,416**	**1,849,759**

a. There was no capitalisation of borrowing costs in 2018 or 2017.

b. For information regarding liens, see Note 11.

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 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
Cost:				
Balance as at 1 January 2018	**1,915,093**	**216,754**	**22,045**	**2,153,892**
Additions during the year	**67,866**	**27,519**	**40,807**	**136,192**
Transfer	**16,832**	**-**	**(16,832)**	**-**
Reclassification to Intangible assets	**(7,902)**	**-**	**-**	**(7,902)**
Disposals during the year	**(3,536)**	**(8,185)**	**-**	**(11,721)**
Balance as at 31 December 2018	**1,988,353**	**236,088**	**46,020**	**2,270,461**
Accumulated depreciation and impairment:				
Balance as at 1 January 2018	**881,413**	**151,073**	**-**	**1,032,486**
Provision for depreciation	**38,674**	**13,420**	**-**	**52,094**
Reclassification to Intangible assets	**(7,090)**	**-**	**-**	**(7,090)**
Disposals during the year	**(2,362)**	**(7,828)**	**-**	**(10,190)**
Balance as at 31 December 2018	**910,635**	**156,665**	**-**	**1,067,300**
Net book value as at 31 December 2018	**1,077,718**	**79,423**	**46,020**	**1,203,161**

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

Part of the Group's and the Company'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 2018, the Group and the Company realised rental income in the amount of HRK 9.5 million (2017: HRK 9.4 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 2018 are as follows:

	Group		Company	
	2018 HRK'000	2017 HRK'000	2018 HRK'000	2017 HRK'000
Up to 1 year	**9,940**	10,175	**9,940**	10,175
From 2 to 5 years	**25,495**	20,183	**25,495**	20,183
Over 5 years	**1,254**	931	**1,254**	931
	36,689	31,289	**36,689**	31,289

NOTE 4 INTANGIBLE ASSETS

	Group		Company	
	Software and licences	Total	Software and licences	Total
	HRK'000	HRK'000	HRK'000	HRK'000
Cost:				
Balance as at 1 January 2018	-	-	-	-
Reclassification from tangible asset	**7,902**	**7,902**	**7,902**	**7,902**
Transfer	-	-	-	-
Disposals during the year	-	-	-	-
Balance as at 31 December 2018	**7,902**	**7,902**	**7,902**	**7,902**
Accumulated depreciation and impairment:				
Balance as at 1 January 2018	-	-	-	-
Reclassification from tangible asset	**7,090**	**7,090**	**7,090**	**7,090**
Disposals during the year	-	-	-	-
Balance as at 31 December 2018	**7,090**	**7,090**	**7,090**	**7,090**
Net book value as at 31 December 2018	**812**	**812**	**812**	**812**

NOTE 5 INTEREST IN JOINT VENTURES

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

	Group		Company	
	2018 HRK'000	2017 HRK'000	2018 HRK'000	2017 HRK'000
Loan to joint ventures*	**34,180**	33,839	–	–
Share of net assets under equity method	**1,748**	208	–	–
Interest in joint ventures	**35,928**	34,047	–	–

* €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 6 OTHER NON-NON-CURRENT FINANCIAL ASSETS

	Group		Company	
	2018 HRK'000	2017 HRK'000	2018 HRK'000	2017 HRK'000
Investment in Sugarhill Investments B.V.	**-**	–	**528,513**	528,309
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.	**-**	–	**151,521**	72,457
Rent deposit	**3,059**	3,099	**-**	–
Long term receivables	**177**	177	**177**	177
	3,236	3,276	**680,251**	600,983

NOTE 7 TRADE RECEIVABLES

a. Composition

	Group		Company	
	2018 HRK'000	2017 HRK'000	2018 HRK'000	2017 HRK'000
Trade receivables	**15,475**	17,267	**7,028**	7,830
Less – allowance for doubtful debts	**(1,525)**	(4,297)	**(1,490)**	(4,254)
	13,950	12,970	**5,538**	3,576

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	Company
	2018 HRK'000	2018 HRK'000
As at 31 December 2017	(4,297)	(4,254)
Additions	-	-
Deductions	2,772	2,764
As at 31 December 2018	(1,525)	(1,490)

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

			Past due			
	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
Group						
2018	**13,950**	**7,094**	**4,004**	**1,107**	**503**	**1,242**
2017	12,970	5,845	4,578	1,406	393	748
Company						
2018	**5,538**	**4,165**	**317**	**266**	**64**	**726**
2017	3,576	2,610	173	274	121	398

NOTE 8 OTHER RECEIVABLES AND PREPAYMENTS

	Group		Company	
	2018 HRK'000	2017 HRK'000	2018 HRK'000	2017 HRK'000
Prepaid expenses	**4,648**	3,835	**1,915**	2,172
VAT and other taxes	**1,104**	1,013	**524**	830
Receivable from related parties	**145**	782	**3,919**	777
Other	**1,019**	974	**-**	-
	6,916	6,604	**6,358**	3,779

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 2018, the Company's share capital amounted to HRK 102,574,000 (2017: HRK: 102,574,000) and was divided into 5,128,721 (2017: 5,128,721) ordinary shares without a nominal value.

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 2018, legal reserves amounted to HRK 5,129 thousand (2017: HRK 2,182 thousand).

As at 31 December 2018, the consolidated other reserves amounting to HRK 322.6 million (2017: HRK 326.6 million) consisted of:

(i) Capital reserves of HRK 637.8 million (2017: 638.8 million) of which HRK 607.2 million (2017: 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 (2017: HRK 25.4 million), reserves for treasury shares of HRK 4,000 (2017: HRK 4,000), revaluation reserves formed from unrealised fair value gains on available-for-sale financial assets of HRK 105,120 (2017: HRK 111,700) and 5.1 million (2017.: 2.2 million) relates to Legal reserves.

During the year amount of HRK 907 thousands of Capital reserves was paid out based on minority shareholders claim.

In 2008 the General Assembly of the Company decided that the Company's share capital would be reduced by HRK 611,100,000 (EUR 83,712,328) and that the amount by which the Company's share capital was reduced would be paid to its shareholders. Subsequently, due to the market conditions at the time, in 2009 the General Assembly amended the original resolution and decided that the reduced capital would not be paid to the shareholders but rather transferred into the Company's reserves. 19 of minority shareholders filed a claim by which it challenged the General Assembly's resolution and requested the payment of the reduced capital to the Company's shareholders.

As a consequence, from 2015 we are receiving every year a part of the final and binding High Commercial Court decisions where the Court ruled against the Company (formerly called Arenaturist now Arena Hospitality Group) in favour of the minority shareholders.

In 2018 the last five final decisions that where brought by High Commercial Court have resulted in payments to the minority shareholders of the Company and a corresponding decrease of reserves in the amount of HRK 907 thousands.

(ii) Other capital reserves which amount to HRK 333.8 million (2017: 333.6 million) negative with regard to the difference between the acquisition price and the net asset value of Sugarhill Investments B.V.

(iii) Other reserves constitutes the difference between the purchase 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 4.4 million.

As at 31 December 2018, the Company's other reserves amounting to HRK 572.9 million (2017: HRK 570.9 million) consisted of:

(i) Legal reserves amounting to HRK 5.1 million (2017: HRK 2.2 million) and other capital reserves amounted to HRK 544.8 million (2017: HRK 545.7 million) which is total of HRK 549.9 million (2017: 547.9 million) out of which the amount of HRK 544.8 million is distributable (2017: 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.

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 1,305,564 thousand (2017: 1,314,352 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, through the acquisition of Sugarhill Investment B.V. and the restructuring of the Group, 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 development commitments

As at 31 December 2018, the Company had capital commitments amounting to HRK 14.1 million for the renovation of the Kažela 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 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 2018, provisions for certain legal disputes have been made in the amount of HRK 32.0 million (2017: HRK 31.0 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.

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

	Group		Company	
	2018 HRK'000	2017 HRK'000	2018 HRK'000	2017 HRK'000
Within one year	**23,625**	20,392	–	–
After one year but not more than five years	**74,566**	64,046	–	–
More than five years	**170,444**	36,140	–	–
	268,635	120,578	–	–

In January 2019, the Group renewed the lease agreement with art'otel Budapest for a further 20 years.

NOTE 12 BANK BORROWINGS

The bank borrowings of the Group are comprised as follows:

As at 31 December 2018

Bank/facility	Outstanding amount in HRK'000	Currency	Interest rate	Maturity
Zagrebačka banka d.d.	**450,275**	EUR	2.5%	2027
Zagrebačka banka d.d.	**74,176**	EUR	2.4%	2028
Erste bank	**35,027**	EUR	1.95%	2023
Deutsche Hyphothekenbank AG	**266,071**	EUR	EURSFIXA + 0.99%	2026
Deutsche Hyphothekenbank AG	**113,875**	EUR	EURIBOR +1.09%	2027
	939,424			
Accrued interest	**6,059**			
Capitalised transaction costs	**(1,666)**			
Total	**943,817**			

	Maturity analysis					
Outstanding amount HRK	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
939,424	**46,179**	**46,179**	**46,489**	**46,833**	**61,574**	**692,170**

For securities and pledges, see Note 11.

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

The bank borrowings of the Company are comprised as follows:

As at 31 December 2018

Bank/facility	Outstanding amount in HRK'000	Currency	Interest rate	Maturity
Zagrebačka banka d.d.	**450,275**	EUR	2.5%	2027
Zagrebačka banka d.d.	**74,176**	EUR	2.4%	2028
Erste bank	**35,027**	EUR	1.95%	2023
	559,478			
Accrued interest	**6,059**			
Total	**565,537**			

	Maturity analysis					
Outstanding amount HRK	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
559,478	**32,270**	**32,270**	**32,270**	**32,270**	**46,693**	**383,705**

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

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. facilities, 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 Erste bank facility, the borrower must ensure throughout the entire term of the loan that the Interests coverage ratio ('ICR') is at least 2 times EBITDA.

c. 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.

d. 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 2018, the Group and the Company are in compliances with all its banking covenants.

NOTE 13 OTHER LOANS

As at 31 December 2018

	As at 31 December			
	Group		Company	
	2018 HRK'000	2017 HRK'000	2018 HRK'000	2017 HRK'000
Third party loan	-	75,136	–	–
	-	75,136	–	–

Third party loan in 2017 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. During 2018 this loan was fully refinanced.

NOTE 14 PROVISIONS

	As at 31 December			
	Group		Company	
	2018 HRK'000	2017 HRK'000	2018 HRK'000	2017 HRK'000
Provision for litigation	**32,020**	30,987	**32,020**	30,987
Provision for concessions land	**35,798**	30,412	**35,798**	30,412
	67,818	61,399	**67,818**	61,399

Movements in the Provisions were as follows

	Group	Company
	HRK'000	HRK'000
As at 31 December 2017	**61,399**	**61.399**
Additions	**6,419**	**6,419**
Deductions	**-**	**-**
As at 31 December 2018	**67,818**	**67,818**

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 32.0 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.

NOTE 15 OTHER PAYABLES AND ACCRUALS

	As at 31 December			
	Group		Company	
	2018 HRK'000	2017 HRK'000	2018 HRK'000	2017 HRK'000
VAT and taxes	**11,856**	13,348	**4,484**	8,531
Employees	**16,108**	16,091	**12,771**	12,979
Received advances	**15,253**	12,452	**4,199**	4,492
Accrued expenses	**6,982**	12,527	**547**	534
Accrual lease payable	**5,691**	6,627	**-**	-
Accrued fee for the tourist land concession	**3,467**	3,366	**3,467**	3,366
Other	**472**	464	**346**	359
	59,829	64,875	**25,814**	30,261

NOTE 16 REVENUES

	Year ended 31 December			
	Group		Company	
	2018 HRK'000	2017 HRK'000	2018 HRK'000	2017 HRK'000
Accommodation	**615,106**	576,444	**419,358**	396,550
Food and beverages	**105,101**	105,435	**65,387**	64,456
Minor operating revenues*	**27,964**	25,835	**19,460**	17,493
Rent revenue	**9,541**	9,448	**9,512**	9,416
	757,712	717,162	**513,717**	487,915

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

NOTE 17 OPERATING EXPENSES

	Year ended 31 December			
	Group		Company	
	2018 HRK'000	2017 HRK'000	2018 HRK'000	2017 HRK'000
Salaries and related expenses	**233,319**	217,396	**154,705**	139,069
Food and beverage	**41,710**	41,326	**30,148**	29,555
Franchise fees, reservation and commissions	**46,721**	40,867	**28,206**	24,712
Marketing expenses	**34,618**	33,634	**24,588**	23,961
Utilities	**35,158**	32,867	**24,827**	23,133
Administration costs	**26,134**	21,077	**16,840**	13,515
Maintenance	**23,361**	18,631	**18,801**	13,836
Insurance and property taxes	**15,218**	14,343	**12,179**	11,588
Supplies	**9,065**	9,135	**6,191**	6,170
Laundry, linen and cleaning	**7,997**	6,609	**3,009**	2,045
Travel and transport	**5,519**	5,018	**3,879**	3,500
IT expenses	**4,419**	4,116	**3,209**	3,087
Management fee	**-**	–	**17,149**	16,966
Other expenses	**24,518**	21,599	**11,381**	11,011
	507,757	466,618	**355,112**	322,148

The Group's other expenses include fees for audit services in the amount of HRK 882 thousand (2017: HRK 792 thousand), and fees for half year review of HRK 274 thousand (2017: 276 thousand). In addition, the Group used tax consultants and tax consultancy expenses amount HRK 643 thousand (2017: HRK 298 thousand).

The Company's other expenses include fees for audit services in the amount of HRK 393 thousand (2017: 334 thousand), and fees for half year review of HRK 67 thousand (2017: 67 thousand). In addition, the Company used tax consultants and tax consultancy expenses amount HRK 444 thousand (2017: 104 thousand).

NOTE 18 FINANCIAL EXPENSES

	Year ended 31 December			
	Group		Company	
	2018 HRK'000	2017 HRK'000	2018 HRK'000	2017 HRK'000
Interest and other finance expenses on bank loans	**22,815**	30,430	**13,365**	24,527
Interest on third party loan	**4,350**	4,174	**-**	–
Interest on related party loans	**385**	3,252	**-**	2,760
Exchange rate differences	**2,673**	–	**2,387**	–
Other	**1,389**	1,744	**1,184**	1,607
	31,612	39,600	**16,936**	28,894

NOTE 19 FINANCIAL INCOME

	Year ended 31 December			
	Group		Company	
	2018 HRK'000	2017 HRK'000	2018 HRK'000	2017 HRK'000
Exchange rate differences	**-**	5,094	**-**	5,311
Interest revenue on loans given to joint ventures	**773**	792	**-**	–
Other financial revenue	**47**	175	**45**	167
Interest revenue on related party loan	**-**	–	**3,503**	4,081
	820	6,061	**3,548**	9,559

NOTE 20 OTHER EXPENSES

	Year ended 31 December			
	Group		Company	
	2018 HRK'000	2017 HRK'000	2018 HRK'000	2017 HRK'000
Other expenses	**1,998**	4,346	**1,988**	4,231
	1,998	4,346	**1,988**	4,231

Other expenses in 2018 mostly refer to pre-opening expense in Arena One 99 Glamping in amount of HRK 1,319 thousands (2017: mostly refer to refinancing expenses).

NOTE 21 INCOME TAX

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

	Year ended 31 December			
	Group		Company	
	2018 HRK'000	2017 HRK'000	2018 HRK'000	2017 HRK'000
Current taxes	**21,483**	21,452	**11,774**	12,537
Deferred taxes	**3,694**	2,010	**3,084**	2,943
	25,177	23,462	**14,858**	15,480

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 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
Amounts credited to income statement	**-**	**2,280**	**-**	**2,280**
Amounts charged to income statement	**(611)**	**(1,964)**	**(3,399)**	**(5,974)**
Adjustment for exchange rate differences	**(18)**	**-**	**-**	**(18)**
Balance as at 31 December 2018	**791**	**6,631**	**16,856**	**24,278**

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 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
Amounts credited to income statement	**2,280**	**-**	**2,280**
Amounts charged to income statement	**(1,965)**	**(3,399)**	**(5,364)**
Balance as at 31 December 2018	**6,630**	**16,856**	**23,486**

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	
	2018 HRK'000	2017 HRK'000	2018 HRK'000	2017 HRK'000
Profit/(loss) before income taxes	**113,844**	111,544	**81,409**	84,303
Expected tax at the tax rate of Croatia 18% (2017: 18%)	**20,492**	20,078	**14,654**	15,175
Adjustments in respect of:				
Effect of other Countries tax rate	**2,135**	1,437	**-**	–
Non-deductible expenses	**1,499**	2,013	**245**	371
Utilisation of carry forward losses for which deferred tax assets were not previously recorded	**(47)**	–	**-**	–
Income tax for previous years	**1,139**	–	**-**	–
Non-taxable income	**(41)**	(66)	**(41)**	(66)
Income tax (benefit)/expense reported in the income statement	**25,177**	23,462	**14,858**	15,480

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%.

(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%.

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	
	2018 HRK'000	2017 HRK'000	2018 HRK'000	2017 HRK'000
Profit/(loss) for the year	**88,667**	87,568	**66,551**	68,823
Weighted average number of ordinary shares outstanding	**5,128,721**	4,195,990	**5,128,721**	4,195,990
Basic and diluted earnings per share	**17.28**	20.87	**12.98**	16.40

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 2018

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	**484,851**	**109,749**	**152,401**	**10,711**	**-**	**757,712**
Inter segment	**-**	**-**	**-**	**105,794**	**(105,794)**	**-**
Total revenue	**484,851**	**109,749**	**152,401**	**116,505**	**(105,794)**	**757,712**
Segment EBITDA	**105,767**	**33,832**	**65,109**	**9,963**	**-**	**214,671**
Depreciation and amortisation	**(44,131)**	**(11,944)**	**(10,845)**	**(2,322)**	**-**	**(69,242)**
Financial expenses						**(31,612)**
Financial income						**820**
Other expenses						**(1,998)**
Share in result of joint venture						**1,205**
Profit/(loss) before tax						**113,884**

	Croatia HRK'000	Germany and Hungary HRK'000	Total HRK'000
Geographical information			
Non-current assets[1]	**1,203,453**	**646,306**	**1,849,759**

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

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

	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.

Year ended 31 December 2018

Company	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	**241,667**	**109,749**	**152,401**	**9,900**	**-**	**513,717**
Inter segment	**-**	**-**	**-**	**65,886**	**(65,886)**	**-**
Total revenue	**241,667**	**109,749**	**152,401**	**75,786**	**(65,886)**	**513,717**
Segment EBITDA	**56,387**	**33,832**	**65,109**	**(6,449)**	**-**	**148,879**
Depreciation and amortisation	**(27,266)**	**(11,944)**	**(10,845)**	**(2,039)**	**-**	**(52,094)**
Financial expenses						**(16,936)**
Financial income						**3,548**
Other expenses						**(1,988)**
Profit/(loss) before tax						**81,409**
Non-current assets	**611,703**	**314,765**	**204,645**	**72,048**	**-**	**1,203,161**

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

Year ended 31 December 2017

Company	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	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.

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 2018. 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	
	2018 HRK'000	2017 HRK'000	2018 HRK'000	2017 HRK'000
Assets				
Short-term receivables – Park Plaza Hotels Europe B.V.	**29**	10	**-**	10
Short-term receivables – art'otel dresden Park Plaza Betriebsgesellschaft mbH	**-**	323	**-**	–
Short-term receivables – Euro Sea Hotels N.V.	**-**	448	**-**	–
Short-term receivables – art'otel berlin mitte Park Plaza Betriebsgesellschaft mbH	**222**	153	**-**	–
Short-term receivables – Park Plaza Betriebsgesellschaft mbH	**166**	141	**-**	–
Short-term receivables – PPHE (Germany) B.V.	**112**	-	**-**	-
Short-term receivables – PPHE Nuernberg Operator Hotelbetriebsgesellschaft mbh	**-**	–	**-**	110
Short-term receivables – Arena Hospitality Management d.o.o.	**-**	-	**681**	645
Short-term receivables – Germany Real Estate B.V.	**-**	–	**3,222**	-

	As at 31 December			
	Group		Company	
	2018 HRK'000	2017 HRK'000	2018 HRK'000	2017 HRK'000
Assets				
Short-term receivables – Sugarhill Investments B.V.	**-**	–	**2**	–
Short-term receivables – Ulika d.o.o.	**-**	–	**16**	–
Long-term loans to joint ventures	**34,180**	33,839	**-**	–
Long-term loan to Germany Real Estate B.V.	**-**	–	**151,521**	72,457
Liabilities				
Trade payables – Sugarhill Investments B.V.	**-**	–	**-**	6
Trade payables – Arena Hospitality Management d.o.o.	**-**	–	**2,990**	1,869
Trade payables – PPHE (Germany) B.V.	**10,410**	10,688	**-**	–
Trade payables – Park Plaza Hotels Europe B.V.	**1,728**	3,732	**1,728**	3,732
Trade payables – Waterloo Hotel Operator ltd.	**-**	2	**-**	2
Other current liability – Euro Sea Hotels N.V.	**-**	8,112	**-**	–

During the year the Company bought tangible assets (2 yachts) from PPHE Histria Charter d.o.o. for the amount of HRK 1,240.

b. Transactions with related parties

	Year ended 31 December			
	Group		Company	
	2018 HRK'000	2017 HRK'000	2018 HRK'000	2017 HRK'000
Management fee revenue – art'otel dresden Park Plaza Betriebsgesellschaft mbH	**877**	1,577	**-**	–
Management fee revenue from joint ventures	**2,805**	2,508	**-**	–
Service charge revenue – art'otel dresden Park Plaza Betriebsgesellschaft mbH	**761**	1,527	**-**	–
Service charge revenue – joint ventures	**2,870**	2,570	**-**	–
Reimbursement of employee expenses – PPHE Nuernberg Operator Hotelbetriebsgesellschaft mbh	**-**	–	**101**	483
Reimbursement of employee expenses – art'otel berlin mitte Park Plaza Betriebsgesellschaft mbH	**-**	–	**97**	112
Reimbursement of employee expenses – art'otel cologne Betriebsgesellschaft mbH	**-**	–	**58**	124
Reimbursement of employee expenses – art'otel® berlin city center west GmbH	**-**	-	**10**	-
Reimbursement of employee expenses – Park Plaza Hotels Berlin Wallstrasse GmbH	**-**	-	**10**	-
Reimbursement of employee expenses – Arena Hospitality Management d.o.o.	**-**	–	**6,529**	6,156
Interest income – joint ventures	**773**	792	**-**	-
Interest income – Ulika d.o.o.	**-**	–	**16**	-
Interest income – Germany Real Estate B.V.	**-**	-	**3,487**	4,081
Management fees expense – Park Plaza Hotels Europe B.V.	**-**	–	**-**	–
Management fees expense – Arena Hospitality Management d.o.o.	**-**	–	**17,149**	16,966
Other expenses – Sugarhill Investments B.V.	**-**	–	**53**	578
Sales and marketing fees – Park Plaza Hotels Europe B.V.	**20,138**	19,176	**20,138**	19,176
Sales and marketing fees – PPHE (Germany) B.V.	**9,724**	9,111	**-**	–
Other expenses – Park Plaza Hotels Europe B.V.	**-**	603	**-**	603
Interest expense – Euro Sea Hotels N.V.	**385**	3,252	**-**	2,760

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) occur occasionally.

(ii) Compensation to key management personnel (Management and Supervisory Board members) for the year ended 31 December 2018:

Group	Base salary and fees HRK'000	Bonus HRK'000	Pension contributions HRK'000	Other benefits HRK'000	Total HRK'000
Management Board	**4,363**	**4,370**	**385**	**382**	**9,500**
Supervisory Board	**980**	**-**	**109**	**-**	**1,089**
	5,343	**4,370**	**494**	**382**	**10,589**

Company	Base salary and fees HRK'000	Bonus HRK'000	Pension contributions HRK'000	Other benefits HRK'000	Total HRK'000
Management Board	**4,363**	**4,370**	**385**	**382**	**9,500**
Supervisory Board	**980**	**-**	**109**	**-**	**1,089**
	5,343	**4,370**	**494**	**382**	**10,589**

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
Management Board	4,252	2,649	377	197	7,475
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
Management Board	4,252	2,649	377	197	7,475
Supervisory Board	260	–	29	–	289
	4,512	2,649	406	197	7,764

NOTE 25 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's and Company's principal financial instruments, other than derivatives, and marketable securities comprise bank borrowings, cash and cash equivalents and restricted deposits. The main purpose of these financial instruments is to finance the Group's and 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.

Changes in financial liabilities arising from financing activities

Group	1 January 2018 HRK'000	Cash flows HRK'000	Reclassification HRK'000	Foreign exchange movement HRK'000	New loans HRK'000	Other HRK'000	31 December 2018 HRK'000
Non-current interest-bearing loans	**806,959**	**(1,162)**	**(46,162)**	**(11,143)**	**143,087**	**-**	**891,579**
Derivative financial instruments	**-**	**-**	**-**	**-**	**-**	**2,498**	**2,498**
Third party loans	**75,136**	**(74,138)**	**-**	**(998)**	**-**	**-**	**-**
Current interest-bearing loans	**38,231**	**(38,231)**	**46,162**	**(174)**	**-**	**6,250**	**52,238**
	920,326	**(113,531)**	**-**	**(12,315)**	**143,087**	**8,748**	**946,315**

Changes in financial liabilities arising from financing activities

Company	1 January 2018 HRK'000	Cash flows HRK'000	Reclassification HRK'000	Foreign exchange movement HRK'000	New loans HRK'000	Other HRK'000	31 December 2018 HRK'000
Non-current interest-bearing loans	**456,107**	**(1,579)**	**(32,372)**	**(6,668)**	**111,720**	**-**	**527,208**
Current interest-bearing loans	**24,548**	**(24,649)**	**32,372**	**-**	**-**	**6,058**	**38,329**
	480,655	**(26,228)**	**-**	**(6,668)**	**111,720**	**6,058**	**565,537**

The Group and the Company also enters into derivative transactions, including principally interest rate swap contracts. The purpose is to manage the interest rate risk arising from the Group's and Company's operations and its sources of finance. It is, and has been throughout the years under review, the Group's and Company's policy that no trading in financial instruments shall be undertaken.

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

a. Foreign currency risk

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 2018, if the Euro had weakened/strengthened by 1.0% (2017: 1.0%) against the Kuna, with all other variables held constant, the loss for the year would have been HRK 189 thousand higher/lower (2017: HRK 307 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 Company's policy is to manage its interest costs using fixed rate debt. To manage its interest costs, the Group and Company enters into interest rate swaps, in which the Group and the Company agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed upon notional principal amount. Furthermore, the Group and Company uses fixed interest rate debts. For this reason the Group's and the Company's cash flow a not sensitive to possible changes in market interest rates. Possible changes in interest rates do, however, affect the Group's and Company's equity as the fair value of the swap agreements changes with interest rate changes. These swaps are designated to hedge underlying debt servicing obligation.

The fair value of the swaps of the Group as at 31 December 2018 amounts to a liability of HRK 2,498 thousand.

c. Credit risk

The Group and the Company trade only with recognised, creditworthy third parties. They have policies in place to ensure that sales of products/services 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 32.0 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.

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 Company for compensation for the use of such land from December 1997 currently amounting to EUR 8.9 million (around HRK 66.6 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, 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 and until the final agreement between municipality of Medulin and the State regarding the State right to be owner of the land of the campsites.

(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.

(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 2018 and 2017 based on contractual undiscounted payments:

As at 31 December 2018

	Less than 3 months HRK'000	3 to 12 months HRK'000	1 to 2 years HRK'000	3 to 5 years HRK'000	> 5 years HRK'000	Total HRK'000
Interest-bearing loans and borrowings	**11,599**	**59,751**	**67,687**	**212,926**	**752,572**	**1,104,535**
Accrued fee for the tourist land concession	**-**	**3,467**	**-**	**-**	**-**	**3,467**
Lease liability	**5,691**	**-**	**-**	**-**	**-**	**5,691**
Trade payables	**19,943**	**-**	**-**	**-**	**-**	**19,943**
Liabilities toward related parties	**12,090**	**-**	**-**	**-**	**-**	**12,090**
Other payables and accruals	**20,935**	**17,408**	**-**	**-**	**-**	**38,343**
	70,258	**80,626**	**67,687**	**212,926**	**752,572**	**1,184,069**

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

The table below summarises the maturity profile of the Company's financial liabilities as at 31 December 2018 and 2017 based on contractual undiscounted payments:

As at 31 December 2018

	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	**6,000**	**42,987**	**45,337**	**145,944**	**422,064**	**662,332**
Accrued fee for the tourist land concession	**-**	**3,467**	**-**	**-**	**-**	**3,467**
Trade payables	**5,834**	**-**	**-**	**-**	**-**	**5,834**
Liabilities toward related parties	**4,670**	**-**	**-**	**-**	**-**	**4,670**
Other payables and accruals	**4,745**	**12,771**	**-**	**-**	**-**	**17,516**
	21,249	**59,225**	**45,337**	**145,944**	**422,064**	**693,819**

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

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	
	2018 HRK'000	2017 HRK'000	2018 HRK'000	2017 HRK'000
Interest-bearing bank loans and borrowings	**943,817**	920,326	**565,537**	480,654
Less – cash and cash equivalents	**(802,514)**	(800,101)	**(682,385)**	(716,411)
Less – other current financial assets	**(199)**	(205)	**(199)**	(205)
Less restricted deposit	**-**	–	**-**	–
Net debt	**141,104**	120,020	**(117,047)**	(235,962)
Equity	**1,648,304**	1,565,756	**1,950,663**	1,885,026
Hedging reserve	**(5,477)**	(3,317)	**-**	–
Total capital	**1,642,827**	1,569,073	**1,950,663**	1,885,026
Capital and net debt	**1,783,931**	1,689,093	**1,833,616**	1,649,064
Gearing ratio	**7.91%**	7.1%	**(6.38%)**	(14.3)%

The Group and the Company manage its capital structure and make adjustments to it in light of changes in economic conditions. The Group and the Company monitor 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 include 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.

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.

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

Fair value of available for sale financial assets is derived from quoted market prices in active markets. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group and the Company is the current bid price. These instruments are included in Level 1. The Group and the Company entered 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.

Fair value hierarchy

The Group and the Company use 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 2018, the Group and the Company held the following financial instruments measured at fair value:

Liability:

	31 December 2018 HRK'000	Level 1 HRK'000	Level 2 HRK'000	Level 3 HRK'000
Interest rate swaps used for hedging	**2,498**	-	2,498	-

Asset:

	31 December 2018 HRK'000	Level 1 HRK'000	Level 2 HRK'000	Level 3 HRK'000
Available for sale – financial assets	**199**	199	-	-

During 2018, 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 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.

The carrying amounts and fair values of the Group's financial instruments other than those whose carrying amount approximates their fair value:

	Carrying amount 31 December		Fair value 31 December	
	2018 HRK'000	2017 HRK'000	2018 HRK'000	2017 HRK'000
Financial assets Available for sale - financial assets	**199**	205	**199**	205
Financial liabilities Bank borrowings*	**943,817**	845,190	**956,267**	847,072

* Based on Level 2 inputs.

h. Derivative financial instruments

The part of the Group's borrowings are at variable interest rates based on EURIBOR. To limit its exposure to changes in the rates of EURIBOR on its cash flows and interest expense, the Group has entered into various interest rate swaps, as described above. The Company meets the relevant criteria in IFRS 9 to apply hedge accounting and the fair value changes of swaps in the hedge relationship that are determined to be effective are recorded in other comprehensive income. All fair value movements that are determined to be ineffective are recorded in profit and loss.

NOTE 26 SUBSEQUENT EVENTS

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

APENDICES

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
Mažurana 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 B.V.[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 mbH[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 Betriebsgesellschaft mbH [2,3]	Hotel Operation	Germany	EUR	100
SW Szállodaüzemeltető Kft[2,3]	Hotel Operation	Hungary	EUR	100

[1] Direct holdings

[2] Indirect holdings

[3] Subsidies (direct and indirect) 100% or 50% owned by Sugarhill

JOINTLY CONTROLLED ENTITIES

Name of Group	Principal activity	Country of incorporation	Functional currency	Proportion of ownership interest %
art'otel berlin mitte /Park Plaza betriebsgesellschaft mbH	Hotel Operation	Germany	EUR	50
Park Plaza betriebsgesellschaft mbH	Hotel Operation	Germany	EUR	50
ABK Hotel Holding B.V.	Holding Company	The Netherlands	EUR	50
ABM Hotel Holding B.V.	Holding Company	The Netherlands	EUR	50

[1] Direct holdings

[2] Indirect holdings

[3] Subsidies (direct and indirect) 100% or 50% owned by Sugarhill

GLOSSARY

A

Arena Hospitality Group: Arena Hospitality Group d.d. is one of the most dynamic hospitality groups in Central and Eastern Europe, currently offering a portfolio of [26] owned, co-owned, leased and managed properties with more than 10,000 rooms and accommodation units in Croatia, Germany and Hungary. PPHE Hotel Group has a controlling ownership interest in Arena Hospitality Group. www.arenahospitalitygroup.com.

ADR: Average daily rate. Total room revenue divided by number of rooms sold.

art'otel®: A lifestyle collection of hotels that fuse exceptional architectural style with art-inspired interiors, located in cosmopolitan centres across Europe. PPHE Hotel Group is owner of the art'otel® brand worldwide www.artotels.com

B

Bora Companies: Arenaturist Hoteli d.o.o., Arenaturist Zlatne Stijene d.o.o. and Arenaturist Turistička Naselja d.o.o.

C

CEE region: the Central and Eastern Europe region.

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

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, amortization, 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.

EPRA (European Public Real Estate Association): The EPRA reporting metrics analyse performance (value, profit and cash flow).

F – O

GDPR: General Data Protection Regulation

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

Management Board: Reuel ('Reli') Slonim (President of Management Board), Milena Perković (Member of Management Board and Chief Financial Officer), Manuela Kraljević (Member of Management Board and Marketing and Sales Director) and Devansh Bakshi (Member of the Management Board and Company Finance Specialist) (from 1 February 2019).

MICE: (engl.: meetings, conferences and events).

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 Radisson Hotel Group. PPHE Hotel Group has the exclusive right to develop the brand across 56 countries in Europe, the Middle East and Africa. www.parkplaza.com.

PPHE Hotel Group: PPHE Hotel Group Limited is an international hospitality real estate company, with a £1.6 billion portfolio of primarily prime freehold and long leasehold assets in Europe. The Group benefits from having an exclusive and perpetual license from the Radisson Hotel Group, one of the world's largest hotel groups, to develop and operate Park Plaza® branded hotels and resorts in Europe, the Middle East and Africa. In addition, the Group wholly owns, and operates under, the art'otel® brand. www.pphe.com

Radisson Rewards: The global hotel rewards programme from the Radisson Hotel Group which includes Park Plaza® Hotels & Resorts and art'otel®. The program is owned by Radisson Hotel Group. Gold Points® is the name of the currency earned through the Radisson Rewards program. www.radissonrewards.com

Responsible Business: Arena Hospitality Group has adopted PPHE Hotel Group's new Responsible Business program; Responsible Experiences which includes a dedicated mission statement and four pillars reflecting key areas of impact. We pride ourselves on our mission to be responsible in everything we do as a business through our pillars; inspiring our guests, creating centres of excellence, developing our people and being part of our communities. This new developed responsible business strategy builds on the corporate social responsibility (CSR) activity of previous years to create a long-term sustainable responsible business model.

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

Sugarhill: Sugarhill Investments B.V.

Sugarhill Group: Sugarhill and its subsidiaries.

Supervisory Board: Boris Ivesha (Chairman), Yoav Papouchado (Vice chairman), Kevin Michael McAuliffe (Member), Abraham Thomas (Member), Amra Pende (Member), Lorena Škuflić (Member) and Vehbija Mustafić (Member appointed by employees' council)

CONTACTS

SUPERVISORY BOARD

Boris Ivesha Chairman
Yoav Papouchado Vice chairman
Kevin McAuliffe Member
Abraham Thomas Member
Amra Pende Member
Lorena Škuflić Member
Vehbija Mustafić Member appointed by employees' council

MANAGEMENT BOARD

Reuel ('Reli') Slonim President of the Management Board
Milena Perković Member of the Management Board and Chief Financial Officer
Manuela Kraljević Member of the Management Board and Marketing and Sales Director
Devansh Bakshi Member of the Management Board and Company Finance Specialist (from 1 February 2019).

KEY CONTACTS

Luka Cvitan Strategy, Capital Markets and IR
Neven Čale Reporting Manager
Tatiana Zanini Gavranić Strategic Controlling Director

HEAD OFFICE

Ivana Peruško
Arena Hospitality Group d.d.
HR-52100 Pula, Croatia
Smareglina ulica 2
Tel: + 385 52 223 811

LEGAL ADVISORS

Porobija & Porobija
HR-10000 Zagreb, Croatia
Galeria Importanne,Iblerov trg 10/VII
Tel: + 385 1 4693999

Ivan Kuvara & Sanja Knapić
HR-52100 Pula,Croatia
Ciscuttijeva 18
Tel: + 385 52 380 898

COMPANY AUDITORS

Ernst & Young d.o.o.
Radnička cesta 50, 10000 Zagreb, Croatia.
Tel: + 385 1 5800 800

COMPANY PUBLIC RELATIONS

Madison Consulting d.o.o.
HR-10000, Croatia
Mrežnička 2
Tel: + 385 1 6102 200

USEFUL LINKS

Corporate and reservation websites:
arenahospitalitygroup.com
arenahotels.com
arenacampsites.com
parkplaza.com
artotels.com

STRATEGIC PARTNERS:

PPHE Hotel Group
pphe.com
Radisson Hotel Group
radissonhotelgroup.com

ARENA HOSPITALITY GROUP

SMAREGLINA 3

52100 PULA

TEL: +385 52 223 811

FAX: +385 52 215 263

uprava@arenahospitalitygroup.com

WWW.ARENAHOSPITALITYGROUP.COM