

10 March 2016

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

**Audited Annual Results for the year ended 31 December 2015**  
**Publication of Annual Report & Accounts and Notice of Annual General Meeting**

PPHE Hotel Group Limited, which 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 annual results for the year ended 31 December 2015.

**Financial summary**

- Improved year-on-year trading performance.
- Reported revenue increased by 11.8% to €302.5 million (2014: €270.4 million). On a constant currency basis, revenue increased by 4.4% to €282.3 million (2014: €270.4 million).
- Reported EBITDA increased by 16.9% to €110.9 million (2014: €94.8 million), which on a constant currency basis represented an increase of 9.1% to €103.4 million. Reported EBITDA margin was 36.6%, an increase of 150bps, driven by a higher average room rate and tight cost control.
- Normalised profit before tax increased by 25.5% to €41.2 million (2014: €32.9 million), driven by higher EBITDA. Reported profit before tax was €38.8 million (2014: €41.6 million).
- Normalised earnings per share was €0.99 (2014: €0.79), an increase of 25.6%. Reported basic/diluted earnings per share was €0.97 (2014: €1.00).
- Proposed final dividend of 10.0 pence per share. Total dividend for the year of 20.0 pence per share, an increase of 5.3% compared with 2014.

**Operational highlights**

- *Construction of new hotels:* Significant progress with 1,067 new rooms expected to open in 2016 as part of three new hotels and one extension and reconfiguration.
- *New hotel opening:* Opened the fully refurbished Park Plaza Arena Pula with 175 rooms and leisure facilities.
- *New restaurants and bars launched:* OAKS Restaurant & Bar opened in Nottingham (summer 2015) and Amsterdam’s first espressamente illy coffee bar (autumn 2015).
- *Hotel management agreement:* Management agreement signed for a prestigious new art’otel london battersea power station, planned to open in 2019.
- *Ongoing investment:* Preparations underway for several major hotel renovations during 2016 and beyond.
- *Excellent customer service:* Record service levels achieved as rated by guests (8.63 on a scale of 1-10).
- *Post balance sheet event:* entered into a sale and purchase agreement to acquire all the shares in the company that holds a majority share in Arenaturist in Croatia.

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

*"We are pleased to report another year of progress with double digit growth in revenue, normalised profit and normalised earnings per share. Excellent progress was also made with the various projects in our development pipeline.*

*Trading in the year to date is in line with the Board's expectations in all markets. 2016 will be a tremendously exciting year for us, with three new hotel openings and the relaunch of the extended and significantly improved Park Plaza Riverbank London, collectively adding a further 1,067 rooms to our portfolio of which nearly 900 new rooms will be in London. We will also continue to progress the various renovation projects to ensure that our hotels continue to improve on their strong market position, whilst making further progress in preparations for the two new art'otels planned for London."*

**Key financial statistics**

	<b>Year ended 31 Dec 2015</b>	<b>Reported Year ended 31 Dec 2014</b>	<b>Change</b>
<b>Total revenue</b>	<b>€302.5 million</b>	€270.4 million	+11.8%
<b>Room revenue</b>	<b>€204.3 million</b>	€182.1 million	+12.8%
<b>EBITDAR</b>	<b>€122.4 million</b>	€105.2 million	+16.4%
<b>EBITDA</b>	<b>€110.9 million</b>	€94.8 million	+16.9%
<b>Normalised profit before tax<sup>1</sup></b>	<b>€41.2 million</b>	€32.9 million	+25.5%
<b>EBITDA margin<sup>2</sup></b>	<b>36.6%</b>	35.1%	150bps
<b>Occupancy</b>	<b>84.3%</b>	83.7%	60bps
<b>Average room rate</b>	<b>€150.9</b>	€135.6	+11.3%
<b>RevPAR<sup>3</sup></b>	<b>€127.3</b>	€113.6	+12.1%

<sup>1</sup> See page 9.

<sup>2</sup> EBITDA divided by total revenue.

<sup>3</sup> Revenue per available room

**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 2015 (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 Thursday 19 May 2016 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 2015. 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 (the "Group"), owns, leases, operates, franchises and develops 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 Group has an exclusive licence from Carlson, 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.

The portfolio of owned, leased, managed and franchised hotels comprises 38 hotels in operation offering a total of more than 8,300 rooms. The development pipeline includes five new hotel projects and one hotel extension and reconfiguration. These developments are expected to add nearly 1,100 rooms to our portfolio by the end of 2016 and an additional 500 rooms by the end of 2019.

Our Company:

[www.pphe.com](http://www.pphe.com)

Our Hotel Brands:

[www.parkplaza.com](http://www.parkplaza.com)

[www.artotels.com](http://www.artotels.com)

[www.arenaturist.com](http://www.arenaturist.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**

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

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

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

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

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

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

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

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

Whilst the Board continues to be mindful of the uncertainties the European travel industry faces, we are focusing on the delivery of our new hotel projects in Germany and the United Kingdom and the extensive renovations planned across all of our operating regions.

Not only will our improved and newly developed hotels further strengthen our footprint in key European markets, our scale and increased brand recognition will also result in long-term benefits.

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

I would like to thank the members of the Board for their guidance and our team members for their hard work and commitment during 2015.

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

Eli Papouchado  
Chairman

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

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

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

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

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

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

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

We currently operate over 8,300 rooms and our existing committed pipeline will result in us having approximately 10,000 rooms in operation by 2019, with the vast majority of our hotels located in key capital cities in Europe.

At such time, we expect to offer over 3,500 rooms in London alone, alongside similarly strong operating platforms already in place in markets such as Amsterdam and Berlin.

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

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

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

### **Improved EBITDA margin**

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

### **Enhanced service quality**

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

In recent years we have developed extensive training programmes around this philosophy and we are continuing to see the benefits of these. Our Talent Management programme is aimed at retaining, supporting and developing the talented individuals within our business. This programme benefits us in the short term through improved service delivery and will particularly benefit our planned new hotel openings due to the expected inter-company transfers. With employee demographics and behaviour changing rapidly, we are focusing more and more on positioning our Group and our brands as an inspiring place to work.

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

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

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

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

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

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

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

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

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

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

### **Innovative revenue generation**

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

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

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

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

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

### **Current trading and outlook**

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

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

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

Boris Ivesha  
President & Chief Executive Officer

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

	2015 Reported	Constant currency* adjustments	2015 Adjusted	2014 Like-for-like
Total revenue	302.5	(20.2)	282.3	270.4
Room revenue	204.3	(13.7)	190.3	182.1
EBITDAR	122.4	(7.6)	114.8	105.2
EBITDA	110.9	(7.5)	103.4	94.8
EBITDA margin	36.6%	0.0%	36.6%	35.1%

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

### **Performance**

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

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

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

### **RevPAR**

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

### **EBITDA**

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



## Normalised profit before tax

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

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

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

## Asset base and leverage

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

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

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

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

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

The demand for hotel properties in Amsterdam continues to be similarly strong. Following several years of growth in hotel supply, the number of new hotel developments is now restricted with local authorities limiting the issue of new permits for hotel developments in the city centre. Recent transactions in the

market of comparable hotels have shown cap rates lower than 7% (benchmark transactions above €400,000 per room).

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

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

The majority of the Group's facilities are asset backed and have limited or no recourse. These debts are managed on either a single property or on a portfolio basis. In these asset backed loans, the Group generally needs to comply with certain financial covenants for these loans, of which the majority have a loan-to-value covenant, in which the loan cannot be higher than a certain percentage of the market value of the properties. In addition, the majority of loans have a debt service cover ratio, in which the adjusted EBITDA should cover the amortisation, fees and interest over and above a certain percentage. The table below provides an overview of the most important facilities to the Group, the applicable covenants and the headroom the Group has towards these covenants.

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

<sup>1</sup> LtV = Loan-to-Value (nominal amount loan divided by the fair market value of properties). DSCR = Debt Service Cover Ratio (Adjusted EBITDA divided by interest, fees and principal).

<sup>2</sup> The current performance presented here for Loan-to-Value have been based on most recent valuations performed.

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

### Capitalisation table

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

<sup>1</sup> The financial liability in respect of Income Units sold to private investors represents the consideration received for the Income Units sold at Park Plaza Westminster Bridge London in 2010. Both the Income Units (presented as assets) as well as the consideration received are still recognised in the balance sheet for accounting purposes.

Both the assets and liabilities will convert to equity over time. The net impact to equity of this conversion is €21.4 million positive.

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

## Cash flows and financial position

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

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

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

## Earnings and shareholders value

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

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

## Dividend

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

## Return on capital employed

PPHE Hotel Group actively pursues a strategy of hotel ownership, which is different from many hotel groups where ownership of hotel assets is separated from hotel operations. One of the benefits of our owner/operator model is to ameliorate conflicts of interests. Our strategy has proven to create significant value by enabling the Group to fund its growth in recent years. The Group has the expertise to master the complexities involved in real estate ownership and transactions, including debt/equity structuring, exit strategies, and (re)developing real estate into valuable hotel properties. Hotel real estate is an important part of the Group's assets and it is essential to understand this ownership business model to be able to accurately value this critical investment. This model is capital intensive and the funding structure of these properties using debt and equity has a significant impact on equity returns of the Group. Properties under development place a burden on the capital of the Group, without creating an immediate return. However, once these developments complete, they will add to the profitability of the

Group like any other trading asset it owns. Although the Group pursues full property ownership in many cases, we understand that the capital intensity required for full ownership may hinder the Group's growth in other attractive markets. Therefore the Group has a mixed portfolio approach that provides a spread of risk and reward. The Group has entered into several strategic investments, whereby a non-controlling stake was taken in the real estate together with long-term management agreements. In some of these cases the Group's stake is structured via equity interests and debt funding, providing the Group with potential dividends and interest income. One of the main benefits from such arrangements remains the management and incentive fee earned by the Group in managing these hotels.

Furthermore, the Group has entered into several lease, management or franchise agreements. Each of these business models has its own merits but have in common that they require little to no capital. This enables the Group to grow the portfolio whilst it benefits from fee-based income. The table on the next page provides some selected data for these assets for the year ended 31 December 2015, prepared in Euro millions. This data is additional to the segments that are monitored separately by the Board for resource allocations and performance assessment, which are the segments of the Group.

The table on the next page shows that the return on capital (normalised profit before tax divided by capital employed) for the fully owned properties in operation improved during the year, mainly due to improved operational trading of the hotels. The increased performance in the capital return on joint ventures and associates is mainly due to an increased performance related to incentive fees, as well as the divestment of a 50% interest in two properties in Berlin, for which the remaining stake (non-controlling) is now presented under joint ventures and associates.

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

<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 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

### Acquired loan covering the long leasehold interest in Park Plaza Nottingham

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

## Post balance sheet events

### Construction financing for development of new London hotel

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

**Sale and purchase agreement for acquisition in Croatia**

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

**Looking ahead**

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

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

Chen Moravsky  
Deputy Chief Executive Officer & Chief Financial Officer

## REVIEW OF OPERATIONS

### UNITED KINGDOM

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

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

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

Year-on-year growth in the London market was not as steep as reported in previous years due to a less favourable events calendar and political and economic market conditions. In addition, our year-on-year growth was also impacted by a reduced number of rooms at Park Plaza Riverbank London due to the hotel extension being built and the significant third party construction work at either side of this hotel.

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

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

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

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

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

Our hotels in Leeds and Nottingham both outperformed their competitive set in RevPAR, with Park Plaza Nottingham outperforming its competitive set in occupancy, average room rate and RevPAR.

Source: STR Global, December 2015.

### Renovation projects and development pipeline

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

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

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

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

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

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

### The United Kingdom hotel market

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

Source: STR Global, December 2015.

## THE NETHERLANDS

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

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



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

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

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

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

Source: STR Global, December 2015.

### Renovation projects and development pipeline

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

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

### The Dutch hotel market

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

Source: STR Global, December 2015.

## GERMANY AND HUNGARY

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

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

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

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

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

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

Source: STR Global, December 2015.

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

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

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

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

### **The German and Hungarian hotel market**

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

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

RevPAR in Dresden increased by 3.6% to €44.3. This growth was achieved through an average room rate increase of 4.7% to €67.7. Occupancy decreased by 70 bps to 65.5%.

In Hungary, the performance of the hotel market in Budapest continued to improve with RevPAR increasing by 12.1% to HUF 11,304.9. This growth was a result of a 4.5% increase in average room rate to HUF 15,895.6 and a 490 bps increase in occupancy to 71.1%.

Source: STR Global, December 2015.

## MANAGEMENT AND HOLDINGS OPERATIONS

Euro (€)	Year ended 31 Dec 2015	Year ended 31 Dec 2014
Total revenue before elimination	<b>€45.5 million</b>	€39.3 million
Revenue within the consolidated Group	<b>€35.6 million</b>	€29.0 million
External and reported revenue	<b>€9.9 million</b>	€10.2 million
EBITDA	<b>€17.4 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 and recharged expenses for these hotels, which are included under the segment 'Management and Holdings', are eliminated upon consolidation as intra-Group revenue.

This is a presentation adjustment only and does not affect the EBITDA of Management and Holdings. Management considers this segment crucial to its operations and the performance should be reviewed taking all revenue (before elimination) into consideration. Total Management and Holdings revenue increased by 15.8% to €45.5 million (2014: €39.3 million) due mainly to improved trading and the strengthening of Sterling against the Euro.

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

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

### CROATIA

Euro (€)	Year ended 31 Dec 2015	Year ended 31 Dec 2014
Total revenue before elimination	<b>€52.8 million</b>	€46.3 million
Revenue within the consolidated Group	<b>€15.8 million</b>	€11.5 million

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

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

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

as part of this investment. The Group realised a total of €3.5 million of management and marketing fee revenues in the year (2014: €3.0 million).

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

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

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

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

Date of approval of the financial statements 9 March 2016. Signed on behalf of the Board by Boris Ivesha, President & Chief Executive Officer and Chen Moravsky, Deputy Chief Executive Officer & Chief Financial Officer

## CONSOLIDATED INCOME STATEMENT

	Year ended 31 December	
	2015 €'000	2014 €'000
Revenues	302,485	270,442
Operating expenses	(180,068)	(165,259)
<b>EBITDAR</b>	<b>122,417</b>	<b>105,183</b>
Rental expenses	(11,567)	(10,385)
<b>EBITDA</b>	<b>110,850</b>	<b>94,798</b>
Depreciation, amortisation and impairment loss	(26,360)	(24,405)
<b>EBIT</b>	<b>84,490</b>	<b>70,393</b>
Financial expenses	(33,505)	(32,083)
Financial income	6,725	6,599
Other income and expenses	(180)	11,980
Net expenses for financial liability in respect of Income Units sold to private investors	(16,030)	(12,312)
Share in result of associate and joint ventures	(2,695)	(2,928)
Profit before tax	38,805	41,649
Income tax	1,645	(236)
Profit for the year	40,450	41,413
<b>Basic and diluted earnings per share in Euro</b>	<b>0.97</b>	<b>1.00</b>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2015 €'000	2014 €'000
Profit for the year	40,450	41,413
<b>Other comprehensive income (loss) to be recycled through profit and loss in subsequent periods<sup>1</sup>:</b>		
Fair value loss on available-for-sale financial assets <sup>2</sup>	--	(74)
Fair value gain reclassified to the profit and loss upon disposal of available-for-sale financial assets	(305)	-
Hedge results reclassified to the profit and loss upon extinguishment of a loan	1,380	-
Profit (loss) from cash flow hedges <sup>3</sup>	5,360	(11,462)
Foreign currency translation adjustments of foreign operations <sup>4</sup>	4,258	4,200
Foreign currency translation adjustment of associate and joint ventures <sup>4</sup>	500	38
Other comprehensive income (loss)	11,193	(7,298)
<b>Total comprehensive income</b>	<b>51,643</b>	<b>34,115</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 <sup>*</sup>	Share premium	Other reserves	Treasury shares	Foreign currency translation reserve	Hedging reserve	Accumulated earnings	<b>Total equity</b>
Balance as at 1 January 2014	-	239,504	(36,174)	(3,701)	(34,543)	(12,642)	145,672	298,116
Profit for the year	-	-	-	-	-	-	41,413	41,413
Other comprehensive loss for the year	-	-	(74)	-	4,238	(11,462)	-	(7,298)
Total comprehensive income	-	-	(74)	-	4,238	(11,462)	41,413	34,115
Share-based payments	-	-	124	-	-	-	-	124
Issue of shares	-	310	-	-	-	-	-	310
Dividend distribution	-	-	-	-	-	-	(8,797)	(8,797)
<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>
Profit for the year	-	-	-	-	-	-	40,450	<b>40,450</b>
Other comprehensive loss for the year	-	-	(305)	-	4,758	6,740	-	<b>11,193</b>
Total comprehensive income	-	-	(305)	-	4,758	6,740	40,450	<b>51,643</b>
Share-based payments	-	-	40	-	-	-	-	<b>40</b>
Issue of shares	-	781	-	-	-	-	-	<b>781</b>
Dividend Distribution**	-	-	-	-	-	-	(11,562)	<b>(11,562)</b>
<b>Balance as at 31 December 2015</b>	<b>-</b>	<b>240,595</b>	<b>(36,389)</b>	<b>(3,701)</b>	<b>(25,547)</b>	<b>(17,364)</b>	<b>207,176</b>	<b>364,770</b>

\* No par value.

\*\* The dividend distribution comprises a final dividend for the year ended 31 December 2014 of 10.0 pence per share and an interim dividend of 10.0 pence per share paid on 2 October 2015.

## CONSOLIDATED STATEMENT OF CASH FLOWS

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



**CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)**

	Year ended 31 December	
	2015 €'000	2014 €'000
<b>Cash flows from financing activities:</b>		
Issuance of shares upon exercise of options	781	310
Proceeds from long-term loans	52,577	26,423
Buy back of Income Units previously sold to private investors	(4,440)	(2,092)
Repayment of long-term bank loans and other long term liabilities	(21,620)	(12,485)
Proceeds from finance lease	-	6,231
Dividend payment	(11,562)	(8,797)
Net cash provided by financing activities	15,736	9,590
Increase in cash and cash equivalents	(3,382)	27,873
Net foreign exchange differences	2,140	802
Cash and cash equivalents at beginning of year	70,173	41,498
Cash and cash equivalents at end of year	68,931	70,173
<b>Non-cash items:</b>		
Outstanding payable on investments in property, plant and equipment	14,738	-

## **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 2015 were authorised for issuance in accordance with a resolution of the Directors on 9 March 2016.
- b. Description of business and formation of the Company:

The Company was incorporated and registered in Guernsey on 14 June 2007. The shares of the Company are publicly traded.

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

- c. Assessment of going concern:

As part of their ongoing responsibilities, the Directors have recently undertaken a thorough review of the Group's cash flow forecast and potential liquidity risks. Detailed budgets and cash flow projections have been prepared for 2016 and 2017 which show that the Group's hotel operations will be cash generative during the period.

The Group has entered into a number of loan facilities, the details of which are set out in Note 17. The Board believes that the Group currently has adequate resources and in the future will generate sufficient funds to honour its financial obligations and continue its operations as a going concern for the foreseeable future. The Group analyses its ability to comply with debt covenants in the near future.

#### **Note 2 Earnings per share**

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

	As at 31 December	
	<b>2015</b> <b>€'000</b>	2014 €'000
Profit	<b>40,450</b>	41,413
Weighted average number of Ordinary shares outstanding	<b>41,792</b>	41,544

Potentially dilutive instruments 317,000 in 2015 (2014: 645,000) 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. 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 2015						
	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	58,473	30,222	203,877	9,913	–	302,485
Inter-segment				35,165	(35,165)	–
<b>Total revenue</b>	<b>58,473</b>	<b>30,222</b>	<b>203,877</b>	<b>45,078</b>	<b>(35,165)</b>	<b>302,485</b>
<b>Segment EBITDA</b>	<b>18,598</b>	<b>(500)</b>	<b>75,303</b>	<b>17,449</b>	<b>-</b>	<b>110,850</b>
Depreciation, amortisation and impairment						(26,360)
Financial expenses						(33,505)
Financial income						6,722
Net expenses for liability in respect of Income Units sold to private investors						(16,030)
Other income, net						(177)
Share in loss of associate and joint ventures						(2,695)
<b>Profit before tax</b>						<b>38,805</b>

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>–</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>

<sup>1</sup> Consist of inter-company eliminations.

## **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 (now known as Park Plaza London Waterloo). The basic contract price payable to Gear is £70,480,000 for 494 rooms, the contract price has since been amended to £77,759,905. An early completion bonus is payable to Gear calculated as £150,000 multiplied by the number of months prior to 30 September 2016 that the hotel is completed. The Company currently envisages that completion will occur during September 2016. The Non-Executive Directors of the Company had Gear's tender for the construction of the hotel independently reviewed to ensure that it was competitive.

On 1 August 2014, Riverbank Hotel Holding B.V. entered into a building contract with Gear for a six-storey extension to Park Plaza Riverbank London. The basic contract price payable to Gear is £24,741,879 for the 148 room extension, the contract price has since been amended to £27,250,002.

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

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

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

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.

### **Directors' responsibility statement**

The Board confirms to the best of its knowledge that the Consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit and loss of the Company and the undertakings included in the consolidation taken as a whole.

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

## Principal risks and uncertainties

Risk and impact	Mitigation	Grading	Year-on-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 Carlson<sup>SM</sup>, ensuring that global trends are identified and acted upon in a concerted manner, benefiting from the scale, negotiating power, knowledge and skills that our global partnership brings. Executives and managers of the Group regularly attend seminars, workshops and trainings to ensure that their knowledge is kept up to date.</p>	Medium	Increased during the year
<p><b>Information technology and systems</b></p> <p>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>	<p>The Group invests in appropriate IT systems so as to obtain as much operational resilience as possible.</p> <p>Further, a variety of security measures are implemented in order to maintain the safety of personal customer information.</p>	High	Unchanged during the year
<p><b>Hotel industry risks</b></p> <p>The Group's operations and their results are subject to a number of factors that could adversely affect the Group's business, many of which are common to the hotel industry and beyond the Group's control, such as global economic uncertainties, political instabilities and the increase of acts of terrorism. The impact of any of these factors (or a combination of them) may adversely affect sustained levels of occupancy, room rates and/or hotel values.</p>	<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.</p>	High	Unchanged during the year
<p><b>Fixed operating expenses</b></p> <p>The Group's operating expenses, such as personnel costs, the impact of the living wage in the United Kingdom, operating leases, information technology and telecommunications, are to a large extent fixed. As such, the Group's operating results may be vulnerable to short-term changes in its revenues.</p>	<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.</p>	Medium	Increased during the year
<p><b>The Group's borrowings</b></p> <p>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>	<p>The Board monitors funding needs regularly. Financial covenant ratios are monitored and sensitised as part of normal financial planning procedures.</p> <p>For details of the Company's hedging arrangements and financial covenants.</p>	Medium	Unchanged during the year

Risk and impact	Mitigation	Grading	Year on Year
<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.	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
<b>The Park Plaza® Hotels &amp; Resorts brand and reservation system</b> The Group's rights to the Park Plaza® Hotels & Resorts brand stem from a territorial licence agreement with Carlson <sup>SM</sup> , pursuant to which the Group has the exclusive right to use (and to sub-license others to use) the Park Plaza® Hotels & Resorts trademark in 56 countries within the EMEA region. This agreement also allows the Group to use Carlson <sup>SM</sup> 's global central reservation system, participate in its various loyalty schemes and have access to global distribution channels connected to their central reservation system. Failure to maintain these rights could adversely affect the Group's brand recognition and its profitability. The Group is also dependent on Carlson <sup>SM</sup> to invest in the further development of its global reservation system and associated technologies and infrastructure. The Park Plaza® Hotels & Resorts outside of the EMEA region are managed or franchised by Carlson <sup>SM</sup> directly, and failure at their end to control and maintain a similar quality level of hotels may have a detrimental effect on the reputation of the Park Plaza® brand and the hotels operating under the brand name.	The Group's rights to use the Park Plaza® Hotels & Resorts brand and Carlson <sup>SM</sup> 's central reservation system are in perpetuity. This unique and exclusive partnership is reinforced by the Group's continued focus on operational efficiency and portfolio growth through its intensified cooperation with Carlson <sup>SM</sup> . To ensure that the Group's interests are represented, several of its executives and managers participate in collaborative groups initiated by Carlson <sup>SM</sup> to discuss, review and optimise the collective performance in areas such as Sales, Loyalty Marketing, Partnerships, E-commerce and Distribution.	Medium	Unchanged during the year
<b>Development projects</b> The Group has various ongoing development projects which are capital intensive. These development projects may increase the Group's expenses and reduce the Group's cash flows and revenues. If capital expenditures exceed the Group's expectations, this excess would have an adverse effect on the Group's available cash. There is a risk that such developments may not be available on favourable terms, that construction may not be completed on schedule or within budget, and that the property market conditions are subject to changes on environmental law and regulations, zoning laws and other governmental rules and fiscal policies.	The Group retains an ownership interest in the development sites and therefore it is well placed to capitalise on any future rises in property prices. The Group tends to enter into fixed price turn-key contracts in respect of its developments in order to minimise the risk of cost overrun. The Group draws on its previous experience in running and managing developments to manage potential development risks.	Medium	Unchanged during the year
<b>Capital required to maintain product standards</b> The Group owns and co-owns many of its hotels. As is common in owning hotels, this business model requires capital to maintain the high quality level of the products and facilities offered. In addition to maintenance costs and capital expenditure, the Group may be exposed to disruptions on revenue if hotels are to be (part) closed for product improvements.	The Group focuses heavily on preventative maintenance across its portfolio and employs engineers and technicians to ensure that its hotels are maintained to a high standard. In addition, as part of its operating agreements, the Group has capital expenditure reserves for each hotel to invest in medium to large renovations and replacements of technical installations. To minimise short-term revenue displacements due to renovations, the Group develops – prior to undertaking such renovations – detailed renovation planning programmes which take into account factors such as hotel closures, phased approaches, seasonality and demand patterns.	Medium	Increased during the year
<b>Employee turnover</b> The success of the Group's business is partially attributable to the efforts and abilities of its (senior) managers and key executives. Failure to retain its executive management team or other key personnel may threaten the success of the Group's operations. The consistent delivery of high quality service levels depends on the skills and knowledge of our teams. A high turnover rate may threaten the consistent delivery of this service level.	The Group has appropriate systems in place for recruitment, reward and compensation and performance management. Development and maintenance of a Group culture and comprehensive training programmes and feedback systems also play a leading role in minimising this risk.	Low	Unchanged during the year