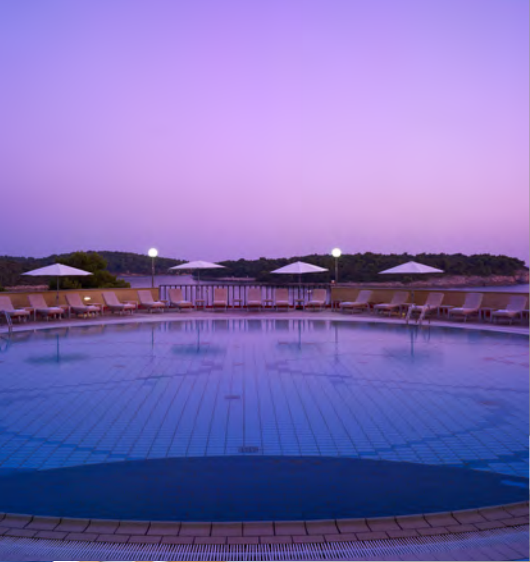
PROSPECTUS OF PUBLIC OFFERING ISSUE AND LISTING OF SHARES

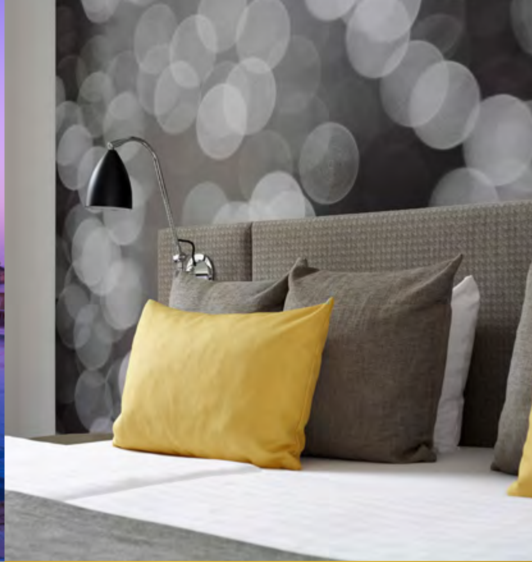
ARENA HOSPITALITY GROUP d.d.
26 APRIL 2017

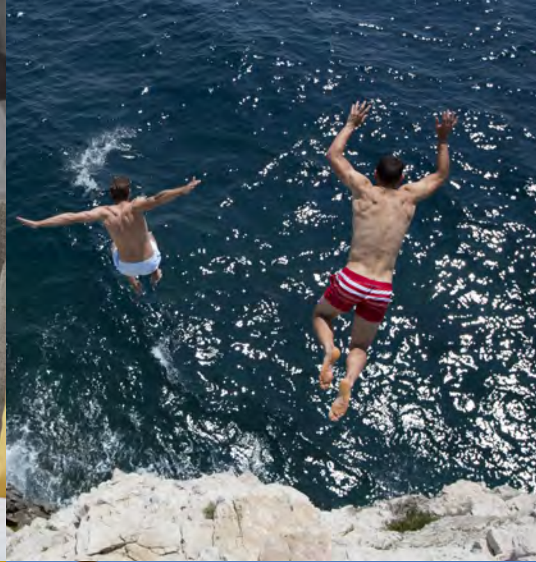
ARENA
HOSPITALITY GROUP

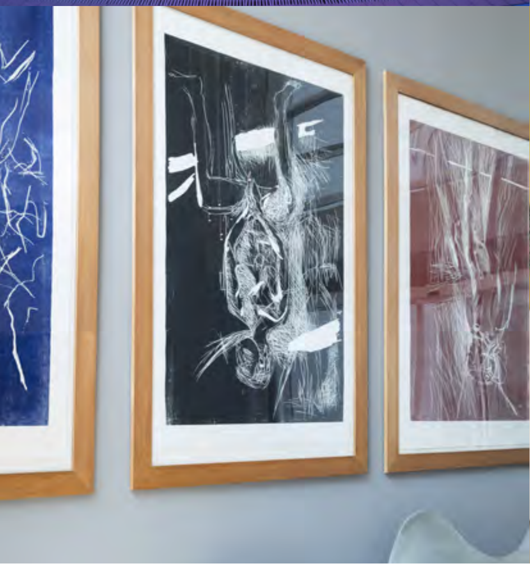
JOINT GLOBAL COORDINATORS AND BOOKRUNNERS

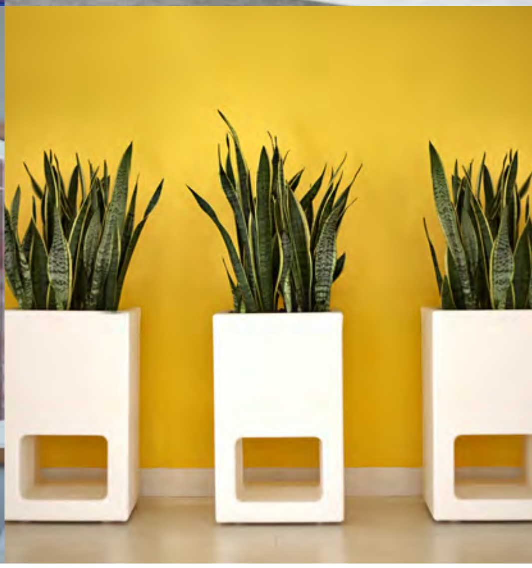
InterCapital UniCredit Zagrebačka banka
UniCredit Group

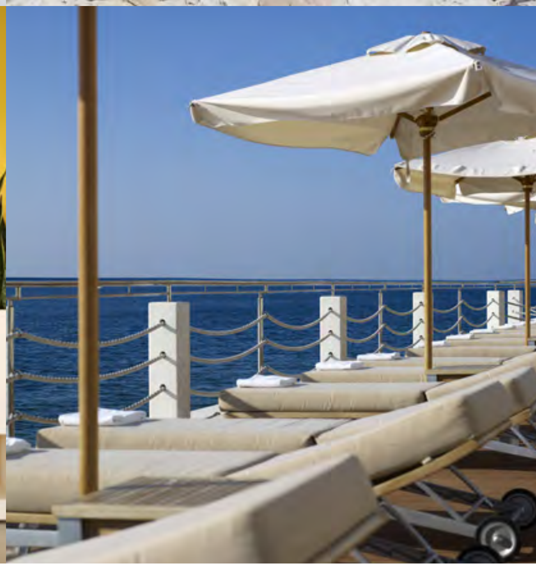










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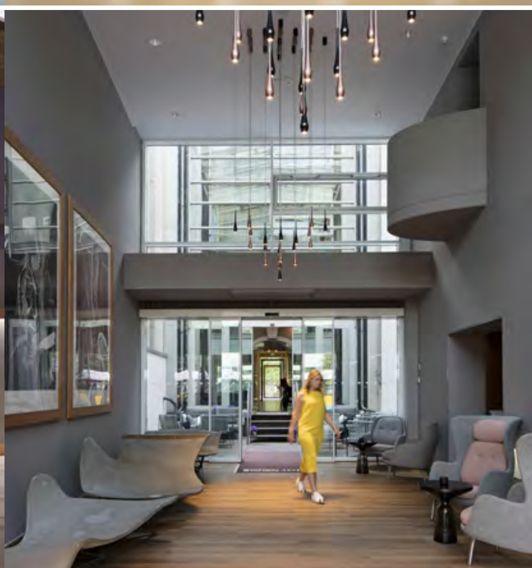

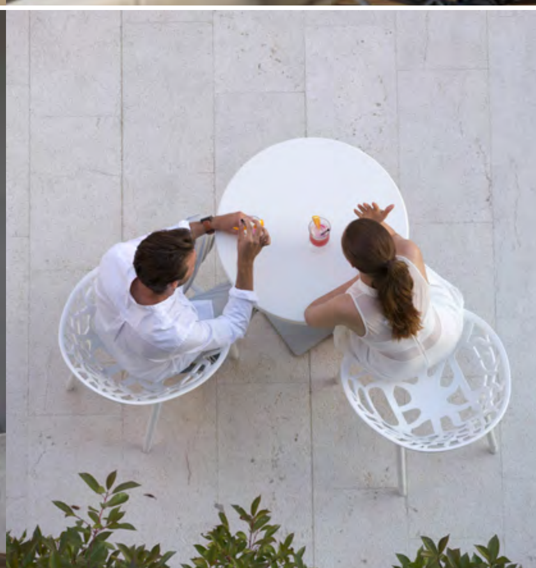

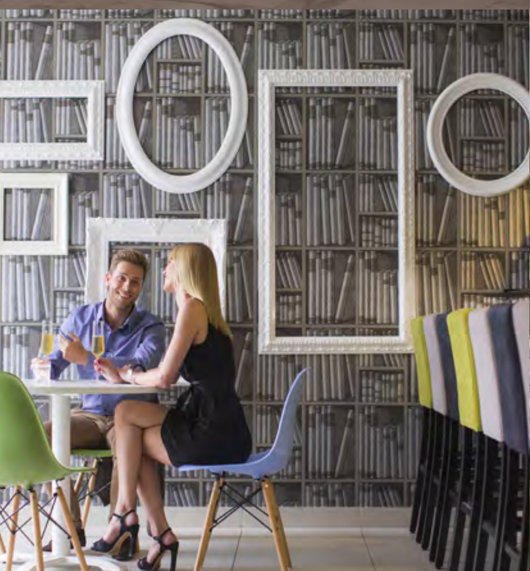

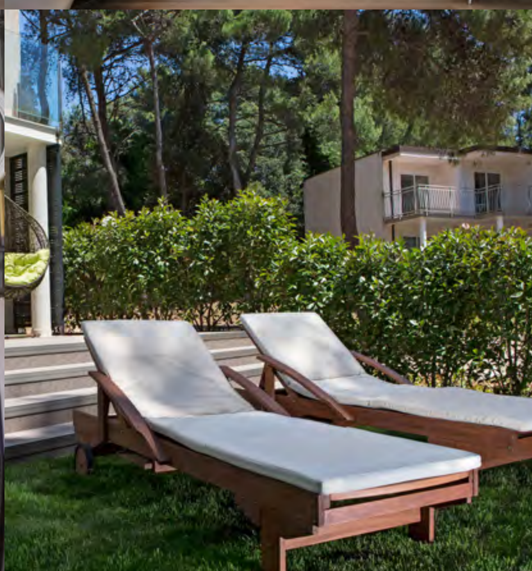

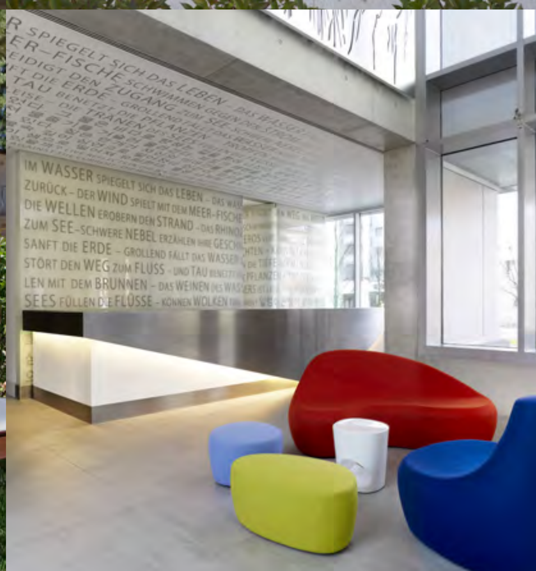
IM WASSER SPIEGELT SICH DAS LEBEN
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SANFT DIE ERDE – GROLLEND FÄLLT DAS WASSER
STÖRT DEN WEG ZUM FLUSS – UND TAU
LEN MIT DEM BRUNNEN – DAS WEINEN DES WASSERS
SEES FÜLLEN DIE FLÜSSE – KÖNNEN WOLKEN

HOSPITALITY GROUP

ARENA HOSPITALITY GROUP d.d.

(Joint Stock Company Incorporated under the Laws of the Republic of Croatia)

PROSPECTUS

Public offering issue and listing of up to 2,000,000 Offer Shares and listing of 1,091,250 Listing Shares

The information contained in this prospectus (**Prospectus**) relates to (i) the listing of 1,091,250 ordinary registered shares of the tourism company ARENA HOSPITALITY GROUP d.d. (the **Company**) in the nominal amount of HRK 20.00 each on the Official Market of the Zagreb Stock Exchange (**Zagreb Stock Exchange** or **ZSE**), kept with the Croatian Central Depository & Clearing Company Inc. (**CDCC**) in book-entry form, which are expected to carry the ISIN HRARNTRA0004 and the ticker ARNT-R-A following their listing on the Official Market (**Listing Shares**), and (ii) the public offering and listing of a minimum of 1,000,000 up to a maximum of 2,000,000 ordinary registered shares of the Company in the nominal amount of HRK 20.00 each, which are expected to carry the ISIN HRARNTRA0004 and the ticker ARNT-R-A following their listing on the Official Market or any other ISIN and ticker as determined by the CDCC (**Offer Shares**) in conjunction with their intended listing (**Offering**).

This Offering comprises (i) an Institutional Investors Offering in which the Offer Shares are being offered to (a) Institutional Investors in Croatia, and (b) Institutional Investors outside Croatia, subject to both an expressed interest to subscribe for the Offer Shares in a minimum amount of HRK 400,000 and an established trading line directly or indirectly with any of the Joint Global Coordinators and Bookrunners; and (ii) a Retail Investors Offering to Retail Investors in Croatia subject to a lower limit per application of HRK 1,000. The Offer Shares are being offered and sold only outside the United States in "offshore transactions" in reliance on, and as such term is defined in, Regulation S under the US Securities Act.

The price at which the Offer Shares are expected to be sold (**Offer Price**) will be determined through a bookbuilding process related to the Institutional Investors Offering, and will be set by the Company in consultation with the Joint Global Coordinators and Bookrunners, in accordance with the terms of the Offering.

The bookbuilding period for the Institutional Investors Offering is expected to take place from on or around 15 May 2017 to on or around 25 May 2017 (**Bookbuilding Period**). The application period for the Retail Investors Offering is expected to take place from on or around 15 May 2017 and to on or around 25 May 2017 (**Application Period**). The Company reserves the right to shorten the duration of the Bookbuilding Period and the Application Period. The Offer Price, the number of Offer Shares subscribed in this Offering and the total amount of the Offering is expected to be announced through the Company's website (www.arenaturist.com) on or about 26 May 2017.

Investing in the Offer Shares involves risks; therefore all prospective Investors are advised to consider Section 2 "Risk Factors".

The Offering shall be considered successful if at the expiry of both the Bookbuilding Period and the Application Period and, in the case of the Retail Investors Offering, the expiry of the deadline for payment for the Offer Shares, at least 1,000,000 Offer Shares have been subscribed for and, in the case of the Retail Investors Offering, have been paid for in accordance with the terms set out in the Public Invitation. Subject to the Offering being successful, issuance of up to 2,000,000 Offer Shares will take place following registration of the share capital increase in the court register of the Commercial Court in Pazin. Investors shall become holders of the Offer Shares by being entered into the CDCC depository and registration will be exercised in accordance with the rules of the CDCC upon registration of the share capital increase.

The Offer Shares and the Listing Shares may be traded on the Regulated Market after their listing on the Official Market of the Zagreb Stock Exchange. Following the issuance of the Offer Shares, the Company expects the Offer Shares and the Listing Shares will be listed on the Official Market of the ZSE, it being expected that the application for the listing of the Offer Shares and the Listing Shares will be submitted on or about 2 June 2017 and the trading in the Offer Shares and the Listing Shares will commence on or about 5 June 2017. The application for the listing of the Listing Shares may be submitted to the ZSE on the basis of this Prospectus at any time during the validity thereof, subject to any obligation to publish a supplemental prospectus pursuant to applicable law, and without regard to the timing of the launch of the Offering or the successful completion of the Offering.

This Prospectus is subject to an approval of Croatian Financial Services Supervisory Agency (Hrvatska agencija za nadzor financijskih usluga) (**CFSSA**).

This Prospectus is dated 26 April 2017.

Joint Global Coordinators and Bookrunners

InterCapital Securities Ltd.	**UniCredit Bank AG**	**Zagrebačka banka d.d.**

All Shares, including the Offer Shares and the Listing Shares, rank in parity with one another and carry (i) one vote each; (ii) rights to dividends and (iii) any other rights in accordance with Croatian law. The Company has not issued any preferential shares.

It is expected that the final payment date for the Offer Shares will be 25 May 2017 (16:00 CEST) in the Retail Investors Offering and 30 May 2017 (10:00 CEST) in the Institutional Investors Offering. The transfer of the Offer Shares to Investors will take place in accordance with the rules of the CDCC upon registration of the share capital increase in the court register of the Commercial Court in Pazin and registration of the Offer Shares in the CDCC depository. Trading in the Offer Shares and the Listing Shares on the ZSE is expected to commence on or around 5 June 2017. It is expected that both the Listing Shares and the Offer Shares will be traded under the ticker ARNT-R-A and ISIN HRARNTRA0004, following their listing on the Official Market, or under any other ISIN and ticker as determined by the CDCC.

Before continuing, prospective Investors are urged to carefully read and get familiar with the abbreviations and definitions of certain terms used throughout this Prospectus. For the abbreviations and definitions of such terms, see Section 22 "*Definitions and Glossary*" beginning on page 197 of this Prospectus.

The Company, the members of the Board of Directors and the Executive Directors accept responsibility for the information contained in this Prospectus. To the best knowledge and belief of the Company, the members of the Board of Directors and the Executive Directors (having taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Prospectus has been prepared to comply with the Croatian Capital Markets Act (Official Gazette 88/08, 146/08, 74/09, 54/13, 159/13, 18/15, 110/15 and 123/16) (**Croatian Capital Markets Act** or **CMA**) and the Commission Regulation (EC) no. 809/2004 of 29 April 2004 (**Regulation**) implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements (**EU Prospectus Directive**). This Prospectus has been prepared in the Croatian language and only the Croatian language version of this Prospectus is subject to the approval of the CFSSA. Any unofficial translation of this Prospectus into English language is not and shall not be subject to the approval of the CFSSA or any other regulatory authority. Such unofficial translation is not a substitute for the original Croatian version of the Prospectus, is prepared for informational purposes only, for the convenience of non-Croatian potential Investors, and should not be relied upon by such Investors. The CFSSA shall not control or approve the accuracy, completeness or truthfulness of the information included in this Prospectus including the information about the Company's or the Group's affairs. The CFSSA's approval relates to the information included herein as being prepared in accordance with the disclosure requirements.

The information contained herein is current as of the date hereof and subject to change and amendment without further notice. In accordance with the CMA, the EU Prospectus Directive and the Regulation, significant new factors, material mistakes or inaccuracies relating to the information included in this Prospectus, which are capable of affecting the assessment of the Offer Shares from the time when this Prospectus is approved until the date of commencement of trading of the Listing Shares and the Offer Shares on the Zagreb Stock Exchange, will be included in a supplement to this Prospectus. Neither the publication nor distribution of this Prospectus, nor any sale of Offer Shares made hereunder, shall under any circumstances create any implication that there has been no change in the Group's affairs or that the information herein is correct as of any date subsequent to the date of this Prospectus.

The Joint Global Coordinators and Bookrunners make no representation or warranty, whether express or implied, concerning, and accordingly they disclaim all and any responsibility for the Company's future performance or the accuracy or completeness or reliability of the information contained in this Prospectus apart from the responsibilities and liabilities, if any, which may be imposed by the CMA, the EU Prospectus Directive and the Regulation or the regulatory regime established thereunder. No person is authorised to give any information or to make any representation in connection with the Offering other than as contained in this

Prospectus or any supplementary prospectus produced to supplement the information contained in this Prospectus.

INTERCAPITAL securities Ltd. and Zagrebačka banka d.d. which are regulated in the Republic of Croatia by the CFSSA and the CNB, respectively, and UniCredit Bank AG, London Branch, which is authorised by the Bundesanstalt für Finanzdienstleistungsaufsicht (financial regulatory authority in Germany) and subject to limited regulation by the Financial Conduct Authority (financial regulatory authority in the United Kingdom), are acting exclusively for the Company and no one else in connection with the Offering and will not be responsible to anyone other than the Company for providing the protections afforded to clients of the Joint Global Coordinators and Bookrunners, nor for providing advice to any other person in relation to the Offering.

Prospective Investors should only rely on the information contained in this Prospectus and any supplementary prospectus produced to supplement the information contained in this Prospectus. No person has been authorised to give any information or make any representations in connection with the Offering other than those contained in this Prospectus or any supplementary prospectus produced to supplement the information contained in this Prospectus, and, if given or made, such information must not be relied upon as having been authorised by the Company.

The contents of the Company's website do not form part of this Prospectus.

In making an investment decision, each Investor must rely on their own examination, and analysis of, and estimate of, and enquiry into the Group and the terms of the Offering, including the merits and potential risks inherent to the investment. Neither the Company nor the Joint Global Coordinators and Bookrunners, or any of their respective representatives or advisers, is making any representation to any Investor regarding the legality of an investment in the Offer Shares by such Investor under the laws applicable to such Investor. Each Investor should consult with his or her own advisors as to the legal, tax, business, financial and related aspects of a purchase of the Offer Shares.

The distribution of this Prospectus and the offering and sale of the Offer Shares in certain jurisdictions may be restricted by law. This Prospectus does not constitute an offer of, or an invitation to purchase, any of the Offer Shares in any jurisdiction in which such offer or sale would be unlawful. No action has been taken to permit this Offering to occur outside of the Republic of Croatia, and thus, subject to exemptions set out in *Section 7 "Selling and Transfer Restrictions"*, the offer of the Offer Shares to the public, following the approval of this Prospectus by the CFSSA, shall be carried out exclusively on the territory of the Republic of Croatia. Accordingly, neither this Prospectus nor any advertisement or any other offering material may be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. The Company and each Joint Global Coordinator and Bookrunner require persons in possession of this Prospectus to inform themselves about and to observe any such restrictions. Any failure to comply with any such restrictions may constitute a violation of the securities laws or regulations of any such jurisdictions.

The Offer Shares may be subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under applicable securities laws and regulations. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. Investors should be aware that they may be required to bear the financial risks of the investment for an indefinite period of time which they must consider in making their investment decision.

THE OFFER SHARES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE US SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION IN THE UNITED STATES, AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN APPLICABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE US SECURITIES ACT AND IN COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS. THIS PROSPECTUS HAS NOT BEEN APPROVED NOR REVIEWED BY THE US SECURITIES AND

EXCHANGE COMMISSION AND IS NOT FOR GENERAL DISTRIBUTION IN THE UNITED STATES. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

For further information on the manner of distribution of the Offer Shares and the selling and transfer restrictions to which they are subject, see *Section 7 "Selling and Transfer Restrictions"*.

The Company accepts responsibility for the content of this Prospectus. In the Company's opinion and in accordance with the findings and data that the Company uses, the information contained in this Prospectus represents the true and complete status of the Company's assets and obligations, profit and loss and financial status and the rights included in the Shares, and no fact, that to the best of the Company's knowledge may affect the completeness and truthfulness of this Prospectus, has been left out. The truthfulness and completeness of the information contained in this Prospectus is confirmed as at the date of this Prospectus, unless otherwise explicitly stated in the Prospectus. The Company notes that information contained in this Prospectus related to the business activity of the Company, its financial status and operational results may change after the date of this Prospectus.

This Prospectus and the terms and conditions of the Offering as set out herein shall be governed by and construed in accordance with Croatian law. Croatian courts shall have exclusive jurisdiction to settle any dispute which may arise out of or in connection with the Offering or this Prospectus.

This document is an unofficial English translation of the Croatian Prospectus. This translation is for informational purposes only, has no legal effect and should not be relied upon. It has been prepared solely for the convenience of non-Croatian potential Investors in the Company and is not a substitute for the original Croatian version of the Prospectus.

The only official version of the Prospectus is the Croatian version as approved by CFSSA and available in electronic form on the website of the Company (www.arenaturist.com) and the website of the ZSE (www.zse.hr) and in hard copy at the Company's premises (Pula, Smareglina ulica 3, Croatia). This English translation has not been registered with or approved by CFSSA.

Accordingly, any prospective Investor should also refer to the official Croatian version and seek appropriate professional advice before investing. While this English translation is believed to be generally accurate, it is subject to and qualified by, in its entirety, the official Croatian-language original version approved by CFSSA, which is the prevailing document for all purposes. Any discrepancies or differences created in the translation are not binding and none of the Company or the Joint Global Coordinators and Bookrunners makes any warranties or representations about the accuracy or completeness of this English translation and assumes no liability for any errors, omissions or inaccuracies in this English translation. This English translation does not contain or constitute, and should not be relied upon as, an offer or invitation or recommendation to make an offer or to acquire any securities in any jurisdiction.

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Each of the dates given below is subject to change without further notice. However, any changes to the below timetable of events will be timely communicated to the public in the Public Invitation, or, as the case may be, through the website of the court register, the website of the Company, the ZSE's website or in another appropriate way set out in the Public Invitation.

Date (on or around)	***Action***
12 May 2017	Public Invitation and Subscription Statement made available
15 May 2017 (9:00 CEST) – 25 May 2017 (14:00 CEST)	Application Period for the Retail Investors Offering
15 May 2017 (9:00 CEST) – 25 May 2017 (12:00 CEST)	Bookbuilding Period for the Institutional Investors Offering
25 May 2017 (16:00 CEST)	Final payment deadline for the Retail Investors Offering
26 May 2017	Announcement of the Offer Price and the successful completion of the Offering
30 May 2017 (10:00 CEST)	Final payment deadline for the Institutional Investors Offering
1 June 2017	Registration in the court register of the Commercial Court of Pazin
2 June 2017	Delivery of the Offer Shares
2 June 2017	Application for the listing of the Offer Shares and the Listing Shares on the Official Market
5 June 2017	Commencement of trading of the Offer Shares and the Listing Shares on the Official Market

CONTENTS

PART 1

SUMMARY

Summaries are made up of disclosure requirements known as "Elements". These Elements are numbered in Sections A-E (A.1 – E.7). This Summary contains all the Elements required to be included in the Summary for this type of security and the issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements. Even though an Element may be required to be inserted, it is possible that no relevant information can be given regarding the relevant Element. In this case a short description of the Element is included in the Summary with the mention of "not applicable".

SECTION A – INTRODUCTION AND WARNINGS		
A.1	Warning	This Summary should be read as an introduction to the Prospectus. Any decision to invest in the securities should be based on consideration of the Prospectus as a whole by the Investor. Where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the EU Member States, have to bear the costs of translating the Prospectus before the legal proceedings are initiated. Civil liability may only attach to those persons who produced this Summary, including any translation thereof, but only if the Summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus or if this Summary does not provide, when read together with the other parts of the Prospectus, key information in order to aid Investors when considering whether to invest in the Offer Shares.
A.2	Consent for the use of the Prospectus for subsequent resale or final placement of securities by financial intermediaries	Not applicable, as the Company has not envisaged the use of the Prospectus for subsequent resale or final placement of securities by financial intermediaries.

SECTION B – ISSUER		
B.1	Legal and commercial name of the Company	Arena Hospitality Group d.d. za turizam i ugostiteljstvo (abbreviated company name: Arena Hospitality Group d.d.)
B.2	The domicile and legal form of the Company, the legislation the Company operates and its country of incorporation	The Company is a joint stock company incorporated in the Republic of Croatia. The Company's registered seat is in Pula, Smareglina ulica 3, Croatia. The Company operates under the legislation of the Republic of Croatia and the EU *acquis communautaire*.
B.3	Key factors relating to the nature of the Company's operations, principal activities of the Company and the principal markets in which the Company participates	Through a variety of ownership and operational structures, the Company (directly or through its subsidiaries) operates and develops full-service hotels and self-catering holiday apartment resorts in the upscale, upper upscale and lifestyle market classes. The Company's hotels and resorts are located in select holiday destinations in Croatia and in major gateway cities and regional centres in Germany and Hungary. The Company also co-owns and operates campsites on the southern coast of the Istrian peninsula in Croatia. Most of the Company's hotels and one resort operate under the Park Plaza® and art'otel® brands. The Company has an ownership and/or operational interest in 15 hotels and four resorts offering a total of 3,974 units, including hotel rooms, suites and apartments, and eight campsites offering a total of 6,075 units, including pitches, mobile homes, and apartments. The Company owns, partially owns or co-owns all except one of the Croatian properties. The Company owns or co-owns five hotels in Germany. More specifically, the Company has an 88 per cent. ownership interest in the Sugarhill Group which owns the freehold and operational rights to three hotels, owns 50 per cent. of two 50/50 joint ventures which each own one hotel, leases one property and operates one property. The Company, through a subsidiary, leases one property in Hungary. All properties are operated by a single management company – Arena Hospitality.

B.4a — Most significant recent trends

The hotel industry in Germany and Croatia has recently enjoyed strong growth across the key industry indicators such as number of arrivals and overnight stays, tourist spending and RevPAR in hotels, particularly in Croatia. One of the key reasons Croatian tourism has experienced strong growth is that the key source markets from which guests originate are in high-income countries such as Germany, Austria and the Netherlands.

B.5 — Description of the Group

The Company is the parent company of the Group, which consists of 20 entities incorporated in Croatia, Germany, Hungary and the Netherlands, as presented in the following table:

The Company's subsidiaries as at the date of this Prospectus(3)

Company Name	*Country of Registered Seat*	*Percentage of the share capital*
Germany Real Estate B.V.	The Netherlands	100.00
ABK Hotel Holding B.V.	The Netherlands	100.00(1)
ACO Hotel Holding B.V.	The Netherlands	100.00(1)
Ulika d.o.o.	Croatia	100.00
Mažurana d.o.o.	Croatia	100.00
Sugarhill Investments B.V.	The Netherlands	88.00
PPHE Germany Holdings GmbH	Germany	88.00(2)
PPHE Nürnberg Operator Hotelbetriebsgesellschaft mbH	Germany	88.00(2)
Park Plaza Germany Holdings GmbH	Germany	88.00(2)
Park Plaza Nürnberg GmbH	Germany	88.00(2)
Park Plaza Hotels Berlin Wallstraße GmbH	Germany	88.00(2)
art'otel berlin city center west gmbH	Germany	88.00(2)
art'otel Köln Betriebsgesellschaft mbH	Germany	88.00(2)
SW Szállodaüzemeltető Kft	Hungary	88.00(2)
Park Plaza Betriebsgesellschaft mbH	Germany	44.00(2)
art'otel Berlin-Mitte / Park Plaza Betriebsgesellschaft mbH	Germany	44.00(2)
Arena Hospitality Management d.o.o.	Croatia	88.00(2)
Park Plaza Hotels (Germany) Services GmbH	Germany	88.00(2)
PPBK Hotel Holding B.V.	The Netherlands	44.00(2)
ABM Hotel Holding B.V.	The Netherlands	44.00(2)

Source: Group Data

Notes:

(1) Indirect shareholding via Germany Real Estate B.V.

(2) Indirect shareholding via Sugarhill Investments B.V.

(3) The Group's joint ventures are not consolidated in the Group Financial Statements.

The Group engaged in a number of significant transactions in 2016 and early 2017, including but not limited to:

(i) the acquisition of its 88 per cent. interest in the Sugarhill Group (the **Sugarhill Contribution**) together with the accompanying amendment, restatement and novation of the Group's existing operating agreements for its Croatian, German and Hungarian properties (the **Operational Restructuring**); and

(ii) the purchase of the freeholds of art'otel cologne and art'otel berlin kudamm by the Group, which were completed in February 2017.

The table above reflects these transactions to the extent they are relevant to the Group's structure.

B.6 — Interests in the Company's capital and voting rights

As at 22 March 2017, and based on the status as registered with the CDCC, the Company had 4,152 shareholders.

The shareholders of the Company holding five or more percent of the Shares are:

(i) Dvadeset Osam d.o.o. (100 per cent. indirectly owned subsidiary of PPHE) controls the Company holding 2,523,593 ordinary registered shares of the Company representing 77.09 per cent. of the Company's share capital; and

(ii) AZ pension funds i.e. AZ obvezni mirovinski fond kategorije B (*AZ obligatory category B pension fund*) and AZ obvezni mirovinski fond kategorije A (*AZ obligatory category A pension fund*) jointly and directly hold 190,761 ordinary registered shares of the Company representing 5.83 per cent. of the Company's share capital.

As at 22 March 2017, out of a total of 4,152 shareholders of the Company, 4,142 shareholders held 352,625 ordinary registered shares of the Company representing 10.77 per cent. of the Company's share capital.

The Company holds 169 shares of the Company in treasury representing 0.01 per cent. of the Company's share capital as at 22 March 2017.

All Shares provide equal voting rights.

B.7	Selected historical key financial information	Selected key historical financial information is presented below. The reporting currency selected by the Group and the Sugarhill Group for the purpose of financial reporting in accordance with IFRS is HRK (Croatian Kuna). Unless otherwise noted, all convenience translations from HRK into EUR in this Prospectus were made at a rate of HRK 7.56 to EUR 1.00, the midpoint exchange rate as at 31 December 2016, which was also used by the Company in preparing the Group Financial Statements in accordance with IFRS. This Prospectus also contains translations of HRK amounts into EUR using the CNB sourced midpoint HRK/EUR rate on the dates specified herein. The following tables present key financial information of the Group and have been derived from the consolidated financial statements of the Group as at and for the years ended 31 December 2016, 2015 and 2014, together with the notes thereto. The Group Financial Statements have been prepared in accordance with IFRS as adopted in the EU.

Consolidated income statements for the Group[(1)]

	For the year ended 31 December			
	2016 (HRK thousands)	*2016 (EUR thousands)*	*2015 (HRK thousands)*	*2014 (HRK thousands)*
Revenue	435,871	57,655	402,759	354,167
Operating expenses	(295,100)	(39,034)	(277,047)	(255,932)
EBITDAR	140,771	18,621	125,712	98,235
Rental expenses and land concession fees	(8,748)	(1,157)	(8,771)	(8,903)
EBITDA	132,023	17,463	116,941	89,332
Depreciation, amortisation and impairment	(222,511)	(29,433)	(59,586)	(69,410)
EBIT	(90,488)	(11,969)	57,355	19,922
Financial expenses	(41,007)	(5,424)	(32,385)	(29,447)
Financial income	136	18	59	95
Other income and expenses	(6,612)	(875)	(1,297)	(1,416)
(Loss)/profit before tax	(137,971)	(18,250)	23,732	(10,846)
Income tax benefit/(expense)	23,716	3,137	(5,793)	(1,951)
(Loss)/profit for the year	(114,255)	(15,113)	17,939	(12,797)

Consolidated statements of financial position of the Group[(1)]

	As at 31 December			
	2016 (HRK thousands)	*2016 (EUR thousands)*	*2015 (HRK thousands)*	*2014 (HRK thousands)*
Non-current assets	1,468,819	194,288	1,313,919	1,304,464
Current assets	177,701	23,505	159,344	111,085
Total assets	1,646,520	217,794	1,473,263	1,415,549
Total equity	804,244	106,381	837,728	819,819
Non-current liabilities	585,380	77,431	567,942	527,377
Current liabilities	256,896	33,981	67,593	68,353
Total liabilities	842,276	111,412	635,535	595,730
Total equity and liabilities	1,646,520	217,794	1,473,263	1,415,549

Consolidated statements of cash flow for the Group (1)

	For the year ended 31 December			
	2016 (HRK thousands)	*2016 (EUR thousands)*	*2015 (HRK thousands)*	*2014 (HRK thousands)*
Cash flows from operating activities	118,119	15,624	93,410	82,375
Cash flows from investing activities	(157,942)	(20,892)	(72,124)	(147,032)
Cash flows from financing activities	22,442	2,969	28,219	95,925
Increase in cash and cash equivalents	(17,381)	(2,299)	49,505	31,268
Cash and cash equivalents at beginning of year	147,787	19,549	98,282	67,014
Cash and cash equivalents at end of year	130,406	17,249	147,787	98,282

Source: Group Financial Statements

Notes:

(1) Because the Sugarhill Contribution involved the combination of businesses under common control, it was not a business combination within the scope of IFRS 3. The retrospective predecessor method of accounting could be applied as of 1 April 2016, the date that Sugarhill Group became part of the group of companies under common control. However, the Company believes that accounting method would have not improved the quality of information provided to investors in the current year and in coming years. For this reason the prospective method has been applied for the acquisition of the Sugarhill Group. Accordingly, the Group Financial Statements reflect the Group's results of operations for the years ended 31 December 2016, 2015 and 2014, which do not include the Sugarhill Group. However, the Group's consolidated statement of financial position as at 31 December 2016 does give effect to the Sugarhill Contribution, as will the Group's financial statements for the periods after 31 December 2016. Consequently, the Group's statement of financial position as at 31 December 2016 is not directly comparable to the Group's statements of financial position as at 31 December 2015 and 2014.

Analysis of Key Performance Indicators for the Group

The unaudited KPIs set forth below have been derived from the Group Financial Statements and operating data.

Key performance indicators for the Group

	Year ended 31 December		
	2016	*2015*	*2014*
OCC (%)(1)	45.3	44.2	45.9
Average room rate (HRK)(2)	472.4	445.4	406.5
RevPAR (HRK)(3)	213.9	196.8	186.5
Adjusted profit before tax (HRK thousands)(4) (5)	42,749	25,029	3,792

Source: Group Data

Notes:

(1) Represents total paid units occupied divided by total available units, which is the number of units in a hotel eliminating units not available due to damage, repairs or any other reason, based on 365 days in a year.

(2) Represents total room revenues divided by the total number of paid units occupied by hotel guests.

(3) Calculated by dividing total room revenue by the total available units. Available units is the number of units in a hotel during the period that the hotel is open during the year, eliminating units not available due to damage, repairs or any other reason.

(4) Profit before tax, adjusted for effects of events and transactions that, in the view of the Company, are unusual or one-off in nature.

(5) Adjusted profit before tax is not a measure of performance under IFRS and should not be considered by prospective Investors as an alternative to the related IFRS measure of performance.

The following tables present key financial information of the Sugarhill Group and have been derived from the combined financial statements of the Sugarhill Group as at and for the years ended 31 December 2016, 2015 and 2014, together with the notes thereto. The Sugarhill Financial Statements have been prepared in accordance with IFRS as adopted in the EU on a basis consistent with that used in the preparation of the Group Financial Statements.

Income statement for the Sugarhill Group

	For the year ended 31 December			
	2016 (HRK thousands)	*2016 (EUR thousands)*	*2015 (HRK thousands)*	*2014 (HRK thousands)*
Revenues	202,005	26,720	187,186	175,148
Operating expenses	(144,805)	(19,154)	(132,132)	(121,147)
EBITDAR	57,200	7,566	55,054	54,001
Rental expenses	(43,199)	(5,714)	(53,840)	(46,277)
EBITDA	14,001	1,852	1,214	7,724
Depreciation	(3,656)	(484)	(1,893)	(2,323)
EBIT	10,345	1,368	(679)	5,401
Financial expenses	(7,038)	(931)	(5,874)	(5,585)
Financial income	826	109	910	977
Other income	(3,774)	(499)	–	13,570
Share in result of joint ventures	(650)	(86)	1,605	1,899
Profit/(Loss) before tax	(291)	(38)	(4,038)	16,262
Profit tax (benefit) charge	(6,248)	(826)	5,579	(160)
Profit/(Loss) for the year	(6,539)	(865)	1,540	16,102

Balance sheet for the Sugarhill Group

	As at 31 December			
	2016 (HRK thousands)	*2016 (EUR thousands)*	*2015 (HRK thousands)*	*2014 (HRK thousands)*
Non-current assets	267,844	35,429	208,748	134,477
Current assets	59,010	7,806	36,169	47,141
Total assets	326,854	43,235	244,917	181,618
Total equity	189,216	25,029	(92,883)	(95,301)
Non-current liabilities	8	1	223,656	189,098
Current liabilities	137,630	18,205	114,145	87,821
Total liabilities	137,638	18,206	337,801	276,919
Total equity and liabilities	326,854	43,235	244,917	181,618

Statement of cash flow for the Sugarhill Group

	For the year ended 31 December			
	2016 (HRK thousands)	*2016 (EUR thousands)*	*2015 (HRK thousands)*	*2014 (HRK thousands)*
Cash flow from operating activities	3,104	411	(1,883)	1,933
Cash flow from investing activities	(71,250)	(9,425)	(56,828)	(52,012)
Cash flow from financing activities	89,685	11,863	50,969	37,006
Increase in cash and cash equivalents	21,539	2,849	(7,742)	(13,073)
Cash and cash equivalents at beginning of year	16,483	2,180	24,280	37,835
Cash and cash equivalents at end of year	37,932	5,017	16,483	24,280

Source: Sugarhill Financial Statements

		Analysis of Key Performance Indicators for the Sugarhill Group The following table sets out the Sugarhill Group's key performance indicators for 2016, 2015 and 2014 on a 365-day basis.

Key performance indicators for the Sugarhill Group

	2016	*2015*	*2014*
		(HRK except %)	
Germany			
ADR	726.6	659.5	597.6
OCC	70.1%	82.6%	83.6%
RevPAR	509.7	544.4	499.7
Hungary			
ADR	564.9	545.3	478.5
OCC	80.8%	79.3%	79.6%
RevPAR	456.5	432.7	381.1
Sugarhill Group			
ADR	689.4	633.4	570.6
OCC	72.3%	81.8%	82.7%
RevPAR	498.7	518.2	471.8

Source: Group Data

Current Trading and Prospects

Between 1 January and 28 February 2017, the Group's revenues were significantly ahead of the corresponding period in 2016 principally due to the consolidation of the Sugarhill Group's operating results for the first time.

In Germany and Hungary revenues were significantly ahead for the period reflecting both the operation of Park Plaza Nuremberg during the period (following its opening in June 2016) and solid performance in the Group's other hotels in Germany and Hungary. The increased revenues in the Group's existing German and Hungarian hotels reflected both higher ADR and OCC on an operating day basis. EBITDA for the Group's German and Hungarian hotels is ahead of last year and in line with management's expectations.

In February 2017, the Group completed its acquisition of freehold interests in art'otel cologne and art'otel berlin kudamm. Until that time, the Group operated those two properties pursuant to operating leases with third parties. The acquisitions were in part financed by a EUR 10 million loan facility with Versorgungswerk der Zahnärztekammer Berlin (VZB), a EUR 38 million loan facility with Deutsche Hypo and two loan facilities totalling up to EUR 11 million provided by Euro Sea, a member of the PPHE Hotel Group.

As was the case in 2016, only one of the Group's Croatian hotels, Park Plaza Belvedere Medulin, was in operation during the two month period and, as has historically been the case, the Group's Croatian business was loss-making during the two month period and is expected to be loss-making for the first quarter of 2017. The Group's Croatian revenues for the two month period were largely flat when compared to the corresponding period in 2016. However, the Company expects a strong summer season, with reservations for its Croatian hotels up as at 28 February 2017, when compared to the comparable date in 2016.

During the period, the Group has continued work in relation to: (i) refurbishing Hotel Holiday; (ii) installing a third swimming pool and constructing two all-weather football pitches at Park Plaza Belvedere Medulin; and (iii) constructing a new reception building at Stupice Camp. In each case, the work is expected to be completed by the start of the 2017 summer season.

Save for the foregoing, there has been no significant change in the financial or trading position of the Group since 31 December 2016, the date to which the last audited consolidated financial information of the Group was prepared.

B.8	Selected key pro forma financial information	The following selected unaudited pro forma consolidated income statement information for the year ended 31 December 2016 and related notes have been prepared to illustrate the effect of (i) the Sugarhill Contribution in conjunction with the Operational Restructuring and (ii) the acquisition of the freehold interests in art'otel cologne and art'otel berlin kudamm, as if each had taken place on 1 January 2016. This pro forma financial information has been prepared in accordance with Annex II to the Regulation and in a manner consistent with the accounting policies applied in preparing the Group Financial Statements. The pro forma financial information has been prepared for illustrative purposes only, and because of its nature, addresses a hypothetical situation and, therefore, does not represent the Group's actual financial position or results. It may not, therefore, give a true picture of the Group's financial position or results, nor is it indicative of the results that may, or may not, be expected to be achieved in the future.

Unaudited pro forma consolidated income statement for the financial year ended 31 December 2016

	Group	*Pro Forma Adjustments*				*The Group Pro Forma*
		Sugarhill Contribution and Operational Restructuring			*Germany Freehold Acquisition*	
(HRK thousands)		*Sugarhill Group*	*Operational Restructuring*	*Sugarhill Contribution and Restructuring*		
	Note 1		*Note 2*		*Note 3*	
Revenues	435,871	202,005	(4,223)	197,782	–	633,653
Operating expenses	(295,100)	(144,805)	23,967	(120,838)	–	(415,938)
EBITDAR	140,771	57,200	19,744	76,944	–	217,715
Rental expenses	(8,748)	(43,199)	–	(43,199)	19,230	(32,717)
EBITDA	132,023	14,001	19,744	33,745	19,230	184,998
Depreciation	(222,511)	(3,656)	–	(3,656)	(9,488)	(235,655)
EBIT	(90,488)	10,345	19,744	30,089	9,742	(50,657)
Financial Expenses	(41,007)	(7,038)	–	(7,038)	(16,182)	(64,277)
Financial Income	136	826	–	826	–	962
Other income and expense	(6,612)	(3,774)	–	(3,774)	–	(10,386)
Share in result of joint ventures	–	(650)	–	(650)	–	(650)
(Loss)/ profit before tax	(137,971)	(291)	19,744	19,453	(6,440)	(124,958)
Income taxes	23,716	(6,248)	(3,949)	(10,197)	–	13,519
(Loss)/Profit after tax	(114,255)	(6,539)	15,795	9,256	(6,440)	(111,439)
Loss is attributable to:						
Owners of the Company	(114,255)					(112,550)
Non-controlling interest						1,111

Source: Group Data

(1) Extracted from the Group Financial Statements without material adjustment.

(2) Adjustments for the effect of the Sugarhill Contribution in conjunction with the Operational Restructuring, as though each had occurred on 1 January 2016. Amounts related to the Sugarhill Contribution have been extracted from the Sugarhill Financial Statements without material adjustment.

(3) Adjustments for the effect of the freeholds of art'otel cologne and art'otel berlin kudamm as though they had occurred on 1 January 2016. In February 2017, the Group completed its acquisition of freehold interests in art'otel cologne and art'otel berlin kudamm, which the Sugarhill Group previously leased from the owners and operated pursuant to operating leases.

B.9	Profit targets/estimates	Not applicable. The Company has not included profit forecasts or estimates in the Prospectus.
B.10	Qualifications in the audit report on the historical financial information	Not applicable. There are no qualifications made in the audit report.
B.11	Working capital	Not applicable. The Company is of the opinion that the working capital available to the Group is sufficient for the Group's present requirements and, in particular, is sufficient for the period covering at least 12 months from the date of this Prospectus.

SECTION C – SECURITIES		
C.1	Type and class of securities being offered and/or admitted to trading and an identification number	This Prospectus relates to (i) the listing of 1,091,250 ordinary registered shares of the tourism company ARENA HOSPITALITY GROUP d.d. (the **Company**) in the nominal amount of HRK 20.00 each on the Official Market, kept with the CDCC in book-entry form, which are expected to carry the ISIN HRARNTRA0004 and the ticker ARNT-R-A following their listing on the Official Market (**Listing Shares**), and (ii) the public offering and listing of a minimum of 1,000,000 up to a maximum of 2,000,000 ordinary registered shares of the Company in the nominal amount of HRK 20.00 each, which are expected to carry the ISIN HRARNTRA0004 and the ticker ARNT-R-A following their listing on the Official Market or any other ISIN and ticker as determined by the CDCC (**Offer Shares**) in conjunction with their intended listing (**Offering**).
C.2	Currency of the securities issue	The Shares (including the Listing Shares and the Offer Shares) are and will be denominated in HRK.
C.3	The number of shares issued and the indication whether or not the issued shares have par-value	As of the date of this Prospectus, the Company's share capital amounts to HRK 65,475,000.00 and consists of 3,273,750 ordinary registered shares in the nominal amount of HRK 20.00 each, all fully paid-up, which includes 2,182,500 shares that are listed on the Official Market (**Listed Shares**) and the Listing Shares. The Listed Shares and the Listing Shares are issued in dematerialised form and deposited with the CDCC as ordinary registered shares under the ticker ARNT-R-A and ISIN HRARNTRA0004 (Listed Shares) and under the ticker ARNT-R-B and ISIN HRARNTRB0003 (Listing Shares). Following their listing on the Official Market, the Listing Shares are expected to carry the ISIN HRARNTRA0004 and the ticker ARNT-R-A.
C.4	A description of the rights attached to the securities	As of the date of this Prospectus, there are no different classes of shares in the Company. All of the Shares are ordinary shares. Pursuant to the Croatian Companies Act and the Articles of Association, the Listed Shares and the Listing Shares carry the following rights: ● the right to participate and to vote at the General Assembly; ● the right to receive dividends. The General Assembly determines the use of the net profit of the Company in each financial year. The General Assembly may decide that the net profit of the Company is paid to the shareholders and/or allocated to reserves and/or retained. The dividend payable to each shareholder shall be in proportion to the holding of each shareholder in the share capital of the Company; ● a pre-emptive right to subscribe in case of an issue of new shares, although the General Assembly may decide to exclude such rights in whole or in part, in accordance with the conditions prescribed by the Croatian Companies Act and other relevant regulations; ● an entitlement to payment from remaining liquidation or bankruptcy estate of the Company, in accordance with the Croatian Companies Act and other relevant regulations; and ● the right to receive information concerning the business of the Company and other management and property rights of holders of the shares resulting from the provisions of the Croatian Companies Act and other relevant regulations. Each shareholder of the Company is entitled to exercise one vote per share and the Shares do not confer different voting rights. The Offer Shares shall carry the same rights as the Listed Shares and the Listing Shares. There are no restrictions on the right to hold the Shares. In addition, there are no restrictions on foreign citizens' or non-residents' rights to hold Shares or exercise the voting rights attached thereto.
C.5	A description of any restrictions on the free transferability of the securities	Following the issue thereof, the Offer Shares shall be freely transferable. It is expected that the Listing Shares and the Offer Shares shall be admitted to trading on the Official Market and thereafter shall also be freely transferable in accordance with the applicable laws (including rules and regulations of the Zagreb Stock Exchange).
C.6	Admission of the securities to trading on a regulated market	This is a public offering of the Offer Shares and at the time of publication of this Prospectus it is not possible to trade in the Offer Shares. At the time of publication of this Prospectus it is not possible to trade in the Listing Shares through the Regulated Market. The General Assembly passed on 22 March 2017 its decision on the listing of the Listing Shares and the Offer Shares on the Official Market for the purpose of trading through the Regulated Market. An application for the listing of the Listing Shares and the Offer Shares on the Official Market is expected to be submitted on or about 2 June 2017 and the trading in the Listing Shares and the Offer Shares is expected to commence, subject to the Zagreb Stock Exchange's approval of the listing, on or about 5 June 2017. It is expected that both the Listing Shares and the Offer Shares will be traded under the ticker ARNT-R-A and ISIN HRARNTRA0004, following their listing on the Official Market, or under any other ISIN and ticker as determined by the CDCC. However, the Company does not guarantee that the admission of the Listing Shares and the Offer Shares on the Official Market will take place. The Company has not applied for admission to trading of its Shares on any other stock exchange or regulated market.

C.7	Dividend policy	The Company intends to retain its future earnings for use in, and to grow, the business and therefore does not envisage paying any dividends for at least 18 months following the Offering. The Company will keep this policy under review in light of the growth opportunities available to the Group and may revise it from time to time. Historically, the Company has never paid dividends. As at 31 December 2016, the Company had HRK 91.0 million in accumulated losses and consequently, as a matter of Croatian law, is currently restricted from paying dividends. Any distribution of dividends will be subject to compliance with certain provisions in its loan agreements. In addition to the Croatian legal considerations discussed below, the amount of future dividend payments, if any, will depend upon the Group's future earnings, financial condition, cash flows, working capital requirements, capital expenditure plans and other factors. Any distribution of dividends will need to be in accordance with the provision of the Croatian Companies Act.

SECTION D – RISKS		
D.1	Key information on the key risks that are specific to the Company or its industry	Any investment in securities is associated with risk. Prior to any investment decision, it is important to carefully analyse the risk factors considered relevant to the future development of the Company and the Shares. These risks include, among others, the following main industry and business related risks: ● The Group is reliant on its relationships with the PPHE Hotel Group, its largest indirect shareholder, and Carlson to operate its business, including for access to the right to operate and develop any new Park Plaza branded property, sales, marketing and central services support and Carlson's reservation system. The Group's operational success and ability to execute its growth strategy will depend significantly upon the satisfactory performance of these services and the ongoing strength and continuity of the relationship with the PPHE Hotel Group and the indirect relationship with Carlson. ● The Group's business in Croatia is highly seasonal. This high degree of seasonality increases the impact of certain weather events on the Group's operating results should certain weather events occur during the high season for the Croatian properties. ● The status and extent of the Company's co-ownership of its campsites and ownership interest in relation to three of its resorts, as well as the amount of the concession fees payable in relation to those properties, under the Tourist Land Act is uncertain. These issues are currently subject to a variety of proceedings. Should the proceedings not be resolved in the Company's favour, this could have a material adverse effect on the Group's business, financial condition and results of operations. ● The Group is subject to certain macroeconomic and other factors common to the hospitality industry that could adversely affect its business such as adverse effect of economic, political and market conditions or other factors that could adversely affect the demand of travels; acts of terrorism; increased competition and periodic oversupply; seasonal and cyclical nature of the demand for hotel rooms, which may contribute to fluctuations in the Group's financial condition and results of operations; increases in operating expenses; and changes in the regulatory and taxation environment. The Group has a concentration of properties in Pula, Croatia and Berlin, Germany which exposes it to risks of adverse economic and other developments in those cities that will have greater impact than if the Group's portfolio were more geographically diverse. ● The Group relies on the reputation and awareness of the brands under which it operates. An event that materially damages the reputation or awareness of such brands or a material failure to sustain the appeal of the brands could have a negative effect on the value of the brand and subsequent revenue therefrom. ● The growth of online distribution channels and competition from general search engine companies and short term private lodging companies may reduce traffic to the Group's own distribution channels. This trend may significantly reduce the number of the Group's direct bookings and make it easier for customers to book accommodation with competitors of the Group. If such search engines and online distribution channels are successful in reducing traffic to the Group's own distribution channels, the Group's business and profitability could be adversely affected. Moreover, given the amount of units sold through online distribution channels, the Group is to a certain extent dependent on such distribution channels. Any interruptions in the relationships with online distribution channels or interruptions in OTA services could have a material adverse effect on the Group's business, financial condition and results of operations. ● The Group is reliant on certain technologies and systems for the operation of its business. System failures, data viruses, computer hackers or other issues may adversely affect the Group's performance. The Group and each of its hotels maintain personal data in relation to its guests. The misuse of or unauthorised access to such date could adversely affect the Group's reputation and business. ● The Group has engaged in financing agreements and may continue to do so in the future which could limit funds available for other purposes. Future credit facilities may not be available to the Group on favourable terms due to the lenders' view of the Group's stability at that time. The use of

		financing also presents the risk that the Group may be unable to service interest or principal payments on its existing facilities. Any failure to satisfy debt obligations could result in a default under the terms of current and future financing arrangements, thereby having a material adverse effect on the Group's business, financial condition and results of operations. ● Conflicts of interests may be created because certain of the members of the Board of Directors also have affiliations with and interests in the PPHE Hotel Group. Additionally, the interests of PPHE (and indirectly Red Sea and Walford) may differ from the interests of the other shareholders in the Company. If these conflicts of interests or differing of interests between shareholders arise, they may have a material adverse effect on the value of the Shares.
D.3	Key information on the key risks that are specific to the securities	The main risks relating to the Offering and the Offer Shares include, among others, the following risks: ● There can be no assurance that an active and liquid market for the Shares will develop and Investors may not be in a position to sell the Shares quickly or at the market price if there is no active trading in the Shares. Further, the price of the Shares may be subject to considerable fluctuation. ● The PPHE Hotel Group will continue to indirectly hold a majority of the Shares following completion of the Offering and may continue to exercise considerable influence over the Group and its operations and the interests of the PPHE Hotel Group may conflict with those of the other shareholders. ● The Company has never paid dividends and does not envisage paying dividends for at least 18 months following the Offering. The Company is currently unable to pay dividends because of the accumulated losses incurred as of the end of 2016. The Company's ability to pay dividends in the future may be constrained and depends on several factors such as the Group's future earnings, financial condition, cash flows, working capital requirements and covenants in the Group's financial arrangements, among other things.

SECTION E – OFFER		
E.1	The net proceeds and an estimate of the expenses of the issue/offer	The net proceeds of the Offering, following the payment of Offering related fees and expenses, are expected to be HRK 750 million. Net proceeds are calculated after the deduction of underwriting commissions and other estimated fees and expenses of the Offering (assuming the maximum amount of the Joint Global Coordinators' discretionary incentive fee is paid). The Company estimates that the total expenses of the Offering, including the costs of the Joint Global Coordinators and Bookrunners, legal advisors, independent auditors, CFSSA, CDCC, ZSE and other relevant costs, will amount to approximately HRK 40 million. The Company will not charge the Investors any expenses, but an Investor may be obliged to bear the costs of subscription and payment for the Offer Shares, including pre-funding, payment or other transaction costs, postal services costs, notary public costs and similar costs. Investors should also take into account that for the period from the time of payment for the Offer Shares until the time they would be able to freely dispose thereof (or until the time of return of the paid funds to Investors to the accounts designated by Investors in the Subscription Statements, if applicable) no interest would accrue to the Investors, and therefore payment for the Offer Shares may potentially result in so-called opportunity cost to the Investors.
E.2a	Reasons for the Offer, use of proceeds and estimated net amount of the proceeds	The key reasons for the Offering and, upon a successful Offering, the Company's intended uses for the majority of the net proceeds are to: (i) accelerate the implementation of the Group's capital investment plan aimed at upgrading a number of properties in Croatia and fund the Group's expansion in the CEE Region; (ii) exercise the Sugarhill Option in the amount of EUR 8.33 million (HRK 61.9 million) and associated transaction costs (including real estate transfer tax, where applicable, in Germany) of EUR 1 million (HRK 7.4 million); and (iii) repay debt in an amount of up to 25 per cent. of the net proceeds of the Offering, subject to a minimum of EUR 10.6 million (HRK 78.7 million), in order to repay the amounts drawn on the Euro Sea loan facilities, which were used to partially finance the acquisition of the freehold interests in art'otel cologne and art'otel berlin kudamm, and also to refinance senior debt where appropriate and achieve more favourable terms. The net proceeds of the Offering, following the payment of Offering related fees and expenses, are expected to be HRK 750 million. The translations of the indicated EUR amounts into HRK values in this Element E.2.a were made using the CNB (www.hnb.hr) mid-exchange HRK/EUR rate on 28 February 2017 of HRK 7.428657 to EUR 1.00. Actual amounts may differ due to, among other things, fluctuation of the HRK/EUR exchange rate up to 26 May 2017 when the Offer Price is expected to be determined.

E.3	General terms of the Offer	On 22 March 2017, the General Assembly adopted the Capital Increase Decision on the increase of share capital and issuance of ordinary shares by way of a public offering, with payment of contributions in cash and with the full exclusion of the existing shareholders' pre-emptive right to subscribe and pay for the new shares and on amendments to the Articles of Association. Pursuant to the Capital Increase Decision and assuming the Offering is successful, the share capital of the Company will be increased from HRK 65,475,000.00 by a minimum of HRK 20,000,000.00 to a minimum of HRK 85,475,000.00 and by a maximum of HRK 40,000,000.00 to a maximum of HRK 105,475,000.00, by the issuance of a minimum of 1,000,000 and a maximum of 2,000,000 new ordinary registered shares in the nominal amount of HRK 20.00 each. The Offer Shares will be issued at a premium above their nominal value of HRK 20.00 each. **The Offering** The Offering comprises: (i) an Institutional Investors Offering in which the Offer Shares are being offered to (a) Institutional Investors in Croatia, and (b) Institutional Investors outside Croatia, subject to an expressed interest to subscribe for the Offer Shares in a minimum amount of HRK 400,000 and an established trading line directly or indirectly with any of the Joint Global Coordinators and Bookrunners; and (ii) a Retail Investors Offering in which the Offer Shares are being offered to Retail Investors in Croatia subject to a lower limit per application of HRK 1,000. The Offer Shares are being offered and sold only outside the United States in "offshore transactions" in reliance on, and as such term is defined in, Regulation S under the US Securities Act. The Offer Shares shall be subscribed for by way of a written statement (**Subscription Statement**). The subscription and payment for the Offer Shares shall be done in accordance with the public invitation for subscription and payment for the Offer Shares (**Public Invitation**). The Executive Directors shall publish the Public Invitation on the website of the court register, on the website of the Company, on the ZSE's website and in at least one daily newspaper circulated throughout or widely circulated in the Republic of Croatia within three weeks from the date of receipt by the Company of the decision of CFSSA on approval of this Prospectus (or any supplement thereof). It is expected that the Public Invitation shall be published on or around 12 May 2017. The Bookbuilding Period for the Institutional Investors Offering is expected to take place from on or around 15 May 2017 (9:00 CEST) to on or around 25 May 2017 (12:00 CEST). The Application Period for the Retail Investors Offering is expected to take place from on or around 15 May 2017 (9:00 CEST) and to on or around 25 May 2017 (14:00 CEST). The Company reserves the right to shorten the period(s) for subscription and payment for the Offer Shares in the event that a sufficient level of demand for the Offer Shares has been achieved prior to the designated expiration of the relevant period; provided that, the period(s) for subscription and payment for the Offer Shares cannot be shorter than seven days from publication of the Public Invitation. In the event of shortening of the period(s) for subscription and payment for the Offer Shares, the Allocation Date, the final date for payment for the Offer Shares, the date of delivery of the Offer Shares and other relevant dates and/or time periods may be changed accordingly. The Price Range will be set by the Executive Directors, in consultation with the Joint Global Coordinators and Bookrunners and with the prior approval of the Board of Directors, and published before the start of the Bookbuilding Period and the Application Period in the Public Invitation. **The Offer Price** The Offer Price will be determined by the Executive Directors in consultation with the Joint Global Coordinators and Bookrunners, and with the prior approval of the Board of Directors, taking into account (i) the level of interest of the Institutional Investors, in terms of price and quantity of the subscribed Offer Shares, during the Bookbuilding Period and the level of interest of the Retail Investors, in terms of quantity of the Offer Shares subscribed and paid for, during the Application Period; (ii) current and anticipated conditions in the Croatian and international capital and financial markets at the time, and (iii) assessment of the growth prospects, risk factors and other information relating to the Company's activities as set out in this Prospectus, provided that the Offer Price shall always be within the Price Range. The Executive Directors are authorised, with the prior approval of the Board of Directors, and whilst respecting the lowest amount under which the Offer Shares may not be issued and the above basis for determination of the Offer Price, if needed, more detailed basis for determining the Offer Price. The Offer Price, the number of Offer Shares subscribed in the Offering and the total amount of the Offering is expected to be announced on the website of the court register, the Company's website (www.arenaturist.com) and the ZSE's website (www.zse.hr) on or about 26 May 2017. It has been indicatively assumed that approximately 90 per cent. of the Offer Shares will be allocated in the Institutional Investors Offering and approximately 10 per cent. of the Offer Shares will be allocated in the Retail Investors Offering. The final determination of the number of Offer Shares allocated in the Institutional Investors Offering and the Retail Investors Offering, respectively, will however only be decided following completion of the Bookbuilding Process in the case of the Institutional Investors Offering and the Application Process and expiry of the deadline for payment for the Offer Shares in the case of the Retail Investors Offering, and in each case, based on the level of subscriptions received from each category of Investor, and with regard to the free float requirement for the listing of the Offer Shares on the Zagreb Stock Exchange. The Company reserves the right to change the indicatively assumed

		allocation between the Institutional Investors Offering and the Retail Investors Offering without further notice and at its discretion, in consultation with the Joint Global Coordinators and Bookrunners. According to the Capital Increase Decision, the Executive Directors are authorised, in consultation with the Joint Global Coordinators and Bookrunners and with the prior approval of the Board of Directors, to set the rules for allocation of the Offer Shares (**Allocation Rules**). When adopting the Allocation Rules, the Executive Directors and the Board of Directors shall ensure, given that the pre-emptive right of the existing shareholders of the Company to subscribe for the Offer Shares has been excluded according to the Capital Increase Decision and whilst respecting the below principles, that all existing shareholders of the Company, who make such request, are appropriately permitted to subscribe for the Offer Shares in accordance with their existing participation in the share capital of the Company. Furthermore, when adopting the Allocation Rules the Executive Directors and the Board of Directors may take into account, including but not limited to, the following principles: (i) the principle of price and time priority, which means that, when allocating the Offer Shares, preference may be given to Investors who offered a higher price per Offer Share and/or who submitted their Subscription Statements earlier; (ii) the principle of long-term investment, which means that, when allocating the Offer Shares, preference may be given to Investors who will contribute to the creation of appropriate long-term shareholding structure of the Company; and (iii) the principle of Investor activity, which means that, when allocating the Offer Shares, preference may be given to Investors who actively participated in the Offering (Investor participation in pre-marketing campaigns and participation at road show as well as provision of feedback information, demonstration of knowledge of the Company's business sector and similar activities). **Success Rate** The Offering shall be considered successful if at the expiry of the Bookbuilding Period and the Application Period at least 1,000,000 of the Offer Shares are subscribed. The Executive Directors shall, with the prior approval of the Board of Directors, determine: (i) whether the Offering is successful; (ii) the amount of the share capital increase; (iii) the number of Offer Shares to be issued; and (iv) the price of the Offer Shares. If the Offering is not successful, the Company shall within 10 days after expiry of the period(s) for subscription and payment for the Offer Shares, and as provided in the Public Invitation, return the paid funds to Investors to the accounts designated by Investors in the Subscription Statements. In such case, the Company shall not bear the costs of transaction payments or any other costs or pay interest to Investors. Within the same term and under the same conditions, the Company shall return the overpaid funds to the relevant Investors. If the Offering is successful, but the share capital increase is not registered in the court register within nine months from the date of the Capital Increase Decision, the Subscription Statement shall no longer be binding on the Investor and any payments made shall be returned to Investors without any delay.
E.4	Material interest and conflicting interests	The Joint Global Coordinators and Bookrunners and their respective affiliates have provided, from time to time, and may in the future provide, investment and commercial banking services to the Company and its affiliates in the ordinary course of business, for which they may have received and may continue to receive customary interest, fees and commissions. The Joint Global Coordinators and Bookrunners do not intend to disclose the extent of any such investments or transactions otherwise than in accordance with any legal or regulatory obligation to do so. Further, a portion of the commissions that are to be paid for the services of the Joint Global Coordinators and Bookrunners in respect of the Offering are calculated on the basis of the gross proceeds of the Offering. As at 31 December 2016, the Company had a total aggregate principal amount of HRK 437.4 million (EUR 57.9 million) of loans outstanding from Zagrebačka banka and an additional HRK 100.7 million (EUR 13.3 million) of loans outstanding from Zagrebačka banka made pursuant to programs operated by the Croatian Bank for Reconstruction and Development.
E.5	Name of person offering to sell securities/Lock-up agreements	The Offer Shares are being offered by the Company. The PPHE Hotel Group and Mrs. Milena Perković have committed not to sell, pledge, lend or in any other way transfer the right of ownership to any Shares (including Listing Shares) that they hold as of the date of this Prospectus or acquire under the Offering for a period of 180 days following the commencement of trading of the Offer Shares and the Listing Shares on the Official Market. Notwithstanding the foregoing, the PPHE Hotel Group and Mrs. Milena Perković may transfer the above mentioned Shares in certain circumstances, including pursuant to a mandatory third party takeover bid or exchange offer commenced by the Company, a voluntary third party takeover bid or exchange offer not induced by the Company, an intra-group transfer (in the case of the PPHE Hotel Group) or a transfer to family members (in the case of Milena Perković. In the case of an intra-group transfer or a transfer to family members (as appropriate), it shall be a condition to such transfer that the transferee accepts the same lock-up commitment.

E.6	Dilution	Up to 2,000,000 of the Offer Shares may be issued pursuant to the Offering. In case the maximum number of the Offer Shares are issued, the Offer Shares shall represent 38 per cent. of the share capital of the Company immediately following completion of the Offering and, if the existing shareholders of the Company do not participate in the Offering, they may be diluted up to 38 per cent.
E.7	Estimated expenses charged to the investor	No expenses relating to the Offering will be directly charged to the Investors since they will be fully borne by the Company. However, an Investor may be obliged to bear the costs of subscription and payment for the Offer Shares, including pre-funding, payment or other transaction costs, postal services costs, notary public costs and similar costs. Investors should also take into account that for the period from the time of payment for the Offer Shares until the time they would be able to freely dispose thereof (or until the time of return of the paid funds to Investors to the accounts designated by Investors in the Subscription Statements, if applicable) no interest would accrue to the Investors, and therefore payment for the Offer Shares may potentially result in so-called opportunity cost to the Investors.

PART 2

RISK FACTORS

Investing in the Offer Shares involves a high degree of risk. Prospective Investors should carefully consider the risks and uncertainties described below, in addition to the other information described in this Prospectus. These risks and uncertainties represent all of those known to the Company as at the date of this Prospectus that the Company believes are material. However, they are not the only risks facing the Group. There may be additional risks and uncertainties not presently known to the Company or that the Company presently considers to be immaterial, which could also impair the business of the Group. If any or a combination of these risks and uncertainties actually occurs, the business, operating results, financial condition and prospects of the Group could be materially and adversely affected, the Company's ability to pay dividends may be impaired and the trading price of the Shares may decline and Investors could lose all or part of their investment.

The order in which the risks are presented does not reflect the likelihood of their occurrence or the magnitude of their potential impact on the Group's business, results of operations, cash flow, financial condition and prospects. The risks mentioned herein may materialise individually or cumulatively. The information in this Section 2 is as at the date of this Prospectus. In addition to the risks listed below, the Group's principal market risks primarily include foreign currency exchange rates risk, interest rates risk, credit risk and liquidity risks. For further information on these risks please see Section 15.10 "Operating and Financial Review—Qualitative and Quantitative Disclosures About Market Risk".

2.1 Risks Related to the Group's Business

The Group is reliant on its relationships with the PPHE Hotel Group and Carlson

The Group relies to a significant extent on its relationships with the PPHE Hotel Group and Carlson. The Group does not own the Park Plaza trademark it uses. Instead the PPHE Hotel Group has granted the Group the exclusive right to operate and develop any new Park Plaza branded property in the CEE Region, including in Croatia, Germany and Hungary. The PPHE Hotel Group has the exclusive right to use, and to grant others to use, the Park Plaza trademark in 56 countries in Europe and the MENA region pursuant to the Territorial Licence Agreement with Carlson (please see *Section 10.11* "*Business Overview—The Brands under which the Group Operates*" and *Section 12* "*Relationship with the PPHE Hotel Group*"). The Group and the PPHE Hotel Group are parties to the Framework Agreement related to the Park Plaza branded hotels, pursuant to which the PPHE Hotel Group provides the Group with term-limited exclusive rights to operate and develop properties in the CEE Region using the Park Plaza brand. The Group and the PPHE Hotel Group are also party to the LSM Agreements related to seven Park Plaza branded hotels and resorts located in Croatia and Germany and five art'otels located in Germany and Hungary. Pursuant to the Framework Agreement, the Group has agreed not to use or operate any hotels under any brand other than the Park Plaza brand, the art'otel brand or any other brand licensed to the Group by the PPHE Hotel Group or developed and owned by the Group (provided, however, that this shall not prevent the Group from operating any unbranded outlets subject to entering into a new Operating Agreement and LSM Agreement in relation to such outlets) unless otherwise agreed with the PPHE Hotel Group. As it pursues its growth strategy in the CEE Region, the Group expects to enter into additional LSM Agreements with the PPHE Hotel Group in relation to the hotel opportunities the Group develops. In addition to access to use of the brands, the LSM Agreements also give the Group's Park Plaza and art'otel branded properties access to Carlson's reservations, marketing and distribution system as well as the PPHE Hotel Group's central services including employee training support systems. See also *Section 10.13* "*Business Overview—Sales, Marketing and Public Relations—Carlson Central Reservation System*".

The Group's operational success and ability to execute its growth strategy will depend significantly upon the satisfactory performance of the services provided by the PPHE Hotel Group under the LSM Agreements and the ongoing strength and continuity of the relationship with the PPHE Hotel Group and the indirect relationship with Carlson. In particular, upon any termination of the PPHE Hotel Group's Territorial Licence Agreement with Carlson or the Group's Framework Agreement with the PPHE Hotel Group, the Group may lose its ability to benefit from cross-selling and other advantages that it believes its relationships with the PPHE Hotel Group and Carlson provide. The Territorial Licence Agreement was entered into in 2002 and the licence granted to the PPHE Hotel Group thereunder is perpetual (or for the maximum period allowed by the laws of the relevant jurisdiction) and the agreement can only be terminated by Carlson in very limited circumstances. The Framework Agreement terminates in 2046 unless terminated earlier. The PPHE Hotel Group is entitled to terminate early in certain limited circumstances including it ceasing to control the Company. The LSM

Agreements can only be terminated by the PPHE Hotel Group in very limited circumstances prior to their expiration which coincides with the expiration of the term of the applicable Operating Agreement. In the unlikely event that either the Company's relationship with the PPHE Hotel Group or the relationship between Carlson and the PPHE Hotel Group were to end or be damaged, it could have a highly material adverse effect on the Group's business, financial condition and results of operations.

The Group's business in Croatia is highly seasonal and the presence of adverse weather conditions during the high season could have a negative impact on revenues

The Group's business in Croatia is highly seasonal; the majority of guest visits occur from June to September. Accordingly, during the past three fiscal years, the Group's Croatian properties generated, on average, approximately 72 per cent. of revenues during the third quarter ended September. The Group's hotels, resorts and campsites in Croatia typically experience operating losses and negative cash flows during the first and fourth quarters of each fiscal year as a result of the seasonality of these businesses. Operating results for any three-month period are not indicative of the results that may be achieved for any subsequent quarter or for a full fiscal year. While the German and Hungarian hotels acquired by the Group as a result of the Sugarhill Contribution do not experience such seasonality, the Group expects significant seasonality to continue to impact its consolidated results.

A high degree of seasonality in revenues in the Croatian market increases the impact of certain weather events on the Group's operating results. The ability to attract visitors to the Group's Croatian properties, particularly the campsites and resorts, is influenced by weather conditions and the number of warm and dry weather days during the summer season. Adverse weather conditions and other significant weather events of even moderate or limited duration occurring during peak periods could adversely affect guest visits which could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group is exposed to certain risks in relation to property subject to the Tourist Land Act

The ownership interests of the Company in relation to all eight of its campsites and three of its resorts are subject to the provisions of the Tourist Land Act adopted in 2010.

Background to the Tourist Land Act

During the time of social ownership, Croatian companies had the right to use their assets instead of having the full ownership thereof. During the 1990's, Croatian companies experienced a process of transformation and privatisation, in which the involved companies were obligated to list the properties they used and assess the value of such properties. Based on the list of properties included in such assessments and subject to the relevant regulations, companies were generally in a position to acquire ownership of the assets previously used by them. The Croatian Privatisation Fund oversaw the entire process and had to decide whether an assessment of a company's assets had been undertaken in compliance with the relevant regulations and if all assessed assets indeed met the requirements to be included in the capital of a company. In accordance with this process and based on the decision of the Croatian Privatisation Fund dated 5 January 1994, the Company obtained another decision of the Croatian Privatisation Fund dated 14 February 1997 containing a list of its properties included in the Company's capital in the process of its transformation and privatisation pursuant to the Privatisation Act. In addition to such assessed properties, certain other land areas (primarily areas within the campsites and areas surrounding certain facilities within tourist resorts) remained "non-assessed" and as a consequence of that the Company was unable to register its ownership of such properties in the land registry. This situation was in common with respect to all companies engaged in hospitality business in the Croatian coastal area that acquired the right to use the relevant land during time of social ownership.

In order to finally resolve the ownership status of the "non-assessed" land, the Croatian Parliament adopted the Tourist Land Act, which became effective on 1 August 2010. The Tourist Land Act provides different legal regimes for (i) campsites, (ii) land on which buildings (hotels, apartments) had been constructed prior to the privatisation process being initiated, and (iii) other types of land subject to the Tourist Land Act.

Pursuant to the Tourist Land Act, under relevant circumstances, tourist land and buildings within campsites are considered to be co-owned by a company and the Republic of Croatia. The co-ownership parts need to be defined between the company and the Republic of Croatia and the co-ownership part of the Republic of Croatia is subject to the award of tourist land concession for the benefit of such company. Pursuant to the Tourist

Land Act, in relation to the resort and hotel land areas, the company may have acquired ownership over that portion of such areas previously assessed as part of the company's capital during the privatisation process. The remaining resort and hotel tourist land area which was not assessed as part of the company's capital is considered to be owned by the local municipality and is subject to the award of tourist land concession for the benefit of the company.

Proceedings of the Company under the Tourist Land Act

In accordance with those provisions of the Tourist Land Act, the Company was entitled to apply for tourist land concessions in relation to the relevant "non-assessed" land areas.

As a consequence, in 2011, the Company submitted requests for the award of tourist land concessions for a term of 50 years (the maximum term allowed) in relation to land in its eight campsites and three of its resorts (i.e. Park Plaza Verudela Pula, Verudela Beach Resort and Zlatne Stijene Resort).

In relation to the campsites, the Company's requests for award of tourist land concessions have not yet been resolved. In relation to the land surrounding certain of the resorts, the Company's request for award of tourist land concessions has been rejected twice by the City of Pula as the concession grantor. Following the law suit submitted by the Company and separately also by the Republic of Croatia, the City of Pula's decision has been recently annulled by the Administrative court in Rijeka for the second time and the matter was sent back to the first instance concession granting authority (City of Pula), with an instruction to repeat the procedure and establish if the relevant criteria for qualification of the relevant area as tourist land have been satisfied.

Since the adoption of the Tourist Land Act, as far as the Company is aware, no concession agreement has been entered into with respect of tourist land in campsites or tourist resorts/hotels in Croatia due to ambiguities in the wording of the Tourist Land Act and related regulations. Consequently, the status of the Company's concession requests is, to the Company's knowledge, similar to the status of concession requests submitted by other companies in Croatia.

Under the Tourist Land Act and related regulations, the Company has being paying, since 2011, an advance concession fee in respect to the land in its campsites which amounts to 50 per cent. of the preliminary concession fee and has made provision as a contingent liability for the remaining 50 per cent..

In relation to the Company's resorts and hotels' tourist land areas, due to still unresolved ownership matters, the relevant municipality has not been charging the Company the preliminary concession fee, as further described in *Section 10.19* "*Business Overview—Legal Proceedings and Disputes*". Consequently, the Company has not been paying any such fee, but has been making provisions and the amount of such preliminary concession fee (calculated pursuant to the relevant regulations) for each year is charged to the Company's profit and loss account.

Notwithstanding the fact that the Company is charging to its profit and loss account 100 per cent. of the preliminary concession fee for both land in campsites and tourist resorts, the final amount of the concession fee is yet to be determined once relevant concession award proceedings are completed. Should those fees turn out to be materially higher than the preliminary concession fees charged to the Company's profit and loss account, this could have an adverse impact on the Group's results of operations in the period in which those fees would be charged.

Although the Tourist Land Act sets out ownership/co-ownership principles applicable to the tourist land and other land "non-assessed" in the capital of the companies in the course of the privatisation process, much of such land is still registered as owned by the local municipality or the Republic of Croatia. As a result of the foregoing and the fact that various legal proceedings may impact the land status, not every property referred to in this Prospectus as co-owned or owned by the Company is currently entered as such in the land registry and land registry status of such property is subject to the outcome of various proceedings.

Whether or not the Company will be granted with the concession rights it seeks to obtain under the Tourist Land Act is subject, *inter alia*, to the Company providing appropriate documentary and other evidence, at the relevant time, to the satisfaction of certain legal requirements (including, the existence of prescribed zoning requirements, the right of use of certain assets, etc.). Such evidence may not necessarily be available to the Company in relation to each property, or even if available, the relevant authorities may find that such evidence does not satisfy the legal requirements. In addition, certain parts of the campsites and resorts may be subject to different legal ownership regimes under regulations dealing with maritime domain, cultural heritage, and nature protection or similar.

Moreover, (i) potential changes in the laws impacting the tourist land concept and in general, relating to the land in campsites, hotels and resorts (for example laws relating to forests, tourist land, maritime domain etc.), including potential changes related to concession award procedures and the overall concession fees that may become payable by the Company), (ii) potential amendments to the overall status of the relevant properties (including zoning status thereof), as well as (iii) potential changes in the views and practice of competent concession granting authorities, all present additional risks to the Group both in connection with the resolution of its on-going concession proceedings as well as after they are resolved.

The final outcome of the tourist land concession award proceedings and other related proceedings (as further described in *Section 10.19* "*Business Overview—Legal Proceedings and Disputes*") cannot be predicted at present. The Company expects that these proceedings will be resolved either by (i) it being awarded the concessions it seeks in accordance with the provisions of the Tourist Land Act or, (ii) if such concessions are not awarded for any reason, by way of other potential arrangements. Such arrangements include, but are not limited to long-term leases or the purchase of the relevant land areas, subject to a decision of the land owner to conduct relevant tender procedures or any similar procedures as prescribed by relevant regulations from time to time, and the ability and willingness of the Company to provide the most favourable offer given the circumstances at the relevant time. If any of the tourist land concession award proceedings (together with any related proceedings) is not resolved in the Company's favour and the Company is not successful in making alternative arrangements for the use of the affected campsite or resort, this could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group's results depend on the reputation, awareness and intellectual property protection of the brands under which it operates

The Company believes that brand awareness, image and loyalty are critical to the Group's ability to achieve and maintain high average occupancy and room rates and also its ability to execute its growth and expansion plans. The reputation and awareness of the brands under which the Group operates are affected by a number of factors, including factors outside the Group's control such as changes in customer preferences and customer perception. In addition, under the Framework Agreement, the PPHE Hotel Group may licence a third party to use the Park Plaza brand in the CEE Region in circumstances where such third party does not want the Group to operate and manage the relevant hotel (but rather act itself as the operator). The use of the Park Plaza brand by such third parties may also affect the reputation and awareness of the Park Plaza brand. An event that materially damages the reputation or awareness of these brands or a failure to sustain the appeal of the brands to the Group's customers would have a material adverse effect on the value of the brands and subsequent revenues therefrom.

The Group does not own any of the trademarks relating to the Park Plaza or art'otel brands. The Group currently uses the Park Plaza and art'otel trademarks under the LSM Agreements and under the Framework Agreement has the exclusive right to operate and develop new Park Plaza branded properties in the CEE Region. There can be no assurance that, despite these rights, a third party will not claim ownership of the trademarks and that the Group's use of them infringes its rights. There is also the possibility that a successful claim could prevent the Group's continuing use of the trademark. The Group's rights to the brands are limited by the scope of the Framework Agreement and the LSM Agreements and therefore the freedom of the Group to conduct its business in the manner in which it proposes going forward may be restricted.

The Group relies on Carlson and the PPHE Hotel Group to maintain and protect such trademarks against infringement or misappropriation. Any failure by Carlson or the PPHE Hotel Group to protect such trademarks causing the reputation of the brands to suffer, could have a material adverse effect on the Group's business, financial condition and results of operations.

Further, the Group is reliant on Carlson (for those markets outside of Europe and the MENA region) and on the PPHE Hotel Group (for those markets inside Europe and the MENA region) to maintain and enforce brand standards at properties operated by third parties under the Park Plaza brand, and on the PPHE Hotel Group for properties operated under the art'otel brand. Any damage to the reputation and awareness of the Park Plaza or art'otel brands as a result of factors which are outside the Group's control would impair the Group's ability to execute its business strategy and growth plans and could have a material adverse effect on the Group's business, financial condition and results of operations.

Legal proceedings or claims or regulatory investigations could affect the Group's results of operations and financial position

The Group has been, currently is and in the future will likely be involved in legal and regulatory proceedings and otherwise subject to legal claims arising out of the ordinary course of its business, including claims by its guests, customers, actual and potential partners, suppliers, employees, government and regulatory authorities and the owners of properties leased or operated by the Group for, *inter alia*, breach of legal, contractual or other duties.

Sometimes the outcome of these proceedings cannot be predicted until late in the proceeding, if at all. Where appropriate under IFRS, the Group establishes provisions to cover costs related to legal proceedings and other legal claims, but such provisions may be insufficient and any insurance coverage that the Group maintains may not cover its losses fully or at all. Regardless of the outcome, litigation may require expenditure of significant funds as well as management time. In addition, exposure to litigation or fines imposed by regulatory authorities may affect the Group's reputation even though the monetary consequences may not be significant.

The Company is currently a defendant in five cases related to the claims of two utility companies, all related to the payment of fees and charges for maintenance and development of the water supply and sewage infrastructure in Pula, Croatia. While the Company is contesting these matters and has made a counterclaim in the form of a set-off objection for certain amounts, as at 31 December 2016 it has provisioned for a total exposure in relation to those cases in the amount of HRK 29.9 million.

The Company is also the defendant in a litigation initiated by the Medulin Municipality relating to the Company's possession of parts of three campsites in the Medulin area. More specifically, on the basis of its ownership rights registered in the land registry, the Medulin Municipality filed a law suit against the Company for payment of land use remuneration and demanded transfer of possession of certain land plots within the campsites. Based on the fact that the Company made various investments into the campsites, the Company filed a counterclaim against the Medulin Municipality for payment of the amount invested in the campsites. The first instance proceeding is suspended until the completion of the procedure which is conducted before competent authorities for the purpose of the establishment of the maritime domain area within the campsites. The Company is also aware that in relation to the land plots in all three campsites, the Republic of Croatia initiated a separate litigation for the purpose of deregistration of the ownership right of the Medulin Municipality. The final outcome and results of such litigation cannot be estimated at present. The inability of the Company to resolve in an adequate manner such litigation and the proceedings relating to the Tourist Land Act, could impair the Group's ability to execute its business strategy and growth plans and this may have an adverse effect on its business, financial condition and results of operations.

The Group recently acquired the Sugarhill Group and implemented the Operational Restructuring and the associated changes may strain the Group's managerial and operational resources

The Group has only been in its current form since December 2016 and may not be able to realise all of the anticipated benefits from the Sugarhill Contribution and the Operational Restructuring. The operational complexity of the Group's business and the responsibilities of the Group's management have increased as a result of the Sugarhill Contribution, placing additional demands on the Group's managerial, operational and control systems. In addition, the Group's ability to realise the anticipated benefits from integrating the Sugarhill Group into the Company's other operations will depend on management's ability to successfully implement its strategies in that regard while at the same time implementing its growth strategy in the CEE Region, which may further strain the Group's managerial and operational resources. The Group's inability to successfully manage the impact of these transformational transactions on its operational and managerial resources and control systems could have a material adverse effect on the Group's business, financial condition and results of operations.

Certain of the members of the Board of Directors have affiliations with and interests in the PPHE Hotel Group which may create conflicts of interest

Two members of the Board of Directors, Mr. Boris Ernest Ivesha and Mr. Chen Carlos Moravsky, are also executive directors and shareholders of PPHE.

Another member of the Board of Directors, Mr. Yoav Papouchado is the chairman of the Red Sea Group, which holds 43.96 per cent. of the issued share capital of PPHE. The Red Sea Group has a voting arrangement with Walford Investment Holdings Limited (**Walford**), a company which is wholly-owned by trustees on behalf of trusts established for the benefit of Mr. Boris Ernest Ivesha and his family and which holds 18.93 per cent. of the issued share capital of PPHE. Pursuant to this voting arrangement the PPHE shares held by Walford must be voted in a manner which is consistent with those voted by the Red Sea Group for so long as certain ownership thresholds are maintained. Accordingly, Red Sea Group has significant influence over PPHE which in turn currently indirectly holds 77.09 per cent. of the Company's shares and therefore exerts significant influence over the Company.

These relationships and interests may create a conflict of interest for the members of the Board of Directors in question. Furthermore, the interests of PPHE (and indirectly Red Sea Group and Walford) may differ from the interests of the other shareholders in the Company. Were these conflicts of interest to arise, or were there to be a perception that such conflicts of interest might arise, this may have a material adverse effect on the value of the Shares.

The PPHE Hotel Group may compete with the Group

The PPHE Hotel Group has the operational capability to compete with the Group in the countries covered by the Framework Agreement. However, under the Framework Agreement, the PPHE Hotel Group has agreed not to engage or seek to engage in activities related to hotel ownership, leasing, management and operation under the Park Plaza brand in those countries subject to the Group meeting certain brand development obligations. The PPHE Hotel Group may however engage in such activities under different brands. These limitations may lessen the conflict of interests which may arise between the Group and the PPHE Hotel Group but nevertheless the resolution of any such conflicts may not always be in the Group's best interest or that of its shareholders. For further details on this topic please see *Section 10.11 "Business Overview—The Brands under which the Group Operates*" and *Section 12 "Relationship with the PPHE Hotel Group"*. The hotel and hospitality industry is highly competitive, including in the markets in which the Group operates, and any additional competition from the PPHE Hotel Group or the loss of any potential business opportunities could result in lost revenue or increased expenses to the Group, which could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group's properties are highly concentrated in a limited number of cities

The Group's properties are principally concentrated in Pula, Croatia and Berlin, Germany. The concentration of properties in these two cities, or a future concentration in a limited number of markets, exposes the Group to risks of adverse economic and other developments that will have greater impact than if the Group's portfolio were more geographically diverse. Such developments include regional economic downturns, any incidences of acts of terror, significantly increased supply of hotel rooms, significantly increased competition, material property rent increases, higher local property value and sales and income taxes increases in the geographic markets in which the Group's properties are concentrated. Certain economic and other developments may also affect the Group's hotel operations in some countries more than others due to various country-specific characteristics. The impact of any of these factors could have a material adverse effect on the Group's business, financial condition or results of operations.

The Group has development obligations pursuant to the Framework Agreement with the PPHE Hotel Group

The Group's strategy includes plans to expand its operations in the CEE Region, and under the Framework Agreement, the Group has agreed to develop and open a specified number of new Park Plaza-branded outlets in the CEE Region. The Group must open one new outlet during the first 24 months of the agreement and then two new outlets every 24 months thereafter. If the Group fails to meet these development obligations for two consecutive periods of 24 months or if any of the LSM Agreements is terminated due to any default by any member of the Group, the PPHE Hotel Group has the right to terminate the Group's exclusivity rights under the Framework Agreement. Additionally, the Framework Agreement may be terminated if the PPHE Hotel Group ceases to control the Company, Arena Hospitality or the Group.

In order to fulfil its development obligations under the Framework Agreement, the Group will face a number of challenges and must, among other things, identify suitable projects, negotiate suitable terms (either with sellers, existing owners or developers) and execute the successful completion of the required transactions. The Group may fail to identify suitable projects to target or may be unable to negotiate suitable terms. If the

Group is unable to fulfil its development obligations it may lose its exclusive right to operate and develop new Park Plaza branded properties, which would negatively impact the Group's ability to execute its growth strategy and expand within the CEE Region and could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group's results of operations are affected by foreign exchange rate fluctuations

Most of the Group's revenue is generated in Euros, but the Group incurs or may incur capital, operating and administrative expenses in multiple currencies, including, among others, the Croatian Kuna and Hungarian Forint. Therefore, the Group is subject to currency risk due to fluctuations in exchange rates. If the Euro weakens significantly, the Group would be required to convert more Euros to other currencies to meet the Group's operating expense obligations, which would cause the Group to have less cash available on hand. Because the Group reports its operating results in the Croatian Kuna, changes in the value of the Croatian Kuna would also result in fluctuations in the Group's reported revenues and earnings. In addition, under IFRS, all foreign currency-denominated monetary assets and liabilities, such as cash and cash equivalents, accounts receivable, restricted cash and accounts payable, are revalued and reported based on the prevailing exchange rate at the end of the reporting period. This revaluation may cause the Group to report significant non-monetary foreign currency exchange gains and losses in certain periods. Even though historically the exchange rate between the Croatian Kuna and Euro has been stable, there is no guarantee that the exchange rates will not fluctuate significantly in the future.

In addition, the Group incurs currency transaction risk whenever the Group enters into a transaction using a currency different from its functional currency. The Group seeks to reduce currency transaction risk by matching commitments, cash flows and debt in the same currency, but generally does not enter into foreign exchange contracts for hedging purposes. However, the Group may not be able to match this risk completely and were such risk to occur, it could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group's ownership business model requires access to capital which may not be available on favourable terms

The Group owns or co-owns many of its properties. As is common in owning properties, this business model requires capital to maintain the high quality level of the facilities and services offered. The Group's success is dependent in large part upon its ability to maintain the quality of its portfolio and to enhance the value of its assets and the appeal of its properties for guests. The Group's properties require capital expenditure and resources to build and maintain their value. If the Group does not invest sufficient capital into its properties in order to maintain and increase their value it may adversely affect the Group's ability to successfully market its properties. In addition, the Group's development obligations under the Framework Agreement may also require the investment of capital.

The Group currently, and has historically, financed its operations principally from its cash flows from operating activities and borrowings under credit facilities. The Group may in the future seek additional capital through additional bank borrowings or potentially the issue of debt or equity, for the future expansion and development of the business in the longer term. No assurance can be given as to the availability of such additional capital at the relevant time or, if available, whether it would be on favourable terms. Moreover, the Group is party to certain financing facilities which limit the ability of the Group to incur additional financial indebtedness.

In addition to maintenance costs and capital expenditures, the Group may be exposed to disruptions in revenue if properties must be closed or partly closed for renovations. Inadequate access to capital, whether due to the unavailability of credit on favourable terms, disruptions in revenue or otherwise, may prevent the Group from sufficiently maintaining its properties, expanding its operations in line with its business strategy or fulfilling its obligation under the Framework Agreement, which could have a material adverse effect the Group's business, financial position and results of operations.

The value of the Group's portfolio may fluctuate as a result of factors outside the Group's control

A significant proportion of the Group's total asset value comprises property and property-related assets. If the property markets where the Group operates weaken, the Company may have to write down the book value of the Group's properties with a corresponding loss recognised in the income statement.

Property investments are subject to varying degrees of risks. Property and property-related assets are inherently difficult to value because of the individual nature of each property and the particular terms of the arrangements to which interest in those ventures are held. Values are affected, among other things, by changing demand, changing supply within a particular area of competing space and the attractiveness of investments in real estate relative to other investment options. As a result, valuations are subject to uncertainty and, in determining market value, valuers express their subjective opinions based on assumptions which may prove to be incorrect.

The value of the Group's properties may also fluctuate as a result of other factors outside the Group's control, such as overall conditions in the economies of countries where the Group's properties are located, changes in regulatory requirements and applicable laws (including in relation to tourist land, maritime domain, planning and taxation), political conditions, the conditions of financial markets, applicable tax laws, interest and inflation rate fluctuations and higher accounting and control expenses.

Any loss in value, default or breach could have a materially adverse effect on the Group's business, financial condition and results of operations.

Failure to satisfy obligations under any current or future financing arrangements could give rise to default risk and require the Group to refinance its financial obligations

The Group's financing, and the terms thereof, will depend on the Group's ability to obtain credit facilities and the lenders' view of the stability of the Group's cash flows, among other things. Borrowings under the Group's existing credit facilities, and any credit facilities that the Group may enter into in the future, requires the Group to dedicate a part of cash flow from operations to paying interest and principal on the Group's indebtedness. The Company's financing arrangements can impact the Group in a number of ways including: (i) required payments of principal and interest may limit the funds available for working capital, capital expenditures, dividends and other purposes and (ii) amounts borrowed under certain of the existing credit facilities bear interest at variable rates in relation to which increases in prevailing interest rates could increase the amounts that the Group would have to pay to lenders, even though the outstanding principal amount remains the same, and consequently cause the net income and cash flows to decrease. If the Group does not generate or reserve enough cash flow from operations to satisfy the debt obligations, the Group may have to seek additional capital, refinance or restructure debt, sell one or more of properties, or reduce or delay capital investments. However, these alternatives, if necessary, may not be sufficient to allow the Group to meet its debt obligations.

Further, the use of financing presents the risk that the Group may be unable to service interest payments and principal repayments or comply with other requirements of its financing agreements. Under the Group's current financing arrangements, the Group is at risk of default on the occurrence of certain events. For example, a decline in performance may result in a breach of the required debt service cover ratio, thereby causing an event of default. In such a case, the lender could enforce its security and take possession of the underlying property. Were any such default to occur, the Company would seek to take steps to remedy the default without delay (if the default is remediable) or to enter into discussion with the relevant bank regarding a waiver of the default or an amendment to the terms of the facility. If such steps or discussions were unsuccessful, the Group might be forced to sell some of its assets to meet its financial obligations or seek alternative financing to repay such obligations. Such financing may not be able to be refinanced or the terms of any alternative refinancing may be less favourable than the existing terms. Furthermore, if the Group is unable to comply with the covenants under the existing credit facilities and financing agreements that the Group may enter into in the future and is unable to obtain waivers or modifications, the Group's lenders could require the Group to post additional collateral, enhance the equity and liquidity, increase interest payments or pay down the indebtedness to a level where the Group is in compliance with covenants, sell the Group's properties, or they could accelerate the Group's indebtedness, which would impair the ability of the Group to continue to conduct its business (for further details on this topic please see *Section 15 "Operating and Financial Review"*).

If the Group sells any property at a time when property prices have fallen and before the Group has recorded an impairment adjustment to financial statements, the sale may be at less than the properties carrying amount in the financial statements, resulting in a loss and a reduction in earnings which could have an adverse effect on the Group's ability to comply with certain of its financial covenants.

While the Company believes the following to be unlikely, unexpected material adverse changes to the market values of the Group's properties could result in the amount of refinancing proceeds being insufficient to repay in full existing debt on maturity requiring the Group to fund the payment of any shortfall thereby reducing the amounts available for other purposes such as investment or distribution. Any failure to satisfy debt obligations could result in a default under the terms of current and future financing arrangements, thereby having a materially adverse effect on the Group's business, financial position and results of operations.

The Group does not own the original artwork displayed in its art'otel branded hotels

A key marketing tool of the Group's art'otel branded properties is the fact that each such property displays original works of art by a famous, often local, artist. None of this artwork is owned by the Group. Formal arrangements stipulate that the main artwork displayed in certain of the art'otel properties is loaned to the Group either for the duration of the operating lease or on the basis of a fixed long-term lease for the artwork. However, in at least one case no such formal arrangement has been entered into and the Group may not therefore have sufficient legally enforceable rights to display such art.

Were the Group required to return such artwork, or were the artwork destroyed, there is no guarantee that it could replace it with original artwork of a similar standard in a timely manner or at reasonable cost. Failure to replace any artwork with similar quality of artwork could adversely affect the relevant hotel's attractiveness to its target market and may therefore have an adverse effect on the Group's business, financial condition and results of operations.

The Group may face industrial or labour disputes or other disruptions that could interfere with its operations

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 is exposed to certain risks in relation to information technology and systems

The Group is reliant on certain technologies and systems for the operation of its business. Any system failures, data viruses, computer "hackers" or other issues may result in operational problems with the Group's information systems.

As part of the Group's operations, the Group and each of its properties maintains personal data, such as credit card, identification, address and other information, of the Group's guests on their databases. In addition, the Group participates in a loyalty programme pursuant to which Carlson retains information on the Group's guests. Such information may be misused by the Group's or its partner's employees or other outsiders if there is inappropriate or unauthorised access to the relevant information systems. Incidents of unauthorised access to guest information or misuse of that information could have a material adverse effect on the Group's business or reputation. Although the Group and the PPHE Hotel Group both have operational procedures in place to protect the misuse of personal information stored on their IT systems and they both ensure that employees are informed as to the permitted use of personal information, there is no guarantee that such procedures will be adequate to prevent any misuse whatsoever.

Any material disruption or slowdown of the Group's information systems, especially any failures relating to its reservation system, including Carlson's CRS and the Opera property management system, could cause valuable information to be lost or operations to be delayed which could have a negative impact on the Group's reputation and which in turn could have a material adverse effect on the Group's business, financial condition and results of operations.

Although Carlson (through its agreement with the PPHE Hotel Group) and Micros (supplier of the Opera software) are contractually obliged to maintain their reservation and property management systems, the Group does not have control over potential failures, outages or downtime in those systems which could affect, among others, the delivery of reservations to and the general management of the Group's properties.

The Group's insurance policies may not be adequate or comprehensive

The Group insures against key risks to its business including the risk of damage to, or the destruction of, any of its hotels. Historically, the Group has maintained insurance at levels determined by the Group to be appropriate in light of the cost of cover and the risk profiles of the business in which the Group operates. However, the Group may not be able to obtain insurance that covers losses resulting from certain external risks. In addition, coverage the Group can obtain may be limited as may the Group's ability to obtain coverage at reasonable rates. With respect to losses for which the Group is covered by its insurance policies, it may be difficult and may take time to recover such losses from insurers. In addition, the Group may not be able to recover the full amount from the insurer and there are caps on the insured amounts, and to the extent that losses are suffered, there could be a shortfall between the amount of loss and the insured amount. No assurance can be given that the Group's current insurance coverage will be sufficient to cover all potential losses, regardless of the cause, nor can any assurance be given that appropriate coverage will always be available at acceptable commercial rates.

The Group's operations are subject to ecological risks

The Group's operations and financial results, primarily of its Croatian business, may be significantly negatively impacted by certain ecological disturbances such as an oil tanker spill in the north Adriatic Sea or a large release of industrial chemicals into the sea in and around the Pula and Medulin regions. The Group's beachside hotels, resorts and campsites might be negatively affected even by a smaller deterioration of the quality of surrounding seawater or pollution of beaches and shores. Any such ecological disturbances may have a material adverse effect on the Group's business, financial condition and results of operations.

The Group's operating leases under which it operates two of its hotels and the operating agreement in relation to art'otel dresden may be terminated or not renewable on acceptable terms

The Group operates art'otel dresden pursuant to an Operating Agreement with the PPHE Hotel Group as the owner of the leasehold. The PPHE Hotel Group is currently involved in a dispute with the owner of the freehold related to the PPHE Hotel Group's effort to terminate the underlying lease agreement. Should the PPHE Hotel Group be successful in its lawsuit, the lease would terminate, and as a result thereof, the relevant Operating Agreement would also terminate. The Group currently operates two of its hotels pursuant to operating leases with third-party hotel owners. art'otel budapest is operated by the Group under an operating lease which expires in 2020 and does not include a renewal option. Park Plaza Wallstreet Berlin Mitte is operated by the Group under an operating lease which expires in 2025 and includes two, five-year renewal options. If the Group's Operating Agreement related to art'otel dresden is terminated as a result of the final outcome of the ongoing dispute or the Group is unable to extend or renew either of the operating leases after the relevant expiry date, then the respective properties would no longer form part of the Group's portfolio which could have an adverse effect on the Group's business, financial condition and results of operations.

The Group is dependent on a small number of key senior personnel and management

The Company believes that the success of the Group's business is partially attributable to the efforts and abilities of the members of its senior personnel and management team. The Group's key senior personnel have extensive knowledge of the Group's business and industry. The Group relies on the efforts, diligence, skill, network of business contacts and close supervision of the business by its senior management and other key senior personnel. If the Group is unable to retain, or replace if necessary, its senior management team or other key personnel, or attract new qualified personnel required to support the business, this could have a material adverse effect on the Group's business, financial condition and results of operations.

Changes in tax laws or their interpretation could adversely affect the Group's profitability and financial condition and therefore the level of dividends the Company is able to pay

The Group is subject to tax in jurisdictions in which its members are incorporated or operate. Changes in the Group's operations or ownership could result in additional tax being imposed on the Group in jurisdictions in which operations are conducted.

The levels of, and reliefs from, taxation available to the Group may not be in accordance with the assumptions made by the Company or may change. There can be no guarantee that the rates of taxation envisaged by the Company will be the ongoing rates of taxation paid by the Group.

Changes to the tax laws or practice in Croatia, Germany, Hungary, the Netherlands (where some of the Group's holding companies are incorporated) or any other tax jurisdiction in which the Group is located or operates, or may in the future be located or operate, could impact the Group's profitability and financial position and therefore the level of dividends which the Company is able to pay. Specifically, any change in the Group's tax status or changes in tax legislation or tax treaties negotiated by those countries in which the Group operates or any other tax jurisdiction in which the Group may operate in the future, or in taxation legislation in Croatia, Germany, Hungary, the Netherlands or any other tax jurisdiction in which the Group operates or may in the future operate could affect the value of investments held by the Group or affect the Company's ability to pay dividends or alter the post-tax returns to its shareholders. There can be no guarantee that the rates of taxation envisaged by the Group will be the on-going rates of taxation paid by the Group. Additionally, subsidiaries of the Company are subject to income tax in their country of domicile in respect of their operations. The basis on which they are taxed and the rates of tax may change. Such changes may lead to higher taxes than assumed by the Company being paid which in turn could have a material adverse effect on the Group's business, financial condition and results of operations.

2.2 Risks Related to the Hotel Industry

The Group is subject to certain risks common to the hotel industry, some of which are beyond its control

The Group currently owns, partially owns, co-owns, leases or operates hotels in Croatia, Germany and Hungary. The Group's operations and the results of its operations are subject to a number of factors that could adversely affect its business. Many of these are common to the hotel industry and the Company believes the most significant factors are as follows:

- a downturn in international travel market conditions, the national, regional or local political, economic and travel market conditions, including epidemics, travel-related accidents, travel-related industrial action, increased transportation and fuel costs, or natural disasters in the countries in which the Group operates, which may diminish the demand for leisure and business travel and meeting and conference space;
- increases in interest rates, which could affect the Group's ability to negotiate future acquisitions or funding on favourable terms;
- increased competition and periodic local oversupply of guest accommodation in the locations where the Group has operations;
- changes in travel patterns or in the structure of the travel industry, including any increase in, or the imposition of new taxes on, air travel;
- increases in operating expenses as a result of inflation, increased personnel costs and healthcare related costs, higher utility costs (including energy) costs, increased taxes and insurance costs, as well as unanticipated costs as a result of acts of nature and their consequences and other factors that may not be capable of being offset by increased room rates;
- changes in governmental laws and regulations, including those relating to employment, the preparation and sale of food and beverages, smoking, health and alcohol licensing laws and environmental concerns, fiscal policies and zoning ordinances and the related costs of compliance;
- high oil prices adversely affecting travel; and
- the adverse effects of any global or regional economic downturn.

The impact of any of these factors (or a combination of them) may adversely affect room rates and occupancy levels in the Group's operations, or otherwise cause a reduction in the Group's revenues. Such factors (or a combination of them) may also adversely affect the value of the Group's assets and in either such case would have a material adverse effect on the Group's business, financial condition and results of operations.

Acts of terrorism have adversely affected the hospitality industry generally and these adverse effects may continue or worsen

The recent terrorist incidents in European cities such as Paris, Brussels, Nice and Berlin, and terrorist acts in tourist destinations such as Tunisia, Egypt and Turkey significantly affected, and are expected to continue to affect, international travel and consequently global demand for accommodation. The Group's properties may be adversely affected from time to time by safety concerns and a significant overall decrease in the amount of air travel, which particularly affect the corporate and premium segments that generally pay the highest room rates on average. The uncertainty associated with the ongoing instability in the Middle East and the possibility or occurrence of future attacks, terrorism alerts or outbreaks of hostilities may give rise to an increased negative effect on business and leisure travel patterns and, accordingly, the performance of the Group's business. In addition, although the Group has made preparations and conducted contingency planning for such events there can be no guarantee that such preparations and planning will be adequate in all cases and a major incident or crisis may prevent operational continuity and consequently impact the value of the brands or the reputation of the Group which could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group's results depend on the number of guests it is able to attract and on consistent and predictable rates of occupancy in its properties which are impacted by general economic conditions

The Group's business is influenced by general economic trends. Levels of discretionary business and leisure travel and discretionary business and consumer spending have been and could be adversely affected by global economic conditions. In particular, the number of tourists travelling and the amount that customers spend when they travel could decrease if disposable income decreases, sales taxes or value-added taxes increase, unemployment increases, transport and fuel costs increase, or the spending habits of customers change to reflect increased uncertainty or apprehension regarding economic conditions. For example, the effects of an exit by the United Kingdom from the European Union (commonly referred to as **Brexit**) are uncertain and will depend on any agreements the United Kingdom makes to retain access to European Union markets. The announcement of Brexit caused (and the actual exit of the United Kingdom from the European Union may in the future cause) exchange rate fluctuations, regional or global economic uncertainty, which may cause travellers to delay or cancel their travel and holiday plans. In addition, the deterioration of the sovereign debt of, for example, several countries in the Eurozone, together with the risk of contagion to other more stable countries could adversely impact the financial condition of the Group's travelling customer base, which in turn may adversely affect the Group's operations.

A significant downturn in revenues as a result of decreased occupancy rates may also have a material adverse effect on the Group's ability to service its debt and direct costs and its ability to satisfy its borrowing requirements on favourable terms or at all. A significant deterioration or sustained decline in economic conditions could reduce consumer spending at the Group's properties, and if economic conditions worsen there can be no assurance that this will not result in a decrease in occupancy rates which would have a material adverse effect on the Group's business, financial condition and results of operations.

The growth of online distribution channels and competition from general search engine companies and short term private lodging companies may reduce traffic to the Group's own distribution channels and adversely affect the Group's business and profitability

The travel industry has changed considerably in recent years as a result of changes in travel patterns, emergence of OTAs, short-term private lodging websites, new technologies and changes in customer booking behaviour and travel expectations. This trend is expected to continue and the travel industry is expected to continue to be impacted by the rise of online travel booking agents and other market forces such as search engines and social media networks.

A significant part of the Group's units are booked through external online distribution channels. The Group contracts with such intermediaries and pays them various commissions and transaction fees for sales of its rooms through their systems. If such bookings increase, these intermediaries may seek to negotiate higher commissions, reduced room rates or other significant contract concessions.

Large, established internet search engines, such as Google and Bing Travel, allow users to search for reservations and have substantial resources and expertise in developing online commerce and facilitating internet traffic. In addition to online distribution channels generally, such search engines employ significant marketing strategies, including significant resources for online and television advertising campaigns to drive consumers to their websites. This may significantly reduce the number of the Group's direct bookings and make it easier for customers to book accommodation with competitors of the Group. The Group's business strategy depends in part on the Group's ability to capture an increasing amount of bookings through its own distribution channels, including the Carlson Central Reservation System. If such search engines and online distribution channels are successful in reducing traffic to the Group's own distribution channels, the Group's business and profitability could be adversely affected. Furthermore, as a centralised source of several hospitality offerings, the search criteria of these search engines and online distribution channels tend to increase the importance of price and general indicators of quality at the expense of brand identification, which may impact the public's recognition of the Group's brand and require the Group to increase its marketing expenditures that may nonetheless prove ineffectual. In addition, consumers may develop brand loyalties to the websites of the online distribution channels to the Group's detriment. These intermediaries have increased the transparency in the prices charged by various hospitality operators for their products and services, thereby making price management more difficult for hospitality operators. If guest preferences increasingly shift to online distribution channels and divert bookings away from the Group's website, or if the fees charged by third-party websites increase the overall cost of internet bookings for the Group's properties, it could have a material adverse effect on the Group's business, financial condition and results of operations.

Given the amount of units sold through online distribution channels, the Group is to a certain extent dependent on such distribution channels. Any interruptions in the relationships with online distribution channels or interruptions in OTA services could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group's business relies on a workforce comprising quality, service oriented employees and it may be unable to attract and retain such employees in sufficient numbers

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 types 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.

A significant proportion of the Group's operating expenses are fixed, which may impede the Group from reacting quickly to changes in its revenue

A significant proportion of the Group's operating expenses are, or are to a large extent, fixed and not linked to the performance of its properties, including personnel, heating, information technology, telecommunications and similar expenses. As such, the Group's operating results are vulnerable to short-term changes in its revenues. The Group's inability to react quickly to changes in its revenue by reducing operating expenses could have a material adverse effect on the Group's profitability and therefore its ability to pay dividends in the future or reduce the cash available for investment in the existing portfolio or expansion of the portfolio.

The Group is reliant on licences and permits in order to carry on certain of its activities

The Group operates in a regulated sector of the economy. Some of the Group's properties are licensed to sell alcohol, hold entertainment licences and hold permits or concession approvals to organise activities on the beach areas. There can be no guarantee that these licences or permits will be renewed in the future, or that the Group will be able to obtain the licences or permits it requires for any new properties.

In Croatia, the Company has submitted legalisation requests with the purpose of replacing missing building permits and/or use permits, primarily in relation to certain parts of resorts (e.g. terraces) and certain ancillary structures (e.g. stairs, canopies) or in relation to certain facilities within the campsites.

There can be no assurance that such submitted requests will ultimately be approved. The loss of, any licences or permits or failure to obtain all requested approvals for any reason, including due to non-compliance with the applicable terms or otherwise, could result in the loss or revocation of such licence or permit or an inability to operate the respective facilities, which could in turn have a material adverse effect on the Group's business, financial condition and results of operations.

The Group is subject to environmental and health and safety laws and regulations

As an owner and an operator of hotels, the Group is subject to a variety of European Union, national and local laws and regulations concerning environmental and health and safety (**EHS**) matters. While the Company believes that the Group is in compliance in all material respects with EHS laws and regulations currently applicable to it, there can be no assurance that the Group will not be found to be in breach of EHS laws and regulations. Failure to comply with present or future EHS laws and regulations could result in regulatory action, the imposition of fines or third party claims, which could damage the Group's reputation. In addition, compliance with new EHS laws and regulations could require the Group to incur significant costs that could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group's properties were constructed at various times and, in some cases, on or in areas that have historically been the subject of commercial or industrial use. As a result, hazardous substances (such as asbestos) may be present within land or buildings at some of these properties. Development or redevelopment of a Group's property could also reveal the presence of hazardous substances. EHS laws and regulations could impose obligations on the Group to manage, investigate, remediate, or pay for the management, investigation, remediation of, hazardous substances, or pay compensation to third parties for related damages in relation to such hazardous substances. If an issue in relation to the presence of hazardous substances at any Group property were to arise, and it were not remedied or not capable of being remedied, this may also adversely affect the Group's ability to sell, lease or operate the property or to borrow using the property as collateral. While the Company is not currently aware of any issues regarding hazardous substances at any of the Group's properties that would be likely to result in material remediation costs, regulatory action or third party claims, there can be no assurance that management, investigations, remediation or third party claims in respect of such matters will not arise which could have a material adverse effect on the Group's reputation, business, financial condition and results of operations.

2.3 Risks Related to the Shares

There has been only limited liquidity for the Listed Shares and the Shares may experience price and volume fluctuations

Prior to the Offering, there has been limited liquidity for the Listed Shares. There can be no assurance that the Shares will become more liquid or that a market will develop following the Offering or if it does that it will be maintained. Limited liquidity for the Shares, including the Offer Shares, may impair holders' ability to sell them in the amount and at the price and time the holders may wish to do so, and may increase the volatility of the price of the Shares.

The Offer Price may not be indicative of the market price for the Shares after the Offering. The Company's operating results or financial performance may fail to meet the expectations of analysts or investors due to the circumstances described in these risk factors or otherwise. Fluctuations in the Group's operating results or failure to meet the expectations of analysts or investors may cause the price of the Shares to decline, and Investors may not be able to sell the Offer Shares they purchased in the Offering at or above the original price of the Offer Shares, or at all. As a result, Investors who purchase Offer Shares in the Offering could lose all or part of their investment in the Offer Shares.

The market price of the Shares may fluctuate significantly in response to a number of factors, many of which are beyond the Company's control, including: legislative changes affecting the hotel business; general economic or political or regulatory conditions; variations in results of operation in the Group's reporting periods; changes in financial estimates by securities analysts; change in market valuations of similar companies; announcements by the Group of significant contracts, acquisitions, strategic alliances, joint ventures or capital commitments; any shortfall in revenues or net income or any increase in losses from levels expected by securities analysts; future issues or sale of securities; and stock market price and volume fluctuations. Any of these events could result in a material decline in the price of the Shares.

The ZSE is smaller and less liquid than other major exchanges and may be more volatile, which may adversely affect Investors' ability to trade the Offer Shares purchased in the Offering

The capital market in Croatia has characteristics of a small market with limited liquidity. This is evident from the limited number of (i) companies whose securities are traded on the Zagreb Stock Exchange, (ii) institutional investors, (iii) liquid financial instruments and (iv) standardized derivative financial instruments. This results in a few institutional investors having a high level of influence on prices and trading volumes, a lack of liquidity in the primary and secondary markets, extreme price volatility in some instances, under-development of corporate governance and difficulty accessing the capital market as well as traditional commitment to financing through commercial banks.

In recent years, the Croatian capital market has gone through significant price and trading volume fluctuations. Such fluctuations may pose an increased risk of negative impact on the market price of the Shares. Taking into account all the above deficiencies, it can be concluded that the Croatian capital market, compared with developed markets, presents a greater systemic risk to investors.

Upon completion of the Offering, the Company's largest indirect shareholder, the PPHE Hotel Group will continue to indirectly hold a majority of the Shares in the Company

The PPHE Hotel Group will continue to indirectly hold a majority of the Shares following completion of the Offering and may be able to block the adoption of resolutions of the General Assembly deemed by it to be unfavourable or undesirable, including those that could lead to the dilution of its shareholdings in the Company. The sale of Shares by the PPHE Hotel Group after the lock-up period could adversely affect the price of the Shares. In addition, the PPHE Hotel Group's interests may differ from those of other shareholders of the Company. Although the Croatian Companies Act and the Articles of Association include certain provisions for the protection of minority shareholders, there can be no assurance that such provisions will prevent the PPHE Hotel Group from taking actions which may be contrary to the interests of such minority shareholders. For instance, there is a possibility that the PPHE Hotel Group may take certain steps in respect of the Company's dividend policy, which will not be in the Company's or its shareholders' best interest or will induce the Company to conclude a transaction with related parties whose interests may conflict with the Company's interests or the interests of its other shareholders. When considering an investment in the Offer Shares, an Investor should not assume that the PPHE Hotel Group will be guided by the interests of all or some of the Company's other shareholders.

The future market price of the Shares may not reflect the net asset value of the Group

There is no guarantee that the market price of the Shares will fully reflect the underlying value of the assets owned by the Group. As well as being affected by the underlying value of such assets, the market price of the Shares will be influenced, amongst other factors, by the supply and demand of the Shares in the market. Accordingly, the market price of the Shares may vary considerably from the underlying value of the Group's assets.

Future issuances of new Shares may dilute the holdings of shareholders and could materially affect the market value of the Shares

It is possible that the Company may in the future decide to offer additional shares or other securities in order to finance expansion or other projects, in connection with unanticipated liabilities or expenses or for any other purposes. There can be no assurance that the Company will not decide to conduct further offerings of securities in the future. Depending on the structure of any future offering, certain existing shareholders may not be able to purchase additional shares. If the Company raises additional funds by issuing additional shares, holdings and voting interest of existing shareholders may be diluted and the market price of the Shares may decline. In addition, future issuances may include shares with terms that give new investors rights superior to those of current shareholders.

Under the Croatian Companies Act, existing shareholders enjoy pre-emption rights in respect of any new shares issued in proportion to their existing shareholding in the Company. However, the applicable regulations permit an increase in the share capital while excluding or limiting the aforementioned pre-emption rights, which must be approved by the General Assembly.

As at the date of this Prospectus, there are a total of 3,273,750 issued shares of the Company, which includes the Listed Shares and Listing Shares. The PPHE Hotel Group and Mrs. Milena Perković are subject to a lock-up of 180 days following commencement of trading of the Offer Shares and the Listing Shares on the Official Market, subject to certain exceptions. However, the issuance or sale of substantial amounts of new shares after that period, or the perception that such issuances or sales could occur, could adversely affect the market price of the Shares and the Company's ability to raise capital through future capital increases.

The Company has never paid dividends and its ability to pay dividends in the future is contingent on several factors

The Company has never paid dividends. The ability to pay dividends, the amount of dividend payments and their timing will depend, *inter alia*, on future profitability, financial conditions, cash flows, capital expenditures and covenants included in the Company's loan and other agreements with the banks governing outstanding indebtedness of the Company and that of the Company's subsidiaries. Therefore, the Company cannot guarantee that it will have the funds available for dividend payments in the future. In accordance with the prevailing legislation and practice in Croatia, dividends are generally paid once a year after a relevant corporate body of a company approves the financial statements of the company and, if applicable, the shareholders approve the amount of the proposed dividend. Therefore, any payment of dividends by a company will always be subject to the discretion of that company's shareholders.

Croatian law prohibits the payments of dividends other than from retained earnings or net profits and as at 31 December 2016 the Company had HRK 91.0 million in accumulated losses. The Group may not have sufficient retained earnings or net profits in the future to propose or declare dividends and the Company's subsidiaries may not have sufficient funds or surplus to make distributions to the Company. The Group can give no assurance that any dividends will be paid.

PART 3

RESPONSIBILITY STATEMENT

The persons responsible for the information contained in this Prospectus are:

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

Executive Directors of the Company:

- Mr. Reuel Israel Gavriel Slonim
- Mrs. Milena Perković

Members of the Board of Directors of the Company:

- Mr. Boris Ernest Ivesha, chairman
- Mr. Yoav Arie Papouchado, deputy chairman
- Mr. Chen Carlos Moravsky, member
- Mr. Abraham Thomas, member
- Mr. Denis Jukić, member
- Mr. Šime Vidulin, member
- Mr. Vehbija Mustafić, member – employee representative

We, as the persons responsible for the information contained in this Prospectus confirm that, having taken all necessary actions to ensure that such is the case, the information contained in this Prospectus is, to the best of our knowledge, in accordance with the facts and contains no omissions likely to affect the meaning hereof.

Statement Signatories:

Executive Directors

Mr. Reuel Israel Gavriel Slonim	Mrs. Milena Perković

Board of Directors

Mr. Boris Ernest Ivesha, chairman	Mr. Yoav Arie Papouchado, deputy chairman
Mr. Abraham Thomas, member	Mr. Chen Carlos Moravsky, member
Mr. Denis Jukić, member	Mr. Šime Vidulin, member
Mr. Vehbija Mustafić, member	

PART 4

GENERAL INFORMATION

This Section provides general information on the presentation of financial and other information, as well as the use of forward-looking statements, in this Prospectus. Any potential investor should read this information carefully before continuing.

4.1 Cautionary Note Regarding Forward-Looking Statements

Certain statements in this Prospectus are not historical facts and are forward-looking statements. They appear in a number of places throughout this Prospectus. From time to time, the Group may make written or oral forward-looking statements in reports to shareholders and in other communications. Forward-looking statements include statements concerning the Group's plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditure, financing needs, plans or intentions relating to acquisitions, competitive strengths and weaknesses, business strategy and the trends which the Group anticipates in the industries and the political and legal environment in which it operates and other information that is not historical information.

Words such as "believe", "anticipate", "estimate", "expect", "intend", "predict", "project", "could", "may", "will", "plan" and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. These risks, uncertainties and other factors include, among other things, those listed under Section 2 "*Risk Factors*", as well as those included elsewhere in this Prospectus. Prospective Investors should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to, the following:

- reliance of the Group on its relationships with the PPHE Hotel Group and Carlson;
- seasonality and weather conditions in relation to the Group's Croatian business;
- status and extent of the Group's co-ownership and other interests in certain of its properties in Croatia;
- macroeconomic and other factors common to the hospitality industry;
- reliance on the reputation and awareness of the brands under which the Group operates;
- growth of online distribution channels and competition from general search engine companies and short term private lodging companies;
- reliance on information technology;
- engaging in financing arrangements now and in the future which may limit funds available for other uses or for which the Group may not be able to obtain refinancing on favourable terms or at all; and
- potential conflicts of interests between members of the Board of Directors and the PPHE Hotel Group.

As noted above, this list of important factors is not exhaustive. When relying on forward-looking statements, Investors should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which the Group operates. Such forward-looking statements speak only as of the date on which they are made. Accordingly, the Company does not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise, other than as required by applicable laws and the ZSE Rules. The Company makes no representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

The information contained in this Prospectus, including the information set out in *Section 2 "Risk Factors"*, identifies factors that could affect the Group's financial position, operating results, liquidity and performance. Prospective Investors are urged to read all sections of this Prospectus and, in particular, *Section 2 "Risk*

Factors", for a more complete review of the factors that could affect the Group's future performance and the markets and industry in which the Group operates when considering an investment in the Offer Shares.

4.2 Presentation of Financial and Other Information

The information from third parties in this Prospectus is sourced from the following sources:

- The Croatian Financial Services Supervisory Agency or CFSSA (in Croatian: *Hrvatska agencija za nadzor financijskih usluga* or HANFA), Miramarska 24b, 10000 Zagreb, Croatia (www.hanfa.hr);
- The Zagreb Stock Exchange or ZSE (in Croatian: *Zagrebačka burza*), Ivana Lučića 2a, 10000 Zagreb, Croatia (www.zse.hr);
- The Croatian National Bank or CNB (in Croatian: *Hrvatska narodna banka* or HNB), Trg hrvatskih velikana 3, 10000 Zagreb, Croatia (www.hnb.hr);
- European Securities and Markets Authority or ESMA, 103 rue de Grenelle, 75007 Paris, France (www.esma.europa.eu);
- Croatian Central Depository & Clearing Company Inc. or CDCC (in Croatian: *Središnje klirinško depozitarno društvo d.d.* or SKDD), Heinzelova 62/a, 10000 Zagreb, Croatia (www.skdd.hr);
- Ministry of Justice of the Republic of Croatia and the State Geodetic Authority website (https://oss.uredjenazemlja.hr/public/lrextracts.jsp?action=publicBdcExtract);
- website of the Court Register (in Croatian: *sudski registar*) (https://sudreg.pravosudje.hr/registar/)
- Croatian Bureau of Statistics (in Croatian: *Državni zavod za statistiku*) (http://www.dzs.hr/);
- The World Trade & Tourism Council or WTTC, The Harlequin Building, 65 Southwark Street, SE1 0HR, London, United Kingdom (www.wttc.org);
- STR, Blue Fin Building, 110 Southwark Street, SE1 0TA, London, United Kingdom (www.str.com);
- Christie & Co, Whitefriars House, 6 Carmelite Street, EC4Y 0BS, London, United Kingdom (www.christie.com);
- International Monetary Fund or IMF, 64-66, Avenue d'Iena, 75116 Paris, France (www.imf.org);
- Federal Statistical Office of Germany or Destatis, Statistisches Bundesamt, Gustav-Stresemann-Ring 11, D-65189 Wiesbaden, Germany (www.destatis.de);
- Global Terrorism Index 2016 as published by the Institute for Economics & Peace, 205 Pacific Hwy, St Leonards, NSW 2065, Sydney, Australia (www.economicsandpeace.org/wp-content/uploads/2016/11/Global-Terrorism-Index-2016.2.pdf);
- HORWATH i HORWATH CONSULTING ZAGREB d.o.o., Ulica grada Vukovara 269a/14, 10000 Zagreb, Croatia (www.horwathhtl.hr/);
- The Croatian National Tourist Board, Iblerov trg 10/IV, 10000 Zagreb, Croatia (http://business.croatia.hr/en-GB/Croatian-national-tourist-board);
- TopHotelProjects (www.tophotelprojects.com);
- Statistical Office for Berlin-Brandenburg, Behlertstraße 3a, 14467 Potsdam, Germany (www.statistik-berlin-brandenburg.de/);
- Cushman&Wakefield, Metropolitan, Plac Pilsudskiego 1, Warsaw, Poland (www.cushmanwakefield.pl);
- PKF hotelexperts, part of PKF International, 12 Groveland Court, London, UK (www.pkf.com);
- Organisation for Economic Co-operation and Development or OECD, 2, rue André Pascal, Paris, France (www.oecd.org);
- Statistical Office of the European Union or Eurostat, Joseph Bech building, 5, Rue Alphonse Weicker, Luxembourg (www.ec.europa.eu) (www.ec.europa.eu);
- S&P (Standard & Poor's) Global Ratings (https://www.standardandpoors.com/en_EU/web/guest/ratings/entity/-/org-details/sectorCode/S OV/entityId/107118); and

- Hungarian Central Statistical Office, Keleti Károly Str. 5–7, Budapest, Hungary (www.ksh.hu).

The Company confirms that where information has been sourced from a third party, such information has been accurately reproduced and, as far as it is aware and is able to ascertain, from the information published by a third party, no facts have been omitted that would render the reproduced information inaccurate or misleading. Where information sourced from third parties has been presented, the source of such information has been identified. The accuracy and completeness of such information is not guaranteed and the Company takes no responsibility for the correctness of such data. The Company cautions prospective Investors not to place undue reliance on the above mentioned data.

Sources of industry and market data

Market and industry data contained in this Prospectus has been derived from various industries and other independent sources as well as the Company's knowledge of the markets. Statistical information and graphs are generally obtained from the Croatian Bureau of Statistics (in Croatian: *Državni zavod za statistiku*) (http://www.dzs.hr/). Most data on the industry and the market is further described in *Section 13 "Industry Overview"*, but can also be found elsewhere in this Prospectus.

Where third party information has been used in this Prospectus, the source of such information has been identified. Sources of third party information in this document include information produced by Horwath HTL and STR.

The Company has obtained information stated in the Prospectus regarding market, market size, market shares, growth rates and market penetration rates, as well as other relevant information related to the activities performed by the Company in the course of its regular business, by using sources of information directly or indirectly related to its regular activities, as well as by using publicly available information. The Company accepts responsibility for the truthful and complete presentation of such publicly available information; however, the Company does not accept the responsibility for accuracy and completeness of such information itself. The Company has not independently verified information provided by other entities engaged in the same activities as the Company, nor the information obtained by the competent state authorities.

Historical financial information

The following historical financial information have been included in Appendix A "Financial Statements" to this Prospectus:

(i) the audited consolidated financial statements of the Group as at and for the years ended 31 December 2016, 2015 and 2014, together with the notes thereto (the **Group Financial Statements**); and

(ii) the audited combined financial statements of the Sugarhill Group as at and for the years ended 31 December 2016, 2015 and 2014, together with the notes thereto (the **Sugarhill Financial Statements**).

The Group Financial Statements were audited by PricewaterhouseCoopers d.o.o. and the Sugarhill Financial Statements were audited by MAZARS GmbH & Co. KG Wirtschaftsprüfungsgesellschaft, and their respective audit reports are included in *Appendix A "Financial Statements"*.

Because the Sugarhill Contribution involved the combination of businesses under common control, it was not a business combination within the scope of IFRS 3. The retrospective predecessor method of accounting could be applied as of 1 April 2016, the date that Sugarhill Group became part of the group of companies under common control. However, the Company believes that accounting method would have not improved the quality of information provided to investors in the current year and in coming years. For this reason the prospective method has been applied for the acquisition of the Sugarhill Group. Accordingly, the Group Financial Statements reflect the Group's results of operations for the years ended 31 December 2016, 2015 and 2014, which do not include the Sugarhill Group. However, the Group's consolidated statement of financial position as at 31 December 2016 does give effect to the Sugarhill Contribution, as will the Group's financial statements for the periods after 31 December 2016. Consequently, the Group's statement of financial position as at 31 December 2016 is not directly comparable to the Group's statements of financial position as at 31 December 2015 and 2014.

The Sugarhill Financial Statements are not financial statements of the Company, the Group or any of the members of the Group. The Sugarhill Financial Statements are included in the Prospectus pursuant to the requirements of Article 4a Section 1 of the Regulation.

In this Prospectus, financial information for the Group and the Sugarhill Group has been extracted or derived from the Group Financial Statements and the Sugarhill Financial Statements, respectively, as well as from the Group's and the Sugarhill Group's unaudited management accounts based on accounting records of the Group and the Sugarhill Group, respectively.

The Group Financial Statements and the Sugarhill Financial Statements are prepared in accordance with IFRS as adopted in the EU. Presentation of financial information in accordance with IFRS requires the management of, respectively, the Group and the Sugarhill Group, to make various estimates and assumptions which may impact the values shown in the Group Financial Statements and the Sugarhill Financial Statements. The actual values may differ from such assumptions. For further information about the auditors and the Group Financial Statements and the Sugarhill Financial Statements please see *Section 14 "Selected Financial Information"*, *Section 15 "Operating and Financial Review"*, *Section 21 "Additional Information"* and *Appendix A "Financial Statements"*.

Pro forma financial information

The unaudited pro forma consolidated income statement information for the year ended 31 December 2016 (the **Pro Forma Financial Information**) and related notes have been prepared to illustrate the effect of (i) the Sugarhill Contribution in conjunction with the Operational Restructuring and (ii) the acquisition of the freehold interests in art'otel cologne and art'otel berlin kudamm, as if each had taken place on 1 January 2016. This pro forma financial information has been prepared in accordance with Annex II to the Regulation and in a manner consistent with the accounting policies applied in preparing the Group Financial Statements. The pro forma financial information has been prepared for illustrative purposes only, and because of its nature, addresses a hypothetical situation and, therefore, does not represent the Group's actual financial position or results. It may not, therefore, give a true picture of the Group's financial position or results, nor is it indicative of the results that may, or may not, be expected to be achieved in the future.

The Group Financial Statements and the Sugarhill Financial Statements formed the basis for preparing the Pro Forma Financial Information.

For further information about the Pro Forma Financial Information please see *Section 15 "Operating and Financial Review"*, *Section 21 "Additional Information"* and *Appendix B "Pro Forma Financial Information"*.

Alternative performance measures

For a discussion of certain non-IFRS financial measures (alternative performance measures) appearing in this Prospectus, please see *Section 15.5 "Operating and Financial Review—Alternative Performance Measures"*.

Exchange rate information

The following table sets out certain information concerning the historic midpoint HRK/EUR exchange rates for the years and months indicated based on the rates published by the CNB on its website (www.hnb.hr).

Exchange rate table

Year	*High*[(1)]	*Low*[(2)]	*Average*[(3)]	*Period End*[(4)]
	(HRK per EUR 1.00)			
2012	7.58	7.39	7.52	7.55
2013	7.65	7.44	7.57	7.64
2014	7.67	7.56	7.63	7.66
2015	7.72	7.52	7.61	7.64
2016	7.67	7.47	7.53	7.56

Monthly in 2017	*High*[(1)]	*Low*[(2)]	*Average*[(3)]	*Period End*[(4)]
	(HRK per EUR 1.00)			
January	7.58	7.48	7.53	7.48
February	7.48	7.43	7.45	7.43
March	7.44	7.40	7.42	7.44

Source: CNB

Notes:

(1) The highest midpoint exchange rate during the year or month concerned.

(2) The lowest midpoint exchange rate during the year or month concerned.

(3) The average of all daily midpoint exchange rates during the year or month concerned as calculated by the CNB

(4) The midpoint exchange rate in effect on the last day of business in Croatia for the year or month concerned.

The historic exchange rate information in the table above is provided for information only and the exchange rates presented may differ from those used in preparing the Group Financial Statements and the Sugarhill Financial Statements.

Unless otherwise noted, all convenience translations from HRK into EUR in this Prospectus were made at a rate of HRK 7.56 to EUR 1.00, the midpoint exchange rate as at 31 December 2016, which was also used by the Company in preparing the Group Financial Statements in accordance with IFRS. This Prospectus also contains translations of HRK amounts into EUR using the CNB sourced midpoint HRK/EUR rate on the specified date. The Company makes no representation that any HRK or EUR amount could have been, or could be converted into EUR or HRK, as the case may be, at any particular rate, at the rates stated above or at all.

Currency presentation and rounding

In this Prospectus, all references to **HRK** or **Croatian Kuna** are to the lawful currency of the Republic of Croatia, and all references to **Euros, EUR** or **€** are to the lawful currency of all such EU Member States which have accepted EUR as their lawful currency.

In this Prospectus, all references to **EU** are to the European Union and the EU Member States as of the date of this Prospectus; and all references to **US** or **United States** are to the United States of America.

Certain figures included in this Prospectus have been subject to rounding adjustments (by rounding to the nearest whole number or decimal or fraction, as the case may be). Accordingly, figures shown for the same category presented in different tables may vary slightly. As a result of rounding adjustments, the figures presented may not add up to the total amount presented.

PART 5

USE OF PROCEEDS AND REASONS FOR THE OFFERING

The key reasons for the Offering and, upon a successful Offering, the Company's intended uses for the majority of the net proceeds are to:

(i) accelerate the implementation of the Group's capital investment plan aimed at upgrading a number of properties in Croatia and fund the Group's expansion in the CEE Region (please see *Section 10.10 "Business Overview–Investment Capital Expenditure Overview, Refurbishments and Developments"* for detailed information on the planned capital investments);

(ii) exercise the Sugarhill Option in the amount of EUR 8.33 million (HRK 61.9 million) and associated transaction costs (including real estate transfer tax, where applicable, in Germany) of EUR 1 million (HRK 7.4 million); and

(iii) repay debt in an amount of up to 25 per cent. of the net proceeds of the Offering, subject to a minimum of EUR 10.6 million (HRK 78.7 million), in order to repay amounts drawn on the loan facilities from Euro Sea, which were used to partially finance the acquisition of the freehold interests in art'otel cologne and art'otel berlin kudamm, and also to refinance senior debt where appropriate and achieve more favourable terms.

The net proceeds of the Offering, following the payment of Offering related fees and expenses, are expected to be HRK 750 million.

Net proceeds are calculated after the deduction of underwriting commissions and other estimated fees and expenses of the Offering (assuming the maximum amount of the Joint Global Coordinators and Bookrunners' discretionary incentive fee is paid).

The Company estimates that the total expenses of the Offering, including the costs of the Joint Global Coordinators and Bookrunners, legal advisors, independent auditors, CFSSA, CDCC, ZSE and other relevant costs, will amount to approximately HRK 40 million.

The translations of the indicated EUR amounts into HRK values in this Section were made using the CNB (www.hnb.hr) mid-exchange EUR/HRK rate on 28 February 2017 of HRK 7.428657 to EUR 1.00. Actual amounts may differ due to, among other things, fluctuation of the EUR/HRK exchange rate up to 26 May 2017 when the Offer Price is expected to be determined.

The Company will receive all of the net proceeds of the Offering.

PART 6

TERMS OF THE OFFERING

This Section sets out the terms and conditions pursuant to which all applications for the purchase of Offer Shares in the Offering are made. Investing in the Offer Shares involves risks. In making an investment decision, each Investor must rely on its own examination, analysis of and enquiry into the Company, the Offer Shares and the terms of the Offering, including the merits and risks involved. None of the Company or the Joint Global Coordinators and Bookrunners or any of their respective representatives or advisers, is making any representation to any Investor regarding the legality of an investment in the Offer Shares by such Investor under the laws applicable to such Investor. Each prospective Investor should consult with his or her own advisors as to the legal, tax, business, financial and related aspects of investing in the Offer Shares. Each Investor should read this Section in conjunction with the other parts of this Prospectus, in particular Section 2 "Risk Factors".

6.1 Decision to Undertake and to Implement the Offering

On 22 March 2017, the General Assembly of the Company adopted a decision on the increase of share capital and issuance of ordinary shares by way of a public offering, with payment of contributions in cash and with the full exclusion of the existing shareholders' pre-emptive right to subscribe and pay for the new shares and on amendments to the Articles of Association (**Capital Increase Decision**). Pursuant to the Capital Increase Decision and assuming the Offering is successful, the share capital of the Company will be increased from HRK 65,475,000.00 by a minimum of HRK 20,000,000.00 to a minimum of HRK 85,475,000.00 and by a maximum of HRK 40,000,000.00 to a maximum of HRK 105,475,000.00, by the issuance of a minimum of 1,000,000 and a maximum of 2,000,000 new ordinary registered shares in the nominal amount of HRK 20.00 each (**Offer Shares**). The Offer Shares will be issued at a premium, i.e. each above their nominal value of HRK 20.00.

The Offer Shares will be issued under the legislation of the Republic of Croatia and the EU acquis communautaire.

This Prospectus is subject to approval by the CFSSA. Once approved, it is expected that this Prospectus will be published in electronic form through the Company's website (www.arenaturist.com) and through ZSE's website (www.zse.hr). This Prospectus will also be available in printed form at the registered office of the Company as well as at the designated sites of the Joint Global Coordinators and Bookrunners upon request and free of charge.

Subject to the approval of this Prospectus by CFSSA, it is expected that on or about 12 May 2017, the Company will announce the Offering on the basis of this Prospectus, by making a public invitation for subscription and payment for the Offer Shares on the website of the court register, on the website of the Company (www.arenaturist.com), on the ZSE's website (www.zse.hr) and in at least one daily newspaper circulated throughout or widely circulated in the Republic of Croatia.

No further authorization of the Offering is required.

The Offering may be revoked or suspended in the circumstances stipulated by applicable Croatian regulations (for example, as a result of the decision of the competent authority). The Offering may not be revoked by the Company after commencement of trading in the Offer Shares.

6.2 Offering

The Offer Shares are offered by the Company in the Offering which comprises:

(i) an Institutional Investors Offering, in which the Offer Shares are being offered to (a) Institutional Investors in Croatia and (b) Institutional Investors outside Croatia subject to exemptions from local prospectus or other filing requirements; and

(ii) a Retail Investors Offering, in which the Offer Shares are being offered to Retail Investors in Croatia.

The Offer Shares are being offered and sold only outside the United States in "offshore transactions" in reliance on, and as such term is defined in, Regulation S under the US Securities Act.

The Institutional Investors Offering is open to any legal or natural person who meets the following criteria: having (i) expressed interest to subscribe for the Offer Shares in a minimum amount of HRK 400,000; and (ii) an established trading line directly or indirectly with any of the Joint Global Coordinators and Bookrunners (an **Institutional Investor**).

The Retail Investors Offering is open to any legal or natural person in Croatia who does not meet the above criteria set for Institutional Investors (a **Retail Investor**) and is subject to a lower limit per application of HRK 1,000.

Any person meeting the criteria for participation in the Institutional Investors Offering may be treated as a Retail Investor based on the decision adopted by any of the Joint Global Coordinators and Bookrunners, at their sole discretion, in case any of the Joint Global Coordinator and Bookrunners assesses that this is required for the purpose of ensuring a higher level of protection in terms of settlement risk. In such case, any of the Joint Global Coordinator and Bookrunners shall inform that Investor of its decision without any delay.

6.3 Public Invitation

The subscription and payment for the Offer Shares shall be carried out in accordance with the terms set out in the public invitation for subscription and payment for the Offer Shares (**Public Invitation**). The Executive Directors expect to publish the Public Invitation within three weeks as from the date of receipt by the Company of the decision of the CFSSA on approval of this Prospectus (or any supplement to this Prospectus). The Public Invitation shall be published on the website of the court register, on the website of the Company, on the ZSE's website and in at least one daily newspaper circulated throughout or widely circulated in Croatia. It is expected that the Public Invitation shall be published on or around 12 May 2017.

6.4 Price Range

In accordance with the Capital Increase Decision, the Executive Directors shall, in consultation with the Joint Global Coordinators and Bookrunners and with the prior approval of the Board of Directors, set the price range for the Offer Shares (the **Price Range**) after this Prospectus is approved by CFSSA and published, and the Price Range shall be announced in the Public Invitation.

Considering that (i) there will be a period of time between the date of publication of this Prospectus and the announcement of the Public Invitation and that (ii) the Listed Shares are expected to continue to be actively traded on the Official Market also following the date of this Prospectus, the Price Range will only be set after the publication of this Prospectus, but in any case before the start of the Bookbuilding Period and the Application Period. The Price Range will be set based on the Company's assessment of the anticipated general interest in the Offering (considering the regular feedback the Company receives from the investor community as a result of the Listed Shares being listed on the Official Market) and based on the conditions of the financial and capital markets at that time, assessment of growth prospects, risk factors and other information relating to the Group's activities.

6.5 Bookbuilding Period and Application Period

The terms and conditions for subscription and payment for the Offer Shares in the Institutional Investors Offering and in the Retail Investors Offering shall be set out in detail in the Public Invitation.

The Company reserves the right to shorten the period(s) for subscription and payment for the Offer Shares in the event that a sufficient level of demand for the Offer Shares has been achieved prior to the designated expiration of the relevant period; provided that, the period(s) for subscription and payment for the Offer Shares cannot be shorter than seven days from publication of the Public Invitation. In the event of shortening of the period(s) for subscription and payment for the Offer Shares, the Allocation Date, the final date for payment for the Offer Shares, the date of delivery of the Offer Shares and other relevant dates and/or time periods may be changed accordingly. Any such change shall be timely published by the Company in the manner set out in *Section 6.3* above.

No paying agent has been appointed by the Company in connection with the Offering.

All payments for the Offer Shares are to be made to the bank account to be designated in the Public Invitation or the payment instructions.

Subscription Statement

The Offer Shares shall be subscribed for (and the obligation to pay for the subscribed Offer Shares shall be undertaken) by way of a written statement (**Subscription Statement**) in a form which shall be made available to the Investors at the beginning of the Bookbuilding Period and the Application Period. Any Subscription Statement in relation to which the payment for the subscribed Offer Shares has not been made by the deadline set for payment shall be without any legal effect.

Multiple subscriptions are not allowed; however, Investors may withdraw their Subscription Statements at any time until the expiry of the Bookbuilding Period or the Application Period and submit a new Subscription Statement before expiry of the Bookbuilding Period or the Application Period, respectively.

CDCC Accounts

All participants in the Offering are required to have a CDCC securities account or security accounts with custodian companies having securities accounts opened with CDCC. The CDCC securities account number must be stated in each Subscription Statement. CDCC securities accounts can be established with authorised CDCC members (investments companies and credit institutions licenced for performance of investment services in the Republic of Croatia) as well as custodian companies. CDCC securities accounts may also be established directly by the Investor, pursuant to the relevant rules of CDCC.

CDCC is acting as a depository agent in relation to the Offering.

The Company and the Joint Global Coordinators and Bookrunners may use the information provided by the Investors in their respective Subscription Statements for settlement purposes. The Joint Global Coordinators and Bookrunners take no responsibility towards the Investors for the inaccuracy or untruthfulness of the information provided by the Investors in their respective Subscription Statements nor for any damages or other consequences that may arise to the Investors in connection therewith. The Company and the Joint Global Coordinators and Bookrunners take no responsibility for the actions taken by the CDCC in relation to its procedures related to opening of securities accounts. Therefore, all prospective Investors are invited to confirm in advance that they have fully operational account(s) with the CDCC including, *inter alia*, information on their bank account(s) which is required by CDCC.

Mandatory Money Laundering Prevention Procedures

This Offering is subject to applicable money laundering prevention procedures, including AMLTFL and related regulations.

Under the AMLTFL, all Investors participating in the Offering are required to verify their respective identities to the relevant Joint Global Coordinator and Bookrunner in accordance with the requirements of the Croatian and EU money laundering prevention laws and regulations unless an exemption exists.

Institutional Investors Offering – Bookbuilding Period

To allow the market based pricing of the Offer Shares in the Offering, Investors subscribing for the Offer Shares in the Institutional Investors Offering will be invited to participate in the bookbuilding process (**Bookbuilding Process**). The Joint Global Coordinators and Bookrunners (acting on behalf of the Company) will solicit from such Institutional Investors their expressions of interest to subscribe for the Offer Shares (**Expression of Interest**), in a way that an Institutional Investor will be required to specify in its Expression of Interest: (i) the number of the Offer Shares it wishes to subscribe for, and (ii) the price per Offer Share it is willing to pay. Any price per Offer Share indicated by an Institutional Investor in its Expression of Interest will need to be within the set Price Range. Institutional Investors are allowed to submit their Expressions of Interest at various price levels.

The period of the Bookbuilding Process for the Institutional Investors Offering is expected to take place from or around 15 May 2017 (9:00 CEST) to or around 25 May 2017 (12:00 CEST) (**Bookbuilding Period**).

Expressions of Interest may be submitted to any Joint Global Coordinator and Bookrunner orally (providing it is recorded by phone) or in writing. The Joint Global Coordinators and Bookrunners may, at any time and in their sole discretion, request an Institutional Investor to confirm in writing any Expression of Interest placed orally. In any case, by the expiry of the Bookbuilding Period, Institutional Investors are required to submit to any of the Joint Global Coordinators and Bookrunners a properly completed Subscription Statement in respect of the Expressions of Interests they submitted.

Expressions of Interest and Subscription Statements shall be submitted to any of the offices of the Joint Global Coordinators and Bookrunners designated in the Public Invitation.

During the Bookbuilding Period, Institutional Investors may withdraw or amend their Expressions of Interest and/or withdraw their Subscription Statements at any time until the expiry of the Bookbuilding Period. All Expressions of Interest and Subscription Statements will be treated equally irrespective of the location and the identity of the Joint Global Coordinator and Bookrunner through which they were placed. Since the Bookbuilding will be organised according to the pot-orderbook principle, an Expression of Interest and/or a Subscription Statement given to any Joint Global Coordinator and Bookrunner will be visible to all Joint Global Coordinators and Bookrunners.

Subscription Statements that are incomplete or incorrectly completed, or that are received after the expiry of the Bookbuilding Period, as indicated in the Public Invitation, may be disregarded without any special notice to the Institutional Investor participating in the Institutional Investors Offering. Properly completed Subscription Statements must be received by the relevant Joint Global Coordinator and Bookrunner before expiry of the Bookbuilding Period, as indicated in the Public Invitation. Neither the Company nor any of the Joint Global Coordinators and Bookrunners may be held liable for postal delays, unavailable fax lines, internet lines or servers or other logistical or technical matters that may result in a Subscription Statement not being received in time or at all by any of the Joint Global Coordinator and Bookrunners.

Within a maximum of two business days after expiry of the Bookbuilding Period, the Joint Global Coordinators and Bookrunners will provide each Institutional Investor who subscribed for the Offer Shares in the Institutional Investors Offering with the instructions for payment for the allocated Offer Shares. It is expected that the Institutional Investors will be provided with these payment instructions on or around 26 May 2017. It is expected that the deadline for payment for the Offer Shares to be allocated in the Institutional Investors Offering will be on or around 30 May 2017 (10:00 CEST).

Upon payment of the relevant amount to the bank account designated in payment instruction, no interests shall accrue on such paid amount.

Retail Investors Offering – Application Period

Investors subscribing for the Offer Shares in the Retail Investors Offering will be invited to participate in the process of submitting applications for the subscription of the Offer Shares (**Application Process**), by submitting correctly completed Subscription Statements to the Joint Global Coordinators and Bookrunners.

The Retail Investors will be required to specify in the Subscription Statement the total amount of money they are willing to pay for the Offer Shares they subscribe for at any Offer Price which will be determined subsequently within the Price Range.

The period of the Application Process for the Retail Investors Offering is expected to take place from or around 15 May 2017 (9:00 CEST) to or around 25 May 2017 (14:00 CEST) (**Application Period**).

Subscription Statements shall be submitted to the Joint Global Coordinators and Bookrunners' offices designated in the Public Invitation (**Application Offices**).

During the Application Period, the Retail Investors may withdraw their Subscription Statements at any time until the expiry of the Application Period.

Retail Investors are required to submit their Subscription Statements to one Application Office only. All Subscription Statements will be treated equally irrespective of the Application Office through which they were placed.

Properly completed Subscription Statements must be received by the relevant Joint Global Coordinator and Bookrunner before expiry of the Application Period. Neither the Company nor any of the Joint Global Coordinators and Bookrunners may be held liable for postal delays, unavailable fax lines, internet lines or servers or other logistical or technical matters that may result in a Subscription Statement not being received in time or at all in any of the Application Offices. Subscription Statements that are incomplete or incorrectly completed, or that are received after the expiry of the Application Period, may be disregarded without any special notice to the Retail Investor participating in the Retail Investors Offering.

Retail Investors will be required to pay for the Offer Shares they subscribed in the Retail Investors Offering in accordance with the instructions to be provided in the Public Invitation. It is expected that the deadline for payment for the Offer Shares in the Retail Investors Offering will be on or around 25 May 2017 (16:00 CEST). In the event that the payment made by a Retail Investor is lower than the amount indicated in that Retail Investor's Subscription Statement, the Joint Global Coordinators and Bookrunners will use the amount actually paid as relevant for the purpose of calculation of the number of Offer Shares subscribed for by such Retail Investor. In the event that the payment made by a Retail Investor is higher than the amount indicated in that Retail Investor's Subscription Statement, the Joint Global Coordinators and Bookrunners will use the amount indicated in that Retail Investor's Subscription Statement for the purpose of calculation of the number of Offer Shares subscribed for by such Retail Investor.

Upon payment of the relevant amount to the bank account designated in the Public Invitation, no interests shall accrue on such paid amount.

6.6 Offer Price

Following the expiry of (i) the Bookbuilding Period and (ii) the Application Period and expiry of the deadline for payment for the Offer Shares in the case of the Retail Investors Offering, the Executive Directors shall, in consultation with the Joint Global Coordinators and Bookrunners and with the prior approval of the Board of Directors, set the final price of the Offer Shares (**Offer Price**), Offer Price shall be determined taking into account (i) the level of interest of the Institutional Investors, in terms of price and quantity, during the Bookbuilding Period and the level of interest of the Retail Investors, in terms of quantity, during the Application Period, (ii) current and anticipated conditions in the Croatian and international capital and financial markets at the time and (iii) assessment of the growth prospects, risk factors and other information relating to the Company's activities as set out in this Prospectus, provided that the Offer Price shall always be within the Price Range.

The Executive Directors are authorised, with the prior approval of the Board of Directors and whilst respecting the lowest price below which the Offer Shares shall not be issued and respecting the above basis for determination of the Offer Price, to determine, if needed, more detailed basis for determining the Offer Price.

Following the expiry of (i) the Bookbuilding Period and (ii) the Application Period and expiry of the deadline for payment for the Offer Shares in the case of the Retail Investors Offering, the Executive Directors shall, with the prior approval of the Board of Directors, establish the successful completion of the Offering, the amount of the share capital increase and the number of Offer Shares to be issued.

It is expected that the Company will announce the Offer Price and the successful completion of the Offering, the amount of the share capital increase and the number of Offer Shares to be issued on or around 26 May 2017. These announcements will be made on the website of the court register, on the website of the Company (www.arenaturist.com) and on the website of the ZSE (www.zse.hr).

6.7 Allocation of Offer Shares

According to the Capital Increase Decision, the Executive Directors are authorised, in consultation with the Joint Global Coordinators and Bookrunners, and with the prior approval of the Board of Directors, to set the rules for allocation of the Offer Shares (**Allocation Rules**). When adopting the Allocation Rules, the Executive Directors and the Board of Directors shall ensure, given that the pre-emptive right of the existing shareholders of the Company to subscribe for the Offer Shares has been excluded according to the Capital Increase Decision and whilst respecting the below principles, that all existing shareholders of the Company, who duly submit their Subscription Statements, are appropriately permitted to subscribe for the Offer Shares in accordance with their existing participation in the share capital of the Company. Furthermore, when adopting the Allocation Rules the Executive Directors and the Board of Directors may take into account, including but not limited to, the following principles:

(i) the principle of price and time priority, which means that, when allocating the Offer Shares, preference may be given to Investors who offered a higher price per Offer Share and/or who submitted their Subscription Statements earlier;

(ii) the principle of long-term investment, which means that, when allocating the Offer Shares, preference may be given to Investors who will contribute to the creation of an appropriate long-term shareholding structure of the Company; and

(iii) the principle of Investor activity, which means that, when allocating the Offer Shares, preference may be given to Investors who actively participated in the Offering (Investor participation in pre-marketing campaigns and participation at road show as well as provision of feedback information, demonstration of knowledge of the Company's business sector and similar activities).

It has been indicatively assumed that approximately 90 per cent. of the Offer Shares will be allocated in the Institutional Investors Offering and approximately 10 per cent. of the Offer Shares in the Retail Investors Offering. The final determination of the number of the Offer Shares allocated in the Institutional Investors Offering and the Retail Investors Offering will however only be decided following completion of the Bookbuilding Process in the case of the Institutional Investors Offering and the Application Process and expiry of the deadline for payment for the Offer Shares in the case of the Retail Investors Offering, and in each case, based on the level of subscriptions made by each category of Investors, and with regard to the free float requirement for the listing of the Offer Shares on the Zagreb Stock Exchange. The Company reserves the right to change the indicatively assumed allocation between the Institutional Investors Offering and the Retail Investors Offering without further notice and at its discretion, in consultation with the Joint Global Coordinators and Bookrunners.

6.8 Delivery of the Offer Shares

Investors shall become holders of the Offer Shares once the Offer Shares issued in book-entry form pursuant to the Capital Increase Decision are registered with the CDCC and the CDCC registers the Offer Shares to the Investors' respective accounts kept with the CDCC. This registration will take place in accordance with the rules of the CDCC upon registration in the court register of the Commercial Court in Pazin of the increase of the share capital of the Company pursuant to the Capital Increase Decision.

The Company expects that the increase of the share capital of the Company pursuant to the Capital Increase Decision shall be registered in the court register of the Commercial Court in Pazin on or around 1 June 2017 and that the Offer Shares shall be issued, by their registration in the CDCC depository in book entry form, on or around 2 June 2017, which dates may be changed depending on the relevant circumstances at the time. According to Croatian law, only book entry shares are eligible for trading on the Regulated Market in Croatia.

Investors will be notified on the allocated Offer Shares through regular notifications on their CDCC accounts' status sent to them by the CDCC.

6.9 Listing and Admission to Trading

The Listing Shares and the Offer Shares are expected to be traded on the Regulated Market after their listing on the Official Market.

On 22 March 2017, the General Assembly passed the decision on the listing of the Listing Shares and the Offer Shares on the Official Market for the purpose of trading through the Regulated Market.

An application for the listing of the Listing Shares and the Offer Shares on the Official Market is expected to be submitted on or about 2 June 2017 and the trading in the Listing Shares and the Offer Shares is expected to commence, subject to the ZSE's approval of the listing, on or about 5 June 2017 under the ticker ARNT-R-A and ISIN HRARNTRA0004, or any other ISIN and ticker as determined by the CDCC. The application for the Listing Shares may be submitted to the ZSE on the basis of this Prospectus at any time during the validity thereof, subject to any obligation to publish a supplemental prospectus pursuant to applicable law, and without regard to the timing of the launch of the Offering or the successful completion of the Offering. However, the Company does not guarantee that the admission for listing of the Listing Shares and/or the Offer Shares on the Official Market will take place.

The Company has not applied and does not intend to apply for admission to trading of its Shares on any other stock exchange or regulated market.

6.10 Success of the Offering

The Offering shall be considered successful if at the expiry of both the Bookbuilding Period and the Application Period and, in the case of the Retail Investors Offering, the expiry of the deadline for payment for the Offer Shares, at least 1,000,000 of the Offer Shares have been subscribed for and, in the case of the Retail Investors Offering, have been paid for in accordance with the terms set out in the Public Invitation.

If the Offering is not successful, the Company shall within 10 days after expiry of the period(s) for subscription and payment for the Offer Shares, and as provided in the Public Invitation, return the paid funds to Investors to the accounts designated by Investors in the Subscription Statements. In such case, the Company shall not bear the costs of transaction payments or any other costs or pay interest to Investors. Within the same term and under the same conditions, the Company shall return the overpaid funds to the relevant Investors.

If the Offering is successful, but the increase of the share capital of the Company pursuant to the Capital Increase Decision is not registered in the court register of the Commercial Court in Pazin within nine months as from the date of the Capital Increase Decision, the Subscription Statements shall no longer be binding on the Investors and any payments made shall be returned to Investors without any delay, as provided above.

6.11 Expected Timetable of Principal Events in the Offering

The table below provides indicative key dates for the Offering, to the best knowledge of the Company at the date of this Prospectus, which are subject to change in line with any relevant subsequent circumstances, such as the timing of the approval of this Prospectus by the CFSSA, exact duration of the Bookbuilding Period and the Application Period (noting that the Company reserves the right to shorten these periods) or any other relevant circumstance that could affect the indicative dates below (in which case the timeline will be adjusted accordingly and a public notice thereon will be timely made in the Public Invitation or, as the case may be, through the website of the court register, the website of the Company, the ZSE's website or in another appropriate way as set out in the Public Invitation).

Milestone	***Expected date – on or around***
Public Invitation for subscription and payment for the Offer Shares (including the Price Range)	12 May 2017
Offering to Institutional Investors: Commencement of the Bookbuilding Period	15 May 2017 at 9:00 CEST
Expiry of the Bookbuilding Period	25 May 2017 at 12:00 CEST
Payment instruction	26 May 2017
Final payment deadline	30 May 2017 at 10:00 CEST
Offering to Retail Investors: Commencement of the Application Period	15 May 2017 at 9:00 CEST
Expiry of the Application Period	25 May 2017 at 14:00 CEST
Final payment deadline	25 May 2017 at 16:00 CEST
Announcement of the Offer Price and the successful completion of the Offering	26 May 2017
Registration in the court register of the Commercial Court of Pazin	1 June 2017
Delivery of the Offer Shares	2 June 2017
Application for the listing of the Offer Shares and the Listing Shares on the Official Market	2 June 2017
Commencement of trading of the Offer Shares and the Listing Shares on the Official Market	5 June 2017

6.12 Over-Allotment and Price Stabilisation

No Over-Allotment Option and/or "green shoe" option will be exercised in the Offering.

No persons have committed to the Company to act as intermediaries in secondary trading.

No Price Stabilisation activities will be conducted with respect to the Offering.

6.13 Lock-Up

The PPHE Hotel Group and Mrs. Milena Perković have committed not to sell, pledge, lend or in any other way transfer the right of ownership to any Shares (including Listing Shares) that they hold as of the date of this Prospectus or acquire under the Offering for a period of 180 days following the commencement of trading of the Offer Shares and the Listing Shares on the Official Market. Notwithstanding the foregoing, the PPHE Hotel Group and Mrs. Milena Perković may transfer the above mentioned Shares in certain circumstances, including pursuant to a mandatory third party takeover bid or exchange offer commenced by the Company, a voluntary third party takeover bid or exchange offer not induced by the Company or an intra-group transfer (in the case of the PPHE Hotel Group) or a transfer to family members (in the case of Milena Perković). In the case of an intra-group transfer it shall be a condition to such transfer or a transfer to family members (as appropriate) that the transferee accepts the same lock-up commitment.

6.14 Dilution

Up to 2,000,000 of the Offer Shares may be issued pursuant to the Offering. In case the maximum number of the Offer Shares are issued, the Offer Shares shall represent 38 per cent. of the share capital of the Company immediately following completion of the Offering and, if the existing shareholders of the Company do not participate in the Offering, they may be diluted up to 38 per cent.

6.15 Selling and Transfer Restrictions

This Offering is, and the Offer Shares are, subject to the selling and transfer restrictions set forth in *Section 7 "Selling and Transfer Restrictions"*.

Following the issue thereof, the Offer Shares will be freely transferable. It is expected that the Listing Shares and the Offer Shares will be admitted to trading on the Official Market and thereafter shall also be freely transferable in accordance with the applicable rules and regulations of the Zagreb Stock Exchange.

6.16 Participation of Executive Directors and the members of the Board of Directors in the Offering

The Company has not received any indication that any of the members of the Board of Directors and the Executive Directors intend to subscribe and pay for the Offer Shares in the Offering.

6.17 Participation of the Company's major shareholders in the Offering

PPHE has notified the Company that it intends to (indirectly) participate in the Institutional Investors Offering.

With the exception of PPHE as noted above, the Company is not aware whether any person (including any other shareholder of the Company holding five or more percent of the Shares immediately before the Offering) intends to subscribe for more than five percent of the Offer Shares.

6.18 Interests of Natural and Legal Persons in the Offering

The Joint Global Coordinators and Bookrunners and their respective affiliates have provided from time to time, and may provide in the future, investment and commercial banking services to the Company and its affiliates in the ordinary course of business, for which they may have received and may continue to receive customary interest, fees and commissions. The Joint Global Coordinators and Bookrunners do not intend to disclose the extent of any such investments or transactions otherwise than in accordance with any legal or regulatory obligation to do so. Further, a portion of the commissions that are to be paid for the services of the Joint Global Coordinators and Bookrunners in respect of the Offering are calculated on the basis of the gross proceeds of the Offering.

Each Joint Global Coordinator and Bookrunner is part of its respective Group. Investment related activities carried on by InterCapital, UniCredit, Zagrebačka banka and other members of their respective groups include corporate finance (including new issues, mergers and acquisitions), banking and structured finance, sales and trading of securities and debt (including derivatives) and related research; custodial services, property management, asset management, development capital and related activities.

As at 31 December 2016, the Company had a total aggregate principal amount of HRK 437.4 million (EUR 57.9 million) of loans outstanding from Zagrebačka banka and an additional HRK 100.7 million (EUR 13.3 million) of loans outstanding from Zagrebačka banka made pursuant to programs operated by HBOR.

When each Joint Global Coordinator and Bookrunner performs the obligations in respect of the Offering, such Joint Global Coordinator and Bookrunner, another member of its respective group or some other person connected with such Joint Global Coordinator and Bookrunner may have an interest, relationship or arrangement that is material to or may conflict with such obligations. No Joint Global Coordinator and Bookrunner nor any other member of its respective group shall be required to disclose such interest, relationship or arrangement to the Company or to account for or disclose any profit, charge, commission or other remuneration arising in respect of such interest, relationship or arrangement.

Each Joint Global Coordinator and Bookrunner and each other member of its respective group may continue to pursue its and their business interests and activities without specific prior disclosure to the Company. Nothing in respect of the Offering shall prevent any Joint Global Coordinator and Bookrunner or any other member of its respective group from pursuing any existing or future interests either of its or their own or of its or their clients. None of the Joint Global Coordinators and Bookrunners nor any member of their respective groups has any duty to disclose any matter which comes to its attention in the course of its business if doing so would constitute a breach of duty owed to other persons even if it relates to the Company or the Offering.

Bogdanović, Dolički & Partners Attorneys at Law as Croatian law legal advisors and Hogan Lovells International LLP as English law legal advisors to the Joint Global Coordinators and Bookrunners, Law Firm Porobija & Porobija, General Partnership as Croatian law legal advisors and Norton Rose Fulbright LLP as English and United States law legal advisors to the Company, provided legal consulting services for the preparation and implementation of the Offering (including, in relation to Law Firm Porobija & Porobija, General Partnership, the share capital increase process). The total amount of fees payable by the Company for such legal services rendered is not dependent on the amount of proceeds the Company shall raise in the Offering. Law Firm Porobija & Porobija, General Partnership, has provided from time to time, and may provide in the future, legal services to the companies affiliated to the Company for which they have received and may continue to receive customary fees. No conflict of interest in relation to the engagement of the aforementioned law firms exist with respect to provision of the services related to the Offering.

Other than as set out above, the Company is not aware of any interest of any natural and legal persons involved in the Offering that is material to the Offering.

An underwriting agreement by and among the Company, PPHE, UniCredit, ZABA and InterCapital will be entered into on the date of approval of this Prospectus, as described in *Section 16 "Material Agreements"*.

PART 7

SELLING AND TRANSFER RESTRICTIONS

As a consequence of the following restrictions, prospective Investors are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the Offer Shares offered hereby.

Other than in the Republic of Croatia, the Company is not taking any action to permit a public offering of the Offer Shares in any other state. Receipt of this Prospectus will not constitute an offer in those states in which it would be illegal to make an offer and, in those circumstances, this Prospectus is for information purposes only and should not be copied or redistributed. Except as otherwise disclosed in this Prospectus, if an Investor receives a copy of this Prospectus in any state other than the Republic of Croatia, the Investor may not treat this Prospectus as constituting an invitation or offer to that Investor, nor should the Investor in any event deal in the Offer Shares, unless, in the relevant state, such an invitation or offer could lawfully be made to that Investor, or the Offer Shares could lawfully be dealt in without contravention of any prescribed offer requirements or other legal requirements. Accordingly, if an Investor receives a copy of this Prospectus, the Investor may not further distribute or send the same, or transfer Offer Shares, to any person or in or into any jurisdiction where to do so would or might contravene local securities laws or regulations.

Republic of Croatia

In relation to the Offering in the Republic of Croatia, Croatian legislation does not discriminate against investors based on their residence or seat and investors can invest in the Offer Shares in accordance with this Offering and the terms defined in this Prospectus.

Each Joint Global Coordinator and Bookrunner has represented and agreed that it has not made and will not make an offer of the Offer Shares to the public in Croatia prior to the publication of this Prospectus in relation to the Offer Shares and the approval of the Prospectus by competent authority in Croatia and that it has complied and will comply with all applicable provisions of the Croatian Capital Markets Act with respect to any action taken in relation to the Offer Shares in, from or otherwise involving the Republic of Croatia.

Investments by certain types of institutional investors are subject to applicable laws and subject to the supervision by the competent regulator. When investing in the Offer Shares each Investor should check whether and to what extent the Offer Shares represent legally permissible investments and whether restrictions exist governing the acquisition or granting of a security interest in the Offer Shares. Financial institutions should consult their legal advisers or the relevant regulator to determine the correct treatment of the Offer Shares in terms of risk-weighted assets or other rules applicable thereto.

United States

The Offer Shares have not been and will not be registered under the US Securities Act, and may not be offered or sold except to certain persons in offshore transactions in compliance with Regulation S, and in accordance with any applicable securities laws of any state or territory of the United States or any other jurisdiction. Accordingly, each Joint Global Coordinator and Bookrunner has represented and agreed that (i) it has not offered or sold, and will not offer or sell, any of the Offer Shares as part of its allocation at any time other than outside of the United States in compliance with Rule 903 of Regulation S and (ii) in connection with the Offering, it has not engaged in, and will not engage in, any directed selling efforts as defined under Regulation S.

United Kingdom

In the United Kingdom, this Prospectus is only addressed to, and directed at, persons who are qualified investors (as defined in the Prospectus Directive) (i) who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (**Order**), and/or (ii) who are high net worth entities falling within Article 49(2)(a) to (d) of the Order, and other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as **Relevant Persons**). The Offer Shares are only available in the United Kingdom to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire Offer Shares in the United Kingdom will be engaged in only with, Relevant Persons. Any person in the United Kingdom who is not a Relevant Person should not act or rely on this Prospectus or any of its contents.

European Economic Area (EEA)

In relation to each EU Member State of the EEA that has implemented the Prospectus Directive (each, a **Relevant Member State**), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State, an offer of securities (as defined in the Prospectus Directive) to the public may not be made in that Relevant Member State prior to the publication of a prospectus in relation to securities which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that offers of securities may be made to the public in that Relevant Member State at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

(i) to qualified investors as defined in the Prospectus Directive;

(ii) to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) in such Relevant Member State, subject to obtaining the prior consent of each Joint Global Coordinator and Bookrunner for any offer; or

(iii) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no subsequent resale of securities which were previously the subject of such offer of securities shall result in a requirement for the publication by the Company of a prospectus under Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of securities to the public" in relation to any securities in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any securities to be offered so as to enable an investor to decide to purchase or subscribe for securities, as may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the term "Prospectus Directive" means Directive 2003/71/EC (and any amendments thereto, including Directive 2010/73/EU, to the extent implemented in the Relevant Member States) and includes any relevant implementing measure in each Relevant Member State.

Other jurisdictions

The Offer Shares may not be offered, sold, resold, transferred or delivered, directly or indirectly, in or into any other state in which it would not be permissible to offer the Offer Shares.

In jurisdictions outside the EEA where the Offering would be permissible, the Offer Shares will only be offered pursuant to applicable exceptions from prospectus requirements in such states.

PART 8

DIVIDENDS AND DIVIDEND POLICY

This Section provides information about the Company's expectations about dividends, as well as certain legal constraints on the distribution of dividends under Croatian law. The Group's revenues are mainly realised in EUR, while operating costs are realised in HKR, EUR and to a lesser extent HUF, any future dividends declared by the Company will be paid in HRK, whereas non-resident shareholders who do not have a HRK bank account may request payment in EUR in accordance with applicable rules.

8.1 Dividend Policy and Payment of Dividends

The Company intends to retain its future earnings for use in, and to grow, the business and therefore does not envisage paying any dividends for at least 18 months following the Offering. The Company will keep this policy under review in light of the growth opportunities available to the Group and may revise it from time to time.

Historically, the Company has never paid dividends. As at 31 December 2016, the Company had HRK 91.0 million in accumulated losses and consequently, as a matter of Croatian law, is currently restricted from paying dividends. Any distribution of dividends will be subject to compliance with certain provisions in its loan agreements. See *Section 15.8 "Operating and Financial Review of the Group—Liquidity and Capital Resources–Capital Resources–Bank Borrowings"*.

In addition to the Croatian legal considerations discussed below, the amount of future dividend payments, if any, will depend upon the Group's future earnings, financial condition, cash flows, working capital requirements, capital expenditure plans and other factors. Moreover, the Company conducts and intends to continue to conduct all or a significant part of its international operations through, and most of the Group's international assets are owned by, the Company's subsidiaries. As such, the Company's ability to pay dividends in the future is affected by a number of additional factors, including the receipt of sufficient dividends from its subsidiaries. The Company's direct and indirect subsidiaries may be precluded from paying dividends or other amounts by various factors, such as their own financial condition, restrictions in existing or future financing agreements to which they are a party, tax considerations or applicable Dutch or German law. Any of the foregoing could also restrict the ability of the Company to pay dividends or reduce the amount of any such dividends. No assurances can be made that the Company will make dividend payments.

8.2 Croatian Legal Considerations and Legal Reserves

Any distribution of dividends will need to be in accordance with the provision of the Croatian Companies Act. The Executive Directors will therefore need to carry out a liquidity or cash flow test and balance sheet solvency test (**Solvency Test**) before any dividend or distribution payment can be made. The Solvency Test requires the Executive Directors to make a forecast to consider whether the Solvency Test will be satisfied immediately after a distribution or dividend payment is made. If at the time a dividend or distribution payment is to be made, the Executive Directors believe that the Solvency Test cannot be passed, no payment may be made to the shareholders of the Company.

Under the Croatian Companies Act, the net profits of a company are to be used primarily for the following purposes: to cover losses brought forward from the previous years; to contribute to legal reserves; to contribute to reserves for treasury shares if the company has acquired such shares or has an intention to do so; and to contribute to statutory reserves, provided that the company has such reserves. When preparing the annual financial statements, the executive directors are required to comply with these provisions. In addition, the Croatian Companies Act prescribes that the executive directors and board of directors of a company may, after the annual financial statements have been adopted, use the remaining net profits to make contributions to other reserves to be created out of profits, which contributions may not exceed half of the remaining net profit, unless the company's articles of association prescribe otherwise.

Under the Croatian Companies Act, the amount of any dividend payable to each shareholder shall be determined pro rata to the shares held by a particular shareholder in the share capital of a company, unless the articles of association of a company provide otherwise.

A shareholder registered as the legal and beneficial owner and holder of the shares in the CDCC as at the date of any general assembly decision to make a dividend payment is entitled to such dividend. The right to dividend payment remains with the shareholder notwithstanding any subsequent transfers of the shares and such right may be freely assigned.

Dividends must be paid not later than 30 days following the date of the meeting of the general assembly which approved the dividend payment.

The general assembly may decide, in accordance with the Croatian Companies Act and if so provided in a company's articles of association, to pay the dividend in kind (non-monetary dividend).

In accordance with the prevailing practice in Croatia, dividends, if any, are generally paid only once a year. However, under the Croatian Companies Act, the articles of association of a company may provide for the authorisation to the executive directors to pay interim dividends. If so authorised by the company's articles, the executive directors may, subject to the approval of the board of directors, decide upon payment of interim dividends after expiry of the financial year based on the net profit forecast, but only if the interim profit and loss account for the previous financial year shows a profit. The interim dividend cannot exceed half of the profit after deduction of amounts which must, pursuant to applicable laws and the articles of association, be allocated into the company's reserves. In addition, the interim dividend cannot exceed half of the previous year's profit.

The Articles of Association do not specifically regulate (i) time limit after which entitlement to dividend lapses and an indication of the person in whose favour the lapse operates, (ii) dividend restrictions and procedures for non-resident holders, and (iii) rate of dividend and method of its calculation, periodicity and cumulative or non-cumulative nature of payments, thus applicable laws and regulations will apply. If a shareholder, to whom any dividend was not paid within the due deadline, afterwards fails to claim the dividend within the statutory limit of five years from the due date for dividend payment, such unpaid dividend will become barred by statute.

There are no dividend payment restrictions or procedures for non-resident shareholders.

8.3 Manner of Dividend Payments

Any dividend will be paid to the shareholders through the CDCC into a shareholder's bank account. Shareholders must supply the CDCC with details of their bank accounts for dividend payment. Dividends on the Shares are distributed through the CDCC in HRK. Non-resident shareholders who do not have a HRK bank account may request payment in EUR, as exchanged from the HRK amount distributed through the CDCC. As of the date of this Prospectus, the CDCC distributes dividends via Privredna banka Zagreb d.d. (**PBZ**), a credit institution incorporated and operating in Croatia. The exchange rate that is applied will be PBZ's rate on the relevant transfer date of dividend amount.

PART 9

CAPITALISATION AND INDEBTEDNESS

This Section provides information about the Group's capitalisation and indebtedness. The capitalisation and indebtedness figures have been extracted without material adjustment from the Company's accounting records and are unaudited.

This Section should be read in conjunction with Section 15 "Operating and Financial Review" and the Group Financial Statements.

The table below sets out the capitalisation and indebtedness of the Group as at 28 February 2017.

Unaudited Capitalisation and Indebtedness

	(HRK millions)(1)
A. SHORT TERM DEBT (including current portion of long term debt)	
Guaranteed and secured	147.0
Guaranteed and unsecured	–
Secured but unguaranteed	–
Unguaranteed and unsecured	–
Total short term debt	147.0
B. LONG TERM DEBT	
Guaranteed and secured	857.4
Guaranteed and unsecured	–
Secured but unguaranteed	–
Unguaranteed and unsecured	74.7
Total long term debt	932.1
C. SHAREHOLDER'S EQUITY(2)	
Share capital	65.5
Share premium	438.2
Reserves	368.3
Shareholders' equity	872.0
Total capitalisation (A+B+C)	1,951.1

Source: Group Data

Notes:

(1) All € balances have been translated in HRK at a rate of €1 to HRK 7.428657 being the CNB (www.hnb.hr) mid-exchange HRK/EUR rate on 28 February 2017.

(2) Share capital, share premium and reserves are stated as at 28 February 2017 and exclude accumulated (losses)/earnings and non-controlling interest.

The table below sets out the indebtedness of the Group as at 28 February 2017.

Net Financial Indebtedness

	(HRK millions)[1]
A.Cash[2]	149.6
B. Cash equivalents	–
C. Securities held for resale	–
D. Liquidity (A+B+C)	149.6
E. Current Financial receivables	0.0
F. Current bank debt	(79.7)
G. Current portion of long term bank debt	(67.3)
H. Other current debt	–
I. Current Financial Indebtedness (F+G+H)	(147.0)
J. Net current debt (I+E+D)	2.5
K. Long term banks loans	(783.1)
L. Bonds issued	–
M. Other long term loans	(149.0)
N. Non current financial indebtedness (K+L+M)	(932.1)
O. Net Financial Indebtedness (J-N)	(929.5)

Source: Group Data

Notes:

(1) All EUR balances have been translated in HRK at a rate of €1 to HRK 7.428657 being the CNB (www.hnb.hr) mid-exchange HRK/EUR rate on 28 February 2017.

(2) Cash includes HRK 41.7 million of restricted cash and HRK 9.6 million of rent deposits. Restricted cash of HRK 41.7 million is held in a debt service reserve account and is part of the security arrangements for some of the Group's Croatian loans. Rent deposits of HRK 9.6 million have been provided to the Landlords of certain hotels in Germany (art'otel cologne, art'otel berlin kudamm and Park Plaza Berlin Wall Street). Out of that amount, the rent deposits provided to the landlords of art'otel cologne and art'otel berlin kudamm (amounting to HRK 6.4 million in total) are expected to be released following the completion of the acquisition of the freeholds of those hotels.

There has been no material change in the capitalisation and indebtedness of the Group since 28 February 2017.

PART 10

BUSINESS OVERVIEW

This Section provides an overview of the Group and its business activities as of the date of this Prospectus. Since this Section of the Prospectus contains certain forward-looking statements any potential Investor should first read the information contained in Section 4.1 "General Information—Cautionary Note Regarding Forward-Looking Statements" and Section 2 "Risk Factors". This Section should also be read in conjunction with other parts of this Prospectus, in particular with Section 15 "Operating and Financial Review".

10.1 Introduction to the Group

Through a variety of ownership and operational structures, the Group operates and develops full-service hotels and self-catering holiday apartment resorts in the upscale, upper upscale and lifestyle market classes. The Group's hotels and resorts are located in select holiday destinations in Croatia and in major gateway cities and regional centres in Germany and Hungary. The Group also co-owns and operates campsites on the southern coast of the Istrian peninsula in Croatia.

The Group's portfolio consists of 15 hotels, four resorts and eight campsites. Seven hotels are located in Germany; one hotel is located in Budapest, Hungary; and the remaining properties, including seven hotels, four resorts and eight campsites are located in Istria, Croatia, making the Company one of the largest tourist accommodation providers in Croatia.

A majority of the Group's hotels and one of its resorts operate under the Park Plaza or art'otel brands. Under the terms of a long term Framework Agreement with its largest indirect shareholder, the PPHE Hotel Group, an international hotel group, the Group has an exclusive right to operate and develop new Park Plaza branded properties in the CEE Region. All seven hotels in Germany are branded (three Park Plaza and four art'otel) and one hotel in Budapest, Hungary is also branded (art'otel budapest). In Croatia, three hotels and one resort are branded Park Plaza and one hotel operates under TUI's Sensimar brand. The 14 remaining properties, including three hotels, three resorts and eight campsites, located in Istria, Croatia, are currently operated on an unbranded basis.

The Group's Park Plaza and art'otel branded properties benefit from the PPHE Hotel Group's partnership with Carlson, one of the world's largest hotel groups, and in particular, from access to Carlson's global brand infrastructure, reservation system and sales and marketing platform.

One of the Group's principal strategies is to expand its portfolio within the upscale, upper upscale and lifestyle market classes in the CEE Region by offering a high quality product at attractive prices. To create and maximise shareholder value, the Group expects to pursue opportunities to grow by expanding its portfolio through its various business models – including (i) owning or co-owning and operating, (ii) leasing and operating and (iii) managing as well as (iv) rebranding and developing. The Group regularly identifies such opportunities and has agreed with the PPHE Hotel Group to pursue at least a minimum number of such opportunities going forward.

The Company believes that the Group's exclusive right to operate and develop any new Park Plaza branded properties in the CEE Region, its rights to use the art'otel brand in five of its hotels and its access to the Carlson network, together with its own management, development and investment expertise as well as that of the PPHE Hotel Group, mean it is well-positioned to maintain and develop its position in the markets in which it already operates and to take advantage of expected opportunities for future growth in additional markets within the CEE Region.

The Group's total assets as at 31 December 2016 were HRK 1.6 billion. On a pro forma basis giving effect to the Sugarhill Contribution, the Operational Restructuring and the acquisition of the freehold interests in art'otel cologne and art'otel berlin kudamm, the Group's revenue and EBITDA for the year ended 31 December 2016 would have been HRK 633.7 million and HRK 185 million, respectively.

10.2 History

The Group in its current form is the product of various mergers and acquisitions over a number of years, the last of which was the acquisition of 88.0 per cent. of the Sugarhill Group through the Sugarhill Contribution adding a portfolio of seven hotels in Germany and one in Hungary to the Group's operations.

Most of the Group's hotels, resorts and campsites in Croatia were built during the 1970s and 1980s. The Company was formed as a socially-owned company in 1974 in the Republic of Croatia (as one of the federal states of the former Republic of Yugoslavia) by merger of four so-called work organisations with hotel and accommodation businesses in Pula and Medulin. In 1994, following Croatian independence, the Company was privatised, and, in 2003, its shares were listed on the ZSE.

In 2007, entities affiliated to certain funds managed by Goldman Sachs acquired a controlling indirect shareholding in the Company through its ownership of the Dutch holding company, Bora B.V. (**Bora**).

The relationship between the PPHE Hotel Group and the Company began in 2008, when the PPHE Hotel Group was awarded management contracts for the Company's properties and Bora's three wholly-owned Croatian companies' (collectively referred to as the **Bora Companies**) properties in Croatia following an international tender, and the PPHE Hotel Group acquired a 20.0 per cent. interest in Bora. At this time, the Company owned, partially owned or co-owned seven hotels, three resorts and eight campsites, and the Bora Companies, owned one hotel and one resort and leased and operated one resort from the Company, all located in Istria, Croatia.

Starting in 2011, the Group began refurbishing, upgrading and re-opening some of its properties under the Park Plaza brand. These properties included Park Plaza Belvedere Medulin, Park Plaza Histria Pula, Park Plaza Arena Pula, Park Plaza Verudela Pula and the hotel which is now known as Sensimar Hotel Medulin.

In April 2016, the PPHE Hotel Group acquired the remaining 80.0 per cent. ownership interest in Bora from entities affiliated to certain funds managed by Goldman Sachs. As a result, the PPHE Hotel Group became the indirect holder of 74.15 per cent. of the Company and under the Croatian Takeover Act was required to make a mandatory takeover bid for the remaining shares of the Company. Following completion of the takeover bid and a subsequent sale of shares to institutional investors, the PPHE Hotel Group indirectly owned 65.63 per cent. of the shares in the Company.

In June 2016, the PPHE Hotel Group indirectly (via Dvadeset Devet d.o.o. (Croatia)) entered into an agreement to sell the Bora Companies to the Company. The Bora Companies owned Sensimar Hotel Medulin and Ai Pini Resort and leased and operated Zlatne Stijene Resort from the Company. In October 2016, the Bora Companies were merged into the Company.

In November 2016, the Listed Shares of the Company were transferred from the Regular Market to the Official Market. This move to the higher market segment of the ZSE was made with the intention of increasing transparency and raising the Company's profile among domestic and international investors in order to provide the Company greater flexibility for growth in line with the Group's strategic plans to expand its focus from Croatia to the CEE Region.

In December 2016, the PPHE Hotel Group indirectly contributed 88.0 per cent. of its ownership in the Sugarhill Group to the Company in exchange for the Listing Shares (the **Sugarhill Contribution**). The contributed assets and operations of the Sugarhill Group included the operation or management rights of eight Park Plaza and art'otel branded upscale, upper upscale and lifestyle hotels with a total of 1,295 units, including four hotels in Berlin. The Sugarhill Contribution resulted in the PPHE Hotel Group indirectly holding 77.09 per cent. of the share capital of the Company. Under the terms of the Sugarhill Contribution, for a period of 18 months following completion of the Sugarhill Contribution, the Company has an option to acquire the remaining 12.0 per cent. interest in the Sugarhill Group from the PPHE Hotel Group for a total price of EUR 8.33 million (the **Sugarhill Option**). One of the intended uses of proceeds from the Offering is to fund the exercise of that option and associated transaction costs (including real estate transfer tax, where applicable, in Germany), after which the Group would own 100 per cent. of the Sugarhill Group. *See Section 5 "Use of Proceeds; Reasons for the Offering"*.

As a result of the Sugarhill Contribution, the Group benefits from the Framework Agreement previously entered into between the PPHE Hotel Group and Arena Hospitality, which is a subsidiary of Sugarhill. The Framework Agreement grants Arena Hospitality the exclusive right to operate and develop any new Park

Plaza branded properties in 18 countries in the CEE Region. Additionally, the Group now benefits from operational and licensing, sales and marketing relationships entered into between the PPHE Hotel Group and Arena Hospitality. See *Section 12.1 "Relationship with the PPHE Hotel Group—Sugarhill Contribution and Operational Restructuring"*.

In February 2017, two indirect wholly-owned subsidiaries of the Company acquired the freehold interests in art'otel cologne and art'otel berlin kudamm (formerly known as art'otel berlin city center west) from a third party. A portion of the purchase price was on account of fixtures, fittings and equipment payable by the operating companies of the hotels, which were part of the Sugarhill Group.

On 22 March 2017, the General Assembly adopted the Capital Increase Decision and the decision on the change of the Company's name from "Arenaturist d.d." to "Arena Hospitality Group d.d.".

10.3 Key Strengths

The Company believes that its key strengths are as follows:

One of the leading hotel and hospitality groups in Croatia with a strong existing branded portfolio and exclusive right to operate and develop additional Park Plaza branded properties in the CEE Region

The Group is one of the leading branded hotel and hospitality groups in Croatia with business operations in Croatia as well as Germany and Hungary, encompassing 15 hotels, four resorts and eight campsites. The Group has a long-term exclusive right to operate and develop any new Park Plaza branded properties in the CEE Region, including Croatia, Germany and Hungary. As a full range hospitality provider with a well-established upscale, upper upscale and lifestyle offering of hotels and resorts, the Group's diversified portfolio extends to include a large portfolio of campsites in Croatia located in attractive seafront locations with development potential which the Company believes is well aligned with market demand.

Access to recognised international brands is one of the Group's main assets as they are an essential element of continued success and provide a key opportunity for further growth. The Group currently operates four Park Plaza branded properties in Croatia, three Park Plaza branded hotels and four art'otel branded hotels in Germany and one art'otel branded hotel in Hungary. The Company believes several markets in the CEE Region are underserved by international hotel brands. Having exclusive right to operate and develop any new Park Plaza branded properties in the CEE Region provides the Group with a strong opportunity to expand in this geographical area on the basis of high market visibility.

The Park Plaza brand is owned by Carlson, one of the world's largest hotel groups. The brand benefits from Carlson's central reservations and marketing platform, CRS. Collectively, Carlson's portfolio has over 1,400 hotels in operation and development with a market presence in over 115 countries. Many of Carlson's marketing, sales and promotional activities are multi-brand, which ensures excellent global visibility for the Park Plaza brand.

The Group benefits from the brand's presence in key customer source markets. Key features of the upscale and upper upscale Park Plaza brand include its unique and cosmopolitan approach to design, attractive city centre and resort locations, versatile meeting and event facilities, free Wi-Fi and Elemis amenities, vibrant bars and restaurants and high quality spa and wellness facilities, all of which make these branded properties attractive to both business and leisure guests.

The Group further benefits from the right to operate five art'otel branded hotels. The art'otel brand, which is owned by the PPHE Hotel Group, is a growing collection of hotels which combine exceptional architecture, art-inspired interiors, original artworks, innovative food and beverage and a strong offering of attractive events. The brand's portfolio includes for example the recently renovated and relaunched art'otel berlin mitte, art'otel budapest, which was one of the first design-led hotels to open in Budapest when it opened, and the brand's flagship art'otel amsterdam. The brand's pipeline includes iconic projects such as art'otel london battersea power station and art'otel london hoxton, which are expected to further raise the international profile of this contemporary and progressive brand.

The Group's position in the Croatian market has been built over years of continuous investment, improvements and since 2008 through its relationship with the PPHE Hotel Group and, through that relationship, its relationship with Carlson. Currently, the Group's internationally diversified portfolio, which the Company believes is unique in the CEE Region, includes hotels in major gateway cities in Germany and Hungary and hotels, resorts and campsites located on or near the coast in select holiday destinations in Croatia. The Group's presence in Germany and Hungary reduces certain operational risks such as seasonality and provides the opportunity for the Group to exploit operational synergies in these two strong and growing markets.

The Company believes it has significant upside potential to expand its footprint in the CEE Region by leveraging the Park Plaza brand as well as the Group's access to the Carlson network. Besides its key existing markets, the Group has the capability to develop and operate an expanded platform of branded hotels within the CEE Region, an attractive market with a population of more than 200 million. Access to the dynamic Park Plaza brand and the backing of a global distribution partner, provides excellent growth and development opportunities as it should enable operational savings and through management contracts substantially reduced capital investment requirements.

Presence in attractive markets

The Group's key markets are currently Croatia and Germany. Attractive market fundamentals in these markets represent sound foundations for future expansion of the Group's business. Croatia enjoys a favourable macroeconomic and industry outlook, including strong GDP growth, a high contribution to GDP from tourism, an increasing number of overnight stays and growing overall tourism revenues. Germany also enjoys a favourable macroeconomic and industry outlook, including an increasing market for both leisure and business travel.

The Group enjoys a strong market presence in Pula, Croatia on the Istrian peninsula. Istria is the largest peninsula on the Adriatic Sea and Pula, the eighth largest city in Croatia, is situated at its southern tip. Pula benefits from an international airport with excellent links to the rest of Croatia and growing connectivity to other major European cities. Pula is also easily accessible by vehicle by way of direct major highways from Germany and the rest of Europe. The region has a rich history with cultural sites and a well-preserved Roman arena and is located in an attractive area of great natural beauty. The region also has a pool of available labour well suited to supporting the Group's operations.

In Germany, the Group operates hotels catering to both domestic and international travellers on both business and leisure trips. Rising ADRs and OCCs in Germany are expected to be two of the key drivers of the Group's revenue development going forward. Germany, whose citizens account for a significant number of the Group's overnight stays, is regarded as one of the strongest economies in Europe. The Group's key customer source markets such as Germany, Austria, northern Italy and the Netherlands, are all high-income countries or regions.

Well-invested hotel network

Over the last six years, extensive refurbishment, renovation and development programmes at a number of the Group's properties were carried out at a total cost of approximately HRK 413.2 million in Croatia and approximately EUR 21.3 million in Germany and Hungary.

In Croatia, investment was primarily targeted at upgrading, extending and rebranding existing properties into the more profitable upscale and upper upscale market classes. This included the branding of six of the Group's previously unbranded properties in Croatia as four Park Plaza branded properties (following renovations, two previously unbranded properties now operate as one) and one as a Sensimar branded hotel, the latter pursuant to an agreement with TUI UK Limited (**TUI**), part of the TUI Group, a leading international tourism business, for three summer seasons commencing in May 2016. The Group's interests in respect of its Croatian assets enable it to maintain control over the refurbishment, renovation and development processes leading to efficiencies in time and costs. Please see *Section 10.10 "—Investment Capital Expenditure Overview, Refurbishments and Developments"* for more information on the Group's investment capital expenditure.

In Germany and Hungary, investments included the acquisition of freehold interests as well as the refurbishment, renovation and development of properties. Between 2011 and 2016, each of art'otel berlin kudamm, art'otel budapest, art'otel cologne, Park Plaza Berlin Kudamm and art'otel berlin mitte were refurbished. The freehold interests for art'otel berlin kudamm and art'otel cologne were both acquired in February 2017. The redevelopment of Park Plaza Nuremberg commenced in 2014 and the hotel had its first paying guests in June 2016. The Group plans to continue to selectively pursue opportunities to acquire properties in locations with upside potential in Croatia and Germany and elsewhere in the CEE Region and continue to refurbish and rebrand its existing properties where it sees opportunities to create additional value and generate revenue.

Powerful marketing and distribution network through the Carlson Central Reservation System (CRS)

The Group utilises a powerful distribution network, which includes its own website and direct booking system as well as a strong presence in third-party booking sites. Through its relationship with the PPHE Hotel Group, the Group has access to Carlson's large-scale and effective reservation and distribution system, CRS. CRS provides the Group's Park Plaza branded properties with a global brand infrastructure, a reservation system and a sales and marketing platform. Presently, at the PPHE Hotel Group's election, the art'otel branded properties are also marketed through the CRS. The CRS provides a central repository of reservations, room availability and rates. Through this relationship, the Group has access to a constantly growing sales capacity, a range of sophisticated sales tools, access to the Carlson's marketing and distribution systems, advanced revenue optimisation tools, trade promotions and other global sales initiatives. The inclusion in the CRS has contributed to an increase in online sales, including through OTAs with whom the Group benefits from reduced commissions, and with the shift in segmentation, debt collection has improved.

The Carlson platform allows the Group to benefit from the economies of scale, extensive operating experience and significant negotiating power of one of the world's largest hotel companies, while retaining the flexibility and speed of reaction associated with much smaller organisations. Inclusion in the CRS provides the Group with marketing benefits, including access to global loyalty programmes and airline partnership programmes as well as helping to secure preferred supplier status with numerous multi-national companies. The Group participates in Carlson's loyalty programme, Club Carlson, for guests and meeting planners, which has more than 17 million members worldwide.

In addition, where a customer is unable to secure a reservation at a specific hotel within the Carlson family of brands, either through a travel agent or online, the customer is automatically referred to another nearby hotel within the family of brands. The Group's participation in the CRS therefore means that it receives referral customers to its hotels from other hotels in the CRS that may be fully booked on the dates such customers have requested or from customers who have selected another Carlson brand that does not have a presence in the requested destination. Further details on CRS are set out in *Section 10.13 "Sales, Marketing and Public Relations—Carlson Central Reservation System"*.

Proven track record of growth both organically and through acquisitions

Since 2008, when the PPHE Hotel Group took an indirect minority interest in the Company, the Group's Croatian operations have recorded continuous revenue growth. From 2008 to 2016, RevPAR increased by a CAGR of 8.1 per cent. from HRK 123.6 to HRK 214.0. This growth was driven by an increase in ADRs, which grew by a CAGR of 3.7 per cent. from HRK 353.9 in 2008 to HRK 472.4 in 2016 as well as by an increase in OCC, which grew from 35.0 per cent. in 2008 to 45.3 per cent. in 2016. These improvements in operational performance measures reflect the growth of the Croatian tourist market, the Group's extensive refurbishment, renovation and development programme and disciplined cost control which improved performance across the Group's Croatian assets.

In Germany and Hungary, since 2009, the Sugarhill Group has developed its business mainly by focusing on expanding its asset portfolio and repositioning its hotel offering into the upscale, upper upscale and lifestyle market classes, including through the opening of art'otel cologne in 2010, the refurbishment and extension of art'otel berlin kudamm in 2011, the refurbishment of art'otel budapest in 2012 through 2015, the acquisition of the freehold interests in each of art'otel berlin mitte and Park Plaza Berlin Kudamm in 2013 (which are now both co-owned by the Sugarhill Group in a 50/50 joint venture), the acquisition, renovation and opening of Park Plaza Nuremberg in June 2016 and the acquisition of the freehold interests in each of art'otel cologne and art'otel berlin kudamm in February 2017.

Pursuant to its exclusive right to operate and develop any new Park Plaza branded properties, the Group plans to expand the Park Plaza brand further in the CEE Region through various of its ownership and operational structures. The Group's management is currently negotiating with a number of potential partners and will continue to seek new opportunities proactively in order to grow its business and diversify its revenues.

Operational and financial excellence

The Group's management is committed to operational and financial excellence which it aims to achieve by making continuous improvements to its product offering and service, developing strategic relationships with carefully chosen partners and focusing on cost control and long term profit maximisation. As a result of these efforts, the Group and its properties are regularly presented with industry awards for service, quality and customer satisfaction, including: Park Plaza Histria Pula, Park Plaza Verudela Pula, Park Plaza Belvedere Medulin, Park Plaza Arena Pula, Verudela Beach Resort and Ai Pini Resort all named "*Award Winner 2015*" by Booking.com; Sensimar Hotel Medulin winning three awards in 2016, being "*Travellers' Choice - Top Hotel 2016*", "*Travellers' Choice - Romance Hotel 2016*" and "*Travellers' Choice - Best Service 2016*" by TripAdvisor; and the Kažela Camp being awarded "*Croatia's Best Campsites*" in 2016 and 2015 by the Croatian Camping Association, Croatian Chamber of Commerce and the Association of Croatian campers. In Germany and Hungary, Park Plaza Wallstreet Berlin Mitte, art'otel cologne and art'otel budapest were all recognised in 2016 by TripAdvisor with '*Certificate of Excellence*' accreditations and the same hotels and art'otel dresden, received a '*Guest Review Award*' from Booking.com.

The Group focuses on driving its bookings through the most cost-effective reservation channels in order to maximise profitability. The Group operates revenue optimisation systems which allows it to manage demand both from CRS and internet bookings in real time, thereby enabling the Group to maximise its room rate pricing strategies. Conferences, which are an additional component of food and beverage revenues, are an important driver of hotel profitability, particularly in the Group's Park Plaza branded hotels. In addition to maximisation of ADRs, the Group intends to increase OCC by seeking additional opportunities to partner with third parties.

The Group is highly focused on operational performance and financial cost efficiency and maintains and monitors clearly identified KPIs in order to manage and improve its business. In particular, the Group carefully monitors its RevPAR, gross operating profit, EBITDA, margins and market share. Operating and financial KPIs are measured across all types of properties allowing for monitoring, comparability and benchmarking. In addition, following the recent acquisition of a controlling stake in the portfolio of properties owned by the Sugarhill Group, the Group expects to continue to pursue revenue and cost synergies through improved cross-selling opportunities and workforce optimisation and training measures. Furthermore, the Group plans to continue to seek to exploit favourable financing conditions in order to optimise the terms of existing loans and future financings.

Support from the Group's long-standing shareholder

The PPHE Hotel Group acquired an indirect minority interest in the Group in 2008 and has supported the business and provided the Group with access to its management and industry expertise since that time. The PPHE Hotel Group increased its interest and became the majority indirect shareholder of the Company in 2016, currently owning a 77.09 per cent. interest in the Company. The strategic plans of the PPHE Hotel Group are to develop the Group into a leading hospitality company in the CEE Region, primarily under the Park Plaza brand, by strengthening and developing the Group's business and market position in the upscale and upper upscale market classes by upgrading and rebranding the Group's current properties and by further expansion. Immediately following the Offering, the PPHE Hotel Group is expected to continue to own more than 50 per cent. of the Shares.

The Group currently benefits from and relies upon its relationship with the PPHE Hotel Group in a number of ways. The Company and certain subsidiaries of the Company are parties to various agreements with members of the PPHE Hotel Group, including the LSM Agreements and Framework Agreement entered into as part of the Operational Restructuring in December 2016. Under these agreements, in addition to providing an exclusive right to operate and develop any new Park Plaza branded properties in the CEE Region, the PPHE Hotel Group also provides the Group access to the Carlson network, a range of sophisticated sales tools, marketing and distribution systems, and management, development and investment expertise. As it pursues its growth strategy in the CEE Region, the Group expects to enter into additional operating agreements with third party owners thereby developing the Park Plaza brand in the CEE Region.

The PPHE Hotel Group has provided the Group with financial support including by assisting in financing the Group's property acquisitions through direct loans and by guaranteeing the Group's obligations in certain third-party financing arrangements.

Pursuant to the LSM Agreements, the Group benefits from various programmes and services offered by the PPHE Hotel Group. For example, the Group enjoys access to the PPHE Hotel Group's employee training programmes. The PPHE Hotel Group recognises that its employees determine its success and therefore invests continuously in their development programmes and actively encourages maximum participation. The PPHE Hotel Group organises support trainings for teams working at the Group's properties in order to give employees a better understanding of the brands' and the Group's mission, vision and strategy and to encourage corporate social responsibility. The Company believes that these initiatives support high quality operational performance leading to high rates of both employee and guest satisfaction.

For further information on support received by the Group from its long-standing shareholder, please see *Section 12 "Relationship with the PPHE Hotel Group"*.

Experienced management team

The Group has a highly effective management team with extensive experience in the hospitality industry. Amongst others, the Executive Directors, Mr. Reuel Israel Gavriel Slonim and Mrs. Milena Perković have 30 and 35 years of experience in the hotel industry, respectively, including nine years and 35 years at the Company, respectively, and the Chairman of the Board of Directors, Mr. Boris Ernest Ivesha, has 50 years of experience in the hotel industry.

The Group's management team has a proven track record of improving portfolio performance by executing well-planned refurbishment, renovation and development projects characterised by disciplined cost control. The management team has knowledge and experience in identifying assets with development potential that will generate value and increase revenues. These capabilities arise from the management team's considerable experience of identifying development opportunities, acquiring properties on favourable terms, obtaining relevant planning permissions, designing hotels, resorts and campsites and project managing the refurbishment, renovation and development of hotels and resorts.

10.4 Strategy

The key components of the Group's strategy are as follows:

Refurbish, renovate, develop and brand the Group's existing portfolio of properties

The Group intends to accelerate its property refurbishment, renovation and development programme. Since 2011, nine of the Group's properties have been refurbished, at a total cost of approximately HRK 413.2 million in Croatia and approximately EUR 21.3 million in Germany and Hungary. Currently, six properties comprising nearly half of the Group's existing Croatian hotel and resort units are un-refurbished and have not yet been upgraded to the upscale and upper upscale market classes. None of the Group's campsites have been refurbished. Un-refurbished properties which the Company believes have strong development potential include, among others, Ai Pini Resort, Hotel Brioni, Zlatne Stijene Resort, Kažela Camp, Stoja Camp and Medulin Camp.

The Group has a proven track-record of undertaking hotel refurbishment, renovation and development projects in order to move properties into the upscale, upper upscale and lifestyle market classes. Those projects have been successfully completed within relatively short ramp-up periods and in Croatia have achieved high historical investment returns. See *Section 10.10 "—Investment Capital Expenditure Overview, Refurbishments and Developments"*.

The Company believes that the brand and marketing leverage provided by the Group's relationships with the PPHE Hotel Group and Carlson, as well as Pula's increasing popularity with travellers and its improving airline connectivity are positive factors and developments which will enable the Group to deliver attractive returns on its planned investments in renovation, refurbishment and development projects at its hotels, resorts and campsites in Croatia.

In particular, the Company believes that the Group's campsites are currently under invested and have significant potential to benefit from development projects. The Group's campsites have not been upgraded recently, and the Group plans to upgrade its camping facilities. In addition, the Group's plans include increasing the number of units at certain of its campsites by adding a significant number of mobile homes.

The Group's campsites are located in prime locations of great natural beauty, in close proximity to cultural sites, tourist attractions and transportation infrastructure and as such the Company believes they may yield refurbishment returns in line with the Group's historic rates of return on investment.

As with the Group's previous refurbishment, renovation and development projects, all projects will go through an extremely vigorous planning process, which includes, among other things, in-depth market research, feasibility studies and has historically included outside scrutiny since most of the investments were financed to a large extent with bank lending. The Company believes this process ensures optimal branding, market positioning, quality physical renovation and, upon completion, efficient functioning of the relevant properties which in turn can be expected to result in improved operational and financial performance.

Capitalise on synergies between the Group's Croatian, German and Hungarian operations

The Company believes there are a number of potential benefits that may be realised from synergies resulting from the combination of the Group's Croatian operations with the German and Hungarian operations which are now part of the Group following the Sugarhill Contribution. These potential benefits include both operational and financial gains.

The Group is utilising its workforce across its network of properties through temporary intra-group transfers. The Group's German hotels have in recent years suffered from staff shortages. In contrast, the Group's Croatian operations benefit from a large pool of locally available staff and in 2016 94 per cent. of its seasonal employees came from in and around Pula or Medulin. Therefore, the Group's Croatian operations have a substantial pool of trained staff that are not employed outside of the summer season and who are willing to take temporary employment in Germany. As a result, the Company's employees will receive greater exposure to Germans, including their language and culture, which should improve their ability to deliver world-class hospitality service in Croatia. During 2016, 43.8 per cent. of the guests in the Group's properties were residents of the DACH Region. The Company believes that its ability to offer international career opportunities and year round employment will make the Company a more attractive employer in Croatia.

Additionally, the Company believes that its successful track record of operating city hotels and catering for the corporate segment will be an important factor in successfully pursuing hotel operating agreements and joint ventures, primarily under the Park Plaza brand, across the CEE Region in what is mostly a market for city breaks and corporate travel.

Expand through acquisitions, partnerships and other types of business models

The Group strives to create shareholder value by applying various operating and financing arrangements, on a case-by-case basis. Through its various ownership and operational structures, the Group operates and develops hotels, resorts and campsites and finances its operations through a combination of cash from operations and debt financing.

By capitalising on one of the PPHE Hotel Group's core strengths and proven track-record of buying underdeveloped land and hotels and transforming these properties into successful, profitable hotels, the Group plans to purchase properties in locations where it expects that capital value will appreciate over time.

In February 2017, the Group acquired the freehold interests in art'otel cologne and art'otel berlin kudamm, which the Sugarhill Group historically operated under lease agreements. The Group plans to continue to pursue investments that it expects will lead to an increase in profitability and the creation of additional value for the Group and its shareholders. The Group sees a strong case for continued expansion in Germany as the German hotel market is still highly fragmented, expansion in Germany would provide further revenue and cost synergies.

The Company believes it was the first Croatian hotel company to partner with an international tour operator to brand and franchise a hotel in Croatia. Pursuant to an agreement with TUI, a set percentage of room bookings at Sensimar Hotel Medulin are guaranteed by TUI during the summer season, while the Group continues to operate and manage the hotel. The Group intends to consider further similar arrangements in the future on a case-by-case basis.

Outside its current markets, the Group intends to expand through a variety of ownership structures which include operating agreements and joint ventures. Under the terms of the Framework Agreement, the Group is expected, at a minimum, to adhere to a specified development plan, and the Group's management will pursue such new development opportunities. The Group is currently holding discussions with several potential partners. This should enable the Group to share the risks and costs associated with new developments, accelerate growth by utilising less of its own capital and efficiently pave the way for successful brand penetration in new markets.

Any new opportunities the Group pursues will be subject to its disciplined approach to new investments in order to ensure proper returns can be achieved and that they are in line with the Group's long-term development strategy.

Focus on continually improving and enhancing service quality and the overall guest experience through employee and technology initiatives

The Company believes that delivering a consistently high-quality and memorable guest experience, which exceeds expectations, is at the core of the Group's product offering. The Group continually monitors guest satisfaction through the use of third party tools, which provide detailed feedback. The Group's management views effective employee engagement as a key driver of guest satisfaction levels and, in turn, one of the key components to high quality performance of the Group's business in the longer term.

The Group 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.

As part of the Group's employee incentive, motivation and award programme, employees are regularly evaluated and on the basis of those evaluations are entitled to receive salary increases and bonuses based on their performance against certain agreed criteria. The success of the Group's employee initiatives and their overall satisfaction is evident through the Group's high rate of employee retention. In the 2016 summer season in Croatia, for example, over 70 per cent. of the Group's seasonal employees were returning employees.

The Group intends to continue to create and deliver programmes aimed at further improving employee engagement and satisfaction and pursue further technological initiatives. Furthermore, the Group will diligently monitor the physical condition of its properties and continue delivering its refurbishment, renovation and development plan across several of the Group's properties. It is expected that these efforts will result in continuous improvement of employee and guest satisfaction scores and ultimately improve the long-term performance of the Group's business.

The Group aims to deliver its guests a technologically advanced experience by investing in a wide range of technical innovations. For example, the Group introduced free mobile phone applications in all of its branded hotels in Croatia which provide extensive hotel information and give the hotel the ability to maintain direct contact with its guests. In 2016, Park Plaza Arena Pula introduced mobile room keys thus avoiding additional cards and minimising check-in queuing at the reception desk.

10.5 Relationship with the PPHE Hotel Group

The PPHE Hotel Group's primary activities are owning, leasing, developing, operating and franchising full-service upscale, upper upscale and lifestyle hotels in major gateway cities, regional centres and select resort destinations, predominantly in Europe.

PPHE was formed in July 2007 through the combination of companies owning various hotels and hotel operating interests. In July 2007, PPHE floated on the AIM market of the London Stock Exchange and migrated to the Official List of the London Stock Exchange in June 2011. Today, PPHE is a dynamic hospitality company with a strong asset base, access to global distribution and access to and ownership of world-class brands. As at 29 March 2017, PPHE had a market capitalisation of GBP 334.5 million.

The PPHE Hotel Group's hotels operate primarily under two distinct brands, Park Plaza and art'otel. Pursuant to the Territorial Licence Agreement, the PPHE Hotel Group has an exclusive licence from Carlson, one of the world's largest hotel groups, to operate and develop the Park Plaza brand in Europe and the MENA region. The PPHE Hotel Group has granted the Group the exclusive right to operate and develop new Park Plaza branded properties in the CEE Region, pursuant to the Framework Agreement discussed in *Section 12.1*

"Relationship with the PPHE Hotel Group—Sugarhill Contribution and Operational Restructuring". The art'otel brand is owned by the PPHE Hotel Group and it may grant access to the art'otel brand to the Group.

The PPHE Hotel Group's portfolio of owned, co-owned managed, leased and franchised hotels, excluding those forming part of the Group, comprises 19 hotels, offering a total of over 5,100 units, with an additional 554 units under development across one existing hotel and two new hotel projects.

For additional information related to the Group's relationship with the PPHE Hotel Group, please see *Section 12 "Relationship with the PPHE Hotel Group"*.

10.6 Management and Major Shareholders

The Company's management

The Company's management body is the Board of Directors, which consists of seven members and is led by the Chairman. Additionally, the Board of Directors has appointed two Executive Directors who are not members of the Board of Directors. Strategic corporate business functions are organised in divisions and are led by divisional managers which make up the senior management team. The senior management team is responsible for managing specific functional business activities and providing management support to the Executive Directors. Please see *Section 17 "Board of Directors, Executive Directors and Corporate Governance"* for additional information.

Major Shareholders

The Company is a joint-stock company, and based on the status as registered with the CDCC at 22 March 2017, the Company had more than 4,100 shareholders and had three major shareholders:

- The PPHE Hotel Group (indirectly via Dvadeset Osam d.o.o.): 2,523,593 shares (77.09 per cent. of the Company's issued share capital);
- AZ pension funds: 190,761 shares (5.83 per cent. of the Company's issued share capital); and
- PBZ pension fund: 59,575 shares (1.82 per cent. of the Company's issued share capital).

10.7 Overview of the Group's Portfolio

The Group has an ownership and/or operational interest in a total of 27 properties, including 15 hotels, four resorts and eight campsites. Seven of the hotels are located in Germany, one hotel is located in Hungary and the remaining properties are located in and around Pula, the capital of the region of Istria, Croatia. The Group operates all 27 properties. Of these, 10 properties are owned or co-owned by the Group, 11 properties are co-owned or partially owned by the Group and subject to proceedings pursuant to the Tourist Land Act, two hotels are owned by the Group pursuant to 50 per cent.-owned joint ventures, two hotels are operated pursuant to an operating lease with a third party, one hotel is operated pursuant to an operating agreement and one hotel is operated by the Group without any formal arrangement.

The following table provides an overview of the Group's hotel and resort portfolio.

The Group's hotels and resorts

Property	*Location*	*Ownership interest*	*Number of units*
Croatian hotels and resorts			
Park Plaza Belvedere Medulin	Medulin, Croatia	Owned	427
Park Plaza Histria Pula	Pula, Croatia	Owned	368
Hotel Brioni	Pula, Croatia	Owned	228
Hotel Holiday	Medulin, Croatia	Owned	192
Sensimar Hotel Medulin	Medulin, Croatia	Owned	190
Park Plaza Arena Pula	Pula, Croatia	Owned	181
Guest House Riviera	Pula, Croatia	Operated(1)	33
Zlatne Stijene Resort	Pula, Croatia	Partially owned(2)	425
Park Plaza Verudela Pula	Pula, Croatia	Partially owned(3)	385
Verudela Beach Resort	Pula, Croatia	Partially owned(3)	186
Ai Pini Resort	Medulin, Croatia	Owned	64

Property	*Location*	*Ownership interest*	*Number of units*
German and Hungarian hotels			
art'otel cologne	Cologne, Germany	Owned(4)	218
Park Plaza Nuremberg	Nuremberg, Germany	Owned(4)	177
art'otel berlin kudamm	Berlin, Germany	Owned(4)	152
Park Plaza Wallstreet Berlin Mitte	Berlin, Germany	Operating lease	167
art'otel budapest	Budapest, Hungary	Operating lease	165
Park Plaza Berlin Kudamm	Berlin, Germany	50% owned(5)	133
art'otel berlin mitte	Berlin, Germany	50% owned(5)	109
art'otel dresden	Dresden, Germany	Operated	174
		Total units	3,974

Source: Group Data

Notes:

(1) The Group currently operates the property without any formal arrangement. See *Section 11.2* "*The Group's Properties—Croatia—Hotels and Resorts—Guest House Riviera"*.

(2) The buildings in the resort are partially owned by the Company and the land is partially owned by the City of Pula and subject to proceedings pursuant to the provisions of the Tourist Land Act. *See Section 10.8 "—Properties – Types of Interests—Co-ownership and partial ownership subject to the Tourist Land Act*" and *Section 10.19 "—Legal Proceedings and Disputes—Administrative proceedings and disputes resulting from the Tourist Land Act"*.

(3) The accommodation buildings in the resort are owned by the Company and the surrounding land is partially owned by the City of Pula and subject to proceedings pursuant to the provisions of the Tourist Land Act. *See Section 10.8 "—Properties – Types of Interests—Co-ownership and partial ownership subject to the Tourist Land Act"* and *Section 10.19 "—Legal Proceedings and Disputes—Administrative proceedings and disputes resulting from the Tourist Land Act"*.

(4) As a result of the Sugarhill Contribution in December 2016, the Company currently owns 88.0 per cent. of the Sugarhill Group and therefore (indirectly) 88.0 per cent. of the freehold and operational rights to this property. In addition, the Company has been granted an option by the PPHE Hotel Group to acquire the remaining 12.0 per cent. interest of the Sugarhill Group. See *Section 12.1 "Relationship with the PPHE Hotel Group—Sugarhill Contribution and Operational Restructuring"*. One of the intended uses of proceeds from the Offering is to fund the exercise of that option and associated transaction costs (including real estate transfer tax, where applicable, in Germany), after which the Group would own 100 per cent. of this property. See *Section 5 "Use of Proceeds; Reasons for the Offering"*.

(5) Through its current 88.0 per cent. interest in the Sugarhill Group, the Company indirectly owns 88.0 per cent. of a 50 per cent. interest in this 50/50 joint venture. Upon exercise of the option discussed in Note 4, above, the Company would indirectly own 100 per cent. of this 50 per cent. joint venture interest.

The following table provides an overview of the Group's campsite portfolio.

The Group's campsites

Property(1)	*Location*	*Number of units*	*Approximate hectares(2)*
Kažela Camp	Medulin, Croatia	1,687	68.9
Stupice Camp	Premantura, Croatia	1,111	25.4
Medulin Camp	Medulin, Croatia	1,070	22.4
Stoja Camp	Pula, Croatia	846	19.6
Indije Camp	Banjole, Croatia	534	13.5
Tašalera Camp	Medulin, Croatia	316	9.0
Pomer Camp	Pomer, Croatia	264	9.7
Runke Camp	Premantura, Croatia	247	7.6
	Totals	6,075	176.1

Source: Group Data

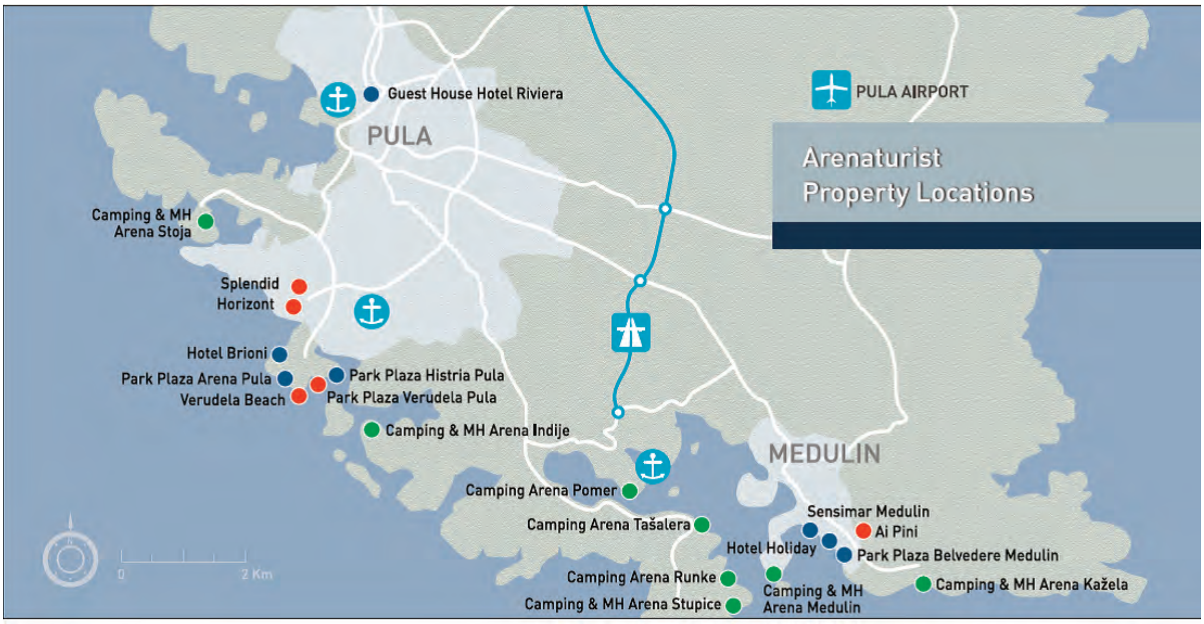
Notes:

(1) The co-ownership of the land area is subject to the provisions of the Tourist Land Act and relevant proceedings. See *Section 10.8 "—Properties – Types of Interests—Co-ownership and partial ownership subject to the Tourist Land Act"* and *Section 10.19 "—Legal Proceedings and Disputes—Administrative proceedings and disputes resulting from the Tourist Land Act"*. The Group is the operator of the campsites.

(2) Represents the area of land in each campsite used for the calculation and payment of the preliminary concession fee.

Please see *Section 11 "The Group's Properties"* for a more detailed description of each property.

Map of the Group's Croatian properties



Source: Group Data

10.8 Properties – Types of Interests

The Group's ownership and/or operational interests in the properties in its portfolio are divided into four categories: (i) ownership and co-ownership, including ownership pursuant to joint ventures; (ii) co-ownership or partial ownership subject to the Tourist Land Act; (iii) operating leases; and (iv) operating agreements.

The following table summarises the Group's properties by type of interest and country.

The Group's properties by type of ownership

	Ownership/ Co-ownership		*Co-ownership/Partial ownership subject to the Tourist Land Act*		*Operating Leases*		*Operating Agreements*	
	Properties	*Units*	*Properties*	*Units*	*Properties*	*Units*	*Properties*	*Units*
Croatia	7	1,650	11	7,071	1	33	–	–
Germany	5	789	–	–	1	167	1	174
Hungary	–	–	–	–	1	165	–	–
Total	12	2,439	11	7,071	3	365	1	174

Source: Group Data

Ownership/Co-ownership

In its current portfolio, the Group owns or co-owns 11 of its hotels, although the Group only has part ownership of the companies that own five of those hotels. More specifically, the Group has an 88 per cent. ownership interest in the Sugarhill Group which, in turn, owns the freehold and operational rights to three hotels in Germany (art'otel berlin kudamm, art'otel cologne and Park Plaza Nuremberg). The Sugarhill Group also owns 50 per cent. of two 50/50 joint ventures which each own one hotel in Germany (art'otel berlin mitte and Park Plaza Berlin Kudamm).

In addition, the Group owns one resort and partially owns three resorts, which are subject to proceedings pursuant to the provisions of the Tourist Land Act. See *Section 10.8 "—Properties—Types of Interests—Co-ownership and partial ownership subject to the Tourist Land Act"* and *Section 10.19 "—Legal Proceedings and Disputes—Administrative proceedings and disputes resulting from the Tourist Land Act"*.

All of these properties are operated by the Group.

Property ownership has allowed the Group to participate in the increase in property values which often arises following their development and has also allowed the Group to benefit from historic increases in property values in Croatia and Germany. Hotel ownership is the most capital intensive way to expand the Group's portfolio and the Group has in the past made and, where it considers appropriate, will in the future make such investments alone or in co-operation with third party joint venture partners, as the Company believes this is a profitable business model. The Group has a proven track record of refurbishing, redeveloping and rebranding properties and operating them as successful, profitable hospitality assets.

The Group intends to continue to expand its portfolio by acquiring ownership interests in hospitality assets and the development of hospitality assets where attractive opportunities arise, especially in locations where capital value is likely to appreciate over time. This enables the Group to establish a foothold in key destinations, creating flagship properties under its brands and generating income from operations.

Co-ownership and partial ownership subject to the Tourist Land Act

The Group operates properties in Croatia which are subject to various proceedings pursuant to the Tourist Land Act, namely (i) tourist land concession award proceedings related to land areas in eight campsites and (ii) tourist land concession award proceedings and other proceedings to determine the size and shape of certain land plots/areas underneath and surrounding the buildings, proceedings in relation to the relevant land in resorts and hotels in the peninsula Verudela and Zlatne Stijene areas, including certain paths, parking areas and landscaped areas.

In accordance with the provisions of the Tourist Land Act, in 2011 the Company submitted requests for the award of tourist land concessions for a term of 50 years (the maximum term allowed) in relation to approximately 170 hectares of land at the campsites. Namely, pursuant to the Tourist Land Act, in cases where land areas and buildings in campsites were partially assessed in a company's capital in the transformation and privatisation process, such company became a co-owner of the relevant land and buildings together with the Republic of Croatia and entitled to request the tourist land concession to be granted in relation to the co-ownership part of the Republic of Croatia.

The Company has entered into settlement agreements with the Republic of Croatia with regards to all eight of its campsites whereby it has agreed that the proportions of co-ownership shall be determined based on expert evaluations. The provisions in the Tourist Land Act and relevant regulations relating to such expert evaluations are unclear, and, therefore, the Company's request for the award of tourist land concessions has not yet been resolved and are expected to remain unresolved until the Tourist Land Act and relevant regulations are adequately amended.

The Company also submitted in 2011 requests for the award of tourist land concessions for a term of 50 years (the maximum term allowed) in relation to approximately 31 hectares of land at the affected resorts, which became, pursuant to the Tourist Land Act, the ownership of the local municipalities. In relation to the affected resort land, the Company's request for the award of tourist land concessions has been rejected twice by a decision of the City of Pula, as the concession grantor. The second negative decision has been recently annulled for the second time by the competent administrative court and sent back to the first instance (i.e. the City of Pula as the concession granting authority) 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.

Other properties

In addition to the above, the Group's portfolio includes various other real estate, land areas and business premises, which the Company believes provide additional added value to the Group's core business operations.

Certain of the business premises within the Group's campsites and resorts (e.g. souvenir shops, catering facilities, retail shops, etc.), as well as those located outside such properties are being operated by third parties on the basis of the lease agreements entered into by the Company and the respective lessees under which the Group receives rental income.

Other real rights

The properties owned by the Group are subject to mortgages, primarily securing loans granted by banks to the Group. In addition, the properties are subject to certain other encumbrances (primarily servitude rights) registered in the land registry, as well as certain other notes registered in the land registry (primarily related to delivery or non-delivery of usage permits to the competent land registry or related to pending proceedings conducted pursuant to the provisions of the Tourist Land Act). A table summarising the mortgages on the Group's properties is provided in *Section 11.4 "The Group's Properties—Mortgages on the Group's Properties"*.

Please also see *Section 2.1 "Risk Factors—Risks Related to the Group's Business—The Group is exposed to certain risks in relation to property subject to the Tourist Land Act"*, Section 10.19 *"—Legal Proceedings and Disputes—Administrative proceedings and disputes resulting from the Tourist Land Act"*.

Operating leases

Two of the Group's properties are operated under operating leases. These are long-term arrangements under which the Group has agreed to lease the hotels from third parties for a period of up to 22 and 35 years (a combination of fixed term lease with options to extend by the lessee). In the first case, monthly rental payments are based on a percentage of the operating revenues of that hotel subject to a minimum amount which is independent of the operating revenue. In the other case, a fixed rent (subject to indexation) applies. The leasehold model requires little capital employed and is an ownership model typical for hotels in premium locations specifically in German-speaking markets. The Group manages all aspects of the operation of the property, from sales and marketing to reservations and food and beverages and human resources. Even though operating leases require a lower capital investment than owning a hotel, there is a risk that the Group will not be able to generate sufficient revenues to cover rental payments and the other operating costs. For this reason, the Group will aim to enter into future operating lease arrangements only where it is able to limit its exposure.

Operating agreements

The Group operates all of its hotels pursuant to Operating Agreements. The Group operates, but does not own, art'otel dresden pursuant to an Operating Agreement with the PPHE Hotel Group as the owner of the leasehold. Operating agreements with third parties allow those owners to retain ownership of their property while the Group undertakes day-to-day operations. The Company believes this model has significant potential to deliver portfolio growth, without requiring significant capital investment and the Group is actively seeking further operating agreement opportunities. Please see *Section 12.5 "Relationship with the PPHE Hotel Group—art'otel dresden Operating Agreement"* for further information on art'otel dresden.

Concession approvals regarding use of maritime domain areas

The Company also operates certain maritime domain areas in its campsites and resorts based on 11 concession approvals for various business activities (primarily beaches, shops and sun umbrellas rental) granted by the City of Pula and Medulin Municipality respectively, in accordance with the Maritime Domain Act.

10.9 Development Process and Strategy

All investment capital expenditure projects require approval from the Board of Directors and are supported by a feasibility study, detailed costings and tenders from contractors and suppliers.

Historically for investment capital expenditure projects in Croatia, the Group has targeted a minimum of 10 per cent. EBITDA return at the end of the third year following completion of the project. EBITDA return is measured by the increase in EBITDA following refurbishment divided by the amount of the investment. This return is on an "unleveraged basis" and the investment capital expenditure can frequently be funded with bank debt that greatly increases the return on shareholder equity. Where investment capital expenditure cannot be funded wholly or partially with bank debt, the Group will seek a higher EBITDA return than 10 per cent..

In relation to new investment capital expenditure projects, outside of its existing portfolio of properties, the Group will adopt a flexible approach depending on the nature of the opportunity. For example, a freehold property that can support long term mortgage financing and offer the opportunity for long term capital growth will have a lower target rate of return on capital invested than a leasehold property or a management contract.

The Group has historically only operated in Croatia, Germany and Hungary. Recently, the Group (both directly and via the PPHE Hotel Group) has had a number of approaches in relation to potential acquisitions (both freehold and leasehold) and management contracts. The Group is at present considering a number of possible opportunities.

Since the PPHE Hotel Group became an indirect shareholder of the Company, the PPHE Hotel Group has supported the Group by providing management, development and investment expertise. For example, the PPHE Hotel Group participated in the Group's refurbishment and rebranding of the following properties in Croatia by providing project management and technical and design support: Park Plaza Histria Pula, Park Plaza Belvedere Medulin, Park Plaza Verudela Pula and the hotel which is now known as Sensimar Hotel Medulin.

10.10 Investment Capital Expenditure Overview, Refurbishments and Developments

Past investments and refurbishments

The following tables provide an overview of the significant refurbishment projects the Group has undertaken in the last 10 years. Based on these investments, overall the Group has averaged a 13.4 per cent. EBITDA return on investment, increased average ADR by 75.7 per cent. and increased OCC by an average of 36.6 per cent.

Croatian Investment Capital Expenditure

	Park Plaza Histria Pula	*Sensimar Hotel Medulin*	*Park Plaza Belvedere Medulin*	*Park Plaza Arena Pula*	*Park Plaza Verudela Pula*
Year of investment	2011 – 2013	2011 – 2013	2013 – 2014	2015 – 2016	2011 – 2013
Investment value (HRK thousands)	105,700	17,300	126,100	58,300	105,800
2010 EBITDA (HRK thousands) (1)	3,970	2,130	4,660	1,390	5,750
2016 EBITDA (HRK thousands)	21,640	5,880	20,680	6,770	18,330
EBITDA change (HRK thousands) (1)	17,700	3,700	16,000	5,400	12,600
EBITDA return on investment (%)	16.7	21.6	12.7	9.2	11.9
2010 ADR (HRK)	518	535	374	493	394
2016 ADR (HRK)	801	815	711	836	904
ADR change (%)	54.5	52.2	90.1	69.7	129.3
2010 OCC (%)(2)	45.0	61.0	46.2	69.5	47.0
2010 365-day OCC (%)(3)	43.5	32.9	34.9	25.5	25.5
2016 OCC (%)(2)	54.8	86.7	58.0	68.4	54.2
2016 365-day OCC (%)(3)	45.0	38.0	36.0	33.0	31.0

Source: Group Data

Notes:

(1) EBITDA relates to specific property and therefore is stated net of historic management fees and before unallocated central costs, where applicable.

(2) OCC based on the number of days that the property was open during the relevant year.

(3) OCC based on 365 days.

The Group typically spends approximately 3 per cent. to 4 per cent. of revenue per year on routine maintenance, repairs and refurbishments to property, plant and equipment. In addition to these projects, the Group undertakes larger refurbishment and development projects. The major projects are described below.

The hotel previously known as Hotel Histria was refurbished in 2012 and reopened as Park Plaza Histria Pula. The hotel previously known as Hotel Palma was refurbished in 2013 and was added as a wing to Park Plaza Histria Pula. The project included refurbishing 368 rooms, the restaurant, three bars, two swimming pools, four conference rooms, the fitness and wellness centre and the service areas, including the kitchens, and landscaping the grounds.

The resort previously known as Punta Verudela was refurbished in 2012 and reopened as Park Plaza Verudela Pula. The project included refurbishing the resort's units, public areas, including the pool, restaurants and bars, and the services areas and landscaping the grounds. It also included refurbishing the Verudela Avenue, which is the retail complex located adjacent to the resort that includes 22 units that are let out to independent retailers.

The hotel previously known as Hotel Medulin was redecorated and updated in 2012 and reopened as Park Plaza Medulin. The project included the redecoration of 190 rooms, the restaurant, the bar, the swimming pool and meeting rooms. In 2016, it was rebranded under TUI's Sensimar brand as Sensimar Hotel Medulin as part of an agreement with TUI.

The hotel previously known as Hotel Belvedere was refurbished and upgraded in 2013 and reopened as Park Plaza Belvedere Medulin in 2014. The project included refurbishing 427 bedrooms, two swimming pools, two restaurants, the bar, the wellness and fitness centre, the kitchens and service areas and landscaping the grounds.

The hotel previously known as Hotel Park was refurbished in 2015 and reopened as Park Plaza Arena Pula. As part of the refurbishment capacity was increased from 147 rooms to 175 rooms through the construction of an additional floor. The bedrooms, bars, swimming pool, wellness and fitness centre and the service areas, including the kitchens, were also refurbished. In 2016, eight apartments that were part of the Verudela Beach Resort and situated next to Park Plaza Arena Pula were refurbished and became six garden suites that are now part of Park Plaza Arena Pula.

Although not part of the Group at the time, Park Plaza Nuremberg was developed in 2014 – 2016. The existing building was entirely reconfigured, including the complete replacement of the mechanical and electrical plant and equipment and a new roof. The hotel had its first paying guests in June 2016.

Planned investments and refurbishments

The Group has commenced (i) refurbishing Hotel Holiday; (ii) installing a third swimming pool and constructing two all-weather football pitches at Park Plaza Belvedere Medulin; and (iii) constructing a new reception building at Stupice Camp, in each case expected to be completed by the 2017 summer season.

The Group has advanced plans to refurbish three properties, Ai Pini Resort, Kažela Camp and Hotel Brioni, at a total cost of approximately HRK 382 million. Should the Offering be successful, the Group expects to commence all three projects in the fourth quarter of 2017 or early 2018.

The planned project at Ai Pini Resort, with an expected cost of HRK 82 million, includes increasing the total number of units from 69 to 133 with the addition of 64 newly-built units. The refurbishment plans also include the following new facilities: reception building, market and shops, main restaurant and pool bar, wellness and fitness centre and a 300 square metre swimming pool. Completion of the project is expected in the second quarter of 2018.

The planned project at Kažela Camp, with an expected cost of HRK 90 million, includes the addition of 50 new luxurious mobile homes, a new swimming pool complex, refurbishment of four sanitary facilities and a light refurbishment of the reception and commercial area. Completion of the project is expected in the second quarter of 2018. The Group is comfortable proceeding with its development plans in relation to Kažela Camp because there is no ongoing ownership related dispute and the Group is confident that the issue of the award of the tourist land concession by the Republic of Croatia will be resolved.

The planned project at Hotel Brioni, with an expected cost of HRK 210 million, includes increasing the number of units from 228 to 330. The renovated hotel will be the first five-star Park Plaza branded hotel in Pula. As of the date of this Prospectus, the main design has been finalised and the procedure for obtaining the building permit has been initiated before the competent authority. Completion of the project is expected in 2020.

Additionally, the Group plans to double the number of mobile homes that it owns by adding 600 additional mobile homes at an estimated cost of HRK 110 million. The Group plans to install the additional mobile homes over a three-year period beginning in the first half of 2018. In 2016, the Group achieved 30.4 per cent. 365-day OCC, HRK 530 ADR and HRK 161.5 365-day RevPAR on its existing mobile homes, which are 10 years old or more.

10.11 The Brands under which the Group Operates

The two core brands under which the Group operates appeal to different target customers. Seven of the Group's hotels and resorts, offering a total of 1,838 units, operate under the Park Plaza brand; five of the Group's hotels, offering a total of 818 units, operate under the art'otel brand; and six of the Group's hotels and resorts, offering a total of 1,128 units, and all eight of the Group's campsites, offering a total of 6,075 units, operate on an unbranded basis. One hotel owned and operated by the Group operates under TUI's Sensimar brand, offering 190 units. Where an unbranded resort or hotel has been refurbished the Group will consider rebranding it Park Plaza where appropriate.

The following table summarises the key features of the core brands under which the Group operates properties. The Group's rights to the brands stem from the Framework Agreement and the LSM Agreements entered into with the PPHE Hotel Group. See *Section 12 "Relationship with the PPHE Hotel Group"* for more information on these arrangements.

Core brands

Brand	*Park Plaza*	*art'otel*
Logo		
Typical size	● 200-300 units	● 100-200 units
Concept	● Design-led properties combining technology and comfort ● Upscale and upper upscale full-service hotels	● Fusion of travel, architecture and contemporary art ● Upper upscale lifestyle hotels
Target customers	● Business and leisure travellers	● Professionals and leisure travellers with an interest in arts and culture
Location	● Key leisure and business destinations ● Focus on existing markets as well as growing new markets	● Central urban locations where modern art matters
Accessibility	● In the heart of business and tourist centres ● Convenient for major transport hubs	● Close to main shopping streets and cultural attractions
Facilities and features	● State-of-the-art facilities in all rooms ● Destination restaurant and bar concepts ● Flexible event spaces ● Free wireless internet	● Bespoke collections of original artwork ● Vibrant bars and restaurants ● Innovative meetings and event space ● Free wireless internet

Source: Group Data

Park Plaza

The Park Plaza brand is a dynamic and growing collection of individual full-service upscale and upper upscale hotels. The hotels are typically located in the heart of business and tourist centres, and are easily accessible to central railway stations, airports and major ring roads. The cornerstone of the Park Plaza brand is to offer high quality standard rooms at attractive rates. These properties usually have 200-300 units with state-of-the-art facilities and are targeted at both business and leisure travellers.

art'otel

The art'otel brand is built on the concept of individually themed hotels each of which focuses on a contemporary artist. The art'otel brand seeks to appeal to a sophisticated clientele with an interest in art and culture. These hotels aim to provide excellent value for money with a unique blend of service and design. The art'otel branded hotels are usually smaller than the Park Plaza branded hotels with typically 100-200 units. They tend to be located close to main shopping streets or tourist attractions.

Overview of the Group's Park Plaza and art'otel branded properties

	Park Plaza		*art'otel*	
	No. of properties	*No. of units*	*No. of properties*	*No. of units*
Croatia	4	1,361	–	–
Germany	3	477	4	653
Hungary	–	–	1	165
Total	7	1,838	5	818

Source: Group Data

10.12 Sources of Revenue

Room revenue

The Group originates room revenues from various sources. The Group benefits from ongoing arrangements which are in place for the PPHE Hotel Group with Carlson and a number of online travel agents and tour operators in respect of its Park Plaza and art'otel branded resorts and hotels as well as certain of its unbranded properties. These arrangements help to maintain occupancy rates and ensure a steady source of revenue. In addition, many of the Group's customers are individuals who book directly with the hotel or through intermediaries such as travel agents, corporate entities or internet booking engines. As a result of the Group's relationship with the PPHE Hotel Group (and therefore indirectly with Carlson), it has favourable arrangements with many of the leading internet travel websites.

The following table provides the percentage of the total room revenues for the Group by booking channel for the years ended 31 December 2016, 2015 and 2014, respectively.

Booking channels

Booking channel	*2016*	*2015* (*percentages*)	*2014*
Corporate	4.0	3.5	3.8
Internet[(1)]	39.6	38.1	36.4
FIT[(2)]	19.5	20.3	18.8
Corporate Group	3.0	3.2	3.5
Leisure Group	5.4	5.2	5.3
Conference	3.2	2.9	3.5
Trade Fairs and Events	1.7	1.8	1.8
Direct[(3)]	21.9	23.5	25.7
Other	1.6	1.4	1.3
Total	100.0	100.0	100.0

Source: Group Data

Notes:

(1) Internet bookings include the Company's website, the brand websites and third-party websites.

(2) "FIT" refers to tour operators.

(3) Direct bookings include bookings made by direct contact with the Company, including by telephone, email and walk-ins, but is exclusive of bookings made on the Company's website and the brand websites.

The following table provides the breakdown of overnight stays by guest country of origin for the year ended 31 December 2016.

The Group's guest breakdown (customer country of origin)

Source markets	*Germany and Hungary*	*Croatia*	*Total*
		(percentages)	
Germany	51.3	25.2	29.2
Austria	2.0	14.3	12.4
Slovenia	0.1	11.9	10.1
Italy	2.9	11.4	10.1
United Kingdom	7.5	7.6	7.6
Netherlands	2.7	3.9	3.7
Czech Republic	0.9	3.1	2.7
Poland	0.9	2.7	2.4
Croatia	0.3	2.7	2.3
Hungary	0.7	2.4	2.1
Switzerland	2.2	1.5	1.6
France	2.4	1.1	1.3
Asia	3.6	0.0	0.6
North America	4.0	0.0	0.6
Other	18.3	12.1	13.1
Total	100.0	100.0	100.0
Total overnights	332,156	1,826,646	2,158,802

Source: Group Data

During 2016, 43.8 per cent. of the guests in the Group's properties were residents of the DACH Region, with the majority being residents of Germany.

Customer base breakdown (Business versus Leisure)

The Group's customer base is a mixture of business and leisure customers. Although business customers tend to pay higher room rates than leisure customers, the Group seeks to retain a balance of business and leisure customers, as leisure customers tend to pay to occupy rooms at times when business customers do not such as weekends and on public holidays, thereby maximising the Group's occupancy rates and revenues.

The following table provides the breakdown of business versus leisure guests for the years ended 31 December 2016, 2015 and 2014, respectively.

Business versus leisure guests

	2016		*2015*		*2014*	
	Business	*Leisure*	*Business*	*Leisure*	*Business*	*Leisure*
			(percentages)			
Croatia	3.9	96.1	3.5	96.5	3.9	96.1
Germany	61.0	39.0	61.0	39.0	61.9	38.2
Hungary	65.4	34.6	62.8	37.2	62.4	37.6
Total	25.1	74.9	25.3	74.7	26.6	73.4

Source: Group Data

Food and beverage operations including conferences

As a full service hospitality provider, food and beverage and meetings constitute an important part of the Group's service offering. Food and beverage and meeting revenues includes the sale of food and drinks at the restaurants, bars and lobby shops, as well as conference and meeting packages (including food and beverages and meeting facilities rentals). Traditionally, food and beverage and meetings have had lower margins and functioned as a supplement to room revenues. However, over the last few years the importance of this offering has increased. Hotels that the Group operates in Germany have a greater focus on meeting and conference revenue. Today the Group is able to generate synergies between the food and beverages operations and its meeting and conference operations as it can, to a large extent, use the same personnel and central services. The Company believes that food and beverage offering is an important factor when customers are selecting a venue for accommodation and meetings. As the Group continues to focus on operational excellence and development of new and existing concepts, there is a potential for further optimisation and growth within food and beverage and meetings through focusing on defining each property's food and beverage offering based on the property's unique characteristics, local market conditions, competition and customer segments.

For further details on a split of revenues for these sources of business please see *Section 15 "Operating and Financial Review"*.

Seasonality of the hotel business

The Group's business is seasonal in nature, particularly in Croatia. The Group's Croatian properties, because of their location, are focused more on leisure guests and the vast majority of overnights and revenues are generated during the summer season which runs from June to September. The Group seeks to reduce the costs during the winter by closing the large majority of these Croatian properties during the winter season.

Following the Sugarhill Contribution, the seasonality of the overall business will be reduced by the German and Hungarian operations which are less reliant on the summer season and leisure guests. In Germany and Hungary, the Group generally expects that, in the absence of unusual circumstances, visits by business guests (including conferences and trade fairs) to be highest in the periods between May – June and September – November. In July and August demand from leisure guests is generally strongest. The Group seeks to reduce the overall effect of seasonality on its profits by, for example, employing temporary staff during the peak summer months, by changing the nature of its food and beverage offerings in certain countries thereby allowing for a degree of flexibility in its cost base, and by transferring certain staff members between the countries in which the Group operates.

10.13 Sales, Marketing and Public Relations

The Group's sales, marketing and public relations efforts are aimed at building revenues, profits, customer loyalty and recognition of the brands under which it operates. The Group's sales, marketing and public relations efforts benefit from its relationships with the PPHE Hotel Group and Carlson as well as its own in-house sales, marketing.

In-house sales, marketing and reservations

The Group has an experienced in-house sales and marketing team with over 30 employees. Each member of the team focuses on particular areas of the Group's business or target customer group and team members receive regular training to improve their selling skills. The Group's sales representatives regularly attend local and global trade shows and organise sales missions, showcases, workshops and familiarisation trips. The Group also regularly stages public relations events. In order to develop relationships, the Group seeks to negotiate preferred rates with major corporate customers and preferred status arrangements with travel management companies and, through the partnership with Carlson, marketing partners such as airlines and car hire companies. Designated key account managers are assigned to major customers in order to maintain and develop relationships.

The Group's primary in-house marketing platform is the internet. In particular the Group has historically focused on the development and marketing of the arenaturist.com website, which provides a user friendly reservation system. The Group also has central reservations centres in Berlin and Pula.

The PPHE Hotel Group Sales and Marketing Services

The Group derives further benefits from the sales and marketing services provided by the PPHE Hotel Group pursuant to the LSM Agreements. See *Section 12.1 "Relationship with the PPHE Hotel Group—Sugarhill Contribution and Operational Restructuring"*.

Such services include for example digital marketing initiatives such as search engine marketing (including advertising the Group's hotels in major search engines), search engine optimisation, content management, email marketing, social media messaging, promotions and customer care, promotional campaigns, sales missions, press trips and the imitation of direct marketing campaigns aimed at members of the various loyalty programmes available to the Group.

Carlson Central Reservation System

The Group's relationships with the PPHE Hotel Group and Carlson provide it with access to Carlson's state-of-the-art reservation and distribution systems for the Park Plaza and art'otel branded properties. The Carlson marketing and reservation services cover the Park Plaza brand and, at the PPHE Hotel Group's election, the art'otel brand, which are both marketed through the Carlson Central Reservation System (**CRS**), which provides a central repository of reservations, room availability and rates. This database is also central to the online reservation system supporting the Park Plaza hotels and art'otels websites. The CRS is linked to e-commerce sites which ensure real-time availability of information for prospective clients. In addition, the CRS is connected to the main GDS predominantly used by business travel agents and it is linked to Carlson's reservation and customer service centres. The arrangements also give the Group access to Carlson's clients and vice versa (please refer to *Section 12 "Relationship with the PPHE Hotel Group"*).

Global sales

In a global market where major corporations are consolidating their supplier relationships, being part of a global network ensures that the Group's hotels remain within corporate travel programmes and improves the Group's positioning with global travel consortia. The Carlson network has a cross-selling strategy at all customer touch points for the different brands within the Carlson family. This includes reservation call centres, global distribution system point of sale, the brand websites managed by Carlson, the network of on-property sales staff and Carlson's own global sales force.

Loyalty programmes

The Group participates in Carlson's various reward programmes, including the guest loyalty programme, Club Carlson, which has a marketing database of over 17 million customers worldwide. Additional marketing programmes available to the Group include Club Carlson for meeting planners and travel arrangers and Look To Book for business travel agents.

The Group has its own loyalty programme in place for campsite guests. As at 31 December 2016, there were 3,853 active Arena Camping loyalty cardholders. An Arena Camping loyalty cardholder is entitled to certain discounts and promotions.

Guest satisfaction

The Company believes that achieving high levels of guest satisfaction through consistent delivery of a highly professional service and a quality product offering leads to a strong reputation and the generation of recurring business. Therefore, the Group uses several performance indicators to measure guest satisfaction and service delivery.

For example, the Group uses two programmes across its operations to measure guest reviews posted online on influential travel review and travel agent websites. These guest reviews are pulled together into one of the two programmes used by the Group that are amalgamated into performance metrics, providing measurable data across departments or across other parts of the guest experience. The Group actively engages in responding to online guest reviews and has set performance targets for all its operational units. Management has 24/7 visibility on guest feedback and its development over time. The Group also integrates its review scores and guest reviews into its own websites to provide full transparency to its (prospective) guests.

Some of the Group's Park Plaza and art'otel branded hotels also use another digital guest survey tool which collects feedback from guests directly after their stay. This feedback is converted into a net promoter score allowing for insights and continuous improvement.

The Company believes that the Group's planned refurbishment works across several properties will further improve overall guest satisfaction scores.

10.14 Employees

The following table provides an overview of the Group's employees by contract type and full time equivalents, for each country in which the Group operates.

The Group's employees

	Croatia	*Germany and Hungary*(1)	*Total*
As of 31 December 2014			
Full time	346	230	576
Part time	74	44	118
FTE(2)	710	218	928
As of 31 December 2015			
Full time	354	225	579
Part time	184	43	227
FTE(2)	758	263	1,021
As of 31 December 2016			
Full time	366	301	667
Part time	114	35	149
FTE(2)	806	264	1,070

Source: Group Data

Notes:

(1) The employee numbers for Germany and Hungary include all employees for art'otel berlin mitte and Park Plaza Berlin Kudamm which are owned by 50/50 joint ventures. The employee numbers for Germany and Hungary for 2014 and 2015 are provided only for information purposes, as they were not part of the Group at that time.

(2) The FTE figure is an estimate based on the total hours paid for all employees during a year divided by the hours paid for an average full time employee during the year.

In Croatia the management structure is organised into 10 divisions led by divisional managers and operationally in four profit centres – hotels, resorts, campsites and auxiliary services (entertainment, laundry, landscaping, maintenance and rentals), all of them based at the Company's head office in Pula, Croatia. Additional corporate and operational functions of the Group in Germany and Hungary are based at the Group's regional office in Berlin, Germany. The Company's corporate functions include head office functions, such as finance, marketing, human resource, IT, business development and procurement.

A high proportion of the Group's Croatian employees are members of the Croatian Hospitality Union, with whom the Group enjoys good relations. The Company also has the employees' council, whose role is to enable the employees to participate in decision-making on matters relating to their economic and social interests. Under the Labour Act, the Company is required to inform, consult or obtain prior approval of the employees' council on certain matters listed in the Labour Act, such as adoption of the employment rulebooks and termination of employment contracts. In addition, employees' meetings need to be held at least twice a year (at equal intervals), at the request of the employees' council or the Company, with the purpose of discussing the status and development of the Company. Finally, the employees' council is authorised to appoint one of its members as the employees' representative in the Board of Directors (currently Mr. Vehbija Mustafić). The Group is not aware of a unionization of the German workforce. However, German law does not permit employer's questions regarding a union membership. Therefore, it cannot be excluded that employees are members of a union. Works councils do not exist in Germany. The Group's Hungarian employees are not unionized. The Group has not experienced any material strikes, work stoppages or similar disruptions to its operations as a result of actions by its employees. See *Section 2.1 "Risk Factors—Risks Related to the Group's*

Business—The Group may face industrial or labour disputes or other disruptions that could interfere with its operations".

The Group has appropriate systems in place for recruitment, reward and compensation and performance management. Development and maintenance of the Group's culture and comprehensive training programmes and feedback system also play a leading role in minimising any risks relating to employee retention. The Company believes that employing talent from all groups within its community, from many backgrounds and with varied experiences, helps it to better serve its guests and gives it a competitive advantage in the global marketplace. Creating a culture where team members feel safe to share their opinion is essential for the success of the Group's business and all the Group's managers and leaders play a vital role in this process.

The Group recognises that its team members determine its success and therefore invests in and encourages their development through a tailored set of development programmes, including the programmes listed below that are conducted and run by the PPHE Hotel Group. Employees of the Group benefit from these programmes pursuant to the LSM Agreements. The Group's learning and development programmes are constantly reviewed to reflect changing training needs amongst the Group's companies.

The development programmes include a talent management programme supported by Human Resources and Learning and Development representatives in each hotel and in each region. The talent management programme's aim is to support and develop talented team members, with high performance and high potential, to develop and grow their career within the Group. Effective talent management is a high priority for the Group which it sees as essential for the future success of the business to ensure delivery of the Group's vision of realising growth potential.

The Foundation in Management programme was created in 2014 with the aim of supporting the development of the Group's managers in the business. The programme is aimed at line managers, team leaders and operational managers who have been identified as talented individuals. The aim is to further develop their leadership skills and the knowledge and behaviour required of managers to ensure that they are able to further drive performance of the Group's business.

STEP UP was launched in 2015 and is aimed at supervisors and junior heads of department. The programme contains five modules and 70-20-10 learning model (70 per cent. of knowledge from on-the-job related experience, 20 per cent. from interactions with others and 10 per cent. from formal educational events). The programme is intended to further develop the performance of team members and to develop them for further career development.

The Company does not operate any scheme and has not provided for any arrangements for involving the employees in the share capital of the Company.

10.15 Competition and Positioning in the Market

The hotel industry is highly competitive and competition is usually specific to individual markets. The Group's hotels compete with other brands on a number of factors, including location, level of service, quality of accommodation, room rates and conference and restaurant facilities.

In Croatia, the Group maintains a strong market position in the Istrian region, especially in and around Pula. In Germany and Hungary, the Group benefits from a strong presence in the capital cities, Berlin and Budapest, as well as important corporate and leisure destinations such as Cologne and Nuremberg. The Group also benefits from operating two distinct brands, Park Plaza and art'otel, which diversifies its offering in cities where it has multiple hotels, such as Berlin.

The Group's primary competitors in Croatia are Valamar Riviera, Maistra, Plava Laguna, Liburnia Riviera, Istriaturist and HUP-Zagreb. The Group's Croatian properties also compete with other leisure destinations; however, many traditional, and arguably better known, leisure destinations were affected adversely by geopolitical events, the refugee crisis and/or economic unrest, all of which the Company believes diverted leisure tourism from those affected countries to Croatia.

The upscale and upper upscale Park Plaza brand's primary competitors are Marriott, Crowne Plaza and Hilton, among others. The lifestyle art'otel brand's primary competitors are new generation hotels, such as the W

Hotel brand, Andaz by Hyatt and Hoxton Hotels. In some markets competition with the Group's art'otel properties also includes unbranded design hotels.

Prior to the Sugarhill Contribution, the only market in which the Group operated was Croatia and all of its revenues were generated in Croatia. With effect from 1 January 2017, the Group also operates in Germany and Hungary. Given the nature of its operations, the Sugarhill Group historically has only reported two geographic markets. For a breakdown of the Sugarhill Group's revenues by geographic market (country) for the last three years, see *Section 15.9 "Operating and Financial Review—Operating and Financial Review of the Sugarhill Group Results of Operations—Comparison of years ended 31 December 2016, 2015 and 2014—*Revenues".

For a breakdown of the Group's revenues by category of business segment (activity) for the last three years, see *Section 15.8 "Operating and Financial Review—Operating and Financial Review of the Group—Results of Operations—Comparison of years ended 31 December 2016, 2015 and 2014—*Revenues". Prior to 1 January 2017, the only business segment (activity) in which the Sugarhill Group operated was the hotel segment.

10.16 Information Technology

The Group's information technology platform provides an integrated and centralised solution and is a key tool for its operational success. The Group uses three main software systems to run its business. Gastro is the central accounting system and is used to manage revenues, inventory and the treasury control functions of the Group. Additionally, two point-of-sale systems are used: (i) Opera is used for reception and central reservation system sales and (ii) Micros 9700 is used for food and beverage and other services sales. The two point-of-sale systems are hosted in the Oracle data centre. Customer data is hosted at the Oracle data centre, as well, and is kept in compliance with the requirements of external IT auditors. The software systems are off-the-shelf products and were not created or customised for the Group.

The Group is currently planning to acquire a new backup system expected to be operational by the end of the second quarter of 2017.

10.17 Insurance

The Group has insurance policies covering certain operational risks. The Company believes it has insurance coverage with limits appropriate for operations of its size and with activities in the hospitality industry.

The Company maintains appropriate Directors' and Officers' Liability Insurance under a policy maintained by the PPHE Hotel Group.

10.18 Regulation

Due to the nature of its business, the Group is subject to national and local government regulations in the locations in which it operates, including licensing requirements in relation to the operation of its properties, the preparation of food and beverages (such as health and liquor licence laws, if applicable) and environmental, general building and zoning requirements. The Group is also subject to laws governing employees, including overtime, worker's compensation, working conditions and work permit requirements. The processing of personal data by companies established within the European Union is governed by EU data protection directive (95/46/EC) as transposed into national law by each EU Member State and processing of credit card information is governed by the PCI Data Security Standard. In the Central Registry of the Croatian Data Protection Agency, the Company has registered data files containing personal data on employees, guests and personal data collected for marketing purposes. In order to meet the requirements prescribed by Anti-Money Laundering and Terrorism Financing Law (Official Gazette 87/08 and 25/12) (**AMLTFL**) and related regulations, the Group has adopted internal rules on measures, actions and procedures for prevention of money laundering in currency exchange offices, and methods for complying with the AMLTFL. Also, the Group annually adopts an education programme with the purpose of continued education of its employees on the Company's obligations under the AMLTFL. The Company performs currency exchange activities under a currency exchange activities licence issued by the Croatian National Bank in 2006 and in line with the agreement on performing currency exchange activities executed with Zagrebačka banka

10.19 Legal Proceedings and Disputes

Save as disclosed in this Section 10.19, there are no administrative, court or arbitration proceedings (including any such proceedings which are pending or threatened of which the Group is aware) during the period of 12 months preceding the date of this Prospectus which may have, or have had in the recent past, significant effects on the Group's financial position or profitability.

Administrative proceedings and disputes resulting from the Tourist Land Act

In common with other resort and campsite operators in Istria, the Group is party to administrative proceedings resulting from the Tourist Land Act and other related proceedings. In accordance with the provisions of the Tourist Land Act, the Company submitted requests for the award of tourist land concessions for 50 years in relation to land areas in its eight campsites (Kažela, Stupice, Medulin, Stoja, Indije, Tašalera, Pomer and Runke) and in relation to land in three of its resorts (Park Plaza Verudela Pula, Verudela Beach Resort and Zlatne Stijene Resort). As of the date of this Prospectus, all of the Company's requests for awards of concessions under the Tourist Land Act remain unresolved.

Since the adoption of the Tourist Land Act, as far as the Company is aware, no concession agreement has been entered into with respect to tourist land in campsites or tourist resorts/hotels in Croatia due to ambiguities in the wording of the Tourist Land Act and related regulations. Consequently, the status of the Company's concession requests is, to the Company's knowledge, similar to the status of concession requests submitted by other companies in Croatia.

In relation to the Group's campsites, the Company's requests for award of tourist land concessions are still pending at the first instance concession granting authority. The Company has entered into settlement agreements with the Republic of Croatia in regards to all eight campsites whereby it has agreed that the proportions of co-ownership shall be determined based on expert evaluations. However, the provisions in the Tourist Land Act and relevant regulations relating to such expert evaluations are unclear, and therefore, the Company's requests for the award of tourist land concessions have not yet been resolved and will likely remain unresolved until the Tourist Land Act and relevant regulations are adequately amended.

In relation to the properties in tourist resorts and hotels, the Company's request for award of tourist land concessions has been rejected twice by the City of Pula as the concession grantor. According to the City of Pula's decision, the majority of land plots concerning the tourist land concession requests should not qualify as "*tourist land*" and thus should not be subject to tourist land concession pursuant to the Tourist Land Act. Following the law suit submitted by the Company and separately also by the Republic of Croatia, the City of Pula's decision has been recently annulled by the Administrative court in Rijeka for the second time and the matter was sent back to the first instance concession granting authority (City of Pula), with an instruction to repeat the procedure and establish if the relevant criteria for qualification of the relevant areas as tourist land have been satisfied.

In accordance with the Tourist Land Act, the Company also initiated administrative proceedings in relation to approximately 40 buildings and facilities to determine the size and shape of land plots/land areas underneath and surrounding the buildings and facilities in tourist resorts/hotels. Namely, pursuant to the Tourist Land Act, in relation to land areas in resorts and surrounding hotels, a company may have acquired ownership only over the property (buildings and respective land) assessed into the company's capital during the privatisation process, while the remaining tourist land is considered to be owned by the local municipalities. As result, companies were obliged to request from the competent administrative authorities to allow for establishment of the size and shape of relevant land areas belonging to the companies and the local municipalities respectively pursuant to the Tourist Land Act. So far, the Company's requests relating to certain facilities and buildings in resorts Park Plaza Verudela Pula and Zlatne Stijene were rejected by the City of Pula and the related cases are currently pending before the High Administrative Court of the Republic of Croatia.

Under the Tourist Land Act and related regulations, 50 per cent. of the preliminary concession fee for both land in campsites and tourist resorts, has been accruing since 2011, notwithstanding unresolved requests for the award of the concessions, while the final amount of the concession fee is to be determined once a concession award procedure is completed. The concession fees equal the sum of (i) a fixed fee calculated based on the occupied land area and (ii) a variable fee calculated based on certain prescribed parameters, including revenues of the relevant property in the previous year and the occupied area of land.

Since 2011, the Company has being paying an advance concession fee in respect to the land in its campsites which amounts to 50 per cent. of the preliminary concession fee (both the fixed and variable parts, calculated pursuant to the relevant regulations) and has made provision as a contingent liability for the remaining 50 per cent.. The Company expects to continue to pay the advance concession fee and to accrue, as potentially owing, the remaining 50 per cent. in relation to each campsite until the concession award procedure in relation to that campsite is completed. The amount of both the advance concession fee and the contingent concession fee for each year are charged to the Company's profit and loss account.

In relation to the tourist land in the Company's resorts and hotels' tourist land areas, due to still unresolved ownership matters, the relevant municipality has not been charging the Company the preliminary concession fee, as described above. Consequently, the Company has not been paying any such fee, but has been making provisions and the amount of such preliminary concession fee (calculated pursuant to the relevant regulations) for each year is charged to the Company's profit and loss account.

The final outcome of the tourist land concession award proceedings and other related proceedings cannot be predicted at present. The Company expects that these proceedings will be resolved either by (i) it being awarded the concessions it seeks in accordance with the provisions of the Tourist Land Act or, (ii) if such concessions are not awarded for any reason, by way of other potential arrangements, including but not limited to long-term leases or the purchase of the relevant land areas, subject to a decision of the land owner to conduct relevant tender procedures or any similar procedures as prescribed by relevant regulations from time to time, and the ability and willingness of the Company to provide the most favourable offer given the circumstances at the relevant time. If any of the tourist land concession award proceedings (together with any related proceedings) is not resolved in the Company's favour and the Company is not successful in making alternative arrangements for the use of the affected campsite or resort, this could have a material adverse effect on the Group's business, financial condition and results of operations.

For more details regarding the properties of the Group, including more details regarding the properties subject to the Tourist Land Act, please see *Section 10.8 "—Properties – Types of Interests"* and *Section 11 "The Group's Properties"*.

Litigation

<u>*Pula Herculanea d.o.o./Vodovod Pula d.o.o. claims*</u>

The Company is a defendant in five disputes relating to claims of utility companies Pula Herculanea d.o.o. (one case) and Vodovod Pula d.o.o. (four cases), all relating to payment of fees and charges for maintenance and development of the water supply and sewage infrastructure system charged to the Company based on water consumption. The claims relate to fees and charges incurred between 1999 and 2012. The aggregate principal claims in all five disputes amount to HRK 11.5 million, and the total potential exposure of the Company (calculated based on the principal claims amount plus interest) amounts to HRK 29.9 million as at 31 December 2016.

The Company invested approximately HRK 17 million in the construction of the water and sewage infrastructure system constructed by the Company in the areas for which the fees are being charged. Under the Waters Act, which came into force on 1 January 2010, the water supply and sewage infrastructure facilities transferred by operation of law into the ownership of the public utility companies. Consequently, the Company has filed a countersuit in the form of a set-off objection for the value of its relevant infrastructure investment.

The below table presents a brief summary of the current status of each of these disputes.

Plaintiff/ case no./court	*Claim*	*Legal basis*	*Status*
Pula Herculanea P-442/16 Municipality court in Pula	HRK 7.8 million plus default interests and litigation costs	Charges/fees related to waste collection and sewage system from 1999 to 2007	First instance court accepted the claim and the Company's set-off objection. Following the plaintiff's appeal in 2016, the second instance court set aside the judgment and the case is sent back to first instance for retrial.

Plaintiff/ case no./court	*Claim*	*Legal basis*	*Status*
Vodovod Pula P-22/15 Commercial court in Pazin	HRK 0.8 million plus default interests and litigation costs	Charges/fees related to the development of the sewage system (water discharge) of City of Pula from 2009 to 2010	First instance court accepted the plaintiff's claim and the Company's set-off objection. Following the plaintiff's appeal, second instance proceedings are pending before the High Commercial Court.
Vodovod Pula P 30/15 Commercial court in Pazin	HRK 1.3 million plus default interests and litigation costs	Charges/fees related to development of the sewage and waste water infrastructure system of the City of Pula from 2007 to 2009	Suspension of first instance proceedings, until the litigation no. P-22/15 for HRK 0.8 million is finally resolved.
Vodovod Pula Povrv 1006/15 (before Povrv 20/12 Commercial court in Pazin	HRK 1.0 million plus default interests and litigation costs	Charges/fees related to the development of the sewage infrastructure system/water discharge of the City of Pula from 2010 to 2011	Suspension of first instance proceedings, until the litigation no. P-22/15 for HRK 0.8 million is finally resolved.
Vodovod Pula P 245/15 Commercial court in Pazin	HRK 0.5 million plus default interests and litigation costs	Charges/fees related to the development of the water discharge infrastructure system of the City of Pula from 2011 to 2012	First instance court rejected the claim of the plaintiff. The plaintiff submitted an appeal, and the case is pending before the second instance court.

As at 31 December 2016, the Company has a provision for a total possible exposure in relation to these claims in the amount of HRK 29.9 million.

<u>Medulin Municipality claim for payment of land use remuneration and transfer of possession of land plots in campsites</u>

Based on the Medulin Municipality's ownership interest which is registered in the land registry with respect to certain land plots of the campsites Medulin, Stupice and Runke, the Medulin Municipality filed a law suit against the Company for compensation for the use of land since December 1997, amounting as at 31 December 2016 to HRK 65.5 million, plus interest and litigation costs. The Medulin Municipality has also demanded transfer of possession of the respective parts of the campsites. The Company's arguments against the claim include, *inter alia*, the fact that pursuant to the Tourist Land Act, the Company acquired co-ownership of the campsites Medulin, Stupice and Runke, together with the Republic of Croatia, and therefore, that the Medulin Municipality is not entitled to claim for payment of land use remuneration and transfer of possession of land plots in the campsites. Specifically, pursuant to the Tourist Land Act, in cases where land areas and buildings in campsites were partially assessed in a company's capital in the course of its privatisation, such company became a co-owner of the relevant land and buildings together with the Republic of Croatia and became entitled to request that tourist land concession be awarded in relation to the co-ownership part of the Republic of Croatia. For more details regarding the proceedings initiated by the Company in relation to the land within the campsites pursuant to the Tourist Land Act, please see *Section 2.1 "Risk Factors—Risks Related to the Group's Business—The Group is exposed to certain risks in relation to property subject to the Tourist Land Act"* and *Section 10.19 "—Administrative proceedings and disputes resulting from the Tourist Land Act"* above.

In addition to objecting to the claim of the Medulin Municipality, the Company filed a counterclaim against the Medulin Municipality in the amount of HRK 124.5 million based on the fact that the Company 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.

The Republic of Croatia has initiated a separate litigation to remove the ownership entry in the land registry in favour of the Medulin Municipality in relation to the land plots in the respective campsites based, *inter alia*, on the fact that certain land plots at these campsites are entered into the land registry as forests and forest land.

The Company believes that the final outcome of the disputes mentioned above should be in favour of the Company, and that obtaining the tourist land concessions by the Company seems to be a probable outcome, due to, *inter alia*, the fact that (i) the facilities and buildings in the campsites were assessed into the Company's capital in the course of its privatisation, (ii) the relevant settlements entered into between the Company and the Republic of Croatia recognized the Company as co-owner of the campsites (whereby its co-ownership parts are yet to be defined), and (iii) the Company is already paying the advance concession fees as further described in *Section 2.1 "Risk Factors—Risks Related to the Group's Business—The Group is exposed to certain risks in relation to property subject to the Tourist Land Act"*.

The Company also believes that in the event of a negative outcome of the aforementioned disputes, the Company should still be in a position to maintain in the future the right to use the land within the campsites, by way of other potential arrangements, including but not limited to a possible long-term lease of the land to be granted by the land owner or purchase of the relevant land areas needed for conducting of business operations within the campsites, all subject to any tender procedures to be conducted by the land owner (to the extent applicable) and in any case subject to the circumstances relevant at the given time, which include but are not limited to physical planning requirements and amendments to the currently envisaged regimes relevant for the respective types of property.

The Company considers that possible exposure of the Company in relation to the Medulin Municipality monetary claim is adequately covered as result of (i) certain amounts in connection with the use of the relevant campsites already being charged to the Company's profit and loss account and (ii) the aforementioned counterclaim the Company has against the Medulin Municipality on the account of its various investments in the campsites.

Tehno ekologija d.o.o. disputes related to investments and use of Kažela Camp

The company Tehno ekologija d.o.o. operated Kažela Camp based on a lease agreement that was terminated by the Company in 2005. Since Tehno ekologija d.o.o stopped paying the agreed rent under the lease agreement and following termination of such lease agreement, continued to operate Kažela Camp, the Company filed two law suits against Tehno ekologija d.o.o. for payment of the unpaid rents due under the lease agreement as well as compensation for the use of the campsite following termination of the lease agreement. The total principal claim amounted to HRK 12.0 million. Tehno ekologija d.o.o. filed a separate claim for reimbursement of investments made in the campsite in the amount of HRK 45.0 million. The below table presents the current status of each of these disputes.

Plaintiff/ case no./ court	*Defendant*	*Claim*	*Legal basis*	*Status*
Arenaturist P-1105/06 Commercial court in Pazin	Tehno ekologija d.o.o.	HRK 4.5 million plus default interests	Payment of rent due/remuneration for use of the campsite between 2006 and 2007	First instance court ruled in favour of the Company and accepted its claim. The principal amount from the claim is secured with a temporary injunction. Tehno ekologija has filed an appeal, and the case is pending before the High Commercial Court as second instance court. Following bankruptcy proceedings, Tehno ekologija d.o.o. (the defendant) has been deregistered from the court registry. Consequently, the likelihood of satisfaction of the entire claim is remote.

Plaintiff/ case no./ court	*Defendant*	*Claim*	*Legal basis*	*Status*
Arenaturist P-234/15 Commercial court in Pazin	Bankruptcy estate of Tehno ekologija d.o.o.	HRK 7.4 million plus default interests	Payment of rent due/ remuneration for use of the campsite for 2008, 2009 and 2010	First instance court rejected the Company's claim. The Company filed appeal, and the case is pending before the High Commercial Court as second instance court. Following bankruptcy proceedings, Tehno ekologija d.o.o. (the defendant) has been deregistered from the court registry. Should the Company succeed with its claim, the likelihood of satisfaction of the Company's claim is remote.
Bankruptcy estate of Tehno ekologija P-111/16 Commercial court in Pazin	Arenaturist Republic of Croatia	HRK 45 million plus default interests	Reimbursement of investments	The first instance court ruled against Tehno ekologija and rejected its claim. Tehno ekologija filed an appeal, and the case is pending before the High Commercial Court as the second instance court.

10.20 Energy and Environmental Initiatives

In 2016, the Group adopted the PPHE Hotel Group's environmental policies. The main programme is TREE (Total Responsibility for Everyone's Environment) that seeks to engage all employees and locations towards a lower carbon environment and a sustainable workplace. As part of the TREE programme the Group seeks to monitor its impact on the environment and its use of natural resources.

In addition, the Group has created the Arenaturist Green Team to promote sustainability across all of the Group's properties to reduce the Group's carbon footprint and waste as well as improve water usage and conservation.

In Croatia the Group's environmental initiatives also focus on recycling. In 2016, the Group recycled:

- 63,652 kilograms of cardboard and paper;
- 3,439 kilograms of plastic;
- 3,020 kilograms of metal packaging; and
- 38,073 kilograms of glass.

In 2015, a new initiative was launched in Germany and Hungary for guests who stay two nights or more to forgo certain housekeeping services and reduce the amount of water, electricity and cleaning materials used. This initiative was branded – "Save tomorrow, today" (in Park Plaza properties) and "eco-logical" (in art'otel properties).

10.21 Corporate Social Responsibility (CSR)

As a well-established hospitality group in the CEE Region, the Group is fully aware of the impact its actions and work have on the environment and the communities in which it operates. Therefore, the Group wants to take responsibility and plays a leading role in contributing to creating positive changes through: (i) taking initiatives that will promote environmental wellbeing in the communities in which it operates; (ii) being a good employer and creating a working environment where all of the Group's employees are treated equally and with respect and will have an opportunity for professional growth; and (iii) being an active participant in the life of the local communities through encouraging initiatives that will provide a better quality of life, especially for vulnerable groups and citizens in need.

10.22 Health, Safety and Security

The Group is a full range hospitality service provider, therefore it prioritises the safety of its guests, employees and assets, as well as safety within its immediate environment. The Group recognises the necessity of safeguarding the health and safety of its own team members while at work and of its guests when staying at or visiting any of Group's properties, and operates so as to provide a safe and comfortable environment for team members, guests and the public. It is the Group's policy to manage its activities to avoid causing any unnecessary or unpredictable risks to health and safety. The Group has an excellent health, safety and security record and a culture of safety is deeply embedded within the Group. To ensure that each of the Group's operations has appropriately embedded the most up-to-date health, safety and security procedures in their business, reviews are regularly conducted in each business. These reviews are conducted with a view to ensuring a consistent approach in quality of reporting, internal processes, integration of operations, appropriateness of policies and a culture of health, safety and security and also as a means of identifying any patterns or underlying causes of reported incidents.

PART 11

THE GROUP'S PROPERTIES

11.1 Overview of the Group's Properties

The following table provides an overview of the Group's hotel and resort portfolio.

The Group's hotels and resorts

Property	*Location*	*Ownership interest*	*Number of units*
Croatian hotels and resorts			
Park Plaza Belvedere Medulin	Medulin, Croatia	Owned	427
Park Plaza Histria Pula	Pula, Croatia	Owned	368
Hotel Brioni	Pula, Croatia	Owned	228
Hotel Holiday	Medulin, Croatia	Owned	192
Sensimar Hotel Medulin	Medulin, Croatia	Owned	190
Park Plaza Arena Pula	Pula, Croatia	Owned	181
Guest House Riviera	Pula, Croatia	Operated(1)	33
Zlatne Stijene Resort	Pula, Croatia	Partially owned(2)	425
Park Plaza Verudela Pula	Pula, Croatia	Partially owned(3)	385
Verudela Beach Resort	Pula, Croatia	Partially owned(3)	186
Ai Pini Resort	Medulin, Croatia	Owned	64
German and Hungarian hotels			
art'otel cologne	Cologne, Germany	Owned(4)	218
Park Plaza Nuremberg	Nuremberg, Germany	Owned(4)	177
art'otel berlin kudamm	Berlin, Germany	Owned(4)	152
Park Plaza Wallstreet Berlin Mitte	Berlin, Germany	Operating lease	167
art'otel budapest	Budapest, Hungary	Operating lease	165
Park Plaza Berlin Kudamm	Berlin, Germany	50% owned(5)	133
art'otel berlin mitte	Berlin, Germany	50% owned(5)	109
art'otel dresden	Dresden, Germany	Operated	174
		Total units	3,974

Source: Group Data

Notes:

(1) The Group currently operates the property without any formal arrangement. See *Section 11.2 "—Croatia—Hotels and Resorts—Guest House Riviera"*.

(2) The buildings in the resort are partially owned by the Company and the land is partially owned by the City of Pula and subject to proceedings pursuant to the provisions of the Tourist Land Act. See *Section 10.8 "Business Overview—Properties – Types of Interests—Co-ownership and partial ownership subject to the Tourist Land Act"* and *Section 10.19 "Business Overview—Legal Proceedings and Disputes—Administrative proceedings and disputes resulting from the Tourist Land Act"*.

(3) The accommodation buildings in the resort are owned by the Company and the surrounding land is partially owned by the City of Pula and subject to proceedings pursuant to the provisions of the Tourist Land Act. See *Section 10.8 "Business Overview—Properties—Types of Interests—Co-ownership and partial ownership subject to the Tourist Land Act"* and *Section 10.19 "Business Overview—Legal Proceedings and Disputes—Administrative proceedings and disputes resulting from the Tourist Land Act"*.

(4) As a result of the Sugarhill Contribution in December 2016, the Company currently owns 88.0 per cent. of the Sugarhill Group and therefore (indirectly) 88.0 per cent. of the freehold and operational rights to this property. In addition, the Company has been granted an option by the PPHE Hotel Group to acquire the remaining 12.0 per cent. interest of the Sugarhill Group. See *Section 12.1 "Relationship with the PPHE Hotel Group—Sugarhill Contribution and Operational Restructuring"*. One of the intended uses of proceeds from the Offering is to fund the exercise of that option and associated transaction costs (including real estate transfer tax, where applicable, in Germany), after which the Group would own 100 per cent. of this property. See *Section 5 "Use of Proceeds; Reasons for the Offering"*.

(5) Through its current 88.0 per cent. interest in the Sugarhill Group, the Company indirectly owns 88.0 per cent. of a 50 per cent. interest in this 50/50 joint venture. Upon exercise of the option discussed in Note 4, above, the Company would indirectly own 100 per cent. of this 50 per cent. joint venture interest.

The following table provides an overview of the Group's campsite portfolio.

The Group's campsites

Property[(1)]	*Location*	*Number of units*	*Approximate hectares*[(2)]
Kažela Camp	Medulin, Croatia	1,687	68.9
Stupice Camp	Premantura, Croatia	1,111	25.4
Medulin Camp	Medulin, Croatia	1,070	22.4
Stoja Camp	Pula, Croatia	846	19.6
Indije Camp	Banjole, Croatia	534	13.5
Tašalera Camp	Medulin, Croatia	316	9.0
Pomer Camp	Pomer, Croatia	264	9.7
Runke Camp	Premantura, Croatia	247	7.6
	Totals	6,075	176.1

Source: Group Data

Notes:

(1) The co-ownership of the land area is subject to the provisions of the Tourist Land Act and relevant proceedings. See *Section 10.8 "Business Overview—Properties—Types of Interests—Co-ownership and partial ownership subject to the Tourist Land Act"* and *Section 10.19 "Business Overview—Legal Proceedings and Disputes—Administrative proceedings and disputes resulting from the Tourist Land Act"*. The Group is the operator of the campsites.

(2) Represents the area of land in each campsite used for the calculation and payment of the preliminary concession fee.

11.2 Croatia

Hotels and Resorts

Park Plaza Belvedere Medulin

Overview

Park Plaza Belvedere Medulin is a sports-orientated hotel that was refurbished in 2014 and is located only 50 metres from the sea. The hotel is open year-round as its facilities are used by sports clubs and individuals for training purposes outside of the peak summer season.

Hotel facilities

Units:	427 rooms
Food and beverage:	Spacious restaurant overlooking the sea; lobby and aperitif bar; pool bar; Restaurant and lounge bar Lungomare
Meeting space:	Four meeting rooms (providing seating from 25 to 80 people); and one large cinema hall
Other amenities:	Parking, shops, free wireless internet access in all of the hotel, beach and outdoor pool, two outdoor swimming pools, heated indoor salt water swimming pool, spa and wellness centre, a fully equipped fitness centre, extensive sports and entertainment facilities including six grass football pitches and two football pitches with artificial grass, tennis, handball, beach volleyball, running tracks, throwing areas, bicycle rental, mini golf and daily entertainment for children and adults

The Group's interest

Park Plaza Belvedere Medulin is operated and owned by the Group with the exception of the parking land area which is subject to ongoing proceedings for the purpose of the Company acquiring ownership.

Selected unaudited financial and operating information

	Year ended 31 December		
	2016	*2015*	*2014*
Number of units[(1)]	427	427	427
OCC (%)[(2)]	58.0	52.8	64.9
365-day OCC (%)[(3)]	45.5	41.3	21.0
ADR (HRK)[(4)]	710.8	700.8	754.5
RevPAR (HRK)[(5)]	412.4	369.7	489.4
365-day RevPAR (HRK)[(6)]	323.1	289.7	158.2
Room revenues (HRK thousands)	50,361	45,154	24,654
Total revenues (HRK thousands)	67,715	61,227	32,720
Gross operating profit (HRK thousands)	24,734	20,785	9,121
Gross operating margin (%)[(7)]	36.5	34.0	27.9
EBITDA (HRK thousands)[(8)]	20,676	17,167	6,928
EBITDA margin (%)[(9)]	30.5	28.0	21.2

Source: Group Data

Notes:

(1) Number of units includes rooms.

(2) Represents total paid units occupied divided by total available units. Available units is the number of units in a hotel during the period that the hotel is open during the year, eliminating units not available due to damage, repairs or any other reason.

(3) Represents total paid units occupied divided by total available units, which is the number of units in a hotel eliminating units not available due to damage, repairs or any other reason, based on 365 days in a year.

(4) Represents total room revenues divided by the total number of paid units occupied by hotel guests.

(5) Calculated by dividing total room revenue by the total available units. Available units is the number of units in a hotel during the period that the hotel is open during the year, eliminating units not available due to damage, repairs or any other reason.

(6) Calculated by dividing total room revenue by the total available units, which is the number of units in a hotel eliminating units not available due to damage, repairs or any other reason, based on 365 days in a year.

(7) Gross operating margin is calculated as gross operating profit divided by total revenues.

(8) EBITDA is stated net of historic management fees and before unallocated central costs, where applicable.

(9) EBITDA margin is calculated as EBITDA divided by total revenues.

Park Plaza Histria Pula

Overview

Park Plaza Histria Pula is situated at the tip of a small peninsula, overlooking Verudela Bay and the Adriatic and the Verudela yacht marina in Pula. It was refurbished in 2012 and reopened as Park Plaza Histria Pula. In 2013, the adjacent Hotel Palma was refurbished and was added to Park Plaza Histria Pula (as the Marina wing).

Hotel facilities

Units:	368 rooms
Food and beverage:	Restaurant Yacht Club; Palm’s Champagne Bar; Lobby Piano Bar; Lounge Bar Luna’s; Pool Bar; Taverna Restaurant, casino and night club
Meeting space:	Conference hall with 700 seats, three medium halls (30 – 100 seats) and one large cinema hall
Other amenities:	Parking, access to the Verudela Avenue retail mall, indoor and outdoor salt water swimming pools, fitness studio, spa and wellness centre, sports grounds, mini golf, table tennis, bicycle rental and several water sports activities

The Group’s interest

Park Plaza Histria Pula is operated and owned by the Group.

Selected unaudited financial and operating information

	Year ended 31 December		
	2016	*2015*	*2014*
Number of units[(1)]	368	368	368
OCC (%)[(2)]	54.8	51.5	48.8
365-day OCC (%)[(3)]	45.0	39.3	41.9
ADR (HRK)[(4)]	800.9	831.1	728.5
RevPAR (HRK)[(5)]	438.9	427.7	355.5
365-day RevPAR (HRK)[(6)]	360.7	326.9	305.5
Room revenues (HRK thousands)	48,453	43,913	41,030
Total revenues (HRK thousands)	70,982	62,323	58,225
Gross operating profit (HRK thousands)	26,454	20,483	19,338
Gross operating margin (%)[(7)]	37.3	32.9	33.2
EBITDA (HRK thousands)[(8)]	21,642	16,113	15,314
EBITDA margin (%)[(9)]	30.5	25.9	26.3

Source: Group Data

Notes:

(1) Number of units includes rooms.

(2) Represents total paid units occupied divided by total available units. Available units is the number of units in a hotel during the period that the hotel is open during the year, eliminating units not available due to damage, repairs or any other reason.

(3) Represents total paid units occupied divided by total available units, which is the number of units in a hotel eliminating units not available due to damage, repairs or any other reason, based on 365 days in a year.

(4) Represents total room revenues divided by the total number of paid units occupied by hotel guests.

(5) Calculated by dividing total room revenue by the total available units. Available units is the number of units in a hotel during the period that the hotel is open during the year, eliminating units not available due to damage, repairs or any other reason.

(6) Calculated by dividing total room revenue by the total available units, which is the number of units in a hotel eliminating units not available due to damage, repairs or any other reason, based on 365 days in a year.

(7) Gross operating margin is calculated as gross operating profit divided by total revenues.

(8) EBITDA is stated net of historic management fees and before unallocated central costs, where applicable.

(9) EBITDA margin is calculated as EBITDA divided by total revenues.

Hotel Brioni

Overview

Hotel Brioni is located in a prime location, directly on the sea front, and occupies a site of approximately 6,070 square meters and an additional area of approximately 17,739 square meters purchased in December 2016 from the City of Pula. The additional area was purchased for the planned expansion described below. The hotel, which is located close to Verudela Beach Resort and Park Plaza Arena Pula, is surrounded by pine trees.

The hotel currently has 228 units but after a planned refurbishment expected to commence in the fourth quarter of 2017 or early 2018, the hotel's room count is expected to increase to 330 units. Please see *Section 10.10 "Business Overview—Investment Capital Expenditure Overview, Refurbishments and Developments*—Planned investments and refurbishments" for more information on the refurbishment project.

Hotel facilities

Units:	228 rooms
Food and beverage:	Restaurant Brioni; beach bars; Beach Bar Ambrella
Meeting space:	Two meeting rooms for 80 and 200 delegates
Other amenities:	Parking, Verudela Avenue shops, free wireless internet access in public areas, decked terrace with outdoor salt water swimming pool, indoor swimming pool, massage and access to the sports facilities of Park Plaza Histria Pula and Park Plaza Verudela Pula

The Group's interest

The hotel is operated and owned by the Group.

Selected unaudited financial and operating information

	Year ended 31 December		
	2016	*2015*	*2014*
Number of units[(1)]	228	228	228
OCC (%)[(2)]	67.3	64.3	67.0
365-day OCC (%)[(3)]	29.9	29.6	30.3
ADR (HRK)[(4)]	504.7	479.7	444.8
RevPAR (HRK)[(5)]	339.8	308.6	297.8
365-day RevPAR (HRK)[(6)]	150.8	142.0	134.6
Room revenues (HRK thousands)	12,551	11,820	11,202
Total revenues (HRK thousands)	15,941	15,727	15,075
Gross operating profit (HRK thousands)	4,432	3,378	4,917
Gross operating margin (%)[(7)]	27.8	21.5	32.6
EBITDA (HRK thousands)[(8)]	3,153	2,166	3,655
EBITDA margin (%)[(9)]	19.8	13.8	24.2

Source: Group Data

Notes:

(1) Number of units includes rooms.

(2) Represents total paid units occupied divided by total available units. Available units is the number of units in a hotel during the period that the hotel is open during the year, eliminating units not available due to damage, repairs or any other reason.

(3) Represents total paid units occupied divided by total available units, which is the number of units in a hotel eliminating units not available due to damage, repairs or any other reason, based on 365 days in a year.

(4) Represents total room revenues divided by the total number of paid units occupied by hotel guests.

(5) Calculated by dividing total room revenue by the total available units. Available units is the number of units in a hotel during the period that the hotel is open during the year, eliminating units not available due to damage, repairs or any other reason.

(6) Calculated by dividing total room revenue by the total available units, which is the number of units in a hotel eliminating units not available due to damage, repairs or any other reason, based on 365 days in a year.

(7) Gross operating margin is calculated as gross operating profit divided by total revenues.

(8) EBITDA is stated net of historic management fees and before unallocated central costs, where applicable.

(9) EBITDA margin is calculated as EBITDA divided by total revenues.

Hotel Holiday

Overview

Hotel Holiday is located between Park Plaza Belvedere Medulin and Sensimar Hotel Medulin close to Bijeca beach. Hotel Holiday has views across the Adriatic and several of the south Istrian islands and peninsulas. The hotel was last refurbished in 2002 and is currently being refurbished ahead of the 2017 summer season.

Hotel facilities

Units:	192 rooms
Food and beverage:	Restaurant Holiday; pool bar
Meeting space:	Two meeting rooms
Other amenities:	Free wireless internet access in public areas and rooms, parking, shops, two outdoor salt water swimming pools; fitness room; four tennis courts; daily entertainment for children (Mini Club); and access to the extensive sports facilities of Park Plaza Belvedere Medulin

The Group's interest

Hotel Holiday is operated and owned by the Group.

Selected unaudited financial and operating information

	Year ended 31 December		
	2016	*2015*	*2014*
Number of units[(1)]	192	192	192
OCC (%)[(2)]	75.3	67.7	55.8
365-day OCC (%)[(3)]	36.3	30.4	35.9
ADR (HRK)[(4)]	547.8	588.1	501.4
RevPAR (HRK)[(5)]	412.7	398.1	279.6
365-day RevPAR (HRK)[(6)]	199.0	178.9	180.0
Room revenues (HRK thousands)	13,946	12,537	12,613
Total revenues (HRK thousands)	17,555	15,879	18,284
Gross operating profit (HRK thousands)	4,872	3,820	4,364
Gross operating margin (%)[(7)]	27.8	24.1	23.9
EBITDA (HRK thousands)[(8)]	3,848	2,713	3,182
EBITDA margin (%)[(9)]	21.9	17.1	17.4

Source: Group Data

Notes:

(1) Number of units includes rooms.

(2) Represents total paid units occupied divided by total available units. Available units is the number of units in a hotel during the period that the hotel is open during the year, eliminating units not available due to damage, repairs or any other reason.

(3) Represents total paid units occupied divided by total available units, which is the number of units in a hotel eliminating units not available due to damage, repairs or any other reason, based on 365 days in a year.

(4) Represents total room revenues divided by the total number of paid units occupied by hotel guests.

(5) Calculated by dividing total room revenue by the total available units. Available units is the number of units in a hotel during the period that the hotel is open during the year, eliminating units not available due to damage, repairs or any other reason.

(6) Calculated by dividing total room revenue by the total available units, which is the number of units in a hotel eliminating units not available due to damage, repairs or any other reason, based on 365 days in a year.

(7) Gross operating margin is calculated as gross operating profit divided by total revenues.

(8) EBITDA is stated net of historic management fees and before unallocated central costs, where applicable.

(9) EBITDA margin is calculated as EBITDA divided by total revenues.

Sensimar Hotel Medulin

Overview

Sensimar Hotel Medulin is located in close proximity to the sea. It was refurbished in 2012. There is a restaurant on a separate plot near the beach belonging to Sensimar Hotel Medulin that is rented to an independent operator.

Sensimar Hotel Medulin is currently a TUI branded Sensimar hotel. The Sensimar brand is a stylish holiday brand that is adults only. TUI and the Company have an ongoing successful relationship that began in the summer season of 2013. In 2015, TUI and the Company entered into a long-term agreement for three summer seasons commencing in May 2016 for the use of Sensimar Hotel Medulin as a TUI branded Sensimar hotel for those seasons. Pursuant to the agreement, TUI guarantees a certain percentage of hotel room bookings at Sensimar Hotel Medulin during the summer seasons. Sensimar Hotel Medulin is the first Sensimar-branded hotel in Istria. The Company continues to own and operate the hotel.

Hotel facilities

Units:	190 rooms
Food and beverage:	Restaurant Medulin; lobby and pool bars; Garden Terrace restaurant
Meeting space:	Two meeting rooms, of which the larger can seat 130 people and the smaller can seat 70 people
Other amenities:	Parking, shops, free wireless internet access in public areas, two outdoor salt water swimming pools, terrace, spa and fitness room; and access to the extensive sports facilities of Park Plaza Belvedere Medulin and the tennis facilities of Hotel Holiday

The Group's interest

Sensimar Hotel Medulin is operated and owned by the Group.

Selected unaudited financial and operating information

	Year ended 31 December		
	2016	*2015*	*2014*
Number of units[(1)]	190	190	190
OCC (%)[(2)]	86.0	86.0	83.0
365-day OCC (%)[(3)]	38.0	38.0	37.0
ADR (HRK)[(4)]	815.3	705.8	676.7
RevPAR (HRK)[(5)]	700.5	604.5	559.8
365-day RevPAR (HRK)[(6)]	307.1	271.6	253.0
Room revenues (HRK thousands)	21,295	18,835	17,548
Total revenues (HRK thousands)	26,165	23,733	21,938
Gross operating profit (HRK thousands)	7,515	5,614	4,743
Gross operating margin (%)[(7)]	28.7	23.7	21.6
EBITDA (HRK thousands)[(8)]	5,878	4,251	3,296
EBITDA margin (%)[(9)]	22.5	17.9	15.0

Source: Group Data

Notes:

(1) Number of units includes rooms.

(2) Represents total paid units occupied divided by total available units. Available units is the number of units in a hotel during the period that the hotel is open during the year, eliminating units not available due to damage, repairs or any other reason.

(3) Represents total paid units occupied divided by total available units, which is the number of units in a hotel eliminating units not available due to damage, repairs or any other reason, based on 365 days in a year.

(4) Represents total room revenues divided by the total number of paid units occupied by hotel guests.

(5) Calculated by dividing total room revenue by the total available units. Available units is the number of units in a hotel during the period that the hotel is open during the year, eliminating units not available due to damage, repairs or any other reason.

(6) Calculated by dividing total room revenue by the total available units, which is the number of units in a hotel eliminating units not available due to damage, repairs or any other reason, based on 365 days in a year.

(7) Gross operating margin is calculated as gross operating profit divided by total revenues.

(8) EBITDA is stated net of historic management fees and before unallocated central costs, where applicable.

(9) EBITDA margin is calculated as EBITDA divided by total revenues.

Park Plaza Arena Pula

Overview

Park Plaza Arena Pula is situated on the Verudela peninsula next to the Verudela Beach Resort and has a beachfront location. The hotel was refurbished and reopened in 2015. As part of the refurbishment the capacity was increased from 147 rooms to 175 rooms. In 2016, eight apartments that were part of the Verudela Beach Resort and situated next to Park Plaza Arena Pula were refurbished and converted to six garden suites that now form part of the rooms for Park Plaza Arena Pula.

Hotel facilities

Units:	181 rooms (including six garden suites)
Food and beverage:	Restaurant Park and pool bar
Other amenities:	Parking, access to Verudela Avenue retail outlets, free wireless internet access in public areas, outdoor salt water swimming pool, spa and wellness centre; fitness centre and access to various sports activities at Park Plaza Histria Pula and Park Plaza Verudela Pula

The Group's interest

Park Plaza Arena Pula is operated and owned by the Group.

Selected unaudited financial and operating information

	Year ended 31 December		
	2016	*2015*	*2014*
Number of units[(1)]	181	175	147
OCC (%)[(2)]	68.1	57.2	64.3
365-day OCC (%)[(3)]	33.5	25.9	28.2
ADR (HRK)[(4)]	836.3	778.6	492.7
RevPAR (HRK)[(5)]	569.8	445.2	317.1
365-day RevPAR (HRK)[(6)]	280.6	201.5	139.0
Room revenues (HRK thousands)	18,536	12,873	7,457
Total revenues (HRK thousands)	23,131	16,193	9,726
Gross operating profit (HRK thousands)	8,388	4,472	2,310
Gross operating margin (%)[(7)]	36.3	27.6	23.7
EBITDA (HRK thousands)[(8)]	6,774	3,361	1,594
EBITDA margin (%)[(9)]	29.3	20.8	16.4

Source: Group Data

Notes:

(1) Number of units includes rooms.

(2) Represents total paid units occupied divided by total available units. Available units is the number of units in a hotel during the period that the hotel is open during the year, eliminating units not available due to damage, repairs or any other reason.

(3) Represents total paid units occupied divided by total available units, which is the number of units in a hotel eliminating units not available due to damage, repairs or any other reason, based on 365 days in a year.

(4) Represents total room revenues divided by the total number of paid units occupied by hotel guests.

(5) Calculated by dividing total room revenue by the total available units. Available units is the number of units in a hotel during the period that the hotel is open during the year, eliminating units not available due to damage, repairs or any other reason.

(6) Calculated by dividing total room revenue by the total available units, which is the number of units in a hotel eliminating units not available due to damage, repairs or any other reason, based on 365 days in a year.

(7) Gross operating margin is calculated as gross operating profit divided by total revenues.

(8) EBITDA is stated net of historic management fees and before unallocated central costs, where applicable.

(9) EBITDA margin is calculated as EBITDA divided by total revenues.

Guest House Riviera

Overview

The baroque-style Guest House Riviera was built at the end of the 19th century and is located in the centre of the historic town of Pula, close to the Roman Amphitheatre.

Hotel facilities

Units:	67 rooms, of which 33 rooms are currently in use (34 rooms out of use)
Food and beverage:	Bar Riviera
Meeting space:	One meeting room with 100 seats
Other amenities:	Easy access to the city centre of Pula and 300 metres from the Roman Arena

The Group's interest

Guest House Riviera is owned by the Republic of Croatia. The Group currently operates the property without any formal arrangement.

Selected unaudited financial and operating information

	Year ended 31 December		
	2016	*2015*	*2014*
Number of units[(1)]	33	33	33
OCC (%)[(2)]	51.0	70.5	70.7
365-day OCC (%)[(3)]	23.6	54.5	49.2
ADR (HRK)[(4)]	374.6	371.9	378.6
RevPAR (HRK)[(5)]	191.0	262.3	267.5
365-day RevPAR (HRK)[(6)]	88.4	202.6	186.1
Room revenues (HRK thousands)	1,065	2,441	2,242
Total revenues (HRK thousands)	1,923	3,079	2,931
Gross operating loss (HRK thousands)	(426)	(433)	(596)
Gross operating margin (%)[(7)]	(22.2)	(14.0)	(20.3)
EBITDA (HRK thousands)[(8)]	(471)	(502)	(577)
EBITDA margin (%)[(9)]	(24.5)	(16.3)	(19.7)

Source: Group Data

Notes:

(1) Number of units includes rooms.

(2) Represents total paid units occupied divided by total available units. Available units is the number of units in a hotel during the period that the hotel is open during the year, eliminating units not available due to damage, repairs or any other reason.

(3) Represents total paid units occupied divided by total available units, which is the number of units in a hotel eliminating units not available due to damage, repairs or any other reason, based on 365 days in a year.

(4) Represents total room revenues divided by the total number of paid units occupied by hotel guests.

(5) Calculated by dividing total room revenue by the total available units. Available units is the number of units in a hotel during the period that the hotel is open during the year, eliminating units not available due to damage, repairs or any other reason.

(6) Calculated by dividing total room revenue by the total available units, which is the number of units in a hotel eliminating units not available due to damage, repairs or any other reason, based on 365 days in a year.

(7) Gross operating margin is calculated as gross operating profit divided by total revenues.

(8) EBITDA is stated net of historic management fees and before unallocated central costs, where applicable.

(9) EBITDA margin is calculated as EBITDA divided by total revenues.

<u>Zlatne Stijene Resort (Splendid and Horizont)</u>

Overview

Zlatne Stijene Resort includes the Splendid and Horizont hotels. It is located along Zlatne Stijene peninsula's rocky coast line and descends to sea level. The majority of the apartments look out over the sea and Pula's Lungomare (seaside promenade). The resort covers an area of approximately 21.1 hectares.

Resort facilities

Units at Splendid Resort:	218 apartments for two to seven people
Units at Horizont Resort:	207 apartments for two to six people
Food and beverage:	Tamaris Restaurant; two additional restaurants and a cafe
Other amenities:	Salt water swimming pool, tennis courts, children's play area; The Pyramid night club, which is presently not in use.

The Group's interest

Zlatne Stijene Resort is operated by the Group. The buildings in the resort are partially owned by the Company and the land is partially owned by the City of Pula and subject to proceedings pursuant to the provisions of the Tourist Land Act. See *Section 10.8 "Business Overview—Properties – Types of Interests—Co-ownership and partial ownership subject to the Tourist Land Act"* and *Section 10.19 "Business Overview—Legal Proceedings and Disputes—Administrative proceedings and disputes resulting from the Tourist Land Act"*.

Selected unaudited financial and operating information

	Year ended 31 December		
	2016	*2015*	*2014*
Number of units(1)	425	425	425
OCC (%)(2)	52.7	56.0	58.3
365-day OCC (%)(3)	23.4	23.5	24.9
ADR (HRK)(4)	592.3	567.0	524.0
RevPAR (HRK)(5)	311.9	317.7	305.8
365-day RevPAR (HRK)(6)	138.4	133.2	130.7
Room revenues (HRK thousands)	21,475	20,669	20,271
Total revenues (HRK thousands)	27,658	23,115	22,811
Gross operating profit (HRK thousands)	10,056	9,379	9,991
Gross operating margin (%)(7)	36.4	40.6	43.8
EBITDA (HRK thousands)(8)	7,628	4,861	5,000
EBITDA margin (%)(9)	27.6	21.0	21.9

Source: Group Data

Notes:

(1) Number of units includes apartments.

(2) Represents total paid units occupied divided by total available units. Available units is the number of units in a hotel during the period that the hotel is open during the year, eliminating units not available due to damage, repairs or any other reason.

(3) Represents total paid units occupied divided by total available units, which is the number of units in a hotel eliminating units not available due to damage, repairs or any other reason, based on 365 days in a year.

(4) Represents total room revenues divided by the total number of paid units occupied by hotel guests.

(5) Calculated by dividing total room revenue by the total available units. Available units is the number of units in a hotel during the period that the hotel is open during the year, eliminating units not available due to damage, repairs or any other reason.

(6) Calculated by dividing total room revenue by the total available units, which is the number of units in a hotel eliminating units not available due to damage, repairs or any other reason, based on 365 days in a year.

(7) Gross operating margin is calculated as gross operating profit divided by total revenues.

(8) EBITDA is stated net of historic management fees and before unallocated central costs, where applicable.

(9) EBITDA margin is calculated as EBITDA divided by total revenues.

Park Plaza Verudela Pula

Overview

Park Plaza Verudela Pula is located only 100 metres from the sea and next to Park Plaza Histria Pula. The resort was refurbished and reopened in 2012 as Park Plaza Verudela Pula. Park Plaza Verudela Pula covers an area of approximately 9.6 hectares.

In 2013, the Verudela Avenue retail facility was refurbished. Verudela Avenue is a pedestrian street situated next to Park Plaza Verudela Pula and Park Plaza Histria Pula and has 22 retail and food outlets which are rented to independent operators. In each of the years ended 31 December 2015 and 2016, Verudela Avenue generated rental income of HRK 1.8 million.

Resort facilities

Units:	385 self-catering apartments
Food and beverage:	Restaurant Punta Verudela, Restaurant Boškarin, Bar Ambrela, pool bar, Restaurant Oliva, pizzeria, Illy Coffee Shop
Other amenities:	Parking, Verudela Avenue shops, free wireless internet access in public areas, three outdoor salt water swimming pools, a water slide; 16 tennis courts and a golf driving range. Guests also have access to the sports and entertainment facilities located at Park Plaza Histria Pula

The Group's interest

Park Plaza Verudela Pula is operated by the Group. The accommodation buildings in the resort are owned by the Company and the land is partially owned by the City of Pula and subject to proceedings pursuant to the provisions of the Tourist Land Act. See *Section 10.8 "Business Overview—Properties – Types of Interests—Co-ownership and partial ownership subject to the Tourist Land Act"* and *Section 10.19 "Business Overview—Legal Proceedings and Disputes—Administrative proceedings and disputes resulting from the Tourist Land Act"*.

Selected unaudited financial and operating information

	Year ended 31 December		
	2016	*2015*	*2014*
Number of units(1)	385	385	385
OCC (%)(2)	56.5	54.3	56.7
365-day OCC (%)(3)	30.9	29.6	30.4
ADR (HRK)(4)	903.9	880.4	809.6
RevPAR (HRK)(5)	511.0	478.0	459.3
365-day RevPAR (HRK)(6)	279.1	260.6	246.3
Room revenues (HRK thousands)	39,223	36,616	34,614
Total revenues (HRK thousands)	53,360	49,850	46,665
Gross operating profit (HRK thousands)	22,525	19,781	19,387
Gross operating margin (%)(7)	45.3	39.7	41.5
EBITDA (HRK thousands)(8)	18,332	15,588	15,577
EBITDA margin (%)(9)	34.4	31.3	33.4

Source: Group Data

Notes:

(1) Number of units includes apartments.

(2) Represents total paid units occupied divided by total available units. Available units is the number of units in a hotel during the period that the hotel is open during the year, eliminating units not available due to damage, repairs or any other reason.

(3) Represents total paid units occupied divided by total available units, which is the number of units in a hotel eliminating units not available due to damage, repairs or any other reason, based on 365 days in a year.

(4) Represents total room revenues divided by the total number of paid units occupied by hotel guests.

(5) Calculated by dividing total room revenue by the total available units. Available units is the number of units in a hotel during the period that the hotel is open during the year, eliminating units not available due to damage, repairs or any other reason.

(6) Calculated by dividing total room revenue by the total available units, which is the number of units in a hotel eliminating units not available due to damage, repairs or any other reason, based on 365 days in a year.

(7) Gross operating margin is calculated as gross operating profit divided by total revenues.

(8) EBITDA is stated net of historic management fees and before unallocated central costs, where applicable.

(9) EBITDA margin is calculated as EBITDA divided by total revenues.

Verudela Beach Resort

Overview

Verudela Beach Resort is located next to Park Plaza Verudela Pula. It is close to the sea with attractive views of the Adriatic and is surrounded by pine trees. Verudela Beach Resort consists of modern villas and apartments spread over approximately 19.9 hectares.

Resort facilities

Units:	186 apartments (including villas)
Food and beverage:	Villas and apartments have kitchens and guests have access to the food, and beverage facilities at Park Plaza Verudela Pula
Other amenities:	Parking, shopping at Verudela Avenue, free wireless internet access in public areas. Guests also have access to the facilities at Park Plaza Verudela Pula and Park Plaza Histria Pula

The Group's interest

Verudela Beach Resort is operated by the Group. The accommodation buildings in the resort are owned by the Company and the land is partially owned by the City of Pula and subject to proceedings pursuant to the provisions of the Tourist Land Act. See *Section 10.8 "Business Overview—Properties – Types of Interests—Co-ownership and partial ownership subject to the Tourist Land Act"* and *Section 10.19 "Business Overview—Legal Proceedings and Disputes—Administrative proceedings and disputes resulting from the Tourist Land Act"*.

Selected unaudited financial and operating information

	Year ended 31 December		
	2016	*2015*	*2014*
Number of units[(1)]	186	194	194
OCC (%)[(2)]	35.2	47.9	47.8
365-day OCC (%)[(3)]	27.3	37.8	28.7
ADR (HRK)[(4)]	658.5	453.4	577.0
RevPAR (HRK)[(5)]	232.0	217.4	276.0
365-day RevPAR (HRK)[(6)]	179.6	171.3	165.7
Room revenues (HRK thousands)	12,192	12,133	11,734
Total revenues (HRK thousands)	13,148	12,940	12,444
Gross operating profit (HRK thousands)	7,446	7,114	7,883
Gross operating margin (%)[(7)]	56.6	55.0	63.3
EBITDA (HRK thousands)[(8)]	6,014	5,660	6,457
EBITDA margin (%)[(9)]	45.7	43.7	51.9

Source: Group Data

Notes:

(1) Number of units includes apartments.

(2) Represents total paid units occupied divided by total available units. Available units is the number of units in a hotel during the period that the hotel is open during the year, eliminating units not available due to damage, repairs or any other reason.

(3) Represents total paid units occupied divided by total available units, which is the number of units in a hotel eliminating units not available due to damage, repairs or any other reason, based on 365 days in a year.

(4) Represents total room revenues divided by the total number of paid units occupied by hotel guests.

(5) Calculated by dividing total room revenue by the total available units. Available units is the number of units in a hotel during the period that the hotel is open during the year, eliminating units not available due to damage, repairs or any other reason.

(6) Calculated by dividing total room revenue by the total available units, which is the number of units in a hotel eliminating units not available due to damage, repairs or any other reason, based on 365 days in a year.

(7) Gross operating margin is calculated as gross operating profit divided by total revenues.

(8) EBITDA is stated net of historic management fees and before unallocated central costs, where applicable.

(9) EBITDA margin is calculated as EBITDA divided by total revenues.

<u>Ai Pini Resort</u>

Overview

Ai Pini Resort is located next to Park Plaza Belvedere Medulin and Sensimar Hotel Medulin, and 200 metres from the sea. The site covers approximately 4.2 hectares. Plans to refurbish the resort and increase its size to 133 units are currently being prepared and implemented and the refurbishment is expected to start in the fourth quarter of 2017 or early 2018. Please see *Section 10.10 "Business Overview—Investment Capital Expenditure Overview, Refurbishments and Developments—Planned investments and refurbishments"* for more information on the refurbishment project.

Resort facilities

Units:	64 apartments
Guest services:	Guests can use the facilities offered by the nearby Hotel Holiday and Park Plaza Belvedere Medulin

The Group's interest

Ai Pini Resort is operated and owned by the Group.

Selected unaudited financial and operating information

	Year ended 31 December		
	2016	*2015*	*2014*
Number of units(1)	64	64	64
OCC (%)(2)	53.0	65.3	82.0
365-day OCC (%)(3)	24.7	27.2	55.1
ADR (HRK)(4)	490.6	460.5	220.7
RevPAR (HRK)(5)	259.8	300.8	181.0
365-day RevPAR (HRK)(6)	121.0	125.1	121.7
Room revenues (HRK thousands)	2,827	2,923	2,843
Total revenues (HRK thousands)	2,856	2,936	2,843
Gross operating profit (HRK thousands)	1,294	1,329	1,118
Gross operating margin (%)(7)	45.3	45.3	39.3
EBITDA (HRK thousands)(8)	1,025	1,070	766
EBITDA margin (%)(9)	35.9	36.4	26.9

Source: Group Data

Notes:

(1) Number of units includes apartments.

(2) Represents total paid units occupied divided by total available units. Available units is the number of units in a hotel during the period that the hotel is open during the year, eliminating units not available due to damage, repairs or any other reason.

(3) Represents total paid units occupied divided by total available units, which is the number of units in a hotel eliminating units not available due to damage, repairs or any other reason, based on 365 days in a year.

(4) Represents total room revenues divided by the total number of paid units occupied by hotel guests.

(5) Calculated by dividing total room revenue by the total available units. Available units is the number of units in a hotel during the period that the hotel is open during the year, eliminating units not available due to damage, repairs or any other reason.

(6) Calculated by dividing total room revenue by the total available units, which is the number of units in a hotel eliminating units not available due to damage, repairs or any other reason, based on 365 days in a year.

(7) Gross operating margin is calculated as gross operating profit divided by total revenues.

(8) EBITDA is stated net of historic management fees and before unallocated central costs, where applicable.

(9) EBITDA margin is calculated as EBITDA divided by total revenues.

Campsites

<u>*Kažela Camp*</u>

Overview

Kažela Camp is located in close proximity to the centre of Medulin and occupies an area of approximately 68.9 hectares. The campsite includes 99 apartments and 176 mobile homes. A refurbishment is expected to start in the fourth quarter of 2017 or early 2018, which will add 50 new luxurious mobile homes. Please see *Section 10.10 "Business Overview—Investment Capital Expenditure Overview, Refurbishments and Developments—Planned investments and refurbishments"* for more information on the refurbishment project.

Property facilities

Apartments:	99 apartments
Pitches:	1,412 pitches
Mobile homes:	176 mobile homes with air conditioning, a terrace and parking
Food and beverage:	Three restaurants (including a pizzeria) and four bars
Other amenities:	General store, souvenir shop, news stand, sports courts, beach volleyball, tennis, badminton, table tennis, water sports, windsurf, diving centre, quad and buggy, rent a bike, children's games and entertainment

The Group's interest

The camp is operated by the Group. The co-ownership of the land area is subject to the provisions of the Tourist Land Act and relevant proceedings. See *Section 10.8 "Business Overview—Properties – Types of Interests—Co-ownership and partial ownership subject to the Tourist Land Act"* and *Section 10.19 "Business Overview—Legal Proceedings and Disputes—Administrative proceedings and disputes resulting from the Tourist Land Act"*.

Selected unaudited financial and operating information

	Year ended 31 December		
	2016	*2015*	*2014*
Number of units[(1)]	1,687	1,375	1,375
OCC (%)[(2)]	45.2	48.8	43.4
365-day OCC (%)[(3)]	17.4	21.7	22.8
ADR (HRK)[(4)]	284.2	269.4	253.8
RevPAR (HRK)[(5)]	128.4	110.0	110.1
365-day RevPAR (HRK)[(6)]	49.5	58.4	57.8
Room revenues (HRK thousands)	30,466	29,318	28,986
Total revenues (HRK thousands)	32,043	30,926	30,495
Gross operating profit (HRK thousands)	17,725	16,190	17,903
Gross operating margin (%)[(7)]	55.3	52.3	58.7
EBITDA (HRK thousands)[(8)]	12,444	10,954	12,630
EBITDA margin (%)[(9)]	38.8	35.4	41.4

Source: Group Data

Notes:

(1) Number of units includes pitches, mobile homes and apartments.

(2) Represents total paid units occupied divided by total available units. Available units is the number of units at a property during the period that the property is open during the year, eliminating units not available due to damage, repairs or any other reason.

(3) Represents total paid units occupied divided by total available units, which is the number of units in at a property eliminating units not available due to damage, repairs or any other reason, based on 365 days in a year.

(4) Represents total unit revenues divided by the total number of paid units occupied by property guests.

(5) Calculated by dividing total unit revenue by the total available units. Available units is the number of units at a property during the period that the property is open during the year, eliminating units not available due to damage, repairs or any other reason.

(6) Calculated by dividing total unit revenue by the total available units, which is the number of units in at a property eliminating units not available due to damage, repairs or any other reason, based on 365 days in a year.

(7) Gross operating margin is calculated as gross operating profit divided by total revenues.

(8) EBITDA is stated net of historic management fees and before unallocated central costs, where applicable.

(9) EBITDA margin is calculated as EBITDA divided by total revenues.

Stupice Camp

Overview

Stupice Camp occupies an area of approximately 25.4 hectares and is situated in the village of Premantura which is to the west of Medulin.

Property facilities

Pitches:	1,000 pitches
Mobile homes:	111 mobile homes with air conditioning, a terrace and private parking
Food and beverage:	Two restaurants including pizzerias and snack bars
Other amenities:	General store, exchange office, news stand, children playground, volleyball, mini-golf, basketball, surfing school, small boat rental, rental of bicycles and pedal boats, other water sports and entertainment

The Group's interest

The camp is operated by the Group. The co-ownership of the land area is subject to the provisions of the Tourist Land Act and relevant proceedings. See *Section 10.8 "Business Overview—Properties – Types of Interests—Co-ownership and partial ownership subject to the Tourist Land Act"* and *Section 10.19 "Business Overview—Legal Proceedings and Disputes—Administrative proceedings and disputes resulting from the Tourist Land Act"*.

Selected unaudited financial and operating information

	Year ended 31 December		
	2016	*2015*	*2014*
Number of units[(1)]	1,111	1,192	1,192
OCC (%)[(2)]	33.2	32.2	34.2
365-day OCC (%)[(3)]	18.0	19.2	18.1
ADR (HRK)[(4)]	265.0	250.2	241.6
RevPAR (HRK)[(5)]	87.9	80.5	82.6
365-day RevPAR (HRK)[(6)]	51.0	48.1	43.7
Room revenues (HRK thousands)	20,697	20,927	19,003
Total revenues (HRK thousands)	21,375	21,687	19,723
Gross operating profit (HRK thousands)	12,392	12,614	12,573
Gross operating margin (%)[(7)]	58.0	58.2	63.8
EBITDA (HRK thousands)[(8)]	9,417	9,684	9,749
EBITDA margin (%)[(9)]	44.1	44.7	49.4

Source: Group Data

Notes:

(1) Number of units includes pitches and mobile homes.

(2) Represents total paid units occupied divided by total available units. Available units is the number of units at a property during the period that the property is open during the year, eliminating units not available due to damage, repairs or any other reason.

(3) Represents total paid units occupied divided by total available units, which is the number of units in at a property eliminating units not available due to damage, repairs or any other reason, based on 365 days in a year.

(4) Represents total unit revenues divided by the total number of paid units occupied by property guests.

(5) Calculated by dividing total unit revenue by the total available units. Available units is the number of units at a property during the period that the property is open during the year, eliminating units not available due to damage, repairs or any other reason.

(6) Calculated by dividing total unit revenue by the total available units, which is the number of units in at a property eliminating units not available due to damage, repairs or any other reason, based on 365 days in a year.

(7) Gross operating margin is calculated as gross operating profit divided by total revenues.

(8) EBITDA is stated net of historic management fees and before unallocated central costs, where applicable.

(9) EBITDA margin is calculated as EBITDA divided by total revenues.

<u>Medulin Camp</u>

Overview

Medulin Camp is located on two peninsulas close to Park Plaza Belvedere Medulin and occupies an area of approximately 22.4 hectares.

Property facilities

Pitches:	949 pitches
Mobile homes:	121 mobile homes with air conditioning, a terrace and parking
Food and beverage:	Six restaurants and two bars
Other amenities:	Market, exchange office, souvenir shop, news stand, surfing school, small boat rental, rental of bicycles and pedal boats, other water sports, daily and evening entertainment for children and discotheque

The Group's interest

The camp is operated by the Group. The co-ownership of the land area is subject to the provisions of the Tourist Land Act and relevant proceedings. See *Section 10.8 "Business Overview—Properties – Types of Interests—Co-ownership and partial ownership subject to the Tourist Land Act"* and *Section 10.19 "Business Overview—Legal Proceedings and Disputes—Administrative proceedings and disputes resulting from the Tourist Land Act"*.

Selected unaudited financial and operating information

	Year ended 31 December		
	2016	*2015*	*2014*
Number of units(1)	1,070	1,070	1,070
OCC (%)(2)	33.0	35.3	35.8
365-day OCC (%)(3)	18.0	18.6	18.0
ADR (HRK)(4)	332.2	325.5	315.1
RevPAR (HRK)(5)	109.8	114.9	112.7
365-day RevPAR (HRK)(6)	59.8	60.7	56.8
Room revenues (HRK thousands)	23,371	23,708	22,184
Total revenues (HRK thousands)	25,339	26,100	24,295
Gross operating profit (HRK thousands)	16,075	15,983	16,144
Gross operating margin (%)(7)	63.4	61.2	66.4
EBITDA (HRK thousands)(8)	12,556	12,555	12,761
EBITDA margin (%)(9)	49.6	48.1	52.5

Source: Group Data

Notes:

(1) Number of units includes pitches and mobile homes.

(2) Represents total paid units occupied divided by total available units. Available units is the number of units at a property during the period that the property is open during the year, eliminating units not available due to damage, repairs or any other reason.

(3) Represents total paid units occupied divided by total available units, which is the number of units in at a property eliminating units not available due to damage, repairs or any other reason, based on 365 days in a year.

(4) Represents total unit revenues divided by the total number of paid units occupied by property guests.

(5) Calculated by dividing total unit revenue by the total available units. Available units is the number of units at a property during the period that the property is open during the year, eliminating units not available due to damage, repairs or any other reason.

(6) Calculated by dividing total unit revenue by the total available units, which is the number of units in at a property eliminating units not available due to damage, repairs or any other reason, based on 365 days in a year.

(7) Gross operating margin is calculated as gross operating profit divided by total revenues.

(8) EBITDA is stated net of historic management fees and before unallocated central costs, where applicable.

(9) EBITDA margin is calculated as EBITDA divided by total revenues.

Stoja Camp

Overview

Stoja Camp is located to the north of Zlatne Stijene and is three kilometres from the town centre of Pula. Stoja Camp covers an area of approximately 19.6 hectares.

Property facilities

Pitches:	719 pitches
Mobile homes:	127 mobile homes with air conditioning, a terrace and private parking
Food and beverage:	Restaurant and two bars
Other amenities:	General store, souvenir shop, news stand, massage, basketball court, beach volleyball, badminton, miniature golf course, table tennis, diving centre with a diving school, children's entertainment, children's play area

The Group's interest

The camp is operated by the Group. The co-ownership of the land area is subject to the provisions of the Tourist Land Act and relevant proceedings. See *Section 10.8 "Business Overview—Properties – Types of Interests—Co-ownership and partial ownership subject to the Tourist Land Act"* and *Section 10.19 "Business Overview—Legal Proceedings and Disputes—Administrative proceedings and disputes resulting from the Tourist Land Act"*.

Selected unaudited financial and operating information

	Year ended 31 December		
	2016	*2015*	*2014*
Number of units(1)	846	846	846
OCC (%)(2)	32.2	32.3	35.3
365-day OCC (%)(3)	18.1	17.5	17.9
ADR (HRK)(4)	347.9	344.1	332.1
RevPAR (HRK)(5)	112.1	111.0	117.2
365-day RevPAR (HRK)(6)	62.8	60.2	59.3
Room revenues (HRK thousands)	19,403	18,591	18,321
Total revenues (HRK thousands)	20,529	19,789	19,481
Gross operating profit (HRK thousands)	12,231	11,343	12,699
Gross operating margin (%)(7)	59.6	57.3	65.2
EBITDA (HRK thousands)(8)	9,589	8,663	10,098
EBITDA margin (%)(9)	46.7	43.8	51.8

Source: Group Data

Notes:

(1) Number of units includes pitches and mobile homes.

(2) Represents total paid units occupied divided by total available units. Available units is the number of units at a property during the period that the property is open during the year, eliminating units not available due to damage, repairs or any other reason.

(3) Represents total paid units occupied divided by total available units, which is the number of units in at a property eliminating units not available due to damage, repairs or any other reason, based on 365 days in a year.

(4) Represents total unit revenues divided by the total number of paid units occupied by property guests.

(5) Calculated by dividing total unit revenue by the total available units. Available units is the number of units at a property during the period that the property is open during the year, eliminating units not available due to damage, repairs or any other reason.

(6) Calculated by dividing total unit revenue by the total available units, which is the number of units in at a property eliminating units not available due to damage, repairs or any other reason, based on 365 days in a year.

(7) Gross operating margin is calculated as gross operating profit divided by total revenues.

(8) EBITDA is stated net of historic management fees and before unallocated central costs, where applicable.

(9) EBITDA margin is calculated as EBITDA divided by total revenues.

<u>*Indije Camp*</u>

Overview

Indije Camp is located on a wooded peninsula close to the town of Banjole and occupies an area of approximately 13.5 hectares. Banjole is situated between Pula and Medulin.

Property facilities

Pitches:	411 pitches
Mobile homes:	72 mobile homes with air conditioning, a terrace and parking
Rentals:	51 mobile homes that are rented out on an annual basis
Food and beverage:	Two restaurants
Other amenities:	General store, news stand children's playground, boat rental, pedal boats and bicycles, diving centre and entertainment

The Group's interest

The camp is operated by the Group. The co-ownership of the land area is subject to the provisions of the Tourist Land Act and relevant proceedings. See *Section 10.8 "Business Overview—Properties – Types of Interests—Co-ownership and partial ownership subject to the Tourist Land Act"* and *Section 10.19 "Business Overview—Legal Proceedings and Disputes—Administrative proceedings and disputes resulting from the Tourist Land Act"*.

Selected unaudited financial and operating information

	Year ended 31 December		
	2016	*2015*	*2014*
Number of units(1)	534	534	534
OCC (%)(2)	38.7	39.8	38.2
365-day OCC (%)(3)	16.6	16.2	16.3
ADR (HRK)(4)	283.9	282.9	267.6
RevPAR (HRK)(5)	109.8	112.5	102.1
365-day RevPAR (HRK)(6)	47.2	45.7	43.6
Room revenues (HRK thousands)	9,209	8,906	8,499
Total revenues (HRK thousands)	9,903	9,668	9,189
Gross operating profit (HRK thousands)	5,632	5,143	5,883
Gross operating margin (%)(7)	56.9	53.2	64.0
EBITDA (HRK thousands)(8)	4,135	3,681	4,454
EBITDA margin (%)(9)	41.7	38.1	48.5

Source: Group Data

Notes:

(1) Number of units includes pitches, mobile homes and rentals.

(2) Represents total paid units occupied divided by total available units. Available units is the number of units at a property during the period that the property is open during the year, eliminating units not available due to damage, repairs or any other reason.

(3) Represents total paid units occupied divided by total available units, which is the number of units in at a property eliminating units not available due to damage, repairs or any other reason, based on 365 days in a year.

(4) Represents total unit revenues divided by the total number of paid units occupied by property guests.

(5) Calculated by dividing total unit revenue by the total available units. Available units is the number of units at a property during the period that the property is open during the year, eliminating units not available due to damage, repairs or any other reason.

(6) Calculated by dividing total unit revenue by the total available units, which is the number of units in at a property eliminating units not available due to damage, repairs or any other reason, based on 365 days in a year.

(7) Gross operating margin is calculated as gross operating profit divided by total revenues.

(8) EBITDA is stated net of historic management fees and before unallocated central costs, where applicable.

(9) EBITDA margin is calculated as EBITDA divided by total revenues.

<u>*Tašalera Camp*</u>

Overview

Tašalera Camp is located on Premantura Bay, which lies to the west of Medulin, and covers an area of approximately 9.0 hectares.

Property facilities

Pitches:	311 pitches
Mobile homes:	Five mobile homes
Food and beverage:	One restaurant
Other amenities:	General store, beach volleyball, children's playground

The Group's interest

The camp is operated by the Group. The co-ownership of the land area is subject to the provisions of the Tourist Land Act and relevant proceedings. See *Section 10.8 "Business Overview—Properties – Types of Interests—Co-ownership and partial ownership subject to the Tourist Land Act"* and *Section 10.19 "Business Overview—Legal Proceedings and Disputes—Administrative proceedings and disputes resulting from the Tourist Land Act"*.

Selected unaudited financial and operating information

	Year ended 31 December		
	2016	*2015*	*2014*
Number of units[(1)]	316	316	316
OCC (%)[(2)]	65.2	66.1	65.7
365-day OCC (%)[(3)]	28.9	28.2	28.4
ADR (HRK)[(4)]	109.0	107.2	97.7
RevPAR (HRK)[(5)]	71.0	70.9	64.2
365-day RevPAR (HRK)[(6)]	31.5	30.3	27.7
Room revenues (HRK thousands)	3,634	3,493	3,197
Total revenues (HRK thousands)	3,734	3,545	3,223
Gross operating profit (HRK thousands)	1,571	1,308	1,335
Gross operating margin (%)[(7)]	42.1	36.9	41.4
EBITDA (HRK thousands)[(8)]	803	558	607
EBITDA margin (%)[(9)]	21.5	15.7	18.8

Source: Group Data

Notes:

(1) Number of units includes pitches and mobile homes.

(2) Represents total paid units occupied divided by total available units. Available units is the number of units at a property during the period that the property is open during the year, eliminating units not available due to damage, repairs or any other reason.

(3) Represents total paid units occupied divided by total available units, which is the number of units in at a property eliminating units not available due to damage, repairs or any other reason, based on 365 days in a year.

(4) Represents total unit revenues divided by the total number of paid units occupied by property guests.

(5) Calculated by dividing total unit revenue by the total available units. Available units is the number of units at a property during the period that the property is open during the year, eliminating units not available due to damage, repairs or any other reason.

(6) Calculated by dividing total unit revenue by the total available units, which is the number of units in at a property eliminating units not available due to damage, repairs or any other reason, based on 365 days in a year.

(7) Gross operating margin is calculated as gross operating profit divided by total revenues.

(8) EBITDA is stated net of historic management fees and before unallocated central costs, where applicable.

(9) EBITDA margin is calculated as EBITDA divided by total revenues.

<u>Pomer Camp</u>

Overview

Pomer Camp is located near the fishing village of Pomer, which lies to the west of Medulin and north of Premantura, and covers an area of approximately 9.7 hectares.

Property facilities

Pitches:	264 pitches
Food and beverage:	Restaurant and two bars
Other amenities:	Windsurfing centre and nearby sports facilities, market

The Group's interest

The camp is operated by the Group. The co-ownership of the land area is subject to the provisions of the Tourist Land Act and relevant proceedings. See *Section 10.8 "Business Overview—Properties – Types of Interests—Co-ownership and partial ownership subject to the Tourist Land Act"* and *Section 10.19 "Business Overview—Legal Proceedings and Disputes—Administrative proceedings and disputes resulting from the Tourist Land Act"*.

Selected unaudited financial and operating information

	Year ended 31 December		
	2016	*2015*	*2014*
Number of units(1)	264	182	182
OCC (%)(2)	42.6	44.5	53.7
365-day OCC (%)(3)	18.1	25.4	24.0
ADR (HRK)(4)	159.8	160.9	158.6
RevPAR (HRK)(5)	68.1	71.6	85.1
365-day RevPAR (HRK)(6)	28.9	40.8	38.0
Room revenues (HRK thousands)	2,782	2,711	2,524
Total revenues (HRK thousands)	2,985	2,906	2,665
Gross operating profit (HRK thousands)	579	645	728
Gross operating margin (%)(7)	19.4	22.2	27.3
EBITDA (HRK thousands)(8)	26	116	195
EBITDA margin (%)(9)	0.9	4.0	7.3

Source: Group Data

Notes:

(1) Number of units includes pitches.

(2) Represents total paid units occupied divided by total available units. Available units is the number of units at a property during the period that the property is open during the year, eliminating units not available due to damage, repairs or any other reason.

(3) Represents total paid units occupied divided by total available units, which is the number of units in at a property eliminating units not available due to damage, repairs or any other reason, based on 365 days in a year.

(4) Represents total unit revenues divided by the total number of paid units occupied by property guests.

(5) Calculated by dividing total unit revenue by the total available units. Available units is the number of units at a property during the period that the property is open during the year, eliminating units not available due to damage, repairs or any other reason.

(6) Calculated by dividing total unit revenue by the total available units, which is the number of units in at a property eliminating units not available due to damage, repairs or any other reason, based on 365 days in a year.

(7) Gross operating margin is calculated as gross operating profit divided by total revenues.

(8) EBITDA is stated net of historic management fees and before unallocated central costs, where applicable.

(9) EBITDA margin is calculated as EBITDA divided by total revenues.

Runke Camp

Overview

Runke Camp is located on a peninsula near the fishing town of Premantura and occupies an area of approximately 7.6 hectares.

Property facilities

Pitches:	247 pitches
Food and beverage:	Restaurant and bar
Other amenities:	General store, news stand, diving centre, nearby: post office, souvenir shop, news-stand, tennis court

The Group's interest

The camp is operated by the Group. The co-ownership of the land area is subject to the provisions of the Tourist Land Act and relevant proceedings. See *Section 10.8 "Business Overview—Properties – Types of Interests—Co-ownership and partial ownership subject to the Tourist Land Act"* and *Section 10.19 "Business Overview—Legal Proceedings and Disputes—Administrative proceedings and disputes resulting from the Tourist Land Act"*.

Selected unaudited financial and operating information

	Year ended 31 December		
	2016	*2015*	*2014*
Number of units(1)	247	247	247
OCC (%)(2)	46.0	42.7	40.9
365-day OCC (%)(3)	18.9	17.5	17.5
ADR (HRK)(4)	134.5	137.9	133.8
RevPAR (HRK)(5)	61.9	58.8	54.7
365-day RevPAR (HRK)(6)	25.4	24.2	23.4
Room revenues (HRK thousands)	2,293	2,180	2,108
Total revenues (HRK thousands)	2,372	2,265	2,185
Gross operating profit (HRK thousands)	926	761	915
Gross operating margin (%)(7)	39.0	33.6	41.9
EBITDA (HRK thousands)(8)	468	314	458
EBITDA margin (%)(9)	19.7	13.9	21.0

Source: Group Data

Notes:

(1) Number of units includes pitches.

(2) Represents total paid units occupied divided by total available units. Available units is the number of units at a property during the period that the property is open during the year, eliminating units not available due to damage, repairs or any other reason.

(3) Represents total paid units occupied divided by total available units, which is the number of units in at a property eliminating units not available due to damage, repairs or any other reason, based on 365 days in a year.

(4) Represents total unit revenues divided by the total number of paid units occupied by property guests.

(5) Calculated by dividing total unit revenue by the total available units. Available units is the number of units at a property during the period that the property is open during the year, eliminating units not available due to damage, repairs or any other reason.

(6) Calculated by dividing total unit revenue by the total available units, which is the number of units in at a property eliminating units not available due to damage, repairs or any other reason, based on 365 days in a year.

(7) Gross operating margin is calculated as gross operating profit divided by total revenues.

(8) EBITDA is stated net of historic management fees and before unallocated central costs, where applicable.

(9) EBITDA margin is calculated as EBITDA divided by total revenues.

11.3 Germany and Hungary

As a result of the Sugarhill Contribution in December 2016, the Company currently owns 88.0 per cent. of the Sugarhill Group and therefore (indirectly) 88.0 per cent. of the freehold and operational rights to the properties listed in this *Section 11.3*. In addition, the Company has been granted an option by the PPHE Hotel Group to acquire the remaining 12.0 per cent. interest of the Sugarhill Group. See *Section 12.1 "Relationship with the PPHE Hotel Group—Sugarhill Contribution and Operational Restructuring"*. One of the intended uses of proceeds from the Offering is to fund the exercise of that option and associated transaction costs (including real estate transfer tax, where applicable, in Germany), after which the Group would own 100 per cent. of these properties. See *Section 5 "Use of Proceeds; Reasons for the Offering"*.

art'otel cologne

Overview

art'otel cologne is located in the prestigious Rheinauhafen development of Cologne, next to the Chocolate Museum, and is within walking distance of Cologne's historic city centre. art'otel cologne features art from a contemporary Korean artist SEO, a pupil of German artist Georg Baselitz whose work is on display at art'otel berlin mitte.

Hotel facilities

Units:	218 rooms
Food and beverage:	Chino Latino® restaurant and bar overlooking the Rhine River
Meeting space:	Multi-functional meeting rooms
Other amenities:	Parking, high speed free wireless internet access

The Group's interest

art'otel cologne is operated and owned by the Group.

Selected unaudited financial and operating information

	Year ended 31 December[(1)]		
	2016	*2015*	*2014*
Number of units[(2)]	218	218	218
OCC (%)[(3)]	76.4	78.0	79.6
ADR (HRK)[(4)]	809.2	835.8	715.4
RevPAR (HRK)[(5)]	619	652	570
Room revenues (HRK thousands)	49,358	51,854	45,331
Total revenues (HRK thousands)	66,989	70,385	63,630
Gross operating profit (HRK thousands)	27,896	28,680	20,967
Gross operating margin (%)[(6)]	42	41	33
EBITDA (HRK thousands)[(7)]	13,094	2,075	9,379
EBITDA margin (%)[(8)]	19.5	2.9	14.7

Source: Group Data

Notes:

(1) The Group completed the acquisition of the freehold of art'otel cologne in February 2017; therefore, the periods presented are from prior to the Group owning the freehold interest in this property and include rent paid to the third party landlord at the time.

(2) Number of units includes rooms.

(3) Represents total paid units occupied divided by total available units. Available units is the number of units in a hotel actually available for use in a given period, eliminating units not available due to damage, repairs or any other reason.

(4) Represents total room revenues divided by the total number of paid units occupied by hotel guests.

(5) Calculated by dividing total room revenue by the total available units, which is the number of units in a hotel eliminating units not available due to damage, repairs or any other reason, based on 365 days in a year.

(6) Gross operating margin is calculated as gross operating profit divided by total revenues.

(7) EBITDA is stated net of historic management fees and before unallocated central costs, where applicable.

(8) EBITDA margin is calculated as EBITDA divided by total revenues.

Park Plaza Nuremberg

Overview

Park Plaza Nuremberg had its first paying guests in June 2016 following a complete refurbishment by a Croatian contractor. The hotel is located in the shopping and business centre of Nuremberg, opposite to 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 for meetings, conferences and events and is known for a number of leading international trade fairs.

Hotel facilities

Units:	177 rooms
Food and beverage:	BA Beef Club Restaurant, Bavarian American Bar and Travertine Room
Meeting space:	Seven meeting rooms
Other amenities:	Gym and sauna, high speed free wireless internet access

The Group's interest

The hotel is operated and owned by the Group.

Selected unaudited financial and operating information

	Year ended 31 December		
	2016(1)	*2015*	*2014*
Number of units(2)	177	–	–
OCC (%)(3)	41.7	–	–
ADR (HRK)(4)	1,123	–	–
RevPAR (HRK)(5)	468	–	–
Room revenues (HRK thousands)	17,297	–	–
Total revenues (HRK thousands)	20,933	–	–
Gross operating profit (HRK thousands)	4,796	–	–
Gross operating margin (%)(6)	23	–	–
EBITDA (HRK thousands)(7)	3,312	–	–
EBITDA margin (%)(8)	16	–	–

Source: Group Data

Notes:

(1) The data provided for 31 December 2016 represents operations since June 2016.

(2) Number of units includes rooms.

(3) Represents total paid units occupied divided by total available units. Available units is the number of units in a hotel actually available for use in a given period, eliminating units not available due to damage, repairs or any other reason.

(4) Represents total room revenues divided by the total number of paid units occupied by hotel guests.

(5) Calculated by dividing total room revenue by the total available units, which is the number of units in a hotel eliminating units not available due to damage, repairs or any other reason, based on 365 days in a year.

(6) Gross operating margin is calculated as gross operating profit divided by total revenues.

(7) EBITDA is stated net of historic management fees and before unallocated central costs, where applicable.

(8) EBITDA margin is calculated as EBITDA divided by total revenues.

art'otel berlin kudamm

Overview

art'otel berlin kudamm is located just off the Kurfürstendamm near the Kaiser Wilhelm Memorial Church and the Zoological Garden. art'otel berlin kudamm features the works of Andy Warhol and Christopher Makos. Christopher Makos is known for his photographs of Andy Warhol with his celebrity friends.

In the first half of 2012, the hotel was extended and partially refurbished. The project included the addition of 61 rooms, refurbishment of the ground floor with the extension of the restaurant and the addition of two meeting rooms and a gym and wellness area.

Hotel facilities

Units:	152 rooms
Food and beverage:	The Factory Restaurant and Bar
Meeting space:	Four meeting rooms
Other amenities:	Fitness room and secure car park, free wireless internet access

The Group's interest

art'otel berlin kudamm is operated and owned by the Group.

Selected unaudited financial and operating information

	Year ended 31 December[1]		
	2016	*2015*	*2014*
Number of units[2]	152	152	152
OCC (%)[3]	72.6	83.1	85.0
ADR (HRK)[4]	563	491	463
RevPAR (HRK)[5]	409	409	393
Room revenues (HRK thousands)	22,735	22,667	21,827
Total revenues (HRK thousands)	27,322	27,734	26,947
Gross operating profit (HRK thousands)	10,441	10,225	9,665
Gross operating margin (%)[6]	38	37	36
EBITDA (HRK thousands)[7]	(2,857)	(2,101)	(3,255)
EBITDA margin (%)[8]	(11)	(8)	(12)

Source: Group Data

Notes:

(1) The Group completed the acquisition of the freehold of art'otel berlin kudamm in February 2017; therefore, the periods presented are from prior to the Group owning the freehold interest in this property and include rent paid to the third party landlord at the time.

(2) Number of units includes rooms.

(3) Represents total paid units occupied divided by total available units. Available units is the number of units in a hotel actually available for use in a given period, eliminating units not available due to damage, repairs or any other reason.

(4) Represents total room revenues divided by the total number of paid units occupied by hotel guests.

(5) Calculated by dividing total room revenue by the total available units, which is the number of units in a hotel eliminating units not available due to damage, repairs or any other reason, based on 365 days in a year.

(6) Gross operating margin is calculated as gross operating profit divided by total revenues.

(7) EBITDA is stated net of historic management fees and before unallocated central costs, where applicable.

(8) EBITDA margin is calculated as EBITDA divided by total revenues.

Park Plaza Wallstreet Berlin Mitte

Overview

Park Plaza Wallstreet Berlin Mitte is located in Berlin's historic centre close to "Alexanderplatz" and the "Reichstag" (German parliament building). The hotel is a conversion of a bank/office building. The 50-seat auditorium is a special feature of the hotel, which makes Park Plaza Wallstreet Berlin Mitte a suitable venue for product launches and other special events.

Hotel facilities

Units:	167 rooms
Food and beverage:	Restaurant, bar and lounge and terrace
Meeting space:	One top floor boardroom and three meeting rooms
Other amenities:	50-seat auditorium, free wireless internet access and a fitness centre with sauna

The Group's interest

The Group has an operating lease with an initial term that expires in 2025, with two five-year renewal options.

Selected unaudited financial and operating information

	Year ended 31 December		
	2016	*2015*	*2014*
Number of units(1)	167	167	167
OCC (%)(2)	76.9	88.0	87.5
ADR (HRK)(3)	630	600	577
RevPAR (HRK)(4)	485	528	505
Room revenues (HRK thousands)	29,633	32,193	30,790
Total revenues (HRK thousands)	37,630	41,491	39,422
Gross operating profit (HRK thousands)	12,427	15,338	14,416
Gross operating margin (%)(5)	33	37	37
EBITDA (HRK thousands)(6)	(3,237)	(1,342)	(2,268)
EBITDA margin (%)(7)	(9)	(3)	(6)

Source: Group Data

Notes:

(1) Number of units includes rooms.

(2) Represents total paid units occupied divided by total available units. Available units is the number of units in a hotel actually available for use in a given period, eliminating units not available due to damage, repairs or any other reason.

(3) Represents total room revenues divided by the total number of paid units occupied by hotel guests.

(4) Calculated by dividing total room revenue by the total available units, which is the number of units in a hotel eliminating units not available due to damage, repairs or any other reason, based on 365 days in a year.

(5) Gross operating margin is calculated as gross operating profit divided by total revenues.

(6) EBITDA is stated net of historic management fees and before unallocated central costs, where applicable.

(7) EBITDA margin is calculated as EBITDA divided by total revenues.

art'otel budapest

Overview

art'otel budapest occupies a building that comprises four restored baroque townhouses. art'otel budapest is centrally located opposite the Parliament Building near the Danube river in Budapest, Hungary. art'otel budapest features works by Donald Sultan, a contemporary American artist. The hotel was renovated in 2012 through 2015.

Hotel facilities

Units:	165 rooms
Food and beverage:	art'bistrobar and Drawing Room Restaurant
Meeting space:	Flexible meeting rooms and a business centre
Other amenities:	Fitness centre, sauna, secure underground parking and free wireless internet access

The Group's interest

The Group's operating lease runs until 2020. The Group is currently in discussions with the landlord to extend the operating lease.

Selected unaudited financial and operating information

	Year ended 31 December		
	2016	*2015*	*2014*
Number of units[(1)]	165	165	165
OCC (%)[(2)]	80.8	79.3	79.6
ADR (HRK)[(3)]	565	545	479
RevPAR (HRK)[(4)]	457	433	381
Room revenues (HRK thousands)	27,571	26,058	22,951
Total revenues (HRK thousands)	36,175	34,097	30,930
Gross operating profit (HRK thousands)	17,988	15,946	13,753
Gross operating margin (%)[(5)]	50	47	44
EBITDA (HRK thousands)[(6)]	4,192	2,929	4,244
EBITDA margin (%)[(7)]	12	9	14

Source: Group Data

Notes:

(1) Number of units includes rooms.

(2) Represents total paid units occupied divided by total available units. Available units is the number of units in a hotel actually available for use in a given period, eliminating units not available due to damage, repairs or any other reason.

(3) Represents total room revenues divided by the total number of paid units occupied by hotel guests.

(4) Calculated by dividing total room revenue by the total available units, which is the number of units in a hotel eliminating units not available due to damage, repairs or any other reason, based on 365 days in a year.

(5) Gross operating margin is calculated as gross operating profit divided by total revenues.

(6) EBITDA is stated net of historic management fees and before unallocated central costs, where applicable.

(7) EBITDA margin is calculated as EBITDA divided by total revenues.

Park Plaza Berlin Kudamm

Overview

Park Plaza Berlin Kudamm is situated next to the Kurfürstendamm near the Kaiser Wilhelm Memorial Church and the Zoological Garden.

Hotel facilities

Units:	133 rooms
Food and beverage:	Garden Salon breakfast restaurant and Bar Vostell
Meeting space:	Two meeting rooms
Other amenities:	Secure car park, high speed free wireless internet access

The Group's interest

Park Plaza Berlin Kudamm is operated by the Group and owned by a 50/50 joint venture.

Selected unaudited financial and operating information

	Year ended 31 December		
	2016	*2015*	*2014*
Number of units[(1)]	133	133	133
OCC (%)[(2)]	74.9	82.6	85.3
ADR (HRK)[(3)]	511	470	440
RevPAR (HRK)[(4)]	383	388	376
Room revenues (HRK thousands)	18,626	18,843	18,227
Total revenues (HRK thousands)	27,304	28,228	27,321
Gross operating profit (HRK thousands)	7,436	7,928	7,856
Gross operating margin (%)[(5)]	27	28	29
EBITDA (HRK thousands)[(6)]	5,700	6,390	6,709
EBITDA margin (%)[(7)]	21	23	25

Source: Group Data

Notes:
(1) Number of units includes rooms.
(2) Represents total paid units occupied divided by total available units. Available units is the number of units in a hotel actually available for use in a given period, eliminating units not available due to damage, repairs or any other reason.
(3) Represents total room revenues divided by the total number of paid units occupied by hotel guests.
(4) Calculated by dividing total room revenue by the total available units, which is the number of units in a hotel eliminating units not available due to damage, repairs or any other reason, based on 365 days in a year.
(5) Gross operating margin is calculated as gross operating profit divided by total revenues.
(6) EBITDA is stated net of historic management fees and before unallocated central costs, where applicable.
(7) EBITDA margin is calculated as EBITDA divided by total revenues.

art'otel berlin mitte

Overview

art'otel berlin mitte is located in the heart of Berlin's historic centre and combines historic Ermelerhaus and modern architectures. The hotel features works by Georg Baselitz, an influential contemporary German artist. The rooms and public areas of the hotel were refurbished in 2016.

Hotel facilities

Units:	109 rooms
Food and beverage:	Upside Down Restaurant and Bar
Meeting space:	Three meetings rooms
Other amenities:	Banquet facilities in the Ermelerhaus, free wireless internet access

The Group's interest

art'otel berlin mitte is operated by the Group and owned by a 50/50 joint venture.

Selected unaudited financial and operating information

	Year ended 31 December		
	2016	*2015*	*2014*
Number of units(1)	109	109	109
OCC (%)(2)	61	79	87
ADR (HRK)(3)	707	625	590
RevPAR (HRK)(4)	428	492	511
Room revenues (HRK thousands)	17,056	19,585	20,312
Total revenues (HRK thousands)	29,546	33,558	33,210
Gross operating profit (HRK thousands)	3,891	8,321	7,988
Gross operating margin (%)(5)	13	25	24
EBITDA (HRK thousands)(6)	2,821	7,201	6,954
EBITDA margin (%)(7)	10	21	25

Source: Group Data

Notes:
(1) Number of units includes rooms.
(2) Represents total paid units occupied divided by total available units. Available units is the number of units in a hotel actually available for use in a given period, eliminating units not available due to damage, repairs or any other reason.
(3) Represents total room revenues divided by the total number of paid units occupied by hotel guests.
(4) Calculated by dividing total room revenue by the total available units, which is the number of units in a hotel eliminating units not available due to damage, repairs or any other reason, based on 365 days in a year.
(5) Gross operating margin is calculated as gross operating profit divided by total revenues.
(6) EBITDA is stated net of historic management fees and before unallocated central costs, where applicable.
(7) EBITDA margin is calculated as EBITDA divided by total revenues.

art'otel dresden

Overview

art'otel dresden is located in the centre of Dresden, 800 metres from the Zwinger Palace Museum complex and five minutes from the central railway station and is directly opposite the ICC Dresden conference centre. art'otel dresden features original works by A. R. Penck, a local artist.

Hotel facilities

Units:	174 rooms
Food and beverage:	Factory Restaurant and Bar
Meeting space:	Seven meetings rooms with a capacity for up to 600 people
Other amenities:	Free wireless internet access and a health club with a gym and sauna

The Group's interest

The Group's Operating Agreement runs until 2034, unless it is terminated in conjunction with the termination of the lease.

11.4 Mortgages on the Group's Properties

The following table summarises the mortgages on the Group's properties.

The Group's mortgages

Object		*Land registry folder/ Cadastral municipality*	*Lender*	*Rank/Amount secured by mortgage*
Sensimar Hotel Medulin ex. Hotel Park Plaza Medulin		3471 and 17808/Medulin	Zagrebačka banka	1st: EUR 1.7 million 2nd: EUR 10 million
Hotel Holiday		2931 and 18907/Medulin	Zagrebačka banka	EUR 15 million
Park Plaza Belvedere Medulin		2929/Medulin	Zagrebačka banka	1st: EUR 7 million and 5.1 million 2nd: EUR 5 million 3rd: EUR 15 million 4th: EUR 5 million
Ai Pini Resort		2929	Zagrebačka banka	EUR 15 million
Park Plaza Histria Pula (except for the Marina wing)		9836 and 9214/Pula	Zagrebačka banka	1st: EUR 17.9 million 2nd: HRK 19 million 3rd: EUR 1.6 million 4th: EUR 15 million
Hotel Brioni	Hotel Brioni	9704/Pula	Hypo Alpe-Adria-Bank d.d. (now Addiko bank d.d.)	EUR 2.6 million
	surrounding land, co-owned with the City of Pula (17739/172050)	14624/Pula	City of Pula	EUR 1.5 million

Object		*Land registry folder/ Cadastral municipality*	*Lender*	*Rank/Amount secured by mortgage*
Park Plaza Arena Pula	Park Plaza Arena Pula	10601/Pula	Zagrebačka banka HBOR	1st: EUR 2.7 million 2nd: EUR 7 million 3rd: EUR 1.6 million 4th: EUR 4.9 million
	the Garden Suites wing ex. Lolita	11479/Pula	Zagrebačka banka	1st: EUR 2.7 million 2nd: EUR 7 million 3rd: EUR 1.6 million
Park Plaza Verudela Pula	apartment buildings Cedar, Pinija, Tisa and Jela	10373 and 11060/Pula	HBOR	EUR 4.9 million
	bar Ambrela	9930/Pula	Zagrebačka banka	EUR 2.7 million
Verudela Beach Resort	villas Inge and Melita	11479/ Pula	Zagrebačka banka	1st: EUR 2.7 million 2nd: EUR 7 million 3rd: EUR 1.6 million
	villas Darija and Irena	9930/Pula	Zagrebačka banka	EUR 2.7 million
	restaurant Plaža and the forest land	11069/Pula	Zagrebačka banka	EUR 15 million
Zlatne Stijene Resort (Splendid and Horizont)		10033, 20510, 11894, 20509 and 9517/Pula	Zagrebačka banka	EUR 15 million
art'otel berlin kudamm		N/A	Deutsche Hypo	EUR 12 million
art'otel cologne		N/A	Deutsche Hypo	EUR 26 million
Park Plaza Nuremberg		N/A	Deutsche Hypo	EUR 11.725 million
art'otel berlin mitte		N/A	Deutsche Hypo	EUR 12.5 million
Park Plaza Berlin Kudamm		N/A	Deutsche Hypo	EUR 12.5 million

Source: Group Data

PART 12

RELATIONSHIP WITH THE PPHE HOTEL GROUP

The PPHE Hotel Group indirectly holds 77.09 per cent. of the issued share capital of the Company. Immediately following the Offering, the PPHE Hotel Group is expected to continue to indirectly hold more than 50 per cent. of the Shares. The Group benefits from and relies upon its relationship with the PPHE Hotel Group in a number of ways. The Company and certain of its subsidiaries are parties to various agreements with members of the PPHE Hotel Group, the most significant of which are described below.

12.1 Sugarhill Contribution and Operational Restructuring

Pursuant to the Contribution Agreement, dated 23 December 2016, the PPHE Hotel Group indirectly contributed 88.0 per cent. of the outstanding shares of Sugarhill to the share capital of the Company (the **Sugarhill Contribution**) in exchange for the Listing Shares, representing a total capital contribution in the value of approximately HRK 460 million. As a result of the Sugarhill Contribution, the Company has acquired control of the Sugarhill Group including an 88.0 per cent. interest in the rights and obligations associated with Sugarhill's seven owned, co-owned, leased or operated hotels in Germany and one leased hotel in Hungary.

Following the Sugarhill Contribution, the PPHE Hotel Group continues to indirectly own 12.0 per cent. of Sugarhill but has granted the Company an option to acquire its remaining Sugarhill shares for a total price of EUR 8.33 million during the 18 months following the completion of the Sugarhill Contribution. One of the intended uses of proceeds from the Offering is to fund the exercise of that option and associated transaction costs (including real estate transfer tax, where applicable, in Germany), after which the Group would own 100 per cent. of Sugarhill. See *Section 5 "Use of Proceeds; Reasons for the Offering"*.

As a result of the Sugarhill Contribution, the Group benefits from the Framework Agreement previously entered into between the PPHE Hotel Group and Arena Hospitality, which is a subsidiary of Sugarhill. The Framework Agreement grants Arena Hospitality the exclusive right to operate and develop any new Park Plaza branded properties in 18 countries in the CEE Region, including Croatia, Germany and Hungary. Additionally, the Group now benefits from new operational and licensing, sales and marketing relationships entered into with Arena Hospitality and the PPHE Hotel Group, respectively. More specifically, each of the Group's then-existing operating agreements (**Prior Operating Agreements**) was amended, restated and novated (as applicable) in order to create two new separate agreements going forward for each of the Group's properties:

- an operating agreement dealing with the supervision and operation of the properties whereby all obligations of the operator were transferred to Arena Hospitality (a wholly-owned subsidiary of Sugarhill) (**Operating Agreement**); and
- a license, sales and marketing agreement (or **LSM Agreement**) between a member of the PPHE Hotel Group and each of the owner/tenant of the individual properties.

In addition, Germany ServiceCo, a company which provides offices, employees and certain other regional support services to Arena Hospitality, has been acquired by the Group through the Sugarhill Contribution. As a consequence of these changes, Arena Hospitality has replaced the relevant companies within the PPHE Hotel Group as the new operator in respect of each of the Group's properties pursuant to the Operating Agreements, moving those activities from outside to within the Group. At the same time, certain group sales, marketing and other central services continue to be provided by the PPHE Hotel Group under the LSM Agreements.

Framework Agreement

Pursuant to the Framework Agreement, the PPHE Hotel Group has granted Arena Hospitality the exclusive right to operate and develop any new Park Plaza branded property in the CEE Region. Arena Hospitality has undertaken to actively develop opportunities in relation to new outlets in the CEE Region and propose each such opportunity to the PPHE Hotel Group. The PPHE Hotel Group has the right to approve or reject each proposed new outlet (provided that the PPHE Hotel Group must approve the proposed new outlet if such new outlet meets, will meet or is capable of meeting, the Park Plaza brand standards or (if unbranded) the relevant minimum standards). If a new outlet owned by the Group is approved, Arena Hospitality and the PPHE Hotel

Group have agreed to enter into a new Operating Agreement and LSM Agreement, respectively, in respect of that proposed new outlet on substantially the same terms as their existing agreements. If the proposed new outlet is owned by a third-party, Arena Hospitality and the PPHE Hotel Group shall negotiate and endeavour to agree with such third party the terms of a new Operating Agreement and LSM Agreement, respectively, and any revised terms from those contained in the Framework Agreement must be approved by the PPHE Hotel Group. Pursuant to this arrangement, the Group has agreed to open one new Park Plaza branded outlet during the first 24 months and then two new outlets every 24 months thereafter.

Subject to Arena Hospitality meeting its development obligations, the PPHE Hotel Group has agreed not to grant any licences to use, or operate any hotels under, the Park Plaza brand in the CEE Region other than in connection with (i) new outlets proposed by Arena Hospitality and approved in accordance with the Framework Agreement, or (ii) new outlets owned by a third party that does not want Arena Hospitality to operate and manage the new outlet (but rather wishes to act as the operator of the outlet itself). This exclusivity obligation on the part of the PPHE Hotel Group only relates to the use of the Park Plaza brand in the CEE Region. It also does not prevent the continued operation of the franchised Park Plaza hotel in Trier, Germany by a third party.

Unless otherwise agreed by the PPHE Hotel Group, the Group has agreed not to use or operate any hotels under any brand other than the Park Plaza, art'otel or any other brand licensed to the Group by the PPHE Hotel Group or any other brand developed and owned by the Group. However, this agreement does not prevent the Group from operating unbranded hotels (subject to such outlets entering into a new Operating Agreement and LSM Agreement).

If Arena Hospitality fails to meet the Park Plaza brand development obligations described above for two consecutive periods of 24 months, or if any of the Operating Agreements and the LSM Agreements (including any new operating or LSM agreements entered into by Arena Hospitality in accordance with the terms of the Framework Agreement) is terminated due to any default by any member of the Group, the PPHE Hotel Group has the right, in its sole discretion, to terminate its exclusivity obligation in respect of all or part of the CEE Region. If the PPHE Hotel Group elects to terminate such provisions in respect of the entire CEE Region, then the exclusivity in the Framework Agreement itself terminates. The PPHE Hotel Group has the right to terminate the Framework Agreement if the PPHE Hotel Group ceases to control the Company, Arena Hospitality or the Group. The Framework Agreement may also be terminated by either the PPHE Hotel Group or Arena Hospitality upon the occurrence of certain enumerated events of default (though this shall not affect any of the Operating Agreements or LSM Agreements then in place which shall continue in accordance with their terms). If not terminated earlier, the Framework Agreement terminates on 21 December 2046.

LSM Agreements

As part of the Operational Restructuring, the PPHE Hotel Group and each of the relevant owner/tenant of the individual properties within the Group entered into LSM Agreements pursuant to which various services, including the right to operate and develop the Park Plaza brand or, in the case of the relevant German and Hungarian hotels operating as an art'otel, the art'otel brand, will be provided by the PPHE Hotel Group in relation to the operation of each relevant hotel. In addition, the PPHE Hotel Group has agreed to provide certain group sales, marketing and other central services to each of the hotels, resorts and campsites. Each LSM Agreement terminates at the expiration of the term of the applicable Operating Agreement or such later date as agreed between the parties.

Under the LSM Agreements, the PPHE Hotel Group is entitled to monthly fees, including a licence, sales and marketing fee based on total revenues generated by the properties and, in the case of the branded properties, a reservation fee for each reservation processed through the Carlson Central Reservation System.

Under each LSM Agreement, the relevant owner/tenant of the individual property is restricted from transferring (or permitting the transfer of) the relevant property without the PPHE Hotel Group's prior consent. In the event of any proposed transfer of a property, the owner/tenant is required to first offer to transfer such property to the PPHE Hotel Group. Likewise, any proposed transfer of equity interests in an owner/tenant of the individual property which would result in a change of control would also require the PPHE Hotel Group's prior consent and trigger the PPHE Hotel Group's right of first offer (provided that nothing shall prevent a transfer of equity interests in the Company while its shares are listed).

Either party may terminate each of the LSM Agreements following (i) certain enumerated events of default by the other party (if uncured) or (ii) if the relevant property is substantially damaged, taken by condemnation or destroyed. In addition, the PPHE Hotel Group has the right to terminate any LSM Agreement if the operator or the owner/tenant of the relevant property (or any of their respective affiliates) becomes a prohibited person, including a competitor of the PPHE Hotel Group or a person of ill repute or insufficient financial strength.

Operating Agreements

As part of the Sugarhill Contribution and the Operational Restructuring, all obligations of the operator under the Prior Operating Agreements (other than those relating to the provision of certain licensing, sales and marketing services) were transferred from a PPHE Hotel Group company to Arena Hospitality. Prior to that time, a wholly-owned subsidiary of the PPHE Hotel Group was entitled to certain fees as operator payable by the owner/tenant of the individual properties. Following the Operational Restructuring, Arena Hospitality, which is indirectly 88.0 per cent. owned by the Company and indirectly 12.0 per cent. owned by the PPHE Hotel Group, receives operator fees, which include a base fee based on the total revenues generated by the relevant property and an incentive fee based on the adjusted gross operating profit of the relevant property.

Under the Operating Agreements, Arena Hospitality is responsible for directing and overseeing the operation of each of the properties in accordance with the applicable operating standards and requirements. The term of each Operating Agreement runs from the effective date of the relevant Prior Operating Agreement and ends (in the case of the Croatian properties) on the 20th anniversary of the effective date or (in the case of the German and Hungarian properties) at the end of the 20th full calendar year following the effective date (or, where a property is leased with a shorter term, upon expiry of the relevant lease), subject in each case to an option to extend.

12.2 Guarantees Related to Deutsche Hypo Loans

The PPHE Hotel Group acts as guarantor of certain obligations of the Group under loan agreements with Deutsche Hypothekenbank (Aktien-Gesellschaft) (**Deutsche Hypo**) entered into to finance the acquisitions of the freeholds of art'otel cologne, art'otel berlin kudamm, art'otel berlin mitte, Park Plaza Berlin Kudamm and Park Plaza Nuremberg.

The Company has given a counter guarantee to the PPHE Hotel Group in relation to amounts due under the above guarantees up to a maximum amount of EUR 36.5 million, which becomes effective from the date of certification of compliance of the Company with the financial covenants set out in certain facilities with Zagrebačka banka, by way of the audited consolidated financial statements of the Group (as defined therein) for the year ended 2017 upon the Group's satisfaction of certain financial covenants.

For further information about the Deutsche Hypo and Zagrebačka banka facilities see *Section 15.8 "Operating and Financial Review of the Group—Liquidity and Capital Resources—Capital Resources—Bank Borrowings"*.

12.3 Loans Related to Freehold Acquisition of art'otel cologne and art'otel berlin kudamm

In December 2016 and January 2017, the PPHE Hotel Group (through its subsidiary, Euro Sea) made available to the Group two loan facilities for a total of up to EUR 11 million to finance, in part, the acquisition by the Group's indirectly wholly-owned subsidiaries ACO Hotel Holding B.V. and ABK Hotel Holding B.V. of the freeholds of art'otel cologne and art'otel berlin kudamm. The freeholds were purchased from a third party from whom the Group previously leased the properties, and the acquisitions were completed in February 2017. The loans bear interest at a rate of 6.5 per cent. per annum and are repayable, in relation to the loan facility of up to EUR 10 million, on the earlier of the maturity date (being eight years from 25 January 2017 or such other date as agreed between the Company and Euro Sea) and the date falling 14 days following the receipt by the Company of sufficient proceeds from the Offering and, in relation to the loan facility of EUR 1 million, on the maturity date which is eight years from 6 December 2016.

12.4 Performance Guarantee of art'otel budapest Lease

The PPHE Hotel Group has provided a performance guarantee of the tenant's obligations under the lease to the landlord of the art'otel budapest. Under that guarantee, the PPHE Hotel Group has agreed to pay up to EUR 500,000 in the event the tenant fails to meet any of its obligations for the duration of the lease.

12.5 art'otel dresden Operating Agreement

The Group has an Operating Agreement in place with the PPHE Hotel Group, as the owner of the leasehold of art'otel dresden, whereby the Group operates the property. The Group is charging, among others, base and incentive fees as a percentage of total revenue and adjusted gross operating profit of the hotel and is reimbursed for certain portions of the expenses incurred. The Operating Agreement runs until 2033.

12.6 The Bora Companies Acquisition

In June 2016, the PPHE Hotel Group indirectly (via Dvadeset Devet d.o.o. (Croatia)), as part of its plans to develop the Company into a leading hospitality company in the CEE Region, entered into an agreement to sell the Bora Companies to the Company for HRK 108.55 million. The total consideration for the acquisition was determined by an independent third party valuation of the Bora Companies. The Bora Companies owned Sensimar Hotel Medulin and Ai Pini Resort in Medulin and leased Zlatne Stijene Resort in Pula from the Company. Completion of the acquisition took place in June 2016 and in October 2016, the Bora Companies were merged into the Company. As part of the sale agreement the PPHE Hotel Group gave warranties relating to the Bora Companies, and the period to make claims for breaches, if any, of certain warranties does not expire until December 2017 and, in the case of certain tax matters, June 2018.

12.7 Sugarhill Option

On 23 December 2016, the Company and a member of the PPHE Hotel Group entered into an option letter whereby the PPHE Hotel Group, as grantor, granted the Company, as grantee, the option to acquire the remaining 12 per cent. of the issued and paid-up share capital of Sugarhill for a total price of EUR 8.33 million during the 18 months following the completion of the Sugarhill Contribution.

PART 13

INDUSTRY OVERVIEW

This Section discusses the industry and markets in which the Group operates. Specifically, this Section focuses on the macroeconomic and industry specific performances of Germany and Croatia, which are key markets for the Group.

Certain information in this Section relating to the general macroeconomic environment, market environment, market developments, growth rates, market trends, industry trends, competition and similar information are estimates based on data compiled by professional organisations, consultants and analysts, in addition to market data from other external and publicly available sources, and the Company's knowledge of the markets. The Company believes that this information is reliable but has not independently verified it and cannot guarantee its accuracy and completeness. For more information about sources of industry and market data see Section 4.2 "General Information—Presentation of Financial and Other Information—Sources of industry and market data".

*Where cited as the source, the information and data contained in this Section relating to the Croatian hotel industry has been provided by HORWATH i HORWATH CONSULTING ZAGREB d.o.o., a member of Horwath HTL International (**Horwath HTL**), and is taken from Horwath HTL's database and other sources. Horwath HTL, has advised that: (i) some information in Horwath HTL's database is derived from estimates or subjective judgments; (ii) the information in the databases of other hotel and leisure data collection agencies may differ from the information in Horwath HTL's database; and (iii) whilst Horwath HTL has taken reasonable care in the compilation of the statistical and graphical information and believes it to be accurate and correct, data compilation is subject to limited audit and validation procedures and may contain errors.*

Where cited as the source, the information and data contained in this Section relating to the German hotel industry has been provided by STR, and is taken from the monthly STAR report from STR.

The following discussion contains forward-looking statements, see Section 4.1 "General Information—Cautionary Note Regarding Forward-Looking Statements". Any forecast information and other forward-looking statements in this Section are not guarantees of future outcomes and these future outcomes could differ materially from current expectations. Numerous factors could cause or contribute to such differences, see Section 2 "Risk Factors" for further details.

13.1 Introduction

According to the World Travel & Tourism Council (**WTTC**), the travel and tourism industry is one of the largest and fastest growing parts of the global economy. The WTTC states that in 2016 the combined direct and indirect contribution of the travel and tourism industry represented 10.2 per cent. of the total world gross domestic product (**GDP**). Further, the WTTC projects that the industry's direct contribution to the world GDP is expected to grow by a compounded annual growth rate (**CAGR**), adjusted for inflation, of 3.9 per cent. in the period 2017 – 2027. Tourism in Europe is experiencing its seventh consecutive year of growth and receives more than 50 per cent. of the tourism market share globally. Forecasts for the hotel industry in the CEE Region indicate a continued growth for tourism and the travel market, largely driven by stable economic conditions in Europe.

More specifically, the hotel industry in Germany and Croatia has recently enjoyed strong growth across the key industry indicators such as number of arrivals and overnight stays, tourist spending and RevPAR in hotels, particularly in Croatia. The number of tourists travelling to Croatia has more than doubled since 2000, while in Germany the number of overnight stays is expected to increase by 80 per cent. by 2030. In the first 11 months of 2016, Croatia's four and five-star hotels experienced RevPAR growth of 5.2 per cent. compared to the same period in 2015, while Germany achieved RevPAR growth of 4.6 per cent.

Assessment of brand penetration in individual CEE Region markets reveals there is still significant potential for addition of new branded hotel rooms. For example, Prague records 36 per cent. branded hotel rooms penetration and Bratislava 46 per cent. International hotel operators are exploiting the higher growth rates and brand penetration potential mainly through the expanded use of franchise and operating agreements.

13.2 Industry drivers

The economic recovery after the financial crisis of 2008 in the Croatia and Germany, and falling oil prices, has resulted in lower unemployment and an increase in household disposable income which have eased the upward pressure on living costs and lowered the cost of travel. These factors have contributed to the growth of the travel and tourism industry, which is expected to grow at a higher rate than the wider economy in the next 10 years. The outlook for the hotel industry in Germany and Croatia appears promising with consumer confidence and spending across most of Europe rising, and with demographics shifting in favour of younger generations who travel both for business and leisure more often than older generations.

One of the key reasons Croatian tourism has experienced strong growth is that the key source markets from which guests originate (**Key Source Markets**) are in high-income countries such as Germany, Austria and the Netherlands.

13.3 Macroeconomic environment

The Key Source Markets have strong macroeconomic fundamentals, with stable public finances and growing productivity. Estimates show that these markets will continue their positive development paths in the years ahead.

Germany, whose citizens account for the biggest share of the Group's overnight stays, is regarded as one of the strongest economies in Europe with a strong manufacturing and export base, a low unemployment rate, decreasing public debt and increasing population. The OECD estimates that over the next two years Germany's economy is expected to expand at a rate of 1.7 per cent. The country also has a AAA rating by Standard & Poor's.

13.4 Market environment

Favourable macroeconomic environment

The favourable macroeconomic environment in the Key Source Markets is one of the drivers of the demand for the hotel industry in Croatia and Germany.

The refurbishment of hotels, improvements to transport infrastructure and the development of new destination products and services has enabled hospitality companies to tap into new customer segments in the Key Source Markets and to develop demand in new growth markets such as the USA, China and the United Kingdom.

Tourist arrivals and overnight stays in Croatia have steadily increased since 1999 with the exception of 2009 in which no growth was recorded. Over the last couple of years the growth has accelerated and was almost exclusively driven by the increase in international arrivals. In 2016, overnight stays reached 78 million, up 9 per cent. from the previous year.

Croatia	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*	*Six-year CAGR (%)*
Arrivals (thousands)	10,604	11,455	11,834	12,441	13,127	14,343	15,597	7
Overnights (thousands)	56,416	60,354	62,743	64,827	66,483	71,605	78,061	6

Source: Horwath HTL, 14 February 2017

The Croatian hospitality industry is still dominated by private accommodation, accounting for approximately 50 per cent. of all beds with campsites being the second most popular form of accommodation. In the hotel market, 3 star and 4 star hotels account for roughly 80 per cent. of the total beds supply. However, there is an evident trend of hotels, resorts and campsites moving towards attaining 4 star and 5 star ratings over the past few years.

Germany has also witnessed a period of growth in the number of arrivals and overnight stays and in 2016 overnights grew for the seventh consecutive year, reaching 447 million, up 2 per cent. from the previous year. The German market growth is more balanced with more than 50 per cent. coming from domestic visits (source: Federal Statistical Office of Germany).

Germany	2010	2011	2012	2013	2014	2015	2016	Six-year CAGR (%)
Arrivals (thousands)	139,991	147,062	152,718	155,188	160,785	166,787	N/A	4(1)
Overnights (thousands)	380,275	393,177	407,203	411,863	424,056	436,233	447,300	3

Source: Federal Statistical Office of Germany (Destatis)

Notes:

(1) Consistent five-year CAGR as 2016 data for arrivals is not available (different sources show different numbers).

Total direct and indirect travel and tourism spending in Croatia and Germany in 2016 stood at EUR 11.5 and EUR 337.7 billion, respectively, while the first estimates for 2017 by WTTC are EUR 12.2 billion and EUR 341.8 billion respectively. In Croatia, the sector contributed 24.7 per cent. to the country's 2016 GDP, while for 2017 WTTC estimates this share to rise up to 26.4 per cent., which, in the European context, makes Croatia highly sector dependant (source: WTTC). Worldwide, Croatia has the 29th highest relative total contribution of travel and tourism to GDP.

By contrast, in Germany, spending on travel and tourism made up 10.8 per cent. of the country's GDP which, in terms of importance of the sector to the whole economy ranks it below the European average.

WTTC forecasts that over the next 10 years the contribution of Croatia's travel and tourism industry to GDP will rise by 4.2 per cent. to 28.9 per cent.

One reason for the forecasted growth of the Croatian tourism industry is the fact that it has only relatively recently become a major Mediterranean tourist destination and entered the focus list of large international travel companies. Croatia remains one of Europe's best protected ecological areas, with 47 per cent. of its land and 39 per cent. of its sea designated as specially protected areas and areas of conservation. The country has 19 National and Nature Parks, with some, such as the Plitvice Lakes National Park, designated as UNESCO World Heritage sites. Croatia also has seven cultural UNESCO World Heritage sites and 13 Intangible Cultural Heritage elements recorded on the UNESCO List.

An additional impetus for the growth of the sector has come from Croatia's membership in the European Union and, going forward, the growth of tourism revenues could also come from the adoption of the Euro which has been targeted by political and monetary leadership to occur over the next four to six years.

Security concerns

A further reason for the strong growth figures for Croatia over the last three years is as a result of Croatia being less adversely affected by the growing international security risks and geopolitical issue. This is particularly so compared to competition destinations such as Turkey, Greece, Egypt and Tunisia. According to the 2016 Global Terrorism Index (**GTI**) which measures the patterns in terrorism by geographic activity and frequency, economical impact and consequences on countries, Germany is ranked 41st while Croatia is in the group of countries with the lowest impact of terrorism (ranking 126th out of 129), and has been improving on this metric since 2013. By contrast, Croatia's key competitors are moderately to highly affected by terrorism.

Leisure vs. business

The Group's Croatian operations mirror the overall make-up of the Croatian market, in that virtually all of the revenues come from leisure tourism and more than 90 per cent. from foreign visitors. The Group's German operations predominantly service domestic German visitors and around 60 per cent. of revenues come from business guests.

Croatia is predominantly a leisure destination for foreign visitors, whereas German travel and tourism market has a more balanced split between business and leisure spending. The German hotel industry is predominantly oriented towards domestic travel and as such much less affected by competing destinations and security risks.

Croatia	Percentage (%)
Leisure	94.5
Business	4.6
Other	0.9

Source: Horwath HTL, 14 February 2017

Germany	Percentage (%)
Leisure	55.0
Business travel	25.0
Other	20.0

Source: Germany travel (2015)

13.5 Seasonality

The Croatian travel and tourism market is highly seasonal with 86 per cent. of overnight stays occurring during the June – September summer season. Nevertheless, over the last couple of years there has been a noticeable increase in occupancies during the shoulder season (April and October) primarily due to improvements in the quality of accommodation and an improved service offering such as wellness, sport (including new golf courses and cycling tours), dining experiences and destination products and services outside of the main season. As a result of these initiatives, overnights in the shoulder season have experienced strong growth. Also, the wider economic recovery has increased demand for MICE services (Meetings, Incentives, Conferencing and Exhibitions) impacting the results for the shoulder season in Croatia.

The German travel and tourism market is much less seasonal as it relies more on city hotels and corporate travel.

13.6 Contract Models

Investment in new hotels in Croatia has historically been limited due to certain issues associated with privatisation, the tourist land and the maritime domain regimes and related regulations. These issues have also hampered development of alternative financing options such as long-term leases. Hence currently the dominant model in Croatia is local ownership and management, although there are a number of international hotel brands already present and their market share is increasing.

Croatia – Structure by management model	Percentage (%)
Management	51
Franchise	18
Management/Partial ownership	29
Lease	2

Source: Horwath HTL

Croatia – Structure by class	Percentage (%)
Upper Midscale	27
Upper	42
Upper Upscale	29
Luxury	2

Source: Horwath HTL, September 2016

There is a diverse range of hotel brand/operators in Croatia. Currently there are global hotel brands (for example, Hilton and Sheraton), European brands (for example Falkensteiner, Arcotel) and a number of marketing consortia (for example, the Leading Hotels of the World, Small Luxury Hotels of the World, Relais&Chateaux and Design Hotels). Nevertheless the share of internationally branded rooms is still very low, at 16 per cent. in 2015. The biggest share of branded hotels, around 83 per cent., is in the resort-type hotel segment, located along the Adriatic coast, with Melia brands and Park Plaza accounting for more than 50 per cent. of room supply. Operators like Marriot and Hyatt have recently announced their entry into the market.

Hotel brands and their share in accommodation capacities in Croatia	*Number of rooms*	*Percentage in total (%)*
Sol Hotels and Resorts	1,943	27
Park Plaza	1,357	19
Falkensteiner Hotels & Residences	766	10
Sheraton Hotels & Residences	557	8
Radisson Blu	451	6
Melia Hotels & Resorts	431	6
LeMeridien	381	5
Westin Hotels & Resorts	378	5
Rixos Hotels	254	3
Kempinski Hotels	186	3
Life Class Hotels & Spa	157	2
Doubletree by Hilton	152	2
Arcotel Hotels	150	2
Hilton Hotels & Resorts	147	2
Total	7,310	100

Source: Horwath HTL, 30 September 2016

The German hotel market is mostly lease driven and properties are typically owned by institutional investors. These leases tend to be long-term arrangements with high fixed lease portions or monthly rental payments based on a percentage of the operating revenues of that hotel (subject, in the majority of cases, to a minimum amount which is independent of the operating revenue). Due to the development of the capital markets and Germany's economic stability, property lease financing is highly developed in Germany and has an attractive risk/reward profile.

13.7 Croatia: hotel industry in focus

Although Croatian hotels have a higher peak season occupancy than hotels in other Mediterranean countries, shoulder and low seasons in Croatia are currently significantly weaker compared to other Mediterranean countries leading to a much lower overall occupancy rate on a yearly basis. The underutilized shoulder season represents a high growth potential for occupancy and RevPAR. There also appears to exist a potential for further increases in hotel room prices as the average ADR on the Croatian seaside is still lower than in the competing destinations in Southern Europe.

Key performance indicators for 4/5* hotels*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*	*11/2015*	*11/2016*
Southern Europe[(1)]								
Room occupancy (%)	60	63	62	63	65	65	69	69
ADR (EUR)	98	101	102	103	106	115	116	116
RevPAR (EUR)	59	63	63	65	69	75	80	80
Seaside Croatia								
Room occupancy (%)	35	41	43	43	43	45	49	52
ADR (EUR)	89	102	110	113	108	119	120	124
RevPAR (EUR)	30	42	49	51	48	55	60	66
Istria								
Room occupancy (%)	43	41	44	45	45	48	52	53
ADR (EUR)	87	88	105	108	110	111	113	112
RevPAR (EUR)	37	36	46	49	50	54	59	60

Source: Horwath HTL, 14 February 2017

Notes:

(1) Includes France, Italy, Malta, Greece, Spain, Turkey and Portugal

Despite Istria, alongside Dubrovnik, being the most developed Croatian tourist region and despite continuously higher growth, there still appears to be room for additional RevPAR convergence towards the levels of competing destinations.

RevPAR (EUR)	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*	*11/2015*	*11/2016*
France	100	107	72	113	112	93	95	85
Italy	70	75	73	77	81	94	97	94
Malta	58	62	64	69	80	88	91	95
Greece	57	61	54	58	71	74	78	83
Spain	51	55	54	57	63	72	73	82
Selected countries average	67	72	63	75	61	84	87	88
Croatia 4* and 5*	36	41	47	48	48	52	57	60
ISTRIA	37	36	46	49	50	54	59	60
Istria compared to selected countries (%)	(45)	(50)	(27)	(35)	(19)	(36)	(32)	(31)

Source: Horwath HTL, 14 February 2017

Istria

Istria is one of the most popular tourist destination in Croatia with almost 20 per cent. of the total tourist overnights in Croatia over the last six years. Its picturesque coastline and ancient Roman heritage make it an attractive tourist destination for foreign tourists, who made up more than 90 per cent. of Istria's visitors during 2016. The entirety of the Group's Croatian operations is located within Istria in the popular locations of Pula, Medulin and Premantura.

Istria	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*	*Six-year CAGR (%)*
Arrivals (thousands)	2,628	2,896	2,985	2,981	3,059	3,370	3,763	6
Overnights (thousands)	17,732	19,095	19,877	19,445	19,545	20,967	23,128	5

Source: Croatian Bureau of Statistics, Croatian National Tourist Board

Compared to other major Istrian tourism destinations such as Rovinj, Poreč and Umag, the cities of Pula and Medulin grew at a higher pace in terms of overnights with an average annual growth rate of 6 per cent., compared to 4 per cent., 4 per cent. and 3 per cent. respectively.

Pula & Medulin	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*	*Six-year CAGR (%)*
Arrivals (thousands)	463	513	514	522	541	606	696	7
Overnights (thousands)	2,910	3,160	3,179	3,189	3,274	3,581	4,014	6

Source: Horwath HTL, 14 February 2017

	2014		*2015*		*2016*		*Group's share in total (%)*	
Accommodation capacities	*Properties*	*Beds*	*Properties*	*Beds*	*Properties*	*Beds*	*Properties*	*Beds*
Hotels	98	27,689	103	28,392	102	27,847	7	6
Resorts	13	8,048	15	9,594	18	10,743	22	10
Camps	21	41,338	31	48,183	53	114,403	15	5

Source: Horwath HTL, 14 February 2017

	2013		2014		2015		11/2015		11/2016	
Hotels (3/4*) (without Pula and Medulin)	3*	4*	3*	4*	3*	4*	3*	4*	3*	4*
Occupancy (%, 365 days)	39	45	38	44	39	47	42	50	43	50
ADR (EUR)	62	85	61	84	59	82	59	82	62	87
RevPAR (EUR)	24	38	23	37	23	38	24	41	26	44

Source: Horwath HTL, 14 February 2017

	2013		2014		2015		11/2015		11/2016	
Resorts (3/4*) (without Pula and Medulin)	3*	4*	3*	4*	3*	4*	3*	4*	3*	4*
Occupancy (%, 365 days)	30	33	33	32	34	34	37	37	37	37
ADR (EUR)	68	100	66	88	61	85	61	85	65	86
RevPAR (EUR)	20	33	21	28	21	29	23	32	24	32

Source: Horwath HTL, 14 February 2017

	2013		2014		2015		11/2015		11/2016	
Camps (3/4*) (without Pula and Medulin)	3*	4*	3*	4*	3*	4*	3*	4*	3*	4*
Occupancy (%, 365 days)	27	24	27	24	27	25	30	27	29	27
ADR (EUR)	29	32	31	33	31	33	31	33	34	36
RevPAR (EUR)	8	8	8	8	8	8	9	9	10	10

Source: Horwath HTL, 14 February 2017

13.8 Germany: hotel industry in focus

Germany is the largest economy in the European Union (21 per cent. of EU GDP in 2016) and the fourth largest in the world. With a population of 82.2 million Germany also has the largest population of any EU member state.

The hotel industry sector is fast growing and Germany is becoming an increasingly popular destination for travellers from all over the world. A total of 447.3 million overnight stays were reported in 2016, an increase of 2.5 per cent. compared to 2015. The WTTC forecasts that over the next 10 years real spending on travel and tourism in Germany will grow on average at 2.3 per cent. per annum, a much higher growth rate than the expected real growth rate of the overall economy in Germany. Alongside the United Kingdom, and London in particular, Germany is one of the most attractive hotel real estate markets in Europe and the country is unrivalled as the world's number one destination for trade fairs, hosting two-thirds of all global flagship exhibitions. Germany has more than 16,000 hotels and the market is characterized by a relatively low, but growing share of branded hotels (approximately 11 per cent. in 2014) and a very low penetration rate of large international hotel chains. Occupancy at German hotels is at multi-decade highs and RevPAR growth has been consistently in the 4-5 per cent. range over the past five years. There are fifteen German cities with annual overnights of more than one million and most of them have been outperforming their European peers since the 2008 – 2009 economic downturn.

Berlin

Berlin is one of the most popular global tourist and international association meetings destinations and in terms of overnight stays it is the fourth most popular city in Europe, after London, Paris and Barcelona. Recently the city has become the centre of the European start-up scene and is also Germany's most popular city for MICE services. The number of participants in conferences and conventions has almost tripled in the past 15 years. Berlin's conference hotels play a central role and in 2016 hosted about 120,400 events with nearly 7.05 million participants. Additionally, the city is becoming an important destination for medical tourism and the local Government is strongly supporting the expansion of clinics, hospitals and medical research institutes with the goal to become the number one location for providing medical care in Germany.

As of the end of 2015, Berlin had approximately 140,000 beds across 780 accommodation providers. In the Group's targeted 4-star segment, at the end of 2015, the city held 25,796 rooms of which 20,630 were branded, which put the Group's share of branded rooms in the city at 3 per cent. In 2015, Berlin had 30.2 million overnight stays exhibiting limited seasonality effects. The city has a balance between domestic and foreign visitors with foreign visitors' percentage increasing year on year.

Over the last 10 years, the city has experienced a consistent annual increase in the number of visitors, their length of stay and overnight stays. Moreover, as the demand growth has increased over the last couple of years the supply growth has significantly slowed down resulting in a strong increase in occupancies and average daily rates, and consequently RevPARs, particularly in the 4-star hotel segment. Despite improving numbers, the city's hotels' key performance indicators are still generally lower than in other key capital cities in Europe.

	2014	*2015*	*2016*
Occupancy (%)	78.3	80.5	80.5
ADR (EUR)	81	85	88
RevPAR (EUR)	64	69	71

Source: STR Global, selected competitive set, January 2017

Cologne

The Cologne hotel market has a balance of business generated from international corporations with a presence in greater Cologne, such as REWE Group and Turkcell, and a strong leisure appeal due to its well-preserved historic city centre and the city's strategic location on the Rhine River.

	2014	*2015*	*2016*
Occupancy (%)	68.5	72.3	71.1
ADR (EUR)	92	102	103
RevPAR (EUR)	63	74	73

Source: STR Global, selected competitive set, January 2017

Nuremberg

The Nuremberg hotel market benefits from corporate meetings and business events and has also attracted domestic and international fairs. Demand is further generated from the many corporations in and around greater Nuremberg.

	2014	*2015*	*2016*
Occupancy (%)	69.6	68.6	70.4
ADR (EUR)	92	91	106
RevPAR (EUR)	64	62	75

Source: STR Global, selected competitive set, January 2017

13.9 Hungary: hotel industry in focus

Similar to Croatian tourism, seasonality is typical of Hungarian tourism. Hungary's tourist season lasts from April to October. In 2015, it recorded a significant increase in arrivals and overnights with 4 and 5 star hotels recording occupancy of around 70 per cent. According to the Hungarian Central Statistics Office, occupancy rates in hotels in 2016 rose by around 2.5 per cent. when compared with the previous year. In Budapest, RevPAR grew by 9 per cent., ADRs grew by 6.1 per cent. and occupancy grew by 2.7 per cent. in 2016 when compared to the previous year. Penetration rate of large international hotel chains in Budapest is higher than in Germany and in 2015 stood at 45 per cent.

Budapest

The Budapest market has grown in recent years and benefits from both strong corporate and leisure demand mainly, further supported by city-wide events such as the Formula 1 race and Red Bull Air Race.

	2014	*2015*	*2016*
Occupancy (%)	63.3	69.2	72.6
ADR (EUR)	47	50	53
RevPAR (EUR)	30	35	38

Source: STR Global, selected competitive set, January 2017

13.10 Competitive Landscape

The Croatian tourist market on the whole is relatively fragmented, with market leaders, Valamar Riviera and Lukšić group (i.e. Plava Laguna, Istraturist and Adriatic Luxury Hotels), holding more than 10 per cent. of hotel and resort units and camping sites in Croatia. This is despite a significant wave of consolidation which has been occurring since 2010. Istria, on the other hand is highly consolidated with the four biggest Istrian and Croatian tourist groups (Valamar Riviera, Lukšić Group, Maistra and Arenaturist) holding a significant percentage of hotel units and camping sites, and a high proportion of upscale and luxury accommodation. However, none of the four biggest tourist groups have a dominant position in the market with Valamar Riviera, Lukšić group and Maistra each holding approximately 15-20 per cent. market share in Istrian hotels, resorts and camps and the Group ranked fourth at approximately 10 per cent.

In 2015 the total hotel investment activity in Croatia reached EUR 192 million, up from EUR 67 million in 2014 while the number of four and five star beds in the period 2010-2015 increased by 18,884, representing a CAGR of 7 per cent.

The German hotel market is approximately 15 times larger than the Croatian market and is also highly fragmented and more competitive, with the market leader Accor having 343 hotels and a market share of 5 per cent. While this represents a growth opportunity, expansion is highly competitive as larger hotel groups aim to increase their market shares. In March 2015, the development pipeline in Germany was significant with approximately 394 projects being undertaken (equivalent to more than 56,700 rooms) and with Berlin specifically having 29 new hotels in the development stage (equivalent to 5,300 rooms). From 2006 to 2015 beds in Berlin grew annually at a CAGR of 5.3 per cent., while during the same period bed occupancy grew from 50.5 per cent. to 59.3 per cent.

PART 14

SELECTED FINANCIAL INFORMATION

The selected financial information included herein should be read in connection with, and is qualified in its entirety by reference to *Appendix A "Financial Statements" and Section 15 "Operating and Financial Review"*. All convenience translations from HRK into EUR in this Prospectus were made at a rate of HRK 7.56 to EUR 1.00, the midpoint exchange rate as at 31 December 2016, which was also used by the Company in preparing the Group Financial Statements in accordance with IFRS.

14.1 Selected Financial Information of the Group

The tables below set out selected financial information of the Group as at and for the years ended 31 December 2016, 2015 and 2014. The selected financial information set out below has been extracted without material adjustment from the Group Financial Statements included in *Appendix A "Financial Statements"* and has been prepared on the basis described in the accompanying notes. The Group Financial Statements have been prepared in accordance with IFRS.

Consolidated income statements for the Group[(1)]

	For the year ended 31 December			
	2016 (HRK thousands)	*2016 (EUR thousands)*	*2015 (HRK thousands)*	*2014 (HRK thousands)*
Revenues	435,871	57,655	402,759	354,167
Operating expenses	(295,100)	(39,034)	(277,047)	(255,932)
EBITDAR	140,771	18,621	125,712	98,235
Rental expenses and land concession fees	(8,748)	(1,157)	(8,771)	(8,903)
EBITDA	132,023	17,463	116,941	89,332
Depreciation, amortisation and impairment	(222,511)	(29,433)	(59,586)	(69,410)
EBIT	(90,488)	(11,969)	57,355	19,922
Financial expenses	(41,007)	(5,424)	(32,385)	(29,447)
Financial income	136	18	59	95
Other income and expenses	(6,612)	(875)	(1,297)	(1,416)
(Loss)/profit before tax	(137,971)	(18,250)	23,732	(10,846)
Income tax benefit/(expense)	23,716	3,137	(5,793)	(1,951)
(Loss)/profit for the year	(114,255)	(15,113)	17,939	(12,797)

Consolidated statements of financial position of the Group[(1)]

	As at 31 December			
	2016 (HRK thousands)	*2016 (EUR thousands)*	*2015 (HRK thousands)*	*2014 (HRK thousands)*
Non-current assets	1,468,819	194,288	1,313,919	1,304,464
Current assets	177,701	23,505	159,344	111,085
Total assets	1,646,520	217,794	1,473,263	1,415,549
Total equity	804,244	106,381	837,728	819,819
Non-current liabilities	585,380	77,431	567,942	527,377
Current liabilities	256,896	33,981	67,593	68,353
Total liabilities	842,276	111,412	635,535	595,730
Total equity and liabilities	1,646,520	217,794	1,473,263	1,415,549

Consolidated statements of cash flows for the Group [(1)]

	For the year ended 31 December			
	2016 (HRK thousands)	*2016 (EUR thousands)*	*2015 (HRK thousands)*	*2014 (HRK thousands)*
Cash flows from operating activities	118,119	15,624	93,410	82,375
Cash flows from investing activities	(157,942)	(20,892)	(72,124)	(147,032)
Cash flows from financing activities	22,442	2,969	28,219	95,925
Increase in cash and cash equivalents	(17,381)	(2,299)	49,505	31,268
Cash and cash equivalents at beginning of year	147,787	19,549	98,282	67,014
Cash and cash equivalents at end of year	130,406	17,249	147,787	98,282

Source: Group Financial Statements

Notes:

(1) Because the Sugarhill Contribution involved the combination of businesses under common control, it was not a business combination within the scope of IFRS 3. The retrospective predecessor method of accounting could be applied as of 1 April 2016, the date that Sugarhill Group became part of the group of companies under common control. However, the Company believes that accounting method would have not improved the quality of information provided to investors in the current year and in coming years. For this reason the prospective method has been applied for the acquisition of the Sugarhill Group. Accordingly, the Group Financial Statements reflect the Group's results of operations for the years ended 31 December 2016, 2015 and 2014, which do not include the Sugarhill Group. However, the Group's consolidated statement of financial position as at 31 December 2016 does give effect to the Sugarhill Contribution, as will the Group's financial statements for the periods after 31 December 2016. Consequently, the Group's statement of financial position as at 31 December 2016 is not directly comparable to the Group's statements of financial position as at 31 December 2015 and 2014.

Key performance indicators for the Group

The following table sets out the Group's key performance indicators for 2016, 2015 and 2014. In addition, the Company considers EBITDAR, EBITDA, EBIT and other income and expenses, which appear on the Group's income statement, to be KPIs.

	Year ended 31 December		
	2016	*2015*	*2014*
OCC (%)[(1)]	45.3	44.2	45.9
Average room rate (HRK)[(2)]	472.4	445.4	406.5
RevPAR (HRK)[(3)]	213.9	196.8	186.5
Adjusted profit before tax (HRK millions)[(4) (5)]	42.7	25.0	3.8

Source: Group Data

Notes:

(1) Represents total paid units occupied divided by total available units, which is the number of units in a hotel eliminating units not available due to damage, repairs or any other reason, based on 365 days in a year.

(2) Represents total room revenues divided by the total number of paid units occupied by hotel guests.

(3) Calculated by dividing total room revenue by the total available units. Available units is the number of units in a hotel during the period that the hotel is open during the year, eliminating units not available due to damage, repairs or any other reason.

(4) Profit before tax, adjusted for effects of events and transactions that, in the view of the Company, are unusual or one-off in nature.

(5) Please see *Section 15.5 "Operating and Financial Review—Alternative Performance Measures"* for a reconciliation of adjusted profit before tax. This is not a measure of performance under IFRS and should not be considered by prospective Investors as an alternative to the related IFRS measure of performance.

14.2 Selected Financial Information of the Sugarhill Group

The tables below set out selected financial information of the Sugarhill Group as at and for the years ended 31 December 2016, 2015 and 2014. The selected financial information set out below has been extracted without material adjustment from the Sugarhill Financial Statements included in A*ppendix A "Financial Statements"* and has been prepared on the basis described in the accompanying notes. The Sugarhill Financial Statements have been prepared in accordance with IFRS on a basis consistent with that used in the preparation of the Group Financial Statements.

Income statement for the Sugarhill Group

	For the year ended 31 December			
	2016 (HRK thousands)	*2016 (EUR thousands)*	*2015 (HRK thousands)*	*2014 (HRK thousands)*
Revenues	202,005	26,720	187,186	175,148
Operating expenses	(144,805)	(19,154)	(132,132)	(121,147)
EBITDAR	57,200	7,566	55,054	54,001
Rental expenses	(43,199)	(5,714)	(53,840)	(46,277)
EBITDA	14,001	1,852	1,214	7,724
Depreciation	(3,656)	(484)	(1,893)	(2,323)
EBIT	10,345	1,368	(679)	5,401
Financial expenses	(7,038)	(931)	(5,874)	(5,585)
Financial income	826	109	910	977
Other income	(3,774)	(499)	-	13,570
Share in result of joint ventures	(650)	(86)	1,605	1,899
Profit/(Loss) before tax	(291)	(38)	(4,038)	16,262
Profit tax (benefit) charge	(6,248)	(826)	5,579	(160)
Profit/(Loss) for the year	(6,539)	(865)	1,540	16,102

Balance sheet for the Sugarhill Group

	As at 31 December			
	2016 (HRK thousands)	*2016 (EUR thousands)*	*2015 (HRK thousands)*	*2014 (HRK thousands)*
Non-current assets	267,844	35,429	208,748	134,477
Current assets	59,010	7,806	36,169	47,141
Total assets	326,854	43,235	244,917	181,618
Total equity	189,216	25,029	(92,883)	(95,301)
Non-current liabilities	8	1	223,656	189,098
Current liabilities	137,630	18,205	114,145	87,821
Total liabilities	137,638	18,206	337,801	276,919
Total equity and liabilities	326,854	43,235	244,917	181,618

Statement of cash flows for the Sugarhill Group

	For the year ended 31 December			
	2016 (HRK thousands)	*2016 (EUR thousands)*	*2015 (HRK thousands)*	*2014 (HRK thousands)*
Cash flow from operating activities	3,104	411	(1,883)	1,933
Cash flow from investing activities	(71,250)	(9,425)	(56,828)	(52,012)
Cash flow from financing activities	89,685	11,863	50,969	37,006
Increase in cash and cash equivalents	21,539	2,849	(7,742)	(13,073)
Cash and cash equivalents at beginning of year	16,483	2,180	24,280	37,835
Cash and cash equivalents at end of year	37,932	5,017	16,483	24,280

Source: Sugarhill Financial Statements

Key performance indicators for the Sugarhill Group

The following table sets out the Sugarhill Group's key performance indicators for 2016, 2015 and 2014 on a 365-day basis.

In addition, the Sugarhill Group considers EBITDAR, EBITDA, EBIT and other income and expenses, which appear on the Sugarhill Group's income statement, to be KPIs.

	2016 (HRK)	*2015 (HRK)*	*2014 (HRK)*
Germany			
ADR	726.6	659.5	597.6
OCC	70.1%	82.6%	83.6%
RevPAR	509.7	544.4	499.7
Hungary			
ADR	564.9	545.3	478.5
OCC	80.8%	79.3%	79.6%
RevPAR	456.5	432.7	381.1
Sugarhill Group			
ADR	689.4	633.4	570.6
OCC	72.3%	81.8%	82.7%
RevPAR	498.7	518.2	471.8

Source: Group Data

PART 15

OPERATING AND FINANCIAL REVIEW

This operating and financial review should be read together with the Group Financial Statements and the Sugarhill Financial Statements which are included in Appendix A "Financial Statements" to this Prospectus. The following discussion contains certain forward-looking statements that reflect the Group's plans and estimates. These forward-looking statements are not historical facts, but are based on the Group's current expectations, estimates, assumptions and projections about the industry, business and future financial results. Actual results could differ materially from the results contemplated by these forward-looking statements due to a number of factors, including but not limited to those discussed in the Section 2 "Risk Factors" and Section 4.1 "General Information—Cautionary Note Regarding Forward-Looking Statements" as well as other Sections of this Prospectus. For currency data and rounding adjustments please see Section 4 "General information" for further information.

15.1 Introduction and Overview

Through a variety of ownership and operational structures, the Group operates and develops full-service hotels and self-catering holiday apartment resorts in the upscale, upper upscale and lifestyle market classes. The Group's hotels and resorts are located in select holiday destinations in Croatia and in major gateway cities and regional centres in Germany and Hungary. The Group also co-owns and operates campsites on the southern coast of the Istrian peninsula in Croatia.

The Group's portfolio consists of 15 hotels, four resorts and eight campsites. Seven hotels are located in Germany; one hotel is located in Budapest, Hungary; and the remaining properties, including seven hotels, four resorts and eight campsites are located in Istria, Croatia, making the Company one of the largest tourist accommodation providers in Croatia.

A majority of the Group's hotels and one of its resorts operate under the Park Plaza or art'otel brands. Under the terms of a long term Framework Agreement with its largest indirect shareholder, the PPHE Hotel Group, an international hotel group, the Group has an exclusive right to operate and develop new Park Plaza branded properties in the CEE Region. All seven hotels in Germany are branded (three Park Plaza and four art'otel) and one hotel in Budapest, Hungary is also branded (art'otel budapest). In Croatia, three hotels and one resort are branded Park Plaza and one hotel operates under TUI's Sensimar brand. The 14 remaining properties, including three hotels, three resorts and eight campsites, located in Istria, Croatia, are currently operated on an unbranded basis.

The Group's Park Plaza and art'otel branded properties benefit from the PPHE Hotel Group's partnership with Carlson, one of the world's largest hotel groups, and in particular, from access to Carlson's global brand infrastructure, reservation system and sales and marketing platform.

One of the Group's principal strategies is to expand its portfolio within the upscale, upper upscale and lifestyle market classes in the CEE Region by offering a high quality product at attractive prices. To create and maximise shareholder value, the Group expects to pursue opportunities to grow by expanding its portfolio through its various business models – including (i) owning or co-owning and operating, (ii) leasing and operating and (iii) managing as well as (iv) rebranding and developing. The Group regularly identifies such opportunities and has agreed with the PPHE Hotel Group to pursue at least a minimum number of such opportunities going forward.

The Company believes that the Group's exclusive right to operate and develop any new Park Plaza branded properties in the CEE Region, its rights to use the art'otel brand in five of its hotels and its access to the Carlson network, together with its own management, development and investment expertise as well as that of the PPHE Hotel Group, mean it is well-positioned to maintain and develop its position in the markets in which it already operates and to take advantage of expected opportunities for future growth in additional markets within the CEE Region.

The Group's total assets as at 31 December 2016 were HRK 1.6 billion. On a pro forma basis giving effect to the Sugarhill Contribution, the Operational Restructuring and the acquisition of the freehold interests in art'otel cologne and art'otel berlin kudamm, the Group's revenue and EBITDA for the year ended 31 December 2016 would have been HRK 633.7 million and HRK 185.0 million, respectively.

15.2 Types of Operations

General

The Group applies a variety of business models to its property portfolio through which (i) it owns, co-owns or partially owns and operates, (ii) leases and operates and (iii) operates, its properties.

	Ownership/ Co-ownership		Co-ownership/Partial Ownership Subject to the Tourist Land Act		Operating Leases		Operating Agreements	
	Properties	Units	Properties	Units	Properties(2) (3)	Units	Properties	Units
Croatia	7	1,650	11(1)	7,071	1	33	–	–
Germany	5(4)	789	–	–	1	167	1	174
Hungary	–	–	–	–	1	165	–	–
Total	12	2,439	11	7,071	3	365	1	174

Source: Group Data

Notes:

(1) Includes the Group's eight campsites and three resorts. The land at the Group's campsites and three of its four resorts is subject to proceedings pursuant to the provisions of the Tourist Land Act. See *Section 10.8 "Business Overview—Properties – Types of Interests—Co-ownership and partial ownership subject to the Tourist Land Act"* and *Section 10.19 "Business Overview—Legal Proceedings and Disputes—Administrative proceedings and disputes resulting from the Tourist Land Act"*.

(2) Includes Guest House Riviera. The Group currently operates the property without any formal arrangement. See *Section 11.2 "The Group's Properties—Croatia—Hotels and Resorts—Guest House Riviera"*.

(3) As at 31 December 2016, the Group operated four hotels pursuant to operating leases; however, in February 2017, the Group completed the purchase of two of those properties (art'otel cologne and art'otel berlin kudamm). Consequently, as of the date of this Prospectus those two properties are owned by the Group and art'otel budapest and Park Plaza Wallstreet Berlin Mitte are operated under operating leases.

(4) As a result of the Sugarhill Contribution in December 2016, the Group currently owns 88 per cent. of the Sugarhill Group which, in turn owns the freehold and operational rights to three hotels in Germany (art'otel berlin kudamm, art'otel cologne and Park Plaza Nuremberg). The Sugarhill Group also owns 50 per cent. of two 50/50 joint ventures which each own one hotel in Germany (art'otel berlin mitte and Park Plaza Berlin Kudamm). The Company has been granted an option by the PPHE Hotel Group to acquire the remaining 12.0 per cent. interest of the Sugarhill Group. See *Section 12.1 "Relationship with the PPHE Hotel Group—Sugarhill Contribution and Operational Restructuring"*. One of the intended uses of proceeds from the Offering is to fund the exercise of that option and the associated transaction costs (including real estate transfer tax, where applicable, in Germany), after which the Group would own 100 per cent. of this property. See *Section 5 "Use of Proceeds; Reasons for the Offering"*.

Ownership/Co-ownership

In its current portfolio, the Group owns, partially owns or co-owns 11 of its hotels and four resorts, although the Group only has part ownership of the companies that own five of those hotels. More specifically, the Group has an 88 per cent. ownership interest in the Sugarhill Group which, in turn, owns the freehold and operational rights to three hotels in Germany (art'otel berlin kudamm, art'otel cologne and Park Plaza Nuremberg). The Sugarhill Group also owns 50 per cent. of two 50/50 joint ventures which each own one hotel in Germany (art'otel berlin mitte and Park Plaza Berlin Kudamm).

The Group operates four resorts. The buildings in Zlatne Stijene Resort are partially owned by the Company and the land is partially owned by the City of Pula and subject to proceedings pursuant to the provisions of the Tourist Land Act. The accommodation buildings in the resorts Park Plaza Verudela Pula and Verudela Beach Resort are owned by the Company and the surrounding land is partially owned by the City of Pula and subject to proceedings pursuant to the provisions of the Tourist Land Act. See *Section 10.8 "Business Overview—Properties – Types of Interests—Co-ownership and partial ownership subject to the Tourist Land Act" and Section 10.19 "Business Overview—Legal Proceedings and Disputes—Administrative proceedings* and *disputes resulting from the Tourist Land Act"*. The Group owns and operates the fourth resort (Ai Pini Resort).

The Group operates properties in Croatia which are subject to various proceedings pursuant to the Tourist Land Act, namely (i) tourist land concession award proceedings related to land areas in eight campsites and (ii) tourist land concession award proceedings and other proceedings to determine the size and shape of certain land plots/areas underneath and surrounding the buildings, in relation to the relevant land in resorts and hotels in the peninsula Verudela and Zlatne Stijene areas, including in relation to certain paths, parking areas and landscaped areas. See *Section 10.8 "Business Overview—Properties – Types of Interests—Co-ownership and partial ownership subject to the Tourist Land Act"* and *Section 10.19 "Business Overview—Legal Proceedings and Disputes—Administrative proceedings and disputes resulting from the Tourist Land Act"*.

The Group actively pursues a strategy of hotel ownership, which is different from many hotel groups where ownership of hotel assets is separated from hotel operations. One of the benefits of the Group's owner/operator model is to remove the usual conflict associated between the two different interests in the property. Another benefit of this model is that it can be highly profitable as the Group benefits from increased values in real estate and can leverage its assets to fund further expansion. Hotel real estate is an important part of the Group's assets.

This business model is, in relation to hotels and resorts, capital intensive and the funding structure of its owned and co-owned properties using debt and equity has a significant impact on the equity returns of the Group. The Group sometimes uses debt to partly finance its property investment. By doing so, the Group leverages its equity investment and is thereby able to acquire properties using less equity. Leverage magnifies both gains and losses, and therefore the risk of using leverage is that the loss is much greater than it would have been if the investment had not been leveraged. Other risks include that interest expenses and default on debt covenants negatively impact shareholder value and return.

Although the Group often pursues full property ownership, the Company believes that the capital intensity required for full ownership may hinder the Group's growth in other attractive markets. Therefore, the Group has a mixed portfolio approach that provides a spread of risk and reward. The Group has entered into some strategic investments, whereby a non-controlling stake was taken in the real estate, typically together with a long-term operating agreement. In some of these cases the Group's stake is structured via equity interests and debt funding, providing the Group with potential dividends and interest income. One of the main benefits from such arrangements remains the management fees earned by the Group from managing these hotels. Because the Group's return in relation to such arrangements – including the Sugarhill Group's 50/50 joint venture which operates two hotels in Germany (art'otel berlin mitte and Park Plaza Berlin Kudamm) – depends not only on the Group's share of the profits, but also management fees and interest (if debt financing has been provided) that can be earned, the Company believes the performance of such arrangements should be evaluated in that light.

The Group has a proven track record of acquiring and renovating hotels and consequently improving their profitability. One of the Group's strategies is to continue to do so in relation to both its hotels and resorts as well as its campsites. In this regard, the Company believes its campsites are particularly attractive assets because they, as a general matter, require lower capital expenditures to renovate as compared to hotels. Likewise, on an ongoing basis, their operating and maintenance costs are low when compared to resorts or hotels. Consequently, they generate attractive margins for the Group.

<u>Operating Leases</u>

Prior to February 2017 when the Group completed its acquisition of freehold interests in art'otel cologne and art'otel berlin kudamm, the Group operated four of its properties under operating leases. Currently, the Group operates art'otel budapest and Park Plaza Wallstreet Berlin Mitte under operating leases. In the case of art'otel budapest, monthly rental payments based on a percentage of the operating revenues of that hotel subject to a minimum amount which is independent of the operating revenue, while in the case of Park Plaza Wallstreet Berlin Mitte, monthly rental payments are fixed subject to increases linked to inflation.

The Group currently operates the Guest House Riviera without any formal arrangement. This property has been included for the purpose of this section under the operating lease model. See *Section 11.2 "The Group's Properties—Croatia—Hotels and Resorts—Guest House Riviera"*.

While operating leases require a lower capital investment than owning a hotel, there is a risk that the Group will not be able to generate sufficient revenues to cover rental payments and the other operating costs.

<u>Operating Agreements</u>

Following the Operational Restructuring in December 2016, all the hotels in the Group's portfolio are now operated by the Group pursuant to the Operating Agreements. Prior to that time, a member of the PPHE Hotel Group operated the Group's hotels pursuant to the Prior Operating Agreements. Likewise, since the Operational Restructuring, the Group also operates art'otel dresden, which is owned by the PPHE Hotel Group, pursuant to an Operating Agreement.

Under the Operating Agreements, the Group operates the hotels, resorts and campsites. Managing hotels tends to generate a higher return on capital invested than the Company's other business models. In addition, the

Company believes that the management model has great potential to contribute to portfolio growth, without requiring significant additional capital as it already has the management infrastructure in place. Accordingly, the Group is actively seeking opportunities to grow through this type of agreement, which it believes it can achieve with minimal additional operating expenses in relation to each new operating agreement.

15.3 Principal Factors Affecting Results of Operations

The Company believes that the factors discussed below have significantly affected the Group's and the Sugarhill Group's – or will in the future significantly affect the Group's – business, results of operations, cash flows or financial position:

- the Sugarhill Contribution and the Operational Restructuring;
- the acquisition of freehold interests in art'otel cologne and art'otel berlin kudamm;
- impairment charges;
- the conversion and opening of Park Plaza Nuremberg;
- the size and quality of the Group's property portfolio and the nature of its interests in the properties;
- revenue management;
- existing and potential competition and room supply within the Group's markets as well as the impact of new technologies and changes in booking behaviour;
- seasonality of the Group's business and the impact of adverse weather conditions during the high season, particularly in relation to the Group's camp sites and resorts; and
- general economic, political, social and market conditions and major events.

The Sugarhill Contribution and the Operational Restructuring

The Company believes that the Sugarhill Contribution and the Operational Restructuring, which took place in December 2016, will impact the Group's results in several ways going forward.

<u>Acquisition of a controlling equity interest in the Sugarhill Group</u>

As a result of the Sugarhill Contribution, the Group acquired an 88 per cent. equity interest in the Sugarhill Group, which includes the Group's management company, Arena Hospitality, from the PPHE Hotel Group. The consideration paid by the Group for the Sugarhill Group was the Listing Shares. The fair value of the Sugarhill Group's share capital against which the Company issued the Listing Shares was determined by an independent accounting firm retained by the Company. That value was, in turn, verified by a court appointed auditor pursuant to procedures required under the Croatian Companies Act.

The contributed assets and operations of the Sugarhill Group included the operational or management rights of eight Park Plaza and art'otel branded upscale, upper upscale and lifestyle hotels with a total of 1,295 units, including four hotels in Berlin. It also included the acquisition of control of the Group's management company, Arena Hospitality. The Company believes that the Sugarhill Contribution was a transformational transaction for the Group, as it has significantly affected the Group's operational scale and financial condition. See *Section 12.1 "Relationship with the PPHE Hotel Group—Sugarhill Contribution and Operational Restructuring"* for a more detailed description of the Sugarhill Contribution.

Because the Sugarhill Contribution and the Operational Restructuring took place at the end of December 2016, the Sugarhill Group is consolidated in the Group's 31 December 2016 balance sheet. Commencing in 2017, the Group will also fully consolidate the operational results of the Sugarhill Group in its financial statements. On a pro forma basis to give effect solely to the Sugarhill Contribution and the Operational Restructuring, the Group's revenue, EBITDA and loss after tax for the year ended 31 December 2016 would have been HRK 633.7 million, HRK 165.8 million and HRK 105.0 million, respectively. See *Note 2 in Appendix B "Pro Forma Financial Information"*.

Given that the PPHE Hotel Group has retained a 12 per cent. interest in the Sugarhill Group, the Company is currently required under IFRS to report as "Non-controlling interest" the PPHE Hotel Group's share of the results of operations of the Sugarhill Group and the Group's earnings for purposes of calculating earnings per share available for distribution to the Company's shareholders is reduced by an equivalent amount. However, the Company expects to exercise its option to acquire the remaining 12 per cent. interest in the Sugarhill

Group from the PPHE Hotel Group promptly following the Offering. The exercise price of the option is EUR 8.33 million, and one of the intended uses of proceeds from the Offering is to fund the exercise of that option and the associated transaction costs (including real estate transfer tax, where applicable, in Germany), after which the Group would own 100 per cent. of the Sugarhill Group. See *Section 5 "Use of Proceeds; Reasons for the Offering"*. Thereafter, the Group will no longer report a "Non-controlling interest" related to the Sugarhill Group.

On a pro forma basis giving effect to solely to the Sugarhill Contribution, the Group's revenues and EBITDA for the year ended 31 December 2016 would have increased by HRK 202.0 million and HRK 14.0 million, respectively. See Note 2 in *Appendix B "Pro Forma Financial Information"*.

Restructuring of the management and licensing arrangements

Also as part of the Operational Restructuring, the Group now benefits from new operational and licensing, sales and marketing relationships entered into with Arena Hospitality and the PPHE Hotel Group, respectively. More specifically, each of the Group's Prior Operating Agreements was amended, restated and novated (as applicable) in order to create two new separate agreements going forward for each of the Group's hotels. See *Section 12.1 "Relationship with the PPHE Hotel Group"* for a more detailed description of the Operational Restructuring and the related agreements.

Prior to the Operational Restructuring, the PPHE Hotel Group provided management services and certain central services in relation to each of the Group's hotels as well as, where relevant, the right to use the "Park Plaza" brand and the "art'otel brand" in relation to certain of the Group's hotels in exchange for annual fees. Consequently, the fee revenue associated with the provision of those services did not fall within either the Group's consolidated results of operations or the Sugarhill Group's combined results of operations. However, the Group also did not have the costs, including principally employee related costs, associated with providing those services.

Commencing in 2017, the Group will report hotel management revenues derived from the Operating Agreements, and recharged expenses for these hotels, under its 'Management" segment. For the hotels in which the Group has a controlling interest the fees will be eliminated upon consolidation as intra-group revenue. This is a presentation adjustment only and does not affect the EBITDA of its Management segment. This segment also includes the costs of the Group's two management companies (Arena Hospitality and Germany ServiceCo) and certain holding companies. The Company considers this segment crucial to its operations and that its performance should be reviewed taking all revenue (before elimination) into consideration.

The Group typically expects to receive fees in respect of the services it provides in operating the properties under the Operating Agreements comprising: a base fee of 2 per cent. to 4 per cent. of total revenue; an incentive fee of 3 per cent. to 8 per cent. of the adjusted gross operating profit; and other fees and costs. In addition, the Group pays fees under the LSM Agreements to the PPHE Hotel Group. These fees comprise, amongst others, a licence, sales and marketing fee and a reservation fee.

Fees payable under the LSM Agreements will continue to be payable to a member of the PPHE Hotel Group and will continue to be reported as expenses. These fees are based in part on a percentage of total revenues generated by the properties and in part on reservation fees (in respect of the Park Plaza and art'otel hotels). They also include fees associated with use of CRS and various loyalty programs.

While, as a consequence of these changes, the fees and expenses associated with the management, licensing and sales and marketing of the Group's properties will largely, on an aggregate basis, be the same in absolute terms as they were in past periods, however, a significant portion of the fees and expenses will be payable to a member of the Group and therefore will remain within the Group. From 1 January 2017, the Group will report hotel management fees derived from the Operating Agreements as revenues, which will have a positive effect on the Group's EBITDA. The additional revenues, and the related recharged expenses, will be reported under a new "Management" segment. While such revenues in relation to properties in which the Group has a controlling interest will be eliminated upon consolidation, the revenues for the three of the Group's properties where it does not have a controlling interest will appear as additional consolidated revenues.

As part of the Sugarhill Contribution, the Group also acquired Germany ServiceCo which provides offices, employees and certain other support services regionally to Arena Hospitality. The costs of these operations, which were previously borne by the PPHE Hotel Group, will going forward be incurred by the Group and are expected to amount to approximately HRK 7.9 million annually, which will be covered by additional revenue under the related services agreement. See Note 2 in *Appendix B "Pro Forma Financial Information"*.

On a pro forma basis to give effect solely to the amendment to the Operational Restructuring, the Group's EBITDA and net profit for the year ended 31 December 2016 would have increased by HRK 19.7 million and HRK 15.8 million, respectively. See *Note 2 in Appendix B "Pro Forma Financial Information"*.

Exclusive right to operate and develop new Park Plaza branded properties in 18 countries in the CEE Region

As a result of the Sugarhill Contribution, the Group benefits from the Framework Agreement previously entered into between the PPHE Hotel Group and Arena Hospitality as part of the Operational Restructuring. The Framework Agreement grants the Group the exclusive right to operate and develop any new Park Plaza branded property in 18 countries in the CEE Region, including Croatia, Germany and Hungary. The Company expects its exclusive rights to operate and develop Park Plaza branded hotels in the CEE Region to be transformational for the Group, as the rights give the Group the potential to significantly increase, over time, the number of markets in which it operates.

As discussed above, the Company believes that the management business model has great potential to contribute to portfolio growth, without requiring significant capital as it already has the management infrastructure in place. Consequently, the Group's strategy includes plans to expand its operations in the CEE Region using this model. To that end, under the Framework Agreement, the Group has agreed to operate a specified number of new Park Plaza branded outlets in the CEE Region in the coming years.

See *Section 12.1 "Relationship with the PPHE Hotel Group—Sugarhill Contribution and Operational Restructuring"* for a more detailed description of the Operational Restructuring.

Elimination of certain loss carry-forwards associated with the Sugarhill Group

The German subsidiaries of the Sugarhill Group have historically been able to reduce their corporate income tax liability, and therefore income tax expense, by utilising carried forward losses from previous periods. However, under German tax law, such loss carry-forwards are lost upon a transfer of ownership of the business such as the transfer effected by the Sugarhill Contribution. Consequently, going forward, profits from the Group's German subsidiaries will be subject to tax. The cumulative tax rate for trade tax and corporate tax in Germany is currently approximately 30 per cent. However, the effective rate to be paid by the Group remains uncertain and may be impacted by a number of factors.

Acquisition of freehold interests in art'otel cologne and art'otel berlin kudamm

In February 2017, the Group completed its acquisition of freehold interests in art'otel cologne and art'otel berlin kudamm, which the Group operated pursuant to operating leases with third parties. The acquisitions were in part financed by a EUR 10 million loan facility with Versorgungswerk der Zahnärztekammer Berlin (**VZB**), a EUR 38 million loan facility with Deutsche Hypo as lender and two loan facilities provided by Euro Sea totalling up to EUR 11 million.

As a result of the acquisitions, the rental payments associated with the two operating leases formerly payable to third parties will be waived and will be replaced with interest payment expenses arising from the financing facilities which funded the freehold purchases, as well as depreciation associated with the ownership of the hotels. In 2016, the total lease expenses for these two properties amounted to HRK 28.8 million, which was reduced to HRK 19.2 million following certain adjustments negotiated in connection with the acquisition. The financing expense associated with the relevant loans is lower than the rental payments associated with the operating leases formerly payable to third parties and the acquisition also gives the Group the opportunity to realise capital appreciation on the assets. Ownership also allows the Group to more effectively manage the properties resulting in additional financial benefits. The Group expects these changes to have a significant positive impact on its reported EBITDA in relation to those two hotels as it will no longer be making rental payments under the operating leases; however, the Group's reported interest payments and depreciation will increase in relation to those two hotels. Due to depreciation and interest payments associated with the acquisition, the Group expects that in 2017 the acquisition will contribute approximately HRK 3.0 million to the Group's profit.

Impairment charges

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Under IFRS, the Company is required to carry out a fair value review of the carrying value or book value of its operating assets and to impair the value of any asset whose recoverable amount is lower than the carrying value. The independent valuation of the Group for the purposes of the Sugarhill Contribution indicated that an impairment of some of the Group's Croatian operating assets could be required.

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

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

The total amount of the impairment of the Croatian properties whose recoverable amount was below the carrying value amounts to HRK 148.6 million, of which HRK 98.0 million relates to hotel assets, HRK 45.8 million relates to self-catering holiday apartment complexes and HRK 4.7 million relates to other assets. As required by IFRS the impairment charge of HRK 148.6 million appears in the profit and loss account for the year ended 31 December 2016 (see also Notes 3 and 4 of the Group Financial Statements).

The impairment was a necessary adjustment to the carrying value of some of the Company's properties. It is a non-cash item and represents approximately 12 per cent. of the HRK 1,236 million carrying value of the Group's operating assets before impairment. As discussed above the total of the value in use of the Group's Croatian operating assets is not affected by this non-cash item and remains at HRK 1,424 million (as at 31 December 2016).

Renovation and opening of Park Plaza Nuremberg

From 2014 until June 2016, the Group undertook the renovation of a building that is now the 177 room Park Plaza Nuremberg. The existing building was entirely reconfigured, complete mechanical and engineering works were undertaken and a new roof was installed. The hotel had its first paying guests in June 2016. As is typically the case with hotel renovations and reopenings, Park Plaza Nuremberg had a pre-opening period of three to six months during which the Group incurred costs such as salaries and other operating expenses before the hotel opened and generated any revenues. The Company typically expects it to take approximately two to three years before revenues for the new hotel stabilise. Consequently, while the Company expects Park Plaza Nuremberg, for which 2017 is its first full year of operation, to have a positive effect on the Group's EBITDA and profit for the year in 2017, full benefits from operations are expected to be achieved after the stabilisation period.

Size and quality of the Group's property portfolio and the nature of its interests in the properties

The Group's revenues and costs depend to a large extent on the number of properties in its portfolio and the nature of the Group's interest in each. See *Section 15.2* headed "Types of Operations" for a further discussion about the Group's business models and the Group's mixed portfolio approach.

Going forward, the Group's ability to increase its revenues will in part depend on its ability to expand its property portfolio in the CEE Region, in particular by identifying development opportunities and entering into new operating agreements as well as, when the Company deems appropriate, to pursue its strategy of partial or full hotel ownership. For example, as indicated above, the Group recently acquired freehold interests in art'otel cologne and art'otel berlin kudamm as well as the renovation and opening of Park Plaza Nuremberg.

In addition, the Group expects to continue undertaking projects to refurbish, renovate and develop some of its hotels in order to position these into the upscale, upper upscale and, where applicable, lifestyle market classes. For example, the Group has completed refurbishment, renovation and development projects at Park Plaza Arena Pula, Park Plaza Histria Pula, Park Plaza Belvedere Medulin and Park Plaza Verudela Pula. These projects typically improve the physical condition of the hotel and in some cases increase the number of guest rooms. Hotels and resorts in higher market classes tend to have higher margins and the Group's renovated hotels and resorts have experienced higher OCCs, ADRs and EBITDA, yielding attractive overall return on investment. Although, implementation of these projects requires substantial capital investment which will impact the Group's financial performance while they are being executed, the Group expects that these projects will ultimately increase revenues and have a positive impact on the Group's results of operations going forward.

Similarly, the Group expects to undertake projects to improve and expand the facilities and capacity at some of its campsites. A number of the Group's campsites have underutilised land on which the Group expects to add further pitches, in particular, pitches for mobile homes which have very attractive margins and are a major driver of campsite revenues. While less capital intensive than hotel and resort renovation, improving the Group's campsites will require capital investment which will impact the Group's cash balances. However, the Group expects that these projects will ultimately increase revenues and have a positive impact on the Group's results of operations going forward.

Revenue management

The Group's revenues and RevPAR are significantly affected by the revenue management strategies it employs, which take into account demand from various distribution systems including Carlson's central reservations and marketing platform and the Group's own reservation system as well as internet bookings in real time, thereby enabling it to maximise room rates achieved. Strategies used include targeted marketing campaigns, variable pricing policies and distribution channel selection to find the optimum level of occupancy and ADR to maximise revenue and RevPAR. The Group also actively adjusts its pricing to reflect seasonal and other fluctuations in demand. In relation to certain of the Group's German and Hungarian hotels, the Group's results of operations are dependent upon increased demand resulting from festivals, trade fairs and conferences, which can have a material effect on ADR achieved during certain times of the year. Conversely, mispricing of rooms and other services can adversely affect the Group's results of operations in any financial period. The Company believes changes in RevPAR are a good indicator of the performance of the Group's properties as it takes into account both room rates and occupancy levels. Likewise, ADR is another measure used by the Group in this regard.

Existing and potential competition and room supply within the Group's markets as well as the impact of new technologies and changes in booking behaviour

The hospitality industry is highly competitive and competition is usually specific to individual markets. Competition within the hospitality industry affects the Group's revenues as does the supply of rooms in the markets in which the Group operates. Competitive factors in the hospitality industry include brand recognition, quality of service, location of the property and quality of the facilities, pricing, range and quality of food services and amenities offered and conference facilities. New or existing competitors could offer lower rates or more convenient locations, services or amenities, or could significantly increase the supply of rooms and/or improve or introduce new service offerings such as conference facilities in markets in which the Group's properties compete, thereby posing a greater competitive threat than at present. Were this to happen the Group's OCC or ADR could be adversely affected either of which would adversely affect the Group's revenues.

The travel industry has changed considerably in recent years as a result of changes in travel patterns, the emergence of low-cost airlines and OTAs, new technologies and changes in customer booking behaviour and travel expectations. This trend is expected to continue and the travel industry is expected to continue to be impacted by the rise of online travel booking agents and other market forces such as search engines and social media networks. Room rates generated through online bookings are generally higher than those achieved from other segments, however, there is typically a higher associated commission payable to third parties in connection with third party online bookings. The Group results may be negatively impacted by factors such as the dominance of one such third party over another, the loss of control over its inventory and pricing and challenges to keep up with developments in the market.

The Group's Croatian hotels and resorts compete with numerous hotels and resorts located in other resort destinations, not only in Croatia but also other Southern European as well as North African and Middle Eastern countries. The Company believes the Group is well positioned in Pula, however, it faces competition from others in the region, and in particular, from other companies operating campsites on the Istrian peninsula.

Seasonality of the Group's business as well as the impact of adverse weather conditions during the high season, particularly in relation to the Group's campsites and resorts

The Group's business in Croatia is seasonal in nature. The operation of the Group's Croatian properties is almost entirely a summer season business because of its location and focus on leisure guests. The Group's hotels, resorts and campsites in Croatia typically experience operating losses and negative cash flows during the first and fourth quarters of each fiscal year, as a result of the seasonality of these businesses. The Group seeks to reduce the effect of this seasonality on its profits by using temporary staff during peak periods and closing substantially all of these properties during the winter season from October to May, keeping just one hotel open for most of the winter, except for a three week period in January for routine maintenance. In order to broaden its market appeal in its Croatian business, the Group has constructed football pitches and related facilities in an effort to attract professional and semi-professional sports teams interested in using its facilities for training during "shoulder-season" periods, that is months between peak season and low season.

In Germany and Hungary, in the absence of unusual circumstances, visits by business guests (including guests from conferences and trade fairs) are subject to seasonality with demand from this category of guests being highest during the first half of the year. July and August also tend to be relatively strong months for revenue generation in Germany (Berlin in particular) and Hungary as demand from leisure guests is generally strongest during the summer.

In addition, the ability to attract visitors to the Group's Croatian properties, particularly its campsites, is significantly influenced by weather conditions and the number of warm and dry weather days during the summer season. Adverse weather conditions and other significant weather events of even moderate or limited duration occurring during peak periods could adversely affect guest visits which could have an adverse effect on the Group's business.

General economic, political, social and market conditions and major events

Fluctuations in the Group's revenues are also affected by general economic, political, social and market conditions in the countries and cities in which the Group operates or from which the Group draws substantial number of guests. This is particularly true for conference trade which comprises an important part of the Group's revenue in Germany and Hungary. Revenues can also be affected by major events, either adversely (for example by natural disasters or terrorist attacks) or positively (for example by major sporting events where hotels are located or geopolitical events in other markets), which in turn affects levels of business and leisure travel.

During 2016, 43.8 per cent. of the guests in the Group's properties were residents of the DACH Region, with the majority being residents of Germany. To a lesser extent, guests from Slovenia, Croatia and Italy are also important to the Group's Croatian hotels, resorts and campsites. Approximately, 54.5 per cent. of the Group's German hotel guests are from Germany with a significant portion of the remaining guests travelling from the rest of Europe.

15.4 Acquisition and Merger of the Bora Companies

In June 2016, the PPHE Hotel Group, through its subsidiary, entered into an agreement to sell the Bora Companies to the Company for cash consideration of HRK 108.6 million. The Bora Companies owned Sensimar Hotel Medulin and Ai Pini Resort in Medulin and leased Zlatne Stijene Resort in Pula from the Company. They also owned a marketing agency business which was also acquired by the Company as part of the transaction. The acquisition was partially financed by a loan from Zagrebačka banka of HRK 74.9 million (EUR 10.0 million). In October 2016, the Bora Companies were merged into the Company. In 2016, there was a depreciation charge of HRK 12.9 million made against the book value of some of the assets of the Bora Companies when the Bora Companies were merged with the Company in October 2016.

As this acquisition involved the combination of businesses under common control, this is not a business combination within the scope of IFRS 3, and the retrospective predecessor method of accounting has been applied in the Group Financial Statements. Consequently, the results of operations, cash flows, financial position and changes in equity are presented in the Group Financial Statements as if the Bora Companies have been part of the Group since 1 January 2014. Because of the retrospective accounting for this acquisition all the information for 2014 and 2015 have been restated.

15.5 Alternative Performance Measures

The Group presents EBIT, EBITDA and EBITDAR in its consolidated financial statements without adjustment. See *Section 22 "Definitions and Glossary"* for definitions of those measures. Additionally, the Group presents the adjusted profit before tax as an alternative performance measure to enhance the understanding of its operating results. Adjusted profit before tax is not a measure of performance under IFRS and should not be considered by prospective Investors as an alternative to (i) profit before tax; or (ii) any other measure of performance under IFRS. The Company believes that adjusted profit before tax is a meaningful measure of a company's operating performance because it eliminates a number of exceptional items that are not part of the Group's usual operations. Other companies may not calculate similarly named measures on a basis consistent with that used by the Company. Accordingly, prospective Investors should not place undue reliance on any non-IFRS measure contained in this Prospectus, including those presented in the tables below.

The table below provides a reconciliation of actual profit/(loss) before tax to adjusted profit before tax for 2016, 2015 and 2014.

	Year ended 31 December		
	2016	*2015*	*2014*
	HRK (thousands, except shares and adjusted profit per share)		
Actual (loss)/profit before tax	(137,971)	23,732	(10,846)
Adjustments:			
Impairment on property, plant and equipment(1)	148,584	-	-
Cost of restructuring, refinancing and other(2)	6,612	1,297	1,415
Increased depreciation due to merger or renovation(3)	12,913	-	13,223
Fair value movement related party loan(4)	12,611	-	-
Adjusted profit before tax	42,749	25,029	3,792

Source: Extracted without material adjustment from the Group Financial Statements and Group accounting records

Notes:

(1) See *Section 15.3 "—Principal Factors Affecting Results of Operations—Impairment charges"* and Note 3 to the Group Financial Statements.

(2) In 2016, the Company incurred professional fees relating to the restructuring and refinancing of the Group of HRK 6.6 million.

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

(4) In 2016, the Group refinanced shareholder loans from Dvadeset Osam d.o.o. The loans had a maturity date of 2021 and carried an interest rate of 15 per cent. on the original principal amount which resulted in an effective interest rate of 8.9 per cent. Under IFRS, the loans were carried in the balance sheet of the Group at 31 December 2015 at HRK 147.0 million. When the loans were repaid in 2016, the difference between the nominal value and the IFRS carrying value of HRK 12.6 million was recognized as finance expense.

The Group also presents certain line items from the Pro Forma Financial Information on an as adjusted basis. None of these are measures of performance under IFRS and should not be considered by prospective Investors as alternatives to the similarly named line item prepared under IFRS. In 2016, the Group and the Sugarhill Group incurred a number of exceptional costs. Given the size and the nature of these costs, the Company believes that the presentation of adjusted amounts contributes to a better understanding of the Group. Accordingly, prospective Investors should not place undue reliance on any non-IFRS measure contained in this Prospectus, including those presented in the table below.

The table below provides a reconciliation of the Group's loss before tax and pro forma adjusted (loss)/profit before tax.

(HRK thousands)	Year ended 31 December 2016 The Group	Year ended 31 December 2016 The Group Pro forma
(Loss)/profit before tax	(137,971)	(124,958)
Adjustments:		
Impairment charge(1)	148,584	148,584
Additional depreciation(2)	12,913	12,913
Restructuring and refinancing costs(3)	6,612	6,612
Fair value movement related party loan(4)	12,611	12,611
Pre-opening costs (Nuremberg)(5)	–	3,774
Adjusted (Loss)/profit before tax	42,749	56,536

Source: Extracted without material adjustment from the Group Financial Statements and Group accounting records

Notes:

(1) Following the Group's review of the carrying amounts of its non-financial assets, the Group recorded an impairment charge of HRK 148.6 million in 2016. See Note 4 to the Group's Financial Statements.

(2) In 2016, the Group recorded an extra depreciation charge of HRK 12.9 million made against the book value of some of the assets of the Bora Companies when the Bora Companies were merged with the Company in October 2016.

(3) In 2016, the Company incurred professional fees relating to the restructuring and refinancing of the Group of HRK 6.6 million.

(4) In 2016, the Group refinanced shareholder loans from Dvadeset Osam d.o.o. The loans had a maturity date of 2021 and carried an interest rate of 15 per cent. on the original principal amount which resulted in an effective interest rate of 8.9 per cent. The shareholder loans were repaid early using existing cash resources and HRK 147.0 million of loans from Zagrebačka banka d.d. that carries an interest rate of Euribor plus 5.9 per cent. Under IFRS, the loans were carried in the balance sheet of the Group at 31 December 2015 at HRK 147.0 million. When the loans were repaid in 2016, the difference between the fair value of the new borrowing and the IFRS carrying value of the shareholder's loan of HRK 12.6 million was recognized as finance expense.

(5) Park Plaza Nuremberg had its first paying guests in June 2016 and fully opened in September 2016. Prior to opening hotels incur staff and property costs while they recruit and train staff. In the period from 1 January 2016 to the opening date of the Park Plaza Nuremberg the hotel incurred pre-opening costs of HRK 3.8 million.

15.6 Current Trading and Prospects

Between 1 January and 28 February 2017, the Group's revenues were significantly ahead of the corresponding period in 2016 principally due to the consolidation of the Sugarhill Group's operating results for the first time.

In Germany and Hungary revenues were significantly ahead for the period reflecting both the operation of Park Plaza Nuremberg during the period (following its opening in June 2016) and solid performance in the Group's other hotels in Germany and Hungary. The increased revenues in the Group's existing German and Hungarian hotels reflected both higher ADR and OCC on an operating day basis. EBITDA for the Group's German and Hungarian hotels is ahead of last year and in line with management's expectations.

In February 2017, the Group completed its acquisition of freehold interests in art'otel cologne and art'otel berlin kudamm. Until that time, the Group operated those two properties pursuant to operating leases with third parties. The acquisitions were in part financed by a EUR 10 million loan facility with Versorgungswerk der Zahnärztekammer Berlin (VZB), a EUR 38 million loan facility with Deutsche Hypo and two loan facilities provided by Euro Sea totalling up to EUR 11 million.

As was the case in 2016, only one of the Group's Croatian hotels, Park Plaza Belvedere Medulin, was in operation during the two month period and, as has historically been the case, the Group's Croatian business was loss-making during the two month period and is expected to be loss-making for the first quarter of 2017. The Group's Croatian revenues for the two month period were largely flat when compared to the corresponding period in 2016. However, the Company expects a strong summer season, with an increase in total value of reservations for its Croatian properties as at 28 February 2017, compared to the comparable date in 2016.

During the period, the Group has continued work in relation to: (i) refurbishing Hotel Holiday; (ii) installing a third swimming pool and constructing two all-weather football pitches at Park Plaza Belvedere Medulin; and (iii) constructing a new reception building at Stupice Camp. In each case, the work is expected to be completed by the start of the 2017 summer season.

Save for the foregoing, there has been no significant change in the financial or trading position of the Group since 31 December 2016, the date to which the last audited consolidated financial information of the Group was prepared.

15.7 Description of Principal Income Statement Line Items

The following is a brief description of the principal income statement line items of the Group and the Sugarhill Group.

Revenues

Substantially all of the Group's revenue is derived from the operation of its properties. Specifically, the Group's revenue consists of:

- Accommodation revenue – The major drivers of accommodation revenue, including rooms, apartments, mobile homes and pitches, are OCC and ADR.
- Food and beverage revenue – Food and beverage revenue comprises revenue from food and beverage sales (including through full board and half board packages) and other revenues generated from conferences and banqueting. Food and beverage correlates, in part to OCC and room rates, but is also driven by the amount of conference trade and banqueting.
- Management fee revenue – Following the Operational Restructuring, as of 1 January 2017 the Group will report hotel management revenues derived from the Operating Agreements and recharged expenses for these hotels, under its "Management" segment. For the hotels in which the Group has a controlling interest, the fees are eliminated upon consolidation as intra-group revenue.
- Minor operating revenue – Minor operating revenue consists primarily of ancillary revenue such as laundry, telephone, internet, parking, beach chair rental, sports facilities rental, entertainment and other guest services all of which are principally driven by OCC.
- Rent revenue – Rent revenue includes rent paid by the restaurants and shops located at the Group's properties that are operated by third parties.

Operating expenses

- Salaries and related expenses – The largest component of the Group's cost base is salaries and related expenses. These mainly relate to the employees working in the hotels in which the Group has an ownership interest (other than a non-controlling interest) or which it operates under operating leases.
- Franchise fees, reservation fees and commissions – Prior to the Operational Restructuring, franchise fees, reservation fees and commissions include franchise fees, expenses of using the CRS and participation in Carlson's loyalty programmes. Commissions paid to other booking agents including third parties and OTAs are also included.
- Food and beverage – As with food and beverage revenue, the major drivers of food and beverage expenses are OCC and the amount of conference and banqueting trade.
- Insurance and property taxes – Insurance and property taxes include expenses of all insurance policies and expenses of building taxes.
- Utilities – Utilities expenses include electricity, gas and water expenses. Extremes in weather can materially affect these expenses.
- Administration costs – Administration expenses are costs associated with the administration of the Group's business.
- Maintenance – Maintenance expenses comprise expenses incurred to maintain the Group's properties.
- Marketing expenses – Marketing expenses were historically and will continue to be payable to a member of the PPHE Hotel Group. These expenses include licence, sales and marketing fees now payable under the LSM Agreements, which are in part based on a percentage of total revenues generated by the properties and in part based on reservation fees.
- Management fee expense – Prior to the Operational Restructuring, the PPHE Hotel Group provided management services in relation to each of the Group's hotels, resorts and campsites in exchange for annual fees. Historically, these management fees expenses were reported as "Management fee" under

operating expenses. Following the Operational Restructuring, Arena Hospitality will provide these management services. The Group will continue to report hotel management fee expenses and report these expenses under the hotels, resorts and campsites segments. For the properties in which the Group has a controlling interest these expenses will be eliminated upon consolidation as intra-group expenses.

Rental expenses and land concession fees

Rental expenses comprise lease payments under operating leases as well as concession fees in relation to certain of the Group's Croatian properties.

Depreciation, amortisation and impairment

The capitalised costs of leasehold properties are depreciated using the straight-line method over the term of the lease. Hotel buildings are depreciated using the straight-line method over estimated useful lives of 20 to 60 years for buildings and four to 10 years for furniture, fixtures and equipment. Intangible assets are amortised using the straight-line method over their estimated useful life of 20 years.

Financial expenses

Financial expenses include interest on bank overdrafts and loans, interest on loans from related parties, refinancing costs, and net exchange rate differences.

Financial income

Financial income includes interest on cash at banks and deposits, interest on loans to related parties.

Income tax benefit/(expense)

Income tax benefit/(expense) represents the sum of the tax currently payable and deferred tax. The tax payable is based on the taxable profit for the year for the relevant members of the Group.

Share in result of joint ventures

In accordance with IFRS, where the Sugarhill Group has, and going forward the Group will have, a 50 per cent. ownership interest in a company only the Group's share of that company's post tax profits and will be are included in the Group's consolidated income statement.

15.8 Operating and Financial Review of the Group

Because the Sugarhill Contribution involved the combination of businesses under common control, it was not a business combination within the scope of IFRS 3. The retrospective predecessor method of accounting could be applied as of 1 April 2016, the date that Sugarhill Group became part of the group of companies under common control. However, the Company believes that accounting method would have not improved the quality of information provided to investors in the current year and in coming years. For this reason the prospective method has been applied for the acquisition of the Sugarhill Group. Accordingly, the Operating and Financial Review of the Group that follows is based on the Group Financial Statements and reflects the Group's results of operations for the years ended 31 December 2016, 2015 and 2014, which do not include the Sugarhill Group. However, the Group's consolidated statement of financial position as at 31 December 2016 does give effect to the Sugarhill Contribution, as will the Group's financial statements for the periods after 31 December 2016.

Results of Operations – Comparison of years ended 31 December 2016, 2015 and 2014

The following table sets forth the Group's results of operations for the relevant periods and shows each line item as a percentage of revenues.

	Year ended 31 December					
	2016		*2015*		*2014*	
	HRK (thousands)	*As a % of revenues*	*HRK (thousands)*	*As a % of revenues*	*HRK (thousands)*	*As a % of revenues*
Revenues	435,871	N/A	402,759	N/A	354,166	N/A
Operating Expenses	(295,100)	(67.7)	(277,047)	(68.8)	(255,932)	(72.3)
EBITDAR	140,771	32.3	125,712	31.2	98,235	27.7
Rental expenses and land concession fees	(8,748)	(2.0)	(8,771)	(2.2)	(8,903)	2.5
EBITDA	132,023	30.3	116,941	29.0	89,332	25.2
Depreciation, amortisation and impairment	(222,511)	(51.0)	(59,586)	(14.8)	(69,410)	(19.6)
EBIT	(90,488)	(20.8)	57,355	14.2	19,922	5.6
Financial expenses	(41,007)		(32,385)		(29,447)	
Financial income	136		59		95	
Other income and expenses	(6,612)		(1,297)		(1,416)	
(Loss)/profit before tax	(137,971)		23,732		(10,846)	
Income tax benefit/(expense)	23,716		(5,793)		(1,951)	
(Loss)/profit for the year	(114,255)		17,939		(12,797)	

Source: the Group Financial Statements

Revenues

The following table sets out the Group's third party revenues by business segment (excluding inter-segment and intra-group eliminations for ease of presentation) for 2016, 2015 and 2014.

	2016	*2015*	*2014*
		HRK (thousands)	
Hotels	222,294	196,955	158,055
Resorts	93,841	87,578	83,443
Campsites	118,280	116,842	111,229
Central services	1,455	1,384	1,440
Totals[(1)]	435,871	402,759	354,167

Source: the Group Financial Statements

Notes:

(1) Totals include effect of inter-segment and intra – group eliminations. See Note 21 for complete segment information including inter-segment adjustments.

The following table sets out certain of the Group's key performance indicators for 2016, 2015 and 2014.

	2016		*2015*		*2014*	
			(HRK except %)			
	Operating Days	*Calendar Days*	*Operating Days*	*Calendar Days*	*Operating Days*	*Calendar Days*
Hotels						
ADR	713.9	713.9	692.8	692.8	626.6	626.6
OCC	63%	39%	59%	36%	60%	32%
RevPAR	447.1	281.3	405.5	250.7	374.5	201.8
Resorts						
ADR	728.6	728.6	650.8	650.8	605.8	605.8
OCC	50%	27%	54%	29%	57%	29%
RevPAR	362.2	195.7	349.1	185.6	347.5	178.2
Campsites						
ADR	271.7	271.7	264.0	264.0	252.9	252.8
OCC	38%	19%	38%	20%	40%	20%
RevPAR	104.4	50.4	99.5	51.5	100.0	49.8
Group						
ADR	472.4	472.4	445.4	445.4	406.5	406.5
OCC	45%	23%	44%	24%	46%	23%
RevPAR	213.9	110.7	196.8	105.9	186.5	94.7

Source: Group Data

The following table sets out the Group's revenue by type for 2016, 2015 and 2014.

	Year ended 31 December		
	2016	*2015*	*2014*
		HRK (thousands)	
Accommodation	353,583	329,649	290,905
Food and beverage	63,769	54,992	47,214
Minor operating[(1)]	8,448	8,328	7,140
Rent revenue	10,071	9,790	8,908
Totals	435,871	402,759	354,167

Source: the Group Financial Statements

Notes:

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

Unless otherwise indicated, OCC and RevPAR are presented in the following discussions on a calendar day basis.

2016 v. 2015

The Group's revenues increased by HRK 33,112 thousand, or 8.2 per cent., to HRK 435,871 thousand in 2016 from HRK 402,759 thousand in 2015. In 2016, hotels generated 47 per cent. of accommodation revenue, resorts accounted for 21.4 per cent. and campsites accounted for 31.6 per cent. The increase in revenues in 2016 over 2015 was principally due to an increase in revenues from hotels and to a lesser extent an increase in revenues from resorts and campsites.

Hotel RevPAR increased by 12.2 per cent. to HRK 281.3 in 2016 (2015: HRK 250.7) principally reflecting a 3 per cent. increase in average daily rate to HRK 713.9 in 2016 (2015: HRK 692.8). Hotel occupancy increased as well and was 39 per cent. in 2016 (2015: 36 per cent.).

Resort RevPAR increased by 5.4 per cent. to HRK 195.7 in 2016 (2015: HRK 185.6) principally reflecting a 12 per cent. increase in average daily rate to HRK 728.6 in 2016 (2015: HRK 650.8) which was offset by a decline in resort occupancy to 27 per cent. in 2016 (2015: 29 per cent.). The decline in OCC from 2015 to 2016 resulted from lower demand for unrefurbished properties. Lower OCC in 2016 was also a result of the fact that in 2015 some units in the resorts were occupied by employees of the contractor working on the Group's renovation projects in Croatia, resulting in higher resort OCC in 2015 on a calendar year basis than would normally be the case.

The increase in RevPAR for hotels and resorts was primarily the result of an increase in average daily rates which occurred due to increased demand in the wake of geopolitical events in a number of locations which have historically competed with Croatia for tourists and leisure travellers. RevPAR was also positively impacted during the period by improved accessibility to Pula by air as a result of an increase in the availability of flights from a variety of major European cities offered through a number of discount airlines.

The results of the Group's refurbishment, renovation, development and rebranding efforts also positively impacted revenues during the period. The newly renovated and branded Park Plaza Arena Pula and the recently renovated and branded Park Plaza Belvedere Medulin, Park Plaza Verudela and Park Plaza Histria Pula all pushed hotel and resort RevPAR higher. Furthermore, the Group renewed its arrangement with TUI in respect of Sensimar Hotel Medulin, which also had a positive impact on revenue.

Results for the Group's campsites remained relatively stable from 2015 to 2016. Campsite RevPAR decreased by 2.1 per cent. to HRK 50.4 in 2016 (2015: HRK 51.5) despite a 4.9 per cent. increase in average daily rate to HRK 271.7 in 2016 (2015: HRK 264.0). Campsite occupancy also decreased slightly to 19 per cent. in 2016 (2015: 20 per cent.). The increase in ADR primarily resulted from the execution of a plan to improve and differentiate premium pitches from standard pitches in order to charge higher rates for premium pitches. Included within campsite revenues for 2016 are HRK 38.7 million of revenues from mobile homes (2015: HRK 37.4 million).

2015 v. 2014

The Group's revenues increased by HRK 48,592 thousand, or 13.7 per cent., to HRK 402,759 thousand in 2015 from HRK 354,167 thousand in 2014. The increase in revenues was principally due to an increase in revenues from hotels and to a lesser extent an increase in revenues from campsites and followed by an increase in revenues from resorts.

Hotel RevPAR increased by 24.2 per cent. to HRK 250.7 in 2015 (2014: HRK 201.8) principally reflecting a 10.6 per cent. increase in average daily rate to HRK 692.8 in 2015 (2014: HRK 626.6). Hotel occupancy increased and was 36 per cent. in 2015 (2014: 32 per cent.). The increase in RevPAR was primarily a result of the Group's refurbishment, renovation, development and rebranding efforts, in particular, with respect to Park Plaza Belvedere Medulin's first full year following its refurbishment and rebranding.

Resort RevPAR increased by 4.2 per cent. to HRK 185.6 in 2015 (2014: HRK 178.2) principally reflecting a 7.4 per cent. increase in average daily rate to HRK 650.8 in 2015 (2014: HRK 605.8). Resort occupancy remained steady at 29 per cent. in both 2015 and 2014.

Campsite RevPAR rose slightly to HRK 51.5 in 2015 (2014: HRK 49.8) principally reflecting a 4.4 per cent. increase in average rate to HRK 264.0 in 2015 (2014: HRK 252.8). Campsite occupancy remained steady at 20 per cent. in both 2015 and 2014. Although OCC stayed the same on a calendar day basis, on an operating day basis they decreased primarily because there were more operating days in 2015 than in 2014 as a result of an early Easter in 2015. The season was also negatively impacted by poor weather. Included within campsite revenues for 2015 are HRK 37.4 million of revenues from mobile homes (2014: HRK 35.7 million).

Operating expenses

The following table sets out the Group's most significant operating expenses for 2016, 2015 and 2014.

	Year ended 31 December					
	2016		*2015*		*2014*	
	HRK (thousands)	*Percentage of total operating expenses*	*HRK (thousands)*	*Percentage of total operating expenses*	*HRK (thousands)*	*Percentage of total operating expenses*
Salaries and related expenses	125,890	42.7	117,232	42.3	108,603	42.4
Food and beverage	28,333	9.6	24,478	8.8	20,586	8.0
Franchise fees, reservation fees and commissions	22,960	7.8	18,622	6.7	15,513	6.1
Utilities	21,992	7.5	22,894	8.3	23,192	9.1
Management fee	21,404	7.3	19,752	7.1	19,997	7.8
Maintenance	14,367	4.9	14,032	5.1	12,886	5.0
Administrative costs	12,856	4.4	13,447	4.9	12,733	5.0
Insurance and property taxes	11,069	3.8	11,302	4.1	11,587	4.5
Marketing expenses	11,044	3.7	10,682	3.9	9,675	3.8
Laundry, linen and cleaning, supplies, IT expenses and travel and transport	14,769	5.0	13,163	4.8	12,081	4.7
Other expenses	10,416	3.5	11,443	4.1	9,079	3.5
Totals	295,100	100.0	277,047	100.0	255,932	100.0

Source: the Group Financial Statements

2016 v. 2015

The Group's operating expenses increased by HRK 18,053 thousand, or 6.5 per cent., to HRK 295,100 thousand in 2016 from HRK 277,047 thousand in 2015. This increase primarily reflected a 7.4 per cent. increase in salaries and related expenses, a 23.3 per cent. increase in franchise fees, reservation fees and commissions and a 15.7 per cent. increase food and beverage expenses. The increase in salaries and related expenses reflected an increase in base salaries under the collective agreement between the Group and its employee union. The increase in franchise fees, reservation fees and commissions reflects an increase in commissions due to an increase in sales and revenue generated through online channels. The increase in food and beverage expenses were in line with increases in food and beverage revenue. Additionally, the Group experienced an 8.4 per cent. increase in management fees in 2016 reflecting higher revenues and higher gross operating profits which were the basis for the fees payable.

2015 v. 2014

The Group's operating expenses increased by HRK 21,115 thousand, or 8.3 per cent., to HRK 277,047 thousand in 2015 from HRK 255,932 thousand in 2014. This increase primarily reflected a 7.9 per cent. increase in salaries and related expenses, an 18.9 per cent. increase food and beverage expenses, a 20.0 per cent. increase in franchise fees, reservation fees and commissions and a 8.9 per cent. increase in maintenance fees. The increase in salaries and related expenses reflected an increase in base salaries under the collective bargaining agreement between the Group and its employee union. The increase in franchise fees, reservation fees and commissions reflects an increase in commissions due to an increase in sales and revenue generated through online channels. The increase in food and beverage expenses were in line with increases in food and beverage revenue. Additionally, the Group experienced an increase in management fees in 2015 reflecting higher revenues and higher gross operating profits which were the basis for the fees payable.

EBITDAR

Reflecting the factors described above, the Group's EBITDAR increased by HRK 15,059 thousand, or 12.0 per cent., to HRK 140,771 thousand in 2016 from HRK 125,712 thousand in 2015.

Reflecting the factors described above, the Group's EBITDAR increased by HRK 27,477 thousand, or 28.0 per cent., to HRK 125,712 thousand in 2015 from HRK 98,235 thousand in 2014.

EBITDA and EBITDA margin

The following table sets out the Group's EBITDA and EBITDA margin by business segment for 2016, 2015 and 2014.

	Year ended 31 December								
	2016			*2015*			*2014*		
	HRK (thousands)	*EBITDA margin*	*EBITDA as % of revenue*	*HRK (thousands)*	*EBITDA margin*	*EBITDA as % of revenue*	*HRK (thousands)*	*EBITDA margin*	*EBITDA as % of revenue*
Hotels EBITDA	61,500	14.1	27.7	45,270	11.2	23.0	33,392	9.4	21.1
Resorts EBITDA	32,999	7.6	35.2	27,179	6.7	31.0	27,800	7.8	33.3
Campsites EBITDA	49,437	11.3	41.8	46,526	11.6	39.0	50,953	14.4	45.8
Central services EBITDA	(11,913)			(2,034)			(22,813)		
Consolidated EBITDA	132,023	30.3		116,941	29.0		89,332	25.2	

Source: the Group Financial Statements

Reflecting the factors described above, the Group's EBITDA increased by HRK 15,082 thousand, or 12.9 per cent., to HRK 132,023 thousand in 2016 from HRK 116,941 thousand in 2015. EBITDA margin in 2016 was 30.3 per cent. compared to 29.0 per cent. in 2015.

Reflecting the factors described above, the Group's EBITDA increased by HRK 27,609 thousand, or 30.9 per cent., to HRK 116,941 thousand in 2015 from HRK 89,332 thousand in 2014. EBITDA margin in 2015 was 29.0 per cent. compared to 25.2 per cent. in 2014.

Depreciation, amortisation and impairment

The Group's depreciation, amortisation and impairment increased by HRK 162,925 thousand, or 273.4 per cent., to HRK 222,511 thousand in 2016 from HRK 59,586 thousand in 2015. This increase was primarily attributable to an impairment of HRK 148,584 thousand in 2016, following the Group's review of the carrying amounts of its non-financial assets. Additionally, in 2016 the Group recorded a depreciation charge of HRK 12,887 thousand made against the book value of some of the assets of the Bora Companies when the Bora Companies merged with the Company in October 2016.

The Group's depreciation, amortisation and impairment decreased by HRK 9,824 thousand, or 14.2 per cent., to HRK 59,586 thousand in 2015 from HRK 69,410 thousand in 2014. This decrease was primarily attributable to the fact that in 2014 the Group recorded a depreciation charge of HRK 13,200 thousand to write off certain assets that were no longer in use following the renovation of Park Plaza Belvedere Medulin and Park Plaza Arena Pula.

EBIT

Reflecting the factors described above, the Group's EBIT decreased by HRK 147,843 thousand to HRK (90,488) thousand in 2016 from HRK 57,355 thousand in 2015.

Reflecting the factors described above, the Group's EBIT increased by HRK 37,433 thousand, or 187.9 per cent., to HRK 57,355 thousand in 2015 from HRK 19,922 thousand in 2014.

Financial expenses

The Group's financial expenses increased by HRK 8,622 thousand, or 26.6 per cent., to HRK 41,007 thousand in 2016 from HRK 32,385 thousand in 2015. This increase was primarily attributable to a HRK 12,611 thousand fair value movement associated with the repayment of related party loans that reflected the difference between the nominal value and the carrying value of the loans. Overall, interest and other finance expenses on bank loans increased due to the replacement of the shareholder loans with bank loans and the bank loan to finance the acquisition of the Bora Companies.

The Group's financial expenses increased by HRK 2,938 thousand, or 10.0 per cent., to HRK 32,385 thousand in 2015 from HRK 29,447 thousand in 2014. This increase was primarily attributable to increased interest and other related finance expenses on bank loans reflecting a higher total amount of bank loans outstanding.

Other income and expenses

The Group's recorded expenses of HRK 6,612 thousand in 2016 compared to HRK 1,297 thousand in 2015. This increase was primarily attributable to expenses associated with professional advisers fees relating to the Group's restructuring and refinancing.

The Group's other expenses decreased by HRK 119 thousand, or 8.4 per cent., to HRK 1,297 thousand in 2015 from HRK 1,416 thousand in 2014.

(Loss)/profit before tax

Reflecting the factors described above, the Group had a loss before tax of HRK 137,971 thousand in 2016, compared to a profit before taxes of HRK 23,732 thousand in 2015.

Reflecting the factors described above, the Group had a profit before tax of HRK 23,732 thousand in 2015, compared to a loss before tax of HRK 10,846 thousand in 2014.

Income tax benefit/(expense)

The Group's income tax benefit was HRK 23,716 thousand in 2016, compared to an income tax expense of HRK 5,793 thousand in 2015. This income tax benefit in 2016 was principally due to a loss before tax resulting from the recognition of a deferred tax asset owing to a temporary difference in tax base following an impairment charge in the amount of HRK 148,584 thousand in 2016.

The Group's income tax expense was HRK 5,793 thousand in 2015, compared to an income tax expense of HRK 1,951 thousand in 2014. Although the Group made a loss before income tax in 2014, it had an income tax expense in that year primarily as a result of HRK 5,506 thousand of non-deductible expenses relating to payroll costs and provisioning.

The Group's effective tax rate was 17.2 per cent., 24.4 per cent. and 18.0 per cent. in 2014, 2015 and 2016, respectively. The Group was taxed at the standard corporate income tax rate of 20 per cent. in each of 2014, 2015 and 2016. However, commencing 1 January 2017, the corporate income tax rate in Croatia has decreased to 18 per cent.

(Loss)/profit for the year

Reflecting the above factors, the Group had a loss for the year of HRK 114,255 thousand in 2016, compared to a profit for the year of HRK 17,939 thousand in 2015.

Reflecting the above factors, the Group had a profit for the year of HRK 17,939 thousand in 2015, compared to a loss for the year of HRK 12,797 thousand in 2014.

Liquidity and Capital Resources

Liquidity and cash

Historically, the Group's liquidity requirements have arisen from the following:

- operating expenses for the Group's operations;
- investments related to refurbishment and development projects;

- interest expense and scheduled principal payments on outstanding indebtedness; and
- capital expenditures incurred to maintain and improve the Group's properties.

The Group has in the past derived all of its revenues from funds generated by the Company's business. The Group budgets for its capital resources on an annual basis.

The Group's principal sources of liquidity have been operating cash flows and cash raised from existing borrowing facilities.

As at 31 December 2016, the Group's cash and cash equivalents were HRK 130,406 thousand. The Group's cash is typically held in demand and short-term bank deposits.

As at 31 December 2016, the Group had available HRK 15 million in undrawn credit under its revolving credit facility with Zagrebačka banka.

Cash Flows

The following table sets out the Group's cash flows for the periods indicated.

	Year ended 31 December		
	2016	*2015*	*2014*
	HRK (thousands)		
Net cash provided by operating activities	118,119	93,410	82,375
Net cash used in investing activities	(157,942)	(72,124)	(147,032)
Net cash provided by financing activities	22,442	28,219	95,925
(Decrease)/increase in cash and cash equivalents	(17,381)	49,505	31,268
Cash and cash equivalents at end of year	130,406	147,787	98,282

Source: the Group Financial Statements

Net cash provided by operating activities

Net cash provided by operating activities was HRK 118,119 thousand in 2016 and HRK 93,410 thousand in 2015. The increase principally resulted from an increase in the Group's net working capital as a result of the deferral of the payment of management fees in 2016 due to certain bank loan covenants which prohibited such payments and which will now be payable by the Group in 2017, and to a lesser extent an increase in cash provided by the Group's operating activities to HRK 120,451 thousand in 2016 from HRK 113,977 thousand in 2015.

Net cash provided by operating activities was HRK 93,410 thousand in 2015 and HRK 82,375 thousand in 2014. The increase principally reflected an increase in cash provided by the Group's operating activities to HRK 113,977 thousand in 2015 from HRK 86,682 thousand in 2014, which was only partially offset by a net working capital outflow in 2014, principally as a result in movements in trade and other payables.

Net cash used in investing activities

Net cash used in investing activities was HRK 157,942 thousand in 2016 and HRK 72,124 thousand in 2015. Net cash used in investing activities in 2016 primarily related to the acquisition of the Bora Companies, investments in property, plant and equipment relating to the Group's Croatian hotels and resorts and the establishment of debt service reserve accounts associated with three of the Group's facility agreements with Zagrebačka banka. The Group benefited from an increase in its cash position of HRK 37,932 thousand as a result of the consolidation of the Sugarhill Group for the first time as at 31 December 2016. In 2015, net cash used in investing activities related to investments in property, plant and equipment relating to the Group's Croatian hotels and resorts.

Net cash used in investing activities was HRK 72,124 thousand in 2015 and HRK 147,032 thousand in 2014. In both years, net cash used in investing activities principally related to investments in property, plant and equipment relating to the refurbishment, renovation and rebranding of Park Plaza Arena Pula in 2015 and Park Plaza Belvedere Medulin in 2014.

Net cash provided by financing activities

Net cash provided by financing activities was HRK 22,442 thousand in 2016 and HRK 28,219 thousand in 2015. The decrease principally reflected a smaller net increase in the Group's long term bank loans which was offset by the repayment of related party loans.

Net cash provided by financing activities was HRK 28,219 thousand in 2015 and HRK 95,925 thousand in 2014. The decrease principally reflected a decrease in proceeds from long-term loans in 2015, compared to 2014. This reflected increased borrowing related to the refurbishment, renovation and rebranding of Park Plaza Belvedere Medulin in 2014.

Capital resources

As at 31 December 2016, the Group's bank borrowings (including the consolidated bank borrowings of the Sugarhill Group) were HRK 659.1 million. In addition, as at 28 February 2017, the Group had loans from the Euro Sea of EUR 10.6 million to partially fund the acquisition of the freeholds of art'otel cologne and art'otel berlin kudamm.

Bank Borrowings

The following table sets out the composition of the Group's bank borrowings as at 31 December 2016.

Bank/facility	*Outstanding amount (HRK thousands)*	*Currency*	*Interest rate*	*Maturity*
Zagrebačka banka facilities (7 loans)	437,360	EUR	EURIBOR +4.84-5.9%	2023 – 2031
Zagrebačka banka d.d. (IBRD, HBOR)	35,821	EUR	EURIBOR +3.45%	2039
Zagrebačka banka d.d. (EIB, HBOR)	48,771	EUR	Variable 3%	2031
Zagrebačka banka d.d. (HBOR)	16,077	HRK	Variable 5%	2027
HBOR	37,034	EUR	Variable 3%	2032
ADDIKO/HETA Klagenfurt	2,709	EUR	EURIBOR +1.25%	2018
Deutsche Hypo	81,057	EUR	EURIBOR +1.6%	Dec 2017
Total	658,829			
Accrued interest	3,142			
Capitalised transaction costs	(2,861)			
Total	659,110			

Source: the Group Financial Statements

Zagrebačka banka Facilities

As at 31 December 2016, the Company had a total aggregate principal amount of HRK 437.4 million (EUR 57.9 million) outstanding in relation to seven loans from Zagrebačka banka not including the Zagrebačka banka loans described in "Zagrebačka banka HBOR Facilities" below.

The table below summarises the key terms of the Group's seven Zagrebačka banka facilities as at 31 December 2016.

	Bank/Facility	Amount outstanding As at 31 December 2016 HRK	EUR	Original facility amount EUR (in million)	No. of instalments and period	Repayment year First	Final	Interest rate
1	Zagrebačka banka EUR 25m dated 16.6.2011	170,040,404	22,492,117	25	different instalments	2014	2024	3M EURIBOR + 4.90% p.a.
2	Zagrebačka banka EUR 1.7m dated 7.12.2012	8,176,142	1,081,500	1.7	equal quarterly instalments	2013	2022	3M EURIBOR + 5.30% p.a.
3	Zagrebačka banka EUR 5.1m dated 10.12.2013	35,533,375	4,700,182	5.1	64 equal quarterly instalments	2015	2031	3M EURIBOR + 5.91% p.a.
4	Zagrebačka banka EUR 1.625m dated 4.11.2014	11,735,553	1,552,322	1.625	equal quarterly instalments	2016	2027	3M EURIBOR + 4,84% p.a.
5	Zagrebačka banka EUR 15m dated 22.2.2016	106,281,270	14,058,369	15	16 equal six-monthly instalments	2016	2024	6M EURIBOR + 5.90% p.a.
6	Zagrebačka banka EUR 5m dated 22.2.2016	35.427,090	4,686,123	5	16 equal six-monthly instalments	2016	2024	6M EURIBOR + 5.90% p.a.
7	Zagrebačka banka EUR 10m dated 16.6.2016	70.166,376	9,281,267	10	14 equal six-monthly instalments	2016	2023	6M EURIBOR + 5.90% p.a.
	Total	437,360,211	57,851,880					

The Group's seven Zagrebačka banka facilities are secured by various security instruments, including mortgages granted over the properties set out in *Section 10.8 "Business Overview—Properties – Types of Interests—Other real rights"*, as well as by pledges of shares in certain affiliated companies and the shares of the Company and bank account pledges. Claims under Zagrebačka banka facilities are also secured by promissory notes and debenture bonds. In connection with three of Zagrebačka banka facilities, a pledge over the shares of the Company held by Dvadeset Osam d.o.o. was created for the benefit of Zagrebačka banka. Pursuant to the relevant share pledge agreement, Dvadeset Osam d.o.o. remains entitled to exercise its voting rights in respect of the pledged shares. In the event of a default (as defined in the respective finance agreement), Zagrebačka banka has the right to enforce the pledge, sell the relevant shares and satisfy its claims from the proceeds of any such sale.

The loan agreements include customary default and cross default provisions and financing covenants including, among others, minimum working capital requirements, debt to equity ratios, as well as restrictions on ability to incur additional indebtedness, the distribution of profits and the disposal of assets.

Zagrebačka banka – HBOR Facilities

Three of the Company's loan facilities from Zagrebačka banka have been made pursuant to certain programs operated by HBOR. The programs were designed to support the tourism sector in Croatia by providing short term loans for working capital purposes and long term loans for investments in fixed assets. These loans are made by Zagrebačka banka pursuant to back-to-back arrangements with HBOR and, and in the case of two of the loans, with the European Investment Bank (EIB) and the International Bank for Reconstruction and Development (IBRD).

The table below summarises the Group's Zagrebačka banka HBOR facilities.

	Bank/Facility	*Amount outstanding As at 31 December 2016 HRK*	*EUR*	*Original facility amount EUR (in million)*	*No. of instalments and period*	*Repayment year First*	*Final*	*Interest rate*
1	Zagrebačka banka (HBOR) HRK 19m dated 22.1.2013	16,076,923	2,126,577	HRK 19	26 equal semi-annual instalments	2015	2027	5% p.a. variable
2	Zagrebačka banka (IBRD/HBOR) EUR 5m dated 27.3.2014	35,820,761	4,738,196	EUR 5	96 equal consecutive quarterly instalments	2015	2039	6M EURIBOR + 3.45% p.a.
3	Zagrebačka banka (EIB/HBOR) EUR 7m dated 10.12.2013	48,771,344	6,451,236	EUR 7	64 equal quarterly instalments	2015	2031	3% p.a. variable
	Total	100,699,028	13,319,977					

The Zagrebačka banka HBOR facilities are secured by various security instruments, including mortgages granted over the properties set out in *Section 10.8 "Business Overview—Properties – Types of Ownership—Other real rights"*, as well as by assignments of insurance receivables, promissory notes and debenture bonds.

While the Zagrebačka banka HBOR facilities are outstanding, the Company must, inter alia, provide ZABA with prior written notices of any change of control of the Company or in the Company's shareholding structure (in which case the loan may be amended or terminated) and is subject to restrictions on its ability to incur additional indebtedness, to distribute profits and to dispose of assets. The Company has also agreed to maintain an equity to bank loans at or above 50:50.

EUR 4.9 million HBOR Facility

As at 31 December 2016, the Company has a loan facility in an aggregate principal amount of HRK 37.0 million (EUR 4.9 million) with HBOR for the purpose of renovating Park Plaza Arena Pula. This facility currently bears interest at a variable rate of 3 per cent. per annum on the amount of the facility, although HBOR has the right to modify that rate. The loan is repayable in HRK in 26 equal consecutive half-yearly instalments, with the first instalment due on 30 June 2020.

While the loan is outstanding, the Company must, inter alia: (i) use the loan exclusively for renovation of Park Plaza Arena Pula; (ii) retain ownership of Park Plaza Arena Pula and the PPHE Hotel Group must retain management of that hotel; (iii) inform HBOR if ownership of 25 per cent. or more of the Company's shares are transferred (in which case the loan may be amended or terminated); and (iv) adhere to certain restrictions on its ability to pay dividends, make distributions or enter into loan agreements with its shareholders, including by obtaining the lender's prior consent. Because the loan is based on HBOR's "Tourism" program and a loan agreement executed between HBOR and EIB (Mid Cap loan) in 2012, the Company also has agreed that it will not engage in certain designated prohibited activities, including gambling activities. Claims under the HBOR facility are secured by various security instruments, including promissory notes, debenture bonds and mortgages granted over the properties set out in *Section 10.8 "Business Overview—Properties – Types of Interests—Other real rights"*.

Zagrebačka banka revolving short term HRK 15 million facility

A short term secured revolving HRK 15 million facility agreement between the Company and Zagrebačka banka was most recently renewed in December 2016. The purpose of this loan is to finance the Group's working capital requirement. As of the date of this Prospectus, the Company does not have any funds drawn under this facility. Claims under this facility are secured by various security instruments, including promissory notes, debenture bonds and mortgages granted over the properties set out in *Section 10.8 "Business Overview—Properties – Types of Interests—Other real rights"*.

EUR 10.7 million Deutsche Hypo Facility

As at 31 December 2016, the Group, through its indirect subsidiary Park Plaza Nürnberg GmbH, has an outstanding loan facility with Deutsche Hypo in an aggregate principal amount of EUR 10.7 million (the EUR equivalent to HRK 81.1 million) to fund the construction of Park Plaza Nuremberg. The facility is repayable on 31 December 2017. The facility is denominated in Euros and bears interest at a rate of 3 month EURIBOR plus 1.1 per cent. per annum.

The security package in relation to the facility includes a charge over the real property of Park Plaza Nuremberg and a letter of comfort issued by PPHE Hotel Group.

The facility includes a variety of customary financial and other covenants including that any transaction which would result in a change of control over Park Plaza Nürnberg GmbH requires the prior written consent of Deutsche Hypo.

EUR 12.5 million Deutsche Hypo Facility

As at 31 December 2016, the Group, through its 50 per cent. owned subsidiaries ABM Hotel Holding B. V. and PPBK Hotel Holding B.V. has an outstanding loan facility with Deutsche Hypo in an aggregate principal amount of EUR 12.5 million. The term of the facility is 10 years and the funds from the facility were used for the acquisition and refurbishment of Park Plaza Berlin Kudamm Hotel and art'otel berlin-mitte. The facility is repayable in quarterly instalments which began on 31 July 2013 with a final payment of EUR 8.1 million due on 28 April 2023. The facility is denominated in Euros and bears interest at a rate of 3 month EURIBOR plus 2.03 per cent. per annum. ABM Hotel Holding B.V. and PPBK Hotel Holding B.V. have both entered into an interest rate swap which has had the effect of fixing the interest rate at 3.93 per cent. per annum for the term of the facility.

The security package in relation to the facility includes a charge over the real properties of Park Plaza Berlin Kudamm Hotel and art'otel berlin-mitte and a letter of comfort issued by the PPHE Hotel Group.

EUR 38 million Deutsche Hypo Facility

As at the date of this Prospectus, the Group, through its subsidiaries ACO Hotel Holding B.V. and ABK Hotel Holding B.V., has an outstanding loan facility with Deutsche Hypo in an aggregate principal amount of EUR 38 million. The facility is denominated in Euros and bears interest at a rate of 2.139 per cent. per annum. The term of the facility is 10 years and funds from the facility were used to partially fund the acquisition of the freehold of the properties operated as art'otel cologne and art'otel berlin kudamm. The facility is repayable in monthly instalments which began in March 2017 with a final payment of EUR 25.6 million due on 31 December 2026.

The security package in relation to the facility includes a charge over the real property of art'otel berlin kudamm and a guarantee issued by the PPHE Hotel Group up to the lower of EUR 19 million or 50 per cent. of the outstanding debt under the loan.

EUR 10 million Versorgungswerk der Zahnärztekammer Facility

As at 31 December 2016, the Group, through its subsidiary Germany Real Estate B.V., has an outstanding loan facility with Versorgungswerk der Zahnärztekammer (Pension Fund of the Dentists' Association of Berlin) in an aggregate principal amount of EUR 10 million. The facility was entered into on 21 December 2016 and the funds were made available in 2017. The funds from the facility were used to partially fund the acquisition of the freehold of the properties operated as art'otel cologne and art'otel berlin kudamm. The facility is repayable in one lump sum 60 months after drawdown. Accrued interest is payable quarterly beginning in April 2017. The facility is denominated in Euros and bears interest at a rate of 6.5 per cent. per annum.

The security package in relation to the facility includes a guarantee issued by the PPHE Hotel Group and the covenants include customary change of control provisions.

Related Party Loans

Euro Sea Loans

In December 2016 and January 2017, the Group entered into loan facilities with Euro Sea for a total of up to EUR 11 million to fund, in part, the acquisition of the freeholds of art'otel cologne and art'otel berlin kudamm. The loans bear interest at a rate of 6.5 per cent. per annum and are repayable, in relation to the loan facility of up to EUR 10 million, on the earlier of the maturity date (being eight years from 25 January 2017 or such other date as agreed between the Company and Euro Sea) and the date falling 14 days following the receipt by the Company of sufficient proceeds from the Offering and, in relation to the loan facility of EUR 1 million, on the maturity date which is eight years from 6 December 2016.

Dvadeset Osam d.o.o Loans

In April 2016, the Group repaid early its loans from Dvadeset Osam d.o.o., a member of the PPHE Hotel Group, which were outstanding in both 2014 and 2015. The interest rate on the original principal amount was 15 per cent. per annum, which resulted in an effective interest rate of 8.85 per cent. per annum. These loans were repaid in part by way of replacement thereof with two new bank loans from Zagrebačka banka amounting in total to HRK 149.8 million (EUR 20.0 million), which are discussed above. The remaining outstanding balances were paid from the Group's cash balances.

Restrictions on the Use of Capital Resources

There are no restrictions on the use of the Group's capital resources that have materially affected, or could materially affect, directly or indirectly, the Group's operations, other than the following.

The Group and members of the Group are subject to covenants, including those restricting the payment of dividends without the prior consent of the lenders, contained in the loan facilities described above in this *Section 15.8 "Operating and Financial Review of the Group—Liquidity and Capital Resources"*.

In addition, under facility agreements with Zagrebačka banka, the Company is required to maintain a funded debt service reserve account (the DSRA). As at 31 December 2016, the amount of HRK 41.7 million was held in the DSRA and presented as restricted cash in the Group Financial Statements.

In addition, members of the Group have provided rent deposits to the landlords of certain hotels in Germany (art'otel cologne, art'otel berlin kudamm and Park Plaza Berlin Wall Street). As at 31 December 2016, the amount of these deposits was HRK 9.6 million. Of this amount, the rent deposits provided to the landlords of art'otel cologne and art'otel berlin kudamm (amounting to HRK 6.4 million in total) are expected to be released following the completion the acquisition of the freeholds related to those hotels.

Contractual Obligations and Commitments

The Group's contractual obligations and commitments as at 31 December 2016 (including the consolidated contractual obligations and commitments of the Sugarhill Group) consist primarily of bank borrowings, as described above, as well as the Group's obligations under its operating leases, details of which are set out below:

Contractual obligations:[(1)]	*Within one year*	*Two years*	*Three years*	*Four years*	*Five years*	*Thereafter*
			HRK (thousands)			
Bank borrowing	135,430	58,155	57,624	60,472	60,472	286,676
Operating leases	43,515	43,515	43,515	43,515	42,918	228,257
Total contractual cash obligations	178,945	101,670	101,139	103,987	103,987	514,933

Source: Group Financial Statements and Group Data

Notes:

(1) Operating lease amounts presented for years two, three, four and five reflect the annual amounts due that were presented in the aggregate in Note 11(e) to the Group's Financial Statements. All other information is extracted from the Group Financial Statements.

The Group's EUR 10.7 million Deutsche Hypo facility in relation to Park Plaza Nuremberg matures on 31 December 2017. The Group does not anticipate difficulties in refinancing the facility by that date.

Capital Expenditures

The Group's capital expenditures were HRK 146.4 million, HRK 72.4 million and HRK 38.0 million in 2014, 2015 and 2016, respectively. In 2016, the principal capital expenditures of the Group were spent primarily on refurbishment of the garden suites in Park Plaza Arena Pula. In 2015 and 2014, the principal capital expenditures were on the refurbishment, renovation and rebranding of Park Plaza Arena Pula and Park Plaza Belvedere Medulin, respectively.

The Board of Directors has budgeted EUR 5.0 million for capital expenditures in 2017, EUR 3.0 million of which will be used to for the construction of two new all-weather football pitches, a new swimming pool at Park Plaza Belvedere Medulin and a light refurbishment of Hotel Holiday.

The refurbishment plans for Kažela Camp, Ai Pini Resort and Hotel Brioni at a total cost of HRK 382 million are expected to commence in the fourth quarter of 2017 or the first quarter of 2018 and orders are expected to be placed for 200 mobile homes at a cost of HRK 37 million for delivery in 2018.

The Group typically spends approximately 3 per cent. to 4 per cent. of revenue per year on routine maintenance, repairs and refurbishments to property, plant and equipment.

The Group's capital expenditure plans are subject to various factors, including the availability of financing on acceptable terms and the completion of the Offering.

15.9 Operating and Financial Review of the Sugarhill Group

Results of Operations – Comparison of years ended 31 December 2016, 2015 and 2014

The following table sets forth the Sugarhill Group's results of operations for the relevant periods and shows each line item as a percentage of revenues.

	Year ended 31 December					
	2016		*2015*		*2014*	
	HRK (thousands)	*Percentage of revenues*	*HRK (thousands)*	*Percentage of revenues*	*HRK (thousands)*	*Percentage of revenues*
Revenues	202,005	N/A	187,186	N/A	175,148	N/A
Operating Expenses	(144,805)	(71.7)	(132,132)	(70.6)	(121,147)	(69.2)
EBITDAR	57,200	28.3	55,054	29.4	54,001	30.8
Rental expenses	(43,199)	(21.4)	(53,840)	(28.8)	(46,277)	(26.4)
EBITDA	14,001	6.9	1,214	0.6	7,724	4.4
Depreciation	(3,656)	(1.8)	(1,893)	(1.0)	(2,323)	(1.3)
EBIT	10,345	5.1	(679)	(0.4)	5,401	3.1
Financial expenses	(7,038)	(3.5)	(5,874)	(3.1)	(5,585)	(3.2)
Financial income	826	0.4	910	0.5	977	0.6
Other income	(3,774)	(1.9)	–	–	13,570	7.7
Share in result of joint ventures	(650)	(0.3)	1,605	0.9	1,899	1.1
Profit/(Loss) before tax	(291)	(0.1)	(4,038)	(2.2)	16,262	9.3
Profit tax (benefit) change	(6,248)	(3.1)	5,579	3.0	(160)	(0.1)
Profit/(Loss) for the year	(6,539)	(3.2)	1,540	0.8	16,102	9.2

Source: the Sugarhill Financial Statements

Revenues

The following table sets out the Sugarhill Group's third party revenues by geographic market (country) for 2016, 2015 and 2014.

	Year ended 31 December		
	2016	*2015*	*2014*
	HRK (thousands)		
Germany	152,872	139,610	129,999
Hungary	36,175	34,097	30,930
Management and central services	19,200	19,041	19,890
Elimination	(6,250)	(5,562)	(5,671)
Consolidated	202,005	187,186	175,148

Source: the Sugarhill Financial Statements

The following table sets out certain of the Sugarhill Group's key performance indicators for 2016, 2015 and 2014 on a 365-day basis.

	2016	*2015*	*2014*
	(HRK except %)		
Germany			
ADR	726.6	659.5	597.6
OCC	70.1%	82.6%	83.6%
RevPAR	509.7	544.4	499.7
Hungary			
ADR	564.9	545.3	478.5
OCC	80.8%	79.3%	79.6%
RevPAR	456.5	432.7	381.1
Sugarhill Group			
ADR	689.4	633.4	570.6
OCC	72.3%	81.8%	82.7%
RevPAR	498.7	518.2	471.8

Source: Group Data

2016 v. 2015

The Sugarhill Group's revenues increased by HRK 14,819 thousand, or 7.9 per cent., to HRK 202,005 thousand in 2016 from HRK 187,186 thousand in 2015. This increase in revenues in 2016 over 2015 was principally due to additional revenue generated by the addition of Park Plaza Nuremburg to the Sugarhill Group's portfolio which was partially offset by a decrease in revenues at the other hotels due to a decline in OCC.

RevPAR for the Sugarhill Group's hotels decreased by 3.7 per cent. to HRK 498.7 in 2016 (2015: HRK 518.2) principally reflecting a decrease in OCC. Hotel OCC decreased and was 72.3 per cent. in 2016 (2015: 81.8 per cent.). The overall decrease in OCC resulted from fewer available units due to properties under renovation and the renewal of brand standards in certain properties in the portfolio. Additionally, art'otel cologne experienced lower OCC primarily as a result of fewer festivals, conferences and trade fairs in 2016 than in 2015. art'otel budapest continued to perform well during the year, significantly outperforming its competitors in all key metrics, including OCC, ADR and RevPAR.

2015 v. 2014

The Sugarhill Group's revenues increased by HRK 12,038 thousand, or 6.9 per cent., to HRK 187,186 thousand in 2015 from HRK 175,148 thousand in 2014. This increase was primarily attributable to an increase in revenue at each of the six hotels operated by the Sugarhill Group during the period which was driven by an 11 per cent. increase in ADR due to strong performance associated with festivals, conferences and trade fairs, particularly at art'otel cologne.

RevPAR for the Sugarhill Group's hotels increased by 9.8 per cent. to HRK 518.2 in 2015 (2014: HRK 471.8) principally reflecting an 11 per cent. increase in the average daily rate to HRK 633.4 in 2015 (2014: HRK 570.6). Hotel occupancy decreased and was 81.8 per cent. in 2015 (2014: 82.7 per cent.). This marginal decrease in hotel occupancy was primarily the result of fewer leisure bookings resulting from high average daily rates during festivals, conferences and trade fairs. RevPAR also increased as a result of increased demand at art'otel cologne and art'otel budapest. Budapest in particular, has proven to be a strong and growing market and art'otel budapest outperformed its competitors during the period.

Operating expenses

The following table sets out the Sugarhill Group's most significant operating expenses for 2016, 2015 and 2014.

	Year ended 31 December					
	2016		*2015*		*2014*	
	HRK (thousands)	*Percentage of total operating expenses*	*HRK (thousands)*	*Percentage of total operating expenses*	*HRK (thousands)*	*Percentage of total operating expenses*
Salaries and related expenses	62,127	42.9	56,428	42.7	54,543	45.0
Other expenses	14,370	9.9	14,207	10.8	14,180	11.7
Franchise fees, reservation fees and commissions	13,128	9.1	10,811	8.2	9,571	7.9
Management fees	11,343	7.8	10,421	7.9	9,158	7.6
Laundry, linen and cleaning, IT expenses, supplies and travel and transport expenses	11,070	7.6	9,994	7.6	9,847	8.1
Food and beverage	9,846	6.8	9,246	7.0	9,273	7.7
Utilities	9,711	6.7	8,438	6.4	8,173	6.7
Maintenance	4,152	2.9	4,469	3.4	6,160	5.1
Marketing expenses	4,128	2.9	4,024	3.0	3,222	2.7
Administration costs	3,402	2.3	2,749	2.1	3,740	3.1
Insurance and property taxes	1,528	1.1	1,345	1.0	1,872	1.5
Release of provision for City tax	–	–	–	–	(8,592)	(7.1)
Totals	144,805	100.0	132,132	100.0	121,147	100.0

Source: the Sugarhill Financial Statements

The Sugarhill Group's operating expenses increased by HRK 12,673 thousand, or 9.6 per cent., to HRK 144,805 thousand in 2016 from HRK 132,132 thousand in 2015. This increase primarily reflected a 10.1 per cent. increase in salaries and related expenses and a 21.4 per cent. increase in franchise fees, reservation fees and commissions. The increase in salaries and related expenses primarily reflected the opening of Park Plaza Nuremberg. The increase in franchise fees, reservation fees and commissions resulted primarily from an increase in commissions payable due to the increased number of bookings being made through online sales channels. Commissions were also impacted by the opening of Park Plaza Nuremberg as a significant number of bookings for that hotel are made through online channels.

The Sugarhill Group's operating expenses increased by HRK 10,985 thousand, or 9.1 per cent., to HRK 132,132 thousand in 2015 from HRK 121,147 thousand in 2014. This increase primarily reflected a 3.5 per cent. increase in salaries and related expenses and the fact that there was a HRK 1,386 thousand increase in commissions related to an increase in online bookings, which was offset by a HRK 8,592 thousand release of provision for City tax in 2014.

EBITDAR

Reflecting the factors described above, the Sugarhill Group's EBITDAR increased by HRK 2,146 thousand, or 3.9 per cent., to HRK 57,200 thousand in 2016 from HRK 55,054 thousand in 2015. This increase was primarily attributable to the opening of Park Plaza Nuremberg which contributed an additional HRK 3,312 thousand. EBITDAR margin in 2016 was 28.3 per cent. compared to 29.4 per cent. in 2015.

Reflecting the factors described above, the Sugarhill Group's EBITDAR increased by HRK 1,053 thousand, or 1.9 per cent., to HRK 55,054 thousand in 2015 from HRK 54,001 thousand in 2014. This increase was primarily attributable to increased revenues. EBITDAR margin in 2015 was 29.4 per cent. compared to 30.8 per cent. in 2014.

Rental expenses

The Sugarhill Group's rental expenses decreased by HRK 10,641 thousand, or 19.8 per cent., to HRK 43,199 thousand in 2016 from HRK 53,840 thousand in 2015. This decrease was primarily attributable to the release of variable rent associated with art'otel cologne in the amount of HRK 9,638 thousand.

The Sugarhill Group's rental expenses increased by HRK 7,563 thousand, or 16.3 per cent., to HRK 53,840 thousand in 2015 from HRK 46,277 thousand in 2014. This increase was primarily attributable to the accrual of variable rent associated with art'otel cologne.

EBITDA

The following table sets out the Sugarhill Group's segment EBITDA and EBITDA margin by country for 2016, 2015 and 2014.

	Year ended 31 December					
	2016		*2015*		*2014*	
	HRK (thousands)	*EBITDA margin (%)*	*HRK (thousands)*	*EBITDA margin (%)*	*HRK (thousands)*	*EBITDA margin (%)*
Germany	10,313	6.8	(1,368)	(1.0)	3,856	3.0
Hungary	4,192	11.6	2,929	8.6	4,244	13.7
Management and central services	(504)		(347)		(376)	
Elimination	–		–		–	
Consolidated EBITDA	14,001	6.9	1,214	0.6	7,724	4.4

Source: the Sugarhill Financial Statements

Reflecting the factors described above, the Sugarhill Group's EBITDA increased by HRK 12,787 thousand, or 1,053.3 per cent., to HRK 14,001 thousand in 2016 from HRK 1,214 thousand in 2015. This increase was primarily attributable to the first time EBITDA contribution of Park Plaza Nuremberg amounting to HRK 7,286 thousand and due to the release of variable rent associated with art'otel cologne. EBITDA margin in 2016 was 6.9 per cent. compared to 0.6 per cent. in 2015.

Reflecting the factors described above, the Sugarhill Group's EBITDA decreased by HRK 6,510 thousand, or 84.3 per cent., to HRK 1,214 thousand in 2015 from HRK 7,724 thousand in 2014. This decrease was primarily attributable to the recognition of variable rent associated with art'otel cologne. EBITDA margin in 2015 was 0.6 per cent. compared to 4.4 per cent. in 2014.

Depreciation

The Sugarhill Group's depreciation increased by HRK 1,763 thousand, or 93.1 per cent., to HRK 3,656 thousand in 2016 from HRK 1,893 thousand in 2015. This increase was primarily attributable to the depreciation charge in respect of Park Plaza Nuremberg, which had its first paying guests in June 2016.

The Sugarhill Group's depreciation decreased by HRK 430 thousand, or 18.5 per cent., to HRK 1,893 thousand in 2015 from HRK 2,323 thousand in 2014. This decrease was primarily attributable to the write-off of small equipment inventories at art'otel cologne in 2014.

EBIT

Reflecting the factors described above, the Sugarhill Group's EBIT increased by HRK 11,024 thousand, or 1,623.6 per cent., to HRK 10.345 thousand in 2016 from HRK (679) thousand in 2015.

Reflecting the factors described above, the Sugarhill Group's EBIT decreased by HRK 6,080 thousand, or 112.6 per cent., to HRK (679) thousand in 2015 from HRK 5,401 thousand in 2014.

Financial expenses

The Sugarhill Group's financial expenses increased by HRK 1,164 thousand, or 19.8 per cent., to HRK 7,038 thousand in 2016 from HRK 5,874 thousand in 2015. This increase was primarily attributable to an increase in interest expenses associated with the financing of the conversion, refurbishment and opening of Park Plaza Nuremberg. The increase was partially offset by a decrease in net foreign exchange differences.

The Sugarhill Group's financial expenses increased by HRK 289 thousand, or 5.2 per cent., to HRK 5,874 thousand in 2015 from HRK 5,585 thousand in 2014. This increase was primarily attributable to an increase in interest expenses associated with the initial financing of certain activities associated with the commencement of the conversion, refurbishment and opening of Park Plaza Nuremberg. The increase was partially offset by a decrease in net foreign exchange differences.

Financial income

See *"Share of results of joint ventures"* below.

Other income and expenses

The Sugarhill Group reported other expenses of HRK 3,774 thousand in 2016 compared to nil in 2015. The expenses in 2016 were attributable to pre-opening costs associated with Park Plaza Nuremberg.

The Sugarhill Group's other expenses were nil in 2015 compared HRK 13,570 thousand in 2014. The other expenses in 2014 were attributable to a capital gain associated with the sale by the Sugarhill Group of its 50 per cent. interest in subsidiary that owned art'otel berlin mitte and Park Plaza Berlin Kudamm in connection with the establishment of its 50/50 joint venture.

Share in result of joint ventures

The Sugarhill Group's share of the post-tax profits/(losses) was a HRK 650 thousand post-tax loss in 2016 in relation to its 50 per cent. interest in its 50/50 joint venture, compared to a post-tax profit of HRK 1,605 thousand in 2015 and a post-tax profit of HRK 1,899 in 2014. The result for 2016 included the impact of the renovation of art'otel berlin mitte. The results for 2015 included the impact of the renovation of art'otel berlin mitte and Park Plaza Berlin Kudamm.

The Company believes that the Sugarhill Group's share of the post-tax profits of the joint ventures does not fully reflect the value of the joint ventures to the Sugarhill Group, which includes interest earned on shareholder loans to the joint ventures and management fees paid by the hotels owned by the joint ventures.

Profit/(Loss) before tax

Reflecting the factors described above, the Sugarhill Group had a loss before taxes of HRK 291 thousand in 2016, compared to a loss before taxes of HRK 4,038 thousand in 2015.

Reflecting the factors described above, the Sugarhill Group had a loss before taxes of 4,038 thousand in 2015, compared to a profit of HRK 16,262 thousand in 2014.

Income tax (benefit) charge

The Sugarhill Group's income tax expense was HRK 6,248 thousand in 2016, compared to an income tax benefit of HRK 5,579 thousand in 2015. This income tax expense in 2016 was primarily attributable to the release of deferred tax assets associated with art'otel cologne.

The Sugarhill Group's income tax benefit was HRK 5,579 thousand in 2015, compared to an income tax charge of HRK 160 thousand in 2014. This income tax charge was primarily attributable to the recognition of deferred tax losses incurred in relation to art'otel cologne.

The Sugarhill Group was subject to a cumulative tax rate for trade tax and corporate tax of approximately 30 per cent. in Germany, in each of 2014, 2015 and 2016. The Sugarhill Group was subject to the standard corporate income tax rate of 18 per cent. in Hungary and 25 per cent. in the Netherlands, in each of 2014, 2015 and 2016.

Profit/(Loss) for the year

Reflecting the above factors, the Sugarhill Group's loss for the year was HRK 6,539 thousand in 2016, compared to a profit for the year of HRK 1,540 thousand in 2015.

Reflecting the above factors, the Sugarhill Group's profit for the year was HRK 1,540 thousand in 2015, compared to a profit for the year of HRK 16,102 thousand in 2014.

Liquidity and Capital Resources

Liquidity and cash

Historically, the Sugarhill Group's liquidity requirements have arisen from the following:

- operating expenses for the its operations;
- investments related to refurbishment and development projects;
- interest expense and scheduled principal payments on outstanding indebtedness; and
- capital expenditures incurred to maintain and improve its properties.

The Sugarhill Group's principal sources of liquidity have been operating cash flows and cash raised from existing borrowing facilities.

As at 31 December 2016, the Sugarhill Group's cash and cash equivalents were HRK 37,932 million. The Sugarhill Group's cash is typically held in demand and short-term bank deposits.

Cash Flows

The following table sets out the Sugarhill Group's cash flows for the periods indicated.

	Year ended 31 December		
	2016	*2015*	*2014*
	HRK (thousands)		
Net cash provided by operating activities	3,104	(1,883)	1,933
Net cash used in investing activities	(71,250)	(56,828)	(52,012)
Net cash provided by financing activities	89,685	50,969	37,006
Increase in cash and cash equivalents	21,539	(7,742)	(13,073)
Cash and cash equivalents at end of year	37,932	16,483	24,280

Source: the Sugarhill Financial Statements

Net cash provided by (used in) operating activities

Net cash provided by operating activities was HRK 3,104 thousand in 2016 and net cash used in operating activities was HRK 1,883 thousand in 2015. The improvement principally reflected HRK 10,019 thousand of cash provided by the Sugarhill Group's operating activities, primarily as a result of the opening of Park Plaza Nuremberg, compared to HRK 1,653 thousand in 2015, and to a lesser extent net working capital inflows, principally as a result of an increase in trade and other payables.

Net cash used in operating activities was HRK 1,883 thousand in 2015 and net cash provided by operating activities was HRK 1,933 thousand in 2014. The improvement principally reflected HRK 1,653 thousand of cash used in the Sugarhill Group's operating activities in 2015 compared to HRK 8,147 thousand of cash used in the Sugarhill Group's operating activities in 2014 and to a lesser extent a decrease in the net working capital outflow in 2015, principally reflecting movements in the levels of trade and other payables and trade and other receivables.

Net cash used in investing activities

Net cash used in investing activities was HRK 71,250 thousand in 2016 and HRK 56,828 thousand in 2015. Net cash used in investing activities in 2016 primarily related to investments in construction costs and plant and equipment relating to Park Plaza Nuremberg as well as the cost of replacing certain equipment in other of the properties in the portfolio.

In 2015, net cash used in investing activities related to construction costs and plant and equipment relating to Park Plaza Nuremberg and to a net change in cash upon the divestment of art'otel berlin mitte and Park Plaza Berlin Kudamm into 50/50 joint ventures with a third party.

Net cash provided by financing activities

Net cash provided by financing activities was HRK 89,685 thousand in 2016 and HRK 50,969 thousand in 2015. The increase principally reflected an increase in proceeds from loans from related parties associated with the development of Park Plaza Nuremberg, which was only partially offset by a decrease in proceeds from loans from third parties.

Net cash provided by financing activities was HRK 50,969 thousand in 2015 and HRK 37,006 thousand in 2014. The increase principally reflected an increase in proceeds from third parties.

Capital Expenditures

The Sugarhill Group's capital expenditures were HRK 23,946 thousand, HRK 55,886 thousand and HRK 70,425 thousand in 2014, 2015 and 2016, respectively.

The majority of the Sugarhill Group's capital expenditures during the period under review went towards the construction of Park Plaza Nuremberg and the refurbishment of other hotels. Additional capital expenditures went towards the repair and replacement of property, plant and equipment in other of the properties in the portfolio.

15.10 Qualitative and Quantitative Disclosures About Market Risk

The Group's principal market risks primarily relate to foreign currency exchange rates, interest rates, credit risk and liquidity risks.

Foreign Currency Exchange Rate Risk

The Group's revenues are mainly realised in Euros while operating costs are mainly incurred in Kuna; therefore, the Group is exposed to risks associated with exchange rate fluctuations. The risk is that the value of the financial assets and liabilities and the related cash inflows and outflows in foreign currencies will fluctuate due to changes in foreign currency exchange rates. The Group does not hedge against this risk.

Interest Rate Risk

The Group's exposure to the risk for changes in market interest rates relates primarily to the Group's long-term debt obligations with a floating interest rate. The Group has nine variable interest rate loans that are not hedged with interest rate swaps.

Credit Risk

The Group's credit risk arises from trade receivables and mainly in the case of sales to travel agencies or sales of services to corporate clients, which the Group seeks to mitigate by trading only with recognised, creditworthy third parties. With individual customers, the Group requires advance payments either in cash or by major credit cards.

Liquidity Risk

The seasonality of the hotel business is the main driver of the liquidity risk the Group faces. The risks results from having insufficient financial resources to meet day-to-day fluctuations in working capital and cash flow. The Group mitigates the liquidity risk with the availability of credit facilities with Deustche Hypo and Zagrebačka banka for the use of overdrafts. No such overdrafts were used in the year ended 31 December 2016.

15.11 Related Party Transactions

The details of the related party transactions (which for these purposes are those set out in the Standards adopted according to Regulation (EC) No 1606/2002) that were entered into by the Group during 2014, 2015 and 2016 or during 2017 up to the date of this Prospectus are set out in accordance with the respective standards adopted according to Regulation (EC) No 1606/2002 in this *Section 15.11, Section 12 "Relationship with the PPHE Hotel Group", Section 16 "Material Agreements", Section 15.8 "Operating and Financial Review of the Group—Liquidity and Capital Resources—Related Party Loans"* and in the Note 22 of the Group Financial Statements.

Borrowings by the Group

In December 2016 and January 2017, the Group entered into loan facilities with Euro Sea for a total of up to EUR 11 million to fund, in part, the acquisition of the freeholds of art'otel cologne and art'otel berlin kudamm. The loans bear interest at a rate of 6.5 per cent. per annum and are repayable, in relation to the loan facility of up to EUR 10 million, on the earlier of the maturity date (being eight years from 25 January 2017 or such other date as agreed between the Company and Euro Sea) and the date falling 14 days following the receipt by the Company of sufficient proceeds from the Offering and, in relation to the loan facility of EUR 1 million, on the maturity date which is eight years from 6 December 2016.

Although refinanced during 2016, as at 31 December 2015, the Group had outstanding shareholder loans from Dvadeset Osam d.o.o., an indirect subsidiary of the PPHE Hotel Group, in the amount of HRK 154.5 million. The outstanding balance of that loan as at 31 December 2014 was HRK 140.7 million. The shareholder loan had a maturity date of 31 December 2021. The interest rate on the original principal amount was 15 per cent. per annum, which resulted in an effective interest rate of 8.85 per cent. The Group repaid the borrowings early, and in April 2016, the amount due increased by HRK 12.6 million based on the difference between the nominal value and carrying value of the loans. The shareholders' loans were repaid in part by way of replacement thereof with two new bank loans and in part from the Group's cash balances.

Loans to Joint Venture

As at 31 December 2016, the Group was owed HRK 33.2 million under long term loans to the 50/50 joint venture in which the Sugarhill Group has a 50 per cent. interest. These amounts bear interest at a rate of EURIBOR + 2.5 per cent. and have to be repaid by the joint venture companies in full after 10 years, which is 13 January 2024.

Management, Sales and Marketing and Related Fees

Prior to the Operational Restructuring in December 2016, the PPHE Hotel Group received management and related fees from the Group under the terms of the Prior Operating Agreements. The management fee expense recorded in 2016 was HRK 21.4 million in 2016 and the sales and marketing fees expense recorded in 2016 was HRK 7.1 million.

As at 31 December 2016, HRK 20.1 million and HRK 13.1 million remained due and payable to the PPHE Hotel Group, subject to the consent of one of the Group's lenders.

Operational Restructuring and LSM Agreements

As part of the Operational Restructuring in December 2016, certain aspects of the Group's and the PPHE Hotel Group's operational and licensing, and sales and marketing relationships were amended. More specifically, each of the Group's then-existing Prior Operating Agreements was amended, restated and novated (as applicable) in order to create two new separate agreements, an Operating Agreement and an LSM Agreement, for each of the Group's properties.

Pursuant to the Operating Agreements, the supervision and operation of the properties was transferred to Arena Hospitality from other members of the PPHE Hotel Group, including all obligations of the operator other than sales and marketing services and certain central services such as management and staff training. Pursuant to the LSM Agreements, the relevant hotel owning companies within the Group have been granted the right by the PPHE Hotel Group, to use the Park Plaza brand or, in the case of the relevant German and Hungarian hotels only, the "art'otel" brand for the particular hotel. The PPHE Hotel Group also provides certain group sales, marketing and other central services to each of the hotels under the terms of the LSM Agreements.

See *Section 12.1 "Relationship with the PPHE Hotel Group—Sugarhill Contribution and Operational Restructuring"* for a more detailed description of the changes to these agreements.

Framework Agreement

On 21 December 2016, Arena Hospitality and two members of the PPHE Hotel Group entered into the Framework Agreement which sets out the framework for the operation of new hotels in the CEE Region and grants Arena Hospitality the exclusive right to operate and develop any new hotel, self-catering holiday apartment resort or campsite under the Park Plaza brand in the CEE Region. For a description of the Framework Agreement see *Section 12.1 "Relationship with the PPHE Hotel Group—Sugarhill Contribution and Operational Restructuring—Framework Agreement"*.

Transfer of Germany ServiceCo to the Sugarhill Group

As part of the Sugarhill Contribution in December 2016, a member of the PPHE Hotel Group sold all of the outstanding shares of Germany ServiceCo to Arena Hospitality for nominal consideration. In connection with that sale, the relevant member of the PPHE Hotel Group, Arena Hospitality and Germany ServiceCo entered into a deed of novation dated 21 December 2016 pursuant to which Arena Hospitality agreed to replace the member of the PPHE Hotel Group as the party to a service agreement related to the regional operations of the Sugarhill Group. Prior to the Sugarhill Contribution, the Sugarhill Group was provided services by Germany ServiceCo, while it was a member of the PPHE Hotel Group in exchange for service fees. Going forward, those service fees, along with the associated operational costs, will be retained by the Group.

Other

Transactions with related parties in the ordinary course of business in connection with the use of hotel facilities (such as overnight room stays and food and beverages) are charged at market prices. These transactions occur occasionally.

15.12 Critical Accounting Policies and Estimates

In the process of applying the relevant accounting policies, the Group's management and the Sugarhill Group's management have made the following judgments, which have the most significant effect on the amounts recognised in the Group Financial Statements and the Sugarhill Financial Statements.

Acquisition of companies that are not business combinations

At the acquisition date of companies and groups of assets, management 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 without allocating any amount to goodwill or deferred taxes, and including any non-controlling interest according to its share of the fair value of net identifiable assets at the acquisition date.

In determining whether a business was acquired, management 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 Group Financial Statements and the Sugarhill Financial Statements concerning uncertainties at the reporting date and the critical estimates computed by the respective group for which there is a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed in the notes to the Group Financial Statements and the Sugarhill Financial Statements. The respective groups base their assumptions and estimates on parameters available when the Group Financial Statements and Sugarhill Financial Statements, respectively, are prepared. However, these parameters may change due to market changes or other circumstances beyond the control of the respective group. Such changes are reflected in the assumptions and estimates when they occur.

Determination of fair value of financial derivatives

The Group and the Sugarhill Group engage independent valuation specialists to determine the fair value of the interest rate swaps which are used in the Group's joint venture companies. The swaps are valued according to the discounted cash flow method. Key assumptions used to determine the fair value of the swaps are provided in Note 2 to the Group Financial Statements and Note 2 to the Sugarhill Financial Statements. See *Appendix A "Financial Statements"*.

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 2 to the Group Financial Statements and Note 2 to the Sugarhill Financial Statements. See *Appendix A "Financial Statements"*.

15.13 Off Balance Sheet Arrangements

As at 31 December 2016, the Group had no significant off balance sheet arrangements.

15.14 Working Capital Statement

The Company is of the opinion that the working capital available to the Group is sufficient for the Group's present requirements and, in particular, is sufficient for the period covering at least 12 months from the date of this Prospectus. The Company's opinion in this regard is made on the assumption that it will not be necessary to draw upon its undrawn credit line under its HRK 15 million revolving credit facility with Zagrebačka banka described in *Section 15.8 "Operating and Financial Review of the Group—Liquidity and Capital Resources—Capital Resources—Bank Borrowings"* in this Prospectus.

PART 16

MATERIAL AGREEMENTS

The Section includes a summary of: (i) each material contract (other than a contract entered into in the ordinary course of business) to which any member of the Group is a party which has been entered into within the two years immediately preceding the date of this Prospectus; and (ii) any other contract (other than a contract entered into in the ordinary course of business) entered into by any member of the Group which contains obligations or entitlements which are or may be material to the Group as at the date of this Prospectus.

16.1 Underwriting Agreement

The Underwriting Agreement by and among the Company, PPHE, UniCredit, ZABA and InterCapital will be entered into on the date of approval of this Prospectus.

Under the terms and subject to the conditions contained in the Underwriting Agreement, the Joint Global Coordinators and Bookrunners have agreed to use best efforts to procure subscribers for such number of Offer Shares at the Offer Price, as is agreed between the Joint Global Coordinators and Bookrunners and the Company pursuant to the Offering.

The Underwriting Agreement contains, amongst others, the following further provisions:

- The Joint Global Coordinators have agreed to pay to the Company a sum equal to the Offer Price multiplied by such number of Offer Shares as the Company shall have announced are to be issued.
- The Company has agreed to pay to the Joint Global Coordinators and Bookrunners a commission of 2.95 per cent. of the gross proceeds of the Offering payable by way of deduction from the proceeds of the Offering plus a discretionary incentive fee of 1 per cent. of the gross proceeds of the Offering payable by the Company at the Company's sole discretion. Commission is not payable in respect of proceeds resulting from a subscription of Offer Shares by a member of the PPHE Hotel Group up to €8.33 million. See *Section 12.1 "Relationship with the PPHE Hotel Group—Sugarhill Contribution and Operational Restructuring"*.
- The Company has agreed to pay or cause to be paid (together with any related value added tax) certain costs, charges, fees and expenses of, or in connection with, or incidental to, amongst others, the Offering, admission to trading of the Listing Shares and the Offer Shares on the Official Market or the other arrangements which will be contemplated by the Underwriting Agreement, and the reasonable costs and expenses of the Joint Global Coordinators and Bookrunners.
- The Company's obligations, together with those of the other parties to the Underwriting Agreement, will be subject to certain conditions which are typical for an agreement of this nature. These conditions will include, amongst others, the representations and warranties under the Underwriting Agreement being true, accurate and not misleading. The Joint Global Coordinators and Bookrunners will be entitled to terminate the Underwriting Agreement by giving notice in writing at any time prior to the date of the commencement of the Application Period and the Bookbuilding Period and at any time after such date in certain circumstances that are typical for an agreement of this nature. Furthermore, the Underwriting Agreement may be terminated by the Company at any time prior to the date on which the Offer Price and the successful completion of the Offering is announced. If the Underwriting Agreement is terminated by the Joint Global Coordinators and Bookrunners or the Company prior to the date on which the Offer Price and the successful completion of the Offering is announced, then the Offering will lapse and will not proceed.
- The Company has given customary representations, warranties, undertakings and indemnities to the Joint Global Coordinators and Bookrunners, including in relation to the business, the accounting records and the legal compliance of the Company, in relation to the Shares and in relation to the contents of this Prospectus. PPHE has also given certain limited representations and warranties to the Joint Global Coordinators and Bookrunners, including in relation to its indirect ownership of the relevant Shares and its capacity to enter into the Underwriting Agreement.

16.2 Lock-up Agreement with Mrs. Milena Perković

Mrs. Milena Perković has undertaken to the Company and the Joint Global Coordinators that she will not sell, pledge, lend or in any other way transfer the right of ownership to any Shares (including Listing Shares) that she holds as at the date of this Prospectus or acquires under the Offering for a period of 180 days following the commencement of trading of the Offer Shares and the Listing Shares on the Official Market. Notwithstanding the foregoing, Mrs. Milena Perković may transfer the above mentioned Shares in certain circumstances, including pursuant to a mandatory third party takeover bid or exchange offer commenced by the Company, a voluntary third party takeover bid or exchange offer not induced by the Company or in a transfer to family members. This undertaking will terminate automatically if the Underwriting Agreement is terminated in accordance with its terms.

16.3 Contribution Agreement

Pursuant to the Contribution Agreement, dated 23 December 2016, the PPHE Hotel Group indirectly contributed 88.0 per cent. of the outstanding shares of Sugarhill to the Company (the **Sugarhill Contribution**) in exchange for the Listing Shares, representing a total capital contribution in the value of approximately HRK 460 million. See *Section 12.1 "Relationship with the PPHE Hotel Group—Sugarhill Contribution and Operational Restructuring"*.

16.4 Sugarhill Option Letter

On 23 December 2016, the Company and a member of the PPHE Hotel Group entered into an option letter whereby the PPHE Hotel Group, as grantor, granted the Company, as grantee, the option to acquire the remaining 12 per cent. of the issued and paid-up share capital of Sugarhill for a total price of EUR 8.33 million during the 18 months following the completion of the Sugarhill Contribution. See *Section 12.1 "Relationship with the PPHE Hotel Group—Sugarhill Contribution and Operational Restructuring"*.

16.5 The Bora Companies Acquisition

In June 2016, the PPHE Hotel Group indirectly (via Dvadeset Devet d.o.o. (Croatia)), as part of its plans to develop the Company into a leading hospitality company in the CEE Region, entered into an agreement to sell the Bora Companies to the Company for HRK 108.55 million. The total consideration for the acquisition was determined by an independent third party valuation of the Bora Companies. See *Section 12.6 "Relationship with the PPHE Hotel Group—The Bora Companies Acquisition"*.

16.6 Loans Related to Freehold Acquisition of art'otel cologne and art'otel berlin kudamm

In December 2016 and January 2017, the PPHE Hotel Group (through its subsidiary, Euro Sea) made available to the Group two loan facilities for a total of up to EUR 11 million to finance, in part, the acquisition by the Group's indirect wholly-owned subsidiaries ACO Hotel Holding B.V. and ABK Hotel Holding B.V. of the freeholds of art'otel cologne and art'otel berlin kudamm. The freeholds were purchased from a third party from whom the Group previously leased the properties, and the acquisitions were completed in February 2017. The loans bear interest at a rate of 6.5 per cent. per annum and are repayable, in relation to the loan facility of up to EUR 10 million, on the earlier of the maturity date (being eight years from 25 January 2017 or such other date as agreed between the Company and Euro Sea) and the date falling 14 days following the receipt by the Company of sufficient proceeds from the Offering and, in relation to the loan facility of EUR 1 million, on the maturity date which is eight years from 6 December 2016. See *Section 12.3 "Relationship with the PPHE Hotel Group—Loans Related to Freehold Acquisition of art'otel cologne and art'otel berlin kudamm"*.

16.7 Framework Agreement

On 21 December 2016, Arena Hospitality and two members of the PPHE Hotel Group entered into the Framework Agreement which sets out the framework for the development and operation of new hotels in the CEE Region and grants Arena Hospitality the exclusive right to operate and develop any new Park Plaza branded property in the CEE Region subject to further provisions. For a description of the Framework Agreement see *Section 12.1 "Relationship with the PPHE Hotel Group—Sugarhill Contribution and Operational Restructuring—Framework Agreement"*.

16.8 Financing Agreements

Members of the Group have entered into the financing facilities described in *Section 15.8 "Operating and Financial Review—Operating and Financial Review of the Group—Liquidity and Capital Resources—Capital Resources—Bank Borrowings"* and *"—Related Party Loans"*.

PART 17

BOARD OF DIRECTORS, EXECUTIVE DIRECTORS AND CORPORATE GOVERNANCE

This Section provides summary information about the Board of Directors and the Executive Directors and disclosures about their relationships with the Company, and summary information about certain other bodies and the governance of the Company.

The Company is a joint-stock company with more than 4,100 shareholders. The Company's corporate bodies are the General Assembly and the Board of Directors. The General Assembly appoints the Board of Directors, as the body responsible for managing the Company, and the Board of Directors appoints the Executive Directors who, as at the date of this Prospectus, are not members of the Board of Directors and who are responsible for management of the Company's business operations. The Board of Directors has also appointed an Audit Committee. The Company has not established a remuneration committee.

The specific governance authorities and responsibilities of these bodies are regulated by the applicable Croatian law, the Articles of Association and other corporate governance rules and regulations.

The Company is currently evaluating alternative board structures and intends to take steps required in order to change the one-tier structure (the Executive Board) into a two-tier structure (a supervisory board and a management board), which is customary for Croatian companies. Considering that as of the date of this Prospectus, no such steps have been taken, the following summary provides information on the Company's current governance structure.

17.1 Board of Directors

The Company currently has seven members on its Board of Directors and is led by the Chairman. One of the members of the Board of Directors is a representative of the Company's employees.

Pursuant to the Articles of Association, the Board of Directors is responsible for, *inter alia*, managing the Company and the supervision of the Executive Directors, who in turn are responsible for overall management of the Company's business operations and representing the Company towards third parties. The Board of Directors is actively engaged in key strategic initiatives and support of the Executive Directors' decision-making process.

The Board of Directors meets several times per year in compliance with the Articles of Association. The Board of Directors has responsibility for the Company's strategic and financial policies and has a formal schedule of matters specifically reserved to it for decisions.

Board of Directors – Members

The names, function and election dates and dates of expiration of the term of office for each member of the Board of Directors is set out below. Each member of the Board of Directors is elected for a term of one year with the exception of the employee representative.

The Company's Board of Directors

Members	*Function*	*Most recent election date*	*Date on which term of office expires*
Mr. Boris Ernest Ivesha	Chairman	26 September 2016	26 September 2017
Mr. Yoav Arie Papouchado	Deputy Chairman	26 September 2016	26 September 2017
Mr. Chen Carlos Moravsky	Member	26 September 2016	26 September 2017
Mr. Abraham Thomas	Member	26 September 2016	26 September 2017
Mr. Denis Jukić	Member	26 September 2016	26 September 2017
Mr. Šime Vidulin	Member	26 September 2016	26 September 2017
Mr. Vehbija Mustafić	Member – Employee Representative(1)	1 October 2015	n/a(1)

Source: Group Data

Notes:

(1) The employee representative is appointed by the Company's employees' council and has the same position as other members of the Board of Directors. The term of office of the employee representative in the Board of Directors coincides with the mandate of the employees' council.

The business address of all the members of the Board of Directors is Smareglina ulica 3, 52100 Pula, Republic of Croatia.

Brief biographical details of the members of the Board of Directors are as follows:

Mr. Boris Ernest Ivesha (age 71)

Mr. Ivesha has been the chairman of the Board of Directors since 2008. He is also the chief executive officer and president of PPHE. Mr. Ivesha has been in the hotel industry since 1965 after graduating from hotel school. During his career he has been the General Manager of the Royal Horseguards Hotel, London; Managing Director of the Carlton Hotel, Tel Aviv and established the Yamit Hotel, Tel Aviv in 1984, where he served as the hotel's president until its sale in 2007. Mr. Ivesha has been one of the major drivers behind the expansion of the PPHE Hotel Group's portfolio.

In addition to his membership on the Board of Directors, Mr. Ivesha is or has been within the past five years, a member of the following supervisory or management boards or administrative bodies and is or has been a partner of the following partnerships:

Company/Partnership	*Position*	*Still held*
PPHE Hotel Group Ltd	Director	Yes
Park Plaza Hotels (UK) Ltd	Director	Yes
Golden Wall Investments Ltd	Director	Yes
Laguna Estates (Leeds) Ltd	Director	Yes
1 Westminster Bridge Plaza Management Company Ltd	Director	Yes
Marlbray Ltd	Director	Yes
Park Plaza Hospitality Services (UK) Ltd	Director	Yes
Westminster Bridge Hotel Operator Ltd	Director	Yes
Nottingham Park Plaza Hotel Operator Ltd	Director	Yes
Sherlock Holmes Hotel Shop Ltd	Director	Yes
Park Royal Hotel Operator Ltd	Director	Yes
Artotel (I.L) Management Services Ltd	Director	Yes
Tozi Restaurant Operator Ltd	Director	Yes

Mr. Yoav Arie Papouchado (age 53)

Mr. Papouchado has been the deputy chairman of the Board of Directors since 2016. Mr. Papouchado is the son of Mr. Eli Papouchado, the chairman of the board of directors of PPHE. Mr. Papouchado has been the chairman of the board of directors of Red Sea Hotels Ltd (RSH) since 1998. RSH is a group of real-estate companies operating worldwide. Mr. Papouchado holds an MBA as well as a Bachelor of Economics from the Tel Aviv University.

In addition to his membership on the Board of Directors, Mr. Papouchado is or has been within the past five years, a member of the following supervisory or management boards or administrative bodies and is or has been a partner of the following partnerships:

Company/Partnership	*Position*	*Still held*
A.P.Y. Investment & Real Estate Ltd.	Director	Yes
Red Sea Consulting Ltd.	Director	Yes
Server Farm Realty Inc.	Director	Yes
A.A Papo Trust Company Ltd.	Director	Yes
Eilat Hotels Laundry Ltd.	Director	Yes
Roktal Ltd.	Director	Yes
Ganel enterprises & Development Ltd.	Director	Yes
Yoav Papouchado Aviation Ltd.	Director	Yes
Polard Enterprises Ltd. BVI.	Director	Yes
Red Sea Group France SAS	President	Yes

Mr. Chen Carlos Moravsky (age 46)

Mr. Moravsky is the deputy chief executive officer and chief financial officer of PPHE. He joined the PPHE Hotel Group in 2005 and became a member of the Board of Directors in 2008. Mr. Moravsky was previously employed as an Audit Manager at Deloitte. Mr. Moravsky is a Certified Public Accountant (ISR) and holds an MBA from The University of Manchester as well as a Bachelor of Business from the Tel Aviv College of Management.

In addition to his membership on the Board of Directors, Mr. Moravsky is or has been within the past five years, a member of the following supervisory or management boards or administrative bodies and is or has been a partner of the following partnerships:

Company/Partnership	*Position*	*Still held*
PPHE Hotel Group Limited(1)	Deputy Chief Executive Officer	Yes
Euro Sea Hotels N.V.	Director	Yes
Dvadeset Osam d.o.o.	Director	Yes
Dvadeset Devet d.o.o.	Director	Yes
Arena Hospitality Management d.o.o	Director	No
PPHE Histria Charter d.o.o.	Director	Yes
Sugarhill Investments B.V.	Director	Yes
art'otel berlin mitte/Park Plaza Betriebsgesellschaft mbH	Director	Yes
Park Plaza Betriebsgesellschaft mbH	Director	Yes
art'otel berlin city center west GmbH	Director	Yes
Park Plaza Hotels Berlin Wallstrasse GmbH	Director	Yes
art'otel köln betriebsgesellschaft mbH	Director	Yes
Park Plaza Nurnberg GmbH	Director	Yes
art'otel dresden/Park Plaza Betriebsgesellschaft mbH	Director	Yes
Park Plaza Germany Holdings GmbH	Director	Yes
Park Plaza Hotels (Germany) Services GmbH	Director	Yes
PPHE Germany Holdings GmbH	Director	Yes
PPHE Nurnberg Operator Hotelbetriebsgesellschaft mbH	Director	Yes

Notes:

(1) Mr. Moravsky is also the director of various subsidiaries of PPHE.

Mr. Abraham Thomas (age 68)

Mr. Thomas has been a member of the Board of Directors since 2009 and was executive director of the Company from 2012 – 2015. He is also a member of the Audit Committee. Mr. Thomas was an employee of the PPHE Hotel Group from 1993 – 2015. He has over 35 years of experience in the hospitality industry and holds a Bachelor in Commerce degree from Kerala University, Republic of India.

In addition to his membership on the Board of Directors, Mr. Thomas is or has been within the past five years, a member of the following supervisory or management boards or administrative bodies and is or has been a partner of the following partnerships:

Company/Partnership	*Position*	*Still held*
PPHE Histria Charter d.o.o.	Director	Yes
Euro Sea Hotels N.V.	Director	Yes

Mr. Denis Jukić (age 51)

Mr. Jukić has been working with the PPHE Hotel Group since 2008 and has been a member of the Board of Directors since 2016. He has held key positions in the hotel and leisure industry in Croatia for the last 20 years, including Adriatic Luxury Hotel Group and Atlas Travel Agency. He holds a Master Business degree from the University of Rijeka.

In addition to his membership on the Board of Directors, Mr. Jukić is or has been within the past five years, a member of the following supervisory or management boards or administrative bodies and is or has been a partner of the following partnerships:

Company/Partnership	*Position*	*Still held*
T. C. i partneri d. o. o.	Director	Yes
MEETING POINT d.o.o.	Director	No
ADRIATIC HOLIDAYS d.o.o.	Director	Yes
Atlas, d.d.	Director	No

Mr. Šime Vidulin (age 78)

Mr. Vidulin has been a member of the Board of Directors since 2008. He was previously the Vice President of the Croatian Chamber of Commerce (1999 – 2010), President of the Istrian Chamber of Economy (1985 – 1999) and Mayor of the City of Pula (1983 – 1985).

In addition to his membership on the Board of Directors, Mr. Vidulin is or has been within the past five years, a member of the following supervisory or management boards or administrative bodies and is or has been a partner of the following partnerships:

Company/Partnership	*Position*	*Still held*
ULJANIK TESU, d. d.	Member of the Supervisory Board	Yes
BINA – ISTRA UPRAVLJANJE I ODRŽAVANJE, d.o.o.	Member of the Supervisory Board	Yes

Mr. Vehbija Mustafić (age 55)

Mr. Mustafić has been a member of the Board of Directors since 2015. He has worked for the Company since 1987. Mr. Mustafić is the employee representative on the Board of Directors.

Mr. Mustafić has not been a member of a supervisory or management board or administrative body or been a partner in a partnership in the last five years.

Audit Committee

On 22 June 2010, the Board of Directors adopted the decision on establishment of the Audit Committee, which includes three members, one of which is a member of the Board of Directors. The Chairman of the Audit Committee is elected from the members of the Audit Committee who are not members of the Board of Directors. The Audit Committee meets at least two times a year. The Audit Committee currently has three members: Arnoud Duin, Damir Veizović and Abraham Thomas; Mr. Arnoud Duin acts as Chairman of the Audit Committee.

The Company intends to take steps to change the structure of the Audit Committee, including ensuring compliance with the Zagreb Stock Exchange Code of Corporate Governance (the **Code**).

The terms of reference of the Audit Committee include monitoring the financial reporting and the efficiency of internal control, internal audit and risk management functions, supervising the audit of the Company's annual financial statements and independence of the Company's auditor (in particular additional services contracts), recommending the selection of the Company's auditor to the General Assembly and discussing the plans and annual report of the internal audit and any other matter relating to the Company's financial reporting obligations.

17.2 Executive Directors

Pursuant to the Company's Articles of Association, the Executive Directors are responsible for overall management of the Company's business operations and representing the Company with third parties. The two Executive Directors acting jointly are legal representatives of the Company. The Executive Directors are appointed by the Board of Directors in accordance with the Croatian Companies Act and the Articles of Association.

The current Executive Directors are appointed for two-year terms although the Articles of Association allow for appointment for up to five-year terms. The duration of the term is set by the Board of Directors. The names of the Executive Directors are as follows:

Executive Director	*Date of appointment*	*Date on which term expires*
Mr. Reuel Israel Gavriel Slonim	19 September 2016	19 September 2018
Mrs. Milena Perković	19 September 2016	19 September 2018

The business address of the Executive Directors is Smareglina ulica 3, 52100 Pula, Republic of Croatia.

Brief biographical details of the Executive Directors are as follows:

Mr. Reuel Israel Gavriel Slonim (age 58)

Mr. Slonim is the Company's current CEO and has been an Executive Director since 2008 when he joined the Company. Previously, Mr. Slonim was the Vice President of Operations & Development and Board Member of Isrotel Hotels and Resorts, one of Israel's leading hospitality companies, and the Vice President Marketing & Sales, after having served for 10 years as General Manager of 5-Star resort hotels. After joining the Company, he has led a programme of major transformations (renovation, upgrading and rebranding of the Company's six properties), which resulted in significant EBITDA growth from 2008 to 2016. His involvement in the updating of the Group's IT systems and introduction of the management and training culture has resulted in the Company being recognised as one of the leading hospitality companies in Croatia. Mr. Slonim is an active member of the Pula and Medulin Tourist Boards and different culture and sports associations.

In addition to his position as an Executive Director, Mr. Slonim is or has been within the past five years, a member of the following supervisory or management boards or administrative bodies and is or has been a partner of the following partnerships:

Company/Partnership	*Position*	*Still held*
Mažurana d.o.o.	Director	Yes
Ulika d.o.o.	Director	Yes
PPHE Zagreb d.o.o.	Director	Yes
Park Plaza Hotels (Germany) Services GmbH	Director	Yes
ARENA HOSPITALITY MANAGEMENT d.o.o.	Director	Yes
Sugarhill Investments B.V.	Director	Yes
art'otel berlin city center west GmbH	Director	Yes
Park Plaza Hotels Berlin Wallstrasse GmbH	Director	Yes
art'otel köln betriebsgesellschaft mbH	Director	Yes
Park Plaza Nurnberg GmbH	Director	Yes
Park Plaza Germany Holdings GmbH	Director	Yes
PPHE Nurnberg Operator Hotelbetriebsgesellschaft mbH	Director	Yes
PPHE Germany Holdings GmbH	Director	Yes

Mrs. Milena Perković (age 65)

Mrs. Perković is the Company's current CFO. She joined the Company in 1986 and has been an Executive Director since 2008 and was previously a member of the management board of the Company since 1999. Together with Mr. Slonim, Mrs. Perković has managed the transformation of the Company and its growth into one of the leading hospitality companies in Croatia. In particular, she was responsible for negotiating the financing of renovation, upgrading and rebranding of the Company's properties. Mrs Perković holds a master's degree in Economics and is a member of different tourist (the Croatian National Tourist Board, the Istrian County Tourist Board and the Pula and Medulin Tourist Boards) and professional associations in the hotel industry (such as the Croatian Chamber of Economy for Istrian region).

In addition to her position as an Executive Director, Mrs. Perković is or has been within the past five years, a member of the following supervisory or management boards or administrative bodies and is or has been a partner of the following partnerships:

Company/Partnership	*Position*	*Still held*
IRTA d.o.o.	Member of the Supervisory Board	Yes
Mažurana d.o.o.	Director	Yes
Ulika d.o.o.	Director	Yes
ARENA HOSPITALITY MANAGEMENT d.o.o.	Director	Yes
Sugarhill Investments B.V.	Director	Yes

17.3 Confirmations

There are no family relationships between any of the members of the Board of Directors and the Executive Directors.

Mr. Ivesha, Mr. Papouchado and Mr. Moravsky were appointed to their respective positions due to their affiliations with PPHE Hotel Group, as outlined above. Mr Slonim was originally appointed to his respective position pursuant to understandings with the former controlling shareholder of the Company and the PPHE Hotel Group. Otherwise, none of the members of the Board of Directors and the Executive Directors was appointed to their respective positions pursuant to arrangements or understandings with major shareholders, customers, suppliers or others.

Other than the lock up arrangement agreed to by Mrs. Milena Perković and summarised in *Section 6.13 "Terms of the Offering—Lock-Up"*, no restrictions have been agreed by any member of the Board of Directors or the Executive Directors on the disposal within a certain period of time of his or her holding in the Company's shares.

Within the period of five years preceding the date of this Prospectus none of the members of the Board of Directors or the Executive Directors:

- have had any convictions in relation to fraudulent offences;
- have been a member of the administrative, management or supervisory bodies, or has been a senior manager (who is relevant to establishing that the Company has the appropriate expertise and experience for the management of the Company's business) of a company, at the time of any bankruptcy, receivership or involuntary liquidation of such company (except for Mr. Denis Jukić who was a member of the management board of the company OTOČKE VILE d.o.o. until 2014 when the bankruptcy proceeding over this company was opened and closed and a member of the management board of the company MORE VELEBITA d.o.o. until 2016 when the summary bankruptcy proceeding over this company was opened and closed); or
- have been subject to any official public incrimination and/or sanction by any statutory or regulatory authorities (including designated professional bodies) or has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of a company.

17.4 Conflicts of Interests

No member of the Board of Directors or Executive Director has any potential conflict of interest between any duties to the Company and his private interests and/or other duties other than as set out in *Section 2.1 "Risk*

Factors—Risks Relating to the Group's Business—Certain of the members of the Board of Directors have affiliations with and interests in the PPHE Hotel Group which may create conflicts of interest" for a description of the potential conflicts of interests for Mr. Boris Ernest Ivesha, Mr. Yoav Arie Papouchado and Mr. Chen Carlos Moravsky.

17.5 Shareholdings and Share Options of Directors and Executive Directors

As at 22 March 2017, only one member of the Board of Directors held shares in the Company. At the mentioned date, Šime Vidulin held 21 Listed Shares, representing 0.0006 per cent. of the Company's share capital. No member of the Board of Directors has any option to acquire Shares.

As at 22 March 2017, only one Executive Director held shares in the Company. At the mentioned date, Milena Perković held 110 Listed Shares, representing 0.005 per cent. of Company's share capital. No Executive Director has any option to acquire Shares.

In the past five years, the above member of the Board of Directors and the Executive Director holding shares in the Company have not traded these shares.

The Company has not received any indication that the any of members of the Board of Directors and the Executive Directors intend to subscribe and pay for the Offer Shares in the Offering.

17.6 Remuneration and Benefits of the members of the Board of Directors and Executive Directors

Remuneration and benefits of the members of the Board of Directors

According to the Articles of Association, the members of the Board of Directors are entitled to receive a compensation for their work on the Board of Directors, which cannot exceed HRK 70,000 per year and per member of the Board of Directors.

In the financial year 2016, the remuneration paid by the Company to all members of the Board of Directors amounted to HRK 122,000 gross (of which HRK 24,000 was in respect of the statutory pension contribution).

Members of the Board of Directors are not entitled to any remuneration or severance pay once their term expires.

Remuneration and benefits of the members of the Executive Directors

In the financial year 2016, the remuneration paid to by the Company the Executive Directors amounted to HRK 3 million, whereof HRK 2.5 million was paid on the account of base salary, HRK 53,000 was paid on the account of bonus, HRK 294,000 was paid on the account of statutory pension contribution and HRK 203,000 was paid on the account of benefits in kind.

In case of termination of their service contracts, the Executive Directors are entitled to severance pay. In the case of Mrs. Perković, if her service contract is terminated she is entitled to severance pay of 12 months' salary. In the case of Mr. Slonim, if his service contract is terminated, he is entitled to severance pay of one half month's salary per year of service, and if his service contract is terminated after 1 January 2019, he will be entitled to severance pay of one month's salary per year of service.

Pensions

In Croatia, pension contributions are compulsory and are withheld from the gross salaries of the employees in Croatia, and paid into respective pension funds in accordance with the applicable laws and regulations.. The Company has paid the total amounts of compulsory pension contributions set out in this *Section 17.6 "—Remuneration and benefits of the members of the Board of Directors"* and *"—Remuneration and benefits of the members of the Executive Directors"*.

17.7 Corporate Governance

According to the Croatian Companies Act, those companies whose shares are traded on the Regulated Market are obliged to apply codes of corporate governance.

The Company applies the Code as the Company's code of corporate governance. The Code is published on the Zagreb Stock Exchange web page (www.zse.hr). The objective of the Code is to establish high standards of corporate governance and business transparency for joint stock companies and, by duly and responsibly managing and supervising operations and management functions of such joint stock companies, to protect investors and other stakeholders. The basic principles of the Code are: (i) ensuring business transparency; (ii) clear description of decision making procedures of the Board of Directors and the Executive Directors; (iii) the avoidance of conflict of interest; (iv) the maintenance of efficient internal controls; and (v) the maintenance of an efficient system of responsibility. Each year, the Company shall be obliged to state, in its annual report and on its website, in the required form, whether it complies with the recommendations of 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 any of the recommendations of the Code, it must provide reasons for its non-compliance. In its practice up to the date of this Prospectus, the Company abided by this principle and, where relevant, provided reasons for non-compliance with the recommendations of the Code, which reasons principally related to the fact that the relevant recommendations of the Code were not applicable to the Company (e.g. the Company did not set the dates related to dividend payments given that the Company did not distribute dividends). On 22 March 2017, the Company published its annual corporate governance questionnaire for 2016 on the website of the ZSE.

Internal controls and risk management

The Board of Directors has overall responsibility for the Group's system of internal control and for reviewing its adequacy and effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and aims to provide reasonable but not absolute assurance against material misstatement. In order to discharge that responsibility in a manner that ensures compliance with applicable laws and regulations and promote effective and efficient operations, the members of the Board of Directors have established an organisational structure with clear operating procedures, lines of responsibility and delegated authority. The Group has in place internal control and risk management systems in relation to the Group's financial reporting process and the Group's process for preparing consolidated accounts. These systems include policies and procedures to ensure that adequate accounting records are maintained and transactions are recorded accurately and fairly to permit the preparation of consolidated financial statements in accordance with IFRS as adopted by the European Union.

Internal audit

The Group's internal audit function reports to the Executive Directors and monitors the effectiveness of key internal controls and the adequacy of these controls to manage the business risk and to safeguard the Company's assets and resources.

PART 18

CORPORATE INFORMATION, SHARES AND SHARE CAPITAL

The following is a description of the corporate information, organisational structure, the share capital of the Company, a summary of the rights and restrictions attaching to the Shares as set out in the Articles of Association, a summary of material terms of the Articles of Association and certain relevant provisions of the Croatian Companies Act and other relevant laws. This description is a summary only and does not contain all the information that the Articles of Association contain. The Company encourages prospective Investors to read the full Articles of Association which are attached hereto as Appendix C.

18.1 The Company

The Company – Arena Hospitality Group d.d. – is a joint stock company incorporated in the Republic of Croatia and operating under the legislation of the Republic of Croatia and the EU *acquis communautaire*.

The Company is registered in the court register of the Commercial Court in Pazin under number (MBS) 040022901, personal identification number (OIB) 47625429199.

The Company's registered seat is in Pula, Smareglina ulica 3, Croatia, telephone number: +385 52 223 811.

The Company is the parent company of the Group, which consists of 20 entities incorporated in Croatia, Germany, Hungary and the Netherlands, as presented in the following table.

The Company's subsidiaries as at the date of this Prospectus[1]

Company Name	*Country of Registered Seat*	*Percentage of the share capital*
Germany Real Estate B.V.	The Netherlands	100.00
ABK Hotel Holding B.V.	The Netherlands	100.00[2]
ACO Hotel Holding B.V.	The Netherlands	100.00[2]
Ulika d.o.o.	Croatia	100.00
Mažurana d.o.o.	Croatia	100.00
Sugarhill Investments B.V.	The Netherlands	88.00
PPHE Germany Holdings GmbH	Germany	88.00[3]
PPHE Nürnberg Operator Hotelbetriebsgesellschaft mbH	Germany	88.00[3]
Park Plaza Germany Holdings GmbH	Germany	88.00[3]
Park Plaza Nürnberg GmbH	Germany	88.00[3]
Park Plaza Hotels Berlin Wallstraße GmbH	Germany	88.00[3]
art'otel berlin city center west gmbH	Germany	88.00[3]
art'otel Köln Betriebsgesellschaft mbH	Germany	88.00[3]
SW Szállodaüzemeltető Kft	Hungary	88.00[3]
Park Plaza Betriebsgesellschaft mbH	Germany	44.00[3]
art'otel Berlin-Mitte/Park Plaza Betriebsgesellschaft mbH	Germany	44.00[3]
Arena Hospitality Management d.o.o.	Croatia	88.00[3]
Park Plaza Hotels (Germany) Services GmbH	Germany	88.00[3]
PPBK Hotel Holding B.V.	The Netherlands	44.00[3]
ABM Hotel Holding B.V.	The Netherlands	44.00[3]

Source: Group Data

Notes:

(1) The Group's joint ventures are not consolidated in the Group Financial Statements.

(2) Indirect shareholding via Germany Real Estate B.V.

(2) Indirect shareholding via Sugarhill Investments B.V.

18.2 Share Capital

Shareholders

As at 22 March 2017, and based on the status as registered with the CDCC, the Company had 4,152 shareholders.

The Company's top 5 shareholders

Shareholder	*Number of Shares*	*Percentage of share capital*
Dvadeset Osam d.o.o.	2,523,593	77.09
AZ obvezni mirovinski fond kategorije B (*AZ obligatory category B pension fund*)	166,425	5.08
PBZ CO obvezni mirovinski fond kategorije B (*PBZ CO obligatory category B pension fund*)	59,575	1.82
Centar za restrukturiranje i prodaju (*Restructuring and Sale Center*)	42,442	1.30
Nenad Bakić	41,986	1.28
Total	2,834,021	86.57

Source: CDCC

Amount of issued share capital

As of the date of this Prospectus, the Company's share capital amounts to HRK 65,475,000 and consists of 3,273,750 ordinary registered shares in the nominal amount of HRK 20.00 each, all fully paid-up, which includes the Listed Shares and the Listing Shares. The Shares (including the Listing Shares and the Offer Shares) are and will be denominated in HRK.

The Listed Shares and the Listing Shares are issued in dematerialised form and deposited with the CDCC as ordinary registered shares under the ticker ARNT-R-A and ISIN HRARNTRA0004 (Listed Shares) and under the ticker ARNT-R-B and ISIN HRARNTRB0003 (Listing Shares), which are expected to carry the ISIN HRARNTRA0004 and ticker ARNT-R-A following their listing on the Official Market.

As of the date of this Prospectus, the Listed Shares are listed on the Official Market.

Shares not representing capital

There are no shares not representing capital of the Company.

Shares in the Company held by or on behalf of the Company itself or by a subsidiary of the Company

As of the date of this Prospectus, the Company holds 169 Shares in treasury representing 0.01 per cent. of the Company's share capital. In the past five years, the Company has not traded these treasury shares.

On 31 August 2016, the General Assembly adopted a decision granting approval to the Executive Directors to acquire treasury shares of the Company during the period of five years as from the date of the General Assembly decision, on the following terms and conditions:

(i) total number of treasury shares acquired based on this decision, together with the treasury shares that the Company already holds, shall not exceed 10 per cent. of the Company's share capital at the time of acquisition;

(ii) the Executive Directors must acquire treasury shares on the Regulated Market;

(iii) the purchase price for the treasury shares shall not be above 10 per cent. or below 10 per cent. the average market price achieved for these shares during the previous trading day;

(iv) in the business year of the Company's acquisition of the treasury shares, the Company shall contribute a part of profits to that year's reserves for these shares and record the amounts corresponding to the amounts paid for the acquired treasury shares, so that the Company's net assets stated in the financial statements for the previous business year do not become, on the account of acquisition of treasury shares, lower than the amount of share capital and reserves that the Company is required to have under the Croatian Companies Act, the Articles of Association or the General Assembly decision and that cannot be used for distribution to the shareholders; and

(v) Executive Directors shall inform the General Assembly and the Board of Directors, the latter within one month as from expiry of each quarter, about the reasons and the purpose of shares acquisition, their number and participation in the share capital, and the consideration paid by the Company for these shares.

Pursuant to the same decision of the General Assembly, the Executive Directors are authorised, with the approval of the Board of Directors, to dispose of the treasury shares, which the Company already holds or which the Company shall acquire pursuant to the subject General Assembly decision, off the Regulated Market (e.g. by disposal within the framework of employees' reward program and other treasury shares disposal programs adopted by Executive Directors with prior approval of the Board of Directors), without the need to obtain any special decision of the General Assembly (other than the decision mentioned above). Thereby, the pre-emptive right of existing shareholders when disposing of the treasury shares is excluded.

Pursuant to the same decision of the General Assembly, the Board of Directors is authorised to withdraw the treasury shares, which the Company already holds or which the Company shall acquire pursuant to the subject General Assembly decision, with decrease of the share capital of the Company, without the need to obtain any special decision of the General Assembly (other than the decision mentioned above).

Convertible, exchangeable securities or securities with warrants

There are no convertible, exchangeable securities or securities with warrants granting rights for the acquisition of Shares.

Information about the terms of acquisition rights and/or obligations over authorised but unissued capital or an undertaking to increase the share capital

On 22 March 2017, the General Assembly adopted the Capital Increase Decision i.e. the decision on increase of share capital and issuance of ordinary shares by way of public offering, with payment of contributions in cash and with the full exclusion of the existing shareholders' pre-emptive right to subscribe and pay for the new shares and on amendments to the Articles of Association. Pursuant to the Capital Increase Decision and assuming the Offering is successful, the share capital of the Company will be increased from HRK 65,475,000.00 by a minimum of HRK 20,000,000.00 to a minimum of HRK 85,475,000.00 and by a maximum of HRK 40,000,000.00 to a maximum of HRK 105,475,000.00, by the issuance of the Offer Shares i.e. a minimum of 1,000,000 and a maximum of 2,000,000 new ordinary registered shares in the nominal amount of HRK 20.00 each. The Offer Shares will be issued at a premium, i.e. each above their nominal value of HRK 20.00.

Pursuant to the Capital Increase Decision, the Executive Directors shall, with the approval of the Board of Directors, establish the successful completion of the Offering, the amount of the share capital increase and the number of Offer Shares to be issued as well as revise the Articles of Association to reflect such amounts.

Information about any capital of any member of the Group which is under option or agreed conditionally or unconditionally to be put under option and details of such options including those persons to whom such options relate

Other than the Sugarhill Option, there are no options, whether conditional or unconditional, which have been granted over the capital of any member of the Group.

A history of share capital highlighting information about any changes for the period covered by the Group Financial Statements

Pursuant to the decision of the General Assembly dated 31 August 2016 on amendments to the Articles of Association, the Board of Directors was granted authority to increase the share capital of the Company within the period of 18 months as of registration of the amendments to the Articles of Association in the court register by issuance of new shares up to a total amount representing 50 per cent. of the nominal amount of the share capital of the Company at the time of adoption of the decision of the Board of Directors (authorised share capital), in respect of the acquisition of hotels and hotel operations owned by the PPHE Hotel Group, with or without partners, directly or indirectly and/or a license to use or management rights for one or more brands in certain countries. Such authorised share capital increase may be implemented against contributions in kind or rights and the Board of Directors was authorised to, when deciding upon an authorised share capital increase, to exclude the pre-emptive rights of the existing shareholders to subscribe new shares.

The above authority was exercised on 23 December 2016, when the Board of Directors adopted the decision on increase of the share capital of the Company to the amount of HRK 65,475,000, by way of a contribution from the Company's majority shareholder (Dvadeset osam d.o.o. (Croatia)) to the share capital of the Company of the rights, i.e. shares held by the Company's majority shareholder in Sugarhill, which shares represent 88 per cent. of the share capital of Sugarhill.

The Sugarhill Contribution was effected on 23 December 2016, when the Contribution Agreement was executed, and the increase of the share capital of the Company, as result of Sugarhill Contribution, was registered in the court register of the Commercial Court in Pazin on 7 February 2017 and the Listing Shares were issued i.e. entered into the CDCC depository on 10 February 2017.

According to the amendments to the Articles of Association adopted by the General Assembly on 22 March 2017, the Board of Directors is authorised, within one year as from the date of registration of the amendments to the Articles of Association and (i) only if needed for the purpose of stabilising, preserving or otherwise influencing the price of the Shares on the Regulated Market and/or (ii) for the purpose of issuing shares to be disposed of within the framework of employees reward programme dedicated to the employees of the Company or the Company's affiliates i.e. ESOP programme aimed at development of employees' participation in the share capital of the Company, which programme shall be adopted by the Executive Directors with the approval of the Board of Directors, to increase the share capital of the Company by issuing new shares up to the amount representing up to 10 per cent. of the nominal value of the share capital of the Company at the time of adoption of the decision of the Board of Directors on share capital increase. Such share capital increase may be implemented only by way of contributions in cash, with the authority of the Board of Directors to exclude, fully or partially, the pre-emptive right of the existing shareholders of the Company to subscribe new shares.

18.3 Articles of Association

Description of the Company's objects and purposes

The Company performs the following activities:

- Wholesale and trade intermediation;
- Activity of travel agencies and tour operators;
- Rental of own real estates;
- Data processing;
- Promotion and advertising;
- Other entertainment activities, not mentioned elsewhere;
- Other recreation activities, not mentioned elsewhere;
- Laundering and dry cleaning of textile and fur products;
- Currency exchange services;
- Intermediation and representation in foreign trade goods and services transactions;
- Tourist business operation with foreign countries;
- Growing of vegetables, flowers, decorative herbs and planting material, except for mushrooms;
- Retail, except for retail with motor vehicles and motorcycles; repair of objects for personal usage and household;
- Hotels and restaurants;
- Other inland road transport of passengers;
- Sea and coastal transport of passengers;
- Accounting and bookkeeping activities; market research and research of public opinion;
- Rental of other transport devices;

- Rental of transport vessels;
- Creation and management of databases;
- Architecture activities and engineering and related technical consulting;
- Activity of sport arena and stadiums;
- Other sport activities, except for marinas;
- Activity of fitness and body care;
- Storage of trailers;
- Rental of objects for personal usage and household, not mentioned elsewhere;
- Management of holding companies; and
- Entrepreneurial and business consultancy.

Except for the abovementioned activities, the Company may engage in other activities supporting the performance of the activities entered in the court register, if such supporting activities are performed to a lesser extent or if they are performed along with the registered activity.

A summary of any provisions of the Articles of Association or other charter or bylaws of the Company with respect to the members of its corporate bodies

The Company's corporate bodies are the General Assembly and the Board of Directors. The Board of Directors appoints the Executive Directors.

In the decision-making process, the Company's corporate bodies act in accordance with the powers vested in them by the Croatian Companies Act, the Articles of Association and the by-laws of the Company, thereby securing the appropriate mechanisms for prevention of the abuse of controlling interest.

General Assembly

The powers of the General Assembly are defined by the Croatian Companies Act and the Articles of Association. Its principal functions are the election and removal of Directors, use of profits and covering of losses, granting of discharge to Directors, appointment of the Company's auditor, appointment of special auditor for review of the conduct of the Company's business, amendments to the Articles of Association (including decisions requiring amendments to Articles of Association, such as increase and decrease of share capital), listing and delisting of the Shares and winding-up of the Company.

The General Assembly may not adopt decisions on Company management issues, unless so requested by the Executive Directors.

Only the General Assembly is authorised to decide upon issuance of the Company's shares, except in case of authorised share capital, when such authority is conferred, by virtue of the Articles of Association, to the Board of Directors.

Meetings of the General Assembly are usually called by the Executive Directors, but may also be called by the Board of Directors. In order to provide protection for minority shareholders, the Croatian Companies Act also permits the General Assembly to be called at the request of shareholders jointly holding at least 5 per cent. of the Company's share capital.

The meetings of the General Assembly take place in Pula, Croatia. Notice of a meeting of the General Assembly must be published at least 30 days before the date of the meeting. The quorum for a meeting of the General Assembly is shareholders or their proxies or representatives holding more than 50 per cent. of the Company's share capital, unless the Croatian Companies Act prescribes otherwise or the Articles of Association prescribe otherwise. If the prescribed quorum is not present at a meeting of the General Assembly, a new meeting of the General Assembly shall within the term of minimum eight days and maximum 30 days as from the date of the initial meeting. At such new meeting, the decisions may be validly adopted irrespective of the quorum present at such meeting, unless the Croatian Companies Act prescribes otherwise or the Articles of Association prescribe otherwise.

Decisions of the General Assembly are adopted with simple majority of the votes cast, unless the Croatian Companies Act or the Articles of Association require a greater majority and/or fulfilment of additional conditions. Accordingly, in certain circumstances, such as amendments to the Articles of Association, increases in share capital and the exclusion of pre-emption rights in respect of such increases in share capital, the Croatian Companies Act requires a "qualified majority" i.e. votes representing 75 per cent. of the share capital present at the General Assembly. In addition, the Articles of Association require such qualified majority also for deciding upon the Company's corporate changes, winding-up of the Company and adoption of or amendments to the Rules of Procedure of the General Assembly.

According to the Articles of Association, a qualified majority of 9/10 of share capital present at the General Assembly is required for adoption of the following decisions:

- decision on delisting of the Shares from the Regulated Market or transition to a lower market (i.e. transition from the Official Market to the Regular Market); and
- decision on authorised share capital.

Board of Directors

The Board of Directors consists of seven members elected by the General Assembly for the term of one year, except for one member of the Board of Directors who is appointed by the Company's employees' council. Once elected, the directors elect, among themselves, one chairman and at least one deputy chairman of the Board. The chairman and the first deputy chairman cannot be, at the same time, executive directors of the Company.

The shareholders individually or jointly holding at least 10 per cent. of the Company's share capital are entitled to propose candidates for members of the Board of Directors. So authorised shareholders shall prepare a list of candidates to be voted on by the General Assembly. Any decision on election of members of the Board of Directors is adopted by a simple majority of all votes in the General Assembly. The elected members of the Board of Directors may be removed before expiry of their term of office by decision of the General Assembly adopted with "qualified majority" i.e. votes representing 75 per cent. of the share capital present at the General Assembly.

According to the Articles of Association, the Board of Directors is, *inter alia*, responsible for the supervision of the Executive Directors, which in turn are responsible for the management of the Company's business operations. The Board of Directors is actively engaged in key strategic initiatives and support of the Executive Directors' decision-making process. In particular, the Board of Directors is responsible for:

- management of the Company;
- setting the basis for the Company's business operations and determining the business policy of the Company;
- supervision of the Company's business operations;
- appointment and removal of the Executive Directors;
- representation of the Company towards the Executive Directors;
- if needed, convening of the General Assembly;
- appointment of the chairman of the General Assembly meeting;
- submitting written reports to the General Assembly;
- deciding upon establishment and winding-up of other companies and branches;
- adopting the Rules of Procedure of the Board of Directors and the Rules of Procedure of the Executive Directors;
- appointment and removal of members of its committees (such as Audit Committee, Remuneration Committee and similar);
- preparing draft decision for appointment of members of the Board of Directors and Company's auditor; and
- performing of other activities according to the Croatian Companies Act and the Articles of Association.

The Board of Directors may, by virtue of its decision, Rules of Procedure of the Board of Directors, Rules of Procedure of the Executive Directors or otherwise in accordance with the Croatian Companies Act, set out matters undertaken by the Executive Directors which require the prior approval of the Board of Directors.

The procedure for calling and holding the meetings and for adopting decisions at the meetings of the Board of Directors is detailed in the Articles of Association as well as the Rules of Procedure of the Board of Directors dated 29 July 2008. In particular, each member of the Board of Directors is entitled to one vote. The quorum for any meeting of the Board of Directors is four members and the majority for adoption of decisions of the Board of Directors is a simple majority of votes cast.

Executive Directors

Pursuant to the Articles of Association, the Board of Directors appoints a minimum two Executive Directors, of which one Executive Director is appointed as the CEO. The appointed Executive Directors need to satisfy the qualifications set out in the Articles of Association (such as university education, a minimum of five years of experience, organisational and management skills and knowledge of English language). Members of the Board of Directors (except chairman and the first deputy chairman) may be appointed as Executive Directors, but only in a way that majority members of the Board of Directors are non-executive members. As of the date of this Prospectus, no member of the Board of Directors has been appointed as executive director of the Company.

The Executive Directors are appointed for a maximum term of five years. The exact term of office of the Executive Directors is set by the decision of the Board of Directors. As of the date of this Prospectus, the Company has two Executive Directors appointed for the term of two years (ending on 19 September 2018). The Executive Directors may be removed from office at any time by decision of the Board of Directors.

The Executive Directors manage the Company's business operations and represent the Company by acting jointly. In case of divided votes, the CEO shall have the casting vote.

The Executive Directors are responsible for the management of the Company's business operations, in particular for:

- representation of the Company;
- management of the Company's business operations;
- determining the Company's internal organisation;
- preparation of decisions and other acts in the competence of the General Assembly (except for election of members of the Board of Directors, chairman of the meeting of the General Assembly and the Company's auditor);
- convening the meeting of the General Assembly;
- implementation of the decision of the General Assembly and the Board of Directors;
- adoption of decisions and acts in management of the Company's business operations;
- submitting reports and proposal for use of profit to the Board of Directors; and
- performing of other activities according to the Croatian Companies Act and the Articles of Association.

Description of rights, preferences and restrictions attaching to each class of the Shares

Pursuant to the Croatian Companies Act and the Articles of Association, as amended on 22 March 2017, the Board of Directors is authorised, within one year as from the date of registration of the amendments to the Articles of Association and (i) only if needed for the purpose of stabilising, preserving or otherwise influencing the price of the Shares on the Regulated Market and/or (ii) for the purpose of issuing shares to be disposed of within the framework of employees reward programme dedicated to the employees of the Company or the Company's affiliates i.e. ESOP programme aimed at development of employees' participation in the share capital of the Company, which programme shall be adopted by the Executive Directors with the approval of the Board of Directors, to increase the share capital of the Company by issuing new shares up to the amount representing up to 10 per cent. of the nominal value of the share capital of the Company at the time of adoption of the decision of the Board of Directors on share capital increase. Such share capital increase may be implemented only by way of contributions in cash, with the authority of the Board of Directors to exclude, fully or partially, the pre-emptive right of the existing shareholders of the Company to subscribe new shares.

As of the date of this Prospectus, there are no different classes of shares of the Company. All of the Shares are ordinary shares which are all issued and fully-paid and provide shareholders the following rights:

- the right to participate and to vote at the General Assembly;
- the right to receive dividends. The General Assembly determines the use of the net profit of the Company in each financial year. The General Assembly may decide that the net profit of the Company is paid to the shareholders and/or allocated to reserves and/or retained. The dividend payable to each shareholder shall be in proportion to its holding in the share capital of the Company;
- a pre-emptive right to subscribe in case of an issue of new shares, although the General Assembly may decide to exclude such rights in whole or in part, in accordance with the conditions prescribed by the Croatian Companies Act and other relevant regulations;
- an entitlement to payment from remaining liquidation or bankruptcy estate of the Company, in accordance with the Croatian Companies Act and other relevant regulations; and
- the right to receive information concerning the business of the Company and other management and property rights of holders of the shares resulting from the provisions of the Croatian Companies Act and other relevant regulations.

Each shareholder of the Company is entitled to exercise one vote per share and the Shares do not confer different voting rights.

The Offer Shares shall carry the same rights as the Shares.

Description of actions necessary to change the rights of shareholders

Shareholders' rights may be changed by amending the Articles of Association. According to Article 301 of the Croatian Companies Act, a decision of the General Assembly to amend the Articles of Association must be adopted by a majority of the votes representing at least three-quarters of the share capital present at the General Assembly, unless the Articles of Association require a greater majority and/or fulfilment of additional conditions. The Articles of Association require a qualified majority of 9/10 of share capital present at the General Assembly for adoption of a decision on authorised share capital.

A description of the conditions governing the manner in which annual General Assembly and extraordinary General Assembly are called, including the conditions of admission

Meetings of the General Assembly are usually called by the Executive Directors, but may also be called by the Board of Directors. In order to provide protection for minority shareholders, the Croatian Companies Act also permits the General Assembly to be called at the request of shareholders jointly holding at least 5 per cent. of the Company's share capital.

Meetings of the General Assembly take place in Pula, Croatia. Notice of a meeting of the General Assembly must be published at least 30 days before the date of the meeting. The quorum for a meeting of the General Assembly is shareholders or their proxies or representatives holding more than 50 per cent. of the Company's share capital, unless the Croatian Companies Act or the Articles of Association prescribe otherwise. If the prescribed quorum is not present at a meeting of the General Assembly, a new meeting of the General Assembly shall within the term of minimum eight days and maximum 30 days as from the date of the initial meeting. At such new meeting, the decisions may be validly adopted irrespective of the quorum present at such meeting, unless the Croatian Companies Act prescribes otherwise or the Articles of Association prescribe otherwise.

Provisions in the Articles of Association that would have the effect of delaying, deferring or preventing a change in control of the Company

The Articles of Association do not contain any provisions affecting free transferability of the Shares.

The Croatian Companies Act provides that the decisions of the General Assembly are adopted with a simple majority of the votes cast, unless the Croatian Companies Act or the Articles of Association require a greater majority and/or fulfilment of additional conditions. The Croatian Companies Act requires a "qualified majority" (votes representing 75 per cent. of the share capital present at the General Assembly) for any increase in share capital and the exclusion of pre-emption rights in respect of such increase in share capital. In addition, the Articles of Association require a qualified majority of 9/10 of share capital present at the General Assembly for adoption of any decision on authorised share capital.

As at the date of this Prospectus, the Company is not aware of any arrangements, the operation of which may at a subsequent date result in a change in control of the Company.

Provisions of the Articles of Association governing the ownership threshold above which shareholder ownership must be disclosed

Shareholders must notify the Company if their voting rights reach, exceed or fall below certain thresholds pursuant to Croatian law as described below. The Articles of Association do not contain any additional obligations in this regard.

Notifications in accordance with the Croatian Companies Act

Thresholds defined by law

The requirement to notify the Company of an interest in shares will be triggered if a company acquires more than 25 per cent. of the shares in the Company (including shares held by that company's subsidiaries and/or shares held on behalf of that company and/or its subsidiaries), or if a company as a shareholder acquires the majority of shares or the majority of the voting rights in the Company. Conversely, if the shareholding of a Company's shareholder falls below the thresholds mentioned above, it shall inform the Company accordingly.

Notification requirement

On the occurrence of one of the events listed above, the shareholder is obliged to notify the Company in writing without undue delay. The Company must publish the receipt of such notification in its official newsletter.

Notification pursuant to the Croatian Capital Markets Act

Article 413 of the Croatian Capital Markets Act contains an obligation to notify the issuer and CFSSA about the acquisition or disposal, whether directly or indirectly, of voting rights in the issuer, as defined under the Croatian Capital Markets Act.

Thresholds defined by law

The notification thresholds provided for by law are 5, 10, 15, 20, 25, 30, 50 or 75 per cent. of direct or indirect voting rights in an issuer – joint stock company. The notification requirements will be triggered when the shareholding reaches, exceeds or falls below any of the relevant thresholds mentioned above.

Notification requirement

Once the relevant notification requirement has been triggered, the shareholder is obliged to notify the issuer and CFSSA of its new shareholding without undue delay, and in any event, no later than four trading days as of becoming aware that the relevant thresholds have been reached (the law deems that the shareholder became aware of this fact two trading days following the transaction). Upon receipt of the notification, the issuer is obliged to inform the public, CFSSA and the Zagreb Stock Exchange of the change in shareholding as soon as possible, and in any event, no later than three trading days from the receipt of the notification.

In addition, in line with the Croatian Capital Markets Act, the CDCC is obliged to publish on its website information relating to the ten largest known shareholders of any joint stock company incorporated in Croatia that issues shares in dematerialized form.

Notifications in accordance with the Croatian Takeover Act

The Croatian Takeover Act contains rules governing the takeover procedure and the rights and obligations of takeover participants. The Croatian Takeover Act requires a person who has acquired, directly or indirectly, individually or by acting in concert, together with any shares already held, more than 25 per cent. of the voting shares in a listed joint stock company ("control threshold") to make a mandatory takeover bid for all of the remaining voting shares in that company ("target company").

"Target company" is defined as a joint stock company with registered office in the Republic of Croatia, whose voting shares are listed on the Regulated Market or on a regulated market in an EU Member State, or as a joint stock company with a registered office in another EU Member State, whose voting shares are listed on a regulated market in an EU Member State within the meaning of Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004.

"Acting in concert" means joint acting of natural persons and/or legal entities by virtue of an agreement, express or implied, oral or written, with the aim to acquire voting shares, the concerted exercise of voting rights or prevention of third parties to carry out a takeover, or acting jointly with the target company by virtue of an agreement, express or implied, oral or written, with the aim of preventing third parties from carrying out a takeover.

Notifications and/or announcements in connection with the takeover bid (including the takeover bid) need to be made, as the case may be, to the target company, the CFSSA, the ZSE, the CDCC and in the Official Gazette.

A takeover bid for the remaining voting shares must be delivered to CFSSA for approval within 30 days of the occurrence of the event that triggered the obligation to make a takeover bid.

The price offered for the shares in the takeover bid cannot be lower than the highest price at which the offeror and the persons acting in concert with the offeror have acquired shares in the period of one year prior to the trigger of the obligation to make a takeover bid.

The takeover bid is valid for 28 days from the date of publication, but in the case of any concurrent takeover bids, this term may be extended up to 60 days from the date of publication of the first bid.

In case of voting shares of the issuer with registered office in the Republic of Croatia, whose shares are listed on the Regulated Market, prior to submitting the takeover bid to CFSSA for approval, the offeror is required to enter into a share deposit agreement with the CDCC. The shareholders willing to accept the takeover bid deposit their shares into the deposit account set up by the CDCC. In order to ensure payment for all voting shares being the subject matter of the takeover bid, the offeror is required to deposit the amount of such payment to CDCC's bank account and/or provide CDCC with an irrevocable bank guarantee payable on first demand, issued in favour of the persons depositing their shares in the takeover bid.

After the takeover bid is completed, the offeror is required to deliver to the relevant parties the takeover bid report immediately upon the expiry of the deadline for payment for the shares in the takeover bid, and to publicly announce such report within seven days following the expiry of the deadline for payment.

Takeover bids in respect of the Company

As a result of the acquisition of the remaining ownership interest in Bora, Euro Sea indirectly acquired 74.15 per cent. of the Company's shares, which triggered the takeover bid in respect of the Company, which was conducted in 2016. Following the completion of the takeover bid on 27 April 2016 (where Euro Sea acquired 3.48 per cent. of the Company's shares at the price of HRK 325.73 per share) and a share sale to institutional investors on 29 April 2016 (to AZ obligatory pension funds (A category pension fund – 1.37 per cent. and B category pension fund – 7.63 per cent. of the Company's shares) and to PBZ obligatory pension funds – 3 per cent. of the Company's shares at the price of HRK 285.00 per share), PPHE, through its subsidiaries, indirectly owned 65.63 per cent. of the Company's shares.

As at the date of this Prospectus, there is no takeover bid pending in respect of the Company.

A description of the conditions imposed by the Articles of Association governing changes in the capital, where such conditions are more stringent than is required by law

As of the date of this Prospectus and save for the authorised share capital, the Articles of Association do not impose conditions governing changes in the capital that are more stringent than the conditions required by law. According to the Articles of Association, a qualified majority of 9/10 of share capital present at the General Assembly is required for adoption of the decision on authorised share capital. Additionally, the Articles of Association provide for shareholders or their proxies holding more than 50 per cent. of the Company's share capital as a quorum requirement.

Increase of share capital

The Croatian Companies Act differentiates between four different methods of a share capital increase of a joint stock company, including:

- share capital increase against capital contributions and issuance of new shares (regular share capital increase);
- conditional increase of share capital;
- authorised share capital; and
- the conversion of capital reserves, profit reserves and retained earnings of the company into the share capital.

Regular share capital increase

Every decision on share capital increases must be approved by the general assembly with the majority of the votes representing at least 75 per cent. of the share capital present at the general assembly meeting. In case of a regular share capital increase, all existing shareholders have pre-emptive rights to subscribe for the new shares, which right can be excluded, fully or partially, by the decision of the general assembly.

Conditional share capital increase

Pursuant to the Croatian Companies Act, a conditional increase in share capital may also be carried out only to the extent it is required to allow acquisition of shares in limited cases prescribed by law, such as conversion of convertible bonds into shares or satisfaction of priority rights of certain persons (such as employees and executive directors) to subscribe for new shares. The nominal amount of conditional capital may not exceed 50 per cent. of the total share capital at the time of the decision approving the conditional increase in the case of the conversion of convertible bonds into shares, or 10 per cent. of the total share capital at the time of the decision approving the conditional increase in the case of the realisation of the right to receive shares granted to employees and executive directors.

Authorised share capital

An increase by means of an authorised share capital is a manner of share capital increase based on an authorisation granted to the management board (or the board of directors) to increase the share capital for the amount and within the term set out in the articles of association, as decided by the general assembly decision introducing the authorised share capital into the articles of association. The authorisation may only be granted in the articles of association and for a term not exceeding five years from the incorporation of the company, or as from inclusion of such authorisation in the articles of association. The amount of the authorised share capital may not exceed 50 per cent. of the issued share capital of the company at the time when such authorization is granted.

Conversion of reserves into share capital

Capital reserves, profit reserves or retained earnings may be converted into share capital by decision of the general assembly adopted with the same majority as the decision on regular share capital increase and based on the audited annual financial statements not dated more than eight months before submission of the court application for registration of such share capital increase in the court register.

Capital reserves and profit reserves may not be converted into share capital if the latest annual financial statements of the company show a loss. Capital reserves may be converted only if they, together with the legal reserves, exceed 5 per cent. of then registered share capital (unless the articles of association prescribe for a higher percentage). Reserves allocated for the specific purposes can be converted only if the conversion is in accordance with these purposes. New shares are allocated to the existing shareholders *pro rata* to their participation in the company's share capital.

Reduction of share capital

The Croatian Companies Act provides for the following forms of decrease of share capital in joint stock companies:

- regular share capital decrease;
- simplified share capital decrease; and
- share capital decrease by withdrawal of shares.

Regular share capital decrease

The decision to decrease the share capital must be adopted by the general assembly with the majority of the votes representing at least 75 per cent. of the share capital present at the general assembly meeting. The articles of association may provide for greater majority and/or fulfilment of additional conditions.

Any creditors that have claims against the company prior to announcement of the entry of the resolution on decrease of the share capital into the court register and who may not request the settlement of their claims, must be provided with appropriate security for settlement of such claims in case they apply to the company within six months from the announcement of the aforementioned court register entry. The creditors should be warned about the aforementioned provision in the announcement. Such security may not be requested by the creditors who have the right of priority settlement from the assets of the bankruptcy debtor.

On the basis of a regular share capital decrease, payments to shareholders are possible upon expiry of six months from the announcement of the abovementioned court registry entry of the resolution on decrease of the share capital and after the claims of creditors who have submitted their security requests on time have been secured or settled, unless the court decides that these requests should not be complied with. The above creditors' rights are without prejudice to the payments being, or potentially being, made to the shareholders on grounds of share capital decrease.

Simplified share capital decrease

The share capital may be decreased in a simplified manner only for achieving the following purposes: (i) levelling of lower value, (ii) covering of the company's losses, or (iii) transferring the funds into capital reserves. The amounts realised from such simplified share capital decrease may not be paid to the shareholders and may not be used for releasing the shareholders from their obligation to make additional payments.

The simplified share capital decrease shall be permitted only after the amount of legal reserves and capital reserves exceeding 5 per cent. of the share capital after the decrease thereof have been used and after the statutory reserves and other profit reserves have been used. The simplified share capital decrease shall not be permitted as long as the company has undistributed profit. Simplified share capital decreases are limited further in terms of restricting payments of dividends after implementation of such simplified share capital decreases.

Share capital decrease by withdrawal of shares

The company may withdraw shares through (i) forced withdrawal (as ordered or allowed forced withdrawal) or (ii) through withdrawal of a company's treasury shares. Forced withdrawal of shares shall be permitted only in cases where it has been provided in a company's articles of association before taking over or subscription of shares.

In principle, the provisions governing the regular share capital decrease shall apply to the share capital decrease by withdrawal of shares. Such provisions on regular share capital decrease do not have be complied with in case the withdrawal of shares refers to (i) shares acquired without any compensation, (ii) the withdrawal at the account of profit or other reserves, or (iii) shares without nominal amounts.

Acquisition of Treasury Shares

Pursuant to the Croatian Companies Act, a joint stock company may not acquire treasury shares, except in certain limited circumstances. A company may acquire treasury shares (i) based on the authorisation granted by the general assembly, which authorisation is valid for a maximum of five years and needs to set out the terms and conditions for acquisition of treasury shares (such as the maximum number of treasury shares and the minimum and maximum consideration to be paid for the acquisition of treasury shares) or (ii) without general assembly approval, in cases prescribed by the Croatian Companies Act.

As of the date of this Prospectus, the Company holds 169 Shares in treasury representing 0.01 per cent. of the Company's share capital. In the past five years, the Company has not traded these treasury shares.

On 31 August 2016, the General Assembly adopted the decision on granting the approval to the Executive Directors to acquire treasury shares of the Company as described above.

PART 19

SECURITIES TRADING IN CROATIA

As the application will be made for the Listing Shares and the Offer Shares to be listed on the Zagreb Stock Exchange, the following is a summary of certain information in respect of trading, liquidity and settlement of shares on the Zagreb Stock Exchange, notification requirements for the issuers whose securities are listed on the Regulated Market in Croatia and certain provisions of relevant and applicable under Croatian securities law in effect as of the date of this Prospectus. This summary does not purport to be complete and is qualified in its entirety by Croatian law.

The Zagreb Stock Exchange

The stock exchanges of Croatia must be incorporated as joint stock companies or as European Companies (Societas Europea) with the registered seat in the Republic of Croatia, and must obtain an operating licence from CFSSA. Organisational requirements, risk management and procedures for ensuring confidentiality of operation are regulated by the CMA. A stock exchange is authorised to further regulate its organisation, operations, conditions for listing and stock exchange trading by its Articles of Association and Rules, subject to approval by CFSSA and within the framework of the CMA.

The Zagreb Stock Exchange was founded in 1991 as a joint stock company, and maintains the traditions of the Zagreb Commodities and Valuables Exchange which operated between 1919 and 1945. In late 2015, ZSE successfully completed acquisition process of Ljubljana Stock Exchange by taking over 100 per cent. of share capital from CEE Stock Exchange Group. The official Zagreb Stock Exchange website is www.zse.hr.

The investment firms and credit institutions which are members of the stock exchanges trade in their own name and for their own account or by order of their clients.

CFSSA monitors the trading on the Zagreb Stock Exchange, in particular, its members' compliance with the Zagreb Stock Exchange Rules (**ZSE Rules**) and other rules and regulations regarding insider-trading activity, fairness in trading and other market-related matters.

The Markets of the Zagreb Stock Exchange

The ZSE Rules regulate, among other matters, the: (i) scope and organisation of business; (ii) admission, suspension and termination of membership, organisational, human and technical requirements for admission to membership and requirements for settlement of transactions executed on the ZSE, rights and obligations of members; (iii) types and methods of trading (including any provisions on the clearing and settlement systems, which member firms may use to settle executed transactions); (iv) trading transparency; (v) financial instruments which may be traded on the Regulated Market managed by the Zagreb Stock Exchange (including the listing of financial instruments, their temporary suspension and/or its removal from trading, obligation to publish price sensitive information); (vi) trading supervision and prevention and detection of market abuse; and (vii) market protection measures.

Financial instruments may be listed and traded on one of two different markets: the Regulated Market and the CE Enter Market. The Regulated Market is divided into three segments, in accordance with the requirements of transparency with respect to the issuer and the percentage of the shares listed that must be available for trade. The first segment is the Prime Market, which is the premium market. The issuers of securities traded on the Prime Market are subject to more stringent reporting, quality and disclosure requirements. In order to list shares on the Prime Market, generally, a minimum of 25 per cent. of the shares to be listed should be available for trade (free float). By way of exception, it is possible to list the shares even if the percentage in free float is lower than 25 per cent., if, considering a large number of same-class shares and the free float ratio, this does not compromise orderly market functioning. Also, unless the shares meet the criteria of minimum average daily turnover and average order book depth as specified by ZSE, the issuers are obliged to enter into contracts with at least two specialists (market makers) who conduct specialised trading in the shares being listed. Furthermore, shares listed on the Prime Market must have an expected market capitalisation of at least HRK 100,000,000.

The second segment is the Official Market, which requires a minimum of 25 per cent. of the shares to be listed to be available for trade however, by way of exception, it is possible to list the shares even if the percentage in free float is lower than 25 per cent., if, considering a large number of same-class shares and the free float ratio, this does not compromise orderly market functioning. In contrast to the Prime Market, it is not required to enter into a contract with a specialist and there are less stringent reporting and disclosure requirements. However, shares listed on the Official Market must have an expected market capitalisation of at least HRK 8,000,000.

The third segment is the Regular Market, which has the least stringent reporting and disclosure requirements, and in order to be listed, only 15 per cent. of the shares to be listed must be available for trade. However, by way of exception, it is possible to list the shares even if the percentage in free float is lower than 15 per cent., if, considering a large number of same-class shares and the free float ratio, this does not compromise orderly market functioning.

The ZSE Rules provide that any of the following financial instruments, for which the Zagreb Stock Exchange has CFSSA approval or in respect of which the approval is contained in the Capital Markets Act may be traded on the Regulated Market: (i) shares or depositary receipts for underlying shares; (ii) bonds or depositary receipts for underlying securities; (iii) any other securities which entitle their holders to acquire or sell such negotiable securities or which constitute the grounds for a cash payment determined on the basis of negotiable securities, currencies, interest rate or yields, commodities, indices or other measures of size; (iv) money market instruments: treasury bills, central bank bills and commercial paper, certificates of deposit and other instruments which are customarily traded on the money market and (v) units in collective investment undertakings, in accordance with theprovisions of the CMA.

All markets on the ZSE are exchange markets, conducted electronically using a continuous order driven system, both for quotation and reporting and for trade execution. The number of publicly traded equity and debt securities has increased significantly over the past decade.

The CE Enter Market is a parallel market, on which financial instruments which do not meet the transparency requirements of the Regulated Market can be traded.

Trading Volume

Despite the strong development of capital markets in Croatia in the past decade, the trading volume in Croatia is still lower than the more developed markets of Western Europe. As a result, securities trading on the Zagreb Stock Exchange may be less liquid and more volatile than securities traded in other, more developed, markets. The growth of the Croatian market in recent years and the increase in the number of institutional investors has had a positive effect on volume and turnover of securities.

According to the ZSE's publications available on its website (www.zse.hr): (i) 2015 Trading Summary; and (ii) 2016 Trading Summary, the total turnover of 2016 on the Zagreb Stock Exchange, including regular, reported and institutional turnover was HRK 3,864,406,130.00. This was 16.1 per cent. higher than the previous year's turnover of HRK 3,329,516,515.00. With 251 trading days in 2016, the average daily turnover was HRK 15,396,040.00. Around 50 per cent. of the volume in 2016 came from trading stocks. The daily average turnover of 2016 was 14.7 per cent. higher than the daily average turnover of 2015.

The total market capitalisation of bonds, structured products and equities on the ZSE in 2016 was HRK 232,416,100,000.00, which was 14.1 per cent. higher than the market capitalisation in 2015.

Trading and Settlement

Shares listed on the Zagreb Stock Exchange are quoted in HRK on a per share basis. In 1994, the Zagreb Stock Exchange launched an electronic trading system, which allowed brokers to be connected using telecommunications and to trade on the Exchange from their offices. Trading on the Zagreb Stock Exchange occurs Monday through Friday between 09.00 am and 4.30 pm (CET) and trading is conducted only by members of the Zagreb Stock Exchange.

In 2007, the Zagreb Stock Exchange launched its new, modern electronic trading platform developed by stock exchange industry expert OMX AB (Aktiebolaget Optionsmäklarna/Helsinki Stock Exchange), which enabled technological advancement and introduced one of the most sophisticated financial instruments on the Croatian capital market. Trading in securities occurs in real time via the internet, using the OMX trading platform. The prices on the Zagreb Stock Exchange can be monitored via the internet using the ZSE Monitor. The ZSE Monitor is the information distribution system from the Zagreb Stock Exchange which occurs in real time and is aimed at investors, fund managers, analysts and other parties that rely on quick and reliable information of current conditions at the Zagreb Stock Exchange.

The CDCC, which performs clearing, settlement and depository functions, performs its clearing and settlement on the second day after execution of the Transaction (T+2).

The official Index of Zagreb Stock Exchange

CROBEX® is the official share index of the Zagreb Stock Exchange. The index was first published on 1 July 1997, and its base value is set to 1,000.

CROBEX® is an index weighted by free float adjusted market capitalization, whereby the weight of any individual issuer in CROBEX® is limited to 10 per cent. of the index capitalisation. If any share comprising CROBEX® was not traded on a given day, the previous day's close price is used.

CROBEX® is calculated continuously during the trading session. In order to qualify for CROBEX® selection, the relevant shares must have been traded on more than 80 per cent. of the available trading days in the previous six-month period. During the selection process, the shares are ranked by the following two criteria:

- the free float market capitalisation of the shares; and
- the order book turnover of the shares in preceding six-month period.

The free float market capitalisation expressed as a percentage and the turnover expressed as a percentage are each given a weighting of 50 per cent. before the weighted market share is calculated. The shares are then ranked by weighted market share, and at least 15, and not more than 25 shares with the highest rank will be included in the CROBEX® index.

The CROBEX® index is revised semi-annually by the Index Committee, after the close of trading on the third Friday in March and September.

On the occurrence of certain events which may influence the accuracy or credibility of the CROBEX® index during the interim period, the Index Committee has the power to revise the CROBEX®.

As at 22 March 2017, the shares of 25 companies are included in CROBEX®.

The CROBEX10© blue-chip index

The Zagreb Stock Exchange launched a new index of blue-chip issues, CROBEX10©, on 31st August, 2009. The CROBEX10© index provides a set of tools for investors to benchmark blue-chip companies of the Zagreb Stock Exchange. It also allows for the development of innovative investment products, such as index-linked funds and index certificates. The new CROBEX10© index tracks the ten leading companies listed on the Zagreb Stock Exchange in terms of free-float market capitalisation and the order book turnover. The CROBEX10©, components are selected from the CROBEX® index. CROBEX10© has a base value of 1,000 points. The index is calculated in Croatian Kuna and published in real-time during the trading hours of the Zagreb Stock Exchange. CROBEX10© is weighted by the free-float market capitalisation and is revised semi-annually (on the fourth Friday in each of March and September). The weights of individual shares are capped at 20 per cent. in order to prevent the index to be dominated by certain securities.

Notification requirements

Issuers whose securities are listed on the Regulated Market are obliged to publish information which may materially affect the price of its securities. The issuers' obligations are set out in the CMA, the ZSE Rules, and any other relevant regulations.

According to the Capital Markets Act, the issuer's obligations include the following:

- preparing and publishing annual, semi-annual and quarterly financial and business reports, depending on the type of security listed. The Capital Markets Act requires the issuers of securities to prepare and make public annual reports not later than four months from the end of the accounting year; for issuers of shares and debt securities, to prepare and made public semi-annual reports (not later than three months from the end of the half-year), and for issuers of shares with the registered seat in Croatia the obligation to prepare quarterly reports (not later than one month from the end of the first, second and third quarter and not later than two months from the end of the fourth quarter). The periods provided for by the Capital Markets Act relate to both non-consolidated and consolidated reports of the issuer. Together with its annual financial statements, the issuer must publish the audit report and the decision of the competent body on adoption of financial statements and the decision on proposal of profit distribution or loss coverage if the decisions are not constituent parts of the annual report. The statements in question are to be prepared in accordance with the regulations governing companies' operations and accounting as well as application of financial reporting standards;
- natural persons or legal entities directly or indirectly reaching, exceeding or falling below the thresholds of 5 per cent., 10 per cent., 15 per cent., 20 per cent., 25 per cent., 30 per cent., 50 per cent. or 75 per cent. of the voting rights in the issuer are obliged to notify the issuer and CFSSA of when the threshold is reached without undue delay, and in any event, no later than four trading days after the legal entity learned that the relevant thresholds have been reached (the law presumes that the legal entity learned of this fact two trading days following the transaction). The issuer is obliged to publicise the notification without undue delay, but no later than three trading days from the receipt of the notification;
- at the end of each month in which there is a change in the number of voting shares or voting rights arising from such shares occurs, the issuer is obliged to publish the information about the changes occurred and the new total number of voting shares;
- on the acquisition or release of treasury shares, the issuer is obliged to publicise, without undue delay and in any event no later than four trading days from the acquisition or release, the number of treasury shares (in absolute and relative terms) held after each acquisition or release of treasury shares;
- the issuer is obliged to publicise, without undue delay, any changes in rights attaching to each class of the issued shares, including any changes in the rights from the derivatives issued by the issuer entitling to the acquisition of the issuer's shares;
- if there is a proposal for amendment of issuers' articles of association or its memorandum of incorporation the relevant invitation to the shareholder's meeting should be sent to the CFSSA and to the Regulated Market on which its securities are listed, without undue delay, but not later than on the publishing of the invitation to the shareholders' meeting; and
- the issuer of shares must ensure that all shareholders holding shares of the same class are treated equally, and must inform all shareholders, about any proposed and/or scheduled shareholders' meetings and their agenda, and must provide each person with the right to vote at the shareholders' meeting with a proxy in written or in electronic form, and inform them about the financial institution through which it performs its financial obligations to the shareholders, publish or send the information about the distribution and payment of dividends or new issue of shares and similar. The issuer is also obliged to publicise the shareholders' meeting and notify CFSSA and the Regulated Market on which the issuer's shares are listed, no later than it notifies its shareholders of the relevant shareholders' meeting.

The ZSE Rules require a member of the Zagreb Stock Exchange to immediately notify the Zagreb Stock Exchange of:

- cessation of operating licence for performance of investment services and investment activities;
- access to, suspension and termination or other status changes with regard to membership of the clearing and/or settlement system;
- any changes in the persons admitted to the trading system and trading on the trading system;
- any changes in the management board i.e. executive officers if the member has a management board;
- if financial or other circumstances occur in the member which can reasonably be expected to affect the fulfilment of member's obligations or ZSE's operation, other ZSE's members, investors or normal operation of the market (e.g. illiquidity, payment inability or insolvency of the member, institution of bankruptcy proceedings or institution of liquidation proceedings, court or arbitration proceedings with a material value or similar);

- if in the member occur status changes (e.g. merger by acquisition or absorption, division) or other forms of corporate restructuring or change of company's purpose/activities; or
- change of qualified shares in the company.

At ZSE's request a member is obliged to provide also other information and documents affecting or likely to affect the fulfilment of member's obligations, ZSE's operation, other ZSE's members, investors or normal market operation.

In addition, the ZSE Rules require an issuer that has securities listed on the Zagreb Stock Exchange to:

- disclose all price-sensitive material facts to the public pursuant to the ZSE Rules, the CMA and other regulations. When disclosing material facts (inside information), the issuer is required to act in a way that does not favour any particular person or segment of the public;
- disclose all facts that the Zagreb Stock Exchange considers to be adequate for the protection of the investors and the assurance of the functioning of the market;
- if it has shares listed on the Regulated Market, fill out the corporate governance code questionnaire and submit the questionnaire to the Zagreb Stock Exchange no later than the date on which the annual report is submitted and publish the questionnaire on the issuer's website; and
- if the issuer has securities listed on the Regular Market, deliver to the Zagreb Stock Exchange all information required by any other laws and regulations, as well as any changes to the information published in the issuer's prospectus and any earlier disclosures.

Furthermore, the ZSE Rules require issuers that have securities listed on the Regular Market to notify the Zagreb Stock Exchange and the public of:

- (i) its annual general meeting no later than defined by the Croatian Companies Act and other applicable regulations; (ii) the information required to be notified to the shareholders pursuant to the Croatian Capital Markets Act; (iii) any and resolutions passed; (iv) any authorisations granted to the management board; and
- dividend payments (or dividend prepayment), if any within, at least two trading days prior to the ex date (i.e. first day on which a share is traded with no right to a dividend), and on the following: (i) proposed and voted amount of dividend per share; (ii) record date – the first date on which the shares are traded without dividend being ex-dividend date, as determined by the issuer, may not be lessin respect of the holders entitled to a dividend payment, where the ex date (as the first day of trading in the respective shares), may not be earlier than two trading days following the date of publication of the information regarding the voted resolution on dividend payment; and (iii) payment date – as soon as possible following the record date (the next trading date is recommended), provided that a precise date has to be specified as dividend payment date.

Any issuers with securities listed on the Official Market must comply with all the requirements for the securities listed on the Regular Market, and must also comply with the following:

- the issuer must notify the Zagreb Stock Exchange and the public of the dates of any supervisory and management board meetings no later than two trading days prior to the meetings at which either body is scheduled to make decisions about the: (i) financial (unaudited and/or audited unconsolidated and/or consolidated) statements; (ii) any dividend payouts; (iii) any capital increases or reductions; (iv) the adoption of a treasury share purchase programme; and (v) approving the acquisition and disposal of treasury shares; and
- the issuer must notify the Zagreb Stock Exchange of any acquisitions or disposals of any of the issuer's securities or other financial instruments related to such securities by the issuer's managing staff and their closely related persons within five trading days from the relevant acquisition or release.

Any issuers with securities listed on the Prime Market must comply with all the requirements for the securities listed on the Official Market (including the Regular Market's requirements), and must also comply with the following:

- prior to the beginning of a new business year, the issuer must deliver to the Zagreb Stock Exchange and publish on its website a calendar of its corporate actions for the year, including: (i) the disclosure dates for financial statements; (ii) the date of its annual general meeting; and (iii) any dividend payout dates;

(iv) other activities related to investors and as well as notifying the Zagreb Stock Exchange of any changes to the corporate calendar as soon as they occur;

- when releasing the annual report, the issuer's management must after its disclosure to the public or simultaneously with it, present the annual financial statements at the conferences with interested financial analysts and representatives of the media;
- when there is a takeover procedure or corporate divestiture which is price sensitive, the issuers must disclose the purchase price, payment manner, essential information about the company being acquired or sold, reasons for transaction, estimated effects of the transaction on the issuer, plan of execution of the transaction and other key requirements of the transaction; and
- when issuing new shares, the issuer shall issue transferable securities (subscription rights) to enable the shareholders to exercise their pre-emption rights in relation to the subscription and purchase of new shares, and shall also enable trading in such securities on the Regulated Market or CE Enter Market managed by the Zagreb Stock Exchange for at least ten trading days prior to the first day of subscription of the new issue.

All of the information provided to the Zagreb Stock Exchange (including notices, management discussions, financial reports etc.) by issuers with securities listed on the Official Market and Prime Market has to be provided in both Croatian and English.

Mandatory bids and squeeze out proceedings

Pursuant to the Croatian Takeover Act, a person who has acquired, directly or indirectly, individually or by acting in concert, together with any shares already held, more than 25 per cent. of the voting shares in a listed joint stock company ("control threshold"), has to make a mandatory takeover bid for all of the remaining voting shares that company ("target company"). For further details on this topic please see *Section 18.3 "Corporate Information, Shares and Share Capital – Articles of Association – Notifications in accordance with the Croatian Takeover Act"*.

Under the Croatian Companies Act, a shareholder holding shares representing more than 95 per cent. of share capital in a company (the main shareholder) may, based on the decision of the general assembly, squeeze out the minority shareholders, with payment of appropriate compensation (determined by the main shareholder and confirmed by a court appointed expert). Minority shareholders may not challenge the decision of the general assembly on grounds of inappropriate compensation, but may request that a court sets the appropriate compensation. Under the Croatian Takeover Act, if after the takeover bid, the bidder and the persons acting in concert with the bidder hold more than 95 per cent. of the voting shares of the company, the bidder may conduct the squeeze out within the term of three months from expiry of the takeover bid. In this case, the appropriate compensation shall be the price offered in the takeover bid (increased for any price difference if, in the period of one year from the takeover bid, the bidder or the person acting in concert with the bidder, acquire company shares at a price higher than the price offered in the takeover bid). In addition, any minority shareholder who may be squeezed out pursuant to the Croatian Takeover Act may request from the bidder to redeem its shares, under the same terms and conditions as in the case of squeeze out by the bidder.

PART 20

TAXATION

The following summary of material Croatian tax consequences of ownership of the Shares is based upon laws, regulations, decrees, rulings, corporate profit tax and income tax conventions (treaties), administrative practice and judicial decisions publicly available at the date of this Prospectus. Legislative, judicial, interpretations or administrative practice changes may, however, be forthcoming that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to holders of the Shares. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of the Shares.

PROSPECTIVE INVESTORS ARE URGED TO CONSULT THEIR TAX ADVISOR AS TO THE PARTICULAR TAX CONSEQUENCES TO SUCH HOLDER OF THE OWNERSHIP AND DISPOSITION OF THE SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF ANY OTHER TAX LAWS OR TAX TREATIES, AND OF PENDING OR PROPOSED CHANGES IN APPLICABLE TAX LAWS AS AT THE DATE OF THIS PROSPECTUS, AND OF ANY ACTUAL CHANGES IN APPLICABLE TAX LAWS AFTER SUCH DATE.

Set out below is a summary of certain Croatian tax matters related to an investment in the Company. The summary regarding the Croatian taxation is based on the laws in force in the Republic of Croatia at the date of this Prospectus, which may be subject to any changes in law occurring after such date. Such changes could possibly be made on a retrospective basis. The following summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Shares. Shareholders who wish to clarify their own tax situation should consult with and rely upon their own tax advisors.

Income Tax

Pursuant to the Income Tax Act (Official Gazette 115/16) (the **Income Tax Act**) so-called income from capital includes, *inter alia*, income from dividends and shares in profit based on equity participation and capital gains.

Income from dividends and shares in profit of natural persons is subject to the income tax for dividends and shares in profit, which is calculated, withheld and paid by the payer of the total receipts from dividends and shares in profit, simultaneously with the payment, i.e., as a withholding tax, at a rate of 12 per cent., subject to certain exemptions depending on the period in which the profit was realised and thus the Company is obliged to calculate, withhold and pay such tax pursuant to the Income Tax Act, subject to any applicable double taxation treaties.

Domestic natural persons are, together with the income tax, obligated to pay surtax if such an obligation is determined by the decision of the competent local authority.

If the Republic of Croatia signed a double taxation treaty with the country of residence of a foreign natural person, the provisions of that treaty shall apply if more favourable and the capital income tax is payable as a withholding tax at the rate determined in the treaty, provided all relevant conditions are satisfied.

Pursuant to the Income Tax Act, so-called income from capital is considered to also include capital gains. Income based on capital gains is the difference between the purchase price of the financial asset acquired after 1 January 2016 and the agreed sale price (or revenue determined pursuant to the market value of the financial asset at the time of disposal). Disposal of the financial asset includes the sale, exchange, donation or other transfer of the financial asset. Realised capital gains from financial assets acquired after 1 January 2016 will not be subject to taxation if financial assets were held for at least two years from the date of acquisition.

Holders of financial assets are obligated to calculate, withhold and pay income tax based on capital gains until the last day of February of a current year for all capital gains realised in the previous year reduced for the relevant capital losses at the rate of 12 per cent. and surtax (if applicable) without recognition of personal allowance.

Income based on the capital gains is not taxable if: (i) disposal is between spouses and/or relatives in the first line and certain other family members as set out in the Income Tax Act, and between divorced spouses if the disposal is related to a divorce, (ii) the financial assets are inherited, (iii) the financial assets were acquired prior to 1 January 2015 or (iv) the financial assets are disposed of two years after the date of acquisition of such assets.

Corporate Income Tax – Profit Tax

Pursuant to the Profit Tax Act (Official Gazette 177/04, 90/05, 57/06, 146/08, 80/10, 22/12, 148/13, 143/14, 50/16, 115/16) (the **Profit Tax Act**) income of domestic legal persons based on dividends and shares in profit is not subject to the profit tax.

Income from dividends and shares in profit of non-resident legal persons is subject to a withholding tax payable in the Republic of Croatia at the rate of 12 per cent., subject to certain exemptions.

If the Republic of Croatia entered into a double taxation treaty with the country of residence of a non-resident legal person, the provisions of that treaty shall apply if more favourable and the withholding tax is payable at the rate determined in the treaty, provided all relevant conditions are satisfied.

Withholding tax is calculated on the basis of a gross amount of compensation paid by a domestic payer to the non-resident – foreign recipient that is not a natural person. The payer of the withholding tax is a domestic payer of the compensation (dividend or share in profit) and thus the Company is obligated to calculate, withhold and pay such tax at a rate of 12 per cent. simultaneously with the payment, pursuant to the Profit Tax Act, subject to any applicable double taxation treaties.

The Profit Tax Act is in line with the Council Directive 2015/121/EU of 27 January 2015 amending Directive 2011/96/EU on common taxation system applicable in the case of parent companies and subsidiaries of different EU Member States, and thus it prescribes non-taxation of revenues from dividends and shares in profit distribution paid by subsidiary companies to their parent companies, in order to avoid double taxation, subject to satisfaction of relevant requirements (including that a recipient of dividends or share in profit has at least 10 per cent. of the shares in the share capital of the company which pays the dividends or share in profit during an uninterrupted period of 24 months). Relevant exemptions shall not apply if it is clear that the main goal, or one of the main goals, of the payment of dividends or shares in profit is tax evasion or tax avoidance.

Value Added Tax – VAT

Pursuant to the Value Added Tax Act (Official Gazette 73/13, 99/13, 148/13, 153/13, 143/14, 115/16) transactions, including mediation, except managing and storage, in relation to shares, shares in companies or associations, bonds and other securities, are not subject to payment of Value Added Tax, subject to certain exemptions with respect to documents establishing certain rights over goods and rights or securities establishing certain rights over real estate.

Tax on inheritance and gifts

Pursuant to the Local Taxes Act (Official Gazette 115/16) (the **Local Taxes Act**) tax on inheritance and gifts (at the rate of 4 per cent.) is paid on the money, money claims, securities and movables if their individual market value exceeds HRK 50,000.00 on the date of the tax obligation determination. A natural or legal person who inherits or receives gifts in the Republic of Croatia or acquires assets on another non-payment basis, is obligated to pay tax on inheritance and gifts, subject to any applicable double taxation treaty. The Local Taxes Act stipulates various exemptions from payment of the tax on inheritance and gifts.

PART 21

ADDITIONAL INFORMATION

21.1 Advisors to the Company

Advisors to the Company in connection with the Offering and Listing are:

Norton Rose Fulbright LLP, 3 More London Riverside, London, SE1 2AQ, United Kingdom – acting as English and United States legal advisor to the Company

Odvjetničko društvo Porobija & Porobija, j.t.d. (Law Firm Porobija & Porobija, General Partnership), law firm with registered seat in Zagreb, Iblerov trg 10/VII, Croatia, registered with the court register of the Commercial Court in Zagreb under number (MBS): 080072325, personal identification number: (OIB) 85577874038 – acting as Croatian legal advisor to the Company

INTERKAPITAL vrijednosni papiri d.o.o. (INTERCAPITAL securities Ltd.), a limited liability company for dealing in securities with registered seat in Zagreb, Masarykova 1, Croatia, registered with the court register of the Commercial Court in Zagreb under number (MBS): 080420080, personal identification number: (OIB) 68481874507 – acting as Joint Global Coordinator and Bookrunner

UniCredit Bank AG, London Branch, the branch of a company incorporated in the Federal Republic of Germany and whose registered branch number is BR001757, situated at Moor House, 120 London Wall, London EC2Y 5ET, United Kingdom – acting as Joint Global Coordinator and Bookrunner

Zagrebačka banka d.d., a credit institution with registered seat in Zagreb, Trg bana Josipa Jelačića, 10, Croatia, registered in the court register of the Commercial Court in Zagreb under number (MBS): 080000014, personal identification number (OIB): 92963223473 – acting as Joint Global Coordinator and Bookrunner

Hogan Lovells International LLP, Atlantic House, 50 Holborn Viaduct, London EC1A 2FG, United Kingdom – acting as English legal advisor to the Joint Global Coordinators and Bookrunners

BOGDANOVIĆ, DOLIČKI & PARTNERI odvjetničko društvo (BOGDANOVIĆ, DOLIČKI & PARTNERS Attorneys at Law), law firm with registered seat in Zagreb, Miramarska 24, Croatia, registered with the court register of the Commercial Court in Zagreb under number (MBS): 080150551, personal identification number: (OIB) 77213973640 – acting as Croatian legal advisor to the Joint Global Coordinators and Bookrunners

The above mentioned persons are not responsible for the accuracy, truthfulness and completeness of the information contained in this Prospectus or the due performance by the Company of any obligations in relation to the Offering or the Shares. Each potential investor shall not rely on the fact that the advisors have provided the stated services to the Company or the Joint Global Coordinators and Bookrunners when making investment decisions.

21.2 The Company's statutory auditors

The Company's statutory auditors for the standalone and consolidated financial statements of the Company for the years ended 31 December 2016, 31 December 2015 and 31 December 2014, are:

PricewaterhouseCoopers d.o.o., a limited liability company for auditing and consulting services with registered seat in Zagreb, Ulica kneza Ljudevita Posavskog 31, Croatia, registered with the court register of the Commercial Court in Zagreb under number (MBS) 080238978, personal identification number (OIB) 81744835353.

PricewaterhouseCoopers d.o.o. is registered in the register of auditing companies kept by the Croatian Audit Chamber under number 100002640.

21.3 Reports Prepared by Independent Auditors and Experts Included in the Prospectus

PricewaterhouseCoopers d.o.o., a limited liability company for auditing and consulting services with registered seat in Zagreb, Ulica kneza Ljudevita Posavskog 31, Croatia, registered with the court register of the Commercial Court in Zagreb under number (MBS): 080238978, personal identification number (OIB):

81744835353, with respect to the audit report issued in relation to the Group Financial Statements, and the auditor's report on the compilation of the Pro Forma Financial Information.

MAZARS GmbH & Co. KG Wirtschaftsprüfungsgesellschaft, Alt-Moabit 2, 10557 Berlin, Germany, with respect to the audit report issued in relation to the Sugarhill Financial Statements.

The above mentioned independent auditors do not hold any interest in the Company.

The above mentioned reports of independent auditors have been prepared upon request of the Company and have been included in the Prospectus in their entirety as submitted to the Company.

21.4 Third Party Sources

Where third party information has been used in this Prospectus, the source of such information has been identified. Sources of third party information in this document are reports produced by Horwath HTL and STR. Most of the industry and market data are further described in Section 13 "Industry Overview", but can be found in the other parts of this Prospectus as well.

21.5 Documents on Display

In the period of 12 months from the date of the publication of this Prospectus, physical copies of the following documents will be available for inspection at the Company's headquarters, in Pula, Smareglina ulica 3, Croatia, during normal business hours from Monday through Friday each week (except public holidays):

- Group Financial Statements;
- Sugarhill Financial Statements;
- Pro Forma Financial Statements;
- Articles of Association; and
- this Prospectus.

In the period of 12 months from the date of the publication of this Prospectus, this Prospectus will be available in the electronic form on the Company's website: www.arenaturist.com.

PART 22

DEFINITIONS AND GLOSSARY

The definitions set out below apply throughout this Prospectus, unless the context requires otherwise.

22.1 Defined Terms

Allocation Date	date on which the Offer Shares have been allocated to the Investors
Allocation Rules	rules for allocation of the Offer Shares
AMLTFL	Croatian Anti-Money Laundering and Terrorism Financing Law (*Zakon o sprječavanju pranja novca i financiranja terorizma*) published in the Official Gazette Official Gazette 87/08 and 25/12
Application Offices	ZABA and InterCapital offices where Subscription Statements may be submitted in the Retail Investors Offering
Application Period	application period for the Retail Investors Offering which is expected to take place from on or around 15 May 2017 (9:00 CEST) and to on or around 25 May 2017 (14:00 CEST)
Application Process	the process of submitting of Subscription Statements in the Retail Investors Offering
Arena Hospitality	ARENA HOSPITALITY MANAGEMENT d.o.o., with registered seat in Pula, Smareglina ulica 3, Croatia, registered in the court register of the Commercial Court in Pazin under number (MBS) 081066596, personal identification number (OIB) 81747243216
Articles of Association	articles of association of the Company dated 22 March 2017
AZ	AZ pension funds i.e. AZ obvezni mirovinski fond kategorije B (*AZ obligatory category B pension fund*) and AZ obvezni mirovinski fond kategorije A (*AZ obligatory category A pension fund*)
Board of Directors	board of directors of the Company as at the date of this Prospectus comprised of Mr. Boris Ernest Ivesha, Mr. Yoav Arie Papouchado, Mr. Chen Carlos Moravsky, Mr. Abraham Thomas, Mr. Denis Jukić, Mr. Šime Vidulin and Mr. Vehbija Mustafić; and each of them a Director or a member of the Board of Directors
Bookbuilding Period	bookbuilding period for the Institutional Investors Offering which is expected take place from on or around 15 May 2017 (9:00 CEST) to on or around 25 May 2017(12:00 CEST)
Bookbuilding Process	the process of submitting Expressions of Interest and/or Subscription Statements in the Institutional Investors Offering
Bora	Bora B.V., a private company with limited liability incorporated under the laws of the Netherlands
Bora Companies	ARENATURIST HOTELI d.o.o., ARENATURIST ZLATNE STIJENE d.o.o. and ARENATURIST TURISTIČKA NASELJA d.o.o.; the three wholly-owned indirect subsidiaries of PPHE Hotel Group which were sold to the Company in June 2016 and subsequently merged into the Company as surviving entity

Capital Increase Decision	decision on the increase of the share capital of the Company and issuance of Offer Shares by way of the Offering, with contributions in cash and full exclusion of existing shareholders' pre-emptive right in the Offering and on amendments to the Articles of Association, dated 22 March 2017, passed by the General Assembly
Carlson	Carlson Hotels Worldwide, Inc., either alone or together with one or more of its affiliates
Carlson Central Reservation System or **CRS**	a reservation and distribution system operated by Carlson which provides a central repository of reservations, room availability and rates
CDCC	CENTRAL DEPOSITORY & CLEARING COMPANY Inc. (SREDIŠNJE KLIRINŠKO DEPOZITARNO DRUŠTVO, dioničko društvo), with registered seat in Zagreb, Heinzelova 62/a, Croatia, registered in the court register of the Commercial Court in Zagreb under number (MBS): 080138626, personal identification number (OIB): 64406809162
CDCC Account	securities account opened with CDCC for registration of holdings of securities
CE Enter Market	multilateral trading platform of the ZSE
CEE Region	18 countries where the PPHE Hotel Group has granted Arena Hospitality the exclusive right to operate and develop any new Park Plaza branded property, including Albania, Austria, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Germany, Hungary, Kosovo, Moldova, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia and Ukraine
CESR	Committee of European Securities Regulators, legal predecessor of the ESMA
CEST	Central European Summer Time
CET	Central European Time
CFSSA	Croatian Financial Services Supervisory Agency (Hrvatska agencija za nadzor financijskih usluga) with registered seat in Zagreb, Miramarska 24b, Croatia, the public authority in charge with supervision of financial markets, financial services and supervised entities providing those services
CNB	Croatian National Bank (Hrvatska narodna banka) with registered seat in Zagreb, Trg hrvatskih velikana 3, Croatia, the central bank of the Republic of Croatia
Code	Zagreb Stock Exchange Code of Corporate Governance
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
Contribution Agreement	Agreement on Investment of Rights in the Company, dated 23 December 2016, between the PPHE Hotel Group (via Dvadeset Osam d.o.o.) and the Company, whereby the Sugarhill Contribution was effected

Croatia or Republic of Croatia	Republic of Croatia (Republika Hrvatska)
Croatian Capital Markets Act or **CMA**	Croatian Capital Markets Act (Zakon o tržištu kapitala) published in the Official Gazette 88/08, 146/08, 74/09, 54/13, 159/13, 18/15, 110/15 and 123/16
Croatian Companies Act	Croatian Companies Act (Zakon o trgovačkim društvima) published in the Official Gazette 111/93, 34/99, 121/99, 52/00, 118/03, 107/07, 146/08, 137/09, 152/11, 111/12, 68/13 and 110/15
Croatian Takeover Act	Croatian Takeover Act (Zakon o preuzimanju dioničkih društava) published in the Official Gazette 109/07, 36/09, 108/12, 90/13, 99/13 and 148/13
CSR	corporate social responsibility
DACH Region	Austria, Germany and Switzerland
Deutsche Hypo	Deutsche Hypothekenbank (Aktien-Gesselschaft)
EEA	European Economic Area
EHS	environmental and health and safety
ESMA	European Securities and Markets Authority, legal successor of the CESR
EU	the European Union
EU Member State	each of the 28 member states of the European Union
EU Prospectus Directive	Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading on a recognised stock exchange and on the amending Directive 2001/34/EC
EUR, Euro or **€**	lawful currency of all such EU Member States which have accepted Euro as their lawful currency
Euro Sea	Euro Sea Hotels N.V., a public company with limited liability incorporated under the laws of the Netherlands and a member of the PPHE Hotel Group
Exchange Rate	unless otherwise defined in this Prospectus, Croatian National Bank EUR/HRK mid exchange rate applicable on the Allocation Date
Executive Directors	executive directors of the Company as at the date of this Prospectus being Mr. Reuel Israel Gavriel Slonim and Mrs. Milena Perković
Expression of Interest	statement (oral or written) submitted by an Institutional Investor expressing its interest to subscribe for the Offer Shares
Framework Agreement	Framework Agreement, dated 21 December 2016, between Arena Hospitality and the PPHE Hotel Group
General Assembly	shareholders' meeting of the Company
Germany	Federal Republic of Germany (Bundesrepublik Deutschland)
Germany ServiceCo	Park Plaza Hotels (Germany) Services GmbH

Group	Company and its consolidated subsidiaries (companies subject of a requirement to consolidate their financial statements as of the date of this Prospectus)
Group Financial Statements	audited consolidated financial statements of the Group as at and for the years ended 31 December 2016, 2015 and 2014, together with the notes thereto
HBOR	Croatian Bank for Reconstruction and Development (Hrvatska banka za obnovu i razvitak) with registered seat in Zagreb, Strossmayerov trg 9, Croatia, a Croatian development and export bank, established with the aim to encourage the development of Croatian economy
Horwath HTL	Horwath HTL is an international specialist consulting firm specialising in the hospitality industry, together with its Croatian subsidiary HORWATH i HORWATH CONSULTING ZAGREB d.o.o., a limited liability company for consulting in tourism, hospitality, hotel and real estate business with registered seat in Zagreb, Ulica grada Vukovara 269a/14, Croatia, registered in the court register of the Commercial Court in Zagreb under number (MBS): 080117061, personal identification number (OIB): 70085961439
HRK, kn or **Croatian Kuna**	Croatian kuna (Hrvatska kuna), official currency of the Republic of Croatia
HUF or **Hungarian Forint**	Hungarian forint, official currency of the Hungary
Hungary	Republic of Hungary (Magyar Köztarsasag)
IFRS	International Financial Reporting Standards as adopted by the European Union
Income Tax Act	Croatian Income Tax Act (Zakon o porezu na dohodak) published in the Official Gazette 115/16
Institutional Investors	Investors participating in the Institutional Investors Offering, being any legal or natural person meeting the following criteria: having (i) expressed interest to subscribe for the Offer Shares in a minimum amount of HRK 400,000; and (ii) an established trading line directly or indirectly with any of the Joint Global Coordinators and Bookrunners
Institutional Investors Offering	offering in which the Offer Shares are offered to (i) Institutional Investors in Croatia; and (ii) Institutional Investors outside Croatia subject to exemptions from local prospectus or other requirements
InterCapital	INTERCAPITAL securities Ltd. (INTERKAPITAL vrijednosni papiri d.o.o.), a limited liability company for dealing in securities with registered seat in Zagreb, Masarykova 1, Croatia, registered with the court register of the Commercial Court in Zagreb under number (MBS): 080420080, personal identification number: (OIB) 68481874507
Investors	jointly Institutional Investors and Retail Investors
Joint Global Coordinators and Bookrunners	jointly InterCapital, UniCredit and ZABA

Labour Act	Croatian Labour Act (Zakon o radu) published in the Official gazette 93/14
Local Taxes Act	Croatian Local Taxes Act (Zakon o lokalnim porezima) published in the Official Gazette 115/16
Listed Shares	2,182,500 ordinary registered shares of the Company in the nominal amount of HRK 20.00 each which are listed on the Official Market
Listing	admission to trading and listing of the Listing Shares and the Offer Shares on the Official Market
Listing Shares	1,091,250 ordinary registered shares of the Company in the nominal amount of HRK 20.00 each which are expected to be listed on the Official Market and admitted to trading on or around 5 June 2017
LSM Agreements	License, Sales and Marketing Agreements, dated 21 December 2016, between the Group and the PPHE Hotel Group
Maritime Domain Act	Croatian Maritime Domain and Sea Ports Act (*Zakon o pomorskom dobru i morskim lukama*) published in the Official Gazette 158/03, 100/04, 141/06, 38/09, 123/11 and 56/16
MENA	Middle East and North Africa
Offer Price	price in HRK at which the Offer Shares shall be sold in the Offering
Offer Shares	up to 2,000,000 new ordinary registered shares of the Company in the nominal amount of HRK 20.00 each to be issued in accordance with the Capital Increase Decision which are expected to be listed on the Official Market and admitted to trading on or around 5 June 2017
Offering	offer of the Offer Shares as described in this Prospectus
Official Market	official market (*Službeno tržište*) of the Zagreb Stock Exchange
Operational Restructuring	restructuring of the arrangements between the Group and the PPHE Hotel Group, including entry into the Framework Agreement and the LSM Agreements
Order	Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended
PBZ	Privredna banka Zagreb d.d., the credit institution through which the CDCC distributes dividends
PPHE	PPHE Hotel Group Limited, a company incorporated under the regulations of Guernsey, registered under the registration number 47131 with registered seat in 1EW 1st and 2nd Floors, Elizabeth House, Les Ruettes Brayes, St. Peter Port, Guernsey, Channel Islands
PPHE Hotel Group	PPHE, together with its subsidiaries but excluding the Group where the context requires
Price Range	price range in HRK at which the Offer Shares shall be offered in the Offering, which shall be set by the Executive Directors, with prior approval of the Board of Directors, and announced in the Public Invitation

Privatisation Act	Croatian Privatisation Act (*Zakon o privatizaciji*) published in the Official Gazette 21/96, 16/98, 71/97, 73/00, 92/10 and 145/10
Profit Tax Act	Croatian Profit Tax Act (*Zakon o porezu na dobit*) published in the Official Gazette 177/04, 90/05, 57/06, 146/08, 80/10, 22/12, 148/13, 143/14, 50/16 and 115/16
Prospectus	this document dated 26 April 2017
Pro Forma Financial Information	unaudited pro forma consolidated income statement for the year ended 31 December 2016
Public Invitation	public invitation for subscription and payment for the Offer Shares
Regular Market	regular market (*Redovito tržište*) of the Zagreb Stock Exchange
Regulated Market	an exchange-regulated trading segment managed by the Zagreb Stock Exchange in which it is possible to trade listed instruments that consists of three segments: the Prime Market, the Official Market and the Regular Market
Regulation	Commission Regulation (EC) No 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council regarding the information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements
Regulation S	Regulation S of the US Securities Act
Relevant Member State	each member state of the EEA which accepted to transpose the EU Prospectus Directive
Relevant Persons	persons who are qualified investors (as defined in the Prospectus Directive)
Retail Investors	Investors participating in the Retail Investors Offering in Croatia, being any legal or natural person not meeting the criteria set for Institutional Investors and subject to a minimum subscription amount of HRK 1,000
Retail Investors Offering	offering in which the Offer Shares are offered to Retail Investors in Croatia
Shares	the shares of the Company, including the Listed Shares, Listing Shares and Offer Shares
STR	STR Inc.
Subscription Statement	written statement on subscription of the Offer Shares
Sugarhill	Sugarhill Investments B.V., a private company with limited liability incorporated under the laws of the Netherlands
Sugarhill Contribution	indirect contribution by the PPHE Hotel Group of 88.0 per cent. of the shares of Sugarhill to the share capital of the Company
Sugarhill Financial Statements	audited combined financial statements of the Sugarhill Group as at and for the years ended 31 December 2016, 2015 and 2014, together with the notes thereto

Sugarhill Group	Sugarhill and its subsidiaries through which the Group owns and/or operates its German and Hungarian properties
Sugarhill Option	the Company's option to acquire the remaining 12.0 per cent. interest in Sugarhill indirectly from the PPHE Hotel Group in the period of 18 months following the completion of the Sugarhill Contribution for a total price of EUR 8.33 million after which the Company would own 100.0 per cent. of Sugarhill
Territorial Licence Agreement	Territorial Licence Agreement, dated 30 September 2002, between Park Global Holdings, as licensor, and Golden Wall Investment Ltd, as licensee
Tourist Land Act	Croatian Act on the Tourist and Other Construction Land Not Assessed During the Transformation and Privatisation Process (*Zakon o turističkom i ostalom građevinskom zemljištu neprocijenjenom u postupku pretvorbe i privatizacije*) published in the Official Gazette 92/10
TUI	TUI UK Limited
UniCredit	UniCredit Bank AG, London Branch, the branch of a company incorporated in the Federal Republic of Germany and whose registered branch number is BR001757, situated at Moor House, 120 London Wall, London EC2Y 5ET, United Kingdom
United Kingdom	United Kingdom of Great Britain and Northern Ireland
US Securities Act	U.S. Securities Act of 1933, as amended
Waters Act	Croatian Waters Act (*Zakon o vodama*) published in the Official Gazette 153/09, 63/11, 130/11, 56/13 and 14/14
WTTC	World Travel & Tourism Council
Zagrebačka banka or **ZABA**	Zagrebačka banka d.d., a credit institution with registered seat in Zagreb, Trg bana Josipa Jelačića 10, Croatia, registered in the court register of the Commercial Court in Zagreb under number (MBS): 080000014, personal identification number (OIB): 92963223473, being member of UniCredit Group
Zagreb Stock Exchange or **ZSE**	Zagrebačka burza d.d. (Zagreb Stock Exchange, Inc.), with registered seat in Zagreb, Ivana Lučića 2a/22, Croatia, registered in the court register of the Commercial Court in Zagreb under number (MBS) 080034217, personal identification number (OIB) 84368186611
ZSE Rules	rules of the Zagreb Stock Exchange as in force on the date of the Prospectus

22.2 Glossary of Technical Terms

Adjusted profit before tax	adjusted profit before tax which represents actual (loss)/profit before tax less impairment on property, plant and equipment, cost of restructuring, refinancing and other, increased depreciation due to merger or renovation, and fair value movement related party loan
ADR	Average daily rate (ADR) is a figure derived by dividing actual daily revenue by the total number of rooms sold; it is a metric widely used in the hospitality industry to indicate the average realised room rental price per day

Available Rooms	the number of units in a property actually available for use in a given period, eliminating rooms not available due to damage, repairs or any other reason
CAGR	compound annual growth rate
EBIT	earnings before interest and taxes, which is presented in the Group Financial Statements as (loss)/profit for the year after adding back income tax benefit/(expense), other income and expenses, financial income and financial expenses
EBITDA	earnings before interest, taxes, depreciation and amortisation, which is presented in the Group Financial Statements as EBIT after adding back depreciation, amortisation and impairment
EBITDA margin	EBITDA margin is calculated as EBITDA divided by total revenues
EBITDAR	earnings before interest, taxes, depreciation, amortisation and rental expenses, which is presented in the Group's Financial Statements as EBITDA after adding back rental expenses and land concession fees
GDP	gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period
KPI	key performance indicators
MICE	meetings, incentives, conferencing, exhibitions
OCC	occupancy rate (OCC) is a measure of hotel capacity utilization which is calculated by dividing the total number of rooms occupied by the total number of Available Rooms, multiplied by 100
OTA	online travel agent
RevPAR	revenue per available room (RevPAR) is a performance metric used in the hotel industry, which is calculated by dividing the room revenue by the total number of Available Rooms in the hotel for a certain period
units	for the Group's hotels and resorts, this includes hotel rooms (including suites) and apartments; for the Group's campsites, this includes pitches, mobile homes, rentals and apartments

APPENDIX A – FINANCIAL STATEMENTS

Group Financial Statements

Audited consolidated financial statements of the Group as of and for the years ended 31 December 2016, 2015 and 2014

Sugarhill Group Financial Statements

Audited combined financial statements of Sugarhill Group as of and for the years ended 31 December 2016, 2015 and 2014

***Note:** The following Executive Directors' Report and the Management Board Decision have been extracted from the Annual Report and Accounts 2016 (**2016 Annual Report**) published on the website of the ZSE on 22 March 2017, without adjustment. Apart from the following Executive Directors' Report, the Management Board Decision and the Group Financial Statements, other sections of the 2016 Annual Report are not incorporated, by reference or otherwise, into this Prospectus.*

EXECUTIVE DIRECTORS' REPORT

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

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

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

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

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

2016 results
The results for the year are set out in the attached Consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

R. Slonim

REUEL ISRAEL GAVRIEL SLONIM
CHIEF EXECUTIVE OFFICER

MILENA PERKOVIĆ
EXECUTIVE OFFICER & CHIEF FINANCIAL OFFICER

MANAGEMENT BOARD DECISION

Board of Directors
File No: 01- 5/17

Pula, 20 March 2017

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

DECISION
The Board of Directors gives its approval to:

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

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

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

BORIS IVESHA
CHAIRMAN

Independent Auditor's Report

To the Shareholders and Board of Directors of Arenaturist d.d.:

Our opinion

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

What we have audited

The audited financial statements comprise:

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

Basis for opinion

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

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence

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

PricewaterhouseCoopers d.o.o., Ulica kneza Ljudevita Posavskog 31, 10000 Zagreb, Croatia
T: +385 (1) 6328 888, F:+385 (1) 6111 556, www.pwc.hr

Our audit approach

Overview

- Overall group materiality:
  a) for 2016: HRK 6.1 million, which represents 1% of annual group revenue adjusted for non-recurring items (as described below in paragraph *Materiality*);
  b) for 2015: HRK 3.7 million, which represents 1% of total revenue;
  c) for 2014: HRK 3.2 million, which represents 1% of total revenue.

- The group engagement team is the auditor of 1 reporting unit in Croatia and component auditor from other network operated under our instructions in foreign countries.
- In establishing the overall approach to the group audit, we determined the type of work that needed to be performed by us, as the group engagement team, and component auditor from other networks operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.
- The group engagement team visited the following locations: Pula, Medulin and Berlin (where the related component team was located). Our audit scope addressed 100% of the Group's revenues and 100% of the Group's absolute value of underlying loss.

- KAM 1 – Accounting treatment of an under common control acquisition of subgroup Sugarhill Investments B.V.
- KAM 2 – Impairment of hotel real estate properties

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

Materiality

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

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

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

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

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Accounting treatment of under common control acquisition of subgroup Sugarhill Investments B.V. Refer to Notes 2 a. and 3 a. in the consolidated financial statements. In December 2016, the Group acquired 88% of the holding company Sugarhill Investments B.V. from Dvadeset Osam d.o.o. The acquisition was settled by the issuance of new shares of Arenaturist d.d. All companies mentioned above were under control of the PPHE Hotel Group Limited prior the acquisition occurred. Both investment in Sugarhill and new shares issued as a consideration for the acquisition are estimated at fair value by the independent evaluator. Based on these fair values exchange ratio was determined. In accordance with the Group accounting policies, for such transactions, the Group applies a method commonly referred to as "*predecessor accounting method*", prospectively, i.e. starting from 31 December 2016. The main principle of this method is that no assets or liabilities are restated to their fair values. Instead, the legal acquirer incorporates predecessor carrying values. These predecessor carrying values are the carrying values that are related to the acquired entity taken from the consolidated financial statements of the highest entity, i.e. PPHE Hotel Group Limited that has common control for which consolidated financial statements are prepared. Our audit work has been focused on the accounting treatment of this transaction. Particularly, we considered whether this method could be applicable for this particular transaction and whether it was properly applied in the financial statements. In addition, we focused whether the difference between the consideration and the predecessor values in the amount of HRK 270,795 thousand was reported as a Group capital reserves reduction.	We have reviewed supporting legal documentation in respect of the acquisition transaction to obtain the proper understanding of the transaction and also reviewed management's procedures for determining the fair value of the acquired 88% shareholding in Sugarhill. We reviewed management's assessment that the acquisition of Sugarhill sub-group is out of scope of IFRS 3 and may be accounted under predecessor method prospectively. In this area, our audit procedures included, among others, consultation with PwC IFRS expert team, and consideration of available accounting options. We have tested consolidation procedure of the Sugarhill sub-group. We tested calculation of the capital reserve reduction as a result of the application of the predecessor accounting method. Based on the evidence obtained, we have not identified any significant issues with the applied accounting method with respect to the related transaction.

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Key audit matter	How our audit addressed the key audit matter
Impairment of hotel real estate properties Refer to Notes 3 c. and 4 c. in the consolidated financial statements. The company Arenaturist d.d. has reported properties with carrying value of HRK 1,204 million which were presented in the consolidated statement of financial position as at 31 December 2016. During 2016, an impairment review of those assets were performed when there was an indication that these may be impaired such as changes in operation strategy combined with a change in ultimate controlling party. The management has assessed the recoverable values of properties that included analysis of the financial results of the each cash generating unit, the outlook for the hotel industry and Arenaturist d.d. operating plans. Based on this assumptions the management used discounted cash flow model. An impairment provision of HRK 148.6 million has been identified and reduced the carrying values of certain hotel properties to their estimated recoverable values. For the remaining properties, management concluded that the recoverable amount was higher than their carrying values such that no impairment provision was required. Given the materiality of properties, the recognition of impairment had a significant impact on the consolidated financial statements. We also focused on this area as these conclusions are dependent upon significant management judgement involved in performing the impairment test. In particular the most significant judgements relate to discount rates applied together with the assumptions supporting the underlying forecast cash flows.	Our procedures in relation to management's impairment assessment of properties included: - Assessing the methodologies used by management to estimate values in use and fair value less cost to sell; - Evaluating the independent external valuer's competences, capabilities and objectivity; - Checking, on a sample basis, the accuracy and relevance of the input data provided by management to the external valuer; - Assessing management's key assumptions used to estimate value in use based on our knowledge of the hotel industry in Croatia; and - Considering the potential impact of reasonably possible downside changes in these key assumptions. We have reviewed sensitivities in evaluating the management's assessment performed on discount rate, EBITDA, growth rate. Based on available evidence we found management's assumptions in relation to the recoverable amount calculations to be reasonable. We found the disclosures in notes 3c and 4c to be appropriate. We consider management's conclusion to be consistent with the available information.

How we tailored our group audit scope

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

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

The Group consists of 3 parts:

a) stand-alone Arenaturist d.d. (the parent; ''Company'') which is audited by the Group audit team;

b) three companies Arenaturist hoteli d.o.o., Arenaturist zlatne stijene d.o.o. and Arenaturist turistička naselja d.o.o. – In June 2016, these companies were acquired by the Company from related entity Dvadeset devet d.o.o. (subsidiary of PPHE Hotel Group Limited). Subsequently, in November 2016 these entities were merged into Arenaturist d.d. – audit of this transaction and presentation of comparatives were audited by the Group audit team; and

c) Sugarhill Investments B.V. (the holding company; ''Sugarhill'') – In December 2016, the Company acquired 88% shareholding of Sugarhill. The Sugarhill sub-group is part of the Group from 31 December 2016 and is consolidated based on prospective predecessor accounting method (it means no influence on 2016 Statement of comprehensive income). The Company applied the predecessor accounting method prospectively as the Company and Sugarhill did not have the same controlling party prior to 1 April 2016. The Sugarhill sub-group consists of 10 solely owned entities and 4 joint venture entities. In substance, Sugarhill sub-group runs 5 solely owned and 2 joint venture city hotels of which 6 in Germany and 1 in Hungary and possess hotel management rights to manage and support Park Plaza and art'otel branded hotel operations in Croatia, Germany and Hungary – we have instructed the component auditors Mazars Germany and Mazars Hungary to perform the 31 December 2016 balance sheet audit on 8 out of 10 entities (2 entities are insignificant) belonging to the Sugarhill sub-group and defined certain limited audit procedure on 1 joint venture company. Our instructions included our ethical requirements, risk analysis, materiality and audit approach for key audit areas.

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

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

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

Other information

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

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

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

With respect to the Management Report and Corporate Governance Statement, we also performed procedures required by the Accounting Act in Croatia. Those procedures include considering whether the Management Report includes the disclosures required by Article 21 of the Accounting Act, and whether the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PricewaterhouseCoopers d.o.o.

PricewaterhouseCoopers d.o.o.
Ulica kneza Ljudevita Posavskog 31, Zagreb
Zagreb, 20 March 2017

Siniša Dušić
Member of the Management Board
and Certified Auditor

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

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

RELI SLONIM
CHIEF EXECUTIVE OFFICER

MILENA PERKOVIĆ
EXECUTIVE OFFICER &
CHIEF FINANCIAL OFFICER

CONSOLIDATED INCOME STATEMENT

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

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

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

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

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

Non-cash items:			
Outstanding payable on investments in property, plant and equipment	**13,561**	–	–

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 General

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

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

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

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

b. Description of business and formation of the Company:

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

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

c. Assessment of going concern:

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

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

Note 2 Summary of significant accounting policies

a. Basis of preparation

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

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

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

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

Note 2 Summary of significant accounting policies continued

a. Basis of preparation continued

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

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

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

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

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

Statement of compliance:

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

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

b. Basis of consolidation

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

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

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

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

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

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

c. Changes in accounting policy and disclosures

Basis of preparation

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

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

Note 2 Summary of significant accounting policies continued

c. Changes in accounting policy and disclosures continued

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

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

d. Significant accounting judgments, estimates and assumptions

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

Judgments

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

Estimates and assumptions

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

Deferred tax assets

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

e. Interest in joint ventures

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

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

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

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

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

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

Note 2 Summary of significant accounting policies continued

f. Foreign currency translation

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

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

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

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

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

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

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

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

g. Property, plant and equipment

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

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

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

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

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

Note 2 Summary of significant accounting policies continued

h. Impairment of non-financial assets

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

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

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

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

i. Financial instruments

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

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

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

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

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

Note 2 Summary of significant accounting policies continued

i. Financial instruments continued

(ii) Fair value

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

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

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

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

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

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

(iii) Financial liabilities

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

(iv) Derecognition of financial instruments

Financial assets

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

Financial liabilities

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

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

Note 2 Summary of significant accounting policies continued

i. Financial instruments continued

(v) Impairment of financial assets

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

Assets carried at amortised cost

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

Available-for-sale financial assets

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

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

(vi) Offsetting financial instruments

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

j. Inventories

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

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

k. Cash and cash equivalents

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

l. Trade receivables

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

Note 2 Summary of significant accounting policies continued

m. Revenue recognition

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

Owned and leased hotels

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

Customer loyalty programme

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

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

n. Key performance indicators

EBITDAR

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

EBITDA

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

EBIT

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

Other income and expenses

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

o. Leases

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

The Group as lessor

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

The Group as lessee

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

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

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

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

Note 2 Summary of significant accounting policies continued

p. Borrowing costs for qualifying assets

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

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

q. Taxation

Current income tax

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

Deferred income tax

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

(i) where the deferred tax liability arises from the initial recognition of goodwill or from an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(ii) in respect of taxable temporary differences associated with investments in subsidiaries, associates and jointly controlled entities, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

(i) when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(ii) in respect of deductible temporary differences associated with investments in subsidiaries, associates and jointly controlled entities, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

r. Earnings (loss) per share

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

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

Note 2 Summary of significant accounting policies continued

s. Standards issued but not yet applied

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

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

IFRS 9 Financial Instruments

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

IFRS15 Revenue from Contracts with Customers

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

IFRS 16 Leases

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

According to the new Standard:

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

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

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

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

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

Note 2 Summary of significant accounting policies continued

s. Standards issued but not yet applied continued

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

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

t. New and amended standards adopted by the Group:

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

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

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

Note 3 Significant events during the reported period

a. Acquisition of 88% interest of Sugarhill

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

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

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

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

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

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

Note 3 Significant events during the reported period continued

b. Acquisition of Bora Companies

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

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

c. Impairment of property, plant and equipment

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

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

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

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

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

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

Note 4 Property, plant and equipment

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

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

b. For information regarding liens, see Note 11.

Note 4 Property, plant and equipment continued

c. Impairment of property, plant and equipment

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

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

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

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

For information on impairment, see Note 3.

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

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

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

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

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

Note 5 Loans and investment in joint ventures
For a list of jointly controlled entities, please see the appendices.

Investment in joint ventures

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

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

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

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

Note 6 Other non-current financial assets

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

Note 7 Trade receivables

a. **Composition:**

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

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

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

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

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

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

Note 8 Other receivables and prepayments

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

Note 9 Cash and cash equivalents

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

Note 10 Equity

a. Share capital

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

b. Unregistered share capital

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

c. Nature and purpose of reserves

Other reserves

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

Hedging reserve

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

Legal reserves

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

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

Other reserves

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

(i) Capital reserve of HRK 638.8 million of which HRK 611.1 million (2015 and 2014: HRK 611.1 million) arose through share capital decrease, reserves transferred from retained earnings from previous years in the amount of HRK 25.4 million (2015 and 2014: HRK 25.4 million), reserves for treasury shares of HRK 4.0 thousand (2015 and 2014: HRK 4.0 thousand) and revaluation reserves formed from unrealised fair value gains on available-for-sale financial assets of HRK 115 thousand (2015: HRK 78.0 thousand; 2014: HRK 66.0 thousand) and legal reserves amounting to HRK 2.2 million (2015 and 2014: 2.2 million).

(ii) Other capital reserves which amount to HRK 288.5 million negative with regard to the difference between the acquisition price and the net asset value of the Sugarhill Group (see Note 3A).

(iii) Other reserves for the difference between the purchase price of the Bora Companies and the net asset value of the Bora Companies. This difference of HRK 23.0 million has directly been recognised in equity.

Note 11 Pledges, contingent liabilities and commitments

a. Pledges, collateral and securities

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

b. Restricted cash

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

c. Commitments

(i) Management and franchise agreements

1. In December 2016, the Group's existing operating agreements for its Croatian properties and those properties in Germany and Hungary that formed part of the Sugarhill Group were amended, restated and novated in order to create two separate agreements going forwards:

   a. an operating agreement with Arena Hospitality (a newly formed Croatian operating company) under which each property pays an annual base fee calculated as a percentage of total revenue of the property and an annual incentive fee calculated as a percentage of adjusted gross operating profit. These agreements are for terms of between 15 and 30 years; and

   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 Group paid annual management fees calculated as a percentage of revenue and of adjusted gross operating profit for each of its Croatian properties to PPHE Hotel Group.

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

(ii) Capital commitments

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

Guarantees:

1. The construction facility provided to Park Plaza Nuremberg GmbH is guaranteed by PPHE Hotel Group and as at 31 December 2016, HRK 81.1 million (€10.7 million) had been drawn. PPHE Hotel Group will remain the guarantor under this loan up and until the Company has certification compliance of financial covenants of certain facility agreements of Zaba at 31 December 2017. The Company will provide a back-to-back guarantee to PPHE Hotel Group as of 31 December 2017 following the above-mentioned certification.

2. The principal and interest under the €11.5 million (HRK 86.0 million) facility granted by Deutsche Hypothekenbank AG to ABM Hotel Holding B.V. and PPBK Hotel Holding B.V. (formerly known as ABK Hotel Holding B.V.) is guaranteed by PPHE Hotel Group. PPHE Hotel Group will remain the guarantor up and until the Company has certified compliance of financial covenants of certain facility agreements of Zaba at 31 December 2017. The Company will provide a back-to-back guarantee to PPHE Hotel Group as of 31 December 2017 following the above-mentioned certification.

Note 11 Pledges, contingent liabilities and commitments continued

d. Contingent liabilities

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

e. Lease agreements

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

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

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

Note 12 Bank borrowings

The bank borrowings of the Group are comprised as follows:

As at 31 December 2016

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

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

For securities and pledges, see Note 11.

Note 12 Bank borrowings continued

As at 31 December 2015

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

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

For securities and pledges, see Note 11.

As at 31 December 2014

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

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

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

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

b. Under certain Zaba facilities the borrower must ensure that the DSCR is at least 1.2 and that the sum of the equity and the balances of shareholders' loans is at least equal to the balances of the bank borrowings.

Note 12 Bank borrowings continued

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

For guarantees under the above facility agreements see Note 11.

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

Note 13 Provisions

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

Provision for litigation

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

Provision for concession fee on land

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

Note 14 Other payables and accruals

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

Note 15 Revenues

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

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

Note 16

(i) Operating expenses

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

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

Note 17 Financial expenses

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

Note 18 Other income and expenses

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

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

Note 19 Income taxes

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

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

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

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

Note 19 Income taxes continued

a. Reconciliation between tax benefit (expense) and the product of accounting profit multiplied by the Group's tax rate is as follows:

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

b. Tax laws applicable to the Group companies:

(i) The Company is subject to taxation under the law of Croatia. The Company was taxed at the standard rate of 20%. However, due to new tax regulation enacted in December 2016, the corporate income tax rate will be 18% for the financial year 2017 onwards.

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

1. Taxation in Germany: corporate income tax rate and business rates is 30.2%.
2. Taxation in Hungary: corporate income tax rate is 18%.
3. Taxation in the Netherlands: corporate income tax rate is 25%.

c. Losses carried forward for tax purposes:

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

Note 20 Earnings per share

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

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

Note 21 Segments

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

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

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

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

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

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

Note 21 Segments continued

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

* Total non-current assets is located in Croatia.

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

* Total non-current assets is located in Croatia.

Note 22 Related parties

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

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

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

a. Balances with related parties:

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

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

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

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

Note 22 Related parties continued

b. Transactions with related parties:

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

c. Significant other transactions with related parties

(i) Transactions in the ordinary course of business, in connection with the use of hotel facilities (such as overnight room stays and food and beverages) are charged at market prices. These transactions occur occasionally.

(ii) Compensation to key management personnel (Executive Directors and Board of Directors) for the year ended 31 December 2016:

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

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

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

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

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

Note 23 Financial risk management objectives and policies
The Group's principal financial instruments, other than derivatives, comprise bank borrowings, cash and cash equivalents and restricted deposits. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

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

a. Foreign currency risk

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

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

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

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

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

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

b. Interest rate risk

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

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

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

c. Credit risk

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

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

Note 23 Financial risk management objectives and policies continued

d. Litigation as a risk factor in business

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

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

(ii) Based on the Medulin Municipality's ownership interest which is registered in the land registry with respect to certain land plots of the campsites Medulin, Stupice and Runke, the Medulin Municipality filed a law suit against the Company for compensation for the use of such land from December 1997 currently amounting to EUR 8.9 million (HRK 66.6 million) plus interest. It also demanded transfer of possession of the respective parts of those campsites. The Company claimed that pursuant to the Act on the Tourist and Other Construction Land Not Appraised During the Transition and Privatisation Process (the 'Act'), the Company acquired co-ownership of the campsites Medulin, Stupice and Runke, together with the Republic of Croatia, and therefore, that the Medulin Municipality is not entitled to claim for payment of land use remuneration and transfer of possession of land plots in the campsites. In addition to objecting to the claim of the Medulin Municipality, the Company filed a counterclaim against the Medulin Municipality in the amount of HRK 124.5 million as the Company has made various investments in the campsites. The first instance proceeding has been suspended until the actual size of the maritime domain areas within the campsites are established in separate proceedings.

(iii) In accordance with the provisions of the Act, the Company submitted requests to the Republic of Croatia for the award of tourist land concessions for a term of 50 years (the maximum term allowed) in relation to land areas in eight campsites and tourist land in three of its self-catering holiday apartment complexes in Croatia. Since the adoption of the Act in 2010, as far as the Company is aware, no concession agreement has been entered into with respect to tourist land in campsites/tourist resorts/hotels in the Republic of Croatia due to ambiguities in the wording of the Act and other related regulations. So far as the Company is aware, the status of the Company's tourist land concession requests is similar to the status of tourist land concession requests submitted by other companies in the Republic of Croatia. In practice, the companies that have submitted requests for a tourist land concession regularly pay an advance concession fee of 50% of the "assumed" concession fee calculated in accordance with the relevant regulations. As such, the Company will continue to pay 50% of the concession fees in respect of the eight campsites and to accrue the remaining 50% until determination of the concession agreements, which is presented as a provision in the financial statements.

(iv) The Company has entered into settlement agreements with the Republic of Croatia in regards to all eight campsites whereby it has agreed that the proportions of co-ownership shall be determined based on expert evaluations. The provisions in the Act relating to such expert evaluations are unclear, and, therefore, the Company's requests for the award of tourist land concessions in campsites have not yet been resolved and will likely remain unresolved until the Act and relevant regulations are adequately amended.

(v) In relation to the properties in tourist resorts and hotels, the Company's requests for award of tourist land concessions have been rejected twice by the City of Pula as the concession grantor. Following the law suit submitted by the Company and separately also by the Republic of Croatia, the City of Pula's decision has been recently annulled by the Administrative court in Rijeka for the second time and the matter was sent back to the first instance concession granting authority (City of Pula), with an instruction to repeat the procedure and establish if the relevant criteria for qualification of the relevant area as tourist land have been satisfied. In relation to the Company's resorts and hotels' tourist land areas, due to still unresolved ownership matters, the relevant municipality has not been charging the Company the respective 50% of the "assumed" concession fee and the Company has not been paying any such fee, but has made provisions in relation to the amount of the "assumed" concession fee for each year since 2011.

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

Note 23 Financial risk management objectives and policies continued

e. Liquidity risk

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

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

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

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

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

Note 23 Financial risk management objectives and policies continued

f. Capital management

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

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

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

g. Fair value of financial instruments

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

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

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

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

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

Note 23 Financial risk management objectives and policies continued

g. Fair value of financial instruments continued

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

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

Fair value hierarchy

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

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

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

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

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

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

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

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

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

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

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

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

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

h. Derivative financial instruments

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

Note 23 Financial risk management objectives and policies continued

h. Derivative financial instruments continued

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

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

i. Credit quality of financial assets

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

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

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

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

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

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

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

Note 24 Subsequent events

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

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

SUBSIDIARIES INCLUDED IN THE GROUP

Name of company	Principal activity	Country of incorporation	Functional currency	Direct and indirect holdings %
Ulika d.o.o.[1]	Holding company	Croatia	HRK	100
Mazurana d.o.o.[1]	Holding company	Croatia	HRK	100
Germany Real Estate B.V.[1]	Holding company	The Netherlands	EUR	100
ACO Hotel Holding B.V.[2]	Holding company	The Netherlands	EUR	100
ABK Hotel Holding B.V.[2]	Holding company	The Netherlands	EUR	100
Sugarhill Investments B.V.[1]	Holding company	The Netherlands	EUR	88
Arena Hospitality Management d.o.o.[2,3]	Management company	Croatia	EUR	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 mbH[2,3]	Hotel operation	Germany	EUR	100
SW Szállodaüzemeltető Kft[2,3]	Hotel operation	Hungary	HUF	100

JOINTLY CONTROLLED ENTITIES

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

1 Direct holdings.
2 Indirect holdings.
3 Subsidiaries (direct and indirect) 100% or 50% owned by Sugarhill. The Company owns 88% of the shares in Sugarhill.

Independent Auditor's Report

To Sugarhill Investment B.V.

We have audited the accompanying combined financial statements of Sugarhill Investment B.V., Amsterdam, and its subsidiaries as presented in Note 1 of the combined financial statements of Sugarhill Investment B.V. Group, comprising the combined statement of financial position as of 31 December 2014, 31 December 2015 and 31 December 2016, the combined statement of comprehensive income, the combined statement of changes in equity and the combined statement of cash flows for the years then ended, and the notes to the combined financial statements. The combined financial statements have been compiled by management in order to illustrate the impact of the change in the legal structure as presented in Note 1 of the combined financial statements on the Sugarhill Investment B.V. Group's financial position as of these reporting dates and its financial performances and cash flows for the periods then ended. The combination was prepared by using the pooling of interests method in order to reflect the financial position, results of operations and cash flows of these companies included in the scope as if they had been a part of the Sugarhill Investment B.V. Group for all periods presented. Because of their nature, the combined financial statements do not represent the Sugarhill Investment B.V. Group's past financial positions, financial performances or cash flows.

Management's Responsibility for the Combined Financial Statements
Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with International Financial Reporting Standards, as adopted in the European Union, and for being satisfied that they give a true and fair view. The Management is also responsible for such internal control as it determines necessary for preparing the combined financial statements so that they are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit of the combined financial statements in accordance with Section 317 HGB ["Handelsgesetzbuch": "German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW), which comply with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected de-pend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the accounting-related internal control system relevant to the entity's preparation and fair presentation of the combined financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, the proper application of the combination methodology used by management, as well as evaluating the overall presentation of the combined financial statements.

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

Our audit has not led to any reservations.

Opinion
In our opinion, the combined financial statements give a true and fair view of the financial position of Sugarhill Investment B.V. and its subsidiaries as presented in Note 1 of the combined financial statements as of 31 December 2014, 31 December 2015 and 31 December 2016, and of their financial performances and cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted in the European Union.

Berlin, 14 March 2017

MAZARS GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft

Heckeler Wirtschaftsprüfer [German Public Auditor]	Kleinmann Wirtschaftsprüfer [German Public Auditor]

Combined statement of financial position

	Note	As at 31 December 2016 HRK'000	2015 HRK'000	2014 HRK'000
Assets				
Non-current assets:				
Property, plant and equipment	4	**224,997**	159,492	93,967
Financial fixed assets	5	**42,847**	43,499	40,510
Deferred tax asset	19	**-**	5,757	-
		267,844	208,748	134,477
Current assets:				
Inventories		**2,172**	1,050	984
Receivables related parties	6	**564**	4,983	6,503
Net trade account receivables	7	**10,693**	9,508	8,650
Receivable and other current assets	8	**7,649**	4,145	6,724
Cash and cash equivalents	9	**37,932**	16,483	24,280
		59,010	36,169	47,141
Total assets		**326,854**	244,917	181,618
Equity and liabilities				
Equity:	10			
Share capital		**137**	137	137
Share premium		**274,019**	-	-
Reserves		**(4,306)**	(6,061)	(6,939)
Accumulated earnings		**(80,634)**	(86,959)	(88,499)
Total equity		**189,216**	(92,883)	(95,301)
Non-current liabilities:				
Bank borrowings	12	**-**	-	27,581
Non-current liabilities related parties	13	**-**	223,613	161,435
Other financial liabilities		**8**	43	82
		8	223,656	189,098
Current liabilities:				
Trade account payable		**13,278**	22,478	9,075
Payables and other current liabilities	14	**29,416**	26,835	23,703
Current liabilities related parties	13	**13,879**	37,345	55,043
Bank borrowings	12	**81,057**	27,486	-
		137,630	114,145	87,821
Total liabilities		**137,638**	337,801	276,919
Total equity and liabilities		**326,854**	244,917	181,618

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

Date of approval of the Combined financial statements 14 March 2017. Signed on behalf of the Directors of Sugarhill Investments B.V..

R. SLONIM **M. PERKOVIC**

Combined statement of comprehensive income

	Note	Year ended 31 December 2016 HRK'000	2015 HRK'000	2014 HRK'000
Revenues	15	**202,005**	187,186	175,148
Operating expenses	16	**(144,805)**	(132,132)	(121,147)
EBITDAR		**57,200**	55,054	54,001
Rental expenses		**(43,199)**	(53,840)	(46,277)
EBITDA		**14,001**	1,214	7,724
Depreciation	4	**(3,656)**	(1,893)	(2,323)
EBIT		**10,345**	(679)	5,401
Financial expenses	17	**(7,038)**	(5,874)	(5,585)
Financial income	18	**826**	910	977
Other income and expenses	19	**(3,774)**	-	13,570
Share in result of joint ventures	6	**(650)**	1,605	1,899
Income (Loss) before tax		**(291)**	(4,038)	16,262
Income tax (benefit) charge	20	**(6,248)**	5,579	(160)
Income (Loss) for the year		**(6,539)**	1,540	16,102

Other comprehensive income (loss) to be recycled thr ough profit and loss in subsequent periods: [1]			
Income (Loss) for the year	**(6,539)**	1,540	16,102
Profit (loss) from cash flow hedges[2]	**(386)**	**545**	**(4,132)**
Foreign currency translation adjustments of foreign operations[3]	**2,141**	**333**	**(675)**
Other comprehensive (loss) income	**1,755**	**878**	**(4,807)**
Total comprehensive income	**(4,784**	**2,418**	**11,295**

1 There is no other comprehensive income that will not be reclassified to the profit and loss in subsequent periods
2 Included in hedging reserve.
3 Included in foreign currency translation reserve.

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

Combined statement of changes in equity

	Share capital	Share premium	Foreign currency translation reserve	Hedging reserve	Accumulated Loss	**Total equity**
Balance as at 1 January 2014	137	-	(1,079)	(1,053)	(104,601)	(106,596)
Income (Loss) for the year	-	-	-	-	16,102	16,102
Other comprehensive loss for the year	-	-	(675)	(4,132)	-	(4,807)
Total comprehensive (loss) income	-	-	(675)	(4,132)	16,102	11,295
Balance as at 31 December 2014	137	-	(1,754)	(5,185)	(88,499)	(95,301)
Income (Loss) for the year	-	-	-	-	1,540	1,540
Other comprehensive loss for the year	-	-	333	545	-	878
Total comprehensive (loss) income	-	-	333	545	1,540	2,418
Balance as at 31 December 2015	137	-	(1,421)	(4,640)	(86,959)	(92,883)
Income (Loss) for the year	-	-	-	-	**(6,539)**	**(6,539)**
Other comprehensive loss for the year	-	-	**2,141**	**(386)**	-	**1,755**
Total comprehensive (loss) income	-	-	**2,141**	**(386)**	**(6,539)**	**(4,784)**
Write off of related party liabilities	-	-	-	-	**12,864**	**12,874**
Share premium contribution	-	**274,019**	-	-	-	**274,019**
Balance as at 31 December 2016	**137**	**274,019**	**720**	**(5,026)**	**(80,634)**	**189,216**

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

Combined statement of cash flows

	Note	2016 HRK'000	2015 HRK'000	2014 HRK'000
		Year ended 31 December		
Cash flows from operating activities:				
Profit for the year		**(6,539)**	1,540	16,102
Adjustment to reconcile profit to cash provided by operating activities:				
Finance expenses- related parties		**6,004**	5,404	4,808
Income tax (income) expense		**6,248**	(5,579)	160
Share in result joint venture		**650**	(1,605)	(1,899)
Capital gain upon sale of Berlin hotels to joint venture		**-**	-	(13,347)
Depreciation and amortisation		**3,656**	1,893	2,323
		16,558	113	(7,955)
Changes in operating assets and liabilities:				
(Increase) decrease in inventories		**(1,125)**	(67)	1,373
Decrease in trade and other receivables		**(437)**	3,155	(3,045)
Increase in trade and other payables		**(4,925)**	(6,515)	(3,562)
		(6,487)	(3,427)	(5,234)
Cash paid and received during the period for:				
Taxes (paid) received		**(428)**	(109)	(980)
		(428)	(109)	(980)
Net cash provided by operating activities		**3,104**	(1,883)	1,933
Cash flows from investing activities:				
Investments in property, plant and equipment	4	**(70,425)**	(55,886)	(23,946)
Loans to joint ventures		**(825)**	(887)	(681)
Net change in cash upon divestment of Berlin hotels to joint venture		**-**	-	(22,568)
(Increase) decrease in restricted deposits		**-**	(55)	(4,817)
Net cash used in investing activities		**(71,250)**	(56,828)	(52,012)
Cash flows from financing activities:				
Proceeds from long-term loans		**53,628**	-	26,951
Proceeds from loans from related parties		**36,057**	50,969	10,055
Net cash provided by financing activities		**89,685**	50,969	37,006
Increase in cash and cash equivalents		**21,539**	(7,742)	(13,073)
Net foreign exchange differences		**(90)**	(55)	(482)
Cash and cash equivalents at beginning of year		**16,483**	24,280	37,835
Cash and cash equivalents at end of year		**37,932**	16,483	24,280

Non-cash items:			
Outstanding payable on investments in property, plant and equipment	**-**	11,692	2,512

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

Notes to the combined financial statements

Note 1 General

This report consists of the Combined financial statements for the financial years 2014, 2015 and 2016 of Sugarhill Investments B.V ("the Company") registered in Amsterdam, Claude Debussylaan 14, The Netherlands and each of its' subsidiaries (the " **Group** ") as at 31 December 2016. In Annex 1 a list of these subsidiaries is included. The Company was incorporated on 6 December 2000 and it's primarily activity is owning, leasing, developing, operating and franchising primarily full-service upscale, upper upscale and lifestyle hotels in Germany and Hungary. The Group has been part of the PPHE Hotel Group Limited ("PPHE Hotel Group" or the "ultimate parent company"), since June 2007. PPHE Hotel Group which together with its subsidiaries owns, leases, develops, operates and franchises full service upscale, upper upscale and lifestyle hotels in major gateway cities and regional centres, predominantly in Europe and is listed at the London Stock Exchange.

Until 23 December 2016 100% of the shares in the Company were owned by Park Plaza Hotel Europe Holdings B.V. ('PPHE Holdings ") PPHE Holdings is a 100% indirect subsidiary of PPHE Hotel Group. At 23 December 2016 88% of the shares in the Company were contributed to Arenaturist d. d. ("Arenaturist") and 12% are still owned by PPHE Holdings. Arenaturist is listed on the Zagreb stock exchange and PPHE Hotel Group owns 65.63% of the shares of Arenaturist as at 31 December 2016. PPHE Hotel Group is developing Arenaturist and its subsidiaries (together the "Arenaturist Group") into a leisure and hospitality company in Central and Eastern Europe. For this reason PPHE Hotel Group indirectly contributed ("the Contribution') in December 2016 its German and Hungarian operations (consisting of companies and hotel properties held by the Company) by contributing 88% of the shares in the Company to Arenaturist in exchange for new shares issued by Arenaturist.

The following transactions ("the Transactions') were being implemented in the Group before the Contribution:

- Sale of the shares in art'otel Dresden/Park Plaza betriebsgesellschaft mbH and Park Plaza Berlin Hotelbetriebsgesellschaft mbH (2 fully owned subsidiaries of the Group) at 19 December 2016 to another indirect subsidiary of PPHE Hotel Group
- Acquisition of the shares in Park Plaza Hotel (Germany) Services GmbH, a regional management company for the German region, at 19 December 2016 from an indirect subsidiary of PPHE Hotel Group.

Arenaturist is in the process of issuing new shares to be listed on the Zagreb Stock Exchange. Accordingly, the Company has prepared combined financial statements specifically for the purpose of the Prospectus to reflect the Transactions as if they had occurred at the date on which the Company was incorporated (6 December 2000). Since, as described above, the business activities and net assets of the Company comprise solely of holdings in companies that were previously owned by the Company or the ultimate parent company, the retrospective predecessor method of accounting for this transaction has been applied in the Combined financial statements. The Combined financial statements present the results and changes in equity of the Company and its subsidiaries as if the Group had been in existence throughout the years presented.

As the acquisition of the shares in Park Plaza Hotels (Germany) Services GmbH involved the combination of businesses under common control, this is not a business combination in the scope of IFRS 3, and the retrospective predecessor method of accounting has been applied in the presentation of the Combined financial statements for the years ended 31 December 2016, 2015 and 2014. Accordingly, the assets and liabilities of the subsidiary transferred to the Company have been recognised at historical amounts.

a. **Description of business and formation of the Company:**
   The Company's primary activity is owning, leasing, developing, operating and franchising primarily full-service upscale and lifestyle hotels in Germany and Hungary.

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

Note 2 Summary of significant accounting policies

a. **Basis of preparation:**
   The combined financial statement is prepared in accordance with International Financial Reporting Standards (IFRS) except in respect of the following matters:
   - the Combined financial statements do not comply with IAS 27, Consolidated and Separate Financial Statements, because, prior to 31 December 2006, the Company did not control Park Plaza Hotels (Germany) Services GmbH, consequently the Company is not permitted by IAS 27 to present consolidated financial information. The financial information has therefore been prepared on a combined basis by applying the principles underlying the consolidation procedures of IAS 27;
   - as the financial information has been prepared on a combined basis, the Company is unable to measure earnings per share. Accordingly, the requirement of IAS 33, Earnings per Share, to disclose earnings per share has not been complied with; and
   - the Combined financial statements do not constitute a set of general purpose financial statements under paragraph 3 of IAS 1 and consequently the Company does not make an explicit and unreserved statement of compliance with IFRS as contemplated by paragraph 14 of IAS 1.

Note 2 Summary of significant accounting policies continued

The Combined financial statements of the Group have been prepared on a historical cost basis, except for derivative financial instruments and available-for-sale financial assets that have been measured at fair value. The Combined financial statements are presented in Croatian Kuna and all values are rounded to the nearest thousand (HRK'000) except where otherwise indicated.

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

b. Basis of consolidation:

The Combined financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2016. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. All inter-company balances and transactions, income and expenses, and profits and losses resulting from intra-Group transactions are eliminated in full.

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

Significant accounting judgments, estimates and assumptions:

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

Judgments

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

Estimates and assumptions

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

Deferred tax assets

Deferred tax assets are recognised for unused carry forward tax losses and temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilised. The amount of deferred tax assets that can be recognised is based upon the likely timing and level of future taxable profits together with future tax planning strategies. Additional information is provided in Note 20.

d. Business combinations involving entities under common control

The Group accounts for business combinations that include entities under common control using the retrospective predecessor method of accounting. Accordingly, the assets and liabilities of the subsidiaries transferred to the Company have been recognised at historical amounts.

e. Investment in joint ventures:

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

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

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

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

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

Note 2 Summary of significant accounting policies continued

f. **Foreign currency translation:**

The functional currency of the Company is the Euro (EUR). The Combined financial statements are presented in Kuna for the purpose of the Prospectus as mentioned in Note 2a.

Each entity of the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the exchange rates prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated into functional currency at the rates prevailing on the reporting date. Profits and losses arising from exchange differences are included in the income statement.

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

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

	As at 31 December		
	2016 **In HRK**	2015 In HRK	2014 In HRK
Euro	**7,56**	7,64	7,66
Hungarian Forint	**2,43**	2,44	2,43

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

	As at 31 December		
	2016 **%**	2015 %	2014 %
Euro	**(0,8)**	(0,2)	0,2
Hungarian Forint	**(0,4)**	0,4	5,32

g **Property, plant and equipment:**

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

	Years
Hotel buildings	**50 -67**
Furniture and equipment	**5 - 15**

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

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

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

h. **Impairment of non-financial assets:**

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

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

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

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

Note 2 Summary of significant accounting policies continued

i. **Financial instruments:**

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

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

1. **Loans and receivables:**

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

a) **Available-for-sale financial assets:**

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

b) **Financial assets at fair value through profit or loss:**

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

2. **Fair value:**

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

The Group uses the following hierarchy based on the lowest level input that is significant to the fair value measurement for determining and disclosing the fair value of financial instruments by valuation technique (see Note 31(f) for specific valuation methodologies):

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

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

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

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

3. **Financial liabilities:**

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

4. **Derecognition of financial instruments:**

Financial assets

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

Financial liabilities

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

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

Note 2 Summary of significant accounting policies continued

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

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

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

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

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

k. **Inventories:**
Inventories include food and beverages and are valued at the lower of cost and net realisable value. Cost includes purchase cost on a first in-first out basis.

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

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

l. **Derivative financial instruments and hedge accounting:**
The Group 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.

The fair value of interest rate swap contracts is determined using valuation techniques, including the discounted cash flow model.

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 entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in 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.

Note 2 Summary of significant accounting policies continued

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

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

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

Customer loyalty programme
The Group participates in the Club Carlson℠ customer loyalty programme to provide customers with incentives to buy room nights. This customer loyalty programme is owned and operated by Carlson℠ and therefore the Group retains no obligations in respect of the award credits other than to pay the programme operator for the award credits it has granted. The customers are entitled to utilise the awards as soon as they are granted.

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

o. **Key performance indicators:**

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

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

EBIT
Earnings before interest, exceptional items presented as other income and 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 pre-opening expenses.

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

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

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

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

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

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

q. **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.

Note 2 Summary of significant accounting policies continued

r. 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

(i) 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.

s. Standards issued but not yet applied

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

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

IFRS 9 Financial Instruments

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

IFRS 15 Revenue from Contracts with Customers

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

Note 2 Summary of significant accounting policies continued

IFRS 16, "Leases":

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

• lessees are required to recognise an asset and a corresponding liability in the statement of financial position in respect of all leases (except in certain cases) similar to the accounting treatment of finance leases according to the existing IAS 17 Leases;

• lessees are required to initially recognise a lease liability for the obligation to make lease payments and a corresponding right-of-use asset. Lessees will also recognise interest and depreciation expenses separately;

• variable lease payments that are not dependent on changes in the Consumer Price Index (CPI) or interest rates, but are based on performance or use (such as a percentage of revenues) are recognised as an expense by the lessees as incurred and recognised as income by the lessors as earned;

• in the event of change in variable lease payments that are CPI-linked, lessees are required to remeasure the lease liability and the effect of the remeasurement is an adjustment to the carrying amount of the right-of-use asset;

•the new Standard includes two exceptions according to which lessees are permitted to elect to apply a method similar to the current accounting treatment for operating leases. These exceptions are leases for which the underlying asset is of low value and leases with a term of up to one year; and

•the accounting treatment by lessors remains substantially unchanged, namely classification of a lease as a finance lease or an operating lease.

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

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

In 2017, the Group plans to assess the potential effect of IFRS 16 on its Consolidated financial statements. Disclosures regarding future minimum payments relating to operating leases which may be required to be included in financial statements are disclosed in Note 11b.

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

Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses

Amendments to IAS 7: Disclosure Initiative

Clarifications to IFRS 15: Revenue from Contracts with Customers

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

Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

v. New and amended standards adopted by the Group:

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

• Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11

• Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38

• Equity Method in Separate Financial Statements – Amendments to IAS 27

• Disclosure Initiative – Amendments to IAS 1

• Investment Entities: Applying the Consolidation Exception – Amendments to IFRS 10, IFRS 12 and IAS 28

• Annual Improvements to IFRS 2012–2014 cycle comprising changes to four standards (IFRS 5, IFRS 7, IFRS 19, IAS 34)

• Annual Improvements to IFRSs 2010–2012 cycle.

Note 3 Significant events during the reported period.

a. Share premium contribution

PPHE Hotel Group and its subsidiaries provided loans to subsidiaries of the Company to finance the construction and the operations of the hotels. At 19th of December 2016 all these loans were assigned to PPHE Holding, the former 100% shareholder of the Company, and following this assignment the loans were contributed to the Company via a share premium contribution. The total amounts of loan contributed amounts to HRK 274.0 million.

Following the Contribution the Company has become the Lender of above loans provided to its subsidiaries and all loan agreements have been assigned to the Company. Upon consolidation of the Group all these loan balances are eliminated.

b. New operating agreements

In 2016 the Company incorporated a new Croatian subsidiary, Arena Hospitality doo ("Arena Hospitality"). In December 2016, the Group's existing operating agreements for its German and Hungarian properties and those properties in Croatia owned by Arenaturist were amended, restated and novated in order to create two separate agreements going forwards:

a. an operating agreement with Arena Hospitality under which each property pays an annual base fee calculated as a percentage of total revenue of the property and an annual incentive fee calculated as a percentage of adjusted gross operating profit. These agreements are for terms of between 15 and 30 years; and

b. a licence, sales and marketing agreement with a subsidiary of PPHE Hotel Group (as licensor) under which each property pays an annual fee calculated as a percentage of total revenue for, among others, certain group services. The term of such agreement follows that of the amended operating agreements.

Up and until such amendment, restatement and novation, the Group paid annual management fees calculated as a percentage of revenue and of adjusted gross operating profit for each of its German and Hungarian properties to PPHE Hotel Group. 2. Additionally, as of December 2016,, the Group benefits from an exclusive right to operate and develop hotels under the Park Plaza® brand in 18 countries throughout the CEE region for a period of 30 years.

c. Divestments in 2014

On 13 January 2014, the Group entered into a 50:50 joint venture in relation to the freeholds and operations of art'otel berlin mitte and Park Plaza Berlin Kudamm ("the Hotels") together with the Nakash group. The Group sold to Nakash 50% of the shares in the companies which own the freeholds and the operating businesses of the Hotels and assigned 50% of the shareholder loans made by the Group to those companies for an aggregate consideration of €3,180 thousands, which was advanced in 2013. The Company and Nakash also contributed €1.0 million each for the renovation of the Hotels. The Group continues to manage the Hotels under long-term hotel operating agreements. As a result of the sale and loss of control of these Hotels, the Company has derecognised all of the assets and liabilities in respect of the Hotels and re-measured its retained stake (50%) to fair value based on the consideration received for the portion sold. The impact of this sale on the financial statements is as follows:

ASSETS		HRK'000
NON-CURRENT ASSETS:		
Property, plant and equipment		(125,710)
CURRENT ASSETS:		
Inventories		(648)
Trade receivables and other short-term assets		(2,033)
Cash and cash equivalents		(22,568)
TOTAL ASSETS		**(150,959)**
NON-CURRENT LIABILITIES		
Bank loans		(89,264)
Other financial liabilities		(1,059)
CURRENT LIABILITIES		
Trade and other payables		(10,332)
TOTAL LIABILITIES		**(100,655)**
Consideration received in respect of stake sold	31,826	
Recognition of retained share at fair value	31,826	
		63,651
Recognised capital gain		**13,347**

Note 4 Property, plant and equipment

	Land HRK'000	Hotel buildings HRK'000	Furniture and equipment HRK'000	Total HRK'000
Cost:				
Balance as at 1 January 2014	36,732	137,352	34,659	208,743
Additions during the year	-	25,765	1,062	26,827
Disposal of subsidiaries	(36,818)	(77,011)	(14,436)	(128,265)
Adjustment for exchange rate differences	86	483	(376)	193
Balance as at 31 December 2014	-	86,589	20,909	107,498
Accumulated depreciation:				
Balance as at 1 January 2014	-	-	(13,831)	(13,831)
Provision for depreciation	-	-	(2,323)	(2,323)
Disposal of subsidiaries	-	-	2,514	2,514
Adjustment for exchange rate differences	-	-	109	109
Balance as at 31 December 2014	-	-	(13,531)	(13,531)
Depreciated cost as at 31 December 2014	**-**	**86,589**	**7,378**	**93,967**
Cost:				
Balance as at 1 January 2015	-	86,589	20,909	107,498
Additions during the year	-	62,394	5,484	67,878
Disposal of subsidiaries	-	-	(4,288)	(4,288)
Adjustment for exchange rate differences	-	(407)	(93)	(500)
Balance as at 31 December 2015	-	148,576	22,012	170,588
Accumulated depreciation:				
Balance as at 1 January 2015	-	-	(13,531)	(13,531)
Provision for depreciation	-	-	(1,893)	(1,893)
Disposal	-	-	4,284	4,284
Adjustment for exchange rate differences	-	-	44	44
Balance as at 31 December 2015	-	-	(11,096)	(11,096)
Depreciated cost as at 31 December 2015	**-**	**148,576**	**10,916**	**159,492**
Cost:				
Balance as at 1 January 2016	**-**	**148,576**	**22,012**	**170,588**
Reclassification	**15,321**	**(15,321)**	**-**	**-**
Additions during the year	**-**	**39,867**	**30,558**	**70,425**
Disposal	**-**	**-**	**(517)**	**(517)**
Adjustment for exchange rate differences	**-**	**(1,323)**	**(2)**	**(1,325)**
Balance as at 31 December 2016	**15,321**	**171,799**	**52,051**	**239,171**
Accumulated depreciation:				
Balance as at 1 January 2016	**-**	**-**	**(11,096)**	**(11,096)**
Provision for depreciation	**-**	**(1,281)**	**(2,375)**	**(3,656)**
Disposal	**-**	**-**	**517**	**517**
Adjustment for exchange rate differences	**-**	**(5)**	**66**	**61**
Balance as at 31 December 2016	**-**	**(1,286)**	**(12,888)**	**(14,174)**
Depreciated cost as at 31 December 2016	**15,321**	**170,513**	**39,163**	**224,997**

The amount of borrowing costs capitalised during the year was HRK 0.7 million (2015: HRK 0.8million, 2014: 0.8 million) at a rate of 1.6% (2015: 1.8% and 2014: 2.0%), which is the average effective interest rate of the specific borrowing.

No impairment of property, plant and equipment was necessary in the financial years 2014, 2015 and 2016.

Note 5 Financial fixed assets

	As at 31 December		
	2016 HRK'000	2015 HRK'000	2014 HRK'000
Loan to joint ventures*	**33,236**	32,738	30,918
Investments in Joint venture	**61**	1,113	-
Security deposit	**9,550**	9,648	9,592
	42,847	43,499	40,510

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

The Company acquired the shares in and provided loans to the Joint Venture companies. In the table below the balance sheets of the Joint Venture companies are included.

	As at 31 December 2016			
	ABM Hotel Holding B.V.	art'otel berlin Mitte/Park Plaza Betriebsgesellsc haft mbh	ABK Hotel Holding B.V.	Park Plaza Betriebsgesellsc haft mbh
Assets				
Non-current assets:				
Property, plant and equipment	63,160	20,028	52,738	8,646
	63,160	**20,028**	**52,738**	**8,646**
Current assets:				
Inventories	-	166	-	121
Receivables towards related parties	20,194	-	1,882	10,913
Trade receivables	-	1,224	-	967
Receivables and other current assets	-	650	-	128
Cash and cash equivalents	2,177	923	7,565	1,195
	22,371	**2,963**	**9,447**	**13,324**
Total assets	**85,531**	**22,991**	**62,185**	**21,970**
Equity and liabilities				
Equity:				
Issued capital	-	189	-	189
Hedging reserve	(4,353)	-	(4,572)	-
Accumulated (losses)/ earnings	10,770	(22,711)	8,532	(2,494)
	6,417	**(22,522)**	**3,960**	**(2,305)**
Non-current liabilities:				
Bank borrowings	38,824	-	40,774	-
Other liabilities	34,509	9,183	12,115	19,597
	73,333	**9,183**	**52,889**	**19,597**
Current liabilities:				
Trade payables	256	1,829	219	968
Other payables and accruals	3,877	3,401	3,424	1,821
Liabilities towards related parties	38	31,100	-	1,889
Bank borrowings	1,610	-	1,693	-
	5,781	**36,330**	**5,336**	**4,678**
Total liabilities	**79,114**	**45,513**	**58,225**	**24,275**
Total equity and liabilities	**85,531**	**22,991**	**62,185**	**21,970**

Note 6 Receivables related parties

	As at 31 December		
	2016 HRK'000	2015 HRK'000	2014 HRK'000
PPHE Hotel Group Ltd.	**-**	-	1
PPHE (Germany) B.V	**27**	3,171	3,843
Park Plaza Berlin Prenzlauerberg Betriebgesselschaft mbH	**-**	52	104
art'otel Dresden Betriebsgesellschaft mbH	**-**	1,760	2,548
Park Plaza Hotels (Germany) B.V.	**110**	-	-
Arenaturist d.d.	**427**	-	-
art'otel berlin mitte/Park Plaza Betriebsgesellschaft mbH	**-**	-	7
	564	4,983	6,503

Note 7 Net trade account receivables

a. Composition:

	As at 31 December		
	2016 HRK'000	2015 HRK'000	2014 HRK'000
Trade receivables	**10,745**	9,549	8,689
Less – allowance for doubtful debts	**(52)**	(41)	(39)
	10,693	9,508	8,650

Trade receivables are non-interest bearing.

b. As at 31 December the ageing analysis of trade receivables is as follows:

			Past due but not impaired			
	Total HRK'000	Neither past due nor impaired HRK'000	< 30 days HRK'000	30-60 days HRK'000	60-90 days HRK'000	> 90 days HRK'000
2016	**10,745**	**2,486**	**3,872**	**3,445**	**232**	**710**
2015	9,549	2,435	3,574	1,797	625	1,118
2014	8,689	2,938	4,075	1,115	334	227

Note 8 Receivable and other current assets

	As at 31 December		
	2016 HRK'000	2015 HRK'000	2014 HRK'000
Prepaid expenses	**1,378**	3,497	1,225
VAT and taxes	**5,271**	95	2,895
Related parties, net	**-**	-	536
Receivable from jointly controlled venture	**-**	-	1,610
Rent security deposit	**43**	91	125
Other	**957**	462	333
	7,649	4,145	6,724

Note 9 Cash and cash equivalents

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

Note 10 Equity

a. **Share capital:**

The authorised share capital of the Company is represented by 2,000 ordinary shares with € 45,38 (HRK 350) par value.

As at 31 December 2016, the number of ordinary shares issued was 400 (2015: 400, 2014: 400).

b. **Share premium**

The share premium contribution ('the Contribution) in 2016 amounting to HRK274.0 million relates to a voluntary non stipulated share premium contribution (Dutch "vrijwillige niet bedongen – Agio sorting") by PPHE Holdings B.V., the former 100% shareholder of the Company. The Contribution was attributed to the shares of the Company, without any shares in the share capital of the Company being issued in consideration of loan receivables previously owned by PPHE Holdings B.V. The Contribution was executed at 19 December 2016 (see Note 3a).

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

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations.

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. The hedging instrument is owned by the Group's investment in its joint ventures. The joint ventures are accounted for using the equity method. The movement in the fair value of this cash flow hedge has there for also been accounted for in the equity of the Group.

Note 11 Pledges, contingent liabilities and commitments

a. **Pledges, collateral and securities:**

Substantially all of the Group's assets and all of the rights connected or related to the ownership of the assets (including shares of subsidiaries and restricted deposits) are pledged in favour of banks and financial institutions as security for loans received. For most of the loans, specific assets are pledged as the sole security provided.

b. **Commitments:**

1. **Lease agreements:**

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

Note 11 Pledges, contingent liabilities and commitments (cont.)

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

	As at 31 December		
	2016 HRK'000	2015 HRK'000	2014 HRK'000
Within one year	**43,515**	43,574	43,475
After one year but not more than five years	**173,463**	174,080	175,132
More than five years	**228,257**	300,209	344,724
	445,235	517,863	563,331

2. **Management agreements**

In December 2016, the Group's existing operating agreements for its German and Hungarian properties and those properties in Croatia owned by Arenaturist were amended, restated and novated in order to create two separate agreements going forwards:

a. an operating agreement with Arena Hospitality under which each property pays an annual base fee calculated as a percentage of total revenue of the property and an annual incentive fee calculated as a percentage of adjusted gross operating profit. These agreements are for terms of between 15 and 30 years; and
b. a licence, sales and marketing agreement with a subsidiary of PPHE Hotel Group (as licensor) under which each property pays an annual fee calculated as a percentage of total revenue for, among others, certain group services. The term of such agreement follows that of the amended operating agreements.

Up and until such amendment, restatement and novation, the Group paid annual management fees calculated as a percentage of revenue and of adjusted gross operating profit for each of its German and Hungarian properties to PPHE Hotel Group. 2. Additionally, as of December 2016, the Group benefits from an exclusive right to operate and develop hotels under the Park Plaza® brand in 18 countries throughout the CEE region for a period of 30 years.

3. **Guarantees:**

PPHE Hotel Group Limited, the ultimate parent company, guarantees the construction facility provided by Deutschen Hypothekenbank AG to Park Plaza Nuremberg GmbH. As at 31 December 2016, HRK 81.1 million (€10.7 million) had been drawn.

Note 12 Bank borrowings

The bank borrowings of the Group are composed as follows:

	As at 31 December		
	2016 EUR'000	2015 EUR'000	2014 EUR'000
Short-term			
Bank borrowings – current portion of long-term borrowings	**81,057**	27,486	-
	81,057	27,486	-
Long-term			
Bank borrowings	**-**	-	27,581
	-	-	27,581

For securities and pledges, see Note 11.

The bank borrowing relate to a facility with Deutschen Hypothekenbank AG to finance the renovation and the refurbishment of Park Plaza Nuremberg. The loan bears an interest of EURIBOR + 1,1% and has a final maturity date of 31 December 2017. No financial covenants are included in the facility agreement which has been renewed at 19 December 2016.

For guarantees under the above facility agreements see Note 11.

Note 13 Liabilities related parties

	As at 31 December		
	2016 EUR'000	2015 EUR'000	2014 EUR'000
Short-term			
PPHE (Germany) B.V	13,089	22,491	25,611
PPHE NL Region B.V	-	21	10
Park Plaza Berlin Prenzlauerberg Betriebsgesselschaft mbH	1	48	807
Park Plaza Hotels Europe (Germany) B.V.	-	14,785	28,614
art'otel Dresden Betriebsgesellschaft mbH	-	-	1
Euro Sea Hotels N.V.	789	-	-
	13,879	37,345	55,043
Long-term			
PPHE Hotel Group Ltd.	-	130,579	81,232
Euro Sea Hotels N.V	-	38,398	37,485
Park Plaza Hotels Europe (Germany) B.V.	-	36,481	36,007
Park Plaza Hotels Europe B.V.	-	18,155	6,711
	-	223,613	161,435

Note 14 Payables and other current liabilities

	As at 31 December		
	2016 HRK'000	2015 HRK'000	2014 HRK'000
VAT and taxes	**7,970**	2,853	948
Accrued expenses	**11,899**	8,211	12,293
Accrued rent	**9,411**	15,442	10,143
Other	**136**	329	319
	29,416	26,835	23,703

Note 15 Revenues

	As at 31 December		
	2016 HRK'000	2015 HRK'000	2014 HRK'000
Rooms	**146,594**	132,771	120,899
Food and beverage	**36,581**	35,708	34,912
Minor operating	**5,874**	5,227	5,118
Service charge revenue	**12,956**	13,480	14,219
	202,005	187,186	175,148

Note 16 Operating expenses

	As at 31 December		
	2016 HRK'000	2015 HRK'000	2014 HRK'000
Salaries and related expenses	**62,127**	56,428	54,543
IT expenses	**3,141**	1,889	1,412
Utilities	**9,711**	8,438	8,173
Supplies	**2,785**	2,511	2,451
Laundry, linen and cleaning	**3,846**	4,017	4,318
Administration costs	**3,402**	2,749	3,740
Communication, travel and transport	**1,298**	1,577	1,666
Maintenance	**4,152**	4,469	6,160
Marketing expenses	**4,128**	4,024	3,222
Food and beverage	**9,846**	9,246	9,273
Franchise fees, reservation and commissions	**13,128**	10,811	9,571
Insurance and property taxes	**1,528**	1,345	1,872
Management fees	**11,343**	10,421	9,158
Release of provision for City tax	**-**	-	(8,592)
Other expenses	**14,370**	14,207	14,180
	144,805	132,132	121,147

Note 17 Financial expenses

	As at 31 December		
	2016 HRK'000	2015 HRK'000	2014 HRK'000
Interest expense	**1**	1	51
Interest expense – related part loans (Note 21)	**6,004**	5,404	4,808
Foreign exchange differences, net	**195**	326	567
Other	**838**	143	159
	7,038	5,874	5,585

Note 18 Financial income

	As at 31 December		
	2016 HRK'000	2015 HRK'000	2014 HRK'000
Interest revenue	**-**	24	45
Interest revenue from loans to Joint venture	**826**	886	932
	826	910	977

Note 19 Other income

	As at 31 December		
	2016 HRK'000	2015 HRK'000	2014 HRK'000
Pre-opening expenses	**(3,774)**	-	-
Capital gain upon sale of Berlin hotels to joint venture	**-**	-	13,570
	(3,774)	-	13,570

Note 20 Income taxes

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

	As at 31 December		
	2016 HRK'000	2015 HRK'000	2014 HRK'000
Current taxes	**573**	178	160
Deferred taxes	**5,675**	(5,757)	-
	6,248	(5,579)	160

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	Total HRK'000
Balance as at 31 December 2013	-	-
Amounts charged to income statement	-	-
Adjustments for exchange rate differences	-	-
Balance as at 31 December 2014	-	-
Amounts charged to income statement	(5,757)	(5,757)
Adjustments for exchange rate differences	-	-
Balance as at 31 December 2015	(5,757)	(5,757)
Amounts charged to income statement	**5,645**	**5,645**
Adjustments for exchange rate differences	**112**	**112**
Balance as at 31 December 2016	**-**	**-**

In 2015 a tax asset was recorded for carried forward fiscal losses of one of the German subsidiaries. However due to the transfer of the shares in the Company in 2016 (Note 1), the carried forward fiscal losses of all German subsidiaries have been waived. For this reason the deferred tax asset were charged to the income statement in 2016.

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

	As at 31 December		
	2016 HRK'000	2015 HRK'000	2014 HRK'000
Profit/(loss) before tax	**(291)**	(4,038)	16,262
Income tax at 30% [1]	**87**	1,211	(4,879)
Non-deductible expenses	-	-	-
Capitalization carried forward fiscal losses	**(5,645)**	5,757	-
Utilisation of carry forward losses and temporary differences for which deferred tax assets were not previously recorded	**-**	-	3,267
Non-taxable income	**-**	-	4,071
Unrecognised current year tax losses	**(690)**	(1,471)	(2,299)
Effects of other tax rates	**-**	82	-
Income tax (benefit) expense reported in the income statement	**(6,248)**	5,579	160

1 The tax rate that was used is the tax rate of Germany, since the majority of the tax exposure is in this tax jurisdiction.

Corporate income tax in Hungary, where one subsidiary of the Group is located is 18%.

Corporate income tax rate in the Netherlands is 25%.

Note 21 Related parties

Parties are considered to be related if one of the parties has the power to exercise control over the other party or under common control or if it has significant influence over the other party in making financial or operational decisions. The Company is controlled by Arenaturist d.d. which as at 31 December 2016 owns 88% of the Company's shares. The ultimate parent is PPHE Hotel Group Ltd which as at 31 December 2016 owned indirectly 65.63% of the issued shares of Arenaturist d.d. All other subsidiaries of PPHE Hotel Group are treated as related parties.

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All intragroup transactions are performed within Company's transfer pricing policy and are under comparable market conditions.

For balances with related parties see Note 6 and 13.

Transactions with related parties:

	Year ended31 December		
	2016 HRK'000	2015 HRK'000	2014 HRK'000
Management fees expense – PPHE Germany B.V.	**11,343**	10,421	9,158
Service fees – PPHE Germany B.V.	**3,779**	3,477	3,221
Sales and marketing fees – PPHE Germany B.V.	**3,779**	3,477	3,221
Service Charge revenue – PPHE Germany B.V.	**7,940**	**8,472**	**9,620**
Service Charge revenue – art'otel Dresden Betriebsgesellschaft mbH	**1,596**	**1,302**	**1,236**
Service Charge revenue – Park Plaza Berlin Prenzlauerberg Betriebsgesellschaft mbH	**980**	**1,249**	**1,146**
Interest expense PPHE Hotel Group Ltd	**3,472**	**2,807**	**2,391**
Interest expense Euro Sea Hotels N.V.	**886**	**1,040**	**1,093**
Interest expense Park Plaza Hotels Europe (Germany) B.V.	**1,092**	**1,224**	**1,134**
Interest expense Park Plaza Hotels Europe B.V.	**554**	**333**	**189**

Significant other transactions with related parties

(i) Transactions in the ordinary course of business, in connection with the use of hotel facilities (such as overnight room stays and food and beverages) are being charged at market prices. These transactions occur occasionally.

(ii) The Company and the Group did not employ any Executive and Non-Executive Directors in 2016, 2015 and 2014.

Note 22 Financial risk management objectives and policies

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

The Group 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 operations and its sources of finance. It is, and has been throughout the years under review, the Group's policy that no trading in financial instruments shall be undertaken.

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

a. **Foreign currency risk**

The Group is exposed to minimal foreign currency risk, due to transactions in foreign currency, as most of the transactions of each of the entities in the Group are denominated in the functional currency of the relevant entity.

b. **Interest rate risk:**

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

The Group's exposure to the risk for changes in market interest rates relates primarily to the Group's short-term debt obligations with a floating interest rate. The Group has one variable interest rate loan that is not hedged with interest rate swaps. Based on a sensitivity analysis calculation, management estimates that with an increase/decrease of the three-month market (EURIBOR) interest rate by 50 basis points (bps), the results of the Group would be changed by HRK 0.4 million.

c. **Credit risk:**

The Group trades only with recognised, creditworthy third parties. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history. The Company's policies ensure that sales to customers are settled through advance payments, in cash or by major credit cards (individual customers). Since the Group trades only with recognised third parties, there is no requirement for collateral for debts with third parties. Furthermore, the Group has no dependency on any of its customers. The receivable balances are monitored on an ongoing basis.

Management monitors the collection of receivables through credit meetings and weekly reports on individual balances of receivables. Impairment of trade receivables is recorded when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The maximum credit exposure equals the carrying amount of the trade receivables and other receivables since the amount of all trade and other receivables has been written down to their recoverable amount. The result of these actions is that the Group's exposure to bad debts is not significant.

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

d. **Liquidity risk:**

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

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

	As at 31 December 2016					
	Less than 3 months HRK'000	3 to 12 months HRK'000	1 to 2 years HRK'000	3 to 5 years HRK'000	> 5 years HRK'000	Total HRK'000
Interest bearing loans and borrowings	475	82,494	-	-	-	82,969
Trade payables	13,278	-	-	-	-	13,278
	13,753	82,494	-	-	-	96,247

	As at 31 December 2015					
	Less than 3 months HRK'000	3 to 12 months HRK'000	1 to 2 years HRK'000	3 to 5 years HRK'000	> 5 years HRK'000	Total HRK'000
Interest bearing loans and borrowings	159	27,956	-	-	-	28,124
Trade payables	22,479	-	-	-	-	22,479
	22,638	27,956	-	-	-	50,603

Note 22 Financial risk management objectives and policies continued

d. Liquidity risk (cont):

.	As at 31 December 2014					
	Less than 3 months HRK'000	3 to 12 months HRK'000	1 to 2 years HRK'000	3 to 5 years HRK'000	> 5 years HRK'000	Total HRK'000
Interest bearing loans and borrowings	160	480	28,221	-	-	28,861
Trade payables	9,075	-	-	-	-	9,075
	9,235	480	28,221	-	-	37,936

e. Capital management:

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. As the majority of the assets have been leased, the capital required by the Group operations is limited. The Group only owns the freehold of Park Plaza Nuremberg which has been financed by bank debt amounting to HRK 81.1 million.

f. Fair value of financial instruments:

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

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

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

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

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

The Group enters into derivative financial instruments with financial institutions with investment grade credit ratings. Derivatives are valued using valuation techniques, for swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, and interest rate curves.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques, based on a discounted cash flow. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

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

Fair value hierarchy

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

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

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

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

As at 31 December 2016, the Group did not have financial instruments measured at fair value.

Note 22 Financial risk management objectives and policies continued

g. **Derivative financial instruments:**

The Group has not limited its exposure to changes in the rates of EURIBOR on its cash flows and interest expense as the variable interest rates are more attractive and the exposure to changes to EURIBOR is limited as the bank debt of the Group only relates to the short term construction facility of Park Plaza Nuremberg.

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

The joint venture hotels entered into interest rate swaps with Deutsche Hypothekenbank AG with a nominal value of HRK 82.9 million (EUR11.1 million) with fixed quarterly interest payments at a rate of 3.93% per annum.

Note 23 Segments

For management purposes, the Group's activities are divided into Owned Hotel Operations and Management Activities. Owned Hotel Operations are further divided into two reportable segments: Germany and Hungary. The operating results of each of the aforementioned segments are monitored separately for the purpose of resource allocations and performance assessment. Segment performance is evaluated based on EBITDA, which is measured on the same basis as for financial reporting purposes in the combined income statement.

	Year ended 31 December 2016				
	Germany HRK'000	Hungary HRK'000	Management and central services HRK'000	Elimination HRK'000	Consolidated HRK'000
Revenue					
Third party	**152,872**	**36,175**	**12.958**	**-**	**202,005**
Inter-segment	**-**	**-**	**6,250**	**(6,250)**	**-**
Total revenue	**152,872**	**36,175**	**19,208**	**(6,250)**	**202,005**
Segment EBITDA	**10,313**	**4,192**	**(504)**	**-**	**14,001**
Depreciation and amortisation	**(2,079)**	**(1,329)**	**(248)**	**-**	**(3,656)**
Financial expenses					**(7,038)**
Financial income					**826**
Other income, net					**(3,774)**
Share in loss of joint ventures					**(650)**
Profit before tax					**(291)**

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

	Year ended 31 December 2015				
	Germany HRK'000	Hungary HRK'000	Management and central services HRK'000	Elimination HRK'000	Consolidated HRK'000
Revenue					
Third party	139,610	34,097	13,479	-	187,186
Inter-segment	-	-	5,562	(5,562)	-
Total revenue	139,610	34,097	19,041	(5,562)	187,186
Segment EBITDA	(1,368)	2,929	(347)	-	1,214
Depreciation and amortisation	(431)	(1,237)	(225)	-	(1,893)
Financial expenses					(5,874)
Financial income					910
Share in profit of joint ventures					1,605
Profit before tax					(4,038)

From the total amount of the Group's non-current assets, an amount of HRK 9.4 million relates to assets located in Hungary and HRK 199.3 million to assets located in Germany.

Note 23 Segments continued

	Year ended 31 December 2014				
	Germany HRK'000	Hungary HRK'000	Management and central services HRK'000	Elimination HRK'000	Consolidated HRK'000
Revenue					
Third party	129,999	30,930	14,219	-	175,148
Inter-segment	-	-	5,671	(5,671)	-
Total revenue	129,999	30,930	19,890	(5,671)	175,148
Segment EBITDA	3,856	4,244	(376)	-	7,724
Depreciation and amortisation	(1,341)	(921)	(61)	-	(2,323)
Financial expenses					(5,585)
Financial income					977
Other income, net					13,570
Share in profit of joint ventures					1,899
Profit before tax					16,262

From the total amount of the Group's non-current assets, an amount of HRK 6.1 million relates to assets located in Hungary and HRK 128.4 million to assets located in Germany.

Note 24 Subsequent events

No subsequent events impacting the Group took place which requires disclosures.

SUBSIDIARIES INCLUDED IN THE GROUP

Name of company	Principal activity	Country of incorporation	Direct and indirect holdings %
Sugarhill Investments BV [1]	Holding Company	The Netherlands	100
Park Plaza Hotels (Germany) Services GmbH [2]	Management	Germany	100
PPHE Germany Holdings GmbH [2]	Holding	Germany	100
PPHE Nürnberg Operator Hotelbetriebsgesellschaft mbH [2]	Hotel Operation	Germany	100
Park Plaza Germany Holdings GmbH [2]	Holding Company	Germany	100
Park Plaza Nürnberg GmbH [2]	Hotel Operation	Germany	100
Park Plaza Hotels Berlin Wallstrasse GmbH [2]	Hotel Operation	Germany	100
art'otel berlin city center west GmbH [2]	Hotel Operation	Germany	100
art'otel köln mbH [2]	Hotel Operation	Germany	100
SW Szállodaüzemeltető Kft [2]	Hotel Operation	Hungary	100

JOINTLY CONTROLLED ENTITIES

Name of company	Principal activity	Country of incorporation	Proportion of ownership interest %
art'otel berlin mitte/Park Plaza BetriebsgesellschaftmbH[2]	Hotel operation	Germany	50
Park Plaza BetriebsgesellschaftmbH	Hotel operation	Germany	50
PPBK Hotel Holding B.V. (formely known as ABK Hotel Holding B.V.)[2]	Holding company	The Netherlands	50
ABM Hotel Holding B.V.[2]	Holding company	The Netherlands	50

[1] Direct holdings.

[2] Indirect holdings.

APPENDIX B – PRO FORMA FINANCIAL INFORMATION

Independent registered auditor's report on the compilation of pro forma financial information included in the Prospectus

To the Board of Directors of ARENA HOSPITALITY GROUP d.d.

We have completed our assurance engagement to report on the compilation of pro forma financial information of ARENA HOSPITALITY GROUP d.d. (the "**Company**" and together with its consolidated subsidiaries the ''**Group**'') ("**Unaudited Pro Forma Financial Information**") prepared by the Management of the Company ("**Management**") and included in this Prospectus. The Unaudited Pro Forma Financial Information consists of: (i) the introduction; (ii) the unaudited pro forma consolidated income statement of the Group for the financial year ended 31 December 2016 and the related explanatory notes. The applicable criteria adopted by the Management in the process of compiling the Unaudited Pro Forma Financial Information have been specified in Annex II to the Commission Regulation (EC) No. 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements, as amended ("**Regulation**") and in the recommendations issued by the European Securities and Markets Authority ("**ESMA**").

The Unaudited Pro Forma Financial Information has been prepared by the Management to illustrate the effect the following transactions (collectively referred to as "**Transactions**"):

(i) the acquisition of the Sugarhill Group ("**Sugarhill Contribution**") together with the accompanying amendment, restatement and novation of the Group's existing operating agreements for its German, Hungarian and Croatian properties ("**Operational Restructuring**"), described in Section 12.1 "Relationship with the PPHE Hotel Group—Sugarhill Contribution and Operational Restructuring" of this Prospectus; and

(ii) the purchase of the freeholds of art'otel Colgone and art'otel Berlin Kudam by the Group ("**Germany freehold acquisition**"), described in Section 12.3 "Relationship with the PPHE Hotel Group—Loans Related to Freehold Acquisition of art'otel cologne and art'otel berlin kudamm" of this Prospectus" together with the effects of borrowings incurred to finance this acquisition;

might have on the Group's results for the financial year ended 31 December 2016, had the Transactions taken place on 1 January 2016. As part of this process, information about the Group's financial results has been extracted by the Management from the Group Financial Statements as well as the Sugarhill Financial Statements, each audited by an independent registered auditor.

Responsibility of the Management for the Unaudited Pro Forma Financial Information

The Company's Management is responsible for compiling the Unaudited Pro Forma Financial Information on the basis of the applicable criteria

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Our responsibility

Our responsibility was to express an opinion, in accordance with the requirements set in item 7 of Annex 2 to the Regulation whether the compilation of the Unaudited Pro Forma Financial Information has been prepared by the Management, in all material respects, on the basis of the applicable criteria.

We have conducted our assurance procedures in accordance with the International Standard on Assurance Engagements 3420 – "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus", issued by the International Auditing and Assurance Standards Board. This standard requires us to comply with the ethical requirements and to plan and conduct the procedures necessary to obtain reasonable assurance that the Unaudited Pro Forma Financial Information has been prepared by the Management Board, in all material respects, on the basis of the applicable criteria.

For the purpose of these assurance procedures, we do not accept responsibility for updating or reissuing any reports or opinions on any historical financial information used to prepare the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The pro forma financial information is included in the Prospectus solely in order to illustrate the effect of a significant event or transaction on the unadjusted financial information of the Group as though the event or transaction had taken place at an earlier date specified for the purpose of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction for the period ended 31 December 2016 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria, involves performing procedures to assess whether the applicable criteria used by the Management Board in the compilation of pro forma financial information provide a reasonable basis for presenting significant effects directly attributable to the event or transaction and obtaining sufficient appropriate evidence about whether:

- the pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information properly reflects the proper application of those adjustments to the unadjusted financial information.

The selection of the procedures is based on our judgement, taking into account our knowledge of the entity, the event or transaction resulting in the need to compile the pro forma financial information and other circumstances affecting our assurance procedures.

Our work also included a general assessment of the presentation of the Unaudited Pro Forma Financial Information.

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

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly prepared on the basis referred to therein;

(b) this basis is consistent with the accounting policies adopted by the Group.

In accordance with item 1.2 of Annex I and item 1.2 of Annex III to Regulation, we accept responsibility for this report, constituting a part of the Prospectus, and declare that we have applied due diligence in order to ensure that the information contained in the report is, to our best knowledge, true, fair and consistent with the actual state, and that nothing was omitted that might affect its significance. This declaration has been included in this Prospectus in accordance with the requirements of item 1.2 of Annex I and item 1.2 of Annex III to the Regulation.

PricewaterhouseCoopers d.o.o.
Ulica kneza Ljudevita Posavskog 31, Zagreb
Zagreb, 30 March 2017

Siniša Dušić
Statutory Auditor and
Member of the Management Board

UNAUDITED PRO FORMA FINANCIAL INFORMATION

Introduction

The Unaudited Pro Forma Financial Information presented in the tables below comprises:

- the unaudited pro forma consolidated income statement of the ARENA HOSPITALITY GROUP d.d. (the "**Company**" and together with its subsidiaries the "**Group**") for the financial year ended 31December 2016 and
- the explanatory notes.

The information has been prepared for inclusion in the Prospectus.

The unaudited pro forma consolidated income statement for the financial year ended 31 December 2016 shown in the tables below presents hypothetically the Group's results as though the following transactions (collectively referred to as the "Transactions") had taken place at the start of the presented period, i.e. on 1 January 2016:

(i) the acquisition of the Sugarhill Group ("**Sugarhill Contribution**") together with the accompanying amendment, restatement and novation of the Group's existing operating agreements for its German, Hungarian and Croatian properties ("**Operational Restructuring**"), described in Section 12.1 "Relationship with the PPHE Hotel Group—Sugarhill Contribution and Operational Restructuring" of this Prospectus;

(ii) the purchase of the freeholds of art'otel Colgone and art'otel Berlin Kudam by the Group ("**Germany freehold acquisition**"), described in Section 12.3 "Relationship with the PPHE Hotel Group—Loans Related to Freehold Acquisition of art'otel cologne and art'otel berlin kudamm" of this Prospectus together with the effects of borrowings incurred to finance this acquisition.

The Unaudited Pro Forma Financial Information has been prepared in accordance with the principles described in the Regulation and the guidance issued by ESMA.

The consolidated financial statements of the Group as at and for the years ended 31 December 2016, 2015 and 2014 ("**Group Financial Statements**") and the combined financial statements of the Sugarhill Group as at and for the years ended 31 December 2016, 2015 and 2014 ("**Sugarhill Financial Statements**"), in each case included in Appendix A of this Prospectus, formed the basis for preparing the Unaudited Pro Forma Financial Information presented in the tables below. The Pro Forma Financial Information presented in the tables below has been prepared in accordance with the accounting policies adopted by the Group and described in the Group Financial Statements.

The Unaudited Pro Forma Financial Information presented below has been prepared solely for illustrative purposes and due to its nature presents a hypothetical situation; therefore, it does not present the actual results and financial standing of the Group for the presented period, had the Transactions discussed really taken place on the assumed dates, and its purpose is not to determine the results and financial standing in any future periods.

The Unaudited Pro Forma Financial Information should be analysed together with the information contained in the sections of the Prospectus entitled "Operating and Financial Review" and "Selected Financial Information" and in the Group Financial Statements and the Sugarhill Financial Statements, as defined elsewhere in the Prospectus.

The assumptions forming the basis for the pro forma adjustments are discussed in the explanatory notes. The unaudited pro forma adjustments are based on the available information and specific assumptions which, in the Group's opinion are justified in the circumstances.

Unless otherwise stated, the pro forma adjustments discussed below will have a continuing impact on the Group.

For the purposes of this Unaudited Pro Forma Financial Information certain amounts originally expressed in EUR were translated to HRK at 7.53 HRK/EUR exchange rate.

Unaudited pro forma consolidated income statement for the financial year ended 31 December 2016

(HRK thousands)	**The Group**	**Pro Forma Adjustments**				**The Group Pro Forma**
		Sugarhill acquisition and operational restructuring			Germany freehold acquisition	
		Sugarhill Group	Operational Restructuring	Sugarhill acquisition and restructuring		
	Note 1	**Note 2**			**Note 3**	
Revenues	435,871	202,005	(4,223)	**197,782**	-	633,653
Operating expenses	(295,100)	(144,805)	23,967	**(120,838)**	-	(415,938)
EBITDAR	**140,771**	**57,200**	**19,744**	**76,944**	**-**	**217,715**
Rental expenses	(8,748)	(43,199)	-	**(43,199)**	19,230	(32,717)
EBITDA	**132,023**	**14,001**	**19,744**	**33,745**	**19,230**	**184,998**
Depreciation	(222,511)	(3,656)	-	**(3,656)**	(9,488)	(235,655)
EBIT	**(90,488)**	**10,345**	**19,744**	**30,089**	**9,742**	**(50,657)**
Financial Expenses	(41,007)	(7,038)	-	**(7,038)**	(16,182)	(64,227)
Financial Income	136	826	-	**826**	-	962
Other income and expense	(6,612)	(3,774)	-	**(3,774)**	-	(10,386)
Share in result of joint ventures	-	(650)	-	**(650)**	-	(650)
(Loss)/ profit before tax	**(137,971)**	**(291)**	**19,744**	**19,453**	**(6,440)**	**(124,958)**
Income taxes	23,716	(6,248)	(3,949)	**(10,197)**	-	13,519
(Loss)/Profit after tax	**(114,255)**	**(6,539)**	**15,795**	**9,256**	**(6,440)**	**(111,439)**
Loss is attributable to:						
Owners of Arenaturist d.d.	**(114,255)**					**(112,550)**
Non- controlling interest	**-**					**1,111**

(1) The information has been compiled based on the Arenaturist Group Consolidated Financial Statements, included in Annex A to this Prospectus.

(2) The purpose of the adjustment is to recognise the effect of the Sugarhill Contribution (as described in Section 12.1 "Relationship with the PPHE Hotel Group—Sugarhill Contribution and Operational Restructuring" of this Prospectus) and the accompanying Operational Restructuring (as described in Section 12.1 "Relationship with the PPHE Hotel Group—Sugarhill Contribution and Operational Restructuring" of this Prospectus) as though it had occurred at the start of the year, i.e. on 1 January 2016.

In December 2016, the PPHE Hotel Group indirectly contributed 88.0% of its ownership in the Sugarhill Group to the Company in exchange for the Listing Shares. The contributed assets and operations of the Sugarhill Group included the operation or management rights of eight Park Plaza and art'otel branded upscale hotels with a total of 1,295 units, including four hotels in Berlin.

In conjunction with the Sugarhill Contribution, as part of the Operational Restructuring, the Group now benefits from new operational and licensing, sales and marketing relationships. More specifically, each of the Group's prior operating agreements was amended, restated and novated (as applicable) in order to create two new separate agreements going forward for each of the Group's hotels. As a result, the supervision and operation of the hotels was transferred to Arena Hospitality from other members of the PPHE Hotel Group, including all obligations of the operator other than sales and marketing services and certain central services such as staff training. In addition, the relevant hotel owning companies within the Group have been granted a non-exclusive license by PPHE Hotel Group, including the right to use the "Park Plaza" brand or, in the case of the relevant German and Hungarian hotels only, the "art'otel" brand. The PPHE Hotel Group will continue to provide certain sales and marketing services under the terms of the separate LSM Agreements (as described in Section 12.1 "Relationship with the PPHE Hotel Group—Sugarhill Contribution and Operational Restructuring—LSM Agreements".

Sugarhill Group

Financial data presenting the results of operations of the Sugarhill Group have been extracted from the Sugarhill Financial Statements.

The transaction costs are included in the Group's 2016 consolidated income statement, as the sales and purchase agreement was signed on 23 December 2016.

The functional currency of the Sugarhill Group is the Euro (EUR). The Sugarhill Financial Statements are presented in Kuna for the purpose of the Prospectus as mentioned in Note 1.

No additional adjustment was made to reflect any effects of transactions between the Group and the Sugarhill Group in 2016, as there were no such transactions.

Non-controlling interest is calculated as 12% of Sugarhill acquisition and restructuring effect on The Group Pro forma Profit after tax.

Operational Restructuring

Pursuant to the Operational Restructuring that took place together with the Sugarhill Contribution, Arena Hospitality, a Sugarhill Group company, has replaced the relevant company within the PPHE Hotel Group as the new management company in respect of each of the Group's hotels pursuant to the amended, restated and novated operating agreements (as applicable), moving those activities from outside to within the Group. At the same time, certain group sales, marketing and other central services continue to be provided by the PPHE Hotel Group under the LSM Agreements.

The table below illustrates the impact of the Operational Restructuring on the Group's revenues and operating expenses for the year 2016.

		The Group	**Sugarhill Group**	**Total**
Operating expenses				
Operating expenses calculated based on revised (novated) terms	(i)	17,435	7,557	**24,992**
Historical expenses under previous operating agreements.	(ii)	30,058	18,901	**48,959**
Difference reflecting the impact on the Group's consolidated operating expenses		**(12,623)**	**(11,344)**	**(23,967)**
Revenues				
Revenue adjustment – cease of reimbursement of costs of Park Plaza Hotels (Germany) Services	(iii)	-	(7,911)	**(7,911)**
New revenue – management fees from German hotels	(iv)	-	3,688	**3,688**
Difference reflecting the impact on the Group's consolidated revenue		**-**	**(4,223)**	**(4,223)**

(i) Pursuant to the Operational Restructuring, total operating expenses relating to amended, restated and novated terms and calculated for this Unaudited Pro Forma Financial Information amounted to HRK 24,992 thousand.

(ii) Operating expenses resulting from operational, licensing, sales and marketing relationships between the Group, the Sugarhill Group and the PPHE Hotel Group, and reflected in the historical financial information of the Group and the Sugarhill Group, amounted to HRK 48,959 thousand.

(iii) Prior to the Operational Restructuring the Sugarhill Group was entitled to reimburse certain incurred expenses by the PPHE Hotel Group.

Going forward, those service expenses will be retained by the Group and there will be no reimbursement of such costs by the PPHE Hotel Group. The amount of reimbursement calculated for 2016 was HRK 7,911 thousand.

(iv) Pursuant to the Operational Restructuring, the Group gained revenues relating to management services generated from three hotels (art'otel Berlin Mitte, Park Plaza Berlin Kudamm and art'otel Dresden), which are not part of the Group. The amount of such additional revenue was calculated at HRK 3,688 thousand (translated from original EUR 490 thousand).

Management assesses no incremental cost to be incurred in connection with such additional services.

Income tax impact of the Operational Restructuring was calculated using the 20% tax rate which is the applicable income tax rate in Croatia.

(3) The purpose of the adjustment is to recognise the effect of the German freehold acquisition as though it had occurred at the start of the year, i.e. on 1 January 2016. In February 2017, the Group completed the acquisition of these freehold properties related to operations in art'otel cologne and art'otel berlin kudamm, which the Sugarhill Group previously leased from the third party owners and operated pursuant to operating leases.

As a result of the acquisitions, the expenses associated with the two operating leases, in the form of rental payments, will be eliminated and will be replaced with interest payment expenses arising from the financing facilities which funded the freehold purchases, as well as depreciation associated with the estimated useful life of the acquired hotels. In 2016, the total rental payments for these two properties, reflected in the Sugarhill Financial Statements, amounted to HRK 19.2 million (translated from original EUR 2,555 thousand).

Depreciation for 2016 relating to the acquired properties was calculated using the following assumptions:

	Original EUR value (thousands)	**Depreciation rate**	**Depreciation (EUR thousands)**	**Depreciation (HRK thousands)**
Land	11,022	-	-	-
Building	45,222	1.5%	678	5,106
Furniture, fixtures and equipment	2,329	25%	582	4,382
TOTAL	**58,573**		**1,260**	**9,488**

The acquisitions were in part financed by loans received from both 3d parties and related parties. For the purposes of pro forma financial information, the interest expense was calculated based on the following assumptions:

Lender	**Original currency of the loan in th EUR**	**Value (HRK thousands)**	**Contractual interest rate**	**Interest expense (HRK thousands)**
Deutsche Hypo	38,000	286,015	2.139%	6,118
VZB	10,000	75,267	6.50%	4,892
Euro Sea (related party)	10,573	79,580	6.50%	5,172
		440,863		**16,182**

The pro forma financial information does not reflect the impact of the potential foreign exchange gains/losses that would arise on the above loans to the functional currency as at the 2016 year end exchange rate.

Income tax impact of the Germany freehold acquisition was estimated as nil.

(4) The Group analyses its profitability using, among others, Adjusted (Loss)/profit before tax. Adjusted (Loss)/profit before tax is the reported (loss)/profit before tax which is adjusted for the effect of impairment of non-financial assets, external advisory costs relating to restructuring, extraordinary depreciation charges relating to acquisitions and business combinations, gains/(losses) on the replacement of the shareholders' loans with bank borrowings, pre-opening costs of hotels launched during the year, etc.

Presented below is the reconciliation of the Group's Loss before tax and Pro forma loss before tax to the Adjusted (Loss)/profit before tax and Pro forma adjusted (Loss)/profit before tax.

(HRK thousands)	**Year ended 31 December 2016**	
	The Group	**The Group Pro forma**
(Loss)/profit before tax	**(137,971)**	**(124,958)**
Adjustments:		
Impairment charge[1]	148,584	148,584
Additional depreciation[2]	12,913	12,913
Restructuring and refinancing costs[3]	6,612	6,612
Fair value movement related party loan[4]	12,611	12,611
Pre-opening costs (Nuremberg)[5]	-	3,774
Adjusted profit before tax	**42,749**	**59,536**

1. Following the Group's review of the carrying amounts of its non-financial assets, the Group recorded an impairment charge of HRK 148.6 million in 2016. See Note 4 to the Group's Financial Statements.
2. In 2016, the Group recorded an extra depreciation charge of HRK 12.9 million made against the book value of some of the assets of the Small Boras when the Small Boras merged with the Company in October 2016.
3. In 2016, the Company incurred professional fees relating to the restructuring and refinancing of the Group of HRK 6.6 million.
4. In 2016, the Group refinanced shareholder loans from Dvadeset Osam d.o.o. The loans had a bullet maturity date of 2021 and carried a nominal interest rate of 15% on the original principal amount and effective interest rate of 8.85%. The shareholder loans were repaid early using existing cash resources and HRK 149.8 million of loans from Zagrebačka banka d.d. that carries an interest rate of Euribor plus 5.9%. Under IFRS, the loans were carried on the balance sheet of the Group at 31 December 2015 at HRK 147.0 million. When the loans were repaid in 2016, the difference between the fair value of the new borrowing and the IFRS carrying value of the shareholder's loan of HRK 12.6 million was recognized as finance expense.
5. Park Plaza Nuremberg had a soft opened in June 2016 and fully opened in September 2016. Prior to opening hotels incur staff and property costs while they recruit and train staff. In the period from 1 January 2016 to the opening date of the Park Plaza Nuremberg the hotel incurred pre-opening costs of HRK 3.8 million which were recognised as an expense in Sugarhill financial statements.

APPENDIX C – ARTICLES OF ASSOCIATION

ARTICLES OF ASSOCIATION
OF JOINT STOCK COMPANY
Arena Hospitality Group d.d.
(Consolidated wording of 22 March 2017)

GENERAL PROVISIONS

Article 1

These Articles of Association of the company Arena Hospitality Group d.d. za turizam i ugostiteljstvo, Pula, Smareglina ulica 3 (hereinafter: the Company) regulate the issues referring to:

- the Company's name and registered office
- the Company's business activities
- Company's share capital and shares
- data publication and announcements
- representation of the Company
- Company's bodies
- annual accounts and use of profit
- business secret
- amendments to the Articles of Association
- term and winding up of the Company
- transitional and final provisions.

COMPANY NAME AND REGISTERED OFFICE

Article 2

A company name is the name under which the Company operates and participates in legal transactions.

The Company's company name is:
Arena Hospitality Group d.d. za turizam i ugostiteljstvo

The Company's abbreviated company name is:
Arena Hospitality Group d.d.

Article 3

The registered office of the Company is in Pula, Smareglina ulica 3.

Article 4

The General Assembly adopts the decision on the change of the company name and registered office.

Article 5

In its operations, the Company uses a seal (stamp) which contains the company name registered office of the Company.

The form, size, manner of utilisation and safekeeping of the seal (stamp) will be prescribed by the Company's Managing Board.

BUSINESS ACTIVITIES

Article 6

The Company performs the following business activities:

* Wholesale and trade intermediation
* Activity of travel agencies and tour operators
* Rental of own real estates
* Data processing
* Promotion and advertising
* Other entertainment activities, not mentioned elsewhere
* Other recreation activities, not mentioned elsewhere
* Laundering and dry cleaning of textile and fur products

  Currency exchange services
* Intermediation and representation in foreign trade goods and services transactions
* Tourist business operation with foreign countries
* Growing of vegetables, flowers, decorative herbs and planting material, except for mushrooms
* Retail, except for retail with motor vehicles and motorcycles; repair of objects for personal usage and household
* Hotels and restaurants
* Other inland road transport of passengers
* Sea and coastal transport of passengers

  Accounting and bookkeeping activities; market research and research of public opinion
* Rental of other transport devices
* Rental of transport vessels
* Creation and management of databases
* Architecture activities and engineering and related technical consulting
* Activity of sport arena and stadiums
* Other sport activities, except for marinas
* Activity of fitness and body care
* Storage of trailers
* Rental of objects for personal usage and household, not mentioned elsewhere
* Management of holding companies
* Entrepreneurial and business consultancy

In addition to the above business activities, the Company may engage in other activities supporting the performance of the activities entered in the commercial register, if such supporting activities are performed to a lesser extent or if they are performed along with the registered activity.

SHARE CAPITAL AND SHARES

Article 7

The share capital of the Company amounts to HRK 65,475,000.00.

The share capital is divided into 3,273,750 ordinary shares in the nominal value of HRK 20.00 each.

Within the term of one year as from the date of registration of the amendments to the Company's Articles of Association, the Board of Directors of the Company is authorised, (i) only if needed and for the purpose of stabilising, preserving or otherwise influencing the price of the Company's shares on the regulated market and/or (ii) for the purpose of issuing shares to be disposed of within the framework of employees reward programme dedicated to the employees of the Company or the Company's affiliates i.e. ESOP programme aimed at development of employees' participation in the share capital of the Company, which programme shall be adopted by the Executive Directors with the approval of the Board of Directors, to increase the share capital of the Company by issuing new shares up to the amount representing up to 10% of the nominal value of the share capital of the Company at the time of adoption of the Decision of the Board of Directors. New shares may only be issued against contributions in cash. The Board of Directors is authorised to exclude, fully or partially, the pre-emptive right of the existing shareholders to subscribe new shares, by its decision on increase of the share capital against contributions in cash and on issuance of new shares.

Article 8

Each founding share is marked as "A" series share. Each further series of shares shall be marked by the following letter of alphabet.

Article 9

The General Assembly adopts the decision on issuance of shares, which right cannot be conferred to another body of the Company (except in case of authorised share capital).

In accordance with the conditions prescribed by special laws, the Company issues shares in dematerialised form instead of share certificates.

Article 10

The Company's shares are kept in dematerialised form and are registered in the central depository of securities in Croatia kept by the Central Depository Agency, under ticker: ARNT-R-A and ARNT-R-B.

Article 11

The Company's shares are issued in dematerialised form and are transferable in accordance with the provisions of the Capital Markets Act or other law regulating the transfer of securities.

Article 12

The Company cannot subscribe treasury shares.

The Company may acquire and dispose of the treasury shares only in accordance with the law.

The Company does not have any rights arising from the treasury shares.

DATA PUBLICATION AND ANNOUNCEMENTS

Article 13

When the Companies Act (hereinafter: the Companies Act) and/or the Company's Articles prescribe for the Company's obligation to publish information and announcements, these will be published on the web site of the court register and on the web site of the Company.

If the Company's shares or other securities are listed on a regulated market, the Company shall publish the prescribed information, data and announcements in accordance with the rules of that regulated market.

ORGANISATION OF BUSINESS OPERATIONS

Article 14

The basic organisation structure is set out by the Board of Directors of the Company.

REPRESENTATION OF THE COMPANY

Article 15

The Company is represented by its Executive Directors.

Within the scope of their authority, the Executive Directors may issue powers of attorney to other persons for representation purposes.

The Board of Directors may, by virtue of its decision, the Rules of Procedure of the Board of Directors, the Rules of Procedure of the Executive Directors or otherwise in accordance with the Companies Act, set out matters undertaken by the Executive Directors which require the prior approval of the Board of Directors.

When conducting the business operations, the Executive Directors, the persons from Par. 2 of this Article and the procurators are required to respect the limitations prescribed by law, these Articles of Association, the decisions of the General Assembly or the Board of Directors and the Rules of Procedure of the Executive Directors.

Article 16

The Executive Directors may, with the prior approval of the Board of Directors, issue a procuration to one or more persons (procurators).

The procuration is issued in writing.

Procuration may be granted to any person of age and with full business capacity, irrespective of the duties and activities he/she carries out.

The procurator may enter into contracts and undertake legal actions in the name and for the account of the Company and represent the Company in the proceedings before administrative and other state and arbitration courts.

Without special authorisation, the procurator may not dispose of or encumber the Company's real estates and may not give statements or undertake any legal actions initiating bankruptcy or any other proceeding leading to the winding up of the Company, or enter into contracts with the Company in his/her name and for the account of other persons or in the name and for the account of such other persons. The procurator may not issue powers of attorney to other persons for the purposes of entry into legal transactions.

The procuration shall cease:

- by winding up of the Company
- by revocation of procuration
- by termination
- by procurator's death
- if the procurator should become the only owner of the Company
- by loss of the procurator's business capacity
- by opening of the bankruptcy proceeding over the procurator's or the Company's assets
- by disposal of the entire undertaking
- if the procuration is related to the procurator's employment, by termination of the procurator's employment
- in other cases prescribed by law.

The procuration may be revoked at any time, irrespective of the agreement or other legal transaction of the basis of which the procuration was issued. The procuration may be revoked by the Executive Directors of the Company, with the prior approval of the Board of Directors.

Issuance of the procuration and its revocation shall be registered in the court register.

COMPANY'S BODIES

Article 17

The Company's bodies are: the Board of Directors and the General Assembly.

COMPANY'S BOARD OF DIRECTORS

Article 18

The Board of Directors consists of seven (7) members.

The Board of Directors:

- manages the Company
- sets the basis for the Company's business operations and determines the business policy of the Company
- supervises the management of the Company's business operations and keeping of the Company's business books
- appoints and recalls the Executive Directors of the Company
- represents the Company towards its Executive Directors
- if needed, convenes the General Assembly
- appoints the chairman of the General Assembly meeting
- submits written reports to the General Assembly, according to the Companies Act
- decides upon establishment and winding up of other companies and branches
- adopts the Rules of Procedure of the Board of Directors
- adopts the Rules of Procedure of the Executive Directors
- appoints and removes members of its committees (such as Audit Committee, Remuneration Committee and similar)
- prepares draft decision for appointment of members of the Board of Directors and the Company's auditor
- performs other activities according which are in its competence according to the Companies Act and these Articles of Association.

Article 19

Any physical person with full business capacity may become a member of the Board of Directors.

The member of the Board of Directors may not be:

- a person engaged, independently or together with other persons, in any activity competing with the activities of the Company on the territory of the Republic of Croatia
- a person being a shareholder of a competing company in the Republic of Croatia or a member of its body, or a procurator or employee of such company, or a person otherwise working for such company
- a person who satisfies the reasons prescribed by the Companies Act which disallow his/her membership in the Board of Directors.

Article 20

The members of the Board of Directors are elected by the General Assembly with the majority of all votes representing the share capital of the Company, except for one (1) member of the Board of Directors who is appointed by the Employees' Council in accordance with the Labour Act.

Article 21

The members of the Board of Directors are elected for the period of one (1) year and they may be re-elected.

If the decision on their election does not provide otherwise, the term of office of a member of the Board of Directors shall start as from the date of the decision on the election or as from the giving the statement on acceptance of election, irrespective of the entry in the court register.

Article 22

The members of the Board of Directors shall be proposed in a manner prescribed by law.

The shareholders individually or jointly holding at least 10% of the Company's voting shares are entitled to propose candidates for members of the Board of Directors, provided that they exercise such right in a manner prescribed by the Companies Act.

The authorised proposer is required to prepare a list of all candidates for members of the Board of Directors who are proposed to be elected. The General Assembly decides upon the list as a whole. If more authorised proposers submitted more lists, the proposals shall be decided upon in the order as they are presented to the General Assembly. In such case, it shall be deemed that the members of the Board of Directors have been elected if they have been elected with the majority of all votes representing the share capital of the Company. If no list has been adopted with the required majority of votes, the authorised proposer is entitled to submit a new proposal to be decided upon the General Assembly, provided that such proposal contains at least two (2) new candidates who have not been included in the list which has not been adopted with the required majority of votes.

If the decision is not reached after the second round of voting, the procedure of proposing the candidates for members of the Board of Directors shall be reinitiated and the voting shall be repeated as described above.

The authorised proposer is required to deliver, together with its proposal, a written statement of the person being proposed as the member of the Board of Directors (if such person is to be elected as the member of the Board of Directors for the first time) declaring that, if he/she is elected, he/she is prepared to perform the duty of the member of the Board of Directors of the Company.

Article 23

The General Assembly may recall a member or members of the Board of Directors even before expiry of their term of office.

The decision on recall of a member or members of the Board of Directors shall be adopted with the majority of at least three fourths (3/4) of the votes cast.

The appointed member of the Board of Directors may be recalled at any time by the person who appointed such member and may be replaced by another person. If the conditions for appointment of a member of the Board of Directors provided in these Articles of Association are not loner satisfied, the General Assembly may recall so appointed member of the Board of Directors with the simple majority of votes.

Article 24

The Chairman and any member of the Board of Directors may resign from their respective functions.

The resignation shall be delivered to the Company in writing and, if the resignation does not provide otherwise, it shall be effective as from the date it was issued. The resignation may be withdrawn only with the approval of the General Assembly.

No decision of the General Assembly is required for the termination of the membership in the Board of Directors.

Article 25

The Board of Directors of the Company shall be constituted, at the latest, within 8 days as from the date of election of those members who are elected by the General Assembly. Until appointment of the Chairman of the Board of Directors, the operation of the Board of Directors shall be conducted by the chairman of the General Assembly.

Based on the proposal of at least one (1) member of the Board of Directors, the members of the Board of Directors shall elect, among themselves, with the simple majority of votes, the Chairman and at least one Deputy Chairman who shall replace the Chairman in the case the Chairman is prevented from presiding over the Board of Directors. The Board of Directors may recall the appointment of the Chairman and his/her Deputy or Deputies at any time during their term of office.

The person appointed as the Executive Director of the Company cannot, at the same time, be elected as the Chairman and first Deputy Chairman of the Board of Directors.

Article 26

The Board of Directors passes decisions in meetings.

The meetings of the Board of Directors are regularly held in the registered office of the Company. If needed, the Chairman of the Board of Directors may decide that a meeting of the Board of Directors shall be held outside the registered office of the Company, in Croatia or abroad.

The members of the Board of Directors may vote by phone, telegraph, email, facsimile, letter or other appropriate means and may also vote through an authorised proxy.

In principle, the meetings of the Board of Directors are held quarterly and at latest semi-annually.

The manner and conditions for holding the meetings and for adopting decisions in meetings of the Board of Directors are regulated by the Rules of Procedure of the Board of Directors.

Article 27

Each member of the Board of Directors is entitled to one (1) vote.

The Board of Directors passes decisions with simple majority of votes cast.

The Board of Directors may pass decisions if at least four of its members (a quorum) participate in the decision-making.

No member of the Board of Directors is entitled to undertake obligations in the name of the Company without the approval of the Board of Directors.

Article 28

The Board of Directors may appoint committees for the purpose of preparation of decisions to be passed by the Board of Directors and for supervision of their implementation.

The authority to pass decisions in the competence of the Board of Directors cannot be transferred to the committees.

Article 29

The members of the Board of Directors are obliged to act in the Company's interest.

Article 30

The members of the Board of Directors are entitled to appropriate remuneration for their work in the Board of Directors. The remuneration shall be determined for each member of the Board of Directors separately but up to the amount of HRK 70,000.00 per member and per year.

The member of the Management Boars shall not be entitled to the remuneration upon termination of his/her term of office.

COMPANY'S EXECUTIVE DIRECTORS

Article 31

The Board of Directors appoints at least two (2) Executive Directors, one (1) of which shall be the Chief Executive Director.

The Executive Directors manage the Company's business operations and represent the Company only together and jointly. In case of divided votes, the Chief Executive Director shall have the casting vote.

The Board of Directors may also appoint deputy Executive Directors.

Article 32

The Executive Directors:

- represent the Company
- manage the Company's business operations at their own responsibility
- determine the Company's internal organisation
- prepare decisions and general acts in the competence of the General Assembly, except for the proposal for election of the members of the Board of Directors, the chairman of the General Assembly and the Company's auditor
- convene the General Assembly
- implement decisions adopted by the General Assembly and the Board of Directors within the framework of their competence
- adopt decisions and acts in the field of management of the Company's business activities, in accordance with the laws and regulations
- submit reports to the Board of Directors, in accordance with the law
- submit a proposal for the use of profit to the Board of Directors
- perform other activities pursuant to the Companies Act, other laws and regulations and these Articles of Association.

Article 33

Any physical person with full business capacity may become the Executive Director, provided that he/she satisfies the conditions from Article 19 hereof and the following conditions:

- level of education – 7^{th} degree of education
- experience – at least 5 years of service
- organisational and management skills
- knowledge of English language.

The members of the Board of Directors may also be appointed as the Executive Directors, but only in a way that majority members of the Board of Directors are non-executive members (i.e. that majority members of the Board of Directors are not appointed as the Executive Directors).

Article 34

Executive Directors and their deputies are appointed for the term of office of up to five (5) years, with the possibility of reappointment. The duration of the term of office of the Executive Directors and their deputies is determined by the decision of the Board of Directors.

The Board of Directors may recall the appointment of the Executive Directors at any time.

Article 35

The Executive Director is required to manage the Company's business operations with the diligence of a prudent businessman and keep the business secrets of the Company.

GENERAL ASSEMBLY

Article 36

The shareholders exercise their rights in the Company at the General Assembly.

A shareholder may exercise its voting right at the General Assembly through a proxy. The power of attorney needs to be issued in writing.

Article 37

The General Assembly of the Company:

- adopts the Articles of Association and decides upon their amendments
- adopts the Rules of Procedure of the General Assembly
- elects and recalls the members of the Board of Directors, except the representative of the Employees' Council
- decides upon use of profit in accordance with the law
- decides upon granting the discharge to the Board of Directors and the Executive Directors
- decides upon the appointment of the Company's auditor and special auditors of the Company
- decides upon increase and decrease of the Company's share capital
- decides upon the Company's corporate changes
- decides upon winding up of the Company
- decides upon all other matters pursuant to the law and these Articles of Association.

The General Assembly may adopt decisions from Par. 1 Item 4 and 7 of this Article only after the Board of Directors submits the relevant report to the General Assembly in accordance with the Companies Act.

The General Assembly may decide upon the management of the Company's business operations only upon request of the Board of Directors of the Company.

Article 38

The General Assembly is convened at least once per year and must be convened if so required by law, these Articles of Association or the Company's interests.

The General Assembly is convened by the Executive Directors in accordance with these Articles and law.

The Board of Directors is also authorised to convene the General Assembly, and is obliged to convene the General Assembly if so required by the Company's interests.

Shareholders jointly holding shares representing 5% of the Company's share capital may submit a written request to the Executive Directors requesting that the General Assembly is convened and specifying the purpose and reasons for such request. Provided that the said conditions are satisfied, the Executive Directors are obliged to convene the General Assembly.

Article 39

The persons convening the General Assembly are required to convene the General Assembly at least thirty (30) days in advance of the date of the General Assembly meeting, and the notice for the General Assembly meeting needs to be announced in the manner provided by these Articles of Association. Additional items may be added to the agenda at the latest within ten (10) days as from announcement of the notice for the General Assembly meeting.

Article 40

The General Assembly may validly pass decisions provided that the shareholders or their proxies, who individually or jointly hold shares whose nominal value exceeds 50% of the Company's share capital at the time of holding the General Assembly meeting, participate in the General Assembly meeting, unless the law or these Articles of Association provide otherwise.

When convening the General Assembly, the term for holding the next General Assembly meeting shall be set if the quorum prescribed in Par. 1 of this Article is not present at the initially convened General Assembly meeting.

The term of the next General Assembly meeting cannot be shorter than eight (8) days or longer than thirty (30) days as from the date of the initially convened General Assembly meeting.

The next General Assembly meeting shall be held irrespective of the number of present shareholders and the value of their shares and the decisions shall be passed with the majority of votes represented at the General Assembly, unless these Articles of Association or the law explicitly require a qualified majority.

Article 41

The right to participate at the General Assembly and the number of votes shall be determined on the basis of data filed in the register of the Central Depository and Clearing Company in accordance with the Companies Act.

Article 42

The shareholders exercise their voting rights at the General Assembly pro rata to the number of shares they hold in the Company.

Each registered share confers one (1) vote.

Article 43

The General Assembly meeting is conducted and presided by the chairman of the General Assembly.

The Board of Directors determines the chairman of the General Assembly, amongst the members of the Board of Directors or the Company's shareholders, for each General Assembly meeting and before the meeting begins.

Article 44

The decisions of the General Assembly are passed with the majority of votes cast (simple majority).

Decisions are passed with qualified majority when so explicitly provided by the Companies Act or these Articles of Association.

The following decisions shall be passed with the qualified majority of 3/4 of the share capital represented at the General Assembly at the time of decision-making:

- decision on increase and decrease of the Company's share capital (except authorised share capital)
- decision on Company's corporate changes
- decision on winding up of the Company
- decision on adoption of or amendments to the Articles of Association (except authorised share capital)
- decision on adoption of or amendments to the Rules of Procedure of the General Assembly.

The following decisions shall be passed with the qualified majority of 9/10 of the share capital represented at the General Assembly at the time of decision-making:

- decision on delisting of the Company's shares from the regulated market or transition to a lower market (i.e. transition from official to regular market)
- decision on authorised share capital.

Article 45

Voting at the General Assembly is public, but the General Assembly may decide with simple majority that a particular item is decided upon by secret ballot.

The manner of voting is regulated by the Rules of Procedure of the General Assembly.

Article 46

Each shareholder shall bear the costs of its participation at the General Assembly, whereas the costs of preparation and holding of the General Assembly shall be borne by the Company.

ANNUAL ACCOUNTS AND USE OF PROFIT

Article 47

The Company is obliged to keep its business books in accordance with the law and updated, which is the responsibility of the Executive Directors.

The Executive Directors are obliged to ensure that the financial reports and the auditor's report are prepared in accordance with the Companies Act.

Article 48

After adoption of the income statement, the General Assembly may decide that the profit from the current year shall be allocated to the Company's reserves.

In terms of Par. 1 of this Article, the General Assembly is authorised to decide not to distribute the Company's profit to the shareholders.

BUSINESS SECRET

Article 49

The business secret of the Company are considered to be the deeds, data and documents related to the Company's business operations or the work of Company's employees, whose disclosure to unauthorised persons would contravene the interests of the Company.

The business secret are especially considered to be the information about the sales and marketing strategy, contracts, production, technological, commercial, financial, technical and proprietary documentation as well as the information about each employee's salary.

The business secret are also considered to be the data and the documents that the Company declares as business secret and that another person communicates to the Company as confidential.

Article 50

The obligation to keep the business secret relates to all shareholders, irrespective of the number and type of shares they hold, members of the Company's management bodies, all Company's employees and other persons who learned about the data considered as business secret in any manner whatsoever.

TERM AND WINDING UP OF THE COMPANY

Article 51

The Company is incorporated for indefinite period of time.

The Company may be winded up in accordance with and by undergoing the procedure prescribed by the Companies Act.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

Article 52

Besides the Board of Directors, the shareholders who individually or jointly hold shares representing at least 5% of the share capital of the Company are entitled to propose the amendments to the Articles of Association.

The shareholders from Par. 1 of this Article exercise their right to propose amendments to the Articles of Association by submitting a proposal of amendments to the Executive Directors, accompanied with an explanation. The Executive Directors shall provide their written opinion on this proposal and deliver the same, together with the authorised shareholder's proposal, to the General Assembly for its consideration.

Amendments to the Articles of Association shall be effective only upon their registration in the court register.

TRANSITIONAL AND FINAL PROVISIONS

Article 53

These Articles of Association shall enter into force upon their registration in the court register.

Other general acts of the Company adopted before these Articles of Association enter into force shall apply to the extent they do not contravene the provisions of these Articles of Association, until new acts are adopted.

Authorised bodies of the Company shall harmonise the existing acts with the provisions of these Articles of Association within six (6) months as of registration of these Articles of Association in the court register.

Article 54

The General Assembly shall decide upon issuing, with simple majority of votes, an authentic interpretation of the provisions of the Articles of Association.

The text of the Articles of Association which has been validly adopted by the General Assembly, signed and initialled on each page by the chairman of the General Assembly, shall be deemed as original version of the Articles of Association.

The Executive Directors are responsible for safekeeping of the Articles of Association and are required to enable each shareholder, at its request, to inspect the Articles of Association or, at the shareholder's cost, to copy the Articles of Association.

The original of the Articles of Association and any amendments thereto shall be bound as a separate book.

In Pula, on 22 March 2017

Arena Hospitality Group d.d.

Chairwoman of the General Assembly

Vlasta Cukon

COMPANY

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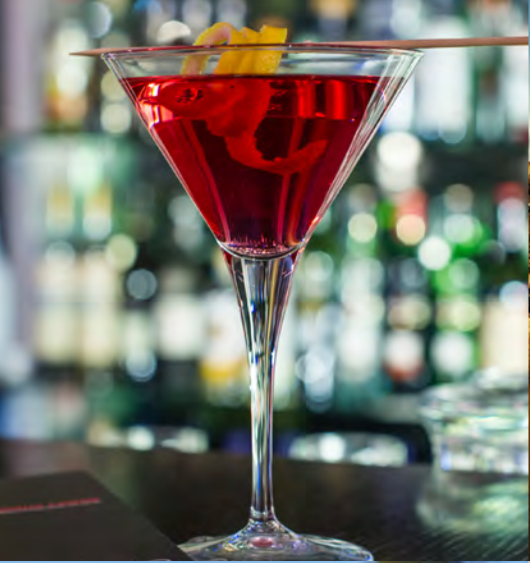
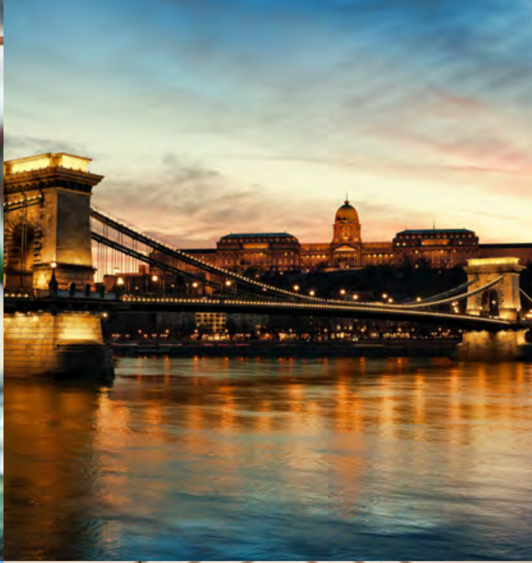
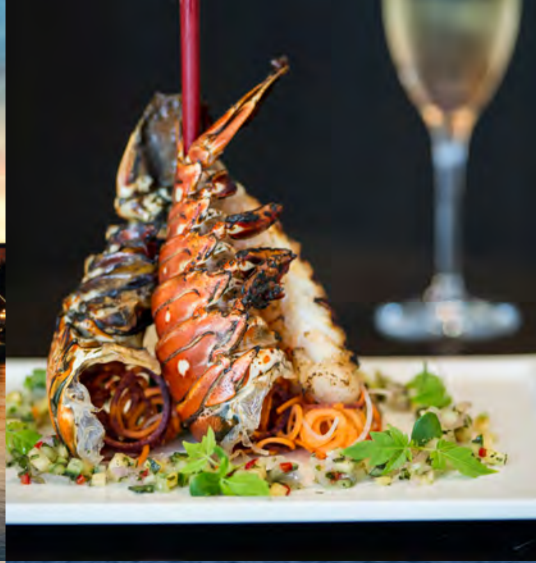
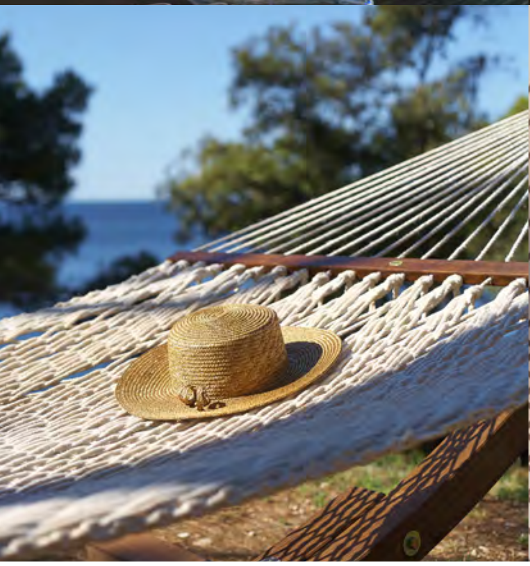
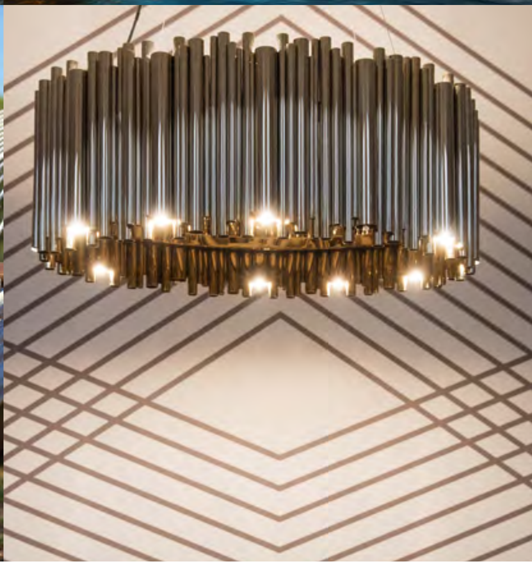
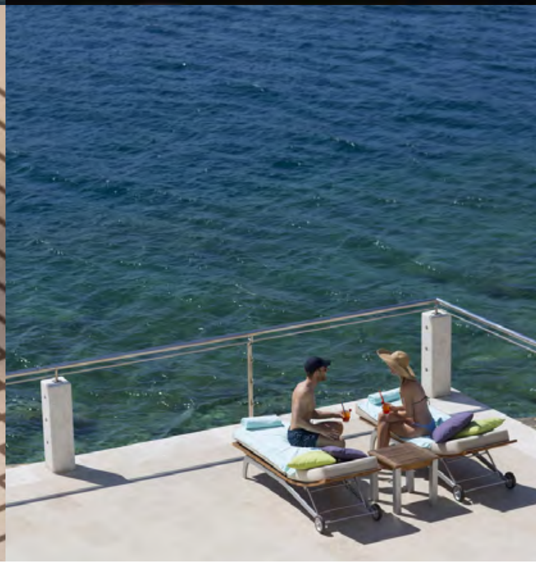
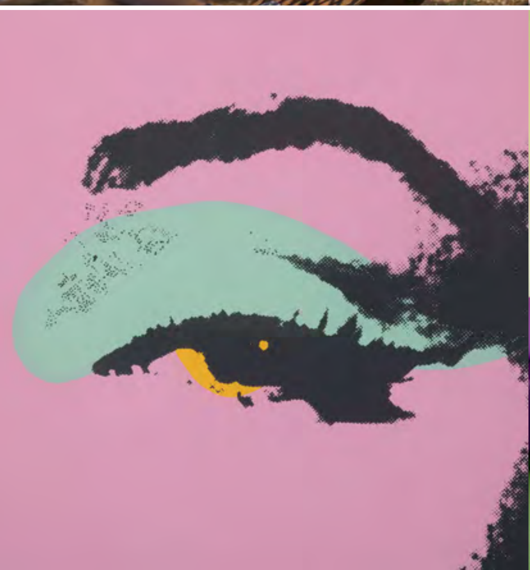
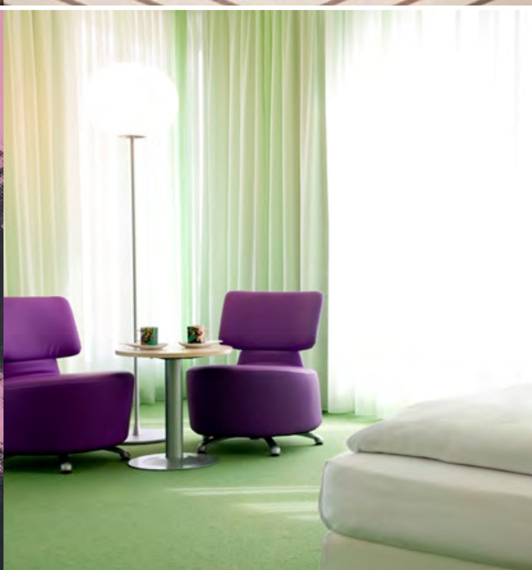

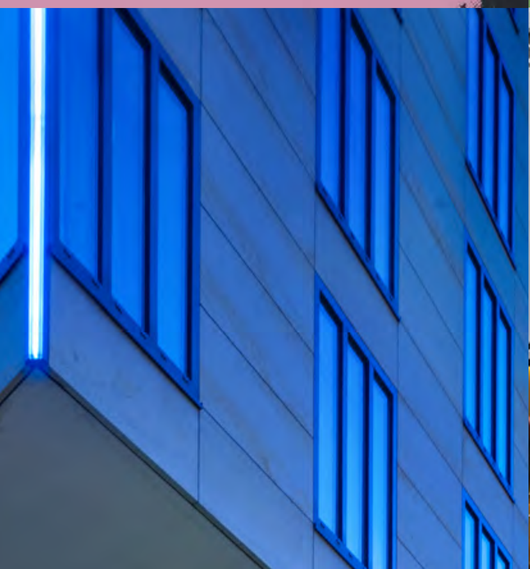
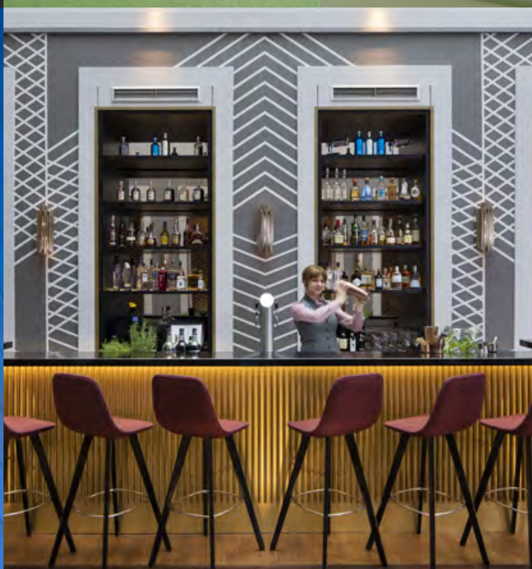
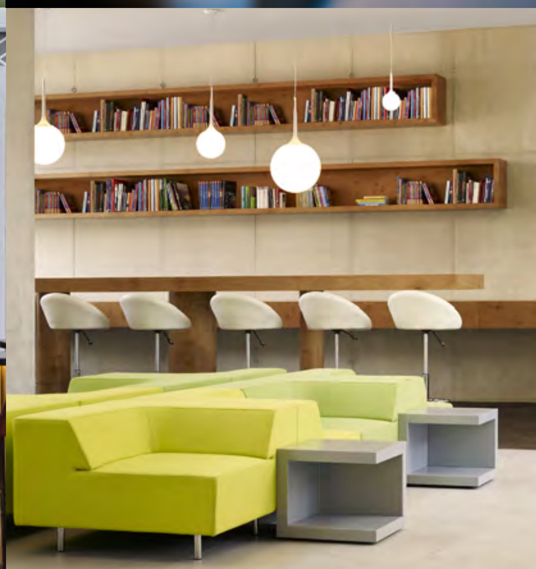

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