UNIQUE IN OUR APPROACH

ANNUAL REPORT AND ACCOUNTS 2016

pphe HOTEL GROUP

WHO WE ARE

We are an international hospitality company, with a strong asset base and access to, and ownership of, the world-class Park Plaza® and art'otel® brands.

WHAT WE DO

Our vision is to realise our growth potential and our primary objective is to create and realise shareholder value by becoming one of the leading hospitality companies in the upscale and 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, managed, leased and franchised hotels comprises 40 hotels offering a total of over 9,200 rooms. Our development pipeline includes two new art'otels in London. Our core markets are the United Kingdom, the Netherlands, Germany and Croatia.

FRONT COVER IMAGE: PARK PLAZA LONDON WATERLOO

UNIQUE

IN OUR APPROACH

UNIQUELY PPHE HOTEL GROUP

/

2016
OPENINGS &
RENOVATIONS

OPEN

PARK PLAZA NUREMBERG
GERMANY

Opening of brand new 177-room hotel in the heart of the city

PARK PLAZA LONDON RIVERBANK
UNITED KINGDOM

Completed extension, increasing the room count by 155 rooms

BA BEEF CLUB
PARK PLAZA NUREMBERG

Launched new destination restaurant and bar in Nuremberg

CHINO LATINO®
PARK PLAZA LONDON RIVERBANK

To maximise the views of the Houses of Parliament, we relocated the Chino Latino® restaurant to a prominent position on the first floor

PARK PLAZA LONDON WATERLOO
UNITED KINGDOM

Soft opening of 494-room hotel near Waterloo Station

ESPRESSAMENTE ILLY
PARK PLAZA LONDON WATERLOO

Opened espressamente illy

ART'OTEL BERLIN MITTE
GERMANY

Completed extensive renovation programme

UPSIDE DOWN BAR
ART'OTEL BERLIN MITTE

Launched new bar in Berlin

PARK PLAZA ARENA PULA
CROATIA

Extended the hotel's inventory with six additional suites

PARK PLAZA VICTORIA LONDON
UNITED KINGDOM

Completed room renovation programme

2016 HIGHLIGHTS / OUR PERFORMANCE

£272.5m
+24.6% TOTAL REVENUE

£94.1m
+17.5% EBITDA

£103.0m
+16.4% EBITDAR

£84.4
(8.2)% REVPAR[1]

£111.0
+1.8% AVERAGE ROOM RATE[1]

76.0%
(830)BPS OCCUPANCY[1]

£31.7m
+6.4% NORMALISED PROFIT BEFORE TAX[2]

£38.2m
+36.2% REPORTED PROFIT BEFORE TAX

34.5%
(210)BPS EBITDA MARGIN[3]

£0.68
(3.8)% NORMALISED EARNINGS PER SHARE

£0.83
+19.0% REPORTED EARNINGS PER SHARE

£1.21
DIVIDEND PER SHARE[4]

1 Revenue per available room, average room rate and occupancy were all impacted by our first time consolidation of our Croatian operation.
2 See page 44.
3 EBITDA divided by total revenue.
4 Including an interim dividend of 10p per share, a special dividend of £1.00 per share and a proposed final dividend of 11p per share.

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UNIQUELY PPHE HOTEL GROUP
/
INNOVATIVE

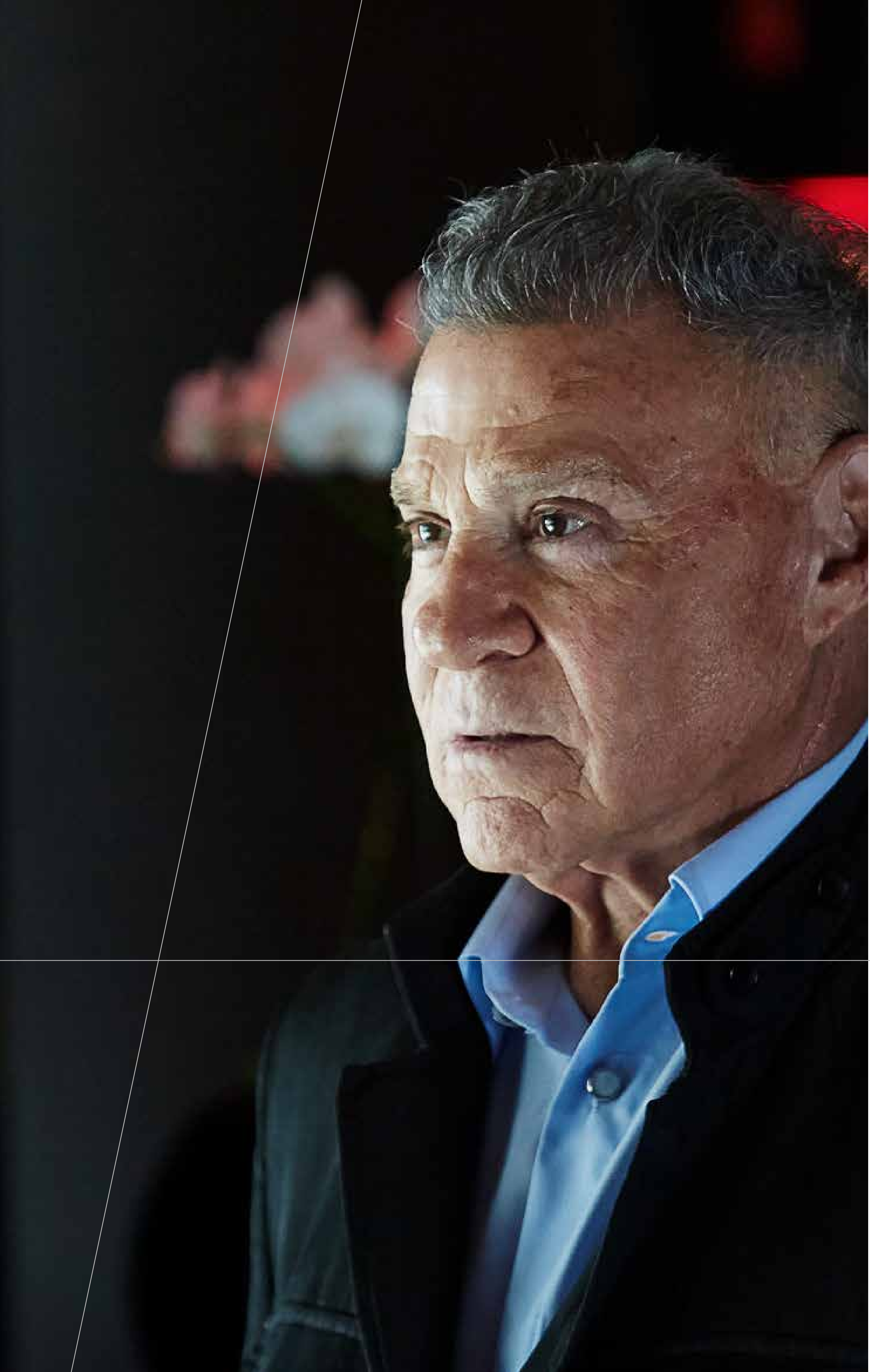
BRIGHT MINDS BOLD MOVES

ELI PAPOUCHADO
CHAIRMAN

PARK PLAZA LONDON RIVERBANK

EXTENDING, RENOVATING AND REMAINING OPEN

Despite many years of experience of developing and renovating our hotels, I am particularly proud of the project undertaken at Park Plaza London Riverbank which demonstrates our ability to maximise value from our assets. The property was constructed in 2005, offering 461 guest rooms and extensive meeting and events space. With property values rising in London, and fierce competition for buildings and land, we looked to realise latent value by extending the building. We undertook extensive negotiations with the planning authority and carefully planned the work to ensure the hotel could continue to trade. It was important to maintain revenue and even more important to ensure guest satisfaction during the extension works. The result is the provision of six additional floors to the building and the increase of our room count to 616. In addition, we have created a stunning restaurant and bar space overlooking the River Thames, and a prestigious executive lounge on the 12th floor with stunning panoramic views from Battersea to the Houses of Parliament. In 2017, we expect to further increase the number of rooms through a reconfiguration project at Plaza on the River and renovate our existing suites and the hotel's reception area whilst remaining operational for our guests.



UNIQUELY PPHE HOTEL GROUP
/
GROWTH

ACQUISITION

EXPA

77.09%

Our new ownership
interest in Arenaturist

NSION

FUTURE EXPANSION

Having operated the Arenaturist portfolio in Croatia since 2008 with a minority interest, we took our partnership to the next level in 2016 by becoming the controlling shareholder. In recent years, with the support of the Arenaturist team, we have truly transformed Arenaturist. EBITDA has continued to grow year-on-year and we have introduced the Park Plaza® brand to Croatia by extensively renovating and branding several Arenaturist hotels. Arenaturist's business model has been strengthened with the transfer of our German and Hungarian operations, further transforming the company into a year-round dynamic international hospitality company. We have ambitious growth plans for Arenaturist, both organically by investing in the existing portfolio and through external growth.

UNIQUELY PPHE HOTEL GROUP
/
PASSION TO PERFORM

WORLD CLASS

A RICHER EXPERIENCE

Customer needs have changed dramatically in recent years, largely driven by new technologies. Gone are the days when customers were looking for largely standardised offerings – the ordinary is out and customers are looking for unique and authentic experiences. At PPHE Hotel Group, we have always recognised that we should offer something that is different: different in the design, in the service philosophy or in our overall offering. Particularly when it comes to our restaurant and bar offerings, we work hard to provide our guests with a memorable experience. With several of our hotels in prime locations, we have further raised the bar by introducing destination bars and restaurants, aimed at a local audience. In 2016, we further strengthened our offering by relaunching Chino Latino® at Park Plaza London Riverbank, and launching the BA Beef Club at Park Plaza Nuremberg and the Upside Down Bar at art'otel berlin mitte. Looking ahead, we will continue to diversify our offering, ensuring that our products appeal to local markets as well as provide our guests with a truly memorable experience.

WHAT MATTERS MOST

UNIQUELY PPHE HOTEL GROUP
/
TAILORED TO YOU

SATISFIED GUESTS

With new openings and renovation projects completed, and several more to come during 2017 and 2018, we are in the middle of the largest renovation and development programme in our history. The common thread that runs throughout this programme is our focus on providing quality. Our expert teams have a constant drive to improve the overall quality of our offering in both service and product and we have once again improved year-on-year. We measure our performance across a number of metrics, the most important of which is guest satisfaction. In 2016, we set a new record in both guest satisfaction and service. We are confident that pursuing our extensive planned renovation programme in existing hotels, as well as our ongoing investment in learning and development initiatives, will continue to improve our guest satisfaction levels, enhance our reputation and generate repeat stays.

UNIQUELY PPHE HOTEL GROUP
/
THRIVING LOCATIONS

LON
CA

ADDING MORE THAN 900 ROOMS IN LONDON BETWEEN 2016 AND 2017

These are exciting years for our Group, as we are well on target to increase our number of rooms in London by more than 900. Once these projects are complete, we will have over 3,100 rooms in the capital with further projects in our pipeline.

DON
LLING

AN INTERVIEW WITH BORIS IVESHA
PRESIDENT & CHIEF EXECUTIVE OFFICER, PPHE HOTEL GROUP

Q 2016 has seen a great deal of progress in developments for PPHE Hotel Group within the London marketplace. Can you explain further how the Park Plaza® brand in particular has grown over the past few months and its plans for 2017?

A Park Plaza® is a contemporary upscale and upper upscale brand, with the brand's largest hotel being the iconic Park Plaza Westminster Bridge London (1,019 rooms). The latest London new arrival was Park Plaza London Waterloo, which had its soft opening in the fourth quarter of 2016, and we completed a major extension at Park Plaza London Riverbank. These hotels will shortly be joined by Park Plaza London Park Royal (early 2017). By the end of 2017, our London portfolio will have grown substantially to a total of eight properties, making Park Plaza® one of the largest international upscale and upper upscale brands in the capital, and we have worked with local academies, job centres and councils to fill almost 300 jobs available within these new properties.

Q London remains one of the world's most visited cities. With operators continuing to open new brands and concepts at competitive prices, how do you see Park Plaza® competing?

A The two new openings and the completion of the extension and reconfiguration project will increase the brand's room count to 3,158 within the M25, making it one of the largest international hotel concepts in the capital. London remains a global destination, be it domestic, international, leisure, corporate or events, and provides some of the highest quality products and services. We relish the challenge this offers as operators to keep ahead of our competitors with new creative designs and offerings. London's tourism makes a substantial contribution to the economy and through our London hospitality and tourism partners, we are recognised as a brand which is continuing to invest in London.

Q art'otel amsterdam was your most recent opening under PPHE Hotel Group's wholly owned art'otel® brand; what plans do you have to introduce the design-led concept into the London market?

A 2015 saw us sign a Hotel Management Agreement with Battersea Power Station Development Company (BPSDC) to open a 160-bedroom lifestyle hotel with London skyline views. Expected to open in 2019, we have been busy progressing our pre-opening programme with BPSDC and will soon be announcing the interior designer with whom we will closely work with to develop design concepts and toolkits for guestrooms and public areas along with a destination-led restaurant and bar which overlooks the iconic chimneys. Together with a site in Hoxton, east London, we expect to add a further 500 rooms in London by the end of 2019.

Q PPHE Hotel Group has opened a number of properties in areas of London which may have appeared less favourable in the past years, such as King's Cross in 1999 and Victoria in 2001 – what was your thinking behind developing in these areas?

A London is one of the most diverse and fast paced cities in the world. Unfashionable areas such as Brixton, Peckham and King's Cross have now been transformed over just a few years into vibrant centres of culture, with highly attractive residential and leisure offerings. As a company we take pride in opening hotels, restaurants and bars in areas that may be on the cusp of exciting new inner city journeys and our development pipeline recognises this.

Q PPHE Hotel Group works with a number of consumer brands such as espressamente illy and Mandara Spa; do you have a strategy for developing dedicated brand partnerships, in particular as part of the London opening programme?

A We are hoteliers at our core. Unrivalled service combined with world-class, unique products is our focus. We deliberately choose to collaborate with quality, specialist partners within our hotels, restaurants, bars and spas to create recognisable destinations for our local communities and frequent guests, regardless of the hotel they may be in.

> “THE PARK PLAZA® BRAND HAS BECOME ONE OF THE LARGEST INTERNATIONAL UPSCALE AND UPPER UPSCALE BRANDS IN THE CAPITAL”

CHAIRMAN'S STATEMENT / CREATING AND REALISING SHAREHOLDER VALUE

UNIQUELY PLACED

2016 has been another exciting year for the Group. We continued to make significant progress towards our vision of realising our growth potential and creating long-term value for our shareholders.

Our performance during the year was in line with the Board's expectations.

Alongside our focus on operating a successful business and delivering exemplary service to our guests, we undertook several corporate activities to re-shape our Group and position it for future growth and success.

The Group's acquisition of a controlling interest in our Croatian operation, Arenaturist d.d. ('Arenaturist'), provides us with the opportunity to develop Arenaturist into a dynamic Central and Eastern European leisure and hospitality company, owning and managing its own assets and those of others primarily under the Park Plaza® brand.

Progress has continued on the expansion of our portfolio. We opened Park Plaza Nuremberg in the third quarter of the year, and had the soft opening of Park Plaza London Waterloo and completed the extension of Park Plaza London Riverbank in the fourth quarter. We have been working hard on our development projects in London which, in total, will add over 900 rooms to our London inventory once these projects are complete.

During the first six months of the year, the Group took advantage of favourable capital market conditions and successfully refinanced the majority of its assets, equating to just under 75% of the total outstanding borrowings. Following the debt restructuring, the Board approved the payment of its first special dividend of £1.00 per share in August 2016, returning £42.2 million of excess cash reserves to shareholders. This was in line with the Group's strategy to create and realise shareholder value.

The Board is proposing the payment of a final dividend of 11 pence per share which, together with the interim dividend of 10 pence per share paid on 7 October 2016, brings the total ordinary dividend for the year ended 31 December 2016 to 21 pence per share. Combined with the special dividend payment, a total of £51 million is expected to be returned to shareholders for the 2016 financial year.

I would like to take this opportunity to thank all members of the Board for their contribution, guidance and support during what has been a very busy year. Dawn Morgan joined the Board in May 2016 as a Non-Executive Director. Dawn is a Chartered Accountant and former Finance Director and Company Secretary of International Energy Group, and brings with her a wealth of experience.

In addition, on behalf of the Board, I would like to extend my sincere appreciation to our more than 2,700 team members around Europe who have contributed to these solid results.

Our industry continues to evolve and we remain mindful of the geopolitical environment and the uncertainties the European travel industry is currently facing. That said, we have a strong asset base and access to world-class brands and global distribution, inter-alia, through our long-standing relationship with the Carlson Rezidor Hotel Group ('Carlson Hotels'), and we pride ourselves on the high level of service provided to our guests.

We remain focused on our strategic objectives to grow our business and create long-term value for our shareholders, and we look forward to making further progress in the year ahead.

Papouchado

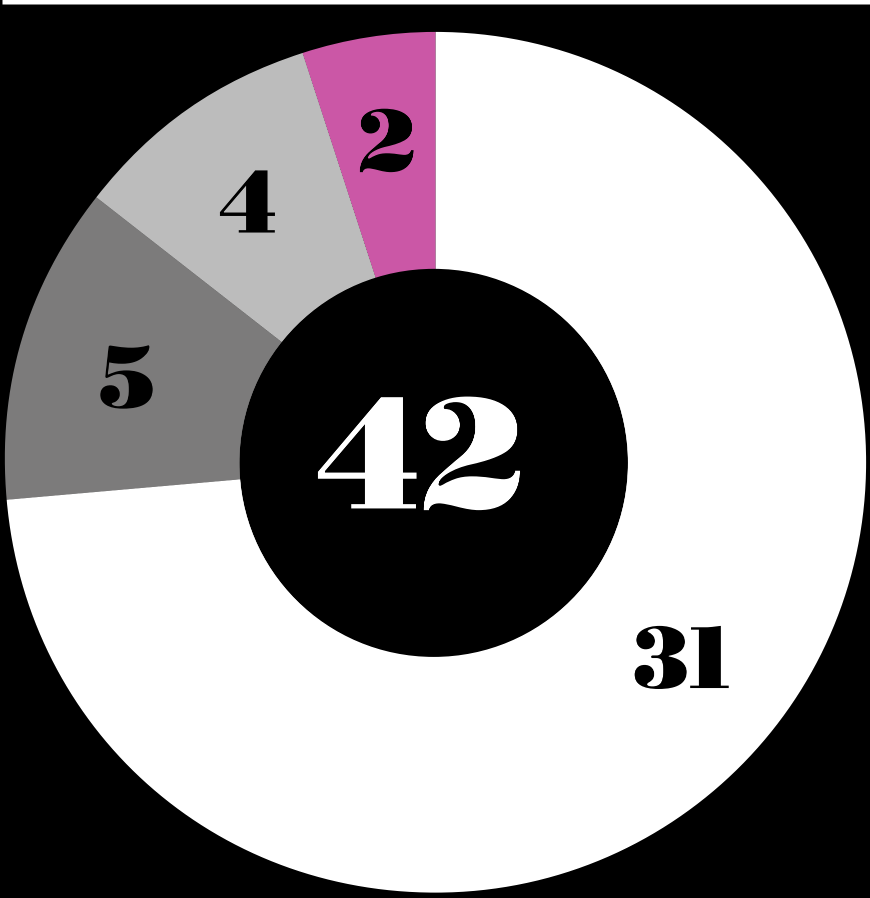
ELI PAPOUCHADO
CHAIRMAN

OUR PORTFOLIO

/

A DYNAMIC HOTEL COMPANY

OUR PORTFOLIO[1]



- 31 hotels with an ownership interest
- 5[2] hotels under operating leases
- 4 hotels under management and franchise agreements
- 2 new hotel projects

[1] The Group applies a variety of business models to its hotel portfolio through which it owns, operates, leases, franchises and develops hotels. In certain cases, the Group has a part ownership in any of these business models. For the above classification of hotels, the Group considers having control as the decisive factor.

[2] In February 2017, Arenaturist completed the acquisition of the freeholds of art'otel berlin kudamm and art'otel cologne.

CORE MARKETS

LONDON

3,158
rooms in operation

554
rooms in development

AMSTERDAM

893
rooms in operation

CROATIA

2,778
rooms in operation

BERLIN

561
rooms in operation

OUR PORTFOLIO AND BRANDS

/

Park Plaza Hotels & Resorts

Individual design, city centre locations and excellent meeting facilities are key features of the upscale and upper upscale Park Plaza® brand, making it ideal for both corporate and leisure guests. The hotels' modern function spaces are flexible for conferences, exhibitions and private event use. Park Plaza® event facilities are perfectly complemented by stylish guestrooms, award-winning restaurants and bars and a reliable service that is flawlessly delivered.

25
hotels in Europe, the Middle East and Africa

6,853
rooms in operation

art'otel

art'otels are a contemporary collection of hotels that fuse exceptional architectural style with art-inspired interiors, located in cosmopolitan centres across Europe. At the brand's core is the art itself. Each hotel displays a collection of original works designed or acquired specifically for each art'otel, rendering each 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.

6
art'otels

925
rooms in operation

ARENA TURIST

PPHE Hotel Group is the controlling shareholder in Arenaturist[1], one of Croatia's best known hospitality groups, which consists of seven hotels, four self-catering holiday apartment resorts, eight campsites and numerous food and beverage outlets, all of which are located in Istria.

Arenaturist caters primarily for tourists. All properties are located in prime locations on the coast only a short distance from either the 3,000-year-old city of Pula or the touristic town of Medulin.

11
Arenaturist hotels and self-catering holiday apartment resorts

8
Arenaturist campsites

10,000+
accommodation units in operation

[1] On 23 December 2016, the Group transferred its German and Hungarian assets to Arenaturist, as a result of which Arenaturist took control of eight hotels in Germany and Hungary. Three of these hotels are Park Plaza® branded and five hotels are part of the art'otel® brand.

WORLD-CLASS BRANDS

PRESIDENT & CHIEF EXECUTIVE OFFICER'S STATEMENT
/
A YEAR OF ACHIEVEMENT

2016 has been a busy and fulfilling year for the Group and I am pleased to announce that we have continued to report a solid performance, particularly in the second half of the year, with revenues increasing across all of our regions in Europe over the year as a whole.

Our reported total Group revenue increased by 24.6%, driven by our Croatian acquisition, contributions from new hotel openings and currency exchange rate benefit due to the devaluation of the Pound Sterling. On a like-for-like[1] basis, total revenue was up by 6.0%.

Whilst trading in some of our markets in the first half of the year was softer than expected in the build-up to the EU referendum and in the wake of various terrorist attacks, the second half of the year was more encouraging. In London we remained fully focused on optimising our revenue performance and preparing for the launch of several new hotels. Our Dutch hotels delivered a marginal improvement in revenue, reflecting slower year-on-year growth in Amsterdam than experienced in recent years due to weaker Pound Sterling impacting sentiment amongst British travellers.

[1] The 2016 like-for-like comparison figures exclude Park Plaza London Waterloo and Park Plaza Nuremberg from the dates they opened in 2016. Furthermore, the 2015 like-for-like comparison figures include the Croatian operations apart from the first quarter of 2015 and the figures from Park Plaza Prenzlauer Berg Berlin for the second half of the year.

Our strategy
We remain focused on and committed to the creation and realisation of shareholder value by becoming one of the leading hotel companies in the upscale, upper upscale, and lifestyle segments. Our strategy is built around six core objectives, details of which can be found in the 'Strategy at a glance' section of this report.

We have continued to make significant progress in 2016 against these objectives.

2016 corporate activity
Our Croatian transaction earlier this year made us the controlling shareholder in Arenaturist. Just before the year-end, we transferred our German and Hungarian assets to Arenaturist, transforming it into a year-round business with both leisure operations in Croatia as well as city centre hotels in Germany and Hungary.

Our aim is to broaden the appeal of Arenaturist and develop the company into a dynamic leisure and hospitality company with a unique business model built on owning and managing its own assets and third party assets where appropriate, primarily under the Park Plaza® brand.

In addition, this new formation brings benefits to Arenaturist and the German and Hungarian operations, such as inter-regional transfers of team members and cross-sales and marketing opportunities, with the German market being the main feeder market for Croatia.

During the year, we successfully completed the restructuring of several long-term financing facilities for most of the Group's assets in Central London and in the Netherlands on favourable terms.

The Group has in recent years adopted a progressive dividend policy and in 2016, in addition to the ordinary dividend, the Group returned £42.2 million of excess cash reserves to shareholders by way of a special dividend following the debt restructuring programme.

These corporate activities have further re-shaped our business and paved the way for future growth. More details can be found in the Deputy Chief Executive Officer & Chief Financial Officer's statement.

EVING

KEY OBJECTIVES

+24.6%

total revenue growth

£42.2m

excess cash returned to shareholders by way of special dividend

New developments
2016 was one of our most active years in terms of new development projects, with three hotel projects and a major hotel extension being progressed. Together these projects will add over 1,000 rooms to our portfolio, the vast majority of which are in the attractive London market.

The soft opening of Park Plaza London Waterloo took place at the end of the year and we look forward to all 494 rooms being operational by the second quarter of 2017. The hotel looks amazing and the feedback from our customers is highly positive.

The extension at Park Plaza London Riverbank, which added 155 new rooms, was completed during 2016. This project included, among others, a total redesign of the entrance to the hotel and the food and beverage facilities, including the relaunch of Chino Latino® which has been relocated to the first floor overlooking the River Thames. This major hotel now has more than 600 rooms. The reception in the market has been very positive and we are pleased with the result.

PRESIDENT & CHIEF EXECUTIVE OFFICER'S STATEMENT
CONTINUED

We are expecting to open Park Plaza London Park Royal in the first quarter of 2017. This 212-room hotel has been well designed and is in a great location with easy access to Central London, Wembley and London Heathrow Airport.

In Germany, we had a soft opening of Park Plaza Nuremberg in June 2016, our new vibrant hotel in the centre of the historic city. The hotel has a destination-led Bavarian American inspired restaurant, the BA Beef Club, which is receiving great reviews.

Investment in our portfolio
Through preventative maintenance and refurbishment programmes we are committed to maintaining the high standards of our existing hotels.

In Germany, renovation works were undertaken at Park Plaza Berlin Kudamm. We also relaunched art'otel berlin mitte and the new-look hotel has been well received in the market.

In the United Kingdom, partial renovations of Park Plaza Nottingham, Park Plaza Leeds and Park Plaza Victoria London were undertaken, with further renovations planned for Park Plaza Victoria London in 2017.

Looking ahead, major renovation projects are scheduled to start in 2017 at Park Plaza Vondelpark, Amsterdam, Park Plaza Utrecht and Park Plaza Sherlock Holmes London and are expected to continue in Park Plaza Victoria Amsterdam. This investment will renew and redesign these hotels to ensure they meet our high standards and further enhance each hotel's market position.

Enhanced service quality
Consistently delivering exceptional customer service remains one of the strongest differentiators within the hospitality industry. At PPHE Hotel Group we strongly believe that our team members are the cornerstone of our business, enabling us to continuously deliver exemplary service to our guests.

Our high level of service has been recognised in improvements in both guest satisfaction and service performance scores compared with those achieved in 2015, as measured through our guest satisfaction surveys. Our overall guest satisfaction score increased from 8.31 to 8.39 (on a scale of 1–10) and our service performance score increased from 8.63 to 8.71 (on a scale of 1–10), both of which are record scores for the Group. Naturally, we are proud of our teams delivering such a great result.

8.39

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

84.9%

employee engagement score (on a scale of 1–100%)

> "OUR TEAM MEMBERS ARE THE CORNERSTONE OF OUR BUSINESS"

Investing in people

Our strong guest satisfaction scores are underpinned by investment in our people through structured training and development programmes. Our ability to attract and retain a highly competent workforce who as a team are wholly aligned to the Group's mission and values has played, and will continue to play, an instrumental role in the development of the Group in today's highly competitive marketplace.

The engagement of our employees within our organisation once again improved year-on-year with 2,630 team members participating in the annual employee engagement survey (2015: 2,552 employees), representing 93% of eligible team members. The overall Employee Engagement Index for the year increased to 84.9% (2015: 84.2%), with a Loyalty Index of 71%.

As part of this survey, engagement from respondents is measured across four drivers: My Job; My Manager; Our Team; and Our Company. Once again in 2016, the best performing driver is Our Team. This survey provides us with valuable insights into where we perform well and where we can do better, and reflects increased engagement, involvement and commitment of team members.

It is essential that we have the right team in place to support our growth plans. In order to enhance our ability to attract new people into the business, we have adopted a multi-channel resourcing strategy to increase the visibility and reputation of the Park Plaza® brand and attract new talent into the business. We have developed social media engagement campaigns on our careers web site, LinkedIn and XING, utilising digital imagery of our people, culture and values. This approach is part of the recruitment drive for new team members, particularly in London where our development projects have created over 300 jobs.

To complement the efforts made so far, we will soon be launching our new Team Value Proposition for our Park Plaza® brand, which aligns the attraction and retention of talent to our brand pillars and values. This proposition has been developed to aid retention of the strong talent we have within the business, as well as position the Park Plaza® brand as an attractive proposition to prospective talent. The initiative will enable our employees to achieve career satisfaction and support the Group's growth ambitions. In 2017, we aim to undertake a similar project for the art'otel® brand.

In addition, the Group is working in partnership with The Prince's Trust to support young people from disadvantaged backgrounds by providing opportunities for them in the hospitality industry. The Group has presented its careers opportunities at The Prince's Trust 'Get Hired' events and our Team Value Proposition has been well received. This has resulted in several young people being selected to be taken through the recruitment process to join our operational teams. We are looking to strengthen the partnership further with combined apprenticeships and additional resourcing collaborations.

PRESIDENT & CHIEF EXECUTIVE OFFICER'S STATEMENT
CONTINUED

All these initiatives will support future growth of our portfolio, encourage people into careers in the hospitality industry and enable us to maintain our commitment to exemplary customer service.

Partnership with Carlson Hotels
Our strategic and long-standing partnership with Carlson Hotels, one of the world's leading hotel companies, has gone from strength to strength. The Group owns, operates and franchises hotels under multiple brands, including the Carlson Hotels owned Park Plaza® brand, for which it has a perpetual exclusive licence for certain countries in EMEA. Through our relationship with Carlson Hotels we are able to compete with the international travel industry giants whilst having the operational agility of a medium-size owner/operator.

In an ever more globalised digital world, we are able to leverage this relationship which brings us many benefits, including global distribution of our products through associated travel agents, online travel websites, global sales teams, e-commerce and powerful global customer reward schemes.

Our participation in the Club Carlson℠ loyalty scheme provides us with access to a growing database of international travellers, with membership of the scheme now in excess of 17.0 million. The scale of the scheme means our guests have significant opportunities to earn or redeem points, thereby fostering loyalty. Members of the loyalty programme are more likely to return than non-members, their loyalty score is higher and the average room rate associated with member stays is higher than with non-member stays. This, along with other marketing initiatives, enables us to increase our engagement with both existing and potential customers and drive revenue growth.

In addition, we are undertaking some brand positioning work with Carlson Hotels for the Park Plaza® brand to further carve out Park Plaza®'s niche in the competitive landscape.

During the year, Carlson Hotels Inc. was acquired by HNA Tourism Group. Following this transaction, we anticipate that the Park Plaza® brand will benefit from increased investment in technology and marketing by Carlson Hotels' new owners, as previously announced by Carlson Hotels.

Industry recognition
We are delighted to have been recognised for a number of awards within our industry. Our learning and development activities in areas such as on-boarding of new team members were recognised with an 'HR in Hospitality Award' in the category 'Embedding Company Culture'. We see this as an important recognition as our company culture and strong service focus are what helps us to differentiate within the industry.

Many of our hotels also received a 'Certificate of Excellence 2016' from TripAdvisor, which demonstrates that our hotels are generating positive reviews by guests staying with us. Such recognition will help attract new customers.

Supporting the community
During the year the Group has supported and raised funds for the World Childhood Foundation, Breast Cancer Care, the Pink Ribbon Foundation, Nottinghamshire Wildlife Trust and StreetSmart SleepSmart.

Our people

On behalf of the Board, I would 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 grateful for your hard work, professionalism and enthusiasm.

At the same time we would like to welcome all new team members who have joined our Group. We believe that we have fantastic hotels and the right people and are confident that we will succeed together.

Current trading and outlook

The improved market conditions experienced in the second half of 2016 have continued into 2017 and we expect to take advantage of such conditions, particularly as we benefit from our new room inventory in London and Nuremberg where our market position will be strengthened significantly. Trading in the year to date is in line with the Board's expectations in all markets.

We will continue to invest in our existing portfolio with extensive renovations at several of our hotels in London and the Netherlands to ensure that our hotels continue to improve on their strong market positions. As previously indicated, once renovations commence we anticipate reduced capacities and a short-term impact on revenue due to temporary closures of rooms and public areas. Whilst these programmes may negatively impact revenue in the short term, we believe that this investment will have a positive impact on our longer-term results and strengthen our position in the markets in which we operate.

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.

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, but also lease, manage and franchise properties.

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

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

OUR BUSINESS MODEL AND STRATEGY

/

OUR BUSINESS MODEL

OUR STRATEGIC OBJECTIVES

Delivering stabilised annual return on shareholder capital	Maintaining a high EBITDA margin	Improving our guest experience through consistent service delivery and product enhancements
Driving growth by expanding our hotel portfolio through a variety of business models	Improving our overall performance through innovative revenue generation and marketing initiatives	Leveraging our partnership with Carlson Hotels to further grow revenues

OUR BUSINESS MODEL IN ACTION
/
A TRULY UNIQUE APPROACH

REALISING POTENTIAL

We aim to create shareholder value by applying a variety of business models. We have an ownership interest in the majority of the hotels in our portfolio, but also lease, manage and franchise hotels. Irrespective of the type of arrangement, all hotels in our portfolio benefit from being part of a dynamic, full-service international hotel group led by a highly experienced senior management team. Our shareholders benefit from our business model, developments and operating skills in the form of progressive dividend payments.

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

The main benefit 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 nineties was principally funded on the back of our successful real estate investments and operations in the Netherlands. Our owner/operator model also enables us to achieve high margins and profit as we control the entire value chain (utilities, location, maintenance, procurement and control over leverage with historic low rates). Leveraging of our owned assets has enabled 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 also benefit from fee-based income. A prime example of a partnership with a third party is our controlling shareholding in the Arenaturist group. For further details of how we have transformed Arenaturist in recent years, please refer to page 49.

We are hoteliers who are not afraid to undertake development projects in upcoming 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 658 rooms); and
- Park Plaza Victoria London (299 rooms).

Performance in the year
As at 31 December 2016, we had employed £163.0 million capital in hotels in operation, generating £97.9 million adjusted EBITDA and £40.4 million normalised profit before tax. The return on capital employed for the year was 24.8%. At 31 December 2016, the capital employed for joint ventures was £3.8 million (excluding £14.6 million for hotels under development) with normalised profit before tax at £(0.4) million.

Looking ahead
We are excited about 2017 and look forward to the full opening of Park Plaza London Waterloo, the opening of the new Park Plaza London Park Royal and the commencement of the extensive renovation programmes at several of our key assets in London and Amsterdam.

WE PURCHASE LAND AND BUILDINGS

OUR BUSINESS MODEL IN ACTION
CONTINUED

> "THE GROUP IS ACTIVELY PURSUING SEVERAL OTHER OPPORTUNITIES IN MARKETS WHERE IT EXPECTS THAT CAPITAL VALUE IS LIKELY TO APPRECIATE OVER TIME"

WE RE-DEVELOP 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 more than 30 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 these. Apart from external growth, we constantly review our existing portfolio to identify how we can maximise their use.

In 2016, we completed a 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.

Performance
At 31 December 2016, we had employed £37.2 million of capital for the year in hotels under development.

Looking ahead
We are excited about 2017 and look forward to the full opening of Park Plaza London Waterloo, the opening of the new Park Plaza London Park Royal and the commencement of the extensive renovation programmes at several of our key assets in London and Amsterdam. Our redevelopment programme for 2017 and 2018 includes, for example, the reconfiguration of several suites at Plaza on the River (part of Park Plaza London Riverbank), increasing the number of rooms of this hotel and the renovations of Park Plaza Sherlock Holmes London and two of our hotels in central Amsterdam.

OUR HOTEL OPERATIONS

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.

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 for hotel management on many occasions. Through such partnerships we are able to accelerate growth, share the costs, and by securing long-term management contracts, we benefit from fee-based income. Our management contracts with third parties allow those owners to retain ownership of their property while we undertake the day-to-day management. They have the confidence of working with an international hotel 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 franchise hotels) are managed by us or Arenaturist (in which we are the controlling shareholder).

We are highly experienced in managing hotels and, as owners, we understand the precise requirements of an owner and are able to provide property investors with a complete hotel management solution, including an expert team focusing on providing exemplary service and profitable operations, every day.

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 either Management or Franchise arrangements.

OUR BUSINESS MODEL IN ACTION
CONTINUED

WE OWN, AND HAVE ACCESS TO, WORLD-CLASS BRANDS

Developing, managing and marketing unique brands is an art – especially in today's globalised and digitalised 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, one of the industry's largest hotel groups (part of the Carlson Rezidor Hotel Group). Together, we created a strong global marketing and distribution platform through which we market our Park Plaza® and art'otel® branded hotels.

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, it wholly owns the art'otel® brand, which was recently transformed and has some exciting projects in its pipeline. Several of the Arenaturist hotels in Croatia are unbranded, yet they benefit fully from the Group's expertise.

Park Plaza® is the 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 2016 and early 2017. Park Plaza® is one of the largest international upscale and upper upscale brands in central London.

The art'otel® brand is wholly owned by the Group and marketed through Carlson Hotels' 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 since gone from strength to strength following the successful launch of art'otel amsterdam.

> “WE HAVE A STRONG GLOBAL MARKETING AND DISTRIBUTION PLATFORM THROUGH WHICH WE MARKET OUR PARK PLAZA® AND ART'OTEL® BRANDED HOTELS”

We upgraded and relaunched art'otel berlin mitte in 2016 and through our investment in Croatia we purchased the freehold assets in two art'otels in Berlin and Cologne, paving the way for a repositioning programme of these hotels. 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, hotel (re)design and construction where we never consider the ordinary, legal affairs, technology, procurement, accounting, and people development and HR, to name but a few. 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 and 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 customer.

Looking ahead
In 2016, we have made significant steps in transforming Arenaturist, which is expected to help us drive further growth in markets such as Germany and Croatia across a variety of business models, predominantly under the Park Plaza® brand.

WORLD-CLASS BRANDS

STRATEGY AT A GLANCE

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2016 STRATEGIC OBJECTIVES		PERFORMANCE IN THE YEAR
1	Delivering stabilised annual return on shareholder capital	Following the restructuring of several long-term financing facilities at favourable conditions, returned £42.2 million in excess cash reserves to shareholders as a special dividend in addition to ordinary dividend
2	Maintaining a high EBITDA margin	Our EBITDA margin remained at a high level Introduced centralised procurement and time and attendance systems
3	Improving our guest experience through consistent service delivery and product enhancements	Continued investment in operational and management training programmes across all our regions Achieved record levels of guest satisfaction and service performance scores Product investment and renovations
4	Driving growth by expanding our hotel portfolio through a variety of business models	Opened Park Plaza Nuremberg, completed the 155-room extension at Park Plaza London Riverbank, and had the soft-opening of Park Plaza London Waterloo
5	Improving our overall performance through innovative revenue generation and marketing initiatives	Approximately 50% of our owned, co-owned and leased hotels outperformed their competitive sets Increased focus on driving business directly through our own channels, with several successes booked such as the introduction of special rates for members of the guest loyalty programme
6	Leveraging our partnership with Carlson Hotels to further grow revenues	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 Hotels' sales, marketing and distribution initiatives

KEY PERFORMANCE INDICATORS	RISKS LINKED TO STRATEGY	LOOKING FORWARD
24.8% return on capital employed (based on owned hotels in operation) **£1.21** dividend per share	• The Group's borrowings • Foreign exchange rate fluctuations	Maintain progressive dividend policy
34.5% reported EBITDA margin (EBITDA/ total revenue)	• Fixed operating expenses • Hotel industry risks	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
8.39 overall guest satisfaction score (on a scale of 1–10) **8.71** service performance score (on a scale of 1–10)	• Employee turnover • Capital required to maintain product standards	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
1,000+ on target to add 1,000+ new rooms in 2016/2017	• Development projects • The Group's borrowings	Focus on driving growth through construction projects and extending our development pipeline
• Market share • Business generated through direct channels	• Hotel industry risks • Capital required to maintain product standards • Market disruptors • Information technology and systems	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
• Cost-effective distribution of our products • Business generated through brand and direct channels, and loyalty programmes	• The Park Plaza® brand and reservation system	Embrace all marketing, sales, distribution and e-commerce channels and programmes available through Carlson Hotels' global network and increase customer loyalty and engagement. Benefit from e-commerce developments by Carlson Hotels with Sabre as announced in early 2017

KEY PERFORMANCE INDICATORS
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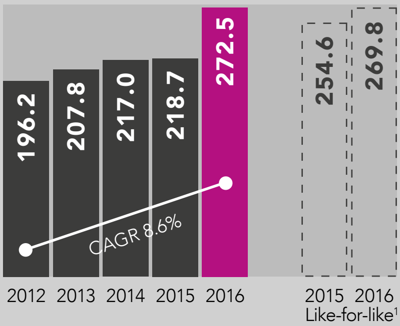
FINANCIAL KPIs

Total revenue (£m)

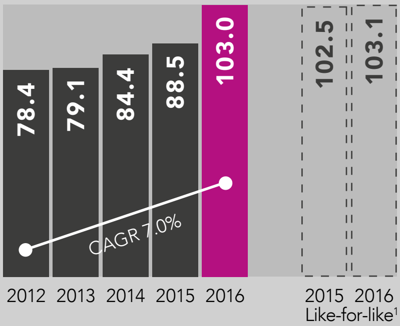


KPI definition
Total revenue includes all operating revenue generated by the Group's owned and leased hotels, management fees, franchise fees and marketing fees.

Comment
Revenue increased by 24.6%, mainly from our first time consolidation of the Croatian operation and a currency exchange rate benefit.

Read more
Deputy CEO & CFO's statement pages 42 to 51, Financial statements pages 87 to 136

EBITDAR (£m)

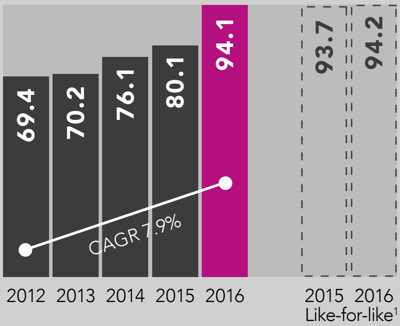


KPI definition
Earnings before interest, tax, depreciation, amortisation and rental expenses.

Comment
EBITDAR increased by 16.4%, mainly due to an increase in revenue from the first time consolidation and a strong season of our Croatian operation.

Read more
Deputy CEO & CFO's statement pages 42 to 51, Financial statements pages 87 to 136

EBITDA (£m)

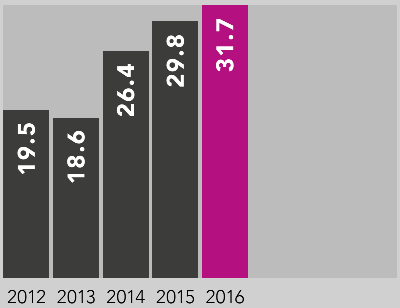


KPI definition
Earnings before interest, tax, depreciation and amortisation.

Comment
EBITDA increased by 17.5%, mainly due to an increase in revenue from the first time consolidation of our Croatian operation, partly offset by softer performance of our existing operations.

Read more
Deputy CEO & CFO's statement pages 42 to 51, Financial statements pages 87 to 136

Normalised profit before tax (£m)

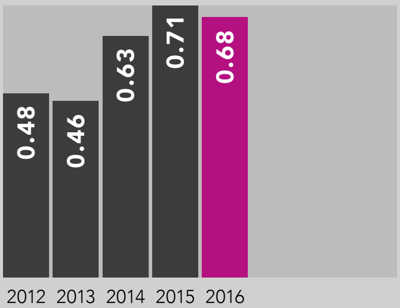


KPI definition
Profit before tax adjusted to remove unusual or one-time influences.

Comment
Normalised profit before tax increased by 6.4%, with the Croatian acquisition as the main driver for this growth.

Read more
Deputy CEO & CFO's statement pages 42 to 51, Financial statements pages 87 to 136

Normalised earnings per share (£)

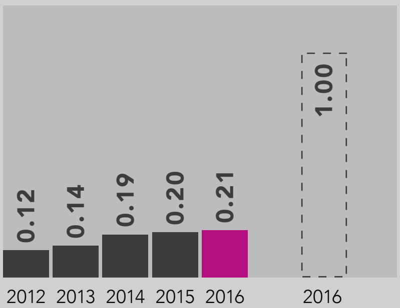


KPI definition
Earnings for the year, adjusted to remove any unusual or one-time influences, divided by the weighted average number of ordinary shares outstanding during the year.

Comment
Normalised earnings per share decreased by 3.8%, as the result of an increase in the share of minority shareholders of our Croatian investment in the reported results.

Read more
Deputy CEO & CFO's statement pages 42 to 51, Financial statements pages 87 to 136

Dividend per share (£)



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

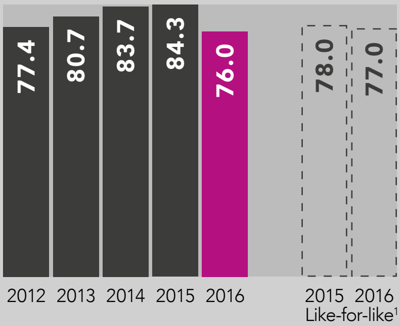
Comment
Ordinary dividend increased 5.0% year-on-year, with a final dividend of 11.0 pence per share proposed. A special dividend of £1.00 was paid to shareholders in the year.

Read more
Deputy CEO & CFO's statement pages 42 to 51, Financial statements pages 87 to 136

[1] The 2016 like-for-like comparison figures exclude Park Plaza London Waterloo and Park Plaza Nuremberg from the dates they opened in 2016. Furthermore, the 2015 like-for-like comparison figures include the Croatian segment apart from the first quarter of 2015 and the figures from Park Plaza Prenzlauer Berg Berlin for the second half of the year.

OPERATING KPIs

Occupancy (%)

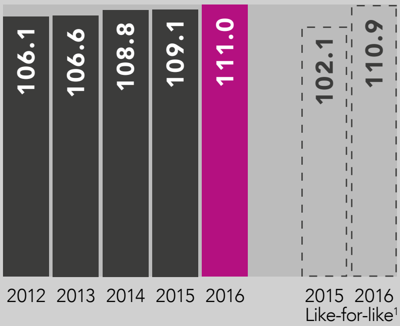


KPI definition
Total rooms occupied divided by the available rooms.

Comment
Like-for-like[1] occupancy was flat at 77.0%, with reported occupancy decreasing year-on-year, due to the first time consolidation of the Croatian operation which is highly seasonal.

Read more
Deputy CEO & CFO's statement pages 42 to 51, Business review 2016 pages 52 to 59, Financial statements pages 87 to 136

Average room rate (£)

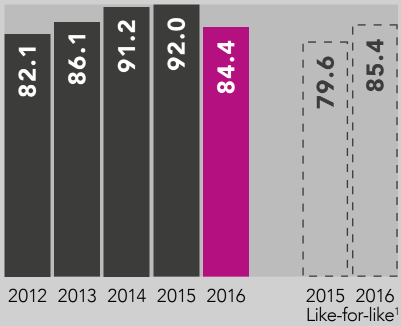


KPI definition
Total room revenue divided by the number of rooms sold.

Comment
Like-for-like[1] average room rate increased by 8.6%, with reported average room rate decreasing by 1.8%, due to the first time consolidation of the Croatian operation which is highly seasonal.

Read more
Deputy CEO & CFO's statement pages 42 to 51, Business review 2016 pages 52 to 59, Financial statements pages 87 to 136

REVPAR (£)

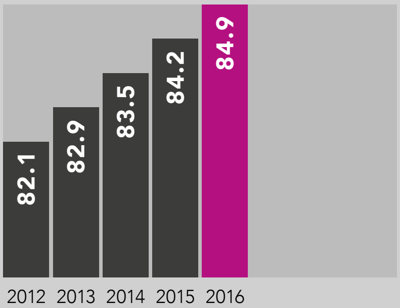


KPI definition
Revenue per available room; total room revenue divided by the number of available rooms.

Comment
Like-for-like[1] RevPAR increased by 7.3%, with reported RevPar decreasing by 8.2%, due to the first time consolidation of the Croatian operation which is highly seasonal.

Read more
Deputy CEO & CFO's statement pages 42 to 51, Business review 2016 pages 52 to 59, Financial statements pages 87 to 136

Employee satisfaction/ engagement (scale 1–100%)

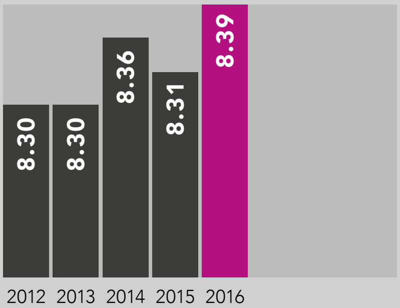


KPI definition
Measured through annual surveys. Team members are encouraged to share feedback about our Company, their jobs, their teams and their manager.

Comment
In the second year since adopting a new employee engagement methodology, we have increased our overall score by 70 basis point (bps) year-on-year.

Read more
President & CEO's statement pages 22 to 27, Corporate Social Responsibility pages 60 to 67

Guest satisfaction (scale 1–10)

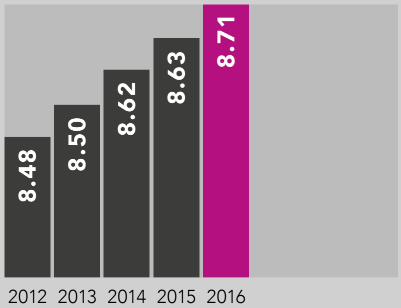


KPI definition
Guest satisfaction is paramount to our long-term success. Guests are approached with electronic surveys and are encouraged to rate various elements of their stay.

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

Read more
President & CEO's statement pages 22 to 27

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
Once again we delivered a record service performance score, a testimony of our strong focus on learning and development.

Read more
President & CEO's statement pages 22 to 27

RISKS

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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 trainings 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 so as to obtain 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 the 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, 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 KEY

- High
- Medium
- Low

CHANGE YEAR-ON-YEAR KEY

- Increased
- Unchanged
- Reduced

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 different currency 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	Reduced
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.	Low	Unchanged

DEPUTY CHIEF EXECUTIVE OFFICER & CHIEF FINANCIAL OFFICER'S STATEMENT

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SOLID PERFORMANCE IN A YEAR WITH SIGNIFICANT CORPORATE ACTIVITY

£38.2m

profit before tax

£31.7m

normalised profit before tax

	Reported in GBP (£)		Like-for-like in GBP[1] (£)	
	Year ended 31 Dec 2016	Year ended 31 Dec 2015	**Year ended 31 Dec 2016**	Year ended 31 Dec 2015
Total revenue	**£272.5 million**	£218.7 million	**£269.8 million**	£254.6 million
EBITDAR	**£103.0 million**	£88.5 million	**£103.1 million**	£102.5 million
EBITDA	**£94.1 million**	£80.1 million	**£94.2 million**	£93.7 million
Occupancy	**76.0%**	84.3%	**77.0%**	78.0%
Average room rate	**£111.0**	£109.1	**£110.9**	£102.1
RevPAR	**£84.4**	£92.0	**£85.4**	£79.6
Room revenue	**£183.2 million**	£147.7 million	**£181.0 million**	£167.9 million

1 The 2016 like-for-like comparison figures exclude Park Plaza London Waterloo and Park Plaza Nuremberg from the dates they opened in 2016. Furthermore, the 2015 like-for-like comparison figures include the Croatian operations apart from the first quarter of 2015 and exclude the figures from Park Plaza Prenzlauer Berg Berlin for the second half of the year.

WE ARE IN A UNIQUE POSITION

Performance
We are pleased to have made further progress in what was a busy year for the Group and announce results in line with the Board's expectations. Reported total revenue was up 24.6% to £272.5 million (2015: £218.7 million) and EBITDA increased by 17.5% to £94.1 million (2015: £80.1 million). This growth was mainly the result of the first time consolidation of our Croatian operation with additional growth from the opening of new hotels and a currency exchange rate benefit. On a like-for-like basis[1], total revenue increased by 6.0% and EBITDA improved by 0.5%. The late openings of the new hotels in London, as well as disruption due to major renovation works at Park Plaza London Riverbank and Park Plaza Victoria London, impacted the aforementioned like-for-like figures. However, given our strong presence in London, we expect to reach stabilised trading expeditiously.

Our performance was achieved in a year of significant corporate activity whereby we acquired the interests from the Group's former joint venture partner in Croatia as well as the subsequent takeover offer and sale of shares to institutional investors, the debt restructuring of the majority of the Group's assets and the return of excess cash to shareholders through a special dividend payment.

These activities have further re-shaped our business, paving the way for future growth.

RevPAR
Like-for-like[1] RevPAR increased by 7.2% to £85.4 (2015: £79.6) reflecting improved trading of our Croatian operations and a foreign currency exchange benefit due to the weakening of Pound Sterling against the Euro and Kuna. This RevPAR growth was achieved through an 8.6% increase in average room rate to £110.9 (2015: £102.1). Occupancy was flat at 77.0% (2015: 78.0%). As a result, like-for-like[1] room revenue was up 7.8% to £181.0 million (2015: £167.9 million).

Reported RevPAR decreased by 8.2% to £84.4 (2015: £92.0). This decrease was a direct result of the first time consolidation of our Croatian operation, which is a highly seasonal business heavily weighted towards the summer months. Occupancy reduced by 830 bps and average Room Rate increased by 1.8%. Reported room revenue was up 24.0% to £183.2 million (2015: £147.7 million).

> "EBITDA INCREASED BY 17.5%, MAINLY DUE TO AN INCREASE IN REVENUE FROM THE FIRST TIME CONSOLIDATION OF OUR CROATIAN OPERATION"

DEPUTY CHIEF EXECUTIVE OFFICER & CHIEF FINANCIAL OFFICER'S STATEMENT
CONTINUED

EBITDA
Reported EBITDA increased by 17.5% to £94.1 million (2015: £80.1 million) and our reported EBITDA margin for the year reduced by 210 bps to 34.5% (2015: 36.6%).

On a like-for-like[1] basis, EBITDA increased by 0.5% to £94.2 million (2015: £93.7 million) and our EBITDA margin reduced by 110 bps to 34.9% (2015: 36.0%).

Both reported and like-for-like EBITDA were positively affected by the first time consolidation of the Croatian operation and improved trading in the Croatian operation, which were offset by a softer performance of the existing operations in the first half of the year, as well as increased costs including payroll in the United Kingdom and cost of sales.

Normalised profit before tax
Normalised profit before tax increased by 6.4% to £31.7 million (2015: £29.8 million). The Croatian acquisition was the main driver of the increase, which was softened by a lower EBITDA of the pre-existing operations. Adjustments made to normalise reported results relate to items that the Group considers unrelated to its day-to-day business activities and important for the understanding of the underlying performance, for which a reconciliation is provided in the table below.

Profit before tax
Reported profit before tax increased by £10.1 million (36.2%) to £38.2 million (2015: £28.1 million). The increase in reported profit was affected by gains arising from the application of International Financial Reporting Standards accounting following the Group obtaining control of Arenaturist, in which we previously held a minority interest (refer to Note 3 in the Consolidated financial statements), amounting to £26.2 million. £23.4 million relates to costs incurred in the 2016 refinancings which were the result of the breakage of interest rate derivatives and transaction fees. Furthermore, the reported profit was affected by the recognition of deferred income coming from the release of forfeited deposits in connection with rescinded sales of Income Units at Park Plaza Westminster Bridge London to private investors. All of the above and other minor adjustments are outlined in the table below.

NORMALISED PROFIT BEFORE TAX

	Reconciliation reported to normalised profit	
	Year ended 31 Dec 2016 £ million	Year ended 31 Dec 2015 £ million
Reported profit before tax	**38.2**	28.1
Fair value movements on derivatives recognised in the profit and loss	**(0.2)**	(0.4)
Negative goodwill and capital gains after the acquisition of the remaining interests in Arenaturist	**(26.2)**	–
Refinance costs and expenses (including termination of hedge)	**23.4**	–
Park Plaza Westminster Bridge London fair value adjustment on income swaps and buy back of Income Units	**0.6**	2.8
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	**2.4**	–
2015 other one-off adjustments (see Note 24 to the Consolidated financial statements)	**–**	(0.7)
Normalised profit before tax*	**31.7**	29.8

* The normalised earnings per share amount to £0.68, calculated with 42,173,000 average outstanding shares.

Asset base and leverage
The Group realises over 90% of its revenue and EBITDA from assets in ownership, of which the majority of EBITDA is generated by assets which are located in Central London and Amsterdam. The development pipeline increases our asset base of freehold units in the strong London market. Apart from successfully operating the hotels it 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 development over the last decade, enables the Group to act quickly on opportunities.

This business model requires significant capital investment, 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.

In the year, the Group has successfully refinanced all of its assets in the Netherlands and Central London (excluding developments), equating to approximately £565 million (reflecting just under 75% of total outstanding borrowings as at 31 December 2016). With the debt restructuring the Group has extended the weighted average term to maturity of its debt facilities from approximately three years to approximately nine years.

Below is a synopsis of the key factors of the new borrowing and refinanced packages.

Over the past 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 financial statements the Group measures its assets at cost price less accumulated depreciation. The table below summarises the independent valuations that were obtained in the past months, comparing these with the book values.

BOOK VALUE OF PROPERTY, PLANT AND EQUIPMENT COMPARED WITH FAIR VALUE

In £ millions	**Book value 31 December 2016**	Fair value[1] 31 December 2016
Total properties	**1,069.7**	1,508.7

[1] The fair value of 2016 refinanced properties has been determined in the last 12 months; these have been prepared by market leading independent valuators such as Savills Plc and Knight Frank LLP, which were engaged by each of Aareal Bank AG, AIG Asset Management (Europe) Limited and Cornerstone Real Estate Advisers Europe LLP for their respective financings. The fair value takes into account approximately £35.4 million planned capex and all properties under development are stated at cost.

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

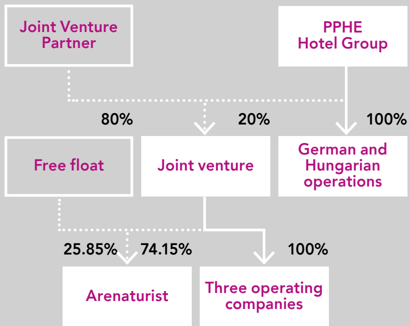
LOANS RESTRUCTURING

Newly obtained loans				**Refinanced loans**			
Current lending bank	**Amount in millions**	**Maturity**	**Interest**	**Refinanced lending bank**	Amount in millions	Maturity	Interest
Aareal Bank AG	**€182.0**	**June 2026**	**2.165%**	Aareal Bank AG	€141.9	December 2018	4.599%
Aareal Bank AG	**£150.0**	**June 2026**	**3.248%**	Aareal Bank AG	£100.8	December 2018	5.665%
Cornerstone Real Estate Advisers Europe LLP	**£87.0**	**April 2026**	**3.41%**	Aareal Bank AG	£64.8	December 2018	5.665%
AIG Asset Management (Europe) Limited	**£182.4**	**May 2028**	**3.785%**	Bank Hapoalim (Luxembourg) S.A.	£104.2	June 2018	5.560%

DEPUTY CHIEF EXECUTIVE OFFICER & CHIEF FINANCIAL OFFICER'S STATEMENT
CONTINUED

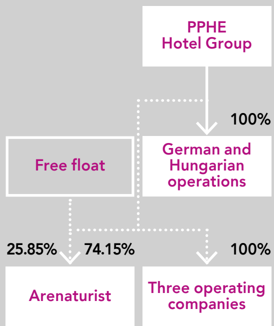
INVESTMENT IN CROATIA

1



Ownership status as at 1 January 2016.

2



The Group acquired the 80% joint venture interest for €50.0 million (£40.0 million).

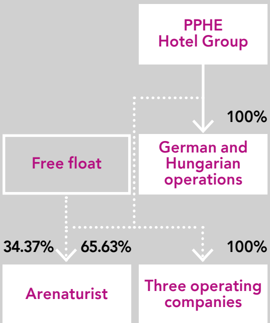
Following the acquisition Arenaturist repaid a loan due to the Group of HRK 112.3 million (£12.1 million).

2016 was an important year of transition for our investment in Croatia and significant activities were undertaken to re-shape the Arenaturist group, paving the way for a successful strategy to develop Arenaturist into a dynamic hospitality company in Central and Eastern Europe whilst strengthening and developing its business and market position in the upscale and upper upscale segments of the hospitality market, primarily within Croatia and Germany. With the execution of such strategy, the Group is able to achieve further sustainable growth by having access to different capital markets (both equity and debt).

The Group first entered Croatia in 2008 with the acquisition of a 20% stake in a company known as WH/DMREF Bora B.V. ('Bora'). Bora indirectly held 74.15% of the issued share capital of Arenaturist, a Croatian joint stock company then listed on the Regular Market of the Zagreb Stock Exchange (it is now listed on the Official Market of the Zagreb Stock Exchange), and had 100% ownership of three Croatian private operating companies. Together, these companies at the time owned eight hotels and five self-catering holiday apartment resorts and operated five campsites in Istria. In addition to this 20% acquisition, the Company was awarded management agreements for the Arenaturist properties and those properties of the three Croatian private operating companies. At that stage, the Arenaturist group was accounted for as an associate, and its results were not consolidated but presented as a separate line in the profit and loss and balance sheet.

The above overview outlines the sequence of transactions and events that took place in the Group's investment in Arenaturist in 2016.

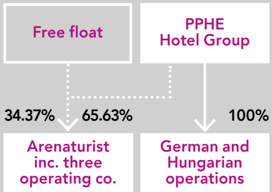
3



The Group acquired an additional 3.48% interest in Arenaturist as a result of a mandatory takeover offer for HRK 24.7 million (£2.6 million).

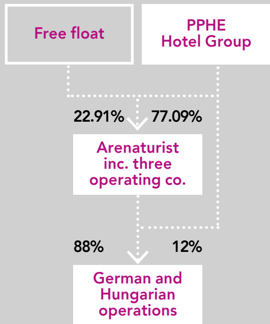
The Group sold 12% interest in Arenaturist to two institutional investors for HRK 74.6 million (£7.9 million).

4



The Group sold three wholly owned Croatian operating companies to Arenaturist for HRK 108.6 million (approximately £12.0 million).

5



On 23 December 2016, the Group transferred 88% of the German and Hungarian operations including an exclusive right in 18 countries within the CEE region to develop and manage hotels under the Park Plaza® brand in exchange for 1,091,250 new shares in Arenaturist, valued at £47 per share.

Following this transaction (shares registered at 7 February 2017), PPHE Hotel Group holds 77.09% interest in Arenaturist. The average share price of Arenaturist in January and February 2017 amounts to approximately HRK 510 (£58).

Furthermore, in February 2017, Arenaturist 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) net of any applicable VAT (of which €2,329,000 (£2.0 million) is on account of fixtures, fittings and equipment payable by the operating companies within the Group). Following completion of this transaction, the previous lease expenses are eliminated. Furthermore, Arenaturist was able to secure funding on beneficial terms.

As a next step in its transition, Arenaturist is now planning a capital increase of its issued ordinary shares from 3,273,750 to between 4,273,750 and 5,273,750 ordinary shares by way of a non-preemptive public offering of new shares in Croatia. The proposed public offering is a further step in the execution of our strategy of developing Arenaturist into a dynamic Central and Eastern European leisure and hospitality company with a business model that includes owning and managing its own assets and those of others, primarily under the Park Plaza® brand.

DEPUTY CHIEF EXECUTIVE OFFICER & CHIEF FINANCIAL OFFICER'S STATEMENT
CONTINUED

Dividend
For the year 2016 the Board is proposing a final dividend payment of 11 pence per share (2015: 10 pence per share) which, when combined with the interim dividend of 10 pence per share (2015: 10 pence per share) paid to shareholders on 7 October 2016 and the special dividend of £1.00 per share paid to shareholders on 12 August 2016, brings the total dividend for the year ended 31 December 2016 to £1.21 per share (2015: 20.0 pence per share).

With the current year profit, the dividend cover (earnings per share divided by the ordinary dividend per share) amounts to 4.0, indicating a sustainable level.

The Company started paying dividends in 2012 and, given the Board's confidence in the strength of the business, in 2013 it indicated its intention to follow a progressive dividend policy, retaining proper and prudent reserves. The chart below provides an overview of the dividend payment history.

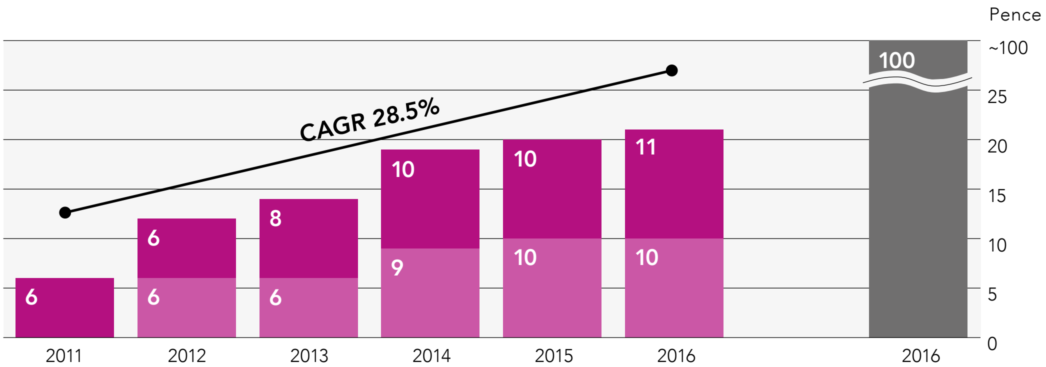
Subject to shareholder approval at the Annual General Meeting, to be held on 8 May 2017, the dividend will be paid on 12 May 2017 to shareholders on the register at 31 March 2017. The shares will go ex-dividend on 30 March 2017.

In addition to the ordinary dividends, following the successful refinancing in 2016 of several hotels which resulted in excess cash reserves, a special dividend of 100 pence per ordinary share was announced on 13 July 2016 and was paid to shareholders on 12 August 2016, returning £42,197,512 to shareholders. This special dividend is in line with the Group's primary objective of creating and realising shareholder value, which it achieved by realising part of the value of its assets.

Financial position
The net bank debt as at 31 December 2016 was £584.9 million, an increase of £187.3 million (as at December 2015: £397.6 million). During the period, the movement in net bank debt included, among others, an increase due to the acquisition and consolidation of the Croatian operations of £64.3 million; a £25.2 million increase to finance the construction of Park Plaza London Waterloo; a £3.4 million increase to finance the extension of Park Plaza London Riverbank; a £15.3 million increase to finance the construction of Park Plaza London Park Royal; a £6.6 million increase to finance the construction of Park Plaza Nuremburg; a £180.7 million increase as part of refinanced facilities in the United Kingdom and the Netherlands; and a £26.7 million increase which relates to foreign exchange. In addition, a decrease of £15.4 million relates to the redemption of loans and an improved cash and deposit position of £121.7 million.

Earnings and shareholder value
Normalised earnings per share was £0.68 (2015: £0.71), representing a decrease of 3.76%. Reported basic/diluted earnings per share for the period was £0.83, an increase of 19% (2015: £0.70).

DIVIDEND HISTORY



ARENATURIST: A TIMELINE

2008

- PPHE Hotel Group acquires a minority interest in the entity which holds a controlling share in Arenaturist
- The Group is awarded various management agreements for Arenaturist's properties and the properties of the three Croatian private companies held by the joint venture ('Small Boras')

2008–2011

- Focus on improving overall quality, guest satisfaction and profitability
- Preparation of plans for extensive renovations and redevelopments

2012–2015

- Extensive renovations of approximately half of Arenaturist's hotel rooms
- Rebranding of three hotels and one self-catering holiday apartment resort to Park Plaza®:
  - Park Plaza Histria Pula
  - Park Plaza Verudela Pula
  - Park Plaza Belvedere Medulin
  - Park Plaza Arena Pula
- Rebranding of one hotel to Sensimar Hotel Medulin

2016

- The Group acquires a controlling interest in Arenaturist, made a mandatory takeover offer of Arenaturist and subsequently sold some of its shares to two of Croatia's largest institutional investors
- Further consolidation of Arenaturist as the Small Boras are sold to Arenaturist
- Listing of Arenaturist's shares is moved from the Regular Market to the Official Market of the Zagreb Stock Exchange
- Arenaturist entered into an agreement to acquire the freehold interests in art'otel cologne and art'otel berlin kudamm
- PPHE Hotel Group transfers its German and Hungarian operations to Arenaturist, together with an exclusive right in certain countries within the CEE Region to develop and manage hotels under the Park Plaza® brand – in exchange for new shares in Arenaturist – establishing Arenaturist as a dynamic international leisure and hospitality company with excellent growth prospects
- Arenaturist convenes a General Assembly to be held in March 2017 to approve, among others, a capital increase of its shares from 3,273,750 ordinary shares to between 4,273,750 and 5,273,750 ordinary shares by way of a public offering of new shares in the Republic of Croatia

DEPUTY CHIEF EXECUTIVE OFFICER & CHIEF FINANCIAL OFFICER'S STATEMENT
CONTINUED

Return on capital employed
The Group actively pursues a strategy of hotel ownership, which is different from many hotel groups where ownership of hotel assets is separated from hotel operations. One of the benefits of our owner/operator model is to remove the usual conflict associated 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.

	Owned properties			Joint ventures and associates			
GBP millions	In operation	Under development	Operating leases	In operation	Under development	Management and central costs	Reported
Balance sheet							
Book value properties[1,2]	**768.4**	**144.7**	**1.3**	**–**	**–**	**2.3**	**916.7**
Book value intangible assets	**–**	**–**	**–**	**–**	**–**	**25.2**	**25.2**
Book value non-consolidated investments	**–**	**–**	**–**	**3.8**	**14.6**	**–**	**18.4**
Bank loans, (short restricted) cash and liquid assets (adjusted net debt)	**(569.2)**	**(102.8)**	**2.7**	**–**	**–**	**84.2**	**(585.1)**
Deferred contribution of sales of Income Units at Park Plaza Westminster Bridge London	**(10.2)**	**–**	**–**	**–**	**–**	**–**	**(10.2)**
Other assets and liabilities	**(26.0)**	**(4.7)**	**(1.5)**	**–**	**–**	**(2.6)[4]**	**(34.8)**
Capital employed	**163.0**	**37.2**	**2.5**	**3.8**	**14.6**	**109.1**	**330.2**
Normalised profit							
Revenues	**245.0**	**0.4**	**22.7**	**–**	**–**	**4.4**	**272.5**
Adjusted EBITDA[3]	**97.9**	**(0.4)**	**1.9**	**0.4**	**–**	**(5.7)[3]**	**94.1**
Depreciation and amortisation	**(22.3)**	**–**	**(0.3)**	**–**	**–**	**(2.7)**	**(25.3)**
EBIT	**75.6**	**(0.4)**	**1.6**	**0.4**	**–**	**(8.4)**	**68.8**
Interest expenses banks and finance leases	**(24.7)**	**(0.9)**	**–**	**–**	**–**	**(0.2)**	**(25.8)**
Interest guaranteed to unit holders	**(10.5)**	**–**	**–**	**–**			**(10.5)**
Other finance expenses and income	**–**	**–**	**–**	**0.7**	**0.3**	**(0.1)**	**0.9**
Result from joint ventures and associates	**–**	**–**	**–**	**(1.5)**	**(0.2)**	**–**	**(1.7)**
Normalised profit before tax 31 December 2016	**40.4**	**(1.3)**	**1.6**	**(0.4)**	**0.1**	**(8.7)**	**31.7**
Normalised profit before tax 31 December 2015	30.8	(0.7)	0.7	3.6	0.1	(4.7)	29.8

1 Assets are reported at cost, less depreciation.
2 Finance lease liabilities and deferred taxes relating to properties have been netted with the property book value.
3 Management fees generated on owned and leased hotels are added back on the results of those hotels.
4 Including unallocated assets and liabilities.

Hotel real estate is an important part of the Group's assets and 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 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 for full ownership 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. The Group has entered into some strategic investments, whereby a non-controlling stake was taken in the real estate, sometimes together with a long-term management agreement. In some of these cases the Group's stake is structured via equity interests and debt funding, providing the Group with potential dividends and interest income. One of the main benefits from such arrangements remains the management and incentive fee earned by the Group in managing these hotels. Furthermore, the Group has entered into several lease, management or franchise agreements. Each of these business models has its own merits but they have in common that they require little to no capital. This enables the Group to grow the portfolio whilst it benefits from fee-based income.

The table opposite provides some selected data for these assets for the year ended 31 December 2016, prepared in Pound Sterling millions. 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. The table shows that the return on capital (normalised profit before tax divided by capital employed) for the fully owned properties in operation improved during the year, mainly due to the first time consolidation of the Croatian operations, which at the same time is also the reason for the decreased performance in the capital return on joint ventures and associates.

Looking ahead

The corporate activity in 2016 means the Group is well placed to make further progress as we continue to expand our portfolio in London and invest in major renovation projects at four of our hotels, all of which will further strengthen the Group's competitive position.

We are finalising our plans for extensive renovations of Park Plaza Vondelpark, Amsterdam, Park Plaza Utrecht and Park Plaza Sherlock Holmes London which will start in the third quarter of 2017 whilst works on Park Plaza Victoria Amsterdam have already commenced. In total we plan to invest approximately £35 million in these projects, which we anticipate will be completed in 2018. As part of the plans to reposition and renovate Park Plaza Vondelpark, Amsterdam, the Group entered into an agreement for the sale of one of the three properties that currently comprise the hotel. Following such sale and planned renovations, Park Plaza Vondelpark, Amsterdam will continue to operate from the other two soon-to-be renovated premises.

As previously announced, the planned renovations may have a temporary negative impact on the performance of these hotels due to closures of rooms and public areas. However, we believe that our investment in these renovation projects will have a positive impact on our long-term performance.

In addition, we look forward to the full opening of Park Plaza London Waterloo in the second quarter of 2017 and the soft opening of Park Plaza London Park Royal which is expected at the end of the first quarter of 2017. The Company is currently considering the release of equity following practical completion of each of these hotels whilst retaining operational control, by way of debt structuring and/or sale and leaseback.

As a further step in the execution of our growth strategy for Arenaturist, Arenaturist convened a General Assembly of its shareholders to approve a capital increase by way of a non-preemptive public offering of new shares in Croatia and to list such shares on the Official Market of the Zagreb Stock Exchange. Subject to the approval by the General Assembly and all required regulatory approvals, Arenaturist will determine the timing and terms of the offering, depending on the market conditions and other factors at the time. However, there can be no assurance that the offering, even if approved by the General Assembly, will proceed at all or as to the terms of any such offering.

CHEN MORAVSKY
DEPUTY CHIEF EXECUTIVE OFFICER
& CHIEF FINANCIAL OFFICER

BUSINESS REVIEW 2016
/
MAINTAINING A STRONG COMPETITIVE POSITION

UNITED KINGDOM

Reported total revenue was broadly flat due to a softening of the London hotel market, particularly in the first half of the year.

HIGHLIGHTS

£148.7m

Total revenue

£121.1

RevPAR

Whilst the trading environment improved in the second half of 2016 with particularly strong trading in London in December, an increased supply and reduction in demand in Greater London for the year as a whole resulted in a 90 bps decrease in occupancy to 81.3%. Against this backdrop our teams focused on successfully growing average room rate which increased by 3% year-on-year to £143.8 (2015: £139.6), resulting in maintained RevPAR of £121.1 (2015: £121.8).

EBITDAR was £52.5 million (2015: £55.7 million) and EBITDA was £51.1 million (2015: £54.4 million). On a like-for-like basis, EBITDAR was £52.9 million and EBITDA was £51.6 million.

Reported room revenue increased by 2.0% to £102.1 million, and on a like-for-like basis by 1.8% to £101.8 million (2015: £100.0 million).

All our London hotels maintained a strong competitive position, outperforming their competitive sets in terms of occupancy during the year. Furthermore, Park Plaza Westminster Bridge London once again delivered another very strong performance, significantly outperforming its competitive set in terms of occupancy, average room rate and RevPAR.

* Source: STR Global, December 2016

Whilst the performance of Park Plaza Leeds was mixed, Park Plaza Nottingham outperformed its competitive set in terms of occupancy, average room rate and RevPAR.

Development pipeline and renovation projects
Significant progress has been made during the year on two new hotels and a major renovation project.

Park Plaza London Waterloo, located near the bustling South Bank, had a soft opening in the fourth quarter in 2016 with a partial room inventory open and the majority of public spaces open, including an espressamente illy, swimming pool and gym. The hotel, which is expected to be fully open by the end of the second quarter, will feature 494 contemporary new hotel rooms, a new destination restaurant and bar, a spa and an executive lounge with views across the London skyline.

Construction of Park Plaza London Park Royal is progressing well, albeit slightly behind schedule. The hotel, which is located opposite Park Royal underground station, is close to Wembley Stadium and within easy access of London Heathrow Airport. It is expected to open at the end of the first quarter of 2017. This newly built hotel will have 212 rooms and offer guests a range of facilities, including a restaurant, bar, gym, meeting rooms and secure parking.

	Reported[1] (£) Year ended 31 Dec 2016	Like-for-like[2] (£) Year ended 31 Dec 2016	Reported (£) Year ended 31 Dec 2015
Total revenue	£148.7 million	£148.3 million	£147.4 million
EBITDAR	£52.5 million	£52.9 million	£55.7 million
EBITDA	£51.1 million	£51.6 million	£54.4 million
Occupancy	84.2%	85.2%	87.3%
Average room rate	£143.8	£143.9	£139.6
RevPAR	£121.1	£122.6	£121.8
Room revenue	£102.1 million	£101.8 million	£100.0 million

[1] Franchised and/or managed hotels do not count towards any of the figures presented in the table.

[2] Like-for-like figures to December 2016 exclude Park Plaza London Waterloo, which had its soft opening in the fourth quarter of 2016.

"

THE RECONFIGURATION PROJECT AT PARK PLAZA LONDON RIVERBANK WILL INCREASE THE NUMBER OF ROOMS EVEN FURTHER

"

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

Hotels under management or franchise agreements
Park Plaza County Hall London
Park Plaza Cardiff

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

The extension at Park Plaza London Riverbank has now been completed and provides a further six floors, adding a further 155 rooms to the hotel. The ground floor areas and first floor meeting facilities have been remodelled and a new restaurant created on the first floor, offering spectacular views of the River Thames. During 2017, a reconfiguration project is expected to increase the number of rooms even further.

When completed, these three projects will increase the number of rooms by 900 to 3,158 rooms within the M25 and will create almost 300 jobs for the hospitality industry in London. As a result, the Park Plaza® brand will be one of the largest international upscale and upper upscale brands in the Greater London area.

The planning of major renovation works at Park Plaza Sherlock Holmes London have continued to progress with the project due to commence in 2017. In addition, refurbishment of the public areas at Park Plaza Victoria London will also begin this year.

BUSINESS REVIEW 2016
CONTINUED

In our longer-term development pipeline, plans for our mixed-use scheme in Hoxton have continued to move forward. Our first art'otel in London, art'otel london battersea power station, has proceeded on track.

The United Kingdom hotel market*
In 2016, the United Kingdom hotel market was impacted by uncertainty regarding the EU referendum, an increase in terrorism acts in parts of Europe and a lack of notable events, such as the 2015 Rugby World Cup. However, the weakness of Pound Sterling in the second half of the year made the United Kingdom market more attractive and affordable to overseas visitors. In addition, it is predicted that 'staycations' will play a major role for hotel performance across the United Kingdom in 2017 as travelling abroad has become more expensive.

In the Greater London hotel market, the supply of hotel rooms increased by 2.7%, outstripping an uplift in demand of 1.8%. Occupancy was down by 90 bps to 81.3% and the average room rate was flat at £143.4, resulting in a 90 bps reduction in RevPAR to £116.6.

The Nottingham hotel market reported RevPAR of £43.2, an increase of 4.1%, driven by a 0.8% increase in occupancy to 74.4% and a 3.3% increase in average room rate to £58.3. In Leeds, RevPAR increased by 3.7% to £53.9, reflecting a 0.1% decline in occupancy to 70.3% and a 3.9% uplift in average room rate to £68.9.

* Source: STR Global, December 2016.

THE NETHERLANDS

Reported total revenue for our hotels in the Netherlands was up 14.4% to £48.3 million, driven by a foreign exchange benefit as a result of the devaluation of Pound Sterling.

HIGHLIGHTS

£48.3m

Total revenue

£87.0

RevPAR

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

In local currency, performance in the Netherlands was adversely impacted by political uncertainty and the weakness of Pound Sterling (reducing demand from the United Kingdom) and terrorist attacks in Brussels and Germany. In Euros, total revenue declined by 84 bps to €59.0 million.

Reported EBITDAR increased by 9.5% to £14.8 million and EBTIDA increased by 8.9% to £14.6 million; however, in local currency EBITDAR and EBITDA reduced by 3.4% and 4.0% respectively, reflecting the more challenging trading environment in the second half of 2016.

Whilst reported RevPAR increased by 13.8% due to currency movements, in local currency, RevPAR was broadly flat at €106.1 (2015: €105.7), reflecting a 1.2% decline in average room rate and 135 bps improvement in occupancy.

Against the backdrop of reduced demand in the Dutch hotel market, particularly in Amsterdam, our hotels maintained their competitive positions and (excluding Park Plaza Vondelpark, Amsterdam) outperformed their competitive sets in terms of occupancy. Park Plaza Vondelpark, Amsterdam outperformed in terms of RevPAR and average room rate.

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

Renovation projects
Works in Park Plaza Victoria Amsterdam have commenced and preparations have continued for the planned extensive renovation of Park Plaza Vondelpark, Amsterdam and Park Plaza Utrecht. The renovation at these hotels is expected to start in 2017.

The Dutch hotel market*
The hotel market in greater Amsterdam reported RevPAR increase of 17.2% to €87.88. Average room rate increased by 17.2% to €112.58, whilst occupancy was flat at 78.1%.

In Utrecht, hotels reported a 9.4% increase in RevPAR to €69.46. This increase was a result of a 6.7% increase in average room rate to €98.59 and a 2.6% increase in occupancy to 70.5%.

The market in Eindhoven reported a good growth with a 9.1% increase in RevPAR to €51.38. Average room rate increased by 5.5% to € 80.38 and occupancy increased 3.4% to 63.9%.

* Source: STR Global, December 2016.

	Reported in GBP[1] (£)		Reported in local currency Euro (€)	
	Year ended 31 Dec 2016	Year ended 31 Dec 2015	**Year ended 31 Dec 2016**	Year ended 31 Dec 2015
Total revenue	**£48.3 million**	£42.3 million	**€59.0 million**	€58.5 million
EBITDAR	**£14.8 million**	£13.5 million	**€18.1 million**	€18.7 million
EBITDA	**£14.6 million**	£13.4 million	**€17.9 million**	€18.6 million
Occupancy	**83.3%**	81.9%	**83.3%**	81.9%
Average room rate	**£104.4**	£93.3	**€127.4**	€129.0
RevPAR	**£87.0**	£76.4	**€106.1**	€105.7
Room revenue	**£35.6 million**	£31.2 million	**€43.4 million**	€43.1 million

[1] Average exchange rate from Euro to Pound Sterling for year to December 2016 was 0.82 and for the year to December 2015 was 0.72, representing a 12% increase.

BUSINESS REVIEW 2016
CONTINUED

GERMANY AND HUNGARY

As with the Netherlands, reported total revenue for Germany and Hungary benefited from currency exchange rates and increased by 14.3% to £25.0 million (2015: £21.8 million).

Reported revenue in local currency increased 0.8% to €30.5 million (2015: €30.2 million).

On a like-for-like basis, total revenue was up 9.8% to £22.7 million (2015: £20.7 million). In local currency like-for-like revenue was down 3.2% to €27.7 million (2015: €28.6 million).

Reported EBITDAR increased by 12.5% to £7.0 million (2015: £6.3 million) and by 11.1% to £6.7 million on a like-for-like basis. (2015: £6.0 million).

Reported EBITDA improved to £0.9 million (2015: £(0.4) million), which was positively affected by a £1.0 million lower incentive rent and the opening of Park Plaza Nuremburg.

On a like-for-like basis, EBITDA grew to £0.6 million (2015: (£0.4) million). In Euros, like-for-like EBITDA was €0.7 million (2015: £(0.5) million).

Since it opened, Park Plaza Nuremberg has outperformed its competitive set in average room rates and RevPAR. Guest feedback has been positive and we look forward to building on its market position further in the coming year.

Performances of some of our hotels in Berlin were affected by renovation works and these hotels were unable to outperform their competitive set. Over time, we expect the performance of these hotels to improve. Our hotel in Cologne outperformed its competitive set in occupancy, whilst our hotel in Dresden was unable to outperform its competitive set. art'otel budapest has continued to perform well during the year, significantly outperforming its competitive set in all key metrics: occupancy, average room rate and RevPAR.

Development pipeline and renovation projects

Park Plaza Nuremberg, our new 177-room hotel in Germany, fully opened in September 2016. The hotel is situated in the heart of the old town, opposite Nuremberg's 19th century Central Railway Station.

The town is home to Germany's oldest Christmas market and is within close proximity to many local attractions, including Nuremberg Zoo and its 10th century castle. In addition to a fitness centre, sauna and meeting rooms,

	Reported in GBP[1] (£)		Reported in local currency Euro (€)	
	Year ended 31 Dec 2016	Year ended 31 Dec 2015	**Year ended 31 Dec 2016**	Year ended 31 Dec 2015
Total revenue	**£25.0 million**	£21.8 million	**€30.5 million**	€30.2 million
EBITDAR	**£7.0 million**	£6.3 million	**€8.6 million**	€8.7 million
EBITDA	**£0.9 million**	£(0.4) million	**€1.1 million**	€(0.5) million
Occupancy	**70.9%**	80.4%	**70.9%**	80.4%
Average room rate	**£69.7**	£54.5	**€85.0**	€75.3
RevPAR	**£49.4**	£43.8	**€60.3**	€60.6
Room revenue	**£19.1 million**	£16.5 million	**€23.2 million**	€22.8 million

	Like-for-like[2] in GBP (£)		Like-for-like[2] in local currency Euro (€)[1]	
	Year ended 31 Dec 2016	Year ended 31 Dec 2015	**Year ended 31 Dec 2016**	Year ended 31 Dec 2015
Total revenue	**£22.7 million**	£20.7 million	**€27.7 million**	€28.6 million
EBITDAR	**£6.7 million**	£6.0 million	**€8.1 million**	€8.3 million
EBITDA	**£0.6 million**	£(0.4) million	**€0.7 million**	€(0.5) million
Occupancy	**74.2%**	79.9%	**74.2%**	79.9%
Average room rate	**£66.4**	£55.9	**€81.0**	€77.4
RevPAR	**£49.2**	£44.7	**€60.1**	€61.8
Room revenue	**£17.2 million**	£15.5 million	**€21.0 million**	€21.5 million

1 Average exchange rate from Euro to Pound Sterling for year to December 2016 was 0.82 and for the year to December 2015 was 0.72, representing a 12% increase.
2 Like-for-like figures exclude Park Plaza Nuremberg. Like-for-like figures for December 2015 excludes in the second half of the year for Park Plaza Prenzlauer Berg Berlin.

HIGHLIGHTS

£25.0m

Total revenue

£49.4

RevPAR

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

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

Hotels under management or franchise agreements
Park Plaza Trier

the hotel has opened the BA Beef Club Restaurant and the Bavarian American Bar.

The extensive renovation project refurbishing all the rooms and public spaces at art'otel berlin mitte has finished. Guest feedback scores have improved and average room rates have increased.

The lease agreement for Park Plaza Prenzlauer Berg Berlin was terminated on 30 June 2016. This termination has no material effect on the Group as a whole.

Arenaturist acquired the freehold interests in art'otel berlin kudamm and art'otel cologne which acquisition was funded by a loan agreement from Deutsche Hypothekenbank AG. Further details of this transaction are set out in Note 31 to the Consolidated financial statements.

The German and Hungarian hotel market*

The hotels in Greater Berlin reported a year-on-year increase of 3.5% in RevPAR to €74.17. This growth was a result of a 2.6% increase in average room rate to €96.12 and a 0.8% increase in occupancy to 77.2%.

In Cologne, hotels reported a 0.2% decrease in RevPAR to €80.19. This decrease was a result of a 0.7% decrease in occupancy to 71.2%, slightly offset by a 0.8% increase in average room rate to €113.04.

RevPAR in Dresden increased by 1.1% to €49.67, which was achieved through an average room rate increase of 1.8%, to €75.85, whilst occupancy decreased by 0.4% to 65.5%.

In Nuremberg, hotels reported a 15.0% increase in RevPAR to €75.40. This increase was a result of a 12.8% increase in average room rate to €105.36 and a 1.4% increase in occupancy to 71.6%.

In Hungary, the performance of the hotel market in Budapest continued to improve with RevPAR increasing by 9.4% to HUF 17,829.02. This growth was a result of a 6.5% increase in average room rate to HUF 23,683.02 and a 2% increase in occupancy to 75.3%.

* Source: STR Global, December 2016.

BUSINESS REVIEW 2016
CONTINUED

CROATIA

Following the acquisition of a controlling interest in our Croatian operations, results for our operations in Croatia have been consolidated into the Group results from 1 April 2016, denoted as the like-for-like performance.

Hotels and self-catering holiday apartment resorts with an ownership interest
Park Plaza Histria Pula
Park Plaza Arena Pula
Park Plaza Verudela Pula
Park Plaza Belvedere Medulin
Hotel Sensimar Medulin
Guest House Riviera
Hotel Brioni
Hotel Holiday
Ai Pini Medulin Resort
Splendid & Horizont Resort
Verudela Beach and Villas Resort
Kamp Kažela

Reported total revenue was £46.1 million. On a like-for-like basis, total revenue increased by 24.2% to £46.1 million (2015: £37.1 million), reflecting the devaluation of Pound Sterling against the Kuna and strong trading in the summer season. In local currency, the like-for-like total revenue grew by 8.2% to HRK 423.1 million (2015: HRK 391.2 million).

Like-for-like RevPAR in Pound Sterling grew by 25.1% to £49.8 (2015: £39.8), and by 9.0% in local currency to HRK 457 (2015: HRK 419), driven by a 5.4% increase in average room rates to HRK 746 (2015: HRK 707) and a 210 bps uplift in occupancy to 61.3% (2015: 59.2%).

In Pound Sterling like-for-like EBITDA was £16.8 million, an increase of 23.3%, reflecting the weakening of Pound Sterling against the Kuna. In local currency, like-for-like EBITDA was up 7.6% to HRK 153.9 million, reflecting strong trading during the summer 2016 season.

It should be noted that our operations in Croatia are of a highly seasonal nature and the main trading months are June to September. The performance of the main shoulder months (April, May and October) are highly dependent on the timing of public holidays (particularly Easter) and school holidays, as well as weather conditions.

Renovation projects
Extensive renovation works across the portfolio were completed between 2012 and 2015, strengthening our Croatian hotels' market position. In total we operate 2,778 rooms in Croatia.

In June 2016, six suites were added to the inventory at Park Plaza Arena Pula in time for the peak summer season, bringing the total number of rooms at this hotel to 181. These new suites have been well-received by the market.

The addition of a new golf driving range and putting green adjacent to Park Plaza Verudela Pula was opened in early summer, extending the resort's leisure offering and widening its appeal to guests.

The Croatian hotel market
Croatia has continued to be an attractive holiday destination, particularly against the backdrop of terrorist attacks in some other affordable leisure markets such as North Africa and Egypt.

	Like-for-like in GBP[1,2] (£)		Like-for-like in local currency[2] (HRK)	
	1 April 2016 to 31 Dec 2016	1 April 2015 to 31 Dec 2015	**1 April 2016 to 31 Dec 2016**	1 April 2015 to 31 Dec 2015
Total revenue	**£46.1 million**	£37.1 million	**HRK 423.1 million**	HRK 391.2 million
EBITDAR	**£17.5 million**	£14.2 million	**HRK 160.4 million**	HRK 149.7 million
EBITDA	**£16.8 million**	£13.6 million	**HRK 153.9 million**	HRK 143.0 million
Occupancy	**61.3%**	59.2%	**61.3%**	59.2%
Average room rate	**£81.3**	£67.2	**HRK 746**	HRK 707
RevPAR	**£49.8**	£39.8	**HRK 457**	HRK 419
Room revenue	**£26.5 million**	£21.1 million	**HRK 243.0 million**	HRK 222.6 million

1 Average exchange rate from Kuna to Pound Sterling for year to December 2016 was 0.11 and for the year to December 2015 was 0.09, representing a 13% increase.
2 The Croatian operations have been consolidated from 1 April 2016 and the 2015 like-for-like comparision number is adjusted to reflect the same period.

MANAGEMENT AND HOLDINGS OPERATIONS:

	Reported in GBP (£)	
	Year ended 31 Dec 2016	Year ended 31 Dec 2015
Total revenue before elimination	**29.2 million**	32.6 million
Revenue within the consolidated Group	**(24.8) million**	(25.4) million
External and reported revenue	**4.4 million**	7.2 million
EBITDA	**10.7 million**	12.6 million

Hotels under management and franchise agreements
Park Plaza County Hall London
Park Plaza Cardiff
Park Plaza Trier
Park Plaza Orchid Tel Aviv

Our performance
As an owner/operator, the majority of our hotel portfolio is owned and managed by us, and all related hotel management revenues and recharged expenses for these hotels, which are included under the segment 'Management and Holdings', are eliminated upon consolidation as intra-Group revenue. This is a presentation adjustment only and does not affect the EBITDA of Management and Holdings. The segment also includes the costs of the management company, corporate office expenses and certain holding companies.

Management considers this segment crucial to its operations and the performance should be reviewed taking all revenue (before elimination) into consideration.

Total Management and Holdings revenue decreased by 10.4% to £29.2 million (2015: £32.6 million) due mainly to decreased operating profits in the hotels, which has impacted the incentive fees. After elimination (consolidated presentation) of intra-Group revenue, reported revenues decreased by 39% to £4.4 million (2015: £7.2 million). This decrease was primarily the result of consolidation of the Croatian investment, as this group is consolidated after the acquisition in April 2016 and fees are now eliminated upon consolidation. Reported EBITDA decreased by 15.3% to £10.7 million (2015: £12.6 million), mainly due to an increase in legal and consultant costs incurred in a year of significant corporate activity.

CORPORATE SOCIAL RESPONSIBILITY*
/
OUR COMMITMENT TO PEOPLE AND COMMUNITIES

* All numbers and initiatives presented in this CSR report apply to the Group's owned and managed hotels located in the United Kingdom, the Netherlands, Germany and Hungary.

Our commitment
At PPHE Hotel Group, operating responsibly and sustainably is integral to our business model and strategy. As an owner and operator of hotels, restaurants, bars and spas across several countries in Europe, we fully recognise that we play a significant role and that our activities in this area can make a real difference.

With the commitment to make a difference in preserving the environment for future generations and positively impacting people's lives and the local communities in which we operate, the Group is actively involved with several sustainability initiatives and community and charity focused activities.

The areas of emphasis we have identified include:

- Our people
- Our communities
- Our environment

The policies and procedures we have developed for corporate social responsibility (CSR) support team members working in our hotels and other operations in understanding how to approach, assess and manage social, ethical and environmental matters. We recognise the importance of climate change and human rights and believe that we should avoid negative impacts on ecosystems, communities and the environment. Where impacts are unavoidable, they must be appropriately minimised, mitigated or offset.

This report focuses on areas of progress and our performance across all areas of CSR which are considered to be relevant by our stakeholders and are also important to the success of our business. The Group has developed several key performance indicators that reflect the importance the Group places on CSR and enable the Board to monitor the Group's progress in meeting its objectives and responsibilities in these areas.

We have an effective top-to-bottom 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 ('TREE Teams', which stands for Total Responsibility for Everyone's Environment), ultimately reaching all team members across the Group. Our CSR policy is also part of the 'Feeling Welcome' induction programme for new team members. All colleagues are accountable for doing business responsibly, which is integral to the way we recruit, develop, assess, promote and reward them – from senior management to the kitchen trainee.

CERTIFICATION

It is important for us to know if we are on the right track with our activities and we therefore highly value external accreditation. Several of our hotels have worked with respectable authorities within the CSR area and have received the relevant accreditation. We will be reviewing similar initiatives for our other hotels.

Plaza on the River London	Gold Award	The Green Tourism Business Scheme, UK
Park Plaza County Hall London	Gold Award	The Green Tourism Business Scheme, UK
Park Plaza Westminster Bridge London	Gold Award Gold Award Environmental Action Certificate	The Green Tourism Business Scheme, UK Green Achiever Scheme Global Action Plan
Park Plaza London Riverbank	Gold Award	The Green Tourism Business Scheme, UK
Park Plaza Sherlock Holmes London	Silver Award	The Green Tourism Business Scheme, UK
Park Plaza Victoria London	Silver Award	The Green Tourism Business Scheme, UK
Park Plaza Leeds	Silver Award	The Green Tourism Business Scheme, UK
Park Plaza Nottingham	Gold Award	The Green Tourism Business Scheme, UK
Park Plaza Victoria Amsterdam	Silver Award	The Green Key
Park Plaza Amsterdam Airport		Green Globe Certification
Park Plaza Utrecht	Gold Award Green Pluim (Green Compliment)	The Green Key Local municipality (Ten green businesses in the city)
Park Plaza Eindhoven	Gold Award Silver Award	The Green Key Sustainable Entrepreneur (local municipality)

CORPORATE SOCIAL RESPONSIBILITY
CONTINUED

MANAGING CSR AT THE GROUP

Our CSR policy forms an integral part of our values and context and is proactively lived by the hotels and their teams.

VISION
MISSION
VALUES
CONTEXT
STRATEGY

↔ CORPORATE SOCIAL RESPONSIBILITY ↔

REGIONAL MANAGERS AND GENERAL MANAGERS

OUR PEOPLE

2,700

employees

30+

nationalities

Our values and culture
The Group is a truly multi-national organisation and we employ approximately 2,700 employees of over 30 different nationalities. In the summer season, we employ nearly 3,600 employees. Collectively our team members speak more than 70 languages. Our workforce is very diverse but we aim to share the same values across our business.

Our core values are:

- Trust
- Respect
- Teamwork
- Enthusiasm
- Commitment
- Care

Our culture is one of openness, trust, support, caring and connecting, but is also about personal growth and being proactive. Our leadership is expected to inspire, to guide our teams, to be communicative and to lead by example.

Leadership in a global industry, such as ours, requires a strong group culture and an inclusive business environment, where the best and most passionate hospitality minds, and employees with varied perspectives and backgrounds, skills and experiences, work together to meet the demands from increasingly selective customers. We believe that employing talent from all groups within our communities, from many backgrounds and with varied experiences, helps us to better serve our guests and gives us a competitive advantage in the global marketplace.

To achieve this, we seek to hire, inspire, empower and nurture talent from around the world.

Multi-channel resourcing strategy
To support our existing operations and growth, we have developed a 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 thereby demonstrating our culture and values. To support our recruitment activities we have developed a Team Value Proposition (TVP) and enhanced our interview guides for all team members who have a recruitment responsibility.

Employer branding and value proposition for Park Plaza®
To support the 2016 and 2017 openings and relaunches of several Park Plaza® branded hotels, our teams set out to develop a clear and appealing TVP for the Park Plaza® brand. Focus groups with existing team members were conducted by a third party and the insights gained have been used to develop brand pillars and brand values. The Park Plaza® TVP is unique, relevant, compelling and a key driver in our approach and mindset to talent engagement, attraction and retention. This exciting new instrument will help our teams to 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, which is being created by and for team members, who have a genuine opportunity to express their individuality and passion and who positively contribute to each guest's stay with us.

The Prince's Trust

We are proud to have entered into a resourcing partnership with The Prince's Trust, a leading people development charity in the United Kingdom founded by His Royal Highness Charles, Prince of Wales, to help young people from disadvantaged backgrounds. The trust runs a range of training programmes, provides mentoring support and offers financial grants to build confidence and motivation. Each year the trust works with about 60,000 young people, with around 80% being recruited into employment, education, training or volunteering. At the trust's 'Get Hired' events, the Group has presented its various career opportunities and we were identified as an employer of choice, with participants responding well to the Park Plaza® TVP. Several participants of these events have since applied and joined our various teams. In 2017 we will be hosting 'Get Hired' events at our London properties, with the view of showcasing our hotels and attracting more young people into our business. We are exploring opportunities to further strengthen this partnership in the form of apprenticeships and additional resourcing collaborations.

Employee engagement

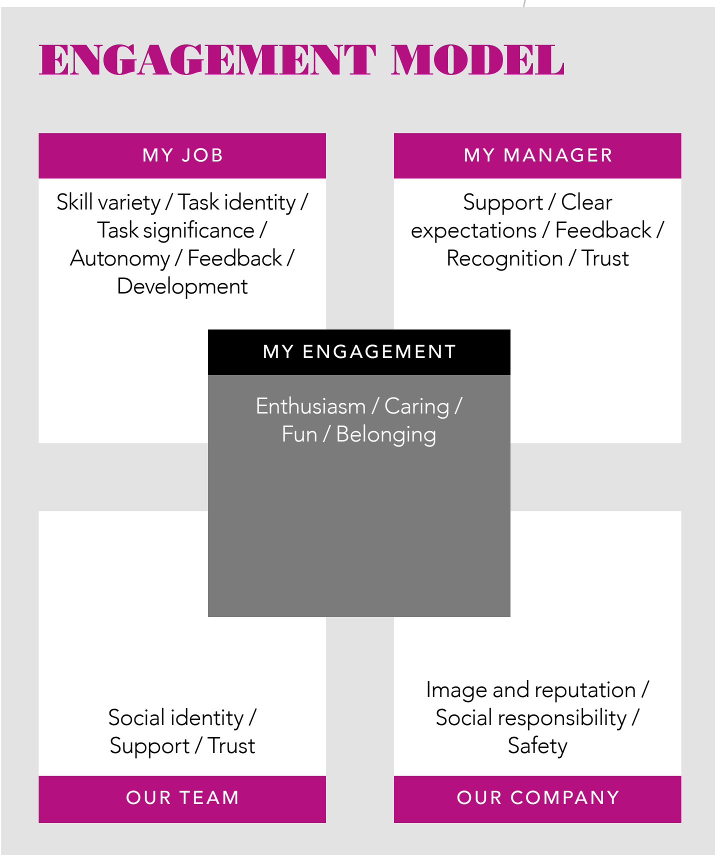
In the hospitality industry, having a highly engaged workforce is imperative to success and our ability to attract and retain highly competent and motivated team members, who embody our company context and values, plays an important part in the further development of the Group. Creating a culture where 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.

Within the Group, we first began measuring employee satisfaction in 2008 and this is now well embedded in our business. By listening to, and acting upon, the feedback received through the employee satisfaction surveys, we have been successful throughout the years in increasing overall employee satisfaction. In 2015, we adopted the model of measuring employee engagement instead of employee satisfaction.

We have defined an engaged team member as someone who is enthusiastic and caring and has fun in the delivery of inspirational service. It is a person who feels valued and proud and who is committed to the Company's success and his/her own career and personal development.

To measure employee engagement, we have, in partnership with a third party expert, created an engagement model and four engagement drivers. By answering detailed questions across these four engagement drivers, overall engagement of our team members is established. The four engagement drivers are: My Job; My Manager; Our Team; and Our Company.

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 2016, we achieved an overall engagement score of 84.9, which is a year-on-year improvement of 70 bps. With 2,630 team members participating in the survey, the participation ratio increased by 100 bps to 93% of all Group employees.



CORPORATE SOCIAL RESPONSIBILITY
CONTINUED

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 whistleblowing policy, which was also introduced in 2013. We have a zero-tolerance 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.

Suppliers and business partners
A key area of CSR impact for the Group lies in our supply chain – in the goods and services we buy both in the countries where we operate and from elsewhere. Any procurement decision needs to ensure that our hotels get the goods and services they need to operate effectively, and at the right price. However, these decisions also need to include robust due diligence to ensure that any social and environmental issues are properly understood and addressed.

CSR considerations therefore inform all our procurement decisions and we are continuing to develop management processes accordingly.

Our intention is not to put inappropriate pressure on our suppliers; we seek to work in cooperation with them and are proactively engaged on these issues with our first and second tier suppliers. Over time we intend to move further down our supply chain. We will not reject suppliers because they present environmental or social challenges, but only if they refuse to address them. To that end we expect our suppliers to be transparent and to provide CSR-relevant information about the goods or services they provide. Where issues do emerge we will work with our suppliers to address them. We expect all our suppliers to comply with all relevant legislation in the countries where we operate. This includes laws covering the environment, health and safety and employment, as well any other regulations relating to the goods or services they provide. They also need to comply with all relevant legislation that exists in the countries from which goods supplied to the Group are sourced. The environmental and social issues we face in our supply chain are constantly changing and evolving. To that end we will continue to improve and strengthen our procurement processes to ensure that relevant issues are properly understood and managed in each buying decision we make.

84.9%

employee engagement score (on a scale of 1–100%)

93%

participation ratio in employee engagement surveys

Health and safety

The health and safety of our team members and our customers is critical to the Group and is a major priority. We recognise the necessity of safeguarding the health and safety of our own team members while at work and of our guests, when staying at or visiting any of our hotels, and operate so as to provide a safe and comfortable environment for team members, guests and the public. Our policy is to manage our activities to avoid causing any unnecessary or unacceptable risks to health and safety and our immediate environments. The Group has an excellent health and safety record and a culture of safety is deeply embedded within the Group.

To ensure that each of our operations not only maintain its standards of health and safety but strives for ongoing improvement, each business is audited at least twice per year, ensuring consistency of standards and compliance with both regional regulatory requirements and Group policies and procedures.

Learning and development

We recognise that our team members determine our success and we therefore invest in and encourage their development more and more each year, not only with a tailored set of the Group's development programmes, but also through clear leadership and decisive action. All our learning and development activities are provided for through our proprietary you:niversity framework, which has been created to support the personal growth of every team member in the business. We provide a structured range of learning and development activities that proactively enable our employees at all levels to gain the required skills, knowledge and behaviours. In addition we aim to proactively engage our employees in achieving their growth potential, ensuring fair chances of career progression.

In 2016, our various trainings were delivered by more than 65 internal trainers, with the support of over 120 internal coaches. With several new openings in the year, more than 770 new team members attended our mandatory induction programme. Our induction programme is an extensive, yet effective module, which ensures that new starters gain a solid understanding of our culture, values and their role in delivering highly memorable guest experiences. Our activities in this area were recognised with an HR in Hospitality Award, in the category 'Embedding Company Culture'.

Our learning and development programmes are constantly reviewed to reflect changing training needs amongst our companies.

CORPORATE SOCIAL RESPONSIBILITY
CONTINUED

165+

promotions and transfers

300+

new jobs created

Talent management
It is our aim to support and develop talented team members (with high performance and high potential) to develop and grow their careers within the Group. Effective talent management has continued to play an important role in 2016 and remains a high priority for the future success of our business to ensure that we deliver on our vision of realising growth potential. Managing our talent as a resource is an operational responsibility, supported by the Human Resources and Learning & Development representatives in each hotel and in each region. In 2016, we appointed a dedicated Resourcing Manager to help in the further development of our strategy in this area. In 2016, we had over 165 promotions and transfers throughout our regions, of which there were 127 internal transfers and promotions in the United Kingdom alone. We have also created over 300 new positions with the openings of the new hotels.

Foundation in Management programme
To support the development of our managers in the business, the Foundation in Management programme was created in 2014. This programme is aimed at line managers, team leaders and operational managers who have been identified as talented individuals. The programme aims to further develop their leadership and management skills and the knowledge and behaviour required of managers to ensure that they are able to further drive performance of our businesses. In 2016, 22 team members from across our operating regions successfully applied for this programme, with 21 participants successfully completing their course. To date, eight out of 21 team members who completed this programme in 2016 have been promoted and/or taken on additional managerial responsibilities.

STEP UP programme
In 2015, we launched a new personal development programme aimed at supervisors and junior heads of departments. This programme contains five modules and is based on the 70–20–10 learning model. This model holds that individuals obtain 70% of their knowledge from on-the-job related experiences, 20% from interactions with others and 10% from formal educational events. This programme is intended to further develop the performance of these team members and prepare them for further career development. In 2016, 67 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 will launch this initiative in our Croatian region.

you:niversity plus
Being able to attract and retain students and apprentices from hospitality education programmes is becoming more and more important in a competitive European employment market. We have therefore intensified and extended our cooperations with universities and local hospitality high schools across all of our operating regions. We have tailored our you:niversity plus programme, which is aimed at apprentices, in each of our regions to reflect local requirements. In 2016, 39 students successfully completed our you:niversity plus programme.

Technology and communication
you:niverse
In early 2016, we upgraded our you:niverse intranet, with the objective of providing easy access to information, sharing knowledge and equipping our team members with useful business applications and management tools in order to further increase efficiency, improve brand consistency and drive employee engagement.

People system
To support our growth and improve our overall efficiency, we are currently in the process of implementing an E-HRM (Human Resources Management) system for our Group, starting with the United Kingdom. Our objective is to have a fully-integrated E-HRM people system that wholly embraces and uses technology for:

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

Application tracking system
Following the successful completion of a pilot in several London hotels, we are currently implementing an application tracking system. This system digitally records and tracks all applications across our hotels, providing recruiters with instant access in relation to applicants and their process status.

OUR ENVIRONMENT

Sustainability
Sustainability is high on our agenda, with our recognition that our industry, including our Group, has a direct impact on the environment. Our strategy is to minimise this impact as much as possible through innovative construction methods, progressive investment in sustainable alternatives, team member education and engagement, and engaging with our guests and having them contribute to our sustainability projects as and when appropriate. To drive our activities locally, we have created local teams who manage these processes and activities. We have identified several areas of focus such as a reduction in our carbon footprint, water preservation, waste management and the use of natural resources. For each of these areas we have set key performance indicators for our local management teams to use. In addition, all our hotels are encouraged to continue to improve their rating from independent organisations and associations such as The Green Key and The Green Tourism Business Scheme.

Our hotels are also encouraged to improve energy efficiency, reduce waste and carbon emissions and reduce the use of consumables such as cleaning materials, packaging and paper, with a view to further minimising their environmental impact. At the same time, we have an active policy of recycling as much as possible and have successfully introduced several other initiatives in recent years such as waste baler machines and our own water bottling plant at Park Plaza Westminster Bridge London.

Carbon emissions
Baseline data for our reduction in carbon emissions was established in 2011 and the target against this baseline was set at a 20% reduction by the end of 2017. This target has since been communicated internally and explained to our hotel teams. Local hotel management teams, overseen by Regional General Managers, have been made responsible for implementing the necessary policies to achieve this target collectively.

We are pleased to report that in 2016 we successfully achieved this target, one year ahead of schedule, having reduced our carbon emissions by 21%. This reduction has been achieved through collective efforts, including the upgrading of our building management systems, the replacement of halogen lights with LED lights across many of our hotels, the implementation of fridge monitoring devices, the use of innovative construction techniques for new and renovated hotels, and the development of greater awareness and accountability among our team members.

Looking ahead, we will continue with several energy saving projects and initiatives to ensure that we further reduce our impact on the environment.

Giving our guests a choice
Now into its second year, 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 water, electricity and cleaning materials used. In addition, guests have an option to benefit from either a credit to use in our restaurants or bars, bonus Club Carlson℠ points or a donation to a local charity of our choice.

Further progress will continue to be reported via our Annual Report and our website.

21%

reduction in carbon emissions since 2011 target was set

BOARD OF DIRECTORS / EXPERIENCED LEADERSHIP

ELI PAPOUCHADO, 79
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, 71
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)

CHEN MORAVSKY, 46
DEPUTY CHIEF EXECUTIVE OFFICER & CHIEF FINANCIAL OFFICER

Skills and experience

/ Appointed Deputy Chief Executive Officer in August 2014

/ Chief Financial Officer of the Group since 2005

/ 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

KEVIN McAULIFFE, 59
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 (since 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

DAWN MORGAN, 52
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, 55
NON-EXECUTIVE DIRECTOR

Skills and experience

/ Member of the Royal Institution of Charted 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

GOVERNANCE HIGHLIGHTS FOR 2016

- Change of Non-Executive Director
- 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 2014 (the 'Corporate Governance 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 Corporate Governance Code which they consider appropriate, taking into account the size of the Company and the nature of its business.

> "THE BOARD HAS RESPONSIBILITY FOR THE GROUP'S STRATEGIC AND FINANCIAL POLICIES AND MEETS REGULARLY"

Board composition, roles and independence
The Company currently has six Directors, four of whom are Non-Executives (including the Chairman, Eli Papouchado). The two Executive Directors are Boris Ivesha, President & Chief Executive Officer, and Chen Moravsky, Deputy Chief Executive Officer & Chief Financial Officer.

The Corporate Governance Code recommends that the Board of Directors of a listed company includes a balance of Executive and Non-Executive Directors such that no individual or small group of individuals can dominate the Board's decision-making. The Corporate Governance 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 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 Corporate Governance Code. On 19 May 2016, Eli Papouchado appointed Roni Hirsch as his alternate Director in place of his previous alternate Yoav Papouchado.

Kevin McAuliffe and Nigel Jones have served on the Board for more than nine years, and in that respect only, will not meet the usual criteria for independence set out in the Corporate Governance 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.

As recommended by the Corporate Governance Code, three of the Directors (being more than half of the Board excluding the Chairman), 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 Corporate Governance Code, the Board has appointed Mr. 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 four Audit Committee meetings, three Remuneration Committee meetings, one Nominations Committee meeting and 13 Ad Hoc Committee meetings.

CORPORATE GOVERNANCE STATEMENT
CONTINUED

Meeting and Committee attendance

Name	Role	Board meetings	Ad Hoc Committee	Audit Committee	Remuneration Committee	Nominations Committee
Eli Papouchado	Non-Executive Chairman	1	–	NA	NA	NA
	Alternate Director on behalf of Eli Papouchado	4	–	NA	NA	NA
Boris Ivesha	President & Chief Executive Officer	5	1	NA	NA	NA
Chen Moravsky	Deputy Chief Executive Officer & Chief Financial Officer	6	5	NA	NA	NA
Kevin McAuliffe	Non-Executive Director & Senior Independent Director	6	11	4	3	1
Elisha Flax	Non-Executive Director (replaced by Dawn Morgan at the previous Annual General Meeting on 19 May 2016)	2	1	–	–	1
Nigel Jones	Non-Executive Director	6	11	4	3	1
Dawn Morgan	Non-Executive Director (replaced Elisha Flax at the previous Annual General Meeting on 19 May 2016)	5	5	3	NA	–
Total meetings held		6	13	4	3	1

At the previous Annual General Meeting on 19 May 2016, the appointment of Dawn Morgan as an independent Non-Executive Director was approved. Ms. Morgan replaced Elisha Flax, who stood down as both a Non-Executive Director and a member of the Audit Committee, Remuneration Committee and Nominations Committee. Following Ms. Morgan's appointment the Company has one female Director out of our complement of six.

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 set up. Upon Dawn Morgan's appointment, she underwent an induction to the Board where she travelled with Kevin McAuliffe to visit a number of the Group's hotels and to meet key persons.

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 conflicts 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.

The Board evaluates its performance and considers the tenure of each Director on an annual basis, and believes that the mix of skills, experience, age 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 scope of these roles is approved and kept under review by the Board so that no individual has unfettered decision-making powers.

The Chairman is responsible for the leadership and governance of the Board and the Chief Executive Officer 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 his Deputy and senior management.

During the financial year, the Board held six Board and 13 Ad Hoc Committee meetings.

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; and
- 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 (D&O insurance).

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.

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

Ms. Morgan is a chartered accountant and a former Finance Director. As such, the Board is satisfied that she has 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 four formal Audit Committee meetings during 2016. The Audit Committee maintains its watching brief by virtue of its monthly update calls with the Group's Deputy Chief Executive Officer & 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.

CORPORATE GOVERNANCE STATEMENT
CONTINUED

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 three Remuneration Committee meetings during 2016.

Nominations Committee
The Nominations Committee comprises of Kevin McAuliffe (Chairman), Nigel Jones and Dawn Morgan. Whenever possible, all such 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 2016.

Communications with shareholders
The Board is accountable to the Company's shareholders and as such 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 short-term financial performance 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 and the Deputy Chief Executive Officer & Chief Financial Officer provide periodic feedback to the Board following meetings with shareholders.

The Annual General Meeting provides an opportunity for communication with all shareholders and the Board encourages the shareholders to attend and welcomes their participation. The Directors attend the Annual General Meeting and are available to answer questions. Details of resolutions (including a resolution to update the Company's Memorandum and Articles of Incorporation, primarily to ensure consistency with The Companies (Guernsey) Law, 2008, which has recently been amended) to be proposed at the Annual General Meeting of the Company to be held on 8 May 2017 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

Share dealing code
The Company has adopted a new share dealing code for Directors and relevant employees, which replaces the previous share dealing code. The new share dealing code is in accordance with the requirements of the Market Abuse Regulation (Regulation (EU) No. 596/2014) and applicable legislation which were implemented on 3 July 2016.

Shareholder enquiries
For information about the management of shareholdings please contact our registrar:

Shareholder Services
Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
United Kingdom

E: shareholder.services@capitaregistrars.com
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
Chen Moravsky
Deputy Chief Executive Officer
& Chief Financial Officer
County Hall – Riverside Building
2nd Floor, Belvedere Road
London SE1 7GP
United Kingdom

T: +44 (0)20 7034 4800
F: +44 (0)20 7034 4819
E: cmoravsky@pphe.com

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

Financial calendar
Financial year: 1 January to 31 December
Interim: Six months ending 30 June
Results
Interims: August 2017
Final: March 2018
Annual General Meeting: 8 May 2017

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 Deputy Chief Executive Officer & 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 their third 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 finding, 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 also held with the internal auditor without the presence of any member of executive management.

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

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, Deputy 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 the 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 strengthened its technical accounting expertise with the addition of Dawn Morgan as a replacement for Elisha Flax, who stood down as both a Non-Executive Director and a member of the Audit Committee. The Audit Committee met four times during the year and received regular monthly financial updates from the Deputy Chief Executive Officer & Chief Financial Officer on the Group's performance. Attendance of the individual Directors, who served on the committee throughout the year, is shown in the table on page 72.

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 2016, and the interim results for the period ended 30 June 2016
- The performance of the Group's assets throughout the year
- The Group's refinancing activities
- Arrangements reached with related parties
- Selection and appointment of auditors
- The Group's internal control and risk management policies and systems, and their effectiveness, including reviewing reports from the internal audit team relating to:
  - Major business risks
  - Corporate borrowing compliance
  - Guest security
  - IT systems
  - Food and beverage services
- 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 taken
- During the year, the Audit Committee visited two major development sites in the United Kingdom to monitor the project management and progress

Objectives achieved following recommendations by the Audit Committee

- Increased controls on corporate borrowings
- Changes to guest security policies and procedures
- Changes to food and beverage procedures

On behalf of the Board

KEVIN McAULIFFE
CHAIRMAN OF THE AUDIT COMMITTEE

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 strategic objectives 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 Deputy Chief Executive Officer & Chief Financial Officer may provide advice to the Remuneration Committee as necessary (save in respect of their own remuneration).

Contracts and letters of appointment
The Executive Directors have rolling contracts which may be terminated on 12 months' notice by the Group or on six months' notice by the Executive Director. There are provisions for earlier termination by the Group in certain specific circumstances. In the event that Mr. Moravsky's appointment is terminated, Mr. Moravsky is entitled to one month's annual salary per each year of service.

Each Non-Executive Director has specific terms of reference. The Chairman's letter of appointment provides for an indefinite term. Mr. McAuliffe's and Mr. Jones' respective letters of appointment provide for a fixed term expiring on the tenth anniversary of their date of appointment, subject to re-election at each Annual General Meeting, and Ms. Morgan's letter of appointment provides for a fixed term expiring on the third anniversary of her 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 of 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 D&O insurance.

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

Pensions
Mr. Ivesha and Mr. Moravsky are entitled to pension contributions. The other Directors are not entitled to, nor receive, pension plan contributions.

Name of Director	Date of appointment	Notice period
Dawn Morgan	19 May 2016	3 months
Boris Ivesha	14 June 2007	12 months from Group, 6 months from Mr. Ivesha
Kevin McAuliffe	15 June 2007	3 months
Chen Moravsky	14 June 2007	12 months from Group, 6 months from Mr. Moravsky
Nigel Jones	26 June 2007	3 months
Eli Papouchado	26 June 2007	3 months

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	326	300	726
Performance related incentive	–	113	178	291
Other taxable benefits	–	110	124	234
Total remuneration for the year ended 31 December 2016	100	549	602	1,251
Total remuneration for the year ended 31 December 2015	100	566	532	1,198

Non-Executive Directors	Kevin McAuliffe	Nigel Jones	Elisha Flax	Dawn Morgan	Total
Salary and fees					
Total remuneration for the year ended 31 December 2016	53	47	24[1]	27[2]	151
Total remuneration for the year ended 31 December 2015	53	43	48	N/A	144

[1] If accounted on a full-year basis, £48,000.
[2] If accounted on a full-year basis, £43,000.

Details of share awards and options granted to Directors are included in the table below.

Director	Number of options	Number vested as at 31 December 2016	Exercise price
Chen Moravsky	70,000	70,000	£2.33

On behalf of the Board

KEVIN McAULIFFE
CHAIRMAN OF THE REMUNERATION COMMITTEE

DIRECTORS' REPORT

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2016.

Principal activities
The Company is a Guernsey registered company and through its subsidiaries, jointly controlled entities and associates, 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 Europe, the Middle East and Africa. The art'otel® brand is wholly owned by the Group.

The Group has a controlling ownership interest (77.09% of the share capital) in the Arenaturist group, one of Croatia's best known hospitality groups. (See Note 31 to the Consolidated financial statements.)

The Group's portfolio of owned, leased, managed and franchised hotels comprises 40 hotels offering a total of over 9,200 rooms.

The Group's development pipeline includes two new hotels, which are expected to add an additional 500 rooms to the portfolio by the end of 2019.

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, Deputy Chief Executive Officer & Chief Financial Officer's statement and Business review 2016.

Results and 2016 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 £0.83 (2015: £0.70). The Board recommends to the Annual General Meeting to authorise the payment of a final dividend of 11 pence per share for the year ended 31 December 2016.

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.

Number of issued shares	44,065,862
Held in treasury by the Group	1,862,000
Number of issued shares (excluding treasury)	42,203,862

Shareholders with holdings of 3% or more of the Company's issued share capital (excluding treasury) as at 13 February 2017	Number of shares	Percentage of issued share capital (excluding treasury)
Red Sea Group	18,552,714	43.96
Molteno Limited	7,990,027	18.93
Aroundtown Property Holdings Limited	3,760,000	8.91
Hargreave Hale*	2,422,945	5.74

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

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 tool 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 40 and 41 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 40 and 41. 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)
- Elisha Flax (Independent Non-Executive Director) (until 19 May 2016)
- Nigel Jones (Independent Non-Executive Director)
- Dawn Morgan (Independent Non-Executive Director) (from 19 May 2016)

On 19 May 2016, Eli Papouchado appointed Roni Hirsch as his alternate Director in place of Yoav Papouchado, his previous 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 2016, taking into account all our hotels, under all types of contract, approximately 2,700 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 80 shows shareholders holding 3% or more of the issued ordinary shares (excluding treasury) as at 13 February 2017, of which the Company has been notified by its Registrar.

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 2017 and 2018 which show that the Group's hotel operations will be cash generative during the period. 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 2016 Consolidated financial statements on a going concern basis.

DIRECTORS' REPORT
CONTINUED

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
Arenaturist acquired the freehold interests in art'otel berlin kudamm and art'otel cologne which acquisition was funded by a loan agreement from Deutsche Hypothekenbank AG. Further details of this transaction are set out in Note 31 to the Consolidated financial statements.

Directors' responsibilities
The Directors are required to prepare the Directors' Report and the Consolidated financial statements for each financial year which 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
The Board confirms to the best of its knowledge that 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.

The Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face, and provides information necessary for shareholders to assess the Company's performance, business model and strategies.

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

Signed on behalf of the Board by Boris Ivesha and Chen Moravsky.

BORIS IVESHA
PRESIDENT & CHIEF EXECUTIVE OFFICER

CHEN MORAVSKY
DEPUTY CHIEF EXECUTIVE OFFICER
& CHIEF FINANCIAL OFFICER
28 FEBRUARY 2017

FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PPHE HOTEL GROUP LIMITED

Report on the audit of the Consolidated financial statements

Opinion

We have audited the Consolidated financial statements of PPHE Hotel Group Limited (the Company), which comprises the consolidated statement of financial position as at 31 December 2016, 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 2016 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 2016. 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.

In 2016, the Group acquired the remaining 80% interest, which it did not previously own, in its investment in Croatia through Bora B.V. ('Bora') for a total consideration of €51.0 million. The Company prepared a purchase price allocation for the acquisition, with the assistance of an external expert, by which the purchase price was allocated to the assets and liabilities of the respective acquired company based on their fair value. As the fair value of the net assets acquired exceeded the purchase price, the allocation resulted in a bargain purchase gain of approximately £27.0 million. The details of the acquisition and the purchase price allocation are disclosed in Note 3 to the Consolidated financial statements.

Given the significance of the purchase consideration and the management estimates that are required to prepare a purchase price allocation, we consider the acquisition to be a key audit matter.

In our audit we considered the purchase agreement, consideration paid and the Company's assessment of the purchase price allocation. An important element of our audit concerned the identification of acquired assets (e.g. valuation of the campsites) and liabilities assumed. We have corroborated this identification with our knowledge of the business of Bora, business plans, and management's explanations of the rationale of the acquisition and future plans. We have tested the fair values of assets and liabilities based on commonly used valuation models. We involved our valuation specialists in our audit of the fair values. Furthermore, we assessed the appropriateness of the disclosures in the Consolidated financial statements regarding the acquisition.

Other information included in the Company's 2016 Annual Report

Other information consists of the information included in the 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 AUDITORS' 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 Ronen Kimchi.

RONEN KIMCHI
(FOR AND ON BEHALF OF KOST FORER GABBAY & KASIERER, MEMBER OF ERNST & YOUNG GLOBAL)
TEL AVIV
28 FEBRUARY 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December	
		2016	2015
	Note	**£'000**	£'000
Assets			
Non-current assets:			
Intangible assets	4	**25,158**	21,878
Property, plant and equipment	5	**1,069,702**	813,026
Investment in associates	6(a)	**–**	16,483
Investment in joint ventures	7	**18,409**	17,328
Other non-current assets	8	**3,090**	16,900
Restricted deposits and cash	14(b)	**5,235**	–
Deferred income tax asset	26	**713**	–
		1,122,307	885,615
Current assets:			
Restricted deposits and cash	14(b)	**25,513**	3,206
Inventories		**2,412**	999
Trade receivables	9	**12,576**	9,154
Other receivables and prepayments	10	**10,370**	7,721
Cash and cash equivalents	11	**144,732**	50,623
		195,603	71,703
Total assets		**1,317,910**	957,318
Equity and liabilities			
Equity:	12		
Issued capital		**–**	–
Share premium		**129,527**	129,140
Treasury shares		**(3,208)**	(3,208)
Foreign currency translation reserve		**14,450**	(19,449)
Hedging reserve		**(895)**	(14,944)
Accumulated earnings		**159,755**	176,365
Attributable to equity holders of the parent		**299,629**	267,904
Non-controlling interests		**30,573**	–
Total equity		**330,202**	267,904
Non-current liabilities:			
Borrowings	15	**642,120**	440,110
Provision for litigation	16(a)	**3,392**	–
Provision for concession fee on land	16(b)	**2,885**	–
Financial liability in respect of Income Units sold to private investors	17	**133,983**	136,203
Other financial liabilities	18	**22,979**	45,198
Deferred income taxes	26	**9,345**	8,028
		814,704	629,539
Current liabilities:			
Trade payables		**10,754**	10,455
Other payables and accruals	19	**43,959**	38,045
Borrowings	15	**118,291**	11,375
		173,004	59,875
Total liabilities		**987,708**	689,414
Total equity and liabilities		**1,317,910**	957,318

The accompanying notes are an integral part of the Consolidated financial statements.
Date of approval of the financial statements 28 February 2017. Signed on behalf of the Board by Boris Ivesha and Chen Moravsky.

BORIS IVESHA
PRESIDENT & CHIEF EXECUTIVE OFFICER

CHEN MORAVSKY
DEPUTY CHIEF EXECUTIVE OFFICER & CHIEF FINANCIAL OFFICER

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December 2016 £'000	2015 £'000
Revenues	20	**272,470**	218,669
Operating expenses	21	**(169,491)**	(130,172)
EBITDAR		**102,979**	88,497
Rental expenses		**(8,844)**	(8,362)
EBITDA		**94,135**	80,135
Depreciation and amortisation	4, 5, 8	**(25,330)**	(19,056)
EBIT		**68,805**	61,079
Financial expenses	22	**(27,220)**	(24,221)
Financial income	23	**2,559**	4,859
Other expenses	24	**(27,195)**	(582)
Other income	24	**33,700**	454
Net expenses for financial liability in respect of Income Units sold to private investors	25	**(10,680)**	(11,588)
Share in result of associate and joint ventures	6, 7	**(1,750)**	(1,948)
Profit before tax		**38,219**	28,053
Income tax benefit (expense)	26	**(62)**	1,189
Profit for the year		**38,157**	29,242
Profit attributable to:			
Equity holders of the parent		**35,117**	29,242
Non-controlling interests		**3,040**	–
		38,157	29,242
Basic and diluted earnings per share (in Pounds Sterling)	27	**0.83**	0.70

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2016	2015
	£'000	£'000
Profit for the year	**38,157**	29,242
Other comprehensive income (loss) to be recycled through profit and loss in subsequent periods:*		
Fair value gain reclassified to the profit and loss upon disposal of available-for-sale financial assets	**–**	(169)
Profit (loss) from cash flow hedges	**(1,537)**	3,823
Reclassification to the income statement of cash flow hedge results upon discontinuation of hedge accounting	**15,586**	998
Foreign currency translation adjustments of foreign operations	**35,844**	(10,754)
Reclassification to the income statement of currency translation adjustments upon the Croatian acquisition	**250**	–
Foreign currency translation adjustments of associate and joint ventures	**15**	9
Other comprehensive (loss) income	**50,158**	(6,093)
Total comprehensive income	**88,315**	23,149
Total comprehensive income attributable to:		
Equity holders of the parent	**83,006**	23,149
Non-controlling interests	**5,309**	–
	88,315	23,149

* 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 2015[2]	–	128,547	169	(3,208)	(8,704)	(19,765)	155,481	252,520	–	252,520
Profit for the year	–	–	–	–	–	–	29,242	29,242	–	29,242
Other comprehensive loss for the year	–	–	(169)	–	(10,745)	4,821	–	(6,093)	–	(6,093)
Total comprehensive income	–	–	(169)	–	(10,745)	4,821	29,242	23,149	–	23,149
Share-based payments	–	29	–	–	–	–	–	29	–	29
Issue of shares	–	564	–	–	–	–	–	564	–	564
Dividend distribution	–	–	–	–	–	–	(8,358)	(8,358)	–	(8,358)
Balance as at 31 December 2015		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 income 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[3]	**–**	**–**	**–**	**–**	**–**	**–**	**(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**

1 No par value.
2 Comparative data revised to reflect change in presentation currency – see Note 2(c).
3 The dividend distribution comprises a final dividend for the year ended 31 December 2015 of 10.0 pence per share and an interim dividend of 10.0 pence per share paid in 2016.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	2016 £'000	2015 £'000
		Year ended 31 December	
Cash flows from operating activities:			
Profit for the year		**38,157**	29,242
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		**37,900**	35,809
Financial income	23	**(2,559)**	(4,859)
Income tax charge (benefit)	26	**62**	(1,189)
Loss on buy back of Income Units sold to private investors	24	**372**	582
Gain on Croatian acquisition		**(26,195)**	–
Refinance expenses		**23,397**	–
Income from forfeited deposits		**(6,543)**	–
Capital gain upon buy back of bank loans		**–**	(77)
Fair value gain on deferred consideration in business combinations	18	**–**	(377)
Share in results of joint ventures	7	**279**	121
Share in loss of associates		**1,471**	1,827
Depreciation and amortisation	4, 5, 8	**25,330**	19,056
Share-based payments		**–**	29
		53,514	50,922
Changes in operating assets and liabilities:			
Decrease (increase) in inventories		**88**	(139)
(Increase) decrease in trade and other receivables		**(6,757)**	346
(Decrease) increase in trade and other payables		**(6,146)**	4,834
		(12,815)	5,041
Cash paid and received during the period for:			
Interest paid		**(38,642)**	(32,832)
Interest received		**1,338**	332
Taxes (paid) received		**33**	(84)
		(37,271)	(32,584)
Net cash provided by operating activities		**41,585**	52,621
Cash flows from investing activities:			
Investments in property, plant and equipment	5	**(87,298)**	(63,103)
Investments in jointly controlled entities and loans to partners in jointly controlled entities		**(426)**	(561)
Proceeds from sale of available-for-sale financial assets		**–**	838
Increase in restricted cash		**(4,786)**	–
Collection of loans to related parties		**13,197**	–
Cash outflows for the Croatian acquisition		**(22,030)**	(3,615)
Net cash used in investing activities		**(101,343)**	(66,441)

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

CONSOLIDATED STATEMENT OF CASH FLOWS
CONTINUED

	Year ended 31 December	
	2016 **£'000**	2015 £'000
Cash flows from financing activities:		
Issuance of shares upon exercise of options	**387**	565
Proceeds from long-term loans	**614,102**	38,008
Buy back of Income Units previously sold to private investors	**(1,366)**	(3,210)
Repayment of long-term bank loans and other long-term liabilities	**(419,044)**	(15,629)
Net proceeds from transactions with non-controlling interest	**5,179**	–
Dividend payment	**(50,630)**	(8,358)
Net cash provided by financing activities	**148,628**	11,376
Increase in cash and cash equivalents	**88,870**	(2,444)
Net foreign exchange differences	**5,239**	(1,647)
Cash and cash equivalents at beginning of year	**50,623**	54,714
Cash and cash equivalents at end of year	**144,732**	50,623

Non-cash items:		
Outstanding payable on investments in property, plant and equipment	**5,155**	10,824

The accompanying notes are an integral part of the 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 2016 were authorised for issuance in accordance with a resolution of the Directors on 28 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, leasing, developing, operating and franchising full-service upscale and upper upscale and lifestyle hotels in major gateway cities, regional centres and select resort destinations, predominantly in Europe.

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 2017 and 2018 which show that the Group's hotel operations will be cash generative during the period.

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. The Consolidated financial statements are presented in Pounds 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 2016 and 2015 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 2016. 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 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.

The Group has interests in hotels in the United Kingdom, the Netherlands, Germany, Hungary and Croatia.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

Note 2 Summary of significant accounting policies continued

c. Changes in presentation currency

Basis of preparation

Since flotation in 2007, PPHE Hotel Group has reported its financial results in Euros. However, for some time, the majority of the Group's revenue and EBIT has been generated in the United Kingdom in Pound Sterling, reflecting the Company's strong position in the attractive London hotel market. As a result, fluctuations in Pound Sterling to Euro exchange rate have given rise to material differences between reported and constant currency results.

Consequently, the Board has determined, effective from 1 January 2016, that the Consolidated financial statements are presented in Pound Sterling. This change is expected to reduce the impact of currency movements on reported results and, given the current composition of the Group's hotel portfolio as well as the opening of two further hotels and an extension in London, the Board believes that this change will help PPHE Hotel Group's financial performance be more accurately portrayed. Comparative data for the prior year (including opening balances of certain components in equity) has been revised to reflect the change in presentation currency.

d. 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 without allocating any amount to goodwill or deferred taxes, 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.

Determination of fair value of financial derivatives

The Group engages independent valuation specialists to determine the fair value of the interest rate swaps. The swaps are valued according to the discounted cash flow method. Key assumptions used to determine the fair value of the swaps are provided in Note 30(f).

Note 2 Summary of significant accounting policies continued

d. 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.

e. 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.

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. Since flotation in 2007, PPHE Hotel Group has reported financial results in Euros. However, for some time, the majority of the Group's revenue and EBIT has been generated in the United Kingdom in Pound Sterling, reflecting the Company's strong position in the attractive London hotel market. As a result, fluctuations in Pound Sterling to Euro exchange rate have given rise to material differences between reported and constant currency results. Consequently, the Board has determined, effective from 1 January 2016, that the Consolidated financial statements will be presented in Pound Sterling. This change is expected to reduce the impact of currency movements on reported results and, given the current composition of the Group's hotel portfolio as well as the openings of two further hotels and hotel extension in London, the Board believes that this change will help PPHE Hotel Group's financial performance be more accurately portrayed. Comparative data for the prior year have been revised to reflect the change in presentation currency. The Company also reclassified other reserves to share premium.

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	
	2016 In Pound Sterling	2015 In Pound Sterling
Euro	**0.858**	0.734
Hungarian Forint	**0.003**	0.002
Croatian Kuna	**0.114**	0.096

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

	As at 31 December	
	2016 %	2015 %
Euro	**16.8**	(5.8)
Hungarian Forint	**17.6**	(5.2)
Croatian Kuna	**18.0**	(5.5)

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 125**
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 and 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. The Group has not designated any financial assets at fair value through profit or loss.

(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.

Note 2 Summary of significant accounting policies continued

k. Financial instruments continued

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.

(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.

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, Malbray 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

Note 2 Summary of significant accounting policies continued

k. Financial instruments continued

(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.

(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.

Note 2 Summary of significant accounting policies continued

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.

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 and leased hotels

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

Note 2 Summary of significant accounting policies continued

p. Revenue recognition continued

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 Carlson Hotels 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 Carlson Hotels 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.

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

Note 2 Summary of significant accounting policies continued

s. Employee benefits

Share-based payments

The Board has adopted a share option plan, under which employees and Directors of the Company and its subsidiaries 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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

Note 2 Summary of significant accounting policies continued

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.

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.

Note 2 Summary of significant accounting policies continued

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 Group's 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 is currently assessing the impact of IFRS 9 and plans to adopt IFRS 9 on the required effective date.

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

The new Standard is to be applied retrospectively for annual periods beginning on January 1, 2018. Early adoption is permitted. At this stage, the Company does not intend to adopt IFRS 15 early.

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 recognize 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.

At this stage, the Company is evaluating the different options for adoption of the new Standard.

The Company generates revenues from two main sources: operating hotels and management, franchise and marketing fee. The Company has begun preparations for the adoption of the new Standard on the effective date and is currently assessing its potential impact on its financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

Note 2 Summary of significant accounting policies continued

y. Standards issued but not yet applied continued

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 Leases (the 'new Standard'). According to the new 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 Standard:

- 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 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 Standard is effective for annual periods beginning on or after January 1, 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 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 is still assessing the potential effect of IFRS 16 on its Consolidated financial statements.

The following amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IAS 7: Disclosure Initiative
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions
IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

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').

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 are for a period of seven to eight years and bear 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 Arenaturist d.d ('Arenaturist'), a Croatian joint stock company listed on the Zagreb Stock Exchange, and 100% ownership of three Croatian private companies (together the 'Arenaturist Group'). The Arenaturist Group owns seven hotels and four self-catering holiday apartment resorts and has an interest in eight campsites in Istria, Croatia.

Note 3 Business combination continued

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

Pursuant to regulatory requirements in Croatia, the Company was required to make a mandatory takeover offer in Croatia for the outstanding share capital of Arenaturist. Pursuant to this offer, the Group acquired an additional 3.48% in Arenaturist 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 Arenaturist 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 Arenaturist.

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 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.

The excess of the fair value of the net assets acquired over the consideration paid amounting to £29.2 million was allocated to gain from a bargain purchase, subject to a final purchase price allocation and is presented under 'other income'. The Group believes that this bargain purchase gain resulted from, among others, economic and other advantages in possession of the Group during its negotiations of this transaction.

Before making its purchase, the Group took note and fully evaluated the business risk relating to the 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'), Arenaturist 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 Arenaturist 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 Arenaturist'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 Arenaturist 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, Arenaturist 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.

Contribution of German and Hungarian operations

On 23 December 2016, the Company contributed certain of its German and Hungarian operations in exchange for 1,091,250 new shares of Arenaturist. The issue of new shares took place in 2017 and therefore it does not affect the shareholding of the Company in Arenaturist during 2016. After this transaction the Company indirectly owns 77.09% of Arenaturist. The Company is in the process of establishing the effects on non-controlling interests. Arenaturist has convened a general assembly of its shareholders to approve, amongst others, a capital increase by way of a non pre-emptive offering of new shares in Arenaturist, which shall be held on 22 March 2017.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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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)

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 2015	18,663	19,079	2,318	775	40,835
Adjustment for exchange rate differences	(1,084)	(1,109)	(135)	(50)	(2,378)
Additions during the year					
Balance as at 31 December 2015	17,579	17,970	2,183	725	38,457
Accumulated amortisation:					
Balance as at 1 January 2015	6,913	7,240	926	346	15,425
Amortisation	872	878	107	161	2,018
Adjustment for exchange rate differences	(388)	(406)	(52)	(18)	(864)
Balance as at 31 December 2015	7,397	7,712	981	489	16,579
Net book value as at 31 December 2015	10,182	10,258	1,202	236	21,878
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**
Acquisition of a subsidiary (see Note 3)	**–**	**–**	**–**	**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**

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 Arenaturist. The rights are being amortised over 20 years based on management estimation of their useful life.

d. Impairment

In 2016, there were no indicators of impairment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

Note 5 Property, plant and equipment

	Land £'000	Hotel buildings £'000	Income Units sold to private investors* £'000	Furniture and equipment £'000	Total £'000
Cost:					
Balance as at 1 January 2015	227,222	418,298	139,755	90,802	876,077
Additions during the year	479	64,514	635	8,840	74,468
Disposal of subsidiaries	(521)	(189)	–	–	(710)
Buy back of Income Units sold to private investors	304	2,165	(2,582)	113	–
Adjustment for exchange rate differences	(6,332)	(7,977)	–	(1,729)	(16,038)
Balance as at 31 December 2015	221,152	476,811	137,808	98,026	933,797
Accumulated depreciation and impairment:					
Balance as at 1 January 2015	8,449	32,682	10,286	53,795	105,212
Provision for depreciation	567	6,205	2,137	8,115	17,024
Disposal of subsidiaries	–	(31)	–	–	(31)
Buy back of Income Units sold to private investors	–	114	(190)	76	–
Adjustment for exchange rate differences	(44)	(510)	–	(880)	(1,434)
Balance as at 31 December 2015	8,972	38,460	12,233	61,106	120,771
Net book value as at 31 December 2015	212,180	438,351	125,575	36,920	813,026
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	**–**	**(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**

* This includes 518 rooms ('Income Units') (2015: 522) 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 18). See Note 8 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 £137,538 thousand (2015: £77,784 thousand), relates to the construction of Park Plaza London Park Royal and the development of Park Plaza London Waterloo.

b. The amount of borrowing costs capitalised during the year was £6,838 thousand (2015: £3,104 thousand) at a rate of 4.8% (2015: 4.8%), which is the average effective interest rate of the specific borrowing.

c. For information regarding liens, see Note 14.

Note 5 Property, plant and equipment continued

d. Land under finance lease

	As at 31 December	
	2016 **£'000**	2015 £'000
Cost – capitalised finance leases	**21,355**	21,355
Accumulated depreciation	**(1,246)**	(1,170)
Net book value	**20,109**	20,185

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

Note 6 Investment in an associate

In April 2008, Euro Sea Hotels N.V. ('Euro Sea'), a wholly owned subsidiary of the Company, acquired 20% of the shares in WH/DMREF Bora B.V. ('Bora'). As part of the transaction, the Company also acquired 20% of the debt owed by Bora to its shareholders. The total consideration for the acquisition, including the debt acquired, was €22.4 million, which was funded by the Group from its existing cash resources. The investment in Bora was accounted for under the equity method in accordance with IAS 28. As detailed in Note 3, in April 2016, Euro Sea completed the acquisition of the remaining 80% of the shares in Bora and all existing shareholder loans to Bora or its subsidiaries which it did not then own. The previous 20% share in Bora held prior to the acquisition generated a result of £(1,471) thousand.

a. The investment in Bora is comprised as follows:

	As at 31 December 2015 £'000
Loan to associate*	28,199
Foreign currency translation adjustment	539
Share of associate's net assets under equity method	(12,255)
Loan to associate (adjusted for losses recognised under the equity method)	16,483

* The loan is denominated in Croatian Kuna and bears interest of 8.9% per annum. The loan repayment is due on 31 August 2020.

b. The loan to Bora is comprised as follows:

	As at 31 December 2015 £'000
Opening balance	27,336
Interest on loans	2,334
Foreign currency translation reserve	(1,471)
Closing balance	28,199

* The Company acquired the remaining shares of Bora, therefore the investment in associates do not exist any more and the loans are now eliminated in the consolidation. (For more details see Note 3.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

Note 7 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	
	2016 £'000	2015 £'000
Loan to joint ventures*	**17,045**	15,670
Share of net assets under equity method	**1,364**	1,658
Loan to joint ventures	**18,409**	17,328

* £13.3 million of the loan is denominated in Pound Sterling and bears an interest of LIBOR +2.0% per annum. £3.8 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 £(279) thousand (2015: £(120) thousand).

b. Subsidiaries with material non-controlling interests
As at 31 December 2016, the Company owned approximately 66% of Arenaturist d.d. ("Arenaturist"), a joint stock company listed on the Zagreb (Croatia) Stock Exchange. Arenaturist owns seven hotels, four self-catering holiday apartment resorts and eight campsites in or around Pula on the Istrian coast of Croatia. The amount of profit allocated to the non-controlling interests in 2016 amounts to £ 3,040 thousand. Details on the investment are provided in Note 3.

Below is selected financial information about the subsidiary as of 31 December 2016 and for the period from the acquisition date to 31 December 2016:

	£'000
Non-current assets	153,281
Current assets	14,315
Non-current liabilities	66,309
Current liabilities	13,563
Revenue	46,089
EBITDA	16,764
Profit for the period	9,085

Note 8 Other non-current assets
a. Non-current financial assets

	As at 31 December	
	2016 £'000	2015 £'000
Loans to related parties (see Note 29)	**–**	10,189
Income swap in respect of Income Units sold to private investors[1]	**1,265**	1,435
Deposit relating to right to acquire the investment in Croatia	**–**	3,672
Rent security deposits[2]	**1,419**	1,232
Restricted deposits	**79**	79
Prepaid leasehold payments	**327**	293
	3,090	16,900

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 Relates to leases described in Note 14(c)(2).

Note 8 Other non-current assets continued

a. Non-current financial assets continued

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 2016 £'000	2015 £'000
Cost:		
Balance as at 1 January	**343**	364
Additions	**–**	–
Foreign currency translation adjustment	**57**	(21)
Balance as at 31 December	**400**	343
Accumulated amortisation:		
Balance as at 1 January	**50**	38
Provision for amortisation	**17**	14
Foreign currency translation adjustment	**6**	(2)
Balance as at 31 December	**73**	50
Amortised cost as at 31 December	**327**	293

Note 9 Trade receivables

a. Composition:

	As at 31 December 2016 £'000	2015 £'000
Trade receivables	**13,301**	9,133
Related parties – Arenaturist Group (see Note 29)	**–**	241
Less – allowance for doubtful debts	**(725)**	(220)
	12,576	9,154

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 2015	(225)
Exchange rate differences	5
As at 31 December 2015	(220)
Additions due to acquisition of Arenaturist	(683)
Collections	242
Exchange rate differences	(64)
As at 31 December 2016	**(725)**

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
2016	**13,301**	**3,174**	**5,997**	**2,201**	**674**	**1,255**
2015	9,374	2,467	4,196	1,442	460	809

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 10 Other receivables and prepayments

	As at 31 December	
	2016	2015
	£'000	£'000
Prepaid expenses	**6,682**	3,853
VAT	**3,204**	3,200
Related parties*	**178**	235
Others	**306**	433
	10,370	7,721

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

Note 11 Cash and cash equivalents
Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

Note 12 Equity
a. Share capital

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

As at 31 December 2016, the number of ordinary shares issued was 44,065,862 (2015: 43,879,512), 1,862,000 of which were held as treasury shares (2015: 1,862,000). The increase of the number of shares issued in 2016 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.
The total number of treasury shares is 1,862,000.

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 Financial Times on the grant date). 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 of Directors 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 2016 is £10 thousand (2015: £29 thousand). As at 31 December 2016, no options became exercisable (2015: 262,000). Total exercisable options at 31 December 2016 amount to 299,806 (2015: 486,156).

   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:

	No. of options A	No. of options B	EP
Outstanding as at 1 January 2015	814,050	90,900	£2.09
Options forfeited during the year	–	–	–
Options exercised in the year	(407,744)	(11,050)	£1.95
Outstanding as at 31 December 2015	406,306	79,850	£2.06
Options forfeited during the year			
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**

* Part of the exercise was cashless.

   The weighted average remaining contractual life for the share options outstanding as at 31 December 2016 is seven years (2015: six years).

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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 deposits in order to pay the debt service for a subsequent period. The total deposits held amount to £8.3 million and are presented as restricted in the financial statements.

(ii) Under the loan agreement with Aareal Bank AG ('Aareal'), £22.0 million are kept as a restricted deposit. This deposit will be released when the Company meets certain financial requirements.

(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 2016, 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.

c. Commitments

(i) Management and franchise agreements

1. The Group entered into a Territorial Licence Agreement (the 'Master Agreement') with Carlson Hotels 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. 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:

	2016 £'000	2015 £'000
Within one year	1,419	1,232
After one year but not more than five years	5,674	5,674
More than five years	195,715	197,320
	202,808	204,226
Less amounts representing finance charges	(181,453)	(182,871)
Present value of minimum lease payments	21,355	21,355

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

Note 14 Pledges, contingent liabilities and commitments continued

c. Commitments continued

	2016 £'000	2015 £'000
Within one year		
After one year but not more than five years	**1**	1
More than five years	**21,354**	21,354
	21,355	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.

(c) On 18 June 2012, Club A40 Holding B.V. ('Club A40') 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, Club A40 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 (the 'Sale and Leaseback') for 170 years.

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:

	2016 £'000	2015 £'000
Within one year	**5,989**	6,253
After one year but not more than five years	**19,704**	23,974
More than five years	**27,537**	45,335
	53,230	75,562

(iii) **Construction contract commitment**

As at 31 December 2016, the Company had capital commitments amounting to £32.8 million for the construction of Park Plaza London Waterloo, Park Plaza London Park Royal, Park Plaza London Riverbank (extension) and Park Plaza Victoria Amsterdam (renovation).

(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 8). The Company guarantees 48 of these agreements. The remaining future obligation as at 31 December 2016 amounts to £3.9 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) facilities received for the construction of the Project, the Company is currently 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 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 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 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 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 2016, 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. Bali Hai, with the knowledge of UOB, has filed a court petition for rehabilitation. The petition has been preliminarily granted and therefore results, for the time being, in an automatic stay of all creditors' claims. Meanwhile, Bali Hai continues its efforts to resolve and restore the planning.

   The Company believes that, given the status of the Project and, so far as the Company is aware, the efforts of the parties involved to restore the works on the Project and taking into account the Red Sea indemnity in favour of the Group, 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 €11.5 million (£9.9 million) facility granted by Deutsche Hypothekenbank to ABM Hotel Holding B.V. and PPBK Hotel Holding B.V. (formerly known as ABK Hotel Holding B.V.)

(v) Lease guarantees

The Group provided guarantees for commitments under certain hotel lease agreements. The total of these guarantees does not exceed £11.0 million.

Note 15 Borrowings

The borrowings of the Group are composed as follows:

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%	

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)**	**–**	**–**	**–**	**–**	**–**
	760,411	**118,291**	**23,704**	**15,064**	**25,621**	**13,820**	**569,852**

For securities and pledges, see Note 14.

As at 31 December 2015	EUR Denominated £'000	GBP Denominated £'000	HRK Denominated £'000	Total £'000
Fixed interest rate	–	–	–	–
Weighted average interest rate	–	–	–	
Variable interest rate	126,933	330,849	–	457,782
Weighted average interest rate	4.27%	5.10%	–	
Total	126,933	330,849	–	457,782
Weighted average interest rate	4.27%	5.10%	–	

Maturity analysis 2015	Outstanding amount	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Total borrowings	457,782	11,604	64,982	272,412	108,784	–	–
Capitalised transaction costs and other adjustments	(6,297)	(229)	–	–	–	–	–
	451,485	11,375	64,982	272,412	108,784	–	–

For securities and pledges, see Note 14.

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Note 15 Borrowings continued

a. **Refinancing of London and Dutch hotels**

On 15 June 2016, the Group entered into an agreement to refinance its interests in two of its London hotels (Park Plaza Sherlock Holmes and Park Plaza London Riverbank) (the 'London Hotels') and all six of its Dutch hotels (art'otel amsterdam, Park Plaza Victoria Amsterdam, Park Plaza Vondelpark, Amsterdam, Park Plaza Amsterdam Airport, Park Plaza Eindhoven and Park Plaza Utrecht) (the 'Dutch Hotels'). Aareal Bank AG ('Aareal') provided two separate facilities, one for the London Hotels and the other for the Dutch Hotels, which are standalone facilities and which refinanced an existing single facility also provided by Aareal in December 2013.

The facility for the London Hotels is for £150.0 million and a term of ten years and will bear a fixed interest rate of 3.248% per annum.

The facility for the Dutch Hotels is for €182.0 million (£144.3 million) and a term of ten years and will bear a fixed interest rate of 2.165% per annum.

The facility for the London Hotels is secured by, inter alia, mortgages over the Group's ownership interests in the London Hotels and security over the shares in the various companies that own such interests in the London Hotels. The facility for the Dutch Hotels is secured by a similar security package over the Group's ownership interests in the Dutch Hotels and security over the shares in the various companies that own such ownership interests.

b. **Refinancing of Park Plaza Westminster Bridge London**

On 12 May 2016, the Group entered into an agreement to refinance Park Plaza Westminster Bridge London. The new £182.4 million facility is for a term of 12 years. £172.4 million of the facility will bear a fixed interest rate of 3.785% per annum and the balance will bear a competitive floating interest rate.

The new facility is arranged with AIG Asset Management (Europe) Limited (AIG) investing on behalf of certain of its funds. The new facility is secured by, inter alia, first legal charges of all of the Group's ownership interests in the hotel and pledges over the shares in the various companies that own such interests in the hotel.

c. **Refinancing of Park Plaza Victoria London**

On 29 March 2016, the Group entered into an agreement to refinance Park Plaza Victoria London. The new £87.0 million facility is for ten years and bears a fixed interest rate of 3.41% per annum.

The new facility is arranged by Cornerstone Real Estate Advisers Europe LLP, a member of the Mass Mutual Financial Group ('Cornerstone'). The new facility is secured by, inter alia, a first legal charge over Park Plaza Victoria London and pledges over the shares in the company which owns the freehold of the hotel and its related operating subsidiaries.

d. **In respect of all facilities within the Group, the following financial covenants must be complied with by the relevant Group companies:**

(i) Under the Aareal facility 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 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 Cornerstone facility 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.

Note 15 Bank borrowings continued

d. Financial covenants continued:

(v) Under the Bank Hapoalim (Luxembourg) S.A. facility for each of Park Plaza Hotels Europe B.V., Hercules House Holding B.V. and Club A40 Hotel Holding B.V. the following covenants apply:

1. the shareholders' equity of the Company is not less than the lower of €150.0 million (if calculated in Euros) or £110.0 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; and
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.

In addition to the above covenants the following covenant applies to Park Plaza Hotels Europe B.V. individually:

The ratio of the consolidated financial indebtedness of the borrower and its subsidiaries to consolidated EBITDA of the borrower shall not exceed 5:1.

(vi) Under the Deutsche Hypothekenbank AG facility for Park Plaza Nuremberg the borrower must ensure throughout the entire term of the loan that the outstanding amount of the outstanding loan does not exceed 65% of the value of the property and that the DSCR is not less than 140%.

(vii) Under the Zagrebačka banka d.d. ('Zagrebačka') facilities the borrower must ensure the following:

1. that the Average Debt Service Coverage Ratio (ADSCR) is equal to or greater than 2.0 at year end 2016, the ADSCR is equal or greater than 1.75 at year end 2017, the ADSCR is equal to or greater than 2.25 at year end 2018 and that the ADSCR is equal to or greater than 2.5 at year end 2019 and for each succeeding calendar year during the remaining life of the facilities. Further, the Company must ensure that the Interest Coverage Ratio is greater than 2.5 at year end 2015 and for each succeeding calendar year during and at year end during the remaining life of the facilities. In addition, the Company must ensure that the Net Leverage is lower than 6.00 at year end 2016, is lower than 4.50 at year end 2017, is lower than 4.00 at year end 2018, is lower than 3.5 at year end 2019, is lower than 2.5 at year end 2020 and is lower than 2.00 at year end 2021 and remains so during the remaining term of the facilities.
2. the borrower must ensure that the DSCR is at least 1.4 and that the sum of the equity and the balances of shareholders' loans is greater than the balances of bank loans.

For hedging arrangements under the above facilities see Note 30(f).

As at 31 December 2016, the Group is in compliance with all of its banking covenants.

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Note 16 Provisions

a. Provision for litigation

Arenaturist 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 Arenaturist 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 £3.4 million. Arenaturist 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 Arenaturist.

	2016 £'000	2015 £'000
Balance 1 January	–	–
Acquisition of a subsidiary	3,015	–
Exchange rate differences	252	–
Movement in the year	125	–
31 December	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'), Arenaturist 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 Arenaturist 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 Arenaturist'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 Arenaturist 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, Arenaturist 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.

	2016 £'000	2015 £'000
Balance 1 January	–	–
Acquisition of a subsidiary (see Note 3)	2,768	–
Exchange rate differences	117	–
31 December	2,885	–

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

	As at 31 December	
	2016 £'000	2015 £'000
Total liability	146,718	147,785
Due from investors for reimbursement of capital expenditure	(12,735)	(11,582)
	133,983	136,203

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 8 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	
	2016	2015
	£'000	£'000
Derivative financial instruments (see Note 30(f))	**1,205**	17,107
Lease liability (see Note 14(c)(ii))	**21,355**	21,355
Deposits received in respect of Income Units sold to private investors (see note 14(b))	**79**	79
Other	**340**	6,657
	22,979	45,198

Note 19 Other payables and accruals

	As at 31 December	
	2016	2015
	£'000	£'000
Employees	**2,026**	1,761
VAT and taxes	**7,621**	5,534
Accrued interest	**3,129**	1,453
Corporate income taxes	**314**	403
Accrued expenses	**10,616**	6,798
Advance payments received	**9,312**	6,060
Accrued rent	**2,499**	2,329
Variable income payment to holders of Income Units	**3,287**	2,883
Related parties*	**5,155**	10,824
	43,959	38,045

* See Note 29.

Note 20 Revenues

	Year ended 31 December	
	2016	2015
	£'000	£'000
Rooms	**183,193**	147,686
Camps and mobile homes	**11,164**	–
Food and beverage	**66,575**	59,284
Minor operating	**6,331**	4,405
Management fee (see Note 14(c)(i))	**2,226**	4,051
Franchise and reservation fee (see Note 14(c)(i))	**1,064**	1,390
Marketing fee	**673**	1,275
Other	**1,244**	578
	272,470	218,669

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Note 21 Operating expenses

	Year ended 31 December	
	2016 **£'000**	2015 £'000
Salaries and related expenses	**76,853**	58,244
Franchise fees, reservation and commissions (see Note 14(c)(i))	**20,945**	16,125
Food and beverage	**15,287**	11,659
Insurance and property taxes	**12,051**	10,307
Utilities	**8,504**	5,638
Administration costs	**5,556**	4,285
Maintenance	**4,613**	3,192
Laundry, linen and cleaning	**3,839**	3,375
Supplies	**3,188**	2,643
IT expenses	**1,367**	1,743
Communication, travel and transport	**2,299**	1,707
Marketing expenses	**1,674**	1,142
Defined contribution pension premiums	**943**	877
Other expenses	**12,372**	9,235
	169,491	130,172

Note 22 Financial expenses

	Year ended 31 December	
	2016 **£'000**	2015 £'000
Interest and other finance expenses on bank loans	**31,850**	26,095
Interest on finance lease liability	**1,112**	1,112
Foreign exchange differences, net	**697**	–
Other	**399**	118
	34,058	27,325
Less – borrowing costs capitalised	**(6,838)**	(3,104)
	27,220	24,221

Note 23 Financial income

	Year ended 31 December	
	2016 **£'000**	2015 £'000
Interest on restricted deposit	**–**	3
Foreign exchange differences, net	**–**	456
Interest on bank deposits	**210**	139
Interest from related parties (see Note 29(b))	**1,128**	952
Adjustment to fair value on derivative financial instruments (see Note 30(f))	**155**	358
Gain on sale of available-for-sale investment in shares	**–**	220
Interest and other financial income from jointly controlled entities (see Note 29(b))	**415**	398
Interest and other financial income from associates (see Note 29(b))	**651**	2,333
	2,559	4,859

Note 24 Other income and expenses

a. Other expenses

	Year ended 31 December 2016 £'000	2015 £'000
Capital loss on buy back of Income Units previously sold to private investors	**372**	582
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	**7,811**	–
Restructuring expenses	**720**	–
Pre-opening expenses	**1,744**	–
	27,195	582

b. Other income

	Year ended 31 December 2016 £'000	2015 £'000
Gain from bargain purchase in the acquisition of Arenaturist	**27,157**	–
Income from forfeited deposits	**6,543**	–
Capital gains	**–**	77
Fair value adjustment of deferred business combinations consideration	**–**	377
	33,700	454

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

	Year ended 31 December 2016 £'000	2015 £'000
Guaranteed return (see Note 2(k)(v))	**967**	5,615
Variable return (see Note 2(k)(v))	**11,751**	5,901
Reimbursement of depreciation expenses (see Note 2(k)(v))	**(2,208)**	(2,111)
Change in expected cash flow income swaps (see Note 8)	**170**	2,183
	10,680	11,588

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Note 26 Income taxes

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

	Year ended 31 December	
	2016 £'000	2015 £'000
Current taxes	**32**	(458)
Deferred taxes	**(94)**	1,647
	(62)	1,189

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	Income swaps £'000	Property, plant and equipment and intangible assets £'000	Total £'000
Balance as at 1 January 2015	866	(842)	(9,473)	(9,449)
Amounts charged to income statement	822	608	217	1,647
Adjustments for exchange rate differences	–	–	(226)	(226)
Balance as at 31 December 2015	1,688	(234)	(9,482)	(8,028)
Amounts charged to income statement	(618)	–	524	(94)
Addition upon acquisition of Arenaturist	651	–	(378)	273
Adjustments for exchange rate differences	61	–	(844)	(783)
Balance as at 31 December 2016	**1,782**	**(234)**	**(10,180)**	**(8,632)**

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	
	2016 £'000	2015 £'000
Deferred tax assets	**713**	–
Deferred tax liabilities	**(9,345)**	(8,028)
	(8,632)	(8,028)

Note 26 Income taxes

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	
	2016 £'000	2015 £'000
Profit before income taxes	**38,219**	28,053
Expected tax at the tax rate of the Netherlands 25%* (2015: 25%)	**(9,555)**	(7,013)
Adjustments in respect of:		
Effects of other tax rates	**8,016**	5,195
Non-deductible expenses	**(945)**	(1,416)
Utilisation of carried forward losses and temporary differences for which deferred tax assets were not previously recorded	**884**	3,580
Timing differences for which no deferred tax asset was recorded	**(878)**	1,547
Non-taxable income	**7,577**	516
Unrecognised current year tax losses	**(5,468)**	(1,062)
Other differences	**307**	(158)
Income tax (expense) benefit reported in the income statement	**(62)**	1,189

* The tax rate that was used is the tax rate of the Netherlands, since the majority of the tax exposure is in this tax jurisdiction.

d. **Tax laws applicable to the Group companies:**

(i) The Company is subject to taxation under the law 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% (2015: 25%).
2. Taxation in the United Kingdom: corporate income tax rate for domiciled companies is 25% 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 19%.
5. Taxation in Croatia: corporate income tax rate is 20%.

e. **Losses carried forward for tax purposes**

The Company and its subsidiaries have carried forward losses for tax purposes estimated at approximately £121 million (2015: £116 million). The Group did not establish deferred tax assets in respect of losses amounting to £117 million (2015: £109 million) of which tax losses amounting to £17 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	
	2016 £'000	2015 £'000
Profit of equity holders of the parent	**35,117**	29,242
Weighted average number of ordinary shares outstanding	**42,173**	41,792

Potentially dilutive instruments 227,000 in 2016 (2015: 317,000) 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 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**

	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.

Note 28 Segments continued

	Year ended 31 December 2015					
	the Netherlands £'000	Germany and Hungary £'000	United Kingdom £'000	Management £'000	Holding companies and adjustments* £'000	Consolidated £'000
Revenue						
Third party	42,271	21,848	147,384	7,166	–	218,669
Inter-segment	–	–	–	25,421	(25,421)	–
Total revenue	42,271	21,848	147,384	32,587	(25,421)	218,669
Segment EBITDA	13,445	(361)	54,437	12,614	–	80,135
Depreciation, amortisation and impairment						(19,056)
Financial expenses						(24,221)
Financial income						4,859
Net expenses for liability in respect of Income Units sold to private investors						(11,588)
Other income, net						(128)
Share in loss of associate and joint ventures						(1,948)
Profit before tax						28,053

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

	the Netherlands £'000	**Germany and Hungary £'000**	**United Kingdom £'000**	**Holding companies and adjustments* £'000**	**Consolidated £'000**
Geographical information					
Non-current assets[1]	**159,868**	**15,310**	**636,846**	**22,880**	**834,904**

[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	
	2016 £'000	2015 £'000
Loan to associate – WH/DMREF Bora B.V.[1]	**–**	28,199
Loans to joint ventures[2]	**17,045**	15,670
Loan to Red Sea Hotels Limited[3]	**–**	10,189
Short-term receivables	**178**	235
Trade receivables – the Arenaturist group[1]	**–**	241
Construction liability WW Gear Construction Limited	**5,155**	10,824

b. Transactions with related parties

	Year ended 31 December	
	2016 £'000	2015 £'000
Management fees income – the Arenaturist group[1]	**–**	1,874
Sales and marketing fees – the Arenaturist group[1]		626
Construction charges– WW Gear Construction Limited (see (i) below)	**51,099**	43,155
Interest from associate – WH/DMREF Bora B.V.[1]	**651**	2,334
Interest from Red Sea Hotels Limited[3]	**1,128**	952
Interest income from jointly controlled entities	**415**	398

1 Until 31 March 2016, the Group held 20% of the equity in Bora (see Note 6).
2 For details see Note 7.
3 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, Hercules House Holding B.V. entered into a building contract with WW Gear Construction Limited ('Gear'), a related party, for the design and construction of the hotel near London Waterloo Station (now known as Park Plaza London Waterloo) on a 'turn-key' basis. The basic contract price payable to Gear is £70,480,000 for 494 rooms. The Non-Executive Directors of the Company had Gear's tender for the construction of the hotel independently reviewed to ensure that it was competitive.

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 is £24,741,879 for the 148-room extension.

On 23 December 2014, Club A40 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 is £16,520,183. 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 by £7,920,599 to £24,440,782.

On 13 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 is £6,695,773.

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

Note 29 Related parties continued

c. Significant other transactions with related parties continued

The Directors consider 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.

(iii) 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.

(iv) Compensation to key management personnel (Executive and Non-Executive Directors) 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 are fully exercisable with an exercise price of £2.33, which will expire in 2022. No share options have been granted to Non-Executive members of the Board.

(v) Compensation to key management personnel (Executive and Non-Executive Board members) for the year ended 31 December 2015:

	Base salary and fees £'000	Bonus	Pension contributions £'000	Other benefits £'000	Total £'000
Chairman and Executive Directors	726	215	145	112	1,198
Non-Executive Directors	144	–	–	–	144
	870	215	145	112	1,342

Directors' interests in employee share incentive plan

As at 31 December 2015, the Executive Directors held share options to purchase 70,000 ordinary shares. All options are fully exercisable with an exercise price of £2.33, which will expire in 2022. No share options have been granted to Non-Executive members of the Board. The total costs in 2015 relating to options granted to key management amounted to £8,000.

Note 30 Financial risk management objectives and policies

The Group's principal financial instruments, other than derivatives, 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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 30 Financial risk management objectives and policies continued

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 five 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 £0.8 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 2016 amounts to a liability of £1.2million (2015: liability of £17.1 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 (2015: €3.8million) 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.

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 2016 and 2015 based on contractual undiscounted payments.

	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**

	As at 31 December 2015					
	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]	8,081	24,245	85,295	404,318	–	521,939
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]	3,133	12,532	12,852	38,556	136,203	203,276
Derivative financial instruments	1,298	3,894	5,191	6,725	–	17,108
Loans from third parties	–	–	–	–	–	–
Lease liability[2]	348	1,069	1,417	4,251	218,247	225,332
Trade payables	10,471	–	–	–	–	10,471
Other liabilities	15,471	14,044	8,156	–	9,472	47,143
	38,802	55,784	112,911	453,850	364,001	1,025,348

[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.

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

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Note 30 Financial risk management objectives and policies continued

c. Liquidity risk continued

The Group has the following undrawn borrowing facilities:

	2016 £'000	2015 £'000
Floating rate:		
Expiring within one year	10,066	56,084
Expiring beyond a year		
	10,066	56,084

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.

	2016 £'000	2015 £'000
Interest-bearing bank loans and borrowings	760,411	451,485
Less – cash and cash equivalents	(144,732)	(50,623)
Less – long term restricted cash	(5,235)	–
Less – short-term restricted cash	(25,512)	(3,206)
Net debt	584,932	397,656
Equity	330,202	267,904
Hedging reserve	895	14,944
Total capital	331,097	282,848
Capital and net debt	916,029	680,504
Gearing ratio	63.9%	58.4%

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.

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 available-for-sale 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.

Note 30 Financial risk management objectives and policies continued

e. Fair value of financial instruments continued

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.

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.

As at 31 December 2015, the Group held the following financial instruments measured at fair value:

Liabilities

	31 December 2015 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Interest rate swaps used for hedging	17,108	–	17,108	–

During 2015, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

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

	Carrying amount 31 December		Fair value 31 December	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Financial assets				
Other non-current financial assets*	**18,464**	55,291	**18,464**	57,646
Financial liabilities				
Bank borrowings*	**760,411**	451,485	**767,379**	451,485

* Based on Level 2 inputs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

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 2016, the fair value of the swap is estimated at a liability of £1.3 million.

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

Note 31 Subsequent events

On 23 December 2016, the Company contributed certain of its German and Hungarian operations in exchange for 1,091,250 new shares in Arenaturist. These new shares were registered in the Commercial Court in Pazin on 7 February 2017. This increased the Group's shareholding in Arenaturist to 77.09%.

In February 2017, Arenaturist, 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 €2,329,000 (£2 million) is on account of fixtures, fittings and equipment which was paid by the operating companies within the Group). 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.

APPENDICES

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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
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
Park Plaza Coöperatif UA	Holding company	Netherlands	100
Euro Sea Hotels N.V.	Holding company	Netherlands	100
PPHE Arena Holding B.V.	Holding company	Netherlands	100
Hercules House Holding B.V.	Holding company	Netherlands	100
Waterloo Hotel Operator Limited (formerly known as Hercules House Operator Limited)	Hotel operation	United Kingdom	100
PPHE Art Holding B.V.	Holding company	Netherlands	100
PPWL Parent B.V.	Holding company	Netherlands	100
Westminster Bridge London B.V.	Holding company	Netherlands	100
Westminster Bridge London (Real Estate) B.V.	Holding company	Netherlands	100
1 Westminster Bridge Plaza Management Company Limited	Hotel operation	United Kingdom	100
Marlbray Limited	Holding company	United Kingdom	100
Park Plaza Hospitality Services (UK) Limited	Hotel operation	United Kingdom	100
Westminster Bridge Hotel Operator Limited	Hotel operation	United Kingdom	100
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

Name of company	Principal activity	Country of incorporation	Direct and indirect holdings %
Club Euro Hotels B.V.	Holding company	Netherlands	100
Club A40 Hotel Holding B.V.	Holding company	Netherlands	100
Park Royal Hotel Operator Limited (formerly known as Club A40 Hotel Operator Limited)	Holding company	United Kingdom	100
A40 Office B.V.	Holding company	Netherlands	100
A40 Data Centre B.V.	Holding company	Netherlands	100
Park Plaza Hotels Europe B.V.	Management	Netherlands	100
Park Plaza Hotels (UK) Services Limited	Management	United Kingdom	100
Artotel (I.L) Management Services Limited	Holding company	Israel	100
Park Plaza Hotels (Germany) Services GmbH	Management	Germany	65.63*
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	65.63*
Germany Real Estate B.V.	Holding company	Netherlands	65.63*
ACO Hotel Holding B.V.	Holding company	Netherlands	65.63*
ABK Hotel Holding B.V.	Holding company	Netherlands	65.63*
PPHE Germany Holdings GmbH	Holding company	Germany	65.63*
PPHE Nürnberg Operator Hotelbetriebsgesellschaft mbH	Hotel operation	Germany	65.63*
Park Plaza Germany Holdings GmbH	Holding company	Germany	65.63*
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
Victora 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
Park Plaza Nürnberg GmbH	Hotel operation	Germany	65.63*
Park Plaza Berlin Hotelbetriebsgesellschaft mbH	Hotel operation	Germany	100
Park Plaza Hotels Berlin Wallstrasse GmbH	Hotel operation	Germany	65.63*
art'otel berlin city center west GmbH	Hotel operation	Germany	65.63*
art'otel dresden/park plaza betriebsgesellschaft mbH	Hotel operation	Germany	100
art'otel köln mbH	Hotel operation	Germany	65.63*
SW Szállodaüzemeltető Kft	Hotel operation	Hungary	65.63*
Twenty-Eight B.V. (formerly known as W2005/ Twenty-Eight B.V.)	Holding company	Netherlands	100

* Following the registration of the new shares on 7 February 2017 this shareholding has increased to 77.09% (see Note 31 Subsequent events for further detail).

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
Arenaturist Turisticka Naselja d.o.o. (now merged into Arenaturist d.d.)	Hotel operation	Croatia	100
Arenaturist Zlatne Stijne d.o.o. (now merged into Arenaturist d.d.)	Hotel operation	Croatia	100
Arenaturist Hoteli d.o.o. (now merged into Arenaturist d.d.)	Hotel operation	Croatia	100
Arenaturist d.d.	Hotel operation	Croatia	65.63
Ulika d.o.o.	Holding company	Croatia	65.63
Mazurana d.o.o.	Holding company	Croatia	65.63
Arena Hospitality Management d.o.o.	Management	Croatia	65.63
Victoria Monument B.V. (art'otel amsterdam)	Holding company	Netherlands	100
The Mandarin Hotel B.V. (Park Plaza Eindhoven)	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. (Park Plaza Vondelpark, Amsterdam)	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. (Park Plaza Amsterdam Airport)	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. (Park Plaza Victoria Amsterdam)	Hotel operation	Netherlands	100
Utrecht Victoria Hotel C.V. (Park Plaza Utrecht)	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[2]	Hotel operation	Germany	50
Park Plaza Betriebsgesellschaft mbH	Hotel operation	Germany	50
PPBK Hotel Holding B.V. (formerly known as ABK Hotel Holding B.V.[2)]	Holding company	Netherlands	50
ABM Hotel Holding B.V.[2]	Holding company	Netherlands	50
Aspirations Limited[2]	Holding company	British Virgin Islands	50

1 Direct holdings.
2 Indirect holdings.

GLOSSARY

A

Arenaturist: One of Croatia's best known hospitality groups which consists of seven hotels, four self-catering holiday apartment resorts, eight campsites and numerous food and beverage outlets, all of which are located in Istria. PPHE Hotel Group has a controlling interest in the Arenaturist group. www.arenaturist.com

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

art'otel®: A contemporary 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 members: Eli Papouchado (Non-Executive Chairman of the Board), Boris Ivesha (President & Chief Executive Officer), Chen Moravsky (Deputy Chief Executive Officer & Chief Financial Officer), Kevin McAuliffe (Non-Executive Director & Senior Independent Director), Dawn Morgan (Non-Executive Director), 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 Carlson℠. 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 1,400 hotels in operation and under development, located across 115 countries, operating under global hotel brands. Carlson Hotels is the majority shareholder of the 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.

CSR: Corporate Social Responsibility. PPHE Hotel Group's Corporate Social Responsibility policy is a genuine, active and responsible commitment to our environment and society.

D

Distribution: Encompasses all the electronic channels of distribution, which includes GDS, brand websites and third party intermediaries. These distribution channels can be accessed through the Internet, an intranet or through an interfaced connection.

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, 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 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, leases, develops, manages and franchises primarily 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

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 42	Expected to be completed 2017
Park Plaza London Park Royal	London, United Kingdom	Owned and management contract	212	Expected to be completed 2017
Park Plaza London Waterloo	London, United Kingdom	Owned and management contract	494	Expected to be completed 2017
art'otel london hoxton	London, United Kingdom	Joint venture and management contract	352	Expected to open 2019
art'otel london battersea power station	London, United Kingdom	Management contract	160	Expected to open 2019

CONTACTS

Directors

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

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Inbar Zilberman	(General Counsel)
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Financial public relations
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29 Cloth Fair
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United Kingdom

Useful links
Corporate website:
pphe.com
For reservations:
parkplaza.com
artotels.com
arenaturist.com
arenacamps.com

Strategic partner:
carlsonrezidor.com

Forward-looking statements

This Annual Report and financial statements may contain certain "forward-looking statements" which reflect the Company's and/or the Directors' current views with respect to Financial Performance, business strategy and future plans, both with respect to the Group and the sectors and industries in which the Group operates. Statements which include the words "expects", "intends", "plans", "believes", "projects", "anticipates", "will", "targets", "aims", "may", "would", "could", "continue" and similar statements are of a future or forward-looking nature. All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause the Group's actual results to differ materially from those indicated in these statements. Any forward-looking statements in this Annual Report and financial statements reflect the Group's current views with respect to future events and are subject to risks, uncertainties and assumptions relating to the Group's operations, results of operations and growth strategy.

These forward-looking statements speak only as of the date of this Annual Report and financial statements. Subject to any legal or regulatory obligations, the Company undertakes no obligation publicly to update or review any forward-looking statement, whether as a result of new information, future developments or otherwise. All subsequent written and oral forward-looking statements attributable to the Group or individuals acting on behalf of the Group are expressly qualified in their entirety by this paragraph. Nothing in this publication should be considered as a profit forecast.

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