# PPHE Hotel Group Limited

("PPHE Hotel Group" or the "Company")

# Unaudited Interim Results
## for the six months ended 30 June 2016

31 August 2016

PPHE Hotel Group, which together with its subsidiaries (the "Group") owns, leases, develops, operates and franchises full service upscale and lifestyle hotels in major gateway cities, regional centres and select resort destinations, predominantly in Europe, is pleased to announce its unaudited interim results for the six months ended 30 June 2016, for the first time in Pound Sterling.

## Update on corporate activities

During the first half of 2016, we have undertaken several additional corporate activities to further re-shape our business, paving the way for a successful future whilst continuing to operate a successful business and delivering exemplary service to our guests.

These additional corporate areas of focus centered around the:

- development and launch of several new hotels in our construction pipeline;
- acquisition of a controlling interest in our Croatian operation;
- refinancing of our asset portfolio; and
- realisation of shareholder value by returning surplus cash.

Further details on our progress can be found throughout this interim results announcement.

## Performance during the first half ended 30 June 2016

- Total revenue increased by 9.2%, to £111.6 million (H1 2015: £102.3 million). On a like-for-like basis[1], revenue was flat at £111.5 million (H1 2015: £111.0 million).
- EBITDA decreased by 7.4% to £32.5 million (H1 2015: £35.1 million). On a like-for-like basis[1], EBITDA decreased 10.8% to £32.6 million (H1 2015: £36.6 million). The decrease in EBITDA is the result of a softer performance in the UK, with EBITDA decreasing by £3.4 million, and transaction costs associated with the various corporate activities during the first half including, amongst other things, the Croatian acquisition and several refinancings.
- Reported profit before tax increased by 13.8% to £12.1 million (H1 2015: £10.6 million), largely as a result of multiple one-off items, as discussed above, recorded in the first half of 2016 and further disclosed on page 12.
- Normalised profit before tax and before the consolidation of the Croatian acquisition for the first half of 2016 was £4.2 million (H1 2015: £10.9 million)[2]. Normalised profit before tax including the consolidation of the Croatian acquisition was £2.8 million. The decrease is largely caused by a difference in foreign exchange results and expenses of financial liabilities £(1.5) million; the consolidation of Arenaturist, the Croatian business, £(1.4) million, which is a highly seasonal business heavily weighted towards July and August; one off transaction costs related to corporate activities of approximately £(1) million; and a decline in the United Kingdom EBITDA.
- RevPAR decreased by 16.0% to £73.0 (H1 2015: £86.9), driven by a 1,240 bps decrease in occupancy to 70.5% (H1 2015: 82.9%) and 1.3% decrease in average room rate to £103.5 (H1 2015: £104.9). On a like-for-like[1] basis, RevPAR was flat at £73.2 (H1 2015: £73.0), with average room rate increasing by 6.3% to £103.5 (H1 2015: £97.3) and occupancy decreasing by 420 bps to 70.8% (H1 2015: 75.0%). The decrease in reported RevPAR was a direct result of the Group's Croatian acquisition, where operations are seasonal.

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

*"The first half of 2016 was a busy period of significant corporate activity for the Group, which saw the acquisition of a controlling interest in Arenaturist in Croatia, the successful completion of several long term refinancing agreements, construction financing and the soft opening of Park Plaza Nuremberg. We are pleased to report the overall performance was in line with our expectations notwithstanding a softer performance in the United Kingdom.*

*"The second half of the year is typically the strongest trading period for the Group and the summer season nature of the Croatian operations will further accentuate this trading pattern.*

*"Notwithstanding some uncertainties in our international markets and our industry, we are confident about the long term appeal of the European hospitality sector as we prepare for our London hotel openings and we were also delighted to return cash to shareholders in the form of a special dividend which was announced in July.*

*"As we continue to invest in the quality and expansion of our portfolio with a number of renovation projects and new hotel openings, trading for the 2016 financial year remains in line with the Board's previous expectations; however, due to slightly delayed hotel openings, for which pre-opening expenses have been incurred without a significant amount of revenue contribution to offset such expenses, the Board expects that this timing difference may result in the Group's results being behind market expectations."*

- Reported EPS was £0.31 (H1 2015: £0.26) and normalised EPS, after the consolidation of the Croatian operations, was £0.07 (H1 2015: £0.26).
- Interim ordinary dividend proposed of 10.0 pence per ordinary share (H1 2015: 10.0 pence per share).
- Special dividend of £1.00 per ordinary share announced on 13 July 2016, paid to shareholders on 12 August, returning £42.2 million of cash to shareholders.

1 The like-for-like comparison figures exclude Park Plaza Nuremberg for the six months ended 30 June 2016. Furthermore, the like-for-like comparison figures include the Croatian segment for the second quarter of 2015.
2 Reconciliation of Reported profit to Normalised profit is provided on page 12.

## Main events during the period

### (Re)financing

- £20.6 million construction facility for the development of Park Plaza London Park Royal completed.
- Ten year refinance facility for Park Plaza Victoria London for £87.0 million completed.
- 12 year refinance facility for the Group's interest in Park Plaza Westminster Bridge London for £182.4 million completed.
- Two ten year refinance facilities for the Group's hotels in The Netherlands and two of its hotels In London in the United Kingdom, for €182.0 million (£144.3 million) and £150.0 million respectively, completed.

### Acquisitions and disposals

- Acquisition of the outstanding 80.0% interest, which the Group did not previously own, in its joint venture in Croatia for €51.0 million and resulting takeover bid for the remaining 25.9% of the issued share capital of Arenaturist in Croatia completed.
- Placing of Arenaturist shares with two institutional investors at £7.8 million, as a result, the Group now owns 65.63% of the share capital of Arenaturist. Disposed of three wholly owned Croatian operating companies to Arenaturist for a cash consideration of HRK 108.55 million (€14.4 million).

### Other developments

- Dawn Morgan joined the Board as a non-executive director.
- Soft opening of the new Park Plaza Nuremberg in Germany, with the full opening expected in the third quarter.

## Interim Management Report

This interim management report discusses the performance of PPHE Hotel Group for the six months ended 30 June 2016. It contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) No 596/2014.

## Key financial statistics

| | Reported | | | Like-for-like[1] | | |
|---|---|---|---|---|---|---|
| | Six months ended 30 June 2016 | Six months ended 30 June 2015 | % change[2] | Six months ended 30 June 2016 | Six months ended 30 June 2015 | % change[2] |
| Total revenue | £111.6 million | £102.3 million | +9.2% | £111.5 million | £111.0 million | +0.5% |
| Room revenue | £75.0 million | £69.0 million | +8.7% | £74.9 million | £73.7 million | +1.7% |
| EBITDAR | £37.1 million | £39.2 million | (5.3)% | £37.2 million | £40.9 million | (8.9)% |
| EBITDA | £32.5 million | £35.1 million | (7.4)% | £32.6 million | £36.6 million | (10.8)% |
| EBITDA margin | 29.1% | 34.3% | (520) bps | 29.3% | 33.0% | (370) bps |
| Reported PBT | £12.1 million | £10.6 million | +13.8% | N/A | N/A | N/A |
| Normalised PBT[3] | £2.8 million | £10.9 million | (74.0)% | N/A | N/A | N/A |
| Occupancy | 70.5% | 82.9% | (1,240) bps | 70.8% | 75.0% | (420) bps |
| Average room rate | £103.5 | £104.9 | (1.3)% | £103.5 | £97.3 | +6.3% |
| RevPAR | £73.0 | £86.9 | (16.0)% | £73.2 | £73.0 | +0.3% |

1 The like-for-like comparison figures exclude Park Plaza Nuremberg for the six months ended 30 June 2016. Furthermore, the like-for-like comparison figures include the Croatian segment for the second quarter of 2015.
2 Percentage change figures are calculated from actual figures as opposed to the rounded figures included in the above table. Unless otherwise indicated, all figures in this report compare six months ended 30 June 2016 with six months ended 30 June 2015. All financial information in this report for room revenue, total revenue EBITDAR and EBITDA reflects PPHE Hotel Group's interest.
3 Reconciliation of Reported profit to Normalised profit is provided on page 12.

## Financial Performance

Total revenue increased by 9.2% to £111.6 million (H1 2015: £102.3 million).

Group EBITDA decreased by 7.4% to £32.5 million (H1 2015: £35.1 million). EBITDA margin decreased by 520 bps to 29.1% (H1 2015: 34.3%). The decrease in EBITDA is the result of a softer performance in the United Kingdom and transaction costs, including consulting and legal fees associated with the various corporate activities, in particular the Croatian acquisition and successful refinancing of several hotels completed in the first half of the 2016 financial year. EBITDA was also adversely impacted by the national living wage adjustment in the United Kingdom, increased property related taxes and increased room cost of sales.

Reported profit before tax increased by 13.8% to £12.1 million (H1 2015: £10.6 million), as a result of one-off income and expenses benefit recorded in the first half of 2016, see page 12 for further details.

Normalised profit before tax and before the consolidation of the Croatian acquisition for the first half of 2016 was £4.2 million (H1 2015: £10.9 million). Normalised profit before tax including the consolidation of the Croatian acquisition was £2.8 million. The decrease is largely caused by a difference in foreign exchange results and expenses of financial liabilities £(1.5) million; the consolidation of Arenaturist, the Croatian business, £(1.4) million, which is a highly seasonal business heavily weighted towards July and August; one off transaction costs related to corporate activities of approximately £(1) million; and a decline in the United Kingdom EBITDA.

As a result of the highly seasonal nature of the Croatian operation, which is consolidated for the first time after its acquisition in the first quarter of 2016, RevPAR decreased by 16.0% to £73.0 (H1 2015: £86.9). This was driven by a 1,240 bps decrease in occupancy to 70.5% (H1 2015: 82.9%) and 1.3% decrease in average room rate to £103.5 (H1 2015: £104.9). On a like-for-like[1] basis, RevPAR was flat at £73.2 (H1 2015: £73.0), with average room rate increasing by 6.3% to £103.5 (H1 2015: £97.3) and occupancy decreasing by 420 bps to 70.8% (H1 2015: 75.0%). Normalised EPS, after the consolidation of the Croatian operations, was £0.07 (H1 2015: £0.26) and reported EPS was £0.31 (H1 2015: £0.26).

Net debt increased by £134.0 million to £531.6 million, (H2 2015: £397.6 million). This includes £209.2 million of cash and cash equivalents (H2 2015: £53.9 million). The increase in net debt is primarily due to the acquisition and consolidation of the Croatian operations and the Group's development pipeline relating to construction works at Park Plaza Riverbank London, Park Plaza London Waterloo and Park Plaza London Park Royal.

## Refinance

In the first six months of the year, the Group has successfully refinanced the majority of its assets, (re)financing an aggregate of £563.7 million (reflecting just under 80% of total outstanding bank debt). With these refinancing arrangements the Group has extended the weighted average term to maturity of its debt facilities from approximately three years to approximately nine years. Following the refinancing the Group now has significant excess cash reserves of which some was returned to shareholders via a special dividend. This special dividend is in line with the Group's primary objective to create and realise shareholder value, which it has done now by realising part of the value of its assets.

As part of the process of securing the new facilities an independent valuation of the Group's interests in the hotels was obtained. In the financial statements the Group measures its assets at cost price less accumulated depreciation. The below table summarises the independent valuations that were obtained in the past months, comparing these with the book values.

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

| In £ millions | Book value 30 June 2016 | Fair value[1] 30 June 2016 |
|---|---|---|
| Total property, plant and equipment | 1,024.7 | 1,469.7 |

1 The fair value of properties has been determined in the last six months, these have been prepared by market leading independent valuators such as Savills Plc and Knight Frank LLP, which were engaged by each of Aareal Bank AG, AIG and Mass Mutual Financial Group for their respective financings. The fair value takes into account approximately £30.0 million planned Capex and all properties under development are stated at cost.

## Dividend

Following the refinancing of several hotels in the first half of the year at an aggregate of £563.7 million, the Group had excess cash reserves. Post the period end, the Board approved the payment of a special dividend of £1.00 per ordinary share on 13 July 2016 to return £42,197,512 to shareholders. This special dividend was paid on 12 August 2016.

In addition, the Board has approved the payment of an interim dividend of 10 pence per ordinary share, for the period ended 30 June 2016, to all shareholders who are on the register at 9 September 2016. The interim dividend is to be paid on 7 October 2016.

## Current trading and outlook

Notwithstanding the uncertainty in many of our markets in the first half of the year, we are pleased with our results to date. The second half of the year is usually the strongest trading period for us. We expect to see a greater weighting towards the second half of the year due to the summer seasonal nature of the Croatian operations, whose results are consolidated into the accounts for the first time following the acquisition in the second quarter of 2016.

In the second half of the year we will focus on the delivery of our two new hotels in London and the completion of an extension and reconfiguration project of one of our existing hotels in this market, all of which are expected to add significant value to the Group.

Over the next few years we will continue to invest significantly in extensive renovations across our different operating regions and these may have a temporary negative impact on our performance due to closures of rooms and public areas whilst works are underway. However, the Board believes that this investment will have a positive impact on our long-term performance.

The recent weakening of Sterling presents potential opportunities for the United Kingdom with increased appeal for visitors from the US and Asia in particular. We are confident about the long term appeal of the European hospitality sector and we remain focused on revenue generation and providing exemplary service to our guests.

As we continue to invest in the quality and expansion of our portfolio with a number of renovation projects and new hotel openings, trading for the 2016 financial year remains in line with the Board's previous expectations; however, due to slightly delayed hotel openings, for which pre-opening expenses have been incurred without a significant amount of revenue contribution to offset such expenses, the Board expects that this timing difference may result in the Group's results being behind market expectations.

## Enquiries

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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, operates, franchises and develops full service upscale and lifestyle hotels in major gateway cities, regional centres and select resort destinations, predominantly in Europe.

The majority of the Group's hotels operate under 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 owns a controlling 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 nearly 8,400 rooms. The development pipeline includes four new hotel projects and one hotel extension and reconfiguration. These developments are expected to add over 800 rooms to our portfolio by the end of 2016 and an additional 500 rooms by the end of 2019.

Our Company:
www.pphe.com

Our Hotel Brands:
www.parkplaza.com

www.artotels.com

www.arenaturist.com

For images and logos visit 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.

# REVIEW OF OPERATIONS

## United Kingdom

Hotel Operations

| | Reported in GBP (£) | |
|---|---|---|
| | Six months ended 30 June 2016 | Six months ended 30 June 2015 |
| Total revenue | £66.4 million | £68.5 million |
| EBITDAR | £21.7 million | £25.0 million |
| EBITDA | £21.0 million | £24.4 million |
| Occupancy | 81.7% | 86.9% |
| Average room rate | £133.5 | £131.6 |
| RevPAR | £109.0 | £114.4 |
| Room revenue | £44.8 million | £46.4 million |

### UK hotel portfolio performance

All our hotels outperformed their competitive sets in occupancy, leaving further opportunity to continue to grow our average room rate.

Against a backdrop of increased terrorism activity around the world and uncertainty in anticipation of the Brexit referendum, total revenue in the United Kingdom decreased to £66.4 million (H1 2015: £68.5 million), representing a 3.1% decline.

EBITDA for the region decreased by 13.8% to £21.0 million (H1 2015: £24.4 million).

With less demand for greater London and increased supply*, our teams focused on preserving or growing average room rate, which they improved by 1.4% to £133.5 (H1 2015: £131.6).

RevPAR declined by 4.7% to £109.0 (H1 2015: £114.4), which was the result of reduction in occupancy due to lower demand by 520 bps to 81.7% (H1 2016: 86.9%).

Two of our hotels in the United Kingdom delivered a good competitive performance by outperforming their competitive set in RevPAR during the first half of the year.

Our investment in ongoing construction and renovation work at Park Plaza Riverbank London negatively impacted performance during the first half. Once completed, we anticipate that the long term appeal and prospects of this hotel will improve significantly.

### Portfolio update

We are pleased to report significant progress with three of our development projects in London. Construction of the new Park Plaza London Waterloo and Park Plaza London Park Royal is progressing well although slightly behind schedule but still with an expected opening in the fourth quarter of 2016.

The extension of Park Plaza Riverbank London is nearly completed and the new rooms are expected to be ready in the fourth quarter of 2016, albeit slightly behind schedule due to longer renovation times. The property has seen a further transformation with its main restaurant and bar moving to the first floor, offering unrivalled views of the River Thames.

Upon completion of these new projects our overall room count in London will have increased significantly, to well over 3,100 rooms.

The renovation programme for Park Plaza Sherlock Holmes London is at its planning stage and works at the hotel are expected to commence in 2017. Further updates on the work to be undertaken and the commencement dates will follow in due course.

### The United Kingdom hotel market*

Due to reduced demand and increased supply, RevPAR for the greater London hotel market declined by 3.5% to £104.9 (Source: STR, June 2016). This decrease was the result of a 240 bps decrease in occupancy to 77.3%, whilst average room rate decreased by 0.6% to £135.7.

The Leeds hotel market reported growth in RevPAR of 5.8%, to £52.2. This was a direct result of a 5.0% growth in average room rate to £70.2 and occupancy levels improving by 60 bps to 74.4%.

In Nottingham, the overall market improved its RevPAR by 3.2% to £44.2, as the result of a 3.8% increase in average room rate to £61.0, with occupancy decreasing by 40 bps to 72.4%.

* Source: STR, June 2016.

# REVIEW OF OPERATIONS

## The Netherlands

Hotel Operations

| | Reported in GBP (£)[1] | | Reported in local currency Euros (€) | |
|---|---|---|---|---|
| | Six months ended 30 June 2016 | Six months ended 30 June 2015 | Six months ended 30 June 2016 | Six months ended 30 June 2015 |
| Total revenue | £23.2 million | £20.6 million | €29.6 million | €28.4 million |
| EBITDAR | £7.5 million | £6.4 million | €9.5 million | €8.9 million |
| EBITDA | £7.4 million | £6.4 million | €9.5 million | €8.8 million |
| Occupancy | 80.3% | 79.7% | 80.3% | 79.7% |
| Average room rate | £104.0 | £92.6 | €132.8 | €127.6 |
| RevPAR | £83.5 | £73.8 | €106.6 | €101.7 |
| Room revenue | £17.0 million | £14.9 million | €21.7 million | €20.6 million |

1 Average exchange rate from Euro to Sterling for June 2016 was 1.277 and for June 2015 was 1.378, representing a 7.4% decrease.

### Dutch hotel portfolio performance

Our hotels in The Netherlands continued to deliver growth with total revenue increasing by 4.3% to €29.6 million (H1 2015: €28.4 million). Due to the weakening of Sterling against the Euro, total revenue growth in Sterling was 12.7% to £23.2 million (H1 2015: £20.6 million).

In local currency, RevPAR for our hotels increased by 4.8% to €106.6 (H1 2015: €101.7). This growth was achieved through a 4.1% increase in average room rate, to €132.8 (H1 2015: €127.6) and 60 bps increase in occupancy, to 80.3% (H1 2015: 79.7%). In Sterling, RevPAR increased by 13.2% to £83.5 (H1 2015: £73.8), with average room rates increasing by 12.4% to £104.0 (H1 2015: £92.6).

EBITDA increased by 7.7% to €9.5 million (H1 2015: €8.8 million), which in Sterling represented a growth of 16.3% to £7.4 million (H1 2015: £6.4 million).

The Dutch market continued to improve year-on-year and our hotels benefited from further demand increases. In Amsterdam, two of our hotels in the city centre, as well as our hotels in Utrecht and Eindhoven, outperformed their competitive sets in RevPAR*.

### Portfolio update

We continued to progress preparations for the extensive renovation of Park Plaza Victoria Amsterdam, Park Plaza Vondelpark, Amsterdam and Park Plaza Utrecht.

Further updates on the work to be undertaken and the commencement dates will follow in due course.

### The Dutch hotel market*

The greater Amsterdam hotel market once again reported double digit growth in RevPAR, which increased by 10.1% to €108.20. This growth was a direct result of an 7.4% increase in average room rate to €140.38 and 190 bps increase in occupancy to 77.1%.

Hotels in Utrecht also continued to deliver growth, with RevPAR increasing by 16.0% to €71.4. This was the result of a 10.5% increase in average room rate to €99.1 and 330 bps increase in occupancy to 72.0%.

RevPAR in Eindhoven increased by 8.6% to €46.6, driven by a 6.3% increase in average room rate to €76.9 and 130 bps increase in occupancy to 60.6%.

* Source: STR, June 2016.

# REVIEW OF OPERATIONS

## Germany and Hungary

Hotel Operations

| | Reported in GBP (£) | | Reported in local currency Euros (€)[1] | |
|---|---|---|---|---|
| | Six months ended 30 June 2016 | Six months ended 30 June 2015 | Six months ended 30 June 2016 | Six months ended 30 June 2015 |
| Total revenue | £10.6 million | £10.4 million | €13.6 million | €14.3 million |
| EBITDAR | £2.7 million | £2.7 million | €3.4 million | €3.8 million |
| EBITDA | £(0.8) million | £(0.4) million | €(1.0) million | €(0.6) million |
| Occupancy | 67.4% | 77.6% | 67.4% | 77.6% |
| Average room rate | £61.1 | £53.4 | €78.0 | €73.6 |
| RevPAR | £41.2 | £41.4 | €52.6 | €57.1 |
| Room revenue | £7.9 million | £7.7 million | €10.1 million | €10.7 million |

| | Like-for-like[2] in GBP (£) | | Like-for-like[2] in local currency Euros (€)[1] | |
|---|---|---|---|---|
| | Six months ended 30 June 2016 | Six months ended 30 June 2015 | Six months ended 30 June 2016 | Six months ended 30 June 2015 |
| Total revenue | £10.5 million | £10.4 million | €13.4 million | €14.3 million |
| EBITDAR | £2.8 million | £2.7 million | €3.6 million | €3.8 million |
| EBITDA | £(0.7) million | £ (0.4) million | €(0.8) million | €(0.6) million |
| Occupancy | 68.6% | 77.6% | 68.6% | 77.6% |
| Average room rate | £60.8 | £53.4 | €77.6 | €73.6 |
| RevPAR | £41.7 | £41.4 | €53.3 | €57.1 |
| Room revenue | £7.8 million | £7.7 million | €10.0 million | €10.7 million |

1 Average exchange rate from Sterling to Euro for June 2016 was 1.277 and for June 2015 was 1.378, representing a 7.4% decrease.
2 The like-for-like comparison figures exclude Park Plaza Nuremberg for the six months ended 30 June 2016.

### German and Hungarian hotel portfolio performance

Total revenue in this region decreased by 5.1% to €13.6 million (H1 2015: €14.3 million). In Sterling, the increase in total revenue was 2.4% to £10.6 million (H1 2015: £10.4 million).

RevPAR decreased by 7.9% to €52.6 (H1 2015: €57.1). The 7.9% decline in RevPAR to €52.6 (H1 2015: €57.1), was the result of a 1,020 bps decrease in occupancy to 67.4% (H1 2015: 77.6%), whilst average room rate increased by 6.1% to €78.0 (H1 2015: €73.6). In Sterling, RevPAR was flat at £41.2 (H1 2015: £41.4), with average room rates increasing by 13.9% to £60.8 (H1 2015: £53.4).

EBITDA decreased by 62.2% to €(1.0) million (H1 2015: €(0.6) million), which in Sterling represented a loss of £(0.8) million (H1 2015: £(0.4) million). The main reason for the decline was the weak performance of our hotel in Dresden where the market deteriorated.

With our recent and upcoming renovation programme across several of our hotels in Berlin, our teams have implemented a strategy focused on growing average room rate in line with the improved product. During this transformation phase and with one of our hotels undergoing renovations during the period, our hotels in Berlin were unable to outperform their competitive set during the period. Over time, we expect our competitive performance to further improve as the renovation programme completes.

The Cologne and Dresden markets declined year-on-year* and against this backdrop, our hotels in these markets were unable to outperform their competitive set. Our star performer in this region however was once again art'otel budapest, which outperformed its competitive set in occupancy, average room rate and RevPAR.

### Portfolio update

During the period we progressed with the renovation of art'otel berlin mitte and this programme is expected to be completed in the third quarter of 2016.

In June we had the soft opening of Park Plaza Nuremberg. This contemporary new hotel is the result of a transformation from an iconic building in the heart of this historic city to a new landmark, offering 177 rooms, a restaurant, bar, gym and several meeting rooms. The full opening is expected in the third quarter of 2016.

On 30 June 2016 the lease agreement was terminated for Park Plaza Prenzlauer Berg Berlin. The effects on the Group of this termination are not material.

* Source: STR, June 2016.

### The German and Hungarian hotel market*

The hotels in greater Berlin reported a year-on-year increase of 2.7% in RevPAR to €70.3. This growth was the result of a 1.3% increase in average room rate to €95.3 and 120 bps increase in occupancy to 73.7%. The performance of upscale and upper mid class hotels in Cologne declined, with RevPAR decreasing by 5.3% to €68.3. This decline was the result of a 3.0% decrease in average room rate to €99.4 and 220 bps decrease in occupancy to 68.7%. In Dresden, the performance of hotels in this same category also declined, with RevPAR decreasing by 1.2% to €39.2. Occupancy decreased by 70 bps to 58.1% and average room rate increased by 0.1% to €67.4.

In Hungary, the performance of hotels in the upscale and mid class segment continued to improve with RevPAR increasing by 10.8% to HUF10,578. This growth was a result of an 8.3% increase in average room rate to HUF16,439 and a 150 bps increase in occupancy to 64.4%.

* Source: STR, June 2016.

# REVIEW OF OPERATIONS

## Croatia

Operations

| | Reported in GBP (£)[1] | Like-for-like[2] in GBP (£) | Reported in HRK | Like-for-like[2] in HRK |
|---|---|---|---|---|
| | Six months ended 30 June 2016[3] | Six months ended 30 June 2015 | Six months ended 30 June 2016 | Six months ended 30 June 2015 |
| Total revenue | £9.6 million | £8.7 million | HRK 92.1 million | HRK 91.8 million |
| EBITDAR | £1.7 million | £1.7 million | HRK 16.8 million | HRK 17.7 million |
| EBITDA | £1.5 million | £1.5 million | HRK 14.9 million | HRK 15.5 million |
| Occupancy | 43.6% | 45.9% | 43.6% | 45.9% |
| Average room rate | £55.2 | £47.3 | HRK 531.4 | HRK 497.5 |
| RevPAR | £24.1 | £21.7 | HRK 231.8 | HRK 228.2 |
| Room revenue | £5.3 million | £4.7 million | HRK 51.3 million | HRK 49.2 million |

1 Average exchange rate from Sterling to Croatian Kuna for June 2016 was 9.63 and for June 2015 was 10.51, representing a 8.4% decrease.
2 The like-for-like comparison figures include the Croatian segment for the second quarter of 2015.
3 The Croatian operations have been consolidated from 1 April 2016.

### Croatian portfolio performance

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

Overall, trading during the period was flat at HRK 92.1 million (H1 2015: HRK 91.8 million). Due to the weakening of Sterling against Kuna, total revenue in Sterling increased by 9.5% to £9.6 million (H1 2015: £8.7 million).

RevPAR improved by 1.6% to HRK 231.8, the result of an improved average room rate, which increased by 6.8% to HRK 531.4 (H1 2015: HRK 497.5). In Sterling, RevPAR improved by 11.1% to £24.1 (H1 2015: £21.7). Average room rate increased by 16.7% to £55.2 (H1 2015: £47.3).

EBITDA decreased by 4.2% to HRK 14.9 million. EBITDA in Sterling was flat at £1.5 million, due to the weakening of Sterling against Kuna.

### Portfolio update

In June 2016, in time for the summer season, renovation work was completed on an apartment block formerly part of the Verdula Beach & Villas complex. With the transformation of this building now complete, 12 additional guest rooms have been added to the room inventory of Park Plaza Arena Pula which was introduced to the market in the 2015 summer season. These new rooms have been received well by the market.

A new golf driving and putting range was also developed, adjacent to Park Plaza Verudela Pula, further extending the resort's leisure offering and widening its appeal.

# REVIEW OF OPERATIONS

## Management and Holdings

| | Reported in GBP (£) | |
|---|---|---|
| | Six months ended 30 June 2016 | Six months ended 30 June 2015 |
| Total revenue | £15.2 million | £14.4 million |
| Revenue elimination | £(13.4) million | £(11.7) million |
| Total revenue | £1.8 million | £2.7 million |
| EBITDA | £3.3 million | £4.8 million |

### Our performance

PPHE Hotel Group is owner/operator of a large part of its portfolio and as a result, all hotel management revenue related to those hotels is eliminated upon consolidation as intra-Group revenue.

Prior to consolidation and elimination of intra-Group revenue, total management and holdings revenue increased by 7.0% to £15.2 million (H1 2015: £14.4 million). This increase is primarily the result of a foreign exchange benefit.

After consolidation and elimination of intra-Group revenue, reported revenues decreased by 37.0% to £1.8 million (H1 2015: £2.7 million). This decrease is, amongst other things, the result of the incorporation of the Croatia, operation whose revenues were previously not eliminated upon consolidation.

EBITDA was adversely impacted due to the softer performance of our hotels in the United Kingdom and the transaction costs, including consulting and legal related expenses associated with the various corporate projects completed during the first half of the year. EBITDA decreased by 31.3% to £3.3 million (H1 2015: £4.8 million).

## Financial Position

Our net bank debt as at 30 June 2016 was £531.6 million, an increase of £134.0 million (as at 31 December 2015: £397.6 million). During the period, the movement in net bank debt included, among others, an increase due to the acquisition and consolidation of Arenaturist £63 million; a £30 million increase to finance several construction and capital expenditure projects; and a £19 million increase which relates to foreign exchange.

The Group's gearing ratio (net bank debt as a percentage of equity adjusted for the hedging reserve) increased to 61.0% (as at 31 December 2015: 58.4 %).

## Reconciliation reported profit to normalised profit

| In £ millions | Six months ended 30 June 2016 | Six months ended 30 June 2015 |
|---|---|---|
| **Reported profit** | **12.1** | 10.6 |
| Fair value movements on derivatives recognised in the profit and loss | – | (0.2) |
| Negative goodwill and capital gains after the acquisition of the remaining interests in Arenaturist[1] | (26.2) | – |
| Refinance expenses[2] | 22.9 | – |
| Loss on buy back of units from private investors | 0.4 | – |
| Fair value adjustment of the deferred purchase price of acquisitions in the United Kingdom (2010) and The Netherlands (2012) | – | (0.4) |
| Fair value adjustment on income swaps with private investors of Income units in Park Plaza Westminster Bridge London | 0.2 | 1.0 |
| Gain on buy back bank loan Park Plaza Nottingham | – | (0.1) |
| Forfeited deposits[3] | (6.6) | – |
| **Normalised profit** | **2.8** | 10.9 |

1 For further details please refer to note 3a to the interim financial statements.
2 For further details please refer to note 3b, 3c, 3d to the interim financial statements.
3 This income from the forfeited deposits has been released as the Group considers that the liability is extinguished.

For management purposes, the Group's activities are divided into owned hotel operations and management activities. The operating results of each of the aforementioned divisions are monitored separately for the purpose of resource allocations and performance assessment.

However, the Group believes that shareholders may find greater clarity on the results of the Group's owned operating assets; assets under development; leased properties; and its investment in Croatia. Set out below we provide some selected financial data for these assets for the six months ended 30 June 2016, prepared in £ millions.

| | Owned properties | | | Joint ventures and associates | | Management and central costs[4] | |
|---|---|---|---|---|---|---|---|
| | In operation | Under development | Operating leases | In operation | Under development | | Reported |
| *Balance sheet* | | | | | | | |
| Adjusted book value properties[1,2] | 749.3 | 119.6 | 1.2 | – | – | 1.1 | 871.2 |
| Book value intangible assets | – | – | – | – | – | 25.3 | 25.3 |
| Book value non-consolidated investments | – | – | – | 3.5 | 14.4 | – | 17.9 |
| Bank loans, (short restricted) cash and liquid assets (adjusted net debt) | (589.0) | (88.8) | 2.3 | – | – | 143.9 | (531.6) |
| Deferred contribution of sales of Income Units at Park Plaza Westminster Bridge London[6] | (9.6) | – | – | – | – | – | (9.6) |
| Other assets and liabilities | 77.5 | (5.9) | (1.7) | – | – | (104.2) | (34.3) |
| Capital employed | 228.2 | 24.9 | 1.8 | 3.5 | 14.4 | 66.1 | 338.9 |
| *Normalised profit* | | | | | | | |
| Revenues[3] | 99.3 | – | 10.5 | – | – | 1.8 | 111.6 |
| Adjusted EBITDA[5] | 35.5 | – | (0.1) | 0.2 | – | (3.1) | 32.5 |
| Depreciation and amortisation | (10.4) | – | (0.1) | – | – | (1.3) | (11.8) |
| EBIT | 25.1 | – | (0.2) | 0.2 | – | (4.4) | 20.7 |
| Interest expenses banks and finance leases | (12.3) | (0.5) | – | – | – | (0.1) | (12.9) |
| Net expenses for financial liability in respect of Income Units sold to private investors | (4.2) | – | – | – | – | – | (4.2) |
| Other finance expenses and income | – | – | – | 0.7 | 0.2 | (0.1) | 0.8 |
| Results from joint ventures and associates | – | – | – | (1.5) | (0.1) | – | (1.6) |
| **Normalised profit before tax 30 June 2016** | **8.6** | **(0.5)** | **(0.2)** | **(0.6)** | **0.1** | **(4.6)** | **2.8** |
| **Normalised profit before tax 30 June 2015** | **13.1** | **(0.4)** | **0.1** | **0.2** | **–** | **(2.1)** | **10.9** |

1 All assets are reported at cost, less depreciation.
2 Finance lease liabilities and deferred taxes relating to properties have been netted with the property book value.
3 Since the majority of the Group's hotels are fully owned, leased and consolidated, management and other fees generated on these hotels are fully eliminated.
4 The amounts shown in Management and central costs include unallocated assets and liabilities.
5 Excluding management fees from fully owned and leased hotels.
6 The profit from the sale of Income Units in Park Plaza Westminster Bridge London has been deferred.

## Principal Risks and Uncertainties

There are no changes to the risks and uncertainties as set out in the Company's consolidated financial statements for the year ended 31 December 2015, which may affect the Group's performance in the next six months. The most significant risks and uncertainties relate to factors that are common to the hotel industry and beyond the Group's control, such as the global economic downturn, changes in travel patterns or in the structure of the travel industry and the increase in acts of terrorism. For a detailed discussion of the risks and uncertainties facing the Group, please refer to pages 26 and 27 of the Company's 2015 annual report.

## Statement of Directors' Responsibilities

The directors confirm that, to the best of their knowledge, these interim condensed consolidated financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting", as adopted by the European Union, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation as a whole for the period ended 30 June 2016. The interim management report includes a fair review of the information required by DTR 4.2.7 R and DTR 4.2.8, namely:

- An indication of important events which have occurred during the first six months and their impact on the condensed set of financial statements, plus a description of the principal risks and uncertainties for the remaining six months of the financial year.
- Material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.
- The directors of the Company are listed in the Company's 2015 annual report and a current list of directors is maintained on the website of the Company (www.pphe.com).

By the order of the Board

| 30 August 2016 | Boris Ivesha<br>President & Chief Executive Officer | Chen Moravsky<br>Deputy Chief Executive Officer & Chief Financial Officer |
|---|---|---|

# INDEPENDENT REVIEW REPORT TO PPHE HOTEL GROUP LIMITED

To: The Board of Directors of PPHE Hotel Group Limited

### Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of PPHE Hotel Group Limited and its subsidiaries (the Group) as of 30 June 2016 and the related interim condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes.

Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34 Interim Financial Reporting (IAS 34) and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

### Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

Kost Forer Gabbay & Kasierer

30 August 2016

# INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | 30 June 2016 Unaudited £ '000 | 31 December 2015 Audited £ '000(*) |
|---|---|---|
| ASSETS | | |
| NON-CURRENT ASSETS: | | |
| Intangible assets | 25,343 | 21,878 |
| Property, plant and equipment | 1,024,668 | 813,026 |
| Prepaid leasehold payments | 322 | 293 |
| Investment in associates | – | 16,483 |
| Investment in joint ventures | 17,824 | 17,328 |
| Other non-current financial assets | 7,519 | 16,607 |
| | 1,075,676 | 885,615 |
| CURRENT ASSETS: | | |
| Restricted deposits | 22,371 | 3,206 |
| Inventories | 2,563 | 999 |
| Trade receivables | 16,818 | 9,154 |
| Other receivables and prepayments | 20,270 | 7,721 |
| Cash and cash equivalents | 186,784 | 50,623 |
| | 248,806 | 71,703 |
| Total assets | 1,324,482 | 957,318 |

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

(*) Comparative data revised to reflect changes in presentation currency – see Note 2a.

# INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | 30 June 2016 Unaudited £ '000 | 31 December 2015 Audited £ '000(*) |
|---|---|---|
| **EQUITY AND LIABILITIES** | | |
| **EQUITY:** | | |
| Issued capital | – | – |
| Share premium | 129,520 | 129,140 |
| Treasury shares | (3,208) | (3,208) |
| Foreign currency translation reserve | 4,200 | (19,449) |
| Hedging reserve | (1,487) | (14,944) |
| Accumulated earnings | 184,170 | 176,365 |
| Attributable to equity holders of the parent | **313,195** | 267,904 |
| Non controlling interests | 25,666 | – |
| Total equity | **338,861** | 267,904 |
| **NON–CURRENT LIABILITIES:** | | |
| Bank borrowings | 716,705 | 440,110 |
| Financial liability in respect of Income Units sold to private investors | 134,530 | 136,203 |
| Other financial liabilities | 28,921 | 45,198 |
| Deferred income taxes | 8,809 | 8,028 |
| | **888,965** | 629,539 |
| **CURRENT LIABILITIES:** | | |
| Trade payables | 15,138 | 10,455 |
| Other payables and accruals | 57,487 | 38,045 |
| Bank borrowings | 24,031 | 11,375 |
| | **96,656** | 59,875 |
| Total liabilities | **985,621** | 689,414 |
| Total equity and liabilities | **1,324,482** | 957,318 |

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

(*) Comparative data revised to reflect changes in presentation currency – see Note 2a.

30 August 2016

Date of approval of the financial statements

Boris Ivesha
President & Chief Executive Officer

Chen Moravsky
Deputy Chief Executive Officer & Chief Financial Officer

# INTERIM CONSOLIDATED INCOME STATEMENT

| | Six months ended | |
|---|---|---|
| | 30 June 2016 Unaudited £ '000[1] | 30 June 2015 Unaudited £ '000(*) |
| Revenues | 111,641 | 102,262 |
| Operating expenses | (74,539) | (63,098) |
| EBITDAR | 37,102 | 39,164 |
| Rental expenses | (4,604) | (4,064) |
| EBITDA | 32,498 | 35,100 |
| Depreciation and amortisation | (11,798) | (9,442) |
| EBIT | 20,700 | 25,658 |
| Financial expenses | (13,610) | (12,060) |
| Changes in fair value of derivatives | 41 | 184 |
| Financial income | 1,466 | 2,734 |
| Other income | 33,698 | 488 |
| Other expenses | (24,317) | (30) |
| Net expenses for financial liability in respect of Income Units sold to private investors | (4,253) | (4,295) |
| Share in results of associate and joint ventures | (1,638) | (2,061) |
| Profit before tax | 12,087 | 10,618 |
| Income tax benefit | 168 | 183 |
| Profit for the period | **12,255** | 10,801 |
| Profit attributable to: | | |
| Equity holders of the parent | 13,051 | 10,801 |
| Result non-controlling interest | (796) | – |
| | **12,255** | 10,801 |
| Basic and diluted earnings per share (in GBP) | **0.31** | 0.26 |

[1] Except earnings per share.

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

(*) Comparative data revised to reflect changes in presentation currency – see Note 2a.

# INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Six months ended | |
|---|---|---|
| | 30 June 2016 Unaudited £ '000 | 30 June 2015 Unaudited £ '000(*) |
| Profit for the period | **12,255** | 10,801 |
| Other comprehensive income (loss) to be recycled through profit and loss in subsequent periods: | | |
| Fair value gain on available-for-sale financial assets[1] | – | 8 |
| Profit (loss) from cash flow hedges[2] | (1,580) | 4,594 |
| Recycling of cash flow hedge reserves upon discontinuation of hedge accounting[2] | 15,037 | – |
| Foreign currency translation adjustments of foreign operations[3] | 24,576 | (16,661) |
| Recycling of currency-translation adjustments, previously deferred in equity, that were realised upon the Croatian acquisition[3] | 265 | – |
| Foreign currency translation adjustment of associate and joint ventures[3] | 6 | – |
| Other comprehensive income (loss), net | 38,304 | (12,059) |
| Total comprehensive income (loss) | **50,559** | (1,258) |
| Total comprehensive income (loss) attributable to: | | |
| Equity holders of the parent | 50,157 | (1,258) |
| Non-controlling interest | 402 | – |
| | **50,559** | (1,258) |

1 Included in other reserves.
2 Included in hedging reserve.
3 Included in foreign currency translation reserve.

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

(*) Comparative data revised to reflect changes in presentation currency – see Note 2a.

# INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Issued capital[1] £ '000 | Share premium £ '000 | Other reserves £ '000 | Treasury shares £ '000 | Foreign currency Translation reserve £ '000 | Hedging reserve £ '000 | Accumulated earnings £ '000 | Total £ '000 | Non-controlling interests £ '000 | Total equity £ '000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Balance as at 1 January 2016 (audited) | – | 129,140 | – | (3,208) | (19,449) | (14,944) | 176,365 | 267,904 | – | 267,904 |
| Profit for the period | – | – | – | – | – | – | 13,051 | 13,051 | (796) | 12,255 |
| Other comprehensive income for the period | – | – | – | – | 23,649 | 13,457 | – | 37,106 | 1,198 | 38,304 |
| Total comprehensive income | – | – | – | – | 23,649 | 13,457 | 13,051 | 50,157 | 402 | 50,559 |
| Share-based payments | – | – | – | – | – | – | – | – | – | – |
| Issue of shares upon exercise of employee options | – | 380 | – | – | – | – | – | 380 | – | 380 |
| Dividend distribution | – | – | – | – | – | – | (4,220) | (4,220) | – | (4,220) |
| Acquisition of a subsidiary | – | – | – | – | – | – | – | – | 19,054 | 19,054 |
| Transactions with non-controlling interests | – | – | – | – | – | – | (1,026) | (1,026) | 6,210 | 5,184 |
| Balance as at 30 June 2016 (unaudited) | – | 129,520 | – | (3,208) | 4,200 | (1,487) | 184,170 | 313,195 | 25,666 | 338,861 |
| Balance as at 1 January 2015(*) (audited) | – | 128,547 | 220 | (3,208) | (8,704) | (19,765) | 155,430 | 252,520 | – | 252,520 |
| Profit for the period | – | – | – | – | – | – | 10,801 | 10,801 | – | 10,801 |
| Other comprehensive income (loss) for the period | – | – | 8 | – | (16,661) | 4,594 | – | (12,059) | – | (12,059) |
| Total comprehensive income (loss) | – | – | 8 | – | (16,661) | 4,594 | 10,801 | (1,258) | – | (1,258) |
| Share-based payments- | – | 14 | – | – | – | – | – | 14 | – | 14 |
| Issue of shares | – | 433 | – | – | – | – | – | 433 | – | 433 |
| Dividend distribution | – | – | – | – | – | – | (4,163) | (4,163) | – | (4,163) |
| Balance as at 30 June 2015 (unaudited) | – | 128,994 | 228 | (3,208) | (25,365) | (15,171) | 162,068 | 247,546 | – | 247,546 |

[1] No par value.

The accompanying notes are an integral part of the Consolidated interim financial statements.
(*) Comparative data revised to reflect changes in presentation currency – see Note 2a.

# INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

| | Six months ended | |
|---|---|---|
| | 30 June 2016<br>Unaudited<br>£ '000 | 30 June 2015<br>Unaudited<br>£ '000(*) |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Profit for the period | 12,255 | 10,801 |
| ADJUSTMENT TO RECONCILE PROFIT TO CASH PROVIDED BY OPERATING ACTIVITIES: | | |
| Financial expenses including changes in fair value of derivatives and expenses for financial liability in respect of Income Units sold to private investors | 17,863 | 16,355 |
| Financial income | (1,507) | (2,918) |
| Income tax benefit | (168) | (183) |
| Fair value gain on deferred consideration from business combinations | | (411) |
| Loss on buy back of Income Units sold to private investors | 369 | 30 |
| Gain on acquisition Arenaturist | (26,180) | – |
| Re-finance expenses | 22,971 | – |
| Forfeited deposits results | (6,541) | – |
| Gain on buy-back of bank loan for Park Plaza Nottingham | | (78) |
| Share-based payments | | 14 |
| Share in loss of associate and Joint Venture | 1,638 | 2,061 |
| Depreciation and amortisation | 11,798 | 9,442 |
| | **20,243** | 24,312 |
| CHANGES IN OPERATING ASSETS AND LIABILITIES: | | |
| Increase in inventories | (114) | 57 |
| Increase in trade and other receivables | (7,256) | (650) |
| Decrease (increase) in trade and other payables [1] | 6,760 | (838) |
| | (610) | (1,431) |
| CASH PAID AND RECEIVED DURING THE PERIOD FOR: | | |
| Interest paid | (17,980) | (14,597) |
| Interest received | 119 | 57 |
| Taxes paid | (29) | (22) |
| | (17,890) | (14,562) |
| Net cash flows provided by operating activities | **13,998** | 19,120 |

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

(*) Comparative data revised to reflect changes in presentation currency – see Note 2a.

[1] This includes the unpaid consideration of the acquisition of Arenaturist, in the amount of £8.0 million.

# INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS continued

| | Six months ended | |
|---|---|---|
| | 30 June 2016<br>Unaudited<br>£ '000 | 30 June 2015<br>Unaudited<br>£ '000(*) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Investments in property, plant and equipment | (50,652) | (24,634) |
| Investments and loans to jointly controlled entities | (250) | (472) |
| Net change in cash upon acquisition of Arenaturist[1] | (14,002) | – |
| Net cash flows used in investing activities | **(64,904)** | (25,106) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Dividend distribution | (4.220) | (4,163) |
| Issue of shares | 380 | 433 |
| Draw down of long–term loans | 591,686 | 11,219 |
| Repayment of long–term loans | (410,534) | (14,777) |
| Buy-back of Income Units previously sold to private investors | (1,359) | (388) |
| Net proceeds from transactions with non controlling interest | 5,184 | – |
| Net cash flows (used in) provided by financing activities | **181,127** | (7,676) |
| Decrease (increase) in cash and cash equivalents | 130,221 | (13,662) |
| Net foreign exchange differences | 4,609 | (2,084) |
| Cash and cash equivalents at beginning of period | 50,623 | 54,714 |
| Cash and cash equivalents at end of period | **185,453** | 38,968 |
| | | |
| Non cash items: | | |
| Outstanding payables on investments in property plant and equipment | 9,827 | 5,212 |

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

(*) Comparative data revised to reflect changes in presentation currency – see Note 2a.

[1] This includes the unpaid consideration of the acquisition of Arenaturist, in the amount of £8.0 million.

# NOTES

## Note 1: General

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

b. These financial statements have been prepared in a condensed format as at 30 June 2016 and for the six months then ended ("interim Consolidated financial statements"). These financial statements should be read in conjunction with the Company's annual Consolidated financial statements as at 31 December 2015 and for the year then ended and the accompanying notes ("annual Consolidated financial statements").

c. The Board continues to monitor the Group's cash flow forecasts for a period of at least 12 months from the date of approval of the financial statements, including compliance with loan covenants and liquidity risks arising from the maturities of the Group's loans. The Board believes that the Group has adequate resources and will generate sufficient funds in the future to serve its financial obligations and continue its operations as a going concern in the foreseeable future.

d. The Company is listed on the Standard Listing segment of the UK Listing Authority and its shares are admitted to trading on the main market for listed securities of the London Stock Exchange.

## Note 2: Basis of Preparation and Changes in Accounting Policies

Basis of preparation:

### a. Presentation currency

The Consolidated financial statements are presented in Sterling and all values are rounded to the nearest thousand (£'000) except where otherwise indicated.

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

Consequently, the Board has determined, effective from 1 January 2016, that the Consolidated financial statements will be presented in Sterling. This change is expected to reduce the impact of currency movements on reported results and, given the current composition of the Group's hotel portfolio as well as the anticipated opening of two further hotels and an extension in London during 2016, the Board believes that this change will help PPHE Hotel Group's financial performance be more accurately portrayed. Comparative data for the prior year have been revised to reflect the change in presentation currency. The Company also reclassified other reserves to share premium.

### b. Accounting policies

The interim Consolidated financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting". The accounting policies adopted in the preparation of the interim condensed Consolidated financial statements are consistent with those followed in the preparation of the Group's annual Consolidated financial statements. The adoption of the following new standards effective as of 1 January 2016 had no material impact on the interim Consolidated financial statements.

- Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- Annual Improvements Cycle – 2012-2014
- Amendments to IAS 1 Disclosure Initiative

## Note 3: Significant Events during the Reported Period

### a. Acquisition of 80% interest from its joint venture partner in Croatia

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

The consideration for the Acquisition comprises:

- €5.0 million cash deposit payable on signing; plus
- €35.0 million in cash payable on completion; plus
- a deferred consideration, payable on or prior to 31 December 2016 equal to €10.0 million plus interest of €1.0 million which was guaranteed by the Company.

The Acquisition was financed partly from the Group's cash balances and partly by way of a €30.0 million loan from Zagrebačka banka d.d.. The tranches of the loan are for a period of 7 to 8 years and bears interest of Euribor +5.9%.

The acquiree indirectly owned 74.15% of the issued share capital of Arenaturist d.d (Arenaturist), a Croatian public company traded on the Zagreb Stock Exchange, and 100% ownership of three Croatian private companies (together the Arenaturist Group). These companies together own seven hotels and six apartment complexes and have interest in eight campsites in Istria, Croatia.

# NOTES

As a result of Arenaturist, the Company was required to make a mandatory takeover offer (the Offer) for the outstanding share capital of Arenaturist. Pursuant to this offer the Group acquired 3.48% of the issued share capital of Arenaturist for approximately HRK 326 per share, totaling a purchase price of HRK 24.7 million (£2.6 million).

After completion of the Acquisition the Group has placed shares with two Croatian institutional investors representing 9% and 3% respectively of the issued share capital for approximately HRK 285 (approximately £29.17) per share, totaling a selling price of HRK 74.6 million (£7.9 million). The excess of the carrying amount of the portion of the subsidiary sold over the consideration received of approximately £1 million was recorded in equity.

Given that the Company achieved full control over Bora, which was previously held as an associate, the Acquisition is accounted for as a business combination achieved in stages ("step acquisition"). Accordingly, Management has re-measured the Company's previously held equity interests in Bora at the Acquisition Date at fair value and recognised a loss of £0.7 million, which is recorded in other income along with the gain from bargain purchase of £27.4 million. The previously reported balances of £17.4 million represented the company's 20% shares accounted using the equity method and certain shareholders loans. The 100% interest was recorded at fair value, as disclosed below

From the Acquisition Date (being 16 April 2016) to 30 June 2016, the Acquisition (at 100% ownership) has made a contribution of £9.6 million to the Group's revenue and £(1.2) million to the Group's profit. If the combination had taken place at the beginning of 2016, the total consolidated revenues and profit during the interim period ended 30 June 2016 would have amounted to £10.9 million and £(5.8) million, respectively. All of the gross contractual amount in trade receivables of £0.8 million is expected to be collected. Transaction costs arising from this Acquisition were not material and were recorded in profit and loss. The excess of the fair value of the net assets acquired over the consideration paid amounting to £27.4 million was allocated to gain from bargain purchase on a provisional basis, subject to a final purchase price allocation and is presented under "other income". The reason for this negative goodwill is the fact that the Group was in a good position to negotiate this transaction.

On 1 August 2010, the Act on tourist and other construction land not evaluated in transformation and privatization processes ("the ZOTZ") entered into force, on the basis of the provisions of which the ownership and co-ownership over land not evaluated in transformation and privatisation processes should finally be determined, and in the spirit of the provisions of which all disputes which are ongoing in relation to unevaluated tourist land will be resolved. Arenaturist initiated procedures in accordance with the provisions of the ZOTZ within the prescribed period, through submission of a request on 31 January 2011 for concessions on tourist land in camp grounds and tourist land in tourist resorts, as well as requests for verification of plots/land ground-plan surface area of appraised buildings (hotels, apartments and other appraised buildings) and other prescribed requests.

The ownership and/or co-ownership of the Company of the portion of land not evaluated in the transformation and privatisation procedures will be determined by the outcome of these procedures. The aforementioned procedures have not been completed yet, however, Arenaturist makes so called advance payments of concession fees for tourist land to the competent authorities. The outcome of these procedures is not expected to have a significant impact on the financial statements or results of the Company or the Group.

The fair values of the identifiable assets and liabilities as at the Acquisition Date are presented below:

| | Fair Value £ '000 |
|---|---|
| Property, plant and equipment | 135,166 |
| Intangible Fixed assets | 2,046 |
| Other non-current financial assets | 791 |
| Trade receivables | 756 |
| Cash and cash equivalents | 13,627 |
| Other current assets | 1,750 |
| | **154,136** |
| Bank Borrowings | (36,688) |
| Other non-current liabilities | (6,249) |
| Trade creditors | (1,583) |
| Bank Borrowings short term | (2,736) |
| Other payables and accruals | (4,465) |
| | **(51,721)** |
| Net assets | **102,415** |
| Total Consideration | 39,469 |
| Fair value of previously held interest (50%) | 16,735 |
| Fair value of Non-controlling interests | 19,054 |
| | **75,258** |
| Gain from bargain purchase | **27,157** |
| Carrying amount of previous held interest | 17,447 |
| Fair value previously held interest | 16,735 |
| Gain (loss) on re–measurement of previously held interest | **(712)** |
| Cash flow on acquisition | |
| Net cash acquired with the subsidiaries | 13,627 |
| Cash paid | (27,629) |
| Net cash outflow | **(14,002)** |

# NOTES

### b. Refinancing of London and Dutch Hotels

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

The facility for the London Hotels is for £150.0 million, a term of 10 years and will bear a fixed interest rate of 3.248% per annum.

The facility for the Dutch Hotels is for €182.0 million (£144.3 million), a term of 10 years and will bear a fixed interest rate of 2.165% per annum.

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

### c. Refinancing of Park Plaza Westminster Bridge London Hotel

On 12 May 2016 the Group has entered into an agreement to refinance Park Plaza Westminster Bridge London .

The new £182.4 million facility is for a term of 12 years. £172.4 million of the facility will bear a fixed interest rate of 3.785% per annum and the balance will bear a competitive floating interest rate.

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

### d. Refinancing of Park Plaza Victoria London

On 29 March 2016 the Group entered into an agreement to refinance Park Plaza Victoria London.

The new £87.0 million ten year facility is for 10 years and bears a fixed interest rate of 3.41% per annum.

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

### Note 4: Segment Data

For management purposes, the Group's activities are divided into owned hotel operations and management activities. Owned hotel operations are further divided into four reportable segments: The Netherlands, Germany and Hungary, the United Kingdom and Croatia. 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 the amount presented in the Consolidated income statement.

| | Six months ended 30 June 2016 (unaudited) | | | | | | |
|---|---|---|---|---|---|---|---|
| | The Netherlands £ '000 | Germany and Hungary £ '000 | United Kingdom £ '000 | Croatia £ '000 | Management £ '000 | Holding companies and adjustments £ '000 | Consolidated £ '000 |
| **REVENUE** | | | | | | | |
| Third party | 23,210 | 10,623 | 66,424 | 9,562 | 1,822 | – | 111.641 |
| Inter–segment | – | – | – | – | 13,394 | (13,394) | – |
| Total revenue | 23,210 | 10,623 | 66,424 | 9,562 | 15,216 | (13,394) | 111,641 |
| Segment EBITDA | 7,424 | (779) | 21,010 | 1,545 | 3,298 | – | 32,498 |
| Depreciation and amortisation | – | – | – | – | – | – | (11,798) |
| Financial expenses | – | – | – | – | – | – | (13,610) |
| Financial income and changes in fair value of derivatives | – | – | – | – | – | – | 1,507 |
| Interest expenses on advance payments for unit holders | – | – | – | – | – | – | (4,253) |
| Other income (net) | – | – | – | – | – | – | 9,381 |
| Share in loss of associate and joint ventures | – | – | – | – | – | – | (1,638) |
| Profit before tax | – | – | – | – | – | – | **12,087** |

| | Six months ended 30 June 2015 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | The Netherlands £ '000 | Germany and Hungary £ '000 | United Kingdom £ '000 | Management £ '000 | Holding companies and adjustments £ '000 | Consolidated £ '000 |
| **REVENUE** | | | | | | |
| Third party | 20,603 | 10,373 | 68,542 | 2,744 | – | 102,262 |
| Inter–segment | – | – | – | 11,746 | (11,746) | – |
| Total revenue | 20,603 | 10,373 | 68,542 | 14,490 | (11,746) | 102,262 |
| Segment EBITDA | 6,385 | (445) | 24,378 | 4,782 | – | 35,100 |
| Depreciation and amortisation | – | – | – | – | – | (9,442) |
| Financial expenses | – | – | – | – | – | (12,060) |
| Financial income and changes in fair value of derivatives | – | – | – | – | – | 2,918 |
| Interest expenses on advance payments for unit holders | – | – | – | – | – | (4,295) |
| Other income (net) | – | – | – | – | – | 458 |
| Share in loss of associate and joint ventures | – | – | – | – | – | (2,061) |
| Profit before tax | – | – | – | – | – | 10,618 |

# NOTES

## Note 5: Financial Instruments

### Fair value of financial instruments:

During the period ended 30 June 2016, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

There were no significant changes compared to the annual financial statements.

## Note 6: Other Disclosures

### a. Seasonality

The company is in an industry with seasonal variations. Sales and profits vary by quarter and the second half of the year is generally the strongest trading period.

### b. Significant capital commitments

At 30 June 2016, the company has a total of £55.4 million in capital commitments with respect to construction projects.

### c. Changes in business or economic circumstances

There were no material changes in interest rates that significantly affected the fair value of the companies' financial assets and liabilities. As assets are matched with liabilities in the same currency the exposure to currency risk is limited.

### d. Other income

| | Six months ended 30 June 2016 £'000 | Six months ended 30 June 2015 £'000 |
|---|---|---|
| Gain upon buy-back bank loan Park Plaza Nottingham | – | 78 |
| Fair value adjustment of the deferred consideration in business combinations | – | 410 |
| Gain from bargain purchase in the acquisition of Arenaturist (1) | 27,157 | – |
| Income from forfeited deposits (2) | 6,541 | – |
| Total | 33,698 | 488 |

[1] For further details please refer to note 3a.
[2] This income from the forfeited deposits has been released as the Group considers that the liability is extinguished.

### e. Other expenses

| | Six months ended 30 June 2016 £'000 | Six months ended 30 June 2015 £'000 |
|---|---|---|
| Buy back of Income Units at Park Plaza Westminster Bridge London | (369) | (30) |
| Loss upon fair value adjustment of the previously held interest in the Croatian acquisition (1) | (712) | – |
| Recycling of foreign exchange results of the previously held interest in the Croatian acquisition (1) | (265) | – |
| Recycling of hedging reserves upon refinancing and canceling hedge accounting (2) | (15,037) | – |
| Other refinance expenses (2) | (7,934) | – |
| Total | (24,317) | (30) |

[1] For further details please refer to note 3a.
[2] For further details please refer to note 3b, 3c, 3d.

### f. Earnings per share

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

Potentially dilutive instruments had an immaterial effect on the basic earnings per share.

| | As at 30 June | |
|---|---|---|
| | 2016 £'000 | 2015 £'000 |
| Reported Profit | 13,051 | 10,801 |
| Weighted average number of Ordinary shares outstanding | 42,138 | 41,791 |

### g. Post balance sheet events

Following the refinancing of several hotels in the first half of the year at an aggregate of £563.7 million, the Group had excess cash reserves. Post the period end, the Board approved the payment of a special dividend of £1.00 per ordinary share on 13 July 2016 to return £42,197,512 to shareholders. This special dividend was paid on 12 August 2016.

In addition, the Board has approved the payment of an interim dividend of 10 pence per ordinary share, for the period ended 30 June 2016, to all shareholders who are on the register at 9 September 2016. The interim dividend is to be paid on 7 October 2016.