

(“PPHE Hotel Group” or the “Company”)

Audited Annual Results for the year ended 31 December 2016
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 2016.

Financial summary

- Reported total revenue increased by 24.6% to £272.5 million (2015: £218.7 million), mainly due to the first time consolidation of our Croatian operations, new hotel openings and a currency exchange rate benefit. On a like-for-like basis¹, revenue increased by 6.0%.
- Reported EBITDA increased by 17.5% to £94.1 million (2015: £80.1 million) and on a like-for-like basis¹ EBITDA improved by 0.5%. Both reported and like-for-like EBITDA benefited from the first time consolidation of the Croatian operations which offset a softer performance of the existing operations in the first half of the year, as well as increased costs.
- Normalised profit before tax increased by 6.4% to £31.7 million (2015: £29.8 million), driven by the Croatian acquisition, which was softened by a lower EBITDA of the pre-existing operations. Reported profit before tax increased by 36.2% to £38.2 million (2015: £28.1 million).
- Normalised earnings per share was £0.68 (2015: £0.71). Reported basic/diluted earnings per share was £0.83, an increase of 19% (2015: £0.70)
- Realising shareholder value via Special Dividend of £1.00 per ordinary share announced on 13 July 2016, paid to shareholders on 12 August 2016, returning £42.2 million of cash to shareholders.

Proposed final dividend of 11 pence per share (2015: 10 pence per share). Total dividend for the year (including the special dividend and interim dividend of 10 pence per share) £1.21 per share.

Operational highlights

- Undertook several corporate activities to further re-shape the Group, paving the way for a successful future whilst continuing to operate a successful business and delivering exemplary service to our guests.
- Acquisition of the interests from the Group’s joint venture partner in Croatia and subsequent takeover offer and placement of shares. The Group’s shareholding in Arenaturist d.d. is 77.09% following the transfer of its German and Hungarian operations.
- Successfully completed debt restructuring programme, with several long-term refinancing facilities for most of the Group’s assets at favourable conditions.
- Park Plaza Nuremberg, a brand new 177-room hotel opened in June 2016, including new destination restaurant BA Beef Club.
- Major extension project at Park Plaza London Riverbank completed, adding a further six floors (155 rooms) to the hotel. Chino Latino restaurant has been relocated to the first floor to maximise the views of the Houses of Parliament and River Thames.
- Renovation programmes at Park Plaza Victoria London and art’otel berlin mitte in Germany completed.

- Soft opening of Park Plaza London Waterloo, a 494-room hotel near Waterloo station, including an espressamente illy café.
- Construction of Park Plaza London Park Royal, a 212-room hotel, is progressing well and the hotel is expected to open at the end of the first quarter.

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

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

“Trading in the year to date is in line with the Board’s expectations in all markets, with the improved market conditions experienced in the second half of 2016 continuing into 2017. In the year ahead we expect further benefit from our new room inventory in London and Nuremberg where our market presence will be strengthened significantly.

“We remain focused on the creation and realisation of shareholder value and we will continue to invest in our existing portfolio, with extensive renovations at several of our hotels in London and the Netherlands, to ensure that our hotels continue to improve on their strong market positions.”

Key financial statistics

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

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

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 2016 (the "**Annual Report**"), including the Notice of Annual General Meeting. These documents shall be available today on the Company's website www.pphe.com.

The Company's Annual General Meeting will be held on 8 May 2017 at 12 noon at 1st and 2nd 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

In accordance with Disclosure Guidance 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 2016. This material is not a substitute for reading the full Annual Report.

Enquiries

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Notes to editors

The Company is a Guernsey registered company and through its subsidiaries, jointly controlled entities and associates, owns, leases, operates, franchises and develops full-service upscale upper upscale and lifestyle hotels in major gateway cities, regional centres and select resort destinations, predominantly in Europe.

The majority of the Group's hotels operate under the Park Plaza® or art'otel® brands. The Group has an exclusive licence from Carlson Hotels, one of the world's largest hotel groups, to develop and operate Park Plaza® Hotels & Resorts in Europe, the Middle East and Africa. The art'otel® brand is wholly owned by the Group.

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

The Group's portfolio of owned, leased, managed and franchised hotels comprises 40 hotels offering a total of over 9,200 rooms. The Group's development pipeline includes two new hotels, which are expected to add an additional 500 rooms to the portfolio by the end of 2019.

Our Company:

www.pphe.com

Our Hotel Brands:

www.parkplaza.com

www.artotels.com

www.arenaturist.com

Forward-looking statements

This trading 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

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

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

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

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

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

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

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

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

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

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

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

Eli Papouchado
Chairman

PRESIDENT & CHIEF EXECUTIVE OFFICER'S STATEMENT

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

Our reported total Group revenue increased by 24.6%, driven by our Croatian acquisition, contributions from new hotel openings and currency exchange rate benefit due to the devaluation of the Pound Sterling. On a like-for-like¹ basis, total revenue was up by 6.0%.

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

Our strategy

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

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

2016 corporate activity

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

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

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

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

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

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

New developments

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

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

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

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

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

Investment in our portfolio

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

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

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

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

Enhanced service quality

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

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

Investing in people

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

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

As part of this survey, engagement from respondents is measured across four drivers: My Job; My Manager; Our Team; and Our Company. Once again in 2016, the best performing driver is Our Team.

This survey provides us with valuable insights into where we perform well and where we can do better, and reflects increased engagement, involvement and commitment of team members.

It is essential that we have the right team in place to support our growth plans. In order to enhance our ability to attract new people into the business, we have adopted a multi-channel resourcing strategy to increase the visibility and reputation of the Park Plaza® brand and attract new talent into the business.

We have developed social media engagement campaigns on our careers web site, LinkedIn and XING, utilising digital imagery of our people, culture and values. This approach is part of the recruitment drive for new team members, particularly in London where our development projects have created over 300 jobs.

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

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

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

Partnership with Carlson Hotels

Our strategic and long-standing partnership with Carlson Hotels, one of the world's leading hotel companies, has gone from strength to strength.

The Group owns, operates and franchises hotels under multiple brands, including the Carlson Hotels owned Park Plaza® brand, for which it has a perpetual exclusive licence for certain countries in EMEA.

Through our relationship with Carlson Hotels we are able to compete with the international travel industry giants whilst having the operational agility of a medium-size owner/operator.

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

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

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

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

Industry recognition

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

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

Supporting the community

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

Our people

On behalf of the Board, I would like to take this opportunity to thank everyone that has worked for the Group during the year and contributed to our success. We are sincerely grateful for your hard work, professionalism and enthusiasm.

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

Current trading and outlook

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

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

Boris Ivesha
President & Chief Executive Officer

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

DEPUTY CHIEF EXECUTIVE OFFICER & CHIEF FINANCIAL OFFICER'S STATEMENT

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

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

Performance

We are pleased to have made further progress in what was a busy year for the Group and announce results in line with the Board's expectations. Reported total revenue was up 24.6% to £272.5 million (2015: £218.7 million) and EBITDA increased by 17.5% to £94.1 million (2015: £80.1 million). This growth was mainly the result of the first time consolidation of our Croatian operation with additional growth from the opening of new hotels and a currency exchange rate benefit. On a like-for-like basis¹, total revenue increased by 6.0% and EBITDA improved by 0.5%. The late openings of the new hotels in London, as well as disruption due to major renovation works at Park Plaza London Riverbank and Park Plaza Victoria London, impacted the aforementioned like-for-like figures. However, given our strong presence in London, we expect to reach stabilised trading expeditiously.

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

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

RevPAR

Like-for-like¹ RevPAR increased by 7.2% to £85.4 (2015: £79.6) reflecting improved trading of our Croatian operations and a foreign currency exchange benefit due to the weakening of Pound Sterling against the Euro and Kuna. This RevPAR growth was achieved through an 8.6% increase in average room rate to £110.9 (2015: £102.1). Occupancy was flat at 77.0% (2015: 78.0%). As a result, like-for-like¹ room revenue was up 7.8% to £181.0 million (2015: £167.9 million).

Reported RevPAR decreased by 8.2% to £84.4 (2015: £92.0). This decrease was a direct result of the first time consolidation of our Croatian operation, which is a highly seasonal business heavily weighted towards the summer months.

Occupancy reduced by 830 bps and average room rate increased by 1.8%. Reported room revenue was up 24.0% to £183.2 million (2015: £147.7 million).

EBITDA

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

On a like-for-like¹ basis, EBITDA increased by 0.5% to £94.2 million (2015: £93.7 million) and our EBITDA margin reduced by 110 bps to 34.9% (2015: 36.0%).

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

Normalised profit before tax

	Reconciliation reported to normalised profit	
	Year ended 31 Dec 2016 £ million	Year ended 31 Dec 2015 £ million
Reported profit before tax	38.2	28.1
Fair value movements on derivatives recognised in the profit and loss	(0.2)	(0.4)
Negative goodwill and capital gains after the acquisition of the remaining interests in Arenaturist	(26.2)	–
Refinance costs and expenses (including termination of hedge)	23.4	–
Park Plaza Westminster Bridge London fair value adjustment on income swaps and buy back of Income Units	0.6	2.8
Forfeited deposits from rescinded sale contracts of Income Units at Park Plaza Westminster Bridge London to private investors	(6.5)	–
Restructuring expenses and pre-opening expenses	2.4	–
2015 other one-off adjustments (see Note 24 to the Consolidated financial statements)	–	(0.7)
Normalised profit before tax*	31.7	29.8

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

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

Profit before tax

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

Asset base and leverage

The Group realises over 90% of its revenue and EBITDA from assets in ownership, of which the majority of EBITDA is generated by assets which are located in Central London and Amsterdam. The development pipeline increases our asset base of freehold units in the strong London market. Apart from successfully operating the hotels it owns, the Group has over 30 years of experience in developing and managing assets. This unique in-depth knowledge of the real estate market and its proven track record of developing and realising value from property transactions and development over the last decade, enables the Group to act quickly on opportunities.

This business model requires significant capital investment, which the Group leverages by borrowing from well-known financial institutions within a 50%–65% loan-to-value ratio. The Group also relies on its extensive experience in property finance, with strong relations with funding institutions and a track record of refinancing its assets, even when met with challenging market conditions.

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

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

Over the past years both the London and the Amsterdam real estate markets have shown a strong and diversified demand for hotel investments which has led to an increase in real estate prices. As part of the process of securing the new facilities, an independent valuation of the Group's interests in the hotels was obtained. In the financial statements the Group measures its assets at cost price less accumulated depreciation. The table below summarises the independent valuations that were obtained in the past months, comparing these with the book values.

Book value of property, plant and equipment compared with fair value

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

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

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

Loan Restructuring

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

Dividend

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

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

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

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

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

Financial position

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

Earnings and shareholder value

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

Transforming Arenaturist

Arenaturist: A Timeline

2008

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

2008- 2011

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

2012 -2015

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

2016

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

Investment in Croatia

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

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

Furthermore, in February 2017, Arenaturist completed the acquisition of the freehold interests in art'otel berlin kudamm and art'otel cologne, which the Group leased and managed, for an amount of €54.5 million (£47.4 million) net of any applicable VAT (of which €2,329,000 (£2.0 million) is on account of fixtures, fittings and equipment payable by the operating companies within the Group). Following completion of this transaction, the previous lease expenses are eliminated. Furthermore, Arenaturist was able to secure funding on beneficial terms.

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

Return on capital employed

The Group actively pursues a strategy of hotel ownership, which is different from many hotel groups where ownership of hotel assets is separated from hotel operations. One of the benefits of our owner/operator model is to remove the usual conflict associated between the two different interests in the property. Our strategy has proven to create significant value by enabling the Group to fund its growth in recent years. The Group has the expertise to master the complexities involved in real estate ownership and transactions, including debt/equity structuring, exit strategies, and (re)developing real estate into valuable hotel properties.

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

¹ Assets are reported at cost, less depreciation.

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

³ Management fees generated on owned and leased hotels are added back on the results of those hotels.

⁴ Including unallocated assets and liabilities.

Hotel real estate is an important part of the Group's assets and it is essential to understand this ownership business model in order to be able to accurately value this critical investment. This model is capital intensive and the funding structure of these properties using debt and equity has a significant impact on the equity returns of the Group. Properties under development place a burden on the capital of the Group without creating an immediate return. However, once these developments complete, they will add to the profitability of the Group like any other trading asset it owns.

Although the Group pursues full property ownership, we understand that the capital intensity required for full ownership may hinder the Group's growth in other attractive markets. Therefore, the Group has

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

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

Looking ahead

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

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

As previously announced, the planned renovations may have a temporary negative impact on the performance of these hotels due to closures of rooms and public areas. However, we believe that our investment in these renovation projects will have a positive impact on our long-term performance. In addition, we look forward to the full opening of Park Plaza London Waterloo in the second quarter of 2017 and the soft opening of Park Plaza London Park Royal which is expected at the end of the first quarter of 2017. The Company is currently considering the release of equity following practical completion of each of these hotels whilst retaining operational control, by way of debt structuring and/or sale and leaseback.

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

Chen Moravsky,
Deputy Chief Executive Officer & Chief Financial Officer

BUSINESS REVIEW 2016

UNITED KINGDOM

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

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

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

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

Whilst the trading environment improved in the second half of 2016 with particularly strong trading in London in December, an increased supply and reduction in demand in Greater London for the year as a whole resulted in a 90 bps decrease in occupancy to 81.3%.

Against this backdrop our teams focused on successfully growing average room rate which increased by 3% year-on-year to £143.8 (2015: £139.6), resulting in maintained RevPAR of £121.1 (2015: £121.8).

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

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

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

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

Development pipeline and renovation projects

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

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

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

The extension at Park Plaza London Riverbank has now been completed and provides a further six floors, adding a further 155 rooms to the hotel. The ground floor areas and first floor meeting facilities

have been remodelled and a new restaurant created on the first floor, offering spectacular views of the River Thames. During 2017, a reconfiguration project is expected to increase the number of rooms even further.

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

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

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

The United Kingdom hotel market*

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

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

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

* Source: STR Global, December 2016

THE NETHERLANDS

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

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

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

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

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

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

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

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

Renovation projects

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

The Dutch hotel market*

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

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

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

* Source: STR Global, December 2016

GERMANY AND HUNGARY

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

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

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

²Like-for-like figures exclude Park Plaza Nuremberg. Like-for-like figures for December 2015 excludes in the second half of the year for Park Plaza Prenzlauer Berg Berlin.

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

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

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

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

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

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

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

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

Development pipeline and renovation projects

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

The town is home to Germany's oldest Christmas market and is within close proximity to many local attractions, including Nuremberg Zoo and its 10th century castle. In addition to a fitness centre, sauna and meeting rooms, the hotel has opened the BA Beef Club Restaurant and the Bavarian American Bar.

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

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

Arenaturist acquired the freehold interests in art'otel berlin kudamm and art'otel cologne which acquisition was funded by a loan agreement from Deutsche Hypothekenbank AG.

The German and Hungarian hotel market*

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

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

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

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

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

* Source: STR Global, December 2016

CROATIA

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

¹ Average exchange rate from Kuna to Pound Sterling for year to December 2016 was 0.11 and for the year to December 2015 was 0.09, representing a 13% increase.

² The Croatian operations have been consolidated from 1 April 2016 and the 2015 like-for-like comparison number is adjusted to reflect the same period.

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

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

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

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

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

Renovation projects

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

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

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

The Croatian hotel market

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

MANAGEMENT AND HOLDINGS OPERATIONS:

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

Our performance

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

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

Date of approval of the financial statements 28 February 2017. 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	
	2016	2015
	£'000	£'000
Revenues	272,470	218,669
Operating expenses	(169,491)	(130,172)
EBITDAR	102,979	88,497
Rental expenses	(8,844)	(8,362)
EBITDA	94,135	80,135
Depreciation and amortisation	(25,330)	(19,056)
EBIT	68,805	61,079
Financial expenses	(27,220)	(24,221)
Financial income	2,559	4,859
Other expenses	(27,195)	(582)
Other income	33,700	454
Net expenses for financial liability in respect of Income Units sold to private investors	(10,680)	(11,588)
Share in result of associate and joint ventures	(1,750)	(1,948)
Profit before tax	38,219	28,053
Income tax benefit (expense)	(62)	1,189
Profit for the year	38,157	29,242
Profit attributable to:		
Equity holders of the parent	35,117	29,424
Non-controlling interests	3,040	–
	38,157	29,242
Basic and diluted earnings per share in Pounds Sterling	0.83	0.70

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2016	2015
	£'000	£'000
Profit for the year	38,157	29,242
Other comprehensive income (loss) to be recycled through profit and loss in subsequent periods¹:		
Fair value gain reclassified to the profit and loss upon disposal of available-for-sale financial assets	–	(169)
Profit (loss) from cash flow hedges	(1,537)	3,823
Reclassification to the income statement of cash flow hedge results upon discontinuation of hedge accounting	15,586	998
Foreign currency translation adjustments of foreign operations	35,844	(10,754)
Reclassification to the income statement of currency translation adjustments upon the Croatian acquisition	250	–
Foreign currency translation adjustment of associate and joint ventures	15	9
Other comprehensive income (loss)	50,158	(6,093)
Total comprehensive income	88,315	23,149
Total comprehensive income attributable to:		
Equity holders of the parent	83,006	23,149
Non-controlling interests	5,309	–
	88,315	23,149

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In £'000	Issued capital*	Share premium	Other reserves	Treasury shares	Foreign currency translation reserve	Hedging reserve	Accumulated earnings	Attributable to equity holders of the parent	Non-controlling interests	Total equity
Balance as at 1 January 2015**	- 128,547	169	(3,208)	(8,704)	(19,765)	155,481	252,520	-	252,520	
Profit for the year	-	-	-	-	-	-	29,242	29,242	-	29,242
Other comprehensive loss for the year	-	-	(169)	-	(10,745)	4,821	-	(6,093)	-	(6,093)
Total comprehensive income	-	-	(169)	-	(10,745)	4,821	29,242	23,149	-	23,149
Share-based payments	-	29	-	-	-	-	-	29	-	29
Issue of shares	-	564	-	-	-	-	-	564	-	564
Dividend distribution	-	-	-	-	-	-	(8,358)	(8,358)	-	(8,358)
Balance as at 31 December 2015	- 129,140	-	(3,208)	(19,449)	(14,944)	176,365	267,904	-	267,904	
Profit for the year	-	-	-	-	-	-	35,117	35,117	3,040	38,158
Other comprehensive income loss for the year	-	-	-	-	33,840	14,049	-	47,889	2,269	50,158
Total comprehensive income	-	-	-	-	33,840	14,049	35,117	83,006	5,309	88,315
Issue of shares	-	387	-	-	-	-	-	387	-	387
Dividend Distribution***	-	-	-	-	-	-	(50,637)	(50,637)	-	(50,637)
Acquisition of a subsidiary (see Note 3)	-	-	-	-	-	-	-	-	19,054	19,054
Transactions with non-controlling interests	-	-	-	-	-	-	(1,031)	(1,031)	6,210	5,179
Balance as at 31 December 2016	- 129,527	-	(3,208)	14,391	(895)	159,814	299,629	30,573	330,202	

* No par value.

** Comparative date revised to reflect change in presentation currency – see Note 2(c).

***The dividend distribution comprises a final dividend for the year ended 31 December 2015 of 10.0 pence per share and an interim dividend of 10.0 pence per share paid in 2016

CONSOLIDATED STATEMENT OF CASH FLOWS

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

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

	Year ended 31 December	
	2016 £'000	2015 £'000
Cash flows from financing activities:		
Issuance of shares upon exercise of options	387	565
Proceeds from long-term loans	614,102	38,008
Buy back of Income Units previously sold to private investors	(1,366)	(3,210)
Repayment of long-term bank loans and other long term liabilities	(419,044)	(15,629)
Net proceeds from transactions with non-controlling interest	5,179	–
Dividend payment	(50,630)	(8,358)
Net cash provided by financing activities	148,628	11,376
Increase in cash and cash equivalents	88,870	(2,444)
Net foreign exchange differences	5,239	(1,647)
Cash and cash equivalents at beginning of year	50,623	54,714
Cash and cash equivalents at end of year	144,732	50,623
Non-cash items:		
Outstanding payable on investments in property, plant and equipment	5,155	10,824

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 2016 were authorised for issuance in accordance with a resolution of the Directors on 28 February 2017.
- b. Description of business and formation of the Company: The Company was incorporated and registered in Guernsey on 14 June 2007. The shares of the Company are publicly traded. The Company's primary activity is owning, leasing, developing, operating and franchising full-service upscale and upper upscale and lifestyle hotels in major gateway cities, regional centres and select resort destinations, predominantly in Europe.
- c. Assessment of going concern: As part of their ongoing responsibilities, the Directors have recently undertaken a thorough review of the Group's cash flow forecast and potential liquidity risks. Detailed budgets and cash flow projections have been prepared for 2017 and 2018 which show that the Group's hotel operations will be cash generative during the period.

The Group has entered into a number of loan facilities, the details of which are set out in Note 15 of the Consolidated financial statements in the 2016 Annual Report and Accounts. 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:

	Year ended 31 December	
	2016 £'000	2015 £'000
Profit of equity holders of the parent	35,117	29,242
Weighted average number of Ordinary shares outstanding	42,173	41,792

Potentially dilutive instruments 227,000 in 2016 (2015: 317,000) had an immaterial effect on the basic earnings per share.

Note 3 Segments

For management purposes, the Group's activities are divided into Owned Hotel Operations and Management Activities (for further details see Note 14(c)(i) of the Consolidated financial statements in the 2016 Annual Report and Account.). Owned Hotel Operations are further divided into four reportable segments: the Netherlands, Germany and Hungary, Croatia and the United Kingdom. The operating results of each of the aforementioned segments are monitored separately for the purpose of resource allocations and performance assessment. Segment performance is evaluated based on EBITDA, which is measured on the same basis as for financial reporting purposes in the consolidated income statement.

Year ended 31 December 2016

	The Netherlands £'000	Germany and Hungary £'000	United Kingdom £'000	Croatia £'000	Management £'000	Holding companies and Adjustments* £'000	Consolidated £'000
Revenue							
Third party	48,342	24,978	148,692	46,089	4,369	–	272,470
Inter-segment	–	–	–	–	24,838	(24,838)	–
Total revenue	48,342	24,978	148,692	46,089	29,207	(24,838)	272,470
Segment EBITDA	14,637	908	51,147	16,764	10,679	–	94,135
Depreciation, amortisation and impairment	–	–	–	–	–	–	(25,330)
Financial expenses	–	–	–	–	–	–	(27,220)
Financial income	–	–	–	–	–	–	2,559
Net expenses for liability in respect of Income Units sold to private investors	–	–	–	–	–	–	(10,680)
Other income, net	–	–	–	–	–	–	6,505
Share in loss of associate and joint ventures	–	–	–	–	–	–	(1,750)
Profit before tax	–	–	–	–	–	–	38,219

*Consist of inter-company eliminations

	The Netherlands £'000	Germany and Hungary £'000	United Kingdom £'000	Croatia £'000	Holding companies and Adjustments* £'000	Consolidated £'000
Geographical information						
Non-Current assets*	183,784	25,508	712,338	145,732	27,498	1,094,860

* Non-current assets for this purpose consists of property, plant and equipment and intangible assets.

Year ended 31 December 2015

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

* Consist of inter-company eliminations.

	The Netherlands £'000	Germany and Hungary £'000	United Kingdom £'000	Holding companies And Adjustments* £'000	Consolidated £'000
Geographical information					
Non-Current assets*	159,868	15,310	636,846	22,880	834,904

* Non-current assets for this purpose consists of property, plant and equipment and intangible assets.

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 (now known as Park Plaza London Waterloo) on a 'turn-key' basis. The basic contract price payable to Gear is £70,480,000 for 494 rooms. The Non-Executive Directors of the Company had Gear's tender for the construction of the hotel independently reviewed to ensure that it was competitive.

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

On 23 December 2014, Club A40 entered into a building contract with Gear for the construction of the 166-room Park Plaza London Park Royal. The basic contract price payable to Gear is £16,520,183. On 4 February 2016, the parties agreed to vary the agreement to incorporate additional works, extend the completion date and increase the contract sum. The additional works included an extra 44 rooms, a new access road and reinstatement of a higher specification, amongst others. In addition, the contract price was increased by £7,920,599 to £24,440,782.

On 13 June 2016, Riverbank Hotel Holding B.V. entered into a building contract with Gear for refurbishment works to the existing public areas at Park Plaza London Riverbank. The basic contract price under the building contract is £6,695,773.

- b. In September 2016, the Company received the amounts outstanding in a loan to Red Sea Hotels Limited, due from the disposal of a site in Pattaya, in the amount of Thai Baht 600 million.
- c. The Directors consider that the aforementioned building contracts were entered into on arm's length terms and are in the interests of the Group. Gear is a company in whose shares the Chairman of the Company and certain members of his family are interested. Under the relationship agreement entered into between Euro Plaza Holdings B.V. ('Euro Plaza'), the principal shareholder of the Company (in whose shares the Chairman and certain members of his family are interested) and the Company, transactions between the Company and Euro Plaza (and its associates, which include Gear) are required to be on arm's length terms.
- d. Transactions in the ordinary course of business, in connection with the use of hotel facilities (such as overnight room stays and food and beverages) are being charged at market prices. These transactions occur occasionally.

Directors' interests in employee share incentive plan

As at 31 December 2016, the Executive Directors held share options to purchase 70,000 ordinary shares. All options are fully exercisable with an exercise price of £2.33, which will expire in 2022. No share options have been granted to Non-Executive members of the Board.

Directors' interests in employee share incentive plan

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

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>Market disruptors</p> <p>The travel industry has changed considerably in recent years as a result of changes in travel patterns, the emergence of low-cost airlines and online travel agents, new technologies, and changes in customer booking behaviour and travel expectations. This trend is anticipated to persist and the travel industry is expected to continue to be impacted by the rise of online travel agents and other dominant forces such as search engines and social media networks. The Group is exposed to risks such as the dominance of one such third party over another, the loss of control over its inventory and/or pricing and challenges to keep up with developments in the market.</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 Hotels, ensuring that global trends are identified and acted upon in a concerted manner, whilst benefiting from the scale, negotiating power, knowledge and skills that our global partnership brings. Executives and managers regularly attend seminars, workshops and trainings to ensure that their knowledge is kept up to date.</p>	Medium	Unchanged during the year
<p>Information technology and systems</p> <p>The Group is reliant on certain technologies and systems for the operation of its business. Any material disruption or slowdown in the Group's information systems, especially any failures relating to its reservation system, could cause valuable information to be lost or operations to be delayed.</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 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. 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>Hotel industry risks</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 in acts of terrorism. The impact of any of these factors (or a combination of them) may adversely affect sustained levels of occupancy, room rates and/or hotel values.</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>Fixed operating expenses</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) which are designed to create flexibility in the operating cost base so as to optimise operating profits in volatile trading conditions.</p>	High	Increased during the year
<p>The Group's borrowings</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, and therefore the risk of using leverage is that the loss is much greater than it would have been if the investment had not been leveraged. The risk exists that interest expenses and default on debt covenants negatively impact shareholder value and return.</p>	<p>The Board monitors funding needs regularly. Financial covenant ratios are monitored and sensitised as part of normal financial planning procedures.</p>	Low	Decreased during the year

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