

WE ARE CREATORS

OUR PURPOSE

To create valuable memories for our guests and value for our assets.

FINANCIAL SUMMARY

- Like-for-like¹ revenue increased by 6.0%, as the Group benefited from improved trading across all operating regions and the first full year contributions of Park Plaza London Waterloo and Park Plaza London Park Royal which have continued to mature since fully opening in 2017. Reported total revenue increased by 5.0% to £341.5 million (2017: £325.1 million).
- Like-for-like¹ EBITDA improved by 5.6%. Reported EBITDA increased by 5.5% to £113.2 million (2017: £107.3 million).
- Normalised profit before tax² increased by 17.6% to £37.7 million (2017: £32.1 million).
- Normalised earnings per share were 69 pence (2017: 58 pence), an increase of 11 pence. Reported basic/diluted earnings per share were 90 pence (2017: 57 pence).
- Proposed final dividend of 19 pence per share (2017: 13 pence per share) bringing the total dividend for the year to 35 pence per share (including the interim ordinary dividend of 16 pence per share), an increase of 45.8%.
- In the summer of 2018 our real estate assets were independently valued by Savills at £1.6 billion.
- EPRA NAV per share (post dividend) was up 2.3% at £24.57 and adjusted EPRA earnings per share were up 10.6% to 115 pence (for the 12 months ending 31 December 2018). EPRA NAV per share was up by 3.5% excluding a 29 pence dividend paid in 2018.

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).

² A reconciliation of reported to normalised profit can be found in the Financial Review in the "Profit and Earnings per share" section on page 50.



Cover image

Park Plaza London Riverbank

The newly repositioned Park Plaza London Riverbank relaunched in 2018 after a three-year, multi-million-pound investment programme. Located in a prime location, Park Plaza London Riverbank offers 646 guestrooms and features a new guest journey at check-in and a number of refreshed public areas including Chino Latino Restaurant & Bar, an executive lounge, new spa facilities and an indoor swimming pool.

[Read more – See pages 28–31](#)

WHO WE ARE

We are an international hospitality real estate group, with a prime property portfolio consisting of 46 properties in five countries, that leverages the value of our assets and maximise profits.

WHAT WE DO

We have a clear strategy to drive growth and create long-term value while recognising and developing opportunities to help our assets reach their full potential. We delight our guests every day, through engaging service and quality products in inviting places.

HOW WE DO IT

By valuing team members, who are our creators, and by continuously investing in opportunities and our portfolio, which is designed and maintained with passion.

TOTAL REVENUE

£M

2014	217.0
2015	218.7
2016	272.5
2017	325.1
2018	341.5

£341.5m

Reported total revenue increased by 5.0% to £341.5 million (2017: £325.1 million). On a like-for-like basis¹ total revenue increased by 6.0% to £340.6 million (2017: £321.4 million).

EBITDA

£M

2014	76.1
2015	80.1
2016	94.1
2017	107.3
2018	113.2

£113.2m

EBITDA increased by 5.5% to £113.2 million (2017: £107.3 million). On a like-for-like basis¹ EBITDA increased by 5.6% to £113.3 million (2017: £107.3 million).

NORMALISED PROFIT BEFORE TAX

£M

2014	26.4
2015	29.8
2016	31.7
2017	32.1
2018	37.7

£37.7m

Normalised profit before tax² increased by 17.6% to £37.7 million (2017: £32.1 million). Reported profit before tax increased by 46.3% to £46.4 million (2017: £31.7 million).

DIVIDEND PER SHARE

PENCE

2014	19
2015	20
2016	21
2017	24
2018	35

35p

Ordinary dividend of 35 pence per share, up 45.8% from last year (2017: 24 pence per share), which is in line with the Company's progressive dividend policy.

NORMALISED EARNINGS PER SHARE (EPS) PENCE

2014	63
2015	71
2016	68
2017	58
2018	69

69p

Normalised EPS³ was 69 pence (2017: 58 pence). Reported EPS was 90 pence (2017: 57 pence).

ADJUSTED EPRA EPS

PENCE

2014	91
2015	96
2016	97
2017	104
2018	115

115p

Last 12 months (LTM) adjusted EPRA EPS to 31 December 2018 increased by 10.6% to 115 pence per share (12 months ending 31 December 2017: 104 pence).

EPRA NAV PER SHARE

£

2014	NA
2015	NA
2016	NA
2017	24.02
2018	24.57

£24.57

The EPRA NAV per share (post dividend) as at 31 December 2018 was £24.57 per share, which is a 2.3% increase since 31 December 2017 (£24.02 per share).

REVPAR

£

2014	91.2
2015	92.0
2016	84.4
2017	92.9
2018	97.7

£97.7

RevPAR increased by 5.2% to £97.7 (2017: £92.9). Like-for-like¹ RevPAR increased by 5.0% to £98.0 (2017: £93.3).

OCCUPANCY

%

2014	83.7
2015	84.3
2016	76.0
2017	77.3
2018	79.4

79.4%

Occupancy increased by 210 bps to 79.4% (2017: 77.3%). Like-for-like occupancy increased by 230 bps to 79.4% (2017: 77.1%).

AVERAGE ROOM RATE

£

2014	108.8
2015	109.1
2016	111.0
2017	120.2
2018	123.1

£123.1

Average room rate increased by 2.5% to £123.1 (2017: £120.2). Like-for-like¹ Average room rate increased by 2.0% to £123.4 (2017: £121.0).

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).

² A reconciliation of reported to normalised profit can be found in the Financial review in the "Profit and Earnings per share" section on page 50.

³ The normalised earnings per share amount to 69 pence, calculated with 42,335,136 average outstanding shares.

Contents

STRATEGIC REPORT

- 4 Chairman's statement
- 6 What being a creator means
- 8 About us
- 10 President & Chief Executive Officer's statement
- 18 Our markets
- 20 Our business model and priorities
- 22 Our business model in action
- 40 Strategy at a glance
- 42 Principal risks and uncertainties
- 46 Key performance indicators
- 48 Financial review
- 58 Business review
- 75 Responsible business

CORPORATE GOVERNANCE

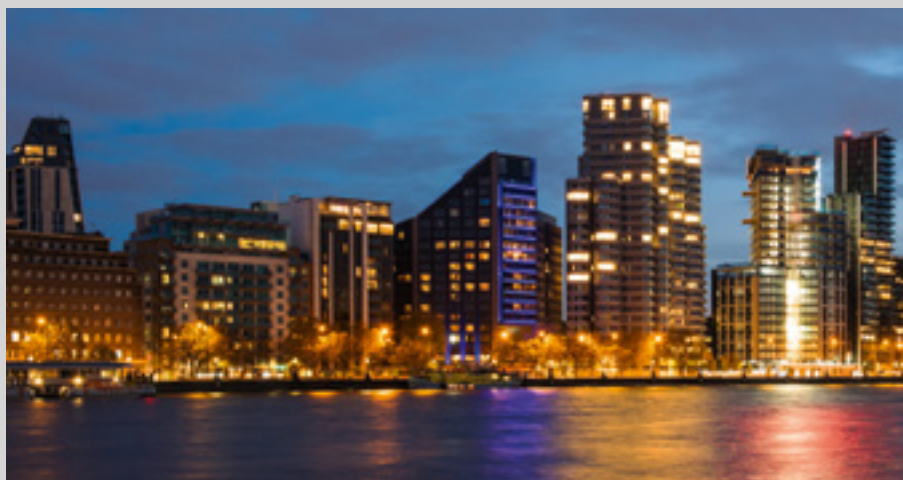
- 84 Board of Directors
- 86 Non-Executive Deputy Chairman's Corporate Governance statement
- 92 Report of the Audit Committee
- 95 Report of the Nomination Committee
- 96 Report of the Remuneration Committee and Directors' Remuneration Report
- 98 Directors' report

FINANCIAL STATEMENTS

- 105 Independent auditor's report
- 108 Consolidated statement of financial position
- 109 Consolidated income statement
- 110 Consolidated statement of comprehensive income
- 111 Consolidated statement of changes in equity
- 112 Consolidated statement of cash flows
- 114 Notes to consolidated financial statements

APPENDICES

- 158 Subsidiaries included in the Group
- 161 Jointly controlled entities
- 161 Current renovation, repositioning and pipeline projects
- 162 Glossary
- 164 Contacts



Creating destinations

From investments in London to the first all-glamping campsite in Croatia, we create destinations for our guests that inspire them to return.

[Read more – See pages 22–39](#)



Our people are creators

Empowering and coaching our team members enables us to delight our guests every day through inspirational service.

[Read more – See pages 10–17 and 75–83](#)



President & Chief Executive Officer's statement

Our results coupled with our strategic progress reflects the strength of our business model.

[Read more – See pages 10–17](#)



Financial and Business review

We have created and continue to create significant value for our shareholders since our IPO in 2007.

[Read more – See pages 48–74](#)



Responsible business

We have created an integrated programme, Responsible Experiences, that is at the heart of everything we do from our business model to our day-to-day activities.

[Read more – See pages 75–83](#)

Chairman's statement

Welcome

We are delighted to announce another year of operational, financial and strategic progress, achieved in a year of significant investment in our portfolio to support future growth against an ever-changing hospitality industry and macro environment.

In 2018, we demonstrated our ability to continually adapt to these challenges exploiting opportunities as they arose. As a result, the Group has once again delivered year-on-year revenue and profit growth.

Key to our continued success and value creation is our hospitality real estate ownership. We own the majority of our property portfolio (hotels, resorts and campsites). This portfolio was independently valued by Savills at £1.6 billion in the summer of 2018.

Our hybrid owner/operator model paired with development is a point of differentiation within the hospitality sector with a clear strategy to drive growth and long-term value. This model gives us full control over the maintenance of our assets along with the ability to react quickly and invest in them as necessary, enabling us to fully optimise their potential value. We take great pride in the design and hospitality experience we create for our guests and customers.

Repositioning and renovation investment projects

Over the last three years, there has been significant investment in our property portfolio to transform and reposition some of our existing real estate offering across our key markets.

2018 saw the completion of major repositioning projects at Park Plaza Victoria Amsterdam and Park Plaza London Riverbank,



**WE
ARE
CREATORS**

with construction works implemented in phases over several years. By reconfiguring and enhancing the layout of each property (public areas and rooms) to optimise the space, improve the facilities and enhance the guest experience, we have transformed these hotels in their respective markets. In Croatia, Arena One 99 was launched, the country's first all-glamping offer, which delivered encouraging results following opening.

Further repositioning projects – at Park Plaza Vondelpark, Amsterdam, Park Plaza Utrecht, Park Plaza Sherlock Holmes London and Arena Kažela Campsite Medulin are well underway and are due to complete H2 2019.

Renovation has also commenced at Park Plaza Victoria London which is expected to complete in H2 2019. This hotel will remain in operation during the renovation project, albeit with some rooms and facilities temporarily closed. Repositioning projects expected to commence in 2019 include Hotel Brioni and Verudela Beach Resort. We expect to realise the benefits of these investment projects from 2019 onwards.

Corporate activity

2018 marked a significant milestone in our corporate development. In July, our ordinary shares were transferred to the Premium Listing segment of the Main Market of the London Stock Exchange. This move was in line with our strategic goals to broaden our investor base and raise our profile amongst our shareholders. In addition, our Croatian listed subsidiary, Arena Hospitality Group d.d., transferred its listing from the Official Market to the Prime Market of the Zagreb Stock Exchange.

The Group has delivered strong shareholder returns, which reflects our focused strategy of investing in and enhancing our prime property portfolio, creating unique experiences for our guests and creating reliable and recognisable standards across our multi-brand portfolio and international network. This impressive performance highlights the strength of our leadership team, several of whom have been with the business for many years, and our ability to retain and develop talent and nurture the next generation of leaders.

The Board

Our Board is integral to our future and there were several changes to its structure over the year. We welcomed Daniel Kos to the Board on 27 February 2018, following his promotion to Chief Financial Officer. Kevin McAuliffe was appointed Non-Executive Deputy Chairman. Nigel Jones was appointed Senior Independent Director, taking over the role previously performed by Kevin McAuliffe. Chen Moravsky stepped down from the Board this year and I would like to personally thank him for his invaluable contribution to the development of our business.

The Board is committed to and recognises the importance of maintaining a high standard of corporate governance.

I would like to take this opportunity to thank the members of the Board for their guidance and I also thank all our team members for their hard work and commitment during 2018.

Dividend

The Board is proposing a final dividend payment of 19 pence per share, bringing the total ordinary dividend for the year ended 31 December 2018 to 35 pence per share. This is in line with our progressive dividend policy and reflects the Board's confidence in the Group's operations, assets and prospects.

Looking ahead

We take an integrated and entrepreneurial approach to everything we do as we exploit the full potential of our hospitality real estate to create value and profits.

Looking ahead for 2019, we 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 the Board will continue to consider asset acquisitions to broaden our portfolio and deliver our target returns on investment.

We are currently in advanced negotiations in respect of a joint venture opportunity for the purchase of a hotel development site in New York (approximately 100 keys), which offers an exciting prospect in a new market.

We are well placed to continue our progress and deliver excellent service for which we are renowned while we continue to create long-term value for our shareholders.



Eli Papouchado
Chairman

Investment proposition

Asset value growth

EPRA NAV per share £24.57
at 31 December 2018

Operating earnings

EPRA adjusted earnings per share
115p LTM to 31 December 2018

Strong development pipeline & yields

A pipeline of development assets in London and Croatia ready for, or in phase of, (re)development

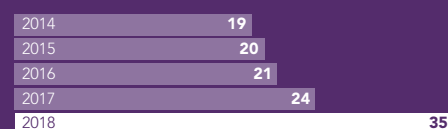
Healthy leverage

Historic growth funded by various types of finance arrangements without diluting PPHE shareholders

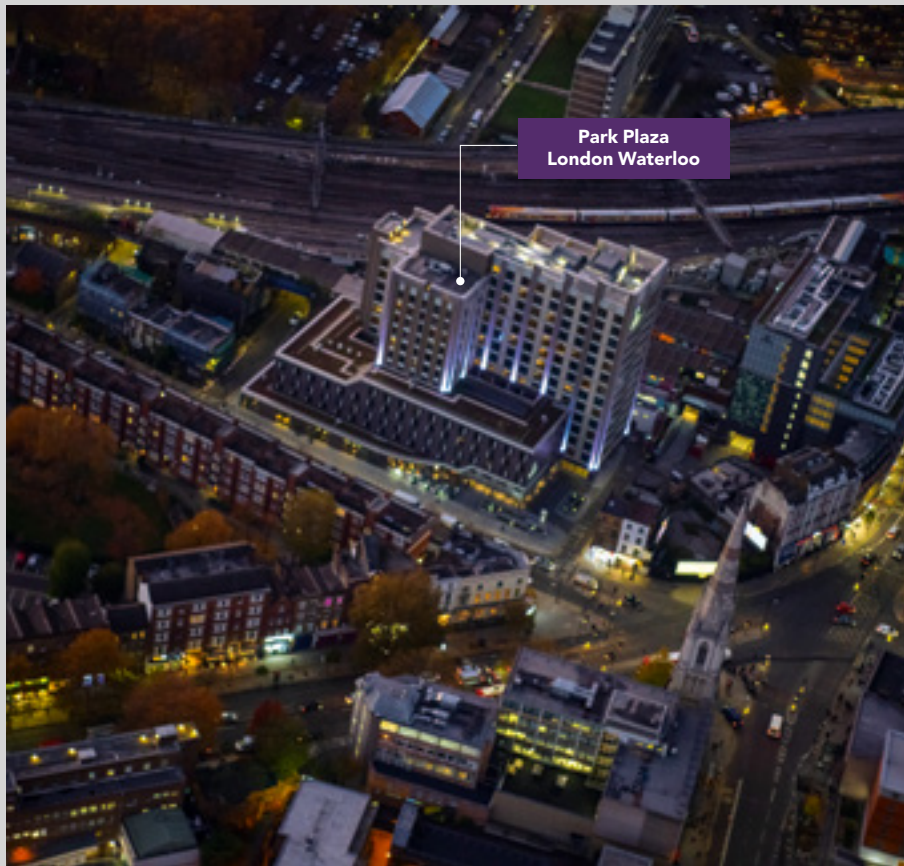
Progressive dividend policy

Dividends have grown 16.5% CAGR over last 5 years (excluding special dividend of £1 per share in 2016)

DIVIDEND PER SHARE PENCE



35p



Park Plaza
London Waterloo

For our investors

We create value for our investors through capital appreciation of our £1.6 billion property portfolio and cash returns in the form of progressive dividend payments.

[Read more – See pages 12,20–21](#)

For our customers

We create unique hospitality experiences in vibrant destinations through our high quality offering and services including hotels, resorts, campsites and destination-led restaurants, bars and spas.

[Read more – See pages 78–79](#)

WH BE A CREA MIEA



STAKEHOLDERS

For our suppliers

We create long-term relationships with strategic partners, many of whom are local. Sustainability and ethical operations are high on our agenda, including supply chain management.

[Read more – See page 80](#)



For our team members

We create award-winning Learning and Development programmes and recruitment platforms, designed to provide rewarding, international employment, across five countries, for over 4,100 team members and over 30 nationalities.

[Read more – See pages 81–82](#)



For our communities

We create positive relationships with our local communities and the people who live and work there through fundraising activities, employment opportunities, volunteering and local resourcing partnerships.

[Read more – See page 83](#)



About us

Creating value

Business model

At PPHE Hotel Group, we create shareholder value through developing, owning and operating hospitality real estate.

We currently own or co-own the majority of our portfolio and have a proven track record in generating attractive operating returns and asset value appreciation.

We typically acquire properties which we believe have significant upside potential. We embark on a journey of (re) developing, redesigning and continuously improving the operation, creating significant value along every part of the value chain. This diligent process is managed by our experienced senior management team, consisting of specialists in every relevant discipline. Through refinancing our properties we are able to release capital for new investments, enabling further growth of our Group.



Prime locations

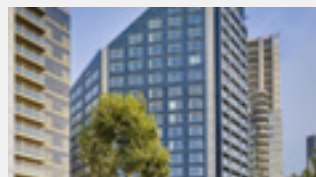
Well-maintained, prime assets, with close proximity to major demand generators within leading capital cities, urban markets and resort destinations.



Park Plaza Westminster Bridge London
Opposite Big Ben on the thriving South Bank



Park Plaza London Waterloo
Close proximity to Waterloo Station



Park Plaza London Riverbank
Between Waterloo Station and Nine Elms/
American Embassy



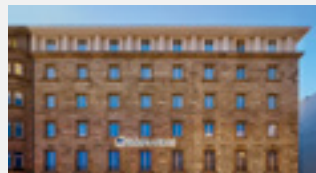
Park Plaza Victoria London
Adjacent to Victoria Station



Park Plaza Victoria Amsterdam
Opposite Amsterdam Centraal Station



art'otel amsterdam
Opposite Amsterdam Centraal Station



Park Plaza Nuremberg
Opposite Nuremberg's main railway station



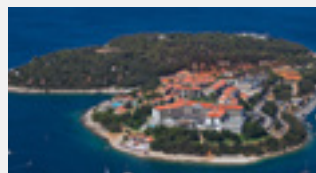
art'otel cologne
Located in the attractive Rheinauhafen area



Park Plaza Amsterdam Airport
Close proximity to Amsterdam Airport Schiphol



Park Plaza Belvedere Medulin
Iconic leisure and sports hotel



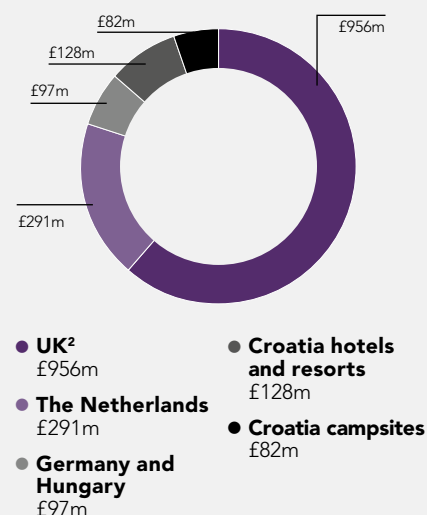
Park Plaza Histria Pula
Dramatic beachfront setting



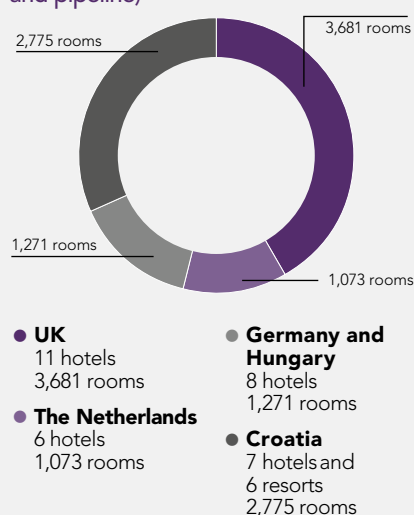
Arena One 99
Croatia's first all-glamping offering

A diversified portfolio of operating assets

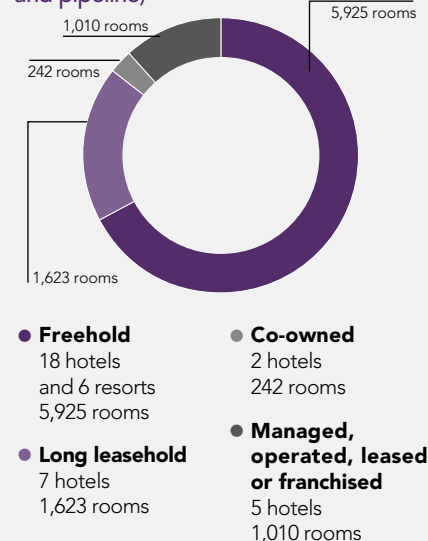
Value split by geography¹



Hotels and resorts by geography (Includes franchises, excludes campsites and pipeline)



Hotels and resorts by ownership type (Includes franchises, excludes campsites and pipeline)



Independent operator with brand flexibility and access to global brands and distribution

Within PPHE Hotel Group we are able to select the right brand to complement the value we create for our assets. We have an exclusive and perpetual licence with Radisson Hotel Group to operate the contemporary Park Plaza brand in Europe, the Middle East and Africa which complements our boutique lifestyle brand art'otel and the locally targeted Arena Campsites and Arena Hotels & Apartments brands.



Radisson Hotel Group

Radisson Hotel Group is one of the world's largest and most dynamic hotel groups with eight distinctive hotel brands with more than 1,400 hotels in destinations around the world. The portfolio of hotel brands includes: Radisson Collection™, Radisson Blu®, Radisson®, Radisson RED®, Park Plaza®, Park Inn® by Radisson, Country Inn & Suites® by Radisson and prizeotel.



Central reservation and distribution system



Powerful online and mobile platforms



Radisson Rewards™ programme with 20+ million members



Global sales, marketing and buying power

Park Plaza

An upscale and upper upscale, contemporary hotel brand featuring individually designed hotels in vibrant city centre locations and select resort destinations. Park Plaza is renowned for creating memorable moments through its inspiring service, stylish guestrooms and versatile meeting facilities which are perfectly complemented by award-winning restaurants and bars.

Our portfolio of vibrant city-centre hotels and tranquil beachside resorts in Croatia already presents a wide choice of locations and accommodation yet we are committed, with our partner Radisson Hotel Group, to bringing Park Plaza® Hotels & Resorts to even more locations.

art'otel®

art'otel® is a lifestyle collection of hotels that fuse exceptional architectural style with art-inspired interiors, located in cosmopolitan centres across Europe.

At the brand's core is the art itself. Each hotel displays a collection of original works designed or acquired specifically for each art'otel®, rendering each location a unique art gallery in its own right. art'otel has created a niche for itself in the hotel world, differentiating it from traditional hotels.

Art and culture are ingrained in every aspect of the art'otel® brand, with knowledgeable and passionate team members sharing their enthusiasm while simultaneously delivering world-class service.

art'otel® has two exciting new developments in London, with one hotel set to open in Hoxton and one as part of the Battersea Power Station development. Signature artists for both of these developments are yet to be selected.

Arena Hospitality Group

In Croatia, our subsidiary Arena Hospitality Group (Arena) is one of the most dynamic hospitality groups in central and eastern Europe.

Arena Hotels & Apartments

A collection of hotels and self-catering apartment complexes offering relaxed and comfortable accommodation within beachfront locations across the historical settings of Pula and Medulin in Istria, Croatia.

Arena Campsites

Situated within close proximity of the historical towns of Pula and Medulin, each laidback campsite provides guests with the opportunity to experience Istria's areas of natural beauty and outdoor activities from April to October. Each campsite provides a different offering, with 2018 having seen the opening of a luxury 'glamping' campsite.

¹ The fair values were determined on the basis of independent external valuations prepared in the summer of 2018.

² Excluding development site in Hoxton (London).

President & Chief Executive Officer's statement

Our results in 2018 coupled with our strategic progress once again reflect the strength of our business model, the appeal of our portfolio and our rigorous focus on performance.



**CREATING
A
STRONG
LEGACY**

Our business model is focused on real estate ownership and development and international hospitality operations, aimed at continuing to create value for all our stakeholders.

We do this by optimising the value of our existing portfolio, extracting value to fund further long-term sustainable growth, whilst consistently refreshing guest experiences across our properties, maintaining high operational margins and leveraging our scale and operational synergies.

A snapshot of 2018

Key 2018 investment projects

2018 was a year of significant investment in our hospitality assets. In total, we invested more than £60 million in our portfolio during the year. We completed a multi-million-pound repositioning programme at Park Plaza Victoria Amsterdam, our iconic hotel in the centre of Amsterdam, and an extensive programme at Park Plaza London Riverbank to transform the property into a 646-room hotel on London's South Bank. We also undertook several renovation programmes to enhance our guest offer. We opened our first all-glamping campsite in Croatia, Arena One 99, which followed a multi-million-pound investment programme to completely transform an existing campsite.

We made further progress with our development pipeline, acquiring full ownership of the development site for art'otel london hoxton in the first quarter. This is an exciting project which will bring the art'otel lifestyle brand to an area of London which is undergoing regeneration. Preliminary construction works have commenced. The hotel is expected to open in 2022.

Our ongoing investment in our property portfolio gives us the confidence that we can offer all our customers an exceptional experience, whether they are staying at one of our hotels, campsites or resorts, enjoying a meal or drinks in one of our many restaurants and bars, relaxing in one of our spas or attending a function in one of our meeting and conference rooms.

Results

We are pleased to report strong results for 2018. We delivered year-on-year revenue and profit growth despite having five hotels partly or fully closed for major repositioning and refurbishment projects during the year as we benefited from improved trading across all operating regions and the first full-year contributions of Park Plaza London Waterloo and Park Plaza London Park Royal, which have continued to mature since fully opening in 2017. In addition, the results benefited from the reinstatement of full room inventory at Park Plaza Victoria Amsterdam in the summer, following a significant investment programme. Like-for-like total revenue was up by 6.0% and EBITDA was up 5.6%.

Over the summer, our property assets were independently valued by Savills at £1.6 billion. For the first time, we disclosed certain EPRA performance measurements which, taken with our key operational metrics, help investors to analyse and better understand the performance of our property assets. EPRA NAV per share was up 2.3% at £24.57 per share as at 31 December 2018, after dividend payments of 29 pence per share relating to the 2017 final dividend of 13 pence per share and 2018 interim dividend of 16 pence per share. The adjusted EPRA Earnings per share (for the 12 months ending 31 December 2018) were up 10.6% to 115 pence per share. We will undertake a revaluation exercise on our property assets on an annual basis. Full details of the financial performance are set out in the Financial Review on page 48.

Corporate activity

We reached another significant corporate milestone in our journey as a publicly listed company, with the transfer of our ordinary shares to the Premium Listing segment of the FCA's Official List. This move will support our continued growth, raise our profile and potentially facilitate our inclusion in the FTSE Indices. We are already experiencing the benefits of this move, as we explore the opportunities to engage with a wider potential investor base and improve liquidity. The Company is in discussions with certain of its major shareholders with a view to increasing the Company's free float, with the ultimate goal of achieving the free float required for the Company to qualify for FTSE index inclusion.

In the second quarter, we exited a loss-making lease agreement in Dresden, Germany which is expected to have a positive impact on the Group's EBITDA going forward.



President & Chief Executive Officer's statement continued

Our purpose

We create valuable memories for our guests and value for our assets.

Our two-pillar integrated owner/operator business model enables us to drive significant returns by transforming hospitality real estate potential into value and profits through developing, owning and operating those assets. By continuously investing in our existing portfolio we maintain the quality of our properties which adds value to our assets, inspires our team members, and enables us to delight our guests every day through inspirational service and quality products in attractive locations.



Our key sources of value come from our:

- Prime real estate portfolio located in central urban and beachfront resort locations;
- Passionate and well-trained team members, inspired by our leadership team;
- Multi-brand approach through which we license, create and drive various international brands which create value in experience, recognition and asset growth;
- International network and our long-term partnership with Radisson Hotel Group, which gives us access to its central reservation and distribution systems, powerful online and mobile platforms, global sales, reward programmes with more than 20 million members, marketing initiatives and buying power; and
- Financial strength, expertise and track record.

Unlike most hospitality businesses, we own the majority of our property portfolio, giving us greater control over our investment strategy, the quality of our property portfolio and operations. Most of these prime assets are centrally located in attractive growth markets, primarily major gateway cities across Europe.



There are four steps to our approach to transforming hospitality real estate potential into value and profits, we:

- Purchase land and buildings which typically have significant upside potential;
- Develop, re-develop and renovate our owned and acquired assets, drawing on the expertise of our experienced leadership team;
- Improve operating performance by striving for operational excellence and creating significant value at every point in the value chain; and
- Refinance our portfolio and release capital to fund new investments, facilitating the growth of our Group.

Our approach enables us to rapidly adapt to the ever-changing hospitality sector environment. In turn this creates considerable value for all our stakeholders.

Our growth strategy

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.

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

As well as repositioning and renovating existing properties, our pipeline includes two new hotels in London, which are expected to add approximately a further 500 rooms to the portfolio by the end of 2022.

In addition, 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. The Company is currently in advanced negotiations around entering into a joint venture for the purchase of a site in New York, on which the Company plans to develop a mixed used scheme, including a 100 key hotel.

In 2018 we identified a substantial number of opportunities for new assets in key cities and resort locations at an international level. We are disciplined when 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. From the new opportunity assets we identified, we went on to evaluate 145 opportunities of which we submitted proposals for approximately 10%.

**“WE ARE
CONSTANTLY
INNOVATIVE.
WE ARE ALWAYS
LOOKING FOR NEW
WAYS TO CREATE
VALUE FOR OUR
STAKEHOLDERS
AND PROPERTIES.”**

Further details of the investment programmes and development pipeline are set out in the Financial review and Business Review on pages 48–74.

An update on progress in the period is detailed in the Financial Review on pages 48–57.

Inspiring our guests

Today's guests expect experiences. We are passionate about creating and delivering unique hospitality experiences in vibrant destinations, whether guests are staying at one of our properties or simply visiting our many restaurants, bars or other facilities.

We aim to create valuable memories for our customers by delighting them every day with beautiful venues and operational excellence.

We are committed to providing exceptional service quality and were delighted that our most recent online reputation score (as measured using ReviewPro's Guest Rating Score) shows that our hard work is paying off. Overall, our online reputation score increased from 85.2% in 2016 (when several repositioning programmes commenced) to 87.3% in 2018. Within this, newly renovated hotels all show an increase in their Guest Rating Score with Park Plaza Victoria Amsterdam up 7.8% and Park Plaza London Riverbank up 6.2% compared to 2016.

Creating centres of excellence

In 2018, several of our restaurants were recognised with a number of accolades, including Time Out Love London Awards for Most Loved Local Music Venue for Primo Bar (at Park Plaza Westminster Bridge London) and Most Loved Local Restaurant for both Chino Latino (at Park Plaza London Riverbank) and Florentine (at Park Plaza London Waterloo).

We now in-source housekeeping services at our UK hotels both to ensure the highest levels of service are met and to provide control over attracting, developing and retaining people in this part of the business. This initiative offers our team members job security, training, career progression and personal development and all the benefits one would expect as a team member of an international hospitality business.

In 2018, we introduced an online energy monitoring tool and the intention is to roll this initiative out across the Group. The benefits are not only commercial but allow us to reduce our carbon footprint.

Developing our people

Our people are at the heart of our business, whether they are managing our hospitality assets or delivering consistent operational excellence across our portfolio.

We are proud to create a high performing culture where engaged team members deliver best in class operations through consistent service delivery.

The Group employs more than 4,100 team members of over 30 different nationalities. Our investment in our team members is reflected in the results of our annual employee survey, which measures engagement levels. In 2018, 93% of eligible team members completed the survey and we are delighted that the engagement index score for the year was 83.6%.

President & Chief Executive Officer's statement continued**Park Plaza Victoria Amsterdam**

In the second half of 2018 we relaunched our Park Plaza Victoria Amsterdam property after a multi-million-pound investment.

Q&A with Boris Ivesha**Q – Why did PPHE Hotel Group start to present property performance indicators?**

We have always had two pillars to our business model: real estate ownership and development and hotel operations. Unusually in today's hospitality industry, we own the vast majority of our properties and manage/lease/franchise the remainder. In the summer of 2018, our portfolio was independently valued at £1.6 billion, which represents an EPRA NAV per share of 24.57 as at December 2018.

We have a proven track record in generating strong returns to shareholders, through both dividend distributions and return on investments. In 2018 we further demonstrated this. For example, we expect Park Plaza Victoria Amsterdam to generate a double digit return on investment following the completion of our multi-million-pound repositioning programme. Our total dividend for 2018 saw an increase of 46% compared with 2017.

We are hoteliers at heart and the operating side of PPHE's business model is as equally important as our property side in terms of priorities and business objectives. Our approach is highly collaborative, enabling us to achieve a greater level of control in our operations and investment approach, and helps us to achieve our KPIs throughout the year.

Q – Looking back at 2018, which key milestone are you most proud of?

On 28 June 2018, we were delighted to announce the transfer of the Company's ordinary shares to the Premium Listing segment of the Main Market of the London Stock Exchange Group.

This move created several benefits for shareholders and has enabled the Company to access a wider international investor audience. This was a key milestone for PPHE.

2018 has been another year of significant investment in our portfolio which continues to be a priority to the business and stakeholders as well as to myself and Eli Papouchado, our Chairman. Over the last three years, we have invested significantly in repositioning and redevelopment projects to upgrade the quality of our assets and improve the experience of our guests. In 2018, major projects were completed at Park Plaza London Riverbank and Park Plaza Victoria Amsterdam and looking ahead, we will remain focused on continuing to invest in our portfolio, alongside the development of the owned and managed art'otel london hoxton.

Q – Why do you refer to certain tasks as repositioning projects, as opposed to renovation projects?

Repositioning projects are major investment programmes. They reconfigure and renovate a property, creating a new identity which capitalises on changes in the property's area, targets a different audience and improves the experience the property offers our customers. In turn, this drives a step change in performance.

In contrast, standard renovation projects maintain and evolve our offer through redecoration and new soft furnishings.

All investment projects are focused on creating an appealing product as well as excellent service levels. This is why we continue to see such high levels of guest satisfaction and investment returns.

Q – What do you see as the biggest opportunities for PPHE and the hospitality industry in 2019?

Our people will always remain pivotal to the success of the business. From investment and creative framework planning, through service level and talent management training, to reward and recognition, our talent makes us who we are today.

With the launch of our new 'Accommodation Services' business unit in the United Kingdom earlier this year, we have ensured that all agency housekeeping team members are now fully integrated into the permanent PPHE operational team structure. I am confident that this change will improve our ability to attract team members and create a secure working environment for our workers. This new business unit creates an opportunity to leverage greater control and aids us in recruiting, retaining and growing our own talent while improving our guest experience.

The hospitality sector is dedicating a great deal of resources and investment to communicating the merits of working in the hospitality sector. Through its engagement and awareness campaigns, I see an opportunity for the next generation of team members to recognise hospitality as an attractive career to work in.

With my strengthened leadership team in place, including Daniel Kos as Executive Director and Chief Financial Officer and Greg Hegarty as our recently appointed Chief Operating Officer, I am confident that PPHE is in a strong position to provide attractive returns, strong cash flow generation and long-term capital appreciation.

“WE ARE PROUD TO CREATE A HIGH PERFORMING CULTURE TO DELIVER BEST IN CLASS OPERATIONS”



Leadership site visit

On location at Park Plaza Victoria Amsterdam whilst under renovation.

Like others operating in the hospitality sector, having a highly engaged workforce and attracting and retaining the right people is a key priority for us and crucial to our success. To this end, we have various initiatives in place to support our team's career development, to ensure we offer exceptional service to our customers and become a leading employer of choice. These initiatives include our award-winning Learning and Development programme, you:niversity.

We work with schools, colleges, key recruitment organisations and charities to support and encourage young people into careers in the hospitality sector and offer a variety of apprenticeships during the year.

Our work in this area was acknowledged when we won the Excellence in Promoting Careers award at the 2018 HR in Hospitality Awards for Excellence 2018.

Being part of our communities

We are committed to making a positive impact in the local communities in which we operate and ensuring that our operations are both ethical and sustainable. We foster positive relationships through job creation, the guest experience we deliver, as well as by fundraising and volunteering partnership activities to support the local community.

In 2018 we supported two charitable initiatives across all properties at an international level: THINK PINK!, a group-wide awareness campaign to support Breast Cancer Awareness Month, and 'Save tomorrow's trees today', supporting World Childhood Foundation and Nottinghamshire Wildlife Trust. In addition to Group-wide initiatives; charity, local community and volunteering projects took place in all our operating regions.

Outside of the financial contributions we make to our local communities via charity initiatives and fundraising, we work with a number of local organisations on a benefit basis. One example is

this year we have hosted and supported the International Sound & Film Music Festival held at Park Plaza Histria Pula. The ISFMS festival focuses on the promotion of film sound and music as well as education and each year offers a programme composed of lectures, panels and workshops with international guests, music professionals from around the world. This year, for the first time in Croatia, European Camille Awards for the best film composers were awarded at the festival.

Global marketing capabilities

We have a multi-brand approach to our hospitality property portfolio which is a key driver of value for the Group. This enables us to develop and operate properties across several segments of the hospitality market, and to choose the most appropriate brand for each one in order to maximise returns from our hospitality assets.

The Group has an exclusive perpetual licence from the Radisson Hotel Group, one of the world's largest hotel groups, to develop and operate Park Plaza® branded hotels and resorts in Europe, the Middle East and Africa. This strategic partnership gives us many benefits, including access to its central reservation and distribution systems, powerful online and mobile platforms, global sales, reward programmes with more than 20 million members, marketing initiatives and buying power.

In addition, we own the art'otel® lifestyle brand (whose properties we also market through the partnership with the Radisson Hotel Group) and our majority-owned Croatian subsidiary operates several of its properties under the Arena Hotels & Apartments® and Arena Campsites® brands, both of which were created and launched in 2018. Arena One 99 opened in summer 2018 and Arena Hotel Holiday is the first property to be marketed under the Arena Hotels & Apartments brand.



President & Chief Executive Officer's statement continued



Our talented leadership team

Our Executive Leadership Team, which includes Daniel Kos, Executive Director and Chief Financial Officer, comprises highly talented professionals with extensive experience and a strong track record of success across the hospitality real estate industry. Each member has worked for PPHE Hotel Group for at least eight years, while several have progressed through the business, demonstrating our long-standing commitment to providing career paths for the development of our future leaders.

Greg Hegarty was appointed Chief Operating Officer in November 2018. Greg has more than 22 years' hospitality experience and has worked at PPHE Hotel Group for more than ten years. He has previously held other senior roles in the business. He now has overall responsibility for delivery of the Group's commercial and operational strategy.

Robert Henke was appointed Executive Vice President Commercial & Corporate Affairs, with responsibility for overseeing all the commercial activities, investor relations, Responsible Business strategy, brand development and management of the Group's strategic partnership with Radisson Hotel Group. Robert joined in 2001, initially developing and leading our central marketing, branding and ecommerce operations.

Jaklien van Sterkenburg continues in her role of Executive Vice President People & Culture | Head of HR to ensure we remain well-placed to attract, engage and retain team members. With more than 20 years of service, she is instrumental in driving our award-winning Learning and Development programmes and talent development and retention initiatives.

Inbar Zilberman continues to lead the Group's multi-jurisdictional legal, corporate governance, insurance, regulatory compliance and corporate finance activities. Inbar was appointed as General Counsel in 2010 and is a key member of the Leadership Team.

Daniel Pedreschi was promoted to Regional General Manager, UK, the largest region in which we operate. Daniel has more than 20 years' experience in the industry; prior to his promotion he was General Manager of Park Plaza Westminster Bridge London.

Nieske van Klinken-Riezebos, Regional General Manager in the Netherlands has more than 25 years' experience in the hospitality industry and is responsible for the operational and commercial success of the six hotels across the region.



From left to right:

- 1/Nieske van Klinken-Riezebos**
Regional General Manager
the Netherlands
- 2/Robert Henke**
Executive Vice President
Commercial & Corporate Affairs
- 3/Greg Hegarty**
Chief Operating Officer
- 4/Daniel Kos**
Chief Financial Officer &
Executive Director
- 5/Inbar Zilberman**
General Counsel
- 6/Jaklien van Sterkenburg**
Executive Vice President People
& Culture|Head of HR
- 7/Daniel Pedreschi**
Regional General Manager,
the United Kingdom

Our team members

I would like to personally thank each of our team members for their hard work, which brings life to the strategic and operational goals of the Company, during the year.

We are sincerely grateful for your commitment, professionalism and enthusiasm.

Current trading and outlook

Trading in 2019 has started well and is in line with the Board's expectations. As the year progresses, we expect to capitalise further on the benefits of the repositioning and redevelopment investment programmes completed in 2018.

The economic and political conditions inevitably bring a level of business uncertainty, notably the UK's impending departure from the EU which we are monitoring closely. Where possible, we have put precautionary measures in place, so we can take immediate action if required including, but not limited to, a supply chain perspective to ensure we can continue to provide our customers and guests with an excellent experience.

In addition, over the last couple of years we have refinanced our portfolio with fixed interest rate loans with a ten year duration so that we have appropriate funding in place to mitigate any cost pressures.

In the year ahead, we will remain focused on investing in our portfolio and continuing to transform and reposition some of our prime properties in London, Amsterdam and Croatia to enhance the guest experience we offer, while delivering attractive and consistent cash returns for investors.

I am confident that PPHE Hotel Group can continue to create and deliver strong stakeholder value this year and beyond.

Boris Ivesha
President & Chief Executive Officer

Our markets

European travel

We transform hospitality real estate potential into value and profits through identifying and creating development opportunities, primarily within European prime locations including London, Amsterdam, Berlin and Istria, Croatia.

With Europe cited as the largest global tourism market¹, we see major opportunities for further development across the continent in 2019 and beyond. We do this by acquiring properties which we believe have a significant upside potential and are prime assets within close proximity to major demand generators within leading European capital cities, urban markets and resort destinations.

STR Market forecast for 2019 (as of November 2018 release):

Berlin

€79
RevPAR

102
ADR

77%
Occupancy

Amsterdam

€126
RevPAR

155
ADR

81%
Occupancy

London

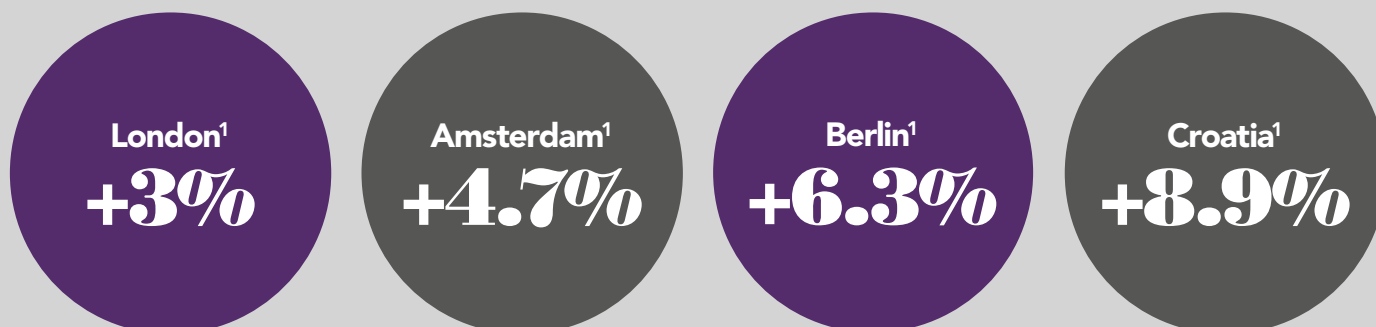
£125
RevPAR

152
ADR

82%
Occupancy

Source: STR

STR Global Actual RevPAR Growth 2018 over 2017:



¹ RevPAR growth is actualised and is a like-for-like comparison. Percentage increase for London in GBP, Amsterdam and Berlin in Euros and Croatia in Kuna.

EUROPEAN WORKER RETENTION AND ATTRACTION



During 2018 there has been an increase in demand for skilled hospitality workers across our European operating regions. Notably, within the UK market which in part has been attributed to the decision by the UK to withdraw from the EU. This has put pressure on recruitment and retention, particularly in housekeeping and food service. Businesses must plan for all outcomes.

2018 initiatives

- Launch of Accommodation Services in 2018, a UK business unit which has enabled us to promote from within and in-source housekeeping to provide long-term stability for our team members and business
- Introduction of Rosetta Stone language course across all regions to develop language skills to ensure that staff understand the key languages of our guests
- Launch of the Apprenticeship programme to meet increasing demand for skilled workers in the sector

DIGITALISATION



2018 has continued to be a year for companies tailoring the guest experience to the expectation of the digital traveller. Brands have needed to demonstrate agility and flexibility in their technology offering and how its products are marketed through online channels.

2018 initiatives

- WiFi improvement across the portfolio
- In-room entertainment enhancement
- Collaboration with Radisson Hotel Group to introduce new brand website platform (anticipated 2019 launch)
- Increase in our collaboration with our online travel agent partners which enables our properties to be featured in a wider distribution net – e.g. Radisson Hotel Group's new partnership agreement in 2018 with Ctrip.com provides further access to Asia Pacific markets

THE CUSTOMER IS ALWAYS RIGHT

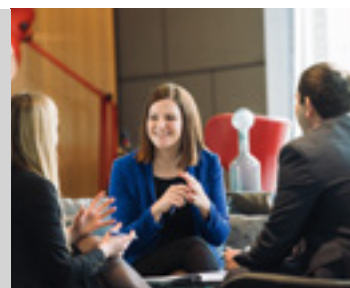


With social media the go-to feedback, research and peer-to-peer review channel, brands have had to adapt their online behaviour to focus on social media as the first port of call to respond to queries while proactively driving buying decisions and affecting guest behaviour. How can international brands ensure that they remain at the forefront of customer service?

2018 initiatives

- A new partnership with ReviewPro was launched in 2018 to manage PPHE's Online Reputation Management and Guest Satisfaction in one centralised platform
- PPHE's senior management structure saw two new areas of responsibility created within the commercial function, focusing on Guest and Customer Experience – a range of new initiatives will be planned in 2019

GROWING SUPPLY



With European cities continuing to be of major interest to developers and new room options including homeshare businesses such as Airbnb, guests continue to be presented with a wide range of lodging and hotel options. For hospitality companies and especially those with a strong European presence, that means competition increases.

2018 initiatives

- We continue to investigate ways to attract and retain guests in London's South Bank area including the introduction of additional rooms and facilities in 2018 to ensure our properties are constantly of a high standard in a competitive market
- We invested heavily in our renovation and repositioning pipeline in 2018 and for example introduced newly repositioned products at Park Plaza Victoria Amsterdam and Park Plaza London Riverbank and progressed works at Park Plaza Vondelpark, Amsterdam and Park Plaza Sherlock Holmes London

Our business model and priorities

Transforming hospitality real estate potential into value and profits

Our purpose

Our purpose is to create valuable memories for our guests and value for our assets.

What we do

We recognise and develop opportunities to reach full potential. We delight our guests every day, through engaging service and quality products in inviting places.

How we do it

By valuing team members ('creators'), and by continuously investing in opportunities and our portfolio, which is designed and maintained with passion.

Key sources of value

Prime property portfolio

Our people

Multi-brand approach

International network

Financial strength

Our business model

Our integrated model has driven significant value.



1 We purchase properties

We typically acquire properties which we believe have significant upside potential

2 We develop properties

We (re)develop and redesign our acquired assets, drawing on the skills of our experienced senior management team, with specialists in every relevant discipline

3 We improve operating performance

We strive for operational excellence, creating significant value at every point in the value chain

4 We refinance our portfolio and fund new investments

Through refinancing our properties, we are able to release capital for new investments, enabling the further growth of our Group

Strategic agenda

We have a clear strategy to drive growth and long-term value.

Property

Disciplined, yield focused capital deployment

Optimise the value of the existing portfolio

Extract value from portfolio to fund further growth

Long-term sustainability

Operations

Consistently deliver the refreshed intended guest experience across our properties

Maintain high operating margins

Leverage our scale and inter-regional synergies

Underpinned by our people, values and culture

The Group's leadership culture is one of connecting, inspiring, innovating and empowering and we foster an environment based on:

Strategic priorities

Our focused approach will ensure that we deliver on our strategy.

Property

Deliver all ongoing projects and expand pipeline

Deploy capital in projects and new properties meeting our yield profile

Mature recent openings and repositioned and renovated properties to generate targeted yield profile

Implement target-based sustainable business strategy 'Responsible Experiences'

Operations

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

Improve the overall guest experience through creating valuable memories

Focus on total revenue generation with solid profit conversion

Implement target-based sustainable business strategy 'Responsible Experiences'

Performance management

Our KPIs and targets.

Property

EPRA NAV

EPRA EPS

Net investment yield

Net return on shareholder capital

Operations

EBITDA and EBITDA margin

RevPAR

Employee engagement

Guest Rating Score (GRS™)

The value we create for our stakeholders

Investors

Our shareholders benefit from the attractive industry dynamics of the markets in which we operate as well as our flexible business model, developments and operating skills, in the form of progressive dividend payments

Team members

We offer rewarding international employment opportunities for over 4,100+ team members with continuous investment in training programmes

Customers

We offer unique hospitality experiences in vibrant destinations with our high quality products and services

Suppliers

As an owner/operator, long-term sustainability and ethical operations are high on our agenda including supply chain management and the development of long-term relationships with strategic partners, many of whom are local

Communities

We care about our neighbourhoods and make positive contributions to our local communities and the people who work and/or live there through fundraising activities, employment opportunities, volunteering and local resourcing partnerships and charities



Trust



Respect



Teamwork



Enthusiasm



Commitment



Care



EXPERIENCE AMSTERDAM

Read more – See pages 24–27

A NEW SOUTH BANK

Read more – See pages 28–31

GLAMPING'S NEW WAVE

Read more – See pages 32–35

MADE IN SHOREDITCH

Read more – See pages 36–39



CREATING THE BEST OF AMSTERDAM

Our business model in action



As a hospitality real estate group, our purpose is to create value for our property assets through creating valuable memories for our guests that inspire them to return. Whenever we acquire a new site, we look beyond the horizon to imagine the future. By developing unique concepts and properties, we create consistent returns for our investors.



EXPERIENCE AMSTERDAM

• Park Plaza Victoria Amsterdam



art'otel amsterdam



Creating destinations: Our business model in action continued

EXPERIENCE AMSTERDAM

Amsterdam is the most attractive hotel investment destination in Europe, according to Deloitte's 2018 European Hotel Investment Survey. It comes as no surprise, then that PPHE Hotel Group decided to focus on repositioning perhaps Amsterdam's most widely known property: Park Plaza Victoria Amsterdam.



Park Plaza Victoria Amsterdam reigns as the Dutch region's repositioning project of 2018

Originally opened in 1880, Park Plaza Victoria Amsterdam was named after the then Queen Victoria and soon became known as 'the' hotel to be seen in. Hosting some of the world's most iconic celebrities, including Louis Armstrong and Mata Hari, the glamorous hotel, situated opposite Amsterdam's Centraal Station and at the centre of the city's shopping and dining district, became the catwalk venue

of choice for many international designers, including Christian Dior and Nina Ricci to name but two.

Having owned and operated the property since 1993, we identified an opportunity to significantly re-create and transform the design and product within Park Plaza Victoria Amsterdam to allow the hotel to continue operating in the successful footsteps of previous trading years. Plans were plentiful and construction began with a design brief to complement the hotel's fashionable history and in line with



the progressive stylish interiors of the latest Park Plaza properties in London and Nuremberg, while respecting and retaining the historical architecture and long-standing charm.

Exuding sophistication and elegance, the hotel was relaunched in September 2018, showcasing 298 redesigned guestrooms and meeting rooms. A new bar, VIC's BAR, and destination restaurant, Carstens, a Dutch brasserie concept by Maik Kuijpers, opened in February 2019.

The opening event in September was a nod to the fashionable history of the hotel and a collaboration with Amsterdam Fashion Week which generated footfall from well-known influencers, multiple glossy media spreads and ongoing international and local media trips.

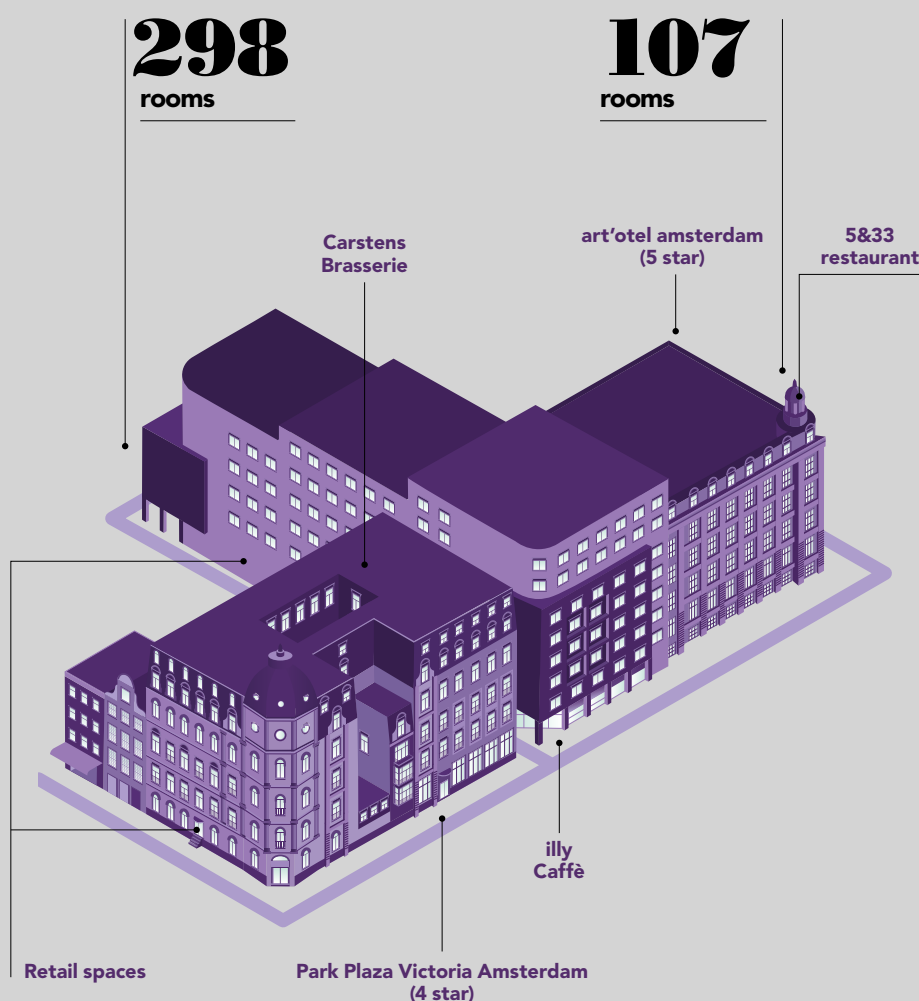
We are on track to see a 10% return on our original investment of £20 million which we expect to see towards the end of 2019. Guest feedback has been outstanding with a Guest Rating Score (GRS™) of 88.6% in 2018 – representing a 3.1% increase from 2017 and a 7.8% increase from 2016 when the repositioning programme commenced.

How we build value

Keeping our vision up to date

At a glance

- Repositioned hotel completed 2018
- All rooms refurbished in 2018
- New meeting rooms
- New reception area, bar and lounge
- New Carstens Brasserie opened February 2019
- Amsterdam Fashion Week Partnership for launch event theme
- WeAreAmsterdam marketing campaign promoting Park Plaza Victoria Amsterdam and art'otel amsterdam's unique offering



AW SOUTHBANK



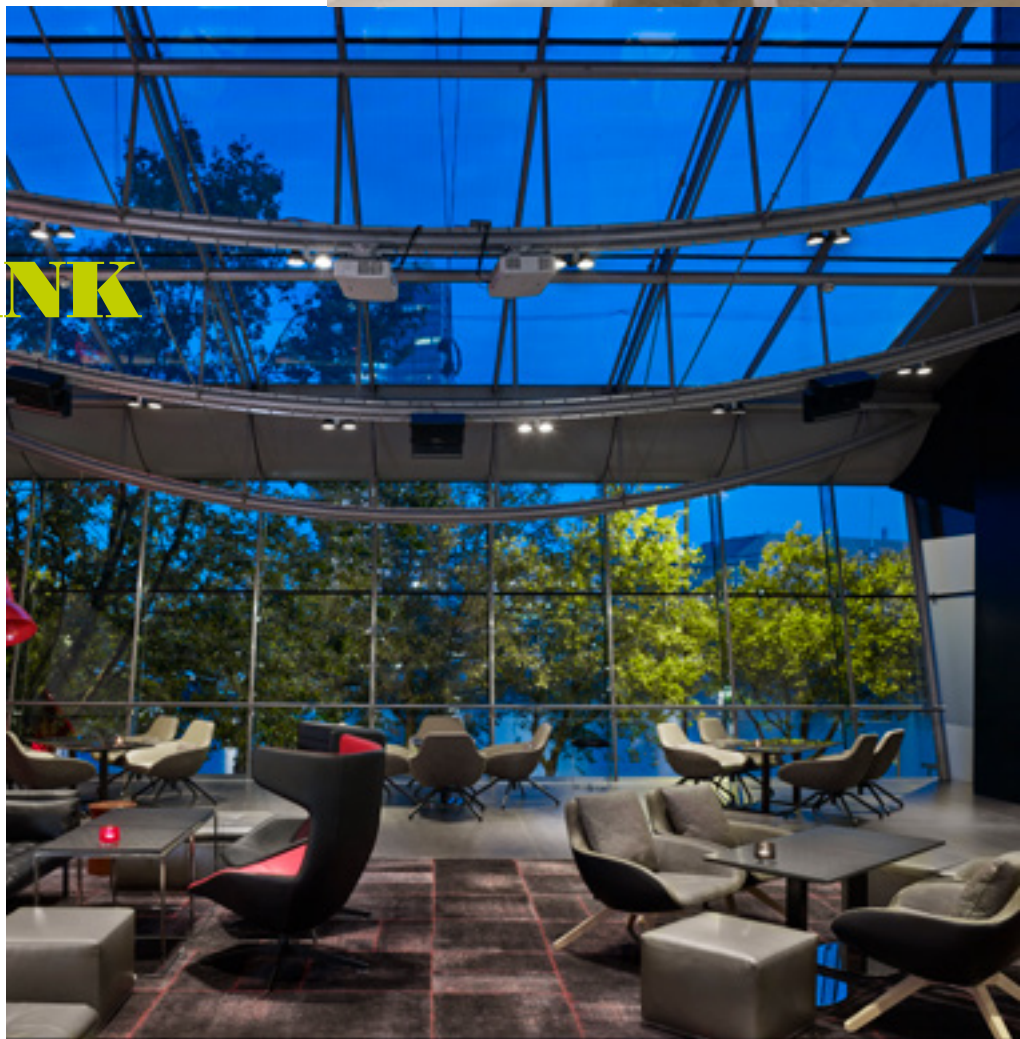
— Park Plaza London Riverbank



Creating destinations continued

A NEW SOUTH BANK

London's South Bank is an area vibrant with culture, regeneration and business and has something for everyone; whether you are hosting a conference or visiting the world-famous London Eye, London Dungeons or National Theatre. PPHE Hotel Group spotted an opportunity to be one of the first international hotel developers in the area and opened the now internationally recognised Park Plaza Westminster Bridge London in 2010. 2018 has been a further year of growth in the South Bank area for the Group.



Park Plaza London Riverbank shines as the UK repositioning star for 2018

South Bank was chosen as the site of the Festival of Britain in 1951. The new millennium saw the arrival of possibly one of London's most iconic attractions: the London Eye.

Park Plaza London Riverbank first opened its doors on the South Bank in April 2005. Situated on the banks of the River Thames overlooking Tate Britain, it became a firm favourite with tourists, meeting delegates

and corporate bookers alike. Its proximity to the Victoria Tube line (Vauxhall Station) and ten-minute walk to Westminster and the surrounding cultural buzz of the South Bank saw it earmarked by us in 2016 for a repositioning project.

Now fully completed, the hotel's repositioning programme included the creation of an additional seven floors of accommodation, reconfiguration of existing rooms, new meeting rooms, a new location for the award-winning Chino Latino restaurant, a 12th floor Executive Lounge and the addition of a spa with indoor swimming pool.



The South Bank itself continues to grow, with Waterloo Station set to increase by 30 million passengers to 130 million a year over the next five years, plus the redevelopment of Elizabeth House – a nearby 1960s office building – delivering world-class new office space supporting an additional 13,000 jobs.

Continued investment is going into the South Bank's neighbouring boroughs and vicinities: Vauxhall, Nine Elms and Battersea (where art'otel london battersea power station is in the pipeline) are expected to see additional regeneration with more than 18,000 new homes, 22,000 new jobs, a £1 billion extension to the Northern Tube line, improved social infrastructure and 50 acres of new public space.

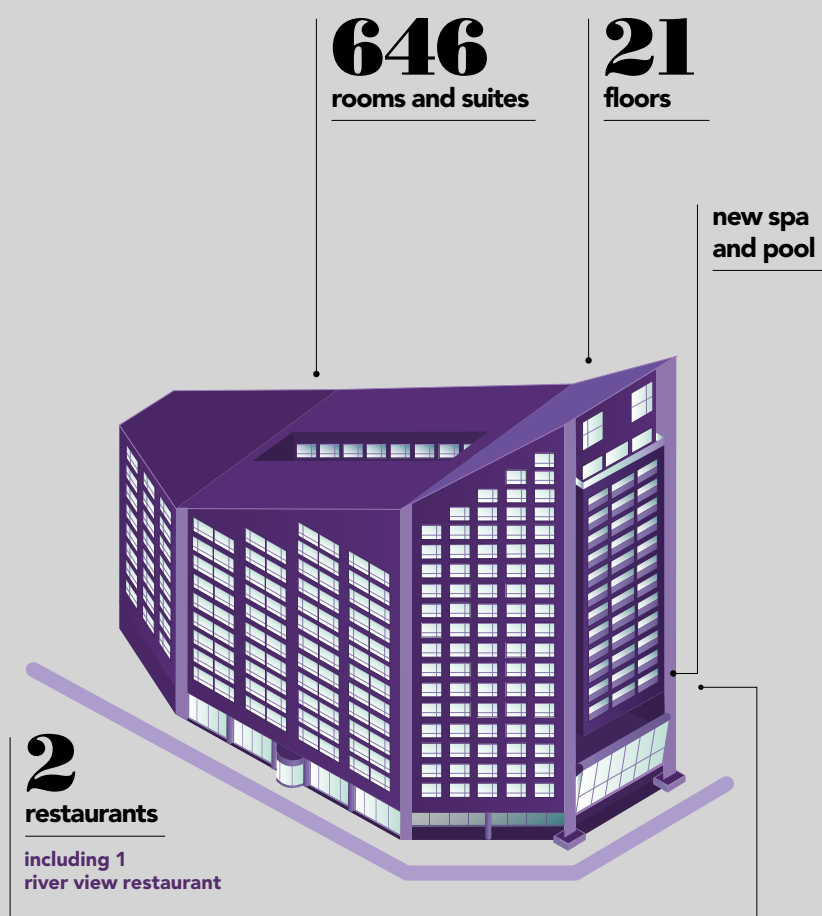
In terms of guest feedback, the hotel reached an impressive 89.2% GRS™ in 2018 – representing an increase of 1.6% from 2017 and 6.2% from 2016 when the repositioning programme commenced.

How we build value

Keeping our vision up to date

At a glance

- Seven floors added to the property
- An additional 185 rooms created
- Indoor swimming pool and Spa added
- Chino Latino Restaurant & Bar located on the first floor
- Executive Lounge with panoramic views



Sources

lambeth.gov.uk/housing/regeneration/vauxhall-nine-elms-battersea-vneb-regeneration-guide
southbanklondon.com/history

CLAMPINGS NEW WAVE

Arena One 99





Creating destinations: Our business model in action continued

GLAMPING'S NEW WAVE

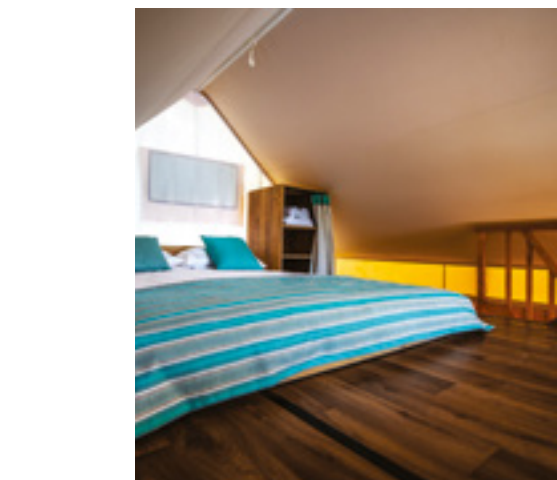
The heart shaped peninsula of Istria in northern Croatia boasts a plentiful number of secluded spots, crystal blue sea and an abundance of sporting facilities for both professionals and tourists. Arena Hospitality Group ('Arena'), in which PPHE Hotel Group has a controlling ownership interest, recognised an opportunity to create Croatia's first all-glamping resort, and so went on to open Arena One 99 in June 2018.

Shining on a successful first season for Croatia's first all-glamping site

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

The site stretches over more than four hectares and is surrounded by nature with the very best facilities, including a private beach, open air wellness area, paddle board yoga, two beach bars and an illy Caffè. Arena One 99 offers tents to sleep up to six people with added luxury levels within the additional categories of Premium two bedroom safari loft tents and Premium three bedroom safari tents. All tents benefit from air conditioning, Wifi, bathroom, televisions and luxurious linen and amenities.

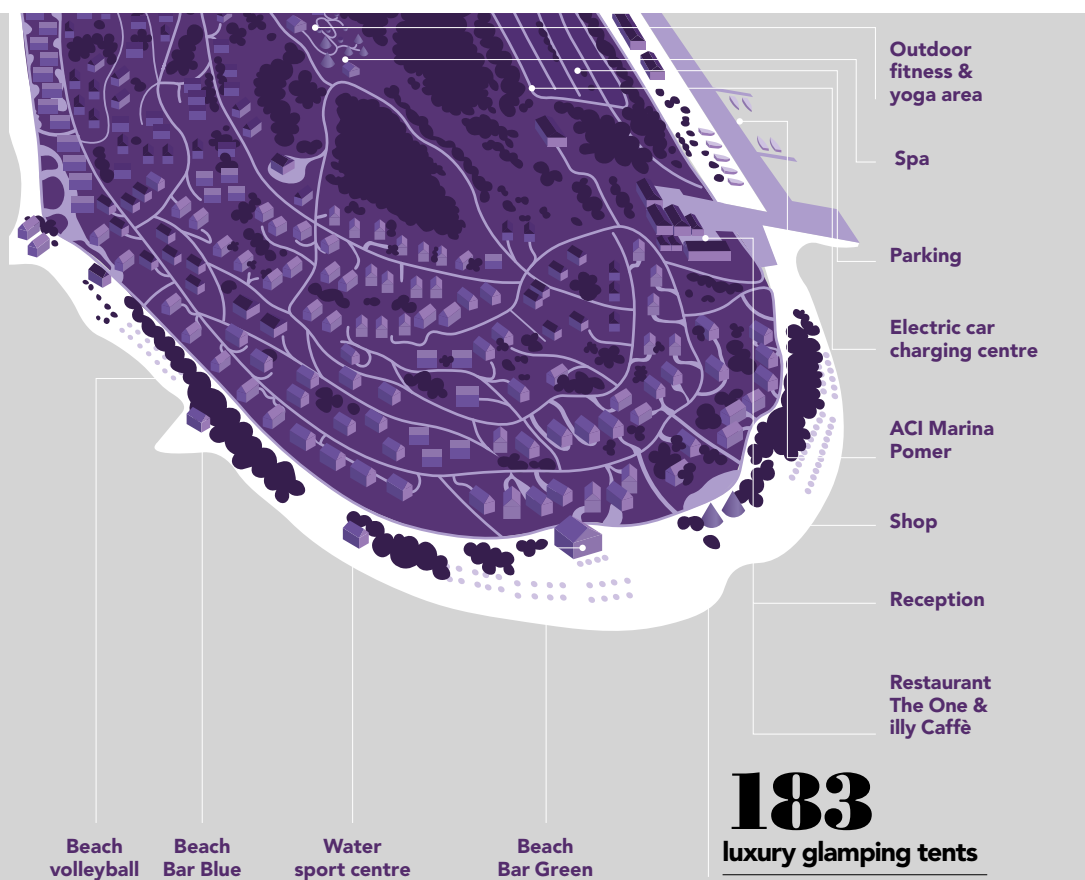
With media flocking to review the site, including international main titles such as the UK Metro, Stylist, The Sun and various titles in its main source market of Germany, it is no wonder that the site had high occupancy during the period it was open. Istria as a region continues to soar in success, with UK visitor numbers alone up by 10% compared with 2017, due in part to the increase



in airlines flying direct to Pula, and also that it is continuing to be seen as a strong alternative to the main European beaches of Italy and Spain and resort holidays in Egypt, Turkey and Tunisia.

In October 2018 Arena One 99 Glamping was awarded Croatian campsite of the year at the Tourist Flower Awards of the Croatian National Tourist Board. The 2018 season also saw an average Google rating of 4.4 out of 5 and an average TripAdvisor rating of 4 out of 5 for the first season. In 2019, Arena One 99 is expected to open mid-April for its first full season operations.





How we build value

Keeping our vision up to date

At a glance

- Complete transformation of campsite
- First all-glamping campsite in Croatia
- 183 glamping tents
- Pedestrian friendly site
- Kids club
- Four restaurants and bars
- 2019 will see the introduction of a new beach area

IN THE MAD HOUSE



ART'OTEL LONDON HOXTON



Creating destinations: Our business model in action continued

MADE IN SHOREDITCH

The first two London theatres were built in Shoreditch – The Theatre and The Curtain Theatre. Shoreditch became the ample home of theatre and tomfoolery as the Lord Mayor prohibited such plays to be performed within the City walls.

art'otel selects the Shoreditch area as one of the first UK destinations to launch the art-centric lifestyle brand

Shoreditch was given an injection of visitor demand around the time of the London 2012 Olympic and Paralympic Games.

Bridging The City, Bethnal Green and Haggerston and situated within the London Borough of Hackney, Shoreditch has historically been described as 'somewhat rough around the edges' but is now recognised as increasingly 'edgy', 'creative' and 'hipster'. As of 2017, 269,000 people live in Hackney, an increase of 33% in 15 years. Shoreditch and its neighbour Hoxton became a clear development contender for us to open our art-inspired lifestyle hotel concept in the UK: art'otel.





The luxury lifestyle art'otel amsterdam opened in October 2013 with a bang. People queued to get a glimpse of the most hotly anticipated opening in Amsterdam that year. The hotel and destination cultural space 5&33, which includes a kitchen, bar, lounge, library and gallery, was the first of its type in the cosmopolitan city and was embraced fully, with the restaurant tables being turned two to three times a night!

It was clear that the art'otel brand was going to be a lifestyle brand to watch.

Fast forward to 2019, Shoreditch is now recognised as the third largest technology start-up cluster following San Francisco and New York City. Shoreditch, aka Silicon Roundabout, is a leading cultivator of the art, fashion, tech and culture scenes – a place to see and be seen.

Demonstrated by the success of the South Bank journey, PPHE Hotel Group, a seasoned discoverer of the next area for regeneration, worked closely with Hackney Council and developers to gain planning permission to introduce a mixed-use scheme offering hotel, restaurant and bar, and potential retail and co-working space. The hotel and concepts will be operated as art'otel with the construction planning process crucial in integrating the local community and businesses, including the then-trading Red Gallery, and being part of Hackney's regeneration and improvement of the site and thus the area itself.

The Company completed an acquisition from its joint venture partner of its 50% interest in the company which owns the site on which art'otel london hoxton is to be developed, on 20 March 2018. As a result we are now in the driving seat when it comes to creating its own construction timetable and pre-opening planning for the site.

Sources

galliardhomes.com/investor-information/investor-guides/guide/20-facts-about-shoreditch
Hackney Borough Council Corporate Plan:
hackney.gov.uk/corporate-plan



art'otel london hoxton development site

Strategy at a glance

Strategic progress for 2018

Property

Strategy	Strategy	Strategy	Strategy
Deliver all ongoing projects and existing pipeline	Deploy capital in projects and new properties meeting our yield profile	Mature recent openings and repositioned and renovated properties to generate a targeted cash return on EPRA NAV	Implement target-based sustainable business strategy 'Responsible Experiences'
Performance in the year <p>We successfully completed our scheduled renovations across Europe, including the repositioning of Park Plaza Victoria Amsterdam and Park Plaza London Riverbank. We also launched Croatia's first all-glamping offering, Arena One 99.</p>	Performance in the year <p>First phase renovation for Park Plaza Victoria London commenced in 2018 with completion expected in H2 2019. Repositioning projects for Park Plaza Vondelpark, Amsterdam, Park Plaza Utrecht, Park Plaza Sherlock Holmes London and Arena Kažela Campsite Medulin commenced in 2018 with all projects expected to be completed in H2 2019. In addition, preliminary construction works commenced on the development of art'otel london hoxton, following the acquisition of the remaining 50% joint venture interest earlier this year. Repositioning projects expected to commence in 2019 include among others Hotel Brioni and Verudela Beach Resort. In 2018 we identified a substantial number of opportunities and went on to evaluate 145 of which we submitted proposals for approximately 10%.</p>	Performance in the year <p>Trading improved for the Group for the year ended 31 December 2018 with Park Plaza London Waterloo and Park Plaza London Park Royal providing first full-year contributions as the properties mature. Park Plaza Victoria Amsterdam, following its successful repositioning, is on track to deliver a positive return on investment with an increase in average room rate.</p>	Performance in the year <p>In 2018, we launched Responsible Experiences, our Responsible Business programme. We have defined a dedicated strategy and four pillars reflecting key areas of activity and focus for the year ahead in support of overall guest experience and future proofing. In 2018, we reviewed all activities to be measured in the Group as part of our programme along with the scoping out of our proposed targets and KPIs; both of which we intend to launch in 2019. We became a supporter of the International Tourism Partnership in 2018 and plan to progress our activities and collaborations with this key partner in 2019.</p>
Performance management <ul style="list-style-type: none"> • EPRA EPS • Net return on shareholder capital • Net return on EPRA NAV 			
Risks linked to strategy <ul style="list-style-type: none"> • Development projects • UK's withdrawal from the European Union (Brexit) • The Group's borrowings • Capital required to maintain product standards 	Risks linked to strategy <ul style="list-style-type: none"> • Development projects • UK's withdrawal from the European Union (Brexit) • The Group's borrowings • Capital required to maintain standards • Foreign exchange rate fluctuations 	Risks linked to strategy <ul style="list-style-type: none"> • Fixed operating expenses • The Group's borrowings • Market dynamics • Hotel industry risks 	Risks linked to strategy <ul style="list-style-type: none"> • Market dynamics • Hotel industry risks • Compliance with laws • Capital required to maintain product services
Looking forward <p>Continued focus on maturing product performance directly after repositioning and re-launch. Continue to work with construction partners to ensure projects are completed to a high standard, on time and on budget. The focus continues on two repositioning projects currently underway; Park Plaza Sherlock Holmes London and Park Plaza Vondelpark, Amsterdam both due to launch to markets H2 2019 along with two new build art'otels in desirable locations within London, expected to open 2022.</p>	Looking forward <p>Our current pipeline of new hotels includes two iconic developments in London, scheduled to open in 2022/2023. These are art'otel london hoxton (wholly-owned) and art'otel london battersea power station (management agreement). While the Group's focus will continue to be on repositioning and developing the Group's existing portfolio and committed pipeline, we are in an unprecedented strong cash position to consider further asset acquisitions to broaden our portfolio.</p>	Looking forward <p>Continued focus on maximising return as assets mature and establish their presence in the market.</p>	Looking forward <p>In 2019 we intend to further progress our Responsible Experiences programme and ensure that targets and measurements are finalised, launched and consistently measured across the portfolio.</p>

Operations

Strategy	Strategy	Strategy
Develop a high performing culture where engaged teams are empowered to create valuable memories for our guests and value for our assets	Improve the overall guest experience through creating valuable memories	Focus on total revenue generation with solid profit conversion
Performance in the year <p>2018 has seen an increased number of team members participating in our employee engagement survey and our engagement scores for 2018 remained high. The Group continues to invest in award-winning European training programmes for our team members with 2018 wins including Best Student Placement Programme of the Year 2018 (Institute of Hospitality Awards for Excellence 2018) and Excellence in Promoting Careers (HR in Hospitality Awards for Excellence 2018). We also work with external parties, including The Prince's Trust, by hosting its 'Get Hired' event to bring young people and businesses together, where we saw the highest number of young people to date in attendance. Our guest satisfaction scores have continued to increase year-on-year, with our highest performing hotels for Guest Rating Scores (as measured by ReviewPro) being Park Plaza Arena Pula (92.2%), Park Plaza Westminster Bridge London (92.1%), Park Plaza Nuremberg (90.7%) and art'otel berlin mitte (90.2%).</p>	Performance in the year <p>In 2018, we started utilising ReviewPro, benefiting from a global Radisson Hotel Group agreement, to aggregate and monitor guest feedback. Utilising this tool we engage with customers and also integrate their feedback into our award-winning training programmes. At the end of 2018 we introduced a greater focus for Brand Marketing and Guest Experience to enhance the guest journey. Creating vibrant restaurant and bar experiences continued to positively enhance the guest experience.</p>	Performance in the year <p>PPHE Hotel Group continues to benefit from Radisson Hotel Group and its brand repositioning in the hotel market with its newly launched loyalty programme Radisson Rewards (previously Club Carlson). In 2018, we undertook a commercial department restructure to improve consistent performance throughout the Group. Consolidation of supply chain and central procurement system used to track, implement and monitor KPI across the Group was also maximised.</p>
Performance measurement <ul style="list-style-type: none"> Employee Engagement <ul style="list-style-type: none"> 2018 saw a total increase of 453 participants compared to 2017 (3,321 v 2,868 – PPHE Hotel Group and Arena Hospitality Group combined) engagement score of 83.6% 	Performance measurement <ul style="list-style-type: none"> Overall, our online reputation (as measured in the form of Guest Rating Score) increased from 85.2% in 2016 (when several repositioning programmes commenced) to 87.3% in 2018 	Performance measurement <ul style="list-style-type: none"> EBITDA and EBITDA margin RevPAR
Risks linked to strategy <ul style="list-style-type: none"> Fixed operating expenses Market dynamics The Park Plaza® Hotels & Resorts brand and reservation system Information technology and systems 	Risks linked to strategy <ul style="list-style-type: none"> Capital required to maintain product standards Market dynamics Information technology and systems The Park Plaza® Hotels & Resorts brand and reservation system 	Risks linked to strategy <ul style="list-style-type: none"> Fixed operating expenses UK's withdrawal from the European Union (Brexit) Market dynamics The Park Plaza® Hotels & Resorts brand and reservation system Hotel industry risks
Looking forward <p>We will expand and evolve a number of Learning & Development programmes in 2019 including Inspiring Leaders Programme Level 5 for our future leaders and Step Up Hospitality Supervisor Level 3, both mapped to the Apprenticeship Standard and accredited by the ILM.</p> <p>Investments in refurbishments and repositioning projects are expected to influence guest satisfaction scores.</p>	Looking forward <p>Ongoing investment programme for team members and properties, along with continued focus on Guest Rating Scores across all properties are expected to deliver improved guest satisfaction and RevPAR growth. We have restructured the Brand Marketing department to have a greater focus on reviewing guest feedback and aligning our operating standards to maximise efficiencies to further enhance guest satisfaction.</p>	Looking forward <p>With investments made in our portfolio and team members throughout 2018, we believe a solid base has been established to grow further. Operational efficiencies including centralising certain key corporate/ regional teams or functions, consolidating our supply chain further, implementing automation and growing the top line will all contribute to enhanced margins.</p>

Principal risks and uncertainties

Material factors impacting our business

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

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

Change year-on-year

- ↑ Increased
— Unchanged
↓ Decreased

Grading

- High
○ Medium
○ Low

Risk and impact	Mitigation	Grading	Year-on-year
The Group's borrowings <p>The Group is exposed to a variety of risks associated with the Group's existing bank borrowings and its ability to satisfy debt covenants. Failure to satisfy obligations under any current or future financing arrangements could give rise to default risk and require the Group to refinance its borrowings.</p> <p>In addition, some of the Group's financing arrangements contain cross-collateralisation and therefore there is a risk that more than one property may be affected by a default under these financing arrangements.</p> <p>The Group uses debt to partly finance its property investment. By doing so, the Group leverages its investment and is able to acquire properties without raising equity. Leverage magnifies both gains and losses, and therefore the risk of using leverage is that the loss is much greater than it would have been if the investment had not been leveraged. The risk exists that interest expenses and default on debt covenants negatively impact shareholder value and return.</p>	<p>The Group's internal Treasury Management monitor the financial covenants regularly. In addition, as part of the financial planning procedures, a three-year forecast is prepared which incorporates sensitivity tests for meeting the covenant ratios. The Board monitors the Group's funding needs in accordance with future plans.</p>	<p>○ ○ ○</p>	<p>↑</p>
Compliance with laws <p>The Group must comply with regulations and legislations in the various jurisdictions where it operates. Exposure is similar to other companies with cross-jurisdictional operations and a global customer base. However, such risks expose the Group to potential: reputational damage; financial penalties; and costs each of which could have a material adverse effect.</p>	<p>The Group has a well-resourced Legal Team which continuously monitors compliance with existing regulations, implements regular staff training, offers a point of contact to all staff to report a concern or raise a question and regularly reviews their compliance and governance policies and their implementation. Additionally, the General Counsel is in regular consultation with the Board of Directors and Executive Team on any material concerns or changes to compliance strategy to ensure Board and Executive Committee engagement in compliance matters.</p>	<p>○ ○ ○</p>	<p>↑</p>
The Park Plaza® Hotels & Resorts brand and reservation system <p>The Group's rights to the Park Plaza® Hotels & Resorts brand stem from a territorial licence agreement with Radisson Hotel Group, pursuant to which the Group has the exclusive right to use (and to sub-license others to use) the Park Plaza® Hotels & Resorts trademark in 56 countries within the EMEA region.</p> <p>This agreement also allows the Group to use Radisson Hotel Group's global central reservation system, participate in its various loyalty schemes and have access to global distribution channels connected to its central reservation system. Failure to maintain these rights could adversely affect the Group's brand recognition and its profitability. The Group is also dependent on Radisson Hotel Group to invest in the further development of its global reservation system and associated technologies and infrastructure. The Park Plaza® Hotels & Resorts outside of the EMEA region are managed or franchised by Radisson Hotel Group directly, and failure at its end to control and maintain a similar quality level of hotels may have a detrimental effect on the reputation of the Park Plaza® Hotels & Resorts brand and the hotels operating under the brand name.</p>	<p>The Group's rights to use the Park Plaza® Hotels & Resorts brand and Radisson Hotel Group's central reservation system are in perpetuity. This unique and exclusive partnership is reinforced by the Group's continued focus on operational efficiency and portfolio growth through its intensified cooperation with Radisson Hotel Group. To ensure that the Group's interests are represented, several of its executives and managers participate in collaborative groups initiated by Radisson Hotel Group to discuss, review and optimise the collective performance in areas such as sales, loyalty marketing, brand development, partnerships, e-commerce and distribution.</p>	<p>○ ○ ○</p>	<p>↓</p>

Principal risks and uncertainties continued

Change year-on-year

- ↑ Increased
— Unchanged
↓ Decreased

Grading

- High
○ Medium
○ Low

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

Viability statement

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

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

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

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

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

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

A decrease in average daily rates and occupancy can result from a range of principal risks in the hospitality sector including, but not limited to, a failure to maintain a competitive pricing position due to changes in market dynamics, failure to maintain brand rights and a disruption in information systems. A decrease in EBITDA margin can result from an increase in fixed costs and operational costs. An increase in development costs is linked to the principal risk of overruns in respect of ongoing

development projects and the capital required for maintaining product standards. It should be noted that development costs associated with the art'otel london hoxton project, which is expected to open in 2022, are not included in the financial forecast as this project is still in a preliminary stage and management anticipate that the development costs will be financed by third party facilities and therefore should not materially affect the Group's net cash and cash flows.

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

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

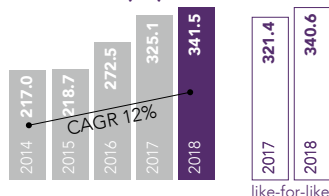
The above considerations form the basis of the Board's assessment of the viability of the Group over a three-year period to 31 December 2021 while taking account of the Group's current position, the principal risks and how these are managed as detailed in the Strategic report, the Group strategy and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

Key performance indicators

Measuring our progress

Financial KPIs

Total revenue (£m)



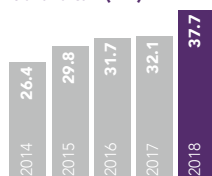
KPI definition

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

Comment

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

Normalised profit before tax (£m)



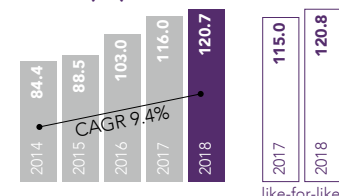
KPI definition

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

Comment

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

EBITDAR (£m)



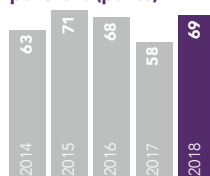
KPI definition

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

Comment

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

Normalised earnings per share (pence)



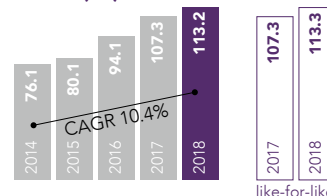
KPI definition

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

Comment

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

EBITDA (£m)



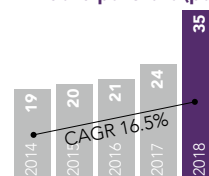
KPI definition

Earnings before interest, tax, depreciation and amortisation.

Comment

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

Dividend per share (pence)



KPI definition

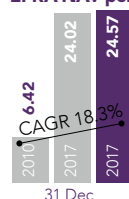
The total dividends paid out over an entire year divided by the number of outstanding ordinary shares issued.

Comment

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

Property KPIs

EPRA NAV per share (£)



31 Dec

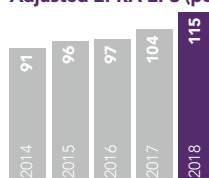
KPI definition

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

Comment

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

Adjusted EPRA EPS (pence)



KPI definition

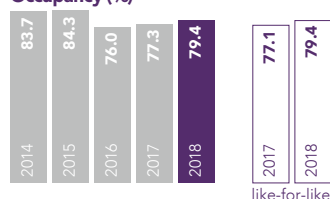
Shareholders' earnings from operational activities with the company's specific adjustments. The main adjustment to normalised profit is adding back the reported depreciation charge, which is based on assets at historical cost, and replacing it with a charge calculated as 4% of the Group's total revenues,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

Comment

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

Operating KPIs

Occupancy (%)



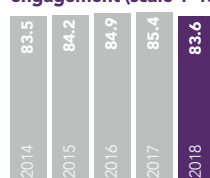
KPI definition

Total rooms occupied divided by the available rooms.

Comment

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

Employee satisfaction/engagement (scale 1–100%)



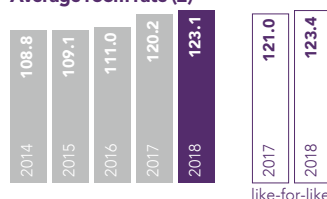
KPI definition

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

Comment

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

Average room rate (£)



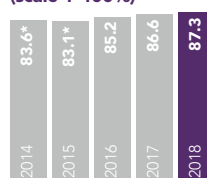
KPI definition

Total room revenue divided by the number of rooms sold.

Comment

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

Guest satisfaction (scale 1–100%)



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

KPI definition

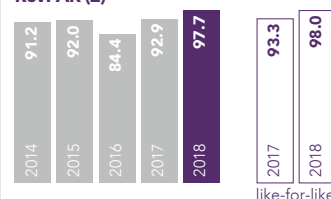
Guest Rating Score (GRS™) is the online reputation score used by ReviewPro - an industry leader in guest intelligence solutions.

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

Comment

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

RevPAR (£)



KPI definition

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

Comment

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

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-like¹ total revenue was up 6.0% to £340.6 million and like-for-like¹ 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

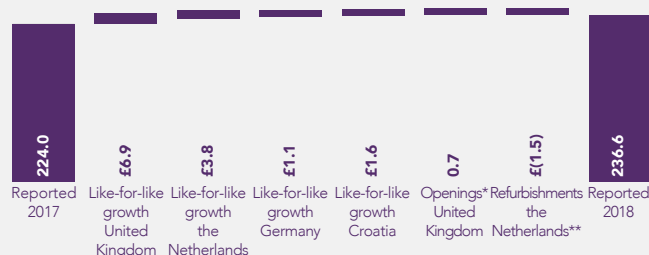
On a like-for-like¹ basis, revenue increased by 6.0% to £340.6 million and reported total revenue was up 5.0% to £341.5 million.

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-like¹ RevPAR was £98.0, an increase of 5.0% (2017: £93.3), reflecting strong RevPAR growth in all regions. Like-for-like¹ RevPAR growth was achieved through a 2.0% increase in average room rate to £123.4 (2017: £121.0). Like-for-like¹ 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-like¹ basis, EBITDA 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 tax¹	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 2018²	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 valuers 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 options¹	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

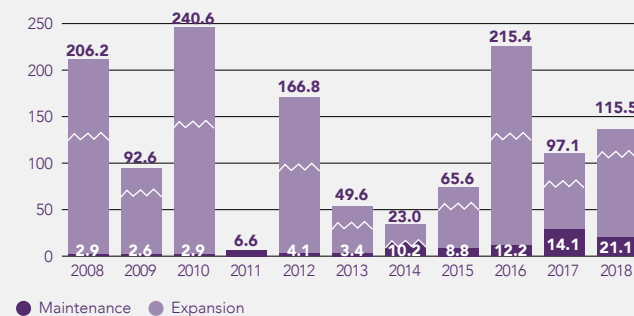
In 2018, we continued with our ongoing extensive investment programme in order to upgrade the Group's property portfolio. In total our capex investment in 2018 was more than £60 million and mainly included the extensive repositioning of Park Plaza Victoria Amsterdam, Park Plaza Utrecht and Park Plaza 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 adjustments¹:		
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.

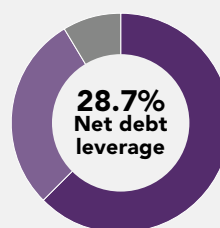
The Group's total asset', presented in the top table on the right, represents a value after the deduction of lease liabilities and unit holder liabilities. Accordingly, in the total loan-to-value ("LTV") analysis of the of the Group, management considers the value of the freehold and long leasehold assets (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

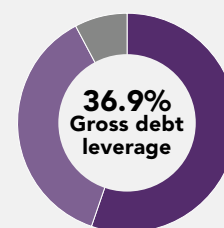
¹ Equity attributable to shareholders of the Group based on EPRA NAV excluding the £4.7 million effect due to exercise of dilutive options.

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

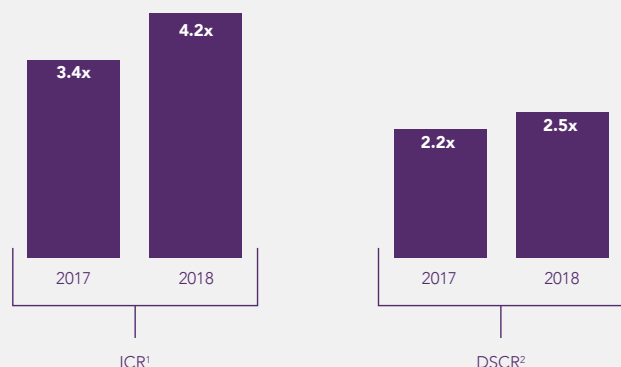
Below table provides a further break down of the Group's net bank debt position.

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.

	Operational assets £'m	Development asset and excess cash £'m	Total £'m
31 December 2018			
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)

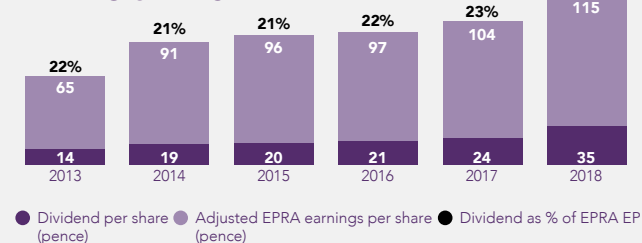
Dividend

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 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

Business review

A strong presence in London



Daniel Pedreschi
Regional General Manager, UK

Introduction

With over 20 years' experience in hospitality including former General Manager at our 1,019-room Park Plaza Westminster Bridge London property, I have certainly seen at close hand how London has truly developed and continuously reinvented itself to become, as some would say, a global leader in hotels. Now as PPHE Hotel Group's Regional General Manager for the UK region, I am striving to find improvements to always keep us ahead of the competition and enhance our position in the industry.

2018 has seen us create further value in our assets, including the official relaunch of the newly repositioned Park Plaza London Riverbank on the South Bank, the initial planning works for the soon-to-be-completely-revamped Park Plaza Sherlock Holmes London and progress on our renovation programme including works at Park Plaza Victoria London. New developments remain at the forefront of the London agenda as we continue to create pre-planning programmes for the first art'otels in the UK market: at Hoxton and Battersea Power Station, both prime real estate destinations.

Why London?



Marylebone and Mayfair

Marylebone has long been a fashionable area of London and remains so today with all the shops of the High Street, plus the tourist hot spots including Madame Tussauds and the Sherlock Holmes Museum.



Westminster

Westminster has a population of 1.1 million, of which Westminster Council's key statistics show that the Ward of Marylebone High Street has a population of only 12,450 but the local economy hosts 69,725 jobs as of June 2016.

Westminster has the largest night time economy in the UK, generating £3 billion per annum, and is the largest employment centre in the UK providing 697,000 jobs.

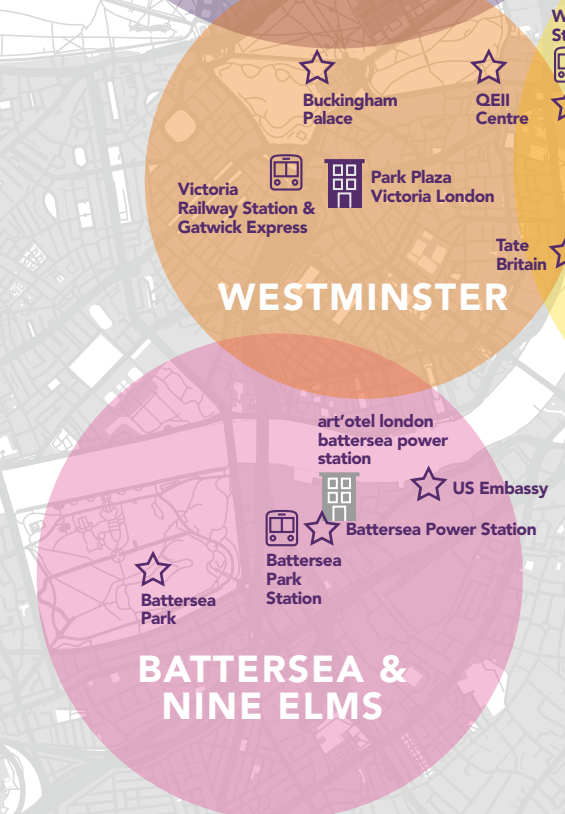


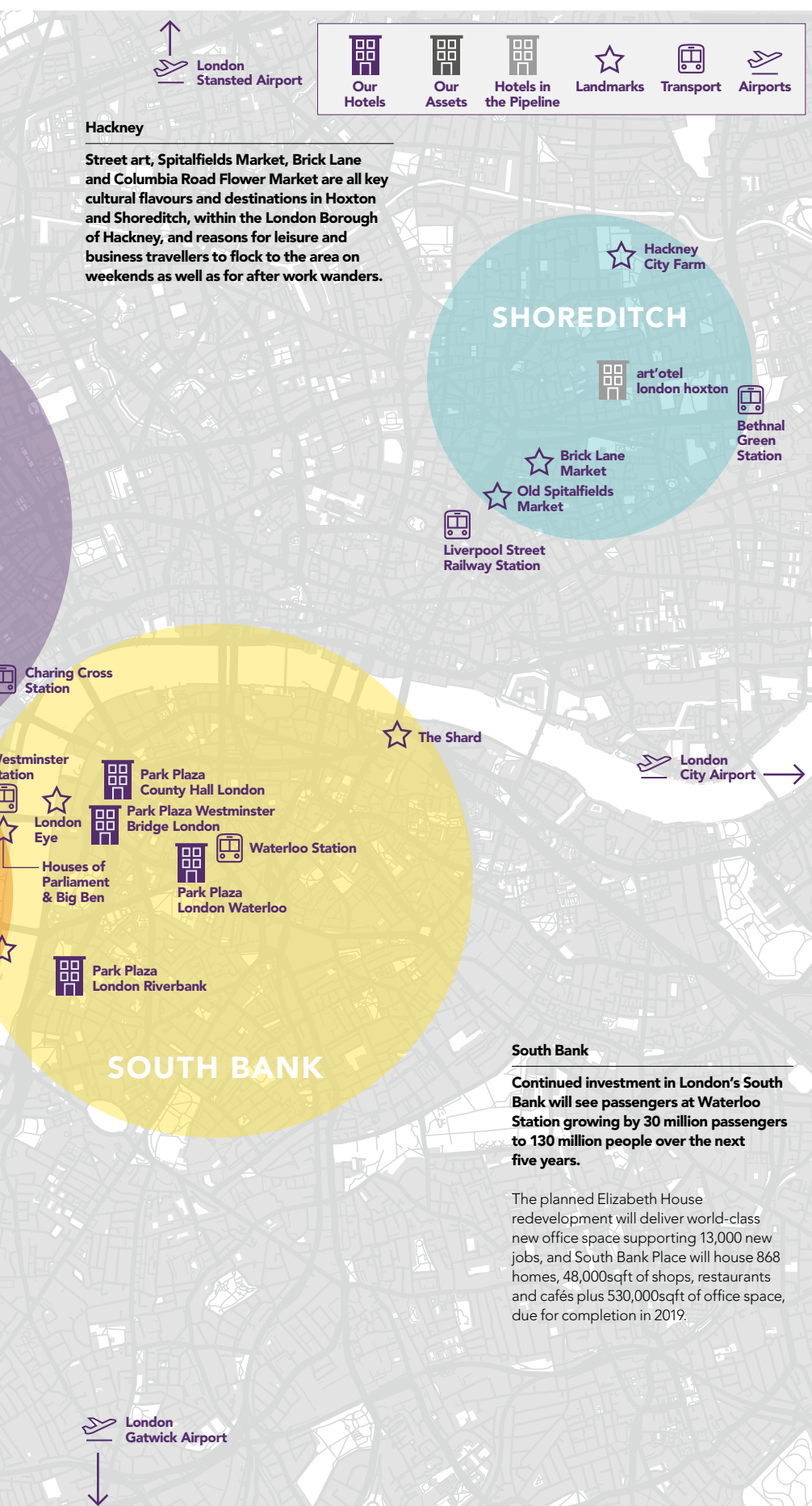
Battersea & Nine Elms

Battersea and Nine Elms is an area which has recently seen huge regeneration; for example, the US Embassy in London has moved to the area and has been operational since January 2018. There is also an extension of the London Underground service currently being built, extending the Northern line to create two new stations: Nine Elms and Battersea.

Lambeth Council is proposing to prevent any further hotel developments in Waterloo as well as setting a cap on new hotel bed spaces in Vauxhall¹. This of course bodes well for PPHE given we have one property in Lambeth and one in Vauxhall, so for now, the competition is limited.

¹ Source: Lambeth Local Plan Consultation 2018





City overview

At PPHE Hotel Group we create destinations. All properties are in prime locations and it is crucial for the infrastructure to support the visitor demand. The top ten visitor attractions in England in 2017 were all in London. All our properties are located within a ten-minute walking distance of a tube line, many of which are now operated on the newly introduced 24-hour Night Tube.

New transport initiatives such as the unlimited Hopper bus fare making travel in and around London, in particular Central London, that much easier and affordable. Maintenance work was kicked off on a number of Tube lines and mainline overground stations including Victoria, thus improving travel to and from the capital, in particular when accessing London Gatwick Airport. With the Crossrail progressing, it is no wonder Condé Nast Traveller awarded London the Best UK City in the 2018 awards!

London continues to be one of Europe's main employers, with recent figures showing an employment rate of 74.8% (up 1.9% on previous year). In the City of London, which our new hotel art'otel london hoxton neighbours, 483,000 people are employed, meaning 1 in 63 of Great Britain's workforce.

The hospitality industry has historically been supported by European workers; however, ahead of withdrawal from the EU in March 2019, our London hotels have experienced a marked downturn in applications for vacant roles. As a result we decided to in-source a great number of our housekeeping team members predominantly to support recruitment in the London market and to give us greater control in recruiting, retaining and growing our own talent while improving the guest experience.

Sources

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Business review continued – United Kingdom

United Kingdom performance

Property portfolio

The Group has a strong portfolio in London with more than 3,200 rooms in operation, with further properties in Nottingham, Leeds and Cardiff. Hotels with an ownership interest include: Park Plaza Leeds, Park Plaza Nottingham, Park Plaza London Riverbank, Plaza on the River London, Park Plaza Sherlock Holmes London, Park Plaza Victoria London, Park Plaza Westminster Bridge London, Park Plaza London Waterloo, Park Plaza County Hall London¹ and Park Plaza London Park Royal. Park Plaza Cardiff² operates under a franchise agreement.

Value of UK property portfolio²

£956m

¹ Revenues derived from these hotels are accounted for in Management and Holdings and their values and results are excluded from the data provided in this section.

² Independent valuation by Savills in 2018, excluding the development site in Hoxton (London).

Hotel operations in the UK performed well during the year helped by the maturing of new room inventory at Park Plaza London Waterloo, Park Plaza London Park Royal and Park Plaza London Riverbank.

Trading at several of the Group's London hotels improved during the year following extensive renovation projects driving year-on-year RevPAR growth. In addition, the performance of our London meeting and events business was boosted by the increased room inventory on London's South Bank following completion of the extension at Park Plaza London Riverbank, enabling the Group to host and provide accommodation for larger events.

Total reported revenue increased by 5.0% to £195.1 million. The main contributor for this increase was the additional room inventory at Park Plaza London Waterloo, Park Plaza London Park Royal and Park Plaza London Riverbank. This increase was offset by the reduction in room inventory at Park Plaza Sherlock Holmes London due to the repositioning works currently in progress.

Reported room revenue increased by 5.7% to £140.2 million and on a like-for-like³ basis by 5.2% to £139.5 million, due to the maturing of our recently opened hotels.

Reported EBITDAR grew by 7.0% to £66.8 million and EBITDA increased by 7.5% to £65.0 million, reflecting the improving performance as the new room inventory matures. On a like-for-like³ basis, EBITDAR increased by 7.0% to £66.8 million and EBITDA was up 7.5% to £65.0 million.

Reported RevPAR increased by 2.6% to £124.4, driven by a 250bps increase in occupancy to 85.7%. Average room rate was broadly flat at £145.1 (2017: £145.8). On a like-for-like³ basis, RevPAR was £125.2, up 3.2%.

In London, all the Group's hotels, except Park Plaza London Riverbank and Park Plaza Sherlock Holmes London which were both undergoing significant repositioning work during the period, delivered RevPAR outperformance compared with their competitive sets. Notably, in terms of RevPAR, Park Plaza Westminster Bridge London outperformed its competitive set by almost 30.0%.

Asset management projects

The investment programmes for our London hotels continued during the year, ensuring these properties are well-positioned within the market.

2018 investment projects

One of the most significant projects in London was the major repositioning work at Park Plaza London Riverbank which was completed at the end of 2018, following three years of reconstruction works at the property. During this period, the hotel was fully renovated, all public areas were refurbished, seven additional floors of accommodation have added 185 rooms to the inventory and a new meeting room and a 12th-floor Executive Lounge have been created. The award-winning Chino Latino Restaurant & Bar has been relocated, and now has views across the River Thames, and most recently a spa and swimming pool have been added to the property. There are plans to further improve the landscaping at the front of this hotel in early 2019. In total, we have invested approximately £54.0 million in this repositioning programme over a multi-year period and we expect an unlevered yield on investment of 7% upon maturity.

Following these works, the hotel boasts 646 rooms and, combined, the Group's hotels in London's South Bank area have an unrivalled position, offering a total of more than 2,500 rooms and state of the art conference facilities.

At Park Plaza Victoria London, refurbishment of the lobby area, bar and public spaces commenced as part of a phased refurbishment programme.

The extensive repositioning of Park Plaza Sherlock Holmes London to maximise the property's hospitality potential and capitalise on the local area's growth and high-end development in recent years, is on track. As a result, the hotel's main entrance has been moved from Baker Street to Chiltern Street, all the public areas and rooms will be redesigned and renovated, and the hotel will be relaunched as a boutique lifestyle property. A new concept restaurant has been developed, which will



The Group's London portfolio consists of approximately 3,200 rooms in operation with approximately 500 rooms in the pipeline

have an entrance separate from that of the hotel. The project is expected to be completed by mid-2019. We expect that our investment in this project will amount to approximately £9.0 million with an unlevered targeted yield of 10% upon maturity.

Development pipeline projects

Preliminary construction works have commenced at the site of art'otel london hoxton, which is located on the border of lively Hoxton and Shoreditch and is close to Old Street and Liverpool Street stations. This is a substantial investment project which is expected to complete in 2022. Estimated investment on current scheme is £180.0 million with an unlevered estimated yield of 7.5% upon maturity.

The pre-opening activities for art'otel london battersea power station have continued. This lifestyle hotel is being developed adjacent to Battersea Power Station and will be managed by the Group upon completion. The hotel is expected to open in 2022.

The United Kingdom hotel market*

In Greater London, demand for hotel rooms continued to outstrip supply, up 4.0% and 2.0% respectively, reflecting London's place as one of the world's most popular cities. RevPAR increased by 3.1% to £124.7, driven by a 1.9% increase in occupancy to 83.3% and a 1.1% increase in average room rate to £149.7.

In Nottingham, the overall market saw RevPAR increase by 4.1% to £53.8, mainly due to a 3.1% increase in occupancy and a 0.9% increase in average room rate.

The Leeds hotel market reported an increase in RevPAR to £60.2, with occupancy up 1.4% and average room rate down by 1.9% respectively.

* STR Global, December 2018

Operational performance

	Reported in GBP (£)		Like-for-like in GBP (£) ³	
	Year ended 31 Dec 2018	Year ended 31 Dec 2017	Year ended 31 Dec 2018	Year ended 31 Dec 2017
Hotel operations				
Total revenue	£195.1 million	£185.8 million	£194.3 million	£185.8 million
EBITDAR	£66.8 million	£62.4 million	£66.8 million	£62.4 million
EBITDA	£65.0 million	£60.5 million	£65.0 million	£60.5 million
Occupancy	85.7%	83.2%	85.9%	83.2%
Average room rate	£145.1	£145.8	£145.8	£145.8
RevPAR	£124.4	£121.3	£125.2	£121.3
Room revenue	£140.2 million	£132.6 million	£139.5 million	£132.6 million

³ The like-for-like figures for 31 December 2018 exclude the first two months of operation of Park Plaza London Park Royal.

Business review continued – The Netherlands**A strong presence in Amsterdam**

Nieske van Klinken-Riezebos
Regional General Manager, the Netherlands

Introduction

Previously Regional HR Manager for the Netherlands and prior to that General Manager at Park Plaza Eindhoven. I have seen first hand how our capital city continues to be a city in demand.

According to Colliers, international estate agents, NL hotel market update, Amsterdam has seen a sharp increase in international visitors, in fact a 14.5% increase in business stays compared with 12.9% for leisure (Amsterdam Marketing Key Figures 2017). Tourism in the Netherlands is forecast to increase from 18 million international visitors in 2017 to 29 million in 2030, which is great news for us given we have four hotels and 849 rooms available in the city of Amsterdam and Amsterdam Airport Schiphol.

Park Plaza Victoria Amsterdam, situated in a prime location opposite Centraal Station, was fully repositioned in 2018. VIC's BAR, Carstens a destination restaurant and 298 guest rooms were part of the investments made. Repositioning works at Park Plaza Vondelpark, Amsterdam are expected to be finished in the first half of 2019 and will have a higher standard of interior design and service offering.

Why Amsterdam?**Schiphol**

An area within North Holland, Park Plaza Amsterdam Airport is perfectly located within four miles of Amsterdam Airport Schiphol. The area is also home to a number of airline head offices and the green space surrounding the hotel gives travellers the relaxation required between flights and the regular shuttle service to and from Schiphol.

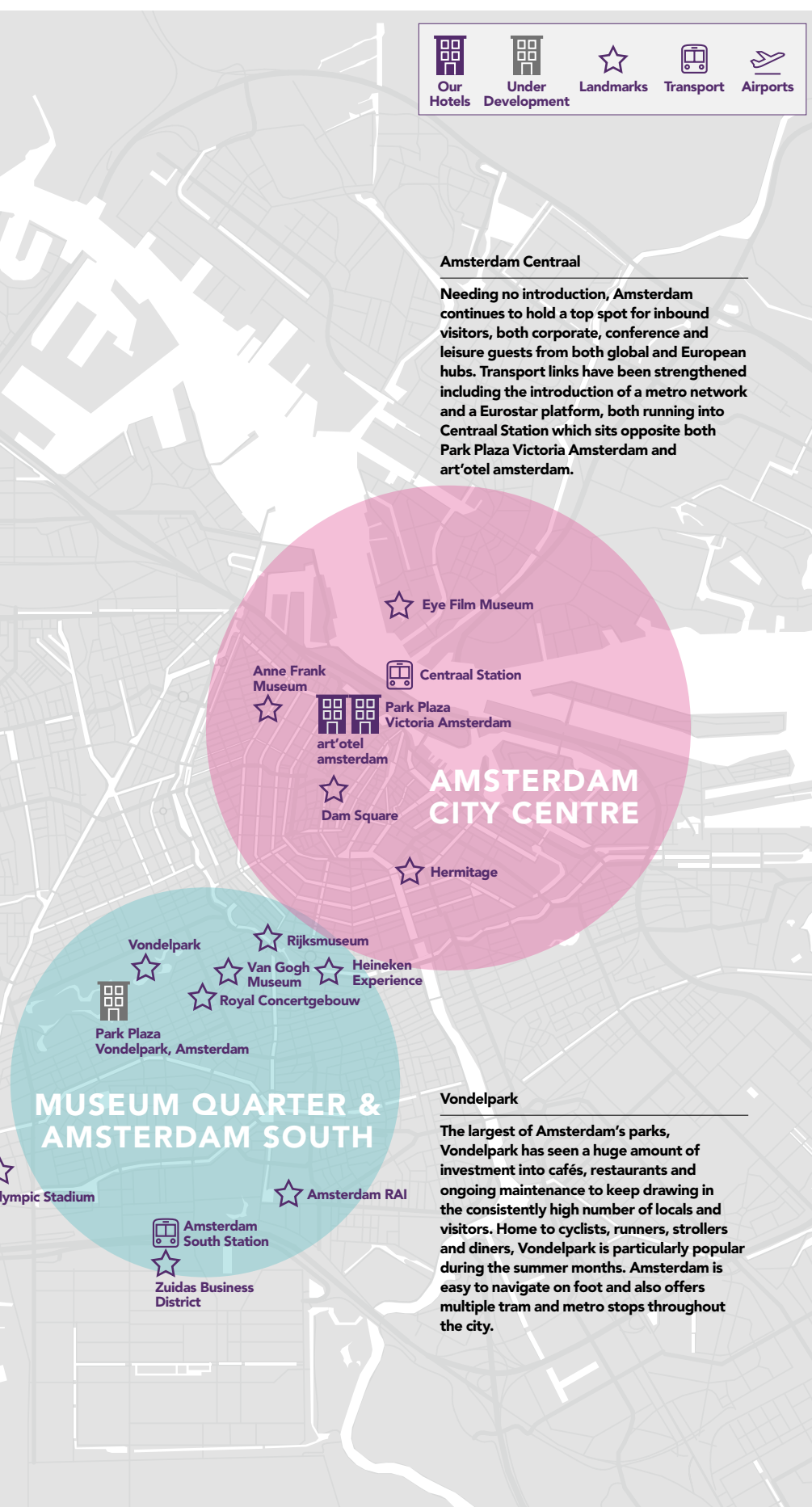


**Park Plaza
Amsterdam Airport**

SCHIPHOL



Amsterdam Airport Schiphol



City overview

Amsterdam's infrastructure is constantly evolving. Short and long-haul travel continues to be popular, with Europeans able to easily access the city via a number of international airports and airlines. Schiphol is now the third largest airport in Europe and is aiming to open a third terminal in 2023 creating an additional 500,000 flights a year (source: Skylift).

It was a memorable year for the railway industry in Amsterdam too. Centraal Station opened its new North-South underground service and Eurostar launched its London to Amsterdam service to improve intercity and country connections. The Eurostar link has provided an additional option for travel to Amsterdam, originating in London King's Cross Railway Station and completing its journey at Amsterdam's Centraal Station, directly opposite Park Plaza Victoria Amsterdam and art'otel amsterdam.

We have seen the food culture explode; guests continue to be keen to experience craft and famous beers (home of Heineken) and cheeses amongst other local delicacies. At PPHE Hotel Group we believe in creating places where locals and guests wish to spend time and created 5&33, our Mediterranean destination restaurant and bar concept just opposite Centraal Station. We are working with a well-known chef, Maik Kuijpers, who opened our destination restaurant Carstens in neighbouring Park Plaza Victoria Amsterdam (relaunched in 2018) and a soon-to-be-named concept at our repositioning project for 2019, Park Plaza Vondelpark, Amsterdam.

Amsterdam continues to offer visitors an abundance of leisure reasons to visit, and remains the number one hotel investment destination at 34% according to Deloitte's 2018 European Hotel Investment Survey.

Business review continued – The Netherlands

The Netherlands performance

Property portfolio

The Group is represented in the Netherlands with ownership interests in three hotels in the city centre of Amsterdam and a fourth property located near Amsterdam Airport Schiphol. The portfolio extends to include a hotel each in Utrecht and Eindhoven.

Total value of Dutch property portfolio¹

£291m

¹ Independent valuation by Savills in 2018.

Operational performance

The region performed well and in line with expectations, despite the significant portfolio investment programmes undertaken and completed during the year, including the repositioning of Park Plaza Victoria Amsterdam and the first phase of repositioning works at Park Plaza Utrecht. In addition, during the second half of 2018, Park Plaza Vondelpark, Amsterdam closed for a complete repositioning, temporarily removing 102 rooms from the inventory.

Whilst these investment programmes had a short term impact by reducing the number of rooms in operation compared with 2017, the completed repositioning projects are expected to drive longer term growth from 2019 onwards.

In Euros, total revenue increased by 3.5% to €56.0 million, despite the disruptions related to the investment programmes. The main contributor for this increase was the completion of the repositioning at Park Plaza Victoria Amsterdam, however, this increase was offset by the reduction in room inventory at Park Plaza Vondelpark, Amsterdam and Park Plaza Utrecht.

RevPAR increased by 8.1% to €118.6, achieved through an 8.0% increase in average room rate to €138.4, and a 10bps increase in occupancy to 85.7%. Room revenue increased by 5.5% to €42.1 million and EBITDAR and EBITDA both increased by 4.8% to €16.1 million and €15.9 million respectively due to the hotel repositioning programmes mentioned above.

In sterling, RevPAR increased by 9.4% to £105.0, driven by a 9.3% increase in average room rates. Also in sterling, EBITDAR increased by 6.0% to £14.2 million and EBITDA was up 6.1% to £14.1 million.

Asset management projects

Four of the Group's six owned and operated hotels in the region underwent significant renovations in the year to reposition them and significantly enhance their offering.

Park Plaza Victoria Amsterdam is a well-known property located in the centre of the city, opposite Amsterdam Centraal Station in the heart of the shopping and dining district. The hotel has undergone extensive renovations to significantly reposition it and ensure that it remains relevant in an ever-changing market. This investment included the complete refurbishment of all public areas, 298 fully redesigned rooms and nine meeting and event rooms. A new bar, VIC's BAR, has opened, featuring an international cocktail menu, DJ sets and live jazz nights. A new destination restaurant, Carstens, led by a celebrity concept chef, opened in February 2019. Both the restaurant and bar have an entrance separate from the hotel, allowing them to be enjoyed by locals, hotel guests and visitors alike. Since relaunch, Park Plaza Victoria Amsterdam has seen a significant improvement in guest feedback. In total, we have invested approximately £20.0 million in this repositioning project and we expect an unlevered yield on investment of 7% upon maturity.

Park Plaza Vondelpark, Amsterdam, which has 102 rooms, closed for refurbishment in July 2018. It will be completely transformed and repositioned as a boutique, lifestyle hotel. Construction work is underway to reconfigure the public areas, reposition the main entrance from a busy road to a park side location and redesign and refit the guest rooms. When relaunched, the hotel will offer a destination restaurant and bar, accessible by a separate entrance, to attract local residents and tourists as well as our hotel guests. It is expected to reopen in phases during the first half of 2019. We expect that our investment in this project will amount to approximately £8.0 million with an unlevered targeted yield of 10% upon maturity.



At Park Plaza Utrecht, the first phase of construction work to reposition the hotel was completed by the year-end. This involved the repositioning of 40 rooms, including the installation of new bathrooms, and the meetings and events space. We expect that our investment in this project will amount to approximately £5.5 million with an unlevered targeted yield of 10% upon maturity.

The second phase of the programme, which involves refurbishing an additional 40 rooms and building an extension to house a new fitness centre, has started and will be completed in 2019.

Park Plaza Amsterdam Airport upgraded its meetings and events facilities, bringing the outdoors indoors, with a new interior design reflecting the hotel's surroundings. The refurbishment was completed in September 2018. The 20 meeting rooms boast natural daylight and feature a

new integrated AV system. The theatre-style rooms can accommodate up to 700 delegates.

The Dutch hotel market*

Once again, the overall performance of the Dutch hotel market was driven by its key market, Amsterdam.

For Greater Amsterdam, RevPAR increased by 4.7% to €122.6, driven by a 5.0% increase in average room rate to €150.8, whilst occupancy declined by 0.3% to 81.3%.

Outside of Amsterdam, hotels in Utrecht reported a 9.0% increase in RevPAR to €82.5, as a result of a 5.2% increase in average room rate to €107.5 and a 3.7% improvement in occupancy to 76.7%.

The Eindhoven hotel market saw RevPAR grow by 5.0% to €51.9, reflecting an increase in average room rate and occupancy of 3.0% and 1.9% respectively.

* STR Global, December 2018



Hotel operations

	Reported in GBP ² (£)		Reported in local currency Euro (€)		Like-for-like GBP ³ (£)		Like-for-like Euro ³ (€)	
	Year ended 31 Dec 2018	Year ended 31 Dec 2017	Year ended 31 Dec 2018	Year ended 31 Dec 2017	Year ended 31 Dec 2018	Year ended 31 Dec 2017	Year ended 31 Dec 2018	Year ended 31 Dec 2017
Total revenue	£49.6 million	£47.3 million	€56.0 million	€54.1 million	£49.5 million	£45.5 million	€55.9 million	€52.0 million
EBITDAR	£14.2 million	£13.4 million	€16.1 million	€15.3 million	£14.4 million	£12.8 million	€16.3 million	€14.6 million
EBITDA	£14.1 million	£13.3 million	€15.9 million	€15.2 million	£14.2 million	£12.6 million	€16.1 million	€14.5 million
Occupancy	85.7%	85.6%	85.7%	85.6%	85.7%	85.5%	85.7%	85.5%
Average room rate	£122.6	£112.2	€138.4	€128.2	£122.6	£112.2	€138.4	€128.3
RevPAR	£105.0	£96.0	€118.6	€109.7	£105.0	£95.9	€118.6	€109.7
Room revenue	£37.3 million	£35.0 million	€42.1 million	€39.9 million	£37.3 million	£33.4 million	€42.1 million	€38.2 million

² Average exchange rate from Euro to Pound Sterling for the year to December 2018 was 1.13 and for the year to December 2017 was 1.14, representing a 1.2% decrease.

³ The like-for-like figures for 31 December 2017 exclude the operation from August until December of Park Plaza Vondelpark, Amsterdam (which is fully closed for renovations).

Business review continued – Germany and Hungary

History and culture
combined

Arnoud Duin
Regional General Manager, Germany & Hungary,
Arena Hospitality Group

Introduction

As Regional General Manager for Germany & Hungary at Arena Hospitality Group d.d, of which PPHE is a controlling shareholder, I will focus on Berlin as a city in more detail and why it is so favourable for European travel.

It is exciting to work in Berlin, having held roles previously in corporate international environments and I am delighted to work with the hotel teams in the region, (four out of our seven German hotels are located in Berlin).

Ranked in the top three after London and Paris,* Berlin has long been a city popular for national and international visitors be it weekend trips, a choice for convention centre locations and meetings and events.

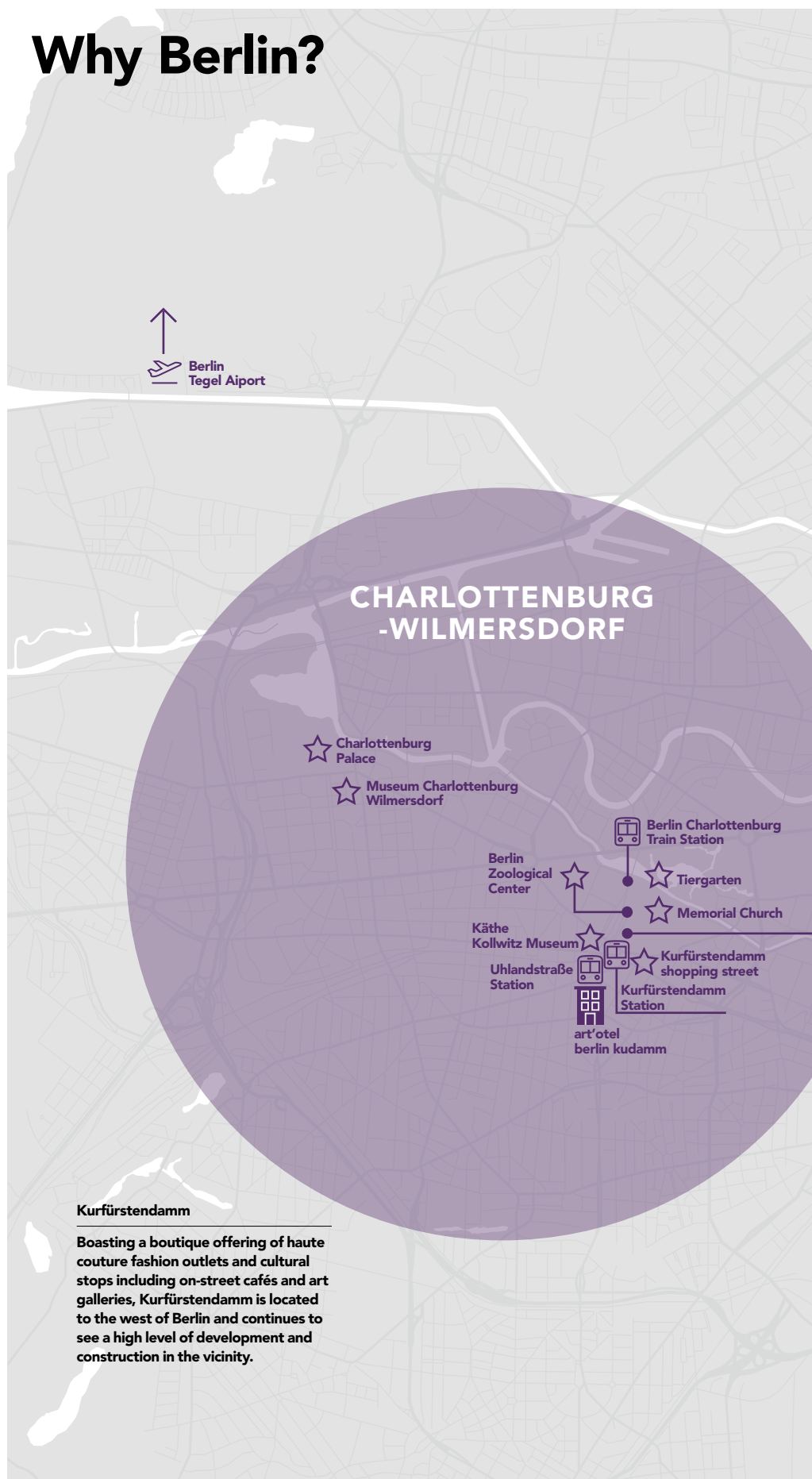
The Alexanderplatz Berlin market is a firm favourite for tourism given the number of cultural attractions on its doorstep, the easy to navigate transport system and under an hour's proximity to both Tegel and Schönefeld airports.

With over 31 million overnight stays on average in a year in Berlin, we are positive about the city's long-term prospects. In 2018, we have created further value in our renovation programmes which included investment in art'otel berlin mitte.

* about.visitberlin.de/en/current-figures

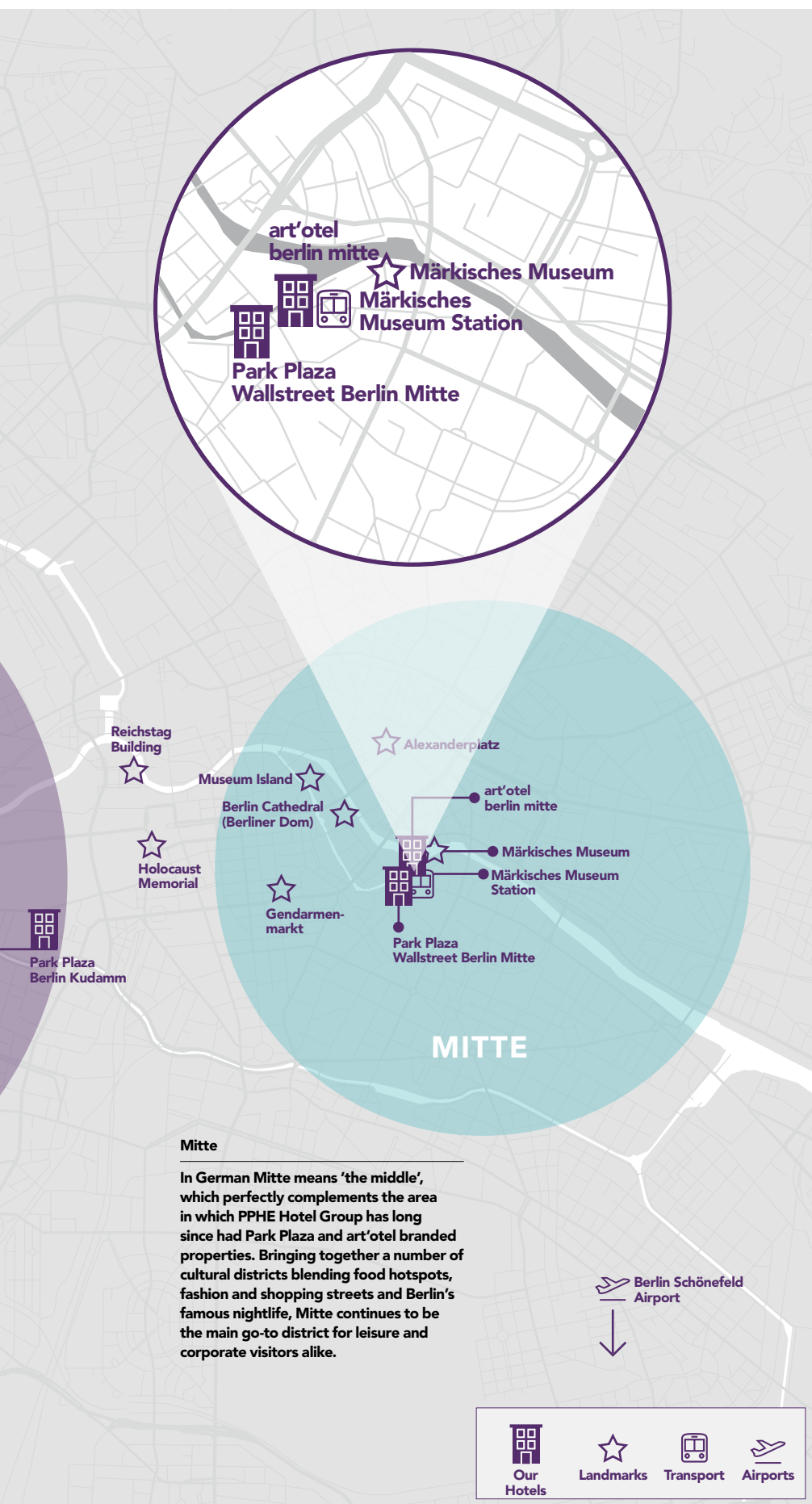
** about.visitberlin.de/sites/default/files/2018-02/visitBerlin_Tourismusbilanz-2017_ENG_1.6.pdf

Why Berlin?



Kurfürstendamm

Boasting a boutique offering of haute couture fashion outlets and cultural stops including on-street cafés and art galleries, Kurfürstendamm is located to the west of Berlin and continues to see a high level of development and construction in the vicinity.



City overview

A true landmark destination, Berlin has always been a popular city break choice. With 35 airlines flying into Schönefeld and 66 airlines to Tegel Airport, and attractions including the Brandenburg Gate, Alexanderplatz, Berlin Cathedral and Zoologischer, tourists continue to flock with German visitors remaining the most popular at 55.1%*.

With an abundance of shopping, galleries and street art including the East Side Gallery, which is a stretch of the Berlin Wall, and Museum Island, and shopping and historical city walks, Berlin continues to offer something for everyone whether you are a keen foodie wanting to visit one of the 21 Michelin-starred restaurants in the city through to micro-breweries such as the Eschenbräu brewery or a pop-up close to Mitte – there are a huge number of small independents now setting up shop in Berlin.

Berlin remains a key destination for corporate sectors including pharmaceutical and medical, with technology and politics following closely behind. The number of both congresses and delegates have seen increases according to Visit Berlin* and so our hotels are perfectly placed to provide a base for delegates and organisers during conference periods.

* about.visitberlin.de/sites/default/files/2018-02/visitBerlin_Tourismusbilanz-2017_ENG_1.6.pdf

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Business review continued – Germany and Hungary

Germany and Hungary performance

Property portfolio

In Germany and Hungary, the Group's portfolio includes four properties in Berlin and one hotel each in Cologne, Nuremberg and Trier in Germany and Budapest in Hungary. Hotels with an ownership interest include: Park Plaza Berlin Kudamm¹, Park Plaza Nuremberg, art'otel berlin mitte¹, art'otel berlin kudamm and art'otel cologne. Park Plaza Wallstreet Berlin Mitte and art'otel budapest operate under operating leases and Park Plaza Trier¹ which operates under a franchise agreement.

Total value of German property portfolio²

£97m

¹ Revenues derived from these hotels are accounted for in Management and Holdings and their values and results are excluded from the data provided in this section.

² Independent valuation by Savills in 2018.

Operational performance

The performance in the region has continued to improve significantly year-on-year. Like-for-like⁴ total revenue (in Euro) increased by 8.0% to €35.5 million and reported total revenue grew by 1.2% to €35.5 million primarily reflecting the improved trading environment and the further maturing of Park Plaza Nuremberg.

Like-for-like⁴ RevPAR increased by 10.0% to €79.2. This was driven by a 590 bps increase in occupancy to 80.7% and a 1.9% increase in average room rate to €98.1.

In sterling, like-for-like⁴ total revenue increased by 9.3% to £31.4 million and reported total revenue by 2.4% to £31.4 million.

Once again, Park Plaza Nuremberg was the main driver of this growth as the hotel, which opened in mid-2016, continues to mature. This hotel benefited from a high volume of fairs and events in the city, many of which only take place every two years.

The Group terminated, by mutual agreement with the owner, its loss-making lease agreement for the 174 room art'otel dresden as at 31 July 2018. The move incurred a termination cost of £3.1 million but this action will result in an overall rent reduction in the region and is expected to boost the Group's EBITDA by approximately £0.5 million annually.

Reported EBITDAR remained unchanged at £9.0 million and like-for-like⁴ EBITDAR (in Euro) increased by 4.0% to €10.2 million. Reported EBITDA improved by an impressive 20.7% to £5.2 million, reflecting the improved performance at several hotels and the maturing of Park Plaza Nuremberg. In addition, the Group benefited from reduced rental expense as a result of the acquisition in 2017 of the freehold interests in art'otel cologne and art'otel berlin kudamm and the termination of the art'otel dresden lease in the second half of 2018.

All the Group's hotels outperformed their competitive set in terms of RevPAR. Notably, Park Plaza Nuremberg reported double digit growth in RevPAR and average room rate.

Asset management projects

During the year, the Group's Croatian subsidiary Arena continued its investment programme to transform operations in Germany and Hungary through asset management initiatives to drive performance in the region and create shareholder value.

At art'otel cologne and art'otel berlin mitte, the development of new wellness areas which included high-end treatment rooms were completed.

At Park Plaza Berlin Kudamm, plans are being finalised for a complete redesign and refurbishment of all rooms and public areas.

In Hungary, the lease for art'otel budapest, which was due to expire in 2020, has been renewed for a further 20 years with effect from 1 January 2019. This hotel continued to perform well in 2018, reporting double digit year-on-year growth.

The German and Hungarian hotel market*

The hotels in Berlin saw RevPAR increase by 6.5% to €78.2, driven by a 4.6% improvement in average room rate. Occupancy increased by 1.9%.

In Cologne, the hotel market reported a decline in RevPAR of 5.0% to €81.8, reflecting an 0.8% increase in occupancy offset by a 5.8% decline in average room rate.

Hotels in Nuremberg benefited from a strong fair and events season, with RevPAR up 15.1% to €77.8, average room rate up 10.2% and a 4.4% improvement in occupancy.

In Budapest, hotels experienced a 7.2% RevPAR increase to €50.4, the result of a 4.7% increase in average room rate and 2.3% increase in occupancy.

* STR Global, December 2018



Hotel operations

	Reported in GBP ³ (£)		Reported in local currency Euro (€)	
	Year ended 31 Dec 2018	Year ended 31 Dec 2017	Year ended 31 Dec 2018	Year ended 31 Dec 2017
Total revenue	£31.4 million	£30.7 million	€35.5 million	€35.1 million
EBITDAR	£9.0 million	£9.0 million	€10.2 million	€10.3 million
EBITDA	£5.2 million	£4.3 million	€5.9 million	€5.0 million
Occupancy	80.7%	75.4%	80.7%	75.4%
Average room rate	£86.9	£82.5	€98.1	€94.2
RevPAR	£70.1	£62.2	€79.2	€71.1
Room revenue	£25.1 million	£23.9 million	€28.3 million	€27.3 million
	Like-for-like ⁴ in GBP (£)		Like-for-like ⁴ in local currency Euro (€)	
	Year ended 31 Dec 2018	Year ended 31 Dec 2017	Year ended 31 Dec 2018	Year ended 31 Dec 2017
Total revenue	£31.4 million	£28.8 million	€35.5 million	€32.9 million
EBITDAR	£9.0 million	£8.6 million	€10.2 million	€9.8 million
EBITDA	£5.3 million	£5.0 million	€6.0 million	€5.7 million
Occupancy	80.7%	74.8%	80.7%	74.8%
Average room rate	£86.9	£84.2	€98.1	€96.3
RevPAR	£70.1	£63.0	€79.2	€72.0
Room revenue	£25.1 million	£22.5 million	€28.3 million	€25.8 million

³ Average exchange rate from Euro to Pound Sterling for the year to December 2018 was 1.13 and for the year to December 2017 was 1.14, representing a 1.2% decrease.

⁴ The like-for-like figures for 31 December 2017 exclude the operation from August until December of art'otel dresden (the lease of which was terminated on 31 July 2018). Furthermore, the like-for-like comparisons for 2017 exclude rent expenses for art'otel berlin kudamm and art'otel cologne, as the freehold properties were acquired in Q1 2017.

Business review continued – Croatia

Scope for development



Reuel (Reli) Slonim
President of Management Board,
Arena Hospitality Group

Introduction

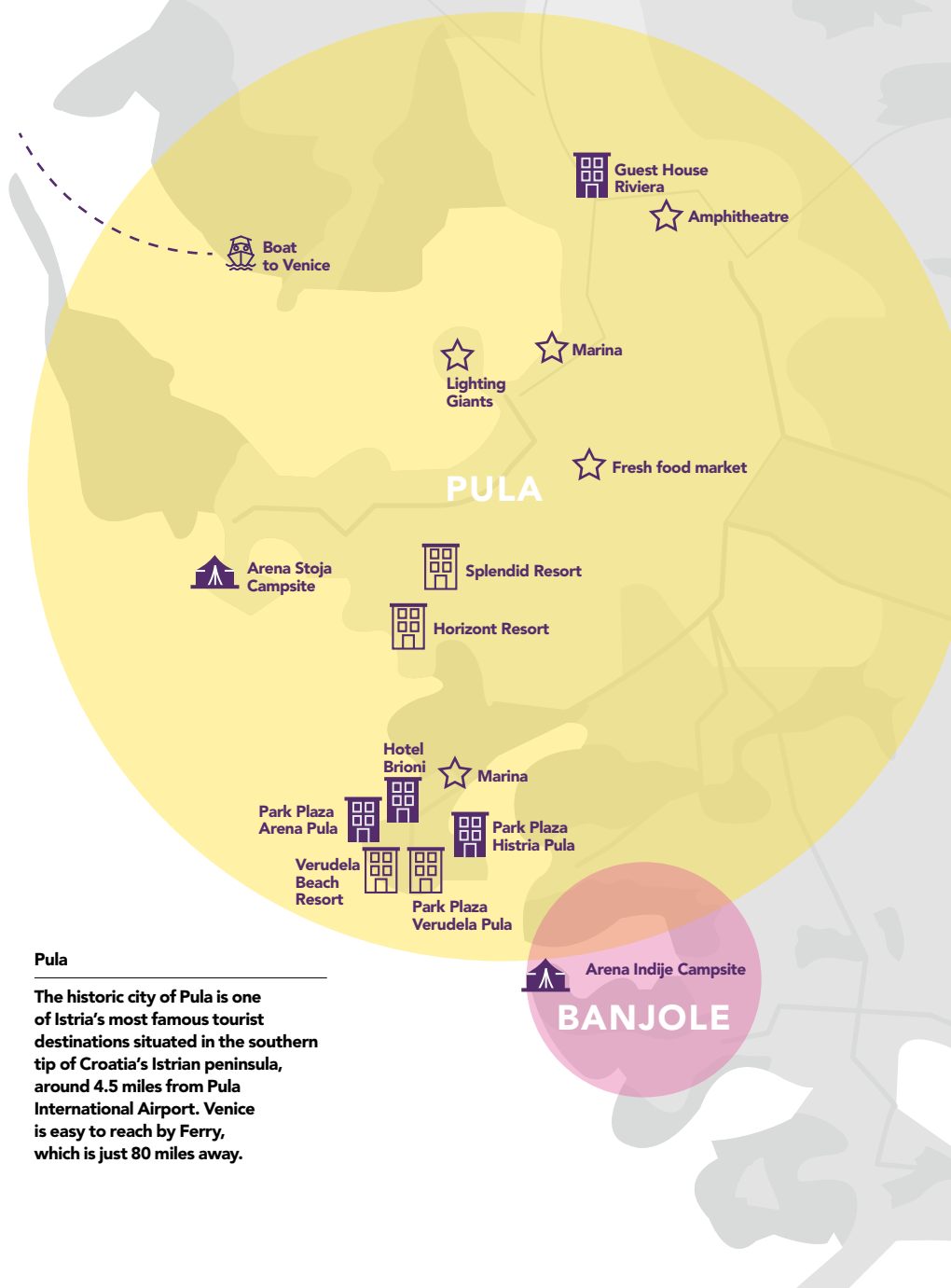
As President of the Management Board at Arena, I have overseen the strong development and growth in Croatia, in particular in the Istrian region, over the past ten years.

With more than 10,000 rooms, eight campsites and 1,060 rooms made up of self-catering holiday apartment complexes, Arena operates Arena Campsites and Arena Hotels & Apartments predominantly in the Istrian region, north of Croatia.

In 2018, we launched Arena One 99, Croatia's first all-glamping offering which we were delighted to see high occupancy in this season (our first season) and receive two awards by the Croatian Tourist Awards programme for Best Glamping and Best Campsite.

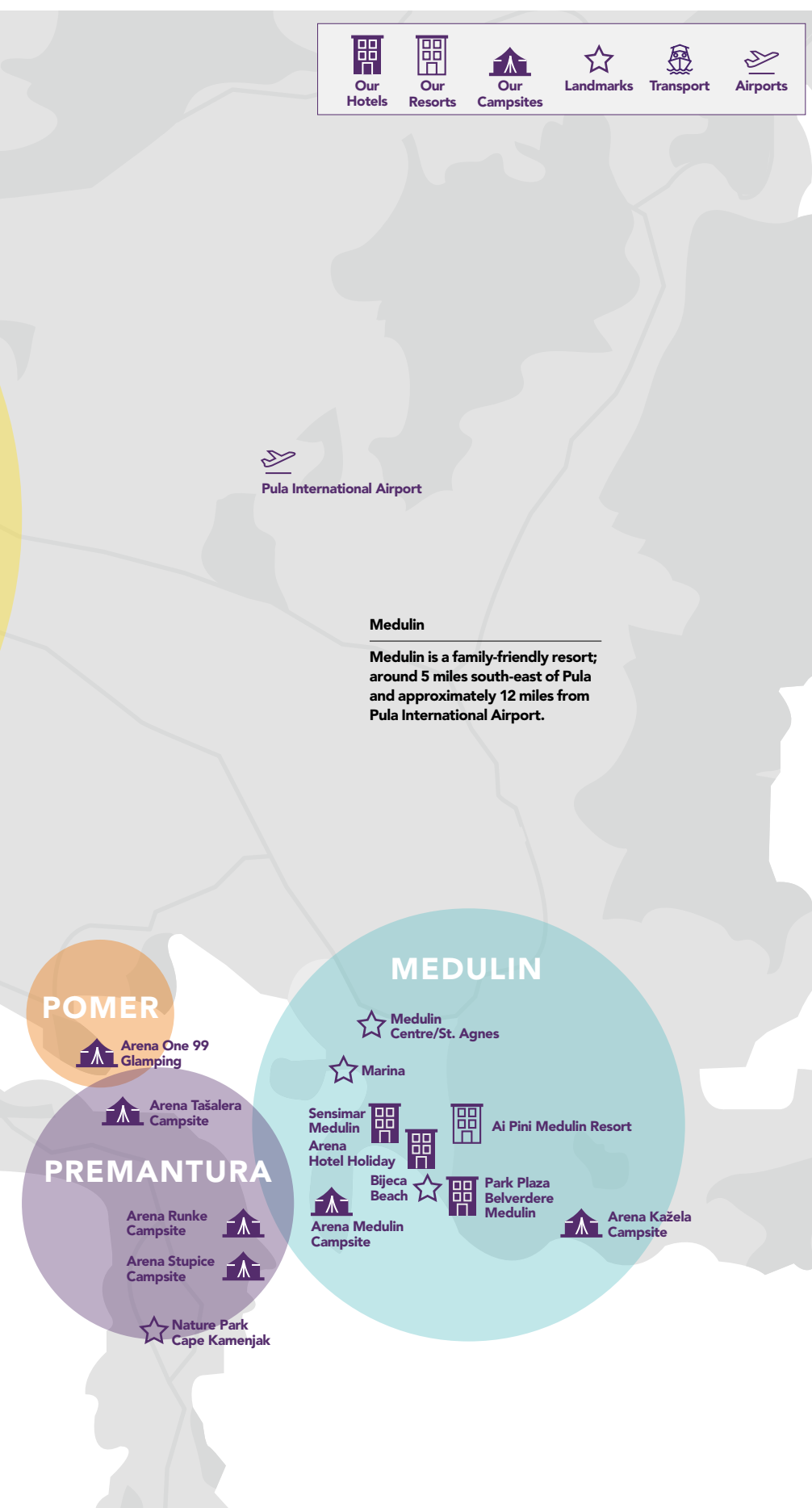
Croatia continues to grow from strength to strength with a marked increase in visitor numbers, in particular Istria, where we have a strong presence has seen an increase in airlines flying into Pula International Airport with approximately 16 carriers offering direct flights during peak season (June–September) from key European hubs including London, Milan and Basel.

Why Istria?



Pula

The historic city of Pula is one of Istria's most famous tourist destinations situated in the southern tip of Croatia's Istrian peninsula, around 4.5 miles from Pula International Airport. Venice is easy to reach by Ferry, which is just 80 miles away.



Overview

Istria, Croatia's Northern peninsula, is becoming increasingly accessible – in 2018 approximately two new UK routes were introduced from London Southend and Liverpool (summer 2018). The crowds are more dispersed than Croatia's other main cities with Istria boasting historical settings in its small towns including Medulin and Pula; each of which hosts Blue Flag coastal locations and small cafés, each peppered with flavours of neighbouring Italy (Venice is a boat journey away from Pula).

With so many European beaches packed out and prices higher than ever before, Istria has become a popular summer holiday choice for many.

Pula's amphitheatre hosts international stars such as Tom Jones and Sting at huge outdoor concerts set in ancient ruins, with major dance festivals also taking place in the area, including Outlook and Dimensions, which draw in huge visitor numbers.

Istria is famed for its gastronomy including olive oil, pasta, local wine and truffle production. We have seen many journalists visiting Istria to write about the diverse cuisine on offer and local growers. We have 60 olive oil producers and are consistently named as the world's best quality olive oil growing region.

Business review continued – Croatia

Croatia performance

Property portfolio

The Group's subsidiary, Arena Hospitality Group, owns and operates a Croatian portfolio of seven hotels, six resorts and eight campsites, all of which are located in Istria, Croatia's most prominent tourist region.

Four of Arena's properties in Croatia are Park Plaza branded, one property is marketed under the Sensimar brand (part of the TUI Group) and 2018 saw the introduction of the Arena Hotels & Apartments and Arena Campsites brands for certain of Arena's properties.

Total value of property
portfolio¹

£210m

¹ Independent valuation by Zagreb nekretnine Ltd in 2018.

Operational performance

The Group's operations in Croatia reported year-on-year growth in occupancy, average daily rates and RevPAR, improving on 2017's record performance for the region.

Operations are highly seasonal with the majority of visits occurring between June and September. Most hotels open and commence trading around Easter and then close by mid-October.

That said, trading in the first half of 2018 was strong with good trading in the Easter and Pentecost holidays. The region also benefited during the winter months from good demand for sports-related accommodation at Park Plaza Belvedere Medulin.

The highlight in the second half was the launch of Arena One 99 Glamping, Croatia's first all-glamping offer, which enjoyed a soft opening in June 2018. The site is already award-winning being recognised with Best Glamping and Best Campsite (Croatian Tourist Awards), and it was awarded Croatian Campsite of the Year with Glamping at the Croatian National Tourist Board's Tourist Flower Awards. In 2019, Arena One 99 is expected to continue to mature as it will benefit from its first full season of operations.

Reported total revenue increased by 6.9% to £60.2 million. In Croatian Kuna (HRK), reported revenue was up 5.0% to HRK 503.8 million, reflecting improved trading and the new glamping offer.

RevPAR increased by 0.9% to HRK 490.4, reflecting a modest improvement in average room rate to HRK 785.8 million and a 60 bps increase in occupancy to 62.4%.

Reported EBITDA decreased to HRK 155.3 million reflecting an increase in labour costs during the year and increased expenses for waste management and cleaning services.

Asset management projects

Arena One 99 Glamping was our primary real estate investment project in the year (approximately £8.0 million). It transformed the former Pomer campsite into an all-glamping site with eight types of accommodation. This new campsite, which opened in time for the peak summer season, is the first of its kind to open in Croatia and was well received by guests. It offers well-equipped accommodation with luxury amenities, an outdoor wellness area, beach bars and activity programmes for both adults and children.

At Park Plaza Arena Pula, six accommodation units were added to the inventory following significant renovation. The hotel now has a total of 187 rooms and suites. Prior to refurbishment, these rooms were part of the Verudela Beach Resort complex. At Park Plaza Histria Pula, a new wellness centre and spa were completed.

Ahead of the 2019 summer season, Arena Kažela Campsite, located on the south part of Medulin, will undergo a significant investment programme to upgrade the site of approximately £14.0 million.

The site has been chosen due to its peaceful location close to some of the best beaches in Istria. Guests have immediate access to beaches with areas exclusively for sunbathers. Upon completion of the investment project, Arena Kažela campsite will offer 152 new, fully equipped premium and family Camping Homes, in addition to more than 1,000 spacious pitches. The new Camping Homes are aimed at the modern traveller, searching for eco-friendly choices when on holiday. Each home features ecological and recycled materials and offers 37 square metres of interior space, more than 25 square metres of covered terrace and 250 square metres of private garden. Apart from the comfortable accommodation, the new facilities are designed to provide a luxurious holiday experience to its guests. Other new facilities will include a new reception, a new central pool with a children's area and new pool reserved exclusively for luxury Camping Home guests. In addition, a variety of sports and entertainment activities, suitable for both adults and children, will be on offer.

Repositioning projects planned for 2019 include Hotel Brioni (approximately £22.0 million) and Verudela Beach Resort (approximately £8.0 million). Following the planned investment in Hotel Brioni we will rebrand the hotel to Park Plaza Brioni. There are advance plans for refurbishment of the villas at Verudela Beach Resort.



Operations

	Reported in GBP ² (£)		Reported in local currency HRK	
	Year ended 31 Dec 2018	Year ended 31 Dec 2017	Year ended 31 Dec 2018	Year ended 31 Dec 2017
Total revenue	£60.2 million	£56.3 million	HRK 503.8 million	HRK 479.8 million
EBITDAR	£19.7 million	£19.7 million	HRK 165.0 million	HRK 168.0 million
EBITDA	£18.6 million	£18.7 million	HRK 155.3 million	HRK 159.1 million
Occupancy	62.4%	61.8%	62.4%	61.8%
Average room rate	£93.9	£92.2	HRK 785.8	HRK 785.6
RevPAR	£58.6	£57.0	HRK 490.4	HRK 485.8
Room revenue	£34.1 million	£32.5 million	HRK 285.1 million	HRK 277.0 million

² Average exchange rate from Croatian Kuna to Pound Sterling for the year to December 2018 was 8.37 and for the year to December 2017 was 8.52 representing a 1.8% decrease.

Business review continued

Management and Central Services

**Our performance**

Revenues in this segment are primarily management, sales, marketing and franchise fees and other charges for central services.

These are predominantly charged within the Group and therefore eliminated upon consolidation. The segment shows a positive EBITDA as management fees that are charged, both internal and external, exceed the costs in this segment.

Management, group central services, and license, sales and marketing fees are calculated as a percentage of revenues and profit, and therefore these are affected by underlying hotel performance.

**Management and Central Services**

	Reported in GBP (£)	
	Year ended 31 Dec 2018	Year ended 31 Dec 2017
Total revenue before elimination	£42.0 million	£42.4 million
Revenues within the consolidated Group	£(36.8) million	£(37.4 million)
External and reported revenue	£5.2 million	£5.0 million
EBITDA	£10.3 million	£10.5 million

INSPIRING GUESTS

□ Read more – See page 78

CREATING CENTRES OF EXCELLENCE

□ Read more – See pages 79–80

DEVELOPING OUR PEOPLE

□ Read more – See pages 81–82

BEING PART OF OUR COMMUNITIES

□ Read more – See page 83

RESPONSIBLE BUSINESS

At PPHE Hotel Group we pride ourselves on delivering responsible experiences in everything we do as a business.

This approach covers the wide range of unique hospitality experiences offered across all of our hotels, resorts, campsites, restaurants, bars, spas and the operations that make up our business for our guests, team members, partners, shareholders and members of the communities in which we operate.

Responsible business continued

DOING BUSINESS RESPONSIBLY



A shifting landscape

Since we acquired our first property in Eindhoven in 1989, PPHE Hotel Group has grown into an international hospitality real estate group with prime freehold and long leasehold assets in Europe. Our primary activity of developing, owning and operating hotels, resorts and campsites and many restaurants, bars and spas creates an increased level of responsibility to our guests, team members, partners, shareholders and the communities in which we operate. In turn, these stakeholders are placing a higher value on a brand's responsible initiatives and the impact it is having on the world.

The travel and hospitality sector

For the first time in recent history it is reported that the demand for travel is outpacing demand for consumer goods. Travel and tourism bookings have hit record levels over the past two years driven by a strengthening global economy. The Global Business Travel Association (GBTA) reports that it expects global business travel spending to continue to accelerate after already seeing record levels over the past few years.

Given this unprecedented growth it is more important than ever that businesses in the property and hospitality sectors take responsibility for their impact on the world and for their team members' wellbeing. It is critical that sustainability and risk management are inextricably linked with long-term growth strategies, with vigilance around evolving, high profile forms of risk such as the General Data Protection Regulation, gender pay equality, cyber security and food safety.

At a time when the European parliament has overwhelmingly backed a wide-ranging ban on single-use plastics such as plastic straws, cotton swabs, disposable plastic plates and cutlery – all of which are to be banned by 2021, and 90% of plastic bottles to be recycled by 2025 – eco-consciousness is on the rise in the hospitality industry. Guests are also looking for sustainable and authentic experiences and hotels are going green as millennials demand sustainable travel options.

Brands who fail to innovate and adapt to this responsibility risk losing market share. Today's consumers have access to instant information and use this to compare more hotel and private accommodation options than ever before. Along with this choice, comes expectations.



A responsible business strategy

Responsible Experiences

As outlined in our 2017 Annual Report, the Company has created a responsible business strategy – Responsible Experiences – that builds on the corporate social responsibility (CSR) activity of previous years to create a long-term sustainable and responsible business model.

Responsible Experiences was developed by our team members using our current values and the way our properties and their teams already go about their daily work. We have defined a responsible business mission and the four pillars reflecting key areas of activity and impacts.

🖥️ online <https://www.pphe.com/responsibility>

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

Each goal has a series of measures associated with it to help us monitor and evaluate our efforts. We are currently working on internal systems and processes to ensure that we can accurately report on these.

🖥️ For more information on our goals and measures visit our website <https://www.pphe.com/responsibility/our-approach>

We are working closely with Arena Hospitality Group to ensure that all systems, goals and measures align, which is a committed aim of the Group in 2019.

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

🖥️ For more information on our materiality survey visit our website <https://www.pphe.com/responsibility/stakeholder-engagement-materiality>

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

In 2018, we also joined our strategic partner, Radisson Hotel Group, as a supporter of the International Tourism Partnership (ITP). The ITP supports four of the UN Sustainable Development Goals focused on carbon, water, youth employment and human rights. We welcome the opportunity this membership brings for furthering our learning, allowing us to attend stakeholder member meetings and sharing best practice alongside other supporter events and roundtables.

Managing Responsible Business at PPHE Hotel Group

We are committed to conducting our business with honesty and integrity. We provide an environment in which team members are supported and encouraged to work responsibly. Our commitment to ethics, governance and compliance starts at senior management level, with the Executive Team driving Responsible Business initiatives and supporting the Regional and Property Team Members. Collaboration ensures Responsible Business remains relevant in our day-to-day operations.

Responsible Business is a focus of our new team member integration and features in our 'Feeling Welcome' induction programme. We aim for year-on-year enhancements to our Responsible Business strategy and encourage all team members to join in our collective effort to creating an environment where Responsible Business is integral in everything that we do.

Our mission in 2019

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

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

Responsible Experiences



INSPIRING GUESTS

📖 Read more – See page 78



CREATING CENTRES OF EXCELLENCE

📖 Read more – See pages 79–80



DEVELOPING OUR PEOPLE

📖 Read more – See pages 81–82



BEING PART OF OUR COMMUNITIES

📖 Read more – See page 83

Responsible business continued

INSPIRING GUESTS

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

The guest experience and futureproofing

One of our primary goals is to recognise and create opportunities and develop the properties in our portfolio to reach their full potential. We are committed to investing in the renovation and development of our hotels, resorts and campsites. These projects, which will enhance the quality and appeal of our offer, are part of our real estate investment programme. The feedback from our guests indicates that they appreciate these investments.

In 2018, as part of our Responsible Experiences strategy, we decided to upgrade our guest satisfaction and online reputation monitoring tools. For this purpose, we partnered with ReviewPro, which in our view is best aligned to help us meet our goals.

ReviewPro measures and ranks two main areas:

- 1) An analysis of online (third party) review websites. It then calculates the GRSTTM (Guest Rating Score), the most important metric for measuring online reputation performance
- 2) An analysis of survey responses from guests. It then calculates the NPS (Net Promoter Score[®]), the most relevant metric for measuring our guests' feelings towards our hotels

The reasons for choosing ReviewPro lie in the unique benefits it offers:

- Unified dashboard view of both guest satisfaction results and online reputation performance according to external review websites
- Simplified platform navigation with a wide range of functionalities, which will reduce the amount of time our team members spend in responding to reviews/surveys
- New features that will help us to better understand and improve our business

Health and wellbeing

We ensure that our products and services are advertised in strict conformity with legal requirements as well as with ethical and cultural standards. We comply with our own Company-wide code of conduct, as well as with regulations, guidelines and rules laid down by national advertising boards. We are committed to complying with applicable consumer-protection regulations and to employing appropriate sales, marketing and information practices in communications with our customers.

In 2018, we have commissioned the services of Clifton Environmental Management Ltd, a leader across the Leisure and Hotel Business Industry, to carry out a programme of external Health, Safety and Food Management audits across all our properties in all regions. Clifton also acts as the approved external contractor and support the Group where needed with expert opinion and Incident and Emergency management services.

Customer satisfaction and guest complaints are key to the development of our brands and services. We have a robust process in place that addresses the issue at hand and feeds directly into how we evolve the guest experience. This ensures that we build a service offering that is tailored to our guests and is informed by guest feedback.

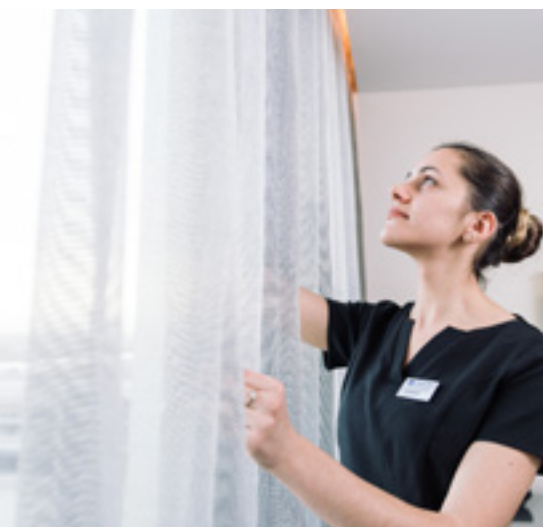
Safety and security

The safety and security of our guests and team members remains our priority at all times. All hotels have in place an Accredited Fire Risk Assessment, in full compliance with the Regulatory Reform (Fire Safety) Order 2005 and Regional Fire Statutory requirements. Each hotel has rigorous safety measures in place including emergency evacuation plans. Measures include sprinkler systems, smoke detectors, CCTV, team training and refresher training as well as ongoing full hotel evacuation training. All hotels are manned 24 hours a day.

In 2018, PPHE Hotel Group was successful in its application to be included in the British Safety Council 2019 'Sword of Honour' awards. The British Safety Council is widely recognised as the market leader in worldwide health and safety standards. The Sword of Honour is awarded to a maximum of 40 businesses per year and is regarded as a top standards award,

Goals:

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



only given to businesses that can prove through a rigorous audit and compliance programme they are industry leading.

We take the privacy of our customers very seriously. Over the last year we have reviewed our systems and policies to ensure that we are GDPR compliant. In order to comply, we identified how we process data and have instituted policies to process it in line with this new European law. We have a system in place to identify when we deviate from the prescribed procedures of processing data, either by using technology or by self-reporting to one of our hotlines. We have implemented two hotlines, one for the public and one for team members, both of which are directed to our compliance team. We have also designed and are currently implementing a new training system for our team members, enabling them to report any misuse of personal data to our hotline, allowing us to mitigate and prevent further risk.

Human rights

The Group requires its team members to uphold the Group's principals and policies on business ethics and anti-bribery and corruption. We introduced a Code of Ethics and Whistleblowing Policy during 2013 that applies to all Group Team Members. We require compliance with a comprehensive suite of anti-bribery policies, including a Gifts and Entertainment Policy which extends to all business dealings and transactions in which we are involved. This includes a prohibition on making political donations, offering or receiving inappropriate gifts or making undue payments to influence the outcome of business dealings. Our policies and guidance in this area are routinely reviewed. These policies are included in our training and induction programme 'Feeling Welcome'.



CREATING CENTRES OF EXCELLENCE

As a multi-brand owner and operator of 46 hotels, resorts, campsites and many restaurants, bars and spas across several key cities and resorts in Europe, it is critical that we develop a blueprint for long-term sustainable development and ethical operational practices.

Implementing our blueprint will form a critical part of our team member and guest education and engagement, having them contribute to our sustainability projects as and when appropriate. As highlighted in the materiality survey, 'Creating centres of excellence' was ranked as the Responsible Experiences pillar with the most impact.

Goals:

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

Carbon footprint

The management of our energy use has always been important to the Group and we have had success in reducing our carbon emissions over a long period of time. All our achievements in energy saving have been made possible by the commitment of our local hotel management teams and our regional general managers. A key driver of this is our 'Save tomorrow, today' programme, where we actively engage our guests in reducing their impact on the environment through the reduction of water, electricity and cleaning materials used in our properties.

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

In addition, all our hotels are encouraged to continue to improve their ratings from independent organisations and associations such as The Green Key and The Green Tourism Business Scheme.

Visit our website at pphe.com/responsibility/creating-centres-of-excellence for more information

Responsible business continued



Water use

Alongside the online energy monitoring tool, we also plan to implement an online water usage monitoring tool for all properties in the Group in 2019. Whilst we already encourage all our hotels to minimise their water usage and this is also included in the 'Save tomorrow, today' programme, we feel the online tool will allow us to effectively monitor and manage water use in our properties.

Waste and recycling

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

Procurement

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

It is important that all procurement decisions ensure that our hotels get the goods and services they need to operate effectively, and at the right price, whilst ensuring that robust due diligence has been performed to ensure that any social and environmental issues are properly understood and addressed. As a key component of the continuous development of our management processes, we have now implemented a centralised e-procurement system (Procure to pay) across the United Kingdom and the Netherlands. We plan to continue the rollout of this system with Croatia to follow after this. The system provides complete transparency of all our suppliers for all outlets in all regions and allows us to include a strict audit and supply chain process that can be developed as our business grows and our requirements change.

The issues we face with our supply chain are constantly changing and evolving. It is a continuing process to improve and strengthen our procurement activity to ensure that relevant issues are properly understood and managed in each buying decision we make. Our responsible business strategy will help us to identify and prioritise the areas to concentrate on.

Strategic partners/suppliers

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

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

Our supplier contract management also provides us with the information we need to monitor and manage supplier activities across the Group and help improve accountability for all.

Equality and diversity

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

– protected characteristics (Equality Act 2010):

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

– caring responsibilities for a 'protected characteristic' including dependants;

– socio-economic background/grouping;

– union activity; and

– unrelated spent criminal convictions.



DEVELOPING OUR PEOPLE

We are a truly international organisation which employs more than 4,100 team members from over 30 different nationalities. With such a diverse workforce, it is important that the Group has a strong company culture and leadership that inspires our team members to share our passion to perform.

We recognise that our team members are central to the success of the Group and how we operate. Our company culture is one of trust, respect, caring and connecting, and is also about personal growth.

The overall Group's context of 'placing the guest experience at the heart of everything we do' supports this. It is critical that we invest in our talent and encourage their growth by delivering an exciting and forward-thinking workplace for them to develop their skills and knowledge, providing them with the opportunities to grow with our business.



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

In 2018, we made further progress refining our learning and development programmes for our team members. Our trainings were delivered by more than 85 internal trainers, with the support of almost 100 internal coaches. All our new team members attended our mandatory induction programme, an all-encompassing programme which ensures that new starters are off to a great start and understand our culture, values and their role in delivering inspirational guest experiences and our business objectives.

you:niversity framework

We have reviewed the current offering in the you:niversity framework and the overall learning and development strategy. The mapping of our training offering has given us better insight into the purpose of

individual trainings and the priority for continuous development. Combining the development priorities with our learning and development strategy and an analysis of the changing needs of the Company has resulted in a clear vision for the future developments of our you:niversity framework. We have identified the following key objectives for 2019: enhancing our learning culture, encouraging a blended and personalised learning approach, both self-directed learning and leader-led development, supported by technology and clearly measured.

Talent management

We put great emphasis on supporting and encouraging team members to develop and grow their careers within the business. Inspiring internal talent has continued to play an important role in 2018 and will be a priority for our future success. Developing our talent as a resource is an operational responsibility, supported by the Human Resources and Learning and Development representatives in all hotels and in each region.

Goals:

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

Responsible business continued

To help support the Group with Talent Management, a robust process is in place which ensures that leadership is actively engaged with identifying and developing our internal talents. Regular talent meetings take place where development plans are created that guarantees the team members' and our Company's growth strategy. In our four regions, 81% of our team members have had a Performance & Development Review meeting with their manager to review their personal development potential.

you:niversityplus

We benefit from strong relationships with universities and hospitality schools across Europe and, to strengthen this cooperation, we have designed our you:niversityplus programme. The aim of this programme is to attract and retain highly engaged students and apprentices. This programme is tailored to their development needs and helps them develop their communication and cooperation skills. It is also a useful way of demonstrating the diversity of job opportunities within our Group.

you:niversitynext

The you:niversitynext is our fast track Management Development Programme designed to give a clear insight into a wide range of managerial elements of our business on a two-year learning journey.

The strategic goal is to develop our talent pipeline for the future and this programme has a clear purpose as a method for growing our managers of the future, targeting four key talent streams – internal talent, recognised and nominated through Talent Bank and mobile in region, external college/university education and hospitality work experience; Hospitality or Business focused degree, Supervisor level work experience in Hospitality with suitable foundation education.

In 2018, we increased the programme to five participants in the UK, and launched the programme in The Netherlands starting with one participant to ensure that we have the right format for each market – and we expect this number to increase in the coming years as the popularity of the programme continues to grow across the Group.

This format gives the best possible exposure to the key areas of the business along with a range of opportunities to develop managerial knowledge, soft skills and leadership styles – with experiences spanning our hotels, support functions and regional offices to become a successful hotel management professional in our properties.

Employment

PPHE Hotel Group employs a diverse workforce across our four regions, with a gender mix of 45% men and 55% women. Around 70% of our workforce is between the ages of 21 and 40, followed closely by 31 to 40, after which comes our workforce of people aged 41 to 50.

Around 600 new team members joined PPHE Hotel Group as part of the UK Accommodation Services team; this decision was taken to enable a higher team member engagement in our UK-based housekeeping team.

We have been measuring employee engagement since 2015 and it continues to play an important role in the further development of the Group by helping us understand the employee experience. Developing our employee experience is critical to developing our guest experience. Having a highly engaged workforce is imperative to our success and ability to attract and retain highly competent and motivated team members. Creating a culture where team members feel safe to share their opinion and help us shape the future of our Group together is essential for the success of our business and all our managers and leaders play a vital role in this process.

To measure employee engagement, we have developed a model with four engagement drivers: My Job; My Manager; Our Team; and Our Company. By answering detailed questions across these four engagement drivers, overall engagement of our team members is established.

Our engagement survey is conducted digitally at least once a year and is available in multiple languages to remove as many barriers to entry as possible and encourage participation. In 2018, we achieved an engagement index score of 83.6. With 3,320+ team members participating in the full scale survey, the participation ratio remained steady at 93% for all Group employees.



BEING PART OF OUR COMMUNITIES

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

We have a strong commitment to this pillar and are constantly reviewing our community and charitable activity to ensure that it has maximum impact at a local level, but also resonates globally and supports the Group in meeting its objectives and responsibilities.

Goals:

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

Charity initiatives and volunteering

Group-wide

2018 saw the Group support two charitable initiatives across all properties at an international level.

The first was THINK PINK!, PPHE's Group-wide awareness campaign which took place in October in support of the globally recognised Breast Cancer Awareness Month. An annual event, THINK PINK! saw hotels, restaurants, bars, spas and offices in the United Kingdom, the Netherlands, Germany and Hungary raise funds and drive awareness of women's and men's health through a number of initiatives including pink-themed afternoon teas, a Big Pink Day where offices and hotels could donate to wear a hint of pink for the day, and of course the annual London relay where hotel and office teams raced between five Park Plaza Hotels & Resorts properties. The total raised across all regions was £20,000.

The second was 'Save tomorrow's trees today' where Park Plaza Hotels & Resorts supported partner charities the World Childhood Foundation and Nottinghamshire Wildlife Trust (NWT) as part of Radisson Hotel Group's Community Action Month. Volunteering hours have been donated to NWT to maintain the 40 trees planted in 2016, which represent the 40 international Park Plaza Hotels & Resorts properties. Fundraising activities included a donation on sales of a Juniper and Pineapple Tree inspired Gin cocktail, hotel check-out donations, tree-themed cake sales and a PPHE Quiz Night; with all contributions going to the World Childhood Foundation.

Total cash donations across these two international initiatives equalled £29,821, while total volunteering hours amounted to 60.5 hours.

Contributions and investments

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

Engagement with our local communities

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

At Group level, we partner with the EMCup Hotel Management Schools Forum, Europe's leading hotel school networking event, participating in 2018 on the Business Jury Panel to offer commercial advice to the next generation of hospitality students, and hosting the networking evening to introduce students to employment opportunities within PPHE Hotel Group.

The partnership also aids in building long-standing relationships with hospitality students and Hotel School leaders across the Netherlands, Switzerland and Ireland.

For information on our local initiatives visit our website: pphe.com/responsibility/being-part-of-our-communities

Corporate governance

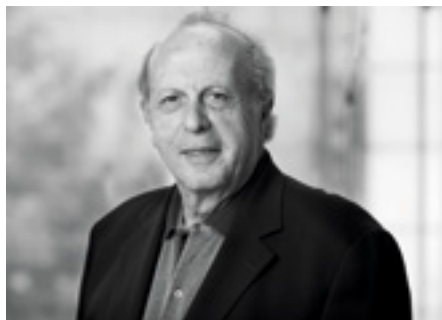
Board of Directors



Name

Eli Papouchado

Non-Executive Chairman



Boris Ivesha

**President &
Chief Executive Officer**



Daniel Kos

**Chief Financial Officer &
Executive Director**

Skills and experience

Eli has been Chairman of the Group since its formation in 1989, previously founding the Red Sea Group, a collection of real estate companies which he led as its Chairman for ten years. He has a wealth of experience in the construction, design, development, financing, acquisition and management of leading European hotels, including Park Plaza Westminster Bridge London, Park Plaza London Riverbank, art'otel amsterdam, Park Plaza Nuremberg and many others. Eli has led the development of major retail spaces in shopping malls and large residential projects in the USA, Eastern Europe and the Middle East. He also served as Chairman of the Israel Hotel Association.

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

Daniel is a Certified Public Accountant and is the Chief Financial Officer & Executive Director of the Group. He joined the Group in 2011 as Group Head of Accounting and was appointed as Vice President Corporate Finance in 2015. Prior to joining the Group, Daniel held senior leadership positions within audit and finance, including 11 years at Mazars LLP, an international audit practice.

Board Committees

NA

NA

NA



Kevin McAuliffe
Non-Executive Deputy Chairman

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

– Audit
– Nomination
– Remuneration



Nigel Jones
**Non-Executive Director &
Senior Independent Director**

Nigel is a Non-Executive Director and Senior Independent Director and has been a member of the Royal Institution of Chartered Surveyors since 1989. He was Chief Executive of ComProp Limited between 2001 and 2007 while it traded as an AIM-listed property company, and during that time he was responsible for major office developments including headquarter offices for Fortis, Kleinwort Benson and Generali, along with retail stores for B&Q and Waitrose. Nigel initially worked in Southampton for Humberts and dealt with the management of coastal land forming part of the Crown Estate before moving to Guernsey where he established the island's first dedicated commercial property practice in 1995.

– Audit
– Nomination
– Remuneration



Dawn Morgan
Non-Executive Director

Dawn is a Non-Executive Director. She is a Chartered Accountant and former Finance Director and Company Secretary of International Energy Group Ltd (IEG). She joined IEG as Financial Accountant in 1992 and was promoted to Group Accountant and Company Secretary in 2000, and further promoted to the main Board as Finance Director from 2004–2013. During her 21 years at IEG, Dawn's extensive role covered all aspects of commercial accounting and management. This included the group consolidations and cash flows, disaster recovery, restructuring and the centralisation of the finance function. She was also actively involved in the flotation of IEG on the London Stock Exchange and various group acquisitions and disposals, including the sale of IEG and its integration into an Australian and Canadian quoted company.

– Audit
– Nomination
– Remuneration

Non-Executive Deputy Chairman's Corporate Governance

THE VALUE OF HIGH STANDARDS

Kevin McAuliffe
Non-Executive Deputy Chairman



Overview

As a company whose shares are admitted to the Premium Listing segment of the Official List of the UK Listing Authority with trading on the Main Market for listed securities of the London Stock Exchange, the Company is required to comply with the requirements of the UK Corporate Governance Code published by the Financial Reporting Council (FRC) in 2016 (the 'Code') and available from the FRC website (frc.org.uk).

The Board believes that the Company applied the principles of and complied with, all provisions of the Code during 2018, except as set out in this governance report. Pursuant to the Company's obligations under the Listing Rules, the Company intends to apply the principles of and comply with the provisions in the Code or to explain any instances of non-compliance in this Annual Report.

Effective from 1 January 2019, the 2018 version of the Code applies to companies with accounting periods beginning on or after 1 January 2019. The Company will report on how it has complied with the 2018 version of the Code in the 2019 Annual Report to be published in 2020. The Board has considered certain aspects of the new Code requirements that are required to be adopted during 2019.

In advance of the Company's transfer to the Premium Listing segment, the Board reviewed its composition and the governance framework. This resulted in certain role and procedural changes to ensure that the Board is effective in discharging its duties and responsibilities.

Board composition, roles independence and activity during the year

The Company currently has six Directors, four of whom are Non-Executives (including the Chairman, Eli Papouchado). The two Executive Directors are Boris Ivesha, President & Chief Executive Officer and Daniel Kos, Chief Financial Officer.

Chen Moravsky stepped down from his role as a Non-Executive Director on 12 June 2018.

The entire Board will stand for re-election at the forthcoming Annual General Meeting on 15 May 2019.

The Code recommends that the Board of Directors includes a balance of Non-Executive and Executive Directors such that no individual or small group of individuals can dominate the Board's decision making. The Code further recommends that the Chairman, on appointment, be independent.

The Company's Chairman, Eli Papouchado, is the founder of the Red Sea Group (of which Euro Plaza Holdings B.V., the Company's largest shareholder, is a part) and was not therefore independent on appointment, and is not independent of the Company. However, the Board believes that Eli Papouchado's extensive experience and knowledge of the Group's business, as well as the hotel business generally, justify this departure from the recommendations of the Code.

After careful consideration by the Board in respect of my independence I was delighted to be appointed as Non-Executive Deputy Chairman of the Company on 12 June 2018 to engage with corporate governance related matters.

Nigel Jones and I have served on the Board for more than 11 years, and in that respect only will not meet the usual criteria for independence set out in the Code. Notwithstanding this, the Board has determined that Nigel Jones and I continue to be independent in character and judgment taking into account our wealth of experience and valuable contributions to Board discussions.

Three of the Directors, namely Dawn Morgan, Nigel Jones and myself, are therefore regarded by the Company as being independent of management and free from any business or other relationship that could materially interfere with the exercise of our independent judgment.

The Board appointed Nigel Jones as the Senior Independent Director on 12 June 2018, taking over the role from myself. The Senior Independent Director provides a sounding board for the Chairman and myself, as well as serving as an intermediary for the other Directors when necessary.

It is the Board's current intention that a further independent non-executive director will be appointed during the course of the 2019 financial year and the Board will keep shareholders updated on its progress in respect of this.

Corporate governance statement

The Board has responsibility for the Group's strategic and financial policies and meets regularly. All Directors have access to the advice and services of the Group's General Counsel and Company Secretary and are able to gain access to external independent advice at the Company's expense should they wish to do so in the furtherance of their duties.

An appropriate balance of Executive and Non-Executive members of the Board is maintained, and the Board is supplied with regular and timely information concerning the activities of the Group to enable it to exercise its responsibilities and control functions in a proper and effective manner.

The Board has a breadth of experience relevant to the Company, and the Directors believe that any changes to the Board's composition can be managed without undue disruption. With any new Director appointment to the Board, an appropriate induction will be arranged. Induction training may include visits to hotel sites to see the business in operation and meetings with other Directors, management and major shareholders.

The General Counsel and Company Secretary arranges for regular legal briefings to ensure that the Directors can update their skills and knowledge. Beyond induction training, the Non-Executive Deputy Chairman reviews and agrees with each Director their training and development needs.

The Board considers agenda items laid out in the notice of Board meeting and agenda which are formally circulated to the Board in advance of the Board meetings as part of the Board papers and therefore Directors may request any agenda items to be added that they consider appropriate for Board discussion. In practice, the General Counsel and Company Secretary

liaises with the Non-Executive Deputy Chairman and the other Non-Executive Directors to set the agenda and ensure timely dissemination of relevant information and Board papers in advance of Board meetings. In instances when the Chairman is not present, the Non-Executive Deputy Chairman (or, failing him, the Senior Independent Director) will chair the meeting. Each Director is required to inform the Board of any potential or actual conflict of interest prior to Board discussion and it is noted in the relevant Board Minutes.

The Company Secretary reports to the Chairman and Non-Executive Deputy Chairman on governance matters. The appointment and removal of the Company Secretary is a matter for the Board.

The primary focus at Board meetings is a review of operating performance, potential investments and joint ventures, and matters such as financing arrangements, as well as marketing/investor relations, risk management, general administration and compliance, peer group information and industry issues. A key focus for the Non-Executive Directors is to review the performance of management in meeting the goals and objectives of the Company's strategy as set by the Board and to ensure constructive challenge of management when appropriate. As noted on the following pages, the Board has adopted a set of reserved powers.

As a Board we discuss Board and senior management succession planning to ensure diversity of perspective as well as ensuring any candidate has the relevant skills and experience.

The Board evaluates its performance and considers the tenure of each Director on an annual basis, and believes that the mix of skills, experience and length of service is appropriate to the requirements of the Company. Each Director confirmed that he or she has sufficient time to allocate to the Company to discharge his or her responsibilities effectively. The Board monitors the requirement to refresh the Board and is reviewing succession plans for the Board and senior management. The entire Board retires and stands for re-election annually at the Annual General Meeting.

The Non-Executive Deputy Chairman has initiated the implementation of an independent evaluation process conducted by Independent Audit to assess the effectiveness of the Board and its Committees.

The roles of the Chairman and the Chief Executive Officer are separate and clearly defined, each playing an important role in running the business.

The Chairman assisted by the Deputy Non-Executive Chairman have taken on the role and responsibility for the leadership of the Board. The Senior Independent Director provides a sounding board for the Chairman and the Non-Executive Deputy Chairman and acts as an intermediary for the other Directors when necessary. The Chief Executive Officer is responsible for the management of the Group and the implementation of Board strategy and policy on the Board's behalf. In discharging his responsibilities, the Chief Executive Officer is advised and assisted by senior management.

The Non-Executive Deputy Chairman holds meetings with the Non-Executive Directors without the Executive Directors present.

As the Company is new to the Premium Listing segment the Non-Executive Directors, led by the Senior independent Director, will, going forward be responsible for performance evaluation of the Chairman.

During the year, the Directors held nine Board meetings, five Ad Hoc Board Committee meetings, five Audit Committee meetings, eight Remuneration Committee meetings, and four Nomination Committee meetings.

The Board also reviewed the documentation in relation to the transfer of the Company's shares from a Standard Listing to a Premium Listing on the Official List of the UK Listing Authority which took place on 30 July 2018.

During the last 12 months, the Board has overseen the restructure of the executive team. This has strengthened the team.

Matters reserved to the Board

The Directors have a formal schedule of matters reserved for its decision, which establish the key purpose of the Board and detail its major duties.

These duties cover the following areas of responsibility:

- Statutory obligations and public disclosure
- Strategic matters and financial reporting
- Oversight of management and personnel matters

- Risk assessment and management, including reporting
- Monitoring, governance and control
- Other matters having material effects on the Company

These reserved powers of the Board have been adopted by the Directors to clearly demonstrate the seriousness with which the Board takes its fiduciary responsibilities and as an ongoing means of measuring and monitoring the effectiveness of its actions.

Operational matters and routine business are delegated by the Board to management.

External appointments

Directors may hold directorships or other significant interests with companies outside of the Group which may have business relationships with the Group. Executive Directors may not accept external directorships and retain any fees earned from those directorships without prior discussion with the Chief Executive Officer, provided always that this does not lead to any conflicts of interest and that they do not hold more than one non-executive directorship in a FTSE 100 company or the chairmanship of such a company.

In the case of the Chief Executive Officer, prior discussion will need to be held with the Chairman.

Eli Papouchado's other significant commitments includes his roles with the Red Sea Group.

Directors' indemnities and protections

The Company has arranged appropriate insurance cover in respect of certain legal actions against Directors and senior managers of companies within the Group. In addition, the Articles of Incorporation of the Company (the 'Articles') permit the Directors and officers of the Company to be indemnified in respect of liabilities incurred as a result of their office.

Meeting and Committee attendance during 2018

		Board	Ad Hoc Board Committee	Audit Committee	Remuneration Committee	Nomination Committee
Eli Papouchado	Non-Executive Chairman	5	–	NA	NA	NA
Roni Hirsch	Alternate Director on behalf of Eli Papouchado ¹	1	–	NA	NA	NA
Boris Ivesha	President & Chief Executive Officer	9	–	NA	NA	NA
Daniel Kos	Chief Financial Officer & Executive Director	9	3	NA	NA	NA
Kevin McAuliffe	Non-Executive Deputy Chairman	9	1	5	8	4
Chen Moravsky	Non-Executive Director ²	4	1	NA	NA	NA
Nigel Jones	Non-Executive Director & Senior Independent Director	9	5	5	8	4
Dawn Morgan	Non-Executive Director	9	5	5	2 ³	4
Total meetings held		9	5	5	8	4

¹ Roni Hirsch was the Alternate Director of Eli Papouchado until 12 June 2018.

² Chen Moravsky was a Non-Executive Director until 12 June 2018. He was entitled to attend six Board meetings and two Ad Hoc Board Committee meetings during 2018.

³ Appointed to the Remuneration Committee on 12 June 2018.

Corporate governance statement continued**Board Committees**

The Company has established the following committees in order to carry out work on behalf of the Board: an Audit Committee, a Remuneration Committee and a Nomination Committee. The Committees are provided with sufficient resources to undertake their duties.

Terms of reference for each Board Committee, which have been approved by the Board, are available on the Company's website (pphe.com). Details of each Board Committee's role, responsibilities and activities are set out on pages 92 to 97.

Communications with shareholders

The Board is accountable to the Company's shareholders. It is important for the Board to appreciate the aspirations of the shareholders and equally that the shareholders understand how the actions of the Board and the short-term financial performance of the Company relate to the achievement of the Company's longer-term goals.

The Board reports to the shareholders on its stewardship of the Company through the publication of interim and final results each year. Press releases are issued throughout the year and the Company maintains a website (pphe.com) on which press releases and interim and final results, including the Annual Report and Accounts, are available to view. Additionally, this Annual Report contains extensive information about the Company's activities.

Enquiries from individual shareholders on matters relating to the business of the Company are welcomed. Further communication channels have

been adopted by the Company to permit the transmission of documents and notice to shareholders in electronic form. This means that, instead of being obliged to send annual reports, notices of shareholder meetings and other documents to shareholders by post, the Company can instead publish them on its website (pphe.com). If shareholders provide their email address, the Company can also notify shareholders by email when documents are available.

Members of the Board, including the Non-Executive Directors and the Senior Independent Director, also meet with major shareholders to discuss and review the progress of the Company and to understand their issues and concerns, as well as to discuss governance and strategy and are expected to attend meetings if requested by certain major shareholders. The members of the Board, including the Senior Independent Director, have attended meetings with certain major shareholders to listen to their views in order to help develop a balanced understanding of the issues and concerns of major shareholders.

The Chief Executive Officer and the Chief Financial Officer provide periodic feedback to the Board following meetings with shareholders.

The Annual General Meeting provides an opportunity for communication with all shareholders and the Board encourages shareholders to attend and welcomes their participation. All Directors attend the Annual General Meeting and are available to answer questions. Details of resolutions to be proposed at the Annual General Meeting of the Company to be held on 15 May 2019 are included in the notice of the Annual General Meeting which can be found on the Company's website (pphe.com).

"THE BOARD HAS A BREADTH OF EXPERIENCE RELEVANT TO THE COMPANY."

Internal controls

The Directors acknowledge their responsibility for establishing and maintaining the Group's systems of internal control. These are designed to safeguard the assets of the Group and to ensure the reliability of financial information for both internal use and external publication.

The Group's internal control procedures include Board approval for all significant projects. All major expenditures require either senior management or Board approval at the appropriate stages of each transaction. A system of regular reporting covering both technical progress of transactions and the state of the Group's financial affairs provides appropriate information to management to facilitate control. The Board reviews, identifies, evaluates and manages the significant risks that face the Group.

The Group has in place internal control and risk management systems in relation to the Group's financial reporting process and the Group's process for preparing consolidated accounts. These systems include policies and procedures to ensure that adequate accounting records are maintained and transactions are recorded accurately and fairly to permit the preparation of consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Any systems of internal control can only provide reasonable, and not absolute, assurance that material financial irregularities will be detected or that the risk of failure to achieve business objectives is eliminated. The Directors, having reviewed the effectiveness of the system of internal financial, operational and compliance controls and risk management, consider that the system of internal controls operated effectively throughout the financial year and up to the date the consolidated financial statements were signed.



Kevin McAuliffe
Non-Executive
Deputy Chairman
27 February 2019

Share dealing code

The Company has in place a share dealing code for Directors and relevant employees, which is in accordance with the requirements of the Market Abuse Regulation (Regulation (EU) No. 596/2014) and applicable legislation.

Shareholder enquiries

For information about the management of shareholdings that have not already been communicated to shareholders in electronic form please contact our registrar:

Link Asset Services
34 Beckenham Road
Beckenham
Kent BR3 4TU
United Kingdom

E: shareholder.services@linkgroup.co.uk
T: UK 0871 664 0300

Calls cost 12p per minute plus network extras.

T: Overseas +44 371 664 0300

Lines are open Monday to Friday 9.00am to 5.30pm, excluding public holidays in the UK.

Investor relations enquiries

Robert Henke, Executive Vice President
Commercial & Corporate Affairs
County Hall – Riverside Building
2nd Floor, Belvedere Road
London SE1 7GP
United Kingdom

T: +31 20 717 8603

E: info@pphe.com

Website

Annual reports, half year reports and shared information are all available on the Company's website (pphe.com).

Financial calendar

Financial year: 1 January to 31 December

Interim: Six months ending 30 June

Results:

Interims: August 2019

Final: March 2020

Annual General Meeting: 15 May 2019

London Stock Exchange trading code

LSE: PPH

Report of the Audit Committee



Dawn Morgan (Chairwoman)
Non-Executive Director

Audit Committee members

Kevin McAuliffe

Non-Executive Deputy Chairman

Nigel Jones

Non-Executive Director & Senior Independent Director

Role

The Audit Committee assists the Board in observing its responsibility of ensuring that the Group's financial systems provide accurate and up-to-date information on its financial position and that the published consolidated financial statements represent a true and fair reflection of this position. It also assists the Board in ensuring that appropriate accounting policies, internal financial controls and compliance procedures are in place.

The Audit Committee receives and reviews information from the Chief Financial Officer, the Company Secretary, the internal audit team and the external auditors regularly throughout the year.

Dawn Morgan is a Chartered Accountant and a former Finance Director, and Kevin McAuliffe and Nigel Jones have substantial experience of dealing with financial matters. As such, the Board is satisfied that the Audit Committee has recent and relevant financial experience and can properly discharge its duties in light of the nature of the Company's business.

Nigel Jones has experience in the property and construction sector and Kevin McAuliffe has experience in the commercial sector. As such, the Board is satisfied that the Audit Committee as a whole has competence relevant to the sector in which the Company operates.

Kevin McAuliffe's membership of the Audit Committee will come to an end at the forthcoming Annual General Meeting

as the handover to Dawn Morgan as the new Chairwoman of the Audit Committee has been successfully completed.

External audit and external auditors

Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, are the Company's current external auditors and were re-appointed for a tenure of one year at the Company's last Annual General Meeting.

The Audit Committee considers the appointment, re-appointment and removal of the external auditors, reviews their terms of appointment and negotiates fees on behalf of the Company prior to making recommendations through the Board to the shareholders to consider at each Annual General Meeting.

Kost Forer Gabbay & Kasierer have expressed their willingness to continue in office as auditors and a resolution to re-appoint them for a tenure of one year will be proposed at the forthcoming Annual General Meeting. If approved, this will be Kost Forer Gabbay & Kasierer's fifth year of appointment as the Company's external auditors.

In accordance with corporate governance requirements, the Audit Committee reviewed the independence and objectivity of the external auditors and reported to the Board that it considers that the external auditors' independence and objectivity was maintained. A formal tender process was last carried out by the Company in 2014.

**"THE AUDIT COMMITTEE
ASSISTS THE BOARD
IN OBSERVING ITS
RESPONSIBILITY
OF ENSURING THAT
THE GROUP'S FINANCIAL
SYSTEMS PROVIDE
ACCURATE AND UP-TO-
DATE INFORMATION."**

To analyse audit effectiveness, the Audit Committee meets with management to discuss the performance of the external auditors without them being present. Separate meetings are also held with the external auditors without the presence of any member of executive management.

The audit fees amounted to £315 thousands (2017: £311 thousands) and the non-audit fees amounted to £211 thousand (2017: £0). £204 thousand of the non-audit fees related to the Financial Position and Prospectus Procedures Report and a Working Capital Report, both of which were required to support the transfer of the Company's shares to the Premium Listing segment of the Official List of the UK Listing Authority. These fees were approved by the Board. Although an alternative quote was considered, the external auditors were considered the most suitable supplier of these services taking into account the alignment of these services to the work undertaken by external audit and the firm's skill set. The Audit Committee considered whether the provision of the non-audit services would impact on the objectivity and independence of the auditors and was comfortable that this work did not. The level of non-audit fees is expected to reduce in 2019.

Internal audit

The Audit Committee monitors and reviews the effectiveness of the internal auditor, agrees his annual work plan and reviews whether the internal auditor has the proper resources to enable him to satisfactorily complete such work plans. It also reviews status reports and considers management's response to any major findings, providing support, if necessary, for any follow-up action required, and ensures that the team obtains free and unrestricted access to all Group activities, records, property and personnel necessary to fulfil its agreed objectives.

To analyse audit effectiveness, the Audit Committee meets with management to discuss the performance of the internal auditor without him being present. Separate meetings are held with the internal auditor without the presence of any member of executive management.

Financial reporting

Prior to submission to the Board, the Audit Committee monitors the integrity of the financial statements and annual accounts and confirms that they have been properly prepared in accordance with IFRS (as adopted by the European Union) and the requirements of Guernsey law.

In relation to the financial statements, the significant issues the Audit Committee considered relates to the complexity of the financial statements due to the size of the Group, the multiple legal entities and the geographical decentralised structure. During our discussions, we put emphasis on the evaluations of the Group's internal controls, assessment of the IT environment and ensuring that the applied accounting policies, including implementation of new accounting standards are in accordance with International Financial Reporting Standards (IFRS).

The Audit Committee reviews draft annual and interim reports before recommending their approval and publication to the Board. The Audit Committee discusses with the Chief Executive Officer, Chief Financial Officer and external auditors the significant accounting policies, estimates and judgments applied in preparing these reports.

The Audit Committee also reviews the reports to shareholders and any other public announcement concerning the Group's financial position, corporate governance statements and statements on the Group's system of internal controls and reports its views to the Board to assist in its approval of the results announcements and the Annual Report.

The Audit Committee has reviewed the Annual Report and Accounts. In its opinion, taken as a whole, they are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Whistleblowing policy

The Audit Committee is also responsible for reviewing arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters, and ensuring that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action. The Company has a whistle-blowing policy in place which:

- encourages employees to report suspected wrongdoing as soon as possible, in the knowledge that their concerns will be taken seriously and investigated as appropriate, and that their confidentiality will be respected;
- provides employees with guidance as to how to raise those concerns; and
- reassures employees that they should be able to raise genuine concerns in good faith without fear of reprisals, even if they turn out to be mistaken.

The whistleblowing policy is currently in the process of being updated.

Report of the Audit Committee continued

Audit Committee attendance and meetings

The Audit Committee met five times during the year and received regular monthly financial updates from the Chief Financial Officer on the Group's performance.

Attendance of the individual Directors who served on the Audit Committee throughout the year is shown in the table on page 89.

Throughout the year, the Audit Committee reviewed and considered the following:

- the financial information that is publicly disclosed, which included the accounts for the year ended 31 December 2018 and the interim results for the period ended 30 June 2018;
- approval of budget;
- the performance of the Group's assets throughout the year;
- the Group's refinancing activities;
- arrangements reached with related parties;
- onsite visits carried out at Park Plaza Nuremberg and art'otel cologne;
- its terms of reference, which were updated to align with the Code and are available on the Group's website;
- the impact of GDPR on the business; and
- the Group's internal control and risk management policies and systems, and their effectiveness, including reviewing reports from the internal audit team including reports on operation, food hygiene, cyber and information security, location of Group servers and guest security.

From the monthly management information provided, the Audit Committee also regularly reviewed aspects of the effectiveness of the Group's system of internal control and risk management procedures as well as the Group's risk management strategy to ensure that any required remedial action on any identified weaknesses is implemented.

On behalf of the Board



Dawn Morgan
Chairwoman of the
Audit Committee
27 February 2019

Report of the Nomination Committee



Nigel Jones (Chairman)

Non-Executive Director & Senior
Independent Director

Role

The Nomination Committee's key responsibility is to keep under review the structure, size, composition (including the skills, knowledge, experience and diversity) and the length of service the Board as a whole and Board Committees, and make recommendations with regard to any changes to the Board and its Committees. The Nomination Committee considers succession planning for Directors, both executives and non-executives, being mindful of the need to refresh the Board.

Nomination Committee members

Kevin McAuliffe

Non-Executive Deputy Chairman

Dawn Morgan

Non-Executive Director

Process for Board appointments

The Nomination Committee is responsible for identifying and nominating, for the approval of the Board, candidates from a wide range of backgrounds to fill Board vacancies as and when they arise.

As a policy, before any appointment is made by the Board, the Nomination Committee evaluates the balance of skills, knowledge, experience and diversity on the Board and, in the light of this evaluation, prepares a description of the role and capabilities required for a particular appointment.

In identifying suitable candidates the Nomination Committee uses such methods as it deems appropriate.

During 2018, in preparation for the Company's transfer to the Premium Listing segment, the Nomination Committee reviewed the composition of the Board and the roles of the individual Directors. The Board and the Committees were restructured as a result of this review. Although no new Board appointments were made, this will be kept under review.

Diversity

The Board supports diversity and promotes equal opportunity for all team members regardless of age, disability, marriage and civil partnerships, gender reassignment, race (colour), ethnic or nationality background, religion or beliefs, sexual orientation and gender.

Nomination Committee attendance and meetings

The Nomination Committee met four times during the year. Attendance of the individual Directors who served on the Nomination Committee throughout the year is shown in the table on page 89.

On behalf of the Board

Nigel Jones
Chairman of the
Nomination Committee
27 February 2019

Report of the Remuneration Committee and Directors' Remuneration Report



Nigel Jones (Chairman)
Non-Executive Director & Senior
Independent Director

Remuneration Committee members

Dawn Morgan
Non-Executive Director

Kevin McAuliffe
Non-Executive Deputy Chairman

Remuneration policy

The Remuneration Committee advises the Board on an overall remuneration policy. The Company's remuneration policy is designed to attract, motivate and retain high calibre individuals to enable the Group to operate strategically for the continued benefit of shareholders over the long term. The Remuneration Committee aims to provide Executive Directors and senior managers with packages which are sufficiently competitive to attract, retain and motivate individuals of the quality required to achieve the Group's business priorities and enhance shareholder value. Remuneration packages are aimed at balancing both short-term and long-term rewards, as well as performance and non-performance related pay.

The remuneration of Non-Executive Directors is a matter for the Board and shall reflect the time commitment and responsibilities of the role. No Director or manager may be involved in any decisions as to his/her own remuneration.

Within the framework of the agreed remuneration policy, the Remuneration Committee determines the remuneration package of the Chairman and the Executive Directors and consults the Chief Executive Officer regarding the packages of other senior managers. The Chief Executive Officer and the Chief Financial Officer may provide advice to the Remuneration Committee as necessary (save in respect of their own remuneration).

The Remuneration Committee has undertaken an independent benchmarking exercise of the pay and benefits of the Executive Directors, Chairman and Non-Executive Directors. The Remuneration Committee obtained the services of Pearl Meyer & Partners, LLC, a member of the Remuneration Consultants Group, an independent adviser with over 27 years of experience in the industry and has no other connection with the company. The report is being considered by the Remuneration Committee and recommendations being presented to the Board. It will form the basis of establishing appropriate policies to ensure that remuneration packages are properly set so they can deliver in both the short and long term to maintain and attract the right candidates to drive the business forward.

Non-performance related remuneration

Basic salaries and benefits are reviewed by the Remuneration Committee annually. Executive Directors and Non-Executive Directors are entitled to the benefits afforded by the Group's Directors and Officers Insurance.

The Chairman's and Non-Executive Directors' fees are reviewed on an annual basis by the entire Board.

Pensions

Boris Ivesha and Daniel Kos are entitled to pension contributions. The other Directors are neither entitled to, nor receive, pension plan contributions.

Remuneration Committee attendance and meetings

The Remuneration Committee met eight times during the year. Attendance of the individual Directors who served on the Remuneration Committee throughout the year is shown on page 89.

Contracts and letters of appointment

Boris Ivesha has a rolling contract which may be terminated on 12 months' notice by the Group or on six months' notice by Boris Ivesha. Daniel Kos has a rolling contract which may be terminated on six months' notice by the Group or on three months' notice by Daniel Kos. There are provisions for earlier termination by the Group in certain specific circumstances.

Each Non-Executive Director has specific terms of appointment. The Chairman's letter of appointment provides for an indefinite term. The Board believes that Eli Papouchado's extensive experience and knowledge of the Group's business, as well as the hotel business generally, justify this departure from the recommendations of the Code. Dawn Morgan's letter of appointment provides for a fixed term expiring on the sixth anniversary of her

appointment, subject to re-election at each Annual General Meeting. Kevin McAuliffe's and Nigel Jones' respective letters of appointment provide for a fixed term expiring on 14 June 2021, subject to re-election at each Annual General Meeting. The length of appointment for Kevin McAuliffe and Nigel Jones has been subject to particularly rigorous review and takes into account the need for progressive refreshing of the Board, but have been considered appropriate given their wealth of experience and valuable contributions to Board discussions. All the Non-Executive Directors' appointment letters are subject to termination by either side on three months' notice.

Other than salary and benefits in relation to the notice period, the letters of appointment contain provisions for termination by the Group in certain specific circumstances. Details of the contract dates and notice periods are set out in the table below. The letters of appointment are available for inspection at the Company's registered office.

Terms of appointment

Name of Director	Date of appointment	Term of appointment	Notice period
Eli Papouchado	26 June 2007	Indefinite	3 months
Boris Ivesha	14 June 2007	Indefinite	12 months from Group, 6 months from Boris Ivesha
Daniel Kos	27 February 2018	Indefinite	6 months from Group, 3 months from Daniel Kos
Kevin McAuliffe	15 June 2007	14 June 2021	3 months
Nigel Jones	26 June 2007	14 June 2021	3 months
Dawn Morgan	19 May 2016	9 March 2022	3 months

Directors' remuneration £'000

Chairman and Executive Directors	Eli Papouchado	Boris Ivesha	Chen Moravsky	Daniel Kos	Total
Salary and fees	200	417	–	182	799
Performance related incentive	–	–	–	61	61
Other taxable benefits	–	120	–	12	132
Total remuneration for the year ended 31 December 2018	200	537	– ¹	255	992
Total remuneration for the year ended 31 December 2017	100	516	766 ²	–	1,382

¹ Chen Moravsky stepped down from his executive roles of Deputy Chief Executive Officer and Chief Financial Officer on 31 December 2017.

² This includes part of the termination fee paid to Chen Moravsky in December 2017.

Non-Executive Directors	Kevin McAuliffe	Nigel Jones	Dawn Morgan	Chen Moravsky ¹	Total
Salary and fees					
Total remuneration for the year ended 31 December 2018	86	60	52	21	219
Total remuneration for the year ended 31 December 2017	53	48	43	–	144

¹ Chen Moravsky stood down as a Non-Executive Director on 12 June 2018.

Details of share awards and options granted to Directors as at the date of publication of this report are included in the table below:

Director	Number of options	Number vested as at 31 December 2018	Exercise price
Daniel Kos	100,000	66,667	£6.90
	25,000	–	£14.30

On behalf of the Board



Nigel Jones
Chairman of the Remuneration Committee
27 February 2019

Directors' Report

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2018.

Principal activities

The Group is an international hospitality real estate group, with a £1.6 billion portfolio of primarily prime freehold and long leasehold assets in Europe. The Group's guiding principle is to generate attractive returns from operations and long-term capital appreciation.

Through its subsidiaries, jointly controlled entities and associates the Group owns, co-owns, develops, leases, operates and franchises hospitality real estate. The Group's primary focus is full-service upscale, upper upscale and lifestyle hotels in major gateway cities and regional centers, as well as hotel, resort and campsite properties in select resort destinations.

The Group benefits from having an exclusive and perpetual license from the Radisson Hotel Group, one of the world's largest hotel groups, to develop and operate Park Plaza® branded hotels and resorts in Europe, the Middle East and Africa. In addition, the Group wholly owns, and operates under, the art'otel® brand and its Croatian subsidiary owns, and operates under, the Arena Hotels & Apartments® and Arena Campsites® brands. This multi-brand approach enables the Group to develop and operate properties across several segments of the hospitality market.

The Group is one of the largest owner/operators of hotels in central London and its property portfolio comprises of 38 hotels and resorts in operation, offering a total of approximately 8,800 rooms and 8 campsites, offering approximately 6,000 units. The Group's development pipeline includes two new hotels in London which are expected to add an additional 500 rooms by the end of 2022.

The Company is a company incorporated in Guernsey, having its shares listed on the Premium Listing segment of the Main Market of the London Stock Exchange. The Company also holds a controlling ownership interest (51.97% of the share capital) in Arena Hospitality Group, whose shares are listed on the Zagreb Stock Exchange.

Business review

A review of the business during the year is contained in the Chairman's statement, President & Chief Executive Officer's review, Strategic progress for 2018, Key performance indicators and Financial and Business review sections of this report.

Results and 2018 dividend

The results for the year are set out in the attached consolidated financial statements. Basic and diluted earnings per share for the year was 90 pence (2017: 57 pence). The Board recommends to the Annual General Meeting to authorise the payment of a final dividend of 19 pence per share for the year ended 31 December 2018.

As a matter of Guernsey law, any distribution or payment of dividends must be made in accordance with the provisions of the Companies (Guernsey) Law, 2008 (as amended) (the 'Law') and the Articles. Prior to making a distribution or declaring any dividends, the Directors are required to carry out a statutory cash flow solvency test and a balance sheet solvency test and must satisfy themselves on reasonable grounds that the Company will, immediately after the making of distribution or the payment of the dividend, satisfy the solvency test set out in the Law i.e. be able to pay its debts as they fall due and the value of its assets will continue to exceed the value of its liabilities. The solvency test requires the Directors to make a future assessment by making reference to the solvency test being satisfied immediately after a distribution or dividend payment is made. If at the time a dividend or distribution payment is to be made the Directors believe that the solvency test cannot be passed, then no payment may be made to the holders of shares.

Principal risks and uncertainties

Internal controls and an effective risk management regime are integral to the Group's continued operation. Overall responsibility for the risk management processes adopted by the Group lies with the Board. On behalf of the Board, the Audit Committee reviews the effectiveness of the Group's internal control policies and procedures for the identification, assessment and reporting of risks. In order to maintain oversight and seek comfort as to Group policies and procedures, the Group has an internal auditor who acts as a mechanism to rigorously and continuously test Group procedures. For further details in respect of the Group's internal control processes, please refer to the corporate governance statement.

We have carried out a robust assessment of the principal risks facing the Company, which we describe on pages 42 to 44. We provide information on the nature of the risk, actions to mitigate risk exposure and an indication of the significance of the risk by reference to its potential impact on the Group's business, financial condition and results of operation and/or the likelihood of the risk materialising. Not all potential risks are listed on pages 42 to 44. Some risks are excluded because the Board considers them not to be material to the Group as a whole. Additionally, there may be risks and uncertainties not presently known to the Directors, or which the Directors currently deem immaterial, that may also have an adverse effect upon the Group.

Directors

The Directors who served throughout the year were as follows:

- Eli Papouchado (Non-Executive Chairman)
- Boris Ivesha (President & Chief Executive Officer)
- Daniel Kos (Chief Financial Officer & Executive Director)
- Kevin McAuliffe (Non-Executive Deputy Chairman)
- Nigel Jones (Independent Non-Executive Director & Senior Independent Director)
- Dawn Morgan (Independent Non-Executive Director)
- Chen Moravsky (Non-Executive Director)

Chen Moravsky stepped down from his role as Non-Executive Director on 12 June 2018.

On 12 June 2018, Roni Hirsch stepped down as Eli Papouchado's alternate Director.

Pursuant to the Articles, the Board has the power to appoint any person to be a Director. At every general meeting, a minimum of one third of the Directors shall retire from office. No person, other than a Director retiring at a general meeting, shall, unless recommended by the Directors, be eligible for election at a general meeting as a Director unless notice has been received from such person. In accordance with the Code and good corporate governance practice, the entire Board will stand for re-election at the forthcoming Annual General Meeting.

Pursuant to the Articles, Euro Plaza Holdings B.V. ('Euro Plaza') may:

- nominate two Non-Executive Directors to the Board for so long as Euro Plaza and its associates directly or indirectly control at least 30% of the issued shares in the Company; and
- nominate one Non-Executive Director to the Board for so long as Euro Plaza and its associates control at least 15% but less than 30% of the issued shares of the Company.

Pursuant to the Articles, Molteno Limited may nominate one Non-Executive Director to the Board for so long as Molteno Limited and its associates directly or indirectly control at least 15% of the issued shares in the Company.

The shareholders may, by ordinary resolution, resolve to remove any Director before the expiration of his or her period of office and appoint a replacement Director.

Details of the Directors' remuneration are included within the Remuneration Report.

Following the entry into a relationship agreement as part of the move to the Premium Listing segment of the Main Market of the London Stock Exchange the Articles are proposed to be amended to reflect the minimum threshold required to nominate Non-Executive Directors to the Board from 15% to 10%.

Employees

During 2018, taking into account all our hotels, under all types of contract, approximately 4,100 team members were working for the Group.

Share capital

The issued share capital of the Company together with the details of the movements in the Company's share capital during the year are shown in Note 12 to the consolidated financial statements.

Directors' Report continued

Shares

There is currently only one class of share in issue (being ordinary shares) which all carry the same rights as one another. There are no shares in the Company which carry special rights with regard to control of the Company.

The following limitations on voting rights of shareholders apply:

- The Board may suspend the voting rights attached to any shares owned directly, indirectly or beneficially by a Non-Qualified Holder (as defined in the Articles)
- The Directors may at any time make calls upon the shareholders in respect of any unpaid shares. No shareholder is entitled to vote unless all calls due from him have been paid

The following deadlines for exercising voting rights apply:

- A written resolution will state a date by which the resolution must be passed. The Law imposes a default lapse date of 28 days from circulation of the written resolution if no lapse date is specified
- In the case of resolutions passed at general meetings of shareholders, voting rights may only be exercised at the time the resolution is proposed at the meeting

Any arrangements by which the financial rights to shares are held by a person other than the registered shareholder would be by agreement between the shareholder and the beneficiary. The Company is not obliged to recognise any such trust arrangements and shall pay any dividends to the registered shareholder.

With the prior approval of the shareholders by ordinary resolution, the Board may exercise all powers of the Company to allot and issue, grant rights to subscribe for, or to convert any securities into, an unlimited number of shares of each class in the Company.

Unless such shares are to be wholly or partly paid otherwise than in cash or are allotted or issued pursuant to an employee share scheme, any shares to be allotted and issued must first be offered to the existing shareholders on the same or more favourable terms.

The Company may from time to time acquire its own shares subject to the requirements of the Law. The Law requires the prior approval of any share buy-back by way of ordinary resolution of the shareholders and a certification by the Board that the Company satisfies the solvency test set out in the Law.

Articles

The Articles may be amended at any time by passing a special resolution of the shareholders pursuant to the Law. A special resolution is passed by a majority of not less than 75% of the votes of the shareholders entitled to vote and voting in person or by attorney or by proxy at a meeting or by 75% of the total voting rights of eligible members by written resolution.

Substantial share interest

The table provided on page 101 shows shareholders holding 3% or more of the issued share capital (excluding treasury shares) as at 6 February 2019, of which the Company has been notified by its Registrar and in accordance with DTR 5.

No further interests have been disclosed to the Company in accordance with DTR 5 in the period between the end of the financial year and 6 February 2019.

Number of issued shares	44,225,706
Shares held in treasury by the Group	1,888,070
Number of issued shares (excluding treasury)	42,337,636

Shareholders with holdings of 3% or more of the Company's issued share capital (excluding treasury) as at 6 February 2019	Number of Ordinary Shares	% of Issued Share Capital (excluding Treasury Shares)
Eli Papouchado ⁽¹⁾ :	19,852,714	46.89
Boris Ivesha ⁽²⁾	6,690,027	15.80
Aroundtown Property Holdings	3,760,000	8.88
Hargreave Hale (part of Canaccord Genuity Group)	1,900,490	4.49
Bank J. Safra Sarasin	1,400,334	3.31

⁽¹⁾ Eli Papouchado is deemed to be interested in the following Ordinary Shares:

^(a) 17,630,297 Ordinary Shares held by Euro Plaza Holdings B.V. ("Euro Plaza"). Euro Plaza is an indirect wholly-owned Dutch incorporated subsidiary of A.P.Y. Investments & Real Estate Ltd ("APY"). As at the date hereof, 98% of the shares in APY are held by Eli Papouchado as trustee of an endowment created under Israeli law which he formed in 1998 (the "Endowment"). The primary beneficiaries of the Endowment are Eli Papouchado and his sons, Yoav Papouchado and Avner Papouchado, and the secondary beneficiaries are the children of Yoav and Avner. The remaining 2% of the shares in APY are held by Yoav and Avner Papouchado respectively (1% each). APY and its subsidiaries are part of an international constructions, hotel and real estate group (the "Red Sea Group") that was founded by Eli Papouchado. The Ordinary Shares held by Euro Plaza have been pledged to secure guarantees given by Euro Plaza of certain banking facilities provided to another company in the Red Sea Group, as disclosed on 13 December 2013.

^(b) 22,417 Ordinary Shares held by Red Sea Club Limited ("Red Sea Club"), an intermediate subsidiary of APY and holding company of Euro Plaza.

^(c) 2,200,000 Ordinary Shares held by A.A. Papo Trust Company Limited ("A.A. Papo"), a company which is wholly-owned by Eli Papouchado, acting in its capacity as the sole trustee of an endowment whose main beneficiary is Eli Papouchado's daughter, Eliana Papouchado.

⁽²⁾ Boris Ivesha is deemed to be interested in 6,690,027 Ordinary Shares held by Walford Investments Holdings Limited ("Walford") which is wholly-owned by Clermont Corporate Services Limited ("Clermont"), as trustee of certain trusts established for the benefit of Boris Ivesha (the president and chief executive officer of the Company) and his family.

Controlling shareholders

The Company's immediate controlling shareholders are Euro Plaza Holdings B.V. and Walford Investments Holdings Limited ("Walford"). Euro Plaza is ultimately controlled by Eli Papouchado, acting in his capacity as trustee of an endowment created under Israeli law ("the Endowment"). Walford is ultimately controlled by Clermont Corporate Services Limited ("Clermont"), a professional corporate trustee in its capacity as trustee of certain trusts established for the benefit of Boris Ivesha and his family. As required under Listing Rule 9.2.2 R(1), the Company has entered into separate relationship agreements with: (i) Euro Plaza and Eli Papouchado (acting in his capacity as trustee of the Endowment) and (2) Walford and Clermont, which as a concert party hold 62.69% of the issued share capital of the Company.

The Company has complied with the undertakings in Listing Rule 6.5.4R and Listing Rule 9.2.2ADR(1) since admission to the Premium Listing segment. So far as the Company is aware, these undertakings have also been complied with by Euro Plaza, Eli Papouchado, acting in his capacity as trustee of the Endowment, Walford and Clermont since admission.

In accordance with the relationship agreements entered into the Company's controlling shareholders, each of Euro Plaza and Walford is entitled to appoint representatives to the Board of the Company. Mr Eli Papouchado is cleared to be the representative of Euro Plaza and Mr Boris Ivesha is cleared to be the representative of Walford for these purposes.

DTR disclosures

Eli Papouchado is deemed to be interested in 19,852,714 ordinary shares, which constitutes 46.89% of the issued share capital (excluding treasury shares) of the Company:

- 17,630,297 ordinary shares held by Euro Plaza;
- Euro Plaza is an indirect wholly-owned subsidiary of A.P.Y. Investments & Real Estate Ltd ('APY'). 98% of the shares in APY are held by Eli Papouchado;
- 22,417 ordinary shares held by Red Sea Club Limited, a subsidiary of APY; and
- 2,200,000 ordinary shares held by A.A. Papo Trust Company Limited, which is wholly-owned by Eli Papouchado.

Boris Ivesha is deemed to be interested in 6,690,027 ordinary shares, which constitutes 15.80% of the issued share capital (excluding treasury shares) of the Company. The shares are held by Walford which is wholly owned by Clermont, as trustee of certain trusts established for the benefit of Boris Ivesha and his family.

Eli Papouchado, Euro Plaza, APY and A.A. Papo Trust Company Limited and other parties related to him (together the "Red Sea Parties") and Walford, Clermont, Boris Ivesha and other parties related to him (together the "Ivesha Parties") are a party to a shareholders agreement dated 14 March 2013 (as amended on 29th April 2015, 31 March 2016 and 16th November 2016 (respectively)) (the "Shareholders Agreement"). Pursuant to the Shareholders Agreement, it has been agreed that for so long as, inter alia, the combined interests of the Ivesha Parties and the Red Sea Parties in the Company are not less than 38% and the Red Sea Parties' interest in the Company is at least 26.5% of the share capital then in issue (excluding, in both cases, shares held in treasury), on any shareholder resolution all shares held by the Ivesha Parties shall be voted in a manner which is consistent with the votes cast by, or on behalf of, the Red Sea Parties in respect of that resolution. As a result, the Red Sea Parties are all considered to be interested in the shares in which the Ivesha Parties are interested.

Directors' Report continued**Article 19 of the Market Abuse Regulation**

The interests of each Director disclosed to the Company under Article 19 of the Market Abuse Regulation as at the end of the financial year include:

– on 29 June 2018, Daniel Kos was granted options over 25,000 ordinary shares of no par value in the Company at an exercise price of 1,430 pence per share.

There have been no changes in the interests of each Director in the period between the end of the financial year and 27 February 2019.

Listing Rule 9.8.4R

The following table is disclosed pursuant to Listing Rule 9.8.4R. The table sets out only those sections of Listing Rule 9.8.4R which are applicable to the Company. The information required to be disclosed can be located in the Annual Report at the references set out below:

Section	Information	Location
4	Details of long-term incentive schemes	Note 13 to the consolidated financial statements
10	Contracts of significance	Notes 14 and 29 to the consolidated financial statements
11	Provision of services by a controlling shareholder	Note 29 to the consolidated financial statements
14	Controlling shareholder statement	Directors' Report

Auditors

Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, have expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

Going concern

The Board believes it is taking all appropriate steps to support the sustainability and growth of the Group's activities. 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. We have assessed the viability of the Group over a three-year period to 31 December 2021, as set out on page 45. The Directors have determined that the Company is likely to continue in business for at least 12 months from the date of this Annual Report. This, taken together with their conclusions on the matters referred to below and in Note 1(c) to the consolidated financial statements, has led the Directors to conclude that it is appropriate to prepare the 2018 consolidated financial statements on a going concern basis.

Financial risk management objectives and policies

In addition, Note 30 to the consolidated financial statements includes the Company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposure to credit risk and liquidity risk.

Directors' responsibilities

The Directors are required to prepare the Annual Report and the consolidated financial statements for each financial year to give a true and fair view of the state of affairs of the Company and the undertakings included in the consolidation taken as a whole as at the end of the financial year, and of the profit or loss for that year.

In preparing the consolidated financial statements, the Directors should:

- select suitable accounting policies and apply them consistently;
- make judgments and estimates that are reasonable;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- prepare the consolidated financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the consolidated financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the consolidated financial statements have been properly prepared in accordance with the Law. The Directors are responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' declaration

So far as each of the Directors, who is a director at the time the Directors' Report is approved, is aware, there is no relevant audit information of which the Company's auditor is unaware and each has taken all the steps he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Directors' responsibility statement

Each of the directors named on pages 84 and 85 confirms to the best of his or her knowledge that:

- (i) the consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit and loss of the Company and the undertakings included in the consolidation taken as a whole; and
- (ii) the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face, and provides information necessary for shareholders to assess the Company's performance, business model and strategies.

The Directors consider that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

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
27 February 2019

Financial statements

105	Independent auditors' report
108	Consolidated statement of financial position
109	Consolidated income statement
110	Consolidated statement of comprehensive income
111	Consolidated statement of changes in equity
112	Consolidated statement of cash flows
114	Notes to consolidated financial statements

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

		As at 31 December	
	Note	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	2017
	£'000	£'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	2017
	£'000	£'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

Notes to consolidated financial statements continued

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.

Notes to consolidated financial statements continued**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.

Notes to consolidated financial statements continued**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 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	2017
	£'000	£'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:

2018	Total £'000	Not past due £'000	Past due			
			< 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

2017	Total £'000	Not past due £'000	Past due			
			< 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	2017
	£'000	£'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:

- 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.
- 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	2017
	£'000	£'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.

Notes to consolidated financial statements continued**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 Hypothekbank 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 Hypothekbank 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:

	EUR denominated £'000	GBP denominated £'000	Total £'000
As at 31 December 2018			
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.

	EUR denominated £'000	GBP denominated £'000	Total £'000
As at 31 December 2017			
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%

	Outstanding amount	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Maturity analysis 2017							
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 reclassified 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 Netherlands 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						Consolidated £'000
	The Netherlands £'000	Germany and Hungary £'000	United Kingdom £'000	Croatia £'000	Management and Central Services £'000	Adjustments* £'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	2017	2018	2017
	£'000	£'000	£'000	£'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.

Appendices

158	Subsidiaries included in the Group
161	Jointly controlled entities
161	Current renovation, repositioning and pipeline projects
162	Glossary
164	Contacts

Subsidiaries included in the Group

Name of company	Principal activity	Country of incorporation	Direct and indirect holdings %
PPHE Hotel Group Limited	Holding company	Guernsey	100
Park Plaza Hotels (UK) Limited	Holding company	United Kingdom	100
PPHE Support Services Limited	Hotel operation	United Kingdom	100
Apex Holdings (UK) Limited	Holding company	British Virgin Islands	100
Aspirations Limited	Holding company	Guernsey	100
Golden Wall Investments Limited	Finance company	British Virgin Islands	100
Waterford Investments Limited	Holding company	Guernsey	100
Leno Investment Limited	Holding company	Guernsey	100
Laguna Estates (Leeds) Limited	Holding company	United Kingdom	100
Katmandu Limited	Holding company	British Virgin Islands	100
Sandbach Investments Limited	Holding company	British Virgin Islands	100
PPHE Coop B.V.	Holding company	Netherlands	100
Euro Sea Hotels N.V.	Holding company	Netherlands	100
County Hall Hotel Holdings B.V. (formerly known as PPHE Arena Holding B.V.)	Holding company	Netherlands	100
Waterloo Hotel Holding B.V. (formerly known as Hercules House Holding B.V.)	Holding company	Netherlands	100
Waterloo Hotel Operator Limited (formerly known as Hercules House Operator Limited)	Hotel operation	United Kingdom	100
PPHE Art Holding B.V.	Holding company	Netherlands	100
PPWL Parent B.V.	Holding company	Netherlands	100
Westminster Bridge London B.V.	Holding company	Netherlands	100
Westminster Bridge London (Real Estate) B.V.	Holding company	Netherlands	100
1 Westminster Bridge Plaza Management Company Limited	Hotel operation	United Kingdom	100
Marlbray Limited	Holding company	United Kingdom	100
Park Plaza Hospitality Services (UK) Limited	Hotel operation	United Kingdom	100
Westminster Bridge Hotel Operator Limited	Hotel operation	United Kingdom	100
Park Plaza Hotels Europe Holdings B.V.	Holding company	Netherlands	100
Suf Holding B.V.	Holding company	Netherlands	100

Name of company	Principal activity	Country of incorporation	Direct and indirect holdings %
PPHE Histria Charter d.o.o.	Holding company	Croatia	100
PPHE Netherlands B.V. (formerly Maastricht Hotel Holding B.V.)	Holding company	Netherlands	100
Bora B.V. (formerly known as WH/DMREF Bora B.V.)	Holding company	Netherlands	100
Hotel Club Construction B.V. (formerly Hotel Maastricht B.V.)	Holding company	Netherlands	100
Hotel Nottingham Holding B.V.	Holding company	Netherlands	100
Nottingham Hotel Operator Limited	Hotel operation	United Kingdom	100
Oaks Restaurant Operator Limited	Hotel operation	United Kingdom	100
Leeds Hotel Operator Limited (formerly Nottingham Park Plaza Hotel Operator Limited)	Hotel operation	United Kingdom	100
Sherlock Holmes Hotel Shop Limited	Hotel operation	United Kingdom	100
Hotel Leeds Holding B.V.	Holding company	Netherlands	100
PPHE UK Holding B.V. (formerly Club Euro Hotels B.V.)	Holding company	Netherlands	100
Park Royal Hotel Holding B.V. (formerly known as Club A40 Holding B.V.)	Holding company	Netherlands	100
Park Royal Hotel Operator Limited (formerly known as Club A40 Hotel Operator Limited)	Holding company	United Kingdom	100
A40 Office B.V.	Holding company	Netherlands	100
A40 Data Centre B.V.	Holding company	Netherlands	100
Park Plaza Hotels Europe B.V.	Management	Netherlands	100
Park Plaza Hotels (UK) Services Limited	Management	United Kingdom	100
Artotel (I.L.) Management Services Limited	Holding company	Israel	100
Park Plaza Hotels (Germany) Services GmbH	Management	Germany	51.97
PPHE NL Region B.V.	Holding company	Netherlands	100
PPHE Management (Croatia) B.V.	Holding company	Netherlands	100
Park Plaza Hotels Europe (Germany) B.V.	Holding company	Netherlands	100
PPHE Germany B.V.	Holding company	Netherlands	100
Sugarhill Investments B.V.	Holding company	Netherlands	51.97
Germany Real Estate B.V.	Holding company	Netherlands	51.97
ACO Hotel Holding B.V.	Holding company	Netherlands	51.97
ABK Hotel Holding B.V.	Holding company	Netherlands	51.97
PPHE Germany Holdings GmbH	Holding company	Germany	51.97
PPHE Nürnberg Operator Hotelbetriebsgesellschaft mbH	Hotel operation	Germany	51.97
Park Plaza Germany Holdings GmbH	Holding company	Germany	51.97
Riverbank Hotel Holding B.V.	Holding company	Netherlands	100
Riverbank Hotel Operator Limited	Hotel operation	United Kingdom	100
Grandis Netherlands Holdings B.V.	Holding company	Netherlands	100
Sherlock Holmes Park Plaza Limited	Hotel operation	United Kingdom	100
Victoria London B.V. (formerly known as Club Luton Hotel Holding B.V. and Club Ealing Hotel Holding B.V.)	Holding company	Netherlands	100
Victoria London (Real Estate) B.V.	Holding company	Netherlands	100
Victoria Park Plaza Operator Limited	Hotel operation	United Kingdom	100
Tozi Restaurant Operator Limited	Holding operation	United Kingdom	100
County Hall Holdings B.V.	Holding company	Netherlands	100
Park Plaza Nürnberg GmbH	Hotel operation	Germany	51.97

Appendices continued

Name of company	Principal activity	Country of incorporation	Direct and indirect holdings %
Park Plaza Berlin Hotelbetriebsgesellschaft mbH	Hotel operation	Germany	100
Park Plaza Hotels Berlin Wallstrasse GmbH	Hotel operation	Germany	51.97
art'otel berlin city center west GmbH	Hotel operation	Germany	51.97
art'otel dresden/park plaza betriebsgesellschaft mbH	Hotel operation	Germany	100
art'otel köln betriebsgesellschaft mbH	Hotel operation	Germany	51.97
SW Szállodaüzemeltet Kft	Hotel operation	Hungary	51.97
PPHE Transport Limited	Dormant company	United Kingdom	100
Bora Finco B.V.	Holding company	Netherlands	100
Dvadeset Osam d.o.o. (formerly known as W2005/ Dvadeset Osam d.o.o.)	Holding company	Croatia	100
Arena Hospitality Group d.d.	Hotel operation	Croatia	51.97
Ulika d.o.o.	Holding company	Croatia	51.97
Mazurana d.o.o.	Holding company	Croatia	51.97
Arena Hospitality Management d.o.o.	Management	Croatia	51.97
Victoria Monument B.V.	Holding company	Netherlands	100
The Mandarin Hotel B.V.	Hotel operation	Netherlands	100
Parkvondel Hotel Holding B.V.	Holding company	Netherlands	100
Parkvondel Hotel Real Estate B.V.	Hotel owning company	Netherlands	100
Parkvondel Hotel Management B.V.	Hotel operation	Netherlands	100
Amalfa Investments B.V.	Holding company	Netherlands	100
Victory Enterprises I B.V.	Holding company	Netherlands	100
Victory Enterprises II B.V.	Holding company	Netherlands	100
Victoria Schiphol Holding B.V.	Holding company	Netherlands	100
Schiphol Victoria Hotel C.V.	Hotel operation	Netherlands	100
Melbourne Personeel B.V.	Holding company	Netherlands	100
Victoria Hotel & Restaurant Investment B.V.	Holding company	Netherlands	100
Victoria Hotel C.V.	Hotel operation	Netherlands	100
Utrecht Victoria Hotel C.V.	Hotel operation	Netherlands	100
Victoria Hotel & Restaurant Management Services B.V.	Holding company	Netherlands	100

Jointly controlled entities

Name of company	Principal activity	Country of incorporation	Proportion of ownership interest %
art'otel berlin mitte/Park Plaza Betriebsgesellschaft mbH ¹	Hotel operation	Germany	50
Park Plaza Betriebsgesellschaft mbH ¹	Hotel operation	Germany	50
PPBK Hotel Holding B.V. (formerly known as ABK Hotel Holding B.V.) ¹	Holding company	Netherlands	50
ABM Hotel Holding B.V. ¹	Holding company	Netherlands	50

¹ Indirectly held through Arena Hospitality Group d.d.

Current renovation, repositioning and pipeline projects

Project	Location	Scope	Status
Park Plaza Vondelpark, Amsterdam	Amsterdam, The Netherlands	Repositioning	Expected to be completed 2019
Park Plaza Utrecht	Utrecht, The Netherlands	Repositioning	Expected to be completed 2019
Park Plaza Sherlock Holmes London	London, United Kingdom	Repositioning	Expected to be completed 2019
Arena Kažela Campsite	Istria, Croatia	Repositioning	Expected to be completed 2019
Park Plaza Victoria London	London, United Kingdom	Redevelopment	Expected to be completed 2019
Verudela Beach Resort	Istria, Croatia	Repositioning	Expected to be completed 2020
Hotel Brioni	Istria, Croatia	Repositioning	Expected to be completed 2022
art'otel london battersea power station*	London, United Kingdom	New development	Expected to open 2022
art'otel london hoxton	London, United Kingdom	New development	Expected to open 2022/2023

* Management contract

Glossary

Adjusted	Excluding the effect of exceptional items and any relevant tax.	Derivatives	Financial instruments used to reduce risk, the price of which is derived from an underlying asset, index or rate.
Annual General Meeting	The Annual General Meeting of PPHE Hotel Group on 15 May 2019.	Direct channels	Methods of booking hotel rooms (both digital and voice) not involving third party intermediaries.
Annual Report	The Annual Report of PPHE Hotel Group in relation to the year ended 31 December 2018.	Dividend per share	Proposed/approved dividend for the year divided by the weighted average number of outstanding shares after dilution at the end of the period.
Arena Campsites	Are located in eight beachfront sites across the southern coast of Istria, Croatia. They operate under the Arena Hospitality Group umbrella, of which PPHE Hotel Group is a controlling shareholder. www.arenacampsites.com .	Earnings (loss) per share	Basic earnings (loss) per share amounts are calculated by dividing the net profit (loss) for the year by the weighted average number of ordinary shares outstanding during the year. Diluted earnings (loss) per share amounts are calculated by dividing the net profit (loss) for the year by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.
Arena Hospitality Group	Arena Hospitality Group is also referred to as Arena and is one of the most dynamic hospitality groups in Central and Eastern Europe, currently offering a portfolio of 26 owned, co-owned, leased and managed properties with approximately 10,000 rooms and accommodation units in Croatia, Germany and Hungary. PPHE Hotel Group has a controlling ownership interest in Arena Hospitality Group. www.arenahospitalitygroup.com	EBIT	Earnings before interest and tax.
Arena Hotels & Apartments	A collection of hotels and self-catering apartment complexes offering relaxed and comfortable accommodation within beachfront locations across the historical settings of Pula and Medulin in Istria, Croatia. They operate under the Arena Hospitality Group umbrella, of which PPHE Hotel Group is a controlling shareholder. www.arenahotels.com	EBITDA	Earnings before interest, tax, depreciation and amortisation.
ARR	Average room rate. Total room revenue divided by number of rooms sold.	EBITDA margin	EBITDA divided by total revenue.
art'otel®	A lifestyle collection of hotels that fuse exceptional architectural style with art-inspired interiors, located in cosmopolitan centres across Europe. PPHE Hotel Group is owner of the art'otel® brand worldwide. www.artotels.com	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 management indicator.
Basic earnings per ordinary share	Profit available for PPHE Hotel Group equity holders divided by the weighted average number of ordinary shares in issue during the year.	Employee engagement survey	We ask our team members to participate in a survey to measure employee engagement.
Board	Eli Papouchado (Non-Executive Chairman), Boris Ivesha (President & Chief Executive Officer), Daniel Kos (Chief Financial Officer & Executive Director), Kevin McAuliffe (Non-Executive Deputy Chairman), Nigel Jones (Non-Executive Director and Senior Independent Director) and Dawn Morgan (Non-Executive Director)	EPRA (European Public Real Estate Association)	The EPRA reporting metrics analyse performance (value, profit and cash flow) given we have full ownership of the majority of our properties.
Capital expenditure	Purchases of property, plant and equipment, intangible assets, associate and joint venture investments, and other financial assets.	EPS	Earnings per share.
Company	PPHE Hotel Group Limited, a Guernsey incorporated company listed on the Main Market of the London Stock Exchange plc.	EU	The European Union.
Compound Annual Growth Rate – CAGR	Annual growth rate over a period of years, calculated on the basis that each year's growth is compounded, that is, the amount of growth in each year is included in the following year's number, which in turn grows further.	Euro/€	The currency of the European Economic and Monetary Union.
Comprehensive income per share	Comprehensive income attributable to the parent company's shareholders divided by the weighted average number of outstanding shares after dilution at the end of the period.	Equity/assets ratio	Recognised equity as a percentage of total assets.
		Exceptional items	Items that are disclosed separately because of their size or nature.
		Exchange rates	The exchange rates used were obtained from the local national banks website.
		FF&E	Furniture, fittings and equipment.
		Franchise	A form of business organisation in which a company which already has a successful product or service (the franchisor) enters into a continuing contractual relationship with other businesses (franchisees) operating under the franchisor's trade name and usually with the franchisor's guidance, in exchange for a fee.
		Franchisee	An owner who uses a brand under licence from PPHE Hotel Group.
		Goodwill	The difference between the consideration given for a business and the total of the fair values of the separable assets and liabilities comprising that business.

GRS^(TM)	Guest Rating Score is the online reputation score used by ReviewPro – an industry leader in guest intelligence solutions.
Guernsey	The Island of Guernsey.
Hotel revenue	Revenue from all revenue-generating activity undertaken by managed and owned and leased hotels, including room nights, food and beverage sales.
Income units	Cash flows derived from the net income generated by rooms in Park Plaza Westminster Bridge London, which have been sold to private investors.
Like-for-like	Results achieved through operations that are comparable with the operations of the previous year. Current years' reported results are adjusted to have an equivalent comparison with previous years' results in the same period, with similar seasonality and the same set of hotels.
Like-for-like hotels including renovation	Like-for-like hotels plus hotels under renovation during the current and/or previous financial year compared.
Loan-to-value ratio	Interest-bearing liabilities after deducting cash and cash equivalents as a percentage of the properties' market value at the end of the period.
LSE	London Stock Exchange. PPHE Hotel Group's shares are traded on the Premium Listing segment of the Official List of the UK Listing Authority.
Market capitalisation	The value attributed to a listed company by multiplying its share price by the number of shares in issue.
Market share	The amount of total sales of an item or group of products by a company in a particular market. It is often shown as a percentage, and is a good indicator of performance compared to competitors in the same market sector.
Net asset value (NAV)	Recognised equity, attributable to the parent company's shareholders, including reversal of derivatives, deferred tax asset for derivatives, deferred tax liabilities related to the properties and revaluation of operating properties, divided by the total number of shares outstanding after dilution at the end of the period.
Net debt	Borrowings less cash and cash equivalents, including the exchange element of the fair value of currency swaps hedging the borrowings.
Number of properties	Number of owned hotel properties at the end of the period.
Number of rooms	Number of rooms in owned hotel properties at the end of the period.
Occupancy	Total occupied rooms divided by net available rooms or RevPAR divided by ARR.
Online travel agent	Online companies whose websites permit consumers to book various travel related services directly over the internet.
parkplaza.com	Brand website for Park Plaza® Hotels & Resorts.
Park Plaza hotel	One hotel from the Park Plaza® Hotels & Resorts brand.

Park Plaza® Hotels & Resorts	Upscale and upper upscale hotel brand. PPHE Hotel Group is master franchisee of the Park Plaza® Hotels & Resorts brand owned by Radisson Hotel Group. PPHE Hotel Group has the exclusive right to develop the brand across 56 countries in Europe, the Middle East and Africa. parkplaza.com
Pipeline	Hotels/rooms that will enter the PPHE Hotel Group system at a future date.
Pound Sterling/£	The currency of the United Kingdom.
PPHE Hotel Group	PPHE Hotel Group is also referred to as the Group and is an international hospitality real estate group. Through its subsidiaries, jointly controlled entities and associates the Group owns, co-owns, develops, leases, operates and franchises hospitality real estate. The Group's primary focus is full-service upscale, upper upscale and lifestyle hotels in major gateway cities and regional centers, as well as hotel, resort and campsite properties in select resort destinations
Radisson Hotel Group	Created in early 2018, one of the largest hotel companies in the world. Hotel brands owned by Radisson Hotel Group are Radisson Collection TM , Radisson Blu®, Radisson®, Radisson RED®, Park Plaza®, Park Inn® by Radisson, Country Inn & Suites® by Radisson and prizeotel. Radisson Hotel Group was acquired by a consortium led by Jin Jiang International Holdings in 2018. The portfolio of Radisson Hotel Group includes more than 1,400 hotels in operation and under development, located across 115 countries and territories, operating under global hotel brands. Jin Jiang International Holdings is the majority shareholder of Radisson Hotel Group. www.radissonhotelgroup.com
Radisson RewardsTM	The hotel rewards programme of Radisson Hotel Group, including Park Plaza® Hotels & Resorts and art'otel®. The programme is owned by Radisson Hotel Group. Gold Points® is the name of the currency earned through the Radisson Rewards TM programme. www.radissonrewards.com
Responsible business	PPHE Hotel Group's responsible business strategy is a genuine, active and responsible commitment to our environment and society. The programme is named Responsible Experiences.
RevPAR	Revenue per available room. Total rooms revenue divided by net available rooms or ARR x occupancy %.
Room count	Number of rooms franchised, managed, owned or leased by PPHE Hotel Group.
Subsidiary	A company over which the Group exercises control.
Weighted average number of shares outstanding during the year	The weighted average number of outstanding shares taking into account changes in the number of shares outstanding during the year.
Working capital	The sum of inventories, receivables and payables of a trading nature, excluding financing and taxation items.

Contacts

Directors

Eli Papouchado	(Non-Executive Chairman)
Boris Ivesha	(President & Chief Executive Officer)
Daniel Kos	(Chief Financial Officer & Executive Director)
Kevin McAuliffe	(Non-Executive Deputy Chairman)
Nigel Jones	(Non-Executive Director & Senior Independent Director)
Dawn Morgan	(Non-Executive Director)

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Useful links

Company websites:

pphe.com
arenahospitalitygroup.com
For reservations:
parkplaza.com
artotels.com
arenahotels.com
arenacampsites.com

Strategic partner:

radissonhotelgroup.com

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