pphe HOTEL GROUP

# INVESTING IN QUALITY

Annual Report
2013

## 2013 HIGHLIGHTS

- Achieved year-on-year revenue growth
- Completed €350.0 million refinancing of key hotels in London and The Netherlands, which includes a significant capital expenditure allocation
- Secured a new €30.0 million facility for corporate purposes, including existing and prospective developments
- Acquired an office building to develop a new hotel near Waterloo Station in London, United Kingdom
- Acquired freehold interests in two hotels in Berlin, Germany
- Opened flagship five-star art'otel amsterdam, incorporating 5&33, a destination bar, restaurant and gallery, in The Netherlands
- Completed 127-room extension of Park Plaza Histria Pula in Croatia
- Completed renovations at art'otel budapest in Hungary and Park Plaza Medulin in Croatia
- Successfully opened TOZI, an Italian restaurant at Park Plaza Victoria London, United Kingdom
- Obtained planning permission for an extension at Park Plaza Riverbank London, United Kingdom
- Sold development site in Pattaya Bay, Thailand for a profit – consideration of which is deferred for three years
- Paid a final dividend of 6.0 pence per share for 2012 and a 2013 interim dividend of 6.0 pence per share

## 2014 HIGHLIGHTS TO DATE

- Entered into a 50:50 joint venture for two hotels in Berlin, Germany, while continuing to manage these hotels under long-term operating agreements
- Obtained planning permission to develop 438-room hotel near Waterloo Station in London, United Kingdom
- For the last two years the Board has recommended the payment of an interim and final dividend of 6.0 pence per share making a total of 12.0 pence per share for each year. The Board is proposing the payment of an increased final dividend of 8.0 pence per share, which when combined with the interim dividend of 6.0 pence per share paid on 11 October 2013, amounts to a total dividend for the year ended 31 December 2013 of 14.0 pence per share, an increase of 16.7%. The increased dividend reflects the Board's confidence in the strength of the business and in respect of future years the Board expects to follow a progressive dividend policy

# WELCOME TO OUR 2013 ANNUAL REPORT

WE ARE AN INTERNATIONAL HOSPITALITY MANAGEMENT COMPANY, WITH A STRONG ASSET BASE AND OWNERSHIP OF, AND ACCESS TO, WORLD-CLASS BRANDS. OUR VISION IS TO REALISE GROWTH POTENTIAL AND OUR PRIMARY OBJECTIVE IS TO CREATE AND REALISE SHAREHOLDER VALUE BY BECOMING ONE OF THE LEADING HOTEL OPERATORS IN THE UPSCALE AND LIFESTYLE HOTEL SEGMENTS.

OUR PORTFOLIO OF OWNED, MANAGED, LEASED AND FRANCHISED HOTELS COMPRISES 38 HOTELS, OFFERING A TOTAL OF OVER 8,300 GUEST ROOMS, WITH AN ADDITIONAL FOUR NEW HOTEL PROJECTS UNDER DEVELOPMENT, ONE HOTEL EXTENSION AND RECONFIGURATION AND TWO REBRANDING PROJECTS. OUR KEY MARKETS ARE THE UNITED KINGDOM, GERMANY, THE NETHERLANDS AND CROATIA.

**€245.0M**
+1.2% **TOTAL REVENUE**

**€93.4M**
-3.5% **EBITDAR**

**€82.9M**
-3.1% **EBITDA**

**33.8%**
-160bps **EBITDA MARGIN**[1]

**€25.8M**
-61.8% **PROFIT BEFORE TAX**

**€21.9M**
-8.9% **NORMALISED PROFIT**[2]

**€0.63**
-61.6% **EARNINGS PER SHARE**

**€0.54**
-9.3% **NORMALISED EARNINGS PER SHARE**[2]

**80.7%**
+330bps **OCCUPANCY**

**€125.5**
-4.1% **AVERAGE ROOM RATE**

**€101.4**
+0.1% **REVPAR**[3]

1 EBITDA divided by total revenue.
2 See page 46.
3 Revenue per available room.

# CONTENTS










**Key performance indicators**
Financial KPIs and operating KPIs


**Chief Financial Officer's statement**
We continued to improve our overall trading, completed several acquisitions and had several other corporate developments


**Strategy**
Significant progress was made across several of our strategic objectives


**Directors' report and governance**
Principal risks, largest shareholders and governance


**Corporate Social Responsibility**
We have succeeded in making our efforts much more measurable


**Financial statements**
Consolidated statements, appendices and auditor's report

## Strategic report



## Governance



## Financial statements

# A DYNAMIC HOSPITALITY COMPANY

With a history dating back to 1989, PPHE Hotel Group is an international, dynamic hospitality company, with a strong asset base and ownership of, and access to, world-class brands including an exclusive brand licence from Carlson, one of the world's largest hospitality companies.

Our portfolio of owned, managed, leased and franchised hotels comprises 38 hotels, offering a total of over 8,300 guest rooms, more than 200 meeting rooms, several destination restaurants, bars, health clubs and spas.

Our key markets are the United Kingdom, Germany, The Netherlands and Croatia. The United Kingdom is our primary market, with nine hotels and nearly 2,800 rooms in operation, including six hotels in central London all near major transport hubs and landmarks. Additional hotels are to be found in Leeds, Nottingham and Cardiff. In The Netherlands, our main market is Amsterdam, where we have four hotels of which three are in the city centre and one is near Schiphol Airport. Our portfolio in this country extends to include hotels in Utrecht and Eindhoven. In Germany, Berlin is our core destination, with five hotels, and we have additional hotels in Cologne, Dresden and Trier. In Croatia, our 12 hotels are located in and around Pula and Medulin on the Adriatic coast in Istria. In addition, we offer hotels in Hungary and Israel.

Our development pipeline includes four new hotel projects, three of which are located in London and one in Nuremberg in Germany. In addition, we have one extension and reconfiguration and two rebranding projects. These developments are expected to add another 1,200 rooms to our portfolio by 2017.

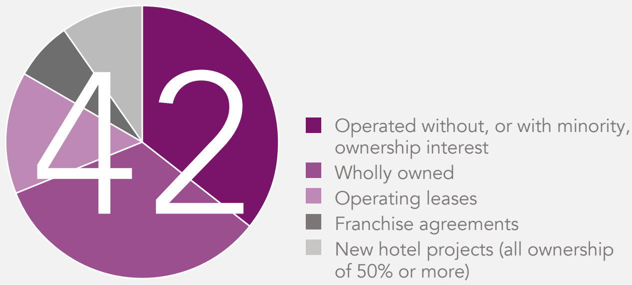
PPHE Hotel Group's corporate office is located in Amsterdam in The Netherlands, with additional support offices in Amsterdam, Berlin and London.

pphe HOTEL GROUP

The PPHE Hotel Group portfolio includes 38 properties offering a total of more than 8,300 guest rooms in Europe, the Middle East and Africa across owned, managed and franchised operations. Our primary activities are owning, leasing, developing, operating and franchising full-service upscale and lifestyle hotels.

**pphe.com**

PPHE HOTEL GROUP CONTRACT MIX




# A WELL-INVESTED HOTEL PORTFOLIO

We own or co-own the majority of our hotels and many were developed, converted or extensively renovated and repositioned by us. This means our properties have been developed to provide accommodation to our own high standards and specific requirements. We have a strong eye for identifying, optimising and realising real estate values, while delivering excellent returns through our management expertise. Our hotels are usually located in city centres, near major transport hubs and local landmarks. In addition, we focus on maximising revenue from each hotel through generating income from other areas such as meetings, events, restaurants, bars and spas. In 2008, we entered the resort segment of the market through our partnership with Arenaturist in Croatia.

We proudly introduce a selection of our landmark hotels which are owned or co-owned.

### PARK PLAZA WESTMINSTER BRIDGE LONDON

This spectacular 1,019-room hotel was one of the largest to open in London in 40 years and exemplifies our creative vision to regenerate a key London site and to deliver a self-financing, environmentally friendly development. This hotel offers some of London's largest and most versatile meeting space, including a ballroom for 1,400 delegates, several concept restaurants and bars, an exclusive spa and health club with swimming pool. This landmark project was completed a year ahead of schedule; the hotel's unique attributes were quickly acknowledged and we achieved 80% occupancy within its first year of operation, and the hotel has continued to improve its performance year on year.

**1,019**

**ROOMS**

### PARK PLAZA RIVERBANK LONDON/ PLAZA ON THE RIVER LONDON

We opened our first purpose-built property on London's South Bank in 2005 in what is today an enviable riverside location. This development includes a four-star hotel and five-star all-suite concept and was one of the first dual-branded hotels in Europe. Both hotels have created their unique niche in the market and have received multiple awards and recognition. The property offers 460 rooms, extensive meeting and event space and a Chino Latino restaurant. The immediate surroundings of this development have undergone a major transformation in recent years, from which we expect to benefit. We are currently exploring the feasibility of extending this unique riverfront asset through the addition of extra floors and a reconfiguration.

**460**

**ROOMS**

### PARK PLAZA VICTORIA AMSTERDAM

This 306-room landmark, part monumental, property in central Amsterdam was bankrupt when we bought the property in 1993 with a coherent and strong repositioning plan. With knowledgeable decision-making, significant investment and a skilful rebranding, Park Plaza Victoria Amsterdam has consistently generated very attractive returns. The hotel offers several meeting rooms, a restaurant, bar and health club with swimming pool and is widely recognised in the market. The immediate surroundings of the hotel are currently undergoing a major transformation, which will further strengthen the hotel's appeal when completed. Extensive renovations of the public areas, including the restaurant, bar and lobby, as well as approximately half of the guest rooms are expected to commence in 2014.

**306**

**ROOMS**

### ART'OTEL AMSTERDAM

Our first of the new generation art'otels opened in the heart of Amsterdam in October 2013. We converted the former land registry office to a 107-room luxury, lifestyle hotel, which has taken the market by storm. The separately marketed 5&33 lifestyle venue, which incorporates a restaurant, cocktail bar, lounge, library and gallery, is key to the success of the hotel. The entire ground floor and lower ground floor are accessible to the public and contain thought-provoking sculptures by Atelier Van Lieshout and Europe's largest interactive video art installation. A unique cultural programme adds to the buzz of this new hotspot. art'otel amsterdam and 5&33 are located adjacent to Park Plaza Victoria Amsterdam.

**107**

**ROOMS**

# WORLD-CLASS BRANDS

We use our two clearly defined hotel brands, Park Plaza® Hotels & Resorts and art'otel®, for operating leases, franchise agreements and management contracts as they offer the greatest scope for sustained expansion and continued profits.

In Croatia, we operate a variety of leisure orientated products, such as hotels, resorts and campsites, under the Arenaturist brand.

In addition, we own several award-winning, successful restaurant and bar concepts and we license concepts from third parties where we believe they add value.

When it comes to hotels, restaurants, bars and spas, we believe in a bespoke approach. We tailor each product to the market to maximise its true potential, but they all share the same philosophy of providing a high-quality experience with a strong focus on excellent service delivery.



Park Plaza Hotels & Resorts

Individual design, city centre locations and excellent meeting facilities are key features of the upscale Park Plaza® Hotels & Resorts brand, making it ideal for both corporate and leisure guests. The hotels' modern function spaces are flexible for conferences, exhibitions and private event use. Park Plaza® Hotels & Resorts' event facilities are perfectly complemented by stylish guest rooms, award-winning restaurants and bars and a reliable service that is flawlessly delivered.

**parkplaza.com**
**exclusive licence agreement in Europe, Middle East and Africa**

PARK PLAZA® HOTELS & RESORTS GLOBAL BRAND PORTFOLIO



- Park Plaza® hotels open in EMEA
- Park Plaza® hotels open in rest of world[1]
- Park Plaza® hotels under development in EMEA
- Park Plaza® hotels under development in rest of world[1]

[1] These hotels are managed or franchised directly by the Carlson Rezidor Hotel Group.

art'otel

art'otel® is a contemporary collection of hotels located in cosmopolitan centres across Europe that fuse exceptional architectural style with art-inspired interiors. At the brand's heart lies the art itself. Every hotel displays a collection of original works designed or acquired specifically for that particular property, rendering each a unique art gallery in its own right. With a powerful combination of world-class art and best-in-class service, art'otels offer a hotel experience like no other.

**artotels.com**
**wholly owned brand**

ART'OTEL® BRAND PORTFOLIO



- art'otels open
- art'otels under development

ARENA TURIST

Arenaturist is one of Croatia's best known hospitality groups consisting of seven hotels, six holiday apartment complexes, eight campsites and 52 food and beverage outlets, all of which are located in Istria. Arenaturist caters primarily for tourists; all properties are situated in prime locations by the sea and are only a short distance from either the 3,000 year old city of Pula or the touristic town of Medulin.

**arenaturist.com**
**significant minority interest**

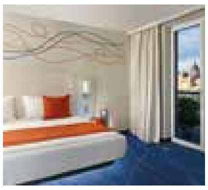
# 2013 HIGHLIGHTS

### January

Inaugural management conference to introduce the 2013 strategy to senior management

### February

Completed room renovations of a further 36 rooms at art'otel budapest

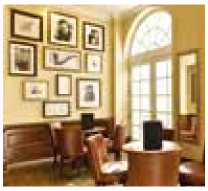


### March

Revealed record 2012 results, with €242.1 million revenue and €65.7 million profit before tax

Accredited 'One to watch' status by Best Companies®

**€65.7m**



### April

Successful launch of TOZI Restaurant & Bar in London (adjacent to Park Plaza Victoria London)

### May

Disposal of Pattaya Bay development site for 600 million Thai Baht, at a profit, consideration of which is deferred for three years

Paid final dividend for 2012

### June

Acquired prime office site for conversion to a hotel near Waterloo Station in London for £23.5 million (€28.2 million)

Completed extension of 127 rooms of Park Plaza Histria Pula, our flagship in Croatia

Completed refurbishment of remaining rooms at Park Plaza Medulin

TOZI Restaurant & Bar, London

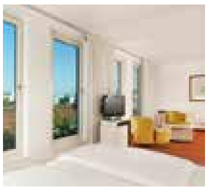
Newly acquired office site for conversion to a hotel near Waterloo Station, London

New extension of Park Plaza Histria Pula

## July

Acquired freehold interests in art'otel berlin mitte and art'otel berlin kudamm for approximately €17.5 million, with €2.0 million paid to the Group for renovations

€17.5m



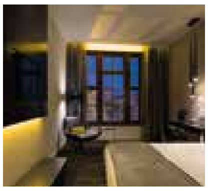
## August

Announced 0.7% revenue growth to €111.7 million for the first half of the year

Declared interim dividend of 6.0 pence per Ordinary share

## September

Soft opening of art'otel amsterdam, paving the way for a new brand positioning for art'otel



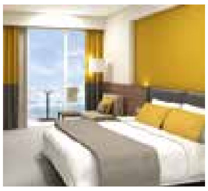
## October

Grand opening of art'otel amsterdam, incorporating 5&33, a destination kitchen, bar, library, lounge and art gallery


Paid 2013 interim dividend

## November

Announced 2014 opening of Park Plaza Belvedere Medulin, in Croatia



Obtained planning permission for an extension at Park Plaza Riverbank London

## December

Completed a €350.0 million refinancing, our largest to date, for nine hotels

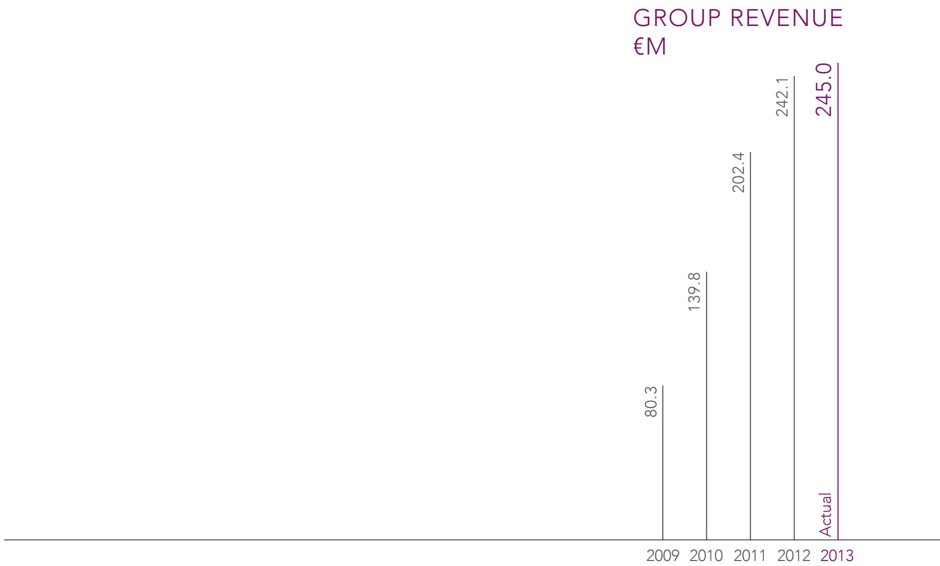
€350.0m

Park Plaza Riverbank London

5&33 kitchen, bar, library, lounge and art gallery in the heart of Amsterdam

# CHAIRMAN'S STATEMENT

# 2013 WAS ANOTHER YEAR OF PROGRESS FOR PPHE HOTEL GROUP




**ELI PAPOUCHADO**
CHAIRMAN

**Dear shareholders,**
2013 was another year of progress for PPHE Hotel Group. This was achieved against a very strong prior year comparative, as we benefited in 2012 from the London Olympic Games, and despite the remaining challenging conditions in some of the markets in which we operate. We focused on what we do best: giving our customers exemplary service at our segment-leading hotels which are located in key travel destinations. As a result, we were able to increase our revenue year on year. Our teams, aided by our ongoing investment in training, continued to deliver exceptional service, with service satisfaction among our guests increasing once again.

One of our most exciting developments during the year was the opening of our new flagship art'otel amsterdam, which has been very well received by the market.

We acquired the freehold interests in two previously leased art'otels in Berlin, with a view to maximise returns by renovating and repositioning both hotels. In January this year we entered into a 50:50 joint venture in relation to these hotels. Our development pipeline was further strengthened by an exciting new acquisition of an office building in London, near Waterloo Station, where we plan to develop a hotel with over 400 rooms.

In December, we completed the largest refinancing in the history of our Company. This new facility brings us several financial benefits and also enables us to embark on an extensive renovation programme across some of our core properties. We have an exciting journey ahead of us, which will further solidify our already strong position in some of Europe's preferred investor and travel markets such as London and Amsterdam.

For the last two years the Board has recommended the payment of an interim and final dividend of 6.0 pence per share making a total of 12.0 pence per share for each year. The Board is proposing the payment of an increased final dividend of 8.0 pence per share, which when combined with the interim dividend of 6.0 pence per share paid on 11 October 2013, amounts to a total dividend for the year ended 31 December 2013 of 14.0 pence per share, an increase of 16.7%. The increased dividend reflects the Board's confidence in the strength of the business and in respect of future years the Board expects to follow a progressive dividend policy.

Looking ahead, we will focus on the delivery of the projects in our development pipeline. We have four active new hotel projects, three in London and one in Germany, plus the extension and reconfiguration of Park Plaza Riverbank London, and two rebranding projects which are expected to add over 1,200 rooms by the end of 2017, representing approximately a 15% increase on our current number of rooms. Additional new projects are also being considered. Our investment in these new projects and an extensive planned refurbishment of our existing estate is expected to exceed €130.0 million and will lead to long-term benefits. The Company continues to consider options of how to best fund future expansion, including the release of part of the value of hotel assets, while retaining operational control.

2014 will be a very special year for PPHE Hotel Group as we will be celebrating the start of a 25-year journey that has taken us from acquiring Park Plaza Eindhoven in 1989 through to establishing a high quality hotel portfolio, world-class brands and strong operating performances. We will commemorate this feat with several festivities planned throughout the year for guests, partners and employees. I take personal pride in what we have been able to achieve and I am thrilled about the future prospects of our Group.

I would like to take this opportunity to thank the Board for their guidance and all our teams for their great work in what was a challenging, but rewarding year.

# REPOSITIONING THE ART'OTEL BRAND

As distinctive as the name suggests, each art'otel is a true piece of art in its own right. Originally created by a small group of avid art collectors and entrepreneurs in the early nineties, art'otel is a collection of contemporary hotels that blend unique architectural style with art-inspired interiors. Each art'otel is a true homage to a contemporary artist, and since its first opening in Berlin in 1990 the collection has expanded to seven stunning hotels, with another property scheduled to open in London strengthening the portfolio.

When we acquired the art'otel brand in 2007, we had a clear vision of where we wanted to take the brand. We believed in its potential and wanted to make it as unique as it was when it first launched in the nineties in Germany and later in Hungary. We didn't neglect the current, but rather built on the learnings from the existing art'otels and added a lot more focus on the senses and unique brand characteristics. Our vision has now been realised, in the form of a new flagship hotel. We proudly introduce art'otel amsterdam. This new hotel, which formally opened in October 2013, is the first of a new generation of art'otels, with enhanced services and amenities. This hotel redefines the traditional hotel experience and allows guests to live within the creative process surrounded by captivating art.

# FEATURE
## REPOSITIONING THE ART'OTEL BRAND

Art and culture are ingrained in every aspect of the hotel, with knowledgeable and passionate employees sharing their enthusiasm while simultaneously delivering world-class service. The art'otel team embraces the excitement of the concept – they love art and adore hospitality. We elevate the art'otel experience to a level beyond templated hospitality without losing sight of the fundamentals of a hotel stay. We break down traditional barriers and engage with guests in an informal but respectful manner.

The new art'otel amsterdam boasts contemporary architectural styling, tasteful interior design and state-of-the-art facilities, all complemented by breathtaking art. At art'otel amsterdam, the 5&33 bar and restaurant experience is uniquely accessible and stylish, with the focus on fresh flavours and outstanding service. The iconic and historic art'otel amsterdam seamlessly fuses art and life in the very heart of cosmopolitan Amsterdam. Building on the brand's rich heritage, the hotel provides an inspirational environment for guests, team members and artists to share ideas, enhance their knowledge of art and immerse themselves in a culturally rich atmosphere. Whether an aficionado, culture vulture or novice art lover, every guest will find art'otel amsterdam profoundly inspiring and highly creative, yet also approachable and inclusive.

Brilliantly positioned in the city centre with the lively Dam Square and Kalverstraat on its doorstep, art'otel amsterdam places guests at the heart of the action. The city's exceptional restaurants, bars and clubs are close at hand and, being located just across from Centraal Station, Amsterdam Schiphol Airport is within easy reach.

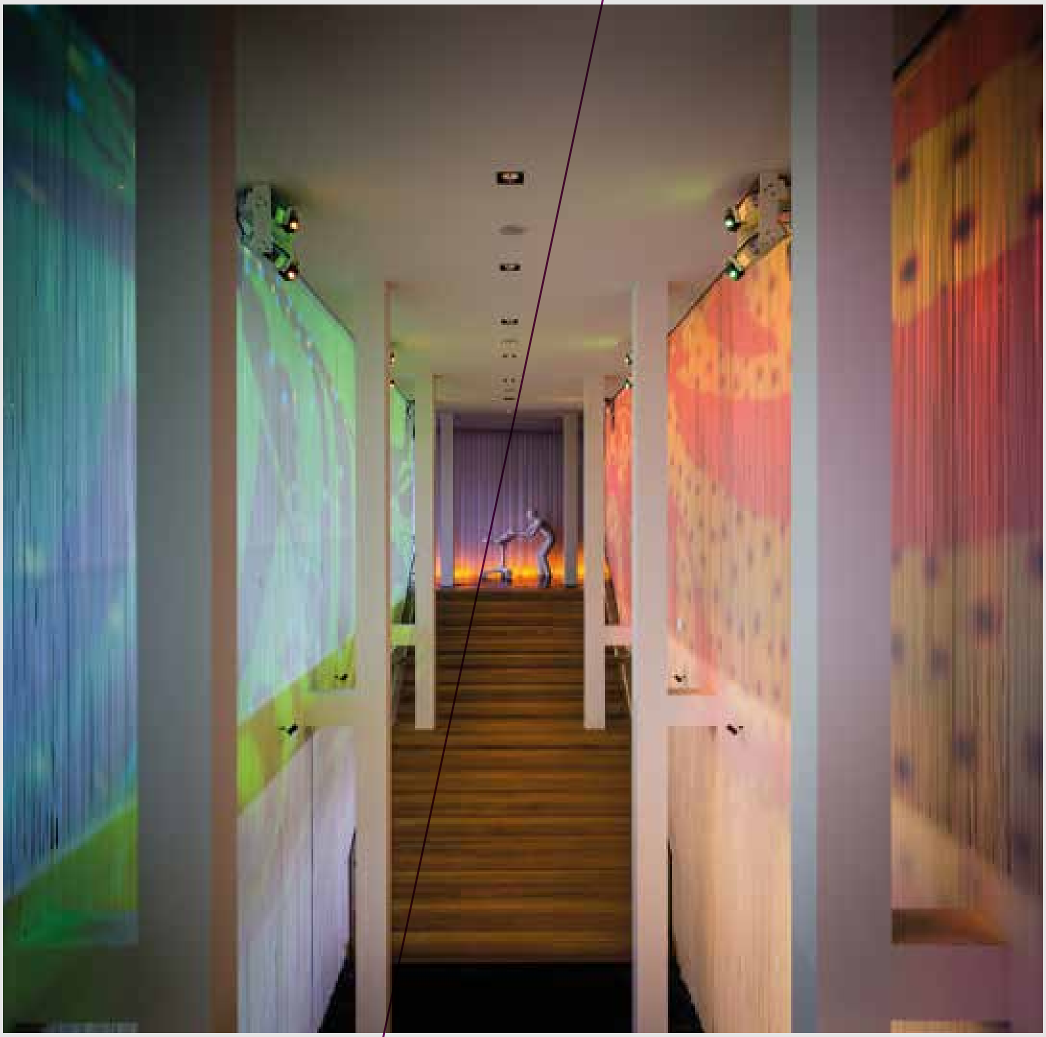
Within the hotel, guests are exposed to a myriad of artistic experiences. The work of Atelier Van Lieshout permeates every corner, a spectacular 12-metre art curtain displays emotive footage and a 300-square-metre art gallery hosts a varied programme of exhibitions from emerging and established artists. Add to that a dynamic cultural agenda of events and workshops and a comprehensive art library, and the atmosphere is one of creativity and inspiration.

A dedicated art concierge is on hand to stimulate, advise and engage guests in their artistic adventure. Offering tours of the most impressive displays, the art concierge also shares Amsterdam's cultural agenda, recommends galleries and exhibitions and, above all, conveys an infectious enthusiasm for all things cultural.

Blending art, hospitality and cuisine, art'otel amsterdam delivers a kaleidoscope of colour and a symphony of art and life to create a hotel experience like no other.

art'otel amsterdam's guests can choose from an Art Room, an enhanced Art Room iconic view or a spectacular Masterpiece Suite. Each of the 107 guestrooms features a piece of art, ultra-comfortable beds with a choice of pillows, mood lighting, complimentary wi-fi and a generous selection of lavish Elemis guest amenities. The bathrooms boast rain showers and luxurious bathrobes and slippers, while an illy espresso machine, stocked mini-bar and a bottle of water and a complimentary breakfast add to the welcome.

5&33 art gallery at art'otel amsterdam



**Clockwise from top left:**
Personalised services such as tablet check-in

Luxurious guest rooms with original art by Atelier Van Lieshout

Bespoke, two-storey interactive video art curtain and thought-provoking sculptures

# REPOSITIONING THE ART'OTEL BRAND

### Art Library
An extensive Art Library seeks to inform and inspire with carefully selected books and a wide selection of magazines relating to art, culture, design and lifestyle. Enjoy front row seats for the video art display or simply watch the world go by from the large windows overlooking the buzzing Prins Hendrikkade.

### Art Lounge
The Art Lounge showcases the larger objects d'art to be admired.

### Art and culture
art'otel amsterdam's wide selection of art complements perfectly the stylish décor in the public areas and guestrooms, and alternating exhibitions promote the work of established and emerging artists.

A rich cultural programme is managed by our artistic team with input from partners across different artistic and cultural genres, including contemporary art experts and selected art enthusiasts to create new and exciting cross-overs between art, design, cuisine and hospitality.

The flexible, 300-square-metre art gallery and exhibition space with art-inspired décor is open to the public and hosts exhibitions, fairs, fashion shows, lectures, symposia and parties as part of a monthly cultural programme.

The upper and lower ground floors are connected by the signature 12-metre, two-storey art curtain, which displays video art and creates different ambiences throughout the day, designed to trigger emotions and penetrate the soul.

### Signature Artist
Atelier Van Lieshout is the internationally recognised studio of Dutch artist Joep van Lieshout. Joep van Lieshout started out as a solo artist, and rose to fame in the early eighties, producing objects in bright coloured polyester – the material that would become his trademark. In 1995 he founded Atelier Van Lieshout, leading a group of like-minded individuals in his search for creative and aesthetic solutions.

Atelier Van Lieshout produces objects that balance on the boundary between art, architecture and design. Recurring themes in the work of Atelier Van Lieshout are power, politics and autarky, as well as a fascination for life, its creation and its end in death. With this body of work, both autonomous and commissioned, Atelier Van Lieshout has attained international recognition. Over the past 25 years, Atelier Van Lieshout has had exhibitions at major art institutions and collections worldwide.

At art'otel amsterdam, the works shown in the exhibition the Course of Life all, in some way or another, refer to the different steps and stages in human life. In some of the selected pieces, this theme is more explicitly visible than in others. These works all focus on the central themes of life and death, beginning and end, alpha and omega – and everything that lies between: the Course of Life.

5&33 Lounge for intimate meetings and relaxation,
'Wall Decoration' by Atelier Van Lieshout

@artotel
artotel
artotel
artotelofficial
artotelamsterdam.com


**5&33**
Dining is an interactive experience at art'otel amsterdam. Entering from Martelaarsgracht, diners enjoy valet parking on arrival, with a dedicated host showing them to their table. With bespoke creations from Atelier Van Lieshout's signature artist and a magnificent 12-metre art curtain displaying video art, the feeling is of a world of living art, complemented by exposed concrete floors, black steel columns and rustic interiors. Throughout the meal, the restaurant's brigade of talented chefs create sensational dishes before diners' eyes from an open kitchen.

To dine at 5&33 is mainly to share. With a choice of communal or private tables, diners savour Mediterranean dishes inspired by the Venetian 'cicchetti', small tasters bursting with flavour, alongside heartier dishes and platters. The menu reflects true culinary craftsmanship using the purest and most seasonal ingredients. Performances from live DJs and bands, as well as interactive culinary and cocktail workshops, add to the restaurant's sense of occasion.

The destination cocktail bar presents a seductive combination of funky cocktails and spirits, eclectic art and thrilling live music. Cicchetti are available at the bar and guests can spend the afternoon admiring a selection of art.

Dedicated entrance to 5&33

**Clockwise from top left:**
Accessories in 5&33 library

Signature 5&33 dish

5&33 restaurant

@5and33
5and33
5and33
5and33official
5and33.nl

# CHIEF EXECUTIVE OFFICER'S STATEMENT

# WE ARE COMMITTED TO DRIVING GROWTH

**BORIS IVESHA**
PRESIDENT AND CHIEF EXECUTIVE OFFICER

### Welcome

I am particularly proud of what our teams have achieved in 2013. It has been an exciting year with strong trading in London, increased ownership in several hotels in The Netherlands and several corporate developments all of which will help us to enhance growth. Our London hotels continued to trade strongly and Germany delivered a steady performance. Trading conditions in The Netherlands remained volatile, despite the much-anticipated 2013 celebration year for Amsterdam, which failed to bring us as many benefits as expected.

During the year our teams focused on maintaining RevPAR through occupancy, in anticipation of certain fragile markets, challenging 2012 comparatives and increased supply in most of our markets. In local currency, our owned hotels in London achieved a 4.9% growth in revenue. The London market has proven to be highly resilient and we are therefore pleased that we have been able to further strengthen our development pipeline in this appealing travel and investor destination. Our development pipeline in London now includes three new hotel projects and one reconfiguration and extension which, when completed, are expected to increase our room count in London by approximately 47% to nearly 3,300.

### Disposal

After having carefully reassessed the project at Pattaya Bay in Thailand, I am pleased to advise that the disposal gave rise to a profit, although the consideration is deferred for three years.

### Investing in our portfolio

During the course of 2013, we continued to invest in our hotels to ensure that we retain our strong competitive positions in the markets in which we operate. In Croatia, following a successful 2012 inaugural season, Park Plaza Medulin completed its renovation scheme with all rooms now fully renovated.

We also completed the renovation of the rooms of the former Hotel Palma with 127 rooms now added to the room inventory of Park Plaza Histria Pula, the brand's flagship in Istria.

A major milestone for us was the highly anticipated opening of our latest flagship hotel, art'otel amsterdam. This hotel was set to redefine the brand positioning for art'otel, elevating it to a luxury, lifestyle level. Since it opened in October 2013, art'otel amsterdam has been very well received by the market, generating very positive feedback for both the hotel and the separately operated and marketed 5&33 restaurant, bar and gallery space.

# CHIEF EXECUTIVE OFFICER'S STATEMENT
CONTINUED

The 5&33 concept was our second successful standalone dining concept introduced in the year as it was preceded by the launch of TOZI (located at Park Plaza Victoria London). Similar to 5&33, TOZI is a shared-dining concept aimed at a local clientele and both new concepts are currently rated among the top restaurants in their respective markets. Since it opened in April 2013, TOZI, for example, has not left the top 20 of best restaurants in London, as featured on influential website tripadvisor.com, out of more than 16,000 restaurants in London. 5&33 has been consistently rated as a top-10 restaurant in Amsterdam, regularly claiming first position, according to couverts.nl, one of The Netherlands' leading restaurant websites.

**Strategic relationship and marketing**
Our more than a decade long partnership with the Carlson Rezidor Hotel Group continues to go from strength to strength and we are pleased to see the global direction this partnership has taken. In a global industry, it is important to have a clear distribution, marketing and sales strategy through which all stakeholders benefit from economies of scale, negotiating power and innovative market leading initiatives, all of which are engrained in the Carlson Rezidor Hotel Group vision and roadmap. The various loyalty programmes, in which our hotels participate, continued to grow their memberships and we experienced more contribution of these programmes in the form of direct business and award stays being consumed at our hotels. Members of the Club Carlson programme are also more likely to return than non-members, their loyalty score is higher and the average room rate associated with member stays is higher than from non-member stays.

New for the year was the launch of a dedicated loyalty programme for small and medium sized enterprises. This programme will help us to compete better in our local markets by offering our customers a strong global value proposition of travel benefits and attractive discounts. We are particularly excited about the various initiatives Carlson Rezidor Hotel Group has in development with Google, such as Google Hotel Finder and Google Wallet, which will help us to improve our marketing reach and aide our objective to generate more business direct. Another milestone is the integration of tripadvisor.com reviews on our hotel websites. We take confidence in our products and services and offer our customers easy access to ratings and reviews from guests who have already stayed with us.

**Guest experience**
Consistently delivering exceptional customer service remains one of the strongest differentiators within our industry and our continued investment in learning and development programmes has contributed to another stellar performance. Our overall service performance for the year increased to 8.50, another record.

**"THE KEY REQUIREMENT TO CONTINUOUSLY DELIVER EXEMPLARY SERVICE IS TO HAVE A HIGHLY MOTIVATED AND ENGAGED WORKFORCE."**

“A MAJOR MILESTONE FOR US WAS THE HIGHLY ANTICIPATED OPENING OF ART’OTEL AMSTERDAM. THIS HOTEL WAS SET TO REDEFINE THE BRAND POSITIONING FOR ART’OTEL, ELEVATING IT TO A LUXURY, LIFESTYLE LEVEL.”

The key requirement to continuously deliver exemplary service is to have a highly motivated and engaged workforce. Our employee satisfaction survey results for the year were again impressive and a new record was achieved. Areas in which our employees rated our Group particularly high included ethical standards and personal development, which showed a good year-on-year growth, a direct result of investment in training. Areas such as loyalty and ambassadorship increased year on year, which are important to ensure continuity in service delivery. The response rate was at another record level, with 93% of our workforce participating.

**Corporate Social Responsibility**
Sustainability and responsible business are part of our strategy and operations and several hotels were recognised during the year for their work in these areas, including additional accreditation of certain hotels. We minimised employees travelling between our corporate office and regional offices and hotels, by investing in a state of the art video-conferencing system. We supported various charitable causes throughout the year on a corporate and hotel level, including but not limited to our annual participation in Movember, the prostate cancer charity initiative.

### Investing for the future

Just before the period end we completed our largest refinancing to date, and apart from the improved financial terms that this five-year facility will bring, it also includes a significant capital expenditure allocation. From 2014 onwards, we will embark on a significant capital expenditure programme, with further renovation work planned at hotels in all of our markets. Our core hotels in The Netherlands and the United Kingdom will be renovated and in some cases repositioned, to further strengthen their appeal. Our acquisition of the freehold interests of art'otel berlin mitte and art'otel berlin kudamm paves the way for renovations of these properties, commencing in 2014.

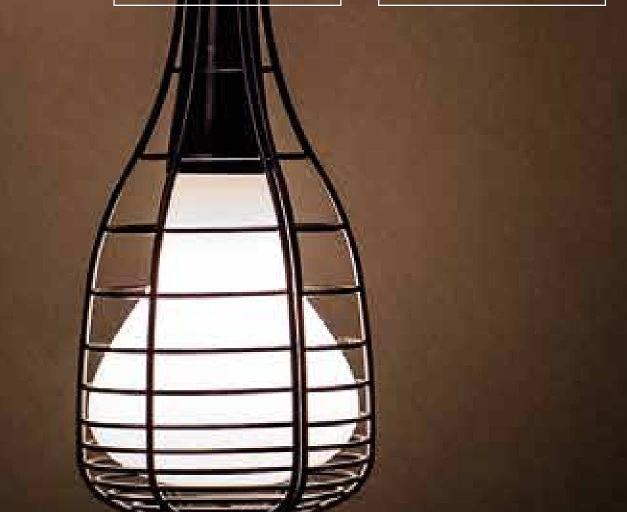
In Croatia, the former Hotel Belvedere has now closed for extensive renovations and, once completed, this hotel will open as Park Plaza Belvedere Medulin in summer 2014. This will be our fourth and largest Park Plaza hotel to open in this attractive tourist destination and Park Plaza Hotels & Resorts is now one of the largest international hotel brands in Croatia. On completion of this renovation, more than 50% of Arenaturist's hotel rooms will have been extensively renovated between 2012 and 2014. An impressive feat given the challenging economic conditions and we see it as a demonstration of our skills to successfully redevelop, reposition and operate hotels.

### Current trading and outlook

The first quarter of the year is traditionally our weakest. Nevertheless in comparison with 2013, our RevPAR performance in January and February improved year on year. Overall results are in line with the Board's expectations in all markets.

Over the next two years, we will be significantly investing in our portfolio with renovations planned across ten hotels. This work is undertaken to ensure our hotels continue to improve on their strong market positions. We aim to minimise the impact on our operations through careful planning and a phased approach where possible. However, once renovations commence, we anticipate reduced capacities and a short-term impact on revenue due to temporary closures of rooms and public areas. Although this may be at the expense of short-term revenue gains, we believe that this investment will have a positive impact on our long-term results and position in the markets in which we operate.

**"OUR REVPAR PERFORMANCE IN JANUARY AND FEBRUARY IMPROVED YEAR ON YEAR."**



## Our business types

| Full ownership | Joint ventures | Management contracts | Operating leases | Franchise agreements |
|---|---|---|---|---|
| We know what to look for when identifying assets with development potential, from plots of land to tired hotels in need of investment. We aim to own hotels in key gateway cities in Europe where capital value is likely to appreciate. | Our joint ventures take many forms, but they share the same strategy – we focus on developing a mutually beneficial working relationship to return maximum profits for all parties involved, combining our management skills with co-investment. | A management contract allows owners to retain ownership of their property while we undertake the day-to-day management. They have the confidence of working with a leading hotel brand while we run their hotel with efficiency and passion. | Institutional investors may favour operating leases, whereby we lease their property and pay them rent. We manage all aspects of the operation of the hotel, from sales and marketing to reservations and food & beverage to human resources, thereby reducing their exposure to economic and business downturns. | The franchise option is ideal for partners who enjoy running their own hotel but seek the reassurance of industry-leading support services such as distribution, marketing and central reservations. |

## OUR PEOPLE AND SERVICES

Irrespective of the business type, all hotels in our portfolio benefit from being part of a dynamic, full-service international hotel group led by a highly experienced, loyal and involved senior management team.

PPHE Hotel Group has clearly defined values and operates to very high standards. The Company provides a wide range of services to hotels including hotel operations, global distribution, sales, revenue management, marketing, customer retention management, public relations, finance, human resources, learning and development, project design, development services, asset management, restaurants and bars operations, legal support, IT and Corporate Social Responsibility (CSR).

## OUR CUSTOMERS

Our customers appreciate our friendly, yet business minded attitude. They appreciate the high level of services we offer, the excellent locations and contemporary design of our hotels and the reasonable prices we charge.

The Company's mission statement is 'inspiring our guests through individuality and passion', and customers can experience our service-led philosophy first hand in five countries, in key leisure and business cities such as Amsterdam, Berlin and London or in resort destinations such as Croatia. Customers can book our hotels 24/7, be it direct with us, through any of our sophisticated platforms such as the websites, apps or mobile sites, through the extensive loyalty programmes, or via intermediaries or any of our strategic partners.

## OUR SHAREHOLDERS

Our shareholders believe in our business model, operating skills and developments.

Shareholder value is created through continued improvement of operations, revenue growth, active asset management, financial restructuring, expansion and development.

# STRATEGY

| Strategic objectives | Performance |
|---|---|
| **IMPROVING OUR EBITDA MARGIN** | Revenue growth driven by occupancy-led focus, coupled with negative currency impact, resulted in lower year-on-year EBITDA |
| **ENHANCING OUR SERVICE QUALITY THROUGH IMPROVING OUR OPERATIONAL PERFORMANCE** | Continued investment in operational and management training programmes across all our regions<br>Maintained record level of guest satisfaction and improved service performance score |
| **DRIVING GROWTH BY EXPANDING OUR HOTEL PORTFOLIO THROUGH A VARIETY OF BUSINESS MODELS** | Flagship art'otel opened in Amsterdam<br>Acquistion of new development site in UK and freehold interests of two hotels in Berlin<br>Completion of room renovation projects in Hungary and two in Croatia<br>First full-year ownership of all hotels in The Netherlands |
| **IMPROVING OUR OVERALL PERFORMANCE THROUGH INNOVATIVE REVENUE GENERATION AND MARKETING INITIATIVES** | Redefined art'otel brand with the launch of art'otel amsterdam<br>Development and implementation of commercial strategy focusing on generating more direct business |
| **LEVERAGING OUR PARTNERSHIP WITH CARLSON TO FURTHER GROW REVENUES** | Loyalty programme member activation strategy and engagement focus<br>Launch of Club Carlson for small and medium sized enterprises<br>Active participation in Carlson Rezidor's Global Revenue Council |
| **MANAGING AND MITIGATING OUR IMPACT ON THE ENVIRONMENT AND POSITIVELY CONTRIBUTING TO THE LOCAL COMMUNITIES IN WHICH WE OPERATE** | Benefit of green initiatives undertaken with year-on-year reduction in environmental impact<br>Continued engagement with and support of local communities |

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

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

| Indicator | | Looking forward |
|---|---|---|
| **33.8%** reported EBITDA margin* *EBITDA divided by total revenue. | **34.3%** like-for-like EBITDA margin | Grow our EBITDA margin by improving operational performance, tight cost controls and further developing our financial structure and asset management initiatives |
| **8.30** overall guest satisfaction score | **8.50** record service performance score | Continue to grow employee and guest satisfaction and loyalty by consistent delivery of exceptional customer service, underpinned by investment in our people development |
| **1** flagship hotel opened<br>**2** new successful restaurant launches | **3** hotel renovation projects completed<br>**3** acquisitions | Focus on driving growth through construction projects, extending our development pipeline and progressing targeted renovation projects within existing hotel portfolio |
| luxury, lifestyle art'otel brand positioning | **70.0%** growth in revenue from mobile devices | Actively look for opportunities to improve our overall performance through innovative revenue generation, marketing initiatives and customer engagement through multi-channels |
| **11.5** million Club Carlson[SM] members | **41.0%** growth in Club Carlson member point redemption stays | Embrace all marketing, sales and distribution programmes and increase customer loyalty and engagement |
| **6%** reduction in $CO_2$ emission in 2013 | | Robust, proactive and measurable approach to Corporate Social Responsibility, further embedding CSR in our brands' activity<br>Ongoing target to reduce 2011 $CO_2$ emissions by 20% before the end of 2017 |

# FOCUSING

## ON REVENUE GENERATION AND INCREASED PROFITABILITY

Improving our EBITDA margin

**Our approach**
Grow our EBITDA margin by improving operational performance, tight cost controls and further developing our financial structure and asset management initiatives.

**2013 performance**
Market conditions remained competitive in 2013, particularly in The Netherlands, and our focus was on driving occupancy and maintaining our competitive market position, albeit at a lower average room rate. This, along with a negative impact from foreign exchange, including the weakness of Sterling against the Euro, were factors in a lower year-on-year reported EBITDA performance. EBITDA margin reduced to 33.8%, a reduction of 160bps. On a like-for-like basis EBITDA margin was 34.3%, down 110bps.

During the year, we improved our financial structure with a successful refinancing of approximately 60% of the Company's bank loans. This refinancing resulted in more favourable terms, an improvement in the average maturity date and mitigation of our liquidity risk.

In addition, the refinancing and new secured loans increase our ability to invest in our hotels and embark on renovation projects to further strengthen our hotels in their respective markets and help drive future profitability.

# 33.8%

**EBITDA MARGIN**

# DEDICATED TO INSPIRING OUR CUSTOMERS WITH OUR PASSION

## Enhancing our service quality through improving our operational performance

### Our approach

Continue to grow employee and guest satisfaction and loyalty by consistent delivery of exceptional customer service, underpinned by investment in our people development.

### 2013 performance

Exceptional customer service remains a key differentiator within our industry. Making our guests feel welcome and consistently offering a high quality of service and an excellent overall experience are essential to our success and remained a key focus during 2013. Our mission is to inspire our guests through individuality and passion.

We pride ourselves on our highly motivated and engaged workforce and our ongoing investment in our employees through bespoke training programmes, such as our 'Feeling Welcome' induction programme which helps new employees to gain a full understanding of our vision, mission, values and goals, which support the delivery of a tailored service culture across our hotels. Our commitment and investment in employee training and development programmes was reflected in our employee satisfaction survey which achieved an 82.9% employee satisfaction score (scale 1–100%) with a record 93% participation rate. In particular, employees highly rated the Company's ethical standards and personal development programmes, which both showed good year-on-year growth.

Our people are committed to ensuring that our customers' experience is at the heart of everything we do. Satisfied guests are significantly more likely to return to our hotels and tend to be less sensitive to price. They are also more likely to promote our hotels to their family, friends and work colleagues through word of mouth and social media platforms. During 2013, more than 67,000 customers completed our online customer feedback forms and we were pleased to see that service satisfaction among guests increased year on year. As rated by our guests, overall service performance increased to a record 8.50 (scale 1–10), contributing to an overall guest satisfaction score of 8.30 (scale 1–10).

We will continue to invest to improve our operational performance and respond to the needs of our guests and employees alike.

**82.9%**

employee satisfaction score
(scale 1–100%)

**8.30**

overall guest satisfaction score
(scale 1–10)

# NEW OPENINGS, ACQUISITIONS AND EXCITING RENOVATION AND DEVELOPMENT PROJECTS

## Driving growth by expanding our hotel portfolio through a variety of business models

### Our approach

We are focused on driving growth through suitable construction of new hotels, adding to our development pipeline and targeting renovation projects in our existing portfolio. Our flexible and unique business model, combined with a focus on a high quality of service, means we are well placed to capitalise on growth opportunities.

### 2013 performance

We made good progress to extend our development pipeline and progress with construction and renovation projects during the year. Our most significant project was the successful opening of our new flagship hotel, art'otel amsterdam, which opened in September 2013. The opening repositioned the art'otel brand to a luxury lifestyle offer and added a further 107 rooms in this key destination.

In the United Kingdom, we acquired an office building near Waterloo Station in London with the potential to convert and develop a 400+ room hotel. Planning consent has been granted and, on completion, this development will make us one of the largest operators on London's South Bank. Planning permission was granted for an extension and reconfiguration of Park Plaza Riverbank London which will enable us to expand this hotel. In addition we continued to advance development plans for art'otel london hoxton and our development site in West London. In total, we have 1,046 rooms in our United Kingdom development pipeline, which would significantly increase our footprint in the attractive London hotel market.

In Germany, we acquired the freehold interests in two hotels in Berlin, which were previously managed by us, and plan to embark on a renovation and repositioning exercise at these hotels during 2014. Construction of Park Plaza Nuremberg is expected to commence in 2014, with an anticipated opening date in 2015.

During the course of 2013, we continued to invest in our hotels in order to cement our market leading positions with renovation projects completed in Hungary and Croatia. Looking ahead, a proposed €16.0 million investment in renovation projects is being considered for six of our hotels located in the United Kingdom and The Netherlands following the successful refinancing of nine hotels in December 2013. This investment would be over and above normal capital expenditure requirements.

Through successful delivery of these and other projects, we aim to increase the number of guest rooms in our portfolio by over 1,200 rooms to approximately 9,500 by the end of 2017 and drive continued revenue growth.


1,200+
ROOMS IN PIPELINE

# CONTINUED INVESTMENT IN, AND FOCUS ON, GROWING OUR ONLINE VISIBILITY AND REVENUES

## Improving our overall performance through innovative revenue generation and marketing initiatives

### Our approach

Actively seek for opportunities to improve our overall performance through innovative revenue generation, marketing initiatives and customer engagement through multi-channels.

### 2013 performance

Our flagship hotel art'otel amsterdam, the first of a new generation of art'otels with enhanced services, amenities and a new identity, was formally opened in October 2013. This unique hotel redefines the traditional hotel experience and allows guests to stay within a highly creative environment surrounded by art. The cultural experience that art'otel amsterdam offers our customers is a key differentiator and provides the hotel with a clear market position within the competitive hotel market in Amsterdam. Looking ahead, we will adopt several of the services and features offered there as hallmarks for the art'otel portfolio.

Over the last 12 months we have continued to invest in expanding our online footprint in response to the significant growth in online booking activity across multi-platforms and growth in social media. Several new agreements were signed during the year with established online travel agents through whom we can target previously untapped markets. Particular areas of focus for us included search engine optimisation and the further development of online advertising campaigns with the main search engines, travel comparison websites and affiliate networks. These activities have led to further growth in revenue generated through our websites. A particular trend we continued to see in 2013 was the growth in importance of mobile devices, with year-on-year revenue generated from such devices increasing by more than 70%.

Generating business direct through our websites has many benefits, including a direct relationship with our customers and cost efficiencies. We actively utilise marketing tools such as email marketing and social media, to name but a few, for targeted communications to existing and prospective customers, the promotion of our products and ensuring that we remain top of mind. Reflecting our confidence in our hotels, services and teams, during the year we integrated tripadvisor.com reviews onto our hotel websites, so potential guests can easily access reviews from guests who have already stayed at our hotels, eliminating the need to leave our websites.


CONTINUED GROWTH IN BUSINESS GENERATED ONLINE

# EXCELLENT GROWTH IN MEMBERSHIP AND ENGAGEMENT OF THE CLUB CARLSON LOYALTY PROGRAMME AND EXCITING NEW INITIATIVES AHEAD

## Leveraging our partnership with Carlson to further grow revenues

### Our approach

Embrace all marketing, sales and distribution programmes and increase customer loyalty and engagement through continued leveraging of opportunities that present themselves through our partnership with Carlson Rezidor Hotel Group initiatives to drive more direct business to our hotels.

### 2013 performance

Our teams continued to maximise the benefits available to us through our long-term partnership with Carlson Rezidor Hotel Group, one of the world's premier hotel companies.

Through our partnership we have access to a global distribution platform, marketing programmes and sales resources and activities. We benefit from economies of scale and improved negotiating power as well as innovative market leading initiatives to drive interest in our hotels. In particular we are excited about initiatives that Carlson Rezidor Hotel Group has developed with Google, such as Google Hotel Finder and Google Wallet, which will further improve our marketing reach and generate more direct business.

Loyalty programmes continue to be an important tool in customers returning to our hotels and during the year membership of the various programmes that our hotels participate in increased from approximately 10 million to 11.5 million members. These loyalty programmes provide us with access to sophisticated marketing databases of frequent travellers, meeting planners, corporate accounts and business travel agents and enable us to actively engage with current and prospective customers through marketing initiatives. These programmes are effective in driving customer loyalty with Club Carlson members significantly more likely to return to our hotels, at a higher average room rate and with longer stays, than non-members. During the year, we focused on driving point redemption stays and reported a 41.0% growth in such stays. 2013 saw the launch of a dedicated loyalty programme aimed at small and medium sized businesses which will help us to compete better in local markets and offer customers attractive discounts and rewards across all Carlson Rezidor hotels around the world.

In a rapidly globalising industry, it is important to continuously identify trends and opportunities and develop apt strategies. With this in mind, a Global Revenue Council has been established consisting of senior key executives from Carlson Rezidor and its operating partners around the world, including PPHE Hotel Group. This forum will benefit us in the further development of our commercial strategy, initiatives and tools.


11.5 MILLION
CLUB CARLSON MEMBERS

# A ROBUST, PROACTIVE AND MEASURABLE APPROACH TO CSR

Managing and mitigating our impact on the environment and positively contributing to the local communities in which we operate

**Our approach**

Continue to make progress in managing and mitigating our impact on the environment and positively contributing to the local communities in which we operate through a robust, proactive and measurable approach to Corporate Social Responsibility (CSR). Our aim is to reduce the Company's 2011 $CO_2$ emissions by 20% before the end of 2017.

**2013 performance**

During 2013, we have made considerable progress in expanding and improving our CSR policy and have adopted a proactive approach towards monitoring and analysing CSR activities and initiatives undertaken across the Company.

We have been actively involved in a number of environmental and fundraising activities to manage and mitigate our impact on the environment while continuing to contribute positively to the local communities surrounding our hotels.

Our green initiatives have been embedded across the business and a full overview is included in our 'Feeling Welcome' Company-wide induction programme for new employees.

Our Save Energy and Switch Off Now (SEASON) initiative is a key element of our employee training programmes. By the end of 2013 all of our hotels benefited from LED, energy efficient lights. As a result of these and other initiatives, energy consumption per guest has been reduced by 5.5% and there has been a corresponding reduction of 6% in greenhouse gas emissions.

In recognition of our initiatives and green credentials we achieved the Gold Award from the Green Tourism Business Scheme for Park Plaza Riverbank London in the year.

We remain committed to reducing waste sent to landfill and initiatives across our portfolio have resulted in a 10% reduction in waste per guest. As a result of the positive measures taken and investment in water consumption reduction initiatives, water consumption per guest has been reduced by 2%.

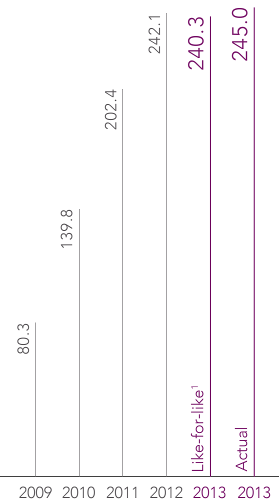
As a Company we always encourage our hotels to follow and support local charities close to their heart and every year charitable activities take place at a Company, regional and hotel level contributing to the local communities in which we have a presence.


6 %
REDUCTION IN $CO_2$ EMISSIONS

# KEY PERFORMANCE INDICATORS

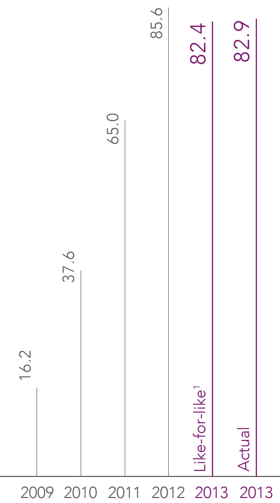
Financial KPIs

TOTAL REVENUE
€M

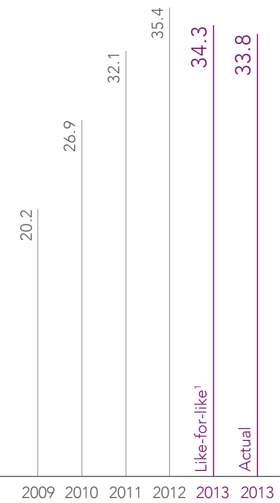



EBITDAR
€M

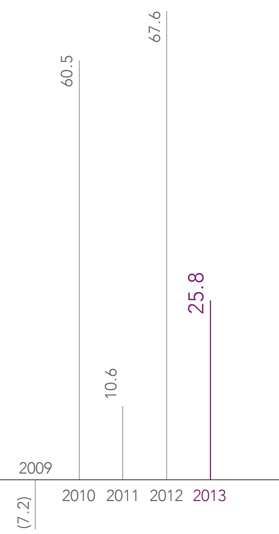

EBITDA
€M



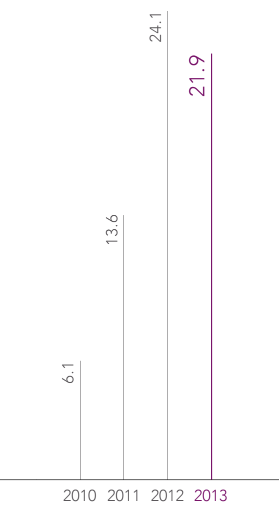

EBITDA MARGIN
%



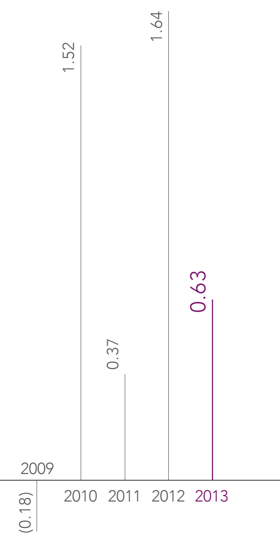

PROFIT BEFORE TAX
€M



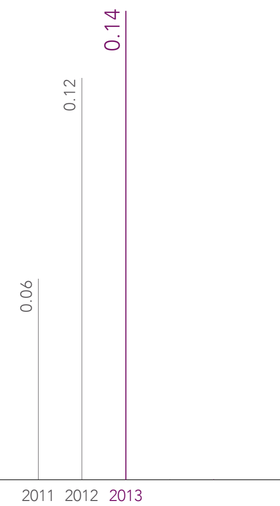

NORMALISED PROFIT
BEFORE TAX €M




EARNINGS PER SHARE
€




DIVIDEND PER SHARE
€

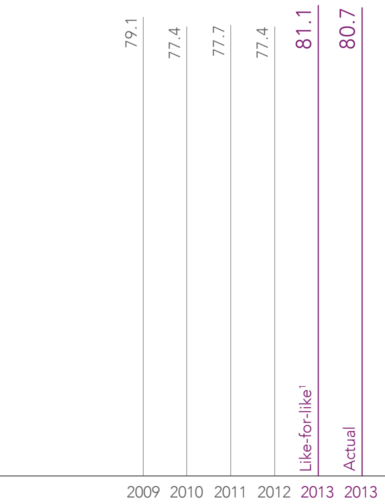


[1] In the like-for-like comparison figures the following adjustments have been made:

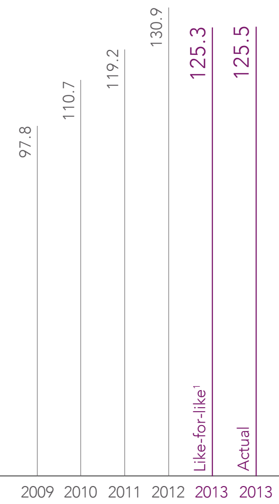
- The financial contribution of Park Plaza Amsterdam Airport, Park Plaza Victoria Amsterdam and Park Plaza Utrecht in 2013 has been calculated on the basis of the ownership interest of PPHE Hotel Group in those hotels during the same period in 2012.
- The trading of art'otel amsterdam since opening in the fourth quarter of 2013 has been ignored.
- The results of two hotels in Berlin were adjusted to reflect a similar asset ownership structure during the same period in 2012.

## Operating KPIs

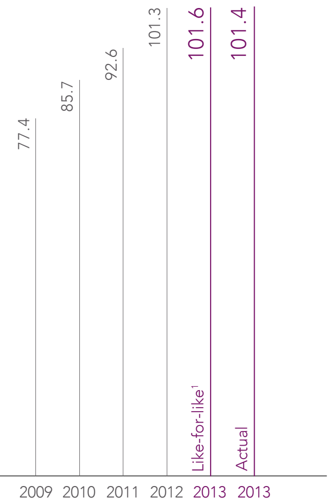
### OCCUPANCY
%



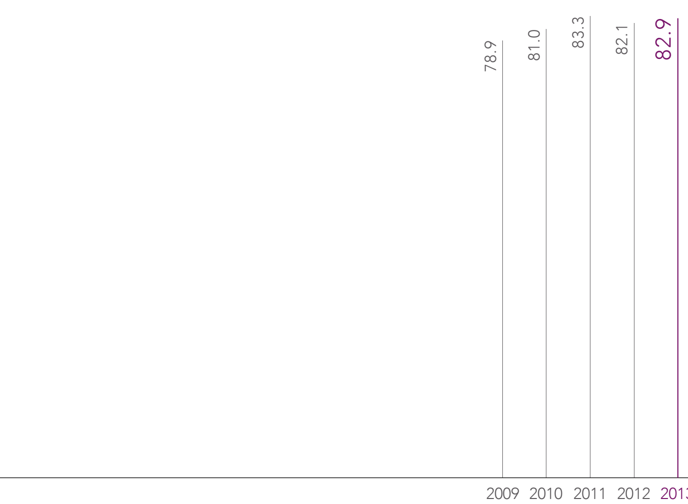

### AVERAGE ROOM RATE
€



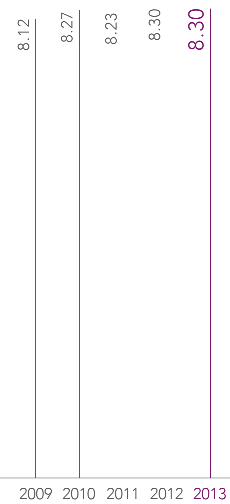

### REVPAR
€



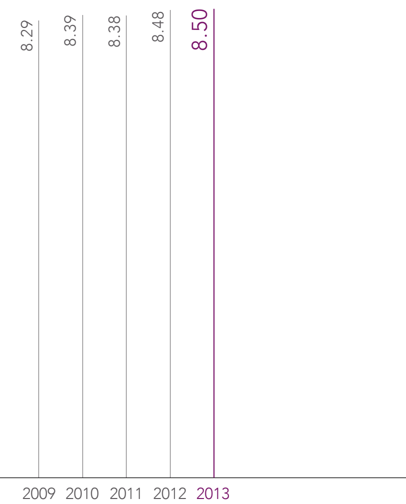

### EMPLOYEE SATISFACTION
(Scale 1–100%)




### GUEST SATISFACTION
(Scale 1–10)




### SERVICE PERFORMANCE
(Scale 1–10)



# CHIEF FINANCIAL OFFICER'S STATEMENT

WE CONTINUED TO IMPROVE OUR OVERALL TRADING PERFORMANCE, WITH TOTAL GROUP REVENUE INCREASING BY 1.2% AND BY 4.4% ON A CONSTANT CURRENCY BASIS

**CHEN MORAVSKY**
CHIEF FINANCIAL OFFICER

Our overall underlying trading performance improved year on year. Following a slow start to the year conditions improved in the second half of the year, a trend which we continue to see today in most of the markets in which we operate.

During the year, we benefited from additional income from our increased ownership in certain Dutch hotels and the newly opened art'otel amsterdam. Nevertheless, our reported performance was also adversely impacted by currency translation, primarily as a result of approximately 65% of our revenue being generated in the United Kingdom. In addition, the 2013 results include a one-off property tax adjustment charge affecting EBITDA in the United Kingdom and the 2012 comparative figures include a one-off benefit relating to a one-off performance incentive fee.

On a like-for-like[1] and constant currency[2] basis, underlying revenue, including one-offs, increased by 2.4% to €248.0 million (2012: €242.1 million) and EBITDA, including one-offs, was broadly flat at €85.1 million (2012: €85.6 million).

There have been some significant corporate developments in the period, most notably our largest refinancing to date and several acquisitions.

The refinancing of nine of our hotels will help to minimise our liquidity risk, improve our margins and enable us to invest in our core assets to further strengthen their position and appeal.

A new corporate loan will assist us to advance existing and prospective developments, with the commencement in the first half of 2014 of the development of three projects in London.

### Occupancy

With competitive market conditions prevailing, particularly in The Netherlands, our focus was occupancy-led, which resulted in a resilient overall performance. During the period, occupancy across the Group increased to 80.7% (2012: 77.4%).

### Average room rate

With a strong prior year comparative due to the positive impact of the 2012 Olympic Games and challenging market conditions in certain markets, our average room rate decreased to €125.5 (2012: €130.9), a decrease of 4.1%.

### RevPAR

We maintained our RevPAR performance, with RevPAR for the period flat at €101.4 (2012: €101.3), the result of an increase in occupancy and decrease in average room rate.

### Room revenue

Reported room revenue increased by 1.8% to €169.2 million (2012: €166.2 million) during the period. On a like-for-like basis[1], room revenue was flat at €166.4 million. On a constant currency basis[2], room revenue increased by 5.1%.

Reconciliation of reported to like-for-like[1] and constant currency[2] (in € millions)

| | Reported | Like-for-like[1] adjustments | Constant currency[2] adjustments | Adjusted |
|---|---|---|---|---|
| Total revenue | 245.0 | (4.7) | 7.7 | 248.0 |
| Room revenue | 169.2 | (2.8) | 5.5 | 171.8 |
| EBITDAR | 93.4 | 0.2 | 2.8 | 96.4 |
| EBITDA | 82.9 | (0.5) | 2.7 | 85.1 |
| EBITDA margin | 33.8% | 0.5% | 0.1% | 34.3% |

[1] In the like-for-like comparison figures, the financial contribution of Park Plaza Amsterdam Airport, Park Plaza Victoria Amsterdam and Park Plaza Utrecht in 2013 has been calculated on the basis of the ownership interest of PPHE Hotel Group in those hotels during the same period in 2012. The trading of art'otel amsterdam since opening in the fourth quarter of 2013 has been ignored. Furthermore, the results of two hotels in Berlin were adjusted to reflect a similar asset ownership structure during the same period in 2012.

[2] The Group's result performance is negatively affected by a 4.6% reduction in average Sterling to Euro exchange rate, as the Group's hotels in the United Kingdom account for approximately 65% of Group hotel revenue. Constant currency reported financial statistics ignore this 4.6% year-on-year decrease and the 2012 average Sterling to Euro exchange rate is applied to the 2013 reported statistics.

# CHIEF FINANCIAL OFFICER'S STATEMENT
CONTINUED

### Reconciliation reported to normalised profit

| | **Year ended 31 Dec 2013 € million** | Year ended 31 Dec 2012 € million |
|---|---|---|
| Reported profit before tax | **25.8** | 67.6 |
| Fair value movements on derivatives recognised in the profit and loss | **(0.8)** | (0.5) |
| Negative goodwill and capital gains after the acquisition of the remaining interests in three hotels and one development in The Netherlands | **–** | (50.0) |
| Fair value adjustment of the deferred purchase price of the acquisition of the remaining interests in three hotels and one development in The Netherlands (2012) and three hotels in the United Kingdom (2010) | **(0.8)** | (0.6) |
| Impairment of assets | **–** | 6.2 |
| Sales and marketing expenses in the Thai development project | **–** | 0.4 |
| Sale of Thai development project | **(2.8)** | – |
| Pre opening expenses | **0.9** | – |
| Forfeited deposits from rescinded contracts of unit sales of Park Plaza Westminster Bridge London | **(0.3)** | – |
| Strategic advice expenses | **(0.1)** | 0.9 |
| Normalised profit before tax* | **21.9** | 24.0 |

* The normalised earnings per share amounts to €0.54, calculated with 41,515 thousand average outstanding shares.

### Total revenue

During the period, reported total revenue for the Group grew by 1.2% to €245.0 million (2012: €242.1 million). This growth was primarily driven by our first full year of 100% ownership in three hotels in The Netherlands and the opening of art'otel amsterdam. In addition, reported total revenue in the year was adversely impacted by currency translation. In 2012, the Group benefited from a one-off performance incentive fee relating to a five-year period, rather than an annual fee received from 2013 onwards in our Management and Holdings Operations. The one-off effect reported in 2012 amounts to €2.6 million.

On a like-for-like basis[1], total revenue decreased by 0.7% to €240.3 million (2012: €242.1 million) and this decrease was predominantly the result of the negative impact of the weakness of Sterling against the Euro.

On a constant currency basis[2], total revenue increased by 4.4% to €252.7 million (2012: €242.1 million), reflecting the strong underlying performance of the hotels in the United Kingdom.

On a like-for-like and constant currency basis, underlying total revenue increased by 2.4% to €248.0 million (2012: €242.1 million, including a one-off benefit of €2.6 million).

### EBITDA

Reported EBITDA decreased by 3.1% to €82.9 million (2012: €85.6 million) and our reported EBITDA margin for the year decreased by 160bps to 33.8% (2012: 35.4%).

On a like-for-like basis[1], EBITDA decreased by 3.7% to €82.4 million and our EBITDA margin decreased to 34.3%. On a constant currency basis[2], EBITDA was flat at €85.6 million and our EBITDA margin decreased to 33.9%.

Our like-for-like EBITDA did not reflect our improved trading performance in 2013 with the results offset by the following factors; firstly, the devaluation of Sterling against the Euro during 2013 resulted in a €2.7 million negative impact; secondly, a one-off charge relating to a prior year property tax adjustment which resulted in a €2.6 million (£2.0 million) negative impact on EBITDA for the United Kingdom; and finally, as mentioned above, the 2012 comparative included a €2.6 million (£2.0 million) one-off performance related incentive fee.

On a like-for-like and constant currency basis, EBITDA in 2013 was broadly flat at €85.1 million, including a one-off expense of €2.6 million (2012: €85.6 million, including one-off benefit of €2.6 million) and EBITDA margin was 34.3% (2012: 35.4%).

1 In the like-for-like comparison figures, the financial contribution of Park Plaza Amsterdam Airport, Park Plaza Victoria Amsterdam and Park Plaza Utrecht in 2013 has been calculated on the basis of the ownership interest of PPHE Hotel Group in those hotels during the same period in 2012. The trading of art'otel amsterdam since opening in the fourth quarter of 2013 has been ignored. Furthermore, the results of two hotels in Berlin were adjusted to reflect a similar asset ownership structure during the same period in 2012.

2 The Group's result performance is negatively affected by a 4.6% reduction in average Sterling to Euro exchange rate, as the Group's hotels in the United Kingdom account for approximately 65% of Group hotel revenue. Constant currency reported financial statistics ignore this 4.6% year-on-year decrease and the 2012 average Sterling to Euro exchange rate is applied to the 2013 reported statistics.

### Profit before tax

Normalised profit before tax decreased by 8.9% to €21.9 million (2012: €24.0 million). The decrease in profit is mainly caused by a lower EBITDA and a currency exchange loss on a loan in Thai Baht. Adjustments made to normalise reported results are presented in and relate to items that the Group considers unrelated to its day-to-day business activities.

Reported profit before tax was €25.8 million (2012: €67.6 million). The decrease in reported profit relates mainly to a €50.0 million capital gain in the 2012 comparative numbers following the Group obtaining 100% control of previously jointly owned entities (refer to Note 3a to the Consolidated financial statements). The 2013 adjustments are detailed in the table on p46.

### Earnings and reported net asset value per share

Reported basic/diluted earnings per share for the period decreased by 61.6% to €0.63 (2012: €1.64). Normalised earnings per share was €0.54 (2012: €0.59), representing an 8.5% decrease. Reported net asset value per share (total equity / number of outstanding shares) amounts to €7.0 (2012: €6.26).

### Dividend

For the last two years the Board has recommended the payment of an interim and final dividend of 6.0 pence per share making a total of 12.0 pence per share for each year. The Board is proposing the payment of an increased final dividend of 8.0 pence per share, which when combined with the interim dividend of 6.0 pence per share paid on 11 October 2013, amounts to a total dividend for the year ended 31 December 2013 of 14.0 pence per share, an increase of 16.7%. Such is the belief in the strength of the business that we anticipate to follow a progressive dividend policy going forward. Subject to shareholder approval at the Annual General Meeting, to be held on 11 June 2014, the dividend will be paid on 13 June 2014 to shareholders on the register at 28 March 2014. The shares will go ex-dividend on 26 March 2014.

### Foreign exchange impact

The Company reported a €2.2 million foreign exchange loss in its profit and loss account (2012: €0.1 million). This loss is primarily caused by the conversion of outstanding consideration due by Red Sea Hotels Limited (related party) in connection with the Pattaya disposal, which is denominated in Thai Baht.

### Financial position

Net bank debt as at 31 December 2013 was €483.0 million, an increase of € 22.3 million (as at 31 December 2012: €460.6 million). This includes €43.2 million of liquid assets (as at 31 December 2012: €46.2 million), of which cash and cash equivalents were €41.7 million (as at 31 December 2012: €44.9 million) and other liquid financial assets of €1.5 million (as at 31 December 2012: €1.3 million).

During the period, the movement in net bank debt included, among other movements, an increase due to the drawdown of €10.0 million out of a €30.0 million term facility; a €14.5 million increase to finance part of the acquisition of an office building in London near Waterloo Station; a €12.5 million increase to finance part of the acquisition of two art'otels in Berlin; and a €6.6 million increase which relates to the completion of the art'otel amsterdam development. In addition, a decrease of €6.8 million relates to foreign exchange and a decrease of €14.8 million due to the reported annual redemption of loans. The Group's gearing ratio (net bank debt as a percentage of total capital (equity adjusted for the hedging reserve plus net bank debt) improved by 0.6% to 61.4% (as at 31 December 2012: 62.0%). This gearing ratio is calculated taking properties at cost, less depreciation.

During 2013, the Company succeeded in refinancing approximately 60% of the Company's bank loans. Besides more favourable terms, through this refinance, the Company's loans now have an average maturity date of approximately five years, significantly decreasing the liquidity risk profile.

**Financial analysis per significant asset category**
**Assets in € millions**
For management purposes, the Group's activities are divided into Owned Hotel Operations and Management Activities, see Note 16(c)(1) for further details. The operating results of each of the aforementioned segments are monitored separately for the purpose of resource allocations and performance assessment, further details of which can be found on page 116 of this report.

However, the Group believes that shareholders may find greater clarity on the results of the Group's owned operating assets; assets under development; leased properties; and its investment in Croatia. Set out below we provide some selected financial data for these assets for the year ended 31 December 2013, prepared in € millions.

| | Owned properties | | | | | |
|---|---|---|---|---|---|---|
| | In operation | Under development[3] | Leased properties | Croatian associate | Management and central[5] | Reported |
| *Balance sheet* | | | | | | |
| Adjusted book value properties [1,2] | 671.0 | 94.7 | 1.3 | – | 0.8 | 767.8 |
| Book value intangible assets | – | – | – | – | 35.4 | 35.4 |
| Book value non-consolidated investments | – | – | – | 21.4 | – | 21.4 |
| Bank loans, (short restricted) cash and liquid assets (adjusted net debt) | (432.5) | (57.8) | 2.5 | – | 8.7 | (479.1) |
| Deferred profit of sales of units at Park Plaza Westminster Bridge London[6] | (22.2) | – | – | – | – | (22.2) |
| Other assets and liabilities | (41.3) | (1.1) | (1.7) | 3.5 | 7.9[5] | (32.7) |
| **Capital employed** | 175.0 | 35.8 | 2.1 | 24.9 | 52.8 | 290.6 |
| | | | | | | |
| *Normalised profit* | | | | | | |
| Revenues | 208.8 | 2.5 | 26.6 | – | 7.1[4] | 245.0 |
| EBITDA | 70.0 | 0.1 | (0.9) | – | 13.7 | 82.9 |
| Add back: Charged management fees | 11.7 | – | 1.6 | 2.5 | (15.8) | – |
| Adjusted EBITDA | 81.7 | 0.1 | 0.7 | 2.5 | (2.1) | 82.9 |
| Depreciation and amortisation | (17.6) | (0.2) | (0.3) | – | (3.2) | (21.3) |
| EBIT | 64.1 | (0.1) | 0.4 | 2.5 | (5.3) | 61.6 |
| Interest expenses banks and finance leases | (25.9) | (1.0) | – | – | – | (26.9) |
| Interest guaranteed to unitholders | (10.8) | | | | | (10.8) |
| Other finance expenses and income | – | – | – | 2.7 | (2.1) | 0.6 |
| Associate result | – | – | – | (2.6) | – | (2.6) |
| Normalised profit before tax 31 December 2013 | 27.4 | (1.1) | 0.4 | 2.6 | (7.4) | 21.9 |
| Normalised profit before tax 31 December 2012 | 26.6 | (0.5) | 1.2 | 2.5 | (5.8) | 24.0 |

| | 31 December 2013 |
|---|---|
| Adjusted property book value as multiple of adjusted EBITDA | 8.2 |
| Adjusted net debt as multiple of adjusted EBITDA | 5.3 |
| EBITDA as multiple of interest expenses | 2.2 |

1 All assets are reported at cost, less depreciation. All properties are mortgaged under bank loans. The total mortgaged asset portfolio is within a 65% loan to value requirement of banks.
2 Finance lease liabilities and deferred taxes relating to properties have been netted with the property book value.
3 art'otel amsterdam has been presented under heading 'under development', as trading did not reflect a fully operational hotel at period end.
4 Since the majority of the Group's hotels are fully owned, leased and consolidated, management and other fees generated on these hotels are fully eliminated.
5 The amounts shown here in Management and central include unallocated assets and liabilities.
6 The profit from the sale of apart-hotel units in the Park Plaza Westminster Bridge London has been deferred until the Group loses control over these units (see Note 6 to the Consolidated financial statements).

### Developments

### Sale of a development site in Thailand

On 1 May 2013, the Company completed the sale to Red Sea Hotels Limited of all the Company's shares in its subsidiary, Leno Finance Limited, the company through which PPHE Hotel Group owned its interest in a development site in Pattaya Bay, Thailand, and certain related loans and receivables, for a total consideration of Thai Baht 600 million (€15.0 million). Further details are set out in Note 3(b) to the Consolidated financial statements.

### Acquisition of a prime site near London's Waterloo Station, United Kingdom

On 17 June 2013, the Company acquired an office building, Hercules House, near Waterloo Station in London, United Kingdom, for a consideration of £23.5 million (€28.2 million) in cash. The consideration was funded by a new £12.0 million (€14.5 million) term loan from Bank Hapoalim B.M. secured on the property and guaranteed by the Company and from the Group's existing cash balances. The Group plans to convert this office building to a hotel.

### Completion of acquisition of two art'otels in Berlin, Germany

On 1 July 2013, the Company acquired the freehold interests in two hotels in Berlin which the Group already leased and managed, namely art'otel berlin mitte and art'otel berlin kudamm, together with the associated inventories, for a total consideration of €17.5 million. On completion the seller paid to the Group €2.0 million, which will be used for renovation works on the hotels. The consideration for the acquisition of the properties was funded by a €12.5 million ten-year term loan from Deutsche Hypothekenbank secured on the properties and guaranteed by the Company. On 13 January 2014, the Company sold 50% of the shares in the companies which own the freeholds and the operating businesses of these hotels through a 50:50 joint venture. Further details are set out in Note 31 to the Consolidated financial statements.

### Completed refinancing of London and Dutch hotels

On 3 December 2013, the Company completed its largest refinancing to date, with improved terms and capital expenditure allocation for renovations. This new facility with Aareal Bank AG covers – Park Plaza Riverbank/Plaza on the River, Park Plaza Victoria and Park Plaza Sherlock Holmes – and in The Netherlands – Park Plaza Amsterdam Airport, Park Plaza Victoria Amsterdam, Park Plaza Vondelpark, Amsterdam, Park Plaza Eindhoven, Park Plaza Utrecht and art'otel amsterdam. The Hotels (except for art'otel amsterdam) were previously financed by three separate facilities provided by Aareal Bank AG with various maturity dates between December 2013 and September 2017. The new facility, which is for five years, comprises a Sterling tranche of up to £167.6 million (€201.1 million) and a Euro tranche of up to €153.2 million which includes the €24.0 million facility used to refinance the previous development facility for art'otel amsterdam with Bank Hapoalim B.M. The Sterling tranche includes up to £7.0 million (€8.4 million) for capital expenditure at the London Hotels and the Euro tranche also includes up to €7.5 million for capital expenditure at the Dutch Hotels. The loan-to-value ratio required by the bank amounts to 65% on the total committed facility, implying an asset value of at least €545.0 million. The book value of these assets as at 31 December 2013 amounts to €505.0 million. Further details are set out in Note 17 to the Consolidated financial statements.

### Corporate loan

On 18 December 2013, the Company successfully secured a five-year €30.0 million term facility with Bank Hapoalim B.M. for general corporate purposes, including for existing and prospective developments.

### Looking ahead

We are excited about the future prospects of the Group. As we look ahead, we will focus on driving growth through delivering our existing pipeline, investing in and repositioning several of our core assets, and further improving our operations through revenue generation. The planned renovations across several of our hotels may have a temporary negative impact on the performance of these hotels due to closures of rooms and public areas. However, we believe that our investment in these renovation projects will have a positive impact on our long-term performance.

The Company continues to consider options of how to best fund future expansion, including the release of part of the value of hotel assets, while retaining operational control.

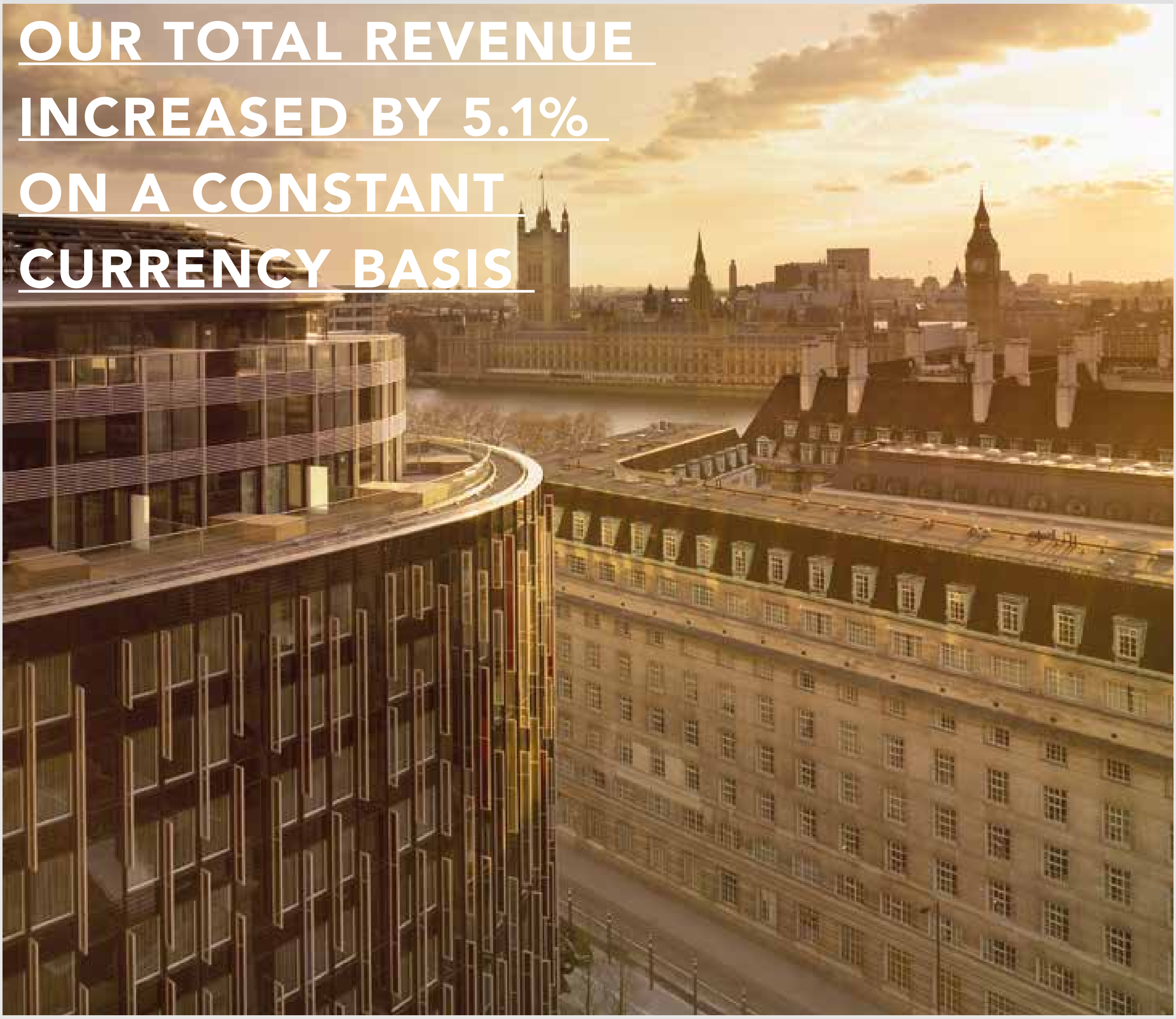
The Board is pleased to propose an increased final dividend which, when combined with the interim dividend, brings the total dividend for the year ended 31 December 2013 to 14.0 pence per share, an increase of 16.7%. This increase reflects the Board's confidence and belief in the strength of the business and we anticipate a progressive dividend policy going forward.

# UNITED KINGDOM

# REVIEW OF 2013

| | Euro (€)[1] | | GBP (£) | |
|---|---|---|---|---|
| | **Year ended 31 Dec 2013** | Year ended 31 Dec 2012 | **Year ended 31 Dec 2013** | Year ended 31 Dec 2012 |
| Total revenue | **€161.6 million** | €161.1 million | **£137.2 million** | £130.5 million |
| EBITDAR | **€58.0 million** | €60.7 million | **£49.2 million** | £49.2 million |
| EBITDA | **€56.7 million** | €59.5 million | **£48.2 million** | £48.2 million |
| Occupancy | **86.8%** | 81.7% | **86.8%** | 81.7% |
| Average room rate | **€159.4** | €169.2 | **£135.3** | £137.1 |
| RevPAR | **€138.3** | €138.2 | **£117.4** | £112.0 |
| Room revenue | **€114.1 million** | €114.3 million | **£96.9 million** | £92.6 million |

[1] No like-for-like comparison is provided as there have not been any transactions in the United Kingdom which would affect these figures.



## 2,790

Rooms in operation

## 1,046

Rooms in pipeline

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

**Part owned hotel**
Park Plaza Westminster Bridge London

**Managed hotel***
Park Plaza County Hall London

**Franchised hotel***
Park Plaza Cardiff

* Franchised and/or managed hotels do not count towards any of the figures presented in the table on page 50 (Occupancy, Average room rate, RevPAR, Total revenue, Room revenue, EBITDAR, EBITDA).

### United Kingdom hotel portfolio performance

Our hotels in the United Kingdom delivered a solid performance during the period, with total revenue on a local currency basis increasing by 5.1% to £137.2 million (2012: £130.5 million). In Euro, the total revenue for the United Kingdom was flat at €161.6 million (2012: €161.1 million).

We are particularly pleased with this performance due to the strong year-on-year comparative as we benefited in 2012 from the Olympic Games in London. Our teams focused on – and succeeded in – maintaining RevPAR by focusing on growing occupancy. In local currency, RevPAR increased by 4.8% to £117.4 (2012: £112.0). In Euro, RevPAR was flat at €138.3 (2012: €138.2).

Occupancy increased by 5.1 percentage points to 86.8%. In local currency, average room rate decreased by 1.3% to £135.3 (2012: £137.1). In Euro, average room rate decreased by 5.8% to €159.4 (2012: €169.2). EBITDA decreased by 4.7% to €56.7 million; however, the results for the region were negatively impacted mainly due to the weakness of Sterling against the Euro. On a constant currency basis, EBITDA decreased by only 0.2%. Our 2013 EBITDA for the United Kingdom was further negatively impacted due to a property tax adjustment assessed by the tax authorities relating to historic periods of approximately £2.0 million (€2.4 million).

Two of our four London hotels outperformed their competitive set in RevPAR during the year (source: STR Global, December 2013). Most notably, our flagship hotel, Park Plaza Westminster Bridge London, once again delivered a strong performance as the best performer in its competitive set.

Both Park Plaza Leeds and Park Plaza Nottingham outperformed their competitive sets in terms of RevPAR. Park Plaza Leeds reported a good year-on-year improvement following extensive renovations carried out in 2012, in both absolute terms as well as performance against its competitive set (source: STR Global, December 2013).

### Renovation projects and development pipeline

In April 2013, we opened a brand new restaurant concept, TOZI, at Park Plaza Victoria London, to much acclaim. TOZI, a name which is derived from the Venetian dialect for 'a group of close friends', is an Italian sharing concept restaurant. The restaurant's performance has exceeded our expectations and has consistently ranked in the Top 20 best restaurants in London on influential website tripadvisor.com out of 16,000 London restaurants.

On 17 June 2013, the Company acquired an office building, Hercules House, near Waterloo Station in London. We have since applied for planning consent to develop a 438-room hotel on this site. Planning consent was granted on 28 March 2014. During 2014, we will continue to develop our plans for this site, which once opened, will make us one of the largest operators on London's South Bank.

On 21 November 2013, we were granted planning permission from Lambeth Town Council for an extension at Park Plaza Riverbank London. We are currently reviewing plans for the development of this extension, as well as a reconfiguration.

Looking ahead, we will continue to advance our development projects in West London and the art'otel london hoxton site.

Significant upgrades at an estimated cost of €8.4 million, which is over and above our normal capital expenditure, are also being considered for Park Plaza Riverbank London, Park Plaza Sherlock Holmes London and Park Plaza Victoria London, following the refinancing of these hotels in December 2013.

### The United Kingdom hotel market

The London hotel market delivered marginal growth year-on-year, which was driven by a growth in occupancy. Across greater London, occupancy increased by 2.2 percentage points to 82.4%. Average room rate however declined by 1.6% to £137.9, resulting in RevPAR growth of 0.6% to £113.6.

More significant growth was experienced in the Leeds and Nottingham markets. In Leeds, growth was driven by a combination of increased occupancy and average room rate. For the year, occupancy increased by 6.2 percentage points to 75.9%, with average room rate increasing by 4.4% to £56.0, resulting in an overall RevPAR growth of 10.9% to £42.5.

In Nottingham, occupancy increased by 7.4 percentage points to 69.6%, with average room rate decreasing by 0.3% to £49.9, resulting in an overall RevPAR growth of 7.1% to £34.7.

Source: STR Global, December 2013.

# THE NETHERLANDS

## REVIEW OF 2013

| Euro (€) | Reported Year ended 31 Dec 2013 | Reported Year ended 31 Dec 2012 | Like-for-like* Year ended 31 Dec 2013 | Like-for-like* Year ended 31 Dec 2012 |
|---|---|---|---|---|
| Total revenue | **€42.4 million** | €37.8 million | **€37.7 million** | €37.8 million |
| EBITDAR | **€11.5 million** | €12.4 million | **€11.7 million** | €12.4 million |
| EBITDA | **€11.4 million** | €12.3 million | **€11.6 million** | €12.3 million |
| Occupancy | **74.1%** | 72.6% | **75.4%** | 72.6% |
| Average room rate | **€107.4** | €108.5 | **€106.1** | €108.5 |
| RevPAR | **€79.6** | €78.8 | **€80.0** | €78.8 |
| Room revenue | **€30.2 million** | €27.0 million | **€27.4 million** | €27.0 million |

**1,117**

Rooms in operation

**Wholly owned hotels**

art'otel amsterdam

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

* In the like-for-like comparison figures, the financial contribution of Park Plaza Amsterdam Airport, Park Plaza Victoria Amsterdam and Park Plaza Utrecht in 2013 has been calculated on the basis of the ownership interest of PPHE Hotel Group in those hotels during the same period in 2012. Furthermore, the trading of art'otel amsterdam since opening in the fourth quarter of 2013 has been ignored.

**Our Dutch hotel portfolio performance**

Overall our hotels in The Netherlands reported a 12.1% increase in total revenue to €42.4 million (2012: €37.8 million). This growth was mainly due to our increased ownership in three hotels in The Netherlands, compared with the same period last year, and the first-time contribution of the newly opened art'otel amsterdam, which opened in October.

EBITDA decreased by 7.1% to €11.4 million (2012: €12.3 million), primarily as a result of the initial operating loss in the first months of trading of art'otel amsterdam and challenging market conditions.

On a like-for-like basis total revenue decreased by 0.4% to €37.7 million (2012: €37.8 million) and EBITDA declined by 5.6% to €11.7 million (2012: €12.4 million), reflecting the continued challenging market conditions in The Netherlands.

Occupancy increased by 1.5 percentage points to 74.1% (2012: 72.6%); paired with a 1.0% decrease in average room rate to €107.4 (2012: €108.5), this resulted in a 1.0% increase in RevPAR to €79.6 (2012: €78.8).

Competitive performances varied by hotel, with Park Plaza Vondelpark, Amsterdam, Park Plaza Utrecht and Park Plaza Eindhoven outperforming their respective competitive sets in RevPAR terms. Park Plaza Amsterdam Airport improved its RevPAR performance year on year, while its competitive set lost ground. Park Plaza Victoria Amsterdam reported a slight improvement in RevPAR (source: STR Global, December 2013).

**Renovation projects and development pipeline**

The most significant update for The Netherlands during the year was the completion and opening of art'otel amsterdam. Following the December 2013 refinancing of our hotels in The Netherlands, significant upgrade plans at an estimated cost of €7.5 million over and above the normal capital expenditure are currently being prepared for Park Plaza Victoria Amsterdam, Park Plaza Vondelpark, Amsterdam and Park Plaza Utrecht.

The renovation plans for Park Plaza Victoria Amsterdam are the most extensive and will include a reconfiguration and upgrade of the entire ground floor, the creation of a concept restaurant and bar and the complete renovation of approximately half of the rooms. The remaining rooms were extensively renovated in 2011.

**The Dutch hotel market**

The hotel market in greater Amsterdam showed an improvement year on year, with overall RevPAR increasing 3.4% to €92.1. This growth was the result of a 2.1 percentage points growth in occupancy to 75.5% and an average room rate increase of 1.2% to €122.0.

In Utrecht, the overall hotel performance deteriorated due to pressure on average room rates, which declined 4.8% to €88.7. Occupancy increased by 0.9 percentage points to 64.2%, resulting in a RevPAR decrease of 4.0% to €56.9.

The hotel market in Eindhoven was similarly weak, with RevPAR decreasing 5.4% to €36.9. This was the result of a 3.1 percentage point decrease in occupancy to 53.1% and 2.3% decrease in average room rate to €69.5.

Source: STR Global, December 2013.

# A MIXED PERFORMANCE, WITH MARKET CONDITIONS IMPROVING IN THE SECOND HALF

# GERMANY AND HUNGARY

## REVIEW OF 2013

| Euro (€) | Reported | | Like-for-like[1] | |
|---|---|---|---|---|
| | **Year ended 31 Dec 2013** | Year ended 31 Dec 2012 | **Year ended 31 Dec 2013** | Year ended 31 Dec 2012 |
| Total revenue | **€32.8 million** | €32.6 million | **€32.8 million** | €32.6 million |
| EBITDAR | **€8.6 million** | €8.8 million | **€8.6 million** | €8.8 million |
| EBITDA | **€0 million** | €(0.5) million | **€(0.8) million** | €(0.5) million |
| Occupancy | **75.4%** | 73.5% | **75.4%** | 73.5% |
| Average room rate | **€71.0** | €72.7 | **€71.0** | €72.7 |
| RevPAR | **€53.5** | €53.4 | **€53.5** | €53.4 |
| Room revenue | **€24.9 million** | €24.9 million | **€24.9 million** | €24.9 million |

**1,423**

Rooms in operation

**177**

Rooms in pipeline

**Owned hotels**[2]
art'otel berlin kudamm
art'otel berlin mitte

**Leased hotels**
art'otel budapest
art'otel berlin city center west
art'otel cologne
art'otel dresden

Park Plaza Prenzlauer Berg Berlin
Park Plaza Wallstreet Berlin Mitte

**Franchised hotel**[3]
Park Plaza Trier

1 In the like-for-like comparison the results of two hotels in Berlin were adjusted to reflect a similar asset ownership structure during the same period in 2012.

2 The Company acquired the freehold interests in these hotels on 1 July 2013 and subsequently entered into a 50:50 joint venture on 13 January 2014.

3 Franchised hotels do not count towards any of the figures presented in the table on page 54 (Occupancy, Average room rate, RevPAR, Total revenue, Room revenue, EBITDAR, EBITDA).

### German and Hungarian hotel portfolio performance

Our hotels in Germany and Hungary maintained their 2012 performance level, with total revenue flat at €32.8 million (2012: €32.6 million). The EBITDA loss for the region, however, was further reduced to nil (2012: €(0.5) million loss). This improvement was the result of the acquisition of two properties, that were previously leased, resulting in lower lease expenses.

Our hotels in this region increased occupancy by 1.9 percentage points to 75.4% (2012: 73.5%) and average room rate decreased by 2.3% to €71.0 (2012: €72.7) resulting in flat RevPAR of €53.5 (2012: €53.4).

The star performer in this region was art'otel budapest, which outperformed its competitive set in occupancy, average room rate and RevPAR. At our five hotels in Berlin we experienced mixed results, varying from an outperforming art'otel berlin mitte to a softer performance at art'otel berlin city center west. art'otel cologne continued to improve its performance, with Dresden remaining our most challenging market (source: STR Global, December 2013).

### Renovation projects and development pipeline

Having renovated 75 rooms at art'otel budapest in 2012, an additional 36 rooms were renovated in early 2013. No additional extensive renovations took place during 2013 in this region. Following our acquisition of art'otel berlin mitte and art'otel berlin kudamm in July, we will embark on a renovation and repositioning exercise during 2014 for both hotels. On completion of the renovation of art'otel berlin kudamm, this hotel will be rebranded as Park Plaza.

In addition, we will part renovate art'otel cologne and we expect to commence the construction of Park Plaza Nuremberg, with an anticipated new opening date of 2015.

### The German and Hungarian hotel market

The hotels in greater Berlin reported a year-on-year decrease of 0.8% in RevPAR to €65.0, the result of a 0.3 percentage point decrease in occupancy to 72.5% and 0.5% decrease in average room rate to €89.7.

Cologne on the contrary, experienced 4.3% growth in RevPAR to €70.4 .This growth was primarily driven by a 4.0% increase in average room rate to €103.8, with occupancy increasing by 0.2 percentage points to 67.8%. In Dresden, hotel performance was flat with RevPAR decreasing 0.3% to €46.3. The 1.1% increase in average room rate to €72.5 was offset by the 1.4 percentage point decrease in occupancy to 63.9%.

In Hungary, the performance of the hotel market in Budapest continued to improve with RevPAR increasing by 3.9% to €42.6. This growth was primarily driven by a 3.4 percentage point increase in occupancy to 65.8%. The average room rate for the market increased by 0.5% to €64.8.

Source: STR Global, December 2013.

## MAINTAINING REVENUE, WHILE FURTHER REDUCING OUR EBITDA LOSS FOR THE REGION

# MANAGEMENT AND HOLDINGS OPERATIONS

## REVIEW OF 2013

| Euro (€) | **Year ended 31 Dec 2013** | Year ended 31 Dec 2012 |
|---|---|---|
| Total revenue before elimination | **€32.6 million** | €33.6 million |
| Revenue within the consolidated Group | **€24.5 million** | €23.0 million |
| External and reported revenue | **€8.1 million** | €10.6 million |
| EBITDA | **€14.8 million** | €14.2 million |

# OUR BUSINESS MODEL

| | Owned and leased | Managed | Franchised |
|---|---|---|---|
| Brand provided under licence by | PPHE Hotel Group | PPHE Hotel Group | PPHE Hotel Group |
| Employees | PPHE Hotel Group | PPHE Hotel Group has the right to employ the General Manager and Financial Controller | Third party |
| Sales, Marketing, Distribution and Revenue Support | PPHE Hotel Group | PPHE Hotel Group | PPHE Hotel Group |
| Ownership | PPHE Hotel Group | Third party | Third party |
| Capital for PPHE Hotel Group | High | Low/none | None |
| Revenue for PPHE Hotel Group | All operating revenues and profits | Base management fee as percentage of revenue<br>Incentive fee as percentage of gross operating profit<br>Central Services fee as percentage of revenue<br>Marketing fee as percentage of revenue | Franchise fee as percentage of revenue<br>Marketing fee as percentage of revenue |

## OUR MANAGEMENT AND HOLDINGS OPERATIONS REPORTED A MODEST IMPROVEMENT

**Our performance**

As an owner/operator, a significant part of our hotel portfolio is owned and managed by us, and all hotel management related revenues are eliminated upon consolidation as intra-Group revenue.

Prior to consolidation and elimination of intra-Group revenue, total Management and Holdings revenue decreased by 2.9% to €32.6 million (2012: €33.6 million). This decrease is primarily the result of a one-off performance related incentive fee in 2012 comparative figures, amounting to £2.0 million (€2.4 million). After consolidation and the elimination of intra-Group revenue, reported revenues decreased by 23.2% to €8.1 million (2012: €10.6 million).

Reported EBITDA increased by 4.2% to €14.8 million (2012: €14.2 million).

# CROATIA
REVIEW OF 2013

## Co-owned hotels

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

## Co-owned resorts

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

* Following extensive renovations the former Hotel Belvedere will reopen in summer 2014 as Park Plaza Belvedere Medulin.

Arenaturist group is one of Croatia's best known hospitality groups and consists of seven hotels, six holiday apartment complexes, eight campsites and 52 food and beverage outlets, all of which are located in Istria.

Arenaturist group caters primarily for European tourists and the majority of accommodation is only operational during the summer months. All properties are located in prime locations by the sea and are a short distance from either the 3,000-year-old city of Pula or the touristic town of Medulin.

In 2008, we acquired a 20% stake in WH/DMREF Bora B.V. (Bora), the holding company of the Arenaturist group, and we were awarded the management agreement for Arenaturist. Arenaturist d.d. is listed on the Zagreb Stock Exchange. The Arenaturist group is accounted for as an associate in the consolidated statements.

The results from our investment in Bora (consisting of shares and loans) increased marginally with € 0.1 million. This includes a loss of the investment in shares of €2.6 million (2012: loss of €2.4 million) and an interest income on loans of €2.7 million (2012: €2.5 million).

Although this 20% stake attributes marginally towards the profit of the Group, we benefit from the management agreements that were awarded to us as part of this investment. The Group realised a total of €2.5 million of management and marketing fee revenues in the year (2012: €2.4 million).

Following extensive renovations, three of Arenaturist's hotels reopened as Park Plaza properties just before the start of the 2012 summer season. In 2013, we were able to further capitalise on the improved market positions of these hotels, with all units reporting healthy growth in commercial terms, as well as guest satisfaction levels.

The remaining rooms at Park Plaza Medulin were fully renovated before the start of the 2013 season and our flagship hotel in this market, Park Plaza Histria Pula, was extended by 127 rooms. This was achieved through the renovation and conversion of the former Hotel Palma, located adjacent to Park Plaza Histria Pula.

Extensive renovation works started in November 2013 at Hotel Belvedere. Once completed, this hotel will reopen in summer 2014 as Park Plaza Belvedere Medulin and will offer approximately 430 rooms, making it our largest Park Plaza hotel in this market.

Notwithstanding challenging economic conditions and limited availability of credit, once this latest renovation has been completed, approximately half of Arenaturist's hotel rooms will have been fully renovated in the past three years, giving us a highly competitive position in this tourism hotspot.

### Park Plaza Histria Pula – the perfect hotel for discerning couples who expect the best

Park Plaza Histria Pula occupies a stunning seaside location and provides all amenities expected of a full-service, upscale hotel, including a large spa and wellness centre and a conference centre. 368 rooms / two à la carte restaurants / several bars / indoor and outdoor pool / fitness / sauna / spa / cinema / meeting rooms

### Park Plaza Verudela Pula – the ideal getaway for families and groups of friends

The beachfront Park Plaza Verudela Pula is especially suited for families due to its range of apartment-style accommodation. Contemporary apartments with fitted kitchen and balcony or terrace.

385 studios and apartments / buffet restaurant and à la carte restaurant / espressamente illy coffee bar / pool bar / aqua park with three pools / sports pitches / 18 tennis courts / water sports centre / kids club

### Park Plaza Medulin – the ideal, adults-only oasis for those looking for relaxation

Located close to the historic town of Medulin, on the Adriatic coast, Park Plaza Medulin has created its own niche and caters to couples only.

190 rooms / restaurant / bar / two pools / beauty centre / massage service / fitness centre / events and entertainment programme / meeting rooms / adults-only concept

### Park Plaza Belvedere Medulin – the ideal retreat for active holiday makers and sport teams and athletes, opening summer 2014

Following extensive renovations, this newly renovated and rebranded hotel is scheduled to open in the summer of 2014.

428 rooms / restaurant / bar / pool restaurant and bar / outdoor and indoor pools / fitness / sauna / spa cinema / meeting rooms / six FIFA sized football pitches / five tennis courts / four running tracks and extensive other sport facilities

For more information about Arenaturist, please visit arenaturist.com, and for the Park Plaza branded resorts visit parkplaza.com/histria, parkplaza.com/verudela, parkplaza.com/medulin or parkplaza.com/belvedere.

# CORPORATE SOCIAL RESPONSIBILITY

## IN 2013, THE GROUP HAS MADE CONSIDERABLE PROGRESS IN EXPANDING AND IMPROVING THE CORPORATE SOCIAL RESPONSIBILITY (CSR) POLICY BY MAKING OUR EFFORTS MORE MEASURABLE[1]

[1] All numbers presented in this CSR report apply to 21 hotels across the Group, located in the United Kingdom, The Netherlands, Germany and Hungary.

### OUR VISION

Realise growth potential

### OUR MISSION STATEMENT

Inspiring our guests through individuality and passion

### OUR VALUES

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

#### TRUST

Trust is the belief and confidence in the organisation and its employees, where achievable and realistic promises are made and kept.

#### TEAMWORK

Active participation in the realisation and achievement of common goals.

#### COMMITMENT

Believing in these values, developing them in yourself, the team and organisation.

#### RESPECT

Understanding differences in people and organisations, while behaving with integrity and valuing their role.

#### ENTHUSIASM

Choosing to be positive, energetic and happy.

#### CARE

Showing compassion and being able to adjust when dealing with colleagues and guests alike, regardless of the situation.

Throughout the year, we have been actively involved in a number of environmental and fundraising activities which demonstrated our commitment to reducing our energy consumption and $CO_2$ emissions. We obtained new green certifications and awards and have taken even better care of our team members by improving our learning and development platform.

### Green initiatives

During 2013, the Group improved our approach towards monitoring and analysing all CSR activities and initiatives undertaken by our hotels on unit and corporate levels. Our dedicated Green Committee network, which was launched in 2012, has rapidly expanded and is now present in the majority of our hotels. The teams provided staff with guidance and set internal CSR targets and objectives which helped to address opportunities, individual needs and ambitions. We incorporated our CSR policy in our 'Feeling Welcome' Company-wide induction programme for new team members providing an overview of the Company's current green initiatives and the importance of sustainable operations in the different work places. During 2013, we improved our communication with team members and guests, and provided updates on our CSR activities and best practice examples. Our Green Teams regularly publicise on social media, dedicated brochures, internal portal you:niverse and staff common rooms' information boards.

We understand the importance of energy efficient technologies in preserving and saving natural resources and as such we are working on updating our onsite systems to match evolving industry standards and improve energy savings through up-to-date equipment which now forms part of our capital expenditure planning process. We are delighted to report that all our properties are equipped with energy efficient lights with the result that 57% of lights are LED. All hotels are committed to recycling paper, glass and cardboard. Where appropriate, a number of our hotels have installed onsite cardboard bailers, bottle crushers and food waste to water systems in order to reduce landfill. Owing to these initiatives across our Group we achieved a 10% reduction in waste per guest from the previous year.

**Managing CSR at the Group**
Our CSR policy forms an integral part of our values and context and is proactively lived by the hotels and their teams.


In order to reduce our water consumption, we invested in eco-shower heads (14 out of 21 hotels), water sense enabled toilets (16 out of 21 hotels) and water restrictors in taps (18 out of 21 hotels) which led to a 2% reduction in water consumption per guest from the previous year.

As a Company, we participate in initiatives that support $CO_2$ reduction. Every spring a number of our hotels participate in Earth Hour, encouraging households and businesses to turn off their non-essential lights for one hour to raise awareness about the need to take action on climate change. In 2013, we started to procure green electricity for all our UK properties, meaning a significant part of consumed energy is now produced from renewable energy sources. We were delighted to achieve the Gold Award from the Green Tourism Business Scheme for Park Plaza Riverbank London.

Aided by the various green initiatives which took place in 2013, we reduced our energy consumption by 5.5% per guest in comparison with 2012 and, as a result, we achieved a 6% reduction in greenhouse gas emissions. This is in line with our target which was set in 2012 – to reduce our 2011 $CO_2$ emissions by 20% before the end of 2017.

To improve on our CSR initiatives and policy we set up various partnership programmes with external organisations which monitor our progress and provide necessary consultation. In 2013, we have successfully completed Carbon Reduction Commitment (CRC) auditing with the Carbon Trust for our UK operations and we are currently in the process of implementing tangible green initiatives backed by capital expenditure such as plant and machinery, and further efficient onsite equipment including building mechanically efficient onsite equipment, embedding a monitoring system for consumption analysis and developing a dedicated human behaviour programme which will provide our staff with a better understanding of energy and water consumption.

The Club Carlson programme launched a new initiative during the year, enabling members to donate their Gold Points to a carbon neutral community which helps thousands of people and hundreds of major companies around the world to measure, reduce and offset their $CO_2$ emissions.

Club Carlson℠, the global loyalty programme for Carlson Rezidor Hotel Group which includes our Park Plaza hotels and art'otels, became the first loyalty programme in the hospitality industry in 2013 to commit to a global carbon offsetting initiative. Carlson Rezidor offsets meetings for all Club Carlson For Planners meetings and events across the Group's six global hotel brands totalling 1,077 hotels in operation worldwide. The carbon offsetting is a free service for the meeting planners and each contribution is used to invest in renewable energy in India; and is combined with the planting of one tree for every tonne of carbon offset through Club Carlson For Planners events in the Great Rift Valley. This innovative offsetting solution will help to reduce our hotels' and our customers' carbon footprint.

In addition to Club Carlson For Planners members, individual Club Carlson members have the opportunity to redeem their Gold Points to offset the carbon of their personal travel and to support the wind farms in India and the tree planting in Kenya.

### People development and human resources

2013 was an active year, with several new initiatives introduced such as the launch of new Learning & Development programmes to support the business and as a follow-up on the company-wide Inspirational Service Programme, the service recovery training and maximising sales opportunities; and a company-wide induction programme, 'Feeling Welcome', which will help new team members to gain a full understanding of our vision, mission, values and goals among others.

The Group continued to invest in the talents of the business, in particular middle management, with the introduction of a foundation in management development programme supported by clearly defined mentor and mentee roles and aimed at handpicked talents out of our organisation.

### Community activities

The Group aims to support local communities. We provide opportunities for permanent/part-time employment and exciting careers in hospitality with the Springboard charity helping people of all ages to achieve their full potential. With our increasing market presence, we began to support Engage Lambeth providing a well-planned training programme to young people to ensure that the local community tackles unemployment and obtains the right skills to prosper in career life. In 2013, we successfully recruited 25 talented individuals via this programme for various hotel departments. All our hotels in Germany and The Netherlands participate in apprenticeship programmes. We currently run catering and hotel school apprentice schemes with 114 apprentices, of whom 51 were hired in the last year after they had completed their apprenticeships.

### Charitable activities

For the third consecutive year, we raised awareness of prostate cancer with our guests by participating in Movember. In 2013, our team members were exceptionally active in taking direct participation in the Movember campaign, setting a fundraising target of a minimum of €50 for each MoBro. Collectively, we raised over £20,000.

### Germany and Hungary

In Germany, we have been providing support to seriously ill children and their families for a number of years through the Kinderhilfe foundation. In 2013, we were intensively involved in arranging various activities which included the renovation of two apartments for family members, the organisation of Halloween and Christmas parties with drinks and presents for kids, and donating toys and clothes to a Kinderhilfe shop.

### The Netherlands

In 2013, our hotels in The Netherlands supported the annual Amsterdam Diner Foundation, which is dedicated to raising awareness of the importance of good health care in containing AIDS. Park Plaza hotels in The Netherlands sponsored overnight stays via an auction and lottery with all proceedings going to the charity.

### United Kingdom

During November and December 2013, all our hotels in London, Leeds and Nottingham signed up for a StreetSmart fundraising campaign to help homeless people in local areas. A voluntary donation of £1 was added to hotel and restaurant bills which encouraged guests to make a small, but important contribution. We have received supportive feedback from our guests who welcomed the campaign, which raised £24,000. Throughout the year, our hotels in the United Kingdom were proudly supporting the phenomenal work of the Willow foundation, a charity that brings joy and happiness to thousands of terminally ill patients through organised experiences.

### Individual achievements

As a Company, we always encourage each of our individual hotels to follow and support local charities close to their hearts. In addition to the aforementioned foundations, hotels run events for charities of their own choice. To name some of them: in 2013, art'otel dresden arranged the provision of hot meals to homeless people during the winter months; our London hotels held a Macmillan cancer fundraising coffee morning; Park Plaza Leeds set up an abseiling challenge down the fourth tallest building in the city for Cash for Kids charity; Park Plaza hotels in The Netherlands launched a campaign to help KiKa foundation with children's cancer research; Park Plaza Victoria Amsterdam provided support to the Energy-4-All foundation to expand and speed up the research into disorders in energy metabolism.

We are looking forward to a challenging, rewarding and profitable 2014, aiming to continue to reduce our environmental impact on target with our 2017 goals and to engage our team members while inspiring our guests through individuality and passion.

### Certification

It is important for us to know if we are on the right track with our activities and we therefore highly value external accreditation. Several of our hotels have worked with the respective authorities within the CSR area and have received the relevant accreditation. We will be reviewing similar initiatives for our other hotels.

| | | |
|---|---|---|
| Park Plaza County Hall London | Gold award | The Green Tourism Business Scheme, UK |
| Park Plaza Westminster Bridge London | Gold award | The Green Tourism Business Scheme, UK |
| Park Plaza Riverbank London | Gold award | The Green Tourism Business Scheme, UK |
| Park Plaza Sherlock Holmes London | Silver award | The Green Tourism Business Scheme, UK |
| Park Plaza Victoria London | Silver award | The Green Tourism Business Scheme, UK |
| Park Plaza Leeds | Silver award | The Green Tourism Business Scheme, UK |
| Park Plaza Nottingham | Gold award | The Green Tourism Business Scheme, UK |
| Park Plaza Victoria Amsterdam | Silver award | The Green Key |
| Park Plaza Utrecht | Gold award | The Green Key |
| Park Plaza Eindhoven | Gold award | The Green Key |
| Park Plaza Eindhoven | Sustainable Entrepreneur – Silver award | Local municipality |

# BOARD OF DIRECTORS


**Eli Papouchado**
Non-Executive Chairman

**Boris Ivesha**
President and Chief Executive Officer


**Chen Moravsky**
Chief Financial Officer

**Kevin McAuliffe**
Non-Executive Director
Senior Independent Director


**Elisha Flax**
Non-Executive Director

**Nigel Jones**
Non-Executive Director

**Eli Papouchado, 76**
**Non-Executive Chairman**
Mr. Papouchado is the founder of the Red Sea Group and has previously acted as the Chairman of its board for ten years. He has been involved in the construction, design, development, financing, acquisition and management of leading hotels, including Park Plaza Westminster Bridge London, Park Plaza Riverbank London, Park Plaza Victoria London, Park Plaza Leeds, Park Plaza Nottingham, Park Plaza Victoria Amsterdam, the milestone Taba Hotel and many others. Mr. Papouchado was involved in the development of hundreds of thousands of square metres of retail space in shopping malls and large residential projects in the United States, Eastern Europe and the Middle East. He also served as Chairman of the Israel Hotel Association.

**Chen Moravsky, 43**
**Chief Financial Officer**
Mr. Moravsky has been the Chief Financial Officer of PPHE Hotel Group since 2005. He was previously the Financial Director of the Red Sea Group which he joined in 2001. It was at the Red Sea Group where he gained his expertise in the hotel/leisure business and real estate investment market. Mr. Moravsky was previously employed as an Audit Manager at Deloitte. Mr. Moravsky is a Certified Public Accountant (ISR) and holds an MBA from the University of Manchester as well as a Bachelor of Business from the Tel Aviv College of Management.

**Elisha Flax, 52**
**Non-Executive Director**
Mr. Flax is a real estate entrepreneur engaged in various real estate activities in Eastern Europe. He served as a non-executive director of Delek Global Real Estate plc, an AIM-listed real estate company until 2010. Mr. Flax was previously employed as a solicitor at the London offices of US law firms Chadbourne & Parke and Akin, Gump, Strauss, Hauer & Feld and general counsel at PlaneStation Limited. He holds an LLB degree from Keio University in Tokyo, Japan and is a qualified solicitor in England and Wales.

**Boris Ivesha, 68**
**President and Chief Executive Officer**
Mr. Ivesha has been the President of PPHE Hotel Group since 1991. In 1972, he was appointed General Manager of the Royal Horseguards Hotel in London, a position he held until 1979, when he became a Managing Director for the Carlton Hotel in Israel. Mr. Ivesha established the Yamit Hotel in 1984, served as the hotel's President and brought the Park Plaza® Hotels & Resorts brand to the Group in 1994 in collaboration with the Red Sea Group. He has been one of the major drivers behind the expansion of the Group's portfolio.

**Kevin McAuliffe, 56**
**Non-Executive Director**
**Senior Independent Director**
Mr. McAuliffe is currently the Chairman of Carey Group, having joined that business as Chief Executive in 1999. Prior to this, he was Head of Advisory Services for Paribas International Private Banking and the Managing Director of Paribas Suisse in Guernsey. Previously the Finance Director of the Ansbacher offshore banking group, he was appointed Chief Executive of Ansbacher's Guernsey bank and trust company business in 1994. From 1973 to 1980, he held posts in three different departments in the States of Guernsey. He is a Member of the Society of Trust and Estate Practitioners and a director of various regulated investment companies.

**Nigel Jones, 52**
**Non-Executive Director**
Mr. Jones has been a member of the Royal Institution of Charted Surveyors since 1989. He was the Chief Executive of ComProp Limited, an AIM-listed property company based in Guernsey, between 2001 and 2007. During that period, he was responsible for major office developments including headquarter offices for Fortis, Kleinwort Benson and Generali, as well as retail stores for B&Q which are now occupied by Waitrose. Mr. Jones initially worked in Southampton for Humberts dealing with the management of coastal land that formed part of The Crown Estate. Having moved to Guernsey he established the Island's first dedicated Commercial property practice in 1995. His directorships include UK Care No 1 Limited which holds leases on approximately 100 BUPA care homes, Matrix Property Fund Management (Guernsey) Limited, Threadgreen Industrial Limited and Landericus Limited.

# DIRECTORS' REPORT

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2013.

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

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

The Group has an exclusive licence from Carlson℠, a global privately owned hospitality and travel company, to develop and operate Park Plaza® Hotels & Resorts in Europe, the Middle East and Africa. The art'otel® brand is wholly owned by the Group.

The Company has a minority ownership interest in the Arenaturist group, one of Croatia's leading hospitality companies.

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

The Group's development pipeline includes the construction of four new hotels, the extension and reconfiguration of one hotel, and the rebranding of two hotels which together are expected to add approximately a further 1,200 rooms to the portfolio by the end of 2017.

**Business review**
A review of the business during the year is contained in the Chairman's statement, Chief Executive Officer's statement, strategy and performance overview, Chief Financial Officer's statement and review of 2013.

**Results and 2013 dividend**
The results for the year are set out in the attached Consolidated financial statements. Basic and diluted earnings per share for the year was €0.63 (2012: €1.64). The Board recommends to the Annual General Meeting to declare the payment of a final dividend of 8.0 pence per share for the year ended 31 December 2013.

As a matter of Guernsey law, any payment of dividends must be made in accordance with the provisions of the Companies (Guernsey) Law, 2008 (as amended). Prior to declaring any dividends, the Directors are required to carry out a liquidity or cash flow test and a balance sheet solvency test and must satisfy themselves on reasonable grounds that the Company will, immediately after the payment of the dividend remain solvent i.e. be able to pay its debts as they fall due and the value of its assets will continue to exceed the value of its liabilities. The test requires the Directors to make a future assessment by making reference to the solvency test being satisfied immediately after a distribution or dividend payment is made. If at the time a dividend or distribution payment is to be made, the Directors believe that the solvency test cannot be passed, then no payment may be made to the holders of shares.

| | |
|---|---|
| Number of issued shares | 43,392,792 |
| Held in treasury by PPHE Hotel Group | 1,862,000 |
| Number of issued shares (excluding treasury) | 41,530,792 |

| Shareholders with holdings of 3% or more of the Company's issued share capital (excluding treasury) as at 7 April 2014 | Number of shares | Percentage of issued share capital (excluding treasury) |
|---|---|---|
| Red Sea Group | 18,552,714 | 44.67 |
| Molteno Limited | 7,990,027 | 19.24 |
| Aroundtown Property Holdings Limited | 3,762,000 | 9.06 |
| Hagreave Hale | 2,421,982 | 5.83 |
| Elbit Medical Imaging | 1,707,640 | 4.11 |

## Principal risks and uncertainties

Internal controls and an effective risk management regime are integral to the Group's continued operation. Overall responsibility for the risk management processes adopted by the Group lies with the Board. On behalf of the Board, the Audit Committee reviews the effectiveness of the Group's internal control policies and procedures for the identification, assessment and reporting of risks. In order to maintain oversight and seek comfort as to Group policies and procedures, the Group has an internal auditor who acts as a tool to rigorously and continuously test Group procedures. For further details in respect of the Group's internal control processes, please refer to the Corporate Governance Report.

In this section we describe the Group's principal risks and uncertainties. We provide information on the nature of the risk, actions to mitigate risk exposure and an indication of the significance of the risk by reference to its potential impact on the Group's business, financial condition and results of operation and/or the likelihood of the risk materialising. Not all potential risks are listed overleaf. Some risks are excluded because the Board considers them not to be material to the Group as a whole. Additionally, there may be risks and uncertainties not presently known to the Directors, or which the Directors currently deem immaterial that may also have an adverse effect upon the Group.

## Directors

The Directors, who served throughout the year were as follows:

- Eli Papouchado (Non-Executive Chairman)
- Boris Ivesha (President and Chief Executive Officer)
- Chen Moravsky (Chief Financial Officer)
- Kevin McAuliffe (Senior Independent Non-Executive Director)
- Elisha Flax (Independent Non-Executive Director)
- Nigel Jones (Independent Non-Executive Director)

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

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

## Employees

During 2013, taking into account all our hotels, under all types of contract, approximately 2,500 team members were working for the Group.

## Share capital

The issued share capital of the Company together with the details of the movements in the Company's share capital during the year are shown in Note 14 to the Consolidated financial statements.

## Largest shareholders

The table provided on page 66 contains shareholders holding 3% or more of the issued Ordinary Shares (excluding treasury) as at 7 April 2014, of which the Company has been notified by its Registrar.

## Auditors

In accordance with the Code of Corporate Governance, the Audit Committee has reviewed the performance of the auditors for the year 2013 and has taken into account the findings of an FRC report on the 2012 audit which it received in January 2014. After careful consideration of the report and other operational issues, the Audit Committee has recommended to the Board of Directors that Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, be appointed at the forthcoming Annual General Meeting as auditors of the Company, in place of Ernst & Young LLP.

## Going concern

The Board believes it is taking all appropriate steps to support the sustainability and growth of the Group's activities. Detailed budgets and cash flow projections have been prepared for 2014 and 2015 which show that the Group's hotel operations will be cash generative during the period. This, taken together with their conclusions on the matters referred to below and in Note 1(c) to the Consolidated financial statements, has led the Directors to conclude that it is appropriate to prepare the 2013 Consolidated financial statements on a going concern basis.

| Risk and impact | Mitigation | Grading | Year on year |
|---|---|---|---|
| Information technology and systems<br>The Group is reliant on certain technologies and systems for the operation of its business. Any material disruption or slowdown of the Group's information systems, especially any failures relating to its reservation system, could cause valuable information to be lost or operations to be delayed.<br><br>In addition, the Group and its hotels maintain personal customer data, which is shared with and retained by the Group's partners. Such information may be misused by employees of the Group or its partners or other outsiders if there is an inappropriate or unauthorised access to the relevant information systems. | The Group invests in appropriate IT systems so as to obtain as much operational resilience as possible. Further, a variety of security measures are implemented in order to maintain the safety of personal customer information. | High | → |
| Market and hotel industry risks<br>The Group's operations and their results are subject to a number of factors that could adversely affect the Group's business, many of which are common to the hotel industry and beyond the Group's control, such as the global economic downturn, changes in travel patterns or in the structure of the travel industry and the increase of acts of terrorism. The impact of any of these factors (or a combination of them) may adversely affect sustained levels of occupancy, room rates and/or hotel values. | Although management continually seeks to identify risks at the earliest opportunity, many of these risks are beyond the control of the Group. The Group has in place contingency and recovery plans to enable it to respond to major incidents or crises and takes steps to minimise these exposures to the greatest extent possible. | High | → |
| The Group's borrowings<br>The majority of the Group's bank borrowings are primarily with two bank lenders and these financing arrangements contain either cross-collaterisation or cross-default provisions. Therefore, there is a risk that more than one property may be affected by a default under these financing arrangements.<br><br>The Group is exposed to a variety of risks associated with the Group's existing bank borrowings and its ability to satisfy debt covenants. Failure to satisfy obligations under any current or future financing arrangements could give rise to default risk and require the Group to refinance its borrowings. | The Board monitors funding needs regularly. Financial covenant ratios are monitored and sensitised as part of normal financial planning procedures. For details of the Company's hedging arrangements and financial covenants, please refer to Notes 30(h) and 17 to the Consolidated financial statements. | Medium | → |
| Fixed operating expenses<br>The Group's operating expenses, such as personnel costs, operating leases, information technology and telecommunications, are to a large extent fixed. As such, the Group's operating results may be vulnerable to short-term changes in its revenues. | The Group has appropriate management systems in place (such as staff outsourcing) designed to create flexibility in the operating cost base so as to optimise operating profits in volatile trading conditions. | Medium | → |
| Foreign exchange rate fluctuations<br>The exchange rates between the functional currency of the Group's subsidiaries operating outside the Eurozone, and the Euro (the reporting currency for the purposes of the Consolidated financial statements) may fluctuate significantly, affecting the Group's financial results. In addition, the Group may incur a currency transaction risk in the event that one of the Group companies enters into a transaction using a different currency from its functional currency. | The Group eliminates currency transaction risk by matching commitments, cash flows and debt in the same currency with the exception of the outstanding consideration in Thai Baht relating to the disposal of the site in Pattaya Bay, Thailand. After due and careful consideration, the Group decided not to hedge this currency risk. | Medium | ↗ |
| The Park Plaza® Hotels & Resorts brand and reservation system<br>The Group's rights to the Park Plaza® Hotels & Resorts brand stem from a territorial licence agreement with Carlson℠, pursuant to which the Group has the exclusive right to use (and to sub-license others to use) the Park Plaza® Hotels & Resorts trademark in 56 countries within the EMEA region. This agreement also allows the Group to use Carlson℠'s highly cost-effective central reservation system. Failure to maintain these rights could adversely affect the Group's brand recognition and its profitability. | The Group's rights to use the Park Plaza® Hotels & Resorts brand and Carlson℠'s central reservation system are in perpetuity. This unique and exclusive partnership is reinforced by the Group's continued focus on operational efficiency and portfolio growth through its intensified cooperation with Carlson℠. | Low | → |
| Key senior personnel and management<br>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 Group has appropriate systems in place for recruitment, reward and compensation and performance management. Development and maintenance of a Group culture also plays a leading role in minimising this risk. | Low | → |
| Development (projects)<br>The Group has various ongoing development projects which are capital intensive. These development projects may increase the Group's expenses and reduce the Group's cash flows and revenues. If capital expenditures exceed the Group's expectations, this excess would have an adverse effect on the Group's available cash. There is a risk that such developments may not be available on favourable terms, that construction may not be completed on schedule or within budget, and that the property market conditions are subject to changes on environmental law and regulations, zoning laws and other governmental rules and fiscal policies. | The Group retains an ownership interest in the development sites and therefore it is well placed to capitalise on any future rises in property prices. The Group tends to enter into fixed price turn-key contracts in respect of its developments in order to minimise the risk of cost overrun. The Group draws on its previous experience in running and managing developments to manage potential development risks. | Medium | → |

→ Unchanged during the year
↗ Increased during the year
↘ Reduced during the year

### Directors' responsibilities

The Directors are required to prepare the Directors' Report and the Consolidated financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for that year.

In preparing those Consolidated financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Consolidated financial statements; and
- prepare the Consolidated financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the Consolidated financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Consolidated financial statements have been properly prepared in accordance with the Companies (Guernsey) Law, 2008 (as amended). The Directors are responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Directors' declaration

So far as each of the Directors is aware, there is no relevant audit information of which the Company's auditor is unaware and each has taken all the steps he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

### Directors' responsibility statement

The Board confirms to the best of its knowledge that the Consolidated financial statements, which have been prepared in accordance with 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 Group.

The Business review, the Chairman's statement, the Chief Executive Officer's statement and the Chief Financial Officer's statement, all of which are incorporated into this report, include a fair view of the development and performance of the business, the position of the Group 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.

Boris Ivesha
President and Chief Executive Officer

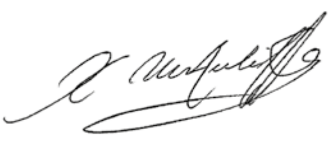
Chen Moravsky
Chief Financial Officer

28 April 2014

# CORPORATE GOVERNANCE

# THE DIRECTORS ARE COMMITTED TO MAINTAINING A HIGH STANDARD OF CORPORATE GOVERNANCE

**KEVIN MCAULIFFE**
NON-EXECUTIVE DIRECTOR
SENIOR INDEPENDENT DIRECTOR



### Introduction

As a company, whose shares are admitted to the standard listing segment of the Official List of the UK Listing Authority, the Company is not required to comply with the requirements of the UK Corporate Governance Code published by the Financial Reporting Council (FRC) in 2012 (the 'Corporate Governance Code') and available from the FRC website (www.frc.org.uk). However, the Board recognises the value of high standards and has put in place a framework for corporate governance as described below and which, in the Directors' opinion, is appropriate for the Group.

The Directors are committed to maintaining a high standard of corporate governance and intend to continue to comply with those aspects of the Corporate Governance Code which they consider appropriate, taking into account the size of the Company and the nature of its business.

## Meeting and Committee attendance

| Name | Role | Board meetings | Ad Hoc Committee | Audit Committee | Remuneration Committee | Nominations Committee |
|---|---|---|---|---|---|---|
| Eli Papouchado | Non-Executive Chairman | 1 | – | NA | NA | NA |
| Boris Ivesha | President and Chief Executive Officer | 4 | – | NA | NA | NA |
| Chen Moravsky | Chief Financial Officer | 4 | 1 | NA | NA | NA |
| Kevin McAuliffe | Non-Executive Director and Senior Independent Director | 4 | 8 | 4 | 1 | 1 |
| Elisha Flax | Non-Executive Director | 3 | 2 | 2 | 1 | 1 |
| Nigel Jones | Non-Executive Director | 3 | 10 | 4 | NA | 1 |
| **Total meetings held** | | 4 | 10 | 4 | 1 | 1 |

**Board composition, roles and independence**

The Company currently has six Directors, four of whom are Non-Executives (including the Chairman, Eli Papouchado). The two Executive Directors are Boris Ivesha, Chief Executive Officer and Chen Moravsky, Chief Financial Officer.

The Corporate Governance Code recommends that the Board of Directors of a listed company includes a balance of Executive and Non-Executive Directors such that no individual or small group of individuals can dominate the Board's decision making. The Corporate Governance Code further recommends that the Chairman, on appointment, be independent.

The Company's Chairman, Eli Papouchado, is the founder of the Red Sea Group (of which Euro Plaza Holding B.V., the Company's largest shareholder, is a part) and was not therefore on appointment, and is not, independent of the Company. However, the Board believes that Mr. Papouchado's extensive experience and knowledge of the Group's business as well as the hotel business generally justify this departure from the recommendations of the Corporate Governance Code. On 13 May 2013, Mr. Papouchado appointed Yoav Papouchado as his alternate Director.

As recommended by the Corporate Governance Code, three of the Directors (being more than half of the Board excluding the Chairman), namely Elisha Flax, Kevin McAuliffe and Nigel Jones are regarded by the Company as being independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement. Kevin McAuliffe has an indirect 1% interest in C.L. Secretaries Limited, the Company's Secretary. The Board does not, however, consider this interest to be sufficiently material to affect Mr. McAuliffe's independence.

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

The Board has responsibility for the Group's strategic and financial policies and meets regularly. All the Directors have access to the advice and services of the Group's General Counsel and Company Secretary and are able to gain access to external independent advice at the Company's expense should they wish to do so in the furtherance of their duties.

An appropriate balance of Executive and Non-Executive members of the Board is maintained and the Board is supplied with regular and timely information concerning the activities of the Group in order to enable it to exercise its responsibilities and control functions in a proper and effective manner.

The Board has a breadth of experience relevant to the Company, and the Directors believe that any changes to the Board's composition can be managed without undue disruption. With any new Director appointment to the Board, an appropriate induction will be set up.

The Board considers agenda items laid out in the notice of Board meeting and agenda which are formally circulated to the Board in advance of the Board meetings as part of the Board papers and therefore Directors may request any agenda items to be added that they consider appropriate for Board discussion. In instances when the Chairman is not present, the Senior Independent Director will chair the meeting. Each Director is required to inform the Board of any potential or actual conflicts of interest prior to Board discussion.

The primary focus at Board meetings is a review of operating performance, potential investments and joint ventures and matters such as financing arrangements, as well as marketing/investor relations, risk management, general administration and compliance, peer group information and industry issues.

The Board evaluates its performance and considers the tenure of each Director on an annual basis, and believes that the mix of skills, experience, ages and length of service is appropriate to the requirements of the Company. The entire Board retires and stands for re-election annually at the Annual General Meeting.

The roles of Chairman and the Chief Executive Officer are separate and clearly defined. The scope of these roles is approved and kept under review by the Board so that no individual has unfettered decision-making powers.

The Chairman is responsible for the leadership and governance of the Board and the Chief Executive Officer for the management of the Group and the implementation of Board strategy and policy on the Board's behalf. In discharging his responsibilities, the Chief Executive Officer is advised and assisted by senior management.

During the financial year, the Board held four Board and ten ad hoc Board Committee meetings.

### Directors' duties

The Directors have adopted a set of reserved powers, which establish the key purpose of the Board and detail its major duties.

These duties cover the following areas of responsibility:

- statutory obligations and public disclosure;
- strategic matters and financial reporting;
- oversight of management and personnel matters;
- risk assessment and management, including reporting;
- monitoring, governance and control; and
- other matters having material effects on the Company.

These reserved powers of the Board have been adopted by the Directors to clearly demonstrate the seriousness with which the Board takes its fiduciary responsibilities and as an ongoing means of measuring and monitoring the effectiveness of its actions.

### External appointments

Directors may hold directorships or other significant interests with companies outside of the Group which may have business relationships with the Group. Executive directors may not accept external directorships and retain any fees earned from those directorships without prior discussion with the Chief Executive Officer. Provided always that this does not lead to any conflicts of interest and that they do not hold more than one non-executive directorship in a FTSE 100 company nor the chairmanship of such company. In the case of the Chief Executive Officer, prior discussion will need to be held with the Chairman.

### Directors' indemnities and protections

The Company has arranged appropriate insurance cover in respect of any legal action against Directors and senior managers of companies within the Group. In addition, the Articles of Incorporation of the Company permit the Directors and officers of the Company to be indemnified in respect of liabilities incurred as a result of their office.

### Board Committees

In accordance with the Corporate Governance Code, the Company has established the following Committees in order to carry out work on behalf of the Board: an Audit Committee, a Remuneration Committee and a Nominations Committee.

### Audit Committee

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

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

There have been four Audit Committee meetings during 2013.

For further details in respect of the Audit Committee's role, function and responsibilities, please refer to the Audit Committee Report in this section.

### Remuneration Committee

A Remuneration Committee has been established and comprises Kevin McAuliffe (Chairman) and Elisha Flax. The Remuneration Committee advises the Board on an overall remuneration policy and meets as and when required. The Remuneration Committee also determines, on behalf of the Board, and with the benefit of advice from external consultants, the remuneration packages of the Executive Directors. The Board determines the remuneration of the Non-Executive Directors.

There has been one Remuneration Committee meeting during 2013.

### Nominations Committee

A Nominations Committee has been established and comprises Elisha Flax (Chairman), Nigel Jones and Kevin McAuliffe. Whenever possible, all such Non-Executive Directors are present at meetings of the Nominations Committee. The Nominations Committee carries out the selection process for the appointment of candidates to the Board and proposes names for approval by the full Board.

There was one Nomination Committee Meeting held during 2013.

### Communications with shareholders

The Board is accountable to the Company's shareholders and as such it is important for the Board to appreciate the aspirations of the shareholders and equally that the shareholders understand how the actions of the Board and short-term financial performance relate to the achievement of the Company's longer-term goals.

The Board reports to the shareholders on its stewardship of the Company through the publication of interim and final results each year. Press releases are issued throughout the year and the Company maintains a website (pphe.com) on which press releases and the annual report and accounts are available to view. Additionally, this annual report contains extensive information about the Company's activities. Enquiries from individual shareholders on matters relating to the business of the Company are welcomed. The Executive Directors and Non-Executive Directors also meet with major shareholders to discuss and review the progress of the Company and to understand their issues and concerns, as well as discussing governance and strategy.

The Chief Executive Officer and the Chief Financial Officer provide periodic feedback to the Board following meetings with shareholders.

The Annual General Meeting provides an opportunity for communication with all shareholders and the Board encourages the shareholders to attend and welcomes their participation. The Directors attend the Annual General Meeting and are available to answer questions. Details of resolutions to be proposed at the Annual General Meeting of the Company to be held on 11 June 2014 are included in the notice of Annual General Meeting which has been posted to shareholders and can be found on the Company's website pphe.com.

### Internal controls
The Directors acknowledge their responsibility for establishing and maintaining the Group's and the Company's systems of internal control. These are designed to safeguard the assets of the Group and to ensure the reliability of financial information for both internal use and external publication.

The Group's internal control procedures include Board approval for all significant projects. All major expenditures require either senior management or Board approval at the appropriate stages of each transaction. A system of regular reporting covering both technical progress of projects and the state of the Group's financial affairs provides appropriate information to management to facilitate control. The Board reviews, identifies, evaluates and manages the significant risks that face the Group.

The Group has in place internal control and risk management systems in relation to the Group's financial reporting process and the Group's process for preparing consolidated accounts. These systems include policies and procedures to ensure that adequate accounting records are maintained and transactions are recorded accurately and fairly to permit the preparation of Consolidated financial statements in accordance with IFRS.

Any systems of internal control can only provide reasonable, and not absolute, assurance that material financial irregularities will be detected or that the risk of failure to achieve business objectives is eliminated. The Directors, having reviewed the effectiveness of the system of internal financial, operational and compliance controls and risk management, consider that the system of internal control operated effectively throughout the financial year and up to the date the financial statements were signed.

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

### Shareholder enquiries
For information about the management of shareholdings please contact our registrar:

Shareholder Services
Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
United Kingdom

E: shareholderenquiries@capita.co.uk

T: UK 0871 664 0300

Calls cost 10p per minute plus network extras.

T: Overseas +44 208 639 3399

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

### Investor relations enquiries
Chen Moravsky
Chief Financial Officer
Viñoly Tower, 5th floor
Claude Debussylaan 14
1082 MD Amsterdam
The Netherlands

T: +31 (0)20 717 8602

F: +31 (0)20 717 8699

E: cmoravsky@pphe.com

pphe.com

### Website
Annual reports, half year reports and shared information are all available on our website pphe.com

### Financial calendar
Financial year:
1 January to 31 December

Interim:
Six months ending 30 June

Results
Interims: August 2014
Final: March 2015

Annual General Meeting:
11 June 2014

### London Stock Exchange trading code
LSE: PPH

# REPORT OF THE AUDIT COMMITTEE

## Audit Committee

### Audit Committee Members

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

### Role

The Audit Committee assists the Board in observing its responsibility of ensuring that the Group's financial systems provide accurate and up-to-date information on its financial position and that the published Consolidated financial statements represent a true and fair reflection of this position. It also assists the Board in ensuring that appropriate accounting policies, internal financial controls and compliance procedures are in place.

The Audit Committee receives and reviews information from the Chief Financial Officer, the Company Secretary, the internal audit team and the external auditors regularly throughout the year.

### External audit and external auditors

Ernst & Young LLP are the Company's current external auditors.

The Audit Committee considers the appointment and re-appointment of the external auditors and reviews their terms of appointment and negotiates fees on behalf of the Company prior to making recommendations through the Board to the shareholders to consider at each Annual General Meeting.

In accordance with the Code of Corporate Governance, the Audit Committee has reviewed the performance of the auditors for the year 2013 and has taken into account the findings of an FRC report on the 2012 audit which it received in January 2014. After careful consideration of the report and other operational issues, the Audit Committee has recommended to the Board of Directors that Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, be appointed at the forthcoming Annual General Meeting as auditors of the Company, in place of Ernst & Young LLP.

In accordance with corporate governance requirements, the Audit Committee reviewed the independence and objectivity of the external auditors and has reported to the Board that it considers that the external auditors' independence and objectivity have been maintained.

To analyse audit effectiveness, the Audit Committee meets with management to discuss the performance of the external auditors without them being present. Separate meetings are also held with the external auditors without the presence of any member of executive management.

### Internal audit

The Audit Committee monitors and reviews the effectiveness of the internal auditor; agrees his annual work plan and reviews whether the internal auditor has the proper resources to enable him to satisfactorily complete such work plans. It also reviews status reports and considers management's response to any major finding, providing support, if necessary, for any follow-up action required and ensures that the team obtains free and unrestricted access to all Group activities, records, property and personnel necessary to fulfil its agreed objectives.

To analyse audit effectiveness, the Audit Committee meets with management to discuss the performance of the internal auditor without him being present. Separate meetings are also held with the internal auditor without the presence of any member of executive management.

### Financial reporting

Prior to submission to the Board, the Audit Committee monitors the integrity of the financial statements and annual accounts and confirms that they have been properly prepared in accordance with International Financial Reporting Standards and the requirements of Guernsey law.

The Audit Committee reviews draft annual and interim reports before recommending their publication to the Board. The Audit Committee discusses with the Chief Executive Officer, Chief Financial Officer and external auditors the significant accounting policies, estimates and judgments applied in preparing these reports.

The Audit Committee also reviews the reports to shareholders and any other public announcement concerning the Group's financial position, corporate governance statements and statements on the Group's system of internal controls and reports its views to the Board to assist in its approval of the results announcements and the Annual Report.

**Audit Committee attendance and meetings**

The Audit Committee met four times during the year. Attendance of the individual Directors, who all served on the Committee throughout the year, is shown in the table below.

Throughout the year, the Audit Committee reviewed and considered the following:

- The financial information that is publicly disclosed, which included the accounts for the year ended 31 December 2013; and the interim results for the period ended 30 June 2013
- The performance of the Group's assets throughout the year
- Arrangements reached with related parties
- Refinancing transactions
- The Group's internal control and risk management policies and systems, and their effectiveness, including reviewed reports from the internal audit team relating to:
  - financial controls in operation
  - Group asset management systems
  - IT systems
  - Payroll systems and procedures (The Netherlands) – preliminary report
  - Payroll systems and procedures (UK), and
  - The Group's bank borrowing and corporate risk management
- The recoverability of receivables and impairment of assets
- The determination of fair values in the context of acquisitions
- The performance, appropriateness and expertise of the Chief Financial Officer and confirmed his suitability for the position
- An annual review of, the effectiveness of the Group's system of internal control and risk management procedures, and
- The Group's risk management strategy to ensure that any required remedial action on any identified weaknesses is taken.

**Objectives achieved following recommendations by the Audit Committee**

- Implementation of a comprehensive internal audit programme and detailed risk management matrix across the Group
- Monitoring of all aspects of the procedures and controls surrounding the Group's bank borrowings
- Completion of an in-depth review of the procedures and controls in place regarding the Group's property portfolio, and
- Strengthening of the finance team and improved management reporting.

**Audit Committee meetings and attendance**

| Name | 27 Feb | 4 April | 19 Aug | 26 Nov |
|---|---|---|---|---|
| Kevin McAuliffe | ✓ | ✓ | ✓ | ✓ |
| Elisha Flax | ✓ | – | – | ✓ |
| Nigel Jones | ✓ | ✓ | ✓ | ✓ |
| **Total attendees** | 3 | 2 | 2 | 3 |

On behalf of the Board

Kevin McAuliffe
Chairman of the Audit Committee

# REPORT OF THE REMUNERATION COMMITTEE AND DIRECTORS' REMUNERATON REPORT

### Remuneration policy

The Company's remuneration policy is designed to attract, motivate and retain high calibre individuals to enable the Group to operate strategically for the continued benefit of shareholders, over the long term. The Remuneration Committee aims to provide Executive Directors and senior managers with packages which are sufficiently competitive to attract, retain and motivate individuals of the quality required to achieve the Group's strategic objectives and enhance shareholder value. Remuneration packages are aimed at balancing both short-term and long-term rewards, as well as performance and non-performance related pay.

The remuneration of Non-Executive Directors is a matter for the Board. No Director or manager may be involved in any decisions as to his/her own remuneration.

Within the framework of the agreed remuneration policy the Remuneration Committee determines the remuneration package of the Chairman, the Executive Directors and other senior managers, including the size of, and the performance conditions applying to, awards made under the Company's cash bonus and share option schemes. The Chief Executive Officer and the Chief Financial Officer may provide advice to the Remuneration Committee as necessary (save in respect of their own remuneration).

### Contracts and letters of appointment

The Executive Directors have rolling contracts which may be terminated on 12 months' notice by the Company or on 6 months' notice by the Executive Director. There are provisions for earlier termination by the Company in certain specific circumstances.

Each Non-Executive Director has specific terms of reference. Save for the Chairman whose term is indefinite, the Non-Executive Directors' respective letters of appointment provide for a fixed term expiring on the 9th anniversary of each Director's appointment.

All the Non-Executive Directors' appointment letters are subject to termination by either side on three months' notice. The letters of appointment contain no entitlement of compensation for early termination. Details of the contract dates and notice periods are set out in the table below.

### Non-performance related remuneration

Basic salaries and benefits are reviewed by the Remuneration Committee annually. Executive Directors and Non-Executive Directors are entitled to D&O insurance.

The Chairman's and Non-Executive Directors' fees are reviewed on an annual basis by the entire Board.

### Pensions

Mr. Ivesha and Mr. Moravsky are entitled to pension contributions. The other Directors are not entitled to pension plans.

| Name of Director | Date of appointment | Notice period |
|---|---|---|
| Elisha Flax | 26 June 2007 | 3 months |
| Boris Ivesha | 14 June 2007 | 12 months from Company, 6 months from Mr. Ivesha |
| Kevin McAuliffe | 15 June 2007 | 3 months |
| Chen Moravsky | 14 June 2007 | 12 months from Company, 6 months from Mr. Moravsky |
| Nigel Jones | 26 June 2007 | 3 months |
| Eli Papouchado | 26 June 2007 | 3 months |

Other than salary and benefits in relation to the notice period described above, there are no other terms in any of the contracts which would give rise to compensation payable for early termination, or any other liability of the Company.

**Performance related remuneration**

The Company did not grant performance related remuneration in the years ended 31 December 2013 and 2012.

The auditors have audited the following parts of the Remuneration Report:

**Directors' remuneration €'000**

| Chairman and Executive Directors | Eli Papouchado | Boris Ivesha | Chen Moravsky | Total |
|---|---|---|---|---|
| Salary and fees | 120 | 357 | 334 | 811 |
| Performance related incentive | – | 155 | 112 | 267 |
| Other taxable benefits | – | 214 | 81 | 295 |
| Total remuneration for the year ended 31 December 2013 | 120 | 726 | 527 | 1,373 |
| Total remuneration for the year ended 31 December 2012 | 123 | 629 | 367 | 1,119 |

| Non-Executive Directors | Kevin McAuliffe | Nigel Jones | Elisha Flax | Total |
|---|---|---|---|---|
| Salary and fees | 58 | 52 | 58 | 168 |
| Total remuneration for the year ended 31 December 2013 | 58 | 52 | 58 | 168 |
| Total remuneration for the year ended 31 December 2012 | 59 | 47 | 59 | 165 |

Details of share awards and options granted to Directors are included in the table below. No share awards or options have been exercised during the year.

| Director | Number of options | Number vested as at 31 December 2013 | Exercise price |
|---|---|---|---|
| Chen Moravsky | 95,000 | 95,000 | £1.00 |
| | 210,000 | 70,000 | £2.33 |

On behalf of the Board

**Kevin McAuliffe**
**Chairman of the Remuneration Committee**

# FINANCIAL STATEMENTS

**Financial statements**

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Note | As at 31 December 2013 €'000 | 2012 €'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets:** | | | |
| Intangible assets | 4 | **35,386** | 38,174 |
| Property, plant and equipment | 5 | **799,482** | 762,922 |
| Apart-hotel units under management | 6 | **169,226** | 172,812 |
| Prepaid leasehold payments | 7 | **435** | 453 |
| Investment in associate | 8 | **21,387** | 21,561 |
| Other non-current financial assets | 9 | **18,844** | 8,195 |
| Restricted deposits and cash | 16(b) | **9,482** | 9,953 |
| | | **1,054,242** | 1,014,070 |
| **Current assets:** | | | |
| Inventories under construction | | **–** | 16,356 |
| Restricted deposits and cash | 16(b) | **3,871** | 5,987 |
| Inventories | | **1,290** | 1,256 |
| Other current financial assets | 10 | **1,538** | 1,339 |
| Trade receivables | 11 | **15,794** | 19,753 |
| Other receivables and prepayments | 12 | **5,875** | 5,895 |
| Cash and cash equivalents | 13 | **41,657** | 44,903 |
| | | **70,025** | 95,489 |
| Total assets | | **1,124,267** | 1,109,559 |
| **Equity and liabilities** | | | |
| **Equity:** | 14 | | |
| Issued capital | | **–** | – |
| Share premium | | **239,504** | 239,504 |
| Other reserves | | **(36,174)** | (36,524) |
| Treasury shares | | **(3,701)** | (3,701) |
| Foreign currency translation reserve | | **(34,446)** | (34,471) |
| Hedging reserve | | **(12,642)** | (22,626) |
| Accumulated earnings | | **138,024** | 117,715 |
| Total equity | | **290,565** | 259,897 |
| **Non-current liabilities:** | | | |
| Bank borrowings | 17 | **500,731** | 474,447 |
| Advance payments from apart-hotel unit holders | 6 | **182,738** | 186,595 |
| Deposits received from apart-hotel unit holders | 16(b) | **8,864** | 9,360 |
| Other financial liabilities | 18 | **58,508** | 68,798 |
| Deferred income taxes | 25 | **12,492** | 12,865 |
| | | **763,333** | 752,065 |
| **Current liabilities:** | | | |
| Trade payables | | **12,189** | 10,931 |
| Other payables and accruals | 19 | **32,745** | 54,236 |
| Bank borrowings | 17 | **25,435** | 32,430 |
| | | **70,369** | 97,597 |
| Total liabilities | | **833,702** | 849,662 |
| Total equity and liabilities | | **1,124,267** | 1,109,559 |

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

Date of approval of the financial statements 28 April 2014.

**Boris Ivesha, President and Chief Executive Officer** **Chen Moravsky, Chief Financial Officer**

# CONSOLIDATED INCOME STATEMENT

| | Note | Year ended 31 December 2013 €'000 | 2012 €'000 |
|---|---|---|---|
| Revenues | 20 | **245,008** | 242,092 |
| Operating expenses | 21 | **(151,596)** | (145,296) |
| **EBITDAR** | | **93,412** | 96,796 |
| Rental expenses | | **(10,483)** | (11,196) |
| **EBITDA** | | **82,929** | 85,600 |
| Depreciation, amortisation and impairment loss | 5, 6, 7 | **(21,355)** | (28,079) |
| **EBIT** | | **61,574** | 57,521 |
| Financial expenses | 22 | **(30,167)** | (28,854) |
| Financial income | 23 | **4,610** | 3,323 |
| Other income and expenses | 24 | **3,135** | 49,210 |
| Interest expenses guaranteed to apart-hotel unit holders | 16(c)(4)(a) | **(10,763)** | (11,180) |
| Share in loss of associate | 8 | **(2,561)** | (2,430) |
| Profit before tax | | **25,828** | 67,590 |
| Income tax benefit | 25 | **349** | 386 |
| Profit for the year | | **26,177** | 67,976 |
| | | | |
| **Basic and diluted earnings per share in Euro** | 26 | **0.63** | 1.64 |

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

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Note | Year ended 31 December 2013 €'000 | 2012 €'000 |
|---|---|---|---|
| Profit for the year | | **26,177** | 67,976 |
| **Other comprehensive income (loss) to be recycled through profit and loss in subsequent periods:*** | | | |
| Fair value gain (loss) on available-for-sale financial assets[1] | | **206** | 55 |
| Reclassification adjustment for (profit) loss from available-for-sale financial assets recorded in income statement[1] | | **–** | (48) |
| Profit (loss) from cash flow hedges[2] | | **9,984** | (5,554) |
| Foreign currency translation adjustments of foreign operations[3] | | **(27)** | 1,064 |
| Foreign currency translation adjustment of associate[3] | | **52** | 30 |
| Other comprehensive income (loss) | | **10,215** | (4,453) |
| Total comprehensive income | | **36,392** | 63,523 |

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

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| In €'000 | Issued capital* | Share premium | Other reserves | Treasury shares | Foreign currency translation reserve | Hedging reserve | Accumulated earnings | Total equity |
|---|---|---|---|---|---|---|---|---|
| Balance as at 1 January 2012 | – | 237,729 | (36,544) | (3,181) | (35,565) | (17,072) | 55,864 | **201,231** |
| Profit for the year | – | – | – | – | – | – | 67,976 | **67,976** |
| Other comprehensive loss for the year | – | – | 7 | – | 1,094 | (5,554) | – | **(4,453)** |
| Total comprehensive profit | – | – | 7 | – | 1,094 | (5,554) | 67,976 | **63,523** |
| Purchase of treasury shares | – | – | – | (520) | – | – | – | **(520)** |
| Issue of Ordinary shares related to business combination | – | 1,775 | – | – | – | – | – | **1,775** |
| Share-based payments | – | – | 13 | – | – | – | – | **13** |
| Dividend distribution | – | – | – | – | – | – | (6,125) | **(6,125)** |
| **Balance as at 31 December 2012** | **–** | **239,504** | **(36,524)** | **(3,701)** | **(34,471)** | **(22,626)** | **117,715** | **259,897** |
| Profit for the year | – | – | – | – | – | – | 26,177 | **26,177** |
| Other comprehensive loss for the year | – | – | 206 | – | 25 | 9,984 | – | **10,215** |
| Total comprehensive profit | – | – | 206 | – | 25 | 9,984 | 26,177 | **36,392** |
| Share-based payments | – | – | 144 | – | – | – | – | **144** |
| Dividend distribution** | – | – | – | – | – | – | (5,868) | **(5,868)** |
| **Balance as at 31 December 2013** | **–** | **239,504** | **(36,174)** | **(3,701)** | **(34,446)** | **(12,642)** | **138,024** | **290,565** |

* No par value.

** The dividend distribution comprises a final dividend for the year ended 31 December 2012 of 6.0 pence per share and an interim dividend of 6.0 pence per share paid on 11 October 2013.

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

| | Note | Year ended 31 December 2013 €'000 | 2012 €'000 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Profit for the year | | **26,177** | 67,976 |
| Adjustment to reconcile profit to cash provided by operating activities: | | | |
| Financial expenses and interest expenses guaranteed to apart-hotel unit holders | | **40,930** | 40,034 |
| Financial income | 23 | **(4,610)** | (3,323) |
| Income tax benefit | 25 | **(349)** | (386) |
| Capital gain from obtaining control in a former jointly controlled entity | 3(a) | **–** | (45,672) |
| Negative goodwill on obtaining control in a former jointly controlled entity | 3(a) | **–** | (4,317) |
| Capital gain upon sale of subsidiary in Thailand | | **(2,757)** | – |
| Fair value gain deferred consideration business combinations | 18 | **(799)** | (557) |
| Share in loss of associates | 8(c) | **2,561** | 2,430 |
| Depreciation, amortisation and impairment loss | 4, 5, 7 | **21,355** | 28,079 |
| Share-based payments | | **144** | 13 |
| | | **56,475** | 16,301 |
| Changes in operating assets and liabilities: | | | |
| Increase in inventories under construction | | **(2,261)** | (8,453) |
| (Increase) decrease in inventories | | **(47)** | 130 |
| Decrease in trade and other receivables | | **3,422** | 1,570 |
| Increase in trade and other payables | | **3,506** | 4,049 |
| | | **4,620** | (2,704) |
| Cash paid and received during the period for: | | | |
| Interest paid | | **(37,549)** | (38,140) |
| Interest received | | **123** | 135 |
| Taxes received (paid) | | **198** | (110) |
| | | **(37,228)** | (38,115) |
| Net cash provided by operating activities | | **50,044** | 43,458 |
| **Cash flows from investing activities:** | | | |
| Investments in property, plant, equipment and apart-hotel units | 5, 6 | **(63,881)** | (23,602) |
| Net change in cash upon acquisition of Dutch joint venture interest | 3(a) | **–** | (21,553) |
| Net change in cash upon divestment of subsidiary in Thailand | 2 | **(1,595)** | – |
| Decrease in restricted deposits | | **1,335** | 3,414 |
| Proceeds from sale of available-for-sale investments | | **–** | 199 |
| Increase in restricted cash | | **116** | (2,334) |
| Net cash used in investing activities | | **(64,025)** | (43,876) |

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

# CONSOLIDATED STATEMENT OF CASH FLOWS
CONTINUED

| | Year ended 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | **€'000** | €'000 |
| **Cash flows from financing activities:** | | |
| Purchase of treasury shares | **–** | (520) |
| Proceeds from long-term loans | **42,853** | 30,524 |
| Repayment of long-term bank loans and other long-term liabilities | **(20,037)** | (14,481) |
| Proceeds from assets sold and leased back under a finance lease | **–** | 8,638 |
| Dividend payment | **(5,868)** | (6,125) |
| Advance receipt of loan for equity investment from future joint venture partner | **4,180** | – |
| (Repayment of) loans from jointly controlled entities and from partners in jointly controlled entities | **(9,360)** | (2,674) |
| Net cash provided by financing activities | **11,768** | 15,362 |
| Increase in cash and cash equivalents | **(2,213)** | 14,944 |
| Net foreign exchange differences | **(1,033)** | 453 |
| Cash and cash equivalents at beginning of year | **44,903** | 29,506 |
| Cash and cash equivalents at end of year | **41,657** | 44,903 |

| | Year ended 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | **€'000** | €'000 |
| **Significant non-cash transactions:** | | |
| Issue shares | **–** | 1,775 |
| Total non-cash transactions | **–** | 1,775 |

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 1 General**

a. The Consolidated financial statements of PPHE Hotel Group Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2013 were authorised for issuance in accordance with a resolution of the Directors on 28 April 2014.

b. Description of business and formation of the Company:

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

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

c. Assessment of going concern:

As part of their ongoing responsibilities, the Directors have recently undertaken a thorough review of the Group's cash flow forecast and potential liquidity risks. Detailed budgets and cash flow projections have been prepared for 2014 and 2015 which show that the Group's hotel operations will be cash generative during the period.

The Group has entered into a number of loan facilities, the details of which are set out in Note 17. The Board believes that the Group currently has adequate resources and in the future will generate sufficient funds to honour its financial obligations and continue its operations as a going concern for the foreseeable future. The Group analyses its ability to comply with debt covenants in the near future. During 2013, the Company succeeded in refinancing approximately 60% of the Company's bank loans. Besides more favourable terms, through this refinance, the Company's loans now have an average maturity date of five years, mitigating the liquidity risk of the Company.

**Note 2 Summary of significant accounting policies**

**a. Basis of preparation:**

Statement of compliance

The Consolidated financial statements of the Group have been prepared on a historical cost basis, except for derivative financial instruments and available-for-sale financial assets that have been measured at fair value. The Consolidated financial statements are presented in Euro and all values are rounded to the nearest thousand (€'000) except when otherwise indicated.

The Consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, which comprise standards and interpretations issued by the International Accounting Standards Board (IASB) and International Financial Reporting Standards Interpretations Committee and endorsed by the European Union.

The accounting policies used in preparing the Consolidated financial statements for the years ended 31 December 2013 and 2012 are set out below. These accounting policies have been consistently applied to the periods presented unless otherwise stated.

**b. Basis of consolidation:**

The financial statements of the subsidiaries and joint ventures are prepared for the same reporting year as the parent company, using consistent accounting policies. All inter-company balances and transactions, income and expenses, and profits and losses resulting from intra-Group transactions are eliminated in full. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date on which such control ceases.

Non-controlling interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the income statement and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

The Group has interests in hotels in The Netherlands, United Kingdom, Germany, Hungary and Croatia. Furthermore, the Group had an interest in a mixed-use development project in Thailand until its disposal in 2013 (see Note 3(b)). For details on the Group's subsidiaries and investments as at 31 December 2013 see Appendix A.

For details on the Company's interests in jointly controlled entities (proportionately consolidated as at 31 December 2013) see Appendix B.

**c. Changes in accounting policy and disclosures:**

The Company consistently applied its accounting policies and adopted on 1 January 2013, IFRS 13 Fair Value Measurement, IAS 19 (revised 2011) Employee Benefits and the amendments to IAS 32 Financial Instruments: Presentation and IFRS 7 Financial Instruments: Disclosure (regarding offsetting financial assets and liabilities). Furthermore, as part of the Annual Improvements process the following standards were amended effective 1 January 2013: IFRS 1 First-time Adoption of International Financial Reporting Standards, IAS 1 Presentation of Financial Statements, IAS 32 Financial Instruments, Presentation, Amendments to IAS 16 Property, Plant and Equipment and IAS 34 Interim Financial Reporting. The new accounting standards and interpretations have had the following impact on the financial statements.

**Note 2 Summary of significant accounting policies** continued

**c. Changes in accounting policy and disclosures** continued

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. This standard mainly impacted the method of valuation of the Group's derivative financial instruments, which were previously valued at a settlement value; whereas under the new standard they are valued at an exit value, taking into account the valuation effect of the credit risk of the Group and the counterparty in derivative transactions. The effect of this change on the financial position and performance is not material in the current or prior years. This standard furthermore included some additional disclosures, which are provided in these financial statements (see Note 30(g)).

Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)

These amendments introduce a requirement for entities to group items presented in "other comprehensive income" (OCI) on the basis of whether they can potentially be reclassified to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI**.** The amendment affected the disclosures of the Group and did not have an effect on performance or the financial position.

The other new or revised standards and interpretations, including the improvements did not impact the Group materially.

**d. Significant accounting judgments, estimates and assumptions:**

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

Judgments

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

Acquisition of subsidiaries that are not business combinations

At the acquisition date of subsidiaries and operations, the Company determines whether the transaction constitutes an acquisition of a business in a business combination transaction pursuant to IFRS 3. If the acquisition does not constitute a business as defined in IFRS 3, the cost of purchase is allocated only to the identifiable assets and liabilities of the acquired company on the basis of their relative fair values at the date of purchase without allocating any amount to goodwill or deferred taxes, and including any minority interest according to its share of the fair value of net identifiable assets at the acquisition date.

In determining whether a business was acquired, the Company evaluates whether the entity which was acquired is an integrated set of activities and assets capable of being conducted and managed for the purpose of providing a return to investors. The following criteria which indicate acquisition of a business are considered: the variety of assets acquired, the extent to which ancillary services to operate the property are provided and the complexity of the management of the property.

Finance lease commitments – Group as lessee

The Group has entered into commercial land leases. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it holds all the significant risks and reward of ownership of the land and accounts for the contracts as finance leases.

Estimates and assumptions

The key assumptions made in the Consolidated financial statements concerning uncertainties at the reporting date and the critical estimates computed by the Group for which there is a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Determination of fair values in the context of business combinations:

When the Group acquires a business, it assesses the fair value of the assets acquired and liabilities assumed, as well as ensuring appropriate classification and designation in accordance with the contractual terms, economic circumstances and other relevant information at the acquisition date. The Group engages independent valuation specialists to determine such fair values. In the case of property, plant and equipment, the valuer uses valuation techniques based on discounted cash flow models .The key assumptions used to determine the fair value in the context of business combinations are further explained in Note 3.

**Note 2 Summary of significant accounting policies** continued

**d. Significant accounting judgments, estimates and assumptions** continued

Impairment of non-financial assets:

The Group's impairment test for tangible and intangible assets is based on value in use calculations that use a discounted cash flow model. The cash flows are derived from the budget of the cash-generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

Deferred tax assets:

Deferred tax assets are recognised for unused carry forward tax losses and temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilised. The amount of deferred tax assets that can be recognised, is based upon the likely timing and level of future taxable profits together with future tax planning strategies. Additional information is provided in Note 25.

Taxes:

The Group is subject to income and capital gains taxes in numerous jurisdictions. Significant judgment is required to determine the total provision for current and deferred taxes. The Group recognises liabilities for current taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income and deferred tax provisions in the period in which the determination is made. Deferred tax assets and liabilities are recognised on a net basis to the extent they relate to the same fiscal unity and fall due in approximately the same period.

**e. Business combinations and goodwill**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. If the contingent consideration is classified as equity, it is not remeasured and final settlement is accounted for within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Business combinations involving entities under common control

The Group accounts for business combinations that include entities under common control using the acquisition method provided that the transaction has substance.

**Note 2 Summary of significant accounting policies** continued

**f. Investment in an associate:**

The Group's investment in its associate is accounted for using the equity method. An associate is an entity in which the Group has significant influence. Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The share of profit of an associate is shown on the face of the income statement. This is the profit attributable to equity holders of the associate and therefore is profit after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

**g. Jointly controlled entities:**

The Group has an interest in a joint venture which is a jointly controlled entity, whereby the venture has a contractual arrangement that establishes joint control over the economic activities of the entity. The agreement requires unanimous agreement for financial and operating decisions among the ventures. The Group recognises its interest in the joint venture using the proportionate consolidation method. The Group combines its proportionate share of each of the assets, liabilities, income and expenses of the joint venture with similar items, line by line, in its Consolidated financial statements.

The financial statements of the joint venture are prepared for the same reporting period as the Group. Adjustments are made where necessary to bring the accounting policies in line with those of the Group.

Adjustments are made in the Group's Consolidated financial statements to eliminate the Group's share of intra-group balances, transactions and unrealised gains and losses on such transactions between the Group and its jointly controlled entity. Losses on transactions are recognised immediately if the loss provides evidence of a reduction in the net realizable value of current assets or an impairment loss. The joint venture is proportionately consolidated until the date on which the Group ceases to have joint control over the joint ventures.

**h. Foreign currency translation:**

The functional currency of the Company is the Pound Sterling. The Consolidated financial statements are presented in Euro. Each entity of the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded at the exchange rates prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated into functional currency at the rates prevailing on the reporting date. Profits and losses arising from exchange differences are included in the income statement.

On consolidation, the assets and liabilities of the entities whose functional currency is other than Euro are translated at exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the period. Equity items are translated at the historic exchange rates. Exchange differences arising on the translation are classified as a separate component of equity (foreign currency translation reserve). Such translation differences are recognised in the income statement in the period in which the entity is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Exchange differences in respect of loans denominated in Euro which were granted by the Company to its subsidiaries are reflected in the foreign currency translation reserve in equity, as these loans are designated as a hedge of the Group's net investment in a foreign operation.

**Note 2 Summary of significant accounting policies** continued

**h. Foreign currency translation** continued

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

| | As at 31 December | |
|---|---|---|
| | **2013 In Euro** | 2012 In Euro |
| Pound Sterling | **1.202** | 1.227 |
| Thai Baht | **0.022** | 0.025 |
| Hungarian Forint | **0.003** | 0.003 |

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

| | As at 31 December | |
|---|---|---|
| | **2013 %** | 2012 % |
| Pound Sterling | **(2.1)** | 2.5 |
| Thai Baht | **(11.7)** | 1.2 |
| Hungarian Forint | **(1.8)** | 6.3 |

**i. Intangible assets:**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets are amortised using the straight-line method over their estimated useful life and assessed for impairment whenever there is an indication that the intangibles may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the assets are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense for intangible assets is recognised in the income statement.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and recognised in the income statement when the asset is derecognised.

**j. Property, plant and equipment:**

Property, plant and equipment are measured at cost, less accumulated depreciation and impairment losses. Depreciation is calculated using the straight-line method, over the shorter of the estimated useful life of the assets or the lease term as follows:

| | Years |
|---|---|
| Land under finance lease | **12 to 125** |
| Hotel buildings | **50 to 95** |
| Furniture and equipment | **2 to 15** |

The costs of maintaining property, plant and equipment are recognised in the income statement as they are incurred. Costs incurred that significantly increase the recoverable amount of the asset concerned are added to the asset's cost as an improvement and depreciated over the expected useful life of the improvement.

An item of property, plant and equipment, and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

The Company distinguishes between sold and unsold apart-hotel units. Unsold units are depreciated using the straight-line method as mentioned above. Apart-hotel units which have been sold to individual purchasers are subject to a depreciation charge of zero as their residual value will be equal to their carrying amount.

Apart-hotel units sold to purchasers will only be derecognised when significant risks and rewards of ownership of, and control over, the relevant units have passed to the purchasers.

**Note 2 Summary of significant accounting policies** continued

**k. Impairment of non-financial assets:**

At each reporting date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the asset is considered impaired and the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but not in excess of the carrying amount that would have been determined had no impairment loss been previously recognised for the asset (cash-generating unit). A reversal of an impairment loss is recognised as income immediately.

**l. Financial instruments:**

Financial assets within the scope of IAS 39 are initially recognised at fair value plus directly attributable transaction costs, except for investments at fair value through profit or loss in respect of which transaction costs are carried to the income statement.

After initial recognition, the accounting treatment of investments in financial assets is based on their classification into one of the following categories:

1. Loans and receivables:
   The Group has loans and receivables that are financial assets (non-derivative) with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans and receivables are measured at amortised cost using the effective interest method taking into account transaction costs and less any allowance for impairment. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the systematic amortisation process. Except for available for sale financial assets, all financial assets of the Company are classified as "loans and receivables".

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

3. Fair value:
   The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique (see Note 30(g) for specific valuation methodologies).

   Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

   Level 2: other techniques for which all inputs which have significant effect on the recorded fair value are observable, either directly or indirectly.

   Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

   The fair value of investments that are actively traded in organised financial markets is determined by reference to market prices on the reporting date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow or other valuation models.

4. Financial liabilities:
   Interest-bearing loans and borrowings are initially recognised at fair value plus directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are measured at amortised cost using the effective interest method which also accounts for directly attributable transaction costs. Gains and losses are recognised in the income statement when the loan is derecognised as well as through the systematic amortisation process.

**Note 2 Summary of significant accounting policies** continued

l. **Financial instruments** continued

5. Derecognition of financial instruments:

Financial assets

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or the Group has transferred its contractual rights to receive cash flows from the financial asset or assumes an obligation to pay the cash flows in full without material delay to a third party and has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

A financial liability is derecognised when it is extinguished, i.e. when the obligation is discharged or cancelled or expires. A financial liability is extinguished when the debtor (the Group) discharges the liability by paying in cash, other financial assets, goods or services; or is legally released from the liability.

Where an existing financial liability is exchanged with another liability from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is accounted for as an extinguishment of the original liability and the recognition of a new liability and the difference in the respective carrying amounts is recognised in the income statement.

6. Impairment of financial assets:

The Group assesses at each reporting date whether the following financial asset or group of financial assets is impaired as follows:

- Assets carried at amortised cost:

  Evidence of impairment may include indications that the debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments or other observable data of a measurable decrease in the estimated future cash flows. If there is objective evidence that an impairment loss on loans and receivables and held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss carried to the income statement is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. In a subsequent period, the amount of the impairment loss is reversed if the recovery of the asset can be related objectively to an event occurring after the impairment was recognised. The amount of the reversal, as above, is credited to the income statement up to the amount of any previous impairment.

- Available-for-sale financial assets:

  In the case of equity investments classified as available-for-sale, evidence of impairment would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost (less any previous impairment losses) and the current fair value, is removed from equity and recognised in the income statement. In subsequent periods, any reversal of impairment loss is not carried to the income statement but recognised as other comprehensive income.

m. **Inventories:**

Inventories include food and beverages and are valued at the lower of cost and net realisable value. Cost includes purchase cost on a first in-first out basis.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

n. **Inventories under construction:**

Inventories under construction are measured at the lower of cost and net realisable value. Cost of inventories includes direct identifiable construction costs, indirect costs and capitalised borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to sell.

o. **Cash and cash equivalents:**

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

**Note 2 Summary of significant accounting policies** continued

**p. Derivative financial instruments and hedge accounting:**

The Group uses derivative financial instruments such as interest rate swaps to hedge its risks associated with interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

The fair value of interest rate swap contracts is determined using valuation techniques, including the discounted cash flow model.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income, while the ineffective portion is recognised in profit or loss. Amounts taken to other comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised.

**q. Trade receivables:**

Trade receivables recognised under current assets are stated at amortised cost (which in most cases is equal to their nominal amount) as reduced by appropriate allowances for estimated uncollectible amounts.

**r. Revenue recognition:**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

Owned and leased hotels

Primarily derived from hotel operations, including the rental of rooms, food and beverage sales and other services from owned and leased hotels operated under the Group's brand names. Revenue is recognised when rooms are occupied, food and beverages are sold and services are performed.

Sale of apart-hotel units

Revenue from the sale of apart-hotel units is recognised when the significant risks and rewards of ownership and control have been passed to the buyer, typically the expiry of the period over which the Company has guaranteed returns (see Note 6).

Management fees

Earned from hotels managed by the Group, under long-term contracts with the hotel owner. Management fees include a base fee, which is generally a percentage of hotel revenue, and an incentive fee, which is based on the hotel's profitability. Revenue is recognised when earned and realised or realisable under the terms of the agreement.

Franchise fees

Received in connection with a licence of the Group's brand names, under long-term contracts with the hotel owner. The Group charges franchise royalty fees as a percentage of hotel revenue. Revenue is recognised when earned and realised or realisable under the terms of the agreement.

Marketing fees

Received in connection with the sales and marketing services offered by the Group, under long-term contracts with the hotel owner. The Group charges marketing fees as a percentage of hotel revenue. Revenue is recognised when earned and realised or realisable under the terms of the agreement.

**Note 2 Summary of significant accounting policies** continued

**r. Revenue recognition** continued

Customer loyalty programme

The Group participates in the Club Carlson$^{SM}$ customer loyalty programme to provide customers with incentives to buy room nights. This customer loyalty programme is owned and operated by Carlson$^{SM}$ and therefore the entity retains no obligations in respect of the award credits other than to pay the programme operator for the granted award credits. The customers are entitled to utilise the awards as soon as they are granted.

The Group purchases these award credits from Carlson$^{SM}$ and issues these to its customers in order to enhance its customer relationships rather than to earn a margin from the sale of these award credits. The Group concluded that it is acting as principal in this transaction and, in substance, is earning revenue from supplying these awards to its customers. The Group measures these revenues at fair value and recognises these gross from the costs of participating in the programme.

**s. Non-GAAP measures**

EBITDAR

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

EBITDA

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

EBIT

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

**t. Leases:**

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

The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

The Group as lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the income statement.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the term of the lease.

Prepaid leasehold payments

Prepaid leasehold payments are up-front payments to acquire a long-term leasehold interest in land and building. These payments are stated at cost and are amortised on a straight-line basis over the respective period of the leases (50 years).

**u. Employee benefits:**

Share-based payments

The Board has adopted a "Share Option Plan", under which employees and Directors of the Company and its subsidiaries receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity settled transactions).

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by using an appropriate pricing model, further details of which are given in Note 16.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

**Note 2 Summary of significant accounting policies** continued

**u. Employee benefits** continued

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting, irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognised is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

Pension

The Group has a defined contribution pension plan where the employer is liable only for the employer's part of the contribution towards the individual's pension plan.

The Group will have no legal obligation to pay further contributions. The contributions in the defined contribution plan are recognised as an expense and no additional provision is required in the Consolidated financial statements.

**v. Borrowing costs for qualifying assets:**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

**w. Taxation:**

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except where the deferred tax liability arises from the initial recognition of goodwill or from an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and in respect of taxable temporary differences associated with investments in subsidiaries, associates and jointly controlled entities, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities and changes in them relating to items recognised directly in equity or other comprehensive income are recognised in equity or other comprehensive income and not in the income statement except:

where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

in respect of deductible temporary differences associated with investments in subsidiaries, associates and jointly controlled entities, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

**Note 2 Summary of significant accounting policies** continued

**w. Taxation** continued

Deferred income tax continued

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities and changes in them relating to items recognised directly in equity are recognised in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set-off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

**x. Treasury shares:**

Company shares held by the Company are recognised at cost and presented as a deduction from equity. Any purchase, sale, issue or cancellation of treasury shares is recognised directly in equity.

**y. Earnings (loss) per share:**

Basic earnings (loss) per share amounts are calculated by dividing the net profit (loss) for the year attributable to shareholders of the parent company by the weighted average number of Ordinary shares outstanding during the year.

Diluted earnings (loss) per share amounts are calculated by dividing the net profit (loss) for the year by the weighted average number of Ordinary shares outstanding during the year plus the weighted average number of Ordinary shares that would be issued on the conversion of all the dilutive potential Ordinary shares into Ordinary shares.

**z. Standards issued but not yet applied:**

Standards issued but not yet effective, or subject to adoption by the European Union, up to the date of issuance of the Group's Consolidated financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, finance position or performance when applied at a future date. The Group intends to adopt these standards when they become mandatory.

The following standards have been issued by the IASB and are not yet effective and are subject to adoption by the European Union.

IFRS 9 Financial Instruments

The standard has been issued as the IASB completes each phase of its project to replace IAS 39 Financial Instruments: Recognition and Measurement. The first elements of IFRS 9 were issued in November 2009 and October 2010 to replace the parts of IAS 39 that relate to the classification and measurement of financial instruments. In November 2013, an amendment was issued to address hedge accounting and to remove the previously determined effective date of 1 January 2015. Instead, the IASB proposes to set the effective date of IFRS 9 when it completes the impairment phase of the project. The European Union has already indicated that it will not begin the process of considering the adoption of IFRS 9 until the standard has been published in its final form. The Group is yet to assess IFRS 9's full impact and will determine the date to adopt IFRS 9 once it is endorsed for use in the EU.

IFRS 10 Consolidated Financial Statements

IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. Based on the preliminary analyses performed, IFRS 10 is not expected to have any impact on the currently held investments of the Group. This standard becomes effective for annual periods beginning on or after 1 January 2014 (EU). As a consequence of this change IAS 27 Consolidated and Separate Financial Statements has been amended.

IFRS 11 Joint Arrangements

IFRS 11 determines the treatment of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The application of this new standard will impact the financial position of the Group by eliminating proportionate consolidation of the joint venture in Aspiration Ltd. With the application of the new standard, the investment in Aspiration Ltd will be accounted for using the equity method of accounting (see Note 29 for the amounts currently consolidated on a proportionate basis). This standard becomes effective for annual periods beginning on or after 1 January 2014 (EU), and is to be applied retrospectively for joint arrangements held at the date of initial application. As a consequence of this change IAS 28 Accounting for Associates has been amended to reflect the accounting for joint ventures under the equity method.

**Note 2 Summary of significant accounting policies** continued

**z. Standards issued but not yet applied** continued

IFRS 12 Disclosures of Interests in Other Entities

Includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. A number of new disclosures are also required, but have no impact on the Group's financial position or performance. This standard becomes mandatory for annual periods beginning on or after 1 January 2014 (EU).

**The following other IFRSs or IFRIC interpretations are not yet effective and it would be expected to have no material impact on the Group:**

- *Amendments to IFRS 10, IFRS 11 and IFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities – Transition Guidance*
- *Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) (issued on 31 October 2012)*
- *Amendments to IAS 39 Novation of Deirvatives and Continuation of Hedge Accounting*
- *Amendments to IAS 36 Recoverable Amount Disclosures for Non-financial Assets*
- *Amendments to IAS 19 Defined Benefit Plans: Employee Contributions**
- *Annual Improvements to IFRSs 2010-2012 Cycle**
- *Annual Improvements to IFRSs 2011-2013 Cycle**
- *IFRIC 21, Levies*

All of the above are mandatory for reporting periods beginning on or after 1 January 2014, except those marked * which are mandatory from 1 July 2014.

**Note 3 Acquisitions and divestments**

**a. Business combinations in 2012**

On 30 March 2012 ("Acquisition Date"), PPHE Netherlands B.V. (a wholly owned subsidiary within the Group (PPHEN)) entered into an agreement to acquire the remaining 50% interest in, and related loan to, Park Plaza Amsterdam Airport, Park Plaza Victoria Amsterdam, Park Plaza Utrecht and the art'otel amsterdam project (together the "Hotels") from a subsidiary of Elbit Imaging Limited ("Elbit"), for a nominal consideration of €26.5 million (fair value of the consideration is €25.9 million). On the Acquisition Date, the directors of Elbit resigned and the Company through PPHEN obtained full control over the Hotels. On 16 May 2012 ("Date of Transfer"), completion of the share transfer occurred.

The total consideration for the acquisition comprised:

1. €23.0 million in cash which was satisfied in full on the Date of Transfer
2. the issue of 700,000 shares at £2.11 per share in the capital of the Company (the "Consideration Shares"), with a fair value at Acquisition Date of €1.8 million, and
3. a deferred consideration, payable on the fourth anniversary of the Date of Transfer under the terms of the agreement, equal to 700,000 multiplied by the shortfall of the closing price of the Company's shares on the Date of Transfer below £4.17, subject to certain reductions set out in the agreement (the "Deferred Consideration"), but in any event, not exceeding £1.4 million (€1.7 million). The fair value of the deferred consideration at the Acquisition Date was €1.1 million.

The Company has been granted an option to buy back all of the Consideration Shares which Elbit may own from time to time until the fourth anniversary of the Date of Transfer at a price of £4.17 per share. If the Company elects to exercise this option, the balance of the Deferred Consideration will be reduced by an amount equal to £2.06 multiplied by the number of shares bought back. Any such exercise would be subject to shareholder approval under Guernsey law. All amounts due to Elbit are fully guaranteed by the Company.

As the Company has achieved full control over the Hotels, which were previously held under joint control, the transaction is accounted for as a business combination achieved in stages ("step acquisition"). Accordingly, Management has re-measured the Company's previously held equity interests in the Hotels at the Acquisition Date at fair value and recognised a gain in 2012 of €45.7 million, which is recorded in other income along with the negative goodwill of €4.3 million.

The previously held interest, representing the Company's 50% shares, accounted for by using the proportionate consolidation method and on acquisition, the 100% interests were recorded at fair value, as disclosed on the next page.

**Note 3 Acquisitions and divestments** continued

a. **Business combinations in 2012** continued

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

| | Fair value recognised on acquisition €'000 |
|---|---|
| Property, plant and equipment | 186,099 |
| Trade receivables | 1,296 |
| Cash and cash equivalent | 2,894 |
| Other current assets | 994 |
| | 191,283 |
| Trade creditors | 3,342 |
| Long-term loans | 112,297 |
| Deferred tax liabilities | 8,950 |
| Other current payables and accruals | 6,220 |
| | 130,809 |
| Net assets | 60,474 |
| Total consideration | 25,920 |
| Fair value of previously held interest (50%) | 30,237 |
| | 56,157 |
| Negative goodwill | (4,317) |

| Gain on re-measurement of previously held interest | €'000 |
|---|---|
| Carrying amount of previous held interest | (15,435) |
| Fair value previously held interest | 30,237 |
| Gain on re-measurement of previously held interest | 45,672 |

| Cash flow on acquisition | €'000 |
|---|---|
| Net cash acquired with the subsidiary | 1,447 |
| Cash paid | (23,000) |
| Net cash outflow | (21,553) |

Transaction costs arising from this transaction were not material and were recorded in the profit and loss.

The excess of the fair value of the net assets acquired over the consideration paid amounting to €4.3 million was allocated to negative goodwill on the basis of a final purchase price allocation and is presented under "other income". The reason for this negative goodwill is the fact that the Group was in a good position to negotiate this transaction.

**Note 3 Acquisitions and divestments** continued

**b. Divestments in 2013**

The Company completed a sale to Red Sea Hotels Limited ("Red Sea") of all the Company's shares in its subsidiary, Leno Finance Limited ("Leno"), the company through which the Company owned its interest in the site in Pattaya Bay, Thailand, and certain related loans and receivables, for a total consideration of Thai Baht 600 million (€15.0 million). Red Sea is controlled by Mr. Eli Papouchado, Chairman of PPHE Hotel Group, who, together with his family trusts, owns 44.63% of the voting rights in the Company. Mr. Papouchado (and his family trusts) were deemed to be acting in concert with Mr. Boris Ivesha (the President and Chief Executive Officer of PPHE Hotel Group) and his family trust, which owns 19.25% of the voting rights in the Company.

None of the consideration for the disposal was paid on completion, but will be payable by Red Sea in cash by no later than January 2017 (by when it is expected that the project will have been completed). However, Red Sea will be required to pay the consideration (in whole or in part, as applicable) earlier to the extent either that revenues from the sale of condominium units and serviced apartments exceed the aggregate of the total project development costs (including all financing costs) and related tax liabilities or that value from the project is otherwise released to Red Sea.

The present value of the outstanding consideration is calculated at Thai Baht 419 million (€9.3 million), taking into account a discount rate of 10%.

The Company recognised a profit on the transaction of €2.8 million, which is presented under other income and expenses.

As security for payment of the consideration, the Company has been granted a charge over shares in Leno representing 63% of Leno's share capital. Under the terms of the United Overseas Bank ("UOB") facilities, the Company is obliged, among other things, to provide certain financial support in the event of a cost overrun or funding shortfall in relation to the project and, in the event of default by Bali Hai Company Limited (the Thai company undertaking the project that is the borrower under the UOB facility) after completion of the project, UOB can require the Company to purchase the serviced apartments for a consideration equal to the amount then outstanding under the UOB facilities, subject to a maximum of Thai Baht 600 million (€13.3 million). It was a condition of UOB's consent to the sale of Leno that the Company continues to be bound by these obligations. Red Sea and Leno have agreed to indemnify the Company in respect of certain of these continuing obligations and as security Leno has pledged the shares held by it in Bali Hai Company Limited and certain affiliated Thai companies to the Company.

The Company has also been granted an option to manage the completed development and/ or acquire the serviced apartment element of the Project for Thai Baht 600 million. However, the Group will not be under any obligation to Red Sea to proceed with either.

**Note 4 Intangible assets**

| | Park Plaza® Hotels & Resorts management rights (a)[1] €'000 | Park Plaza® Hotels & Resorts franchise rights (a)[2] €'000 | art'otel® franchise rights (b) €'000 | Other intangible assets (c) €'000 | Total €'000 |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| Balance as at 1 January 2012 | 23,936 | 24,468 | 4,000 | 1.003 | 53,407 |
| Adjustment for exchange rate differences | – | – | – | (5) | (5) |
| Additions during the year | – | – | – | – | – |
| Balance as at 31 December 2012 | 23,936 | 24,468 | 4,000 | 998 | 53,402 |
| **Accumulated amortisation:** | | | | | |
| Balance as at 1 January 2012 | 5,250 | 5,641 | 1,768 | – | 12,659 |
| Amortisation | 1,206 | 1,214 | 149 | – | 2,569 |
| Balance as at 31 December 2012 | 6,456 | 6,855 | 1,917 | – | 15,228 |
| Net book value as at 31 December 2012 | 17,480 | 17,613 | 2,083 | 998 | 38,174 |
| **Cost:** | | | | | |
| Balance as at 1 January 2013 | 23,936 | 24,468 | 4,000 | 998 | 53,402 |
| Adjustment for exchange rate differences | – | – | – | 3 | 3 |
| Additions during the year | – | – | – | – | – |
| Balance as at 31 December 2013 | 23,936 | 24,468 | 4,000 | 1,001 | 53,405 |
| **Accumulated amortisation:** | | | | | |
| Balance as at 1 January 2013 | 6,456 | 6,855 | 1,917 | – | 15,228 |
| Amortisation | 1,206 | 1,214 | 149 | 222 | 2,791 |
| Balance as at 31 December 2013 | 7,662 | 8,069 | 2,066 | 222 | 18,019 |
| Net book value as at 31 December 2013 | 16,274 | 16,399 | 1,934 | 779 | 35,386 |

**Note 4 Intangible assets** continued

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

1. Management rights – rights held by the Group relating to the management of Park Plaza® Hotels & Resorts in Europe, the Middle East and Africa. The management rights are included in the Consolidated financial statements at their fair value as at the date of acquisition and are being amortised over a period of 20 years, based on the terms of the existing contracts and Management estimation of their useful life. The remaining amortisation period is 13.5 years.

2. Franchise rights – relating to the brand "Park Plaza® Hotels & Resorts", are included in the Consolidated financial statements at their fair value as at the date of acquisition and are being amortised over 20 years, based on Management's estimation of their useful life. The remaining amortisation period is 13.5 years.

**b. Acquisition of art'otel® rights:**

The Company acquired in July 2007, the worldwide rights to use the art'otel® brand name for an unlimited period of time. The rights are being amortised over 20 years based on Management's estimation of their useful life. The remaining amortisation period is 13.5 years.

**c. Other intangible assets:**

These include development costs incurred in connection with a new concept which has been developed by the Group using modular construction to minimise the construction period as well as the construction costs. The development of the new concept is completed and is being amortised over 5 years.

**d. Impairment:**

In 2013, there were no indicators of impairment.

**Note 5 Property, plant and equipment**

| | Land €'000 | Hotel buildings €'000 | Furniture and equipment €'000 | Total €'000 |
|---|---|---|---|---|
| **Cost:** | | | | |
| Balance as at 1 January 2012 | 183,935 | 406,973 | 85,348 | 676,256 |
| Additions during the year | 8,796 | 9,446 | 5,360 | 23,602 |
| Disposals* | (8,195) | (35,645) | (11,267) | (55,107) |
| Acquisitions through subsidiaries* | 89,144 | 76,292 | 20,663 | 186,099 |
| Adjustment for exchange rate differences | 3,069 | 7,181 | 1,912 | 12,162 |
| Balance as at 31 December 2012 | 276,749 | 464,247 | 102,016 | 843,012 |
| **Accumulated depreciation and impairment:** | | | | |
| Balance as at 1 January 2012 | 2,257 | 22,511 | 40,607 | 65,375 |
| Disposals* | (137) | (5,668) | (6,048) | (11,853) |
| Provision for depreciation | 634 | 7,610 | 11,078 | 19,322 |
| Provision for impairment | 6,169 | – | – | 6,169 |
| Adjustment for exchange rate differences | 15 | 294 | 768 | 1,077 |
| Balance as at 31 December 2012 | 8,938 | 24,747 | 46,405 | 80,090 |
| Net book value as at 31 December 2012 | 267,811 | 439,500 | 55,611 | 762,922 |
| **Cost:** | | | | |
| Balance as at 1 January 2013 | 276,749 | 464,247 | 102,016 | 843,012 |
| Additions during the year | 27,550 | 26,539 | 9,792 | 63,881 |
| Adjustment for exchange rate differences | (2,212) | (5,954) | (1,807) | (9,973) |
| Balance as at 31 December 2013 | 302,087 | 484,832 | 110,001 | 896,920 |
| **Accumulated depreciation and impairment:** | | | | |
| Balance as at 1 January 2013 | 8,938 | 24,747 | 46,405 | 80,090 |
| Provision for depreciation | 723 | 7,674 | 10,149 | 18,546 |
| Adjustment for exchange rate differences | (11) | (294) | (893) | (1,198) |
| Balance as at 31 December 2013 | 9,650 | 32,127 | 55,661 | 97,438 |
| Net book value as at 31 December 2013 | 292,437 | 452,705 | 54,340 | 799,482 |

* Reference to Note 3(a).

**Note 5 Property, plant and equipment** continued

| | As at 31 December | |
|---|---|---|
| | **2013 €'000** | 2012 €'000 |
| (1) Cumulative expenditures for hotels under construction included in cost balances | **5,119** | 15,129 |

a. Cumulative expenditure for hotels under development relates to the renovation and conversion of the development of art'otel london hoxton, the Park Royal London project, Waterloo Development site and Park Plaza Nuremberg. The conversion of the Victoria Monument building (located in Amsterdam) into art'otel amsterdam was completed in the year and reclassified to land, buildings and furniture and equipment.

b. The amount of borrowing costs capitalised during the year ended 31 December 2013 was €781,000 (2012: €887,000). The rate used to determine the amount of borrowing costs eligible for capitalisation was 4.8% (2012: 4.8%), which is the average effective interest rate of the specific borrowing.

(2) For information regarding liens, see Note 16.

Land includes the following amounts where the Group is a lessee under a finance lease:

| | As at 31 December | |
|---|---|---|
| | **2013 €'000** | 2012 €'000 |
| Cost – capitalised finance leases | **19,653** | 20,068 |
| Accumulated depreciation | **(1,223)** | (1,158) |
| Net book value | **18,430** | 18,910 |

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

The recoverable amount of property, plant and equipment had been determined on the higher of internal value in use calculations using discounted cash flow projections for the relevant cash-generating units and third party valuations. These projections are based on financial budgets approved by the senior management covering a five-year period. The pre-tax discount rate applied to cash flow projections is 9.0%-10% (2012: 8.65%) and cash flows beyond the five-year period are extrapolated using a growth rate of 2%-2.5%. In 2012, the Group recorded an impairment loss in respect of hotel properties in the UK segment in the amount of €6.2 million, which is included in depreciation, amortisation and impairment loss.

**Note 6 Apart-hotel units under management**

| | Land €'000 | Hotel buildings €'000 | Furniture and equipment €'000 | Total €'000 |
|---|---|---|---|---|
| **Cost:** | | | | |
| Balance as at 1 January 2012 | 19,919 | 141,529 | 7,159 | 168,607 |
| Additions during the year | – | – | – | – |
| Exchange rate differences | 496 | 3,532 | 177 | 4,205 |
| Balance as at 31 December 2012 | 20,415 | 145,061 | 7,336 | 172,812 |
| Additions during the year | – | – | – | – |
| Exchange rate differences | (422) | (3,003) | (161) | (3,586) |
| Balance as at 31 December 2013 | 19,993 | 142,058 | 7,175 | 169,226 |
| **Accumulated depreciation:** | | | | |
| Balance as at 31 December 2012 | – | – | – | – |
| Balance as at 31 December 2013 | – | – | – | – |

The construction of Park Plaza Westminster Bridge London was completed in 2010 and the hotel partially opened to paying customers in March 2010. As at 31 December 2010, the sale of 535 units had been completed. On the completion of each sale the purchaser was issued a "B" Ordinary share in the management company of the hotel, 1 Westminster Bridge Plaza Management Company Limited ("1WB"). Marlbray Limited ("Marlbray"), a wholly-owned subsidiary of the Company and the owner of the freehold of the hotel, holds the sole voting share, being an "A" Ordinary share. This results in Marlbray having control in 1WB until the expiry of the period of guaranteed returns to purchasers (i.e. five years from the last completion).

**Note 6 Apart-hotel units under management** continued

As long as control over 1WB, and therefore the indirect control over the apart-hotel units, stays within the Group, all of the conditions for revenue recognition from the sale of apart-hotel units are not met. Hence, in these Consolidated financial statements the assets have not been derecognised and the proceeds received from the purchasers (€182.7 million) have been accounted for as an advance payment until such time as they can be recognised as revenue (see Note 2(j)). For information regarding commitments and contingent liabilities, reference is made to Note 16.

**Note 7 Prepaid leasehold payments**

In 1988, Utrecht Victoria Hotel B.V. entered into a land lease agreement for a period of 50 years ending in 2038, which has been fully prepaid.

| | Year ended 31 December | |
|---|---|---|
| | **2013 €'000** | 2012 €'000 |
| **Cost:** | | |
| Balance as at 1 January | **466** | 448 |
| Acquisitions through subsidiaries* | **–** | 466 |
| Additions | **–** | – |
| Disposals* | **–** | (448) |
| Balance as at 31 December | **466** | 466 |
| Accumulated amortisation: | | |
| Balance as at 1 January | **13** | 214 |
| Disposals* | **–** | (220) |
| Provision for amortisation | **18** | 19 |
| Balance as at 31 December | **31** | 13 |
| Amortised cost as at 31 December | **435** | 453 |

* See Note 3(a).

**Note 8 Investment in associate**

**a. WH/DMREF Bora B.V.:**

In April 2008, Euro Sea Hotels N.V., a wholly owned subsidiary of the Company, acquired 20% of the shares of WH/DMREF Bora B.V. ("Bora") from a group of real estate investment funds. Bora currently owns approximately 74% of Arenaturist d.d., a public company listed on the Zagreb (Croatia) Stock Exchange, and 100% of three related private companies. These companies together own seven hotels, six apartment complexes and eight camp sites in or around Pula on the Istrian coast of Croatia. As part of the transaction, the Company also acquired 20% of the debt currently owed by Bora to its shareholders. The total consideration for the acquisition, including the debt acquired, was €22.4 million, which was funded by the Company from its existing cash resources. The investment in Bora is accounted for under the equity method in accordance with IAS 28.

The interest rate on the shareholders' loan is a fixed rate of 8.9% per annum and the denomination of the loan is Kuna. The repayment date of the loan is 31 August 2020.

**b. Investment in associate:**

| | As at 31 December | |
|---|---|---|
| | **2013 €'000** | 2012 €'000 |
| Loan to associate | **32,241** | 29,906 |
| Foreign currency translation adjustment | **369** | 317 |
| Share of associate's net assets under equity method | **(11,223)** | (8,662) |
| Loan to associate (adjusted for losses recognised under the equity method) | **21,387** | 21,561 |

**Note 8 Investment in associate** continued

**c. Share of the associate's balance sheet:**

| | As at 31 December | |
|---|---|---|
| | 2013 €'000 | 2012 €'000 |
| Current assets | 2,630 | 2,588 |
| Non-current assets | 32,085 | 32,695 |
| Current liabilities | 1,094 | 1,902 |
| Non-current liabilities | 40,759 | 38,054 |
| Net liabilities | (7,138) | (4,673) |
| Loan to associate: | | |
| Opening balance | 29,906 | 27,453 |
| Interest on loans | 2,723 | 2,494 |
| Foreign currency translation reserve | (388) | (41) |
| Closing balance | 32,241 | 29,906 |
| Share of the associate's revenue and loss: | | |
| Revenue | 8,601 | 8,390 |
| Loss | (2,561) | (2,430) |

**Note 9 Other non-current financial assets**

| | As at 31 December | |
|---|---|---|
| | 2013 €'000 | 2012 €'000 |
| Loans to jointly controlled entities (see Note 28) | 6,697 | 6,670 |
| Loans to related parties (see Note 28) | 9,991 | – |
| Trade receivables associates (see Note 28) | 1,113 | 1,113 |
| Rent security deposits[1] | 1,043 | 412 |
| | 18,844 | 8,195 |

1 Relates to leases described in Note 16(c)(2).

**Note 10 Other current financial assets**

| | As at 31 December | |
|---|---|---|
| | 2013 €'000 | 2012 €'000 |
| Available-for-sale investment shares[1, 2] | 1,538 | 1,339 |

1 The fair value of the available-for-sale investment in shares and bonds is based on quoted market prices. The currency of these investments is Euro.
2 Gains (losses) from unrealised available-for-sale investment in shares and bonds for an amount of €206,000 (2012: €48,000) were recorded in other comprehensive income.

**Note 11 Trade receivables**

a. Composition:

| | As at 31 December | |
|---|---|---|
| | 2013 €'000 | 2012 €'000 |
| Trade receivables | 13,687 | 17,559 |
| Related parties (see Note 28) | 2,425 | 2,642 |
| Less – allowance for doubtful debts | (318) | (448) |
| | 15,794 | 19,753 |

Trade receivables are non-interest bearing. The Group's policy provides an average of 30 days' payment terms.

**Note 11 Trade receivables** continued

b. Movements in the allowance for doubtful accounts were as follows:

| | €'000 |
|---|---|
| As at 1 January 2012 | 477 |
| Deductions | (38) |
| Exchange rate differences | 9 |
| As at 31 December 2012 | 448 |
| Deductions | (121) |
| Exchange rate differences | (9) |
| As at 31 December 2013 | 318 |

c.. As at 31 December, the ageing analysis of trade receivables is as follows:

| | | | Past due but not impaired | | | |
|---|---|---|---|---|---|---|
| | Total €'000 | Neither past due nor impaired €'000 | < 30 days €'000 | 30 to 60 days €'000 | 60 to 90 days €'000 | > 90 days €'000 |
| **2013** | **16,112** | **4,439** | **7,354** | **2,223** | **659** | **1,437** |
| 2012 | 19,753 | 6,282 | 7,311 | 3,120 | 792 | 2,248 |

**Note 12 Other receivables and prepayments**

| | As at 31 December | |
|---|---|---|
| | **2013 €'000** | 2012 €'000 |
| Prepaid expenses | **4,098** | 4,756 |
| VAT | **897** | 260 |
| Related parties* | **196** | 89 |
| Others | **684** | 790 |
| | **5,875** | 5,895 |

* The amount owed by related parties bears no interest and has no repayment date; see Note 28.

**Note 13 Cash and cash equivalents**

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

**Note 14 Equity**

**a. Share capital:**

The authorised share capital of the Company is represented by an unlimited number of Ordinary shares with no par value.

As at 31 December 2013, the number of Ordinary shares issued was 43,377,292 (2012: 43,377,292), 1,862,000 of which were held as treasury shares (2012: 1,862,000).

The Company's shares are admitted to the standard listing segment of the Official List of the UK Listing Authority and to trading on the Main Market for listed securities of the London Stock Exchange.

The Directors consider that the Issued Capital and the Share Premium reserve constitute the Share Capital account for the purpose of the Companies (Guernsey) Law, 2008.

**b. Treasury shares:**

On 29 September 2009, the Company purchased 862,000 of its Ordinary shares at a price per share of 111 pence. On 26 October 2011, the Company purchased 800,000 of its Ordinary shares at a price of 227 pence. On 29 August 2012, the Company purchased 200,000 of its Ordinary shares at a price of 210 pence. The total number of treasury shares amounts to 1,862,000.

**Note 14 Equity** continued

**c. Nature and purpose of reserves:**

Other reserves

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

Foreign currency translation reserve

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

Hedging reserve

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

**Note 15 Share-based payments**

During 2007, the Company established a Share Option Plan (the "Plan") with the following principal terms:

a. The Plan has two types of options: Option A and Option B. The exercise price of both options will not be less than the closing price of a share on the dealing day immediately preceding the date of grant (as published in the Financial Times on the date of grant). Option A vests over a period of three years from date of grant and Option B vests at the end of three years from grant date. Unexercised options expire ten years after the date of grant. The Plan does not include any performance conditions.

b. At any time, the total number of shares issued and/or available for grant (in a ten-year period) under the Plan or under any other employee share scheme which the Company may establish in the future may not exceed 5% of the Company's issued share capital at that time. For the purpose of this calculation, any option granted under the Plan immediately following Admission to the AIM in July 2007 is disregarded.

   The fair value of the options is estimated at the grant date using the binomial pricing model according to the terms and conditions upon which the options were granted.

The following lists the inputs to the binomial model used in 2013 for the fair value measurement of the granted share options:

| | |
|---|---|
| Dividend yield (%) | **5.1** |
| Expected volatility of the share prices (%) | **32.0** |
| Risk-free interest rate (%) | **0.67** |
| Expected life of share options (years) | **4.0** |
| Share price at the grant date | **233.5** |
| Weighted average fair value (GBP) | **£0.36** |

The expected life of the share options is based on historical data, current expectations and empirical data. It is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility of similar listed companies over a period similar to the life of the options is indicative of future trends, which may not be reflective of the actual outcome.

The expense arising from equity-settled share-based payment transactions during 2013 is €144,000 (2012: €13,000). As at 31 December 2013, 262,000 options became exercisable (2012: 0).Total exercisable options at 31 December 2013 amounts to 506,800 (2012: 244,800).

**Movements during the year**

The following table illustrates the number (No.) and weighted exercise prices (EP) of, and movements in, share options during 2013 and 2012:

| | No. of options A | No. of options B | EP |
|---|---|---|---|
| Outstanding as at 1 January 2013 | 929,550 | 101,250 | £2.02 |
| Options forfeited during the year | – | – | – |
| Options granted during the year | – | – | – |
| Outstanding as at 31 December 2013 | 929,550 | 101,250 | £2.02 |
| Outstanding as at 31 December 2012 | 929,550 | 101,250 | £2.02 |

The weighted average remaining contractual life for the share options outstanding as at 31 December 2013 is eight years (2012: nine years).

**Note 16 Pledges, contingent liabilities and commitments**

**a. Pledges, collateral and securities:**

Substantially all of the Group's assets and all of the rights connected or related to the ownership of the assets (including shares of subsidiaries and restricted deposits) are pledged in favour of banks and financial institutions as security for loans received. For most of the loans, specific assets are pledged as the sole security provided.

**b. Restricted cash:**

(i) In connection with the development and sale by Marlbray of apart-hotel units (see Note 6), Marlbray received deposits from prospective purchasers in respect of pre-sold units (up to 25% of the contracted sale price). As at 31 December 2013, a balance of £7.9 million (€9.5 million), being forfeited deposits, is held in respect of the rescinded contracts of purchasers who failed to complete. Certain of these prospective purchasers have instigated proceedings seeking recovery of the forfeited deposits. The Company believes that a final court ruling in connection with these legal proceedings is not expected within the coming 12 months and accordingly these balances are being classified as non-current.

(ii) Under the facility agreement of Marlbray with Bank Hapoalim B.M. (Bank Hapoalim), sufficient funds are required to be deposited in the DSCR account until the sum deposited is equal to twice the amount of interest payable on the next interest payment date. The deposits in the DSCR account are presented as restricted in the financial statements and amount to £3.3 million (€3.9 million).

**c. Commitments:**

1. Management and franchise agreements:

(i) The Group entered into a Territorial Licence Agreement (the "Master Agreement") with Carlson Hotels Worldwide, Inc. ("Carlson$^{SM}$"). Under the Master Agreement, the Group, amongst other rights, is granted an exclusive licence to use the brand "Park Plaza® Hotels & Resorts" in 56 territories throughout Europe, the Middle East and Africa in perpetuity (the "Territory").

The Master Agreement also allows the Group to use, and license others to use, the Carlson$^{SM}$ Systems within the Territory which right includes the right to utilise the Carlson$^{SM}$ System's international marketing and reservations facilities and to receive other promotional assistance. The Group pays Carlson$^{SM}$ a fee based on a percentage of the hotels' gross room revenue.

(ii) The Group entered into several management agreements with operated hotels and developed hotels located in The Netherlands, United Kingdom, Germany, Hungary and Croatia in consideration for an annual fee of 2% to 3% of the hotels' revenues, as applicable, as well as 7% to 10% of the gross operating profit. The Group is also charging sales and marketing fees as a percentage of revenue, as well as partially reimbursed for certain portions of the expenses incurred. The management agreements are for periods of 15 to 25 years.

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

2. Lease agreements:

(i) The Group has entered into several finance lease agreements for the rental of land. Certain of the leases are subject to periodic rent reviews. The Group's share in the future minimum rental payments under non-cancellable leases are as follows:

| | 2013 €'000 | 2012 €'000 |
|---|---|---|
| Within one year | **1,448** | 1,387 |
| After one year but not more than five years | **5,791** | 5,546 |
| More than five years | **161,479** | 152,813 |
| | **168,718** | 159,745 |
| Less amounts representing finance charges | **(149,065)** | (139,677) |
| Present value of minimum lease payments | **19,653** | 20,068 |

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

| | 2013 €'000 | 2012 €'000 |
|---|---|---|
| Within one year | **–** | – |
| After one year but not more than five years | **1** | 1 |
| More than five years | **19,652** | 20,067 |
| | **19,653** | 20,068 |

**Note 16 Pledges, contingent liabilities and commitments** continued

**c. Commitments**

2. Lease agreements continued

Details regarding the finance lease agreements are as below:

a) Grandis Netherlands Holding B.V. has a land leasehold interest expiring in 2095, of Park Plaza Sherlock Holmes London. The current annual rent amounts to £810,000 (€972,000) (subject to "open market value" rent review every five years).

Grandis has an option to extend the lease to a total of 125 years, expiring in 2121. The Company also has an option to terminate the lease in 2059.

As at 31 December 2013, the rent review of 29 September 2011 is not yet complete and the landlord is seeking to increase the passing rent. An arbitrator has been appointed to determine the reviewed rent. If an increased rent becomes payable, Grandis will be required to pay the balance of rent due from 29 September 2011 plus interest, plus the increased rent going forward in accordance with the terms of the lease. Depending on the outcome of the review, Grandis could be liable to pay a proportion of the landlord's legal costs.

b) Riverbank Hotel Holding B.V. has a land leasehold interest expiring in 2125, in Park Plaza Riverbank London. The current annual rent amounts to £653,000 (€784,000), subject to rent review every five years.

c) On 18 June 2012, Club A40 Holdings B.V. (Club A40) completed the purchase of the freehold property at 628 Western Avenue, Park Royal, London W3 (the "Site") which is a development site on one of the main thoroughfares into London, for £6.0 million (€7.2 million). Simultaneously, Club A40 completed the sale of the Site at a price of £7.0 million (€8.4 million) and the leased-back of the Site at an initial rent of £306,500 (€367,000) per year (the "Sale and Leaseback") for 170 years. Under the terms of the Sale and Leaseback, the Company is required to procure the construction of a 158-162-room hotel on the Site. The gain on this sale has been deferred in the statement of financial position as the leaseback is classified as a finance lease liability.

(ii) The Group operates hotels and occupies certain premises under various lease agreements in which the building, fixtures, furniture and equipment are leased. These tend to be long-term arrangements under which the Group leases a hotel from a third party property owner for periods of 20 to 25 years and often include options to extend for varying periods. Monthly rental payments are based on a percentage of the operating revenues or gross operating profit of that hotel subject, in most cases, to a minimum amount which is independent of the operating revenue or gross operating profit. The rental expenses presented in the income statement mainly consist of minimum lease payments.

Future minimum rentals payable under non-cancellable operating leases are as follows:

| | 2013 €'000 | 2012 €'000 |
|---|---|---|
| Within one year | **8,355** | 9,179 |
| After one year but not more than five years | **32,642** | 36,168 |
| More than five years | **72,609** | 94,515 |
| | **113,606** | 139,862 |

3. Construction contract commitment:

As at the reporting date, the Company, entered into capital commitments amounting to €0.3 million for construction of the Park Royal project.

**Note 16 Pledges, contingent liabilities and commitments** continued

**c. Commitments**

4. Guarantees:

a) On completion of each sale of the 535 apart-hotel sold units in Park Plaza Westminster Bridge London, Marlbray entered into income swap agreements with all (but four) of the unit holders. The income swap agreements include an obligation on the unit holder to assign the right to receive the net income derived from the unit to Marlbray and an undertaking by Marlbray to pay unit holders a rent guarantee of between 5% and 6% p.a. yield, depending on the agreed sale contract (with the exception of two units in respect of which the guaranteed annual return is less than 5%) on the purchase price for the five-year period commencing on the second month following the date of completion of the sale.

The Company has agreed to guarantee the obligations of Marlbray under the income swap agreements. The remaining future obligation as at 31 December 2013 amounts to £13.4 million (€16.1 million).

b) The Company guarantees all amounts due to Elbit in connection with the acquisition of Elbit's interests in Park Plaza Riverbank London, Park Plaza Sherlock Holmes London, Park Plaza Victoria London, Park Plaza Amsterdam Airport, Park Plaza Victoria Amsterdam, Park Plaza Utrecht and the art'otel amsterdam. The remaining obligation as at 31 December 2013 amounts to €2.9 million (see Note 18).

c) The Company guarantees 65% of the amounts owed by Victoria Monument B.V. to Bank Hapoalim B.M. in relation to its financing the art'otel amsterdam project. As at 31 December 2013, 65% of the outstanding loan amount is € 16.9 million. This loan was refinanced in 2014 (see Note 31) and consequently this guarantee has expired.

d) Under the terms of the UOB facilities received for the construction in Pattaya Bay, Thailand (the "Project") the Company is currently obliged to provide certain financial support in the event of a cost overrun or funding shortfall in relation to the Project and, in certain circumstances, may be required to purchase serviced apartments after completion of the Project for a maximum consideration of Thai Baht 600 million (€15.0 million) to fund any amounts that are outstanding under the UOB facilities. The support deed provides that the Company shall maintain a Net Gearing Ratio (the ratio of (i) any interest bearing indebtedness owed to financial institutions or under financial debt instruments of the Company less any cash balances or cash equivalent instruments maintained by the Company to (ii) its Tangible Net Worth (total tangible assets less all external liabilities in respect of money borrowed or raised by the Company) not exceeding 3:1. In addition, the Company guaranteed practical completion of the Project. Red Sea Hotels Limited has agreed to indemnify the Company in respect of certain of these continuing obligations and as security Red Sea Hotels Limited has pledged the shares held by it in Bali Hai Company Limited (the company that owns the project in Pattaya Bay, Thailand), and certain affiliated Thai companies.

e) The Company guarantees all obligations of the tenant under parcel 1 of the lease agreement for Western Avenue (mixed use development Park Royal) up to the date of practical completion of the development of the hotel on site. The annual lease amounts to £0.3 million (€0.4 million).

f) The Company guarantees principal and interest under the €12.0 million facility granted by Bank Hapoalim B.M. to PPHE Netherlands B.V.

g) The Company guarantees the construction facility provided to Park Plaza Nuremberg GmbH. As at 31 December 2013, the facility is not drawn.

h) The Company guarantees principal and interest under the €12.5 million facility granted by Deutsche Hypothekenbank to ABM Hotel Holding B.V. and ABK Hotel Holding B.V.

i) The Company guarantees principal and interest under a €30.0 million facility granted by Bank Hapoalim B.M. to Park Plaza Hotels Europe B.V. As of 31 December 2013, €10.0 million of this facility has been drawn.

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

k) The Company guarantees principal and interest under the £12.0 million (€14.4 million) facility granted by Bank Hapoalim B.M. to Hercules House Holding B.V.

5. Lease guarantees:

The Group provided guarantees for commitments under certain hotel lease agreements. The total of these guarantees do not exceed €13.9 million.

## Note 17 Bank borrowings

The bank borrowings of the Group are composed as follows:

* In this overview hedging arrangements have been taken into account in presentation of the interest rates; for details on these hedging arrangements refer to Note 30(h).

As at 31 December 2013

| Bank/facility | Note | Currency | Interest rate | Maturity | Outstanding amount | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Thereafter |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Maturity analysis | | | | | |
| Aareal Bank | 17(1) | GBP | 5.665% | Dec 2018 | **164,085** | – | – | – | – | 164,085 | – |
| *(eight hotels in* | | GBP | 3M LIBOR | Dec 2018 | **28,897** | 2,014 | 2,014 | 2,014 | 2,615 | 20,240 | – |
| *The Netherlands* | | | +2.9% | | | | | | | | |
| *and the United* | | EUR | 4.599% | Dec 2018 | **121,691** | 1,292 | 1,292 | 1,292 | 1,938 | 115,877 | – |
| *Kingdom)* | | EUR | 3M EURIBOR | Dec 2018 | **–** | – | – | – | – | – | – |
| | | | +2.9% | | | | | | | | |
| Bank Hapoalim | 17(3) | GBP | 5.29% | Jun 2018 | **66,301** | 1,394 | 1,394 | 1,394 | 1,655 | 60,464 | – |
| *(Park Plaza Westminster* | | GBP | 5.83% | Jun 2018 | **65,186** | 1,370 | 1,370 | 1,370 | 1,627 | 59,449 | – |
| *Bridge London)* | | | | | | | | | | | |
| Bank Hapoalim* | 17(2) | EUR | 3M EURIBOR | Mar 2014 | **26,000** | 2,240 | 240 | 240 | 360 | 22,920 | – |
| *(art'otel amsterdam)* | | | +2.5% | Refinanced | | | | | | | |
| | | | | to Dec 2018 | | | | | | | |
| Royal Bank of Scotland | 17(4) | GBP | 6.43% | Jan 2019 | **13,260** | 274 | 292 | 401 | 457 | 495 | 11,341 |
| *(Park Plaza Leeds)* | | GBP | 7.78% | Jan 2019 | **2,653** | 55 | 59 | 80 | 91 | 99 | 2,269 |
| Royal Bank of Scotland | 17(5) | GBP | 6.84% | May 2027 | **6,918** | 74 | 88 | 123 | 132 | 139 | 6,362 |
| *(Park Plaza Nottingham)* | | | | | | | | | | | |
| Bank Hapoalim | 17(6) | EUR | EURIBOR | May 2015 | **9,750** | 2,500 | 7,250 | – | – | – | – |
| *(PPHE Netherlands)* | | | +3.9% | | | | | | | | |
| Bank Hapoalim | 17(6) | EUR | Euribor | Dec 2018 | **10,000** | – | 1,600 | 1,600 | 3,400 | 3,400 | – |
| *(Park Plaza Hotels Europe B.V.)* | | | +4.4% | | | | | | | | |
| Bank Hapoalim | | GBP | Libor | Dec 2014 | **14,420** | 14,420 | – | – | – | – | – |
| *(Hercules House)* | | | +3.25–3.5% | | | | | | | | |
| Deutsche Hypothekenbank | 17(7) | EUR | 3.93% | Apr 2023 | **12,310** | 388 | 403 | 421 | 438 | 456 | 10,204 |
| *(art'otel berlin mitte and art'otel berlin kudam)* | | | | | | | | | | | |
| | | | | | **541,471** | 26,021 | 16,002 | 8,935 | 12,713 | 447,624 | 30,176 |
| Capitalised finance expenses and consolidation adjustments | | | | | **(15,305)** | (586) | | | | | |
| | | | | | **526,166** | 25,435 | | | | | |

For securities and pledges, see Note 16.

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

### Note 17 Bank borrowings continued

| As at 31 December 2012 | | | | | | Maturity analysis | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Bank/ facility | Note | Currency | Interest rate | Maturity | Outstanding amount | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Thereafter |
| Aareal Bank | | GBP | 6.03-8.05% | Nov 2015 | **188,480** | – | 688 | 187,792 | – | – | – |
| *(three hotels in the United Kingdom)* | | GBP | 3M LIBOR +2.75% | Nov 2015 | **7,686** | 3,681 | 3,681 | 324 | – | – | – |
| Aareal Bank *(four hotels in The Netherlands)* | | EUR | 5.12% | Apr 2017 | **73,319** | 1,950 | 975 | – | – | 70,394 | – |
| | | EUR | 4.56% | Apr 2017 | **28,000** | – | – | | | 28,000 | – |
| | | EUR | 3.74% | Apr 2017 | **5,000** | – | – | – | – | 5,000 | – |
| Aareal Bank *(Park Plaza Vondelpark Amsterdam)* | | EUR | 5.42% | Sep 2013 | **18,910** | 18,910 | – | – | – | – | |
| Bank Hapoalim *(Park Plaza Westminster Bridge London)* | 17(3) | GBP | 5.29% | Jun 2018 | **69,557** | 1,427 | 1,427 | 1,427 | 1,784 | 1,784 | 61,709 |
| | | GBP | 5.83% | Jun 2018 | **67,528** | 1,373 | 1,373 | 1,373 | 1,542 | 1,542 | 60,325 |
| Bank Hapoalim *(art'otel amsterdam)* | 17(2) | EUR | 3M EURIBOR +2.5% | Mar 2014 | **19,417** | – | 19,417 | – | – | – | – |
| Royal Bank of Scotland *(Park Plaza Leeds)* | 17(4) | GBP | 6.43% | Jan 2019 | **13,681** | – | 256 | 273 | 292 | 424 | 12,436 |
| | | GBP | 7.78% | Jan 2019 | **2,766** | – | 64 | 68 | 73 | 106 | 2,455 |
| Royal Bank of Scotland *(Park Plaza Nottingham)* | 17(5) | GBP | 6.84% | May 2027 | **7,137** | – | 73 | 77 | 102 | 127 | 6,757 |
| Lloyds TSB *(Park Plaza Leeds and Park Plaza Nottingham)* | | GBP | 8–11.5% | Aug 2013 | **3,681** | 3,681 | – | – | – | – | – |
| United Overseas Bank *(Bali Hai Co. Ltd)* | | THB | MLR–2% | Sep 2016 | **147** | – | – | 147 | – | – | – |
| Bank Hapoalim *(PPHE Netherlands)* | 17(6) | EUR | EURIBOR +3.9% | May 2015 | **11,500** | 1,750 | 2,500 | 7,250 | – | – | – |
| | | | | | 516,809 | 32,772 | 30,454 | 198,731 | 3,793 | 107,377 | 143,682 |
| Capitalised finance expenses and consolidation adjustments | | | | | **(9,932)** | (342) | | | | | |
| | | | | | **506,877** | 32,430 | | | | | |

**Note 17 Bank borrowings** continued

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

1. Under the Aareal Bank AG (Aareal) facility the borrowers must ensure that the aggregate amount of the outstanding facilities does not exceed 65% of the value of the hotels as set out in the most recent valuation. In addition, the borrowers must ensure that, on each interest payment date, the Debt Service Cover Ratio ("DSCR") (the Net Operating Income of the hotels for each of the four preceding financial quarters relative to the principal, interest and other costs payable by the borrowers for the next four financial quarters) is not less than 115%.

2. Under the Bank Hapoalim B.M. facility for art'otel® amsterdam the borrowers must ensure that the aggregate amount of the outstanding loans do not exceed 75% of the value of the property as set out in the most recent valuation. This loan has been refinanced in 2014 and consequently this covenant has ceased to exist.

3. Under the Bank Hapoalim B.M. facility for Park Plaza Westminster Bridge London the borrowers must ensure that the aggregate amount of the outstanding facilities does not exceed 75% of the value of the hotel as set out in the most recent valuation. In addition, the borrowers must ensure that, on each interest payment date, the DSCR is not less than 130%.

4. Under the Royal Bank of Scotland plc facility for Park Plaza Leeds the borrowers must ensure that the aggregate amount of the outstanding facilities does not exceed 88% of the value of the hotel as set out in the most recent valuation.

5. Under the Royal Bank of Scotland plc facility for Park Plaza Nottingham the borrowers must ensure that the aggregate amount of the outstanding facilities does not exceed 60% of the value of the hotel as set out in the most recent valuation.

6. Under the Bank Hapoalim B.M. facility for PPHE Netherlands, Park Plaza Hotels Europe B.V. and Hecules House Holding B.V. the following covenants apply:

    a. the shareholders equity of the Company is not less than the lower of €150.0 million (if calculated in Euro), or £110.0 million (if calculated in Sterling)
    b. the shareholders equity of the Company, less the equity invested in development projects by the Group, which are subject to construction facilities (in which there is no recourse to the borrower thereunder), is not less than €93.0 million
    c. the Adjusted Shareholders Equity of the Company shall not be less than the value of 20% of the Relevant Assets Value, as such terms are defined in the agreement
    d. the Adjusted Shareholders Equity of the Company, less the equity invested in development projects, which are subject to construction facilities (in which there is no recourse to the borrower there under), is not less than 20% of the relevant assets value.

    In addition to the above covenants the following covenants apply to PPHE Netherlands and Park Plaza Hotels Europe individually:

    PPHE Netherlands

    a. the outstanding loans under the Aareal facility in The Netherlands (Note 17(1)) do not exceed 70% of the value of the mortgaged properties under the Aareal facility, and

    b. the debt service cover ratio under the Aareal facility in The Netherlands (Note 17(1)) (which is the net operating income of the hotels mortgaged under the Aareal facility in The Netherlands for each of the four preceding financial quarters relative to the principal, interest and other costs payable by the borrowers for the next four financial quarters) is not less than 120%.

    Park Plaza Hotels Europe B.V.

    a. the ratio of the Consolidated Financial Indebtness of the Borrower and its Subsidiaries to Consolidated EBITDA of the Borrower shall not exceed 5 to 1.

7. Under the Deutsche Hypothekenbank facility for art'otel berlin mitte and art'otel berlin kudamm the borrowers must ensure throughout the entire term of the loan, the outstanding amount of the outstanding loan does not exceed 55% of the value of the property. Furthermore, the borrowers must on the basis of a full year observe a debt service ratio of at least 140%. The debt service ratio is the ratio of Net Operating Profit compared to debt service (interest and regular redemptions (if any)).

    For guarantees on above facilities see Note 16(c)(4). For hedging arrangements on above facilities see Note 30(h). As at 31 December 2013, the Group is in compliance with all its banking covenants.

### Note 18 Other financial liabilities

| | As at 31 December | |
|---|---|---|
| | 2013 €'000 | 2012 €'000 |
| Derivative financial instruments (see Note 30(h)) | **20,318** | 28,464 |
| Lease liability (see Note 16(c)(2)) | **19,653** | 20,068 |
| Loans from jointly controlled entities (see Note 28 and 29) | **6,762** | 6,737 |
| Deferred consideration business combination* | **2,943** | 3,815 |
| Other | **8,832** | 9,714 |
| | **58,508** | 68,798 |

* €0.9 million relates to the 2012 business combination for the acquisition of hotels in The Netherlands as described in Note 3(a). € 2.1 million relates to the 2010 business combination for the acquisition of various hotels in the United Kingdom. Both amounts may be reduced depending on the performance of the Company's shares during the five-year period following completion as follows. The deferred consideration for the UK transaction has the following reduction mechanism:

a) If at the settlement date, the average share price of the Company (over the last 60 business days) is higher than the Cap, the remaining cash payment is cancelled.

b) If at the settlement date, the average share price of the Company (over the last 60 business days) is lower than the Cap but higher than £1.50, the remaining cash payment will be reduced by the difference between the share price and £1.50 ("Floor") multiplied by 1,000,000 shares.

c) If at the settlement date, the average share price of the Company (over the last 60 business days) is lower than the Floor the remaining cash payment is £3.5 million (€4.1 million).

In both deferred considerations the fair value is estimated using the following variables:

a) The present value of the contingent cash payment using a discount rate of 5%.

b) Plus the value of an American call option (using a binomial model) with an exercise price of the Floor.

c) Minus the value of an American call option (using a binomial model) with an exercise price of the Cap.

The following lists the inputs to the binomial model used in 2013 for the fair value measurement of the American call options:

| | |
|---|---|
| Dividend yield (%) | **4.1** |
| Expected volatility of the share prices (%) | **33.0** |
| Risk-free interest rate (%) | **0.78** |
| Expected life of share options (years) | **2.5** |

### Note 19 Other payables and accruals

| | As at 31 December | |
|---|---|---|
| | 2013 €'000 | 2012 €'000 |
| Employees | **1,574** | 2,483 |
| VAT and taxes | **6,678** | 5,241 |
| Accrued interest | **1,802** | 578 |
| Corporate income taxes | **201** | 39 |
| Accrued expenses | **15,184** | 16,605 |
| Other loans from third parties | **4,180** | 9,630 |
| Accrued rent | **2,848** | 4,152 |
| Derivative financial instruments (see Note 30(h)) | **–** | 6,408 |
| Deposits received from apart-hotel unit sales | **–** | 9,100 |
| Related parties | **278** | – |
| | **32,745** | 54,236 |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

### Note 20 Revenues

| | As at 31 December 2013 €'000 | 2012 €'000 |
|---|---|---|
| Rooms | **169,158** | 166,175 |
| Food and beverage | **62,249** | 60,179 |
| Minor operating | **5,372** | 5,244 |
| Management fee (see Note 16(c)(1)) | **3,653** | 6,925 |
| Franchise and reservation fee (see Note 16(c)(1)) | **1,926** | 2,009 |
| Marketing | **1,358** | 1,237 |
| Other | **1,292** | 323 |
| | **245,008** | 242,092 |

### Note 21 Operating expenses

| | As at 31 December 2013 €'000 | 2012 €'000 |
|---|---|---|
| Salaries and related expenses | **65,297** | 64,855 |
| Defined contribution pension premiums | **769** | 400 |
| IT expenses | **2,386** | 1,998 |
| Utilities | **7,985** | 6,990 |
| Supplies | **3,225** | 3,357 |
| Laundry, linen and cleaning | **4,557** | 4,179 |
| Administration costs | **5,673** | 5,679 |
| Communication, travel and transport | **2,070** | 2,175 |
| Maintenance | **4,545** | 4,129 |
| Marketing expenses | **1,652** | 1,804 |
| Food and beverage | **13,119** | 11,924 |
| Franchise fees, reservation and commissions (see Note 16(c)(1)) | **17,619** | 17,081 |
| Leases | **1,215** | 1,257 |
| Insurance and property taxes | **14,012** | 11,338 |
| Other expenses | **7,472** | 8,130 |
| | **151,596** | 145,296 |

### Note 22 Financial expenses

| | As at 31 December 2013 €'000 | 2012 €'000 |
|---|---|---|
| Interest and other finance expenses on bank loans | **26,645** | 26,418 |
| Interest expenses from jointly controlled entities | **162** | 197 |
| Interest on other loans from third parties | **655** | 727 |
| Interest on finance lease liability | **1,060** | 1,111 |
| Foreign exchange differences | **2,181** | 112 |
| Interest related parties (see Note 28(b)) | **–** | 814 |
| Other | **245** | 362 |
| | **30,948** | 29,741 |
| Less – borrowing costs capitalised | **(781)** | (887) |
| | **30,167** | 28,854 |

### Note 23 Financial income

| | As at 31 December 2013 €'000 | 2012 €'000 |
|---|---|---|
| Interest on restricted deposit | **47** | 86 |
| Profit on sale of available for sale investments | **–** | 48 |
| Interest on bank deposits | **76** | 71 |
| Interest from related parties (see Note 28(b)) | **3,527** | 2,494 |
| Adjustment to fair value on derivative financial instruments (see Note 30(h)) | **798** | 505 |
| Interest and other finance income from jointly controlled entities (see Note 28(b)) | **162** | 119 |
| | **4,610** | 3,323 |

### Note 24 Other income and expenses

| | As at 31 December | |
|---|---|---|
| | **2013 €'000** | 2012 €'000 |
| Negative goodwill upon acquisitions (see Note 3(a)) | **–** | 4,317 |
| Capital gain from obtaining control in a former jointly controlled entity (see Note 3(a)) | **–** | 45,672 |
| Income from forfeited deposits | **296** | – |
| Capital gains sale of Thai development project (see Note 3(b)) | **2,757** | – |
| Pre-opening expenses | **(881)** | – |
| Fair value adjustment deferred consideration business combinations | **799** | 557 |
| Marketing expenses Thai development project | **–** | (430) |
| Strategic advice expenses | **164** | (906) |
| | **3,135** | 49,210 |

### Note 25 Income tax benefit

a. Tax benefit included in the income statement:

| | As at 31 December | |
|---|---|---|
| | **2013 €'000** | 2012 €'000 |
| Current taxes | **223** | (73) |
| Deferred taxes | **(572)** | (313) |
| | **(349)** | (386) |

Taxes have not been recognised on components of equity and other comprehensive income as they are not expected to be taxable.

b. The following are the major deferred tax (liabilities) and assets recognised by the Group and changes therein during the period:

| | Tax loss carry forward €'000 | Property, plant and equipment and intangible assets €'000 | Total €'000 |
|---|---|---|---|
| Balance as at 31 December 2011 | 2,769 | (6,890) | (4,121) |
| Amounts charged to income statement | (137) | 583 | 446 |
| Amount recognised in business combination (see Note 3(a)) | – | (8,950) | (8.950) |
| Prior year adjustments | (120) | (13) | (133) |
| Adjustments for exchange rate differences | – | (107) | (107) |
| Balance as at 31 December 2012 | 2,512 | (15,377) | (12,865) |
| Amounts charged to income statement | (87) | 659 | 572 |
| Enhanced capital allowance claim made in the year | – | (302) | (302) |
| Adjustments for exchange rate differences | – | 103 | 103 |
| Balance as at 31 December 2013 | 2,425 | (14,917) | (12,492) |

c. Reconciliation between tax benefit and the product of accounting profit multiplied by the Group's tax rate is as follows:

| | As at 31 December | |
|---|---|---|
| | **2013 €'000** | 2012 €'000 |
| Profit before income taxes | **25,828** | 67,590 |
| Expected tax at the tax rate of The Netherlands 25%[1] (2012: 25%) | **(6,457)** | (16,898) |
| Adjustments in respect of: | | |
| Effects of other tax rates | **4,359** | 2,960 |
| Non-deductible expenses | **(657)** | (2,537) |
| Utilisation of previously unrecorded tax losses | **4,568** | 4,195 |
| Non-taxable income | **438** | 12,251 |
| Unrecognised current year tax losses | **(690)** | (962) |
| Other differences | **(1,212)** | 1,377 |
| Income tax benefit reported in the income statement | **349** | 386 |

[1] The tax rate that was used is the tax rate of The Netherlands, since the majority of the tax exposure is in this tax jurisdiction.

**Note 25 Income tax benefit** continued

d. Tax laws applicable to the Group companies:

1. The Company is subject to taxation under the law of Guernsey. The Company is therefore taxed at the standard rate of 0%.
2. Foreign subsidiaries are subject to income taxes in their country of domicile in respect of their income, as follows:
   a) Taxation in The Netherlands: corporate income tax rate is 25% (2012: 25%).
   b) Taxation in the United Kingdom: corporate income tax rate for domiciled companies is 25% and for non-domiciled 20%.
   c) Taxation in Germany: corporate income tax rate and business rates is 30.2%.
   d) Taxation in Hungary: corporate income tax rate is 18%.

e. Losses carried forward for tax purposes:

The Company and its subsidiaries have carried forward losses for tax purposes estimated at approximately €170.3 million (2012: €190.3 million). The Group did not establish deferred tax assets in respect of losses amounting to €160.6 million (2012: €179.3 million) of which tax losses amounting to €21.3 million may be utilised for a period up to seven years. The reason for not recognising deferred tax assets is that the recovery of carried forward tax losses is uncertain. The remaining tax losses may be carried forward indefinitely.

**Note 26 Earnings per share**

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

| | As at 31 December | |
|---|---|---|
| | **2013 €'000** | 2012 €'000 |
| Profit | **26,177** | 67,976 |
| Weighted average number of Ordinary shares outstanding | **41,515** | 41,357 |

Potentially dilutive instruments 358,000 in 2013 (2012: 134,000) had an immaterial effect on the basic earnings per share.

**Note 27 Segments**

For management purposes, the Group's activities are divided into Owned Hotel Operations and Management Activities (for further details see Note 16(c)(1)). Owned Hotel Operations are further divided into three reportable segments: The Netherlands, Germany and Hungary, and the United Kingdom. The operating results of each of the aforementioned segments are monitored separately for the purpose of resource allocations and performance assessment. Segment performance is evaluated based on EBITDA, which is measured on the same basis as for financial reporting purposes in the consolidated income statement.

| | As at 31 December 2013 | | | | | |
|---|---|---|---|---|---|---|
| | The Netherlands €'000 | Germany and Hungary €'000 | United Kingdom €'000 | Management €'000 | Holding companies and adjustments[1] €'000 | Consolidated €'000 |
| **Revenue** | | | | | | |
| Third party | 42,406 | 32,836 | 161,645 | 8,121 | – | 245,008 |
| Inter-segment | – | – | – | 24,468 | (24,468) | – |
| **Total revenue** | 42,406 | 32,836 | 161,645 | 32,589 | (24,468) | 245,008 |
| **Segment EBITDA** | 11,437 | (41) | 56,740 | 14,793 | – | 82,929 |
| Depreciation, amortisation and impairment | | | | | | (21,355) |
| Financial expenses | | | | | | (30,167) |
| Financial income | | | | | | 4,610 |
| Interest expenses guaranteed to apart-hotel unit holders | | | | | | (10,763) |
| Other income, net | | | | | | 3,135 |
| Share in loss of associate | | | | | | (2,561) |
| Profit before tax | | | | | | 25,828 |

| | As at 31 December 2012 | | | | | |
|---|---|---|---|---|---|---|
| | The Netherlands €'000 | Germany and Hungary €'000 | United Kingdom €'000 | Management €'000 | Holding companies and adjustments[1] €'000 | Consolidated €'000 |
| **Revenue** | | | | | | |
| Third party | 37,845 | 32,592 | 161,075 | 10,580 | – | 242,092 |
| Inter-segment | – | – | – | 22,972 | (22,972) | – |
| **Total revenue** | 37,845 | 32,592 | 161,075 | 33,552 | (22,972) | 242,092 |
| **Segment EBITDA** | 12,317 | (454) | 59,538 | 14,199 | – | 85,600 |
| Depreciation, amortisation and impairment | | | | | | (28,079) |
| Financial expenses | | | | | | (28,854) |
| Financial income | | | | | | 3,323 |
| Interest expenses guaranteed to apart-hotel unit holders | | | | | | (11,180) |
| Other income, net | | | | | | 49,210 |
| Share in loss of associate | | | | | | (2,430) |
| Profit before tax | | | | | | 67,590 |

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

**Note 28 Related parties**

a. Balances with related parties:

| | As at 31 December 2013 €'000 | As at 31 December 2012 €'000 |
|---|---|---|
| Loan to associate – WH/DMREF Bora B.V.[1] | **32,241** | 29,906 |
| Loans to jointly controlled entities[2] | **6,697** | 6,670 |
| Loan to Red Sea Hotels Limited[3] | **9.991** | – |
| Short-term receivables | **196** | 89 |
| Loans from jointly controlled entities[2] | **6,762** | 6,737 |
| Trade receivables – the Arenaturist group[1] | **3,538** | 3,755 |

b. Transactions with related parties:

| | As at 31 December 2013 €'000 | As at 31 December 2012 €'000 |
|---|---|---|
| Management fees income – the Arenaturist group[1] | **1,797** | 1,718 |
| Reimbursement of expenses – the Arenaturist group[1] | **376** | 357 |
| Sales and marketing fees – the Arenaturist group[1] | **722** | 693 |
| Development management fees – the Arenaturist group[1] | **–** | 547 |
| Interest charges Gear Construction Management Limited (see Note 28(b)) | **–** | 814 |
| Construction management charges– Gear Construction Management Limited (see a below) | **804** | 664 |
| Interest from associate – WH/DMREF Bora B.V.[1] | **2,723** | 2,494 |
| Interest income from jointly controlled entities | **–** | 119 |

1 The Group holds 20% of the equity in WH/DMREF Bora B.V. (see Note 8).
2 Includes loans bearing fixed interest of LIBOR+3% per annum.
3 For details see note 3(b).

**Significant other transactions with related parties**

a. Park Plaza Hotels (UK) Services Limited, a wholly owned subsidiary of the Company, entered into a framework agreement with GC Project Management Limited ("GC") for the provision of project management services by GC to the Group for a fixed monthly fee until September 2014. GC is also entitled to reimbursement of properly incurred expenses in connection with the provision of the services.

b. In January 2012, Marlbray repaid the remaining outstanding balance with GC for the construction of the Park Plaza Westminster Bridge London, including an interest charge for late payment of £659,000.

c. Transactions in the ordinary course of business, in connection with the use of hotel facilities (such as overnight room stays and food and beverage) are being charged at market prices. These transactions occur occasionally.

d. Compensation to key management personnel (Executive and Non-Executive Board members) for the year ended 31 December 2013:

| | Base salary and fees €'000 | Bonus | Pension contributions €'000 | Other benefits €'000 | Total €'000 |
|---|---|---|---|---|---|
| Chairman and Executive Board | 811 | 267 | 161 | 134 | 1,373 |
| Non-Executive Board | 168 | – | – | – | 168 |
| | 979 | 267 | 161 | 134 | 1,541 |

Directors' interests in employee share incentive plan

As at 31 December 2013, the Executive Board members hold share options to purchase 305,000 Ordinary shares. 95,000 options are fully exercisable with an exercise price of £1.00 (€1.23), these will expire in 2017. 210,000 options are exercisable in three equal tranches in 2013, 2014 and 2015 with an exercise price of £2.33 (€2.87); these will expire in 2022. No share options have been granted to Non-Executive members of the Board. The total costs in 2013 relating to options granted to key management staff amounts to £33,000.

**Note 28 Related parties** continued

e. Compensation to key management personnel (Executive and Non-Executive Board members) for the year ended 31 December 2012:

| | Base salary and fees €'000 | Bonus | Pension contributions €'000 | Other benefits €'000 | Total €'000 |
|---|---|---|---|---|---|
| Chairman and Executive Board | 818 | – | 164 | 137 | 1,119 |
| Non-Executive Board | 165 | – | – | – | 165 |
| | 983 | – | 164 | 137 | 1,284 |

Director's interests in employee share incentive plan

As at 31 December 2012, the Executive Board members hold share options to purchase 305,000 Ordinary shares. 95,000 Options are fully exercisable with an exercise price of £1.00 (€1.23), these will expire in 2017. 210,000 options are exercisable in three equal tranches in 2013, 2014 and 2015 with an exercise price of £2.33 (€2.87); these will expire in 2022. No share options have been granted to Non-Executive members of the Board. The total costs in 2012 relating to options granted to key management staff amounts to £3,000.

**Note 29 Jointly controlled entities**

The Group has an interest in a jointly controlled entity (Appendix B) which is engaged in the development of a hotel. For further information regarding the terms of loans with jointly controlled entities see Note 28. The share of the assets, liabilities income and expenses of the jointly controlled entities, which are included in the Consolidated financial statements, are as follows:

| | As at 31 December | |
|---|---|---|
| | **2013 €'000** | 2012 €'000 |
| Non-current assets | **15,147** | 15,324 |
| Current assets | **196** | 141 |
| | **15,343** | 15,465 |
| Non-current liabilities | **13,459** | 13,404 |
| Current liabilities | **6** | 41 |
| | **13,465** | 13,445 |
| | **1,878** | 2,020 |

The Group has an interest in a jointly controlled entity (as per Appendix B), which is engaged in the development of a hotel.

| | As at 31 December | |
|---|---|---|
| | **2013 €'000** | 2012 €'000 |
| Revenues | **247** | 162 |
| Operating expenses | **(20)** | (30) |
| **EBITDAR** | **227** | 132 |
| Rental expenses | **–** | – |
| **EBITDA** | **227** | 132 |
| Depreciation and amortisation | **–** | – |
| **EBIT** | **227** | 132 |
| Financial expenses, net | **(325)** | (380) |
| (Loss) profit before income taxes | **(98)** | (248) |
| Income tax benefit (expense) | **–** | – |
| (Loss) profit for the year | **(98)** | (248) |

**Note 30 Financial risk management objectives and policies**

The Group's principal financial instruments, other than derivatives, comprise bank borrowings, cash and cash equivalents, restricted deposits and investment in shares and bonds. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally interest rate swap contracts. The purpose is to manage the interest rate risk arising from the Group's operations and its sources of finance. It is, and has been throughout the years under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, credit risk and liquidity risk. The Board of Directors reviews and agrees on policies for managing each of these risks which are summarised below. The Group's accounting policies in relation to derivatives are set out in Note 2.

**a. Foreign currency risk:**

The Group is exposed to minimal foreign currency risk, due to transactions in foreign currency, as most of the transactions of each of the entities in the Group are denominated in the functional currency of the relevant entity, except for the outstanding consideration in Thai Baht relating to the disposal of the site in Pattaya Bay Thailand. After careful consideration the Group decided not to hedge this currency risk. A decrease in the Thai Baht against the Euro of 5%, results in the Group recording an exchange loss of approximately €0.6 million.

**b. Interest rate risk:**

The Group's exposure to the risk for changes in market interest rates relates primarily to the Group's long-term debt obligations with a floating interest rate.

The Group has five variable interest rate loans that are not hedged with interest rate swaps. Based on this sensitivity analysis calculation, the Management expects that with an increase/decrease of the three-month market (LIBOR) interest rate by 50bps the results of the Group would be changed by €0.4 million.

The Group's policy is to manage its interest cost using fixed rate debt. To manage its interest costs, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed upon notional principal amount. Furthermore, the Group uses fixed interest rate debts. For this reason the Group's cash flow is not sensitive to possible changes in market interest rates. Possible changes in interest rates do, however, affect the Group's equity or results as the fair value of the swap agreements changes with interest rate changes. These swaps are designated to hedge underlying debt obligations.

The fair value of the swaps of the Group as at 31 December 2013 amounts to a liability of €20.3 million (2012: liability of €34.8 million). The movements in the value have been accounted for in equity and profit or loss respectively. The Group performed a sensitivity analysis for the effect of market interest rate changes on the fair value of the swaps which was calculated by an external valuator. Based on this sensitivity analysis calculation, the Management expects that with an increase/decrease of the three-month market interest rate by 50bps, the fair value of the swaps, and the hedge reserve in equity would increase/decrease by €8.7 million (2012: €5.3 million) and the results would not be materially impacted by this.

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

Restricted deposits that were received from unit holders (see Note 16(b)) were held in bank accounts in the United Kingdom bearing interest at an average annual rate of 0.9% (2012: 0.8%). If the interest rate increase/decrease is an average of 50bps, the profit of the Group would not change materially.

**c. Credit risk:**

The Group trades only with recognised, creditworthy third parties. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history. The Company's policies ensure that sales to customers are settled through advance payments, in cash or by major credit cards (individual customers). Since the Group trades only with recognised third parties, there is no requirement for collateral for debts with third parties. Furthermore, the Group has no dependency on any of its customers. The receivable balances are monitored on an ongoing basis. Management monitors the collection of receivables through credit meetings and weekly reports on individual balances of receivables. Impairment of trade receivables is recorded when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The maximum credit exposure equals the carrying amount of the trade receivables and other receivables since the amount of all trade and other receivables has been written down to their recoverable amount. The result of these actions is that the Group's exposure to bad debts is not significant.

**Note 30 Financial risk management objectives and policies** continued

c. **Credit risk** continued

With respect to credit risk arising from other financial assets of the Group, which comprise cash and cash equivalents and investment in securities, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Group has limited concentration risk in respect of its cash at banks.

d. **Market risk:**

As at 31 December 2013, the Group has an available-for-sale investment in securities, in the amount of €1.5 million (2012: €1.3 million). The securities are presented at their quoted market price and changes in market price are recorded in equity. If the market prices of the securities increase/decrease by an average of 5%, the equity of the Group would increase/decrease by €75,000 (2012: €65,000).

e. **Liquidity risk:**

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

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2013 and 2012 based on contractual undiscounted payments.

| | As at 31 December 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 3 months €'000 | 3 to 12 months €'000 | 1 to 2 years €'000 | 3 to 5 years €'000 | > 5 years €'000 | Total €'000 |
| Interest bearing loans and borrowings[1] | 9,368 | 42,624 | 41,512 | 539,681 | 35,288 | 668,473 |
| Deposits received from unit holders | – | – | – | – | 8,864 | 8,864 |
| Derivative financial instruments | 956 | 2,867 | 3,823 | 11,470 | 1,200 | 20,316 |
| Loans to jointly controlled entities and partners in jointly controlled entities | – | – | – | – | 6,697 | 6,697 |
| Loans from jointly controlled entities and partners in jointly controlled entities | – | – | – | – | (5,890) | (5,890) |
| Loans from third parties | 4,180 | – | – | 3,815 | – | 7,995 |
| Lease liability[2] | 359 | 1,076 | 1,435 | 4,305 | 182,972 | 190,147 |
| Trade payables | 12,189 | – | – | – | – | 12,189 |
| Other liabilities | 14,643 | 13,920 | – | – | 12,492 | 41,055 |
| | 41,695 | 60,487 | 46,770 | 559,271 | 241,623 | 949,846 |

| | As at 31 December 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 3 months €'000 | 3 to 12 months €'000 | 1 to 2 years €'000 | 3 to 5 years €'000 | > 5 years €'000 | Total €'000 |
| Interest bearing loans and borrowings[1] | 9,553 | 54,594 | 61,956 | 338,784 | 146,469 | 611,356 |
| Deposits received from unit holders | – | – | – | – | 9,360 | 9,360 |
| Derivative financial instruments | 2,289 | 6,866 | 8,038 | 9,029 | 8,651 | 34,873 |
| Loans to jointly controlled entities and partners in jointly controlled entities | – | – | – | – | (6,670) | (6,670) |
| Loans from jointly controlled entities and partners in jointly controlled entities | – | – | – | – | 6,735 | 6,735 |
| Loans from third parties | 164 | 9,851 | – | 3,815 | – | 13,830 |
| Lease liability[2] | 371 | 1,113 | 1,483 | 4,451 | 188,877 | 196,295 |
| Trade payables | 10,931 | – | – | – | – | 10,931 |
| Other liabilities | 15,003 | 14,345 | – | 9,100 | 12,865 | 51,313 |
| | 38,311 | 86,769 | 71,477 | 365,179 | 366,287 | 928,023 |

[1] See Note 17 for further information.

[2] Lease liability includes three leases with upward rent reviews based on future market rates in one lease and changes in the CPI in the other lease and, thus, future payments have been estimated using current market rentals and current United Kingdom based CPIs, respectively.

**Note 30 Financial risk management objectives and policies** continued

**e. Liquidity risk**

The Group has the following undrawn borrowing facilities

| | 2013 €'000 | 2012 €'000 |
|---|---|---|
| Floating rate: | | |
| Expiring within one year | 10,000 | – |
| Expiring beyond a year | 60,000 | – |
| | 70,000 | – |

**f. Capital management:**

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. The Group monitors capital using a gearing ratio, which is net bank debt divided by total capital plus net bank debt. The Group's policy is to keep the gearing ratio between 60% and 70%. The Group includes within net bank debt, interest bearing bank loans and borrowings, less cash and cash equivalents and other liquid assets. Capital includes equity less the hedging reserve.

| | 2013 €'000 | 2012 €'000 |
|---|---|---|
| Interest bearing bank loans and borrowings | 526,166 | 506,877 |
| Less – cash and cash equivalents | (41,657) | (44,903) |
| Less – other liquid assets | (1,538) | (1,339) |
| Net debt | 482,971 | 460,635 |
| Equity | 290,565 | 259,897 |
| Hedging reserve | 12,642 | 22,626 |
| Total capital | 303,207 | 282,523 |
| Capital and net debt | 786,178 | 743,158 |
| Gearing ratio | 61.4% | 62.0% |

**g. Fair value of financial instruments:**

The fair values of the financial assets and liabilities are included in the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

Cash and cash equivalents, trade receivables, trade payables, and other current assets and liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

Long-term fixed-rate and variable-rate receivables/borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, and individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken to account for the expected losses of these receivables.

The fair value of unquoted instruments, loans from banks and other financial liabilities, obligations under finance leases as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

Fair value of available-for-sale financial assets is derived from quoted market prices in active markets. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1. The Group enters into derivative financial instruments with financial institutions with investment grade credit ratings. Derivatives are valued using valuation techniques, for swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, and interest rate curves.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques, based on a discounted cash flow. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

**Note 30 Financial risk management objectives and policies** continued

**g. Fair value of financial instruments** continued

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique based on the lowest level input that is significant to the fair value so determined:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 31 December 2013, the Group held the following financial instruments measured at fair value:

Assets

| | 31 December 2013 €'000 | Level 1 €'000 | Level 2 €'000 | Level 3 €'000 |
|---|---|---|---|---|
| Available-for-sale financial assets: | | | | |
| Equity shares | **1,538** | 1,538 | – | – |

Liabilities

| | 31 December 2013 €'000 | Level 1 €'000 | Level 2 €'000 | Level 3 €'000 |
|---|---|---|---|---|
| Financial liabilities: | | | | |
| Deferred consideration business combinations | **2,943** | – | 2,943 | – |
| Interest rate swaps used for hedging | **20,318** | – | 20,318 | – |

During 2013, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

As at 31 December 2012, the Group held the following financial instruments measured at fair value:

Assets

| | 31 December 2012 €'000 | Level 1 €'000 | Level 2 €'000 | Level 3 €'000 |
|---|---|---|---|---|
| Available-for-sale financial assets: | | | | |
| Equity shares | **1,339** | 1,339 | – | – |

Liabilities

| | 31 December 2012 €'000 | Level 1 €'000 | Level 2 €'000 | Level 3 €'000 |
|---|---|---|---|---|
| Financial liabilities: | | | | |
| Deferred consideration business combinations | **3,815** | – | 3,815 | – |
| Interest rate swaps used for hedging | **34,872** | – | 34,872 | – |

During the year as at 31 December 2012, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

**Note 30 Financial risk management objectives and policies** continued

**g. Fair value of financial instruments** continued

Liabilities

The following table specifies the Company's estimation of the fair value of its financial assets:

| | Carrying amount 31 December | | Fair value 31 December | |
|---|---|---|---|---|
| | **2013 €'000** | 2012 €'000 | **2013 €'000** | 2012 €'000 |
| Financial assets | | | | |
| Other non-current financial assets[1] | **51,085** | 38,101 | **53,486** | 39,820 |
| Restricted deposits[1] | **13,352** | 15,940 | **13,352** | 15,940 |
| Other current financial assets[1] | **1,538** | 1,339 | **1,538** | 1,339 |
| Trade receivables[2] | **15,794** | 19,753 | **15,794** | 19,753 |
| Other receivables[2] | **678** | 780 | **678** | 780 |
| Cash and cash equivalents[1] | **41,657** | 44,903 | **41,657** | 44,903 |
| Total assets | **124,104** | 120,816 | **126,505** | 122,535 |

| | Carrying amount 31 December | | Fair value 31 December | |
|---|---|---|---|---|
| | **2013 €'000** | 2012 €'000 | **2013 €'000** | 2012 €'000 |
| **Financial liabilities** | | | | |
| Floating rate borrowings[1] | **526,166** | 400,598 | **526,166** | 400,598 |
| Fixed rate borrowings[1] | **–** | 106,279 | **–** | 118,085 |
| Derivative financial instruments[1] | **20,318** | 34,873 | **20,318** | 34,873 |
| Other financial liabilities[1] | **9,739** | 11,278 | **9,739** | 11,484 |
| Lease liability[1] | **19,653** | 20,068 | **19,653** | 20,068 |
| Trade payables[2] | **12,189** | 10,931 | **12,189** | 10,931 |
| Deposits received from unit holders[2] | **8,864** | 9,360 | **8,864** | 9,360 |
| Other payables and accruals[2] | **4,458** | 18,711 | **4,458** | 18,711 |
| Total | **601,387** | 612,098 | **601,387** | 624,110 |

1 Based on Level 2 inputs.
2 Based on Level 3 inputs.

**h. Derivative financial instruments:**

The majority of the Group's borrowings are at variable interest rates based on LIBOR or EURIBOR. To limit its exposure to changes in the rates of the LIBOR and EURIBOR on its cash flows and interest expense, the Group has entered into various interest rate swaps, as described below:

1. On 3 December 2013, the Group entered into two interest rate swaps with Aareal with a nominal value of £136.5 million (€163.8 million) and €121.7 million with fixed quarterly interest payments at a rate of 2.77% and 1.70% per annum respectively.

   As at 31 December 2013, the fair value of the swaps is estimated at a liability of €10.0 million.

   The Company meets the relevant criteria in IAS 39 to apply hedge accounting and the fair value changes of swaps in the hedge relationship that are determined to be effective are recorded in the other comprehensive income. All fair value movements that are determined to be ineffective are recorded in the income statement immediately. The amount recorded in the other comprehensive income amounts to €1.7 million. The total amount of ineffectiveness recorded in the income statement amounts to €0.3 million.

**Note 30 Financial risk management objectives and policies** continued

**h. Derivative financial instruments** continued

2. In 2004, Laguna Estates (Leeds) Limited ("Laguna") and Katmandu Limited ("Katmandu") entered into an interest rate swap according to which they swapped the variable interest rate as follows:

   Laguna swapped the variable interest rate of three month LIBOR on a loan of £15.0 million (€18.0 million) received from the Royal Bank of Scotland plc, bearing fixed quarterly interest payments, at the rate of 5.13% for the period until January 2019. As at 31 December 2013, the fair value of the swap is estimated at a liability of £2.2 million (€2.6 million). Katmandu swapped the variable interest rate of three-month LIBOR on a loan of £6.0 million (€7.2 million) received from the Royal Bank of Scotland plc, bearing fixed quarterly interest payments, at the rate of 5.54% for the period until 31 May 2027. As at December 2013, the fair value of the swap is estimated at a liability of £1.5 million (€1.8 million).

   Laguna and Katmandu meet the relevant criteria in IAS 39 to apply hedge accounting and the fair value changes of swaps in the hedge relationship that are determined to be effective are recorded in the other comprehensive income. All fair value movements that are determined to be ineffective are recorded in the income statement immediately.

   The amount recorded in the other comprehensive income amounts to €2.1 million. The total amount of ineffectiveness recorded in the profit and loss account amounts to €0.5 million.

3. In 2013, ABM Holding B.V. (ABM) and ABK Holding B.V. (ABK) entered into interest rate swap transactions pursuant to which ABM and ABK swapped the variable interest rate of three-month LIBOR on a loan from Deutsche Hypothekenbank. The swap nominal amounts are €12.5 million, which is amortising over the term of the loan. The swap bears a fixed rate of 1.9%, for a period until April 2023. As at 31 December 2013, the fair value of the swaps is estimated at a liability of €0.1 million. All fair value movements were assessed effective and the change in fair value is recorded in other comprehensive income.

4. In 2011, Marlbray entered into several interest rate swap transactions pursuant to which Marlbray swapped the variable interest rate of three month LIBOR on a loan from Bank Hapoalim B.M. The swap nominal amounts are £111.0 million, with amortising nominal amounts. The swap bears a fixed quarterly interest payment, at a rate of 2.64%–3.18% per annum, for the period until June 2018. As at 31 December 2013, the fair value of the swap is estimated at a liability of £4.9 million (€5.8 million). All fair value movements were assessed effective and the change in fair value is recorded in the other comprehensive income. The amount recorded in other comprehensive income amounts to £6.2 million (€6.6 million).

**Note 31 Subsequent events**

1. On 29 January 2014, the Company announced that the €24.0 million refinancing with Aareal Bank AG of the recently opened art'otel amsterdam which the Company owns and operates was successfully completed (art'otel Refinance Tranche). The art'otel amsterdam was previously financed by a development facility provided by Bank Hapoalim that was due to mature in the first quarter of 2014. The parties agreed not to hedge the exposure to changes in the interest of the art'otel Refinance Tranche.

2. On 13 January 2014, the Group entered into a 50:50 joint venture in relation to art'otel berlin mitte and art'otel berlin kudamm (the "Hotels") with the Nakash group and its wholly owned entities ("Nakash").

   The Group sold to Nakash 50% of the shares in the companies which own the freeholds and the operating businesses of the Hotels and assigned 50% of the shareholder loans made by the Group to those companies for an aggregate consideration of €3,180,425. This was satisfied by the discharge in full of the loan of that amount that had been advanced by one of Nakash's affiliates in order to facilitate completion of the acquisition of the Hotels in July 2013. The Company and Nakash will also contribute €1,000,000 each for the renovation of the Hotels.

   Under the joint venture, Nakash has agreed to indemnify the Company against 50% of any liability it may incur under its guarantee to Deutsche Hypothekenbank.

3. The Directors are proposing a final dividend of 8.0 pence per share (2012: 6.0 pence per share), which will absorb £3.3 million of equity.

# APPENDICES TO CONSOLIDATED FINANCIAL STATEMENTS

## Appendix A: Subsidiaries included in the Group

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

**Appendix A: Subsidiaries included in the Group** continued

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

Appendix B: Jointly controlled entities and associates

| Name of company | Principal activity | Country of incorporation | Proportion of ownership interest % |
|---|---|---|---|
| WH/DMREF Bora B.V.[2, 3] | Holding company | The Netherlands | 20 |
| W2005/Twenty Eight B.V.[2, 3] | Holding company | The Netherlands | 20 |
| Bora Finco B.V.[2, 3] | Holding company | The Netherlands | 20 |
| Aspirations Limited[2] | Holding company | British Virgin Islands | 50 |

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

# INDEPENDENT AUDITOR'S REPORT

To the members of PPHE Hotel Group Limited

We have audited the consolidated financial statements of PPHE Hotel Group Limited for the year ended 31 December 2013 which comprise the Consolidated Statement of Financial Position, the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related Notes 1 to 31. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of Directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 69, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

**Andrew Dann**
For and on behalf of Ernst & Young LLP
Guernsey, Channel Islands

28 April 2014

The maintenance and integrity of the PPHE Hotel Group Limited web site is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# GLOSSARY

## A

**Arenaturist:** One of Croatia's best known hospitality groups and consists of seven hotels, five holiday apartment complexes, eight campsites and 52 food and beverage outlets, all of which are located in Istria. PPHE Hotel Group has a minority ownership interest in the Arenaturist group. www.arenaturist.com

**ARR:** Average Room Rate. Total room revenue divided by number of rooms sold.

**art'otel®:** A contemporary collection of hotels that fuse exceptional architectural style with art inspired interiors, located in cosmopolitan centres across Europe. PPHE Hotel Group is owner of the art'otel® brand worldwide. See also 'registered mark'. www.artotels.com

**artotels.com:** Brand website for art'otel®.

## B

**Board members:** Eli Papouchado (Non-Executive Chairman of the Board), Boris Ivesha (President and Chief Executive Officer), Chen Moravsky (Chief Financial Officer), Kevin McAuliffe (Non-Executive Director and Senior Independent Director), Elisha Flax (Non-Executive Director), Nigel Jones (Non-Executive Director).

## C

**Carlson℠:** A global, privately-owned, hospitality and travel company with its head office based in Minneapolis, Minnesota, USA. www.carlson.com

**Carlson Hotels:** The hotel business unit within Carlson℠. Hotel brands owned by Carlson℠ are Radisson®, Country Inns & Suites By Carlson℠, Park Inn® and Park Plaza® Hotels & Resorts. Other business units are Carlson Restaurants and Carlson Wagonlit Travel.

**Carlson Rezidor Hotel Group:** Created in early 2012, Carlson Rezidor Hotel Group is one of the world's largest hotel groups. The portfolio of the Carlson Rezidor Hotel Group includes more than 1,300 hotels, located across 80 countries, operating under global hotel brands (Radisson Blu, Radisson®, Country Inns & Suites By Carlson℠, Park Inn by Radisson, Hotel Missoni and Park Plaza®). Carlson℠ is the majority shareholder of the Rezidor Hotel Group.

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

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

**Club Carlson℠ for Business:** A hotel rewards programme specifically designed for small and medium-sized businesses. www.clubcarlson.com/business

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

**Connect!:** A training programme that is designed to further develop the PPHE Hotel Group staff and the organisation to consistently exceed guest expectations, improve employee performance and create unique service solutions. The programme challenges the traditional service model and investigates the benefits of 'reverse thinking' where the desired guest experience is considered before behaviour.

**CSR:** Corporate Social Responsibility. PPHE Hotel Group's Corporate Social Responsibility policy is a genuine, active and responsible commitment to our environment and society.

## D

**Distribution:** Encompasses all the electronic channels of distribution, which includes GDS, brand web sites and third party intermediaries. These distribution channels can be accessed through the Internet, an intranet or through an interfaced connection.

## E

**Earnings (loss) per share:** Basic earnings (loss) per share amounts are calculated by dividing the net profit (loss) for the year by the weighted average number of Ordinary shares outstanding during the year. Diluted earnings (loss) per share amounts are calculated by dividing the net profit (loss) for the year by the weighted average number of Ordinary shares outstanding during the year plus the weighted average number of Ordinary shares that would be issued on the conversion of all the dilutive potential Ordinary shares into Ordinary shares.

**EBITDA:** Earnings Before Interest, Tax, Depreciation and Amortisation.

**EBITDA margin:** EBITDA divided by total revenue.

**EBITDAR:** Earnings Before Interest, Tax, Depreciation, Amortisation, Impairment Loss and Rental Expenses, share of associate and exceptional items presented as other income and tax (EBITDAR) correspond to revenue less cost of revenues (operating expenses). EBITDAR, together with EBITDA is used as a key management indicator.

**e-commerce:** The entire online process of developing, marketing, selling, delivering, servicing and paying for products and services.

## F

**Franchise:** A form of business organisation in which a company which already has a successful product or service (the franchisor) enters into a continuing contractual relationship with other businesses (franchisees) operating under the franchisor's trade name and usually with the franchisor's guidance, in exchange for a fee.

## G

**GDS:** Global Distribution System. Sabre, Galileo, Amadeus, Worldspan offer a comprehensive travel shopping and reservation platform to travel agents worldwide. Agents use one of these platforms to book flights, car rental, hotels and other travel arrangements for their customers.

**Gold Points®:** The name of the currency earned through the Club Carlson℠ rewards programme.

**GSI:** Guest Satisfaction Index.

## H – L

**Like-for-like:** Results achieved through operations that are comparable with the operations of the previous year. Current years' reported results are adjusted to have an equivalent comparison with previous years' results in the same period, with similar seasonality and the same set of hotels.

**Look To Book℠:** The travel agent rewards programme of Park Plaza® Hotels & Resorts and art'otel®. The programme is owned by Carlson℠. www.looktobook.com

**LPI:** Loyalty Performance Index.

**LSE:** London Stock Exchange. PPHE Hotel shares are traded on the standard listing segment of the Official List of the UK Listing Authority.

## M–N

**Market share:** The amount of total sales of an item or group of products by a company in a particular market. It is often shown as a percentage, and is a good indicator of performance compared to competitors in the same market sector.

**Medallia:** Guest feedback management and analysis system.

## O

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

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

## P

**parkplaza.com:** Brand web site for Park Plaza® Hotels & Resorts.

**Park Plaza® hotel:** One hotel from the Park Plaza® Hotels & Resorts brand.

**Park Plaza® Hotels & Resorts:** Upscale hotel brand. PPHE Hotel Group is master franchisee of the Park Plaza® Hotels & Resorts brand owned by Carlson Hotels. PPHE Hotel Group has the exclusive right to develop the brand across Europe, the Middle East and Africa. www.parkplaza.com

**PPHE Hotel Group:** PPHE Hotel Group Limited is also referred to as PPHE Hotel Group.

**PPHE Hotel Group Context:** PPHE Hotel Group aims to differentiate itself from its competitors by offering a different experience to guests. This model has been designed to support this and includes the desired guest experience, PPHE Hotel Group behaviour, working climate and leadership.

**PPHE Hotel Group Limited:** An international hotel group that owns, leases, develops, manages and franchises primarily full-service contemporary lifestyle hotels primarily in Europe. The majority of the Group's hotels operate under the Park Plaza® Hotels & Resorts brand (part of Carlson℠), over which the Group has exclusive rights in 56 countries in Europe, the Middle East and Africa, or art'otel®, a brand which the group fully owns. www.pphe.com

**Plaza on the River™:** The luxury all-suite hotel part of PPHE Hotel Group. The hotel is adjacent to the Park Plaza Riverbank London. Plaza on the River™ is a five-star product. www.plazaontheriver.co.uk

**PPI:** Product Performance Index.

## Q – R

**RevPAR:** Revenue Per Available Room. Total rooms revenue divided by net available rooms or ARR x occupancy %.

## S

**Social media:** The use of web-based and mobile technologies such as Facebook, Foursquare and Twitter to turn communication into interactive dialogue. www.parkplaza.com/socialmedia www.artotels.com/socialmedia

**SPI:** Service Performance Index.

## T

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

**Travel agency:** An individual booking agency that makes travel arrangements for guests.

## U – Z

**you:niverse:** PPHE Hotel Group's Intranet.

**you:niversity:** The core Learning & Development offering for employees of PPHE Hotel Group.

# CURRENT AND COMMITTED PROJECTS

| Project | Location | Operating structure | No. of rooms | Status |
|---|---|---|---|---|
| Park Plaza Belvedere Medulin* | Medulin, Croatia | Co-owned and management contract | 428 | Expected to open 2014 |
| Park Plaza Nuremberg | Nuremberg, Germany | Owned and management contract | 177 | Expected to open 2015 |
| Park Plaza Riverbank London extension and reconfiguration | London, United Kingdom | Owned and management contract | 98 | Expected to open 2015 |
| Park Royal London project | London, United Kingdom | Owned and management contract | 158 | Expected to open 2015 |
| Waterloo Station London project | London, United Kingdom | Owned and management contract | 438 | Expected to open 2016 |
| art'otel london hoxton | London, United Kingdom | Joint venture and management contract | 352 | Expected to open 2017 |

* Following extensive renovations, Hotel Belvedere (which is part of the Arenaturist group) will be rebranded to Park Plaza Belvedere Medulin, and this is therefore not a new hotel for the Group.

# CONTACTS

## Directors

| | |
|---|---|
| Eli Papouchado | (Non-Executive Chairman) |
| Boris Ivesha | (President and Chief Executive Officer) |
| Chen Moravsky | (Chief Financial Officer) |
| Elisha Flax | (Non-Executive Director) |
| Kevin McAuliffe | (Senior Independent Director) |
| Nigel Jones | (Non-Executive Director) |

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## Contacts

| | |
|---|---|
| Chen Moravsky | (Chief Financial Officer and Board Member) |
| Inbar Zilberman | (General Counsel) |
| Robert Henke | (Vice President Marketing & Branding) |

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FinnCap Corporate Finance
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## Financial Public Relations

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United Kingdom

## Useful links

Corporate website:
pphe.com

For reservations:
parkplaza.com
artotels.com
arenaturist.com
arenacamps.com

Strategic partner:
carlson.com
carlsonrezidor.com

**Forward-looking statements**

This annual report and financial statements may contain certain "forward-looking statements" which reflect the Company's and/or the Directors' current views with respect to financial performance, business strategy and future plans, both with respect to the Group and the sectors and industries in which the Group operates. Statements which include the words ''expects'', ''intends'', ''plans'', ''believes'', ''projects'', ''anticipates'', ''will'', ''targets'', ''aims'', ''may'', ''would'', ''could'', ''continue'' and similar statements are of a future or forward-looking nature. All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause the Group's actual results to differ materially from those indicated in these statements. Any forward-looking statements in this annual report and financial statements reflect the Group's current views with respect to future events and are subject to risks, uncertainties and assumptions relating to the Group's operations, results of operations and growth strategy.

These forward-looking statements speak only as of the date of this annual report and financial statements. Subject to any legal or regulatory obligations, the Company undertakes no obligation publicly to update or review any forward-looking statement, whether as a result of new information, future developments or otherwise. All subsequent written and oral forward-looking statements attributable to the Group or individuals acting on behalf of the Group are expressly qualified in their entirety by this paragraph. Nothing in this publication should be considered as a profit forecast.

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