

**PPHE Hotel Group Limited**  
**(“PPHE Hotel Group” or the “Company”)**

**Audited Annual Results for the year ended 31 December 2014**  
**Annual Report & Accounts and Notice of Annual General Meeting**

PPHE Hotel Group Limited, which together with its subsidiaries (the “Group”), owns, leases, develops, operates and franchises full service upscale and lifestyle hotels in major gateway cities and regional centres, predominantly in Europe, is pleased to announce its audited results for the year ended 31 December 2014.

### **Financial summary**

- Reported total Group revenue increased by 10.5% to €270.4 million. On a like-for-like<sup>1</sup> and constant currency<sup>5</sup> basis, underlying Group revenue increased by 6.1% to €253.2 million, reflecting a strong underlying performance across all regions.
- Hotels in the United Kingdom, which account for approximately 65% of Group revenue, continued to perform strongly and also benefited from the strengthening of Sterling against the Euro.
- RevPAR increased by 12.0% to €113.6, driven by record occupancy and average room rate.
- Reported EBITDA increased by 14.6% to €94.8 million (including a one-off benefit of €1.0 million), delivering a reported EBITDA margin of 35.1%, an increase of 130bps. On a like-for-like basis<sup>1</sup>, EBITDA increased by 14.5% to €93.6 million and the EBITDA margin increased to 35.6%.
- Normalised profit before tax increased by 50.4% to €32.9 million, reflecting higher EBITDA and a €1.7 million currency exchange gain on foreign currency assets. Reported profit before tax was €41.6 million, including a profit of €8.0 million following settlement of a dispute in relation to rescinded sales of Income Units<sup>6</sup> at Park Plaza Westminster Bridge London to private investors.
- Normalised earnings per share was €0.79, representing a 46.8% increase. Reported basic/diluted earnings per share for the period increased by 49.6% to €1.00.
- Proposed final dividend of 10.0 pence per share. Total dividend for the year increases by 35.7% to 19.0 pence per share. The increased dividend reflects the Board's confidence in the strength of the business and in respect of future years, the Board expects to follow a progressive dividend policy going forward.

### **Operational highlights**

- *Successful divestment:* Entered into 50:50 joint venture for two hotels in Berlin, Germany, while continuing to manage these hotels under long-term management contracts.
- *Refinancing and development loan:* Completed €24.0 million refinancing for art'otel amsterdam which opened in 2013. Secured up to £80.0 million loan to develop new hotel near London Waterloo Station.
- *Appointed Deputy CEO:* Promoted Chen Moravsky to Deputy CEO to assist with the Company's next stage of growth.
- *New Opening:*, Opened fully refurbished Park Plaza Belvedere Medulin with 427 rooms, fourth Park Plaza in Croatia.
- *Development pipeline:* Construction commenced at three hotels in London and one in Nuremberg, equating to 1,023 rooms.
- *Excellent customer service:* Record guest satisfaction (8.36 on a scale of 1–10) and service levels (8.62 on a scale of 1–10) supported by all-time high employee satisfaction score (83.5%).

Commenting on the results, Boris Ivesha, President and Chief Executive Officer, PPHE Hotel Group said:

*"2014 has been a very exciting year for us as we continued to deliver strong growth, with significant progress against our strategy with record reported revenue, up 10.5%, increased operating profit and improved earnings per share."*

*All our operating regions reported growth with a continued strong performance in London and recovering markets, such as the Netherlands and Germany, showed further signs of improvement.*

*Over the next two years, we will be significantly investing in our portfolio with renovations planned across many of our hotels to ensure our hotels continue to improve on their strong market positions. We also have a strong development pipeline to support our longer term growth and anticipate that by 2019 we will have nearly 10,000 rooms in operation."*

## Key financial statistics

	Reported			Like-for-like		
	Year ended 31 Dec 2014	Year ended 31 Dec 2013	Change <sup>4</sup>	Year ended <sup>1</sup> 31 Dec 2014	Year ended <sup>2</sup> 31 Dec 2013	Change <sup>4</sup>
<b>Total Revenue</b>	€270.4 million	€244.8 million	+10.5%	€262.9 million	€238.6 million	+10.2%
<b>Room revenue</b>	€182.1 million	€169.2 million	+7.6%	€177.2 million	€164.3 million	+7.9%
<b>EBITDAR</b>	€105.2 million	€93.2 million	+12.9%	€104.0 million	€91.6 million	+13.5%
<b>EBITDA</b>	€94.8 million	€82.7 million	+14.6%	€93.6 million	€81.7 million	+14.5%
<b>Profit before tax</b>	€41.6 million	€27.3 million	+52.5%	-	-	-
<b>Normalised profit before tax<sup>3</sup></b>	€32.9 million	€21.9 million	+50.4%	-	-	-
<b>EBITDA margin</b>	35.1%	33.8%	+130 bps	35.6%	34.3%	+110bps
<b>Occupancy</b>	83.7%	80.7%	+300 bps	83.9%	80.8%	+310bps
<b>Average room rate</b>	€135.6	€125.5	+8.1%	€134.2	€128.7	+4.3%
<b>RevPAR</b>	€113.6	€101.4	+12.0%	€112.6	€103.9	+8.3%

<sup>1</sup> The like-for-like comparison figures exclude art'otel amsterdam for the first nine months of 2014.

<sup>2</sup> The like-for-like comparison figures for 2013 exclude art'otel berlin mitte and art'otel berlin kudamm.

<sup>3</sup> Normalised profit before tax includes adjustments for fair value losses from derivatives, one-off (re-)finance expenses and other income.

<sup>4</sup> Percentage change figures are calculated from actual figures as opposed to the rounded figures included in the above table. All financial information in this report for room revenue, total revenue EBITDAR and EBITDA reflects PPHE Hotel Group's interest.

<sup>5</sup> The Group's performance is positively affected by a 5.7% 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 5.7% year-on-year increase and the 2013 average Sterling to Euro exchange rate is applied to the 2014 reported statistics.

<sup>6</sup> See Accounting policies - Restatement: Change in accounting treatment (Note 5)

## Publication of Annual Report & Accounts and Notice of Annual General Meeting

PPHE Hotel Group Limited will publish later today its annual report and accounts for the year ended 31 December 2014 (the "**Annual Report**"), including the Notice of Annual General Meeting. These documents shall be available today on the Company's website [www.pphe.com](http://www.pphe.com).

The Company's Annual General Meeting will be held on Monday 20 April 2015 at 12 noon at 1<sup>st</sup> and 2<sup>nd</sup> Floors, Elizabeth House, Les Ruettes Brayes, St Peter Port, Guernsey GY1 1EW.

Copies of the Annual Report and Notice of the Annual General Meeting shall be submitted later today to the National Storage Mechanism and will shortly be available for inspection at: [www.hemscott.com/nsm.do](http://www.hemscott.com/nsm.do)

In accordance with Disclosure and Transparency Rule 6.3.5, the information in the attached Appendix consisting of a Directors' Responsibility Statement, principal risks and uncertainties and related party transactions has been extracted unedited from the Annual Report & Accounts for the year ended 31 December 2014. This material is not a substitute for reading the full Annual Report.

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**Notes to Editors**

PPHE Hotel Group Limited is a Guernsey registered company and through its subsidiaries, jointly controlled entities and associates, owns, leases, develops, operates and franchises full service upscale and lifestyle hotels in major gateway cities and regional centres, predominantly in Europe.

The majority of the Group's hotels operate under two distinct brands, Park Plaza® Hotels & Resorts and art'otel®. The Company has an exclusive licence from Carlson<sup>SM</sup>, a global privately held hospitality and travel company, to develop and operate Park Plaza® Hotels & Resorts in Europe, the Middle East and Africa. The art'otel® brand is fully owned by the Group. The Group has a minority ownership interest in the Arenaturist group, one of Croatia's leading hospitality companies.

Our portfolio of owned, leased, managed and franchised hotels comprises 38 hotels in operation offering a total of more than 8,300 rooms. Our development pipeline includes four new hotel projects, one hotel extension and reconfiguration and two rebranding projects. These developments are expected to add over 1,000 rooms to our portfolio by the end of 2016 and an additional 352 rooms by the end of 2019.

**Our Hotel Brands:**[www.parkplaza.com](http://www.parkplaza.com)[www.artotels.com](http://www.artotels.com)[www.arenaturist.com](http://www.arenaturist.com)**Our Company:**[www.pphe.com](http://www.pphe.com)

For images and logos visit [www.vfmii.com/parkplaza](http://www.vfmii.com/parkplaza)

**Forward-looking statements**

This interim management statement 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 interim management statement 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 interim management statement. 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.

## **CHAIRMAN'S STATEMENT**

2014 was a very special year for PPHE Hotel Group, and for me personally, as we celebrated a 25-year journey which started in 1989 when I acquired my first hotel in Eindhoven in the Netherlands. Today, PPHE Hotel Group has an attractive 38-strong multi-brand hotel portfolio, managed by a highly experienced team of professionals, with a strong pipeline of new hotels under development.

We are pleased to report another year of significant progress against our strategy with record reported revenue, increased operating profit and improved earnings per share. Our performance was ahead of the Board's and market expectations. On behalf of the Board, I would like to extend my sincere appreciation to our 2,500+ team members around Europe who have contributed to such great results.

All our operating regions reported growth, with the United Kingdom, and London in particular, reporting the most solid results. With three new hotel projects and one extension under way, we expect to further benefit from the attractive and resilient London market in years ahead.

Being able to consistently deliver exemplary service to our guests is the true differentiator in our industry and our teams have once again raised the bar by achieving the best service rating since we started measuring this in 2008. In recent years we have focused on improving our service delivery and culture and we are pleased to see that we are benefiting from these initiatives. Our performance hasn't gone unnoticed and during the year the Company and our individual hotels and restaurants won various awards and accolades from trusted independent organisations. Our flagship hotel in the Netherlands, art'otel amsterdam, opened in 2013 and has since won multiple awards and performed well above expectations.

The Board is proposing the payment of an increased final dividend of 10.0 pence per share, which when combined with the interim dividend of 9.0 pence per share paid on 16 October 2014, amounts to a total dividend for the year ended 31 December 2014 of 19.0 pence per share, an increase of 35.7%. The increased dividend reflects the Board's confidence in the strength of PPHE Hotel Group. In respect of future years, the Board expects to continue to follow its progressive dividend policy.

Looking ahead, we will focus 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, we also anticipate long-term benefit from increased scale and brand recognition.

In 2015, the Board will continue to focus on improving returns on shareholders' capital whilst growing the business and will remain alert to acquisition and disposal opportunities. I would like to thank members of the Board for their guidance during 2014 and I look forward to what is expected to be another exciting year filled with further growth prospects.

**Eli Papouchado**  
Chairman

## **CHIEF EXECUTIVE OFFICER'S STATEMENT**

2014 has been a very exciting year for us as we continued to deliver solid growth. We were thrilled to celebrate 25 years since the first hotel in Eindhoven was acquired in 1989. Since then, the Group has gone from strength to strength.

We currently operate over 8,300 rooms and anticipate that by 2019 we will have nearly 10,000 rooms in operation, with the vast majority located in key capital cities in Europe. At that time, we expect to offer over 3,500 rooms in London alone which will add to our already strong platform in markets such as Amsterdam and Berlin.

Our strategy is to create and realise shareholder value by growing the Company into one of the leading hotel companies in the upscale and lifestyle segments. Strong markets such as London continued to perform well and recovering markets, such as the Netherlands and Germany, showed further signs of improvement. Our total revenue for the year increased by 10.5%, predominantly as a result of improved trading and we also benefited from the first full-year contribution from art'otel amsterdam and the strengthening of Sterling against the Euro.

Our corporate strategy is built around six core strategic objectives and we have been able to deliver clear progress across all of these in 2014.

In recent years, our environmental and community initiatives have become and will continue to be an integral part of our day-to-day operations.

### **Improved EBITDA margin**

Our EBITDA margin in the year increased by 130 basis points (bps) to 35.1%, reflecting improved trading, whilst we also focused on managing our cost base. During 2014, we entered into several Group-wide and regional procurement agreements, generating savings across all regions. With the recent appointment of a Group Procurement Manager we expect to see further efficiency benefits in this area 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 our high EBITDA margin.

### **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.

We developed extensive training programmes around this philosophy and in recent years have seen the benefits of these. In 2014, we implemented our Foundation in Management training programme, which is aimed at management, across all our operating regions, nurturing talent and preparing participants for their next step in their career with us. To ensure we retain these team members, and support other talents in our business, we have introduced a Talent Management Programme in the year. These tools will not only benefit us in the short term through an improved service delivery, but will benefit our planned new hotel openings. With employee demographics and behaviour changing rapidly, we are focusing more and more on positioning our Group and our brands as an inspiring work place. During the year, we developed our employer branding proposition and focused on online direct recruitment through our newly launched careers website and social media networks such as LinkedIn.

Our activities in this field have not gone unnoticed. The contribution to our performance has been significant and our guests rate their stays with us very highly. In 2014, our Guest Satisfaction score was the highest since we introduced this measurement in 2008. Overall Guest Satisfaction was rated 8.36 by our guests (on a scale of 1-10). Of particular importance is that this high score was mainly the result of a strong score for service provided. Our Service Performance score was a record 8.62 (on a scale of 1-10). Naturally, we are proud of our teams delivering such a great result. Employee satisfaction during the year was 83.5%, another record for our Group.

We were awarded several accolades in 2014, including the 'Excellence in Learning and Talent Development Award' at the HR in Hospitality Awards and the 'Best Customer Service Programme Award' for our Inspirational Service Programme, awarded by the Training Journal Awards.

With our service performance at such a high level, we aim to maintain this in 2015, whilst further improving our guest experience through product enhancements.

### **Improving and expanding our portfolio**

In January 2014, we entered into a 50:50 joint venture for the freehold interests of the two art'otels in Berlin which we acquired in July 2013, which enables us to reinvest the capital that was released in other projects. Following this transaction, we continued to benefit from the long term management contracts in place for both hotels.

In June 2014, we opened Park Plaza Belvedere Medulin in Croatia. This striking new resort hotel is part of the Arenaturist group, and following extensive renovations it was rebranded as a Park Plaza. This hotel is now the largest Park Plaza hotel in Croatia, offering 427 rooms and extensive facilities. Between 2012 and 2014, we have transformed and rebranded approximately 50.0% of Arenaturist's hotel rooms.

During the year we continued to invest in our development pipeline and we made significant progress with the various projects. Construction is now well under way for two new hotels in London and one hotel in Nuremberg as well as the extension of Park Plaza Riverbank London.

We are owner/operators and we take a lot of 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, between 2015 and 2016. These renovations are part of the refinancing entered into in December 2013. During this process, we aim to minimise disruption to our guests and our business and we believe that this investment will bring long-term benefits to the Group and our brands.

To support this exciting phase of investment, hotel upgrades and growth, we promoted Chen Moravsky to Deputy Chief Executive Officer in August 2014 alongside his role as Chief Financial Officer.

### **Innovative revenue generation**

The emergence of new booking channels, mobile devices and digital tools for customers to use before, during and after their stay with us is exciting and filled with potential. The travel landscape will continue to change in years to come and it is therefore paramount that our commercial teams constantly monitor trends in the market and tailor their strategies accordingly. In 2014, we have seen benefits from our commercially integrated, cross-channel approach whereby we strive to offer our guests instant access to our products, using their device of choice, at the best available rate.

Our focus has been on driving business for our hotels based on demand patterns and search and booking behaviour. To facilitate this, we have focused on analysing the significant amount of data available to us and created appealing marketing campaigns. Our primary focus is 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 we benefit from all knowledge, expertise and tools available to us. Another area of focus for the year was the significant expansion of our online advertising activities with the world's major search engines. Our online advertising campaigns have now been rolled out across many international markets driving demand to our brand websites.

Other successful initiatives introduced during the year include new or improved collaborations with influential partners such as Expedia, TripAdvisor and Singapore Airlines.

### **Leveraged our partnership with Carlson**

Our strategic partnership with Carlson has brought us many benefits in the years that we have been working together. Our industry is evolving rapidly and through our partnership with Carlson, we can continue to ensure our products have a truly global reach through the distribution, marketing and sales platforms they provide. Fostering loyalty, and offering point-based loyalty programmes, continues to play a significant role in our industry. Scale is important to ensure guests have significant opportunities to earn or redeem their points. Our strategic partnership with Carlson brings those benefits as we collectively offer over 1,350 hotels in operation across seven different brands, offering the customer choice. Club Carlson is the global loyalty scheme and our hotels have once again benefited from its membership base of 13.5 million plus. Our teams constantly focus on driving activity from and engagement with these members. A significant proportion of our occupancy is related to this reward programme and its members have booked more point-based room nights at our hotels in 2014 than ever before.

Just before Christmas, we were pleased to be able to join the Carlson Rezidor Hotel Group gift card programme. Guests can buy and redeem their gift cards at nearly 400 hotels in Europe, the Middle East and Africa. Gift cards are sold at all participating hotels, through the various brand websites and through third

parties including some of Europe's leading airlines. This programme is an exciting new opportunity for our hotels to market their product to new customers and generate incremental revenue as a result.

### **Managed our impact on the environment**

Operating responsibly is part of our day-to-day operations and in 2014 we progressed with several new initiatives in this field, such as the installation of real-time electricity meters, new recycling machines and the introduction of a paperless system at our central reservation office in London. We succeeded in further reducing our CO<sub>2</sub> footprint, with all regions successfully reducing their energy consumption. Following a successful trial period, we have implemented a Group-wide new initiative in which we provide guests with a choice of housekeeping services when they stay more than one night at any of our hotels. If guests decide to forego certain services, we reward them with bonus points for the Club Carlson scheme, a discount in our bars or restaurants or a donation to a charitable cause. This initiative will help preserve resources and minimise the adverse environmental impact our business may have. It demonstrates that by working together we can achieve great things.

Throughout the year, our teams and hotels participated in several community events and fundraising initiatives. We are also proud to announce that our flagship Park Plaza Westminster Bridge London was awarded the 'Accessibility Award' by the Caterer and Hotelkeeper Awards (the Cateys) for its initiatives and services offered to guests with disabilities.

### **Current trading and outlook**

Over the next two years, we will be significantly investing in our portfolio with renovations planned across many of our hotels. This work is undertaken to ensure our hotels continue to improve on their strong market positions. During this investment period we aim to minimise the impact on our operations through careful planning and a phased approach where possible. However, 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 long-term results and position in the markets in which we operate.

The Company continues its discussions regarding the release of part of the value of its hotel assets, whilst retaining operational control. This process is underway and will take a number of months.

The first quarter of the year is traditionally our weakest. Nevertheless, in comparison with 2014, and notwithstanding ongoing renovations and extension works, our RevPAR performance in January and February of 2015 improved year-on-year, which was aided by the mild winter across our operating regions. Overall results are in line with the Board's expectations in all markets.

### **Boris Ivesha**

President & Chief Executive Officer

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

	Reconciliation of reported to like-for-like <sup>1</sup> and constant currency <sup>2</sup> (in € millions)				
	2014 Reported	Like-for-like <sup>1</sup> adjustments	Constant currency <sup>2</sup> adjustments	2014 Adjusted	2013 <sup>3</sup> Like-for-like
Total revenue	270.4	(7.5)	(9.7)	253.2	238.6
Room revenue	182.1	(4.9)	(6.7)	170.5	164.3
EBITDAR	105.2	(1.2)	(3.6)	100.4	91.6
EBITDA	94.8	(1.2)	(3.5)	90.1	81.7
EBITDA margin	35.1%	0.5%	0.0%	35.6%	34.3%

<sup>1</sup> The like-for-like comparison figures exclude art'otel amsterdam for the first nine months of 2014.

<sup>2</sup> The Group's performance is positively affected by a 5.7% 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 5.7% year-on-year increase and the 2013 average Sterling to Euro exchange rate is applied to the 2014 reported statistics.

<sup>3</sup> The like-for-like comparison figures for 2013 exclude art'otel berlin mitte and art'otel berlin kudamm.

### Performance

Our overall underlying trading performance improved year on year. Following a good start to the year conditions continued to improve in the second half across most of our operations. We benefited from the strengthening of Sterling against the Euro with our UK hotels generating approximately 65% of the Group's revenues, and from additional income from the newly opened art'otel amsterdam. In addition, our reported performance was adversely impacted by the divestment of our 50% ownership in two hotels in Berlin. The 2014 results included the benefit of a one-off €1.0 million local authority tax adjustment following a settlement which positively affected EBITDA in the German region.

On a like-for-like<sup>1</sup> and constant currency<sup>2</sup> basis, underlying revenue increased by 6.1% to €253.2 million (2013 like-for-like<sup>3</sup>: €238.6 million) and EBITDA, including one-offs, showed a marked increase of 10.2% to €90.1 million (2013 like-for-like<sup>3</sup>: €81.7 million).

The Group made substantial progress in its hotel developments in the period, most notably the start of construction of our new hotel near London Waterloo Station and the start of work on the extension of Park Plaza Riverbank London.

Notwithstanding the significant investments made during the year, the Group's net debt position changed slightly, indicating a strong underlying cash flow of the Group's existing operations. €8.0 million of this came from the release of forfeited deposits in connection with rescinded sales of Income Units at Park Plaza Westminster Bridge London to private investors.

### RevPAR

We successfully improved our RevPAR through occupancy growth and increased average room rate. Both the Group's occupancy and average room rate reached a record level of 83.7% (2013: 80.7%) and €135.6 (2013: €125.5) respectively. This RevPAR improvement reflected a reported room revenue increase of 7.6% to €182.1 million (2013: €169.2 million) during the period. On a like-for-like basis<sup>1</sup>, room revenue increased by 7.9% to €177.2 million, of which an increase of 4.1% was due to the strengthening of Sterling against the Euro.

### Total revenue

Reported total revenue for the Group increased by 10.5% to €270.4 million (2013: €244.8 million). This increase was driven by the first full year of trading of art'otel amsterdam, an increase of RevPAR and improved Food and Beverage operations. On a like-for-like basis<sup>1</sup>, total revenue increased by 10.2% to €262.9 million (2013 like-for-like<sup>3</sup>: €238.6 million); adjusted for currency effects the like-for-like growth was 6.1%, reflecting a strong underlying performance across all regions.

### EBITDA

EBITDA increased by 14.6% to €94.8 million (2013: €82.7 million) and our reported EBITDA margin for the year increased by 130bps to 35.1% (2013: 33.8%). On a like-for-like basis<sup>1</sup>, our EBITDA increased by 14.5% to €93.6 million (2013 like-for-like<sup>3</sup>: €81.7 million) and our EBITDA margin increased to 35.6%. 4.3% of the like-for-like EBITDA growth was caused by currency exchange effects. The primary reason for the increased EBITDA margin is tight cost control. The increased EBITDA in 2014 includes a one-off benefit of €1.0 million, as a result of a local authority tax settlement in the German region.



## Normalised profit before tax

	Reconciliation reported to normalised profit	
	Year ended 31 Dec 2014 € million	Year ended 31 Dec 2013 Restated <sup>1</sup> € million
Reported profit before tax	41.6	27.3
Fair value movements on derivatives recognised in the profit and loss	(0.3)	(0.8)
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)	(2.5)	(0.8)
Sale of 50% interest in art'otel berlin mitte and art'otel berlin kudamm	(1.8)	–
Sale of Thai development project	–	(2.8)
Pre-opening expenses	–	0.9
Fair value adjustment on income swaps private investors Park Plaza Westminster Bridge London	3.6	(1.5)
Buy back of Income Units at Park Plaza Westminster Bridge London	0.3	–
Forfeited deposits from rescinded sales contracts of Income Units at Park Plaza Westminster Bridge London to private investors	(8.0)	(0.3)
Strategic advice expenses	–	(0.1)
<b>Normalised profit before tax*</b>	<b>32.9</b>	<b>21.9</b>

\* The normalised earnings per share amounts to €0.79, calculated with 41,544 thousand average outstanding shares.

<sup>1</sup> Certain amounts here do not correspond to the 2013 Consolidated financial statements; see Note 2(c) to the Consolidated financial statements.

Normalised profit before tax increased by 50.4% to €32.9 million (2013: €21.9 million). The increase in profit is mainly caused by a higher EBITDA and a €1.7 million currency exchange gain on foreign currency assets. Adjustments made to normalise reported results relate to items that the Group considers unrelated to its day-to-day business activities. Reported profit before tax was €41.6 million (2013: €27.3 million) and includes a profit of €8.0 million following the settlement of a dispute in relation to forfeited deposits from rescinded sales contracts of Income Units at Park Plaza Westminster Bridge London to private investors.

## Earnings and reported net asset value per share

Reported basic/diluted earnings per share for the period increased by 49.6% to €1.00 (2013: €0.67). Normalised earnings per share was €0.79 (2013: €0.54), representing a 46.8% increase. Reported net asset value per share (total equity / number of outstanding shares) amounts to €7.80 (2013: €7.18).

## Dividend

For 2014, the Board is proposing the payment of an increased final dividend of 10.0 pence per share (2013: 8.0 pence per share), which when combined with the interim dividend of 9.0 pence per share (2013: 6.0 pence per share), amounts to a total dividend for the year ended 31 December 2014 of 19.0 pence per share (2013: 14.0 pence per share), an increase of 35.7%. Provided that business continues at the same level, we anticipate to follow a progressive dividend policy going forward. Subject to shareholder approval at the Annual General Meeting, to be held on 20 April 2015, the dividend will be paid on 21 April 2015 to shareholders on the register at 20 March 2015. The shares will go ex-dividend on 19 March 2015.

## Financial position

Net bank debt as at 31 December 2014 was €483.1 million, an increase of € 0.1 million (as at 31 December 2013: €483.0 million). This includes €71.6 million of liquid assets (as at 31 December 2013: €43.0 million), of which cash and cash equivalents were €70.2 million (as at 31 December 2013: €41.5 million) and other liquid financial assets of €1.5 million (as at 31 December 2013: €1.5 million). During the period, the movement in net bank debt included, among others, an increase due to the drawdown of €3.0 million out of a €30.0 million term facility; a €20.0 million increase to finance construction of our project near London Waterloo Station; a €3.6 million increase to finance construction of the Park Plaza Nuremberg development; and a €24.1 million increase which relates to foreign exchange. In addition, a decrease of €12.1 million relates to the divestment of 50% interest in two properties in Berlin and a decrease of €12.4 million due to the redemption of loans. The Group's gearing ratio (net bank debt as a percentage of total capital (equity adjusted for the hedging reserve plus net bank debt) improved by 2.7% to 58.1% (as at 31 December 2013: 60.8%). The vast majority of the Group's bank borrowings are asset backed. The ratio of bank borrowings to the fair value of the Group's properties on an aggregate basis on the latest market valuations (LTV) is approximately 56%.

### **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 page the next page provides some selected data for these assets for the year ended 31 December 2014, 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, see Note 29 on page 109 of the 2014 Annual Report for further details.

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			Management and central costs	Reported
	In operation	Under development	Operating leases	In operation	Under development			
<b>Balance sheet</b>								
Adjusted book value properties <sup>1,2</sup>	707.7	73.3	1.0	–	–	0.7		782.7
Book value intangible assets	–	–	–	–	–	32.6		32.6
Book value non-consolidated investments	–	–	–	25.3	17.3	–		42.6
Bank loans, (short restricted) cash and liquid assets (adjusted net debt)	(451.4)	(56.4)	3.1	–	–	25.8		(478.9)
Deferred contribution of sales of Income Units at Park Plaza Westminster Bridge London <sup>6</sup>	(17.8)	–	–	–	–	–		(17.8)
Other assets and liabilities	(47.3)	(2.3)	(1.6)	3.6	–	10.3 <sup>5</sup>		(37.3)
Capital employed	191.2	14.6	2.5	28.9	17.3	69.4		323.9
<b>Normalised profit</b>								
Revenues	231.7	–	28.5	4.6	–	5.6		270.4
Adjusted EBITDA <sup>4</sup>	94.7	–	2.1	3.4	–	(5.4) <sup>3</sup>		94.8
Depreciation and amortisation	(20.9)	–	(0.4)	–	–	(3.1)		(24.4)
EBIT	73.8	–	1.7	3.4	–	(8.5)		70.4
Interest expenses banks and finance leases	(30.6)	(1.2)	–	–	–	–		(31.8)
Net expenses for financial liability in respect of Income Units sold to private investors	(8.8)	–	–	–	–	–		(8.8)
Other finance expenses and income	–	–	–	3.1	0.3	2.6		6.0
Result from joint ventures and associates	–	–	–	(2.7)	(0.2)	–		(2.9)
Normalised profit before tax 31 December 2014	34.4	(1.2)	1.7	3.8	0.1	(5.9)		32.9
Normalised profit before tax 31 December 2013	27.4	(1.3)	0.4	2.6	0.2	(7.4)		21.9

<sup>1</sup> Assets are reported at cost, less depreciation.

<sup>2</sup> Finance lease liabilities and deferred taxes relating to properties have been netted with the property book value.

<sup>3</sup> Excluding management fees from fully owned and leased hotels.

<sup>4</sup> Management and other fees generated on wholly owned and leased hotels are added back on the results of those hotels.

<sup>5</sup> Including unallocated assets and liabilities.

<sup>6</sup> Profit from the sale of Income Units at Park Plaza Westminster Bridge London.

## Developments

### Joint venture for two freehold hotels in Berlin, Germany

On 13 January 2014, the Group announced that it had sold 50% of the shares in the companies which own the freeholds and operating businesses of art'otel berlin mitte and art'otel berlin kudamm. As part of this transaction 50% of the shareholder loans made by the Group were also assigned to the joint venture partner. The total aggregate consideration was €3.2 million. The Company and its joint venture partner also agreed to contribute €1.0 million each for the renovation of these hotels. The Group continues to manage the hotels under long-term hotel management agreements.

### Completed €24.0 million refinancing of art'otel amsterdam, the Netherlands

On 29 January 2014, the Company announced that it had completed the €24.0 million refinancing of art'otel amsterdam with Aareal Bank AG. Further details are set out in Note 17 to the Consolidated financial statements in the 2014 Annual Report.

**Extended existing facility for extension of London hotel**

On 16 June 2014, the Company completed an extension of an existing facility of £13.5 million (€16.5 million), with Aareal Bank AG, for the construction of the hotel extension at Park Plaza Riverbank London.

**Construction financing for development of new London hotel**

On 19 June 2014, the Group announced that it had secured funding of up to £80.0 million (€98.1 million) from Banque Hapoalim (Luxembourg) S.A. to fund the redevelopment of a former office building near London Waterloo Station. The initial maturity date of the facility is in June 2017. However, subject to certain conditions, the Group has the right to extend the facility so that it matures in April 2018. Further details are set out in Note 17 to the Consolidated financial statements in the 2014 Annual Report.

**Looking ahead**

2015 will be an exciting year for us, with multiple product improvements under way or at detailed planning stages and several new hotels under construction. As previously announced, the planned renovations across several of our hotels may have a temporary negative impact on the performance of these hotels due to closures of rooms and public areas. However, we believe that our investment in these renovation projects will have a positive impact on our long-term performance.

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

	Euro (€)		GBP (£)	
	Year ended 31 Dec 2014	Year ended 31 Dec 2013	Year ended 31 Dec 2014	Year ended 31 Dec 2013
Total revenue	<b>€178.0 million</b>	€161.6 million	<b>£142.8 million</b>	£137.2 million
EBITDAR	<b>€66.0 million</b>	€58.0 million	<b>£53.0 million</b>	£49.2 million
EBITDA	<b>€64.3 million</b>	€56.7 million	<b>£51.6 million</b>	£48.2 million
Occupancy	<b>87.5%</b>	86.8%	<b>87.5%</b>	86.8%
Average Room Rate	<b>€171.6</b>	€159.4	<b>£137.7</b>	£135.3
RevPAR	<b>€150.2</b>	€138.3	<b>£120.5</b>	£117.4
Room Revenue	<b>€123.1 million</b>	€114.1 million	<b>£98.7 million</b>	£96.9 million

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

### United Kingdom hotel portfolio performance

Once again our hotels in the United Kingdom delivered a solid performance in 2014. The London market has continued to go from strength-to-strength, despite economic and political uncertainty in many feeder markets and the weakness of the Euro against Sterling.

The recovery in the provincial cities in the United Kingdom was encouraging. With the recent increased inward investment in Leeds, such as sporting and shopping facilities including the First Direct Arena and Trinity Leeds Shopping Centre, we expect Leeds' appeal for leisure visitors to continue to improve.

Total revenue for our hotels in the United Kingdom on a local currency basis increased by 4.1% to £142.8 million (2013: £137.2 million). In Euro, total reported revenue increased by 10.1% to €178.0 million (2013: €161.6 million).

Year-on-year growth was achieved despite the negative impact of a reduced number of rooms at Park Plaza Riverbank London due to the hotel extension being built. We expect this trend to continue in 2015.

In local currency, our EBITDAR increased by 7.7% to £53.0 million (2013: £49.2 million). In Euro, EBITDAR increased by 14.0% to €66.0 million (2013: €58.0 million). EBITDA for the period in local currency increased by 7.2% to £51.6 million (2013: £48.2 million) and in Euro EBITDA increased by 13.4% to €64.3 million (2013: €56.7 million).

Occupancy increased by 70bps to 87.5% (2013: 86.8%). In local currency, average room rate increased by 1.7% to £137.7 (2013: £135.3) and in Euro we report a 7.7% increase to €171.6 (2013: €159.4). As a result, our RevPAR for the region in local currency increased by 2.6% to £120.5 (2013: £117.4) and in Euro RevPAR was up by 8.6% to €150.2 (2013: €138.3).

Room revenue in local currency increased by 1.9% to £98.7 million (2013: £96.9 million) and in Euro by 7.8% to €123.1 million (2013: €114.1 million).

Two of our four London hotels and one of our two provincial hotels outperformed their competitive set in RevPAR during the year. Park Plaza Westminster Bridge London, our UK flagship hotel for the Park Plaza® brand, once again delivered a strong result with the hotel outperforming its competitive set in occupancy, average room rate and RevPAR. Due to construction work at Park Plaza Riverbank London, its performance was impacted with average room rate under pressure. Once these works and the renovation of our other London hotels are completed, we expect to further improve the competitive performance of our hotels.

Source: STR Global, December 2014.

### **Renovation projects and development pipeline**

In April 2014, demolition started on the interiors of Hercules House, the former office building near London Waterloo Station. Planning and funding for the redevelopment to a hotel was obtained during the year and once complete, in 2016, this hotel will add 494 rooms to our already strong hotel portfolio on London's Southbank.

In the third quarter of 2014, we began the development of the extension of Park Plaza Riverbank London. Through the addition of five floors and the reconfiguration of the hotel, this property will increase by 184 rooms to 645. This project is expected to be completed during winter 2015/2016. Once completed, the increased room count at this hotel will enable it to host more delegates for residential conferences, improving its appeal for this market segment. The Group is also expected to benefit in the long term from the strength and resilience of London's real estate value.

In the last quarter of 2014, we progressed with our project near Park Royal in West London. Demolition of the former structure has been completed and construction work to develop a 168-room hotel on this site is under way. This hotel development is expected to be completed in 2016.

Additional work undertaken during the year includes the development and launch of an all-day café, 106 Baker Street, adjacent to Park Plaza Sherlock Holmes London and the progression of extensive renovation plans for this hotel. This renovation programme for this hotel is expected to commence in the third quarter of 2015.

We worked closely with our JV partner during the year to further develop and fine-tune our plans for the development of the art'otel london hoxton. Construction is expected to start in 2015, with completion of this mixed-use scheme expected for 2019.

Looking ahead, we will continue to progress with our various construction projects. Extensive renovation projects are also planned for several of our existing hotels. These renovations are expected to commence in 2015.

### **The United Kingdom hotel market**

Hotel performance in greater London improved modestly with RevPAR increasing by 3.3% to £117.0. This growth was driven by a 2.7% increase in average room rate to £140.9 and occupancy increasing by 0.6 percentage points to 83.0%.

Double digit RevPAR growth was achieved by the hotel markets in Leeds and Nottingham. In Leeds, RevPAR increased by 13.7% to £49.1. This growth was primarily the result of a 10.6% increase in average room rate to £64.4, with occupancy increasing by 2.1 percentage points to 76.3%. The Nottingham hotel market reported an 11.5% increase in RevPAR to £41.2. Average room rate increased by 5.6% to £56.1 and occupancy by 3.9 percentage points to 73.5%.

Source: STR Global, December 2014.

## THE NETHERLANDS

Euro (€)	Reported		Like-for-like*	
	Year ended 31 Dec 2014	Year ended 31 Dec 2013	Year ended 31 Dec 2014	Year ended 31 Dec 2013
Total revenue	<b>€53.7 million</b>	€42.4 million	<b>€46.2 million</b>	€42.4 million
EBITDAR	<b>€15.7 million</b>	€11.5 million	<b>€14.5 million</b>	€11.5 million
EBITDA	<b>€15.6 million</b>	€11.4 million	<b>€14.4 million</b>	€11.4 million
Occupancy	<b>78.4%</b>	74.1%	<b>78.8%</b>	74.1%
Average room rate	<b>€118.3</b>	€107.4	<b>€110.7</b>	€107.4
RevPAR	<b>€92.8</b>	€79.6	<b>€87.1</b>	€79.6
Room revenue	<b>€37.8 million</b>	€30.2 million	<b>€33.0 million</b>	€30.2 million

\* The like-for-like comparison figures exclude art'otel amsterdam for the first nine months of 2014.

### Our Dutch hotel portfolio performance

Our hotel portfolio in the Netherlands reported a 26.7% increase in total revenue to €53.7 million (2013: €42.4 million). This growth was the result of improved trading and first full-year contributions from art'otel amsterdam, which opened in October 2013. On a like-for-like basis, total revenue increased by 9.0% to €46.2 million (2013: €42.4 million).

Reported EBITDAR for the region increased by 35.9% to €15.7 million (2013: €11.5 million) and on a like-for-like basis, growth was 25.5% to €14.5 million (2013: €11.5 million). EBITDA increased by 36.2% to €15.6 million (2013: €11.4 million). Like-for-like EBITDA increased by 25.7% to €14.4 million (2013: €11.4 million).

Occupancy increased by 430bps to 78.4% (2013: 74.1%). Average room rate during the period increased by 10.2% to €118.3 (2013: €107.4) predominantly as a result of a strong performance of art'otel amsterdam. Like-for-like average room rate increased by 3.1% to €110.7 (2013: €107.4). Overall RevPAR improved by 16.6% to €92.8 (2013: €79.6), with like-for-like RevPAR increasing by 9.4% to €87.1 (2013: €79.6).

Room revenue for the region increased by 25.5% to €37.8 million (2013: €30.2 million), with like-for-like room revenue increasing by 9.4% to €33.0 million (2013: €30.2 million).

The positive trends experienced in 2013 continued in 2014, although not all segments of the market are fully recovered and in recent years hotel supply has substantially increased, particularly in Amsterdam. As a result, competitive performances varied by hotel, with Park Plaza Vondelpark, Amsterdam, Park Plaza Utrecht and Park Plaza Eindhoven once again outperforming their respective competitive sets in RevPAR terms. Park Plaza Victoria Amsterdam delivered a solid RevPAR performance against its competitive set and Park Plaza Amsterdam Airport continued to improve its RevPAR performance year on year, while its competitive set lost ground. We are particularly encouraged by the strong start art'otel amsterdam has had in its first full year of operation.

Source: STR Global, December 2014.

### Renovation projects and development pipeline

During the period we continued to review and plan for the extensive renovation of three of our hotels in this region, with works taking place during the course of 2015 and 2016 which will significantly upgrade Park Plaza Victoria Amsterdam, Park Plaza Vondelpark Amsterdam and Park Plaza Utrecht.

### The Dutch hotel market

The hotel market in Amsterdam continued to show an improvement year-on-year, with RevPAR increasing by 6.0% to €91.3. Average room rate increased by 3.6% to €117.2 and occupancy increased by 1.8 percentage points to 77.9%.

In Utrecht, the performance of the general hotel market improved with RevPAR increasing by 3.6% to €57.7. This was the result of a 3.6% increase in average room rate to €87.0, with occupancy flat at 66.3%. The market in Eindhoven was under pressure with RevPAR decreasing by 1.8% to €36.3. Average room rate declined by 0.1% to €69.4 and occupancy dropped by 0.9 percentage points to 52.2%.

Source: STR Global, December 2014.

## GERMANY AND HUNGARY

Euro (€)	Reported		Like-for-like <sup>1</sup>	
	Year ended 31 Dec 2014	Year ended 31 Dec 2013	Year ended 31 Dec 2014	Year ended 31 Dec 2013
Total revenue	<b>€28.5 million</b>	€32.8 million	<b>€28.5 million</b>	€26.6 million
EBITDAR	<b>€8.5 million</b>	€8.5 million	<b>€8.5 million</b>	€7.0 million
EBITDA	<b>€0.4 million</b>	€(0) million	<b>€0.4 million</b>	€(1.0) million
Occupancy	<b>81.1%</b>	75.4%	<b>81.1%</b>	74.2%
Average room rate	<b>€69.4</b>	€71.0	<b>€69.4</b>	€71.6
RevPAR	<b>€56.3</b>	€53.5	<b>€56.3</b>	€53.2
Room revenue	<b>€21.2 million</b>	€ 24.9 million	<b>€21.2 million</b>	€20.0 million

<sup>1</sup> The like-for-like comparison figures for 2013 exclude art'otel berlin mitte and art'otel berlin kudamm.

### German and Hungarian hotel portfolio performance

The performance was adversely impacted by a change in accounting policy affecting this region, due to our acquisition in 2013 of the freehold interests in two hotels in Berlin and the subsequent 50:50 joint venture agreement entered into for these two hotels in January 2014. As a result, the 2014 revenue and operating statistics from these hotels is no longer accounted for in the Germany and Hungary segment, but is recognised in Management and Holdings.

Against this backdrop, total revenue for the region decreased by 13.3% to €28.5 million (2013: €32.8 million). However, on a like-for like basis, total revenue for the region increased by 6.8% from €26.6 million to €28.5 million showing a strong underlying performance.

Reported EBITDAR was flat at €8.5 million (2013: €8.5 million). However, with two hotels now partly owned instead of leased, our like-for-like EBITDAR improved strongly by 21.6% to €8.5 million (2013: €7.0 million). Our reported EBITDA transformed from a negative in 2013 to €0.4 million positive in 2014. On a like-for-like basis, EBITDA improved from a (€1.0 million) loss in 2013 to €0.4 million profit in 2014. This growth was primarily due to a one-off benefit of €1.0 million, as a result of a local authority tax settlement, as well as improved trading across several hotels.

Occupancy increased by 570bps to 81.1% (2013: 75.4%) and on a like-for-like basis, occupancy increased by 690bps to 81.1% (2013: 74.2%). Average room rate was under pressure and decreased by 2.2% to €69.4 (2013: €71.0) and decreased by 3.1% on a like-for-like basis from €71.6 to €69.4. As a result, RevPAR increased by 5.1% to €56.3 (2013: €53.5) and on a like-for-like basis RevPAR increased by 5.9% to €56.3 (2013: €53.2).

Reported room revenue for the period decreased by 14.9% to €21.2 million (2013: €24.9 million), with like-for-like room revenue increasing by 5.9% to €21.2 million from €20.0 million in 2013.

Once again, our best performing hotel against its competitive set in this region was art'otel budapest which outperformed its competitive set in occupancy, average room rate and RevPAR. The performance of the three hotels in Berlin included in this reporting segment was mixed. Park Plaza Wallstreet Berlin Mitte and Park Plaza Prenzlauerberg Berlin outperformed their competitive set in RevPAR terms whilst art'otel berlin city center west showed positive growth year-on-year, but was still trailing its competitive set in RevPAR terms. The last trend also applied to art'otel cologne and art'otel dresden.

Source: STR Global, December 2014.

### Renovation projects and development pipeline

Construction of the new Park Plaza Nuremberg project started in 2014 and this exciting new addition to our portfolio is expected to open in the fourth quarter of 2015. During the year we continued to progress with the renovation plans for art'otel berlin mitte and art'otel berlin kudamm, which are expected to commence in 2015. Renovations at art'otel cologne are currently under way and additional renovations at art'otel budapest are also scheduled for 2015.



**The German and Hungarian hotel market**

The hotels in greater Berlin reported a year-on-year increase of 4.5% in RevPAR to €66.4. This growth was the result of a 2.4 percentage point increase in occupancy to 74.3% and a 2.0% increase in average room rate to €89.3.

The hotel performance in Cologne was slightly below last year, with RevPAR decreasing by 0.8% to €63.2. This decrease was a result of the 3% reduction in average room rate to €91.5. Occupancy increased by 1.6 percentage points to 69.1%. In Dresden, the hotel performance improved with RevPAR increasing by 1.3% to €43.6. Occupancy increased by 2.0 percentage points to 66.2% and average room rates decreased by 1.7% to €65.9. In Hungary, the performance of the hotel market in Budapest continued to improve with RevPAR increasing by 11.5% to HUF10,133.5. This growth was a result of a 6.4% increase in average room rate to HUF15,277.1 and a 3.0 percentage point increase in occupancy to 66.3%.

Source: STR Global, December 2014.

## MANAGEMENT AND HOLDINGS OPERATIONS

Euro (€)	Year ended 31 Dec 2014	Year ended 31 Dec 2013
Total revenue before elimination	<b>€39.3 million</b>	€32.3 million
Revenue within the consolidated Group	<b>€29.0 million</b>	€24.5 million
External and reported revenue	<b>€10.2 million</b>	€7.9 million
EBITDA	<b>€14.5 million</b>	€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 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 21.5% to €39.3 million (2013: €32.3 million) due mainly to improved trading, strengthening of Sterling against the Euro and the introduction of a new management fee structure across a large number of the Group's hotels.

After elimination (consolidated presentation) of intra-Group revenue, reported revenues increased by 30.0% to €10.2 million (2013: €7.9 million). This increase was primarily the result of the improved performance of certain of the Group's hotels. This increase is also due to revenues from two joint venture hotels in Berlin which were previously fully owned by the Group and therefore consolidated in the German region. The management related revenue in respect of these two hotels is not eliminated and now forms part of external revenues.

Although revenues increased significantly, reported EBITDA stayed flat at €14.5 million (2013: €14.5 million), mainly due to our new management fee structure.

## CROATIA

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 holding company of the Arenaturist group, and we were awarded the management agreement for Arenaturist. Arenaturist d.d. is listed on the Zagreb Stock Exchange. The Arenaturist group is accounted for as an associate in the Consolidated financial statements.

The results from our investment in Bora (consisting of shares and loans) decreased marginally by € 0.1 million. This includes a loss of the investment in shares of €2.9 million (2013: loss of €2.6 million) and an interest income on loans of €3.0 million (2013: €2.7 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 €3.0 million of management and marketing fee revenues in the year (2013: €2.5 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. The former Hotel Belvedere was rebranded following extensive renovation works and, with 427 rooms, it is our largest hotel in this market. Extensive renovation works started late 2014 at Hotel Park. Once completed, this hotel will reopen in summer 2015 as Park Plaza Arena Pula and will offer 175 rooms.

Notwithstanding challenging economic conditions and limited availability of credit, between 2012 and 2014 we have transformed and rebranded approximately half of Arenaturist's hotel rooms.

For more information about Arenaturist, please visit [arenaturist.com](http://arenaturist.com), and for the Park Plaza branded hotels and resorts visit [parkplaza.com/croatia](http://parkplaza.com/croatia).

# **CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	As at 31 December	
	2014 €'000	2013 Restated* €'000
<b>Assets</b>		
<b>Non-current assets:</b>		
Intangible assets	32,588	35,386
Property, plant and equipment	988,667	943,325
Prepaid leasehold payments	417	435
Investment in associate	21,286	21,387
Investment in joint ventures	21,328	15,583
Other non-current financial assets	18,717	19,888
Restricted deposits and cash	—	9,482
	<b>1,083,003</b>	<b>1,045,486</b>
<b>Current assets:</b>		
Restricted deposits and cash	4,107	3,871
Inventories	1,132	1,290
Other current financial assets	1,464	1,538
Trade receivables	15,096	15,762
Other receivables and prepayments	7,693	5,875
Cash and cash equivalents	70,173	41,498
	<b>99,665</b>	<b>69,834</b>
<b>Total assets</b>	<b>1,182,668</b>	<b>1,115,320</b>
<b>Equity and liabilities</b>		
<b>Equity:</b>		
Issued capital	—	—
Share premium	239,814	239,504
Other reserves	(36,124)	(36,174)
Treasury shares	(3,701)	(3,701)
Foreign currency translation reserve	(30,305)	(34,543)
Hedging reserve	(24,104)	(12,642)
Accumulated earnings	178,288	145,672
<b>Total equity</b>	<b>323,868</b>	<b>298,116</b>
<b>Non-current liabilities:</b>		
Bank borrowings	538,809	500,733
Financial liability in respect of Income Units sold to private investors	180,142	173,003
Deposits received in respect of Income Units sold to private investors	147	8,864
Other financial liabilities	67,665	51,744
Deferred income taxes	12,898	12,492
	<b>799,661</b>	<b>746,836</b>
<b>Current liabilities:</b>		
Trade payables	12,744	12,188
Other payables and accruals	30,432	32,745
Bank borrowings	15,963	25,435
	<b>59,139</b>	<b>70,368</b>
<b>Total liabilities</b>	<b>858,800</b>	<b>817,204</b>
<b>Total equity and liabilities</b>	<b>1,182,668</b>	<b>1,115,320</b>

\* Certain amounts here do not correspond to the 2013 Consolidated financial statements and reflect adjustments made, refer to Note 2(c) of the Consolidated financial statements 2014.

Date of approval of the financial statements 27 February 2015  
 Boris Ivesha, President & Chief Executive Officer  
 Chen Moravsky, Deputy Chief Executive Officer & Chief Financial Officer

## CONSOLIDATED INCOME STATEMENT

	Year ended 31 December	
	2014 €'000	2013 Restated* €'000
Revenues	270,442	244,761
Operating expenses	(165,259)	(151,576)
<b>EBITDAR</b>	<b>105,183</b>	<b>93,185</b>
Rental expenses	(10,385)	(10,483)
<b>EBITDA</b>	<b>94,798</b>	<b>82,702</b>
Depreciation, amortisation and impairment loss	(24,405)	(23,862)
<b>EBIT</b>	<b>70,393</b>	<b>58,840</b>
Financial expenses	(32,083)	(30,005)
Financial income	6,599	4,772
Other income and expenses	11,980	3,135
Net expenses for financial liability in respect of Income Units sold to private investors	(12,312)	(6,774)
Share in result of associate and joint ventures	(2,928)	(2,658)
Profit before tax	41,649	27,310
Income tax	(236)	349
Profit for the year	41,413	27,659
<b>Basic and diluted earnings per share in Euro</b>	<b>1.00</b>	<b>0.67</b>

\* Certain amounts here do not correspond to the 2013 Consolidated financial statements and reflect adjustments made, refer to Note 2(c) of the Consolidated financial statements 2014.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2014 €'000	2013 €'000
Profit for the year	41,413	27,659
<b>Other comprehensive income (loss) to be recycled through profit and loss in subsequent periods<sup>1</sup>:</b>		
Fair value gain (loss) on available-for-sale financial assets <sup>2</sup>	(74)	206
Profit (loss) from cash flow hedges <sup>3</sup>	(11,462)	9,984
Foreign currency translation adjustments of foreign operations <sup>4</sup>	4,200	(74)
Foreign currency translation adjustment of associate and joint ventures <sup>4</sup>	38	2
Other comprehensive income (loss)	(7,298)	10,118
<b>Total comprehensive income</b>	<b>34,115</b>	<b>37,777</b>

<sup>1</sup> There is no other comprehensive income that will not be reclassified to the profit and loss in subsequent periods.

<sup>2</sup> Included in other reserves.

<sup>3</sup> Included in hedging reserve.

<sup>4</sup> Included in foreign currency translation reserve.

## 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 2013 (Restated***)	-	239,504	(36,524)	(3,701)	(34,471)	(22,626)	123,881	<b>266,063</b>
Profit for the year	-	-	-	-	-	-	27,659	<b>27,659</b>
Other comprehensive loss for the year	-	-	206	-	(72)	9,984	-	<b>10,118</b>
Total comprehensive income	-	-	206	-	(72)	9,984	27,659	<b>37,777</b>
Share-based payments	-	-	144	-	-	-	-	<b>144</b>
Dividend distribution	-	-	-	-	-	-	(5,868)	<b>(5,868)</b>
<b>Balance as at 31 December 2013</b>	<b>-</b>	<b>239,504</b>	<b>(36,174)</b>	<b>(3,701)</b>	<b>(34,543)</b>	<b>(12,642)</b>	<b>145,672</b>	<b>298,116</b>
Profit for the year	-	-	-	-	-	-	41,413	<b>41,413</b>
Other comprehensive loss for the year	-	-	(74)	-	4,238	(11,462)	-	<b>(7,298)</b>
Total comprehensive income	-	-	(74)	-	4,238	(11,462)	41,413	<b>34,115</b>
Share-based payments	-	-	124	-	-	-	-	<b>124</b>
Issue of shares	-	310	-	-	-	-	-	<b>310</b>
Dividend Distribution**	-	-	-	-	-	-	(8,797)	<b>(8,797)</b>
<b>Balance as at 31 December 2014</b>	<b>-</b>	<b>239,814</b>	<b>(36,124)</b>	<b>(3,701)</b>	<b>(30,305)</b>	<b>(24,104)</b>	<b>178,288</b>	<b>323,868</b>

\* No par value.

\*\* The dividend distribution comprises a final dividend for the year ended 31 December 2013 of 8.0 pence per share and an interim dividend of 9.0 pence per share paid on 16 October 2014.

\*\*\* Certain amounts here do not correspond to the 2013 Consolidated financial statements and reflect adjustments made, refer to note 2c of the Consolidated financial statements 2014.

## CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December	
	2014	2013
	€'000	Restated* €'000
<b>Cash flows from operating activities:</b>		
Profit for the year	41,413	27,659
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	44,395	36,779
Financial income	(6,599)	(4,772)
Income tax charge (benefit)	236	(349)
Capital gain upon sale of Berlin hotels to joint venture	(1,753)	–
Loss on buy back of Income Units sold to private investors	329	–
Capital gain upon sale of subsidiary in Thailand	–	(2,757)
Fair value gain deferred consideration business combinations	(2,509)	(799)
Share in results of joint ventures	(8)	97
Share in loss of associates	2,936	2,561
Depreciation, amortisation and impairment loss	24,405	23,862
Share-based payments	124	144
	<b>61,556</b>	<b>54,766</b>
Changes in operating assets and liabilities:		
Increase in inventories under construction	–	(2,261)
(Increase) decrease in inventories	109	(47)
Decrease in trade and other receivables	498	3,399
Increase in trade and other payables	1,623	3,557
	<b>2,230</b>	<b>4,648</b>
Cash paid and received during the period for:		
Interest paid	(40,068)	(37,549)
Interest received	97	123
Taxes received (paid)	(137)	198
	<b>(40,108)</b>	<b>(37,228)</b>
<b>Net cash provided by operating activities</b>	<b>65,091</b>	<b>49,845</b>
<b>Cash flows from investing activities:</b>		
Investments in property, plant and equipment	(42,624)	(63,744)
Investments jointly controlled entities and loans to partners in jointly controlled entities	(523)	–
Net change in cash upon divestment of Berlin hotels to joint venture	(3,000)	–
Net change in cash upon divestment of subsidiary in Thailand	–	(1,595)
(Increase) decrease in restricted deposits	(661)	1,335
Decrease in restricted cash	–	116
<b>Net cash used in investing activities</b>	<b>(46,808)</b>	<b>(63,888)</b>

\* Certain amounts here do not correspond to the 2013 Consolidated financial statements and reflect adjustments made, refer to note 2(c) of the Consolidated financial statements 2014.

## CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

	Year ended 31 December	
	2014	2013
	€'000	Restated* €'000
<b>Cash flows from financing activities:</b>		
Issuance of shares upon exercise of options	310	–
Proceeds from long-term loans	26,423	42,853
Buy back of Income Units previously sold to private investors	(2,092)	–
Repayment of long-term bank loans and other long term liabilities	(12,485)	(20,037)
Proceeds from finance lease	6,231	–
Dividend payment	(8,797)	(5,868)
Advance receipt of loan for equity investment from future joint venture partner	–	4,180
(Repayment of) loans from jointly controlled entities and from partners in jointly controlled entities	–	(9,360)
Net cash provided by financing activities	9,590	11,768
Increase in cash and cash equivalents	27,873	(2,275)
Net foreign exchange differences	802	(1,033)
Cash and cash equivalents at beginning of year	41,498	44,806
Cash and cash equivalents at end of year	70,173	41,498

\* Certain amounts here do not correspond to the 2013 Consolidated financial statements and reflect adjustments made, refer to note 2(c) of the Consolidated financial statements 2014.



## **APPENDIX**

### **Selected 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 2014 were authorised for issuance in accordance with a resolution of the Directors on 27 February 2015.

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 2015 and 2016 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 Earnings per share**

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

	As at 31 December	
	2014 €'000	2013 €'000
Profit	41,413	27,659
Weighted average number of Ordinary shares outstanding	41,544	41,515

Potentially dilutive instruments 645,000 in 2014 (2013: 358,000) had an immaterial effect on the basic earnings per share.

### Note 3 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.

As at 31 December 2014						
	The Netherlands €'000	Germany and Hungary €'000	United Kingdom €'000	Management €'000	Holding companies and adjustments <sup>1</sup> €'000	Consolidated €'000
<b>Revenue</b>						
Third party	53,733	28,457	178,017	10,235	–	270,442
Inter-segment				29,053	(29,053)	–
<b>Total revenue</b>	<b>53,733</b>	<b>28,457</b>	<b>178,017</b>	<b>39,288</b>	<b>(29,053)</b>	<b>270,442</b>
<b>Segment EBITDA</b>	<b>15,573</b>	<b>408</b>	<b>64,341</b>	<b>14,476</b>		<b>94,798</b>
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)
<b>Profit before tax</b>						<b>41,649</b>

As at 31 December 2013						
	The Netherlands €'000	Germany and Hungary €'000	United Kingdom €'000	Management €'000	Holding companies and adjustments <sup>1</sup> €'000	Consolidated €'000
<b>Revenue</b>						
Third party	42,406	32,836	161,645	7,874	–	244,761
Inter-segment	–	–	–	24,468	(24,468)	–
<b>Total revenue</b>	<b>42,406</b>	<b>32,836</b>	<b>161,645</b>	<b>32,342</b>	<b>(24,468)</b>	<b>244,761</b>
<b>Segment EBITDA</b>	<b>11,437</b>	<b>(41)</b>	<b>56,740</b>	<b>14,566</b>	<b>–</b>	<b>82,702</b>
Depreciation, amortisation and impairment						(23,862)
Financial expenses						(30,005)
Financial income						4,772
Net expenses for liability in respect of Income Units sold to private investors						(6,774)
Other income, net						3,135
Share in loss of associate and joint ventures						(2,658)
<b>Profit before tax</b>						<b>(27,310)</b>

<sup>1</sup> Consist of inter-company eliminations. For further details, see Note 16(c)(1).

#### **Note 4 Related parties**

##### **Significant other transactions with related parties**

- a. 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. The basic contract price payable to Gear is £70,480,000 for 494 rooms. 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 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.

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.

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.

- b. Park Plaza Hotels (UK) Services Limited, a wholly owned subsidiary of the Company, entered into a framework agreement with GC Project Management Limited ("GC"), a related party, for the provision of project management services by GC to the Group for a fixed monthly fee until September 2014. GC is also entitled to reimbursement of properly incurred expenses in connection with the provision of the services.
- c. Transactions in the ordinary course of business, in connection with the use of hotel facilities (such as overnight room stays and food and beverage) are being charged at market prices. These transactions occur occasionally.

#### **Note 5 Accounting policies - Restatement:**

##### **Change in accounting treatment**

In 2010, the construction of Park Plaza Westminster Bridge London was completed and the hotel, comprising 1,019 rooms, opened to guests. As at 31 December 2010, the Group had sold 535 rooms to private investors (under 999 year leases). On completion of each sale, a wholly owned subsidiary, Marlbray Limited ("Marlbray"), entered into income swap agreements with these investors. The income swap agreements include an obligation of the investor to assign the right to receive the net income derived from the room to Marlbray and an undertaking by Marlbray to pay the investors a guaranteed return of approximately 6% of the original purchase price for a five-year period commencing from the date of completion of the sale. Marlbray holds the sole voting rights in the management company of the hotel and therefore has control over all the rooms. The Company had concluded that until significant risks and rewards of ownership of, and control over, the sold rooms had passed to the investors, all of the conditions for revenue recognition from the sale of rooms were not met. Therefore, in the Consolidated financial statements the room assets were not derecognised and the amounts received from the investors were accounted for as an advance payment until such time as such amounts could be recognised as revenue. The sold rooms were not depreciated as their residual value was deemed to be equal to their carrying amount.

In 2014, management reconsidered the accounting treatment in view of the current facts and circumstances surrounding the sale of these rooms. Marlbray will continue to effectively control the management company through the Group's ownership of nearly 50% of the voting shares for the foreseeable future. Therefore, each of the transactions with the private investors in 2010 should not be viewed as a sale of assets but rather as a sale of future cash flows derived from the net income generated by the rooms ("Income Units"). Accordingly, management concluded that the more appropriate accounting treatment that should have been reflected in the Consolidated financial statements is to include the rooms as depreciable property, plant and equipment, to recognise the amounts received from the investors as a variable rate financial liability and to account for the income swap based on expected cash flow. Furthermore, as the investors are required to fund all capital expenditures ("Capex") to be made in connection with the Income Units, a receivable is recorded 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.

The Company has restated the 2013 Consolidated financial statements in order to retrospectively reflect therein the effects of the change in accounting treatment. The effects of the restatement on the consolidated statement of financial position as at 31 December 2013 are principally a reclassification of the Income Units in the amount of €159.6 million (net of accumulated depreciation of €9.7 million) to property, plant and equipment, and the recognition of non-current financial assets for the income swap and the receivable (which receivable has been offset from the non-current financial liability in respect of Income Units) in the amounts of €7.7 million and €9.7 million, respectively. The beginning balance of accumulated earnings as at 1 January 2013 has been increased by €6.2 million. In the consolidated income statement for the year ended 31 December 2013, depreciation expense has been increased by €2.6 million, financial income has been increased by €1.5 million in respect of the income swap, and net expense for the liability in respect of Income Units has been decreased by €2.6 million. The net effect on profit and earnings per share for the year was an increase of €1.5 million and €0.04 respectively. The restatement had no impact on other comprehensive income for the year.

**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 Business review, the Chairman's statement, the Chief Executive Officer's statement and the Deputy Chief Executive Officer & Chief Financial Officer's statement, all of which are incorporated into this report, include a true and fair view 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.

## Principal risks and uncertainties

Risk and impact	Mitigation	Grading	Year-on-year
<p><b>Information technology and systems</b> 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.</p> <p>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.</p>	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.	High	Unchanged during the year
<p><b>Hotel industry risks</b> 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 the global economic downturn 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.</p>	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.	High	Unchanged during the year
<p><b>The Group's borrowings</b> 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.</p> <p>The Group uses debt to partly finance its property investment. By doing so, the Group leverages its investment and is able to acquire properties without raising equity. Leverage magnifies both gains and losses, therefore the risk of using leverage is that the loss is much greater than it would have been if the investment had not been leveraged. The risk exists that interest expenses and default on debt covenants negatively impact shareholder value and return.</p>	The Board monitors funding needs regularly. Financial covenant ratios are monitored and sensitised as part of normal financial planning procedures. For details of the Company's hedging arrangements and financial covenants, please refer to Notes 31(h) and 17 to the Consolidated financial statements.	Medium	Unchanged during the year
<p><b>Fixed operating expenses</b> The Group's operating expenses, such as personnel costs, 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.</p>	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.	Medium	Unchanged during the year
<p><b>Foreign exchange rate fluctuations</b> 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.</p>	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.	Medium	Unchanged during the year

Risk and impact	Mitigation	Grading	Year-on-year
<p><b>The Park Plaza® Hotels &amp; Resorts brand and reservation system</b></p> <p>The Group's rights to the Park Plaza® Hotels &amp; Resorts brand stem from a territorial licence agreement with CarlsonSM, pursuant to which the Group has the exclusive right to use (and to sub-license others to use) the Park Plaza® Hotels &amp; Resorts trademark in 56 countries within the EMEA region. This agreement also allows the Group to use CarlsonSM'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 CarlsonSM to invest in the further development of its global reservation system and associated technologies and infrastructure. The Park Plaza® Hotels &amp; Resorts outside of the EMEA region are managed or franchised by CarlsonSM directly, and failure on 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.</p>	<p>The Group's rights to use the Park Plaza® Hotels &amp; Resorts brand and CarlsonSM'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 CarlsonSM. To ensure the Group's interests are represented, several of its executives and managers participate in collaborative groups initiated by CarlsonSM to discuss, review and optimise the collective performance in areas such as Sales, Loyalty Marketing, Partnerships, E-commerce and Distribution.</p>	Medium	Increased during the year
<p><b>Development projects</b></p> <p>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.</p>	<p>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.</p>	Medium	Unchanged during the year
<p><b>Capital required to maintain product standards</b></p> <p>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.</p>	<p>The Group focuses heavily on preventative maintenance across its portfolio and employs engineers and technicians to ensure 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.</p>	Medium	Increased during the year
<p><b>Market disruptors</b></p> <p>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.</p>	<p>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 CarlsonSM, ensuring 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 their knowledge is kept up-to-date.</p>	Medium	Increased during the year
<p><b>Employee turnover</b></p> <p>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.</p>	<p>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.</p>	Low	Unchanged during the year