Financial statements

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Independent auditors' report to the members of PPHE Hotel Group Limited

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of PPHE Hotel Group Limited (the Group), which comprises the consolidated statement of financial position as at 31 December 2018, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements:

1. give a true and fair view of the financial position of the Group as at 31 December 2018 and of its financial performance and its cash flows for the year then ended;
2. have been properly prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union; and
3. have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

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 are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2018. 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. For the key matter below, our description of how our audit addressed the matter is provided in that context.

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

Key audit matter 2018

PPHE Hotel Group is a group with more than 100 legal entities (together, the Group), grouped in four reportable segments. The geographical decentralised structure, multiplicity of IT systems and the number of group entities (components) increase the complexity of the Group's control environment and thus, effects our ability as group auditor to obtain an appropriate level of understanding of these components. Also in our role as group auditor it is essential that we obtain an appropriate level of understanding of the significant components in the Group and the audit work performed by the component's auditors.

How our audit addressed the matter

We have evaluated the Group's internal controls, including the centralised monitoring controls that exist at both Group and segment level. The Group has developed an internal control framework with control activities that are required to be implemented by the components. Management continually reviews their systems and procedures for improvements and harmonisation across the Group.

During our audit, we have specifically focused on risks in relation to the decentralised structure and as a result, we have extended our involvement in audit work performed by the components' auditors. Among other audit procedures, we organised site visits, meetings and conference calls with components' auditors. We have also requested components' auditors to specifically address certain risks and attention areas defined at group level, by requiring all teams to perform specific audit procedures in order to ensure a consistent approach in areas that were deemed most relevant from a group audit perspective to mitigate the risks identified by the group auditor. We also performed tests on consolidation adjustments and manual journal entries, both at Group and component level to obtain an understanding of significant entries made.

Independent auditors' report to the members of PPHE Hotel Group Limited continued

Other information included in the Group's 2018 Annual Report

Other information consists of the information included in the 2018 Annual Report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and the Audit Committee for the financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of 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.

The Audit Committee is 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:

1. 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;
2. 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;
3. evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
4. 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;
5. 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; and
6. 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 the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicated 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 the Audit Committee, 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.

Report on other legal and Regulatory Requirements:

Pursuant to Section 9.8.10 (1) and (2) of the Listing Rules in the United Kingdom, we were engaged to review Management's statement pursuant to Section 9.8.6 R (6) of the Listing Rules of the Financial Conduct Authority that relate to provisions C.1.1, C.2.1, C.2.3 and C.3.1 to C.3.8 of the UK Corporate Governance Code and Management Board's statement pursuant to Section 9.8.6 R (3) of Listing Rules of the Financial Conduct Authority in the financial year 2018 included in the "Viability statement" of management report and in the section "Going concern reporting according to the UK Corporate Governance Code". We have no exception to report.

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

Chen Shein
(For and on behalf of Kost Forer Gabbay & Kasierer, member of Ernst & Young Global)
Tel Aviv, Israel
27 February 2019

Consolidated statement of financial position

	Note	As at 31 December 2018 £'000	2017 £'000
Assets			
Non-current assets:			
Intangible assets	4	**21,463**	23,570
Property, plant and equipment	5	**1,270,785**	1,158,442
Investment in joint ventures	6	**4,346**	18,727
Other non-current assets	7	**18,027**	18,828
Restricted deposits and cash	14(b)	**1,884**	500
Deferred income tax asset	26	**95**	147
		1,316,600	1,220,214
Current assets:			
Restricted deposits and cash	14(b)	**3,672**	25,561
Inventories		**2,481**	2,701
Trade receivables	8	**15,324**	13,392
Other receivables and prepayments	9	**12,016**	12,446
Other current financial assets	10	**4,449**	24,711
Cash and cash equivalents	11	**207,660**	241,021
		245,602	319,832
Total assets		**1,562,202**	1,540,046
Equity and liabilities			
Equity:	12		
Issued capital		**–**	–
Share premium		**130,061**	129,878
Treasury shares		**(3,636)**	(3,636)
Foreign currency translation reserve		**23,131**	18,816
Hedging reserve		**(437)**	(302)
Accumulated earnings		**224,373**	198,589
Attributable to equity holders of the parent		**373,492**	343,345
Non-controlling interests		**105,050**	97,593
Total equity		**478,542**	440,938
Non-current liabilities:			
Borrowings	15	**681,981**	666,936
Provision for litigation	16(a)	**3,873**	3,659
Provision for concession fee on land	16(b)	**4,330**	3,591
Financial liability in respect of Income Units sold to private investors	17	**129,151**	131,632
Other financial liabilities	18	**188,269**	192,792
Deferred income taxes	26	**7,115**	7,394
		1,014,719	1,006,004
Current liabilities:			
Trade payables		**12,162**	12,843
Other payables and accruals	19	**41,469**	47,314
Borrowings	15	**15,310**	32,947
		68,941	93,104
Total liabilities		**1,083,660**	1,099,108
Total equity and liabilities		**1,562,202**	1,540,046

The accompanying notes are an integral part of the consolidated financial statements. Date of approval of the financial statements 27 February 2019. Signed on behalf of the Board by Boris Ivesha and Daniel Kos.

Boris Ivesha
President & Chief Executive Officer

Daniel Kos
Chief Financial Officer & Executive Director

Consolidated income statement

	Note	Year ended 31 December 2018 £'000	2017 £'000
Revenues	20	**341,482**	325,118
Operating expenses	21	**(220,775)**	(209,092)
EBITDAR		**120,707**	116,026
Rental expenses		**(7,535)**	(8,722)
EBITDA		**113,172**	107,304
Depreciation and amortisation	4, 5, 7	**(35,903)**	(34,288)
EBIT		**77,269**	73,016
Financial expenses	22	**(31,986)**	(31,966)
Financial income	23	**1,568**	1,815
Other expenses	24	**(10,688)**	(1,503)
Other income	24	**20,394**	1,351
Net expenses for financial liability in respect of Income Units sold to private investors	25	**(10,318)**	(10,666)
Share in result of associate and joint ventures	6	**144**	(350)
Profit before tax		**46,383**	31,697
Income tax expense	26	**(2,951)**	(1,748)
Profit for the year		**43,432**	29,949
Profit attributable to:			
Equity holders of the parent		**38,052**	24,271
Non-controlling interests		**5,380**	5,678
		43,432	29,949
Basic and diluted earnings per share (in Pound Sterling)	27	**0.90**	0.57

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

Consolidated statement of comprehensive income

	Year ended 31 December	
	2018 **£'000**	2017 £'000
Profit for the year	**43,432**	29,949
Other comprehensive income (loss) to be recycled through profit and loss in subsequent periods:*		
Profit (loss) from cash flow hedges	**(212)**	593
Reclassification to the income statement of cash flow hedge results upon discontinuation of hedge accounting	**(46)**	–
Foreign currency translation adjustments of foreign operations	**6,515**	9,996
Other comprehensive income	**6,257**	10,589
Total comprehensive income	**49,689**	40,538
Total comprehensive income attributable to:		
Equity holders of the parent	**42,232**	33,175
Non-controlling interests	**7,457**	7,363
	49,689	40,538

* 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 £'000	Issued capital[1]	Share premium	Other reserves	Treasury shares	Foreign currency translation reserve	Hedging reserve	Accumulated earnings	Attributable to equity holders of the parent	Non-controlling interests	Total equity
Balance as at 1 January 2017	–	129,527	–	(3,208)	14,391	(895)	159,814	299,629	30,573	330,202
Profit for the year	–	–	–	–	–	–	24,271	24,271	5,678	29,949
Other comprehensive income for the year	–	–	–	–	8,311	593	–	8,904	1,685	10,589
Total comprehensive income	–	–	–	–	8,311	593	24,271	33,175	7,363	40,538
Issue of shares	–	242	–	–	–	–	–	242	–	242
Share-based payments	–	109	–	–	–	–	–	109	–	109
Purchase of treasury shares	–	–	–	(428)	–	–	–	(428)	–	(428)
Dividend distribution[2]	–	–	–	–	–	–	(9,290)	(9,290)	–	(9,290)
Transactions with non-controlling interests (Note 6)	–	–	–	–	(3,886)	–	23,794	19,908	59,657	79,565
Balance as at 31 December 2017	–	129,878	–	(3,636)	18,816	(302)	198,589	343,345	97,593	440,938
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**38,052**	**38,052**	**5,380**	**43,432**
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**4,315**	**(135)**	**–**	**4,180**	**2,077**	**6,257**
Total comprehensive income	**–**	**–**	**–**	**–**	**4,315**	**(135)**	**38,052**	**42,232**	**7,457**	**49,689**
Share-based payments	**–**	**183**	**–**	**–**	**–**	**–**	**–**	**183**	**–**	**183**
Dividend distribution[2]	**–**	**–**	**–**	**–**	**–**	**–**	**(12,278)**	**(12,278)**	**–**	**(12,278)**
Balance as at 31 December 2018	**–**	**130,061**	**–**	**(3,636)**	**23,131**	**(437)**	**224,363**	**373,482**	**105,050**	**478,532**

1 No par value.
2 The dividend distribution comprises a final dividend for the year ended 31 December 2017 of 13.0 pence per share (31 December 2016: 10.0 pence per share) and an interim dividend of 16.0 pence per share paid in 2018 (2017: 11.0 pence per share).

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

Consolidated statement of cash flows

	Note	Year ended 31 December 2018 £'000	2017 £'000
Cash flows from operating activities:			
Profit for the year		**43,432**	29,949
Adjustment to reconcile profit to cash provided by operating activities:			
Financial expenses and expenses for financial liability in respect of Income Units sold to private investors		**41,625**	42,644
Financial income	23	**(1,568)**	(1,579)
Income tax charge	26	**2,952**	1,748
Loss on buy-back of Income Units sold to private investors	24	**601**	721
Release of deposit unit holder	24	**(68)**	
Revaluation of finance lease liability		**4,822**	
Write off unamortised discount on early repayment of loan		**314**	
Capital gain	24	**–**	(1,351)
Loss (gain) from marketable securities	22,23	**679**	(124)
Share in results of joint ventures	6	**(144)**	350
Gain on re-measurement of previously held interest in joint venture	3	**(20,280)**	–
Fair value adjustment of derivatives	23	**–**	(112)
Depreciation and amortisation	4, 5, 7	**35,903**	34,288
Share-based payments		**183**	109
		65,019	76,694
Changes in operating assets and liabilities:			
Decrease (increase) in inventories		**257**	(216)
Increase in trade and other receivables		**(922)**	(1,801)
Increase (decrease) in trade and other payables		**(5,659)**	9,019
		(6,324)	7,002
Cash paid and received during the period for:			
Interest paid		**(42,778)**	(43,323)
Interest received		**1,448**	203
Taxes paid		**(4,183)**	(676)
		(45,513)	(43,796)
Net cash provided by operating activities		**56,614**	69,849
Cash flows from investing activities:			
Investments in property, plant and equipment	5	**(67,251)**	(107,044)
Purchase of remaining interest in previously held joint venture	3	**(34,549)**	–
Proceeds from sale of property	24	**–**	7,146
Purchase of Park Plaza County Hall London Income Units	7	**–**	(16,283)
Decrease (increase) in restricted cash		**(1,410)**	5,375
Decrease (Increase) in marketable securities, net		**19,582**	(24,586)
Release of restricted deposit		**22,000**	–
Net cash used in investing activities		**(61,628)**	(135,392)

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

	Year ended 31 December 2018 £'000	2017 £'000
Cash flows from financing activities:		
Issuance of shares upon exercise of options	**–**	242
Purchase of treasury shares	**–**	(428)
Proceeds from loans and borrowings	**61,330**	42,926
Buy-back of Income Units previously sold to private investors	**(1,710)**	(1,900)
Repayment of loans and borrowings	**(78,096)**	(113,108)
Net proceeds from transactions with non-controlling interest	**–**	79,565
Proceeds from sale and leaseback of Park Plaza London Waterloo	**–**	161,596
Dividend payment	**(12,278)**	(9,290)
Net cash provided by (used in) financing activities	**(30,754)**	159,603
Increase (decrease) in cash and cash equivalents	**(35,768)**	94,060
Net foreign exchange differences	**2,407**	2,229
Cash and cash equivalents at beginning of year	**241,021**	144,732
Cash and cash equivalents at end of year	**207,660**	241,021
Non-cash items:		
Outstanding payable on investments in property, plant and equipment	**372**	958

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

Notes to consolidated financial statements

Note 1 General

a. The consolidated financial statements of PPHE Hotel Group Limited (the 'Company') and its subsidiaries (together the 'Group') for the year ended 31 December 2018 were authorised for issuance in accordance with a resolution of the Directors on 27 February 2019.

The Company was incorporated in Guernsey on 14 June 2007 and is listed on the Premium Listing segment of the Official List of the UK Listing Authority (the 'UKLA') and the shares are traded on the Main Market for listed securities of the London Stock Exchange.

On 30 July 2018, the UKLA approved the transfer of the listing category of all of the Company's ordinary shares of nil par value from a Standard Listing (shares) to a Premium Listing (commercial company) on the Official List of the UKLA in accordance with Listing Rule 5.4A of the Listing Rules.

b. Description of the Group business:
The Group is an international hospitality real estate group, which owns, co-owns and develops hotels, resorts and campsites, operates the Park Plaza® brand in EMEA and owns and operates the art'otel® brand.

The Group has interests in hotels in the United Kingdom, the Netherlands, Germany, Hungary and hotels, self-catering apartment complexes and campsites in Croatia.

c. Assessment of going concern:
As part of their ongoing responsibilities, the 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 2019 and 2020 which show that the Group's hotel operations will be cash generative during the period. The Directors have determined that the Company is likely to continue in business for at least 12 months from the date of the consolidated financial statements.

Note 2 Summary of significant accounting policies

a. Basis of preparation

The consolidated financial statements of the Group have been prepared on a historical cost basis, except for derivative financial instruments and investments in marketable securities which are measured at fair value. The consolidated financial statements are presented in Pound Sterling and all values are rounded to the nearest thousand (£'000) except where otherwise indicated.

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 2018 and 2017 are set out below. These accounting policies have been consistently applied to the periods presented, except where otherwise indicated.

b. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. All inter-company balances and transactions, income and expenses, and profits and losses resulting from intra-Group transactions are eliminated in full. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date on which such control ceases.

Non-controlling interests represent the portion of profit or loss and net assets not held by the Group and are 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.

Note 2 Summary of significant accounting policies continued

c. 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.

Acquisition of companies that are not business combinations

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

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

Finance lease commitments – Group as lessee

The Group has entered into commercial land leases. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it holds all the significant risks and rewards of ownership of the land and accounts for the contracts as finance leases.

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 26.

d. Business combinations and goodwill

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

Notes to consolidated financial statements continued

Note 2 Summary of significant accounting policies continued

d. Business combinations and goodwill continued

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

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

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

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

e. Business combinations involving entities under common control

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

f. Investment in an associate and joint ventures

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

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

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

Note 2 Summary of significant accounting policies continued

f. Investment in an associate and joint ventures continued

The income statement reflects the share of the results of operations of the associate and joint ventures. The Group's share of changes in other comprehensive income of the associate or joint venture is recognised in the statement of comprehensive income. Where there has been a change recognised directly in the equity of the associate or 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 associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate or 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 associate or joint venture.

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

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

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

g. Foreign currency translation

The functional currency of the Company is Pound Sterling. The consolidated financial statements are also presented in Pound Sterling.

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 not Pound Sterling 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.

Exchange differences in respect of loans, denominated in foreign currency which were granted by the Company to its subsidiaries are reflected in the foreign currency translation reserve in equity, as these loans are designated as a hedge of the Group's net investment in a foreign operation.

Notes to consolidated financial statements continued

Note 2 Summary of significant accounting policies continued

g. Foreign currency translation continued

The following exchange rates in relation to Pound Sterling were prevailing at reporting dates:

	As at 31 December	
	2018 In Pound Sterling	2017 In Pound Sterling
Euro	**0.897**	0.887
Hungarian Forint	**0.003**	0.003
Croatian Kuna	**0.121**	0.118

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

	As at 31 December	
	2018 %	2017 %
Euro	**1.1**	3.4
Hungarian Forint	**(2.5)**	3.7
Croatian Kuna	**2.4**	4.0

h. Intangible assets

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

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

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

i. 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
Land under finance lease	**50 to 200**
Hotel buildings	**50 to 95**
Furniture and equipment	**2 to 25**

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

j. 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.

k. Financial instruments

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

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

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

i) Financial assets

Initial recognition and measurement

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. The Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

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

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

Subsequent measurement

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

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through profit or loss

Note 2 Summary of significant accounting policies continued

k. Financial instruments continued

Financial assets at amortised cost (debt instruments)

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

- The financial asset is held within a business model with the objective of holding financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

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

The Group's financial assets at amortised cost include trade receivables and loans to joint ventures.

Financial assets at fair value through profit or loss

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

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

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

Derecognition

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

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

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

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

Note 2 Summary of significant accounting policies continued

k. Financial instruments continued

Impairment of financial assets

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

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

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

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

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

ii) Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

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

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

Loans and borrowings

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

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

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

Note 2 Summary of significant accounting policies continued

k. Financial instruments continued

Financial liability in respect of Income Units sold to private investors

In 2010, the construction of Park Plaza Westminster Bridge London was completed and the hotel opened to paying customers. Out of 1,019 rooms, 535 rooms ('Income Units') were sold to private investors under a 999-year lease. The sales transactions are accounted for as an investment scheme in which the investors, in return for the upfront consideration paid for the Income Units, receive 999 years of net income from a specific revenue-generating portion of an asset (contractual right to a stream of future cash flows). The amounts received upfront are accounted for as a floating rate financial liability and are being recognised as income over the term of the lease (i.e. 999 years). Changes in future estimated cash flows from the Income Units are recognised in the period in which they occur. Since November 2014, the Company has bought back 23 Income Units from private investors. Upon buy-back of a unit, the financial liability relating to that unit is derecognised and any difference between the purchase price and the liability derecognised is recorded in profit and loss.

On completion of each sale of Income Units, the Company, through a wholly owned subsidiary, Marlbray Limited ('Marlbray'), entered into income swap agreements for five years with the private investors. The income swap agreements included an obligation of the investors to assign the right to receive the net income derived from the Income Units to Marlbray and an undertaking by Marlbray to pay to the investors an annual rent guarantee of approximately 6% of the purchase price for a five-year period commencing from the date of the completion of the sale. The income swap has been accounted for as a derivative. In 2014 and 2015, Marlbray entered into 56 new income swap agreements for a further five years from the expiry date of the original income swap agreements on the same terms and conditions.

The entire hotel is accounted for at cost less accumulated depreciation.

The replacement costs for the Income Units are fully reimbursed by the private investors. An amount of 4% of revenues is paid by the investors on an annual basis ('FF&E reserve') and is accounted for in profit and loss. The difference between the actual depreciation cost and the FF&E reserve is a timing difference which is recorded in the statement of financial position as a receivable or liability to the investor in each respective year.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

l. Inventories

Inventories include china, 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.

Note 2 Summary of significant accounting policies continued

m. 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.

n. Derivative financial instruments and hedge accounting

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

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.

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

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

The effective portion of the gain or loss on the hedging instrument is recognised directly in OCI, while the ineffective portion is recognised in profit or loss. Amounts taken to OCI 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.

o. Revenue from contracts with customers

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

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

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

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

Owned, co-owned and leased hotels

Primarily derived from hotel operations, including the rental of rooms, food and beverage sales and other services from owned, co-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.

Notes to consolidated financial statements continued

Note 2 Summary of significant accounting policies continued

o. Revenue from contracts with customers continued

Management fees

Earned from hotels managed by the Group, under long-term contracts with the hotel owner. Management fees include a base fee, which is generally a percentage of hotel revenue, and an incentive fee, which is based on the hotel's profitability. Revenue is recognised when earned and realised or realisable under the terms of the agreement.

Franchise fees

Received in connection with a licence of the Group's brand names, under long-term contracts with the hotel owner. The Group charges franchise fees as a percentage of hotel revenue. Revenue is recognised when earned and realised or realisable under the terms of the agreement.

Marketing fees

Received in connection with the sales and marketing services offered by the Group, under long-term contracts with the hotel owner. The Group charges marketing fees as a percentage of hotel revenue. Revenue is recognised when earned and realised or realisable under the terms of the agreement.

Customer loyalty programme

The Group participates in the Radisson Rewards™ customer loyalty programme to provide customers with incentives to buy room nights. This customer loyalty programme is owned and operated by the Radisson Hotel Group and therefore the entity retains no obligations in respect of the award credits other than to pay the programme operator for the granted award credits. The customers are entitled to utilise the awards as soon as they are granted.

The Group purchases these award credits from Radisson Hotel Group 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.

Contract balances

Trade receivables

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e. only the passage of time is required before payment of the consideration is due). Refer to accounting policy of trade receivables in section o).

Contract liabilities

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

p. 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.

q. 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.

Note 2 Summary of significant accounting policies continued

q. Leases continued

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 substantially all of the risks and benefits incidental to ownership of the leased item to the Group 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.

Prepaid leasehold payments

Prepaid leasehold payments are upfront payments to acquire a long-term leasehold interest in land and building. These payments are stated at cost and are amortised on a straight-line basis over the respective period of the leases (50 years).

r. Employee benefits

Share-based payments

The Board has adopted a share option plan, under which employees and Directors of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity-settled transactions).

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by using an appropriate pricing model, further details of which are given in Note 13.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognised at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting, irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognised is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Pension

The Group has a defined contribution pension plan where the employer is liable only for the employer's part of the contribution towards an individual's pension plan.

The Group will have no legal obligation to pay further contributions. The contributions in the defined contribution plan are recognised as an expense and no additional provision is required in the consolidated financial statements.

Note 2 Summary of significant accounting policies continued

s. Provisions

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

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

t. Borrowing costs for qualifying assets

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

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

u. Taxation

Current income tax

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

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:

- 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
- 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:

- 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
- 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 re-assessed 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.

Note 2 Summary of significant accounting policies continued

u. Taxation continued

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

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

v. Treasury shares

Own equity shares held by the Group are recognised at cost and presented as a deduction from equity. Any purchase, sale, issue or cancellation of treasury shares is recognised directly in equity.

w. 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.

x. 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 consolidated financial statements are listed below. This 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 16 Leases

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

Lessees will be also required to re-measure the lease liability upon the occurrence of certain events (e.g. a change in the or lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

Notes to consolidated financial statements continued

Note 2 Summary of significant accounting policies continued

x. Standards issued but not yet applied continued

Transition to IFRS 16

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

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

In respect of its current operating leases, at this stage the Group estimates that the initial adoption of IFRS 16 as of 1 January 2019 will result in an increase in assets and liabilities by approximately £40–45 million. The adoption of IFRS 16 will also result prospectively in the reduction of rental expense and an increase in depreciation and interest expense in profit or loss, resulting in an increase in EBITDA. No effect on compliance with financial covenant is expected.

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

IFRIC 23 Uncertainty over Income Tax Treatments

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

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

The Interpretation is applicable for annual reporting periods beginning on or after 1 January 2019. The Group is currently assessing the potential effect if any, of the Interpretation on its consolidated financial statements. The Group does not expect any effect on its consolidated financial statements.

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

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group will apply these amendments when they become effective.

Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures

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

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

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. The Group does not expect any effect on its consolidated financial statements.

Note 2 Summary of significant accounting policies continued

x. Standards issued but not yet applied continued

IFRS 3 Business Combinations

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

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

IFRS 11 Joint Arrangements

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

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

IAS 12 Income Taxes

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

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

IAS 23 Borrowing Costs

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

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

Note 3 Business combination

Acquisition of joint venture interest in London

In March 2018, the Group purchased from its joint venture partner the remaining 50% interest in a joint venture company, Aspirations Limited ('Aspirations'), for a consideration of £35 million. Aspirations owns a property located in Hoxton, London on which it plans to redevelop and construct a mixed-use scheme consisting of the 318-room art'otel london hoxton, office and commercial space and ancillaries. As this acquisition resulted in the Group obtaining control of Aspirations, the Group re-measured its previously held 50% equity interest after the acquisition date. As a result, the fair value of the entire site (100%) was valued at £70 million and a gain of £20.3 million was recognised in other income.

Notes to consolidated financial statements continued

Note 3 Business combination continued

The fair values of identifiable assets and liabilities of Aspirations at the date of acquisition were as follows:

	Fair Value £'000
Property, plant and equipment	69,512
Trade receivables	41
Cash and cash equivalents	438
	69,991
Trade payables	(17)
	(17)
Net assets	69,974
Total consideration	34,987
Fair value of previously held interest (50%)	34,987
	69,974
Carrying amount of previous held interest	14,707
Fair value previously held interest	34,987
Gain on re-measurement of previously held interest	20,280
Cash flow on acquisition	
Cash acquired with the subsidiary	438
Cash paid	(34,987)
Net cash outflow	(34,549)

From the date of acquisition until the end of the year, the revenues and profit before tax of Aspirations were immaterial.

If the acquisition had taken place as of 1 January 2018, the effect on revenues and profit before tax of the Group would have been immaterial.

Note 4 Intangible assets

	Park Plaza® Hotels & Resorts management rights (a)[1] £'000	Park Plaza® Hotels & Resorts franchise rights (a)[2] £'000	art'otel® franchise rights (b) £'000	Other intangible assets (c) £'000	Total £'000
Cost:					
Balance as at 1 January 2017	20,535	20,992	2,550	3,076	47,153
Adjustment for exchange rate differences	703	720	88	108	1,619
Disposal	–	–	–	(972)	(972)
Balance as at 31 December 2017	21,238	21,712	2,638	2,212	47,800
Accumulated amortisation:					
Balance as at 1 January 2017	9,676	10,051	1,274	994	21,995
Amortisation	1,056	1,063	130	183	2,432
Adjustment for exchange rate differences	346	358	45	26	775
Disposals	–	–	–	(972)	(972)
Balance as at 31 December 2017	11,078	11,472	1,449	231	24,230
Net book value as at 31 December 2017	10,160	10,240	1,189	1,981	23,570
Cost:					
Balance as at 1 January 2018	**21,238**	**21,712**	**2,638**	**2,212**	**47,800**
Adjustment for exchange rate differences	**237**	**242**	**29**	**68**	**576**
Reclassification	**–**	**–**	**–**	**944**	**944**
Balance as at 31 December 2018	**21,475**	**21,954**	**2,667**	**3,224**	**49,320**
Accumulated amortisation:					
Balance as at 1 January 2018	**11,078**	**11,472**	**1,449**	**231**	**24,230**
Amortisation	**1,068**	**1,076**	**132**	**186**	**2,462**
Adjustment for exchange rate differences	**136**	**142**	**18**	**21**	**317**
Reclassification	**–**	**–**	**–**	**848**	**848**
Balance as at 31 December 2018	**12,282**	**12,690**	**1,599**	**1,286**	**27,857**
Net book value as at 31 December 2018	**9,193**	**9,264**	**1,068**	**1,938**	**21,463**

a. Acquisition of Park Plaza® Hotels & Resorts management and franchise rights and lease rights

(i) Management rights – rights held by the Group relating to the management of Park Plaza® Hotels & Resorts in Europe, the Middle East and Africa. The management rights are included in the consolidated financial statements at their fair value as at the date of acquisition and are being amortised over a period of 20 years, based on the terms of the existing contracts and management estimation of their useful life. The remaining amortisation period is 9.5 years.

(ii) Franchise rights relating to the brand 'Park Plaza® Hotels & Resorts' are included in the consolidated financial statements at their fair value as at the date of acquisition and are being amortised over 20 years, based on management's estimation of their useful life. The remaining amortisation period is 9.5 years.

b. Acquisition of art'otel® rights

In 2007, the Group acquired, the worldwide rights to use the art'otel® brand name for an unlimited period of time. The rights are being amortised over 20 years based on management's estimation of their useful life. The remaining amortisation period is 9.5 years.

c. Other intangible assets

These include the brand name and internal domain obtained in the acquisition of Arena. The rights are being amortised over 20 years based on management estimation of their useful life.

d. Impairment

In 2018, there were no indicators of impairment.

Notes to consolidated financial statements continued

Note 5 Property, plant and equipment

	Land £'000	Hotel buildings £'000	Property & assets under construction £'000	Income Units sold to private investors* £'000	Furniture, fixtures and equipment £'000	Total £'000
Cost:						
Balance as at 1 January 2017	303,813	521,349	128,511	136,919	123,578	1,214,170
Additions during the year	11,132	36,785	27,264	1,991	33,068	110,240
Disposal (see Note 24)	(2,660)	(3,708)	–	–	(1,673)	(8,041)
Buy-back of Income Units sold to private investors	138	977		(1,167)	52	–
Reclassification	1,066	117,286	(134,995)	–	18,081	1,438
Adjustment for exchange rate differences	6,835	9.030	385	–	1,438	17,688
Balance as at 31 December 2017	320,324	681,719	21,165	137,743	174,544	1,335,495
Accumulated depreciation and impairment:						
Balance as at 1 January 2017	9,766	47,462	–	14,393	72,846	144,467
Provision for depreciation	624	12,134	–	2,219	16,853	31,830
Disposal (see Note 24)	–	(463)	–	–	(1,427)	(1,890)
Reclassifications	–	1,397	–	–	41	1,438
Buy-back of Income Units sold to private investors	–	51	–	(86)	35	–
Adjustment for exchange rate differences	31	657	–	–	520	1,208
Balance as at 31 December 2017	10,421	61,238	–	16,526	88,868	177,053
Net book value as at 31 December 2017	309,903	620,481	21,165	121,217	85,676	1,158,442
Cost:						
Balance as at 1 January 2018	**320,324**	**681,719**	**21,165**	**137,743**	**174,544**	**1,335,495**
Additions during the year	**1,151**	**33,652**	**10,178**	**1,330**	**21,031**	**67,342**
Disposal	**–**	**(604)**	**27**	**–**	**(3,353)**	**(3,930)**
Acquisition of subsidiary	**69,512**	**–**	**–**	**–**	**–**	**69,512**
Buy-back of Income Units sold to private investors	**130**	**926**	**–**	**(1,104)**	**48**	**–**
Reclassification	**1,203**	**2,521**	**(15,532)**	**–**	**12,085**	**277**
Adjustment for exchange rate differences	**3,133**	**4,506**	**119**	**–**	**752**	**8,510**
Balance as at 31 December 2018	**395,453**	**722,720**	**15,957**	**137,969**	**205,107**	**1,477,206**
Accumulated depreciation and impairment:						
Balance as at 1 January 2018	**10,421**	**61,238**	**–**	**16,526**	**88,868**	**177,053**
Provision for depreciation	**627**	**13,174**	**–**	**2,355**	**17,277**	**33,433**
Disposal	**–**	**(577)**	**–**	**–**	**(3,353)**	**(3,930)**
Reclassifications	**–**	**(848)**	**–**	**–**	**–**	**(848)**
Buy-back of Income Units sold to private investors	**–**	**49**	**–**	**(81)**	**32**	**–**
Adjustment for exchange rate differences	**45**	**419**	**–**	**–**	**249**	**713**
Balance as at 31 December 2018	**11, 093**	**73,455**	**–**	**18,800**	**103,073**	**206,421**
Net book value as at 31 December 2018	**384,360**	**649,265**	**15,957**	**119,169**	**102,034**	**1,270,785**

* This includes 512 rooms ('Income Units') (2017: 517) in Park Plaza Westminster Bridge London, for which the cash flows, derived from the net income generated by these Income Units, were sold to private investors (see Note 2(k)). The proceeds from the purchases have been accounted for as a variable rate financial liability (see Note 19). See Note 7 for information regarding income swap agreements in respect of certain of these Income Units.

a. There were no borrowing costs capitalised during the year (2017: £288 thousand).

b. For information regarding liens, see Note 14.

Note 5 Property, plant and equipment continued

c. Freehold interest in art'otel berlin kudamm and art'otel cologne

In February 2017, Arena, via two of its wholly owned subsidiaries, acquired the freehold interests in art'otel berlin kudamm and art'otel cologne, for an amount of €54.5 million (£47.4 million) net of any applicable VAT (of which €2.3 million (£2 million) is on account of fixtures, fittings and equipment). The consideration for the acquisition was funded by a €38 million (£33.0 million) 10-year loan from Deutsche Hypothekenbank AG secured on the properties and guaranteed by the Company, a €10 million (£8.7 million) loan granted by the sellers and the Group's existing cash resources. In 2018, Arena refinanced the loan from the sellers with Zagrebačka Banka d.d. The new ten-year loan bears a fixed interest of 2.4%.

d. Land and properties under finance lease

	As at 31 December	
	2018 £'000	2017 £'000
Cost – capitalised finance leases	**170,168**	170,168
Accumulated depreciation	**(10,184)**	(6,102)
Net book value	**159,984**	164,066

The Group leases certain land and properties in London under lease agreements longer than 100 years.

Note 6 Investment in joint ventures and subsidiaries with significant non-controlling interests

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

a. Investment in joint ventures

	As at 31 December	
	2018 £'000	2017 £'000
Loan to joint ventures*	**4,134**	17,582
Share of net assets under equity method	**212**	1,145
Investment in joint ventures	**4,346**	18,727

*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 share in net profit amounts to £144 thousand (2017: £(350) thousand).

b. Subsidiaries with significant non-controlling interests

As at 31 December 2018, the Company owned approximately 52% (2017: 52%) of Arena. The amount of profit allocated to the non-controlling interests in 2018 amounts to £5,380 thousand (2017: £5,678 thousand).

Notes to consolidated financial statements continued

Note 6 Investment in joint ventures and subsidiaries with significant non-controlling interests continued

c. Transactions with non-controlling interests

In the 12 months ended 31 December 2017, there were a number of transactions, as described below, that resulted in a change in the Group's ownership interest in Arena that did not result in a loss of control of this subsidiary. Accordingly, the carrying amount of the non-controlling interests were adjusted to reflect the changes in the Group's controlling interest in Arena. The difference between the amount by which the non-controlling interests was adjusted and the amount of the consideration paid or received was recognised in retained earnings in equity attributable to equity holders of the parent.

In addition, as Arena is a foreign operation, for each of the transactions described below, a proportionate share of the cumulative amount of foreign currency translation adjustments recognised in other comprehensive income was reattributed between the equity attributable to the equity holders of the parent (foreign currency translation reserve) and the non-controlling interests.

In January 2017, the Group completed a transaction whereby it transferred 88% of its German and Hungarian operations (consisting of companies and hotel properties) to Arena in exchange for 1,091,250 new shares in Arena. After the transaction the Group increased its controlling interest to 77.09% in Arena. As this was an inter-company transaction, the operations transferred were recorded at their carrying amounts in the consolidated financial statements. The difference between the carrying amount of the operations transferred and the adjustment of the non-controlling interests, amounted to approximately £6 million and was recorded in retained earnings.

On 26 May 2017, Arena successfully completed a public share offering (the 'Offering') of 1,854,971 new ordinary shares ('Shares') at a price per share equal to HRK 425, totalling HRK 788 million (£91 million, before deduction of transaction costs). As part of the Offering, the Group participated and was allocated 141,883 shares at HRK 425, which represents an aggregate value of HRK 60 million (£7 million). The Group continues to hold a controlling interest in Arena of 51.97%. The difference between the adjustment of the non-controlling interests and the net proceeds received from the Offering of approximately £11 million was recorded in retained earnings.

In June 2017, the Group completed a transaction whereby it transferred the remaining 12% of its German and Hungarian operations (consisting of companies and hotel properties) to Arena in exchange for £7 million. As this was an inter-company transaction, the portion of the operations sold was recorded at its carrying amount in the consolidated financial statements. The difference between the carrying amount of the portion of the operations sold and the consideration received of approximately £2 million was recorded in retained earnings. The proportionate share of the cumulative amount of foreign currency translation adjustments that was reattributed to non-controlling interests in respect of the above transactions amounted to approximately £3.9 million.

Below is selected financial information relating to Arena, as of 31 December 2018 and 2017, and for the years ended December 2018 and 2017.

	2018 £'000	2017 £'000
Non-current assets	**253,740**	238,054
Current assets	**101,067**	97,341
Non-current liabilities	**117,705**	112,291
Current liabilities	**18,026**	19,565
Revenue	**90,527**	84,163
EBITDA	**25,648**	24,981
Profit for the period	**14,264**	13,742
Total comprehensive income	**16,341**	15,427

Note 7 Other non-current assets

a. Non-current financial assets

	As at 31 December	
	2018 £'000	2017 £'000
Income swap in respect of Income Units sold to private investors[1]	**561**	924
Income Units in Park Plaza County Hall London[2]	**16,677**	16,677
Rent security deposits[3]	**370**	713
Restricted deposits	**10**	79
Prepaid leasehold payments[4]	**305**	315
Other non-current assets	**104**	120
	18,027	18,828

[1] Relates to income swap agreements, whereby the Group has the right to receive the net income derived from certain Income Units sold to private investors at Park Plaza Westminster Bridge London and an undertaking to guarantee a fixed return of approximately 6% on the original purchase price for a period of five years. These income swaps are measured at discounted expected cash flows with the following variables:
a. The present value of the net operating income of the hotel rooms is calculated using a discount rate of 7%.
b. The present value of the guaranteed return is calculated using a discount rate of 5%.
c. The income of the hotel is estimated to grow by 2% each year.

[2] On 14 July 2017, the Group acquired an ownership interest in Park Plaza County Hall London through its purchase of 44 apart hotel units and the associated shares in the management company of the hotel, South Bank Hotel Management Company Limited. The purchase price was £16.0 million. In October 2017 an additional two units were purchased for £0.7 million. Upon initial recognition, the investment was designated in the consolidated financial statements at fair value through profit and loss. In return for the consideration paid, the Company receives 999 years of net income from a specific revenue-generating units of the hotel (contractual right to a stream of future cash flows). This investment is managed and its performance is evaluated by Group management on a fair value basis in accordance with the Group investment strategy. As the cash flows from this investment are not solely payments of principal and interest, under IFRS 9 the investment is classified and measured at fair value through profit or loss.

[3] Relates to leases described in Note 14 C (ii)2.

[4] See Note 7(b).

b. Prepaid leasehold payments

In 1988, Utrecht Victoria Hotel B.V. entered into a land lease agreement for a period of 50 years ending in 2038, which has been fully prepaid.

	Year ended 31 December	
	2018 £'000	2017 £'000
Cost:		
Balance as at 1 January	**414**	400
Foreign currency translation adjustment	**5**	14
Balance as at 31 December	**419**	414
Accumulated amortisation:		
Balance as at 1 January	**99**	73
Provision for amortisation	**8**	26
Foreign currency translation adjustment	**7**	–
Balance as at 31 December	**114**	99
Amortised cost as at 31 December	**305**	315

Notes to consolidated financial statements continued

Note 8 Trade receivables

a. Composition:

	As at 31 December	
	2018 £'000	2017 £'000
Trade receivables	**15,688**	14,150
Less – allowance for doubtful debts	**(364)**	(758)
	15,324	13,392

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:

	£'000
As at 1 January 2017	(725)
Exchange rate differences	(33)
As at 31 December 2017	(758)
Write-off	322
Collections	81
Exchange rate differences	(9)
As at 31 December 2018	**(364)**

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

			Past due			
2018	Total £'000	Not past due £'000	< 30 days £'000	31 to 60 days £'000	61 to 90 days £'000	> 90 days £'000
Trade Receivables	**15,688**	**5,709**	**6,864**	**1,653**	**437**	**1,025**
Allowance for doubtful debts	**(364)**	**–**	**–**	**–**	**–**	**(364)**
	15,324	**5,709**	**6,864**	**1,653**	**437**	**661**

			Past due			
2017	Total £'000	Not past due £'000	< 30 days £'000	31 to 60 days £'000	61 to 90 days £'000	> 90 days £'000
Trade Receivables	14,150	4,304	6,477	1,809	397	1,163
Allowance for doubtful debts	(758)	–	–	–	–	(758)
	13,392	4,304	6,477	1,809	397	405

Note 9 Other receivables and prepayments

	As at 31 December	
	2018 £'000	2017 £'000
Prepaid expenses	**7,672**	8,150
VAT	**2,010**	2,266
Related parties*	**1,605**	669
Others	**729**	1,361
	12,016	12,446

* The amount owed by related parties bears no interest; see Note 29.

Note 10 Other current financial assets

	As at 31 December	
	2018 £'000	2017 £'000
Investment in marketable securities *	**4,449**	24,711

* Classified as held for trading

Note 11 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 12 Equity

a. Share capital

The authorised share capital of the Company is represented by an unlimited number of ordinary shares with no par value.

As at 31 December 2018, the number of ordinary shares issued was 44,225,706 (2017: 44,225,706), 1,888,070 of which were held as treasury shares (2017: 1,903,070).

The Company's shares are admitted to the Premium Listing segment of the Official List of the UK Listing Authority and to trading on the Main Market for listed securities of the London Stock Exchange.

b. Treasury shares

On 29 September 2009, the Company purchased 862,000 of its ordinary shares at a price of 111 pence per share. On 26 October 2011, the Company purchased 800,000 of its ordinary shares at a price of 227 pence per share. On 29 August 2012, the Company purchased 200,000 of its ordinary shares at a price of 210 pence per share. On 18 October 2017, the Company purchased 41,070 of its ordinary shares at a price of 1,041 pence per share. On 27 February 2018, the Company issued 15,000 of its ordinary shares from its treasury account at a price of 1.070 pence per share. The total number of treasury shares is 1,888,070.

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.

Note 13 Share-based payments

During 2007, the Company established a share option plan (the 'Plan') with the following principal terms:

a. The Plan has two types of options: Option A and Option B. The exercise price of both options will not be less than the closing price of a share on the dealing day immediately preceding the grant date (as published in the Daily Official List of the London Stock Exchange). Option A vests over a period of three years from the grant date and Option B vests at the end of three years from the grant date. Unexercised options expire ten years after the grant date. The Plan does not include any performance conditions.

b. The Group's Remuneration Committee met in June 2018 to consider option packages of senior employees to ensure that they are properly incentivised in the future. The Remuneration Committee made its recommendation to the Board and the Board agreed to grant a total of 215,500 options to senior management at an exercise price of 1,430 pence (being the closing mid-market price on 28 June 2018). The options were granted under the terms of the Company's Executive Share Option Plan. The options vest in three equal tranches on each of the first, second and third anniversaries of the date of grant, subject to the rules of the Plan.

Notes to consolidated financial statements continued

Note 13 Share-based payments continued

The following lists the inputs to the binomial model used in 2018 for the fair value measurement of the granted share options:

Dividend yield	1.7%
Expected volatility of the share prices	20.4%
Risk-free interest rate	0.99%
Expected life of share options	4.4 years
Weighted average Share price at the grant date	1430.0 pence
Fair value per option	208.0 pence

The expected life of the share options is based on historical data, current expectations and empirical data. It is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility of similar listed companies over a period similar to the life of the options is indicative of future trends, which may not be reflective of the actual outcome.

c. At any time, the total number of shares issued and/or available for grant (in a ten-year period) under the Plan or under any other employee share scheme which the Company may establish in the future may not exceed 5% of the Company's issued share capital at that time. For the purpose of this calculation, any option granted under the Plan immediately following admission to AIM in July 2007 is disregarded.

The expense arising from equity-settled share-based payment transactions during 2018 was £183 thousand (2017: £109 thousand). Total exercisable options at 31 December 2018 amounted to 173,668 (2017: 173,668).

Movements during the year

The following table illustrates the number (No.) and weighted average exercise prices (EP) of, and movements in, share options during 2017 and 2018:

	No. of options A	No. of options B	EP
Outstanding as at 1 January 2017	449,956	49,850	£3.99
Options forfeited during the year	–	(3,000)	£1.00
Options exercised in the year*	(142,956)	(46,850)	£1.94
Options granted during the year	–	–	–
Outstanding as at 31 December 2017	307,000	–	£5.31
Options forfeited during the year	**–**	–	**–**
Options exercised in the year	**–**	–	**–**
Options granted during the year	**215,500**	–	**£14.30**
Outstanding as at 31 December 2018	**522,500**	–	**£9.02**

* Part of the exercise was cashless.

The weighted average remaining contractual life for the share options outstanding as at 31 December 2018 is eight years (2017: nine years).

Note 14 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. Restricted cash

(i) Under certain facility agreements funds need to be held in restricted deposit accounts in order to pay the debt service for a subsequent period. The total deposits held amount to £5.6 million and are presented as restricted in the financial statements.

(ii) Under the loan agreement with Aareal Bank AG ('Aareal'), £22.0 million is kept as a restricted deposit. This deposit will be released when the Company meets certain financial covenants. As of 31 December 2017, the covenant requirements were met. In 2018, the deposit was released and used to repay the loan.

Note 14 Pledges, contingent liabilities and commitments continued

c. Commitments

(i) Management and franchise agreements

1. The Group entered into a Territorial Licence Agreement (the 'Master Agreement') with Radisson Hotel Group ("Radisson"). Under the Master Agreement, the Group, amongst other rights, is granted an exclusive licence to use the brand 'Park Plaza® Hotels & Resorts' in 56 territories throughout Europe, the Middle East and Africa in perpetuity (the 'Territory').

   The Master Agreement also allows the Group to use, and license others to use, the Radisson systems within the Territory, which right includes the right to utilise the Radisson systems' international marketing and reservations facilities and to receive other promotional assistance. The Group pays Radisson a fee based on a percentage of the hotels' gross room revenue.

2. Within the terms of the management agreements, the hotels were granted by the Group a licence allowing them to use, throughout the term of the management agreements, the 'Park Plaza® Hotels & Resorts' and 'art'otel®' brand names.

(ii) Lease agreements

1. The Group has entered into several finance lease agreements for the rental of land and properties. Certain of the leases are subject to periodic rent reviews. The Group's share in the future minimum rental payments under non-cancellable leases are as follows:

	2018 £'000	2017 £'000
Within one year	**8,048**	8,048
After one year but not more than five years	**32,192**	32,192
More than five years*	**545,067**	547,515
	585,307	587,755

* The amounts include 50 years of future payments regarding the lease of Park Plaza London Waterloo instead of 199 years as stated in the lease agreement. Also, the amounts do not take into account the collar of 2%. The Group's management believes that the amount included in the above table reflects the relevant cash flow risks to which the Group would be reasonably exposed in the ordinary course of business.

Details regarding the finance lease agreements are as below:

(a) Grandis Netherlands Holding B.V. ('Grandis') has a land leasehold interest, expiring in 2095, of Park Plaza Sherlock Holmes London. The current annual rent amounts to £1,140 thousand (subject to 'open market value' rent review every five years).

Grandis has an option to extend the lease to a total of 125 years, expiring in 2121. The Company also has an option to terminate the lease in 2059.

(b) Riverbank Hotel Holding B.V. has a land leasehold interest, expiring in 2125, for Park Plaza London Riverbank, subject to rent review every five years, based on CPI. A deed of variation of the lease of Park Plaza London Riverbank was entered into on 13 June 2014 under which the rent payable under the lease increased to £1,001 thousand per annum and the tenant was granted a right to renew the lease for an additional 60 years. At completion of the deed, the landlord paid £5.0 million to Riverbank Hotel Holding B.V., which is accounted for as part of the long-term finance lease liability.

Note 14 Pledges, contingent liabilities and commitments continued

c. Commitments continued

(c) On 18 June 2012, Park Royal Hotel Holding B.V. ('Park Royal') completed the purchase of the freehold property at 628 Western Avenue, Park Royal, London (the 'Site'), which was a development site on one of the main thoroughfares into London, for £6.0 million. Simultaneously, Park Royal completed the sale of the Site at a price of £7.0 million and the leaseback of the Site at an initial rent of £306 thousand per year for 170 years.

(d) On 20 July 2017, Waterloo Hotel Holding B.V. completed the sale of Park Plaza London Waterloo for £161.5 million subject to a leaseback for 199 years. The initial rent of £5.6 million per year will have annual inflation adjustments subject to a cap of 4% and collar of 2%. As at the transaction date, the hotel had a book value of approximately £124.0 million and was financed with an £80.0 million loan facility. The net cash flow following the repayment of the existing facility and the deduction of the transaction costs associated with the sale and leaseback, was approximately £80.0 million. The leaseback was accounted for as a finance lease, therefore, no disposal of the asset took place and no gain or loss on this disposal was recognised.

2. 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.

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

	2018 £'000	2017 £'000
Within one year	**3,929**	5,040
After one year but not more than five years	**14,451**	19,565
More than five years	**27,770**	23,428
	46,150	48,033

In March 2018, the Group entered into an agreement to terminate the loss-making lease agreement for the 174-room art'otel dresden, effective from 31 July 2018. To exit from this lease, the Group suffered an expense of £3.1 million. This termination will result in a rent reduction and is expected to positively affect the Group's EBITDA by approximately £0.5 million annually.

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

(iii) Construction contract commitment

As at 31 December 2018, the Company had no capital commitments.

(iv) Guarantees

1. In 2014 and 2015, Marlbray entered into 56 income swap agreements for a further five years from the expiry date of the original income swap agreements for the respective units on the same terms and conditions (see Note 7). The Company guarantees 48 of these agreements. The remaining future obligation as at 31 December 2018 amounted to £2.5 million.

2. In January 2013, the Company sold to Red Sea Hotels Limited ('Red Sea') all of the Company's shares in its subsidiary, Leno Finance Limited ('Leno'), the company through which the Company owned an interest in the site in Pattaya, Thailand (the 'Project'), and certain related loans and receivables, for a total consideration of Thai Baht 600 million.

   Under the terms of the United Overseas Bank (UOB) credit facilities received for the construction of the Project, the Company is obliged to provide certain financial support in the event of a cost overrun or funding shortfall in relation to the Project, to satisfy the payment of unpaid interest or fees until completion of the Project and, in certain circumstances, may be required to purchase serviced apartments after completion of the Project for a maximum of Thai Baht 600 million to fund any amounts that are outstanding under the UOB credit facilities. In addition, the Company undertook to take all necessary acts to ensure the completion of the Project as planned. Red Sea has agreed to indemnify the Company in respect of these continuing obligations (except for the obligation to purchase serviced apartments after completion where there is a continuing event of default) and as security Red Sea has pledged the shares held by it in Bali Hai Company Limited (the Thai subsidiary of Leno that owns and develops the Project) ('Bali Hai') and certain affiliated Thai companies.

Note 14 Pledges, contingent liabilities and commitments continued

c. Commitments continued

   The sponsor support deed with UOB provides that the Company shall maintain a net gearing ratio (the ratio of (i) any interest-bearing indebtedness owed to financial institutions or under financial debt instruments of the Company less any cash balances or cash equivalent instruments maintained by the Company to (ii) its tangible net worth (total tangible assets less all external liabilities in respect of money borrowed or raised by the Company) not exceeding 3:1. As at 31 December 2018, the Company was in compliance with the aforementioned covenants.

   The Project encountered planning issues and as a result construction has been halted and the Company has been advised that the planning issues are unlikely to be resolved and that it is probable that Bali Hai will go into liquidation. UOB have secured judgment against Bali Hai for repayment of principal and interest. If the judgment is not met, UOB can proceed to sell the Project at public auction and apply to liquidate Bali Hai for any shortfall.

   Furthermore, UOB has made demand of the Company for certain interest it contends is outstanding. The Company is working closely with Red Sea to refute UOB's claim (in respect of any liability for which the Company would benefit from the Red Sea indemnity).

   As before, the Company continues to believe that, given the Red Sea indemnity in favour of the Company, it is not probable that any material outflow of resources embodying economic benefits will be required to settle the obligations of the Company under the sponsor support deed.

3. The Company guarantees principal and interest under the €10.7 million (£9.3 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.) The Company has entered into a counter-guarantee with Arena effective as of 1 January 2018 whereby Arena guarantees the Company's obligations under the Company's guarantee.

4. The Company guarantees 50% of the loan agreement of €38.0 million (£33.3 million) granted by Deutsche Hypothekenbank AG to ACO Hotel Holding B.V. and ABK Hotel Holding B.V. The Company has entered into a counter-guarantee with Arena effective as of 1 January 2018 whereby Arena guarantees the Company's obligations under the Company's guarantee.

(v) Lease guarantees

The Group provided guarantees for commitments under certain hotel lease agreements. The total of these guarantees does not exceed £1.0 million.

Note 15 Borrowings

The borrowings of the Group are composed as follows:

As at 31 December 2018	EUR denominated £'000	GBP denominated £'000	Total £'000
Fixed interest rate	**254,981**	**425,837**	**680,818**
Weighted average interest rate	2.72%	3.62%	–
Variable interest rate	**13,774**	**7,950**	**21,724**
Weighted average interest rate	1.09%	3.07%	–
Total	**268,755**	**433,787**	**702,542**
Weighted average interest rate	2.18%	3.61%	3.06%

Notes to consolidated financial statements continued

Note 15 Borrowings continued

Maturity analysis 2018	Outstanding amount	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Total borrowings	**702,542**	**15,310**	**13,810**	**13,847**	**13,889**	**15,672**	**630,014**
Capitalised transaction costs and other adjustments	**(5,251)**	**(602)**	**(602)**	**(602)**	**(602)**	**(602)**	**(2,241)**
	697,291	**14,708**	**13,208**	**13,245**	**13,287**	**15,070**	**627,773**

For securities and pledges, see Note 14.

As at 31 December 2017	EUR denominated £'000	GBP denominated £'000	Total £'000
Fixed interest rate	213,405	428,917	642,322
Weighted average interest rate	2.49%	3.61%	–
Variable interest rate	43,271	19,741	63,012
Weighted average interest rate	1.09%	4.40%	–
Total	256,676	448,658	705,334
Weighted average interest rate	2.11%	3.64%	3.13%

Maturity analysis 2017	Outstanding amount	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Total borrowings	705,334	33,174	24,903	11,564	11,601	11,642	612,450
Capitalised transaction costs and other adjustments	(5,451)	(227)	(538)	(375)	(375)	(375)	(3,561)
	699,883	32,947	24,365	11,189	11,226	11,267	608,889

For securities and pledges, see Note 14.

a. **Financing of Leeds, Nottingham, Park Royal and County Hall London units**
In June 2018, the Company, via four wholly owned entities entered into a financing agreement with Bank Hapoalim. The £45 million loan is a seven-year loan with fixed interest rate of 4.37% which is secured against Park Plaza Leeds, Park Plaza Nottingham, Park Plaza Park Royal and the 46 units owned in Park Plaza County Hall London. Some of the proceeds of the new loan were utilised to refinance the Park Royal construction facility which matured in June 2018.

Repayment of Park Plaza Leeds loan
In March 2018, the outstanding £12.1 million Royal Bank of Scotland loan secured against Park Plaza Leeds was fully repaid. The associated interest rate hedge was also terminated. Accordingly, £46 thousand was recycled to the P&L. In addition, amortised discount on the loan in the amount of £314 thousand was written off to the income statement.

Financing of Arena One 99 Glamping
In June 2018, Arena entered into a five year financing agreement with Erste Bank. The maturity profile is back ended with 50% of the loan being repaid at maturity and with an interest rate fixed at 1.95% throughout the life of the loan. The facility was mainly used to fund the investment done in the new Arena One 99 Glamping concept which opened in 2018.

Financing of acquisition of art'otel berlin kudamm and art'otel cologne
In February 2017, Arena, via two of its wholly owned subsidiaries, entered into an agreement to finance the acquisition of the freehold interests in art'otel berlin kudamm and art'otel cologne. The new €38 million (£33.0 million) facility is a ten-year loan from Deutsche Hypothekenbank AG with a fixed interest rate of 1.5 % secured on the properties. A guarantee is in place as detailed in Note 14(c)(iv).

Financing of Park Plaza Histria Pula, Park Plaza Arena Pula, Park Plaza Belvedere Medulin, Arena Hotel Holiday Medulin and Park Plaza Verudela Pula
In December 2017, Arena refinanced its debt portfolio with Zagrebačka Banka d.d. The Zagrebačka Banka d.d. facility of €64 million (£56.1 million) is a ten-year loan with a fixed interest rate of 2.5% secured by five properties.

Financing of Park Plaza Nuremberg
In December 2017, Arena, via its wholly owned subsidiary Park Plaza Nürnberg GmbH, entered into an agreement to finance the freehold interest in Park Plaza Nuremberg. The new €16 million (£14.0 million) facility is a 10-year loan from Deutsche Hypothekenbank AG with a margin of 1.09 % + EURIBOR secured on the property. At the same date, Arena also entered into an interest rate swap agreement in order to hedge this loan facility. For more detail on hedging arrangements see note 30(e).

Note 15 Borrowings continued

b. **The following financial covenants must be complied with by the relevant Group companies:**

(i) Under the two Aareal facilities, for two of the Group's London hotels (the 'London Hotels') and all six of the Group's Dutch hotels (the 'Dutch Hotels'), the borrowers must ensure that the aggregate amount of the outstanding facilities does not exceed 65.2% of the value of the Dutch Hotels and 60% of the value of the London Hotels as set out in the most recent valuation. In addition, the borrowers must ensure that, on each interest payment date, the Debt Service Coverage Ratio (DSCR) is not less than 115%.

(ii) Under the AIG Asset Management (Europe) Limited facility for Park Plaza Westminster Bridge London, the borrower must ensure that the aggregate amount of the outstanding facility does not exceed 70% of the value of the hotel as set out in the most recent valuation. In addition, the borrower must ensure that, on each interest payment date, the historical and projected DSCR are not less than 140%. The floating rate leg of this loan £7.9 million (as at 31 December 2018) has an associated interest rate cap, hedging the risk of the all-in rate exceeding 3.5%

(iii) Under the facility arranged by Cornerstone Real Estate Advisers Europe LLP, a member of the MAFF Mutual Financial Group, for Park Plaza Victoria London, the borrower must ensure that the aggregate amount of the outstanding facility does not exceed 75% of the value of the hotel as set out in the most recent valuation. In addition, the borrower must ensure that, on each interest payment date, the historical and projected DSCR are not less than 180%.

(iv) Under the BHI Loan for three of the Group's UK hotels and the 46 units owned within Park Plaza County Hall London, the borrowers must ensure that the aggregate amount of the outstanding loan does not exceed 65% of the value of the properties and units secured. In addition, on each interest payment date, the borrowers must ensure that the historical debt service cover should be at least 110% from March 2019, rising to 120% following the third anniversary of the agreement.

c. **Financial covenants**

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

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

(vii) Under the Zabrebačka Banka d.d facility, the borrower must ensure that the DSCR is equal to or greater than 1.2 at year end during the life of the loan. Further, the Company must ensure that the net leverage ratio is equal to or lower than 6.0 at year end 2018, is equal to or lower than 5.5 at year end 2019, is equal to or lower than 5.0 at year end 2020, is equal to or lower than 4.5 at year end 2021 and for each succeeding calendar year during the remaining life of the loan.

(viii) Under Erste Bank facility, the borrower must ensure throughout the entire term of the loan that the interest coverage ratio ('ICR') is at least 2 times EBITDA.

As at 31 December 2018, the Group is in compliance with all of its banking covenants.

Note 16 Provisions

a. **Provision for litigation**
Arena 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 Arena 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 £3.9 million. Arena 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 Arena.

	2018 £'000	2017 £'000
Balance as at 1 January	**3,659**	3,392
Exchange rate differences	**91**	129
Movement in the year	**123**	138
Balance as at 31 December	**3,873**	3,659

Notes to consolidated financial statements continued

Note 16 Provisions continued

b. 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'), Arena submitted requests to the Republic of Croatia for the award of priority concessions for a term of 50 years (the maximum term allowed) in relation to land areas in eight campsites and three tourist resorts in Croatia. Since the adoption of the Act in 2010, as far as Arena 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 unclear provisions in the Act and other related regulations. The status of Arena's priority concession requests is similar to the status of priority 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 Arena 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 priority concession regularly pay an advance concession fee of 50% of the calculated concession fee in accordance with the relevant regulations. As such, Arena will continue to pay 50% of the concession fees in respect of the eight campsites and three tourist resorts and to accrue the remaining 50% until determination of the concession agreements.

	2018 £'000	2017 £'000
Balance as at 1 January	**3,591**	2,885
Additions	**644**	586
Exchange rate differences	**95**	120
Balance as at 31 December	**4,330**	3,591

Note 17 Financial liability in respect of Income Units sold to private investors

	2018 £'000	2017 £'000
Total liability	**144,264**	145,453
Due from investors for reimbursement of capital expenditure	**(15,113)**	(13,821)
	129,151	131,632

This liability originated from the proceeds received from the sale to private investors of the future 999-year cash flows, derived from certain Income Units in Park Plaza Westminster Bridge London. Furthermore, as the investors are required to fund all capital expenditures ('capex') to be made in connection with these rooms, a receivable is recorded in each period for any excess of depreciation expense over the amounts paid by the investors on account of capex. This receivable is offset from the liability to the investors. See Note 7(a) for information regarding income swap agreements.

This liability is amortised over the term of the agreement, that being 999 years.

Note 18 Other financial liabilities

	As at 31 December	
	2018 £'000	2017 £'000
Derivative financial instruments	**239**	590
Finance lease liability (see Note 14(c)(ii))*	**187,701**	182,962
Deposits received in respect of Income Units sold to private investors	**11**	79
Third party loans (see Note 5(d))	**–**	8,873
Other	**318**	288
	188,269	192,792

* The present value of the finance lease liability of £187.7 million (2017: £183.0 million) is substantially all due more than five years after the reporting date.

Note 19 Other payables and accruals

	As at 31 December	
	2018 £'000	2017 £'000
Employees	**2,260**	2,724
VAT and taxes	**8,281**	9,023
Accrued interest	**3,036**	2,715
Corporate income taxes	**1,371**	2,952
Accrued expenses	**12,197**	14,428
Advance payments received**	**9,029**	9,389
Accrued rent	**1,858**	2,364
Variable income payment to holders of Income Units	**3,065**	2,761
Related parties*	**372**	958
	41,469	47,314

* See Note 29.
** All the advanced payments received as of December 2017 were recognised as revenue in 2018

Note 20 Revenues

	Year ended 31 December	
	2018 £'000	2017 £'000
Rooms	**236,641**	223,978
Campsites and mobile homes	**16,039**	14,036
Food and beverage	**75,640**	74,199
Minor operating	**7,325**	7,184
Management fee (see Note 14(c)(i))	**2,356**	2,295
Franchise and reservation fee (see Note 14(c)(i))	**1,104**	1,337
Marketing fee	**821**	807
Other	**1,556**	1,282
	341,482	325,118

Note 21 Operating expenses

	Year ended 31 December	
	2018 £'000	2017 £'000
Salaries and related expenses	**102,012**	95,483
Franchise, reservation and commissions expenses (see Note 14(c)(i))	**25,987**	24,559
Food and beverage	**17,796**	17,534
Insurance and property taxes	**16,188**	17,524
Utilities	**11,205**	9,914
Administration costs	**7,029**	6,371
Maintenance	**6,491**	5,785
Laundry, linen and cleaning	**4,591**	4,494
Supplies	**4,164**	4,000
IT expenses	**1,537**	1,477
Communication, travel and transport	**2,794**	2,766
Marketing expenses	**2,526**	2,484
Defined contribution pension premiums	**1,142**	990
Other expenses	**17,313**	15,711
	220,775	209,092

Notes to consolidated financial statements continued

Note 22 Financial expenses

	Year ended 31 December	
	2018 £'000	2017 £'000
Interest and other finance expenses on bank loans	**23,372**	28,186
Interest on finance lease liability	**7,168**	3,941
Foreign exchange differences, net	**635**	–
Loss from marketable securities	**679**	–
Other	**132**	127
	31,986	32,254
Less – borrowing costs capitalised	**–**	(288)
	31,986	31,966

Note 23 Financial income

	Year ended 31 December	
	2018 £'000	2017 £'000
Income from Park Plaza County Hall London Income Units	**1,024**	515
Foreign exchange differences, net	**–**	454
Interest on bank deposits	**452**	203
Adjustment to fair value on derivative financial instruments (see Note 30(e))	**–**	112
Gain from marketable securities	**–**	124
Interest and other financial income from jointly controlled entities (see Note 29(b))	**92**	407
	1,568	1,815

Note 24 Other income and expenses

a. Other expenses

	Year ended 31 December	
	2018 £'000	2017 £'000
Capital loss on buy-back of Income Units previously sold to private investors	**601**	721
Loss upon repayment of loan	**360**	–
Termination of operating lease (see note 14(c)(ii)(2))	**3,141**	–
Revaluation of finance lease liability*	**4,822**	–
Expenses in connection with Premium Listing	**1,556**	–
Other refinance expenses	**–**	522
Other non-recurring expenses (including pre-opening expenses)	**208**	260
	10,688	1,503

* This amount represents the revaluation of the Waterloo lease liability based on the 2% collar

b. Other income

	Year ended 31 December	
	2018 £'000	2017 £'000
Gain on re-measurement of previously held interest in joint venture	**20,280**	–
Recycling of hedging reserve upon refinancing	**46**	–
Release of deposit unitholder	**68**	–
Capital gains[1]	**–**	1,351
	20,394	1,351

[1] One of the three properties that comprise Park Plaza Vondelpark, Amsterdam was sold for a consideration of £7.1 million resulting in a capital gain of £1.4 million.

Note 25 Net expenses for financial liability in respect of Income Units sold to private investors

	Year ended 31 December	
	2018 £'000	2017 £'000
Guaranteed return (see Note 2(k))	**942**	963
Variable return (see Note 2(k))	**11,417**	11,556
Reimbursement of depreciation expenses (see Note 2(k))	**(2,404)**	(2,194)
Change in expected cash flow income swaps (see Note 7)	**363**	341
	10,318	10,666

Note 26 Income taxes

a. Tax expense included in the income statement

	Year ended 31 December	
	2018 £'000	2017 £'000
Current taxes	**(3,317)**	(3,313)
Adjustments in respect of current income tax of previous year	**68**	–
Deferred taxes	**298**	1,565
	(2,951)	(1,748)

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 and timing difference on provisions £'000	Property, plant and equipment and intangible assets £'000	Total £'000
Balance as at 1 January 2017 *	1,299	(9,931)	(8,632)
Amounts charged to income statement	1,990	(70)	1,920
Change in tax rate	–	(355)	(355)
Adjustments for exchange rate differences	29	(209)	(180)
Balance as at 31 December 2017	3,318	(10,565)	(7,247)
Amounts charged to income statement	(36)	(160)	(196)
Change in tax rate	–	491	491
Adjustments for exchange rate differences	20	(88)	(68)
Balance as at 31 December 2018	**3,302**	**(10,322)**	**(7,020)**

*An amount of £483 thousand have been reclassed between the categories

The above deferred taxes have been set off when they relate to the same jurisdictions and presented in the consolidated financial statements as follows:

	Year ended 31 December	
	2018 £'000	2017 £'000
Deferred tax assets	**95**	147
Deferred tax liabilities	**(7,115)**	(7,394)
	(7,020)	(7,247)

Notes to consolidated financial statements continued

Note 26 Income taxes continued

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

	Year ended 31 December	
	2018 £'000	2017 £'000
Profit before income taxes	**46,383**	31,697
Expected tax at the tax rate of the United Kingdom 20%	**(9,277)**	(6,339)
Adjustments in respect of:		
Effects of other tax rates	**11,788**	8,014
Non-deductible expenses	**(1,476)**	(1,448)
Utilisation of carried forward losses and temporary differences for which deferred tax assets were not previously recorded	**678**	1,461
Temporary differences for which no deferred tax asset was recorded	**(726)**	(411)
Non-taxable income	**481**	448
Unrecognised current year tax losses	**(4,931)**	(2,563)
Other differences (including change in tax rate)	**512**	(910)
Income tax (expense) benefit reported in the income statement	**(2,951)**	(1,748)

d. Tax laws applicable to the Group companies:

(i) The Company is subject to taxation under the laws of Guernsey. The Company is therefore taxed at the standard rate of 0%.

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

1. Taxation in the Netherlands: corporate income tax rate is 25%.
2. Taxation in the United Kingdom: corporate income tax rate for domiciled companies is 20% and for non-domiciled companies is 20%.
3. Taxation in Germany: corporate income tax rate and business rates is 29.72%.
4. Taxation in Hungary: corporate income tax rate is 9%.
5. Taxation in Croatia: corporate income tax rate is 18%.

In December 2018, the Dutch Senate adopted the 2019 law business offered by the parliament which included a gradual reduction in corporate income tax. According to this new legislation, the corporate income tax will reduce to 22.55% in 2020 and 20.5% in 2021 and onwards. As a result the Company updated its deferred taxes in the Netherland and recorded a £491 deferred tax income.

e. Losses carried forward for tax purposes

The Group has carried forward losses for tax purposes estimated at approximately £142 million (2017: £131 million). The Group did not establish deferred tax assets in respect of losses amounting to £130 million (2017: £118 million) of which tax losses amounting to £46 million may be utilised for a period of up to seven years. The remaining tax losses may be carried forward indefinitely.

The carried forward losses relate to individual companies in the Group, each in its own tax jurisdiction. When analysing the recovery of these losses the Group assesses the likelihood that these losses can be utilised against future trading profits. In this analysis the Group concluded that for the majority of these companies it is not highly likely that future profits will be achieved that can be offset against these losses, mainly due to the nature of their trade (i.e. holding companies or tax exempt activities). Based on this uncertain profitability the Company determined that it could not recognise deferred tax assets for the majority of the losses. The Company is performing this analysis on an ongoing basis.

Note 27 Earnings per share

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

	Year ended 31 December	
	2018 £'000	2017 £'000
Profit attributable to equity holders of the parent	**38,052**	24,271
Weighted average number of ordinary shares outstanding	**42,335**	42,249

Potentially dilutive instruments 189,428 in 2018 (2017: 127,312) had an immaterial effect on the basic earnings per share.

Note 28 Segments

For management purposes, the Group's activities are divided into Owned Hotel Operations and Management Activities (for further details see Note 14(c)(i)). Owned Hotel Operations are further divided into four reportable segments: the Netherlands, Germany and Hungary, Croatia and the United Kingdom. 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 2018						
	The Netherlands £'000	**Germany and Hungary £'000**	**United Kingdom £'000**	**Croatia £'000**	**Management and Central Services £'000**	**adjustments* £'000**	**Consolidated £'000**
Revenue							
Third party	**49,569**	**31,443**	**195,092**	**60,193**	**5,185**	**–**	**341,482**
Inter-segment	**–**	**–**	**–**	**–**	**36,823**	**(36,823)**	**–**
Total revenue	**49,569**	**31,443**	**195,092**	**60,193**	**42,008**	**(36,823)**	**341,482**
Segment EBITDA	**14,091**	**5,242**	**65,006**	**18,558**	**10,275**	**–**	**113,172**
Depreciation, amortisation and impairment							**(35,903)**
Financial expenses							**(31,986)**
Financial income							**1,568**
Net expenses for liability in respect of Income Units sold to private investors							**(10,318)**
Other income, net							**9,706**
Share in loss of associate and joint ventures							**144**
Profit before tax							**46,383**

* Consist of inter-company eliminations..

	The Netherlands £'000	**Germany and Hungary £'000**	**United Kingdom £'000**	**Croatia £'000**	**adjustments[3] £'000**	**Consolidated £'000**
Geographical information						
Non-current assets[1]	**206,964**	**78,066**	**814,089**	**167,286**	**25,843**	**1,292,248**

[1] Non-current assets for this purpose consists of property, plant and equipment and intangible assets.
[2] This includes the fixed assets of Management and Central Services and the intangible fixed assets.

Notes to consolidated financial statements continued

Note 28 Segments continued

	Year ended 31 December 2017						
	The Netherlands £'000	Germany and Hungary £'000	United Kingdom £'000	Croatia £'000	Management and Central Services £'000	Adjustments* £'000	Consolidated £'000
Revenue							
Third party	47,323	30,720	185,780	56,303	4,992	–	325,118
Inter-segment	–	–	–	–	37,387	(37,387)	–
Total revenue	47,323	30,720	185,780	56,303	42,379	(37,387)	325,118
Segment EBITDA	13,285	4,345	60,464	18,670	10,540	–	107,304
Depreciation, amortisation and impairment							(34,288)
Financial expenses							(31,966)
Financial income							1,815
Net expenses for liability in respect of Income Units sold to private investors							(10,666)
Other income, net							(152)
Share in loss of associate and joint ventures							(350)
Profit before tax							31,697

* Consist of inter-company eliminations.

	The Netherlands £'000	Germany and Hungary £'000	United Kingdom £'000	Croatia £'000	Adjustments[2] £'000	Consolidated £'000
Geographical information						
Non-current assets[1]	**194,749**	**77,589**	**730,026**	**152,817**	**26,831**	**1,182,012**

[1] Non-current assets for this purpose consists of property, plant and equipment and intangible assets.
2 This includes the fixed assets of Management and Central Services and the intangible fixed assets.

Note 29 Related parties

a. Balances with related parties

	As at 31 December	
	2018 £'000	2017 £'000
Loans to joint ventures	**4,134**	17,582
Short-term receivables	**1,605**	669
Construction liability WW Gear Construction Limited	**372**	958

b. Transactions with related parties

	Year ended 31 December	
	2018 £'000	2017 £'000
Construction charges – WW Gear Construction Limited	**–**	15,908
GC Project Management Limited	**–**	3,700
Interest income from jointly controlled entities	**92**	407

Note 29 Related parties continued

c. Significant other transactions with related parties

(i) **Project Management Contracts –** The Group actively engages in the development of properties into new hotels and the refurbishment and/or extension of its existing portfolio of hotels. The Group has in the past contracted, and currently contracts, with GC Project Management Limited ("GC"), for project management services in respect of its projects. The Group entered into 6 project management agreements with GC in 2018 for its various projects (the 'Project Management Contracts'), each such agreement provides for a capped amount payable by the Group to GC in respect of each such project.

(ii) **Pre-Construction and Maintenance Contract –** The Group frequently uses GC to undertake preliminary assessment services, including appraisal work and provide initial estimates of the construction costs. Further, GC provides ad hoc maintenance work when required to the Group's various sites. Accordingly, the Group has entered into an agreement with GC for the provision of pre-construction and maintenance services by GC to the Group for a fixed annual retainer of £60,000.

(iii) **Aircraft sale agreement –** The Group has from time to time received passenger services from Sunshine Aviation Limited, a member of the Red Sea Group, which owns a business corporate jet (the 'Aircraft'). As the Group's operations have expanded in Europe, particularly following the acquisition of Arena, the Group has from time to time hired the Aircraft from the Red Sea Group. The Company entered into an agreement to acquire it for a total consideration of US$2.34 million. Delivery of the Aircraft (and therefore completion of the acquisition) is required to occur on or before 30 June 2019. Prior to completion of the sale, either party is entitled to terminate the sale agreement on notice to the other.

Under the Relationship Agreement entered into between Euro Plaza Holdings B.V ("Euro Plaza"), Eli Papouchado and the Company, transactions between the Company and Euro Plaza (and its associates, which include GC and Sunshine Aviation Limited) are required to be on arm's length terms. The Independent Directors consider that the Project Management Contracts, the Pre-Construction and Maintenance Contract and the Aircraft sale agreement have been entered into on arm's length terms and are in the best interests of the Company and its shareholders as a whole.

(iv) 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.

(v) Compensation to key management personnel (Executive and Non-Executive Directors) for the year ended 31 December 2018:

	Base salary and fees £'000	**Bonus**	**Pension contributions £'000**	**Other benefits £'000**	**Total £'000**
Chairman and Executive Directors	**799**	**61**	**112**	**20**	**992**
Non-Executive Directors	**219**				**219**
	1,018	**61**	**112**	**20**	**1,211**

Directors' interests in employee share incentive plan

As at 31 December 2018, the Executive Directors held share options to purchase 125,000 ordinary shares. 66,667 options were fully exercisable with an exercise price of £6.90. No share options were granted to Non-Executive members of the Board.

(vi) Compensation to key management personnel (Executive and Non-Executive Board members) for the year ended 31 December 2017:

	Base salary and fees £'000	Bonus	Pension contributions £'000	Other benefits £'000	Total £'000
Chairman and Executive Directors	773	150	170	289	1,382
Non-Executive Directors	144	–	–	–	144
	917	150	170	289	1,526

Notes to consolidated financial statements continued

Note 30 Financial risk management objectives and policies

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

		Changes in financial liabilities arising from financing activities					
	As at 1 January 2018 £'000	**Cash flows £'000**	**Fair value through P&L £'000**	**Foreign exchange movement £'000**	**New leases/loans £'000**	**Other £'000**	**31 December 2018 £'000**
Non-current interest-bearing loans and borrowings	**666,936**	**(46,958)**	**–**	**3,572**	**57,874**	**557**	**681,981**
Lease liability	**182,962**	**(83)**	**4,822**	**–**	**–**	**–**	**187,701**
Financial liability in respect of Income Units sold to private investors	**131,632**	**(1,109)**	**–**	**–**	**–**	**(1,372)**	**129,151**
Derivative financial instruments	**590**	**(653)**	**–**	**4**	**–**	**298**	**239**
Third party loans	**8,873**	**(8,858)**	**–**	**(15)**	**–**	**–**	**–**
Current interest-bearing loans and borrowings	**32,947**	**(19,437)**	**–**	**137**	**1,663**	**–**	**15,310**
	1,023,940	**(77,098)**	**4,822**	**3,698**	**59,537**	**(517)**	**1,014,382**

		Changes in financial liabilities arising from financing activities					
	As at 1 January 2017 £'000	Cash flows £'000	Fair value through profit and loss £'000	Foreign exchange movement £'000	New leases/loans £'000	Other £'000	As at 31 December 2017 £'000
Non-current interest-bearing loans and borrowings	642,120	(21,806)	–	8,213	33,338	5,021	666,886
Lease liability	21,385	(20)	–	1	161,596	–	182,962
Financial liability in respect of Income Units sold to private investors	133,983	(1,179)	–	–	–	(1,172)	131,632
Derivative financial instruments	1,205	–	(112)	–	–	(503)	590
Third party loans	–	–	–	118	8,755	–	8,873
Current interest-bearing loans and borrowings	119,291	(91,190)	–	713	9,587	(4,154)	34,247
	917,984	(114,195)	(112)	9,045	213,276	(808)	1,025,190

Note 30 Financial risk management objectives and policies continued

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. 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 policy is to manage its interest costs using fixed rate debt. To manage its interest costs, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed upon notional principal amount. Furthermore, the Group uses fixed interest rate debts. For this reason the Group's cash flow is not sensitive to possible changes in market interest rates. Possible changes in interest rates do, however, affect the Group's equity as the fair value of the swap agreements changes with interest rate changes. These swaps are designated to hedge underlying debt obligations.

The fair value of the swaps of the Group as at 31 December 2018 amounts to a liability of £239 thousand (2017: liability of £590 thousand).

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

b. 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.

c. 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.

Notes to consolidated financial statements continued

Note 30 Financial risk management objectives and policies continued

c. Liquidity risk continued

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

	As at 31 December 2018					
	Less than 3 months £'000	**3 to 12 months £'000**	**1 to 2 years £'000**	**3 to 5 years £'000**	**> 5 years £'000**	**Total £'000**
Interest-bearing loans and borrowings[1]	**9,237**	**27,710**	**36,524**	**68,996**	**725,987**	**868,454**
Deposits received in respect of Income Units sold to private investors	**–**	**–**	**–**	**–**	**11**	**11**
Financial liability in respect of Income Units sold to private investors[2]	**3,069**	**8,206**	**12,275**	**24,550**	**131,632**	**179,732**
Derivative financial instruments	**30**	**90**	**120**	**–**	**–**	**240**
Lease liability[3]	**2.012**	**6,036**	**8,048**	**16,096**	**553,115**	**585,307**
Trade payables	**12,162**	**–**	**–**	**–**	**–**	**12,162**
Other liabilities	**21,299**	**20,171**	**–**	**–**	**15,637**	**57,107**
	47,809	**62,213**	**56,967**	**109,642**	**1,426,382**	**1,703,013**

	As at 31 December 2017					
	Less than 3 months £'000	3 to 12 months £'000	1 to 2 years £'000	3 to 5 years £'000	> 5 years £'000	Total £'000
Interest-bearing loans and borrowings[1]	13,738	40,563	45,813	74,952	726,602	901,668
Deposits received in respect of Income Units sold to private investors	–	–	–	–	79	79
Financial liability in respect of Income Units sold to private investors[2]	3,069	8,206	11,275	33,825	131,632	188,007
Derivative financial instruments	74	221	295	–	–	590
Loans from third parties	144	431	575	1,150	12,323	14,623
Lease liability[3]	2,012	6,036	8,048	16,096	555,563	587,755
Trade payables	12,843	–	–	–	–	12,843
Other liabilities	23,971	21,579	–	–	14,933	60,483
	55,851	77,036	66,006	126,023	1,441,132	1,766,048

1 See Note 15 for further information.
2 Presented according to discounted amount due to the variability of the payments over the balance of the 999-year term.
3 Lease liability includes four leases with upward rent reviews based on future market rates in one lease and changes in the Consumer Prices Index (CPI) in the other lease and, thus, future payments have been estimated using current market rentals and current United Kingdom-based CPIs, respectively, except Park Plaza London Waterloo where the amounts included 50 years of future payments regarding the lease of Park Plaza London Waterloo instead of 199 years as stated in the lease agreement. Also, the amounts do not take into account the collar of 2%. The Group's management believes that the amount included in the above table reflects the relevant cash flow risks to which the Group would be reasonably exposed in the ordinary course of business.

Note 30 Financial risk management objectives and policies continued

d. 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. 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 50% and 60%. The Group includes within net bank debt interest-bearing bank loans and borrowings, less cash and cash equivalents and other liquid assets. Capital includes equity less the hedging reserve.

	2018 £'000	2017 £'000
Interest-bearing bank loans and borrowings	**697,291**	669,884
Less – cash and cash equivalents	**(207,660)**	(241,021)
Less – long-term restricted cash	**(1,884)**	(500)
Less – short-term restricted cash	**(3,672)**	(25,561)
Less – investments in marketable securities	**(4,449)**	(24,711)
Net debt	**479,626**	378,091
Equity	**478,542**	440,938
Hedging reserve	**437**	302
Total capital	**478,979**	441,240
Capital and net debt	**958,605**	819,331
Gearing ratio	**50.0%**	46.1%

e. 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. The fair value of floating interest rate liabilities also approximate their carrying amount as the periodic changes in interest rates reflect the movement in market rates.

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 marketable securities 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.

Notes to consolidated financial statements continued

Note 30 Financial risk management objectives and policies continued

e. Fair value of financial instruments

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 2018, the Group held the following financial instruments measured at fair value:

Liabilities

	31 December 2018 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Interest rate swaps used for hedging	**239**	–	239	–

Assets

	31 December 2018 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Investments in marketable securities	**4,449**	4,449	–	–
Income Units in Park Plaza County Hall London	**16,677**	–	16,677	–

As at 31 December 2017, the Group held the following financial instruments measured at fair value:

Liabilities

	31 December 2017 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Interest rate swaps used for hedging	590	–	590	–

Assets

	31 December 2017 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Investments in marketable securities	24,711	24,711	–	–
Income Units in Park Plaza County Hall London	16,677	–	16,677	–

Note 30 Financial risk management objectives and policies continued

e. Fair value of financial instruments continued

During 2018 and 2017, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

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

	Carrying amount 31 December		Fair value 31 December	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000
Financial liabilities				
Bank borrowings*	**697,291**	699,884	**705,887**	706,361
Lease liability*	**187,701**	182,962	**226,964**	199,174

* Based on Level 2 inputs.

Note 31 Subsequent events

The Board is proposing a final dividend payment of 19 pence per share (2017: 13 pence per share). Subject to shareholder approval at the Annual General Meeting, to be held on 15 May 2019, the dividend will be paid on 20 May 2019 to shareholders on the register at 26 April 2019. The shares will go ex-dividend on 25 April 2019.