
PPHE Hotel Group Annual Report 2015

pphe HOTEL GROUP

DELIVERING SOLID GROWTH

Annual Report
2015

WHO WE ARE

We are an international hospitality company, with a strong asset base and ownership of, and access to, 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 upper upscale and lifestyle hotel segments.

HOW WE DO IT

Our portfolio of owned, managed, leased and franchised hotels in operation comprises 38 hotels, offering a total of over 8,300 guest rooms. Our development pipeline includes five new hotel projects and one hotel extension. Our key markets are the United Kingdom, The Netherlands, Germany and Croatia.

Front cover image: 5&33 at art'otel amsterdam.

FINANCIAL HIGHLIGHTS

€302.5m
+11.8% total revenue

20p
+5.3% dividend per share[1]

€122.4m
+16.4% EBITDAR

€110.9m
+16.9% EBITDA

€38.8m
(6.8)% profit before tax

€41.2m
+25.5% normalised profit before tax[2]

€0.97
(2.9)% reported earnings per share

€0.99
+25.6% normalised earnings per share[2]

36.6%
+150bps EBITDA margin[3]

€127.3
+12.1% REVPAR[4]

84.3%
+60bps occupancy

€150.9
+11.3% average room rate

BUSINESS HIGHLIGHTS

Construction of new hotels significantly progressed
1,067 new rooms expected to open in 2016 as part of three new hotels and one extension and reconfiguration

Opened Park Plaza Arena Pula, Croatia
Opened the fully refurbished Park Plaza Arena Pula, with 175 rooms and leisure facilities

Delivered record service levels
Achieved record service performance score, as rated by our guests, of 8.63 on a scale of 1–10

Opened new restaurants and bars in Nottingham and Amsterdam
OAKS Restaurant & Bar opened in Nottingham in summer and Amsterdam's first espressamente illy in autumn

Signed hotel management agreement for new art'otel in London
The prestigious new art'otel london battersea power station is planned to open in 2019

Post balance sheet event
Entered into a sale and purchase agreement to acquire all shares in the company that holds a majority share in Arenaturist in Croatia

See CFO statement for further details and other post balance sheet events

[1] Including an interim dividend of 10p and a proposed final dividend of 10p per share.
[2] See page 30.
[3] EBITDA divided by total revenue.
[4] Revenue per available room.

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WE ARE ON THE VERGE OF SIGNIFICANT EXPANSION IN LONDON

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ELI PAPOUCHADO
CHAIRMAN

Dear shareholders,
2015 was another great year for our Group with many successes and highlights and we are on the verge of substantial expansion in London.

Our vision of realising growth has never been more evident in the history of our Group. Throughout the past decade we have gone from strength to strength and 2016 will see us take a significant leap in the Group's development with three new hotel openings planned, all of which are wholly owned, and a major extension of one of our London hotels. As a result, the number of rooms in our portfolio will grow by approximately 13% in 2016.

As we prepare for these openings, our teams have also laid the foundations for the imminent renovation programme for several of our key hotels in London, Berlin and Amsterdam which are expected to commence in 2016.

In addition, we extended our longer-term development pipeline with the signing of a hotel management agreement for what promises to be a magnificent art'otel, which is to be developed as part of the Battersea Power Station project, Europe's largest privately funded urban regeneration project.

With economic uncertainty in some markets around the world, political instability, elections in two of our four operating regions, the refugee crisis affecting Europe and various acts of terrorism, 2015 was a difficult year for the travel sector.

Against this backdrop, and with our teams focusing on our future growth and planned product improvements, I am pleased to report that our hotels in operation have collectively delivered record revenue and operating profit in 2015.

Our performance was in line with the Company's upgraded expectations during the year and, on behalf of the Board, I would like to extend my sincere appreciation to all our team members who have delivered such great results.

The Board is proposing the payment of a final dividend of 10.0 pence per share, which when combined with the increased interim dividend of 10.0 pence per share paid on 8 October 2015, amounts to a total dividend for the year ended 31 December 2015 of 20.0 pence per share, an increase of 5.3% compared with 2014. The increased dividend reflects the Board's confidence in the strength of PPHE Hotel Group. The Board expects to continue to follow a progressive dividend policy.

Whilst the Board continues to be mindful of the uncertainties the European travel industry faces, we are focusing on the delivery of our new hotel projects in Germany and the United Kingdom and the extensive renovations planned across all of our operating regions. Not only will our improved and newly developed hotels further strengthen our footprint in key European markets, our scale and increased brand recognition will also result in long-term benefits.

The Board is keen to take advantage of favourable capital market conditions to procure long-term debt and continues to evaluate such opportunities.

I would like to thank the members of the Board for their guidance and our team members for their hard work and commitment during 2015. I would like to particularly thank Elisha Flax, who will be stepping down as Non-Executive Director at the Company's next Annual General Meeting. Elisha has been a Director of the Company for over eight years and I would like to thank him for his contribution and wish him the best for the future. The Board will be proposing the appointment of Dawn Morgan, a former Finance Director of International Energy Group, as Non-Executive Director of the Company at the next Annual General Meeting. I look forward to what is expected to be an exciting and memorable year for our Group.

ELI PAPOUCHADO
CHAIRMAN

A DYNAMIC HOSPITALITY COMPANY

We are one of Europe's few remaining owner/operator companies, with a strong asset base and access to world-class brands and global distribution. Our balanced approach means that we fully understand owners' needs and the power that global brands bring.

CORE MARKETS

36 Review of the year

UNITED KINGDOM

2,791 rooms in operation

1,402 rooms in development

London is our primary market and greatest revenue contributor. Throughout the years, London has proved to be one of world's most resilient markets. We are on the verge of significantly expanding our London footprint, with Park Plaza set to become one of the largest upper upscale hotel brands in the capital. Our portfolio also includes hotels in Cardiff, Leeds and Nottingham.

CROATIA

2,814 rooms in operation

1,545 rooms have been redeveloped between 2012 and 2015

Through our management agreement for and part ownership of Arenaturist we are one of the leading hospitality companies in this emerging tourism destination on the Adriatic coast known for its pristine nature, great food and easy access from most of Europe. In the past four years, we have significantly redeveloped the portfolio, which now offers several contemporary Park Plaza hotels, providing all facilities and services today's holiday makers expect.

THE NETHERLANDS

1,117 rooms in operation

With four hotels in Amsterdam, we are well represented in the thriving Dutch capital and we have a good mix when it comes to hotel locations and product positioning. Two of our hotels in Amsterdam are to undergo significant renovations in 2016–2017, which we expect to significantly benefit the performance of these hotels. This includes the redevelopment of Park Plaza Victoria Amsterdam, one of our primary hotel assets. Additional locations in The Netherlands include Eindhoven and Utrecht.

GERMANY AND HUNGARY

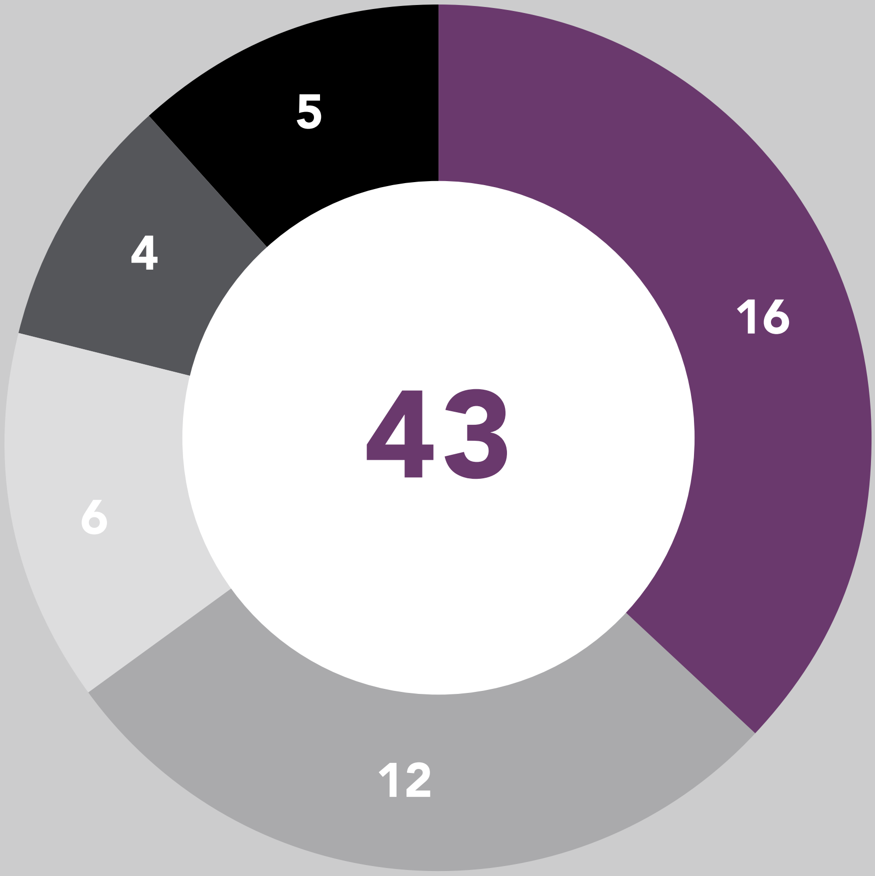
1,423 rooms in development

177 rooms in development

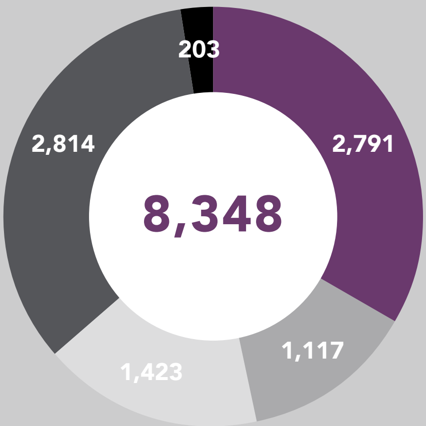
We operate five hotels in Berlin, of which three are Park Plaza branded and two carry the art'otel brand. The hotels are well spread around the city, with our flagship hotels located in Berlin's Mitte area. Competition is fierce in Berlin; however, we continue to believe in the long-term prospects of this vibrant destination. Our portfolio extends to include hotels in Cologne, Dresden and Trier in Germany and Budapest in Hungary.

HOTEL PORTFOLIO

- 16 PART OWNED
- 12 WHOLLY OWNED
- 6 OPERATING LEASES
- 4 MANAGEMENT AND FRANCHISE AGREEMENTS
- 5 NEW HOTEL PROJECTS

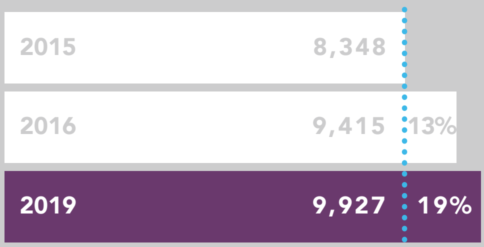


TOTAL ROOMS IN OPERATION

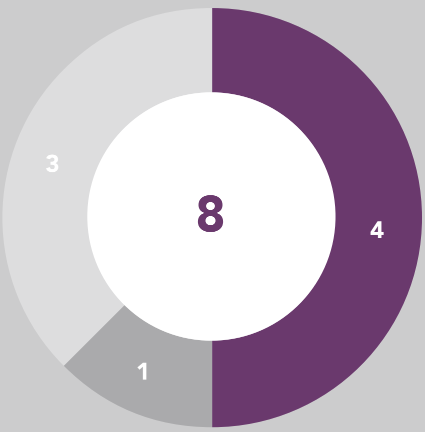


- 2,791 UNITED KINGDOM
- 1,117 THE NETHERLANDS
- 1,423 GERMANY AND HUNGARY
- 2,814 CROATIA
- 203 OTHER

ROOM INCREASE BY 2019



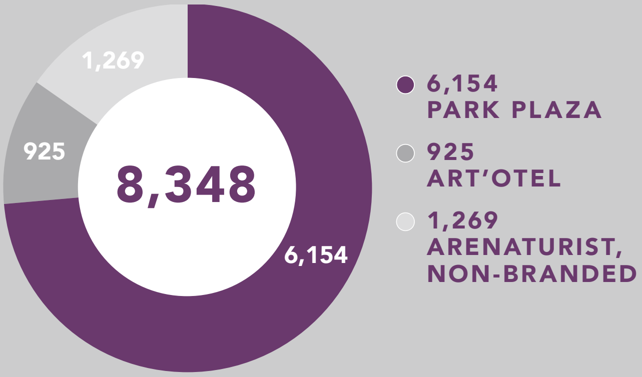
MAJOR RENOVATIONS PLANNED



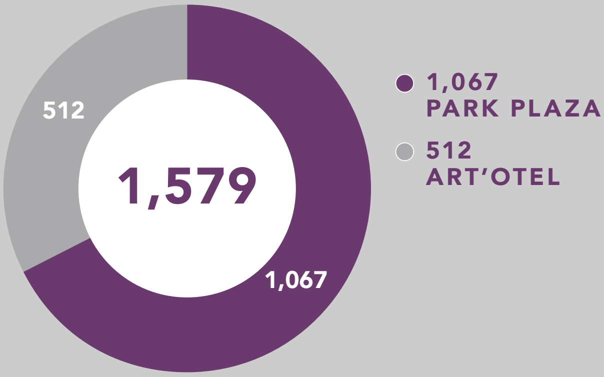
- 4 HOTELS UNITED KINGDOM
- 1 HOTEL GERMANY
- 3 HOTELS THE NETHERLANDS

A TAILORED, BRANDED OFFERING

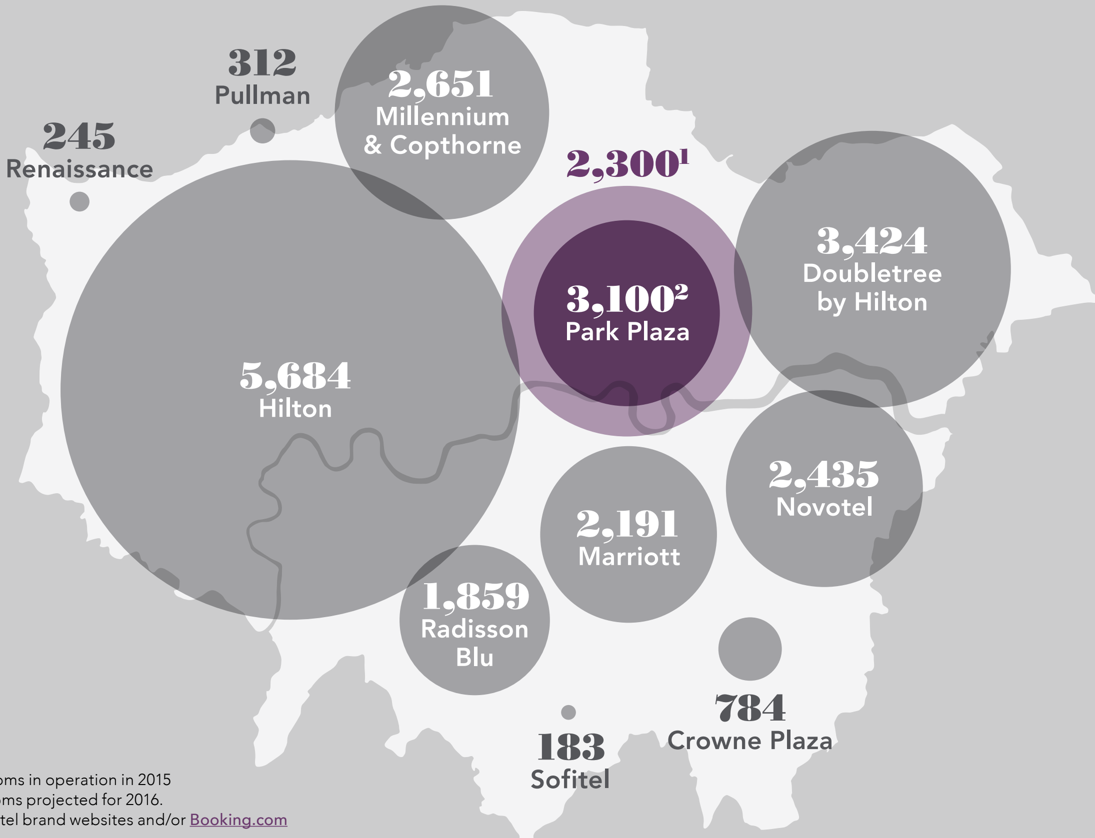
ROOMS IN OPERATION BY BRAND (EMEA ONLY)



ROOMS IN DEVELOPMENT BY BRAND (EMEA ONLY)



SELECTION OF UPSCALE, FULL-SERVICE BRANDED HOTEL ROOMS WITHIN LONDON'S M25 (EXCLUDING HEATHROW)



[1] 2,300 rooms in operation in 2015
[2] 3,100 rooms projected for 2016.
Source: Hotel brand websites and/or Booking.com

We believe in the power that trusted and recognised brands offer, delivered through a bespoke approach. Our two core brands, Park Plaza and art'otel, fit this strategy and are both vibrant, unique and continually evolving.

22 Strategy at a glance
21 Dynamic brands

Park Plaza Hotels & Resorts

parkplaza.com
Perpetual territorial exclusive licence agreement

Park Plaza is a dynamic and growing collection of individual upper upscale hotels in some of the world's great cities and resort destinations, where the location is special, the welcome is sincere, the service is exceptional and the guest is always appreciated and welcome. Each of the hotels has its own creative and cosmopolitan design approach, enhanced by vibrant bars and award-winning restaurants. Our team is committed to delivering an individual and memorable experience, with the emphasis on tailored service with a personal touch.

parkplaza.com

art'otel

artotels.com
Wholly owned brand

art'otels are a contemporary collection of hotels that fuses 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 that art'otel®, rendering each a unique art gallery in its own right. art'otel® has created a niche for itself in the hospitality industry, differentiating it from traditional hotels.

artotels.com

ARENA TURIST

arenaturist.com
Management agreement

Arenaturist is one of Croatia's best known hospitality groups and consists of seven hotels, six holiday apartment complexes, eight campsites and over 50 food and beverage outlets, all of which are located in Istria. Arenaturist caters primarily for tourists and all properties are located in prime locations by the sea and are only a short distance from either the 3,000-year-old city of Pula or the touristic town of Medulin.

arenaturist.com

Unique brands, with global appeal

Developing, managing and marketing brands is an art – especially in today's globalised and digitalised world, where 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, one of the industry's largest travel companies consisting of a multi-brand hotel division (Carlson Rezidor Hotel Group) and the world's largest business travel agency (Carlson Wagonlit Travel).

Together, we have created a strong global marketing and distribution platform through which we market our Park Plaza and art'otel branded hotels.

Our hotels therefore 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, distribution partnerships and preferred agreements with virtually all main travel agencies and online travel websites, e-commerce platforms and digital marketing expertise, 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're never considering 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 relevancy 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.

ANOTHER YEAR OF PROGRESS

BORIS IVESHA
PRESIDENT & CHIEF EXECUTIVE OFFICER

Welcome, we are pleased to report on another year of progress, with double digit revenue growth, high levels of guest satisfaction and employee engagement and excellent progress made with the various projects in our development pipeline.

Our total Group revenue for the year increased by 11.8%, which was the result of improved trading, primarily driven by increased average room rates, and the strong Sterling to Euro exchange rate.

The Netherlands and Germany continued their economic recovery with our hotels in these markets reporting good growth.

Growth in London was, as anticipated, lower than in previous years, due to a less favourable events calendar and less stable economic market conditions. However, despite this backdrop our constant currency growth in the United Kingdom was 3.2%.

2016 will be another exciting year for us as we are on the brink of opening a brand new hotel in Nuremberg, two new hotels in London and the completion of the extension and reconfiguration of Park Plaza Riverbank London. As a result, our total number of rooms in operation is expected to increase by nearly 1,100 in 2016.

Our development pipeline also includes two iconic art'otel projects: art'otel london hoxton, construction of which is expected to commence in 2016, and art'otel london: battersea power station. Following a highly competitive operator selection process, we were awarded the hotel management agreement in October for the lifestyle, luxury hotel to be developed as part of the prestigious Battersea Power Station development. Both new art'otel developments are fully in line with our upgraded brand positioning for art'otel. These developments follow on from the success of art'otel amsterdam which opened late 2013. The art'otel brand is wholly owned by PPHE Hotel Group.

We currently operate over 8,300 rooms and our existing committed pipeline will result in us having approximately 10,000 rooms in operation by 2019, with the vast majority of our hotels located in key capital cities in Europe. At such time, we expect to offer over 3,500 rooms in London alone, alongside similarly strong operating platforms already in place in markets such as Amsterdam and Berlin.

Our corporate strategy is to create and realise shareholder value by becoming one of the leading hotel companies in the upscale and lifestyle segments. Our strategy is built around six core strategic objectives:

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

In 2015, we have delivered clear progress across all of these objectives.

Improved EBITDA margin
In 2015, our EBITDA margin increased by 150 basis points (bps) to 36.6%, reflecting improved trading and effective cost management. To further improve efficiency, we have strengthened our procurement team with representatives in each of our operating regions. We have already seen the benefits and expect to see further time and cost savings in the years ahead. As we expand our portfolio, we are constantly looking to leverage our scale and improve efficiencies and synergies. In addition, our lean organisational structure enables us to absorb further portfolio growth with a minimal increase in overheads. Looking ahead, we will focus on maintaining strong EBITDA margins.

Enhanced service quality
Delivering a consistent, high quality and memorable guest experience is at the very heart of our business. Particularly at a time when consumers are looking for, and sharing, unique travel experiences we encourage our teams to deliver a guest experience that exceeds expectations.

In recent years we have developed extensive training programmes around this philosophy and we are continuing to see the benefits of these. Our Talent Management programme is aimed at retaining, supporting and developing the talented individuals within our business. This programme benefits us in the short term through improved service delivery and will particularly benefit our planned new hotel openings due to the

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IN 2015, WE DELIVERED CLEAR PROGRESS ACROSS OUR SIX CORE STRATEGIC OBJECTIVES expected inter-company transfers. With employee demographics and behaviour changing rapidly, we are focusing more and more on positioning our Group and our brands as an inspiring place to work.

As part of our Talent Management programme, we once again facilitated 'Foundation in Management', which is aimed at management, across all our operating regions, nurturing talent and preparing participants for their next step in their career with us. Following a comprehensive application process, 24 team members participated and nine have taken on additional managerial responsibilities following their completion of the programme.

Our wide range of activities in the learning and development field of our business has made a clear contribution to our performance. In 2015, we once again further improved our Service Performance score, as measured through our guest satisfaction surveys, to a record 8.63 (on a scale of 1–10). Overall Guest Satisfaction was a commendable 8.31 (on a scale of 1–10). We believe that the planned renovations across several of our hotels will contribute to improved guest satisfaction once completed. Naturally, we are proud of our teams delivering such great results.

In 2015, our employee satisfaction programme evolved into an employee engagement approach. 2,576 team members participated in this survey, representing a 92% response rate. Our overall employee engagement score was 84.2% (on a scale of 1–100), establishing a new baseline for the next survey planned for summer 2016 and giving us valuable insights as to where we perform well and where we can do better. As part of this engagement survey, engagement from respondents is measured across four drivers: My Job, My Manager, Our Team and Our Company, and the best performing driver this year is Our Team. 85% of respondents have indicated that they are proud to work for us and 91% are satisfied with being employed by us.

We were once again awarded several accolades in 2015, including the 'Excellence in Building Capability Award' (at the HR in Hospitality Awards) and the 'Best Work Experience Provider Award' and 'Best Career Progression Award', at the Springboard Awards for Excellence.

With our service performance continuing to be at such a high level, we aim to maintain this in 2016, whilst further improving our guest experience through planned product enhancements.

Improving and expanding our portfolio
We are owner/operators and take great pride in our assets. It is essential to offer our guests high quality experiences and, as previously announced, we will be significantly investing in our existing hotel portfolio, over and above our routine capital expenditure plans, over the next two years. These renovations are part of the refinancing entered into in December 2013. During this investment period we aim to minimise the impact on our operations through careful planning and a phased approach where possible.

During the year we continued to invest in our development pipeline and we made significant progress with the various projects. Construction is well under way for the new Park Plaza Nuremberg (Germany), Park Plaza London Park Royal and Park Plaza London Waterloo (both in the United Kingdom). These three new hotels are all expected to open during 2016. The extension and reconfiguration of Park Plaza Riverbank London is also on track to be completed in 2016.

In June, we opened Park Plaza Arena Pula in Croatia. This contemporary 175-room hotel is located in a pine forest on the Adriatic coast and is part of the Arenaturist group. Following extensive renovations this hotel was rebranded as Park Plaza. Between 2012 and 2015, we have transformed and rebranded half of Arenaturist's hotel rooms.

In October, we were delighted to announce the signing of a hotel management agreement for an art'otel®, which is to be developed as part of the prestigious Battersea Power Station redevelopment. This hotel is expected to open in 2019.

Innovative revenue generation
During the year we continued to focus on developing and maintaining direct relationships with our customers. Our commercial teams focused on driving as much of our business through the most cost-effective channels, whilst ensuring that we were able to achieve overall top line growth. This year we have undertaken more centrally orchestrated promotional campaigns than in any other year, ensuring that our products remain top of mind with our existing and prospective customers. The focus on digital marketing has continued to increase with new online partnerships developed in the year with, amongst others, Google and TripAdvisor. In addition,

NEW HOTEL DEVELOPMENTS AND EXTENSIVE RENOVATIONS ARE WELL UNDERWAY

we have fully leveraged our strategic relationships with the world's leading airlines and main credit card companies in the form of direct marketing campaigns.

Our primary focus remains to grow direct business as it is the most cost effective and enables us to establish a one-to-one relationship with our guests. Our revenue and digital teams work closely with their peers at the Carlson Rezidor Hotel Group ('Carlson') to ensure that we benefit from all knowledge, expertise and tools available to us.

Leveraged our partnership with Carlson
In a highly globalised and digital world, scale, visibility and cutting edge technologies are paramount for long-term success. Through our exclusive partnership with Carlson, one of the world's leading hospitality companies, we are able to compete with travel industry giants, whilst continuing to benefit from our medium-size owner/operator mentality and agility.

Our strategic partnership with Carlson continues to bring 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. Fostering loyalty, and offering point-based loyalty programmes, continues to play a significant role in our industry. Scale is important to ensure that guests have significant opportunities to earn or redeem their points. Our participation in the Club Carlson reward scheme means that we can tap into a database of over 15.1 million travellers, who can earn and redeem loyalty points at over 1,370 hotels in operation and under development across seven different brands, offering the customer choice. Our teams constantly focus on driving activity from, and engagement with, these members and a significant proportion of our occupancy is related to this reward programme. Members of the programme tend to spend more on average at our hotels and have a higher propensity to return than non-members.

Current trading and outlook
Our investment programme, which covers new hotel developments and extensive renovations, is well under way and we expect to open three new hotels and one hotel extension in 2016, adding nearly 1,100 rooms to the portfolio.

Extensive renovations at several of our hotels in London, Berlin and Amsterdam are planned for 2016 and beyond to ensure that our hotels continue to improve on their strong market positions. However, as previously announced, once renovations commence we anticipate reduced capacities and a short-term impact on revenue due to temporary closures of rooms and public areas. Although this may be at the expense of short-term revenue gains, 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.

The first quarter of the year is traditionally our weakest. Nevertheless, and notwithstanding our ongoing and planned renovations and extension works, our RevPAR performance in January and February of 2016 was in line with the Board's expectations in all markets.

BORIS IVESHA
PRESIDENT & CHIEF EXECUTIVE OFFICER

TRANSFORMING POTENTIAL INTO PROFIT

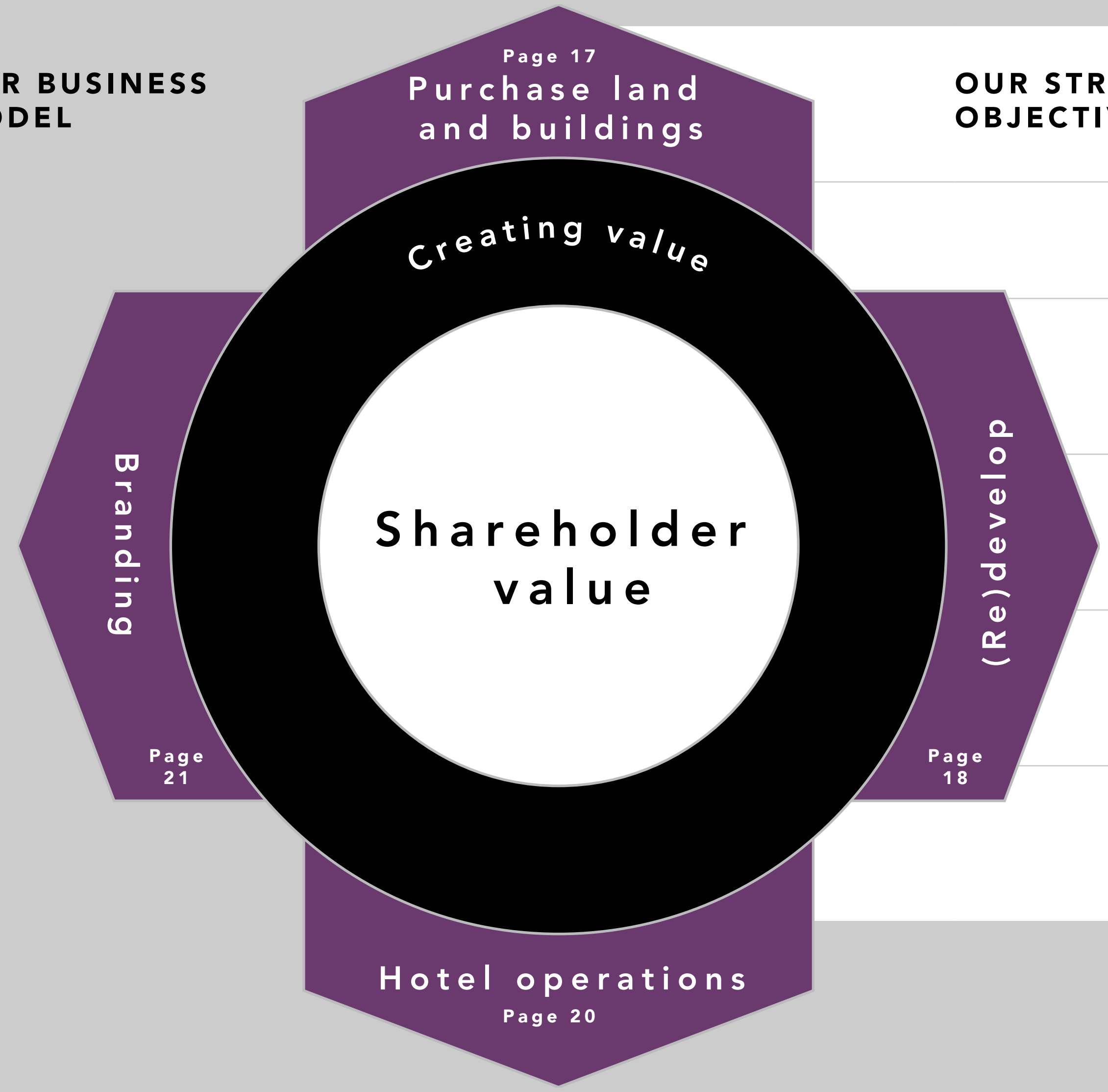
OUR VISION

To realise growth potential

OUR MISSION STATEMENT

Inspiring our guests through individuality and passion

OUR BUSINESS MODEL



OUR STRATEGIC OBJECTIVES

OUR VALUES

TRUST

RESPECT

TEAMWORK

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

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 have benefited from our business model, developments and operating skills in the form of progressive dividend payments.

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Delivering stabilised annual return on shareholder capital

Read more on page 22

Maintaining our high EBITDA margin

Improving our guest experience through a 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 to further grow revenues

ENTHUSIASM

COMMITMENT

CARE

Our values

The Group feels that it is important to have positive working relationships and to foster an environment based on trust, respect, teamwork, enthusiasm, commitment and care. These criteria have therefore been adopted as our company values.

CREATING LONG-TERM VALUE

We aim to create shareholder value by applying a variety of business models. We own or co-own 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.

	Owned properties			Joint ventures and associates			
	In operation €m	Under development €m	Operating leases €m	In operation €m	Under development €m	Management and central costs €m	Reported €m
Capital employed	216.9	38.3	(0.1)	26.9	19.2	63.6	364.8
Adjusted EBITDA	110.9	–	1.3	4.0	–	(5.4)	110.8
Normalised profit before tax 31 December 2015	42.7	(1.0)	1.0	4.8	0.2	(6.5)	41.2
Normalised profit before tax 31 December 2014	34.4	(1.2)	1.7	3.8	0.1	(5.9)	32.9

* For further details on this table see page 34.

CHOOSING THE RIGHT LOCATION

Purchase land and buildings

Owning and operating hotels is the primary focus of our business. This is a capital intense, but highly profitable business model. The Group has a proven track record of buying plots of land and buildings with development potential and transforming these sites into successful, profitable hotels.

Examples of owned hotels in operation, which the Group has either built or transformed, include:

- Park Plaza Westminster Bridge London (1,019 rooms)
- Park Plaza Riverbank London (461 rooms, currently being expanded to 645 rooms)
- Park Plaza Victoria London (299 rooms)

Looking ahead

The Group is on the verge of opening three wholly owned new hotels: Park Plaza London Waterloo (a conversion of a former office building on London's popular South Bank), Park Plaza London Park Royal (a new build hotel on London's A40 gateway, enjoying prime visibility) and Park Plaza Nuremberg (a conversion from a vacant hotel building, in a prime location).

PPHE Hotel Group aims to own and co-own hotels in key gateway cities and leisure destinations in Europe where capital value is likely to appreciate over time. It 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 a third party and through these joint ventures and associates, we are able to accelerate growth, share the costs, and by securing long-term management contracts, we benefit from fee-based income. A prime example of a joint venture is our minority shareholding in the holding company of the Arenaturist group. Arenaturist is one of Croatia's best known hospitality groups and consists of seven hotels, six holiday apartment complexes, eight campsites and over 50 food and beverage outlets in and around the touristic towns of Pula and Medulin in Croatia.

Since entering into this partnership in 2008, more than half of Arenaturist's hotel rooms have been fully renovated and rebranded as Park Plaza. PPHE Hotel Group is expected to benefit from increased property values and benefits from fee-based income as it was awarded the long-term management contract to manage Arenaturist.

Our performance in 2015

At 31 December 2015, we had employed €216.9 million capital in hotels in operation, generating €110.9 million adjusted EBITDA and €42.7 million normalised profit before tax. The return on capital employed for the year was 19.7%. At 31 December 2015, the capital employed for joint ventures and associates was €26.9 million (excluding €19.2 million for hotels under development) with normalised profit before tax at €4.8 million.

SMART DEVELOPMENT

(Re)develop

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 intense, 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.

PPHE Hotel Group's pipeline includes one new hotel project in Nuremberg, Germany and four new hotel projects and one extension in London. We have extensive development experience and are significantly involved in all development projects.

Examples of hotels which the Group has (re) developed include:

- Park Plaza Westminster Bridge London (1,019 rooms)
- Park Plaza Riverbank London (461 rooms, currently being expanded to 645 rooms)
- Park Plaza Victoria London (299 rooms)
- Five Park Plaza hotels in Pula and Medulin in Croatia (offering over 1,500 rooms)
- Park Plaza Leeds (187 rooms)
- Park Plaza Nottingham (178 rooms)

Our performance in 2015

At 31 December 2015, we had employed €38.3 million capital in hotels under development.

Looking ahead

The Group is on the verge of opening three wholly owned new hotels: Park Plaza London Waterloo (a conversion of a former office building on London's popular South Bank), Park Plaza London Park Royal (a new build hotel on London's A40 gateway, enjoying prime visibility) and Park Plaza Nuremberg (a conversion from a vacant hotel building, in a prime location).

In addition, the Group will be transforming several of its existing hotels between 2016-2017, such as Park Plaza Vondelpark Amsterdam, Park Plaza Victoria Amsterdam and Park Plaza Sherlock Holmes London.

The Group is actively pursuing several other opportunities in markets where it expects that capital value is likely to appreciate over time.

“

FAST FORWARD TO 2019 AND WE WILL HAVE NEARLY 10,000 ROOMS IN OPERATION

”

EXPERIENCED HOTELIERS

Hotel operations

The majority of the hotels in our portfolio are managed by us. We are highly experienced in managing hotels and, as owners of hotels, we understand the precise requirements of an owner and as such we are able to provide property investors with a complete hotel management solution, with expert teams focusing on providing exemplary service and profitable operations, every day. Managing our and other people's assets is a core part of our business.

PPHE Hotel Group has management contracts in place for all hotels it owns or co-owns, as well as for those hotels leased by the Group and for several hotels which are owned by third parties.

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, to name but a few benefits. We run our managed hotels with efficiency and passion and have a proven track record of operating highly successful, profitable hotels. PPHE Hotel Group benefits from this business model in the form of fee-based income.

Institutional investors, on the other hand, may favour operating leases, whereby we lease their property and pay them rent. We manage all aspects of the operation of the hotel, from sales and marketing to reservations and food and beverage to human resources. The benefit to the Group of such agreements is that this model is capital light.

Examples of hotels managed by the Group for third party owners:

- Arenaturist portfolio in Croatia, including five Park Plaza hotels
- Park Plaza County Hall London
- art'otel budapest
- art'otel cologne
- Park Plaza Wallstreet Berlin Mitte

Our performance in 2015

At 31 December 2015, capital employed to service all hotels operating under management and franchise contracts was €63.6 million. The Group also operates several hotels under long-term lease agreements and at 31 December, our revenue generated from hotels operating under leases was €30.2 million, with adjusted EBITDA at €1.3 million. Normalised profits before tax was €1.0 million.

In 2015, the Group successfully secured the long-term operating agreement for the prestigious art'otel london battersea power station.

Looking ahead

PPHE Hotel Group believes that the Management and Franchise model has great potential to realise portfolio growth, without requiring significant capital as a solid support infrastructure is already in place. The Group is actively seeking opportunities to grow through either management or franchise arrangements. Expansion through operational leases will be considered in exceptional circumstances only.

DYNAMIC BRANDS

Branding

The Group has a true multi-brand approach, whereby it has an exclusive, perpetual licence from Carlson to operate and develop their Park Plaza® Hotels & Resorts 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, which the Group operates under a management agreement, are unbranded, yet they fully benefit from the Group's management expertise.

Park Plaza is the core brand for us, and is positioned in the upper upscale segment of the full-service hotel market. The brand enjoys strong recognition in the London market in particular, which is about to be boosted further due to the new openings planned for 2016. Park Plaza is a dynamic hotel brand with individually designed hotels in some of the world's great cities and resort destinations. Each of the hotels has its own creative and cosmopolitan design approach, enhanced by vibrant bars and award-winning restaurants. The Park Plaza teams are committed to delivering individual and memorable experiences, with the emphasis on tailored services with a personal touch.

In recent years, we have successfully redeveloped several hotels and branded these hotels Park Plaza on completion of the renovation works. Since rebranding, these hotels have all delivered significantly improved results.

We believe that the Park Plaza brand has potential for growth and we are aiming to grow the brand's portfolio through capital investments, management, lease and franchise arrangements. In addition, the Group has entered into several franchise contracts, providing third party hotel owners the right to use the Park Plaza brand name and giving them access to the global reservation system, distribution channels and various marketing programmes.

art'otel is a brand we wholly own and which we market through Carlson's powerful global distribution network, ensuring global reach. With the 2013 opening of art'otel amsterdam we embarked on a new venture for the brand, significantly upgrading the brand's positioning and appeal, and it has since gone from strength to strength. The new art'otels fuse exceptional architectural style with art-inspired interiors and are located in cosmopolitan destinations. At the brand's core is the art itself. Each hotel displays a collection of original works designed or acquired specifically for that art'otel, rendering each a unique art gallery in its own right. We believe art'otel offers a compelling proposition to guests, it is truly different from any other hotel brand and is so much more than a hotel, it is a lifestyle.
The brand is filled with potential and we have two exciting openings in our pipeline in London, one art'otel in Hoxton and one as part of the Battersea Power Station development. In addition, we will be creating a new generation art'otel in Berlin's mitte area.

PPHE Hotel Group benefits from fee-based income for the licencing of its brands.

Examples of hotels the Group manages or franchises under its brands are:

- Park Plaza County Hall London
- Park Plaza Cardiff
- Park Plaza Trier
- Five Park Plaza Hotels in Pula and Medulin in Croatia (offering over 1,500 rooms)
- Park Plaza Amsterdam Airport (which, following significant investment, was converted from a Holiday Inn)

Our performance in 2015
PPHE Hotel Group benefits from fee-based income for the licencing of its brands. At 31 December 2015, capital employed to service all hotels operating under management and franchise contracts was €63.6 million.

Looking ahead
PPHE Hotel Group believes that both of its brands have great potential to realise portfolio growth, without requiring significant capital as a solid support infrastructure is already in place. The Group is therefore actively seeking opportunities to grow the Park Plaza and art'otel brand portfolios through its various business models.

STRATEGY AT A GLANCE

2015 STRATEGIC OBJECTIVES	PERFORMANCE IN THE YEAR
1. Delivering stabilised annual return on shareholder capital	Despite the Group's various development projects, dividend increased by 5.3%
2. Maintaining our high EBITDA margin	Our EBITDA margin increased year-on-year as a result of improved trading and proactive cost management
3. Improving our guest experience through a consistent service delivery and product enhancements	Continued investment in operational and management training programmes across all our regions Achieved record level of Service Performance score and maintained high level of guest satisfaction Product investment and renovations
4. Driving growth by expanding our hotel portfolio through a variety of business models	Entered into management agreement for art'otel london battersea power station Construction of three new hotels Extension and reconfiguration of one hotel
5. Improving our overall performance through innovative revenue generation and marketing initiatives	Approximately 50% of our wholly owned and leased hotels outperformed their competitive sets Increased focus on driving business direct through our own channels, with several successes booked
6. Leveraging our partnership with Carlson 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 Rezidor Hotel Group sales, marketing and distribution initiatives Active targeting of frequent flyer programme members, through our extended airline partner network

PPHE Hotel Group's primary objective is to create and realise shareholder value by growing the Company into one of the leading hotel companies in the upscale and lifestyle hotel segments. We aim to grow prudently, passionately and confidently through acquiring, developing and managing hotels in city centre, airport and resort locations.

We intend to use our established portfolio and network, paired with our entrepreneurial spirit, to grow the number of hotels and brands in our portfolio, increase profitability through revenue growth and cost management, and utilise the Carlson Rezidor Hotel Group partnership as the contributor to further grow revenues.

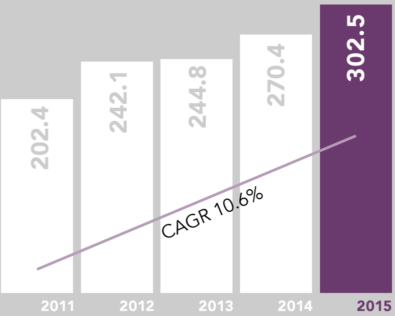
KEY PERFORMANCE INDICATORS	RISKS LINKED TO STRATEGY*	LOOKING FORWARD
19.7% return on capital employed (based on owned hotels in operation) **20.0p** dividend per share	– The Group's borrowings – Foreign exchange rate fluctuations	Maintain progressive dividend policy
36.6% reported EBITDA margin (EBITDA / Total Revenue)	– Fixed operating expenses – Hotel industry risks	Maintain our high EBITDA margin by improving operational performance, tight cost controls, centralised procurement and further developing our financial structure and asset management initiatives
8.31 overall Guest Satisfaction score (on a scale of 1–10) **8.63** service performance score (on a scale of 1–10) **175** opened 175-room Park Plaza Arena Pula, Croatia	– 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
160 rooms management agreement **1,067** new rooms under construction	– 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® Hotels & Resorts brand and reservation system	Embrace all marketing, sales, distribution and e-commerce channels and programmes available through Carlson's global network and increase customer loyalty and engagement

* For an overview of risks and mitigation, please refer to pages 26 and 27.

OUR KEY PERFORMANCE INDICATORS

FINANCIAL KPIs*

TOTAL REVENUE €M

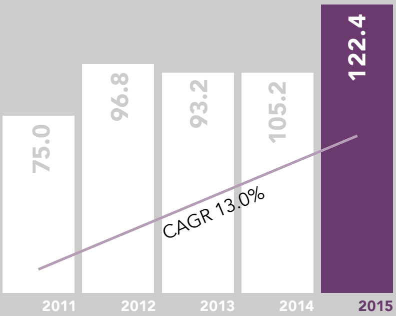


KPI definition
Total revenue includes all operating revenue generated by the Group's owned and leased hotels, management fees, franchise fees and marketing fees.

Comment
Revenue increased by 11.8%, due to improved trading and a currency exchange rate benefit.

Also see
- Deputy CEO & CFO statement P28
- Financial statements P71 – 120

EBITDAR €M

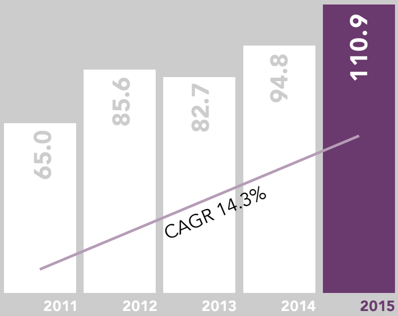


KPI definition
Earnings before interest, tax, depreciation, amortisation and rental expenses.

Comment
EBITDAR increased by 16.4% year-on-year, due to an increase in revenue and tight cost control.

Also see
- Deputy CEO & CFO statement P28
- Financial statements P71 – 120

EBITDA €M

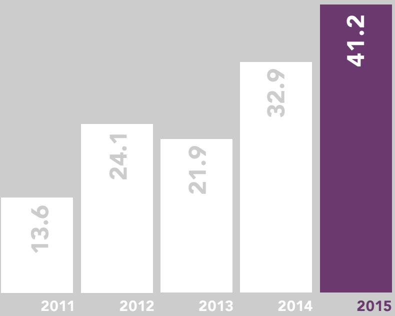


KPI definition
Earnings before interest, tax, depreciation and amortisation.

Comment
EBITDA increased by 16.9% year-on-year, due to an increase in revenue and tight cost control.

Also see
- Deputy CEO & CFO statement P28
- Financial statements P71 – 120

NORMALISED PROFIT BEFORE TAX €M

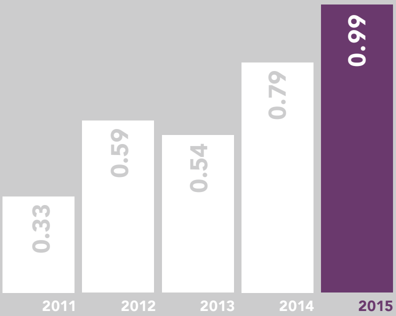


KPI definition
Profit before tax adjusted to remove unusual or one-time influences.

Comment
Significant increase reported with normalised profit before tax increasing by 25.5% due to improved earnings.

Also see
- Deputy CEO & CFO statement P28
- Financial statements P71 – 120

NORMALISED EARNINGS PER SHARE €

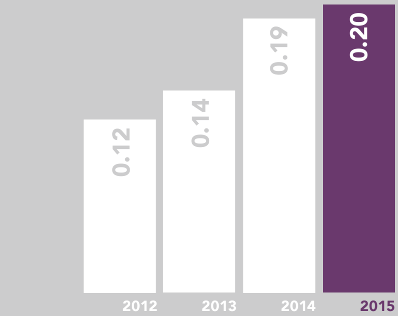


KPI definition
Earnings for the year, adjusted to remove any unusual or one-time influences, divided by the weighted average number of Ordinary shares outstanding during the year.

Comment
Significant increase reported with normalised earnings per share increasing by 25.6% due to improved earnings.

Also see
- Deputy CEO & CFO statement P28
- Financial statements P71 – 120

DIVIDEND PER SHARE £



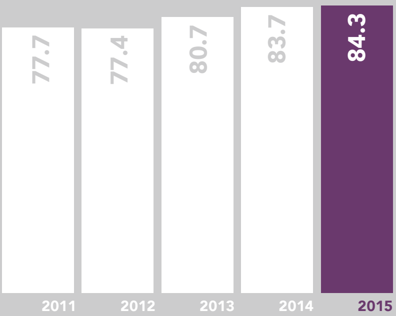
KPI definition
The total dividends paid out over an entire year divided by the number of outstanding Ordinary shares issued.

Comment
5.3% increase year-on-year, with a final dividend of 10.0 pence per share proposed.

Also see
- Deputy CEO & CFO statement P28
- Financial statements P71 – 120

OPERATING KPIs*

OCCUPANCY
%



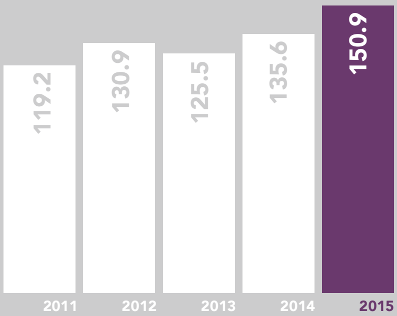
KPI definition
Total rooms occupied divided by the available rooms.

Comment
Record occupancy delivered due to a strong demand in The Netherlands in particular.

Also see

- Deputy CEO & CFO statement P28
- Review of the year P36
- Financial statements P71 – 120

AVERAGE ROOM RATE
€



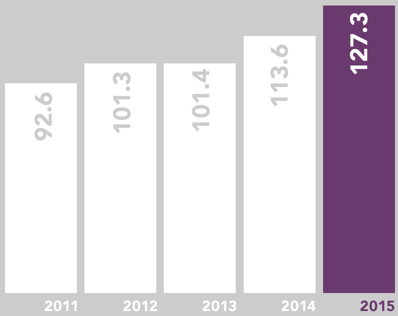
KPI definition
Total room revenue divided by the number of rooms sold.

Comment
Record average room rate delivered, increasing by 11.3%, due to increases across all operating regions.

Also see

- Deputy CEO & CFO statement P28
- Review of the year P36
- Financial statements P71 – 120

REVPAR
€



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

Comment
Record RevPAR delivered, increasing by 12.1%, as a result of increased average room rate and occupancy.

Also see

- Deputy CEO & CFO statement P28
- Review of the year P36
- Financial statements P71 – 120

EMPLOYEE SATISFACTION/ ENGAGEMENT (SCALE 1–100%)

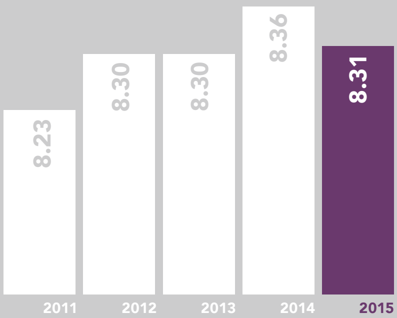
KPI definition
Measured through annual surveys. Team members are encouraged to share feedback about our company, their jobs, their teams and manager.

Comment
Adopted a new measurement method in 2015, providing new insights and enabling us to further strengthen our unique culture. This year's result is therefore considered the baseline.

Also see

- President & CEO statement P10
- Corporate Social Responsibility P48

GUEST SATISFACTION (SCALE 1–10)



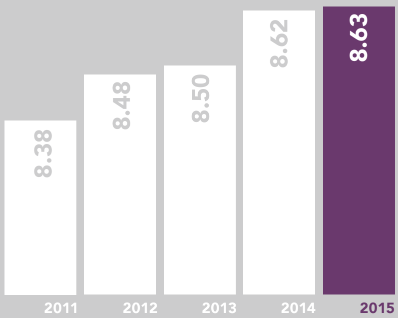
KPI definition
Guest satisfaction is paramount to our long-term success. Guests are approached via electronic surveys and are encouraged to rate various elements of their stay.

Comment
Maintained high level of guest satisfaction and further improvement expected post-renovations.

Also see

- President & CEO Statement P10

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
Record service performance score delivered, due to strong service focus and extensive training programmes.

Also see

- President & CEO Statement P10

GRADING KEY	YEAR-ON-YEAR KEY
High	Increased
Medium	Unchanged
Low	Reduced

OUR RISKS

RISK AND IMPACT	MITIGATION	GRADING	YEAR-ON-YEAR
Market disruptors			
The travel industry has changed considerably in recent years as a result of changes in travel patterns, emergence of low-cost airlines and online travel agents, new technologies and changes in customer booking behaviour and travel expectations. This trend is expected to continue and the travel industry is expected to continue to be impacted by the rise of online travel booking 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[SM], ensuring that global trends are identified and acted upon in a concerted manner, benefiting from the scale, negotiating power, knowledge and skills that our global partnership brings. Executives and managers of the Group 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 of 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 an 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 of 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) 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, 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.		

Foreign exchange rate fluctuations

The exchange rates between the functional currency of the Group's subsidiaries operating outside the Eurozone and the Euro (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 with the exception of the outstanding consideration in Thai Baht relating to the disposal of the site in Pattaya Bay, Thailand. After due and careful consideration, the Group decided not to hedge this currency risk.

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℠, 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℠'s global central reservation system, participate in its various loyalty schemes and have access to global distribution channels connected to their 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℠ 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℠ directly, and failure at their 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℠'s central reservation system are in perpetuity. This unique and exclusive partnership is reinforced by the Group's continued focus on operational efficiency and portfolio growth through its intensified cooperation with Carlson℠. To ensure that the Group's interests are represented, several of its executives and managers participate in collaborative groups initiated by Carlson℠ to discuss, review and optimise the collective performance in areas such as Sales, Loyalty Marketing, Partnerships, E-commerce and Distribution.

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 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 on 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.

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 capital expenditure, the Group may be exposed to disruptions on 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 capital expenditure 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.

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.

DELIVERING GROWTH IN REVENUE AND PROFIT

CHEN MORAVSKY
DEPUTY CHIEF EXECUTIVE OFFICER
& CHIEF FINANCIAL OFFICER

OUR OWNED HOTELS IN LONDON AND AMSTERDAM GENERATED NEARLY 80% OF OUR EBITDA

Reconciliation of reported to like-for-like and constant currency (in € millions)

	2015 Reported	Constant currency* adjustments	2015 Adjusted	2014 Like-for-like
Total revenue	**302.5**	**(20.2)**	**282.3**	270.4
Room revenue	**204.3**	**(13.7)**	**190.6**	182.1
EBITDAR	**122.4**	**(7.6)**	**114.8**	105.2
EBITDA	**110.9**	**(7.5)**	**103.4**	94.8
EBITDA margin	**36.6%**	**0.0%**	**36.6%**	35.1%

* The Group's performance is positively affected by an 11.3% increase in average Sterling to Euro exchange rate, as the Group's hotels in the United Kingdom account for approximately 65% of Group hotel revenue. Constant currency reported financial statistics ignore this 11.3% year-on-year increase and the 2014 average Sterling to Euro exchange rate is applied to the 2015 reported numbers.

Performance

Our trading performance again improved year-on-year, with Group revenue, normalised profit and normalised earnings per share all increasing. 2015 reported revenue increased by 11.8% to €302.5 million (2014: €270.4 million), whilst on a constant currency basis, revenue increased by 4.4% to €282.3 million. EBITDA increased by 16.9% to €110.9 million (2014: €94.8 million), which on a constant currency basis represented an increase of 9.1% to €103.4 million.

The Groups' owned hotels in London and Amsterdam generated 78.6% of total revenue and 79.5% of the total EBITDA. Both of these markets typically benefit from strong demand from the leisure and corporate sectors and due to our excellent coverage in these cities, the Group will continue to benefit from the strong appeal of these destinations.

We have continued to progress our hotel developments in the period, most notably the construction of the two new hotels in London, the extension of Park Plaza Riverbank London and the Park Plaza Nuremberg development. All four projects are on schedule to be completed in 2016. Notwithstanding the significant capital investments made during the year, there was only a limited change in the Group's net debt position (in constant currency terms), indicating a strong underlying operational cash flow of the Group's existing operations.

RevPAR

We have increased RevPAR again in 2015 to €127.3 (2014: €113.6). This was achieved through a record occupancy and average room rate for our Group, at 84.3% (2014: 83.7%) and €150.9 (2014: €135.6) respectively. As a result of this growth, reported room revenue increased by 12.2% to €204.3 million (2014: €182.1 million).

EBITDA

EBITDA increased by 16.9% to €110.9 million (2014: €94.8 million) and our reported EBITDA margin for the year increased by 150bps to 36.6% (2014: 35.1%). On a constant currency basis, EBITDA increased by 9.1% to €103.4 million. The primary reason for the increased EBITDA margin is the increase in revenue through a higher average room rate and tight cost control.

Normalised profit before tax

	Reconciliation reported to normalised profit	
	Year ended 31 Dec 2015 € million	Year ended 31 Dec 2014 € million
Reported profit before tax	**38.8**	41.6
Fair value movements on derivatives recognised in the profit and loss	**(0.5)**	(0.3)
Fair value adjustment of the deferred purchase price of the acquisition of the remaining interests in three hotels and one development in The Netherlands (2012) and three hotels in the United Kingdom (2010)	**(0.6)**	(2.5)
Sale of 50% interest in art'otel berlin mitte and art'otel berlin kudamm	**–**	(1.8)
Profit on sale of available for sale financial assets	**(0.3)**	–
Fair value adjustment on income swaps private investors Park Plaza Westminster Bridge London	**3.0**	3.6
Buy back of Income Units Park Plaza Westminster Bridge London	**0.9**	0.3
Capital gain on buy back of bank loans	**(0.1)**	–
Forfeited deposits from rescinded sale contracts of Income Units at Park Plaza Westminster Bridge London to private investors	**–**	(8.0)
Normalised profit before tax*	**41.2**	32.9

* The normalised earnings per share amount to €0.99, calculated with 41,792 thousand average outstanding shares.

Normalised profit before tax increased by 25.5% to €41.2 million (2014: €32.9 million). The higher EBITDA was the main driver for this increase. Adjustments made to normalise reported results relate to items that the Group considers unrelated to its day-to-day business activities, for which a reconciliation is provided in the table above. Reported profit before tax was €38.8 million (2014: €41.6 million).

Asset base and leverage

	London*	Amsterdam
Owned rooms in operation	1,898	893
Owned rooms in development	1,242	–
Owned rooms EBITDA (in EUR millions)	72.5	15.6

* These numbers exclude the rooms of Park Plaza County Hall London (which is a managed property) and includes the 521 rooms at the Park Plaza Westminster Bridge London that were sold to private investors. Owned rooms in development excludes future managed properties.

The Group realises over 85% of its revenue and EBITDA with assets in ownership, of which the majority (approximately 80%) is located in central London and Amsterdam. Apart from successfully operating hotels, the Group has over 30 years of experience in asset management with a proven track record of growing value. Due to our significant asset management experience (including acquiring, building and redeveloping hotels), the portfolio of hotels in ownership represents a significant real estate value.

Both the London and the Amsterdam real estate markets have shown a very strong and diversified demand for hotel investments, leading to strongly increasing real estate prices.

Although London has experienced an increase in new hotel supply in recent years, the market continues to absorb this growth whilst still delivering solid returns. London is considered to be one of the most popular hotel investment markets in the world with a wide range of interest from institutional investors, pension funds, REITs and hotel owner/operators, a significant portion of which comes from international investors. Given the high demand for hotel investments in London, comparable hotel properties commonly sell at yields of lower than 5% (benchmark transactions above £500,000 per room).

The demand for hotel properties in Amsterdam continues to be similarly strong. Following several years of growth in hotel supply, the number of new hotel developments is now restricted with local authorities limiting the issue of new permits for hotel developments in the city centre. Recent transactions in the market of comparable hotels have shown cap rates lower than 7% (benchmark transactions above €400,000 per room).

Over the past two years the gap between the Company's market capitalisation and the Group's net asset value has closed and the market capitalisation as at 31 December 2015 was trading slightly above the net book value of shareholder's funds.

When analysing this difference in values, the Group remains undervalued as these values do not appreciate that net asset value includes its properties at historical cost, less depreciation. As the capitalisation table on the next page indicates these book values are considered to be €507 million below their fair market value.

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 on a portfolio basis. In these asset backed loans, the Group generally needs to comply with certain financial covenants for these loans, of which the majority have a loan-to-value covenant, in which the loan cannot be higher than a certain percentage of the market value of the properties. In addition, the majority of loans have a debt service cover ratio, in which the adjusted EBITDA should cover the amortisation, fees and interest over and above a certain percentage. The table below provides an overview of the most important facilities to the Group, the applicable covenants and the headroom the Group has towards these covenants.

Banks (collateral)	(EUR millions)	Primary[1] covenants	Current performance[2]
Aareal bank (9 operating hotels in the United Kingdom and The Netherlands)	364.7	65% LtV, DSCR 115%	50% LtV, DSCR 206%
Bank Hapoalim (1 operating hotel in the United Kingdom)	142.7	75% LtV, DSCR 130%	28% LtV, DSCR 370%
Bank Hapoalim (1 development asset in the United Kingdom)	68.1	N/A	N/A
Bank Hapoalim (Management company)	26.7	20% adjusted leverage group Debt/EBITDA of 5	34% adjusted leverage group Debt/EBITDA of 1.5
Other banks	21.1		
Total nominal value loans	623.3		

1 LtV = Loan-to-Value (nominal amount loan divided by the fair market value of properties).
DSCR = Debt Service Cover Ratio (Adjusted EBITDA divided by interest, fees and principal).
2 The current performance presented here for Loan-to-Value have been based on most recent valuations performed.

When analysing leverage, the Group considers each debt facility on a standalone basis due to the asset backed non-recourse characteristics of each. When analysing the leverage on a consolidated basis, the Group adjusts its net asset value with the unrealised fair value gains on its properties. The following table shows an analysis of the consolidated leverage of the Group based on the market capitalisation and based on the adjusted net asset value.

Capitalisation table

All amounts in EUR millions		Gearing based on adjusted book value	Gearing based on market capitalisation
Equity value as at 31 December 2015		364.8	381.9
Total long-term liabilities	857.2		
Less:			
Financial liability in respect of Income Units sold to private investors[1]	(185.5)		
		671.7	671.7
Total capital		1,036.5	1,053.6
Indicative fair value adjustment on book value properties[2]		507.0	N/A
Adjusted capital		1,543.5	N/A
Debt to equity leverage		43.5%	63.8%

1 The financial liability in respect of Income Units sold to private investors represents the consideration received for the Income Units sold at Park Plaza Westminster Bridge London in 2010. Both the Income Units (presented as assets) as well as the consideration received are still recognised in the balance sheet for accounting purposes. Both the assets and liabilities will convert to equity over time. The net impact to equity of this conversion is €21.4 million positive.

2 The indicative fair value adjustment on book value properties represents the difference between the book value of the Group's owned properties and the market valuations, which for the majority of the assets were performed in or after 2013.

Cash flows and financial position

The net bank debt as at 31 December 2015 was €541.4 million, an increase of €62.4 million (as at 31 December 2014: €479.0 million). During the period, the movement in net bank debt included, among others, an increase due to the drawdown of €17.0 million out of a €30.0 million term facility; a €31.8 million increase to finance construction of Park Plaza London Waterloo; a €3.8 million increase to finance the extension of Park Plaza Riverbank London; a €4.1 million increase to finance capital expenditure projects; and a €23.6 million increase which relates to foreign exchange. In addition, a decrease of €23.1 million relates to the redemption and buy back of loans.

Notwithstanding the significant investments made during the year, the Group's net debt position (in constant currency terms) changed slightly (+8.0%), indicating a strong underlying operational cash flow of the Group's existing operations. The table below provides a high level (simplistic) insight of the Group's cash-generating ability. Free cash flows are currently used for, amongst others, new developments, major refurbishments and distribution to shareholders.

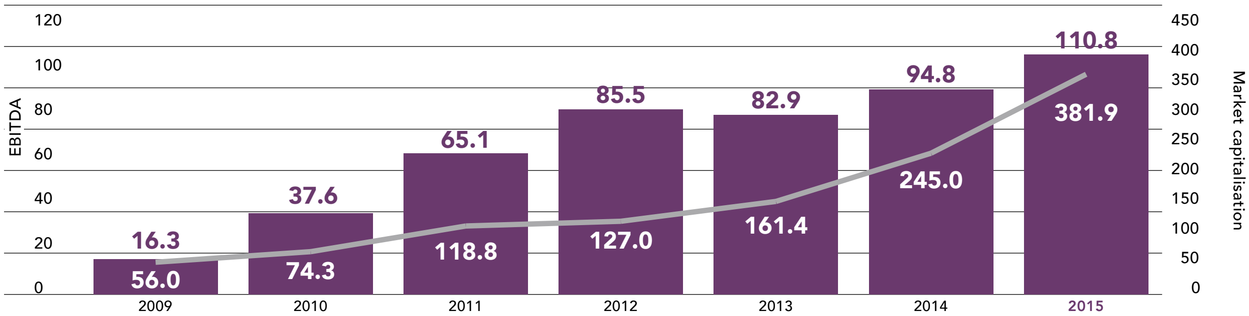
In EUR millions		2015		2014
EBITDA		**110.9**		94.8
Interest paid to banks and private investors	**(45.4)**		(40.1)	
Regular bank redemption payments (excluding buy back or end of term redemptions)	**(10.7)**		(9.3)	
Payments under finance leases	**(1.5)**		(1.2)	
Total debt service		**(57.6)**		(50.6)
Regular capex (assumed at 4% of revenues)		**(12.1)**		(10.8)
Free cash flow		**41.2**		33.4
Free cash flow per share (in EUR)		**0.99**		0.80

Earnings and shareholders value

The Group is managed by the Board of Directors which has extensive experience of the hotel business and other industries across the last 50 years. Under their direction the Group has grown from a single hotel operation to a pioneering, successful international hospitality company. In addition to the Board, the Group's management team adds decades of experience and its team members have track records of success across the industry. The experienced Board and management team have a strong track record of being able to continuously grow EBITDA and shareholder value over the past years without diluting shareholders.

Normalised earnings per share was €0.99 (2014: €0.79), representing a 25.6% increase. Reported basic/diluted earnings per share for the period decreased by 2.9% to €0.97 (2014: €1.00).

TRACK RECORD OF GROWTH



Dividend

For 2015, the Board is proposing the payment of a final dividend of 10.0 pence per share (2014: 10.0 pence per share), which when combined with the interim dividend of 10.0 pence per share (2014: 9.0 pence per share), amounts to an increased total dividend for the year ended 31 December 2015 of 20.0 pence per share (2014: 19.0 pence per share), an increase of 5.3%. Provided that business continues at the same level, we anticipate following a progressive dividend policy going forward. Subject to shareholder approval at the Annual General Meeting, to be held on 19 May 2016, the dividend will be paid on 20 May 2016 to shareholders on the register at 15 April 2016. The shares will go ex-dividend on 14 April 2016.

Return on capital employed

PPHE Hotel 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 ameliorate conflicts of interests. 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. Hotel real estate is an important part of the Group's assets and it is essential to understand this ownership business model 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 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, in many cases, 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 several strategic investments, whereby a non-controlling stake was taken in the real estate together with long-term management agreements. 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 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 on the next page provides some selected data for these assets for the year ended 31 December 2015, prepared in Euro 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 on the next page 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 improved operational trading of the hotels. The increased performance in the capital return on joint ventures and associates is mainly due to an increased performance related to incentive fees, as well as the divestment of a 50% interest in two properties in Berlin, for which the remaining stake (non-controlling) is now presented under Joint ventures and associates.

	Owned properties			Joint ventures and associates			
	In operation	Under development	Operating leases	In operation	Under development	Management and central costs	Reported
Balance sheet							
Adjusted book value properties[1,2]	750.1	143.7	1.4	–	–	1.3	896.5
Book value intangible assets	–	–	–	–	–	29.8	29.8
Book value non-consolidated investments	–	–	–	26.9	19.2	–	46.1
Bank loans, (short restricted) cash and liquid assets (adjusted net debt)	(467.5)	(96.0)	2.4	–	–	19.7	(541.4)
Deferred contribution of sales of Income Units at Park Plaza Westminster Bridge London[6]	(21.4)	–	–	–	–	–	(21.4)
Other assets and liabilities	(44.3)	(9.4)	(3.9)	–	–	12.8[5]	(44.8)
Capital employed	216.9	38.3	(0.1)	26.9	19.2	63.6	364.8
Normalised profit							
Revenues	262.4	–	30.2	4.2	–	5.7	302.5
Adjusted EBITDA[4]	110.9	–	1.3	4.0	–	(5.4)[3]	110.8
Depreciation and amortisation	(22.9)	–	(0.3)	–	–	(3.1)	(26.3)
EBIT	88.0	–	1.0	4.0	–	(8.5)	84.5
Interest expenses banks and finance leases	(32.3)	(1.0)	–	–	–	–	(33.3)
Interest guaranteed to unit holders	(13.0)	–	–	–			(13.0)
Other finance expenses and income	–	–	–	3.3	0.4	2.0	5.7
Result from joint ventures and associates	–	–	–	(2.5)	(0.2)	–	(2.7)
Normalised profit before tax 31 December 2015	42.7	(1.0)	1.0	4.8	0.2	(6.5)	41.2
Normalised profit before tax 31 December 2014	34.4	(1.2)	1.7	3.8	0.1	(5.9)	32.9

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 Excluding management fees from fully owned and leased hotels.
4 Management fees generated on wholly owned and leased hotels are added back on the results of those hotels.
5 Including unallocated assets and liabilities.
6 Profit from the sale of Income Units at Park Plaza Westminster Bridge London.

Developments

Acquired loan covering the long leasehold interest in Park Plaza Nottingham

On 12 June 2015, the Company announced that it had acquired the loan covering the long leasehold interest in Park Plaza Nottingham for £5.5 million (€7.5 million), with an aggregate nominal value of £7.6 million (€10.3 million).

Post balance sheet events

Construction financing for development of new London hotel

On 25 January 2016, the Company announced that it had secured funding of up to £20.6 million (€28.0 million) from Banque Hapoalim (Luxembourg) S.A. to fund the construction of Park Plaza London Park Royal. The initial maturity date of the facility is in July 2017. However, subject to certain conditions, the Group has the right to extend the facility so that it matures in January 2018.

Sale and purchase agreement for acquisition in Croatia

On 1 March 2016, the Company announced that it had entered in to a sale and purchase agreement to acquire the remaining 80% of the shares in the company (which it does not currently own) that holds a majority share in Arenaturist in Croatia for a consideration of €51.0 million from its joint venture partner.

Looking ahead

Due to the current composition of our portfolio, as well as the anticipated opening of two further hotels and an extension in London, we have determined that reporting periods commencing 1 January 2016 will be presented in Sterling only. This change is expected to reduce the impact of currency movements on reported results and this will help our financial performance to be more accurately portrayed.

2016 will be a tremendously exciting year for us, with three new hotel openings and the relaunch of the extended and significantly improved Park Plaza Riverbank London. The Board is keen to take advantage of favourable capital market conditions to procure long-term debt and continues to evaluate such opportunities. We will also continue to progress the various renovation projects and the preparations for the two new art'otels planned for London. We will strive to further improve the performance of our existing portfolio through focusing on consistent service delivery, revenue generation initiatives and managing our cost base carefully. Operational consolidation, centralised procurement and ongoing upgrading of our IT infrastructure are focus areas for us. Further improving our operating performance, and upgrading and expanding our portfolio, will enable us to continue to maintain a progressive dividend policy in the years ahead.

CHEN MORAVSKY
DEPUTY CHIEF EXECUTIVE OFFICER &
CHIEF FINANCIAL OFFICER

UNITED KINGDOM:

REPORTING YEAR-ON-YEAR GROWTH, WHILST PREPARING FOR FURTHER GROWTH AND HOTEL IMPROVEMENTS

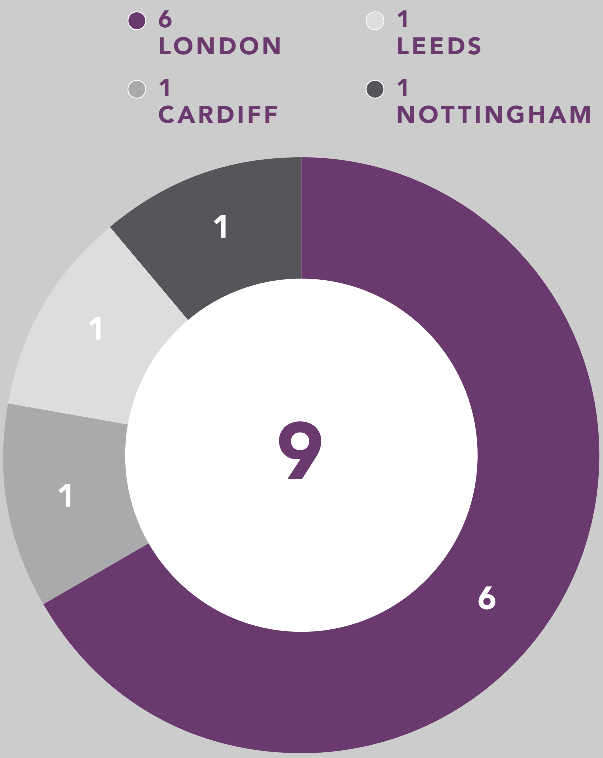
	Euro (€)*		GBP (£)*	
	Year ended 31 Dec 2015	Year ended 31 Dec 2014	**Year ended 31 Dec 2015**	Year ended 31 Dec 2014
Total revenue	**€203.9 million**	€178.0 million	**£147.4 million**	£142.8 million
EBITDAR	**€77.1 million**	€66.0 million	**£55.7 million**	£53.0 million
EBITDA	**€75.3 million**	€64.3 million	**£54.4 million**	£51.6 million
Occupancy	**87.3%**	87.5%	**87.3%**	87.5%
Average room rate	**€193.1**	€171.6	**£139.6**	£137.7
RevPAR	**€168.5**	€150.2	**£121.8**	£120.5
Room revenue	**€138.4 million**	€123.1 million	**£100.0 million**	£98.7 million

* Franchised and/or managed hotels do not count towards any of the figures presented in the table above.

HOTELS BY LOCATION

2,791
ROOMS IN OPERATION

1,402
ROOMS IN PIPELINE



Total revenue for our hotels in the United Kingdom on a local currency basis increased by 3.2% to £147.4 million (2014: £142.8 million). In Euro, total reported revenue increased by 14.5% to €203.9 million (2014: €178.0 million).

Year-on-year growth in the London market was not as steep as reported in previous years due to a less favourable events calendar and political and economic market conditions.

In addition, our year-on-year growth was also impacted by a reduced number of rooms at Park Plaza Riverbank London due to the hotel extension being built and the significant third party construction work at either side of this hotel.

The provincial cities in the United Kingdom, however, continued to experience encouraging trends.

In local currency, our EBITDAR increased by 5.2% to £55.7 million (2014: £53.0 million) and in Euro, EBITDAR increased by 16.7% to €77.1 million (2014: €66.0 million). EBITDA for the period in local currency increased by 5.5% to £54.4 million (2014: £51.6 million) and EBITDA in Euro increased by 17.0% to €75.3 million (2014: €64.3 million).

Whilst occupancy decreased by 20 bps to 87.3% (2014: 87.5%), in local currency, average room rate increased by 1.4% to £139.6 (2014: £137.7). In Euro we report a 12.5% increase to €193.1 (2014: €171.6). As a result, our RevPAR for the region in local currency increased by 1.1% to £121.8 (2014: £120.5) and in Euro RevPAR was up by 12.2% to €168.5 (2014: €150.2).

Room revenue in local currency increased by 1.3% to £100.0 million (2014: £98.7 million) and in Euro by 12.5% to €138.4 million (2014: €123.1 million).

Park Plaza Westminster Bridge London delivered yet another strong performance, outperforming its competitive set in occupancy, average room rate and RevPAR. All our other hotels in London outperformed their competitive set in occupancy and we expect these hotels to further improve their competitive performance as soon as the upcoming renovations have been completed. Our hotels in Leeds and Nottingham both outperformed their competitive set in RevPAR, with Park Plaza Nottingham outperforming its competitive set in occupancy, average room rate and RevPAR.

Source: STR Global, December 2015.

Renovation projects and development pipeline

Construction work on our two new hotels in London progressed well during 2015 and both hotels are expected to open in 2016. Park Plaza London Waterloo will offer 494 rooms, adding to our already strong hotel portfolio on London's South Bank. Additional facilities will include meeting rooms, a bar, restaurant, executive lounge and leisure facilities such as a spa, gym and swimming pool.

During 2015, we further optimised our plans for the new build Park Plaza London Park Royal and increased the number of rooms to be offered at this hotel from 168 to 212. This hotel occupies a highly visible location on the A40 leading into central London, providing an excellent base for corporate and leisure travellers, as well as for attendees of events at the nearby Wembley Stadium.

Wholly owned hotels
Park Plaza Leeds
Park Plaza Nottingham
Park Plaza Riverbank London
Park Plaza Sherlock Holmes London
Park Plaza Victoria London
Plaza on the River London

Part owned hotel
Park Plaza Westminster Bridge London

Managed hotel*
Park Plaza County Hall London

Franchised hotel*
Park Plaza Cardiff

* Franchised and/or managed hotels do not count towards any of the figures presented in the table on page 36 (Occupancy, Average room rate, RevPAR, Total revenue, Room revenue, EBITDAR, EBITDA).

The development of the extension of Park Plaza Riverbank London continued during the year, with all major structural work now completed. Once completed, the number of rooms at this hotel is expected to increase by 184 to 645, as a result of the addition of six new floors and the reconfiguration of the existing hotel. Following the completion of this phase, the ground floor areas and first floor meeting facilities will be remodelled, whereby a new restaurant will be created on the first floor, offering spectacular views of the River Thames. This project is expected to be completed during 2016.

Additional work undertaken during the year includes the development and launch of a bar and grill restaurant, OAKS, adjacent to Park Plaza Nottingham. Room renovation programmes commenced at Park Plaza Nottingham and Park Plaza Victoria London and these works are expected to be completed in 2016.

We worked closely with our Joint Venture partner during the year to further develop and fine-tune our plans for the development of art'otel london hoxton.

Looking ahead, we will continue to focus on the delivery and opening of our two new hotels and the relaunch of Park Plaza Riverbank London. We have also planned extensive renovation works for Park Plaza Sherlock Holmes London, but these are not expected to commence before the end of 2016. In addition, we will continue to work closely with our partners on the construction of the two exciting art'otel projects in our pipeline. In Hoxton, construction is expected to start in 2016, with completion of this mixed-use scheme expected in 2019. art'otel london battersea power station is expected to open in 2019.

The United Kingdom hotel market
Hotel performance in greater London improved modestly with RevPAR increasing by 1.5% to £118.3. This growth was driven by a 2.5% increase in average room rate to £144.0 and occupancy decreasing by 80bps to 82.2%. In Leeds, RevPAR increased by 8.0% to £52.9. This growth was primarily the result of a 7.1% increase in average room rate to £68.7, with occupancy increasing by 70 bps to 77.1%. The Nottingham hotel market reported a 9.3% increase in RevPAR to £43.6. Average room rate increased by 6.0% to £59.6 and occupancy by 220 bps to 73.1%.

Source: STR Global, December 2015.

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16 Our business model in action
24 Key performance indicators

THE NETHERLANDS:

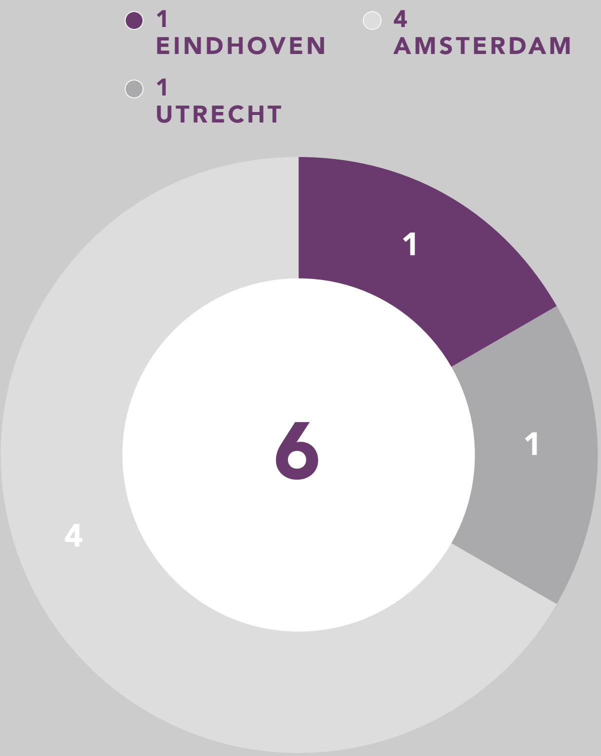
AMSTERDAM THRIVING AND EXCELLENT RECOVERY IN THE PROVINCES

	Reported	
Euro (€)	**Year ended 31 Dec 2015**	Year ended 31 Dec 2014
Total revenue	**€58.5 million**	€53.7 million
EBITDAR	**€18.7 million**	€15.7 million
EBITDA	**€18.6 million**	€15.6 million
Occupancy	**81.9%**	78.4%
Average room rate	**€129.0**	€118.3
RevPAR	**€105.7**	€92.8
Room revenue	**€43.1 million**	€37.8 million

HOTELS BY LOCATION

1,117

ROOMS IN OPERATION



The Dutch market has had another strong year, with Amsterdam thriving on demand from the corporate and leisure sectors and the provincial cities benefiting from strong corporate demand in particular. Our hotel portfolio in The Netherlands benefited from the improved market conditions and reported an 8.8% increase in total revenue to €58.5 million (2014: €53.7 million).

Reported EBITDAR for the region increased by 19.3% to €18.7 million (2014: €15.7 million). EBITDA increased by 19.4% to €18.6 million (2014: €15.6 million).

Occupancy increased by 350 bps to 81.9% (2014: 78.4%). Average room rate during the period increased by 9.0% to €129.0 (2014: €118.3). RevPAR improved by 13.9% to €105.7 (2014: €92.8). Room revenue for the region increased by 13.9% to €43.1 million (2014: €37.8 million).

Amsterdam continued to go from strength to strength, notwithstanding the increase in new hotel supply in recent years. Our flagship art'otel amsterdam delivered another strong performance, outperforming its competitive set in occupancy and also growing its occupancy year-on-year whereas its competitive set reported a decline. Average room rate growth delivered was also ahead of its competitive set. Park Plaza Victoria Amsterdam and Park Plaza Vondelpark Amsterdam both outperformed their competitive set in RevPAR, notwithstanding that these are ageing products with significant renovations planned. Park Plaza Amsterdam Airport outperformed in occupancy and its occupancy, average room rate and RevPAR all grew more than its competitive set.

Park Plaza Eindhoven and Park Plaza Utrecht both delivered strong results, outperforming their sets in occupancy, average room rate and RevPAR.

Source: STR Global, December 2015.

Renovation projects and development pipeline

We continued to advance our significant renovation plans for the extensive renovation of Park Plaza Victoria Amsterdam, Park Plaza Vondelpark Amsterdam and Park Plaza Utrecht. Due to the disruption expected at all three hotels when renovations commence, it is essential to plan these programmes to the minute detail. As a result, these projects were moved to 2016.

In October 2015, we opened Amsterdam's first espressamente illy, located between Park Plaza Victoria Amsterdam and art'otel amsterdam.

The Dutch hotel market

The hotel market in Amsterdam continued to show an improvement year-on-year, with RevPAR in the upscale and upper mid class hotels increasing by 14.5% to €132.3. Average room rate increased by 12.9% to €157.3 and occupancy increased by 110 bps to 84.1%. In Utrecht, RevPAR in the same category increased by 7.4% to €62.3. This was the result of a 2.2% increase in average room rate to €89.4, with occupancy increasing by 340 bps to 69.7%. The market in Eindhoven remained more challenging with RevPAR increasing by 4.7% to €43.3. Average room rate declined by 0.9% to €71.9 and occupancy increased by 320 bps to 60.3%.

Source: STR Global, December 2015.

Wholly owned hotels

art'otel amsterdam

Park Plaza Eindhoven
Park Plaza Utrecht
Park Plaza Vondelpark, Amsterdam
Park Plaza Victoria Amsterdam
Park Plaza Amsterdam Airport

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GERMANY AND HUNGARY:

GOOD GROWTH WHILST INVESTING IN, AND RESHAPING, OUR PORTFOLIO

Euro (€)	Reported Year ended 31 Dec 2015	Year ended 31 Dec 2014
Total revenue	**€30.2 million**	€28.5 million
EBITDAR	**€8.7 million**	€8.5 million
EBITDA	**€(0.5) million**	€0.4 million
Occupancy	**80.4%**	81.1%
Average room rate	**€75.3**	€69.4
RevPAR	**€60.6**	€56.3
Room revenue	**€22.8 million**	€21.2 million

HOTELS BY LOCATION

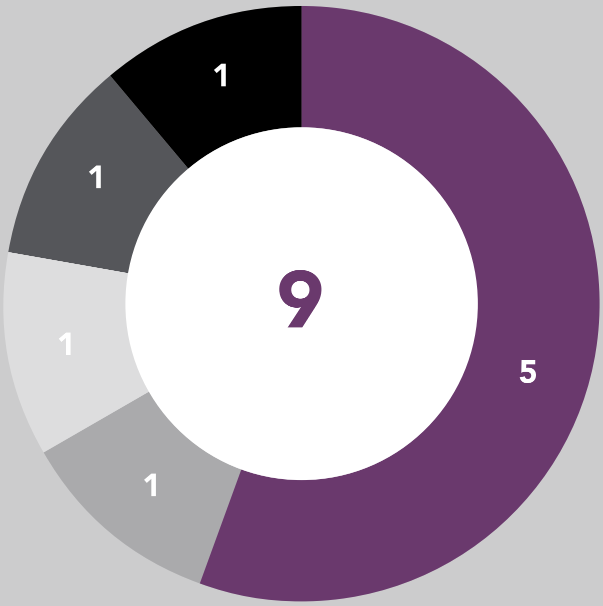
- 5 BERLIN
- 1 TRIER
- 1 COLOGNE
- 1 BUDAPEST
- 1 DRESDEN

1,423

ROOMS IN OPERATION

177

ROOMS IN PIPELINE



Our performance in Germany and Hungary was mixed. Berlin is a highly competitive market which is primarily reliant on leisure and government business with a significant hotel supply. Cologne and Budapest have a healthier mix between demand from the leisure and corporate sectors, with Cologne also benefiting from a strong contribution from fairs and events. Dresden is leisure orientated and the city's appeal as a tourist destination has been affected by the political demonstrations and events during the year.

Against this backdrop, we are pleased to report that our total revenue for the region increased by 6.2% to €30.2 million (2014: €28.5 million).

Reported EBITDAR increased by 1.3% to €8.7 million (2014: €8.5 million). EBITDA decreased by 222.6% to €(0.5) million (2014: €0.4 million). In 2014, our EBITDA included a significant one-off benefit related to a local authority tax settlement.

Occupancy decreased by 70 bps to 80.4% (2014: 81.1%). Average room rate increased by 8.6% to €75.3 (2014: €69.4). As a result, RevPAR increased by 7.7% to €60.6 (2014: €56.3). Reported room revenue for the period increased by 7.7% to €22.8 million (2014: €21.2 million).

All three of our hotels in Berlin included in this reporting segment outperformed their competitive sets in occupancy, with Park Plaza Prenzlauer Berg Berlin also outperforming its set in RevPAR. In Cologne and Dresden, our hotels outperformed their competitive set in occupancy. art'otel budapest once again outperformed its competitive set in occupancy, average room rate and RevPAR.

Source: STR Global, December 2015.

Renovation projects and development pipeline
Construction of Park Plaza Nuremberg started late 2014 and this exciting new addition to our portfolio is expected to open in 2016. During 2015, we completed most of the room renovations at art'otel berlin mitte, with the public areas being transformed in the early part of 2016.

Following a review, we concluded that the former art'otel berlin kudamm didn't meet the requirements for the significantly improved art'otel brand positioning. As a result, this hotel was rebranded to Park Plaza Berlin Kudamm, following the completion of a room renovation programme.

The nearby former art'otel berlin city center west was subsequently renamed to art'otel berlin kudamm, emphasising this hotel's close proximity to Berlin's famous Kudamm shopping street. Further renovation works at art'otel cologne and art'otel budapest were also completed during the year.

The German and Hungarian hotel market
The hotels in Greater Berlin reported a year-on-year increase of 8.4% in RevPAR to €71.7. This growth was the result of a 5.1% increase in average room rate to €93.9 and a 230 bps increase in occupancy to 76.4%.

In Cologne, the hotels in the upscale and upper mid classes reported a 15.5% increase in RevPAR to €73.1. This increase was a result of an 11.4% increase in average room rate to €103.2 and 240 bps increase in occupancy to 70.8%.

RevPAR in Dresden increased by 3.6% to €44.3. This growth was achieved through an average room rate increase of 4.7% to €67.7. Occupancy decreased by 70 bps to 65.5%. In Hungary, the performance of the hotel market in Budapest continued to improve with RevPAR increasing by 12.1% to HUF11,304.9. This growth was a result of a 4.5% increase in average room rate to HUF15,895.6 and a 490 bps increase in occupancy to 71.1%.

Source: STR Global, December 2015.

Part owned hotels*
art'otel berlin mitte
Park Plaza Berlin Kudamm

Leased hotels
art'otel budapest
art'otel berlin kudamm
art'otel cologne
art'otel dresden

Park Plaza Prenzlauer Berg Berlin
Park Plaza Wallstreet Berlin Mitte

Franchised hotel*
Park Plaza Trier

* Part owned and franchised hotels do not count towards any of the figures presented in the table on page 42.

14 Our business model and strategy
16 Our business model in action
24 Key performance indicators

MANAGEMENT AND HOLDINGS OPERATIONS REVIEW OF 2015:

REVENUE AND EBITDA INCREASED DUE TO IMPROVED TRADING AND THE STRENGTHENING OF STERLING AGAINST THE EURO

Euro (€)	**Year ended 31 Dec 2015**	Year ended 31 Dec 2014
Total revenue before elimination	**€45.5 million**	€39.3 million
Revenue within the consolidated Group	**€35.6 million**	€29.0 million
External and reported revenue	**€9.9 million**	€10.2 million
EBITDA	**€17.4 million**	€14.5 million

Our performance

As an owner/operator, a significant part 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. 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 increased by 15.8% to €45.5 million (2014: €39.3 million) due mainly to improved trading and the strengthening of Sterling against the Euro.

After elimination (consolidated presentation) of intra-Group revenue, reported revenues decreased by 3.1% to €9.9 million (2014: €10.2 million). This decrease was primarily the result of decreased fee structure under the Croatian management agreement.

Reported EBITDA increased by 20.5% to €17.5 million (2014: €14.5 million), mainly due to the improved performance and the strengthening of Sterling against the Euro.

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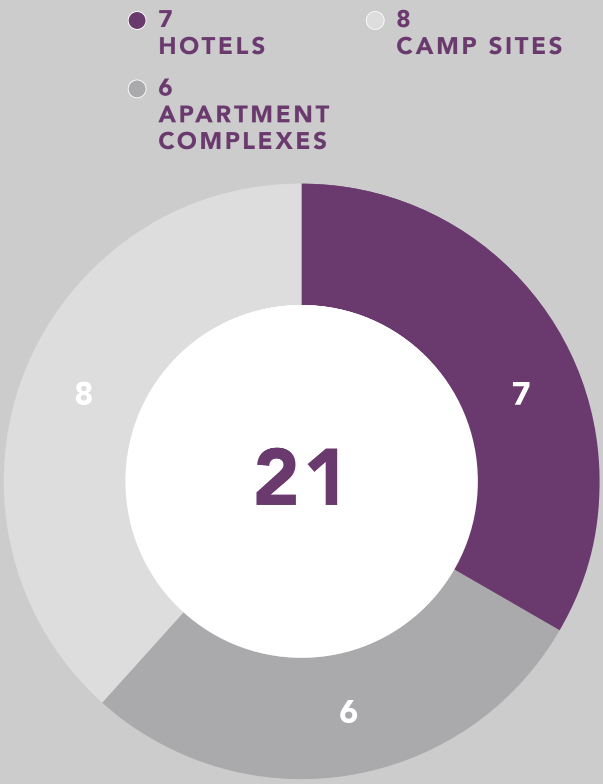
CROATIA

Euro (€)	Reported Year ended 31 Dec 2015	Year ended 31 Dec 2014
Total revenue	**€52.8 million**	€46.3 million
EBITDA	**€15.8 million**	€11.5 million

HOTELS BY LOCATION

2,814

ROOMS IN OPERATION



Arenaturist group is one of Croatia's best known hospitality groups and consists of seven hotels, six holiday apartment complexes, eight campsites and over 50 food and beverage outlets, all of which are located in Istria. Arenaturist group caters primarily for European tourists and the majority of accommodation is only operational during the summer months. All properties are located in prime locations by the sea and are a short distance from either the 3,000-year-old city of Pula or the touristic town of Medulin.

In 2008, we acquired a 20% stake in WH/DMREF Bora B.V. (Bora), the main asset of which is a 74.15% shareholding in Arenaturist d.d., and we were awarded the management agreement for Arenaturist d.d. and the other operating assets of Bora. The shares of Arenaturist d.d. are traded on the Zagreb Stock Exchange. The investment in Bora is accounted for as an associate in the Consolidated financial statements.

The results from our investment in Bora (consisting of shares and loans) increased by €0.7 million. This includes a loss on the investment in shares of €2.6 million (2014: loss of €2.9 million) and an interest income on loans of €3.2 million (2014: €3.0 million). Although this 20% stake contributes marginally towards the profit of the Group, we benefit from the management agreements that were awarded to us as part of this investment. The Group realised a total of €3.5 million of management and marketing fee revenues in the year (2014: €3.0 million).

Following extensive renovations, we reopened three of Arenaturist's hotels as Park Plaza properties just before the start of the 2012 summer season. In 2013, the remaining rooms at Park Plaza Medulin were fully renovated and our flagship hotel in this market, Park Plaza Histria Pula, was extended by 127 rooms. A fourth Park Plaza hotel, Park Plaza Belvedere Medulin, opened in summer 2014, following the completion of extensive renovations. With 427 rooms, this is our largest hotel in this market. Extensive renovation works started late 2014 at Hotel Park. These works were completed in May 2015, when the hotel subsequently opened as Park Plaza Arena Pula, offering 175 contemporary rooms.

Notwithstanding challenging economic conditions and limited availability of credit, between 2012 and 2015 we have transformed and rebranded more than half of Arenaturist's hotel rooms.

For more information about Arenaturist, please visit arenaturist.com, and for the Park Plaza branded hotels and resorts visit parkplaza.com/croatia.

On 1 March 2016, the Company announced that it had entered in to a sale and purchase agreement to acquire 80% of shares in Bora that it does not already own from its joint venture partner for a consideration of €51.0 million. Bora's main asset is a 74.15% shareholding in Arenaturist d.d.

Part owned hotels

Park Plaza Histria Pula
Park Plaza Arena Pula
Park Plaza Medulin
Park Plaza Belvedere Medulin
Guest House Riviera
Hotel Brioni
Hotel Holiday

Part owned resorts

Park Plaza Verudela Pula
Ai Pini Medulin Resort
Horizont Resort
Splendid Resort
Verudela Beach and Villas Resort
Kamp Kazela

CORPORATE SOCIAL RESPONSIBILITY*

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, PPHE Hotel 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 the negative impacts on ecosystems, communities and the environment but, where

* 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.

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 the respective 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 Riverbank London	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)

impacts are unavoidable; they must be appropriately minimised, mitigated or offset.

This report focuses on areas of progress and our performance for all areas of CSR which are considered to be relevant by our stakeholders and are also important to the success of our business. PPHE Hotel 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.

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.

pphe HOTEL GROUP

Vision	Mission	Values	Context	Strategy

↕

Corporate Social Responsibility

↕

Regional Managers and General Managers

Our people

Our values and culture

PPHE Hotel Group is a truly multi-national organisation and we employ more than 2,600 employees from over 30 different nationalities. In the summer season, we employ nearly 3,500 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, 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.

Employee engagement

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 PPHE Hotel 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, who 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

ENGAGEMENT MODEL

MY JOB

- Skill variety
- Task identity
- Task significance
- Autonomy
- Feedback
- Development

MY MANAGER

- Support
- Clear expectations
- Feedback
- Recognition
- Trust

MY ENGAGEMENT

- Enthusiasm
- Belonging
- Caring
- Fun

OUR TEAM

- Social identity
- Support
- Trust

OUR COMPANY

- Image and reputation
- Social responsibility
- Safety

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 2015, we achieved an overall engagement index score of 84.2. This score will serve as a baseline moving forward on which we look to improve. Our participation ratio was 92% of all Group employees.

The 2,576 respondents were evenly split female and male. One third of respondents have been with the Group for more than five years, with the largest group of respondents having been with the Group between one and four years.

Human rights and ethics
PPHE Hotel Group requires its employees to act fairly in their dealings with fellow employees, 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 policy 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
We want to work together with our suppliers and others in our supply chain to ensure that we source goods and services in ways that are responsible, sustainable and mutually beneficial and provide best value for our customers and shareholders.

As we are currently active in several European countries, our supplier base is understandably fragmented. Therefore, responsibility for vetting and managing suppliers is largely devolved to local management. However, we have in 2015 created a dedicated procurement team, with representatives in each of our operating regions. This team has created a uniform supplier pre-qualification process, which is to be fully implemented in 2016. This new process ensures that our supplier base meets the Group's minimum ethical and environmental standards, among other key commercial terms, high quality standards and legal requirements.

Health and safety
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. PPHE Hotel 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 has appropriately embedded the most up-to-date health and safety procedures in their business, health and safety reviews were performed in each business in 2015. These reviews were conducted with a view to ensuring a consistent approach in quality of reporting, internal processes, integration in operations, appropriateness of company policies and culture of health and safety, and also as a means of identifying any patterns or underlying causes of reported incidents.

We have continued to actively promote our safety culture throughout the year using the outputs from these reviews. As a result, reporting of health and safety incidents and corrective action where needed has been given an even higher profile. In addition, we have launched a series of training videos supporting our activities in this area.

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 PPHE Hotel Group 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 people at all levels to gain the required skills, knowledge and behaviours. In addition we aim to proactively engage our people in achieving their growth potential, ensuring fair chances of career progression.

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

Talent management
It is our aim to support and develop talented team members (with high performance and high potential) to develop and grow their career within the Group. Effective talent management has continued to play an important role in 2015 and remains a high priority for the future success of our business to ensure that we deliver on our vision of realising growth potential – particularly in a time of major expansion, as in 2016 alone we expect to recruit over 350 new team members related to our new openings, which is over and above our recruitment and retention activities for our hotels already in operation.

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. As a result of our Talent Management programme, we were able to realise 232 internal promotions and transfers across the United Kingdom, The Netherlands, Germany and Hungary in 2015.

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 2015, 24 team members from across our operating regions successfully applied for this programme, with 21 participants successfully completing their course. To date, nine out of 21 team members who completed this programme in 2015 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 preparing them for further career development.

Our communities

Local communities

Through our hotels, restaurants, bars and spas, we're an integral part of local communities in several countries in Europe. We believe we can make our greatest contribution by helping the local communities in which we operate to prosper.

Community activity highlights in 2015 include:

- our annual participation in Earth Hour across all our hotels;
- fundraising activities across all our hotels for Movember;
- support for the Regine Sixt Children's Aid Foundation in Germany;
- Street Smart / Sleep Smart; and
- several CSR events were organised for the teams from our head office and our support offices across our operating regions.

The Springboard charity

PPHE Hotel Group has been supporting the Springboard charity in the United Kingdom for over six years, whose aim is to help young people achieve their potential within the hospitality industry. We support a number of their initiatives and have built a strong working relationship with them with a number of managers taking part in the Springboard Ambassador programme. The role of the Ambassador is to go out and engage with a local school and to promote hospitality careers to young people in liaison with Springboard. Another key initiative, in which we have been involved, is the Springboard Kick Start Programme which includes intense employability training by Springboard and a two-week work placement. Every year, 15 participants are offered work experience at the PPHE Hotel Group. During the programme they become fully immersed within the day-to-day operations doing the real work of a permanent employee. Accordingly Springboard has awarded us an INSPIRE kite mark for the quality of our work experience provision. We also work closely with Springboard at a national level. One of the key events in 2016 was the Big Hospitality Conversation in conjunction with the British Hospitality Association. This was a nationwide roadshow to promote careers in the industry to young people and Park Plaza Riverbank London hosted one of the London events which attracted 500 local young people and numerous key employers within the industry.

Lambeth

During the year, we have also been forging new relationships in the London Borough of Lambeth through a number of initiatives. With three of our Park Plaza hotels based in the borough of Lambeth, we have worked jointly with Lambeth College's newly formed Hospitality and Catering faculty as well as with Lambeth Council's Lambeth Working programme to provide entry routes into employment in the industry for those with more complex needs. This led to our 'First Steps to Releasing Your Potential' programme which is aimed at providing essential employability skills through giving the experience of an assessment centre, a structured two-week work experience programme, customer service and health and safety training, and a guaranteed interview at the end. This allows us to reach into our local communities and the first programme led directly to four people securing permanent employment with us. Our relationship with Lambeth College has also led in other directions. We provide work experience to a number of students on catering courses and we are excited to be developing our first apprenticeships programme with them to train and develop local people into becoming professionally qualified chefs with PPHE Hotel Group.

Support offices

At least once a year, each of our support offices supports a good cause in their area. Our UK support office, for example, chose to host a Christmas party for the local elderly community, of whom many are in isolated situations or are dependent on supported living accommodation. In partnership with TARA (Tenants and Residents Association), a local charity that organises the Christmas party each year for the over 50's club and disabled community club, our team supported in the planning and organisation of the event. The team assisted with setting up the hall and decorations, with Park Plaza Westminster Bridge London providing catering and expert meeting and event team members to ensure a smooth running of the event.

The Dutch teams assisted Stichting Bio, an organisation that operates a holiday village in The Netherlands, which specifically caters to children with severe multiple disabilities. The organisation's purpose is to provide these children and their families with a holiday experience which they can't experience anywhere else due to the accommodation being exclusive for this audience and the facilities and services tailored to their needs. The park is fully dependent on gifts and donations and over a two-day window, our teams assisted with several refurbishment projects of public areas, which included painting and decorating, furniture assembly and the creation of artworks under the supervision of an artist.

Our environment
Sustainability

Sustainability is high on our agenda, recognising 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 into sustainable alternatives, team member education and engagement, and engaging with our guests and having them contribute to this 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 carbon footprint, water preservation, waste management and reducing 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 Green Tourism Business Scheme.

Our hotels are also encouraged to improve energy efficiency, to 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.

We support innovation and investment that drives environmental performance. This is illustrated by the following examples:

- A commitment to replace lighting with LEDs during current and all future refurbishments. A tangible example of this commitment was the replacement of 1,300 bedroom lights and 398 corridor lights with energy saving LED lights during a recent refurbishment at Park Plaza Nottingham.
- A commitment to promote the use of sustainable products and building materials in new hotel developments such as Park Plaza Nuremburg, Park Plaza London Waterloo and Park Plaza London Park Royal.
- The Group also encourages local initiatives such as the promotion and use of electronic taxis for guests and company travel.

- Park Plaza County Hall London has recycled 12 tonnes of cardboard and over one tonne of mixed waste during 2015, a considerable improvement in CO_2 reduction performance from 2014.

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 is communicated internally and explained to our hotel teams. Local hotel management teams, overseen by Regional General Managers are responsible for implementing the necessary policies to achieve this target collectively.

In 2015, we also started working with external providers of energy efficiency and carbon reduction solutions. We are confident that, as a result of internal team engagement, continued CSR initiatives and the development of a dynamic CSR 2016 programme, we can meet our target of 20% reduction in carbon emissions by 2017.

Giving our guests a choice
In 2015, we introduced a new initiative across all our hotels through which we give guests who stay with us two nights or more a choice to forgo certain housekeeping services. This Save tomorrow, today! (Park Plaza) and eco-logical (art'otel) initiative helps us reduce the impact of guests' stay on the environment due to the reduction in water, electricity and cleaning materials used; and 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.

Meetings Minus Carbon
Meetings Minus Carbon is a unique and free service for meeting planners which is managed through Carlson Rezidor Hotel Group's partner, Carbon Footprint Ltd. Club Carlson members can book meetings and events globally at Carlson Rezidor Hotel Group's hotels, requesting that carbon credits be purchased on their behalf to offset the estimated carbon footprint for their event. Carbon credits purchased take into account the energy consumption of the hotel related to the planner's meeting or event, including elements related to heating and cooling, lighting, projectors and audio-visual equipment, as well as food and beverage related emissions such as refrigeration and cooking. Carbon credits are purchased and invested in environmental projects and effectively each tonne of carbon generated is offset twice, with the planting of one tree in the Great Rift Valley in Kenya, plus either an investment in renewable energy in India, or the saving of a tree in the Amazon Rainforest in Brazil. Club Carlson's 15.1 million members also have the option to use their points to offset the carbon generated by their private travel or hotel stay.

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

BOARD OF DIRECTORS

ELI PAPOUCHADO
78

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 Riverbank London 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
70

PRESIDENT &
CHIEF EXECUTIVE OFFICER

Skills and experience

- President of PPHE Hotel 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
45

DEPUTY CHIEF EXECUTIVE
OFFICER &
CHIEF FINANCIAL OFFICER

Skills and experience

- Appointed Deputy Chief Executive Officer in August 2014
- Chief Financial Officer of PPHE Hotel 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
58

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:
– Remuneration

– Nominations

– Audit

ELISHA FLAX
54

NON-EXECUTIVE DIRECTOR

Skills and experience

- Real estate entrepreneur engaged in various real estate activities in Eastern Europe
- Served as non-executive director of Delek Global Real Estate plc, an AIM-listed real estate company, until 2010
- Previously a solicitor at the London offices of US law firms Chadbourne & Parke and Akin, Gump, Strauss, Hauer & Feld and General Counsel at PlaneStation Limited
- LLB law degree from Keio University in Tokyo, Japan and qualified solicitor in England and Wales

Board Committees:
– Remuneration

– Nominations

– Audit

NIGEL JONES
54

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
- Moved to Guernsey and later established the Island's first dedicated Commercial property practice in 1995

Board Committees:
– Nominations

– Audit

CORPORATE GOVERNANCE

KEVIN MCAULIFFE
NON-EXECUTIVE DIRECTOR & SENIOR INDEPENDENT DIRECTOR

GOVERNANCE HIGHLIGHTS FOR 2016

– Proposed change of Non-Executive Director

– Monitoring the construction contracts

– Review of the Group's insurance and corporate secretarial arrangements

– Increased focus on IT Systems

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.

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 13 May 2013, Eli Papouchado appointed Yoav Papouchado as his alternate Director.

As recommended by the Corporate Governance Code, three of the Directors (being more than half of the Board excluding the Chairman), namely Elisha Flax, 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 judgement. Kevin McAuliffe held an indirect 1% interest in C.L. Secretaries Limited, the Company's Secretary. The Board does not, however, consider this interest to be sufficiently material to affect Mr. McAuliffe's independence.

As recommended by the Corporate Governance Code, the Board has appointed Kevin McAuliffe as the Senior Independent Director to provide a sounding board for the Chairman and to serve as an intermediary for the other Directors when necessary. During the year, the independent Non-Executive Directors held meetings without the presence of Executive Directors and the Chairman.

At the next Annual General Meeting of the Company, Elisha Flax will be stepping down from his role as Non-Executive Director after over eight years of service to the Company. The Board would like to thank Elisha for his contribution. The composition of the Board is a matter for the Nominations Committee and our guiding principle is that the Company has an appropriate balance of skills, experience and diversity. Accordingly, the Nominations Committee will be recommending the appointment of Dawn Morgan as independent Non-Executive Director at the next Annual General Meeting.

Meeting and Committee attendance

Name	Role	Board meetings	Ad Hoc Committee	Audit Committee	Remuneration Committee	Nominations Committee
Eli Papouchado	Non-Executive Chairman	–	–	NA	NA	NA
Boris Ivesha	President & Chief Executive Officer	4	–	NA	NA	NA
Chen Moravsky	Deputy Chief Executive Officer & Chief Financial Officer	4	–	NA	NA	NA
Kevin McAuliffe	Non-Executive Director & Senior Independent Director	4	7	2	2	1
Elisha Flax	Non-Executive Director	4	1	2	2	1
Nigel Jones	Non-Executive Director	4	7	2	NA	1
Total meetings held		4	7	2	2	1

Dawn will bring valuable experience to the Board following her role as Finance Director at International Energy Group during 2004–2013. Following such appointment the Company will have 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.

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 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 four Board and seven ad hoc Board 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.

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 is comprised of Kevin McAuliffe (Non-Executive Director & Senior Independent Director), Elisha Flax (Non-Executive Director) and Nigel Jones (Non-Executive Director).

Contrary to the requirements of the Corporate Governance Code, none of the members of the Audit Committee have recent and relevant experience, which for these purposes is taken to be a professional qualification from one of the professional accounting bodies. However, the Board considers that the members' substantial experience of dealing with financial matters is more than adequate to enable the Audit Committee to properly discharge its duties in light of the nature of the Company's business.

There have been two formal Audit Committee meetings during 2015. 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 Audit Committee Report in this section.

Remuneration Committee
A Remuneration Committee has been established and comprises Elisha Flax (Chairman) and Kevin McAuliffe. 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, and with the benefit of advice from external consultants, the remuneration packages of the Executive Directors. The Board determines the remuneration of the Non-Executive Directors.

There have been two Remuneration Committee meetings during 2015.

Nominations Committee
A Nominations Committee has been established and comprises Elisha Flax (Chairman), Nigel Jones and Kevin McAuliffe. 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 2015.

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. The Executive Directors and Non-Executive Directors also meet with major shareholders to discuss and review the progress of the Company and to understand their issues and concerns, as well as discussing governance and strategy.

The Chief Executive Officer and the Deputy Chief Executive & 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 to be proposed at the Annual General Meeting of the Company to be held on 19 May 2016 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.

Share dealing code
The Company has adopted a share dealing code for Directors and relevant employees, which is in accordance with the requirements of the Model Code for Securities Dealings (as set out in the Listing Rules of the UK Listing Authority).

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: shareholderenquiries@capita.co.uk

T: UK 0871 664 0300

Calls cost 12p per minute plus network extras.

T: Overseas +44 208 639 3399

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

Investor relations enquiries
Chen Moravsky
Deputy Chief Executive Officer
& Chief Financial Officer
12 David Mews
London W1U 6EG
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 website pphe.com

Financial calendar
Financial year: 1 January to 31 December
Interim: Six months ending 30 June
Results
Interims: August 2016
Final: March 2017

Annual General Meeting: 19 May 2016

London Stock Exchange trading code
LSE: PPH

REPORT OF THE AUDIT COMMITTEE

Audit Committee

Audit Committee Members

The Audit Committee is comprised of Kevin McAuliffe (Non-Executive Director & Senior Independent Director), Elisha Flax (Non-Executive Director) and 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 & 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 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 second year of appointment as the Company's external auditor.

In accordance with corporate governance requirements, the Audit Committee reviewed the independence and objectivity of the external auditors and has reported to the Board that it considers that the external auditors' independence and objectivity have been maintained. The Audit Committee did not consider that a formal tender process was necessary as a tender was 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 & 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.

Audit Committee attendance and meetings

The Audit Committee met twice during the year and received regular monthly financial updates from the Chief Financial Officer on the Group's performance. Attendance of the individual Directors, who all served on the committee throughout the year, is shown in the table on page 60.

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 2015; and the interim results for the period ended 30 June 2015.
- The performance of the Group's assets throughout the year.
- 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:
  - Group insurance programmes
  - Corporate secretariat records
  - IT systems
  - Travel and booking agent commissions
- An annual review of the effectiveness of the Group's system of internal control and risk management procedures.
- The Group's risk management strategy to ensure that any required remedial action on any identified weaknesses is taken; and
- During the year, the Audit Committee visited two major development sites in the United Kingdom to monitor the project management and progress and also visited the entire Dutch portfolio to view the potential future plans.

Objectives achieved following recommendations by the Audit Committee

- Increased controls on Group insurance arrangements
- Changes to policies and procedures followed by the Corporate Secretariat
- Development of new procesures for handling travel and booking agent commissions

On behalf of the Board

KEVIN MCAULIFFE
CHAIRMAN OF THE AUDIT COMMITTEE

REPORT OF THE REMUNERATION COMMITTEE AND DIRECTORS' REMUNERATION REPORT

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 & 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 6 months' notice by the Executive Director. There are provisions for earlier termination by the Group in certain specific circumstances.

Each Non-Executive Director has specific terms of reference. Save for the Chairman, whose term is indefinite, the Non-Executive Directors' respective letters of appointment provide for a fixed term expiring on the ninth anniversary of each Director's date of 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 below.

The Board will propose at the forthcoming Annual General Meeting that Dawn Morgan will be appointed for a term expiring on the third anniversary of her appointment, subject to re-election at each Annual General Meeting, and the appointment may be terminated by either party on 3 months' notice.

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 pension plans.

Name of Director	Date of appointment	Notice period
Elisha Flax	26 June 2007	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.

Performance related remuneration
The auditors have audited the following parts of the Remuneration Report:

Directors' remuneration €'000

Chairman and Executive Directors	Eli Papouchado	Boris Ivesha	Chen Moravsky	Total
Salary and fees	138	451	415	1,004
Performance related incentive	–	156	126	282
Other taxable benefits	–	176	180	356
Total remuneration for the year ended 31 December 2015	138	783	721	1,642
Total remuneration for the year ended 31 December 2014	125	692	601	1,418

Non-Executive Directors	Kevin McAuliffe	Nigel Jones	Elisha Flax	Total
Salary and fees				
Total remuneration for the year ended 31 December 2015	73	60	66	199
Total remuneration for the year ended 31 December 2014	66	54	60	179

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 2015	Exercise price
Chen Moravsky	70,000	70,000	£2.33

On behalf of the Board

ELISHA FLAX
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 2015.

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 and lifestyle hotels in major gateway cities and regional centres predominantly in Europe.

The Group's hotels operate under three distinct brands, Park Plaza® Hotels & Resorts, art'otel® and Arenaturist.

The Group has an exclusive licence from Carlson℠, a global privately owned hospitality and travel company, 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 minority ownership interest in the Arenaturist group, one of Croatia's leading hospitality companies. (See note 32 to the financial statements on post balance sheet events).

The Group's portfolio of owned, leased, managed and franchised hotels comprises 38 hotels offering a total of more than 8,300 rooms.

The Group's development pipeline includes five new hotels and the extension and reconfiguration of one hotel, which together are expected to add nearly 1,100 new rooms to the portfolio by the end of 2016 and an additional 500 rooms by the end of 2019.

Business review
A review of the business during the year is contained in the Chairman's statement, Chief Executive Officer's statement, strategy and performance overview, Deputy Chief Executive & Chief Financial Officer's statement and review of 2015.

Results and 2015 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 €0.97 (2014: €1.00). The Board recommends to the Annual General Meeting to authorise the payment of a final dividend of 10.0 pence per share for the year ended 31 December 2015.

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	43,879,512
Held in treasury by PPHE Hotel Group	1,862,000
Number of issued shares (excluding treasury)	42,017,512

Shareholders with holdings of 3% or more of the Company's issued share capital (excluding treasury) as at 17 February 2016	Number of shares	Percentage of issued share capital (excluding treasury)
Red Sea Group	18,552,714	44.15
Molteno Limited	7,990,027	19.02
Aroundtown Property Holdings Limited	3,762,000	8.95
Hargreave Hale	2,511,450	5.98

DIRECTORS' REPORT CONTINUED

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 26 and 27 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 26 and 27. 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)
- Nigel Jones (Independent Non-Executive Director)

Elisha Flax will step down from his office as Non-Executive Director at the Company's forthcoming Annual General Meeting and the Board will recommend the appointment of Dawn Morgan as Non-Executive Director.

On 13 May 2013, Eli Papouchado appointed Yoav Papouchado as his alternate Director, as permitted under the Company's Articles of Association.

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

Employees
During 2015, taking into account all our hotels, under all types of contract, approximately 2,600 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 14 to the Consolidated financial statements.

Largest shareholders
The table provided on page 67 shows shareholders holding 3% or more of the issued Ordinary shares (excluding treasury) as at 17 February 2016, 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 2016 and 2017 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 2015 Consolidated financial statements on a going concern basis.

Financial risk management objectives and policies
In addition, Note 31 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
The Group has entered into a construction financing facility agreement with Bank Hapoalim to fund the construction of Park Plaza London Park Royal. The Group also entered into loan agreements with Zagrebačka banka d.d. and a sale and purchase agreement to acquire the remaining 80% of the shares in Bora and all existing shareholder loans to Bora or its subsidiaries which it does not already own. Further details of these transactions are set out in Note 32.

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 judgements 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 Company 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 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.

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

9 March 2016

FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT TO SHAREHOLDERS OF PPHE HOTEL GROUP LIMITED

We have audited the accompanying Consolidated financial statements on pages 72 to 119 of PPHE Hotel Group Limited and its subsidiaries (the 'Group'), which comprise the consolidated statement of financial position as at 31 December 2015, 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 a summary of significant accounting policies and other explanatory information.

Management's responsibility for the Consolidated financial statements
Management is responsible for the preparation and fair presentation of these Consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the requirements of the Companies (Guernsey) Law, 2008, and for such internal control as management determines is necessary to enable the preparation of Consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility
Our responsibility is to express an opinion on these Consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the Consolidated financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

Matters on which we are required to report by exception
We have nothing to report in respect of the following:

Under the Companies (Guernsey) Law, 2008 we are required to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Ronen Kimchi

RONEN KIMCHI
(FOR AND ON BEHALF OF KOST FORER GABBAY & KASIERER, MEMBER OF ERNST & YOUNG GLOBAL)
TEL AVIV
9 MARCH 2016

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2015 €'000	2014 €'000
Assets			
Non-current assets:			
Intangible assets	4	**29,790**	32,588
Property, plant and equipment	5	**1,107,062**	988,667
Prepaid leasehold payments	6	**399**	417
Investment in associates	7(a)	**22,444**	21,286
Investment in joint ventures	8	**23,595**	21,328
Other non-current financial assets	9	**22,506**	18,717
Restricted deposits and cash	16(b)	**107**	–
		1,205,903	1,083,003
Current assets:			
Restricted deposits and cash	16(b)	**4,366**	4,107
Inventories		**1,360**	1,132
Other current financial assets	10	**–**	1,464
Trade receivables	11	**12,466**	15,096
Other receivables and prepayments	12	**10,514**	7,693
Cash and cash equivalents	13	**68,931**	70,173
		97,637	99,665
Total assets		**1,303,540**	1,182,668
Equity and liabilities			
Equity:	14		
Issued capital		**–**	–
Share premium		**240,595**	239,814
Other reserves		**(36,389)**	(36,124)
Treasury shares		**(3,701)**	(3,701)
Foreign currency translation reserve		**(25,547)**	(30,305)
Hedging reserve		**(17,364)**	(24,104)
Accumulated earnings		**207,176**	178,288
Total equity		**364,770**	323,868
Non-current liabilities:			
Bank borrowings	17	**599,279**	538,809
Financial liability in respect of Income Units sold to private investors	18	**185,462**	180,142
Deposits received in respect of Income Units sold to private investors	16(b)	**107**	147
Other financial liabilities	19	**61,439**	67,665
Deferred income taxes	27	**10,932**	12,898
		857,219	799,661
Current liabilities:			
Trade payables		**14,258**	12,744
Other payables and accruals	20	**51,804**	30,432
Bank borrowings	17	**15,489**	15,963
		81,551	59,139
Total liabilities		**938,770**	858,800
Total equity and liabilities		**1,303,540**	1,182,668

The accompanying notes are an integral part of the Consolidated financial statements.
Date of approval of the financial statements 9 March 2016. 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 2015 €'000	 2014 €'000
Revenues	21	**302,485**	270,442
Operating expenses	22	**(180,068)**	(165,259)
EBITDAR		**122,417**	105,183
Rental expenses		**(11,567)**	(10,385)
EBITDA		**110,850**	94,798
Depreciation and amortisation	4, 5	**(26,360)**	(24,405)
EBIT		**84,490**	70,393
Financial expenses	23	**(33,505)**	(32,083)
Financial income	24	**6,725**	6,599
Other income and expenses	25	**(180)**	11,980
Net expenses for financial liability in respect of Income Units sold to private investors	26	**(16,030)**	(12,312)
Share in result of associate and joint ventures	7, 8	**(2,695)**	(2,928)
Profit before tax		**38,805**	41,649
Income tax benefit (expense)	27	**1,645**	(236)
Profit for the year		**40,450**	41,413
Basic and diluted earnings per share in Euro	28	**0.97**	1.00

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2015 €'000	2014 €'000
Profit for the year		**40,450**	41,413
Other comprehensive income (loss) to be recycled through profit and loss in subsequent periods:[1]			
Fair value loss on available-for-sale financial assets[2]		**–**	(74)
Fair value gain reclassified to the profit and loss upon disposal of available-for-sale financial assets		**(305)**	–
Hedge results reclassified to the profit and loss upon extinguishment of a loan	3(a)	**1,380**	–
Profit (loss) from cash flow hedges[3]		**5,360**	(11,462)
Foreign currency translation adjustments of foreign operations[4]		**4,258**	4,200
Foreign currency translation adjustment of associate and joint ventures[4]		**500**	38
Other comprehensive (loss) income		**11,193**	(7,298)
Total comprehensive income		**51,643**	34,115

1 There is no other comprehensive income that will not be reclassified to the profit and loss in subsequent periods.
2 Included in other reserves.
3 Included in hedging reserve.
4 Included in foreign currency translation reserve.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In €'000	Issued capital*	Share premium	Other reserves	Treasury shares	Foreign currency translation reserve	Hedging reserve	Accumulated earnings	**Total equity**
Balance as at 1 January 2014	–	239,504	(36,174)	(3,701)	(34,543)	(12,642)	145,672	298,116
Profit for the year	–	–	–	–	–	–	41,413	41,413
Other comprehensive loss for the year	–	–	(74)	–	4,238	(11,462)	–	(7,298)
Total comprehensive income	–	–	(74)	–	4,238	(11,462)	41,413	34,115
Share-based payments	–	–	124	–	–	–	–	124
Issue of shares	–	310	–	–	–	–	–	310
Dividend distribution	–	–	–	–	–	–	(8,797)	(8,797)
Balance as at 31 December 2014	–	239,814	(36,124)	(3,701)	(30,305)	(24,104)	178,288	323,868
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**40,450**	**40,450**
Other comprehensive loss for the year	**–**	**–**	**(305)**	**–**	**4,758**	**6,740**	**–**	**11,193**
Total comprehensive income	**–**	**–**	**(305)**	**–**	**4,758**	**6,740**	**40,450**	**51,643**
Share-based payments	**–**	**–**	**40**	**–**	**–**	**–**	**–**	**40**
Issue of shares	**–**	**781**	**–**	**–**	**–**	**–**	**–**	**781**
Dividend distribution**	**–**	**–**	**–**	**–**	**–**	**–**	**(11,562)**	**(11,562)**
Balance as at 31 December 2015	**–**	**240,595**	**(36,389)**	**(3,701)**	**(25,547)**	**(17,364)**	**207,176**	**364,770**

* No par value.
** The dividend distribution comprises a final dividend for the year ended 31 December 2014 of 10.0 pence per share and an interim dividend of 10.0 pence per share paid on 2 October 2015.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2015 €'000	2014 €'000
Cash flows from operating activities:			
Profit for the year		**40,450**	41,413
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		**49,535**	44,395
Financial income	24	**(6,725)**	(6,599)
Income tax charge (benefit)	27	**(1,645)**	236
Capital gain upon sale of Berlin hotels to joint venture	3(b)	**–**	(1,753)
Loss on buy back of Income Units sold to private investors	25	**807**	329
Capital gain upon buy back bank of loans	3(a)	**(107)**	–
Fair value gain on deferred consideration in business combinations	19	**(520)**	(2,509)
Share in results of joint ventures	8	**167**	(8)
Share in loss of associates	7(c)	**2,528**	2,936
Depreciation and amortisation	4, 5	**26,360**	24,405
Share-based payments		**40**	124
		70,440	61,556
Changes in operating assets and liabilities:			
(Increase) decrease in inventories		**(192)**	109
Decrease in trade and other receivables		**482**	498
Increase in trade and other payables		**6,683**	1,623
		6,973	2,230
Cash paid and received during the period for:			
Interest paid		**(45,417)**	(40,068)
Interest received		**459**	97
Taxes (paid) received		**(116)**	(137)
		(45,074)	(40,108)
Net cash provided by operating activities		**72,789**	65,091
Cash flows from investing activities:			
Investments in property, plant and equipment	5	**(87,290)**	(42,624)
Investments in jointly controlled entities and loans to partners in jointly controlled entities		**(776)**	(523)
Net change in cash upon divestment of Berlin hotels to joint venture	3(b)	**–**	(3,000)
Proceeds from sale of available-for-sale financial assets		**1,159**	–
(Increase) decrease in restricted deposits		**–**	(661)
Advance payment for acquisition	9	**(5,000)**	–
Net cash used in investing activities		**(91,907)**	(46,808)

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

	Year ended 31 December	
	2015	2014
	€'000	€'000
Cash flows from financing activities:		
Issuance of shares upon exercise of options	**781**	310
Proceeds from long-term loans	**52,577**	26,423
Buy back of Income Units previously sold to private investors	**(4,440)**	(2,092)
Repayment of long-term bank loans and other long-term liabilities	**(21,620)**	(12,485)
Proceeds from finance leases		6,231
Dividend payment	**(11,562)**	(8,797)
Net cash provided by financing activities	**15,736**	9,590
Increase in cash and cash equivalents	**(3,382)**	27,873
Net foreign exchange differences	**2,140**	802
Cash and cash equivalents at beginning of year	**70,173**	41,498
Cash and cash equivalents at end of year	**68,931**	70,173

Non-cash items:		
Outstanding payable on investments in property, plant and equipment	**14,738**	–

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 General

a. The Consolidated financial statements of PPHE Hotel Group Limited (the 'Company') and its subsidiaries (together the 'Group') for the year ended 31 December 2015 were authorised for issuance in accordance with a resolution of the Directors on 9 March 2016.

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 primarily full-service upscale and lifestyle hotels in major gateway cities and regional centres 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 2016 and 2017 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 17. The Board believes that the Group currently has adequate resources and in the future will generate sufficient funds to honour its financial obligations and continue its operations as a going concern for the foreseeable future. The Group analyses its ability to comply with debt covenants in the near future.

Note 2 Summary of significant accounting policies

a. Basis of preparation:

The Consolidated financial statements of the Group have been prepared on a historical cost basis, except for derivative financial instruments and available-for-sale financial assets that have been measured at fair value. The Consolidated financial statements are presented in Euro 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 2015 and 2014 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 2015. 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 Netherlands, the United Kingdom, Germany, Hungary and Croatia, through an investment in an associate (see Note 7).

Note 2 Summary of significant accounting policies continued

c. Significant accounting judgments, estimates and assumptions:

The preparation of the Group's Consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the Consolidated financial statements:

Acquisition of companies that are not business combinations

At the acquisition date of companies and groups of assets, the Company determines whether the transaction constitutes an acquisition of a business in a business combination transaction pursuant to IFRS 3. If the acquisition does not constitute a business as defined in IFRS 3, the cost of purchase is allocated only to the identifiable assets and liabilities of the acquired company on the basis of their relative fair values at the date of purchase 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 31(f).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 2 Summary of significant accounting policies continued

c. Significant accounting judgments, estimates and assumptions continued

Deferred tax assets

Deferred tax assets are recognised for unused carry forward tax losses and temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilised. The amount of deferred tax assets that can be recognised is based upon the likely timing and level of future taxable profits together with future tax planning strategies. Additional information is provided in Note 26.

d. Business combinations and goodwill:

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures 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 an asset or liability will be recognised in accordance with IAS 39 in profit or loss. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. 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 this consideration is lower than the fair value of the net assets of the business acquired, the difference (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.

Note 2 Summary of significant accounting policies continued

e. 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.

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.

f. Foreign currency translation:

The functional currency of the Company is the Pound Sterling. The Consolidated financial statements are presented in Euro. 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 other than Euro 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 Euro which were granted by the Company to its subsidiaries are reflected in the foreign currency translation reserve in equity, as these loans are designated as a hedge of the Group's net investment in a foreign operation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 2 Summary of significant accounting policies continued

f. Foreign currency translation continued

The following exchange rates in relation to the Euro were prevailing at reporting dates:

	As at 31 December	
	2015 In Euro	2014 In Euro
Pound Sterling	**1.362**	1.283
Hungarian Forint	**0.003**	0.003

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

	As at 31 December	
	2015 %	2014 %
Pound Sterling	**6.2**	6.7
Hungarian Forint	**0.6**	(5.8)

g. 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.

h 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.

Note 2 Summary of significant accounting policies continued

i. **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.

j. **Financial instruments:**

Financial assets within the scope of IAS 39 are initially recognised at fair value plus directly attributable transaction costs, except for investments 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:

1. 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. Except for available for sale financial assets, all financial assets of the Group are classified as 'loans and receivables'.

   a) Available-for-sale financial assets:

      Available-for-sale financial assets are financial assets (non-derivative) that are designated as available-for-sale or are not classified as loans and receivables. After initial recognition, available-for-sale financial assets are measured at fair value. Gains or losses from fair value adjustments are recognised directly in other comprehensive income in the net unrealised gains reserve (included in other reserves in equity). When the investment is disposed of or in case of impairment, the cumulative gain or loss previously recorded in equity is recognised in the income statement. Interest income on investments in debt instruments is recognised in the income statement using the effective interest method. Dividends earned on investments are recognised in the income statement when the right of payment has been established.

   b) 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 – see n. below. The Group has not designated any financial assets at fair value through profit or loss.

2. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 2 Summary of significant accounting policies continued

j. 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 by valuation technique (see Note 31(f) 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 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.

The fair value of investments 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.

3. **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.

4. **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, 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 rooms 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 income swap agreements for a further 5 years from the expiry date.

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

   The replacement costs for the sold rooms are fully reimbursed by the 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 on the statement of financial position as a receivable or liability to the investor in each respective year.

5. **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.

Note 2 Summary of significant accounting policies continued

5. 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.

6. 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.

   Available-for-sale financial assets:

   For debt securities, if any such evidence exists that there is an impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

   For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised on equity instruments in profit or loss are not reversed through the income statement; increases in their fair value after impairment are recognised in other comprehensive income and recorded in equity.

7. 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.

k. Inventories:

Inventories include 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.

l. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 2 Summary of significant accounting policies continued

m. 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.

n. 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.

o. 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 royalty 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.

Note 2 Summary of significant accounting policies continued

o. Revenue recognition continued

Customer loyalty programme

The Group participates in the Club Carlson[SM] customer loyalty programme to provide customers with incentives to buy room nights. This customer loyalty programme is owned and operated by Carlson[SM] 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[SM] 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.

p. Key performance indicators:

EBITDAR

Earnings before interest, tax, depreciation, amortisation, impairment loss and rental expenses, share of associate and exceptional items presented as other income and tax (EBITDAR) correspond to revenue less cost of revenues (operating expenses). EBITDAR, together with EBITDA, is used as a key performance indicator.

EBITDA

Earnings before interest, tax, depreciation and amortisation, exceptional items presented as other income and impairment loss (EBITDA) correspond to gross profit after the operating costs of holding leased hotels.

EBIT

Earnings before interest, exceptional items presented as other income and tax (EBIT) correspond to gross operating profit after the operating costs of holding both leased and owned assets.

q. Leases:

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

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).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 2 Summary of significant accounting policies continued

r. 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 15.

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 the 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.

s. 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.

Note 2 Summary of significant accounting policies continued

t. 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 by the reporting date.

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

(i) 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 reassessed 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.

u. Treasury shares:

Company shares held by the Company 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 2 Summary of significant accounting policies continued

v. 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.

w. 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 comparative information is not compulsory. The Group is yet to assess IFRS 9's full impact and will determine the date to adopt IFRS 9 once it is endorsed for use in the European Union.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

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 recognized as an expense by the lessees as incurred and recognized as income by the lessors as earned.
- In the event of change in variable lease payments that are CPI-linked, lessees are required to remeasure the lease liability and the effect of the remeasurement 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.
- 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.

Note 2 Summary of significant accounting policies continued

w. Standards issued but not yet applied continued

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 Company is evaluating the possible effects of the new Standard. However, at this stage, the Company is unable to quantify the impact on the financial statements.

The following amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests
Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants
Amendments to IAS 27: Equity Method in Separate Financial Statements
Annual Improvements 2012–2014 Cycle
Amendments to IAS 1 Disclosure Initiative
Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

Note 3 Significant events during the reported period

a. Buy Back of Bank Loan in Park Plaza Nottingham

In August 2010, the Group acquired the long leasehold interest in Park Plaza Nottingham which included the assumption of £5.9 million of debt originally owed by Katmandu Limited (a subsidiary of the Group) ('Katmandu') to National Westminster Bank PLC secured on the long leasehold interest (the 'Loan'). The Loan carried fixed interest until 2027 at 6.84% (plus mandatory costs) per annum and was repayable in 2027.

Katmandu acquired the Loan on 12 June 2015 and cancelled an interest rate swap agreement associated with the Loan (which had an aggregate nominal value of £7.6 million). The total consideration for the Loan and cancellation of the associated interest rate swap was £5.5 million. The transaction was accounted for as an extinguishment of a loan and a profit in the amount of €107 thousand was recognised in the income statement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 3 Significant events during the reported period continued

b. Divestments in 2014

On 13 January 2014, the Group entered into a 50:50 joint venture in relation to the freeholds and operations of art'otel berlin mitte and art'otel berlin kudamm (now known as Park Plaza Berlin Kudamm) (the 'Hotels') together with the Nakash group.

The Group sold to Nakash 50% of the shares in the companies which own the freeholds and the operating businesses of the Hotels and assigned 50% of the shareholder loans made by the Group to those companies for an aggregate consideration of €3,180 thousand which was advanced in 2013. The Company and Nakash also contributed €1,000 thousand each for the renovation of the Hotels.

The Group continues to manage the Hotels under long-term hotel operating agreements.

As a result of the sale and loss of control of these Hotels, the Company has derecognised all of the assets and liabilities in respect of the Hotels and re-measured its retained stake (50%) to fair value based on the consideration received for the portion sold. The impact of this sale on the financial statements is as follows:

ASSETS		€'000
NON-CURRENT ASSETS:		
Property, plant and equipment		(16,475)
CURRENT ASSETS:		
Inventories		(85)
Trade receivables and other short-term assets		(267)
Cash and cash equivalents		(3,000)
Total assets		**(19,827)**
NON-CURRENT LIABILITIES:		
Bank loans		(11,724)
Other financial liabilities		(139)
CURRENT LIABILITIES:		
Trade and other payables		(1,357)
Total liabilities		**(13,220)**
NET ASSETS DERECOGNISED		**(6,607)**
Consideration received in respect of stake sold	4,180	
Recognition of retained share at fair value	4,180	
		8,360
Recognised capital gain		**1,753**

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 2014	23,936	24,468	4,000	1,001	53,405
Adjustment for exchange rate differences	–	–	–	(7)	(7)
Additions during the year	–	–	–	–	–
Balance as at 31 December 2014	23,936	24,468	4,000	994	53,398
Accumulated amortisation:					
Balance as at 1 January 2014	7,662	8,069	2,066	222	18,019
Amortisation	1,204	1,216	149	222	2,791
Balance as at 31 December 2014	8,866	9,285	2,215	444	20,810
Net book value as at 31 December 2014	15,070	15,183	1,785	550	32,588
Cost:					
Balance as at 1 January 2015	**23,936**	**24,468**	**4,000**	**994**	**53,398**
Adjustment for exchange rate differences	**–**	**–**	**–**	**(8)**	**(8)**
Additions during the year	**–**	**–**	**–**	**–**	**–**
Balance as at 31 December 2015	**23,936**	**24,468**	**4,000**	**986**	**53,390**
Accumulated amortisation:					
Balance as at 1 January 2015	**8,866**	**9,285**	**2,215**	**444**	**20,810**
Amortisation	**1,205**	**1,214**	**149**	**222**	**2,790**
Balance as at 31 December 2015	**10,071**	**10,499**	**2,364**	**666**	**23,600**
Net book value as at 31 December 2015	**13,865**	**13,969**	**1,636**	**320**	**29,790**

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

1. 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 11.5 years.

2. 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 11.5 years.

b. Acquisition of art'otel® rights:

The Group acquired in July 2007, 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 11.5 years.

c. Other intangible assets:

These include development costs incurred in connection with a new concept which has been developed by the Group using modular construction to minimise the construction period as well as the construction costs. The development of the new concept is completed and is being amortised over five years.

d. Impairment:

In 2015, 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 2014	286,742	484,663	169,226	109,915	1,050,546
Additions during the year	–	39,167	–	3,457	42,624
Disposal of subsidiaries	(4,823)	(10,088)	–	(1,891)	(16,802)
Buy back of Income Units sold to private investors	206	1,379	(1,676)	91	–
Adjustment for exchange rate differences	9,052	21,365	11,692	4,886	46,995
Balance as at 31 December 2014	291,177	536,486	179,242	116,458	1,123,363
Accumulated depreciation and impairment:					
Balance as at 1 January 2014	9,753	32,021	9,617	55,830	107,221
Provision for depreciation	743	8,014	2,653	10,186	21,596
Disposal of subsidiaries	–	–	–	(327)	(327)
Buy back of Income Units sold to private investors	–	72	(121)	49	–
Adjustment for exchange rate differences	96	1,809	1,044	3,257	6,206
Balance as at 31 December 2014	10,592	41,916	13,193	68,995	134,696
Net book value as at 31 December 2014	280,585	494,570	166,049	47,463	988,667
Cost:					
Balance as at 1 January 2015	**291,177**	**536,486**	**179,242**	**116,458**	**1,123,363**
Additions during the year	**663**	**89,243**	**879**	**12,288**	**103,073**
Disposal of subsidiaries	**(720)**	**(261)**	**–**	**–**	**(981)**
Buy back of Income Units sold to private investors	**420**	**2,988**	**(3,564)**	**156**	**–**
Adjustment for exchange rate differences	**8,953**	**20,790**	**11,098**	**4,576**	**45,417**
Balance as at 31 December 2015	**300,493**	**649,246**	**187,655**	**133,478**	**1,270,872**
Accumulated depreciation and impairment:					
Balance as at 1 January 2015	**10,592**	**41,916**	**13,193**	**68,995**	**134,696**
Provision for depreciation	**785**	**8,583**	**2,956**	**11,228**	**23,552**
Disposal of subsidiaries	**–**	**(64)**	**–**	**–**	**(64)**
Buy back of Income Units sold to private investors	**–**	**157**	**(262)**	**105**	**–**
Adjustment for exchange rate differences	**200**	**1,777**	**771**	**2,878**	**5,626**
Balance as at 31 December 2015	**11,577**	**52,369**	**16,658**	**83,206**	**163,810**
Net book value as at 31 December 2015	**288,916**	**596,877**	**170,997**	**50,272**	**1,107,062**

* This includes 522 rooms ('Income Units') (2014: 531) in Park Plaza Westminster Bridge London, for which the cash flows, derived from the net income generated by these rooms, were sold to private investors (see Note 2(j)4). The proceeds from the purchases have been accounted for as a variable rate financial liability (see Note 18). See Note 9 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 €105,914 thousand (2014: €37,483 thousand), relates to the construction of Park Plaza London Park Royal, the development of Park Plaza London Waterloo and Park Plaza Nuremberg.

b. The amount of borrowing costs capitalised during the year was €4,294 thousand (2014: €1,150 thousand) at a rate of 4.8% (2014: 4.8%), which is the average effective interest rate of the specific borrowing.

c. For information regarding liens, see Note 16.

Note 5 Property, plant and equipment continued

d. Land under finance lease:

	As at 31 December	
	2015	2014
	€'000	€'000
Cost – capitalised finance leases	**29,078**	27,389
Accumulated depreciation	**(1,592)**	(1,401)
Net book value	**27,486**	25,988

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

Note 6 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	
	2015	2014
	€'000	€'000
Cost:		
Balance as at 1 January	**466**	466
Additions	**–**	–
Balance as at 31 December	**466**	466
Accumulated amortisation:		
Balance as at 1 January	**49**	31
Provision for amortisation	**18**	18
Balance as at 31 December	**67**	49
Amortised cost as at 31 December	**399**	417

Note 7 Investment in associate

In April 2008, Euro Sea Hotels N.V., a wholly owned subsidiary of the Company, acquired 20% of the shares of WH/DMREF Bora B.V. ('Bora'). Bora owns approximately 74% of Arenaturist d.d., a public company listed on the Zagreb (Croatia) Stock Exchange, and 100% of three related private companies. These companies together own seven hotels, six apartment complexes and eight campsites in or around Pula on the Istrian coast of Croatia. 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 is accounted for under the equity method in accordance with IAS 28.

For details on the transaction to acquire the remaining interest of Bora, please refer to Note 9 and Note 32.

a. The investment in Bora comprised as follows:

	As at 31 December	
	2015	2014
	€'000	€'000
Loan to associate*	**38,397**	35,060
Foreign currency translation adjustment	**734**	385
Share of associate's net assets under equity method	**(16,687)**	(14,159)
Loan to associate (adjusted for losses recognised under the equity method)	**22,444**	21,286

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

b. The loan to Bora comprised as follows:

	As at 31 December	
	2015	2014
	€'000	€'000
Opening balance	**35,060**	32,241
Interest on loans	**3,228**	2,962
Foreign currency translation reserve	**109**	(143)
Closing balance	**38,397**	35,060

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 7 Investment in associate continued

c. Bora's financial statements:

	As at 31 December	
	2015 €'000	2014 €'000
Current assets	**22,977**	18,688
Non-current assets	**172,181**	170,302
Current liabilities	**(7,285)**	(9,789)
Non-current liabilities	**(250,792)**	(229,943)
Net liabilities	**(62,919)**	(50,742)
Attributable to:		
Non-controlling interests	**21,834**	23,099
Shareholders of the Company	**(84,753)**	(73,841)
	(62,919)	(50,742)
Share of the associate's equity (20%)	**(16,947)**	(14,768)
Purchase price adjustments	**260**	609
Book value associate	**(16,687)**	(14,159)
Revenue	**52,777**	45,250
Loss	**(11,999)**	(14,990)
Attributable to:		
Non-controlling interests	**641**	(310)
Shareholders of the Company	**(12,640)**	(14,680)
Share of the associate's loss (20%)	**(2,528)**	(2,936)

Note 8 Investment in joint ventures

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

Investment in joint ventures:

	As at 31 December	
	2015 €'000	2014 €'000
Loan to joint ventures*	**21,337**	19,107
Share of net assets under equity method	**2,258**	2,221
Loan to joint ventures	**23,595**	21,328

* €17.3 million of the loan is denominated in GBP and bears LIBOR +2%. €4.0 million of the loan is denominated Euro and bears an interest of LIBOR +2.5% per annum. This loan is due on 7 June 2023.

The share in net profit amounts to €(167) thousand (2014: €8 thousand).

Note 9 Other non-current financial assets

	As at 31 December	
	2015	2014
	€'000	€'000
Loans to related parties (see Note 30)	**13,874**	12,410
Income swap in respect of Income Units sold to private investors[1]	**1,954**	4,642
Deposit relating to right to acquire the investment in Croatia[2]	**5,000**	–
Rent security deposits[3]	**1,678**	1,665
	22,506	18,717

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 2% each year.
2 The deposit paid in consideration for the grant of the right to Euro Sea Hotels N.V. to require the sellers of Bora to enter into a sale and purchase agreement relating to the remaining 80% of the shares in Bora and all existing shareholder loans to Bora or its subsidiaries which it does not currently own. See Note 32 for details of the acquisition.
3 Relates to leases described in Note 16(c)(2).

Note 10 Other current financial assets

	As at 31 December	
	2015	2014
	€'000	€'000
Available-for-sale investment in shares*	**–**	1,464

* The available-for-sale investment in shares has been sold during 2015. The gain on sale has been recycled and is recorded in financial income for an amount of €305 thousand.

Note 11 Trade receivables

a. Composition:

	As at 31 December	
	2015	2014
	€'000	€'000
Trade receivables	**12,436**	11,762
Related parties – Arenaturist Group (see Note 30)	**329**	3,623
Less – allowance for doubtful debts	**(299)**	(289)
	12,466	15,096

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 2014	318
Deductions	(43)
Exchange rate differences	14
As at 31 December 2014	289
Deductions	(1)
Exchange rate differences	11
As at 31 December 2015	299

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	30 to 60 days €'000	60 to 90 days €'000	> 90 days €'000
2015	**12,765**	**3,359**	**5,713**	**1,964**	**627**	**1,102**
2014	15,385	6,235	6,052	1,961	414	723

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 12 Other receivables and prepayments

	As at 31 December	
	2015	2014
	€'000	€'000
Prepaid expenses	**5,246**	5,198
VAT	**4,357**	1,391
Related parties*	**320**	245
Others	**591**	859
	10,514	7,693

* The amount owed by related parties bears no interest; see Note30.

Note 13 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 14 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 2015, the number of ordinary shares issued was 43,879,512 (2014: 43,492,792), 1,862,000 of which were held as treasury shares (2014: 1,862,000). The increase of the number of shares issued in 2015 was due to the exercise of share options (see Note 15).

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.

The Directors consider that the issued capital and the share premium reserve constitute the Share Capital account for the purpose of the Companies (Guernsey) Law, 2008.

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. On 29 August 2012, the Company purchased 200,000 of its ordinary shares at a price of 210 pence. The total number of treasury shares amounts to 1,862,000.

c. Nature and purpose of reserves:

Other reserves

The other reserves mainly consist of results of transactions that affected the equity of the Group before and during the listing on the Stock Exchange in 2007, the change in fair value of the available-for-sale financial assets and share-based payments.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations.

Hedging reserve

This reserve is comprised of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

Note 15 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 date of grant (as published in the Financial Times on the date of grant). Option A vests over a period of three years from date of grant and Option B vests at the end of three years from grant date. Unexercised options expire ten years after the date of grant. The Plan does not include any performance conditions.

b. 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 the AIM in July 2007 is disregarded.

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 expense arising from equity-settled share-based payment transactions during 2015 is €40 thousand (2014: €124 thousand). As at 31 December 2015, 262,000 options became exercisable (2014: 262,000). Total exercisable options at 31 December 2015 amount to 486,156 (2014: 642,950).

Movements during the year
The following table illustrates the number (No.) and weighted average exercise prices (EP) of, and movements in, share options during 2015:

	No. of options A	No. of options B	EP
Outstanding as at 1 January 2014	929,550	101,250	£2.12
Options forfeited during the year	–	(10,350)	£1.00
Options exercised in the year	(115,500)	–	£2.34
Outstanding as at 31 December 2014	814,050	90,900	£2.09
Options forfeited during the year	**–**	**–**	**–**
Options exercised in the year[1]	**407,744**	**11,050**	**£1.95**
Options granted during the year	**–**	**–**	**–**
Outstanding as at 31 December 2015	**406,306**	**79,850**	**£2.06**

1 Part of the exercise was cashless.

The weighted average remaining contractual life for the share options outstanding as at 31 December 2015 is six years (2014: seven years).

Note 16 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) 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 2013, a balance of £7.6 million (€9.3 million), being forfeited deposits, was held in respect of the rescinded contracts. Certain of these investors instigated legal proceedings seeking recovery of the forfeited deposits. The proceedings comprised two actions, namely a larger action with over 100 investors, and a smaller action with a handful of investors. Whilst the proceedings were ongoing, the deposits were held in a solicitor's escrow account and could not be released to the Group.

The larger action relating to £7.5 million (€9.2 million) has been settled and on 26 June 2014 £5.9 million (€7.4 million) was released from the escrow account to Marlbray and the balance paid to the claimants. With regard to the smaller action, the proceedings are ongoing, and £0.1 million (€0.1 million) of forfeited deposits remain in the escrow account (presented under long-term restricted cash and deposits).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 16 Pledges, contingent liabilities and commitments continued

b. Restricted cash continued:

The receipt of €7.4 million in respect of the larger action together with €0.6 million preliminarily received from the escrow account in previous years has been accounted for as a profit in other income and expenses in the 2014 consolidated income statement.

(ii) Under Marlbray's facility agreement with Bank Hapoalim (Luxembourg) S.A. ('Bank Hapoalim'), sufficient funds are required to be deposited in the Debt Service Cover Ratio (DSCR the net operating income of the hotels for each of the four preceding financial quarters relative to the principal, interest and other costs payable by the borrowers for the next four financial quarters) account until the sum deposited is equal to twice the amount of interest payable on the next interest payment date. The deposits in the DSCR account in the amount of £3.3 million (€4.4 million) are presented as restricted in the financial statements.

c. Commitments:

1. Management and franchise agreements:

(i) The Group entered into a Territorial Licence Agreement (the 'Master Agreement') with Carlson Hotels Worldwide, Inc. ('Carlson℠'). 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℠ Systems within the Territory which right includes the right to utilise the Carlson℠ System's international marketing and reservations facilities and to receive other promotional assistance. The Group pays Carlson℠ a fee based on a percentage of the hotels' gross room revenue.

(ii) 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% to 3% of the hotels' revenues, as applicable, as well as 7% to 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.

(iii) Within the terms of the management agreements, the hotels were granted by the Group a licence allowing them the utilisation, throughout the term of the management agreements, of the 'Park Plaza® Hotels & Resorts or art'otel®' name.

2. Lease agreements:

(i) 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:

	2015 €'000	2014 €'000
Within one year	**1,929**	1,816
After one year but not more than five years	**7,717**	7,263
More than five years	**268,101**	254,146
	277,747	263,225
Less amounts representing finance charges	**(248,669)**	(235,836)
Present value of minimum lease payments	**29,078**	27,389

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

	2015 €'000	2014 €'000
Within one year	**–**	–
After one year but not more than five years	**1**	1
More than five years	**29,077**	27,388
	29,078	27,389

Note 16 Pledges, contingent liabilities and commitments continued

c. Commitments continued

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 £1,090,000 (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 Riverbank London, subject to rent review every five years. A deed of variation of the lease of Park Plaza Riverbank London was entered into on 13 June 2014 under which the rent payable under the lease increased to £864,334 (€1.1 million) per annum. The tenant is granted a right to renew the lease for an additional 60 years. At completion of the deed, the landlord paid £5.0 million (€6.3 million) to Riverbank Hotel Holding B.V., which is accounted for as a 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 is a development site on one of the main thoroughfares into London, for £6.0 million (€7.2 million). Simultaneously, Club A40 completed the sale of the Site at a price of £7.0 million (€8.4 million) and the leaseback of the Site at an initial rent of £306,500 (€367,000) per year (the 'Sale-and-Leaseback') for 170 years.

(ii) 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:

	2015 €'000	2014 €'000
Within one year	**8,514**	8,544
After one year but not more than five years	**32,644**	34,256
More than five years	**61,731**	68,940
	102,889	111,740

3. Construction contract commitment:

As at the reporting date, the Company, entered into capital commitments amounting to €109.2 million for construction of Park Plaza London Waterloo, Park Plaza London Park Royal, Park Plaza London Riverbank (extension) and Park Plaza Nuremberg.

4. Guarantees:

i) In 2014 and 2015, Marlbray entered into 56 income swap agreements for a further 5 years from the expiry date of the original income swap agreements for the respective units on the same terms and conditions (see note 9). The Company guarantees 48 of these agreements. The remaining future obligation as at 31 December 2015 amounts to £6.4 million (€8.7 million).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 16 Pledges, contingent liabilities and commitments continued

c. Commitments continued

ii) Under the terms of the United Overseas Bank (UOB) facilities received for the construction in Pattaya Bay, Thailand (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 and, in certain circumstances, may be required to purchase serviced apartments after completion of the Project for a maximum consideration of Thai Baht 600 million (€15.0 million) to fund any amounts that are outstanding under the UOB facilities. The support deed 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 2015, the Company is in compliance with the aforementioned covenants. In addition, the Company guaranteed practical completion of the Project. Red Sea Hotels Limited has agreed to indemnify the Company in respect of certain of these continuing obligations and as security Red Sea Hotels Limited has pledged the shares held by it in Bali Hai Company Limited (the company that owns the Project), and certain affiliated Thai companies.

iii) The Company guarantees all obligations of Club A40, the tenant, under parcel 1 of the lease agreement for Western Avenue (Park Plaza London Park Royal) up to the date of practical completion of the development of the hotel on the site. The annual lease amounts to £0.3 million (€0.4 million). The lease liability is presented in the balance sheet.

iv) The Company guarantees the construction facility provided to Park Plaza Nuremberg GmbH. As at 31 December 2015, €3.6 million had been drawn.

v) The Company guarantees principal and interest under the €11.5 million facility granted by Deutsche Hypothekenbank to ABM Hotel Holding B.V. and ABK Hotel Holding B.V.

vi) The Company guarantees principal and interest under a €30.0 million facility granted by Bank Hapoalim to Park Plaza Hotels Europe B.V. This facility is fully drawn.

vii) The Company has given a guarantee for all obligations under the lease agreement of Park Plaza Sherlock Holmes London.

viii) The Company guarantees principal and interest under the £80.0 million (€108.8 million) facility granted by Bank Hapoalim to Hercules House Holding B.V. As at 31 December 2015, €68.1 million had been drawn.

ix) The Company guarantees principal and interest under the £13.5 million (€18.4 million) facility granted by Aareal Bank AG for the extension of Park Plaza Riverbank London. As at 31 December 2015, €5.5 million has been drawn.

x) The Company guarantees completion of construction of Park Plaza London Park Royal, the development of Park Plaza London Waterloo, Park Plaza Nuremberg and the Park Plaza Riverbank London extension.

xi) The Company guarantees amounts due to key sub-contractors under the building contract for the extension of Park Plaza Riverbank London up to a maximum aggregate cap of £2.0 million of which £1.0 million had been utilised as of 31 December 2015.

5. **Lease guarantees:**
   The Group provided guarantees for commitments under certain hotel lease agreements. The total of these guarantees does not exceed €12.7 million.

Note 17 Bank borrowings
The bank borrowings of the Group are composed as follows:

As at 31 December 2015

						Maturity analysis					
Bank/facility	Note	Currency	Interest rate	Maturity	**Outstanding amount**	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Aareal Bank *(nine hotels in The Netherlands and the United Kingdom)*	17(1)	GBP	5.665%	Dec 2018	**185,880**	–	–	185,880	–	–	–
		GBP	3M LIBOR +2.9%	Dec 2018	**36,196**	2,312	3,656	30,228	–	–	–
		EUR	4.599%	Dec 2018	**119,117**	1,292	1,938	115,887	–	–	–
		EUR	3M EURIBOR +2.9%	Dec 2018	**23,520**	240	360	22,920	–	–	–
Bank Hapoalim *(Park Plaza Westminster Bridge London)*	17(2)	GBP	5.29%	Jun 2018	**71,941**	1,579	1,874	1,973	66,515	–	–
		GBP	5.83%	Jun 2018	**70,792**	1,553	1,845	1,942	65,452	–	–
Royal Bank of Scotland *(Park Plaza Leeds)*	17(3)	GBP	6.43%	Jan 2019	**14,677**	317	350	374	13,636	–	–
		GBP	7.78%	Jan 2019	**2,870**	106	116	125	2,523	–	–
Bank Hapoalim *(Park Plaza Hotels Europe B.V.)*	17(4)	EUR	EURIBOR +4.4%	Dec 2018	**26,602**	4,800	10,200	11,602	–	–	–
Bank Hapoalim *(Park Plaza London Waterloo)*	17(4)	GBP	LIBOR +3.25–3.5%	Jun 2017	**68,146**	–	68,146	–	–	–	–
Deutsche Hypothekenbank *(Park Plaza Nuremberg)*	17(5)	EUR	3M EURIBOR +1.6%	Dec 2016	**3,600**	3,600	–	–	–	–	–
					623,341	15,799	88,485	370,931	148,126		
Capitalised transaction costs and other adjustments					**(8,573)**	(310)					
					614,768	15,489					

For securities and pledges, see Note 16.

* In this overview hedging arrangements have been taken into account in presentation of the interest rates; for details on these hedging arrangements refer to Note 31(g).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 17 Bank borrowings continued

As at 31 December 2014

Bank/facility	Note	Currency	Interest rate	Maturity	Outstanding amount	Maturity analysis					
						Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Aareal Bank *(nine hotels in Netherlands and the United Kingdom)*	17(1)	GBP	5.665%	Dec 2018	**175,080**	–	–	–	175,080	–	–
		GBP	3M LIBOR +2.9%	Dec 2018	**28,747**	2,178	2,150	3,224	21,195	–	–
		EUR	4.599%	Dec 2018	**120,399**	1,292	1,262	1,938	115,907	–	–
		EUR	3M EURIBOR +2.9%	Dec 2018	**23,760**	240	240	360	22,920	–	–
Bank Hapoalim *(Park Plaza Westminster Bridge London)*	17(2)	GBP	5.29%	Jun 2018	**69,248**	1,487	1,766	1,859	64,136	–	–
		GBP	5.83%	Jun 2018	**68,142**	1,463	1,737	1,829	63,113	–	–
Royal Bank of Scotland *(Park Plaza Leeds)*	17(3)	GBP	6.43%	Jan 2019	**14,002**	177	299	329	352	12,845	–
		GBP	7.78%	Jan 2019	**2,762**	59	100	110	117	2,376	–
Royal Bank of Scotland *(Park Plaza Nottingham)*		GBP	6.84%	May 2027	**7,305**	95	131	141	148	154	6,636
Bank Hapoalim *(PPHE Netherlands)*	17(4)	EUR	EURIBOR +3.9%	May 2015	**7,250**	7,250	–	–	–	–	–
Bank Hapoalim *(Park Plaza Hotels Europe B.V.)*	17(4)	EUR	EURIBOR +4.4%	Dec 2018	**13,000**	2,080	2,080	4,420	4,420	–	–
Bank Hapoalim *(Park Plaza London Waterloo)*	17(4)	GBP	LIBOR +3.25–3.5%	Jun 2017	**34,207**	–	–	34,207	–	–	–
Deutsche Hypothekenbank *(Park Plaza Nuremberg)*	17(5)	EUR	3M EURIBOR +1.6%	Dec 2016	**3,600**	–	3,600	–	–	–	–
					567,502	16,321	13,365	48,417	467,388	15,375	6,636
Capitalised transaction costs and other adjustments					**(12,730)**	(358)					
					554,772	15,963					

For securities and pledges, see Note 16.

* As the refinance of this facility is agreed before reporting date and effected after reporting date, the maturity analysis is performed based on the new loan.

Note 17 Bank borrowings continued

The Group companies in the above facilities are required to comply with certain financial covenants as described below:

1. Under the Aareal Bank AG ('Aareal') facility the borrowers must ensure that the aggregate amount of the outstanding facilities does not exceed 65% of the value of the hotels as set out in the most recent valuation. In addition, the borrowers must ensure that, on each interest payment date, the DSCR is not less than 115%.
2. Under the Bank Hapoalim facility for Park Plaza Westminster Bridge 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 DSCR is not less than 130%.
3. 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.
4. Under the Bank Hapoalim facility for each of Park Plaza Hotels Europe B.V. and Hercules House Holding B.V. the following covenants apply:

   a) the shareholders' equity of the Company is not less than the lower of €150.0 million (if calculated in Euro) or £110.0 million (if calculated in Sterling);

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

   c) 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;

   d) the adjusted shareholders' equity of the Company, less the equity invested 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 covenants apply to Park Plaza Hotels Europe B.V. individually:

   Park Plaza Hotels Europe B.V.

   a) The ratio of the consolidated financial indebtness of the borrower and its subsidiaries to Consolidated EBITDA of the borrower shall not exceed 5:1.
5. Under the Deutsche Hypothekenbank 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%.

   For guarantees under the above facility agreements see Note 16(c)(4). For hedging arrangements under the above facilities see Note 31(g).

   As at 31 December 2015, the Group is in compliance with all its banking covenants.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 18 Financial liability in respect of Income Units sold to private investors

	As at 31 December	
	2015 €'000	2014 €'000
Total liability	**201,232**	193,108
Due from investors for reimbursement of capital expenditure	**(15,770)**	(12,966)
	185,462	180,142

This liability originated from the proceeds received from the sale to private investors of the future 999-year cash flows, derived from certain hotel rooms 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 9 for income swap agreements.

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

Note 19 Other financial liabilities

	As at 31 December	
	2015 €'000	2014 €'000
Derivative financial instruments (see Note 31(g))	**23,295**	31,225
Lease liability (see Note 16(c)(2))	**29,078**	27,389
Deferred consideration business combination*	**–**	520
Other	**9,066**	8,531
	61,439	67,665

* This relates to the 2010 business combination for the acquisition of various hotels in the United Kingdom. The amount may be changed depending on the performance of the Company's shares during the five-year period following completion. In 2015, the deferred consideration was valued at nil .

Note 20 Other payables and accruals

	As at 31 December	
	2015	2014
	€'000	€'000
Employees	**2,398**	2,071
VAT and taxes	**7,536**	5,903
Accrued interest	**1,979**	1,941
Corporate income taxes	**549**	116
Accrued expenses	**9,256**	9,612
Advance payments received	**8,251**	7,845
Accrued rent	**3,171**	2,235
Variable income payment to holders of Income Units	**3,926**	–
Related parties*	**14,738**	709
	51,804	30,432

* See Note 30.

Note 21 Revenues

	Year ended 31 December	
	2015	2014
	€'000	€'000
Rooms	**204,293**	182,072
Food and beverage	**82,008**	72,656
Minor operating	**6,094**	5,320
Management fee (see Note 16(c)(1))	**5,604**	5,452
Franchise and reservation fee (see Note 16(c)(1))	**1.923**	2,335
Marketing fee	**1,764**	1,692
Other	**799**	915
	302,485	270,442

Note 22 Operating expenses

	Year ended 31 December	
	2015	2014
	€'000	€'000
Salaries and related expenses	**80,570**	73,214
Franchise fees, reservation and commissions (see Note 16(c)(1))	**22,306**	20,610
Food and beverage	**16,128**	14,956
Insurance and property taxes	**14,258**	13,603
Utilities	**7,799**	7,395
Administration costs	**5,927**	5,328
Maintenance	**4,415**	4,855
Laundry, linen and cleaning	**4,669**	4,778
Supplies	**3,656**	3,557
IT expenses	**2,411**	2,324
Communication, travel and transport	**2,361**	2,212
Marketing expenses	**1,580**	1,501
Defined contribution pension premiums	**1,213**	1,004
Other expenses	**12,775**	9,922
	180,068	165,259

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 23 Financial expenses

	Year ended 31 December	
	2015	2014
	€'000	€'000
Interest and other finance expenses on bank loans	**36,097**	31,773
Interest on finance lease liability	**1,538**	1,224
Other	**164**	236
	37,799	33,233
Less – borrowing costs capitalised	**(4,294)**	(1,150)
	33,505	32,083

Note 24 Financial income

	Year ended 31 December	
	2015	2014
	€'000	€'000
Interest on restricted deposit	**5**	8
Foreign exchange differences	**631**	1,696
Interest on bank deposits	**192**	89
Interest from related parties (see Note 30(b))	**1,317**	1,052
Adjustment to fair value on derivative financial instruments (see Note 31(g))	**496**	311
Gain on sale of available-for-sale investment in shares	**305**	–
Interest and other financial income from jointly controlled entities (see Note 30(b))	**551**	481
Interest and other financial income from associates (see Note 7)	**3,228**	2,962
	6,725	6,599

Note 25 Other income and expenses

	Year ended 31 December	
	2015	2014
	€'000	€'000
Income from forfeited deposits (See Note 16b(i))	**–**	8,047
Capital gains*	**107**	1,753
Capital gain/(loss) on buy back of Income Units previously sold to private investors	**(807)**	(329)
Fair value adjustment of deferred business combinations consideration	**520**	2,509
	(180)	11,980

* Includes €(1,318) thousand hedge results reclassified to the profit and loss upon discontinuing hedge accounting.

Note 26 Net expenses for financial liability in respect of Income Units sold to private investors

	Year ended 31 December	
	2015	2014
	€'000	€'000
Guaranteed return (see Note 2(j)4)	**7,767**	11,414
Variable return (see Note 2(j)4)	**8,163**	–
Reimbursement of depreciation expenses (see Note 2(j)4)	**(2,920)**	(2,621)
Change in expected cash flow income swaps (see Note 9)	**3,020**	3,519
	16,030	12,312

Note 27 Income taxes

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

	Year ended 31 December 2015 €'000	2014 €'000
Current taxes	**(634)**	(137)
Deferred taxes	**2,279**	(99)
	1,645	(236)

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 31 December 2013	2,912	(1,935)	(13,469)	(12,492)
Amounts charged to income statement	(1,857)	880	878	(99)
Adjustments for exchange rate differences	105	(105)	(307)	(307)
Balance as at 31 December 2014	1,160	(1,160)	(12,898)	(12,898)
Amounts charged to income statement	1,137	842	300	2,279
Adjustments for exchange rate differences	72	(72)	(313)	(313)
Balance as at 31 December 2015	**2,369**	**(390)**	**(12,911)**	**(10,932)**

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 2015 €'000	2014 €'000
Profit before income taxes	**38,805**	41,649
Expected tax at the tax rate of The Netherlands 25%* (2014: 25%)	**(9,701)**	(10,412)
Adjustments in respect of:		
Effects of other tax rates	**7,186**	4,392
Non-deductible expenses	**(1,958)**	(1,451)
Utilisation of carry forward losses and temporary differences for which deferred tax assets were not previously recorded	**4,952**	3,331
Timing differences for which no deferred tax asset was recorded	**2,140**	–
Non-taxable income	**714**	3,201
Unrecognised current year tax losses	**(1,469)**	(919)
Other differences	**(219)**	1,622
Income tax (expense) benefit reported in the income statement	**1,645**	(236)

* 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 27 Income taxes continued

d. Tax laws applicable to the Group companies:

1. The Company is subject to taxation under the law of Guernsey. The Company is therefore taxed at the standard rate of 0%.
2. Foreign subsidiaries are subject to income taxes in their country of domicile in respect of their income, as follows:
   a) Taxation in The Netherlands: corporate income tax rate is 25% (2014: 25%).
   b) Taxation in the United Kingdom: corporate income tax rate for domiciled companies is 25% and for non-domiciled 20%.
   c) Taxation in Germany: corporate income tax rate and business rates is 30.2%.
   d) Taxation in Hungary: corporate income tax rate is 18%.

e. Losses carried forward for tax purposes:

The Company and its subsidiaries have carry forward losses for tax purposes estimated at approximately €158 million (2014: €159 million). The Group did not establish deferred tax assets in respect of losses amounting to €148 million (2014: €154 million) of which tax losses amounting to €4 million may be utilised for a period 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 their own tax jurisdiction. When analysing the recovery of these losses the Group assesses the likelihood that these losses can be utilised against future trading profits. In this analysis the Group concluded that for the majority of these companies it is not highly likely that future profits will be achieved that can be offset against these losses, mainly due to the nature of their trade (i.e. holding companies or tax exempt activities). Based on this uncertain profitability the Company determined that it could not recognise deferred tax assets for the majority of the losses. The Company is performing this analysis on an ongoing basis.

Note 28 Earnings per share

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

	Year ended 31 December	
	2015 €'000	2014 €'000
Profit	**40,450**	41,413
Weighted average number of ordinary shares outstanding	**41,792**	41,544

Potentially dilutive instruments 317,000 in 2015 (2014: 645,000) had an immaterial effect on the basic earnings per share.

Note 29 Segments

For management purposes, the Group's activities are divided into Owned Hotel Operations and Management Activities (for further details see Note 16(c)(1)). Owned Hotel Operations are further divided into three reportable segments: The Netherlands, Germany and Hungary, 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 2015					
	The Netherlands €'000	Germany and Hungary €'000	United Kingdom €'000	Management €'000	Holding companies and adjustments* €'000	Consolidated €'000
Revenue						
Third party	58,473	30,222	203,877	9,913	–	302,485
Inter-segment				35,165	(35,165)	–
Total revenue	58,473	30,222	203,877	45,078	(35,165)	302,485
Segment EBITDA	18,598	(500)	75,303	17,449	–	110,850
Depreciation, amortisation and impairment						(26,360)
Financial expenses						(33,505)
Financial income						6,722
Net expenses for liability in respect of Income Units sold to private investors						(16,030)
Other income, net						(177)
Share in loss of associate and joint ventures						(2,695)
Profit before tax						38,805

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 29 Segments continued

	Year ended 31 December 2014					
	The Netherlands €'000	Germany and Hungary €'000	United Kingdom €'000	Management €'000	Holding companies and Adjustments* €'000	Consolidated €'000
Revenue						
Third party	53,733	28,457	178,017	10,235	–	270,442
Inter–segment				29,053	(29,053)	–
Total revenue	53,733	28,457	178,017	39,288	(29,053)	270,442
Segment EBITDA	15,573	408	64,341	14,476	–	94,798
Depreciation, amortisation and impairment						(24,405)
Financial expenses						(32,083)
Financial income						6,599
Net expenses for liability in respect of Income Units sold to private investors						(12,312)
Other income, net						11,980
Share in loss of associate and joint ventures						(2,928)
Profit before tax						41,649

* Consist of inter-company eliminations. For further details, see Note 16(c)(1).

Note 30 Related parties

a. Balances with related parties:

	As at 31 December	
	2015 **€'000**	2014 €'000
Loan to associate – WH/DMREF Bora B.V.[1]	**38,397**	35,060
Loans to joint ventures[2]	**21,337**	19,107
Loan to Red Sea Hotels Limited[3]	**13,874**	12,412
Short-term receivables	**320**	245
Trade receivables – the Arenaturist group[1]	**329**	3,623
Construction liability WW Gear Construction Limited	**14,738**	709

b. Transactions with related parties:

	Year ended 31 December	
	2015 **€'000**	2014 €'000
Management fees income – the Arenaturist group[1]	**2,593**	2,103
Reimbursement of expenses – the Arenaturist group[1]	**–**	256
Sales and marketing fees – the Arenaturist group[1]	**866**	884
Development management fees – the Arenaturist group[1]	**–**	614
Construction charges – WW Gear Construction Limited (see (i) below)	**59,697**	31,181
Interest from associate – WH/DMREF Bora B.V.[1]	**3,228**	2,962
Interest from Red Sea Hotels Limited[3]	**1,317**	1,052
Interest income from jointly controlled entities	**551**	481

1 The Group holds 20% of the equity in WH/DMREF Bora B.V. (see Note 7).
2 For details see Note 8.
3 The is a receivable with a nominal value of THB 600 million relating to the disposal of the site in Pattaya Bay, Thailand.

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 on a 'turn-key' basis (now known as Park Plaza London Waterloo). The basic contract price payable to Gear is £70,480,000 for 494 rooms, the contract price has since been amended to £77,759,905. An early completion bonus is payable to Gear calculated as £150,000 multiplied by the number of months prior to 30 September 2016 that the hotel is completed. The Company currently envisages that completion will occur during September 2016. 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 Riverbank London. The basic contract price payable to Gear is £24,741,879 for the 148-room extension the contract price has since been amended to £27,250,002.

On 23 December 2014, Club A40, Hotel Club Construction B.V. ('Hotel Club') and Gear entered into a deed of novation and variation ('Deed') in relation to a building contract entered into between Club A40 and Hotel Club dated 11 June 2012 ('2012 Building Contract'). Under the Deed, Hotel Club is released from its obligations under the 2012 Building Contract and Gear accepts the liabilities of Hotel Club and agrees to perform all of the duties and to discharge all of the obligations of Hotel Club and to be bound by all its terms and conditions in favour of Gear in every way as if Gear were named in the 2012 Building Contract as a party in place of Hotel Club. Under the Deed, the varied basic contract price payable to Gear is £16,520,183 for a hotel comprising of 168 rooms (now known as Park Plaza London Park Royal).

Hotel Club and Gear have since entered into a supplemental agreement dated 4 February 2016 under which the parties agreed to vary the Deed to incorporate additional works, extend the completion date and increase the contract sum. The additional works include an extra 44 rooms, a new access road and reinstatement of a higher specification, amongst others. In addition, the contract price has been increased by £7,920,599 to £24,440,782.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 30 Related parties continued

The Directors consider that the above building contracts have been 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 also 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. All constructions are in progress.

(ii) 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.

(iii) Compensation to key management personnel (Executive and Non-Executive Directors) 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	**1,004**	**282**	**201**	**155**	**1,642**
Non-Executive Directors	**199**	**–**	**–**	**–**	**199**
	1,203	**282**	**201**	**155**	**1,841**

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 staff amount to £8,000.

d. Compensation to key management personnel (Executive and Non-Executive Board members) for the year ended 31 December 2014:

	Base salary and fees €'000	Bonus	Pension contributions €'000	Other benefits €'000	Total €'000
Chairman and Executive Directors	891	244	172	111	1,418
Non-Executive Directors	179	–	–	–	179
	1,070	244	172	111	1,597

Directors' interests in employee share incentive plan

As at 31 December 2014, the Executive Directors held share options to purchase 305,000 ordinary shares. 95,000 options are fully exercisable with an exercise price of £1.00; these will expire in 2017. 210,000 options are exercisable in three equal tranches in 2013, 2014 and 2015 with an exercise price of £2.33; these will expire in 2022. No share options have been granted to Non-Executive members of the Board. The total costs in 2014 relating to options granted to key management staff amount to £33,000.

Note 31 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.

Note 31 Financial risk management objectives and policies continued

a. Foreign currency risk:

The Group is exposed to minimal foreign currency risk, due to transactions in foreign currency, as most of the transactions of each of the entities in the Group are denominated in the functional currency of the relevant entity, except for the outstanding consideration in Thai Baht relating to the disposal of the site in Pattaya Bay, Thailand (see Note 30). After careful consideration the Group decided not to hedge this currency risk. A decrease in the Thai Baht against the Euro of 5% results in the Group recording an exchange loss of approximately €0.7 million.

b. 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 six 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 50bps the results of the Group would be changed by €0.6 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 2015 amounts to a liability of €23.3 million (2014: liability of €31.2 million). The Group performed a sensitivity analysis for the effect of market interest rate changes on the fair value of the swaps which was calculated by an external valuator. Based on this sensitivity analysis calculation, management estimates that with an increase/decrease of the three-month market interest rate by 50bps, the fair value of the swaps, and the hedge reserve in equity would increase/decrease by €5.2 million (2014: €7.2 million) with no material impact on profit or loss.

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

c. 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.

d. Liquidity risk:

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans. The Group's policy is to arrange medium-term bank facilities to finance its construction operation and then to convert them into long-term borrowings when required.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 31 Financial risk management objectives and policies continued

d. Liquidity risk continued:

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2015 and 2014 based on contractual undiscounted payments.

	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]	**11,004**	**33,013**	**116,142**	**550,542**	**–**	**710,701**
Deposits received in respect of Income Units sold to private investors	**–**	**–**	**–**	**–**	**107**	**107**
Financial liability in respect of Income Units sold to private investors	**4,266**	**17,064**	**17,500**	**52,500**	**185,465[3]**	**276,795**
Derivative financial instruments	**1,767**	**5,302**	**7,069**	**9,157**	**–**	**23,295**
Loans from third parties	**–**	**–**	**–**	**–**	**–**	**–**
Lease liability[2]	**474**	**1,455**	**1,929**	**5,789**	**297,178**	**306,825**
Trade payables	**14,258**	**–**	**–**	**–**	**–**	**14,258**
Other liabilities	**21,066**	**19,123**	**11,106**	**–**	**12,898**	**64,193**
	52,835	**75,957**	**153,746**	**617,988**	**495,648**	**1,396,174**

	As at 31 December 2014					
	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]	11,088	33,263	39,687	585,139	9,972	679,149
Deposits received in respect of Income Units sold to private investors	–	–	–	–	147	147
Financial liability in respect of Income Units sold to private investors	4,344	13,032	17,723	55,326	180,142[3]	270,567
Derivative financial instruments	1,202	3,607	4,810	14,429	7,177	31,225
Loans from third parties	–	520	–	–	–	520
Lease liability[2]	454	1,361	1,815	5,446	224,934	234,010
Trade payables	12,744	–	–	–	–	12,744
Other liabilities	13,683	16,103	–	–	12,898	42,684
	43,515	67,886	64,035	660,340	435,270	1,271,046

1 See Note 17 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.

Note 31 Financial risk management objectives and policies continued

d. Liquidity risk continued:

The Group has the following undrawn borrowing facilities:

	2015 €'000	2014 €'000
Floating rate:		
Expiring within one year	76,367	33,478
Expiring beyond a year	–	93,836
	76,367	127,314

e. 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.

	2015 €'000	2014 €'000
Interest bearing bank loans and borrowings	614,768	554,772
Less – cash and cash equivalents	(68,931)	(70,173)
Less – other current financial assets	–	(1,464)
Less – short-term restricted cash	(4,366)	(4,107)
Net debt	541,471	479,028
Equity	364,770	323,868
Hedging reserve	17,364	24,104
Total capital	382,134	347,972
Capital and net debt	923,605	827,000
Gearing ratio	58.6%	57.9%

f. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Note 31 Financial risk management objectives and policies continued

f. 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 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	**23,295**		23,295	

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.

As at 31 December 2014, the Group held the following financial instruments measured at fair value:

Assets

	31 December 2014 €'000	Level 1 €'000	Level 2 €'000	Level 3 €'000
Available-for-sale financial assets	1,464	1,464		

Liabilities

	31 December 2014 €'000	Level 1 €'000	Level 2 €'000	Level 3 €'000
Deferred consideration business combinations	520		520	
Interest rate swaps used for hedging	31,225		31,225	

During 2014, 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	
	2015 €'000	2014 €'000	**2015 €'000**	2014 €'000
Financial assets				
Other non-current financial assets*	**75,287**	68,244	**78,494**	71,216

* Based on Level 2 inputs.

g. 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 the 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.

1. On 3 December 2013, the Group entered into two interest rate swaps with Aareal with a nominal value of £136.5 million (€185.6 million) and €121.7 million with fixed quarterly interest payments at a rate of 2.77% and 1.70% per annum respectively.

   As at 31 December 2015, the fair value of the swaps is estimated at a liability of €14.9 million.

   The change in fair value determined to be effective recorded in other comprehensive income amounts to €3.9 million. The total amount of ineffectiveness recorded in the income statement amounts to €0.1 million.

2. In 2004, Laguna Estates (Leeds) Limited ('Laguna') and Katmandu 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 (€20.4 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 2015, the fair value of the swap is estimated at a liability of £1.6 million (€2.2 million).

   The change in fair value and recorded in the other comprehensive income amounts to €0.3 million. The total amount of ineffectiveness recorded in the income statement amounts to €17 thousand.

3. In 2011, Marlbray entered into several interest rate swap transactions pursuant to which Marlbray swapped the variable interest rate of three-month LIBOR on a loan from Bank Hapoalim. The swap nominal amounts are £111.0 million, with amortising nominal amounts. The swap bears a fixed quarterly interest payment, at a rate of 2.64%–3.18% per annum, for the period until June 2018. As at 31 December 2015, the fair value of the swap is estimated at a liability of £4.4 million (€6.1 million). All fair value movements were assessed effective and the change in fair value recorded in other comprehensive income amounted to £1.4 million (€2.0 million).

Note 32 Subsequent events

On 22 January 2016, Club A40 entered into a construction financing facility agreement with Bank Hapoalim to fund the construction of Park Plaza London Park Royal of up to £20.6 million. The initial maturity date of the facility is July 2017 although Club A40, the borrower, has the right, subject to certain conditions, to extend the facility so that it matures in January 2018. The facility will bear interest at LIBOR plus 4.3 per cent per annum and subject to certain conditions may increase to LIBOR plus 4.4 per cent from and after practical completion of the hotel. The Company guarantees all obligations of Club A40 under the facility as well as providing a completion and cost overrun guarantee.

On 22 February 2016, PPHE Zagreb d.o.o. entered into three separate loans with Zagrebačka banka d.d.. for an aggregate of €30 million (split into a €15 million facility for a term of 8 years, €10 million facility for a term of 7 years and €5 million facility for a term of 8 years) each on the same material terms. The Company guarantees the obligations of the borrower under these facilities up and until 1 September 2016, subject to the fulfilment of certain conditions. Each of the facilities bears interest at a rate of 6 month EURIBOR plus 5.9 per cent per annum.

On 29 February 2016, Euro Sea Hotels N.V. (Euro Sea) entered into a sale and purchase agreement to acquire the remaining 80% of the shares in Bora and all existing shareholder loans to Bora or its subsidiaries which it does not currently own from entities affiliated to certain funds managed by Goldman Sachs (its joint venture partner in Croatia), for an aggregate cash consideration of €51 million (the Acquisition). The consideration for the Acquisition comprises i) €5 million cash deposit paid in 2015; plus ii) €35 million in cash payable on completion; plus iii) a deferred consideration, payable on or prior to 31 December 2016 equal to €10 million plus interest of €1 million, the payment of the consideration is guaranteed by the Company. Completion of the Acquisition is expected to take place on 13 April 2016 subject only to: (a) certain warranties being true and accurate in all material respects; and (b) the parties having performed in all material respects their respective obligations in connection with the Acquisition, as at that date. The Acquisition will be financed partly from the Group's cash balances and partly by way of the €30 million loan from Zagrebačka banka d.d.. (as detailed above).

APPENDICES

A: CONSOLIDATED STATEMENT OF FINANCIAL POSITION (IN GBP)

Change to reporting currency for the 2016 financial year
Since flotation, PPHE Hotel Group has reported its financial results in Euros. However, for some time, the majority of the Group's revenue and operating profit has been generated in the United Kingdom in Sterling, reflecting the Company's strong position in the attractive London hotel market in particular. As a result, fluctuations in the Sterling to Euro exchange rate have given rise to material differences between reported and constant currency results.

Consequently, the Board has determined that reporting periods commencing from 1 January 2016 will be presented in Sterling only. 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 anticipated opening of two further hotels and an extension in London during 2016, the Board believes that this change will help PPHE Hotel Group's financial performance be more accurately portrayed.

		As at 31 December	
	Note	**2015 £'000**	2014 £'000
Assets			
Non-current assets:			
Intangible assets		**21,878**	25,409
Property, plant and equipment		**813,026**	770,863
Prepaid leasehold payments		**293**	325
Investment in associates		**16,483**	16,596
Investment in joint ventures		**17,328**	16,629
Other non-current financial assets		**16,528**	14,595
Restricted deposits and cash		**79**	–
		885,615	844,417
Current assets:			
Restricted deposits and cash		**3,206**	3,202
Inventories		**999**	883
Other current financial assets		**–**	1,141
Trade receivables		**9,154**	11,771
Other receivables and prepayments		**7,721**	5,998
Cash and cash equivalents		**50,623**	54,714
		71,703	77,709
Total assets		**957,318**	922,126
Equity and liabilities			
Total Equity		**267,887**	252,520
Non-current liabilities:			
Bank borrowings		**440,110**	420,109
Financial liability in respect of Income Units sold to private investors		**136,203**	140,457
Deposits received in respect of Income Units sold to private investors		**79**	114
Other financial liabilities		**45,119**	52,758
Deferred income taxes		**8,028**	10,057
		629,539	623,495
Current liabilities:			
Trade payables		**10,472**	9,937
Other payables and accruals		**38,045**	23,728
Bank borrowings		**11,375**	12,446
		59,892	46,111
Total liabilities		**689,431**	669,606
Total equity and liabilities		**957,318**	922,126

B: CONSOLIDATED INCOME STATEMENT (IN GBP)

	Year ended 31 December	
	2015	2014
	£'000	£'000
Revenues	**218,669**	217,000
Operating expenses	**(130,172)**	(132,602)
EBITDAR	**88,497**	84,398
Rental expenses	**(8,362)**	(8,333)
EBITDA	**80,135**	76,065
Depreciation, amortisation and impairment loss	**(19,056)**	(19,582)
EBIT	**61,079**	56,483
Financial expenses	**(24,221)**	(25,742)
Financial income	**4,859**	5,294
Other income and expenses	**(128)**	9,612
Net expenses for financial liability in respect of Income Units sold to private investors	**(11,588)**	(9,879)
Share in result of associate and joint ventures	**(1,948)**	(2,349)
Profit before tax	**28,053**	33,419
Income tax	**1,189**	(189)
Profit for the year	**29,242**	33,230
Basic and diluted earnings per share in Pounds Sterling	**0.70**	0.80

C: CONSOLIDATED STATEMENT OF CASH FLOWS (IN GBP)

	Note	Year ended 31 December 2015 £'000	2014 £'000
Cash flows from operating activities:			
Profit for the year		**29,242**	33,230
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		**35,809**	35,622
Financial income		**(4,859)**	(5,294)
Income tax charge (benefit)		**(1,189)**	189
Capital gain upon sale of Berlin hotels to joint venture		**–**	(1,407)
Loss on buy back of Income Units sold to private investors		**617**	264
Capital gain upon buy back loans		**(77)**	–
Fair value gain deferred consideration business combinations		**(409)**	(2,013)
Share in results of joint ventures		**121**	(6)
Share in loss of associates		**1,827**	2,355
Depreciation, amortisation and impairment loss		**19,056**	19,582
Share-based payments		**29**	99
		50,925	49,391
Changes in operating assets and liabilities:			
(Increase) decrease in inventories		**(139)**	87
Decrease in trade and other receivables		**346**	400
Increase in trade and other payables		**4,831**	1,302
		5,038	1,789
Cash paid and received during the period for:			
Interest paid		**(32,832)**	(32,150)
Interest received		**332**	78
Taxes (paid) received		**(84)**	(110)
		(32,584)	(32,182)
Net cash provided by operating activities		**52,621**	52,228
Cash flows from investing activities:			
Investments in property, plant and equipment		**(63,103)**	(34,201)
Investments in jointly controlled entities and loans to partners in jointly controlled entities		**(561)**	(420)
Net change in cash upon divestment of Berlin hotels to joint venture		**–**	(2,407)
Proceeds from sale of available-for-sale financial assets		**838**	–
(Increase) decrease in restricted deposits		**–**	(530)
Advance payment on acquisitions		**(3,615)**	–
Net cash used in investing activities		**(66,441)**	(37,558)

C: CONSOLIDATED STATEMENT OF CASH FLOWS (IN GBP) CONTINUED

	Year ended 31 December	
	2015 **£'000**	2014 £'000
Cash flows from financing activities:		
Issuance of shares upon exercise of options	**565**	249
Proceeds from long-term loans	**38,008**	21,202
Buy back of Income Units previously sold to private investors	**(3,210)**	(1,679)
Repayment of long-term bank loans and other long-term liabilities	**(15,629)**	(10,018)
Proceeds from finance leases	**–**	5,000
Dividend payment	**(8,358)**	(7,059)
Net cash provided by financing activities	**11,376**	7,695
Increase in cash and cash equivalents	**(2,444)**	22,365
Net foreign exchange differences	**(1,647)**	(2,186)
Cash and cash equivalents at beginning of year	**54,714**	34,535
Cash and cash equivalents at end of year	**50,623**	54,714

SUBSIDIARIES INCLUDED IN THE GROUP

Name of company	Principal activity	Country of incorporation	Direct and indirect holdings %
Euro Sea Hotels N.V.[2]	Holding company	The Netherlands	100
The Mandarin Hotel B.V.[2]	Hotel operation	The Netherlands	100
Suf Holding B.V.[2]	Holding company	The Netherlands	100
Victory Enterprises I B.V.[2]	Holding company	The Netherlands	100
Victory Enterprises II B.V.[2]	Holding company	The Netherlands	100
Amalfa Investments B.V.[2]	Holding company	The Netherlands	100
Victoria Monument B.V.[2]	Hotel operation	The Netherlands	100
Victoria Hotel and Restaurant Investment B.V.[2]	Holding company	The Netherlands	100
Victoria Schiphol Holding B.V.[2]	Holding company	The Netherlands	100
Victoria Hotel and Restaurant Management Services B.V.[2]	Hotel operation	The Netherlands	100
Utrecht Victoria Hotel C.V.[2]	Hotel operation	The Netherlands	100
Victoria Hotel C.V.[2]	Hotel operation	The Netherlands	100
Melbourne Personeel B.V.[2]	Holding company	The Netherlands	100
Schiphol Victoria Hotel C.V.[2]	Hotel operation	The Netherlands	100
Riverbank Hotel Operator Limited[2]	Hotel operation	United Kingdom	100
Riverbank Hotel Holding B.V.[2]	Holding company	The Netherlands	100
Victoria London Hotel Holding B.V.[2]	Holding company	The Netherlands	100
Victoria Park Plaza Operator Limited[2]	Hotel operation	United Kingdom	100
Sherlock Holmes Park Plaza Limited[2]	Hotel operation	United Kingdom	100
Grandis Netherlands Holding B.V.[2]	Holding company	The Netherlands	100
Sherlock Holmes Hotel Shop Limited[2]	Hotel operation	United Kingdom	100
Marlbray Limited[2]	Holding company	United Kingdom	100
1 Westminster Bridge Plaza Management Company Limited[2]	Holding company	United Kingdom	100
Park Plaza Hospitality Services (UK) Limited[2]	Hotel operation	United Kingdom	100
PPHE Club Limited[1]	Holding company	Guernsey	100
Waterford Investments Limited[1]	Holding company	Guernsey	100
Leno Investment Limited[1]	Holding company	Guernsey	100
Laguna Estates (Leeds) Limited[2]	Holding company	United Kingdom	100
Katmandu Limited[2]	Holding company	British Virgin Islands	100
Sandbach Investments Limited[2]	Holding company	British Virgin Islands	100
Hotel Leeds Holding B.V.[2]	Holding company	The Netherlands	100
Hotel Nottingham Holding B.V.[2]	Holding company	The Netherlands	100
Nottingham Park Plaza Operator Limited[2]	Hotel operation	United Kingdom	100
Park Plaza Hotels Europe Holdings B.V.[2]	Holding company	The Netherlands	100
Park Plaza Hotels Europe B.V.[2]	Management	The Netherlands	100
Park Plaza Hotels (Germany) Services GmbH[2]	Management	Germany	100
Park Plaza Hotels Europe (Germany) B.V.[2]	Management	The Netherlands	100
Sugarhill Investments B.V.[2]	Holding company	The Netherlands	100
Park Plaza Germany Holdings GmbH[2]	Holding company	Germany	100
Park Plaza Nűrnberg GmbH	Hotel operation	Germany	100
Park Plaza Berlin Hotel betriebsgesellschaft mbH[2]	Hotel operation	Germany	100
Park Plaza Hotels Berlin Wallstrasse GmbH[2]	Hotel operation	Germany	100
art'otel berlin city center west GmbH[2]	Hotel operation	Germany	100
art'otel dresden/Park Plaza Betriebsgesellschaft mbH[2]	Hotel operation	Germany	100
SW Szállodaüzemeltetö Kft[2]	Hotel operation	Hungary	100
art'otel kölnbetriebsgesellschaft mbH[2]	Hotel operation	Germany	100

SUBSIDIARIES INCLUDED IN THE GROUP CONTINUED

Name of company	Principal activity	Country of incorporation	Direct and indirect holdings %
Parkvondel Hotel Real Estate B.V.[2]	Holding company	The Netherlands	100
Parkvondel Hotel Holding B.V. [2]	Holding company	The Netherlands	100
Parkvondel Hotel Management B.V. [2]	Hotel operation	The Netherlands	100
Golden Wall Investments Limited[1]	Finance company	British Virgin Islands	100
Apex Holdings (UK) Limited[1]	Holding company	British Virgin Islands	100
Park Plaza Coöperatief UA[1]	Holding company	The Netherlands	100
PPHE Histria Charter d.o.o.[2]	Holding company	Croatia	100
Park Plaza Hotels (UK) Services Limited[2]	Management	United Kingdom	100
Artotel (I.L.) Management Services Limited[2]	Holding company	Israel	100
Westminster Bridge Holdings B.V.[2]	Holding company	The Netherlands	100
Westminster Bridge Hotel Operator Limited[2]	Hotel operation	United Kingdom	100
Club Euro Hotels B.V.[2]	Holding company	The Netherlands	100
Club A40 Hotel Holding B.V.[2]	Holding company	The Netherlands	100
Club A40 Hotel Operator Limited	Holding company	United Kingdom	100
Club Luton Hotel Holding B.V.[2]	Holding company	The Netherlands	100
A40 Data Centre B.V.[2]	Holding company	The Netherlands	100
A40 Office B.V.[2]	Holding company	The Netherlands	100
Hotel Club Construction B.V.[2]	Holding company	The Netherlands	100
PPHE Netherlands B.V.[2]	Holding company	The Netherlands	100
Park Plaza Hotels (UK) Limited[1]	Holding company	United Kingdom	100
PPHE Germany B.V.[2]	Holding company	The Netherlands	100
PPHE Arena Holding B.V.[2]	Holding company	The Netherlands	100
Westminster Investments B.V.[2]	Holding company	The Netherlands	100
PPHE Art Holding B.V.[2]	Holding company	The Netherlands	100
Hercules House Holding B.V.[2]	Holding company	The Netherlands	100
PPHE NL Region B.V.[2]	Holding company	The Netherlands	100
Tozi Restaurant Operator Limited[2]	Operation	United Kingdom	100
PPHE Management (Croatia) B.V.[2]	Holding company	The Netherlands	100
Nottingham Hotel Operator Ltd.[2]	Operation	United Kingdom	100
Oaks Restaurant Operator Ltd.[2]	Operation	United Kingdom	100
Hercules House Operator Ltd.[2]	Operation	United Kingdom	100
PPHE Zagreb d.o.o.[2]	Holding company	Croatia	100
PPHE Germany Holdings GmbH[2]	Holding Company	Germany	100

JOINTLY CONTROLLED ENTITIES AND ASSOCIATES

Name of company	Principal activity	Country of incorporation	Proportion of ownership interest %
WH/DMREF Bora B.V.[2, 3]	Holding company	The Netherlands	20
W2005/Twenty Eight B.V.[2, 3]	Holding company	The Netherlands	20
Bora Finco B.V.[2, 3]	Holding company	The Netherlands	20
art'otel berlin mitte/Park Plaza Betriebsgesellschaft mbH[2]	Hotel operation	Germany	50
Park Plaza Betriebsgesellschaft mbH	Hotel operation	Germany	50
ABK Hotel Holding B.V.[2]	Holding company	The Netherlands	50
ABM Hotel Holding B.V.[2]	Holding company	The Netherlands	50
Aspirations Limited[2]	Holding company	British Virgin Islands	50

1 Direct holdings.
2 Indirect holdings.
3 Investment in an associate.

GLOSSARY

A

Arenaturist: One of Croatia's best known hospitality groups which consists of seven hotels, six holiday apartment complexes, eight campsites and over 50 food and beverage outlets, all of which are located in Istria. PPHE Hotel Group has a minority ownership interest in, and a Management Agreement for, 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), Elisha Flax (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℠: A global, privately held, hospitality and travel company with its head office based in Minneapolis, Minnesota, USA. www.carlson.com

Carlson Hotels: The hotel business unit within Carlson℠. Hotel brands owned by Carlson℠ are Quorvus Collection, Radisson Blu®, Radisson®, Radisson Red®, Park Plaza®, Park Inn® by Radisson and Country Inns & Suites By Carlson℠. Carlson's other business unit is Carlson Wagonlit Travel.

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 1,370 hotels, located across 110 countries, operating under global hotel brands. Carlson℠ is the majority shareholder of the Rezidor Hotel Group.

Chino Latino®: A modern Pan Asian cuisine and Latin cocktail bar concept, owned by PPHE Hotel Group, which is available at Park Plaza® Hotels & Resorts and art'otels® in Cologne, Leeds, London and Nottingham. www.chinolatino.eu

Club Carlson℠: The hotel rewards programme of Park Plaza® Hotels & Resorts and art'otel®. The programme is owned by Carlson℠. Gold Points® is the name of the currency earned through the Club Carlson℠ programme. www.clubcarlson.com

Club Carlson℠ For Planners: A global programme allowing meeting planners to earn Gold Points® for meetings and events held at Park Plaza® Hotels & Resorts and art'otels and other Carlson℠ hotel brands. www.clubcarlson.com/planners

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.

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

GSI: Guest Satisfaction Index.

H – 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.

GLOSSARY CONTINUED

M – N
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.

O
Occupancy rate: total occupied rooms divided by net available rooms or RevPAR divided by ARR.

OTA: Online Travel Agency. Same as third party intermediaries, third party website that sells hotel rooms. Within PPHE Hotel Group we also refer to TPIs.

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: 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: An international hotel group that owns, leases, develops, manages and franchises primarily full-service contemporary lifestyle hotels primarily in Europe. The majority of the Group's hotels operate under the Park Plaza® Hotels & Resorts brand (part of Carlson℠), 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

PPHE Hotel Group Limited: PPHE Hotel Group Limited is also referred to as the Company and is the Guernsey incorporated company listed on the Main Market of the London Stock Exchange plc.

Q – R
RevPAR: Revenue per available room. Total rooms revenue divided by net available rooms or ARR x occupancy %.

S
SPI: Service Performance Index.

T
TPIs: Third Party Intermediaries. Third party websites that sell hotel rooms e.g. Booking.com, Expedia, hotels.com. Also referred to as OTAs.

CURRENT AND COMMITTED PROJECTS

Project	Location	Operating structure	No. of rooms	Status
Park Plaza Nuremberg	Nuremberg, Germany	Owned and management contract	177	Expected to open 2016
Park Plaza Riverbank London extension and reconfiguration	London, United Kingdom	Owned and management contract	184	Expected to open 2016
Park Plaza London Park Royal	London, United Kingdom	Owned and management contract	212	Expected to open 2016
Park Plaza London Waterloo	London, United Kingdom	Owned and management contract	494	Expected to open 2016
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

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Boris Ivesha (President & Chief Executive Officer)
Chen Moravsky (Deputy Chief Executive Officer & Chief Financial Officer)
Elisha Flax (Non-Executive Director)
Kevin McAuliffe (Senior Independent Director)
Nigel Jones (Non-Executive Director)

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

Strategic partner:
carlson.com
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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