Chief Financial Officer's statement

Financial review

THE GROUP'S PERFORMANCE AGAINST ITS STRATEGIC OBJECTIVES

Daniel Kos
Chief Financial Officer
& Executive Director

Overview 2018

2018 has represented a year of significant investment in our property portfolio, with five hotels partly or fully closed for major repositioning and refurbishment projects. Although these closures have impacted our short-term performance as fewer rooms were available over the period, we achieved a solid financial performance over the year, reporting growth in every region.

Like-for-like[1] total revenue was up 6.0% to £340.6 million and like-for-like[1] EBITDA up 5.6% to £113.3 million. Our reported revenue growth, paired with a 33.1% EBITDA margin, resulted in a normalised profit before tax of £37.7 million, up 17.6% compared with the prior year.

The key themes for 2018 were the maturing performance of our recently opened hotels in London and our ongoing investment programme to develop a new hotel in London and extensively reposition and renovate several properties in the United Kingdom, the Netherlands and Croatia. In total, we invested more than £60 million in these initiatives over the year.

We are pleased to report an EPRA NAV per share of £24.57 and adjusted EPRA earnings per share of 115 pence, reconfirming the value we created for our shareholders through our strategic focus on our owner-operator model, combined with in-house development.

Financial Results

Key financial statistics for the financial year ended 31 December 2018

	Reported in GBP (£)		Like-for-like GBP[1] (£)	
	Year ended 31 Dec 2018	Year ended 31 Dec 2017	**Year ended 31 Dec 2018**	Year ended 31 Dec 2017
Total revenue	**£341.5 million**	£325.1 million	**£340.6 million**	£321.4 million
EBITDAR	**£120.7 million**	£116.0 million	**£120.8 million**	£115.0 million
EBITDA	**£113.2 million**	£107.3 million	**£113.3 million**	£107.3 million
EBITDA margin	**33.1%**	33.0%	**33.3%**	33.4%
Reported PBT	**£46.4 million**	£31.7 million	**–**	–
Normalised PBT	**£37.7 million**	£32.1 million	**–**	–
Reported EPS	**90p**	57p	**–**	–
Dividend per share	**35p**	24p	**–**	–
Occupancy	**79.4%**	77.3%	**79.4%**	77.1%
Average room rate	**£123.1**	£120.2	**£123.4**	£121.0
RevPAR	**£97.7**	£92.9	**£98.0**	£93.3
Room revenue	**£236.6 million**	£224.0 million	**£235.9 million**	£221.1 million
EPRA NAV per share	**£24.57**	£24.02	**–**	–
Adjusted EPRA earnings per share	**115p**	104p	**–**	–

1 The like-for-like figures for 31 December 2018 exclude the first two months of operation of Park Plaza London Park Royal. Furthermore, the like-for-like figures for 31 December 2017 exclude the operation of Park Plaza Vondelpark, Amsterdam from August to December (the property is temporarily closed for renovations) and art'otel dresden (the lease of which was terminated on 31 July 2018). The like-for-like EBITDA figures for 31 December 2017 have also been adjusted to reflect the acquired freeholds of art'otel cologne and art'otel berlin kudamm in 2017 (rental costs adjusted to reflect freehold).

Operations

Revenue

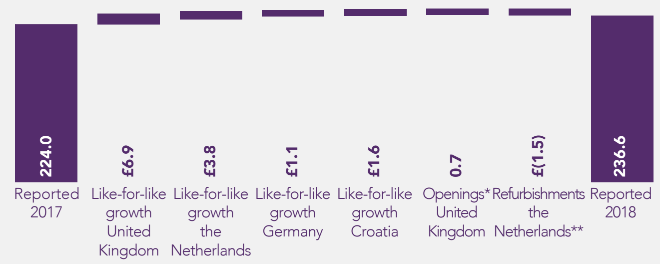
On a like-for-like[1] basis, revenue increased by 6.0% to £340.6 million and reported total revenue was up 5.0% to £341.5 million.

This growth was primarily driven by improved trading across all our operating regions, which was pleasing given the significant impact in the year pertaining to disruptions from ongoing repositioning works at five hotels; Park Plaza Sherlock Holmes London, Park Plaza London Riverbank, Park Plaza Victoria Amsterdam, Park Plaza Vondelpark, Amsterdam and Park Plaza Utrecht. All of these properties had full or significant partial closures in the period.

Like-for-like[1] RevPAR was £98.0, an increase of 5.0% (2017: £93.3), reflecting strong RevPAR growth in all regions. Like-for-like[1] RevPAR growth was achieved through a 2.0% increase in average room rate to £123.4 (2017: £121.0). Like-for-like[1] occupancy improved by 230 bps to 79.4% (2017: 77.1%). Notably, the UK region had a strong second half of 2018, which supported RevPAR growth for the year in the region. Overall, reported RevPAR was £97.7 (2017: £92.9), up 5.2%, driven by a 2.5% increase in average room rate and a 210 bps improvement in occupancy.

As a result of the strong RevPAR growth, offset by inventory disruptions, like-for-like room revenue was up 6.7% to £235.9 million (2017: £221.1 million).

YEAR-ON-YEAR ROOM REVENUE GROWTH



* Operations of Park Plaza London Park Royal for the first two months of 2018.
** Operations of Park Plaza Vondelpark, Amsterdam from August to December 2017.

Financial review continued

EBITDA and EBITDA margin

On a like-for-like[1] basis, EBTIDA increased by 5.6% to £113.3 million. Group reported EBITDA increased by 5.5% to £113.2 million and EBITDA margin increased by 15 bps to 33.1%.

The UK region delivered a sustained uplift in performance and EBITDA contribution from Park Plaza London Waterloo and Park Plaza London Park Royal as these hotels continued to mature, and at Park Plaza London Riverbank which benefited from an increased number of rooms following the extension of the hotel and reconfiguration of suites.

Although we are seeing labour related cost pressures in all the markets in which we operate, our cost focused initiatives have enabled us to retain our industry leading margins.

Profit and Earnings per share

Normalised profit before tax increased by 17.6% to £37.7 million (2017: £32.1 million). Normalised profit was positively affected by the increase in EBITDA, however this was offset by an increase in depreciation costs of £1.6 million and higher foreign exchange costs of £1.1 million. On the right is a reconciliation table from reported to normalised profit.

Depreciation increased in the year from £34.3 million to £35.9 million, mainly as a result of the related depreciation costs upon opening of repositioned and new hotels. Although depreciation is recorded in accordance with GAAP, internally we consider our ongoing average capital expenditure (capex) over the lifespan of our hotels as a more relevant measure in determining profit, which in the hospitality industry is calculated as approximately 4% of total revenue. Our EPRA earnings number disclosed further down in this statement takes into account this 4% instead of the reported non-cash depreciation.

Reported profit before tax increased by £14.7 million to £46.4 million (2017: £31.7 million), up 46.3%. 2018 profit was significantly affected by one-offs, most significant of which was the gain realised on the buyout of our joint venture partner in the art'otel london hoxton project, whereby we have revalued the development site on which the hotel will be built.

	Reconciliation reported to normalised profit	
	Year ended 31 Dec 2018 £million	Year ended 31 Dec 2017 £million
Reported profit before tax	**46.4**	31.7
Fair value movements on derivatives recognised in the profit and loss	**–**	(0.1)
Termination of operating lease	**3.1**	–
Gain on re-valuation of previously held interest in art'otel london hoxton development	**(20.3)**	–
Expenses in connection with transfer to Premium listing	**1.6**	–
Results from marketable securities	**0.7**	–
Revaluation of finance lease	**4.8**	–
Refinance costs and expenses (including termination of hedge)	**0.3**	0.5
Park Plaza Westminster Bridge London fair value adjustment on income swaps and buy back of Income Units	**1.0**	1.1
Forfeited deposits from rescinded sale contracts of Income Units at Park Plaza Westminster Bridge London to private investors	**(0.1)**	–
Pre-opening expenses	**0.2**	0.2
Gain on sale of one building in Park Plaza Vondelpark, Amsterdam	**–**	(1.3)
Normalised profit before tax[1]	**37.7**	32.1

1 The normalised earnings per share amount to 69 pence, calculated with 42,335,136 average outstanding shares.

Normalised earnings per share was 69 pence (2017: 58 pence), representing an increase of 19.2%. Reported basic/diluted earnings per share for the period were 90 pence, an increase of 56.5% (2017: 57 pence).

The table on page 51 provides some selected data for the Group's reported balance sheet and profit and loss account for the year ended 31 December 2018, prepared in Pound Sterling millions. With this table the Group aims to assist investors in making a further analysis of the Group's performance and capital allocation, separating its excess cash position (to fund further growth), the development projects and the assets of Arena Hospitality Group d.d. This data is additional to the segments that are monitored separately by the Board for resource allocations and performance assessment, which are the segments of the Group.

	PPHE Hotel Group			Arena Hospitality Group[6]		Total
	Trading properties £m	Excess Cash[4] £m	Non-trading projects[3] £m	Trading properties £m	Excess Cash[4] £m	PPHE Hotel Group Reported £m
Balance Sheet						
Book-value properties (excluding Income Units at Park Plaza Westminster Bridge London sold to third parties)[1]	828.9	–	77.1	245.6	–	1,151.6
Book value intangible assets	19.5	–	–	1.9	–	21.4
Book value non-consolidated investments	–	–	–	–	–	–
Other long-term assets	17.6	–	–	4.6	–	22.2
Working Capital	(15.3)	–	–	(8.5)	–	(23.8)
Cash and Liquid Investments	44.2	75.0	–	26.7	71.8	217.7
Bank/Institutional loans (short/long term)	(583.9)	–	–	(113.4)	–	(697.3)
Finance lease liability, land concession and other provisions	(187.7)	–	–	(4.3)	–	(192.0)
Deferred profit Income Units in Park Plaza Westminster Bridge London[5]	(10.0)	–	–	–	–	(10.0)
Other Provisions	(6.0)	–	–	(5.3)	–	(11.3)
Total capital consolidated	107.3	75.0	77.1	147.3	71.8	478.5
Minority shareholders	–	–	–	(70.6)	(34.5)	(105.1)
Total capital employed by PPHE Hotel Group shareholders	107.3	75.0	77.1	76.7	37.3	373.4
Normalised profit						
Revenue	250.5	–	0.4	90.6	–	341.5
EBITDAR	90.4	–	0.4	29.9	–	120.7
Rental expenses	(3.3)	–	–	(4.2)	–	(7.5)
EBITDA	87.1	–	0.4	25.7	–	113.2
Depreciation	(28.3)	–	–	(7.6)	–	(35.9)
EBIT	58.8	–	0.4	18.1	–	77.3
Interest expenses: banks and institutions	(20.3)	–	–	(3.8)	–	(24.1)
Interest on finance leases	(7.2)	–	–	–	–	(7.2)
Income paid to Income units sold to private investors in Park Plaza Westminster Bridge London	(10.0)	–	–	–	–	(10.0)
Other finance expenses and income	1.5	–	–	0.1	–	1.6
Minority interests	–	–	–	–	–	–
Result from equity investments	–	–	–	0.1	–	0.1
Normalised profit before tax 31 December 2018[2]	22.8	–	0.4	14.5	–	37.7
Reported tax	0.1	–	–	(3.1)	–	(3.0)
Normalised profit after reported tax	22.9	–	0.4	11.4	–	34.7
Profit attributable to minority shareholders	–	–	–	(5.4)	–	(5.4)
Profit after tax attributable to PPHE Hotel Group shareholders	22.9	–	0.4	6.0	–	29.3

1 These are stated at cost price less depreciation. The fair value of these properties is substantially higher.
2 A reconciliation of reported profit to normalised profit is provided on page 50.
3 This contains properties that are in development.
4 Excess cash is directly available for further investments and developments.
5 This is the book-value of units in Park Plaza Westminster Bridge London netted with the advanced proceeds these investors received in 2010.
6 Arena Hospitality Group d.d is listed on the Zagreb Stock Exchange. The market capitalisation at 31 December 2018 is £211.5 million.

Financial review continued

Property

EPRA NAV

In 2018, we started to disclose certain EPRA performance measurements to aid investors in analysing the Group's performance and understanding the value of the Group's assets and its earnings from a property perspective. As a developer, owner and operator of hotels, resorts and campsites, we generate returns by both developing the assets we own and operating all our assets to their best potential.

In June 2018, the Group's properties (with the exception of operating leases, managed and franchised properties) were independently valued by Savills (in respect of properties in the Netherlands, UK and Germany) and Zagreb nekretnine Ltd (ZANE) (in respect of properties in Croatia), based on that we have calculated the Group's EPRA net asset value ("EPRA NAV"). We will continue to perform this valuation exercise on an annual basis and provide investors with an EPRA NAV going forward.

The EPRA NAV as at 31 December 2018 which is set out in the table to the right amounts to £1,053 million, which reflects £24.57 per share. This is up 2.3% on 31 December 2017 and 3.5% when distributed dividends are added back.

The last time all the Group's assets were simultaneously independently valued was in 2010, when the properties were valued as part of the Group's move from the Alternative Investment Market to Standard Segment of the Official List on the Main Market for listed securities of the London Stock Exchange plc. The Group's EPRA NAV at that time amounted to £6.42. Given the EPRA NAV of £24.57 as per 31 December 2018, this represents a Compounded Annual Growth Rate ("CAGR") of 18.3% over the past eight years. Adjusted for dividends this growth equates to 19.6% compounded.

Below is a summary of the valuation criteria of our assets. The property market value, the discount rate and the cap rate have been taken from the independent valuators report.

	31 December 2018 £million	31 December 2017 £million
NAV per the financial statements	**373.5**	343.3
Effect of exercise of options	**4.7**	1.6
Diluted NAV, after the exercise of options[1]	**378.2**	344.9
Includes:		
Revaluation of owned properties in operation (net of non-controlling interest)[2]	**655.8**	643.9
Revaluation of development property (Aspirations)[3]	**5.4**	20.3
Revaluation of the JV interest held in two German properties (net of non-controlling interest)	**3.8**	3.8
Excludes:		
Fair value of financial instruments	**(0.4)**	(0.3)
Deferred tax	**(9.4)**	(11.0)
EPRA NAV	**1,053.0**	1,024.2
Fully diluted number of shares (in thousands)	**42,860**	42,645
EPRA NAV per share (in £)	**24.57**	24.02

1 The fully diluted number of shares is excluding treasury shares but including 522,500 outstanding dilutive options (as at 31 December 2017: 307,000).

2 The fair values of the properties were determined on the basis of independent external valuations prepared in the summer of 2018. The fair value for the properties as at 31 December 2017 were determined taking the 2018 valuations and deducting the value enhancing investments carried out in 2018.

3 As at 31 December 2017, the Group owned 50% in a joint venture that held a site in Hoxton, London which is under development. The Group announced on 24 January 2018 that it had agreed to purchase the remaining 50% of the site for £35.0million and on that basis the 50% it held was revalued to £35.0 million, which is reflected as the revaluation as at 31 December 2017. As at 31 December 2018, after the acquisition and revaluation of this asset in the reported NAV (total asset book value at £77.1 million), the development property was independently valued at £82.5 million, which is the basis for the revaluation.

Location	Number of hotels	Number of rooms/pitches	Property market value (£m)	Average value per room/pitch (£)	Discount rate	Cap rate
United Kingdom						
– London[1]	6	2,280	920	403,509	7.5%-9.5%	5%-7%
– Provinces	2	365	36	98,630	10.25%-10.75%	8%-8.25%
Netherlands						
– Amsterdam	4	850	255	299,647	7.25%-8.5%	5.25%-6.5%
– Provinces	2	224	37	162,946	8.25%-9%	6.25%-7%
Germany	3	547	96	175,868	8.5%-8.75%	6%-6.25%
Croatia						
– Hotels and apartments	11	2,721	128	48,806	9%-10%	8%-9%
– Campsites	8	5,756	82	14,263	10%-11%	9%-10%

1 Excluding units of the Park Plaza Westminster Bridge London owned by third parties.

The Group has a strong track record of acquiring properties which we believe have significant upside potential. We undertake (re) development and redesign of these assets to maximise operational excellence and capital appreciation. Through refinancing these properties, we are able to release capital for new investments, enabling further growth of our Group.

Park Plaza London Waterloo is an excellent example of this business model in action, demonstrating our ability to adapt approach and seize an opportunity to develop a high-quality hotel and create value for shareholders.

In June 2013, we acquired a redundant building in Waterloo and developed the site into a 494 room hotel which officially opened in June 2017. The total cost of the project (site acquisition, planning consent and construction costs) was £125.0 million (approximately £250,000 per key).

In July 2017, we completed the sale and finance leaseback of Park Plaza London Waterloo. The freehold of the property was sold for £161.5 million and we agreed a 199-year lease at an initial rent of £5.6 million per annum. This remaining leasehold was independently valued at £84 million in 2018. Our approach of building and redeveloping this property enabled the Group to create a £120.0 million capital appreciation. Currently the Group is in the process of building an art'otel in Hoxton, London.

Capex

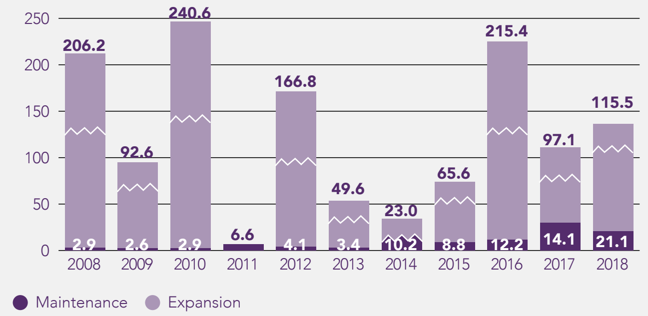
In 2018, we continued with our ongoing extensive investment programme in order to upgrade the Group's property portfolio. In total our capex investment in 2018 was more than £60 million and mainly included the extensive repositioning of Park Plaza Victoria Amsterdam, Park Plaza Utrecht and Park Plaza Vondelpark, Amsterdam in the Netherlands, as well as Park Plaza London Riverbank and Park Plaza Sherlock Holmes London in the United Kingdom. In Croatia, we opened the first all-glamping offer, Arena One 99.

In the first quarter, we completed the acquisition of our joint venture partner's 50% interest in the company which holds the freehold interest for the site on which art'otel london hoxton will be built, for a consideration of £35.0 million. We first entered this joint venture in 2008 by investing £11.0 million for a 50% ownership interest. The transaction, which was funded through cash resources, reflects the significant capital appreciation of our initial investment. This is an exciting central London development in an area of regeneration. The Group now has full control over the development site and preliminary construction works have commenced. The total cost of the project is subject to final confirmation of the scheme.

As we enter 2019, further renovation programmes are well underway across several of our hotels in London and the Netherlands with further programmes planned for Germany and Croatia during the year.

We are constantly working on improving our existing portfolio and looking for interesting opportunities to acquire further assets to broaden the Group's portfolio. The diagram below provides a summary of the investments done in the past ten years.

INVESTMENTS IN PROPERTY SPLIT BETWEEN EXPANSION/REDEVELOPMENT AND MAINTENANCE IN £'M



Maintenance capex profile has historically been 4% of revenue on average

Financial review continued

EPRA earnings and cash flow

The main adjustment to the normalised profit included in the Group's financial statements is adding back the IFRS depreciation charge which is based on assets at historical cost and replacing it with a charge calculated as 4% of the Group's total revenues, representing the Group's expected average cost to upkeep the real estate in good quality. The basis for calculating the Company's adjusted EPRA earnings of £48.5 million for the 12 months to 31 December 2018 (12 months to 31 December 2017: £43.9 million) and the Company's adjusted EPRA earnings per share of 115 pence (2017: 104 pence) is set out in the table below.

	12 months ended 31 December 2018 £million	12 months ended 31 December 2017 £million
Earnings attributed to equity holders of the parent company	**38.1**	24.3
Depreciation and amortisation expenses	**35.9**	34.3
Capital gain on divestments	**–**	(1.4)
Gain on re-measurement of previously held interest in Joint Venture	**(20.3)**	–
Early close-out costs of debt instrument	**0.3**	0.6
Changes in fair value of financial instruments	**1.0**	0.3
Non-controlling interests in respect of the above[3]	**(6.1)**	(4.6)
EPRA Earnings	**48.9**	53.5
Weighted average number of shares (LTM)	**42,335,136**	42,248,613
EPRA Earnings per share (in pence)	**116**	126
Company specific adjustments[1]:		
Capital loss on buy back of income units in Park Plaza Westminster Bridge London previously sold to private investors	**0.6**	0.7
Termination of operating lease[4]	**3.1**	–
Revaluation of finance lease[5]	**4.8**	–
Other non-recurring expenses (including pre-opening expenses)	**0.2**	0.2
Expenses in connection with transfer to premium listing	**1.6**	–
Maintenance Capex[2]	**(13.6)**	(13.0)
Non-controlling interests in respect of Maintenance Capex[3]	**2.9**	2.5
Company adjusted EPRA earnings	**48.5**	43.9
Company adjusted EPRA earnings per share (in pence)	**115**	104
Reconciliation company adjusted EPRA earnings to normalised reported profit before tax		
Company adjusted EPRA earnings	**48.5**	43.9
Reported depreciation	**(35.9)**	(34.3)
Non-controlling interest in respect of reported depreciation	**6.0**	4.6
Maintenance capex (4% of total revenues)	**13.6**	13.0
Non-controlling interest on maintenance capex	**(2.9)**	(2.5)
Profit attributable to non-controlling interest	**5.4**	5.7
Reported tax	**3.0**	1.7
Normalised profit before tax	**37.7**	32.1

1 The "Company specific adjustments" represent adjustments of non-recurring or non-trading items.
2 Calculated as 4% of revenues representing the expected average maintenance capital expenditure required in the operating properties.
3 Reflects the share of non-controlling interest in the depreciation and maintenance capex adjustments. Minorities include the non-controlling shareholders in Arena and third-party investors in income units of Park Plaza Westminster Bridge London.
4 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 incurred 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.
5 Non cash revaluation of finance lease liability relating to minimum future CPI increases.

Funding

Since the Company's public listing in 2007, it has funded the Group's expansion through a diverse approach, without diluting its shareholders. Alongside traditional bank funding, the Group has used various financing options in order to optimise returns while keeping at comfortable leverage levels, these include sale-and-leaseback finance arrangements, arrangements with unitholders and the SPO of a subsidiary.

Where we have used traditional bank funding, whereby assets are ring fenced into single or Group facilities, the loan to value ratio typically varies between 50% and 65%.

The Group has taken the opportunity to sell certain assets, taking a long term finance leaseback, to take advantage of the low interest rate environment and secure long term funding with no amortisation payments. All finance leases, except one, have lease payments that are fixed with annual capped/collared CPI adjustments. The finance leases, valued on a leasehold basis (i.e. the value of the assets, net of the accounted finance lease liability), have been included in the Group's EPRA NAV.

Arrangements with unitholders involve the sale of individual income units which directly relates to an individual room in a property (a "Unit") to third party investors; these investors pay upfront and receive a contractual right to the future cash flow from the individual Units with no repayment obligation on the Group. The Group raised funds through the sale of Units in its Park Plaza Westminster Bridge London Hotel during its construction.

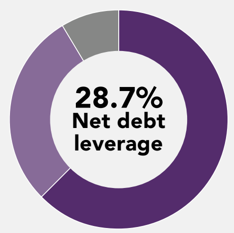
The Group raised funds through the secondary offering in Arena Hospitality Group d.d, its listed subsidiary in Croatia, in 2017, and retained a controlling shareholding.

The Group's total asset', presented in the top table on the right, represents a value after the deduction of lease liabilities and unit holder liabilities. Accordingly, in the total loan-to-value ("LTV") analysis of the of the Group, management considers the value of the freehold and long leasehold assets (net of these liabilities) compared with its bank funding (ie. excluding the lease and unit holder liabilities), which management believe is the most accurate representation of the Group's total leverage position.

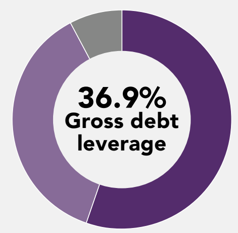
Bank financing	£'m
Over 5 year debt	627.8
Less than 5 year debt	69.5
Cash	217.7
Net bank debt	479.6
Equity	
– Reported	373.5
– Market value restatement	674.8
Equity attributable to shareholders of the Group[1]	1,048.3
– Reported	105.1
– Market value restatement[2]	37.1
Non-controlling interest	142.2
Total equity	1,190.5
Group's total asset (properties at fair value)	1,670.1

1 Equity attributable to shareholders of the Group based on EPRA NAV excluding the £4.7 million effect due to exercise of dilutive options.
2 The market value restatement for the equity attributable to non-controlling interest represents the minority's share in the EPRA NAV adjustments.

DEBT/EQUITY



- **PPHE Shareholder Equity** £1,048.3
- **Bank debt** £479.6
- **Non-controlling interest** £142.2



- **PPHE Shareholder Equity** £1,048.3
- **Bank debt** £697.3
- **Non-controlling interest** £142.2

The Group reported a gross bank debt liability of £697.3 million (31 December 2017: £700.3 million) and net bank debt of £479.6 million (31 December 2017: £408.1 million). Key movements in net bank debt in 2018 included a reduced cash position and liquid investments of £71.6 million, primarily due to the acquisition of the remaining 50% interest in the freehold site in Hoxton in London and the significant capex in our real estate investment programmes. The movement in net debt included redemption payments of £15.1 million and an increased £12.8 million due to the refinance of several loans in the UK now grouped into one new facility.

Financial review continued

Below table provides a further break down of the Group's net bank debt position.

Loan maturity profile at 31 December 2018 (£m)

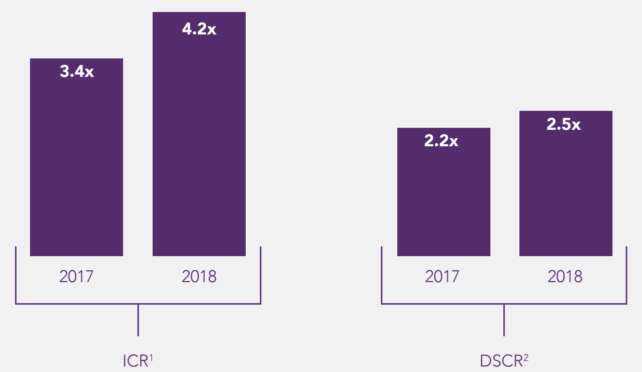
	Total	1 year	2 years	3 years	4 years	5 years	Thereafter
£m	697.3	14.7	13.2	13.2	13.3	15.1	627.8

– Average cost of bank debt 3.1%
– Average maturity of bank debt 7.9 years
– Group average bank interest cover 4.2[1]

Key characteristics debt for operating properties

– Limited to no recourse to the Group
– Asset backed
– Borrowing policy 50-65% loan to value
– Portfolio and single asset loans
– Ten facilities with seven different lenders
– Covenants on performance and value (facility level)

STRONG COVER RATIOS



[1] EBITDA, less unitholder and finance lease payments, divided by bank interest.
[2] EBITDA, less unitholder and finance lease payments, divided by the sum of bank interest and yearly loan redemption

Acquisitions and development pipeline

The Company continuously identifies and assesses opportunities to extend our property portfolio and our operations across prime locations in attractive destinations, which we believe will offer attractive returns to shareholders.

We have a clear strategy to drive growth and long-term value through our property portfolio and our operations. In our property portfolio, we take a disciplined, yield-focused approach to capital deployment and look to optimise the value of our existing portfolio and, where appropriate, extract value to fund longer-term sustainable growth. The Group takes an integrated and entrepreneurial approach to everything we do and will continue to reposition and develop assets within our portfolio as well as focus on our committed development pipeline to deliver future growth. We retain a strong cash position and we will continue to consider asset acquisitions to broaden our portfolio and deliver our target returns on investment. We are disciplined in selecting and progressing an investment opportunity, only targeting real estate with significant upside potential which fits our long-term growth strategy and above all creates strong shareholder value.

The Group's acquisition criteria include:

– prime location
– attractive geographies, this includes territories where the Group is not currently present
– opportunity to create significant capital value
– risk adjusted accretive IRR's

We are progressing with extensive renovation and repositioning programmes across several of our hotels in the United Kingdom and the Netherlands. In addition, we have also identified several renovation and repositioning opportunities across hotels in Germany and hotels, resorts and campsites in Croatia.

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

Shareholder return

Total shareholder return

The Group has created significant value for its shareholders since IPO in 2007, with total shareholder return of 337%[1].

Total shareholder return from the Initial public offering (IPO) in 2007 to 31 December 2018

Investor Returns – per share	Pence
IPO 2007	550
Dividend paid from 12 July 2007 (IPO date) to date	232
Share price 31 December 2018	1,660
	1,892
Total return	1,342

[1] Source: Bloomberg based on the Company's market share price as at 31 December 2018 (1,660 pence).

The table below shows cash returns on our operational assets and our development assets and excess cash. When development projects are operational, the yield of these operational assets will have a positive impact on the implied return.

31 December 2018	Operational assets £'m	Development asset and excess cash £'m	Total £'m
Net assets employed	1,587.6	82.5	1,670.1
Bank financing	(626.4)	146.8	(479.6)
Minority interest	(107.7)	(34.5)	(142.2)
EPRA NAV[1]	853.5	194.8	1,048.3
	81.4%	18.6%	100.0%
Recurring adjusted EPRA earnings	48.1	0.4	48.5
Implied return on EPRA NAV	5.6%	0.2%	4.6%
Implied return on company market capitalisation[2]	9.5%	0.2%	6.9%

[1] EPRA NAV excluding the £4.7 million effect due to exercise of dilutive options provided on page 52.
[2] Company market capitalisation is based on the market share price as at 31 December 2018 (1,660 pence)

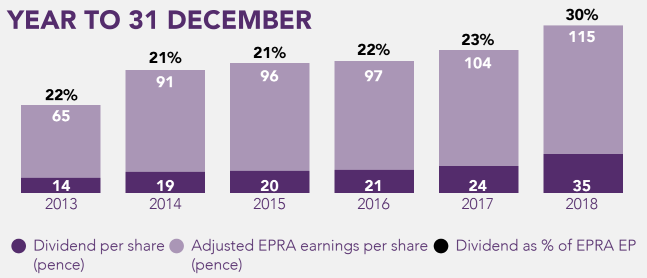
Dividend

The Board is proposing a final dividend payment of 19 pence per share (2017: 13 pence per share). When combined with the interim ordinary dividend of 16 pence per share (2017: 11 pence per share) paid to shareholders on 15 October 2018, the total ordinary dividend for the year ended 31 December 2018 to 35 pence per share (2017: 24 pence), an increase of 45.8%.

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.

The increase in total ordinary dividends for the year is in line with the Group's progressive dividend policy whilst retaining proper and prudent reserves and reflects the Board's continued confidence in its strategy and integrated business model, which is also reflected in below graph that shows the dividend payments as a percentage of adjusted EPRA Earnings.

EPRA EARNINGS PER SHARE/DIVIDEND – YEAR TO 31 DECEMBER



Looking ahead

2018 was my first year in my new role as Chief Financial Officer & Executive Director and I have been impressed with our team's performance in the year. As we enter 2019, we are closely monitoring the wider macro-economic and geo-political developments to ensure we take precautionary measures where needed and stay focused on delivering our industry leading margins. Following several of years of extensive investments in new and improved properties, we have an excellent opportunity to start reaping the benefits and we have a solid base to further build upon.

We expect our recent investments to continue to mature in 2019 and are excited about the next phase of our repositioning, renovation and new development pipeline. This includes both committed new properties and acquisition opportunities.
In 2019, we will also continue to build on our corporate activities from recent years. This includes a consideration by the Company of FTSE index inclusion, for which it needs to meet certain free float criteria. To meet these criteria, the Company is currently in discussions with certain of its major shareholders.

Daniel Kos
Chief Financial Officer & Executive Director