Strategy at a glance

Strategic progress for 2018

Property

Strategy

Deliver all ongoing projects and existing pipeline

Performance in the year

We successfully completed our scheduled renovations across Europe, including the repositioning of Park Plaza Victoria Amsterdam and Park Plaza London Riverbank. We also launched Croatia's first all-glamping offering, Arena One 99.

Risks linked to strategy

- Development projects
- UK's withdrawal from the European Union (Brexit)
- The Group's borrowings
- Capital required to maintain product standards

Looking forward

Continued focus on maturing product performance directly after repositioning and re-launch. Continue to work with construction partners to ensure projects are completed to a high standard, on time and on budget. The focus continues on two repositioning projects currently underway; Park Plaza Sherlock Holmes London and Park Plaza Vondelpark, Amsterdam both due to launch to markets H2 2019 along with two new build art'otels in desirable locations within London, expected to open 2022.

Strategy

Deploy capital in projects and new properties meeting our yield profile

Performance in the year

First phase renovation for Park Plaza Victoria London commenced in 2018 with completion expected in H2 2019. Repositioning projects for Park Plaza Vondelpark, Amsterdam, Park Plaza Utrecht, Park Plaza Sherlock Holmes London and Arena Kažela Campsite Medulin commenced in 2018 with all projects expected to be completed in H2 2019. In addition, preliminary construction works commenced on the development of art'otel london hoxton, following the acquisition of the remaining 50% joint venture interest earlier this year. Repositioning projects expected to commence in 2019 include among others Hotel Brioni and Verudela Beach Resort. In 2018 we identified a substantial number of opportunities and went on to evaluate 145 of which we submitted proposals for approximately 10%.

Risks linked to strategy

- Development projects
- UK's withdrawal from the European Union (Brexit)
- The Group's borrowings
- Capital required to maintain standards
- Foreign exchange rate fluctuations

Looking forward

Our current pipeline of new hotels includes two iconic developments in London, scheduled to open in 2022/2023. These are art'otel london hoxton (wholly-owned) and art'otel london battersea power station (management agreement). While the Group's focus will continue to be on repositioning and developing the Group's existing portfolio and committed pipeline, we are in an unprecedented strong cash position to consider further asset acquisitions to broaden our portfolio.

Strategy

Mature recent openings and repositioned and renovated properties to generate a targeted cash return on EPRA NAV

Performance in the year

Trading improved for the Group for the year ended 31 December 2018 with Park Plaza London Waterloo and Park Plaza London Park Royal providing first full-year contributions as the properties mature. Park Plaza Victoria Amsterdam, following its successful repositioning, is on track to deliver a positive return on investment with an increase in average room rate.

Performance management

- EPRA EPS
- Net return on shareholder capital
- Net return on EPRA NAV

Risks linked to strategy

- Fixed operating expenses
- The Group's borrowings
- Market dynamics
- Hotel industry risks

Looking forward

Continued focus on maximising return as assets mature and establish their presence in the market.

Strategy

Implement target-based sustainable business strategy 'Responsible Experiences'

Performance in the year

In 2018, we launched Responsible Experiences, our Responsible Business programme. We have defined a dedicated strategy and four pillars reflecting key areas of activity and focus for the year ahead in support of overall guest experience and future proofing. In 2018, we reviewed all activities to be measured in the Group as part of our programme along with the scoping out of our proposed targets and KPIs; both of which we intend to launch in 2019. We became a supporter of the International Tourism Partnership in 2018 and plan to progress our activities and collaborations with this key partner in 2019.

Risks linked to strategy

- Market dynamics
- Hotel industry risks
- Compliance with laws
- Capital required to maintain product services

Looking forward

In 2019 we intend to further progress our Responsible Experiences programme and ensure that targets and measurements are finalised, launched and consistently measured across the portfolio.

Operations

Strategy

Develop a high performing culture where engaged teams are empowered to create valuable memories for our guests and value for our assets

Performance in the year

2018 has seen an increased number of team members participating in our employee engagement survey and our engagement scores for 2018 remained high. The Group continues to invest in award-winning European training programmes for our team members with 2018 wins including Best Student Placement Programme of the Year 2018 (Institute of Hospitality Awards for Excellence 2018) and Excellence in Promoting Careers (HR in Hospitality Awards for Excellence 2018). We also work with external parties, including The Prince's Trust, by hosting its 'Get Hired' event to bring young people and businesses together, where we saw the highest number of young people to date in attendance. Our guest satisfaction scores have continued to increase year-on-year, with our highest performing hotels for Guest Rating Scores (as measured by ReviewPro) being Park Plaza Arena Pula (92.2%), Park Plaza Westminster Bridge London (92.1%), Park Plaza Nuremberg (90.7%) and art'otel berlin mitte (90.2%).

Performance measurement

- Employee Engagement
  - 2018 saw a total increase of 453 participants compared to 2017 (3,321 v 2,868 – PPHE Hotel Group and Arena Hospitality Group combined)
  - engagement score of 83.6%

Risks linked to strategy

- Fixed operating expenses
- Market dynamics
- The Park Plaza® Hotels & Resorts brand and reservation system
- Information technology and systems

Looking forward

We will expand and evolve a number of Learning & Development programmes in 2019 including Inspiring Leaders Programme Level 5 for our future leaders and Step Up Hospitality Supervisor Level 3, both mapped to the Apprenticeship Standard and accredited by the ILM.

Investments in refurbishments and repositioning projects are expected to influence guest satisfaction scores.

Strategy

Improve the overall guest experience through creating valuable memories

Performance in the year

In 2018, we started utilising ReviewPro, benefiting from a global Radisson Hotel Group agreement, to aggregate and monitor guest feedback. Utilising this tool we engage with customers and also integrate their feedback into our award-winning training programmes. At the end of 2018 we introduced a greater focus for Brand Marketing and Guest Experience to enhance the guest journey. Creating vibrant restaurant and bar experiences continued to positively enhance the guest experience.

Performance measurement

- Overall, our online reputation (as measured in the form of Guest Rating Score) increased from 85.2% in 2016 (when several repositioning programmes commenced) to 87.3% in 2018

Risks linked to strategy

- Capital required to maintain product standards
- Market dynamics
- Information technology and systems
- The Park Plaza® Hotels & Resorts brand and reservation system

Looking forward

Ongoing investment programme for team members and properties, along with continued focus on Guest Rating Scores across all properties are expected to deliver improved guest satisfaction and RevPAR growth. We have restructured the Brand Marketing department to have a greater focus on reviewing guest feedback and aligning our operating standards to maximise efficiencies to further enhance guest satisfaction.

Strategy

Focus on total revenue generation with solid profit conversion

Performance in the year

PPHE Hotel Group continues to benefit from Radisson Hotel Group and its brand repositioning in the hotel market with its newly launched loyalty programme Radisson Rewards (previously Club Carlson). In 2018, we undertook a commercial department restructure to improve consistent performance throughout the Group. Consolidation of supply chain and central procurement system used to track, implement and monitor KPI across the Group was also maximised.

Performance measurement

- EBITDA and EBITDA margin
- RevPAR

Risks linked to strategy

- Fixed operating expenses
- UK's withdrawal from the European Union (Brexit)
- Market dynamics
- The Park Plaza® Hotels & Resorts brand and reservation system
- Hotel industry risks

Looking forward

With investments made in our portfolio and team members throughout 2018, we believe a solid base has been established to grow further. Operational efficiencies including centralising certain key corporate/regional teams or functions, consolidating our supply chain further, implementing automation and growing the top line will all contribute to enhanced margins.

Principal risks and uncertainties

Material factors impacting our business

Risk and impact	Mitigation	Grading	Year-on-year
Market dynamics			
The travel industry has changed considerably in recent years as a result of changes in travel patterns, the emergence of low-cost airlines and online travel agents, new technologies, and changes in customer booking behaviour and travel expectations. Difficulties identifying trends and responding to changes in customer demands and preferences (e.g. digital and mobile) could threaten the Group's brand alignment with its customers' expectations	The Group invests in areas such as connectivity to third parties, distribution and marketing of its products, e-commerce and technology. The Group further mitigates this risk by working closely with Radisson Hotel Group, ensuring that global trends are identified and acted upon in a concerted manner, whilst benefiting from the scale, negotiating power, knowledge and skills that our global partnership brings. Executives and managers regularly attend seminars, workshops and training to ensure that their knowledge is kept up to date.	Medium	—
Information technology and systems			
The Group is reliant on certain technologies and systems for the operation of its business. Any material disruption or slowdown in the Group's information systems, especially any failures relating to its reservation system, could cause valuable information to be lost or operations to be delayed. In addition, failure of information systems to adequately protect data could result in a potential loss. Difficulty in defining and implementing an enterprise-wide IT and data strategy might impair the Group's ability to achieve its strategic goals.	The Group invests in appropriate IT systems to build as much operational resilience as possible. Furthermore, a variety of security measures are implemented in order to maintain the safety of personal customer information. The Group has also put in place an IT/cyber insurance policy.	High	—
Hotel industry risks			
The Group's operations and their results are subject to a number of factors that could adversely affect the Group's business, many of which are common to the hotel industry and beyond the Group's control, such as global economic uncertainties, political instabilities and an increase in acts of terrorism. The impact of any of these factors may adversely affect management's ability to execute an operating plan to achieve the Group's strategic goals.	Although management continually seeks to identify risks at the earliest opportunity, many of these risks are beyond the control of the Group. The Group has in place contingency and recovery plans to enable it to respond to major incidents or crises and takes steps to minimise these exposures to the greatest extent possible.	High	—
Fixed operating expenses			
The Group's operating expenses, such as personnel costs, the impact of the Living Wage in the United Kingdom, property taxes, operating leases, IT and telecommunications, are to a large extent fixed. As such, the Group's operating results may be vulnerable to short-term changes in its revenues.	The Group has appropriate management systems in place (such as staff outsourcing) in certain regions which are designed to create flexibility in the operating cost base so as to optimise operating profits in volatile trading conditions.	High	—

Building on the risk areas described in the previous section, the following table shows the value we create, the material factors, and the metrics we use to assess progress.

Change year-on-year

↑ Increased
— Unchanged
↓ Decreased

Grading

○ High
○ Medium
○ Low

Risk and impact	Mitigation	Grading	Year-on-year
The Group's borrowings			
The Group is exposed to a variety of risks associated with the Group's existing bank borrowings and its ability to satisfy debt covenants. Failure to satisfy obligations under any current or future financing arrangements could give rise to default risk and require the Group to refinance its borrowings. In addition, some of the Group's financing arrangements contain cross-collateralisation and therefore there is a risk that more than one property may be affected by a default under these financing arrangements. The Group uses debt to partly finance its property investment. By doing so, the Group leverages its investment and is able to acquire properties without raising 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. The risk exists that interest expenses and default on debt covenants negatively impact shareholder value and return.	The Group's internal Treasury Management monitor the financial covenants regularly. In addition, as part of the financial planning procedures, a three-year forecast is prepared which incorporates sensitivity tests for meeting the covenant ratios. The Board monitors the Group's funding needs in accordance with future plans.	High	↑
Compliance with laws			
The Group must comply with regulations and legislations in the various jurisdictions where it operates. Exposure is similar to other companies with cross-jurisdictional operations and a global customer base. However, such risks expose the Group to potential: reputational damage; financial penalties; and costs each of which could have a material adverse effect.	The Group has a well-resourced Legal Team which continuously monitors compliance with existing regulations, implements regular staff training, offers a point of contact to all staff to report a concern or raise a question and regularly reviews their compliance and governance policies and their implementation. Additionally, the General Counsel is in regular consultation with the Board of Directors and Executive Team on any material concerns or changes to compliance strategy to ensure Board and Executive Committee engagement in compliance matters.	Medium	↑
The Park Plaza® Hotels & Resorts brand and reservation system			
The Group's rights to the Park Plaza® Hotels & Resorts brand stem from a territorial licence agreement with Radisson Hotel Group, pursuant to which the Group has the exclusive right to use (and to sub-license others to use) the Park Plaza® Hotels & Resorts trademark in 56 countries within the EMEA region. This agreement also allows the Group to use Radisson Hotel Group's global central reservation system, participate in its various loyalty schemes and have access to global distribution channels connected to its central reservation system. Failure to maintain these rights could adversely affect the Group's brand recognition and its profitability. The Group is also dependent on Radisson Hotel Group to invest in the further development of its global reservation system and associated technologies and infrastructure. The Park Plaza® Hotels & Resorts outside of the EMEA region are managed or franchised by Radisson Hotel Group directly, and failure at its end to control and maintain a similar quality level of hotels may have a detrimental effect on the reputation of the Park Plaza® Hotels & Resorts brand and the hotels operating under the brand name.	The Group's rights to use the Park Plaza® Hotels & Resorts brand and Radisson Hotel Group's central reservation system are in perpetuity. This unique and exclusive partnership is reinforced by the Group's continued focus on operational efficiency and portfolio growth through its intensified cooperation with Radisson Hotel Group. To ensure that the Group's interests are represented, several of its executives and managers participate in collaborative groups initiated by Radisson Hotel Group to discuss, review and optimise the collective performance in areas such as sales, loyalty marketing, brand development, partnerships, e-commerce and distribution.	Low	↓

Principal risks and uncertainties continued

Change year-on-year

↑ Increased
— Unchanged
↓ Decreased

Grading

○ High
○ Medium
○ Low

Risk and impact	Mitigation	Grading	Year-on-year
Development projects			
The Group has various ongoing development projects which are capital intensive. These development projects may increase the Group's expenses and reduce the Group's cash flows and revenues. If capital expenditures ('capex') exceed the Group's expectations, this excess would have an adverse effect on the Group's available cash. There is a risk that such developments may not be available on favourable terms, that construction may not be completed on schedule or within budget, and that the property market conditions are subject to changes in environmental law and regulations, zoning laws, and other governmental rules and fiscal policies.	The Group tends to enter into fixed price turn-key contracts in respect of its developments in order to minimise the risk of cost overrun. The Group draws on its previous experience in running and managing developments to manage potential development risks.	Medium	↑
Capital required to maintain product standards			
The Group owns and co-owns many of its hotels. As is common in owning hotels, this business model requires capital to maintain the high quality level of the products and facilities offered. In addition to maintenance costs and capex, the Group may be exposed to disruptions in revenue if hotels are to be (part) closed for product improvements.	The Group focuses heavily on preventative maintenance across its portfolio and employs engineers and technicians to ensure that its hotels are maintained to a high standard. In addition, as part of its operating agreements, the Group has capex reserves for each hotel to invest in medium to large renovations and replacements of technical installations. To minimise short-term revenue displacements due to renovations, the Group develops – prior to undertaking such renovations – detailed renovation planning programmes which take into account factors such as hotel closures, phased approaches, seasonality and demand patterns.	Medium	—
UK's withdrawal from the European Union ('Brexit')			
The success of the Group's business is partially attributable to the efforts and abilities of its workforce, as well as the Group's ability to deliver high quality service levels with the right products and goods delivered on time. Uncertainty over the Brexit negotiations, a high turnover of team members and volatile trading conditions or delays to goods coming into the UK may threaten the consistent delivery of this service level.	The Group has put in place contingency and recovery plans from a supply chain perspective, as well as a financing perspective to minimise disruption to Group's UK operations experience in the immediate aftermath of the UK's departure from the EU. There is a level of uncertainty, and many of the factors that could adversely affect the Group's business such as political instabilities are beyond the Group's control but factors in its control such as its ability to continue to recruit and retain talent have been mitigated and appropriate systems are in place for recruitment, reward and compensation and performance management.	Medium	↑
Foreign exchange rate fluctuations			
The exchange rates between the functional currency of the Group's subsidiaries operating inside the Eurozone, and the Croatian Kuna and Pound Sterling (the reporting currency for the purposes of the consolidated financial statements) may fluctuate significantly, affecting the Group's financial results. In addition, the Group may incur a currency transaction risk in the event that one of the Group companies enters into a transaction using a currency different from its functional currency.	The Group eliminates currency transaction risk by matching commitments, cash flows and debt in the same currency. After due and careful consideration, the Group decided not to hedge this currency risk.	Low	↓

Viability statement

In accordance with provision C.2.2 of the Corporate Governance Code, the Directors have assessed the prospects of the Group over a longer period than the 12 months required by the going concern provision. This is the first longer term viability statement the Directors have included in the annual report.

The Group developed an annual business planning process, which includes a robust three-year plan that takes into consideration the company's strategy, the principal risks and the current market conditions. This plan will be reviewed and approved each year by the Board following which it will be cascaded down across the Group and provides the basis for strategic actions taken across the business.

In addition, as part of its annual business planning process, during the year, the Group commenced a risk assessment, in conjunction with the Group's auditor, in which risks were identified and assessed by the senior executives using a combination of a likelihood and occurrence scales. The identified risks were documented in a principal risk schedule with the risks expected to have the most impact on the Group outlined on page 42. The principal risk schedule was approved by the executive management team and the Audit Committee.

The Group's viability assessment is based on the three-year financial forecast, which is directly linked to the three year financial forecast, adjusted with principal risks that are assumed to crystallise in parallel during the assessment period.

The principal risks' effect on the Group is quantified throughout the three-year financial forecast by applying the following stress testing:

- Decrease in average daily rate;
- Decrease in occupancy;
- Decrease in EBITDA margin;
- Increase in development projects investments;

A decrease in average daily rates and occupancy can result from a range of principal risks in the hospitality sector including, but not limited to, a failure to maintain a competitive pricing position due to changes in market dynamics, failure to maintain brand rights and a disruption in information systems. A decrease in EBITDA margin can result from an increase in fixed costs and operational costs. An increase in development costs is linked to the principal risk of overruns in respect of ongoing development projects and the capital required for maintaining product standards. In should be noted that development costs associated with the art'otel london hoxton project, which is expected to open in 2022, are not included in the financial forecast as this project is still in a preliminary stage and management anticipate that the development costs will be financed by third party facilities and therefore should not materially affect the Group's net cash and cash flows.

The stress tests were evaluated for various outcomes including the impact on the Group's net cash, cash flows, property fair values and the impact of a parallel crystallisation of the above mentioned stress tests on the Group's financial covenants. The underlying assumption for any potential breaches in covenants was that the company will repay part of the loan principal in order to comply with those covenants. This assumption is based on cures for covenant breaches that are included in the Group facilities agreements. Moreover, the Group's weighted average loans maturity was above 7.5 years which was also considered when assessing the solvency and liquidity of the Group.

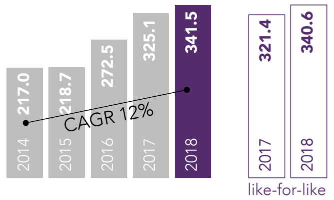
The Board concluded that three years would be an appropriate timeframe over which to assess the Group's ongoing longer term viability, as this period aligns with the Group's own strategic planning period combined with the levels of planning certainty that can be derived from the current market conditions and the development pipeline.

The above considerations form the basis of the Board's assessment of the viability of the Group over a three-year period to 31 December 2021 while taking account of the Group's current position, the principal risks and how these are managed as detailed in the Strategic report, the Group strategy and the Group's financial plans and forecasts. Based on this assessment, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period to 31 December 2021.

Key performance indicators
Measuring our progress

Financial KPIs

Total revenue (£m)



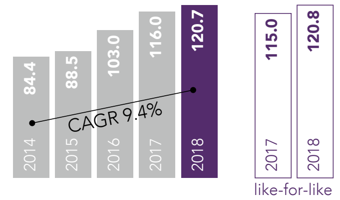
KPI definition

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

Comment

Revenue which increased by 5%, was positively affected by the completion of the repositioning projects at Park Plaza Victoria Amsterdam and Park Plaza London Riverbank and the maturing of Park Plaza London Waterloo and Park Plaza London Park Royal. However, it was negatively affected by a decrease in room inventory due to refurbishment of a few properties in the UK and the Netherlands and the termination of a lease agreement in Dresden, Germany.

EBITDAR (£m)



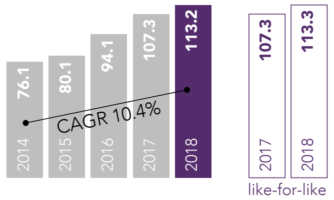
KPI definition

Earnings before interest, tax, depreciation, amortisation and rental expenses.

Comment

EBITDAR, which increased by 4%, was positively affected by the completion of the repositioning projects at Park Plaza Victoria Amsterdam and Park Plaza London Riverbank and the maturing of Park Plaza London Waterloo and Park Plaza London Park Royal. However, it was negatively affected by a decrease in room inventory due to refurbishment of a few properties in the UK and the Netherlands.

EBITDA (£m)



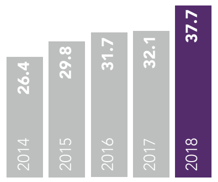
KPI definition

Earnings before interest, tax, depreciation and amortisation.

Comment

EBITDA increased by 5.5% and was positively affected by the completion of the repositioning projects at Park Plaza Victoria Amsterdam and Park Plaza London Riverbank and the maturing of Park Plaza London Waterloo and Park Plaza London Park Royal. In addition, we benefited from a decrease in rent expenses due to the acquisition of two freehold properties in Germany (which were previously held under operating leases) in 2017 and the termination of a lease agreement in Dresden. However, it was negatively affected by a decrease in room inventory due to refurbishment of a few properties in the UK and the Netherlands.

Normalised profit before tax (£m)



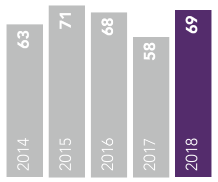
KPI definition

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

Comment

Normalised profit which increased by 17.6% and was positively affected by the increase in EBITDA, however this was offset by an increase in depreciation costs and a higher foreign exchange costs.

Normalised earnings per share (pence)



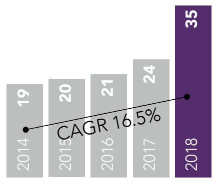
KPI definition

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

Comment

Normalised earnings per share increased by 19.2% in line with the increase in normalised profit.

Dividend per share (pence)



KPI definition

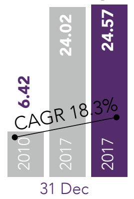
The total dividends paid out over an entire year divided by the number of outstanding ordinary shares issued.

Comment

Ordinary dividend increased 45.8% year-on-year, with a final dividend of 19 pence per share proposed.

Property KPIs

EPRA NAV per share (£)



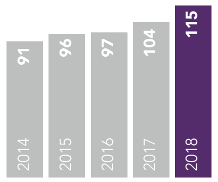
KPI definition

Net Asset Value on a fully diluted basis adjusted to include properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long-term investment property business model divided by the dilutive number of shares.

Comment

EPRA NAV per share increased by 2.3% and was positively affected by the earnings for the year. However, it was negatively affected by the dividend distribution of 29p in 2018.

Adjusted EPRA EPS (pence)



KPI definition

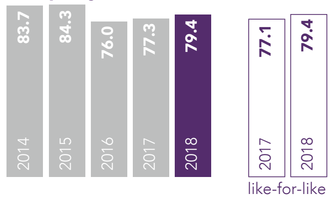
Shareholders' earnings from operational activities with the company's specific adjustments. The main adjustment to normalised profit is adding back the reported depreciation charge, which is based on assets at historical cost, and replacing it with a charge calculated as 4% of the Group's total revenues, representing the Group's expected average cost to upkeep the real estate in good quality. The adjusted Shareholders earnings from operational activities are divided by the weighted average number of ordinary shares outstanding during the year.

Comment

Adjusted EPRA earnings EPS which increased by 10.6% and was positively affected by the improved results.

Operating KPIs

Occupancy (%)



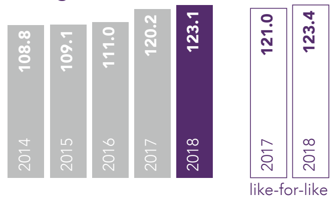
KPI definition

Total rooms occupied divided by the available rooms.

Comment

Like-for-like occupancy improved by 230 bps with reported occupancy increasing by 210 bps year-on-year. Occupancy increased across all of our operating regions.

Average room rate (£)



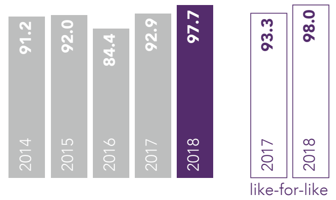
KPI definition

Total room revenue divided by the number of rooms sold.

Comment

Like-for-like average room rate increased by 2.0%, with reported average room rate increasing by 2.5%. Average room rate increased in the Netherlands region however stayed stable in the rest of our operating regions.

RevPAR (£)



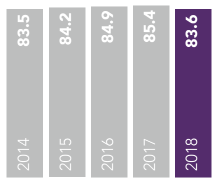
KPI definition

Revenue per available room; total room revenue divided by the number of available rooms.

Comment

Like-for-like RevPAR increased by 5.0%, with reported RevPAR increasing by 5.2%, due to the increase in occupancy.

Employee satisfaction/ engagement (scale 1–100%)



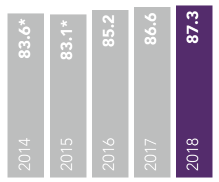
KPI definition

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

Comment

We have maintained a stable and satisfactory performance in our overall score. Several hundred additional team members participated in our annual engagement survey this year following the launch of Accommodation Services. We tend to see a slight reduction in engagement when new teams are invited to participate in the survey and we are focusing on engagement initiatives to increase the score in 2019.

Guest satisfaction (scale 1–100%)



* Scores for 2014 and 2015 measure guest satisfaction as per the guest surveys sent out and have been translated from points to percentages. Therefore 2016 should be considered as the baseline for the Guest Rating Score.

KPI definition

Guest Rating Score (GRS^{TM}) is the online reputation score used by ReviewPro - an industry leader in guest intelligence solutions.

It is used to benchmark individual hotel or a group of hotels, compare results between properties or against competitors and track the evolution of a hotel's performance over time, in terms of customer feedback as gathered through major online reviews websites.

Comment

The year-on-year increase reflects the positive reception of the investments we made in various properties and training, a recognition we aim to maintain in 2019.