pphe
HOTEL GROUP

ANNUAL REPORT AND
ACCOUNTS 2017

BRINGING UNIQUE EXPERIENCES **TOGETHER**

WHO WE ARE

We are an international hospitality company with a strong asset base and access to dynamic brands.

WHAT WE DO

Our vision is to realise our growth potential. Our primary objective is to **create and realise shareholder value** by becoming one of the leading hospitality companies in the upscale, upper upscale and lifestyle hotel segments **in major gateway cities, regional centres and select resort destinations,** primarily in Europe.

HOW WE DO IT

Our portfolio of owned, co-owned, leased, managed and franchised hotels in operation comprises 39 hotels offering a total of nearly 9,000 rooms. Our development pipeline includes two new art'otels in London. Our core markets are the United Kingdom, the Netherlands, Germany and Croatia.

2017 FINANCIAL HIGHLIGHTS

£92.9
+10.0% RevPAR

£120.2
+8.2% average room rate

77.3%
+130bps occupancy

£32.1m
+1.1% normalised profit before tax[1]

33%
(150bps) EBITDA margin[2]

£0.24
+14.3% dividend per share[3]

£325.1m
+19.3% total revenue

£116.0m
+12.7% EBITDAR

£31.7m
(17.1)% profit before tax

£0.57
(31.0)% reported earnings per share

£107.3m
+14.0% EBITDA

£0.58
(14.4%) normalised earnings per share

1 See page 45.
2 EBITDA divided by total revenue.
3 Including an interim dividend of £0.11 per share and a proposed final dividend of £0.13 per share.

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CHAIRMAN'S STATEMENT

Well positioned for continued expansion

onwards

Dear shareholders,
2017 has been yet another remarkable year for the Group. We continued to make significant progress in fulfilling our strategy of realising our growth potential and creating long-term value for our shareholders.

Today, the Group's portfolio of owned, co-owned, leased, managed and franchised hotels comprises 39 hotels offering a total of nearly 9,000 guest rooms in Europe.

It was a historic year of corporate activities. In the first half of 2017, we completed the successful public offering of new shares in our Croatian subsidiary, Arena Hospitality Group d.d. ("Arena"), raising approximately €106 million. The new capital will be used to accelerate our growth plans for Central and Eastern Europe and enhance the quality of our existing operations in the region.

Furthermore, we undertook a number of strategic transactions which allowed us to free up capital and reshape the business to pave the way for future redevelopment and growth opportunities.

In July 2017, we completed the sale and leaseback of the brand new Park Plaza London Waterloo for £161.5 million.

The successful debt restructuring activities completed in 2016, and the further debt refinancing of all our Croatian borrowings undertaken in 2017, means that the Group is in a unique financial position and well positioned to take advantage of opportunities which will drive further growth and shareholder returns.

Alongside the corporate activity, we have improved our operational activities, thereby increasing revenues across the business.

We have further extended our presence in the buoyant London hotel market with the full opening in summer 2017 of Park Plaza London Waterloo and Park Plaza London Park Royal. In addition, the major renovation project at Park Plaza London Riverbank has enhanced the facilities and appeal of the hotel. We now operate nearly 3,200 rooms in London.

Croatia continues to soar in popularity with both international and domestic holidaymakers and our properties in the popular tourist region of Istria are well positioned to further capitalise on this growth.

Our performance is underpinned by our strong sales and marketing capabilities, supported by our long-standing relationship with the Carlson Rezidor Hotel Group which provides us with significant scale for distribution of our offering and access to powerful international loyalty programmes.

As previously announced, Chen Moravsky stepped down from his executive roles of Deputy Chief Executive Officer and Chief Financial Officer on 31 December 2017 in order to pursue new opportunities. We are delighted that he remains on the Board in his new capacity as a Non-Executive Director and on behalf of the Board, I would like to thank Chen for his tremendous contribution during his time as an Executive Director.

Daniel Kos was promoted to Chief Financial Officer effective as of 1 January 2018 and was appointed by the Board as an Executive Director on 27 February 2018. The Board looks forward to working with him in his new roles.

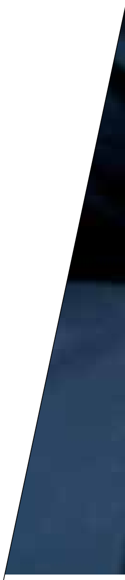
We remain ever mindful of the geopolitical environment, increasing cost pressures and the uncertainties the travel industry is currently facing. Against this backdrop, I am delighted to say that our properties in operation have collectively delivered a strong performance. Looking ahead, we are committed to continuously improving and maintaining the excellent quality of our portfolio and we have several exciting renovation projects well under way in London and Amsterdam.

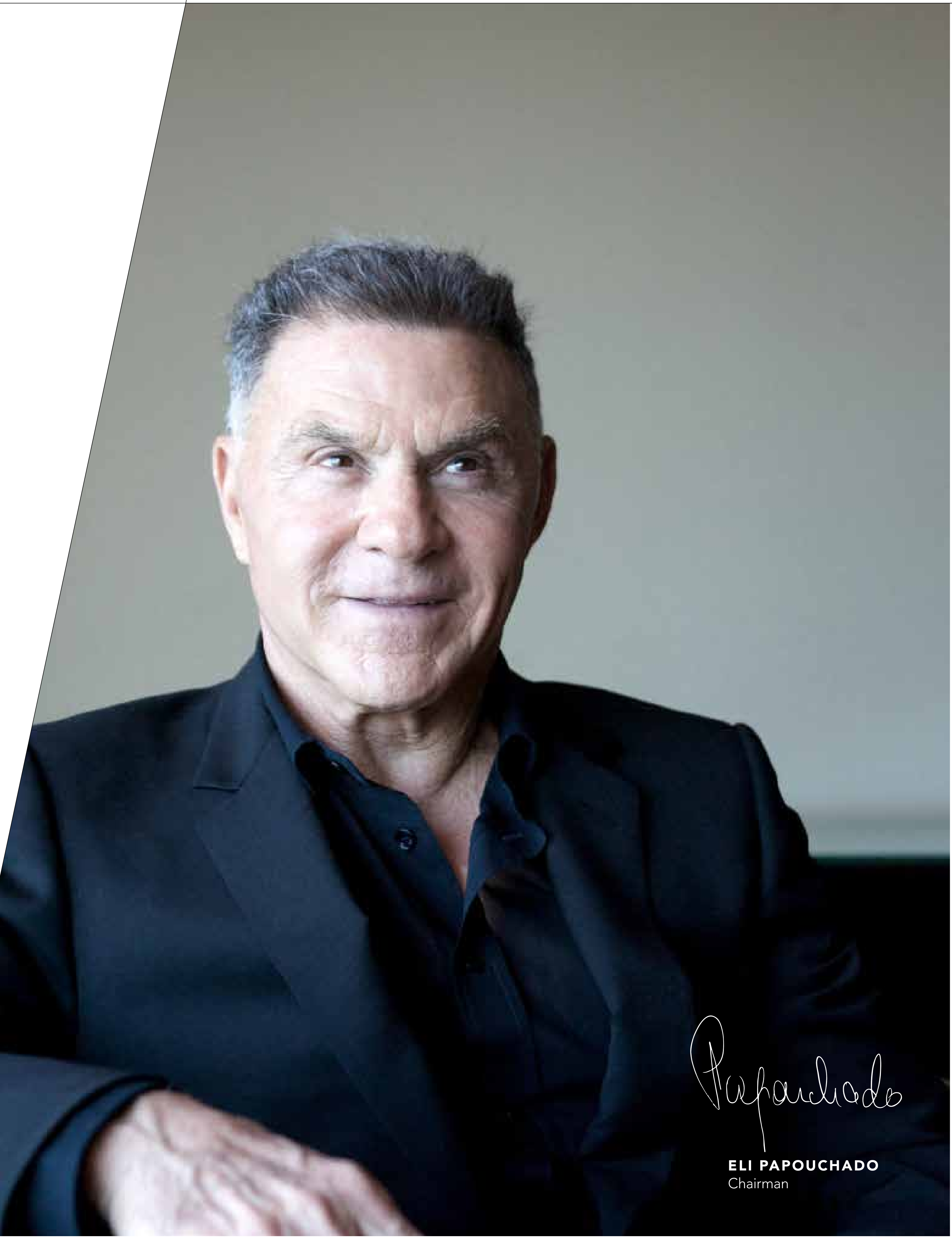
The Board is proposing the payment of a final dividend of 13 pence per share, bringing the total ordinary dividend for the year ended 31 December 2017 to 24 pence per share. This is in line with our progressive dividend policy and reflects the Board's confidence in the strength of the Group.

Once again, the team has worked extremely hard to achieve these results. The Board would like to sincerely thank all our team members for their continued dedication and, most of all, their passion and commitment to outstanding service and customer engagement. I would also like to thank all members of the Board for their contribution, guidance and support during what has been a milestone year.

We are excited about the year ahead and remain focused on delivering further growth and continually enhancing our hospitality offering.

ELI PAPOUCHADO
CHAIRMAN




ELI PAPOUCHADO
Chairman

OUR PORTFOLIO AND BRANDS

A high quality portfolio with attractive brands

Our portfolio

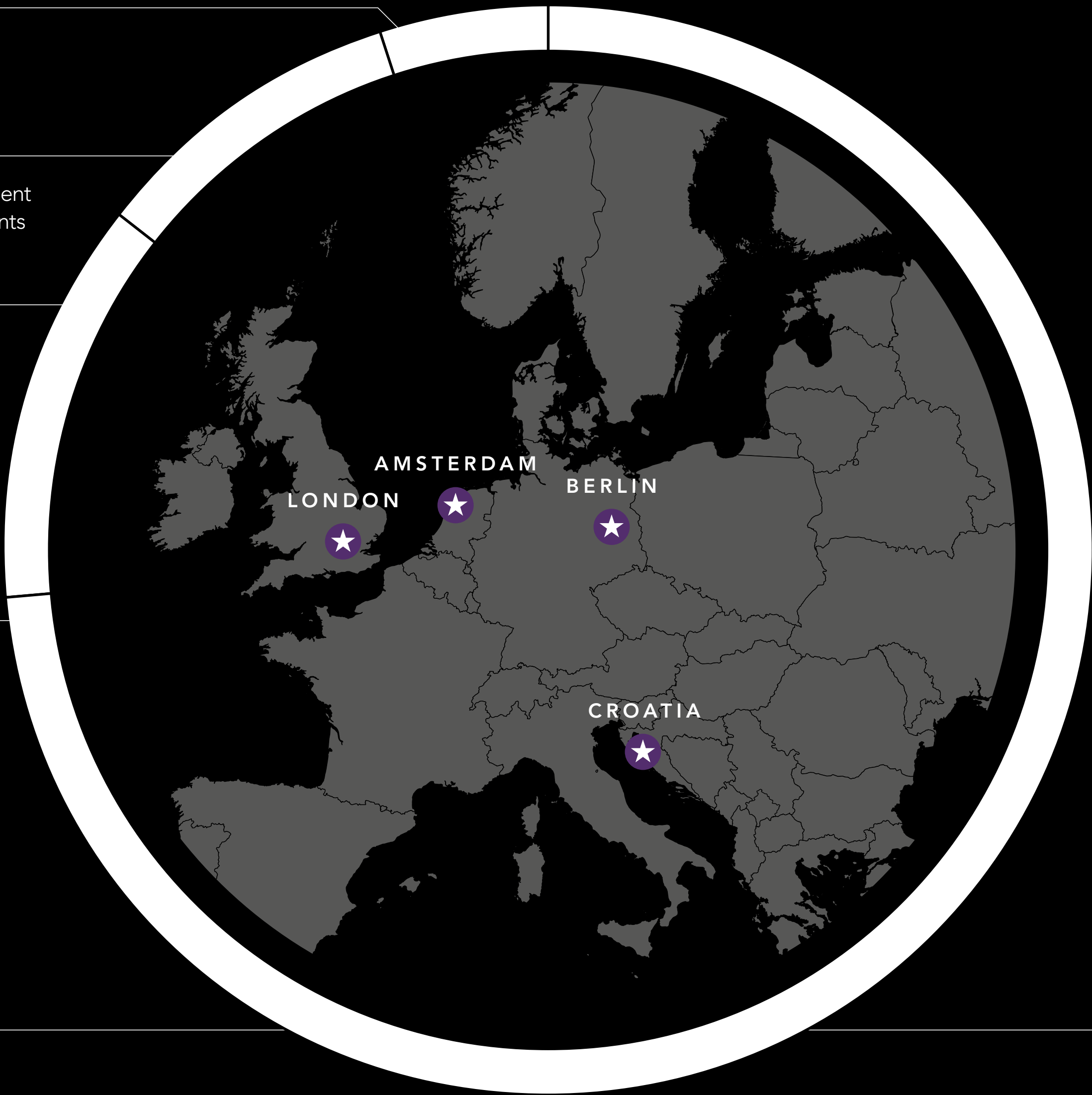
2 new hotel projects

3 hotels under management and franchise agreements

3 hotels under operating leases

33 hotels with an ownership interest

41 Total



★ CORE MARKETS

Core markets

LONDON	AMSTERDAM	BERLIN	CROATIA
3,188 rooms in operation	**850** rooms in operation	**561** rooms in operation	**2,778** rooms in operation

Brands

See pages 8 – 21 for expanded brand showcases

Park Plaza® Hotels & Resorts

For more information on Park Plaza®, see pages 8 – 11

art'otel®

For more information on art'otel, see pages 12 – 15

ARENA HOTELS & APARTMENTS®

For more information on Arena Hotels & Apartments, see pages 16 – 21

ARENA CAMPSITES®

For more information on Arena Campsites, see pages 18 – 21

Park Plaza
Hotels & Resorts

An upscale and upper upscale, contemporary hotel brand featuring individually designed hotels in vibrant city centre locations and select resort destinations.

class &

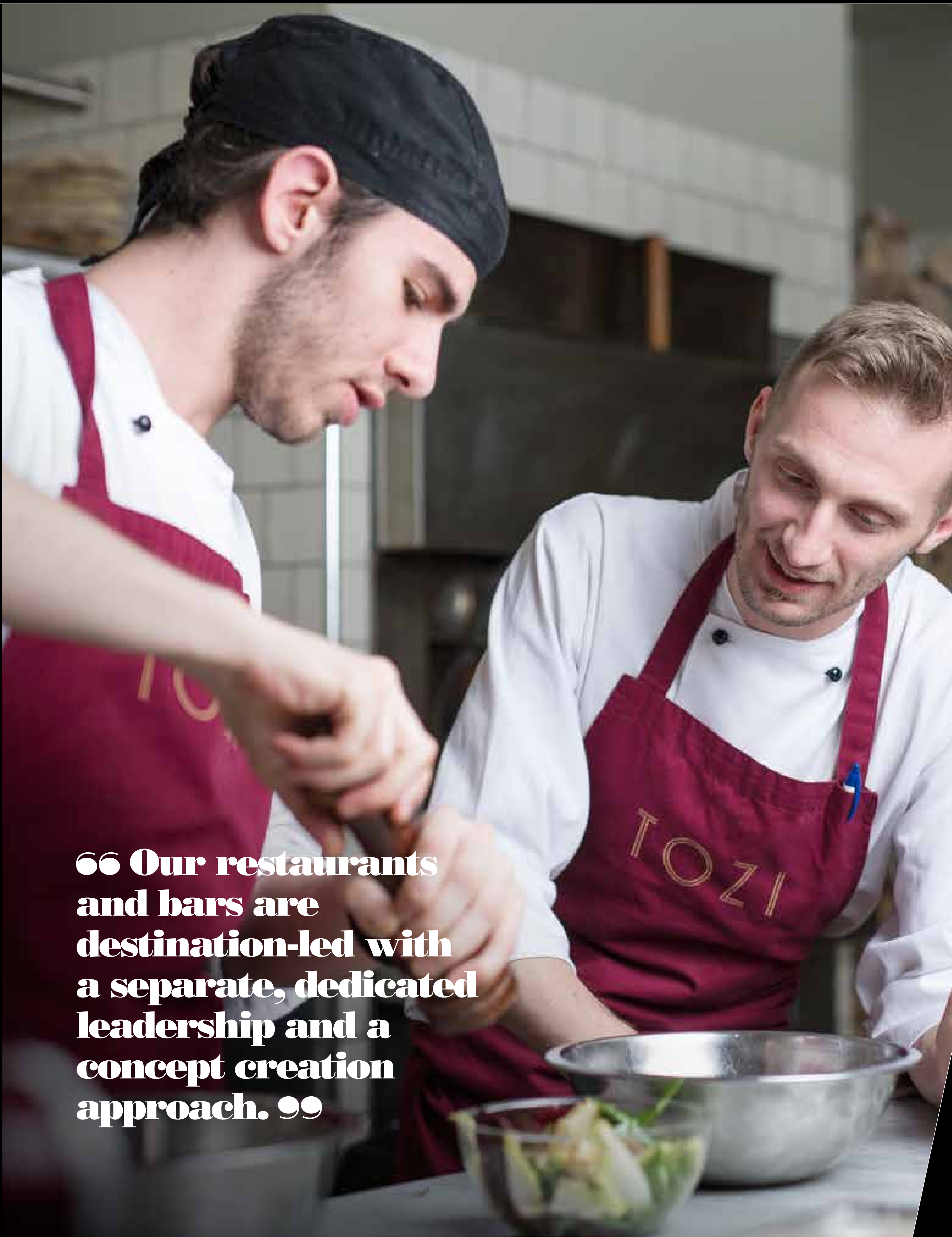
Park Plaza is renowned for creating memorable moments through its inspiring service, stylish guest rooms and versatile meeting facilities which are perfectly complemented by award-winning restaurants and bars.

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 the Carlson Rezidor Hotel Group, to bringing Park Plaza Hotels & Resorts to even more locations.

24 hotels
in Europe

6,637
rooms in operation


quality



“Our restaurants and bars are destination-led with a separate, dedicated leadership and a concept creation approach.”

MEMORABLE MOMENTS

When it comes to choosing a hotel, restaurant, bar or spa, there has never been so much choice available.

We proudly rival the toughest competition and provide guests with the quality to suit their rightfully high expectations.

Our restaurants and bars are destination-led with a separate, dedicated leadership and a concept creation approach, tailored to each local market for the local diner based on detailed research.

The interior design through to the menus are as individual as each concept itself. This was reflected in the opening of Florentine Restaurant & Bar in south London.

2017 also saw the Park Plaza Hotels & Resorts brand introduce two new properties to its already impressive portfolio in London. Park Plaza London Waterloo and Park Plaza London Park Royal offer a total of 706 more rooms for our guests to choose from. The new hotels offer room choice along with other facilities for which the brand is renowned, including great views – those from Park Plaza Westminster Bridge London are peerless – and meeting and function rooms flexible enough for conferences, exhibitions and private event use.

Park Plaza team members are encouraged to provide an inspirational service while showing their individuality and passion. This underpins our Team Value Proposition which was launched in 2017 to increase the contemporary brand's visibility and reputation as an employer of choice in all European markets through a strong brand offering under the creative strapline; Park Plaza. Be part of it. The proposition statement supports the development pipeline of the Park Plaza Hotels & Resorts brand including opportunities for international career development.

beauty is in the eye of the beholder.

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 it, 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 is ingrained in every aspect of the art'otel brand, with knowledgeable and passionate employees sharing their enthusiasm while simultaneously delivering world-class service.

6
art'otels

2
hotels in pipeline

925
rooms in operation

478
rooms in pipeline


individual

“ art’otel has two exciting developments taking place in London. ”

THE ART OF LIVING

Like music, art is completely individual and can inspire debate, open minds to new experiences and challenge perceptions of what a product is and should be. art'otel is a unique lifestyle brand that fuses art and life while providing a hotel experience like no other.

art'otel has two exciting developments taking place in London. One in the desirable Hoxton area in east London, which is complemented by the iconic Battersea Power station project in south west London – both districts are seeing strong interest from both local and international travellers.

Signature artists for both art'otels are yet to be selected, but with London being one of the world's art powerhouses, the choices are sure to be stunning.

While they care for the art, team members value our guests even more highly. They are both concierge and curator to our guests' needs, ever ready to guide the way to the nearest hidden gems of the city.

ARENA HOTELS & APARTMENTS

explore & re

Operating under the Arena Hospitality Group umbrella, of which PPHE Hotel Group is a controlling shareholder, Arena Hotels & Apartments is a collection of hotels and self-catering apartment complexes offering relaxed and comfortable accommodation within beachfront locations. These properties are located across the historical settings of Pula and Medulin in Istria, Croatia. Each hotel and self-catering apartment complex provides outstanding value and caters for families, couples and friends.


4
Hotels
5
Self-catering apartment complexes
1,417
Rooms in operation
invigorate

ARENA CAMPSITES

sunshine

Operating under the Arena Hospitality Group umbrella, of which PPHE Hotel Group is a controlling shareholder, Arena Campsites are located in eight beachfront sites across the southern coast of Istria, Croatia.

Situated within close proximity of the historic 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–October.

Each campsite provides a different offering, with 2018 expected to see the opening of a luxury 'glamping' campsite.

8
campsites

5,983
campsite units


& sea

“ Croatia provides guests with the perfect setting to relax and unwind. ”

...AND RELAX

Croatia provides guests with the perfect setting to relax and unwind. We are delighted to provide two great brands for guests to experience all that Istria has to offer.

What can beat a stroll in the shallows or an early evening drink on your own private balcony? Why not take a dip in the pool, a beachfront cycle ride, enjoy a game of football or take advantage of the many watersports nearby.

If experiencing the local culinary offering takes your fancy, Istria is renowned for its local wines and produce including cured hams, scallops, hand-rolled pasta, olive oil and doughnuts.

The two Arena brands cover all the bases. Arena Hotels & Apartments provides everything you need for a relaxing holiday to remember, whether travelling as a couple or with family and friends. While at Arena Campsites, T-shirts and shorts are the only items guests need to pack to really enjoy some time away to relax and unwind.

Pula and Medulin, located on the beautiful Istrian peninsula, provide historical settings to enjoy long sunny days whiled away on the local beaches and pool-side sun loungers, or keeping active with the many local sports and water activities on offer. Why not round off your day of relaxation by taking a sunset stroll along the beachfront or by wandering through the winding streets of their picturesque old towns.

Relax on your own patio or take a dip in the pool.

PRESIDENT & CHIEF EXECUTIVE OFFICER'S STATEMENT

BORIS IVESHA
President & Chief
Executive Officer

strong growth

2017 was another year of significant progress for the Group. We are pleased to report a strong performance, which was delivered alongside corporate activity to enhance our business goal of realising our growth potential and creating long-term value for our shareholders.

Overview

Our reported total revenue increased by 19.3%, primarily driven by our increased room inventory following the official opening of our two new hotels in London, a full year contribution from our hotel in Nuremberg, and the extension of Park Plaza London Riverbank. Furthermore, good trading across several of our operating regions was underpinned by extensive renovation projects to upgrade our portfolio, which has resulted in improved performances at these hotels. On a like-for-like basis, total revenue was up 10.3%.

A number of milestones were passed during the year, including a historic public offering in Croatia, completion of the sale and leaseback of Park Plaza London Waterloo which opened in 2017, and the refinancing of debt, raising additional capital for future growth opportunities.

In addition, in July 2017, PPHE Hotel Group celebrated ten years of being listed on the London Stock Exchange. During the last decade, we have followed a progressive dividend policy providing stable returns to our shareholders as illustrated by the table on page 46.

Our strategy

The Board remains focused on its aim to become one of the leading international hospitality groups within the upscale, upper upscale and lifestyle segments, thereby creating and realising shareholder value.

We have a flexible business model which enables us to consider a range of opportunities for future growth. Park Plaza London Waterloo is an excellent example of our ability to adapt our model and seize an opportunity to develop a high-quality hotel and create value for shareholders. We acquired a redundant office building, extended the property's footprint and developed it into a world class hotel. Following its opening, the hotel was sold and leased back, unlocking significant capital whilst securing operating income and maintaining control of operation of the hotel for many years to come.

+19.3%

Total revenue increased by +19.3%

10 years

of being listed on the London Stock Exchange

PRESIDENT & CHIEF EXECUTIVE OFFICER'S STATEMENT CONTINUED

Our strategy is based around six core business priorities, which are:

- delivering stabilised annual return on shareholder capital;
- maintaining a high EBITDA margin;
- improving guest experience through consistent service delivery and product enhancements;
- driving growth by expanding our portfolio through a variety of business models;
- improving overall performance through innovative revenue-generation and marketing initiatives; and
- continuing to leverage our Carlson Rezidor Hotel Group partnership to further grow revenues.

In 2017, we have once again delivered clear progress across these priorities.

Corporate activity
One of the main highlights of the year was the successful public offering of new shares in our Croatian subsidiary, Arena, which is listed on the Zagreb Stock Exchange. This raised approximately €106 million of new capital and will accelerate investment plans aimed at upgrading properties whilst funding further growth through expansion in Central and Eastern Europe. PPHE Hotel Group participated in this offering and remains Arena's controlling shareholder with a 51.97% interest.

Following the fundraising, PPHE Hotel Group sold its remaining 12% direct ownership in its German and Hungarian operations to Arena, resulting in Arena having 100% ownership of these operations.

Furthermore, in February 2017, the Group completed the acquisition of the freehold interests in art'otel cologne and art'otel berlin kudamm in Germany. These art'otels are now wholly-owned and operated by Arena.

In July 2017, we completed the sale and leaseback of Park Plaza London Waterloo for £161.5 million. This transaction enabled the Group to unlock the capital invested in Park Plaza London Waterloo, whilst allowing it to continue to benefit from the hotel's operation and associated profits and to provide capital for future investments.

In the Netherlands, we completed the sale of one of the three properties that comprise Park Plaza Vondelpark, Amsterdam.

In the United Kingdom, we acquired an 11% ownership interest in Park Plaza County Hall London through the purchase of 46 apart-hotel units.

In December 2017, we successfully refinanced all of Arena's Croatian loans, a total of €64.0 million. These are now on unified and more favourable terms and the interest costs have decreased significantly. Over the last two years, PPHE Hotel Group's strategy to refinance its loan facilities has resulted in 95% of the debt being secured at an average internal rate of 3.1% with an average maturity of 8.6 years. This refinancing further demonstrates the Group's ability to manage its financial position to support growth effectively.

These corporate activities are a continuation of our strategy to create value and position the business for the next stage of its growth. See the Financial and business review 2017 on page 44 for further details.

Portfolio growth
During 2017, we fully opened two new hotels in the buoyant London market, adding a further 706 rooms to our portfolio.

Park Plaza London Waterloo, a 494-room upper upscale property, was officially opened in June 2017. The hotel is well located on London's South Bank, one of the city's main sightseeing hubs, and has great transport links, attracting both leisure and business guests from around the world. Florentine Restaurant & Bar, the hotel's all-day dining concept, has received excellent reviews since it opened.

In the same month, Park Plaza London Park Royal also officially opened. This contemporary 212-room hotel in west London has easy access to Central London, Wembley Stadium, Warner Bros. Studio Tour London and London Heathrow Airport.

Since opening, both hotels have received positive reviews and feedback from guests.

39
Hotels offering nearly 9,000 rooms

2
New hotels in our development pipeline

€106m
of new capital through a successful public offering of new shares in our Croatian subsidiary

As at 31 December 2017, the Group's portfolio of owned, co-owned, leased, managed and franchised hotels comprises 39 hotels, offering a total of nearly 9,000 rooms. Our development pipeline currently includes two new hotels which are expected to add nearly 500 rooms by the end of 2022.

Ongoing investment in our portfolio
We recognise the importance of maintaining a high-quality portfolio and are committed to ongoing investment in both major renovation projects and smaller refurbishment programmes to maintain the high standards of our hotels.

During 2017, we began several refurbishment projects across our portfolio, including the extensive renovation of public areas and rooms at Park Plaza Victoria Amsterdam, and the development of additional facilities such as a swimming pool and a spa at Park Plaza London Riverbank. In Croatia, works were undertaken to upgrade a number of properties ahead of the 2017 summer season.

Looking ahead, 2018 investments include the expected completion of the projects at Park Plaza Victoria Amsterdam and Park Plaza London Riverbank, the progression of the repositioning works at Park Plaza Sherlock Holmes London and the commencement of renovation projects at Park Plaza Utrecht and Park Plaza Vondelpark, Amsterdam. Arena will also invest in renovation projects across several of its hotels in Germany and, most notably, make the first significant investment in the Arena Pomer Campsite, which plans to launch as Croatia's first 'all-glamping' offer.

“During 2017, we fully opened two new hotels in the buoyant London market, adding a further 706 rooms to our portfolio.”

PRESIDENT & CHIEF EXECUTIVE OFFICER'S STATEMENT CONTINUED

Service excellence
Our emphasis on the consistent delivery of exceptional customer service to provide our guests with a memorable, best-in-class experience remains at the heart of the business.

Once again, our guest satisfaction surveys show that our ongoing commitment to consistent, high-level service has been recognised through both our guest satisfaction and service performance scores. Overall, our guest satisfaction score increased from 8.39 to 8.43 (on a scale of 1-10) and our service performance score remained strong at 8.71 (on a scale of 1-10). Other key metrics, such as net promoter score, recommendation rate and return rate, all increased year-on-year.

The strength and passion of our team is the keystone to achieving these scores and we are proud that our team's hard work and dedication has delivered another great result.

Investment in people
Attracting, retaining and developing talented team members is a key priority for all those operating in the hospitality sector. Over the last 18 months, there has been an increasing shortage of available qualified personnel across the industry. This trend has reinforced the importance of being an employer of choice; able to attract and retain a highly committed, skilled workforce. This was particularly relevant to the Group while we filled positions at our recently opened hotels. To support this recruitment drive, the Group introduced a number of initiatives, including new apprenticeship and graduate training programmes.

In 2017, we launched the Employer Branding and Team Value Proposition for the Park Plaza brand to aid retention of the strong talented individuals within the business and to promote Park Plaza as an attractive employer to prospective talent. This initiative puts employee engagement and wellbeing at its heart to ensure we continue to attract new team members, whilst retaining and developing the best talented team members across the business. In 2018, the Group plans to develop a bespoke proposition for its wholly owned art'otel brand.

We have a number of new renovations on the horizon to ensure our product is always of the highest specification and quality. Our People & Culture teams across Europe will support our managers in attracting new, and developing existing, talented team members and embedding our PPHE Hotel Group vision into the hotels.

We actively engage with our team members and this has been reflected in the high levels of participation in our annual employee engagement survey. In total, 2,900 team members participated in the survey. The overall employee satisfaction/engagement score for the year increased to 85.4% (2016: 84.9%).

Going into 2018, we remain focused on people development, including leadership competencies and talent management, in order to ensure that the culture at PPHE Hotel Group continues to be unique for guests and team members.

Talent management remains top of our agenda in 2018 and we will be refreshing and introducing a host of new programmes and systems. Learning & Development sees another year of the successful Foundation In Management (FIM) programme and the roll-out of the you:niversity-next Management Development Programme to strengthen both current and new leaders within the Group.

Sales and marketing
Our long-standing strategic partnership with the Carlson Rezidor Hotel Group continues to bring us many benefits.

PPHE Hotel Group owns, co-owns, operates and franchises hotels under multiple brands and, through our relationship with Carlson Hotels, the Group has a perpetual exclusive licence for the Park Plaza brand for certain countries in Europe, the Middle East and Africa.

Our industry is evolving rapidly and becoming ever more global. Our partnership with the Carlson Rezidor Hotel Group gives us access to innovative state-of-the-art global distribution platforms for our products, including travel agents, online travel websites and global sales and e-commerce teams, which complement our in-house sales and marketing initiatives.

In addition, we participate in the Carlson Rezidor Hotel Group's highly successful loyalty scheme, Club Carlson℠, which has more than 19 million members worldwide.

As a medium-size hotel owner and operator, leveraging this extensive distribution network and the strength of the Park Plaza brand allows us to retain our operational agility, whilst enabling us to compete with the largest players in the hospitality sector.

Following a year of corporate activity, planning and restructuring under new ownership, the Carlson Rezidor Hotel Group is well-positioned to start driving various new technology, digital and commercial activities in 2018 and we fully expect to benefit from them.

The benefits from this strategic partnership and the new Carlson Rezidor Hotel Group strategy are expected to help us to further raise the profile of our properties and increase engagement with both existing and potential customers to drive revenue growth.

PRESIDENT & CHIEF EXECUTIVE OFFICER'S STATEMENT CONTINUED

Awards and industry recognition
We are proud that in 2017 the quality of our hotels and our focus on delivering exceptional customer service to our guests was once again recognised through industry accolades.

In the United Kingdom, we were recognised as the 'Number One-Mid Sized Group (UK)' by Venue Verdict. Three of our hotels in Germany were awarded 'Guest Review Award Winner' by booking.com, and art'otel cologne received a Thomas Cook 'Sunny Heart Award 2017'.

In the Netherlands, Park Plaza Vondelpark, Amsterdam achieved Gold certification under the Green Key system.

In addition, PPHE Hotel Group won 'Best Annual Report' at the 2017 Property Marketing Awards. The judges felt the report epitomised the Group's compelling brand experience and its unique and distinctive approach.

Our Croatian subsidiary, Arena, was recognised by the Zagreb Stock Exchange Awards 2017, winning the Top Turnover Gainer category, and was awarded the 'Golden Goat for the Best Technological Innovation' by the Istria Tourism Board for its complimentary guest smartphone.

Responsible business strategy
Responsible experiences
In 2017, we committed to developing a responsible business strategy, Responsible Experiences, to ensure that we are responsible in everything we do as a business. Full details of the strategy and activity can be found in the responsible business report on page 60.

The new responsible business strategy has been developed to build upon our current corporate social responsibility (CSR) successes to help create a long-term sustainable business model. As an international business, we understand the importance of the role we can play in making a difference through initiatives to promote a sustainable environment for now and future generations, being a preferred employer of choice and supporting the local communities in which we operate, all of which strongly reflects our mission of inspiring guests through individuality and passion.

Charitable activities
Activities in the year included: support for the Carlson Rezidor Hotel Group's 'Responsible Business Action Month' under the campaign theme of 'Save Tomorrow's Trees Today'; we donated 120 volunteer hours to the Nottinghamshire Wildlife Trust; and raised funds for the World Childhood Foundation.

120
volunteer hours donated

3
Hotels in Germany awarded 'Guest Review Award Winner' by booking.com

"In the United Kingdom, we were recognised as the 'Number One-Mid Sized Group (UK)' by Venue Verdict."

In addition, our teams participated in, or supported, a wide array of charitable activities and fundraising, including raising funds for The Movember Foundation.

Our team
Chen Moravsky stepped down from his executive roles on 31 December 2017. I would like to personally thank Chen for his significant and long-standing contribution to the development of the business during this period. We are delighted that the Board will continue to benefit from his experience and leadership in his new role as a Non-Executive Director.

In November 2017, we announced a number of senior appointments to strengthen our Executive Leadership Team, focused on key areas within the business to support the next stage of growth.

Daniel Kos, who joined the Group in 2011 and has worked closely with Chen Moravsky, took up his new role of Chief Financial Officer on 1 January 2018 and as Executive Director on 27 February 2018.

Robert Henke was appointed Executive Vice President of Corporate Affairs and Customer Experience and, amongst other responsibilities, will oversee corporate and investor communications.

Greg Hegarty was appointed to the newly-created role of Executive Vice President UK and Chief Commercial Officer and has overall responsibility for delivery of the Group's commercial strategy.

Jaklien van Sterkenburg was appointed as Executive Vice President People and Culture | Head of HR.

I would like to congratulate the four of them on their promotions and I look forward to working with them closely.

On behalf of the Board, I would also like to take this opportunity to thank everyone that has worked for the Group during the year and contributed to our success. We are sincerely thankful for all your hard work and dedication.

Current trading and outlook
Trading to date is consistent with meeting the Board's expectations for the full-year. We look forward to focusing on a strong pipeline of renovations and developments across our portfolio in 2018. In early 2018, we were pleased to announce that we had exchanged contracts to acquire, from our joint venture partner, a fifty percent interest in the company that owns the site for the development of art'otel london hoxton. Once this transaction completes we will have full ownership and we are aiming to commence preliminary works in the second quarter of 2018. Hoxton's desirability as a London destination is complemented by the second art'otel development in Battersea; art'otel london battersea power station – both locations are seeing huge investment and regeneration, positioning them as European leisure districts in strong demand.

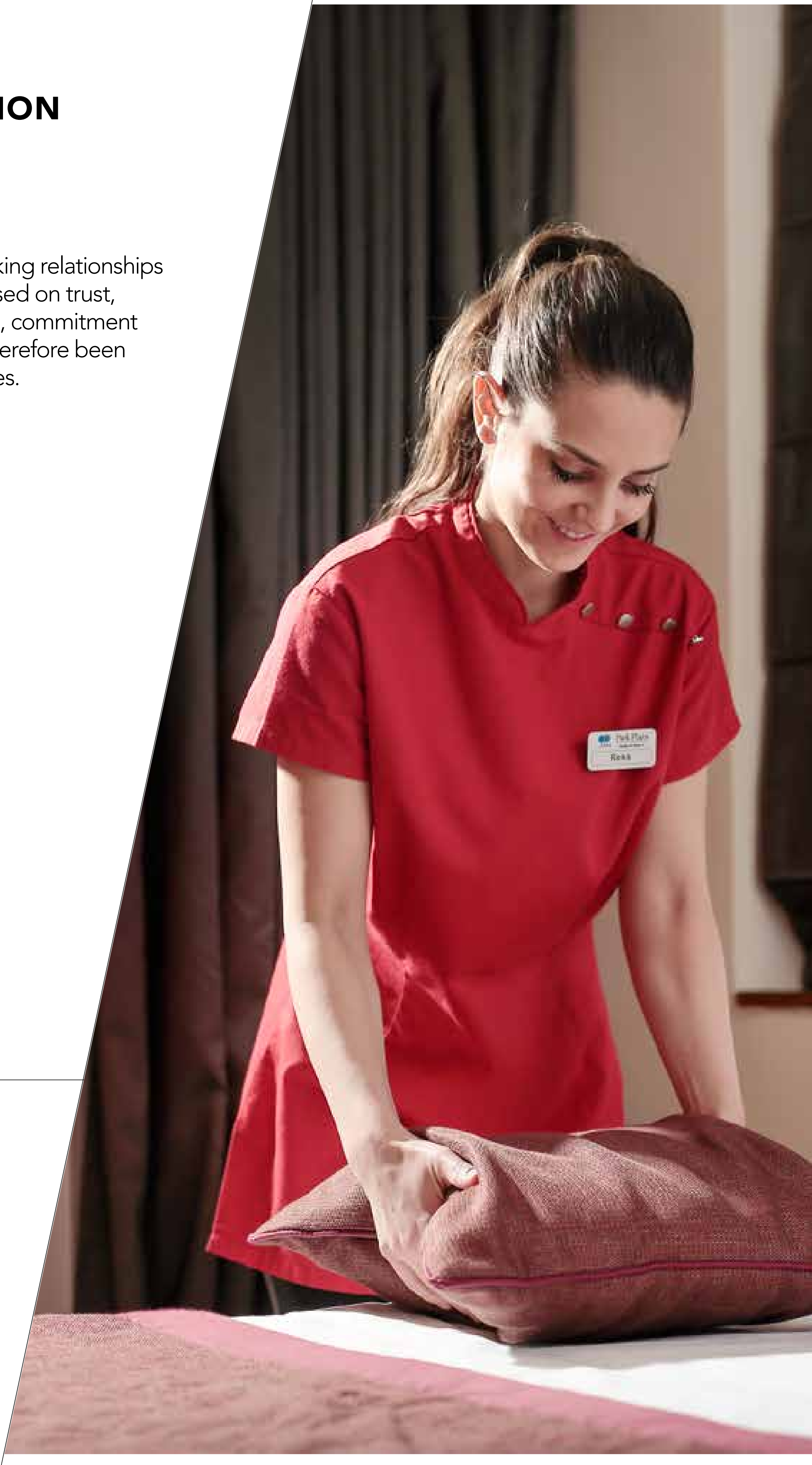
With a number of key renovation programmes taking place in 2018, we anticipate a slight reduction in services available to guests and this may result in a potential short term impact to final year-end hotel revenue levels.

2018 will also see a full year of trading for Park Plaza London Waterloo and Park Plaza London Park Royal, with a combined room count of 706 rooms. Accompanied by further inventory made available following Park Plaza London Riverbank's full re-launch later in 2018, we expect to drive further benefits from our strong London portfolio. We are equally excited about the planned re-launch of the extensively renovated Park Plaza Victoria Amsterdam and the launch of the glamping offering at Arena Pomer Campsite in Croatia.

We firmly believe that the superior quality of the new product and service offerings will stand us in good stead for healthy trading in the long term.

BORIS IVESHA
PRESIDENT & CHIEF EXECUTIVE OFFICER

OUR VALUES, VISION AND MISSION



Our values

The Group values positive working relationships and fosters an environment based on trust, respect, teamwork, enthusiasm, commitment and care. These criteria have therefore been adopted as our Company values.

Trust

Respect

Teamwork

Enthusiasm

Commitment

Care

Our vision

To realise our growth potential

Our mission

To inspire our guests through individuality and passion

OUR BUSINESS MODEL AND PRIORITIES

Our business model

At PPHE Hotel Group, we create shareholder value through a variety of business models. We own or co-own the majority of the properties in our portfolio, and also lease, manage and franchise properties.

All properties in our portfolio benefit from being part of a dynamic, full-service international hospitality group led by a highly experienced senior management team.

Our shareholders benefit from our flexible business model, developments and operating skills in the form of progressive dividend payments.

See Our business model in action pages 32–37 to read more

1 Investing in and converting real estate

Read more on pages 32 – 34

2 (Re)developing

Read more on pages 32 – 34

3 Flexible operating platforms

Read more on page 34

4 Brands

Read more on pages 35 – 37

See Strategy at a glance, pages 38 and 39, to read more

Our business priorities

- To deliver stabilised annual return on shareholder capital
- To maintain a high EBITDA margin
- To improve our guest experience through consistent service delivery and product enhancements
- To drive growth by expanding our hotel portfolio through a variety of business models
- To leverage our partnership with the Carlson Rezidor Hotel Group to further grow revenues
- To improve our overall performance through innovative revenue generation and marketing initiatives

OUR BUSINESS MODEL IN ACTION

We create shareholder value by applying a variety of business models. We have an ownership interest in the majority of the hotels in our portfolio, and also lease, manage and franchise hotels. All hotels in our portfolio benefit from being part of a dynamic, full-service international hospitality group led by a highly experienced senior management team. Our shareholders benefit from our flexible business model and operating expertise in the form of progressive dividend payments.

We purchase land and buildings

Owning and operating hotels is the primary focus of our business. This business model is capital intensive compared with the 'asset-light' business model widely adopted by many hotel companies in recent years.

The main advantage of our model is that it can be highly profitable as we benefit from increased values in real estate and can leverage our assets to fund further expansion. Our entry into the London market in the late 1990s was principally funded on the back of our successful real estate investments and operations in the Netherlands. Our owner/operator model enables us to achieve high margins and profit as we control the entire value chain. Leveraging of our owned and co-owned assets has enabled us to further grow our portfolio and we have realised shareholder value by successfully completing several long-term refinancing arrangements on favourable terms.

This business model is not entirely dependent on fee-based income. We seek assets that have significant upside potential (such as distressed assets, green/brown field construction sites and upcoming locations). We aim to own and co-own hotels in key gateway cities, regional centres and select resort destinations, predominantly in Europe where capital value is likely to appreciate over time. This enables the Group to establish a foothold in key destinations, creating flagship hotels for the brands it operates under licence or owns, and generating income from operations. In certain instances, we partner with third parties to accelerate growth and share the costs and, by securing long-term management contracts, we benefit from fee-based income. Recent examples of successful partnerships include our current joint venture with the Nakash group for two of the Group's hotels in Germany and our previous joint venture in Arena with Goldman Sachs (by way of managed funds).

We are hoteliers who are not afraid to undertake development projects in up and coming locations and we have a successful track record of developments in regeneration areas, often acting as a catalyst for further investments into the area. We opened our first hotel on London's South Bank in 2005, when few other hoteliers dared to develop in this area, and we have since expanded our footprint on the South Bank to well over 2,500 rooms. The South Bank today is one of London's most flourishing areas, with a strong appeal for leisure and business travellers, and our hotels in this area are generating high returns for the Group.

The Group has a proven track record of identifying locations and/or buildings with a significant upside potential and the ability to develop successful, profitable hotels. Examples of owned/co-owned hotels in operation, which the Group has either built or transformed, include:

- Park Plaza Westminster Bridge London (1,019 rooms);
- Park Plaza London Riverbank (currently being expanded to up to 646 rooms); and
- Park Plaza Victoria London (299 rooms).

Looking ahead

We are excited about 2018 and look forward to further renovation projects in the Netherlands, the United Kingdom, Germany and Croatia. The Group has a significant excess cash position to fund future growth.

OUR BUSINESS MODEL IN ACTION CONTINUED

We redevelop buildings

One of our core strengths is that we know what to look for when identifying assets with development potential, from plots of land to tired buildings in need of investment. Developing new hotels and redeveloping existing hotels is capital intensive, but we have a proven track record that, on completion of our projects, we create a clear upside in property value and immediately generate revenue.

Using our 30-plus years of experience in asset ownership, we know when we see opportunities. We have experience with complex development projects and have the ability to quickly assess opportunities and project manage them. Apart from external growth, we constantly review our existing portfolio to identify how we can maximise its use.

In 2017, we saw the benefit of the recently completed six storey extension of Park Plaza London Riverbank creating an additional 155 rooms in a prime riverside location in London where development opportunities are rare. The Group is actively pursuing several other opportunities in markets where it expects that capital value is likely to appreciate over time. However, we will only pursue opportunities that directly add value and have upside potential.

Looking ahead
We are excited about 2018 and beyond. Our (re) development programme includes Park Plaza Vondelpark, Amsterdam, Park Plaza Utrecht, Park Plaza Victoria Amsterdam, Park Plaza Sherlock Holmes London, art'otel london battersea power station and art'otel london hoxton.

We are experienced hoteliers

Managing our and other people's assets is a core part of our business and we have a highly experienced management team to oversee this process.

Although PPHE Hotel Group's primary business model is owner/operator focused, the Group has significant hotel management experience and has partnered with third parties to hotel manage on many occasions. Through such partnerships, we are able to accelerate growth, share the costs and, by securing long-term management contracts, benefit from fee-based income. Our management contracts with third parties allow owners to retain ownership of their property while we undertake the day-to-day management. They have the confidence of working with an international operator with access to contemporary hotel brands and global distribution, powerful sales and marketing programmes and procurement savings.

We run our managed hotels with efficiency and passion and have a proven track record of operating highly successful, profitable hotels. All of the hotels in our portfolio (except for the franchised hotels) are managed by us or Arena.

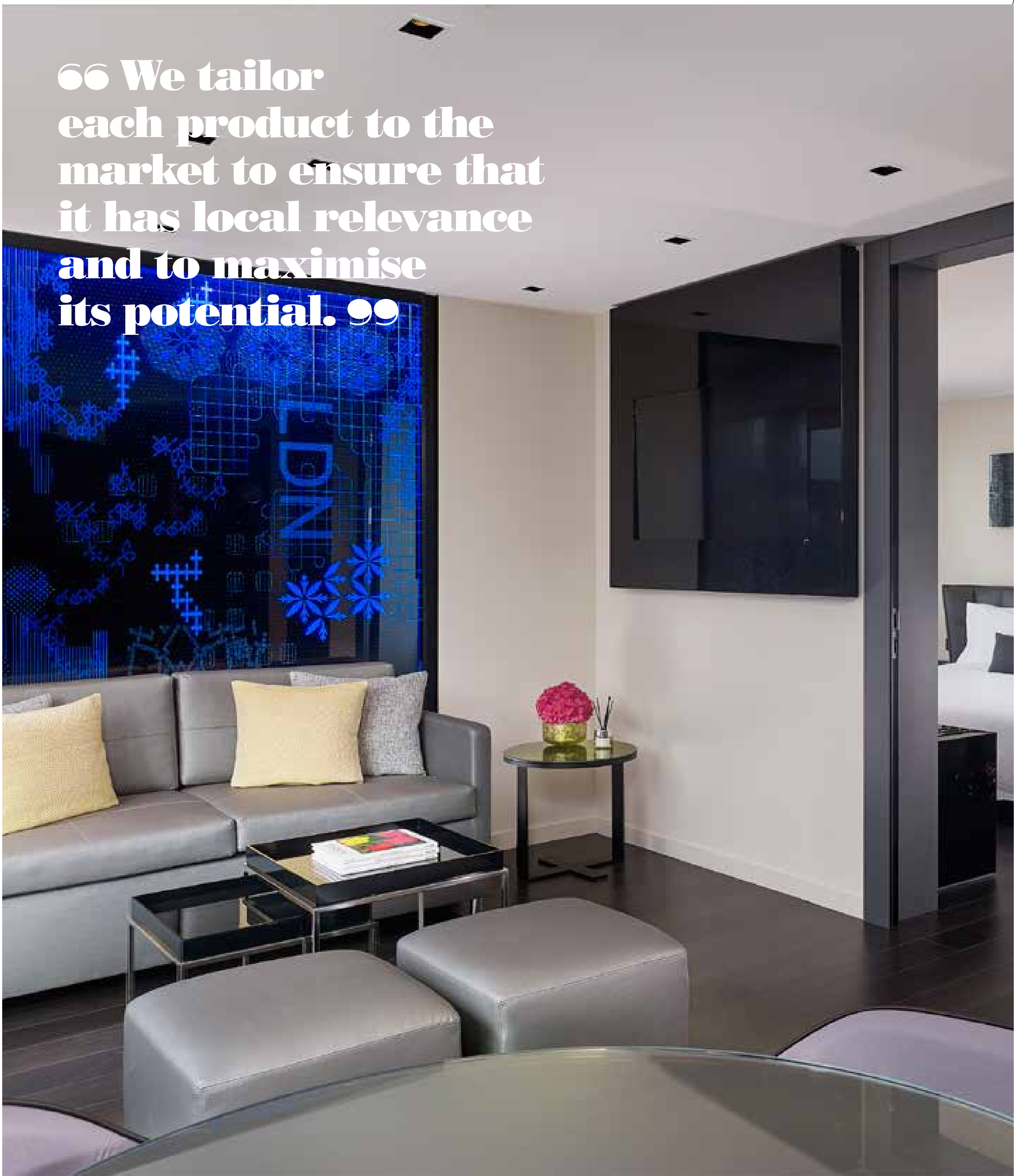
Looking ahead
PPHE Hotel Group believes that the management and franchise model has great potential to realise portfolio growth without requiring significant capital. The Group has a solid support infrastructure already in place which is able to absorb further growth. The Group is actively seeking opportunities to grow through management or franchise arrangements.

We own, and have access to, dynamic brands

Developing, managing and marketing unique brands is an art – especially in today's globalised and digital world. Customers have ample choice and are looking for highly unique and personalised travel experiences. We therefore employ our own specialist teams and have partnered with Carlson Hotels (part of the Carlson Rezidor Hotel Group), one of the industry's largest hotel groups. Together, we have created a strong global marketing and distribution platform through which we market Park Plaza and our art'otel branded hotels.

“ We run our managed hotels with efficiency and passion and have a proven track record of operating highly successful, profitable hotels. ”

OUR BUSINESS MODEL IN ACTION CONTINUED



2

Exciting new projects in London for the art'otel brand

The Group has an exclusive, perpetual licence from Carlson Hotels to operate and develop hotels under its Park Plaza brand in most European countries and selected countries in Africa and the Middle East. In addition we wholly own the art'otel brand, which was recently transformed and has some exciting projects in its pipeline.

Several of the properties in Croatia are branded Arena Hotels & Apartments and they benefit fully from the Group's expertise.

Park Plaza is a core brand for us, and is positioned in the upscale and upper upscale segments of the full-service hotel market. The brand enjoys strong recognition in the London market in particular, boosted by the new openings in 2017. Park Plaza is one of the largest international upscale and upper upscale brands in London.

The art'otel brand is wholly owned by the Group and marketed through the Calson Rezidor Hotel Group's powerful global distribution network, ensuring global reach. Starting in 2013, we embarked on a new venture for the brand significantly upgrading the brand's positioning and its appeal. It has gone from strength to strength following the successful launch of art'otel amsterdam and the relaunch of art'otel berlin mitte in 2016.

Our pipeline for this brand includes two exciting new projects in London in the Hoxton area and as part of the prestigious Battersea Power Station project. The new art'otels fuse exceptional architectural style with art-inspired interiors and are located in cosmopolitan destinations.

Our hotels benefit from our day-to-day hotel management expertise, whilst having access to some of the world's most powerful marketing and distribution systems. The benefits are significant and include: access to global sales teams and the key accounts they manage; a wide array of distribution partnerships and preferred agreements with virtually all main travel agencies and online travel websites; robust e-commerce platforms; global digital marketing expertise and activities; public relations and tactical marketing; customer loyalty marketing aimed at travel agents, meeting planners, travel bookers and guests; and a highly sophisticated revenue management infrastructure.

Additional hotel management services from which our hotels benefit include: our expertise in hotel operations with a continuous improvement mindset; and hotel (re)design and construction where we never consider the ordinary. We also provide services including legal affairs; technology; procurement; accounting; and people and culture.

When it comes to hotels, restaurants, bars and spas, we believe in a bespoke approach. We tailor each product to the market to ensure that it has local relevance in order to maximise its potential. However, they all share the same philosophy of providing a high quality experience with a strong focus on excellent service delivery, at great value to the guest.

Looking ahead

The Group is in an unprecedented financial position and we are capitalising on such by actively pursuing growth opportunities for our core Park Plaza and art'otel brands.

STRATEGY AT A GLANCE

1

To deliver stabilised annual return on shareholder capital

Performance in the year
After a successful public share offering in Arena Hospitality Group and the sale and leaseback of Park Plaza London Waterloo, the Group has managed to diversify the capital at risk.

Key performance indicators

£0.58 normalised earnings per share

£0.24 dividend per share

Risks linked to strategy

- The Group's borrowings
- Foreign exchange rate fluctuations

Looking forward

Maintain progressive dividend policy

2

To maintain a high EBITDA margin

Performance in the year
Although our EBITDA margin remained at a high level, the performance was negatively affected by new hotel openings which are yet to mature and increased property taxes in the UK.

Key performance indicators

33% reported EBITDA margin (EBITDA/ total revenue)

Risks linked to strategy

- Fixed operating expenses
- Hotel industry risks

Looking forward

Maintain our high EBITDA margin by improving operational performance, tight cost controls, further implementation of the centralised procurement and time and attendance systems, and further developing our financial structure and asset management initiatives

3

To improve our guest experience through consistent service delivery and product enhancements

Performance in the year
Continued investment in operational and management training programmes across all our regions

Maintained high levels of guest satisfaction and service performance scores

Product investment and renovations

Key performance indicators

8.43 overall guest satisfaction score (on a scale of 1–10)

8.71 service performance score (on a scale of 1–10)

Risks linked to strategy

- Employee turnover
- Capital required to maintain product standards

Looking forward

Continue to grow employee engagement, guest satisfaction and loyalty by consistent delivery of exceptional customer service, significant product enhancements and investment in our people development activities

4

To drive growth by expanding our hotel portfolio through a variety of business models

Performance in the year
Opened 494-room Park Plaza London Waterloo and 212-room Park Plaza London Park Royal

Key performance indicators

706
added 706 new rooms in London

Risks linked to strategy

- Development projects
- The Group's borrowings

Looking forward

Focus on driving growth through construction projects and extending our development pipeline

5

To improve our overall performance through innovative revenue generation and marketing initiatives

Performance in the year
Approximately one-third of our owned, co-owned and leased hotels outperformed their competitive sets

Strong focus on driving business directly through our own channels, with several successful marketing promotions and increased digital marketing activities

Key performance indicators

- Market share
- Business generated through direct channels

Risks linked to strategy

- Hotel industry risks
- Capital required to maintain product standards
- Market disruptors
- Information technology and systems

Looking forward

Actively look for opportunities to improve our revenue generation through analysis of demand patterns and customer behaviour, new distribution channels, digital marketing, customer engagement and collaboration with third parties

6

To leverage our partnership with Carlson Hotels to further grow revenues

Performance in the year
Entered into several new global digital marketing agreements

Focused on driving loyalty programme member engagement through compelling offers and propositions

Participation in all relevant Carlson Rezidor Hotel Group sales, marketing and distribution initiatives

Key performance indicators

- Cost-effective distribution of our products
- Business generated through brand and direct channels, and loyalty programmes

Risks linked to strategy

- The Park Plaza brand and reservation system

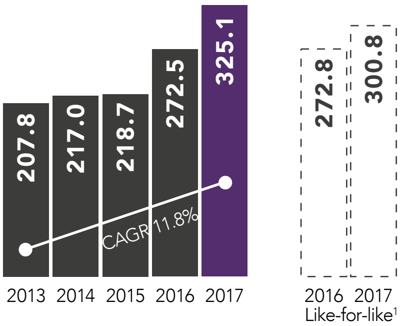
Looking forward

Embrace all marketing, sales, distribution and e-commerce channels and programmes available through Carlson Rezidor Hotel Group's global network and increase customer loyalty and engagement

KEY PERFORMANCE INDICATORS

Financial KPIs

Total revenue (£m)

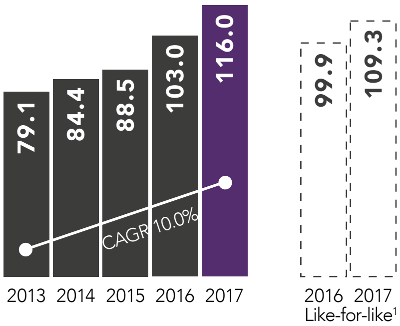


KPI definition
Total revenue includes all operating revenue generated by the Group's owned and leased hotels, management fees, franchise fees and marketing fees.

Comment
Revenue increased by 19.3%, mainly due to the full opening of two new hotels in London and the first full year contribution from Park Plaza Nuremberg.

Read more
Financial and business review 2017 pages 44 to 59, Financial statements pages 89 to 144.

EBITDAR (£m)

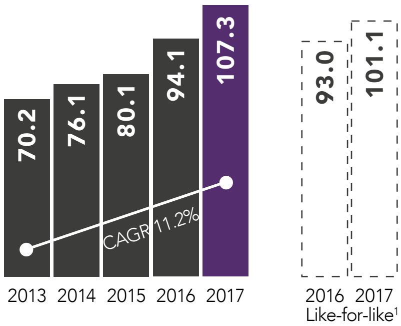


KPI definition
Earnings before interest, tax, depreciation, amortisation and rental expenses.

Comment
Our EBITDAR was positively affected by new openings and improved trading. However it was negatively affected by the first time consolidation of the first quarter of the Croatian operations which, due to seasonality, have a negative EBITDAR in the quarter.

Read more
Financial and business review 2017 pages 44 to 59, Financial statements pages 89 to 144.

EBITDA (£m)

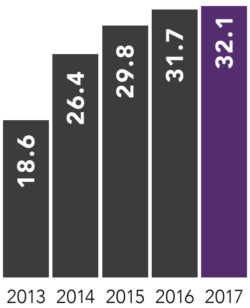


KPI definition
Earnings before interest, tax, depreciation and amortisation.

Comment
EBITDA increased by 14.0%, mainly due to improved trading across most of our operating regions, new openings and the acquisition of two freehold properties in Germany (which were previously held under operating leases).

Read more
Financial and business review 2017 pages 44 to 59, Financial statements pages 89 to 144.

Normalised profit before tax (£m)

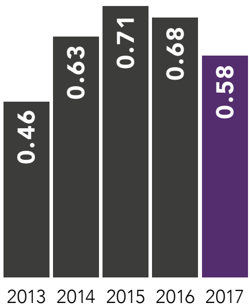


KPI definition
Profit before tax adjusted to remove unusual or one-time influences.

Comment
Normalised profit increased marginally, primarily as the improved performance was offset against a loss-making first year of the new openings, which is common for hotels that have not yet reached full maturity.

Read more
Financial and business review 2017 pages 44 to 59, Financial statements pages 89 to 144.

Normalised earnings per share (£)

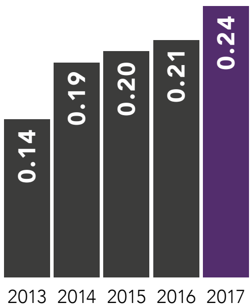


KPI definition
Earnings for the year, adjusted to remove any unusual or one-time influences, divided by the weighted average number of ordinary shares outstanding during the year.

Comment
Normalised earnings per share decreased by 14.4%, as a result of an increase in the number of minority shareholders of Arena after the public offering. This public offering raised approximately £91 million of growth capital

Read more
Financial and business review 2017 pages 44 to 59, Financial statements pages 89 to 144.

Dividend per share (£)



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

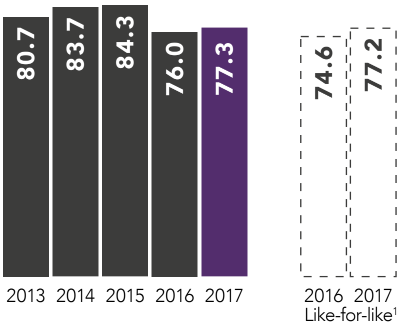
Comment
Ordinary dividend increased 14.3% year-on-year, with a final dividend of 13 pence per share proposed.

Read more
Financial and business review 2017 pages 44 to 59, Financial statements pages 89 to 144.

[1] The like-for-like figures for the 12 months ended 31 December 2017 exclude Park Plaza London Park Royal for the period, Park Plaza London Waterloo for the first 10 months of 2017 and Park Plaza Nuremberg for the first five months of 2017. Furthermore, the like-for-like comparison figures for the 12 months ended 31 December 2016 have been adjusted to exclude Park Plaza Prenzlauer Berg Berlin (the lease of which was terminated on 30 June 2016) and to include the performance of the Croatian operations for the first quarter of 2016. In addition, EBITDA numbers in both periods up until 31st of December have been adjusted to reflect the new freehold position of art'otel cologne and art'otel berlin kudamm (rental costs adjusted).

Operating KPIs

Occupancy (%)

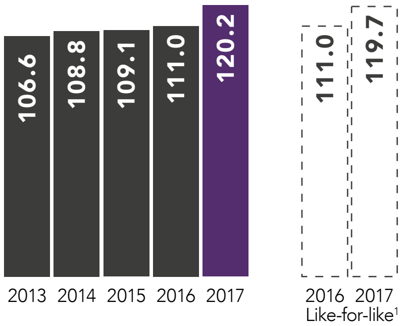


KPI definition
Total rooms occupied divided by the available rooms.

Comment
Like-for-like occupancy improved by 260 bps with reported occupancy increasing by 130 bps year-on-year, particularly through increased occupancy in Germany and Croatia.

Read more
Financial and business review 2017 pages 44 to 59, Financial statements pages 89 to 144.

Average room rate (£)

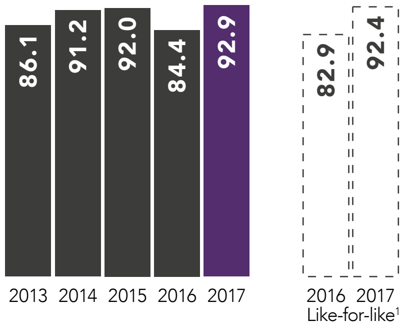


KPI definition
Total room revenue divided by the number of rooms sold.

Comment
Like-for-like average room rate increased by 7.8%, with reported average room rate increasing by 8.2%, due to higher rates in all regions and a decrease in Pound Sterling.

Read more
Financial and business review 2017 pages 44 to 59, Financial statements pages 89 to 144.

REVPAR (£)

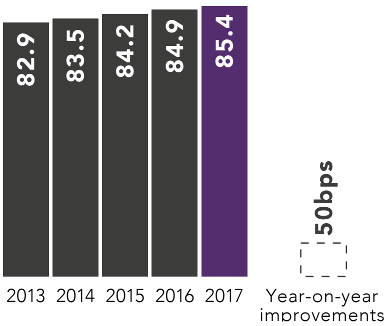


KPI definition
Revenue per available room; total room revenue divided by the number of available rooms.

Comment
Like-for-like RevPAR increased by 11.5%, with reported RevPAR increasing by 10.0%, due to a rate-led increase in room revenue.

Read more
Financial and business review 2017 pages 44 to 59, Financial statements pages 89 to 144.

Employee satisfaction/ engagement (scale 1–100%)

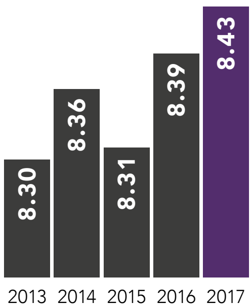


KPI definition
Measured through annual survey. Team members are encouraged to share feedback about the Company, their jobs, their teams and their manager.

Comment
We have increased our overall score by 50 basis point (bps) year-on-year.

Read more
President & CEO's statement pages 22 to 29, Responsible business pages 60 to 73.

Guest satisfaction (scale 1–10)

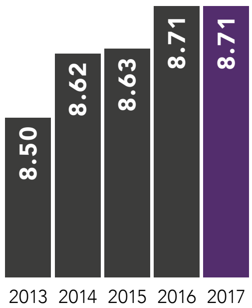


KPI definition
Guest satisfaction is paramount to our long-term success. Guests are approached with electronic surveys and are encouraged to rate various elements of their stay.

Comment
We delivered a record level of guest satisfaction, with further improvements expected post renovations.

Read more
President & CEO's statement pages 22 to 29.

Service performance (scale 1–10)



KPI definition
A consistent delivery of exemplary service is a core objective. Service performance is measured through electronic surveys, with guests encouraged to rate various service elements.

Comment
We maintained our strong service performance score, testimony to our strong focus on learning and development.

Read more
President & CEO's statement pages 22 to 29.

RISKS

Risk and impact	Mitigation	Grade	Change
Market disruptors			
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. This trend is anticipated to persist and the travel industry is expected to continue to be impacted by the rise of online travel agents and other dominant forces such as search engines and social media networks. The Group is exposed to risks such as the dominance of one such third party over another, the loss of control over its inventory and/or pricing and challenges to keep up with developments in the market.	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 Carlson Hotels, 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, the Group and its hotels maintain personal customer data, which is shared with and retained by the Group's partners. Such information may be misused by employees of the Group or its partners or other outsiders if there is inappropriate or unauthorised access to the relevant information systems.	The Group invests in appropriate IT systems to build as much operational resilience as possible. Further, a variety of security measures are implemented in order to maintain the safety of personal customer information.		—
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 due to the significant presence of the Group in the United Kingdom) uncertainty pertaining to Brexit and an increase in acts of terrorism. The impact of any of these factors (or a combination of them) may adversely affect sustained levels of occupancy, room rates and/or hotel values.	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, information technology 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) which are designed to create flexibility in the operating cost base so as to optimise operating profits in volatile trading conditions.		↑
The Group's borrowings			
The vast majority of the Group's bank borrowings are with two banks and these financing arrangements contain either cross-collateralisation or cross-default provisions. Therefore, there is a risk that more than one property may be affected by a default under these financing arrangements. 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. The Group uses debt to partly finance its property investment. By doing so, the Group leverages its investment and is able to acquire properties without raising equity. Leverage magnifies both gains and losses, and therefore the risk of using leverage is that the loss is much greater than it would have been if the investment had not been leveraged. The risk exists that interest expenses and default on debt covenants negatively impact shareholder value and return.	The Board monitors funding needs regularly. Financial covenant ratios are monitored and sensitised as part of normal financial planning procedures.		↓

Grading

- High
- Medium
- Low

Change year-on-year

- Increased
- Unchanged
- Decrease

Risk and impact	Mitigation	Grade	Change
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.	Medium	Unchanged
The Park Plaza Hotels & Resorts brand and reservation system			
The Group's rights to the Park Plaza Hotels & Resorts brand stem from a territorial licence agreement with Carlson Hotels, pursuant to which the Group has the exclusive right to use (and to sub-license others to use) the Park Plaza Hotels & Resorts trademark in 56 countries within the EMEA region. This agreement also allows the Group to use Carlson Hotels' 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 Carlson Hotels 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 Carlson Hotels 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 brand and the hotels operating under the brand name.	The Group's rights to use the Park Plaza Hotels & Resorts brand and Carlson Hotels' 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 Carlson Hotels. To ensure that the Group's interests are represented, several of its executives and managers participate in collaborative groups initiated by Carlson Hotels to discuss, review and optimise the collective performance in areas such as sales, loyalty marketing, partnerships, e-commerce and distribution.	Medium	Unchanged
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 retains an ownership interest in the development sites and therefore it is well placed to capitalise on any future rises in property prices. 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.	Low	Decrease
Capital required to maintain product standards			
The Group owns and co-owns many of its hotels. As is common in owning hotels, this business model requires capital to maintain the high quality level of the products and facilities offered. In addition to maintenance costs and capex, the Group may be exposed to disruptions in revenue if hotels are to be (part) closed for product improvements.	The Group focuses heavily on preventative maintenance across its portfolio and employs engineers and technicians to ensure that its hotels are maintained to a high standard. In addition, as part of its operating agreements, the Group has capex reserves for each hotel to invest in medium to large renovations and replacements of technical installations. To minimise short-term revenue displacements due to renovations, the Group develops – prior to undertaking such renovations – detailed renovation planning programmes which take into account factors such as hotel closures, phased approaches, seasonality and demand patterns.	Medium	Unchanged
Employee turnover			
The success of the Group's business is partially attributable to the efforts and abilities of its (senior) managers and key executives. Failure to retain its executive management team or other key personnel may threaten the success of the Group's operations. The consistent delivery of high quality service levels depends on the skills and knowledge of our teams. A high turnover rate may threaten the consistent delivery of this service level.	The Group has appropriate systems in place for recruitment, reward and compensation and performance management. Development and maintenance of a Group culture and comprehensive training programmes and feedback systems also play a leading role in minimising this risk. The increased risk is due to recruitment challenges in 2018 caused by currency exchange rates (Euro v Pound Sterling) and Brexit negotiations.	Medium	Increased

FINANCIAL AND BUSINESS REVIEW 2017

Strong performance and funding in place to support further growth

£325.1m
total revenue

£107.3m
EBITDA

£0.24
dividend per share

Performance
The Group is pleased to announce strong results for the year, in line with the Board's expectations.

Reported total revenue was up 19.3% to £325.1 million (2016: £272.5 million) and EBITDA increased by 14.0% to £107.3 million (2016: £94.1 million). This growth was mainly the result of an increase in hotel room inventory due to the full opening of two new hotels in London and the first full year contribution of Park Plaza Nuremberg (which opened in June 2016). Furthermore, we benefited from improved trading across most of our operating regions, notably Germany and Croatia.

As previously announced, renovation works during the year resulted in a reduced room inventory at some of our hotels as we invested in upgrading these properties. The hotel most affected was Park Plaza Victoria Amsterdam where only 50% of the previous year's room inventory was available, affecting the like-for-like performance.

On a like-for-like[1] basis, total revenue increased by 10.3% and EBITDA improved by 8.7%. Like-for-like performance was also positively affected by the additional rooms in Park Plaza London Riverbank.

Whilst we recognise that certain cost pressures and renovation programmes may have an effect on our performance, we are confident about our long-term prospects.

RevPAR
Like-for-like[1] RevPAR was £92.4, an increase of 11.5% (2016: £82.9), reflecting strong RevPAR growth in our German and Croatian regions, alongside the continued weakening of Pound Sterling against the Euro. Like-for-like RevPAR growth was achieved through a 7.8% increase in average room rate to £119.7 (2016: £111.0). Like-for-like occupancy improved by 260 bps to 77.2% (2016: 74.6%). As a result, like-for-like[1] room revenue was up 11.0% to £203.3 million (2016: £183.2 million).

Reported RevPAR was £92.9 (2016: £84.4), up 10.0%, driven by an 8.2% increase in average room rate and a 130 bps improvement in occupancy.

	Reported in GBP (£)		Like-for-like in GBP[1] (£)	
	Year ended 31 Dec 2017	Year ended 31 Dec 2016	**Year ended 31 Dec 2017**	Year ended 31 Dec 2016
Total revenue	**£325.1 million**	£272.5 million	**£300.8 million**	£272.8 million
EBITDAR	**£116.0 million**	£103.0 million	**£109.3 million**	£99.9 million
EBITDA	**£107.3 million**	£94.1 million	**£101.1 million**	£93.0 million
Occupancy	**77.3%**	76.0%	**77.2%**	74.6%
Average room rate	**£120.2**	£111.0	**£119.7**	£111.0
RevPAR	**£92.9**	£84.4	**£92.4**	£82.9
Room revenue	**£224.0 million**	£183.2 million	**£203.3 million**	£183.2 million

1 The like-for-like figures for the 12 months ended 31 December 2017 exclude Park Plaza London Park Royal for the period, Park Plaza London Waterloo for the first 10 months of 2017 and Park Plaza Nuremberg for the first five months of 2017. Furthermore, the like-for-like comparison figures for the 12 months ended 31 December 2016 have been adjusted to exclude Park Plaza Prenzlauer Berg Berlin (the lease of which was terminated on 30 June 2016) and to include the performance of the Croatian operations for the first quarter of 2016. In addition, EBITDA numbers in both periods up until 31st of December have been adjusted to reflect the new freehold position of art'otel cologne and art'otel berlin kudamm (rental costs adjusted).

EBITDA

Reported EBITDA increased by 14.0% to £107.3 million (2016: £94.1 million) as a result of improved trading across most of our operating regions, new openings and the acquisition of two freehold properties in Germany (previously held under operating leases). Our reported EBITDA margin for the year reduced by 150 bps to 33.0% (2016: 34.5%). This decrease is caused, in particular, by the first time consolidation of the first quarter of the Croatian operations, which due to seasonality is negative. Furthermore an increase in business rates in our London properties and the new openings, which have not yet reached full maturity, had a negative effect.

On a like-for-like[1] basis, EBITDA increased by 8.7% to £101.1 million (2016: £93.0 million) and our EBITDA margin reduced by 50 bps to 33.6% (2016: 34.1%).

Normalised profit before tax

Normalised profit before tax increased by 1.1% to £32.1 million (2016: £31.7 million). Normalised profit is affected by the first year loss of new openings, which do not have mature trading profiles yet. Normalised profit is further negatively affected by the first time consolidation of the first quarter Croatian operations which, due to its seasonality, are negative. Below is a reconciliation table from reported to normalised profit.

Profit before tax

Reported profit before tax decreased by £6.5 million to £31.7 million (2016: £38.2 million), down 17.1%. The profit of 2016 was significantly affected by positive one-off results, which resulted in a decrease in 2017.

Asset base and leverage

The Group realises the majority of its revenue and EBITDA from assets in ownership, primarily those assets located in Central London and Amsterdam. As well as successfully operating the hotels it owns/co-owns, the Group has over 30 years of experience in developing and managing assets. This unique in-depth knowledge of the real estate market and its proven track record of developing and realising value from property transactions and developments over the last decade, enables the Group to act quickly on opportunities. This business model requires significant capital investments which the Group leverages by borrowing from well-known financial institutions within a 50%–65% loan-to-value ratio. The Group also relies on its extensive experience in property finance, with strong relations with funding institutions and a track record of refinancing its assets, even when met with challenging market conditions.

Over the past two years the Group has taken advantage of the low interest rate environment and has successfully refinanced over 95% of its assets, equating to approximately £670 million. Under the Group's debt restructuring, the majority of the facilities' weighted average term was extended and the average cost of borrowing decreased significantly.

NORMALISED PROFIT BEFORE TAX

	Reconciliation of reported to normalised profit	
	Year ended 31 Dec 2017 £ million	Year ended 31 Dec 2016 £ million
Reported profit before tax	**31.7**	38.2
Fair value movements on derivatives recognised in the profit and loss	**(0.1)**	(0.2)
Negative goodwill and capital gains after the acquisition of the remaining interests in Arena	**–**	(26.2)
Refinance costs and expenses (including termination of hedge)	**0.5**	23.4
Park Plaza Westminster Bridge London fair value adjustment on income swaps and buy back of Income Units	**1.1**	0.6
Forfeited deposits from rescinded sale contracts of Income Units at Park Plaza Westminster Bridge London to private investors	**–**	(6.5)
Restructuring expenses and pre-opening expenses	**0.2**	2.4
Gain on sale of one building in Park Plaza Vondelpark, Amsterdam	**(1.3)**	–
Normalised profit before tax*	**32.1**	31.7

* The normalised earnings per share amount to £0.58, calculated with 42,249,000 average outstanding shares.

FINANCIAL AND BUSINESS REVIEW 2017 CONTINUED

Below is a synopsis of the key factors of the Group's financial position:

	2017	2016
Interest bearing debt (in £million)	**705**	766
Average cost of debt	**3.1%**	3.5%
Average maturity (in years)	**8.6**	7.7
Cash, deposits and liquid investment (in £million)	**291**	170

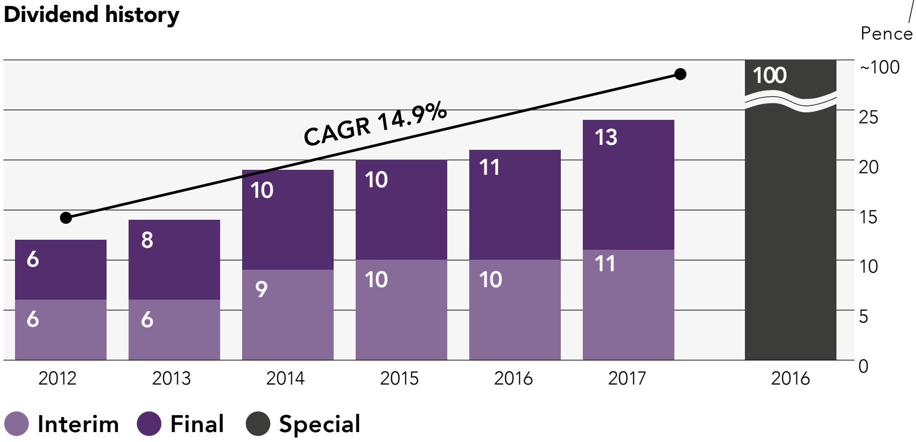
Over the past few years, both the London and the Amsterdam real estate markets have shown a strong and diversified demand for hotel investments which has led to an increase in real estate prices. As part of the process of securing the new facilities, an independent valuation of the Group's interests in the hotels was obtained. In the consolidated financial statements, the Group measures its assets at cost price less accumulated depreciation. The independent valuations obtained as part of the refinancing over the last two years indicate an addition over presented book values exceeding £500 million. The excess value is not shown in the financial statements, where properties are shown at historical cost, less depreciation.

The Group's facilities are all asset backed and have limited or no recourse to the Group. These debts are managed on either a single property or a portfolio basis. These asset backed loans contain certain debt service covenants and, most commonly, a loan to value ratio. The Company is usually permitted to rectify any potential default during the term of the loan, thus removing the threat of needing to refinance at less favourable terms.

Dividend
For the financial year 2017, the Board is proposing a final dividend payment of 13 pence per share (2016: 11 pence per share) which, when combined with the interim ordinary dividend of 11 pence per share (2016: 10 pence per share) paid to shareholders on 13 October 2017, brings the total ordinary dividend for the year ended 31 December 2017 to 24 pence per share (2016: 21 pence), an increase of 14.3%. Subject to shareholder approval at the Annual General Meeting, to be held on 15 May 2018, the dividend will be paid on 18 May 2018 to shareholders on the register at 13 April 2018. The shares will go ex-dividend on 12 April 2018.

Since the Group started paying dividends in 2012, the Group has followed a progressive dividend policy, retaining proper and prudent reserves. The chart below provides an overview of the dividend payment history.

Dividend history



Financial position
Net bank debt as at 31 December 2017 was £408.1 million, a reduction of £176.8 million (as at December 2016: £584.9 million). During the period, the movement in net bank debt included an increased position of cash and liquid investments of £116 million primarily due to the sale and leaseback of Park Plaza London Waterloo and a share issuance at Arena Hospitality Group. Net debt decreased due to the repayment of the construction facility in Park Plaza London Waterloo of £80 million; the early repayment of a corporate facility of £16 million and the payment of regular instalments of £17 million. Net debt increased by £32 million due to the bank funding of the acquisition of two freehold properties in Germany and increased by £9 million due to exchange results.

Earnings and shareholder value
Normalised earnings per share was £0.58 (2016: £0.68), representing a decrease of 14.4%. Reported basic/diluted earnings per share for the period was £0.57, a decrease of 31.0% (2016: £0.83).

The majority of the decrease in earnings per share was caused by an increased number of minority shareholders in Arena after the public offering.

The net asset value of the Group attributable to PPHE Hotel Group shareholders amounted to £343.3 million which includes a significant excess cash position (more details are provided on page 49). Net asset value takes into account the assets of the Group at historical cost.

Corporate activity
Investment in Croatia
2017 was an important year in our strategy to grow our operations in Central and Eastern Europe. We undertook significant corporate activity to reshape Arena into a dynamic hospitality company, whilst strengthening and developing its business and market position in the upscale, upper upscale and lifestyle segments of the hospitality market, primarily within Croatia and Germany.

In February 2017, following the completion of the acquisition of 88% of the German and Hungarian operations of PPHE Hotel Group and the grant of territorial rights for the Park Plaza brand in 18 countries, Arena completed the acquisition of the freehold interests in art'otel berlin kudamm and art'otel cologne, which the Group leased and managed, for an amount of €54.5 million (£47.4 million). Following completion, the previous lease expenses were eliminated.

Furthermore, in June 2017, Arena successfully raised €106 million (HRK 788 million) of new capital (before expenses) through a public offering of shares on the Zagreb Stock Exchange to support both organic and inorganic growth. The offering consisted of the issue of 1,854,971 new ordinary shares at a price of HRK 425 per share, which were listed and commenced trading on the Official Market of the Zagreb Stock Exchange on 6 June 2017. The public offering was deemed attractive to both domestic and international investors, with approximately 20% of the new shares subscribed for by investors located outside of Croatia. Following the public offering, the Group maintained its controlling interest in Arena, but its shareholding was diluted to 51.97%.

Following the public offering, Arena exercised the option granted to it by the Group to acquire the remaining 12% interest in the German and Hungarian operations of the Group, comprising eight Park Plaza or art'otel branded hotels, for a consideration of €8.33 million.

In December 2017, Arena successfully refinanced all of its loan agreements into one unified facility on more favourable terms, lowering interest expenses by approximately 50%.

Sale and leaseback of Park Plaza London Waterloo
The sale and leaseback of Park Plaza London Waterloo was completed in July 2017. The Group sold the freehold of the property for £161.5 million and agreed a 199-year lease at an initial rent of £5.6 million per annum, with an annual inflation adjustment subject to a cap and a collar. The independent valuation carried out by the purchaser gave an aggregate value of £250 million on a vacent possession basis (approximately £500,000 per key). The transaction enabled the Group to release 65% of that value whilst retaining a long-term lease, control of the operations and associated profits of the hotel, thereby keeping the remaining 35% within the Group. As at 31 May 2017, the hotel had a book value of approximately £124 million. Following the transaction, the Group realised approximately £80 million of available cash which it intends to utilise to further improve and grow the Group's portfolio, amongst other corporate purposes.

FINANCIAL AND BUSINESS REVIEW 2017 CONTINUED

Other property transactions
An 11.0% ownership interest in Park Plaza County Hall London was acquired through the purchase of 46 apart-hotel units for an aggregate value of £16.7 million.

One of the three properties that comprise Park Plaza Vondelpark, Amsterdam was sold for a consideration of £7 million.

Together, these corporate activities well position the Group for future growth.

Looking ahead
With the significant corporate activities of the Group in 2016 and 2017, the Group is well placed to make further progress to expand its portfolio. In 2018 we will continue our renovation projects, all of which will further strengthen the Group's competitive position. In the second quarter of 2018, works at Park Plaza Victoria Amsterdam are expected to complete and preliminary works will commence to develop art'otel london hoxton. In addition, Park Plaza London Waterloo and Park Plaza London Park Royal, which both fully opened in 2017, are expected to further mature in 2018, increasing the revenues and improving the profit conversion.

The Group is constantly looking for new acquisition opportunities and has an active pipeline of potential projects. Each project is carefully analysed by the Group's development team and selected projects should provide the Group with good returns on capital and further potential upside on the (re) development.

Return on capital employed
The Group actively pursues a strategy of hotel development and ownership, which is different from many hotel groups where ownership and development of hotel assets is separated from hotel operations.

One of the benefits of our owner/operator model is the removal of the usual conflict between the two different interests in the property. Our strategy has proven to create significant value by enabling the Group to fund its growth in recent years. The Group has the expertise to master the complexities involved in real estate ownership and transactions, including debt/equity structuring, exit strategies, and (re) developing real estate into valuable hotel properties.

Since hotel real estate is an important part of the Group's assets, it is essential to understand this ownership business model in order to be able to accurately value this critical investment. This model is capital intensive and the funding structure of these properties using debt and equity has a significant impact on the equity returns of the Group.

Properties under development and excess cash positions place a burden on the capital of the Group without creating an immediate return. However, once these developments complete, they will add to the profitability of the Group like any other trading asset it owns. Although the Group pursues full property ownership, we understand that the capital intensity required may hinder the Group's growth in other attractive markets. Therefore, the Group has a mixed portfolio approach that provides a spread of risk and reward.

Return on capital employed continued

The table below provides some selected data for the Group's assets for the year ended 31 December 2017, 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. 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]	Non trading projects[3]	Trading properties £m	Excess cash[4]	PPHE Hotel Group Reported £m
Balance sheet						
Book-value properties (excluding Income Units at Park Plaza Westminster Bridge London sold to third parties) [1]	806.8			227.9		1,034.7
Book-value intangible assets	21.6			2.0		23.6
Book-value non consolidated investments			15.0			15.0
Other long-term assets	17.4			8.2		25.6
Working capital	(16.8)			(12.2)		(29.0)
Cash and liquid investments	66.9	130.0		16.7	77.7	291.3
Bank/institutional loans (short/long term)	(602.7)			(99.8)		(702.5)
Finance lease liability, land concession and other provisions	(190.4)			(17.0)		(207.4)
Deferred profit Income Units in Park Plaza Westminster Bridge London[5]	(10.4)					(10.4)
Total capital consolidated	**92.4**	**130.0**	**15.0**	**125.8**	**77.7**	**440.9**
Minority shareholders				(60.3)	(37.3)	(97.6)
Total capital employed by PPHE Hotel Group shareholders	**92.4**	**130.0**	**15.0**	**65.5**	**40.4**	**343.3**
Normalised profit						
Revenue	240.9			84.2		325.1
EBITDAR	86.6			29.4		116.0
Rental expenses	(4.3)			(4.4)		(8.7)
EBITDA	82.3			25.0		107.3
Depreciation	(27.6)			(6.7)		(34.3)
EBIT	54.7			18.3		73.0
Interest expenses: banks and institutions	(23.6)			(4.0)		(27.6)
Interest on finance leases	(3.9)			–		(3.9)
Income paid to Income units sold to private investors in Park Plaza Westminster Bridge London	(10.3)					(10.3)
Other finance expenses and income	0.8		0.3	0.1		1.2
Minority interests						–
Result from equity investments			(0.2)	(0.1)		(0.3)
Normalised profit before tax 31 December 2017[2]	**17.7**	**–**	**0.1**	**14.3**	**–**	**32.1**
Reported tax	1.3			(3.0)		(1.7)
Normalised profit after reported tax	**19.0**	**–**	**0.1**	**11.3**	**–**	**30.4**
Profit attributable to minority shareholders	–	–	–	(5.7)	–	(5.7)
Profit after tax attributable to PPHE Hotel Group shareholders	**19.0**	**–**	**0.1**	**5.6**	**–**	**24.7**

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 45.
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 is listed on the Zagreb Stock Exchange. The market capitalisation at 31 December 2017 is £272 million.

FINANCIAL AND BUSINESS REVIEW 2017 CONTINUED

UNITED KINGDOM

Reported revenues increased due to new openings in London

Highlights

£185.8m
total revenue

£121.3
RevPAR

UNITED KINGDOM

Performance
The UK hotel portfolio delivered a strong performance. Reported total revenue grew by 25.0% to £185.8 million (2016: £148.7 million). This performance reflects strong trading in the first half of the year and the increased new room inventory at Park Plaza London Riverbank, along with the two newly opened London hotels (Park Plaza London Waterloo and Park Plaza London Park Royal). On a like-for-like basis, revenue increased by 10.2% to £163.8 million.

Reported RevPAR was flat at £121.3 (2016: £121.1), which was the result of 1.4% growth in average room rate to £145.8 and a 100 bps decrease in occupancy to 83.2%. However, on a like-for-like basis, RevPAR increased by 3.5%, showing growth in the underlying performance.

Reported room revenue benefited from the additional room inventory, increasing by 29.9% to £132.6 million and on a like-for-like basis by 11.5% to £113.9 million.

Reported EBITDAR grew by 18.9% to £62.4 million (2016: £52.5 million) and EBITDA increased by 18.2% to £60.5 million. On a like-for-like basis, EBITDAR increased by 7.2% to £56.3 million and EBITDA was up 6.4% to £54.4 million. EBITDA was affected by a significant increase in property taxes, primarily in the London market.

The hotels in London maintained their strong competitive positions during the year. Park Plaza Westminster Bridge London delivered yet another strong performance, significantly outperforming its competitive set in occupancy, average room rate and RevPAR. Park Plaza London Waterloo and Park Plaza London Riverbank also outperformed their competitive sets in

Hotels with an ownership interest
Park Plaza Leeds
Park Plaza Nottingham
Park Plaza London Riverbank
Park Plaza Sherlock Holmes London
Park Plaza Victoria London
Plaza on the River London
Park Plaza Westminster Bridge London
Park Plaza London Waterloo
Park Plaza London Park Royal
Park Plaza County Hall London

Hotels under management or franchise agreements
Park Plaza Cardiff

New hotel projects
art'otel london hoxton
art'otel london battersea power station

terms of average room rate. Furthermore, Park Plaza Nottingham outperformed its competitive set in occupancy, average room rate and RevPAR.

Development pipeline and renovation projects
Park Plaza Park London Waterloo and Park Plaza London Park Royal, which were both officially opened and became fully operational during the year, brought 706 additional rooms to our portfolio and have been well-received by guests. Renovation projects continued during the year with a focus on improving the competitive position of our hotels and enhancing our guest experience.

Renovation works at Park Plaza London Riverbank are continuing, with the installation of a spa, swimming pool and gym, which will improve the overall appeal of the hotel, and restructuring works to increase room count. It is anticipated that these works will be completed in the second half of 2018.

Renovation works at Park Plaza Sherlock Holmes London started in 2017 and are expected to continue throughout 2018, including the refurbishment of all guest rooms and the revision of the layout of the hotel entrance and the public areas. At Park Plaza Victoria London, renovation projects are expected in the second half of 2018. These will include the refurbishment of public areas and meeting rooms.

Our hotel pipeline includes the landmark art'otel london battersea power station, for which construction is already underway. The Group will operate this hotel under a management agreement. In addition, the Group has its own art'otel development project, art'otel london hoxton, for which preliminary works are expected to commence in the second quarter of 2018. Together these hotels are expected to add approximately 500 rooms to the UK portfolio by the end of 2022.

The United Kingdom hotel market*
In 2017, the overall UK hotel market reported RevPAR growth of 4.1%, driven by a 3.6% increase in average room rate and a 0.5% uplift in occupancy. This performance was largely as a result of a strong first half performance, driven by an influx of overseas visitors due to the devaluation of Pound Sterling, which made the UK market more attractive and affordable.

In the Greater London hotel market, the supply of hotel rooms increased by 3.1%, slightly below the 3.4% increase in demand. RevPAR increased by 4.4% to £121.7, driven by a 4.1% growth in average room rate and a 0.3% increase in occupancy to 81.7%. In Nottingham, the overall market saw RevPAR decline by 1.5% due to a 1.6% decline in average room rate and a 0.1% decline in occupancy. The Leeds hotel market reported a 6.8% decline in RevPAR to £60.7, driven by a 5.5% reduction in average room rate and a 1.4% decline in occupancy.

* STR Global, December 2017

	Reported in GBP (£)		Like-for-like in GBP (£)[1]	
	Year ended 31 Dec 2017	Year ended 31 Dec 2016	**Year ended 31 Dec 2017**	Year ended 31 Dec 2016
Total revenue	**£185.8 million**	£148.7 million	**£163.8 million**	£148.7 million
EBITDAR	**£62.4 million**	£52.5 million	**£56.3 million**	£52.5 million
EBITDA	**£60.5 million**	£51.1 million	**£54.4 million**	£51.1 million
Occupancy	**83.2%**	84.2%	**83.4%**	84.2%
Average room rate	**£145.8**	£143.8	**£150.3**	£143.8
RevPAR	**£121.3**	£121.1	**£125.4**	£121.1
Room revenue	**£132.6 million**	£102.1 million	**£113.9 million**	£102.1 million

[1] Like-for-like comparison for 2017 excludes the first 10 months of Park Plaza London Waterloo and the full year of Park Plaza London Park Royal numbers.

FINANCIAL AND BUSINESS REVIEW 2017 CONTINUED

THE NETHERLANDS

Performance in the Netherlands was affected by the partial closure of Park Plaza Victoria Amsterdam, which is undergoing a refurbishment.

Highlights

£47.3m

total revenue

£96.0

RevPAR

THE NETHERLANDS

Performance

The performance of the region was impacted due to the disruption in the period associated with the extensive renovation programme which limited the number of rooms, meeting rooms and food and beverage outlets in operation.

At Park Plaza Victoria Amsterdam, approximately half of the room inventory was temporarily closed and all the public areas, restaurants, bars and meeting rooms were renovated in phases.

At Park Plaza Vondelpark, Amsterdam one of the three buildings which comprised the hotel was sold, which reduced the room count by 36 rooms. Extensive renovation works are expected to commence in the second half of 2018 on the remaining two buildings.

In local currency, total revenue reduced by 8.3% to €54.1 million (2016: €59.0 million), due to the disruption detailed above. However, RevPAR increased by 3.4%, driven by a 0.6% increase in average room rate and a 230 bps increase in occupancy. Room revenue decreased by 8.0%, reflecting the reduced number of rooms in operation.

In Pound Sterling, reported EBITDAR reduced by 9.4% to £13.4 million and EBITDA declined by 9.2% to £13.3 million. In Euros, EBITDAR and EBITDA reduced by 15.2% and 15.0% respectively again affected by the disruption due to the renovation works.

"At Park Plaza Victoria Amsterdam, a new restaurant concept is due to be launched in the first half of 2018."

In Amsterdam, Park Plaza Amsterdam Airport and Park Plaza Vondelpark, Amsterdam both outperformed their competitive sets in terms of occupancy.

Outside of Amsterdam, Park Plaza Utrecht and Park Plaza Eindhoven both significantly outperformed their competitive sets in respect of average room rate, occupancy and RevPAR.

Portfolio update
The extensive renovation works at Park Plaza Victoria Amsterdam were significantly progressed during the period and a new restaurant concept at the hotel is due to be launched in the first half of 2018.

Further renovation works are expected to commence in 2018 at Park Plaza Vondelpark, Amsterdam and Park Plaza Utrecht with room renovations and the redevelopment of public areas.

The Dutch hotel market*
The overall performance of the Dutch hotel market was driven by its key market, Amsterdam.

In Greater Amsterdam, RevPAR grew by 10.4% to €117.3, driven by a 6.0% improvement in average room rate to €143.9 and a 4.1% uplift in occupancy to 81.5%.

Outside of Amsterdam, hotels in Utrecht reported a 10.1% increase in RevPAR to €76.5, as a result of a 4.9% increase in average room rate to €103.4 and a 5.0% improvement in occupancy to 74.0%.

In contrast, the Eindhoven hotel market saw RevPAR decline by 4.6% to €49.1, reflecting a decline in average room rate and occupancy of 2.0% and 2.6% respectively.

* STR Global, December 2017

Hotels with an ownership interest
art'otel amsterdam
Park Plaza Victoria Amsterdam
Park Plaza Amsterdam Airport
Park Plaza Vondelpark, Amsterdam
Park Plaza Eindhoven
Park Plaza Utrecht

	Reported in GBP[1] (£)		Reported in local currency Euro (€)	
	Year ended 31 Dec 2017	Year ended 31 Dec 2016	**Year ended 31 Dec 2017**	Year ended 31 Dec 2016
Total revenue	**£47.3 million**	£48.3 million	**€54.1 million**	€59.0 million
EBITDAR	**£13.4 million**	£14.8 million	**€15.3 million**	€18.1 million
EBITDA	**£13.3 million**	£14.6 million	**€15.2 million**	€17.9 million
Occupancy	**85.6%**	83.3%	**85.6%**	83.3%
Average room rate	**£112.2**	£104.4	**€128.2**	€127.4
RevPAR	**£96.0**	£87.0	**€109.7**	€106.1
Room revenue	**£35.0 million**	£35.6 million	**€39.9 million**	€43.4 million

1 Average exchange rate from Euro to Pound Sterling for the year to December 2017 was 1.14 and for the year to December 2016 was 1.22, representing a 6.4% decrease.

FINANCIAL AND BUSINESS REVIEW 2017 CONTINUED

GERMANY AND HUNGARY

Improved trading, first time contributions from Park Plaza Nuremberg and the acquisition of two freehold properties which were previously leased, improved the EBITDA of Germany.

Highlights

£30.7m
total revenue

£62.2
RevPAR

GERMANY AND HUNGARY

Performance
The performance of operations in Germany and Hungary improved significantly year-on-year. Reported total revenue increased by 23% to £30.7 million (2016: £25.0 million) and in local currency, total revenue improved by 15.2% to €35.1 million.

In local currency, RevPAR increased by 18.0% to €71.1, driven by a 10.8% improvement in average room rate and a 460 bps increase in occupancy to 75.4%. The main driver for this growth was the first full year contribution from Park Plaza Nuremberg, which opened in June 2016, and an improvement in the trading environment. Furthermore, in 2016 several hotels were undergoing renovation projects providing a softer year-on-year comparative.

On a like-for-like[2] basis, total revenue increased by 18.9% to £28.4 million (2016: £23.9 million), benefiting from better trading conditions. In local currency, like-for-like[2] total revenue was up 11.1% to €32.4 million (2016: €29.1 million).

Reported EBITDAR increased by 27.8% to £9.0 million (2016: £7.0 million), and by 22.6% on a like-for-like basis to £8.4 million (2016: £6.8 million).

Reported EBITDA improved by 378.6% to £4.3 million (2016: £0.9 million), primarily due to the first-time contribution of Park Plaza Nuremberg, the reduction of rental payments associated with the acquisition of two properties formerly under operating leases and improved trading.

In Germany, Park Plaza Nuremberg performed particularly well during its first full year of operation, outperforming its competitive set in terms of occupancy and average room rate. In Hungary, art'otel budapest significantly outperformed its competitive set in occupancy, average room rate and RevPAR key metrics.

Portfolio update
Renovation projects at several hotels have been identified and are under review in order to ensure consistency of hotel quality and guest experience. At art'otel cologne, plans are being finalised for renovation of the restaurant and the bar and lobby area. At art'otel berlin kudamm, the restaurant, bar and approximately half of the room inventory is expected to be renovated during 2018.

To further enhance guest experience, a complimentary smartphone specifically designed for hotel guests was piloted at

> **Park Plaza Nuremberg performed particularly well during its first full year of operation, outperforming its competitive set in terms of occupancy and average room rate.**

all Park Plaza branded properties in Croatia during 2017. Following the successful trial, this service will be rolled out across all German and Hungarian hotels, starting with art'otel berlin mitte and Park Plaza Wallstreet Berlin Mitte.

The German and Hungarian hotel markets*

The hotels in Berlin saw RevPAR increase by 2.0% to €73.9, driven by a 2.3% improvement in average room rate. Occupancy declined by 0.3%.

In Cologne, the hotel market reported an improved performance. RevPAR grew by 11.5% to €86.1, due to an 8.6% improvement in average room rate to €117.6 and a 2.6% improvement in occupancy to 73.2%.

RevPAR in the Dresden hotel market rose by 8.4% to €53.1, reflecting a 2.1% improvement in average room rate and a 6.1% uplift in occupancy.

In Hungary, the performance of the Budapest market continued to improve, with RevPAR up 15.5% to €65.3. Average room rate increased by 12.1% and occupancy rose by 3.0%.

* STR Global, December 2017

Hotels with an ownership interest
Park Plaza Berlin Kudamm
Park Plaza Nuremberg
art'otel berlin mitte
art'otel berlin kudamm
art'otel cologne

Hotels under operating leases
Park Plaza Wallstreet Berlin Mitte
art'otel budapest
art'otel dresden

Hotels under management or franchise agreements
Park Plaza Trier

	Reported in GBP[1] (£)		Reported in local currency Euro (€)	
	Year ended 31 Dec 2017	Year ended 31 Dec 2016	**Year ended 31 Dec 2017**	Year ended 31 Dec 2016
Total revenue	**£30.7 million**	£25.0 million	**€35.1 million**	€30.5 million
EBITDAR	**£9.0 million**	£7.0 million	**€10.3 million**	€8.6 million
EBITDA	**£4.3 million**	£0.9 million	**€5.0 million**	€1.1 million
Occupancy	**75.4%**	70.9%	**75.4%**	70.9%
Average room rate	**£82.5**	£69.7	**€94.2**	€85.0
RevPAR	**£62.2**	£49.4	**€71.1**	€60.3
Room revenue	**£23.9 million**	£19.1 million	**€27.3 million**	€23.2 million

	Like-for-like[2] in GBP (£)		Like-for-like[2] in local currency Euro (€)	
	Year ended 31 Dec 2017	Year ended 31 Dec 2016	**Year ended 31 Dec 2017**	Year ended 31 Dec 2016
Total revenue	**£28.4 million**	£23.9 million	**€32.4 million**	€29.1 million
EBITDAR	**£8.4 million**	£6.8 million	**€9.6 million**	€8.3 million
EBITDA	**£4.2 million**	£3.0 million	**€4.8 million**	€3.7 million
Occupancy	**77.3%**	71.0%	**77.3%**	71.0%
Average room rate	**£79.6**	£71.6	**€90.7**	€87.4
RevPAR	**£61.5**	£50.8	**€70.1**	€62.0
Room revenue	**£22.0 million**	£18.2 million	**€25.1 million**	€22.2 million

1 Average exchange rate from Euro to Pound Sterling for the year to December 2017 was 1.14 and for the year to December 2016 was 1.22, representing a 6.4% decrease.
2 The like-for-like figures for the 12 months ended 31 December 2017 exclude Park Plaza Nuremberg for the first five months of 2017. Furthermore, the like-for-like comparison figures for the 12 months ended 31 December 2016 have been adjusted to exclude Park Plaza Prenzlauer Berg Berlin (the lease of which was terminated on 30 June 2016). The like-for-like comparisons for 2017 and 2016 exclude rent expenses for art'otel berlin kudamm and art'otel cologne (two months of rent expense in 2017 vs 12 months in 2016).

FINANCIAL AND BUSINESS REVIEW 2017 CONTINUED

CROATIA

In local currency, like-for-like total revenue improved by 9.4%.

Highlights

£56.3m
total revenue

£57.0
RevPAR

CROATIA

Performance
Reported total revenue for the Croatian operations improved by 21.4% to £56.3 million (2016: £46.4 million).

On a like-for-like basis total revenue increased by 17.8%, reflecting a record trading performance during the peak summer months and the devaluation of Pound Sterling against the Croatian Kuna.

In local currency, the like-for-like total revenue improved by 9.4%. RevPAR increased by 16.4% to HRK 485.8 (2016: HRK 417.6), mainly driven by an 8.2% increase in average room rate along with a 434 bps improvement in occupancy to 61.8%.

In Pound Sterling, like-for-like EBITDA increased by 19.1% to £18.7 million, reflecting improved trading across the portfolio and a currency exchange benefit.

Operations in Croatia are highly seasonal with the majority of guest visits occurring from June to September. Most of the hotels open and commence trading around the Easter period and close by mid-October.

Portfolio update
Ahead of the summer season, the Group invested in a number of renovation projects, including the total refurbishment of the rooms and public areas at Hotel Holiday in Medulin. Following these refurbishments, the hotel reported improved trading in the summer season.

At Park Plaza Belvedere Medulin, which is a sports-orientated hotel with facilities especially tailored to cater for sports teams and professionals, two artificial football pitches were constructed in addition to

" Year-on-year tourism in Croatia has continued to increase. "

the four grass pitches already in place. All these pitches have received FIFA Quality Pro accreditation. A third outdoor swimming pool was also added to the hotel. Due to its excellent geographical location and climate, Croatia is the ideal European destination for sports teams of all ages and levels, and Park Plaza Belvedere Medulin is ideally suited for sporting needs. The hotel is open all year around and is used for sports training outside of the peak period.

Planning and designs for the major renovation of Hotel Brioni, a hotel located within the Punta Verudela area of Pula, are being finalised. This will reposition the property as an upper upscale Park Plaza branded hotel. An update on the commencement of works will be provided in due course.

The Croatian hotel market
Croatia experienced a marked increase in visitors in 2017 compared with 2016 which generated considerable organic growth for our operations in the territory.

Year-on-year tourism in Croatia has continued to increase.

This growth has been supported by an increased number of airlines flying into Pula International Airport, with 16 carriers now offering direct flights from airports such as London Heathrow, Milan and Basel, which are key target markets for visitors to Croatia.

In addition, many festivals such as the Pula Film Festival and the International Pula Bridge Festival, together with sporting events such as the Ironman 70.3 competition and the Arena Cup international football tournament, attracted visitors to the region.

Croatian hotels & self-catering apartment complexes
Park Plaza Histria Pula
Park Plaza Arena Pula
Park Plaza Verudela Pula
Park Plaza Belvedere Medulin
Hotel Holiday Medulin
Sensimar Medulin
Guest House Riviera
Hotel Brioni
Horizont Resort
Splendid Resort
Kažela Resort
Ai Pini Resort
Verudela Beach & Villas

	Reported in GBP[1] (£)		Reported in local currency HRK	
	Year ended 31 Dec 2017	Year ended 31 Dec 2016	**Year ended 31 Dec 2017**	Year ended 31 Dec 2016
Total revenue	**£56.3 million**	£46.4 million	**HRK 479.8 million**	HRK 425.7 million
EBITDAR	**£19.7 million**	£19.8 million	**HRK 168.0 million**	HRK 181.8 million
EBITDA	**£18.7 million**	£18.9 million	**HRK 159.1 million**	HRK 173.6 million
Occupancy	**61.8%**	61.2%	**61.8%**	61.2%
Average room rate	**£92.2**	£81.3	**HRK 785.6**	HRK 746.4
RevPAR	**£57.0**	£49.8	**HRK 485.8**	HRK 457.0
Room revenue	**£32.5 million**	£26.5 million	**HRK 277.0 million**	HRK 243.2 million

[1] Average exchange rate from Croatian Kuna to Pound Sterling for the year to December 2017 was 0.12 and for the year to December 2016 was 0.11, representing a 7.0% increase.

FINANCIAL AND BUSINESS REVIEW 2017 CONTINUED

CROATIA CONTINUED

	Like-for-like in GBP[1,2] (£)		Like-for-like in local currency HRK[2]	
	Year ended 31 Dec 2017	Year ended 31 Dec 2016	**Year ended 31 Dec 2017**	Year ended 31 Dec 2016
Total revenue	**£56.3 million**	£47.8 million	**HRK 479.8 million**	HRK 438.7 million
EBITDAR	**£19.7 million**	£16.9 million	**HRK 168.0 million**	HRK 154.8 million
EBITDA	**£18.7 million**	£15.7 million	**HRK 159.1 million**	HRK 143.9 million
Occupancy	**61.8%**	57.5%	**61.8%**	57.5%
Average room rate	**£92.2**	£79.1	**HRK 785.6**	HRK 726.2
RevPAR	**£57.0**	£45.5	**HRK 485.8**	HRK 417.6
Room revenue	**£32.5 million**	£27.3 million	**HRK 277.0 million**	HRK 251.0 million

1 Average exchange rate from Croatian Kuna to Pound Sterling for the year to December 2017 was 0.12 and for the year to December 2016 was 0.11, representing a 7.0% increase.
2 The like-for-like comparison figures for 31 December 2016 have been adjusted to include the performance of the Croatian operation in the first quarter of 2016.

MANAGEMENT AND CENTRAL SERVICES

	Reported in GBP (£)	
	Year ended 31 Dec 2017	Year ended 31 Dec 2016[1]
Total revenue before elimination	**£42.4 million**	£29.2 million
Revenues within the consolidated Group	**£(37.4 million)**	£(24.8 million)
External and reported revenue	**£5.0 million**	£4.4 million
EBITDA	**£10.5 million**	£8.6 million

1 These numbers have been amended to reflect a reclassification of the central services presented in the Croatian segment in the period ended 31 December 2016.

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, marketing and franchise fees are calculated as a percentage of revenues and profit, therefore these are affected by underlying hotel performance.

Revenues in the year increased primarily as a result of new openings, improved performance of the hotels and centralising services that are recharged.

RESPONSIBLE BUSINESS

Responsible experiences

Doing business responsibly – a shifting landscape
Since the Company was established in 1989, we have grown into a highly dynamic, multi-brand owner and operator of hotels, restaurants, bars and spas across several countries in Europe. With this growth comes an increased level of responsibility to 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 many make their spending and employment decisions based on whether the brand are having a positive impact on the world.

Travel and hospitality – a year of sustainable tourism
The United Nations designated 2017 as the International Year of Sustainable Tourism for Development. Travel and tourism creates jobs, drives exports, and generates prosperity across the world. The sector provides 292 million jobs worldwide, which accounts for 1 in 10 jobs in the global workforce. By 2027, it is anticipated that travel and tourism will be supporting over 380 million jobs as it continues to grow its economic contribution.

It is globally recognised that travel and tourism has entered a new era of growth and transformation. Booking growth is projected to continue across leisure and business in 2018, but the familiar is not guaranteed for travel's biggest or most well-known brands. The past few years have taught established industry incumbents to never again underestimate a seemingly innocent travel start-up. A combination of forces, including shifts in the global economy, game-changing innovation, geopolitical turmoil, natural disasters, pandemics, and rising consumer demands, have reshaped the travel landscape and will continue to do so.

All of the above factors make it increasingly important, now more than ever, that businesses in the travel and tourism sector have a robust, responsible and sustainable business strategy, to ensure they are having a positive impact on the world and taking advantage of growth opportunities as they present themselves.

A responsible business strategy – responsible experiences
Staying true to our vision of 'Realising our Growth Potential', the Company has committed to developing a responsible business strategy that builds on the corporate social responsibility (CSR) activity of previous years to create a long-term sustainable and responsible business model.

The Group's business strategy has always focused on preserving the environment for future generations, positively impacting people's lives and benefiting the local communities in which we operate. We have achieved this through active involvement in several sustainability initiatives as well as community and charity focused activities driven by a commitment to our people, our communities and our environmental programmes.

In 2017, the decision was made to review and develop our CSR approach to ensure it underpins the Group's key business priorities (see page 31), while complying with internationally recognised frameworks and the criteria outlined in environmental, social and governance indices. To achieve this required the development of a Group responsible business strategy that has a broader scope than previous CSR activity alone.

PPHE Hotel Group Responsible business strategy

RESPONSIBLE EXPERIENCES

Inspiring guests
- Guests

Creating centres of excellence
- Investment
- Partners

Developing our people
- Team members
- Potential team members
- Influencers

Being part of our communities
- Local community
- Government

The Group's responsible business strategy has been developed by our team members using our current values and the way our hotels, restaurants, bars and spas and their teams already go about their work. We have defined a responsible business mission and the four pillars reflecting key areas of activity relating to specific audience groups are shown on page 60.

This supports our further alignment with the sustainability initiatives of our strategic partner the Carlson Rezidor Hotel Group who, along with other leading global hotel groups, announced its support of four of the UN Sustainable Development Goals focused on carbon, water, youth employment and human rights, as part of its International Tourism Partnership membership.

What does this mean to the Group? We have always strived to conduct business in a responsible way. By restructuring our core activities, we have made it easier to measure and report against set targets and KPIs that support our key business priorities, the future success of the business and enable the Board and interested stakeholders to monitor the Group's progress in meeting its objectives and responsibilities in these areas.

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 can be used as a baseline for future targets and KPIs where we already know they are considered relevant by our stakeholders and are also important to the success of our business.

Stakeholder engagement and materiality

Whilst our responsible business strategy has been developed by our team members, its long-term success depends on knowing and understanding the key issues that concern all our stakeholders. Focusing on what is material to our stakeholders enables us to evolve our responsible business strategy and ensure our reporting is up-to-date and continues to be relevant.

We have begun developing a stakeholder engagement strategy to further formalise our responsible business strategy. This began with identifying the key stakeholders, both internal and external, who are highly impacted by our activities and therefore best placed to influence which aspects of responsible business are most important. Our initial work focused internally using three activities:

1. extensive interviews with senior management;
2. team member online polls to assess a wider view; and
3. workshops to bring the internal views together and set initial priorities.

We are pleased to find that all the polling indicated that our team members felt that we are doing a good to very good job at the major aspects of being a responsible business, but felt that we could improve in all areas with a more formal approach and better communication. It is very encouraging to see that our spirit of continuous improvement is as much a part of sustainability as our more explicit operational goals.

We have identified the most important internal material aspects in two dimensions: criticality to our business success and impact to society. This will form the foundation for our external stakeholder engagement and materiality which will focus on the following groups:

1. guests – sub-divided into corporate and leisure and then further analysed according to various aspects such as city vs. resort, general travel vs. events, etc;
2. partners and suppliers;
3. local communities including neighbours, educational institutions, employment opportunities and charities;
4. government and regulatory bodies; and
5. shareholders.

Our internal engagement will be expanded to ensure we have a good influential balance from every functional and regional area of our business as well as a thorough plan of employee engagement and communication.

Focusing on what is material to our stakeholders enables us to evolve our responsible business strategy and ensure our reporting is up-to-date and continues to be relevant. These views can change rapidly, so it is important that this materiality process is an ongoing exercise. Once we have developed our strategy, we will disclose the most material issues and the impact it will have on our reporting.

“Staying true to our vision of ‘Realising our Growth Potential’, the Company has committed to developing a responsible business strategy that builds on corporate social responsibility activity of previous years to create a long-term sustainable responsible business model.”

RESPONSIBLE BUSINESS CONTINUED

Managing the responsible business strategy at PPHE Hotel Group
We have a collaborative governance structure, providing an environment in which team members are encouraged and supported to do the right thing and work responsibly. This governance structure starts with our Board and cascades to every part of our business via our Executive Committee, (regional) general managers, hotel managers and hotel responsible business teams, ultimately reaching all team members across the Group.

Our responsible business strategy will also become part of the international 'Feeling Welcome' induction programme for new team members in 2018 across all areas and positions in the business. All team members are encouraged and then accountable for doing business responsibly, which is integral to the way we recruit, develop, assess, promote and reward them.

2018 and beyond
This strategy will involve working and taking guidance from established frameworks and advisers such as the relevant United Nations' Sustainable Development Goals, the GRI Index and the FTSE4Good. We are currently in the process of auditing all activities that are to be measured within the Group. Using this data and the findings from our materiality activity, we will map our current activity to a relevant measurement criteria and set future targets based on our corporate strategic objectives. If we are not currently measuring an activity that is perceived as material to our key stakeholders, we will develop policies and procedures to ensure that it is measured in the future.

During 2018, we plan to report on these measurements and set ourselves targets and KPIs for future goals. This way we can track our progress, celebrate our successes and identify areas for improvement.

Inspiring guests

We place guest experience at the heart of everything we do. It is important for the sustainability of the Group that we build a trusted relationship with our guests, creating "ambassadors" for our brands through exceeding their expectations and constantly delighting them with our individuality and passion.

Guests will always be the primary focus for all Group activity. For this first section, 'Inspiring guests', we focus on how responsible business activity is conducted with the specific aim of creating unique experiences that are tailored to meet our guests' individual needs and requirements.

Future proofing

Guest experience

In recent years, we have invested significantly in new hotels and major renovation projects. These investments have led to an overall improved portfolio and our guests are highly appreciative of the work done. Our new and improved hotels also benefit from our continuous investments in people development programmes and talent management initiatives. We are pleased to report that compared to previous years, guest satisfaction, recommendation rates and return rates from guests have all improved.

Revinate online reputation[1]

	2017	2016	2015
Review scores	**4.23**	4.18	4.15

[1] Specialising in the reputation of hotels globally, Revinate brings together all online reviews and social media mentions into a single, integrated view and score.

General Data Protection Regulation

Ensuring our guests have a sense of security when staying with us has always been a foundation of our service provision. As a guest-focused hospitality provider, we will continue to balance smart service with ensuring the utmost privacy and security of our guests' and team members' personal information.

These services are now under thorough internal audit and review in light of the obligations set out in the landmark data privacy regulation, the General Data Protection Regulation (GDPR). In May 2018, the GDPR will come into effect and place a full range of data privacy obligations on companies as a means of enhancing the data privacy rights of European residents.

Many of these obligations are already met by our existing procedures. Where the law sets out a more prescriptive approach or increased reporting, we are implementing internal procedures to ensure we comply without interference to our ability to provide innovative and guest-focused service.

We are taking a comprehensive collaborative approach to GDPR compliance. Comprehensive collaboration means every department and every level throughout the Company is represented in the compliance process. Our unique approach not only improves our compliance programme, it also satisfies the accounting principle of the GDPR.

To ensure guest-focused compliance and a cohesive roll-out, all procedural refreshes are presented for collaborative discussion by a steering team led by the Company's legal department and comprised of the senior executive. We commenced with Company-wide audits involving team members at every level within the business, followed by reviews of audit findings by internal legal and compliance teams supported by external experts.

Our GDPR compliance programme will be a continuing effort, with our pre-May 2018 goals focused on building the right foundation to ensure customer-focused compliance. We will continue to review and update new and existing processes to ensure compliance with the GDPR well into the future.

We have always recognised that we should offer something that is unique: unique in the design, in the service philosophy or in our overall offering. Providing innovative and savvy customer service under the GDPR is no different to any other enhancement we make. While on this occasion our goal is compliance, our full focus is on how we can use that compliance to better the customer experience. Our comprehensive collaborative approach to GDPR will allow us to comply without sacrificing service.

"We have invested significantly in new hotels and major renovation projects."

RESPONSIBLE BUSINESS CONTINUED

British Hospitality Association membership
We are a member of the British Hospitality Association (BHA) – the private sector forum for the UK's sixth largest contributor (industry) to export earnings and fourth largest employer. With over 46,500 members, it champions the interests of the whole industry. Engaging with the government, the media and the public, the BHA has worked to develop a robust case on how to unlock the industry's full potential as an engine for growth in the economy and ensure that the needs of the industry are effectively represented to the government and other stakeholders.

In 2017, the BHA engaged with the government and MPs across the political spectrum on the issues that impact its members. It continued to promote hospitality and tourism to young people as a career of choice through its Big Hospitality Conversation events and showcased the industry's adherence to the highest standards.

In the year ahead, the BHA intends to build on its government and stakeholder relationships to provide a unified voice for the industry and ensure that the government acknowledges hospitality and tourism as a significant force for economic growth.

Health, safety, security and risk
We treat the health, safety, security and welfare of our guests and team members as a priority and it is a vital ingredient of our business strategy. There are policies, procedures and training in place not only to ensure compliance with legislation, but to strive to achieve continuous improvement with standards over and above any legal requirements.

Health and safety is embedded into our culture. The Board and our largest shareholders are fully committed and always ensure that sufficient time, resources, finance and training are in place to ensure the welfare of all our stakeholders.

All disciplines of risk (health, safety, security, fire and food hygiene) standards in the business are audited both internally and externally in order to measure and maintain standards. During the year, the Audit Committee commissioned an external verification audit across a number of designated hotels and businesses in the United Kingdom, the Netherlands, Germany, Hungary and Croatia. The results of the audits were very positive with no material (major) breaches or weaknesses identified.

During the year no formal improvement notices or intended prosecution notices were received from statutory/local authorities at any property in any region, confirming consistent high standards of compliance and commitment across the Group.

Health and wellbeing
Food hygiene standards
Every food business needs to have a food management system in place in order to ensure compliance with statutory requirements and also protect its reputation in the due diligence defence of food-related incidents such as allegations of food poisoning and/or food contamination by foreign bodies. We have an accredited food management system in place which is consistent in all hotel food and beverage outlets across each region (see case study for more information).

Safety and security
External threats and acts of violence
There have been a number of threats and acts of violence across Europe and potential future attacks represent a very real risk across our business.

We have developed and tested robust proactive and reactive risk management plans and procedures, which complement key local and national authority strategies. Each hotel, outlet and support office has access to a specific risk management plan, developed and introduced in order to minimise the associated risks in the event of a local or regional threat or actual attack. The plans are regularly tested, both internally and externally, in order to ensure that they remain robust and fit for purpose.

Security has been increased at hotels and security and operational teams are trained to have the ability to recognise and manage possible threats to the hotels. (see case study for more information).

Case studies

Exceptional food standards
During 2017 at Park Plaza Westminster Bridge London, there were 87 recorded formal allegations of food-related incidents.

All allegations were fully investigated as per the food management protocol and were successfully mitigated, resulting in no financial, reputational or legal penalty.

Passing security and safety checks with flying colours
Existing and prospective visitors and guests are increasingly reviewing and requesting information on hotel security arrangements prior to visiting or staying at our hotels.

The Group's hotels are regularly vetted by corporate clients. A recent example is one of our London hotels which was competing for a large-value contract with an international airline: during the tender process, the airline sent over a delegation on a two-day security inspection and examination of the Group's corporate and hotel-specific security and safety arrangements.

Following the two-day visit, the hotel was awarded a contract worth in excess of £1 million, with confirmation from the airline that a key factor in their decision to award the contract to the hotel was their faith in the Group's standard of security.

Creating centres of excellence

As a multi-brand owner and operator of 39 hotels and a number of restaurants, bars and spas across several key cities and resorts in Europe, we realise that this is where we have the most impact on our guests, team members, partners, shareholders and the communities we operate in. It is therefore 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. We have identified several initial areas of focus such as environmental initiatives, supply chain management, building long-term relationships with strategic partners, and enhancing asset value and growth of revenues through financial stewardship.

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.

Carbon emissions and energy use
We have always performed well in managing our energy use and an example of this is our reduction in carbon emissions over the last six years. These achievements have been made possible by the communication and commitment of our local hotel management teams and our regional general managers.

To ensure that the Group continues to perform well, we have introduced an online energy monitoring tool for all our hotels in Germany and Hungary and throughout the Netherlands and the United Kingdom. The online tool has been developed to allow us to receive accurate updates on all our energy consumption. This information will provide 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.

We also actively engage our guests through our 'Save tomorrow, today' programme, reducing their impact on the environment due to the reduction in water, electricity and cleaning materials used (see case study for more information).

Water, waste and materials
As a Group, we encourage all our hotels to reduce their water usage and 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.

Supply chain
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 are in the process of implementing a centralised e-procurement system (Procure to pay). The system is now live in the United Kingdom with full integration across Germany and Hungary and the Netherlands expected in 2018. 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.

RESPONSIBLE BUSINESS CONTINUED

The centralised system has already benefited the business by allowing us to control supplier management, visibility of products and their transportation– for example, to ensure efficiencies for all deliveries. An example of this in action was at Park Plaza London Waterloo. The system identified one particular product that was being delivered daily. Once we identified that this daily delivery was unnecessary, we were able to source the product from another supplier who could make a bigger, less frequent delivery (of a non-perishable good). This resulted in the reduction of food miles and efficiency in itinerary.

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 and business 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. We expect our strategic partners and business suppliers to be transparent with us and provide relevant information about the goods or services they provide. Where issues do emerge, we will work together to address them.

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 new supplier contract management system will also provide us with the information we need to monitor and manage supplier activities across the Group and help improve accountability for all.

Case studies

Giving our guests a choice
Our 'Save tomorrow, today' programme for Park Plaza and our 'eco-logical' programme for art'otel offer guests who stay with us for two nights or more a choice to forgo certain housekeeping services. These programmes help us reduce the impact of guest stays on the environment due to the reduction in the use of water, electricity and cleaning materials. In addition, guests have an option to benefit from either a credit to use in our restaurants or bars, bonus Club Carlson[SM] points or a donation to a local charity of our choice.

Recycling of linen and bedding
We have an active policy of recycling as much as possible. An example of this is where we have introduced new linen bedding to all hotels, we have ensured that 100% of the linen and 96% of the bedding is recycled. In the UK, this is fulfilled with the TFR Group, a charity which specialises in recycling old linen and mattresses. This initiative was such a success in 2017, it will be implemented across all hotels in 2018.

Certification

While we are developing our new responsible business strategy, it is important for us to know if we are on the right track with our activities and we therefore value external accreditation highly.

Several of our hotels have worked with respected authorities within the CSR area and have received the relevant accreditation. We will continue to review similar initiatives for all our hotels.

Hotel/Germany and Hungary	Green/CSR Award/Accreditation	2017 certified
Park Plaza Wallstreet Berlin Mitte	DIN EN ISO 5001:2011 certified	Yes
Park Plaza Berlin Kudamm	DIN EN ISO 5001:2011 certified	Yes
Park Plaza Nuremberg	DIN EN ISO 5001:2011 certified	Yes
art'otel berlin mitte	DIN EN ISO 5001:2011 certified	Yes
art'otel berlin kudamm	DIN EN ISO 5001:2011 certified	Yes
art'otel cologne	DIN EN ISO 5001:2011 certified	Yes
art'otel dresden	DIN EN ISO 5001:2011 certified	Yes
art'otel budapest	DIN EN ISO 5001:2011 certified	Yes

Hotel/Netherlands	Green/CSR Award/Accreditation	Grade (Gold/Silver/Bronze/Pass)
Park Plaza Amsterdam Airport	Green Globe	Gold
Park Plaza Victoria Amsterdam	Green Key	Silver
Park Plaza Vondelpark, Amsterdam	Green Key	Gold
Park Plaza Eindhoven	Green Key	Gold
Park Plaza Utrecht	Green Key	Gold
art'otel amsterdam	Green Globe	Pass

Hotel/UK	Green/CSR Award/Accreditation	Grade (Gold/Silver/Bronze)
Park Plaza Westminster Bridge London	Green Tourism	Gold
Park Plaza County Hall London	Green Tourism	Gold
Park Plaza Victoria London	Green Tourism	Silver
Park Plaza Sherlock Holmes London	Green Tourism	Silver
Park Plaza Leeds	Green Tourism	Silver
Park Plaza Nottingham	Green Tourism	Gold

Hotel/Croatia	Green/CSR Award/Accreditation	Grade (Gold/Silver/Bronze)
Park Plaza Belvedere Medulin	Travel Life	Gold
Park Plaza Arena Pula	Capra d'oro 2017- Inovacija	Gold Inovation proizved
Hotel Holiday Medulin	Arenaturist Green Team 2015	Gold
Hotel Sensimar Medulin	Travellife	Gold

Supporting Note

We have chosen to trial the energy management system (EMS) in the United Kingdom to improve our sustainability. The EMS gives a detailed knowledge of the hotel energy consumption with key figures to identify investment opportunities. We are then able to use our resources as efficiently as possible by consistently checking operational and technology habits. Following the trial, we will investigate a roll-out across the Group.

RESPONSIBLE BUSINESS CONTINUED

Developing our people

We are a truly international organisation which employs more than 3,400 team members from over 30 different nationalities who speak more than 70 languages. 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 openness, trust, support, caring and connecting, and is also about personal growth, which the overall Group's context of 'placing the guest experience at the heart of everything we do' supports. 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.

you:niversity framework
We see our learning and development programmes as key to the development of our team members. To support the professional and personal growth of every team member, we have developed the 'you:niversity' – a comprehensive resource of learning and development programmes created to provide our team members with access to the skills, knowledge and behaviours needed for them to achieve their personal growth potential and career progression, which in turn will help the Group realise its growth potential.

In 2017, we made further progress implementing our learning and development programmes in the organisation. These programmes were delivered by more than 100 internal trainers, with the support of over 125 internal coaches. Testament to this, more than 1,380 new team members attended our mandatory induction programme, an all-encompassing programme which ensures that new starters gain a solid understanding of our culture, values and their role in delivering inspirational guest experiences and the business objectives.

Our learning and development programmes are constantly under review to ensure they continue to support and meet the changing needs of the Company.

Leadership development
Strong and talented leaders are critical to the continued growth of the Group. Over the course of 2017, we have provided a range of leadership development workshops, including: strategic recruitment, strategic leadership (supported by Kingston University, London), media training (supported by specialist ex-journalist trainers) and inspirational leadership events (supported by Insights accredited trainers). These workshops formed part of the roll-out of our team development and team leadership initiatives, aimed at the continued development of our leaders.

Language skills
We understand the international nature of our business and that language skills are critical to delivering inspirational service. We take an active role in developing the language skills of our team members to ensure they speak the key languages of our guests and other team members in each territory, furthering their learning and career development.

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 2017 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. In 2017, we had 247 promotions and transfers throughout our regions, of which there were 153 internal transfers and promotions in the United Kingdom alone.

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

3,400+
team members

30+
nationalities

70+
languages

Foundation in Management programme
To support the development of our passionate managers in our businesses, the Foundation in Management programme was successfully launched in 2014. This programme is aimed at our line managers, team leaders and operational managers who we have identified as motivated high-potential staff (see case study for more information).

STEP-UP! programme
Started in 2015, our personal development programme 'STEP-UP!' is tailored to the development of our supervisors and junior heads of departments. The programme consists of five connected modules and has the 70–20–10 learning model. This model means that 70% of the knowledge comes from on-the-job related experiences, 20% from interactions with others and 10% from formal educational events. Over the course of 2017, 37 team members successfully completed this training programme. A large number of participants have since been promoted or have taken on additional managerial responsibilities. In 2017, we successfully rolled-out the 'STEP-UP!' programme in Croatia.

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. In 2017, 31 students successfully completed our you:niversityplus programme and we expect this number to increase in the coming years as the popularity of the programme continues to grow.

Apprenticeships
you:niversitynext – management development programme
Being able to attract and retain talent with experience of working in hospitality, or with a hospitality or business education, is becoming more important in a competitive European employment market. To address this we are creating a you:niversitynext programme in each of our regions to reflect local requirements. This will provide a gateway to our talent management strategy and enable us to develop and grow managers for the future. In 2017, we piloted this programme in the United Kingdom and successfully hired four talented hospitality graduates and we anticipate that this number will increase across all markets in the years ahead (see case study for more information).

Technology and communication
you:niverse
The Group's intranet is called you:niverse and is used to connect and engage team members and ensure they have the correct tools, resources and information they need. you:niverse facilitates business processes such as:

- company information platforms;
- transactional processes;
- enterprise portals;
- document library containing searchable documents or content management systems; and
- engagement forums.

People system
The implementation of an electronic human resources management system ('E-HRM' or 'People system') is now complete for our hotels in the United Kingdom. We are currently reviewing vendors for the potential implementation of a 'People system' for our hotels in the Netherlands in 2018 and will review potential roll-out for further regions in the future where applicable.

Our objective is to have a fully-integrated 'People system' for our entire Group that uses technology for:

- HR management administration, tracking and reporting;
- manager and team member self-service tools;
- time and attendance and rota scheduling; and
- administration for learning and development activities.

Application tracking system
Following the implementation of the 'Application tracking system' in the United Kingdom, we are currently rolling out a similar system in the Netherlands. The system digitally records and tracks all recruitment applications across our hotels, providing recruiters with instant access to information on their applicants and their status, delivering an effective and engaging experience to both our candidates and recruitment partners.

Employment
UK market
The London hotels began to experience a marked downturn in the average number of applications per vacancy through 2017 (from 86 in February to 27 in August). This has in part been attributed to the UK's decision in June 2016 to withdraw from the European Union (Brexit) and the resulting reductions in migration from other EU member states. This appears to have led to a decrease in the overall available labour resource in London and put pressure on recruitment and employee retention, particularly at the lower-skilled level such as housekeeping and some areas of food service. This in turn has led to pressure on pay to improve retention through market competitiveness. These trends have not yet been experienced in the hotels we operate in Nottingham and Leeds. Given the ongoing uncertainty around the Brexit negotiations with the EU, this trend is expected to continue for the foreseeable future. To adapt accordingly, strategies around in-sourcing, retaining and growing our own talent are becoming areas of greater focus.

In order to take advantage of technology-driven innovation and to continuously improve our overall efficiency, an HR support centre (HRSC) is being developed and will provide routine transactional HR services to the UK business. The HRSC will support coordinated HR activity, HR reporting and HR systems administration services to our HR team in the United Kingdom. The strategy is to deliver services aligned with the Group's business priorities and to pursue continuous service-delivery improvement opportunities. All our hotels in the United Kingdom and our offices successfully migrated to the service. Following the organisation of HR services, every UK hotel and office team now has a dedicated professional HR business partner working at a strategic level on delivery of growth strategies for their area. To ensure they have the mental space in which to be effective, in the London hotels the HR business partners are supported by on-property HR officers who will be responsible for day-to-day operational tactical support to line managers.

RESPONSIBLE BUSINESS CONTINUED

Multi-channel resourcing strategy
In 2017, our Croatian properties have had success in adopting a multi-channel strategy for recruitment. This involved implementing a campaign promoting Arena's values and maintaining a positive reputation as an employer of choice in the Croatian labour market using several key Croatian recruitment websites, local media and social media networks.

To support our existing operations and growth, we have developed a Group multi-channel resourcing strategy which is aimed at improving our visibility and reputation as an employer and ultimately positioning the Group as a highly desirable employer. We have developed engaging recruitment campaigns, making use of social media platforms such as LinkedIn and XING and our own careers website. Our messaging is highly visual, utilising imagery of our team members and demonstrating our culture and values. To support our recruitment activities, we have developed a team value proposition and enhanced our interview guides for all team members who have recruitment responsibility.

Employer branding and team value proposition for Park Plaza
Launched in 2017, the Park Plaza team value proposition is unique, relevant, compelling and a key driver in our approach and mindset to talent engagement and retention. This exciting new instrument enables us to retain and attract talented individuals to the Park Plaza brand. The two main elements of the strategy are the proposition statement 'Be part of it' – positioning Park Plaza as a dynamic and growing brand which one wants to be part of – and the hashtag #UpliftingMoments.

Employer branding and team value proposition for art'otel
Following the launch of the Park Plaza employer brand and team value proposition, we are aiming to create a bespoke proposition for our creative art'otel brand. We will be conducting extensive research to gain a better understanding of our people, work and opportunities within art'otel. The objective of the programme will be to demonstrate how we live and breathe art in all its forms whilst delivering sensational guest service.

Team member engagement
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 customer 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 electronically at least once a year and is available in multiple languages to remove as many barriers to entry as possible and encourage participation. In 2017, we achieved an overall engagement score of 85.4, which is a year-on-year improvement of 50 bps. With 2,900 team members participating in the survey, the participation ratio remained at 93% of all Group employees.

Human rights and ethics
The Group requires its team members to act fairly in their dealings with fellow team members, customers, suppliers and business partners. We introduced a Code of Ethics during 2013 which applies to all Group employees. The Group operates a confidential whistle-blowing policy, which was also introduced in 2013. We have a zero-tolerance Gift policy on bribery and corruption 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 robust policies and guidance in this area are routinely reviewed.

Every new team member is required to review and acknowledge our Code of Ethics and Gift policies.

Equality and diversity
PPHE Hotel Group is fully committed to respect and 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):
  - 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.

Each individual is responsible for their own behaviour and must accept the principle that there is equality of opportunity and fairness for all team members and anyone associated with the Group (e.g. customers, contractors and service providers).

Case studies

you:niversitynext
In 2017, a new you:niversitynext Management Development Programme was successfully developed and launched in the UK region. The programme has been added to our Learning and Development framework to attract, develop and retain ambitious individuals that want to pursue a management career in hospitality. The programme launched with four strong management trainees currently working and developing their growth potential in our UK hotels. The you:niversitynext programme has been well-received by both the participants and the business, and plans for 2018 include the roll-out of this programme in the Netherlands and Germany.

Foundation in Management programme
Our industry-recognised Foundation in Management programme facilitates the next step for our line managers, team leaders and operational managers to develop their skills in leadership and management skills and the knowledge and behaviour required of managers. Their professional and personal growth allows us to ensure that we are able to further drive performance of our businesses.

In 2017, 24 team members from our four operating regions applied for the Foundation in Management programme, with 12 participants completing the programme with resounding success. Currently, four of these participants have been promoted for their high-performance and/or have taken on additional managerial responsibilities. Over the course of 2018, we confidently expect this number to rise as these talented individuals continue to grow.

RESPONSIBLE BUSINESS CONTINUED

Being part of our communities

We care about our neighbourhoods and making a positive contribution to our local communities and the people who live there. Not only are we actively involved with a number of fundraising activities throughout the year that make a big difference to people's lives and the environment, we also engage our local communities through volunteering and local resourcing partnerships and charities.

To drive our activities locally, we have created local teams who manage them. We 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 in these areas.

Charity initiatives and volunteering Group-wide
2017 saw the Group support two charitable initiatives across all hotels. The first was 'Movember', an annual international campaign involving the growing of moustaches and various other initiatives during the month of November to raise awareness and funds in support of men's health issues. We raised over £20,000 in one month (see case study for more information).

The second was 'Save tomorrow's trees today' where Park Plaza Hotels & Resorts supported partner charities World Childhood Foundation and Nottinghamshire Wildlife Trust as part of the Carlson Rezidor Hotel Group's annual Responsible Business Action Month. Volunteers from Park Plaza Nottingham and our Nottingham-located OAKS Restaurant donated their time to maintain 40 trees planted in 2016, which at the time represented the 40 international Park Plaza Hotels & Resorts properties in operation around the world. We volunteered for 120 hours in 2017 (see case study for more information).

Teamwork is one of our values and is something we are passionate about. We were very proud to support the project Prague–London for Paralympic athlete Mikela Ristoski to receive funding to participate in the London European Championships 2017, where she won Gold for the T20 long jump event.

As well as Group-wide initiatives, local PPHE Hotel Group team members engaged with local communities and volunteering services.

The United Kingdom
As part of the Carlson Rezidor Hotel Group's annual Responsible Business Action Month, Park Plaza Hotels & Resorts sent teams from OAKS Restaurant and Park Plaza Nottingham to support Nottinghamshire Wildlife Trust. 2017's initiative was to volunteer and support woodland and habitat management activity. Specific activity is in support of a major tree felling exercise at Treswell Wood – one of the sites where the timber is responsibly sourced for OAKS.

The Netherlands
PPHE Hotel Group's corporate team members based in Amsterdam dedicated a day in support of 'Stichting Bio' in Arnhem (a holiday park supporting children with disabilities), cleaning and preparing the park for the new season ahead. All our hotels took part in Amsterdam Diner Foundation 2017, an AIDS charity, raising funds by donating bed and breakfast vouchers. Our Park Plaza properties in this region have also engaged in a wide range of local charitable initiatives to help the homeless, children with cancer and the World Childhood Foundation. For example, Park Plaza Victoria Amsterdam donated a large part of its old room inventory to the Charity Foundation 'Bio vacations' and old clothes and other items are sent on a regular basis to the 'Rainbow foundation'. art'otel amsterdam has a gallery where local artists exhibit their work to the public free of charge and they have also been helping at a local old people's home serving a festive dinner as well as donating 'retired' cutlery, crockery and glassware.

Croatia and Germany
Arena Hospitality Group has supported several causes over the last 12 months including: the Cerebral Palsy Association of the Istria County; the '*Veliko srce malom srcu*' (Big heart to small heart) which brings together doctors, health care staff and parents of children with heart disease; *MALI SVIJET* (Small World) which raises awareness in the local community to provide care for children with developmental needs and sensory integration difficulties; and *Naša inicijativa, nečija alternative* (Our initiative, someone's alternative) which seeks to provide assistance to families of children who are facing malignant diseases.

Arena Medulin Campsite provides a much-loved space for children and young people with cerebral palsy and for several years has hosted the Cerebral Palsy Association summer camp.

Contributions and investments
Where we can, we like to contribute financially to rejuvenation of the local areas of our hotels. During the construction of Park Plaza London Park Royal, we contributed financially to the council to help support the rejuvenation of the local area and support local community initiatives.

Local employment
Employing teams who live near our hotels is not only good for the environment, but supports our objective to be part of our local communities.

“Employing teams who live near our hotels is not only good for the environment, but supports our objective to be part of our local communities.”

United Kingdom
Park Plaza London Waterloo has 32 team members from the local area (19.5% of our current head count). Throughout our recruitment drive during the opening of the hotel, we held assessment centres for Lambeth Council applicants. We had a total of 44 delegates attending these sessions, of whom 11 were offered roles (25%), seven accepted roles and three are still employed. In a further effort to reach people from the local area, we attended the 'We Are Waterloo' recruitment fair for local residents and interviewed several candidates as a result. We are working closely with a local school, Lansdowne School. We facilitated a workshop at the school giving them an insight into hotels. Six of their students completed work experience with us and we have signed up to do this again in 2018. We also facilitated a workshop for Oasis South Bank School (opposite the hotel) to explain what is a career in hotels, the progression opportunities and what we look for when recruiting.

The Netherlands
We have recruited a number of team members through the Participation Act, a Dutch law that encourages the employment of persons with occupational disabilities. These are mainly in food and beverage roles. We also employ local maintenance trainees and run a special project for displaced refugees in our local areas.

We open our doors regularly to local students and provide an insight into the world of hospitality, hoping to inspire them and show what a great industry with great potential we work in.

Croatia
Arena Hospitality Group intensified its cooperation with local universities by supporting a new project, 'Private Sector Youth Initiative', launched by the European Bank for Reconstruction and Development in partnership with the Croatian Employers Association. This project connects institutions of higher education with companies to enable young people to gain practical knowledge and skills during their studies to increase their employment prospects.

Case studies

Movember – £20k raised in 2017
PPHE Hotel Group took part in Movember, an annual international campaign involving the growing of a moustache and various other initiatives during the month of November to raise awareness and funds in support of men's health issues, such as prostate cancer, testicular cancer and male suicide.

Restaurant and bar teams across our Park Plaza Hotels & Resorts and art'otels were encouraged to sell as many Mo'Jitos and Mo'Gronis as possible to raise awareness and funds for the charity, with £/€4 from the sale of each donated to Movember.

Save tomorrow's trees today
Park Plaza Hotels & Resorts across Europe came together in September 2017 to support partner charities World Childhood Foundation (WCF) and Nottinghamshire Wildlife Trust (NWT) as part of the Carlson Rezidor Hotel Group's annual Responsible Business Action Month.

Volunteers from Park Plaza Nottingham and our Nottingham-located OAKS Restaurant donated their time to NWT to maintain the 40 trees planted in 2016, which at the time represented the 40 international Park Plaza Hotels & Resorts properties in operation around the world.

Park Plaza Hotels & Resorts sent teams from OAKS Restaurant and Park Plaza Nottingham on behalf of the Park Plaza Hotels & Resorts European portfolio, to volunteer and support woodland and habitat management activity. Specific activity is in support of a major tree felling exercise at Treswell Wood, one of the sites where the timber is responsibly sourced for OAKS Restaurant.

BOARD OF DIRECTORS

Experienced leadership

Eli Papouchado, 80
Non-Executive Chairman

Skills and experience

/ Chairman of the Group since formation

/ Founder of the Red Sea Group and acted as its Chairman for ten years

/ Wealth of experience in the construction, design, development, financing, acquisition and management of leading hotels, including Park Plaza Westminster Bridge London, Park Plaza London Riverbank and many others

/ Involved in the development of hundreds of thousands of square metres of retail space in shopping malls and large residential projects in the USA, Eastern Europe and the Middle East

/ Served as Chairman of the Israel Hotel Association

Boris Ivesha, 72
President &
Chief Executive Officer

Skills and experience

/ President of the Group since 1991

/ Brought the Park Plaza Hotels & Resorts brand to the Group in 1994 in collaboration with the Red Sea Group

/ Major influencer in the expansion of the Group's portfolio

/ Established the Yamit Hotel, Israel, in 1984 and served as its President

/ Director of the Carlton Hotel in Israel (1979–1984)

/ General manager of the Royal Horseguards Hotel in London (1972–1979)

Daniel Kos, 39
Chief Financial Officer
(from 1 January 2018)
& Executive Director
(from 27 February 2018)

Skills and experience

/ Appointed Chief Financial Officer in January 2018

/ Previously Vice President Corporate Finance of the Group, which he joined in 2011

/ Held, prior to joining the Group, various senior leadership positions within auditing and finance, including at Mazars LLP

/ Certified Public Accountant (Register Accountant)

/ Bachelor in Business Economics from the Hogeschool van Amsterdam

Kevin McAuliffe, 60
Non-Executive Director & Senior Independent Director

Skills and experience
- Former member of the Society of Trust and Estate Practitioners and a director of various regulated investment companies
- Retired Chairman of Carey Group (joining as Chief Executive in 1999)
- Head of Advisory Services for Paribas International Private Banking and Managing Director of Paribas Suisse in Guernsey (1992–1999)
- Served as Finance Director of Ansbacher offshore banking group, appointed as Chief Executive of Ansbacher's Guernsey bank and trust company business in 1994
- Held posts in three different departments in the States of Guernsey (1973–1980)

Board Committees
- Audit
- Nominations
- Remuneration

Chen Moravsky, 47
Deputy Chief Executive Officer & Chief Financial Officer (until 31 December 2017)

Non-Executive Director (from 31 December 2017)

Skills and experience
- Currently President & CEO of LabTech Investments Group
- Former Deputy CEO of PPHE Hotel Group (2014–2017)
- Former CFO of PPHE Hotel Group (2005–2017)
- Financial Director of the Red Sea Group (2001–2004)
- Extensive experience in the hotel/leisure business and real estate investment market
- Previously audit manager at Deloitte
- Certified public accountant (ISR)
- MBA from the University of Manchester and Bachelor of Business from the Tel Aviv College of Management

Dawn Morgan, 53
Non-Executive Director

Skills and experience
- Fellow of the Institute of Chartered Accountants in England and Wales
- Finance Director and Company Secretary of International Energy Group Limited (2004–2013)
- Main Board Company Secretary of International Energy Group Limited (2000–2004)
- Group accountant of International Energy Group Limited (1994–2000)

Board Committees
- Audit
- Nominations

Nigel Jones, 56
Non-Executive Director

Skills and experience
- Member of the Royal Institution of Chartered Surveyors (since 1989)
- Chief Executive of ComProp Limited (2001–2007) whilst it traded as an AIM-listed property company and during that time was responsible for major office developments, including headquarter offices for Fortis, Kleinwort Benson and Generali, along with retail stores for B&Q and Waitrose
- Initially worked in Southampton for Humberts and dealt with management of coastal land forming part of the Crown Estate
- Established Guernsey's first dedicated commercial property practice in 1995

Board Committees
- Audit
- Nominations
- Remuneration

CORPORATE GOVERNANCE STATEMENT

The value of high standards

KEVIN McAULIFFE
Non-Executive Director &
Senior Independent Director

Governance highlights for 2017

- Comprehensive review of Arena
- Increased controls on corporate borrowings
- Changes to guest security policies and procedures
- Changes to food and beverage procedures

As a company whose shares are admitted to the standard listing segment of the Official List of the UK Listing Authority, the Company is not 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 (www.frc.org.uk). However, the Board recognises the value of high standards and has put in place a framework for corporate governance as described below and which, in the Directors' opinion, is appropriate for the Group.

The Directors are committed to maintaining a high standard of corporate governance and intend to continue to comply with those aspects of the Code which they consider appropriate, taking into account the size of the Company and the nature of its business.

Board composition, roles and independence

The Company currently has seven Directors, five 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 executive roles of Deputy Chief Executive Officer and Chief Financial Officer on 31 December 2017. He remains on the Board in his new capacity as a Non-Executive Director.

Daniel Kos took on the role of Chief Financial Officer as of 1 January 2018 and was appointed by the Board as an Executive Director on 27 February 2018. Daniel, alongside the other members of the Board, will stand for re-election at the forthcoming Annual General Meeting on 15 May 2018.

The Code recommends that the Board of Directors of a listed company 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 Holding 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. On 19 May 2016, Eli Papouchado appointed Roni Hirsch as his alternate Director.

Kevin McAuliffe and Nigel Jones have served on the Board for more than ten years, and in that respect only, will not meet the usual criteria for independence set out in the Code. The Board has determined that Kevin McAuliffe and Nigel Jones continue to be independent in character and judgement, notwithstanding their length of service, taking into account their wealth of experience and valuable contributions to Board discussions.

Three of the Directors, namely Dawn Morgan, Kevin McAuliffe and Nigel Jones, are 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 their independent judgment.

As recommended by the Code, the Board has appointed Kevin McAuliffe as the Senior Independent Director to provide a sounding board for the Chairman and to serve as an intermediary for the other Directors when necessary. During the year, the Directors held six Board meetings, 11 Ad Hoc Board Committee meetings at which only the Non-Executive Directors attended, three Audit Committee meetings, two Remuneration Committee meetings, and one Nominations Committee meeting.

“The Board has responsibility for the Group's strategic and financial policies and meets regularly.”

CORPORATE GOVERNANCE STATEMENT CONTINUED

Meeting and Committee attendance during 2017

Name	Role	Board	Ad Hoc Board Committee	Audit Committee	Remuneration Committee	Nominations Committee
Eli Papouchado	Non-Executive Chairman	–	–	NA	NA	NA
Roni Hirsch	Alternate Director on behalf of Eli Papouchado	3	–	NA	NA	NA
Boris Ivesha	President & Chief Executive Officer	4	–	NA	NA	NA
Kevin McAuliffe	Non-Executive Director & Senior Independent Director	6	8	3	2	1
Chen Moravsky	Deputy Chief Executive Officer & Chief Financial Officer[1]	5	–	NA	NA	NA
Nigel Jones	Non-Executive Director	5	10	2	2	1
Dawn Morgan	Non-Executive Director	6	9	3	NA	1
Total meetings held		6	11	3	2	1

1 Chen Moravsky was Deputy Chief Executive Officer & Chief Financial Officer until 3 December 2017.

The Board has responsibility for the Group's strategic and financial policies and meets regularly. All the 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 in order 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.

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 instances when the Chairman is not present, 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.

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. As noted on the next page, the Board has adopted a set of reserved powers.

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. The Board monitors the requirement to refresh the Board. The entire Board retires and stands for re-election annually at the Annual General Meeting.

The roles of the Chairman and the Chief Executive Officer are separate and clearly defined.

The Chairman is responsible for the leadership of the Group. The Senior Independent Director is responsible for the governance of the Board. 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.

Directors' duties
The Directors have adopted a set of reserved powers, 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.

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 nor the chairmanship of such company. In the case of the Chief Executive Officer, prior discussion will need to be held with the Chairman.

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

Board Committees
In accordance with the Corporate Governance Code, 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 Nominations Committee.

“The Board has a breadth of experience relevant to the Company.”

CORPORATE GOVERNANCE STATEMENT CONTINUED

Audit Committee
The Audit Committee comprises of its Chairman, Kevin McAuliffe (Non-Executive Director & Senior Independent Director), Dawn Morgan (Non-Executive Director) and Nigel Jones (Non-Executive Director).

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 members of the Audit Committee have recent and relevant financial experience and that the Audit Committee can properly discharge its duties in light of the nature of the Company's business.

There have been three formal Audit Committee meetings during 2017. The Audit Committee maintains its watching brief by virtue of its monthly update calls with the Group's Chief Financial Officer and others.

For further details in respect of the Audit Committee's role, function and responsibilities, please refer to the Report of the Audit Committee in this section.

Remuneration Committee
The Remuneration Committee comprises of Kevin McAuliffe (Chairman) and Nigel Jones. The Remuneration Committee advises the Board on an overall remuneration policy and meets as and when required. The Remuneration Committee also determines, on behalf of the Board, the remuneration packages of the Executive Directors. The Board determines the remuneration of the Non-Executive Directors.

There have been two Remuneration Committee meetings during 2017.

Nominations Committee
The Nominations Committee comprises of Kevin McAuliffe (Chairman), Nigel Jones and Dawn Morgan. Whenever possible, all these Non-Executive Directors are present at meetings of the Nominations Committee. The Nominations Committee carries out the selection process for the appointment of candidates to the Board and proposes names for approval by the full Board.

There was one Nominations Committee meeting held during 2017.

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 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. Members of the Board 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.

The Chief Executive Officer provides 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. The 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 2018 are included in the notice of Annual General Meeting which has been posted to shareholders and can be found on the Company's website (pphe.com).

Internal controls

The Directors acknowledge their responsibility for establishing and maintaining the Group's and the Company'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 projects 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 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 Director &
Senior Independent Director
27 February 2018

Share dealing code

The Company has adopted 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 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 of Corporate Affairs and Customer Experience
County Hall – Riverside Building
2nd Floor, Belvedere Road
London SE1 7GP
United Kingdom

T: +44 20 7034 4808
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 2018
Final: March 2019
Annual General Meeting: 15 May 2018

London Stock Exchange trading code

LSE: PPH

REPORT OF THE AUDIT COMMITTEE

Audit Committee members
Kevin McAuliffe (Chairman)
Non-Executive Director & Senior Independent Director

Dawn Morgan
Non-Executive Director

Nigel Jones
Non-Executive 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.

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 and re-appointment of the external auditors and 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 fourth 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.

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.

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.

> **"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."**

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.

The Audit Committee reviews draft annual and interim reports before recommending their 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.

Audit Committee attendance and meetings
The Audit Committee met three 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 78.

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 2017 and the interim results for the period ended 30 June 2017;
- The performance of the Group's assets throughout the year;
- The Group's refinancing activities;
- Arrangements reached with related parties;
- The Group's internal control and risk management policies and systems, and their effectiveness, including reviewing reports from the internal audit team and external consultants relating to:
  - Operations in five hotels;
  - Food hygiene at Arena;
  - Lease arrangements at Arena;
  - Cyber and information security; and
  - Guest security – following the Grenfell Tower fire, the Audit Committee asked the Board to obtain independent fire safety reports on all of the properties that were clad. The reports identified that Park Plaza Leeds required significant remedial works. The Board has followed the requirements of all relevant statutory authorities to ensure guest and staff safety pending the remedial works.

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.

Following on from the Group obtaining a controlling ownership interest in Arena, the Audit Committee visited Croatia and reviewed the operations of Arena to assess where changes need to be made to fully conform with Group standards. This process is under way and will take some years to complete.

The Audit Committee also reviewed the documentation in relation to the public offering of shares in Arena which took place during 2017.

Objectives achieved following recommendations by the Audit Committee:
- Established a road map to absorb Arena into the Group in the long term;
- Increased controls on corporate borrowings;
- Changes to guest security policies and procedures; and
- Changes to food and beverage procedures.

On behalf of the Board

KEVIN McAULIFFE
Chairman of the Audit Committee
27 February 2018

REPORT OF THE REMUNERATION COMMITTEE AND DIRECTORS' REMUNERATION REPORT

Remuneration Committee members
Kevin McAuliffe (Chairman)
Non-Executive Director &
Senior Independent Director

Nigel Jones
Non-Executive Director

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. 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, the Executive Directors and other senior managers, including the size of, and the performance conditions applying to, awards made under the Company's cash bonus and share option schemes. 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).

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. Kevin McAuliffe's and Nigel Jones' respective letters of appointment provide for a fixed term expiring on the fourteenth anniversary of their date of appointment, subject to re-election at each Annual General Meeting. Dawn Morgan's letter of appointment and Chen Moravsky's new letter of appointment as a Non-Executive Director provide for a fixed term expiring on the third anniversary of their appointment, subject to re-election at each Annual General Meeting.

All the Non-Executive Directors' appointment letters are subject to termination by either side on three months' notice. The letters of appointment contain no entitlement to compensation for early termination. Details of the contract dates and notice periods are set out in the table opposite.

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 and during his time as an Executive Director, Chen Moravsky was entitled to pension contributions. The other Directors are not entitled to, nor receive, pension plan contributions.

Terms of Appointment

Name of Director	Date of appointment	Notice period
Eli Papouchado	26 June 2007	3 months
Boris Ivesha	14 June 2007	12 months from Group, 6 months from Boris Ivesha
Daniel Kos	27 February 2018	6 months from Group, 3 months from Daniel Kos
Kevin McAuliffe	15 June 2007	3 months
Chen Moravsky[1]	31 December 2017	3 months
Dawn Morgan	19 May 2016	3 months
Nigel Jones	26 June 2007	3 months

[1] As per Chen Moravsky's new letter of appointment as a Non-Executive Director.

Under his previous employment contract in his position as Deputy Chief Executive Officer and Chief Financial Officer, Chen Moravsky was entitled to a termination fee of one month's salary for every year that he worked, some of which was paid in December 2017 and some of which was paid in January 2018. Other than salary and benefits in relation to the notice period described above, there are no other terms in any of the contracts which would give rise to compensation payable for early termination, or any other liability of the Company.

Directors' remuneration £'000

Chairman and Executive Directors	Eli Papouchado	Boris Ivesha	Chen Moravsky	Total
Salary and fees	100	373	300	773
Performance-related incentive	–	–	150	150
Other taxable benefits	–	143	316[1]	459
Total remuneration for the year ended 31 December 2017	100	516	766	1,382
Total remuneration for the year ended 31 December 2016	100	549	602	1,251

[1] This includes part of the termination fee paid to Chen Moravsky in December 2017.

Non-Executive Directors	Kevin McAuliffe	Nigel Jones	Dawn Morgan	Total
Salary and fees				
Total remuneration for the year ended 31 December 2017	53	48	43	144
Total remuneration for the year ended 31 December 2016[1]	53	47	27	151

[1] Elisha Flax, who stood down as a Non-Executive Director on 19 May 2016, received £24,000 for the year ended 31 December 2016.

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 2017	Exercise price
Daniel Kos	100,000	33,334	£6.90

On behalf of the Board

KEVIN McAULIFFE
Chairman of the Remuneration Committee
27 February 2018

DIRECTORS' REPORT

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2017.

Principal activities
The Company is a Guernsey-registered company and through its subsidiaries, jointly controlled entities and associates, owns, co-owns, leases, operates, franchises and develops full-service upscale, upper upscale and lifestyle hotels in major gateway cities, regional centres and select resort destinations, predominantly in Europe.

The majority of the Group's hotels operate under the Park Plaza or art'otel brands.

The Group has an exclusive licence from Carlson Hotels, one of the world's largest hotel groups, to develop and operate Park Plaza Hotels & Resorts in 56 countries in Europe, the Middle East and Africa. The art'otel brand is wholly owned by the Group.

The Group has a controlling ownership interest (51.97% of the share capital) in Arena, one of the most dynamic hospitality groups in Central and Eastern Europe. (See Note 6(b) to the consolidated financial statements.)

The Group's portfolio of owned, co-owned, leased, managed and franchised hotels comprises 39 hotels offering a total of nearly 9,000 rooms.

The Group's development pipeline includes two new hotels, which are expected to add approximately 500 rooms to the portfolio by the end of 2022.

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 18 February 2018	Number of shares	Percentage of issued share capital (excluding treasury)
Red Sea Group	19,852,714	46.89
Molteno Limited	6,690,027	15.80
Aroundtown Property Holdings Limited	3,760,000	8.88
Hargreave Hale*	2,082,250	4.92

* Comprising of Marlborough Special Situations, Marlborough Multi Income and private client holdings.

Business review
A review of the business during the year is contained in the Chairman's statement, President & Chief Executive Officer's statement, Strategy at a glance, Key performance indicators and Financial and business review 2017 sections of this report.

Results and 2017 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 £0.57 (2016: £0.83). The Board recommends to the Annual General Meeting to authorise the payment of a final dividend of 13 pence per share for the year ended 31 December 2017.

As a matter of Guernsey law, any payment of dividends must be made in accordance with the provisions of the Companies (Guernsey) Law, 2008 (as amended). Prior to declaring any dividends, the Directors are required to carry out a liquidity or cash flow test and a balance sheet solvency test and must satisfy themselves on reasonable grounds that the Company will, immediately after the payment of the dividend, remain solvent, 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 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.

On pages 42 and 43 we describe the Group's principal risks and uncertainties. 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 and 43. 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).
- Chen Moravsky (Deputy Chief Executive Officer & Chief Financial Officer).
- Kevin McAuliffe (Non-Executive Director & Senior Independent Director).
- Nigel Jones (Independent Non-Executive Director).
- Dawn Morgan (Independent Non-Executive Director).

Chen Moravsky stepped down from his executive roles of Deputy Chief Executive Officer and Chief Financial Officer on 31 December 2017. He remains on the Board as a Non-Executive Director.

Daniel Kos took on the role of Chief Financial Officer as of 1 January 2018 and was appointed by the Board as an Executive Director on 27 February 2018.

On 19 May 2016, Eli Papouchado appointed Roni Hirsch as his alternate Director, as permitted under the Company's Articles of Incorporation.

In accordance with good corporate governance practice, the entire Board will stand for re-election at the forthcoming Annual General Meeting. Details of the Directors' remuneration are included within the Remuneration Report.

Employees
During 2017, taking into account all our hotels, under all types of contract, approximately 3,400 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.

Largest shareholders
The table provided on page 86 shows shareholders holding 3% or more of the issued ordinary shares (excluding treasury) as at 18 February 2018, of which the Company has been notified by its Registrar and in accordance with DTR5.

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 2018 and 2019 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 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 2017 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.

Important events since the end of the financial year
On 23 January 2018, a member of the Group exchanged contracts to buy from its joint venture partner its fifty per cent interest in its joint venture company, Aspirations Limited, for a consideration of £35 million. Further details of this transaction are set out in Note 31 to the consolidated financial statements.

DIRECTORS' REPORT CONTINUED

Directors' responsibilities
The Directors are required to prepare the Directors' 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 Companies (Guernsey) Law, 2008 (as amended). 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 ought to have taken as a Director to make himself 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 74 and 75 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.

BORIS IVESHA
President & Chief Executive Officer

DANIEL KOS
Chief Financial Officer & Executive Director
27 February 2018

FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S 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 Company), which comprises the consolidated statement of financial position as at 31 December 2017, 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:

- give a true and fair view of the financial position of the Company as at 31 December 2017 and of its financial performance and its cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union; and
- 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 Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), 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 2017. 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 2017

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 Company'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 Company.

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.

Other information included in the Company's 2017 Annual Report
Other information consists of the information included in the 2017 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 Company'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 Company or to cease operations or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude, on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company'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 Company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PPHE HOTEL GROUP LIMITED CONTINUED

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.

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

Kost Forer Gabbay & Kasierer

CHEN SHEIN
(FOR AND ON BEHALF OF KOST FORER GABBAY & KASIERER, MEMBER OF ERNST & YOUNG GLOBAL)
TEL AVIV, ISRAEL
27 FEBRUARY 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December **2017** **£'000**	 2016 £'000
Assets			
Non-current assets:			
Intangible assets	4	**23,570**	25,158
Property, plant and equipment	5	**1,158,442**	1,069,702
Investment in joint ventures	6	**18,727**	18,409
Other non-current assets	7	**18,828**	3,090
Restricted deposits and cash	14(b)	**500**	5,235
Deferred income tax asset	26	**147**	713
		1,220,214	1,122,307
Current assets:			
Restricted deposits and cash	14(b)	**25,561**	25,513
Inventories		**2,701**	2,412
Trade receivables	8	**13,392**	12,576
Other receivables and prepayments	9	**12,446**	10,370
Other current financial assets	10	**24,711**	–
Cash and cash equivalents	11	**241,021**	144,732
		319,832	195,603
Total assets		**1,540,046**	1,317,910
Equity and liabilities			
Equity:	12		
Issued capital		**–**	–
Share premium		**129,878**	129,527
Treasury shares		**(3,636)**	(3,208)
Foreign currency translation reserve		**18,816**	14,450
Hedging reserve		**(302)**	(895)
Accumulated earnings		**198,589**	159,755
Attributable to equity holders of the parent		**343,345**	299,629
Non-controlling interests		**97,593**	30,573
Total equity		**440,938**	330,202
Non-current liabilities:			
Borrowings	15	**666,936**	642,120
Provision for litigation	16(a)	**3,659**	3,392
Provision for concession fee on land	16(b)	**3,591**	2,885
Financial liability in respect of Income Units sold to private investors	17	**131,632**	133,983
Other financial liabilities	18	**192,792**	22,979
Deferred income taxes	26	**7,394**	9,345
		1,006,004	814,704
Current liabilities:			
Trade payables		**12,843**	10,754
Other payables and accruals	19	**47,314**	43,959
Borrowings	15	**32,947**	118,291
		93,104	173,004
Total liabilities		**1,099,108**	987,708
Total equity and liabilities		**1,540,046**	1,317,910

The accompanying notes are an integral part of the consolidated financial statements.
Date of approval of the financial statements 27 February 2018. 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

		Year ended 31 December	
	Note	**2017** **£'000**	2016 £'000
Revenues	20	**325,118**	272,470
Operating expenses	21	**(209,092)**	(169,491)
EBITDAR		**116,026**	102,979
Rental expenses		**(8,722)**	(8,844)
EBITDA		**107,304**	94,135
Depreciation and amortisation	4, 5, 7	**(34,288)**	(25,330)
EBIT		**73,016**	68,805
Financial expenses	22	**(31,966)**	(27,220)
Financial income	23	**1,815**	2,559
Other expenses	24	**(1,503)**	(27,195)
Other income	24	**1,351**	33,700
Net expenses for financial liability in respect of Income Units sold to private investors	25	**(10,666)**	(10,680)
Share in result of associate and joint ventures	6	**(350)**	(1,750)
Profit before tax		**31,697**	38,219
Income tax expense	26	**(1,748)**	(62)
Profit for the year		**29,949**	38,157
Profit attributable to:			
Equity holders of the parent		**24,271**	35,117
Non-controlling interests		**5,678**	3,040
		29,949	38,157
Basic and diluted earnings per share (in Pound Sterling)	27	**0.57**	0.83

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2017	2016
	£'000	£'000
Profit for the year	**29,949**	38,157
Other comprehensive income (loss) to be recycled through profit and loss in subsequent periods:*		
Profit (loss) from cash flow hedges	**593**	(1,537)
Reclassification to the income statement of cash flow hedge results upon discontinuation of hedge accounting	**–**	15,586
Foreign currency translation adjustments of foreign operations	**9,996**	35,844
Reclassification to the income statement of currency translation adjustments upon the Croatian acquisition	**–**	250
Foreign currency translation adjustments of associate and joint ventures	**–**	15
Other comprehensive income	**10,589**	50,158
Total comprehensive income	**40,538**	88,315
Total comprehensive income attributable to:		
Equity holders of the parent	**33,175**	83,006
Non-controlling interests	**7,363**	5,309
	40,538	88,315

* 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 2016		129,140	–	(3,208)	(19,449)	(14,944)	176,365	267,904	–	267,904
Profit for the year	–	–	–	–	–	–	35,117	35,117	3,040	38,157
Other comprehensive loss for the year	–	–	–	–	33,840	14,049	–	47,889	2,269	50,158
Total comprehensive income	–	–	–	–	33,840	14,049	35,117	83,006	5,309	88,315
Issue of shares	–	387	–	–	–	–	–	387	–	387
Dividend distribution	–	–	–	–	–	–	(50,637)	(50,637)	–	(50,637)
Acquisition of a subsidiary (see Note 3)	–	–	–	–	–	–	–	–	19,054	19,054
Transactions with non-controlling interests	–	–	–	–	–	–	(1,031)	(1,031)	6,210	5,179
Balance as at 31 December 2016	–	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 own shares	**–**	**–**	**–**	**(428)**	**–**	**–**	**–**	**(428)**	**–**	**(428)**
Dividend distribution[2]	**–**	**–**	**–**	**–**	**–**	**–**	**(9,290)**	**(9,290)**	**–**	**(9,290)**
Acquisition of a subsidiary (see Note 3)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
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**

1 No par value.
2 The dividend distribution comprises a final dividend for the year ended 31 December 2016 of 10.0 pence per share (31 December 2015: 10.0 pence per share) and an interim dividend of 11.0 pence per share paid in 2017 (2016: 10.0 pence per share; additionally a special dividend of 100.0 pence per share was paid during 2016).

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2017 £'000	2016 £'000
Cash flows from operating activities:			
Profit for the year		**29,949**	38,157
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		**42,644**	37,900
Financial income	23	**(1,579)**	(2,404)
Income tax charge	26	**1,748**	62
Loss on buy back of Income Units sold to private investors	24	**721**	372
Gain on Croatian acquisition		**–**	(26,195)
Refinance expenses		**–**	23,397
Income from forfeited deposits		**–**	(6,543)
Capital gain	24	**(1,351)**	–
Gain from marketable securities	23	**(124)**	–
Share in results of joint ventures	6	**350**	279
Share in loss of associates		**–**	1,471
Fair value adjustment of derivatives	23	**(112)**	(155)
Depreciation and amortisation	4, 5, 7	**34,288**	25,330
Share-based payments		**109**	–
		76,694	53,514
Changes in operating assets and liabilities:			
Decrease (increase) in inventories		**(216)**	88
(Increase) in trade and other receivables		**(1,801)**	(6,757)
(Decrease) increase in trade and other payables		**9,019**	(6,146)
		7,002	(12,815)
Cash paid and received during the period for:			
Interest paid		**(43,323)**	(38,642)
Interest received		**203**	1,338
Taxes (paid) received		**(676)**	33
		(43,796)	(37,271)
Net cash provided by operating activities		**69,849**	41,585
Cash flows from investing activities:			
Investments in property, plant and equipment	5	**(107,044)**	(87,298)
Investments in jointly controlled entities and loans to partners in jointly controlled entities		**–**	(426)
Proceeds from sale of property	24	**7,146**	–
Purchase of Park Plaza County Hall London units	7	**(16,283)**	–
Decrease (increase) in restricted cash		**5,375**	(4,786)
Increase in marketable securities, net		**(24,586)**	
Collection of loans to related parties		**–**	13,197
Cash outflows for the Croatian acquisition		**–**	(22,030)
Net cash used in investing activities		**(135,392)**	(101,343)

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

CONSOLIDATED STATEMENT OF CASH FLOWS CONTINUED

	Year ended 31 December	
	2017	2016
	£'000	£'000
Cash flows from financing activities:		
Issuance of shares upon exercise of options	**242**	387
Purchase of treasury shares	**(428)**	–
Proceeds from long-term loans	**42,926**	614,102
Buy back of Income Units previously sold to private investors	**(1,900)**	(1,366)
Repayment of bank loans and other long-term liabilities	**(133,108)**	(419,044)
Net proceeds from transactions with non-controlling interest	**79,565**	5,179
Proceeds from sale and leaseback of Park Plaza London Waterloo	**161,596**	–
Dividend payment	**(9,290)**	(50,637)
Net cash provided by financing activities	**159,603**	148,621
Increase in cash and cash equivalents	**94,060**	88,863
Net foreign exchange differences	**2,229**	5,246
Cash and cash equivalents at beginning of year	**144,732**	50,623
Cash and cash equivalents at end of year	**241,021**	144,732

Non-cash items:		
Outstanding payable on investments in property, plant and equipment	**958**	5,155

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 2017 were authorised for issuance in accordance with a resolution of the Directors on 27 February 2017.

b. Description of business and formation of the Company:
The Company was incorporated and registered in Guernsey on 14 June 2007. The shares of the Company are publicly traded.

The Company's primary activity is owning, co-owning, leasing, developing, operating and franchising full-service upscale, upper upscale and lifestyle hotels in major gateway cities, regional centres and select resort destinations, predominantly in Europe.

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 2018 and 2019 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.

The Group has entered into a number of loan facilities, the details of which are set out in Note 15. The Board believes that the Group currently has adequate resources and in the future will generate sufficient funds to honour its financial obligations and continue its operations as a going concern for the foreseeable future. The Group analyses its ability to comply with debt covenants in the near future.

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 2017 and 2016 are set out below. These accounting policies have been consistently applied to the periods presented.

b. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2017. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

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.

Note 2 Summary of significant accounting policies continued

c. **Significant accounting judgments, estimates and assumptions** continued

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.

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. Subsequent changes to the fair value of the contingent consideration which is deemed to be a financial asset or liability will be recognised in accordance with IAS 39 in profit or loss. If the contingent consideration is classified as equity, it is not re-measured and final settlement is accounted for within equity.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

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.

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	
	2017 In Pound Sterling	2016 In Pound Sterling
Euro	**0.887**	0.858
Hungarian Forint	**0.003**	0.003
Croatian Kuna	**0.118**	0.114

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

	As at 31 December	
	2017 %	2016 %
Euro	**3.4**	16.8
Hungarian Forint	**3.7**	17.6
Croatian Kuna	**4.0**	18.0

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 15**

The costs of maintaining property, plant and equipment are recognised in the income statement as they are incurred. Costs incurred that significantly increase the recoverable amount of the asset concerned are added to the asset's cost as an improvement and depreciated over the expected useful life of the improvement.

An item of property, plant and equipment, and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

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

Financial assets

Financial assets within the scope of IAS 39 are initially recognised at fair value plus directly attributable transaction costs, except for financial assets measured at fair value through profit or loss in respect of which transaction costs are carried to the income statement.

After initial recognition, the accounting treatment of investments in financial assets is based on their classification into one of the following categories:

(i) Loans and receivables

Loans and receivables are financial assets (non-derivative) with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans and receivables are measured at amortised cost using the effective interest method taking into account transaction costs less any allowance for impairment. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the systematic amortisation process.

(ii) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Derivatives, including separated embedded derivatives, are classified as held for trading unless they are designated as effective hedging instruments.

(iii) Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses the following hierarchy based on the lowest level input that is significant to the fair value measurement for determining and disclosing the fair value of financial instruments (see Note 30(e) for specific valuation methodologies):

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have significant effect on the fair value measurement are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the fair value measurement that are not based on observable market data.

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to market prices on the reporting date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow; or other valuation models.

Note 2 Summary of significant accounting policies continued

k. Financial instruments continued

(iv) **Financial liabilities**

Interest-bearing loans and borrowings are initially recognised at fair value plus directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are measured at amortised cost using the effective interest method which also accounts for directly attributable transaction costs. Gains and losses are recognised in the income statement when the loan is derecognised as well as through the systematic amortisation process.

(v) **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 22 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 reserves') 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.

(vi) **Derecognition of financial instruments:**

Financial assets

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or the Group has transferred its contractual rights to receive cash flows from the financial asset or assumes an obligation to pay the cash flows in full without material delay to a third party and has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

A financial liability is derecognised when it is extinguished, i.e. when the obligation is discharged or cancelled or expires. A financial liability is extinguished when the debtor (the Group) discharges the liability by paying in cash, other financial assets, goods or services, or is legally released from the liability.

(vi) **Derecognition of financial instruments** continued

Where an existing financial liability is exchanged with another liability from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is accounted for as an extinguishment of the original liability and the recognition of a new liability and the difference in the respective carrying amounts is recognised in the income statement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

Note 2 Summary of significant accounting policies continued

k. Financial instruments continued

(vii) Impairment of financial assets

The Group assesses at each reporting date whether the following financial assets or group of financial assets are impaired as follows:

Assets carried at amortised cost

Evidence of impairment may include indications that the debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments or other observable data of a measurable decrease in the estimated future cash flows. If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss carried to the income statement is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. In a subsequent period, the amount of the impairment loss is reversed if the recovery of the asset can be related objectively to an event occurring after the impairment was recognised. The amount of the reversal, as above, is credited to the income statement up to the amount of any previous impairment.

(viii) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

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.

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

The Group uses derivative financial instruments such as interest rate swaps to hedge its risks associated with interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

The fair value of interest rate swap contracts is determined using valuation techniques, including the discounted cash flow model.

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

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

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income, while the ineffective portion is recognised in profit or loss. Amounts taken to other comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised.

o. Trade receivables

Trade receivables recognised under current assets are stated at amortised cost (which in most cases is equal to their nominal amount) as reduced by appropriate allowances for estimated uncollectable amounts.

Note 2 Summary of significant accounting policies continued

p. **Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

Owned, 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.

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 Club Carlson℠ customer loyalty programme to provide customers with incentives to buy room nights. This customer loyalty programme is owned and operated by the Carlson Rezidor 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 the Carlson Rezidor 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.

q. **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.

r. **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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

Note 2 Summary of significant accounting policies 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).

s. Employee benefits

Share-based payments

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

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

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

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

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

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

Pension

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

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

Note 2 Summary of significant accounting policies continued

t. 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 statement of profit or loss, 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.

u. 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.

v. 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:

(i) where the deferred tax liability arises from the initial recognition of goodwill or from an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(ii) in respect of taxable temporary differences associated with investments in subsidiaries, associates and jointly controlled entities, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities and changes in them relating to items recognised directly in equity or other comprehensive income are recognised in equity or other comprehensive income and not in the income statement.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax losses can be utilised, except:

(i) when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(ii) in respect of deductible temporary differences associated with investments in subsidiaries, associates and jointly controlled entities, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

Note 2 Summary of significant accounting policies continued

v. 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.

w. 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.

x. 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.

y. 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 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. The Group plans to adopt IFRS 9 on the required effective date and is currently assessing that the impact of IFRS 9 on the consolidated financial statement will not be material.

IFRS 15, "Revenue from Contracts with Customers"

IFRS 15 ("the new Standard") was issued by the IASB in May 2014. The new Standard replaces IAS 18, "Revenue", IAS 11, "Construction Contracts", IFRIC 13, "Customer Loyalty Programs", IFRIC 15, "Agreements for the Construction of Real Estate", IFRIC 18, "Transfers of Assets from Customers" and SIC-31, "Revenue – Barter Transactions Involving Advertising Services". The new Standard introduces a five-step model that will apply to revenue earned from contracts with customers:

Step 1: Identify the contract with a customer, including reference to contract combination and accounting for contract modifications.

Step 2: Identify the separate performance obligations in the contract.

Step 3: Determine the transaction price, including reference to variable consideration, financing components that are significant to the contract, non-cash consideration and any consideration payable to the customer.

Step 4: Allocate the transaction price to the separate performance obligations on a relative stand-alone selling price basis using observable information, if it is available, or using estimates and assessments.

Step 5: Recognise revenue when a performance obligation is satisfied, either at a point in time or over time.

The new Standard is to be applied for annual periods beginning on 1 January 2018. The new Standard allows the option of modified retrospective adoption with certain reliefs according to which the new Standard will be applied to existing contracts from the initial period of adoption and thereafter with no restatement of comparative data. Under this option, the Company will recognise the cumulative effect of the initial adoption of the new Standard as an adjustment to the opening balance of retained earnings (or another component of equity, as applicable) as of the date of initial application. Alternatively, the new Standard permits full retrospective adoption with certain reliefs.

Note 2 Summary of significant accounting policies continued

y. Standards issued but not yet applied continued

The Company generates revenues from the following two main sources: operating hotels and management, sales, franchise and marketing fees. The Group plans to adopt IFRS15 on the required effective date and is currently assessing that the impact of the new Standard on the consolidated financial statements will not be material.

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 Leases (the 'New Lease Standard'). According to the New Lease Standard, a lease is a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration.

According to the New Lease Standard, in respect of leases that are treated as operating leases according to the existing IAS 17 Leases:

- lessees are required to recognise an asset and a corresponding liability in the statement of financial position in respect of all leases (except in certain cases) similar to the accounting treatment of finance leases according to the existing IAS 17 Leases;
- lessees are required to initially recognise a lease liability for the obligation to make lease payments and a corresponding right-of-use asset. Lessees will also recognise interest and depreciation expenses separately;
- variable lease payments that are not dependent on changes in the Consumer Price Index (CPI) or interest rates, but are based on performance or use (such as a percentage of revenues) are recognised as an expense by the lessees as incurred and recognised as income by the lessors as earned;
- in the event of change in variable lease payments that are CPI linked, lessees are required to re-measure the lease liability and the effect of the re-measurement is an adjustment to the carrying amount of the right-of-use asset;
- the New Lease Standard includes two exceptions according to which lessees are permitted to elect to apply a method similar to the current accounting treatment for operating leases. These exceptions are leases for which the underlying asset is of low value and leases with a term of up to one year; and
- the accounting treatment by lessors remains substantially unchanged, namely classification of a lease as a finance lease or an operating lease.

The New Lease Standard is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted provided that IFRS 15 Revenue from Contracts with Customers is applied concurrently.

For leases existing at the date of transition, the New Lease Standard permits lessees to use either a full retrospective approach, or a modified retrospective approach with certain transition relief whereby restatement of comparative data is not required.

The Group has begun preparations for the adoption of the New Lease Standard on the effective date and is currently assessing its potential impact on its financial statements.

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 application of recognition and measurement required in IAS 12 Income Taxes when there is uncertainty over income tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately.
- The assumptions an entity makes about the examination of tax treatments by taxation authorities.
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credit and tax rates.
- 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.

Note 3 Business combination

Acquisition of remaining 80% interest in joint venture in Croatia

On 13 April 2016, the Company through its wholly-owned subsidiary, Euro Sea Hotels N.V. ('Euro Sea'), acquired the remaining 80% of the shares in WH/DMREF Bora B.V. ('Bora') and all existing shareholder loans to Bora or its subsidiaries which it did not then own from entities affiliated to certain funds managed by Goldman Sachs (its joint venture partner in Croatia), for an aggregate consideration of €50.0 million (approximately £40.0 million) (the 'Acquisition').

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

Note 3 Business combination continued
The consideration for the Acquisition comprised:

a) €5.0 million cash deposit payable on signing;

b) €35.0 million in cash payable on completion; and

c) a deferred consideration, payable on or prior to 31 December 2016 equal to €10.0 million plus interest of €1.0 million which was guaranteed by the Company.

The Acquisition was financed partly from the Group's cash balances and partly by way of a €30.0 million loan from Zagrebačka banka d.d. The tranches of the loan were for a period of seven to eight years and bore interest of Euribor +5.9%. The deferred consideration was paid throughout the year.

As a result of the Acquisition, Euro Sea indirectly owned 74.15% of the issued share capital of Arena Hospitality Group d.d (formerly known as Arenaturist d.d) ('Arena'), a Croatian joint stock company listed on the Zagreb Stock Exchange, and full ownership of three Croatian private companies (together, the 'Arena Group'). The Arena Group owns seven hotels and four self-catering apartment complexes and has an interest in eight campsites in Istria, Croatia.

Pursuant to regulatory requirements in Croatia, the Company was required to make a mandatory takeover offer in Croatia for the outstanding share capital of Arena. Pursuant to this offer, the Group acquired an additional 3.48% in Arena for approximately HRK 326 per share, equating to a purchase price of HRK 24.7 million (£2.6 million).

Thereafter, the Company sold 9% and 3% of Arena shares respectively to two Croatian institutional investors for approximately HRK 285 (approximately £29.17) per share, totalling HRK 74.6 million (£7.9 million). The excess of the carrying amount of the portion of the subsidiary sold over the consideration received of approximately £1 million was recorded in equity.

Following the transaction, the Group owns 65.63% of Arena.

Given that the Company achieved full control over Bora, which was previously held as an associate, the Acquisition is accounted for as a business combination achieved in stages ('step acquisition'). Accordingly, management has re-measured the Company's previously held equity interests in Bora at the acquisition date (13 April 2016) at fair value and recognised a loss of £0.7 million, which is recorded in 'other income' along with the gain from a bargain purchase of £27.2 million. The previously reported carrying amount of £17.4 million represented the Company's 20% interest accounted for by using the equity method and certain shareholders' loans. The entire 100% interest at the acquisition date was recorded at fair value, as disclosed below.

From the acquisition date to 31 December 2016, the Acquisition (at 100% ownership) made a contribution of £46.1 million to the Group's revenue and £9.1 million to the Group's profit. If the combination had taken place at the beginning of 2016, the total consolidated revenues and profit for the year ended 31 December 2016 would have amounted to £53.5 million and £5.0 million, respectively.

Transaction costs arising from the Acquisition were not material and were recorded in profit and loss.

Note 3 Business combination continued

Acquisition of 80% interest from its joint venture partner in Croatia continued

The fair values of the identifiable assets and liabilities as at the acquisition date are presented below:

Fair value	2016 £'000
Property, plant and equipment	**135,166**
Intangible fixed assets	**2,046**
Other non-current financial assets	**791**
Trade receivables	**756**
Cash and cash equivalents	**13,627**
Other current assets	**1,750**
	154,136
Borrowings	**(36,688)**
Other non-current liabilities	**(6,249)**
Trade creditors	**(1,583)**
Borrowings short term	**(2,736)**
Other payables and accruals	**(4,465)**
	(51,721)
Net assets	**102,415**
Total consideration	**39,469**
Fair value of previously held interest (20%)	**16,735**
Fair value of non-controlling interests	**19,054**
	75,258
Gain from bargain purchase	**27,157**
Carrying amount of previously held interest	**17,447**
Fair value of previously held interest	**16,735**
Gain (loss) on re-measurement of previously held interest	**(712)**
Cash flow on acquisition	
Net cash acquired with the subsidiaries	**13,627**
Cash paid	**(35,657)**
Net cash outflow	**(22,030)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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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 2016	17,579	17,970	2,183	725	38,457
Adjustment for exchange rate differences	2,956	3,022	367	305	6,650
Additions during the year	–	–	–	2,046	2,046
Balance as at 31 December 2016	20,535	20,992	2,550	3,076	47,153
Accumulated amortisation:					
Balance as at 1 January 2016	7,397	7,712	981	489	16,579
Amortisation	989	996	122	401	2,508
Adjustment for exchange rate differences	1,290	1,343	171	104	2,908
Balance as at 31 December 2016	9,676	10,051	1,274	994	21,995
Net book value as at 31 December 2016	10,859	10,941	1,276	2,082	25,158
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**

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 10.5 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 10.5 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 10.5 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 2017, there were no indicators of impairment.

Note 5 Property, plant and equipment

	Land £'000	Hotel buildings £'000	Income Units sold to private investors* £'000	Furniture fixtures and equipment £'000	Total £'000
Cost:					
Balance as at 1 January 2016	221,152	476,811	137,808	98,026	933,797
Additions during the year	–	81,303	101	11,049	92,453
Acquisition of subsidiary (see Note 3)	58,735	68,661	–	7,769	135,165
Disposal	–	(2,208)	–	(693)	(2,901)
Buy back of Income Units sold to private investors	117	830	(990)	43	–
Reclassification	1,662	(4,610)	–	2,948	–
Adjustment for exchange rate differences	22,147	29,072	–	4,436	55,655
Balance as at 31 December 2016	303,813	649,859	136,919	123,578	1,214,169
Accumulated depreciation and impairment:					
Balance as at 1 January 2016	8,972	38,460	12,233	61,106	120,771
Provision for depreciation	603	9,192	2,233	10,777	22,805
Disposal of subsidiaries	–	(2,208)	–	(693)	(2,901)
Buy back of Income Units sold to private investors	–	44	(73)	29	–
Adjustment for exchange rate differences	191	1,974	–	1,627	3,792
Balance as at 31 December 2016	9,766	47,462	14,393	72,846	144,467
Net book value as at 31 December 2016	294,047	602,397	122,526	50,732	1,069,702
Cost:					
Balance as at 1 January 2017	**303,813**	**649,859**	**136,919**	**123,578**	**1,214,169**
Additions during the year	**12,198**	**59,576**	**1,991**	**37,503**	**111,268**
Disposal (see Note 24)	**(2,660)**	**(3,708)**	**–**	**(2,701)**	**(9,069)**
Buy back of Income Units sold to private investors	**138**	**977**	**(1,166)**	**51**	**–**
Reclassification	**–**	**1,397**	**–**	**41**	**1,438**
Adjustment for exchange rate differences	**6,835**	**9,286**	**–**	**1,568**	**17,689**
Balance as at 31 December 2017	**320,324**	**717,387**	**137,744**	**160,040**	**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**	**656,149**	**121,218**	**71,172**	**1,158,442**

* This includes 513 rooms ('Income Units') (2016: 518) 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)(v)). 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. Cumulative expenditure for hotels under development, in the amount of £16,611 thousand (2016: £137,538 thousand), relates to the renovation of Park Plaza Victoria Amsterdam.

b. The amount of borrowing costs capitalised during the year was £288 thousand (2016: £6,838 thousand) at a rate of 4.9% (2016: 4.8%), which is the average effective interest rate of the specific borrowing.

c. For information regarding liens, see Note 14.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 5 Property, plant and equipment continued

d. 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.

e. Land and properties under finance lease

	As at 31 December	
	2017 £'000	2016 £'000
Cost – capitalised finance leases	**182,950**	21,355
Accumulated depreciation	**(1,322)**	(1,246)
Net book value	**181,628**	20,109

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	
	2017 £'000	2016 £'000
Loan to joint ventures*	**17,582**	17,045
Share of net assets under equity method	**1,145**	1,364
Investment in joint ventures	**18,727**	18,409

* £13.6 million of the loan is denominated in Pound Sterling and bears an interest of LIBOR +2.0% per annum. £4.0 million of the loan is denominated in EUR and bears an interest of LIBOR +2.5% per annum. This loan repayment is due on 7 June 2023.

The share in net profit amounts to £(350) thousand (2016: £(279) thousand).

b. Subsidiaries with significant non-controlling interests

As at 31 December 2017, the Company owned approximately 52% (2016: 66%) of Arena. The amount of profit allocated to the non-controlling interests in 2017 amounts to £ 5,678 thousand (2016: £ 3,040 thousand).

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

c. Transactions with non-controlling interests

In the twelve 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 intercompany 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 intercompany 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 2017 and 2016, and for the year ended December 2017. For the 2016 year, the information is from the acquisition date to 31 December 2016.

	As at 31 December	
	2017 **£'000**	2016 £'000
Non-current assets	**238,054**	153,281
Current assets	**97,341**	14,315
Non-current liabilities	**112,291**	66,309
Current liabilities	**19,565**	13,563
Revenue	**84,163**	46,089
EBITDA	**24,981**	16,764
Profit for the period	**13,742**	9,085
Total comprehensive income	**15,427**	11,354

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 7 Other non-current assets
a. Non-current financial assets

	As at 31 December	
	2017 **£'000**	2016 £'000
Income swap in respect of Income Units sold to private investors[1]	**924**	1,265
Income Units in Park Plaza County Hall London[2]	**16,677**	–
Rent security deposits[3]	**713**	1,419
Restricted deposits	**79**	79
Prepaid leasehold payments[4]	**315**	327
Other non-current assets	**120**	–
	18,828	3,090

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 portion of an asset (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.

3 Relates to leases described in Note 14(c)(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	
	2017 **£'000**	2016 £'000
Cost:		
Balance as at 1 January	**400**	343
Foreign currency translation adjustment	**14**	57
Balance as at 31 December	**414**	400
Accumulated amortisation:		
Balance as at 1 January	**73**	50
Provision for amortisation	**26**	17
Foreign currency translation adjustment	**–**	6
Balance as at 31 December	**99**	73
Amortised cost as at 31 December	**315**	327

Note 8 Trade receivables

a. Composition:

	As at 31 December	
	2017 **£'000**	2016 £'000
Trade receivables	**14,150**	13,301
Less – allowance for doubtful debts	**(758)**	(725)
	13,392	12,576

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 2016	(220)
Additions due to acquisition of Arena	(683)
Collections	242
Exchange rate differences	(64)
As at 31 December 2016	(725)
Exchange rate differences	(33)
As at 31 December 2017	**(758)**

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

			Past due but not impaired			
	Total £'000	Neither past due nor impaired £'000	< 30 days £'000	31 to 60 days £'000	61 to 90 days £'000	> 90 days £'000
2017	**14,150**	**4,304**	**6,477**	**1,809**	**397**	**1,163**
2016	13,301	3,174	5,997	2,201	674	1,255

Note 9 Other receivables and prepayments

	As at 31 December	
	2017 **£'000**	2016 £'000
Prepaid expenses	**8,150**	6,682
VAT	**2,266**	3,204
Related parties*	**669**	178
Others	**1,361**	306
	12,446	10,370

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

Note 10 Other current financial assets

	As at 31 December	
	2017 **£'000**	2016 £'000
Investment in marketable securities *	**24,711**	–

* The gain on sale has been recycled and is recorded in the financial income for an amount of £124 thousand.

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.

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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 2017, the number of ordinary shares issued was 44,225,706 (2016: 44,065,862), 1,888,070 of which were held as treasury shares (2016: 1,862,000). The increase to the share capital was due to the exercise of share options (see Note 13).

The Company's shares are admitted to the standard 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 per share of 111 pence. 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 16 November 2017, 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 (see Note 15).

Note 13 Share-based payments

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

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

b. The Group's Remuneration Committee met in November 2016 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 200,000 options to two employees at an exercise price of 690 pence. The fair value of the options is estimated at the grant date using the binomial pricing model according to the terms and conditions upon which the options were granted.

The following lists the inputs to the binomial model used in 2016 for the fair value measurement of the granted share options:

Dividend yield	3.0%
Expected volatility of the share prices	20.3%
Risk-free interest rate	0.751%
Expected life of share options	5 years
Share price at the grant date	690.00 pence
Weighted average fair value	862.6 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 2017 is £109 thousand (2016:-). Total exercisable options at 31 December 2017 amount to 173,668 (2016: 299,806).

Note 13 Share-based payments continued

Movements during the year

The following table illustrates the number (No.) and weighted average exercise prices (EP) of, and movements in, share options during 2016 and 2017:

	No. of options A	No. of options B	EP
Outstanding as at 1 January 2016	406,306	79,850	£2.06
Options exercised in the year*	(180,000)	(6,350)	£2.07
Options granted during the year	200,000	–	£6.90
Reclassification	23,650	(23,650)	–
Outstanding as at 31 December 2016	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**

* Part of the exercise was cashless.

The weighted average remaining contractual life for the share options outstanding as at 31 December 2017 is nine years (2016: seven 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 £4.1 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.

(iii) As part of the development of Park Plaza Westminster Bridge London, Marlbray sold the net operating income of certain rooms ('Income Units') in Park Plaza Westminster Bridge London to private investors during the construction phase of the hotel. Typically these investors entered into contracts to acquire an Income Unit and paid a deposit of up to 25% of the purchase price. Upon completion of the hotel, investors were required to pay the balance of the purchase price. A number of the investors who entered into contracts to buy Income Units and paid deposits failed to pay the balance due on the contract at completion and Marlbray rescinded their contracts and forfeited their deposits.

As at 31 December 2017, a balance of £0.1 million of forfeited deposits remain in the escrow account (presented under long-term restricted cash and deposits) due to rescinded contracts for which the proceedings are ongoing.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

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 The Carlson Hotels Group Worldwide, Inc. ('Carlson^{SM}'). 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 Carlson^{SM} systems within the Territory which right includes the right to utilise the Carlson^{SM} systems' international marketing and reservations facilities and to receive other promotional assistance. The Group pays Carlson^{SM} a fee based on a percentage of the hotels' gross room revenue.

2. The Group entered into several management agreements with operated hotels and developed hotels located in the Netherlands, the United Kingdom, Germany, Hungary and Croatia in consideration for an annual fee of 2–3% of the hotels' revenues, as applicable, as well as 7–10% of the (adjusted) gross operating profit. The Group is also charging sales, marketing and service fees as a percentage of total revenue, and is partially reimbursed for certain portions of the expenses incurred. The management agreements are for periods of between 15 and 25 years.

3. 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®' 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:

	2017 £'000	2016 £'000
Within one year	**7,019**	1,419
After one year but not more than five years	**28,074**	5,674
More than five years*	**446,296**	195,715
	481,389	202,808
Less amounts representing finance charges	**(298,427)**	(181,453)
Present value of minimum lease payments	**182,962**	21,355

* 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.

The present value of the minimum lease payments is as follows:

	2017 £'000	2016 £'000
Within one year		
After one year but not more than five years	**1**	1
More than five years	**182,961**	21,354
	182,962	21,355

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 £1,050 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. 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 £864,334 per annum and the tenant was granted a right to renew the lease for an additional 60 years. At completion of the deed, the landlord paid £5.0 million to Riverbank Hotel Holding B.V., which is accounted for as part of the long-term finance lease liability.

Note 14 Pledges, contingent liabilities and commitments continued

(c) 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 £306,500 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 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:

	2017 £'000	2016 £'000
Within one year	**5,040**	5,989
After one year but not more than five years	**19,565**	19,704
More than five years	**23,428**	27,537
	48,033	53,230

(iii) Construction contract commitment

As at 31 December 2017, the Company had capital commitments amounting to £3.2 million for the renovation of Park Plaza Victoria Amsterdam.

(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 2017 amounts to £2.5 million.

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Note 14 Pledges, contingent liabilities and commitments continued

c. **Commitments continued**

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.

   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 2017, the Company is in compliance with the aforementioned covenants.

   The Project encountered planning issues and as a result construction has been halted until these are resolved. In January 2017, Bali Hai, with the knowledge of UOB, filed with the Bankruptcy Court in Thailand a petition for rehabilitation. During the third quarter of 2017, Bali Hai withdrew the petition. However, the Company is informed that Bali Hai continues its efforts to resolve and to obtain a new building permit.

   The Company believes 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 above obligations of the Company under the sponsor support deed.

3. The Company guarantees principal and interest under the €10.7 million (£9.3 million) facility granted by Deutsche Hypothekenbank AG to ABM Hotel Holding B.V. and PPBK Hotel Holding B.V. (formerly known as ABK Hotel Holding B.V.) The Company has entered into a counter-guarantee with Arena effective as of 1 January 2018 whereby Arena guarantees the Company's obligations under the Company's guarantee.

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

(v) **Lease guarantees**

The Group provided guarantees for commitments under certain hotel lease agreements. The total of these guarantees does not exceed £6.0 million.

Note 15 Borrowings

The borrowings of the Group are composed as follows:

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

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

For securities and pledges, see Note 14.

As at 31 December 2016	EUR Denominated £'000	GBP Denominated £'000	HRK Denominated £'000	Total £'000
Fixed interest rate	164,624	417,516	1,825	583,965
Weighted average interest rate	2.21%	3.52%	5.00%	
Variable interest rate	79,472	103,141	–	182,613
Weighted average interest rate	4.27%	3.93%	0.00%	
Total	244,096	520,657	1,825	766,578
Weighted average interest rate	2.88%	3.60%	5.00%	3.48%

Maturity analysis 2016	Outstanding amount	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Total borrowings	766,578	118,517	23,704	15,064	25,621	13,820	569,852
Capitalised transaction costs and other adjustments	(6,167)	(226)	(227)	(538)	(375)	(375)	(4,426)
	760,411	118,291	23,477	14,526	25,246	13,445	565,426

For securities and pledges, see Note 14.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 15 Borrowings continued

a. **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 10-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, Hotel Holiday Medulin and Park Plaza Verudela Pula
In December 2017, Arena refinanced its debt portfolio with Zagrebačka Banka d.d. The Zagrebacka Banka facility of €64m (£56.1 million) is a 10-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.

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 110%.

(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%.

(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 Royal Bank of Scotland plc facility for Park Plaza Leeds, the borrower must ensure that the aggregate amount of the outstanding facility does not exceed 88% of the value of the hotel as set out in the most recent valuation. For hedging arrangements under this facility see Note 30(e).

Note 15 Bank Borrowings continued

c. Financial covenants

(v) Under the Bank Hapoalim (Luxembourg) S.A. facility for Park Royal Hotel Holding B.V. the following covenants apply:

1. The shareholders' equity of the Company is not less than the lower of €200 million (if calculated in Euros) or £150.0 million (if calculated in Pound Sterling);

2. The shareholders' equity of the Company, less the equity invested by the Group in development projects which are subject to construction facilities (in which there is no recourse to the borrower thereunder), is not less than €93.0 million;

3. The adjusted shareholders' equity of the Company shall not be less than the value of 20% of the relevant assets value, as such terms are defined in the agreement;

4. The adjusted shareholders' equity of the Company, less the equity invested by the Group in development projects which are subject to construction facilities (in which there is no recourse to the borrower thereunder), is not less than 20% of the relevant assets value; and

5. The aggregate value of all outstanding loans does not exceed 75% of the relevant assets value.

(vi) 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.

(vii) 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 outstanding loan does not exceed 65% of the value of the property and that the DSCR is not less than 1.80.

(viii) 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 or lower than 6.0 at year end 2018, is equal or lower than 5.5 at year end 2019, is equal or lower than 5.0 at year end 2020, is equal or lower than 4.5 at year end 2021 and for each succeeding calendar year during the remaining life of the loan.

As at 31 December 2017, the Group is in compliance with all of its banking covenants.

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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 £3.7 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.

	2017 £'000	2016 £'000
Balance 1 January	**3,392**	–
Acquisition of a subsidiary	**–**	3,015
Exchange rate differences	**129**	252
Movement in the year	**138**	125
31 December	**3,659**	3,392

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 to accrue the remaining 50% until determination of the concession agreements, which is presented as a provision in the financial statements.

	2017 £'000	2016 £'000
Balance 1 January	**2,885**	–
Acquisition of a subsidiary (see Note 3)	**–**	2,768
Additions	**586**	–
Exchange rate differences	**120**	117
31 December	**3,591**	2,885

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

	As at 31 December 2017 £'000	2016 £'000
Total liability	**145,453**	146,718
Due from investors for reimbursement of capital expenditure	**(13,821)**	(12,735)
	131,632	133,983

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 2017 £'000	2016 £'000
Derivative financial instruments (see Note 30(f))	**590**	1,205
Lease liability (see Note 14(c)(ii))	**182,962**	21,355
Deposits received in respect of Income Units sold to private investors (see note 14(b))	**79**	79
Third party loans (see Note 5(d))	**8,873**	–
Other	**288**	340
	192,792	22,979

Sale and leaseback of Park Plaza London Waterloo

In July 2017, the Group completed the sale and leaseback (for a term of 199 years) of Park Plaza London Waterloo for £161.5 million. The initial rent of £5.6 million per annum has annual inflation adjustments subject to a cap and a collar. As at the transaction date, the hotel had a book value of approximately £124 million and was financed with a £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, in substance no disposal of the asset has taken place and no gain or loss on this disposal was recognised.

Note 19 Other payables and accruals

	As at 31 December 2017 £'000	2016 £'000
Employees	**2,724**	2,026
VAT and taxes	**9,023**	7,621
Accrued interest	**2,715**	3,129
Corporate income taxes	**2,952**	314
Accrued expenses	**14,428**	10,616
Advance payments received	**9,389**	9,312
Accrued rent	**2,364**	2,499
Variable income payment to holders of Income Units	**2,761**	3,287
Related parties*	**958**	5,155
	47,314	43,959

* See Note 29.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 20 Revenues

	Year ended 31 December	
	2017 £'000	2016 £'000
Rooms	**223,978**	183,193
Camps and mobile homes	**14,036**	11,164
Food and beverage	**74,199**	66,575
Minor operating	**7,184**	6,331
Management fee (see Note 14(c)(i))	**2,295**	2,226
Franchise and reservation fee (see Note 14(c)(i))	**1,337**	1,064
Marketing fee	**807**	673
Other	**1,282**	1,244
	325,118	272,470

Note 21 Operating expenses

	Year ended 31 December	
	2017 £'000	2016 £'000
Salaries and related expenses	**95,483**	76,853
Franchise fees, reservation and commissions (see Note 14(c)(i))	**24,559**	20,945
Food and beverage	**17,534**	15,287
Insurance and property taxes	**17,524**	12,051
Utilities	**9,914**	8,504
Administration costs	**6,371**	5,556
Maintenance	**5,785**	4,613
Laundry, linen and cleaning	**4,494**	3,839
Supplies	**4,000**	3,188
IT expenses	**1,477**	1,367
Communication, travel and transport	**2,766**	2,299
Marketing expenses	**2,484**	1,674
Defined contribution pension premiums	**990**	943
Other expenses	**15,711**	12,372
	209,092	169,491

Note 22 Financial expenses

	Year ended 31 December	
	2017 £'000	2016 £'000
Interest and other finance expenses on bank loans	**28,186**	31,850
Interest on finance lease liability	**3,941**	1,112
Foreign exchange differences, net	**–**	697
Other	**127**	399
	32,254	34,058
Less – borrowing costs capitalised	**(288)**	(6,838)
	31,966	27,220

Note 23 Financial income

	Year ended 31 December 2017 £'000	2016 £'000
Income from Park Plaza County Hall London units	**515**	–
Foreign exchange differences, net	**454**	–
Interest on bank deposits	**203**	210
Interest from related parties (see Note 29(b))	**–**	1,128
Adjustment to fair value on derivative financial instruments (see Note 30(e))	**112**	155
Gain from marketable securities	**124**	–
Interest and other financial income from jointly controlled entities (see Note 29(b))	**407**	415
Interest and other financial income from associates (see Note 29(b))	**–**	651
	1,815	2,559

Note 24 Other income and expenses
a. Other expenses

	Year ended 31 December 2017 £'000	2016 £'000
Capital loss on buy back of Income Units previously sold to private investors	**721**	372
Loss upon fair value adjustment of the previously held interest in the Croatian acquisition		712
Reclassification to the income statement of foreign exchange results of the previously held interest in the Croatian acquisition		250
Reclassification to the income statement of hedging results upon refinancing and cancelling hedge accounting		15,586
Other refinance expenses	**522**	7,811
Restructuring expenses		720
Pre-opening expenses	**260**	1,744
	1,503	27,195

b. Other income

	Year ended 31 December 2017 £'000	2016 £'000
Gain from bargain purchase in the acquisition of Arena	**–**	27,157
Income from forfeited deposits	**–**	6,543
Capital gains[1]	**1,351**	–
	1,351	33,700

[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 2017 £'000	2016 £'000
Guaranteed return (see Note 2(k)(v))	**963**	967
Variable return (see Note 2(k)(v))	**11,556**	11,751
Reimbursement of depreciation expenses (see Note 2(k)(v))	**(2,194)**	(2,208)
Change in expected cash flow income swaps (see Note 7)	**341**	170
	10,666	10,680

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 26 Income taxes

a. Tax (expense) benefit included in the income statement

	Year ended 31 December	
	2017 £'000	2016 £'000
Current taxes	**(3,313)**	32
Deferred taxes	**1,565**	(94)
	(1,748)	(62)

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 £'000	Property, plant and equipment and intangible assets £'000	Total £'000
Balance as at 1 January 2016	1,688	(9,716)	(8,028)
Amounts charged to income statement	(618)	524	(94)
Addition upon acquisition of Arena	651	(378)	273
Adjustments for exchange rate differences	61	(844)	(783)
Balance as at 31 December 2016	1,782	(10,414)	(8,632)
Amounts charged to income statement	1,992	(72)	1,920
Change in tax rate	–	(355)	(355)
Adjustments for exchange rate differences	–	(180)	(180)
Balance as at 31 December 2017	**3,774**	**(11,021)**	**(7,247)**

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

	Year ended 31 December	
	2017 £'000	2016 £'000
Deferred tax assets	**147**	713
Deferred tax liabilities	**(7,394)**	(9,345)
	(7,247)	(8,632)

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	
	2017 £'000	2016 £'000
Profit before income taxes	**31,697**	38,219
Expected tax at the tax rate of the United Kingdom 20%* (2016: The Netherlands 25%)	**(6,339)**	(9,555)
Adjustments in respect of:		
Effects of other tax rates	**8,014**	8,016
Non-deductible expenses	**(1,448)**	(945)
Utilisation of carried forward losses and temporary differences for which deferred tax assets were not previously recorded	**1,461**	884
Timing differences for which no deferred tax asset was recorded	**(411)**	(878)
Non-taxable income	**448**	7,577
Unrecognised current year tax losses	**(2,563)**	(5,468)
Other differences (including change in tax rate of deferred taxes)	**(910)**	307
Income tax (expense) benefit reported in the income statement	**(1,748)**	(62)

* In 2017 the tax rate that was used is the tax rate of the United Kingdom, since the majority of the tax exposure is in this tax jurisdiction. Before that the tax rate of the Netherlands was used, given the majority of the exposure through the Netherlands.

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% (2016: 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% (2016: 20%).

e. Losses carried forward for tax purposes

The Group has carried forward losses for tax purposes estimated at approximately £131 million (2016: £121 million). The Group did not establish deferred tax assets in respect of losses amounting to £118 million (2016: £117 million) of which tax losses amounting to £10 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.

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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	
	2017 £'000	2016 £'000
Profit attributable to equity holders of the parent	**24,271**	35,117
Weighted average number of ordinary shares outstanding	**42,249**	42,173

Potentially dilutive instruments 127,312 in 2017 (2016: 227,000) 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 2017						
	The Netherlands £'000	**Germany and Hungary £'000**	**United Kingdom £'000**	**Croatia £'000**	**Management £'000**	**Holding companies and adjustments* £'000**	**Consolidated £'000**
Revenue							
Third party	**47,323**	**30,720**	**185,780**	**56,303**	**4,992**	**–**	**325,118**
Inter-segment	**–**	**–**	**–**	**–**	**37,387**	**(37,387)**	**–**
Total revenue	**47,323**	**30,720**	**185,780**	**56,303**	**42,379**	**(37,387)**	**325,118**
Segment EBITDA	**13,285**	**4,345**	**60,464**	**18,670**	**10,540**	**–**	**107,304**
Depreciation, amortisation and impairment							**(34,288)**
Financial expenses							**(31,966)**
Financial income							**1,815**
Net expenses for liability in respect of Income Units sold to private investors							**(10,666)**
Other income, net							**(152)**
Share in loss of associate and joint ventures							**(350)**
Profit before tax							**31,697**

	The Netherlands £'000	**Germany and Hungary £'000**	**United Kingdom £'000**	**Croatia £'000**	**Holding companies and adjustments* £'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.

Note 28 Segments continued

	Year ended 31 December 2016						
	The Netherlands £'000	Germany and Hungary £'000	United Kingdom £'000	Croatia £'000	Management £'000	Holding companies and adjustments* £'000	Consolidated £'000
Revenue							
Third party	48,342	24,978	148,692	46,089	4,369	–	272,470
Inter-segment	–	–	–	–	24,838	(24,838)	–
Total revenue	48,342	24,978	148,692	46,089	29,207	(24,838)	272,470
Segment EBITDA	14,637	908	51,147	16,764	10,679	–	94,135
Depreciation, amortisation and impairment							(25,330)
Financial expenses							(27,220)
Financial income							2,559
Net expenses for liability in respect of Income Units sold to private investors							(10,680)
Other income, net							6,505
Share in loss of associate and joint ventures							(1,750)
Profit before tax							38,219

* Consist of inter-company eliminations. For further details, see Note 14(c)(i).

	The Netherlands £'000	Germany and Hungary £'000	United Kingdom £'000	Croatia £'000	Holding companies and adjustments* £'000	Consolidated £'000
Geographical information						
Non-current assets[1]	183,784	25,508	712,338	145,732	27,498	1,094,860

[1] Non-current assets for this purpose consists of property, plant and equipment and intangible assets.

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Note 29 Related parties

a. Balances with related parties

	As at 31 December	
	2017 £'000	2016 £'000
Loans to joint ventures	**17,582**	17,045
Short-term receivables	**669**	178
Construction liability WW Gear Construction Limited	**958**	5,155

b. Transactions with related parties

	Year ended 31 December	
	2017 £'000	2016 £'000
Construction charges – WW Gear Construction Limited (see (i) below)	**15,908**	51,099
GC Project Management Limited	**3,700**	–
Interest from associate – WH/DMREF Bora B.V.[1]	**–**	651
Interest from Red Sea Hotels Limited[2]	**–**	1,128
Interest income from jointly controlled entities	**407**	415

1 For details see Note 6.
2 This relates to a receivable with a nominal value of Thai Baht 600 million relating to the disposal of the site in Pattaya, Thailand. The loan was paid during 2016.

c. Significant other transactions with related parties

(i) On 18 June 2014, Waterloo Hotel Holding B.V. entered into a building contract with WW Gear Construction Limited ('Gear'), a related party, for the design and construction of Park Plaza London Waterloo on a 'turn-key' basis. The basic contract price payable to Gear was approximately £70.5 million for 494 rooms.

On 1 August 2014, Riverbank Hotel Holding B.V. entered into a building contract with Gear for a six-storey extension to Park Plaza London Riverbank. The basic contract price payable to Gear was approximately £24.7 million for the 148-room extension.

On 23 December 2014, Park Royal entered into a building contract with Gear for the construction of the 166-room Park Plaza London Park Royal. The basic contract price payable to Gear was approximately £16.5 million. On 4 February 2016, the parties agreed to vary the agreement to incorporate additional works, extend the completion date and increase the contract sum. The additional works included an extra 44 rooms, a new access road and reinstatement of a higher specification, amongst others. In addition, the basic contract price was increased to approximately £24.4 million.

In June 2016, Riverbank Hotel Holding B.V. entered into a building contract with Gear for refurbishment works to the existing public areas at Park Plaza London Riverbank. The basic contract price under the building contract was approximately £6.7 million.

The Directors of the Company are of the opinion that the aforementioned building contracts were entered into on arm's length terms and are in the interests of the Group. Gear is a company in whose shares the Chairman of the Company and certain members of his family are interested. Under the relationship agreement entered into between Euro Plaza Holdings B.V. ('Euro Plaza'), the principal shareholder of the Company (in whose shares the Chairman and certain members of his family are interested) and the Company, transactions between the Company and Euro Plaza (and its associates, which include Gear) are required to be on arm's length terms.

(ii) In September 2016, the Company received the amounts outstanding in a loan to Red Sea Hotels Limited, due from the disposal of the project in Pattaya, in the amount of Thai Baht 600 million.

(iii) The Group has engaged Gear to provide certain pre-construction and project management services in connection with the ongoing refurbishments and major renovations across the Group's hotels in the UK and the Netherlands. The total fees paid in 2017 was £3.7 million.

Note 29 Related parties continued

c. Significant other transactions with related parties continued

(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 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**

Directors' interests in employee share incentive plan

As at 31 December 2017, the Executive Directors held no share options to purchase ordinary shares.

(vi) Compensation to key management personnel (Executive and Non-Executive Board members) for the year ended 31 December 2016:

	Base salary and fees £'000	Bonus	Pension contributions £'000	Other benefits £'000	Total £'000
Chairman and Executive Directors	726	291	145	89	1,251
Non-Executive Directors	151	–	–	–	151
	877	291	145	89	1,402

Directors' interests in employee share incentive plan

As at 31 December 2016, the Executive Directors held share options to purchase 70,000 ordinary shares. All options were fully exercisable with an exercise price of £2.33. No share options were granted to Non-Executive members of the Board.

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						
	1 January 2017 £'000	**Cash flows £'000**	**Fair value through P&L**	**Foreign exchange movement £'000**	**New leases/loans £'000**	**Other £'000**	**31 December 2017 £'000**
Non-current interest-bearing loans and borrowings	**642,120**	**(21,806)**	**–**	**8,213**	**33,338**	**5,021**	**666,936**
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)**	**32,947**
	916,984	**(114,195)**	**(112)**	**9,045**	**213,276**	**(1,058)**	**1,023,940**

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 has two variable interest rate loans that are not hedged with interest rate swaps. Based on a sensitivity analysis calculation, management estimates that with an increase (decrease) of the three-month market (LIBOR) interest rate by 50 bps the results of the Group would be changed by £0.2 million.

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 2017 amounts to a liability of £590 thousand (2016: liability of £1.2 million). The Group performed a sensitivity analysis for the effect of market interest rate changes on the fair value of the swaps which was calculated by an external valuator. Based on this sensitivity analysis calculation, management estimates that with an increase (decrease) of the three-month market interest rate by 50 bps, the fair value of the swaps and the hedge reserve in equity would increase (decrease) by £0.1million (2016: €0.1million) with no material impact on profit or loss.

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 2017 and 2016 based on contractual undiscounted payments.

	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[3]	**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[2]	**1,755**	**5,264**	**7,019**	**14,039**	**636,274**	**664,351**
Trade payables	**12,843**	**–**	**–**	**–**	**–**	**12,843**
Other liabilities	**23,971**	**21,579**	**–**	**–**	**14,933**	**60,483**
	55,594	**76,264**	**64,977**	**123,966**	**1,521,843**	**1,842,644**

	As at 31 December 2016					
	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]	35,660	106,981	44,899	94,670	702,960	985,170
Deposits received in respect of Income Units sold to private investors	–	–	–	–	79	79
Financial liability in respect of Income Units sold to private investors[3]	3,125	9,375	12,500	37,500	133,983	196,483
Derivative financial instruments	164	492	656	–	–	1,312
Loans from third parties	–	–	–	–	–	–
Lease liability[2]	355	1,064	1,419	2,839	218,518	224,195
Trade payables	10,780	–	–	–	–	10,780
Other liabilities	22,195	21,766	–	–	15,932	59,893
	72,279	139,678	59,474	135,009	1,071,472	1,477,912

1 See Note 15 for further information.

2 Lease liability includes three leases with upward rent reviews based on future market rates in one lease and changes in the Consumer Price 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 Waterloo where the amounts included 50 years of future payments, regarding the lease of Waterloo hotel 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.

3 Presented according to discounted amount due to the variability of the payments over the balance of the 999-year term.

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 60% and 70%. 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.

	2017 £'000	2016 £'000
Interest-bearing bank loans and borrowings	**669,884**	760,411
Less – cash and cash equivalents	**(241,021)**	(144,732)
Less – long term restricted cash	**(500)**	(5,235)
Less – short-term restricted cash	**(25,561)**	(25,512)
Less – investments in marketable securities	**(24,711)**	–
Net debt	**408,091**	584,932
Equity	**440,938**	330,202
Hedging reserve	**302**	895
Total capital	**441,240**	331,097
Capital and net debt	**849,331**	916,029
Gearing ratio	**48.0%**	63.9%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

Note 30 Financial risk management objectives and policies continued

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.

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.

Note 30 Financial risk management objectives and policies continued

e. **Fair value of financial instruments** continued

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	–

During 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.

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	–

As at 31 December 2016, the Group held the following financial instruments measured at fair value:

Liabilities

	31 December 2016 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Interest rate swaps used for hedging	1,205	–	1,205	–

During 2016, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

Note 30 Financial risk management objectives and policies continued

e. **Fair value of financial instruments** continued

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	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Financial assets				
Other non-current financial assets*	**18,295**	18,464	**18,295**	18,464
Financial liabilities				
Bank borrowings*	**699,884**	760,411	**706,361**	767,379
Lease liability*	**182,962**	21,355	**199,174**	39,698

* Based on Level 2 inputs.

f. **Derivative financial instruments**

The majority of the Group's borrowings are at variable interest rates based on LIBOR or EURIBOR. To limit its exposure to changes in the rates of LIBOR and EURIBOR on its cash flows and interest expense, the Group has entered into various interest rate swaps, as described below. The Company meets the relevant criteria in IAS 39 to apply hedge accounting and the fair value changes of swaps in the hedge relationship that are determined to be effective are recorded in other comprehensive income. All fair value movements that are determined to be ineffective are recorded in profit and loss.

In 2004, Laguna Estates (Leeds) Limited ('Laguna') and Katmandu Limited entered into an interest rate swap according to which they swapped the variable interest rate as follows:

Laguna swapped the variable interest rate of three-month LIBOR on a loan of £15.0 million received from the Royal Bank of Scotland plc, bearing fixed quarterly interest payments, at the rate of 5.13% for the period until January 2019. As at 31 December 2017, the fair value of the swap is estimated at a liability of £0.7 million (2016: £1.3 million).

The change in fair value and recorded in the other comprehensive income amounts to £0.5 million (2016: £0.2 million). The total amount of ineffectiveness recorded in the income statement amounts to £5 thousand (2016: £1 thousand).

Note 31 Subsequent events

Acquisition of Joint Venture interest in London

On 23 January 2018, a member of the Group exchanged contracts to acquire from its joint venture partner its fifty percent interest in its joint venture company, Aspirations Limited ('Aspirations'), for a consideration of £35 million (subject to working capital adjustments to be made on completion). Aspirations owns the site located by Old Street, Rivington Street, Great Eastern Street and Bath Place, London EC1 on which it plans to develop art'otel london hoxton. The Company initially entered into this joint venture in 2008 by investing £11.0 million for its fifty percent interest. This acquisition will be funded through the Group cash resources. The acquisition will enable the Company to control the timetable for construction and hence construction of a mixed-use scheme consisting of the 318 room art'otel london hoxton, office and commercial space and ancillaries are now expected to commence in the second quarter of 2018. The purchase is expected to be completed by the end of March 2018.

APPENDICES

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
PPHE Club 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
Golden Wall Investment 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	49.56
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
Westminster Bridge Holdings B.V. (dissolved)	Holding company	Netherlands	100
Westminster Investments B.V. (formerly known as PPHE Arena Operator B.V. and dissolved)	Holding company	Netherlands	100
Park Plaza Hotels Europe Holdings B.V.	Holding company	Netherlands	100
Suf Holding B.V.	Holding company	Netherlands	100
PPHE Zagreb d.o.o	Hotel operation	Croatia	100
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
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
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

Name of company	Principal activity	Country of incorporation	Direct and indirect holdings %
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
Victoria London Hotel Holding B.V. (dissolved)	Holding company	Netherlands	100
County Hall Holdings B.V.	Holding company	Netherlands	100
Park Plaza Nürnberg GmbH	Hotel operation	Germany	51.97
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 mbH	Hotel operation	Germany	51.97
SW Szállodaüzemeltet Kft	Hotel operation	Hungary	51.97
Twenty-Eight B.V. (formerly known as W2005/ Twenty-Eight B.V.)	Holding company	Netherlands	100

SUBSIDIARIES INCLUDED IN THE GROUP CONTINUED

Name of company	Principal activity	Country of incorporation	Direct and indirect holdings %
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
Dvadeset Devet d.o.o. (formerly known as W2005/ Dvadeset Devet 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
Aspirations Limited[2]	Holding company	British Virgin Islands	50

1 Indirectly held through Arena Hospitality Group d.d.

2 On 24 January 2018, the Group announced that it had exchanged contracts to acquire from its joint venture partner its fifty percent interest in Aspirations Limited, resulting in the Group holding a one hundred percent interest. This acquisition is expected to complete by the end of March 2018.

GLOSSARY

A

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.

Arena Hospitality Group d.d: 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 27 owned, co-owned, leased and managed properties with more than 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.

Arena Hotels & Apartments: Is 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

ARR: Average room rate. Total room revenue divided by number of rooms sold.

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

artotels.com: Brand website for art'otel.

B

Board: Eli Papouchado (Non-Executive Chairman of the Board), Boris Ivesha (President & Chief Executive Officer), Daniel Kos (Chief Financial Officer & Executive Director), Kevin McAuliffe (Non-Executive Director & Senior Independent Director), Chen Moravsky (Non-Executive Director), Dawn Morgan (Non-Executive Director) and Nigel Jones (Non-Executive Director).

C

CAGR: Compound Annual Growth Rate; the year-on-year growth rate of an investment over a specified period of time.

Carlson Hotels: One of the largest hotel companies in the world. Hotel brands owned by Carlson Hotels are Quorvus Collection, Radisson Blu®, Radisson®, Radisson Red®, Park Plaza®, Park Inn® by Radisson and Country Inns & Suites By Radisson. Carlson Hotels was acquired by HNA Tourism Group in 2016.

Carlson Rezidor Hotel Group: Created in early 2012, the Carlson Rezidor Hotel Group is one of the world's largest hotel groups. The portfolio of the Carlson Rezidor Hotel Group includes more than 1,440 hotels in operation and under development, located across 115 countries and territories, operating under global hotel brands. HNA Tourism Group is the majority shareholder of the Carlson Rezidor Hotel Group.

Club Carlson℠: The hotel rewards programme of Carlson Hotels, including Park Plaza® Hotels & Resorts and art'otel®. The programme is owned by Carlson Hotels. Gold Points® is the name of the currency earned through the Club Carlson℠ programme. www.clubcarlson.com

Company: PPHE Hotel Group Limited, a Guernsey incorporated company listed on the Main Market of the London Stock Exchange plc.

E

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.

EBITDA: Earnings before interest, tax, depreciation and amortisation.

EBITDA margin: EBITDA divided by total revenue.

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.

GLOSSARY CONTINUED

F

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.

G – L

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.

LSE: London Stock Exchange. PPHE Hotel Group shares are traded on the standard listing segment of the Official List of the UK Listing Authority.

M – O

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.

Occupancy: Total occupied rooms divided by net available rooms or RevPAR divided by ARR.

P

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 Carlson Hotels. PPHE Hotel Group has the exclusive right to develop the brand across 56 countries in Europe, the Middle East and Africa.
www.parkplaza.com

PPHE Hotel Group: PPHE Hotel Group is also referred to as the Group and is an international hotel group that owns, co-owns, leases, develops, manages and franchises full-service upscale, upper upscale and lifestyle hotels primarily in Europe. The majority of the Group's hotels operate under the Park Plaza® Hotels & Resorts brand (part of Carlson Hotels), over which the Group has exclusive rights in 56 countries in Europe, the Middle East and Africa, or art'otel®, a brand which the Group fully owns.
www.pphe.com

Q – Z

Responsible business: PPHE Hotel Group's Responsible business strategy is a genuine, active and responsible commitment to our environment and society.

RevPAR: Revenue per available room. Total rooms revenue divided by net available rooms or ARR x occupancy %.

CURRENT AND COMMITTED PROJECTS

Project	Location	Operating structure	No. of rooms	Status
Park Plaza London Riverbank reconfiguration	London, United Kingdom	Owned and management contract	Up to 40	Expected to be completed 2018
art'otel london hoxton	London, United Kingdom	Owned and management contract	318	Expected to open 2022
art'otel london battersea power station	London, United Kingdom	Management contract	160	Expected to open 2022

CONTACTS

Directors

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

luminous

Consultancy, design and production
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HOTEL GROUP

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