pphe
HOTEL GROUP

creating future value

Annual Report 2012

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Welcome to our 2012 Annual Report. A year in which we excelled and broke many records, a year in which we took yet another leap forward. We invite you to read about our achievements and how we created – and are creating – future value for our stakeholders.

Key strengths

— **Integrated and entrepreneurial approach**
hotel development, design, construction, ownership and operation

— **Profitable niche**
expanding 'affordable luxury' with upscale hotels in major gateway cities and regional centres

— **Global partnership**
powerful distribution network through the Carlson partnership

— **Pipeline**
significant portfolio and brand growth potential through organic and external expansion

— **Financial track record**
driving top line growth and delivering industry leading profit margins

— **Management team**
highly experienced, streamlined and closely involved senior management team

— **Flexible partnership solutions**
aligned with stakeholders to tailor the right arrangement for each hotel or hotel project

2012 highlights

Total revenue	EBITDAR	EBITDA
€242.1m	€96.8m	€85.6m
+19.6%	+29.0%	+31.6%

Occupancy	Average room rate	RevPAR*
77.4%	€130.9	€101.3
-0.3%	+9.8%	+9.4%

* Room revenue per available room.

EBITDA margin**	Profit before tax	Earnings per share
35.4%	€67.6m	€1.64
+322bps	€24.0m[1]	€0.59[2]

** EBITDA divided by total revenue.

[1] Normalised profit.

[2] Normalised EPS.

2012 highlights:

- Total Group revenue increased by 19.6% to €242.1 million (2011: €202.4 million)
- EBITDAR increased by 29.0% to €96.8 million (2011: €75.0 million)
- EBITDA increased by 31.6% to €85.6 million (2011: €65.0 million)
- Impressive performance of the London hotels, which strongly benefited from the Olympic Games
- Acquired joint venture interests in three hotels and one development in the Netherlands
- Acquisition and simultaneous sale and leaseback of a development site in West London
- Three Arenaturist hotels in Croatia fully refurbished and reopened as Park Plaza resorts
- Completed extensive refurbishments at art'otel berlin city center west, Park Plaza Amsterdam Airport, Park Plaza Victoria Amsterdam, Park Plaza Leeds and art'otel budapest
- Paid a final dividend of 6.0 pence per share for 2011 and a 2012 interim dividend of 6.0 pence per share

2013 highlights to date:

- Conditional sale of a development site in Pattaya Bay, Thailand
- Conditional agreement to acquire a prime site near Waterloo Station in London, UK
- Recommendation from the Board to the Annual General Meeting to declare the payment of a final dividend of 6.0 pence per share for the year ended 31 December 2012

overview

Let us inspire you with some of the accomplishments we celebrated in 2012

art'otel berlin city center west


THE IDEA OF WAITING
FOR SOMETHING MAKES
IT MORE EXCITING.
ANDY WARHOL

A summer like no other

2012 was a special year for London, with a summer like no other, as the city played host to the Queen's Diamond Jubilee celebrations and the highly anticipated Olympic Games and Paralympic Games.

Throughout the summer months, London truly boosted its already strong profile of being one of the most attractive, diverse and culturally rich destinations and an excellent choice for tourism and business.

PPHE Hotel Group worked closely with The London Organising Committee of the Olympic Games and Paralympic Games to ensure visitors, sponsors and officials of these events could enjoy affordable hospitality.


Park Plaza County Hall London
Park Plaza Westminster Bridge London

Three new Park Plaza branded resorts in Croatia

Following extensive renovations, three of Arenaturist's hotels re-opened as the first Park Plaza® branded resorts in May and June, in time for the summer season. Located in Pula and Medulin, in the Istria region, these contemporary hotels cater primarily for families and holidaymakers.

Occupying a stunning seaside location, Park Plaza Histria Pula is a true flagship resort providing all the amenities expected of a full-service, upscale resort including a large spa and wellness centre. The adjacent Park Plaza Verudela Pula is especially suited for families due to its range of apartment-style accommodation and Park Plaza Medulin has created its own niche and caters to couples only. The resorts performed above expectations, generated very positive guest reviews and are market leaders in these destinations.

Park Plaza Verudela Pula

Guest satisfaction at an all time high

It is paramount in our industry to consistently deliver high levels of service, maintain the quality of hotel products and provide reasons for customers to return.

To ensure we consistently deliver in all of these areas, we invest heavily in our hotels, employee training, loyalty programmes and much more. One of the key measurements for us to see if we are constantly delivering excellent customer service is guest satisfaction. In 2012, guest satisfaction across our hotels was at an all time high of 8.30*, with the overall service rated highest at 8.48*, a direct result of our extensive training platform and service culture, which was further strengthened in the year with the introduction of the Inspirational Service training programme.

* Measured through our online guest satisfaction system; scale 1-10.

Park Plaza Victoria Amsterdam

Chairman's statement

Once again a strong performance, reporting record EBITDA

Dear shareholders,

I am delighted to report that 2012 has been another year of significant progress for the Company. Once again we reported strong financial results, generating record revenue and EBITDA. Our focus over the year has been on the efficient operation of our existing hotels which has been reflected in EBITDA margin growth. In addition, we have continued to advance future developments which, coupled with our leading position in key gateway cities, means that we are well positioned to build on our excellent progress to date.

The macroeconomic environment in the period remained very challenging, with business and consumer sentiment continuing to be impacted by the Eurozone crisis. Against this backdrop, I am very proud that we were able to achieve record results driven by the strong performance of our London hotels, improved margins and our increased ownership of three hotels and the art'otel amsterdam project in the Netherlands.

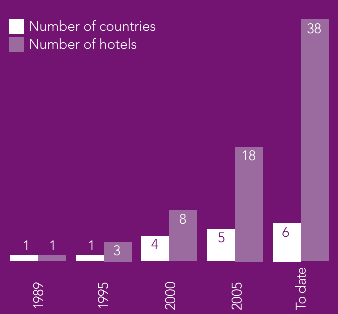
"I am convinced that we have the right strategy and team in place"

We continued to leverage our relationship with the Carlson Rezidor Hotel Group ('Carlson'), which provides us with significant scale in our distribution, sales and marketing activities.

Once again our performance has been recognised by our industry and I am very pleased that we won a number of impressive awards. These awards reflect the hard work and dedication of our staff, and the investment which the Company makes in their training and development. We have also focused more on sustainability, and most notably have revised our Corporate Social Responsibility policy and set clear targets to further reduce our business' impact on the environment.

We have remained focused on driving revenue through expansion of our hotel portfolio and during the year we have continued to make good progress. We are particularly excited about the planned opening of our first art'otel in The Netherlands, art'otel amsterdam. Construction is almost complete and we are on track to open in the second half of 2013. Once open, we will have significantly improved our footprint, adding a further 107 rooms in this key destination.

History of growth



Additional key future developments include the 158 room hotel development in West London which, when complete, will be an important strategic addition to our London portfolio. Progress continued on our first art'otel in London and our new hotel development in Nuremberg, Germany.

We announced in November 2012 that we were considering a number of options of how best to fund future expansion through investment in our existing hotel portfolio and to capitalise on new development opportunities as they arise. One option that the Company is considering is the release of part of the value of its hotel assets whilst retaining operational control. We remain committed to our growth strategy and the Board will communicate further updates as appropriate.

The team has worked extremely hard again this year and the Board would like to sincerely thank everyone for their continued dedication to the Group. Customer service is at the heart of everything we do and I am delighted that once again our people have enabled us to achieve excellent levels of guest satisfaction. Similarly, employee satisfaction remained at a high level. We thank everyone for their commitment to the continued development and growth of the business.

The Board is pleased to recommend to the Annual General Meeting the payment of a final dividend of 6.0 pence per share for the year ended 31 December 2012. Together with the interim dividend of 6.0 pence per share paid on 3 October 2012, the total dividend for the year will be 12.0 pence (2011: 6.0 pence).

2012 was a great year for the Group and as we enter 2013, I am convinced that we have the right strategy and team in place to continue our excellent progress. Our focus remains on offering our customers affordable luxury with a strong emphasis on service. We have a number of exciting projects in the pipeline and are well placed to achieve another year of growth.

Papouchado

Eli Papouchado
Chairman

PPHE Hotel Group at a glance

Understanding our business

pphe HOTEL GROUP

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

Licence agreement

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

ARENA TURIST

Arenaturist is one of Croatia's best known hospitality groups consisting of eight 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 and all properties are located 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 Medulin.

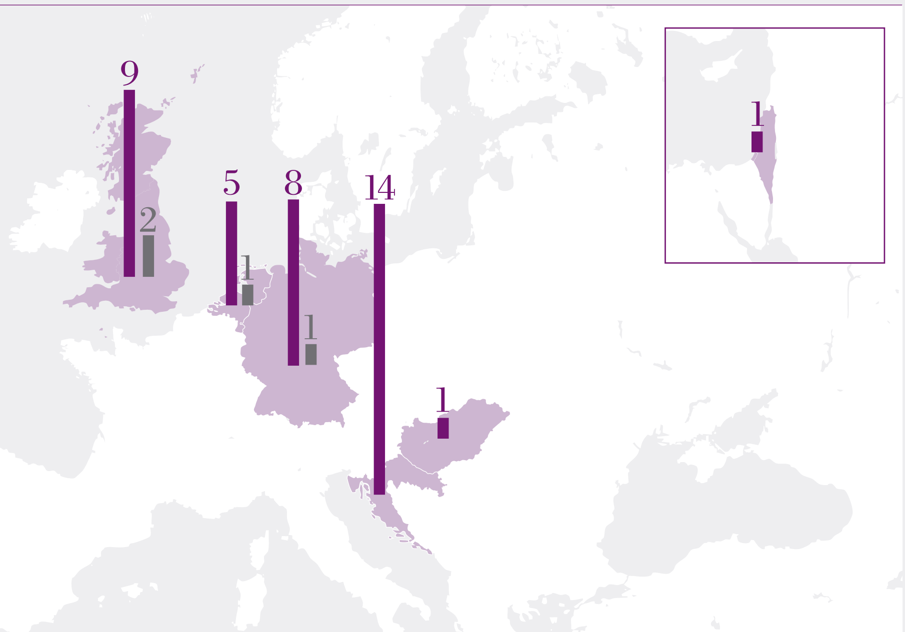
arenaturist.com

Significant minority interest

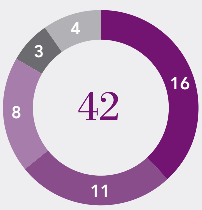
Our portfolio

Our portfolio of owned, leased, managed and franchised hotels comprises 38 hotels, offering a total of over 8,200 guest rooms, with an additional four projects under development. Our key markets are the United Kingdom, Germany, The Netherlands and Croatia.

- Hotels in operation
- Hotels in development

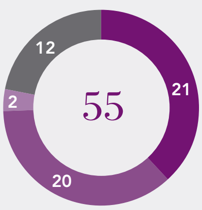


PPHE Hotel Group contract mix



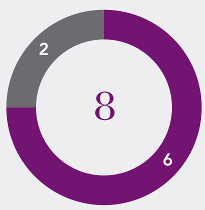
- Operated without, or with minority, ownership interest
- Wholly owned
- Operating leases
- Franchise agreements
- Projects (all ownership of 50% or more)

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]

art'otel® portfolio



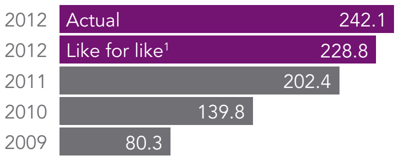
- art'otels® open
- art'otels® under development

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

Key performance indicators
2009-2012

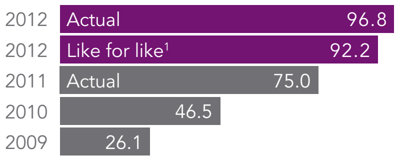
Financial KPIs

Total revenue (in € million)



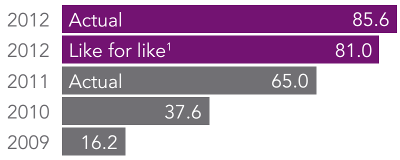
2012 performance
Our total revenue increased by 19.6% to a record €242.1 million, as we benefited from a strong performance of our hotels in London, improved margins and increased hotel ownership in The Netherlands. On a like for like basis[1], total revenue increased by 13.0% to €228.8 million, showing a strong underlying performance.

EBITDAR (in € million)



2012 performance
Our reported EBITDAR for the year increased by 29.0% to €96.8 million.

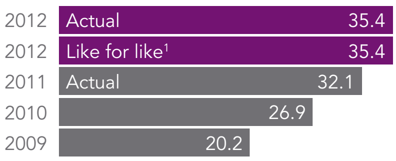
EBITDA (in € million)



2012 performance
Reported EBITDA increased by 31.6% to €85.6 million, reflecting a strong performance of our London hotels, improved margins, full ownership in three hotels in The Netherlands and a positive foreign exchange translation impact.

On a like for like basis[1], EBITDA increased by 24.5% to €81.0 million.

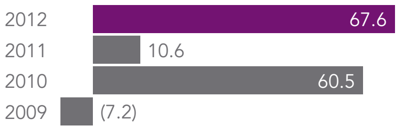
EBITDA margin (in %)



2012 performance
The improvement in EBITDA, and our continued focus on closely managing our cost base and driving operational efficiencies, resulted in a 322bps increase in EBITDA margin to 35.4%.

On a like for like basis[1], our EBITDA margin increased to 35.4%.

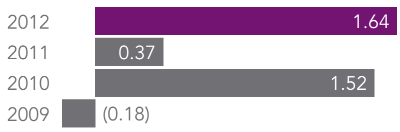
Profit before tax (in € million)



2012 performance
Profit before tax increased to €67.6m (2011: €10.6m). This increase relates mainly to an improved performance of our London hotels in particular, our Management and Holdings operations and increased ownership in three hotels in The Netherlands.

Normalised profit[2] before tax increased by 76.7% to €24.0m (2011: €13.6m).

Earnings per share (in €)



2012 performance
Reported basic/diluted earnings per share for the period increased by 349.2% to €1.64 (2011: €0.37).

Normalised earnings per share was €0.59 (2011: €0.33), representing a 81.5% increase.

[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 2012 has been calculated on the basis of the ownership interest of PPHE Hotel Group in those hotels during the same period in 2011.

[2] The adjustments to normalise reported profit are disclosed on page 35.

Operating KPIs

Occupancy (in %)

2012 performance

During the period occupancy across the Group was broadly maintained at 77.4%, which was achieved alongside our continued focus on growing average room rates.

Average room rate (in €)

2012 performance

In line with our strategy to grow average room rate and increase market share, we are pleased to report significant growth in average room rate to €130.9, an increase of 9.8%.

RevPAR (in €)

2012 performance

Improved revenue generation has been achieved with RevPAR increasing 9.4% to €101.3, driven by a combination of maintained occupancy and growth in average room rate during the period.

Employee satisfaction (scale 1-100%)

2012 performance

Notwithstanding the challenging market conditions in which some of our teams operated, employee satisfaction has remained at a solid 82.1%.

We see the high participation ratio of 92% as a testimony of how engaged our employees are and we take their feedback very seriously.

Guest satisfaction (scale 1-10)

2012 performance

Guest satisfaction was at an all time high of 8.30, which was primarily driven by the strong ratings received for guest service, a result of our Inspirational Service training programme launched in the year.

Service performance (scale 1-10)

2012 performance

Our service performance rating provided by our guests was at an all time high too, at 8.48. This performance was impacted by our increased training activities.

Percentage change figures in this report are calculated from actual figures as opposed to the rounded figures. All financial information in this section for Total revenue, EBITDAR and EBITDA, reflects PPHE Hotel Group's interest.

strategic review

Read more about how our strategic efforts have contributed to the overall result

Park Plaza Westminster Bridge London

Chief Executive Officer's statement

We have made good progress on all of our objectives

"We are always looking at ways to enhance our service quality and improve our operational performance"

Welcome

2012 was a busy year for our Company. Our hotels continued to make good progress during the year and we progressed with our development pipeline projects. Like all businesses we are not immune to the effects of the Eurozone crisis; however our leading position in key gateway cities, our strong commercial focus and our rigorous approach to cost management mean that we remained well positioned.

The markets in which we operate had differing performances during the year. The United Kingdom achieved year-on-year RevPAR growth, with London in particular performing well, benefiting from the Olympic Games. The Dutch hotel market was impacted by the macroeconomic environment; however, with the exception of one of our hotels which was undergoing refurbishment, we achieved RevPAR ahead of our competitive sets. The German market delivered a solid performance with Berlin in particular reporting good growth in RevPAR. Croatia is continuing to grow in popularity as a holiday destination and with our position in the Istria tourist market we are very well positioned to benefit from this trend.

Last year, I outlined the Company's focus of continuing to improve our overall performance, growing our average room rates, managing our expenses, progressing our development projects and adding new projects to the pipeline. I am very pleased to report that we have made good progress on all of these objectives which has resulted in us achieving record results. I am particularly proud that as a result of our emphasis on service excellence, we have once again achieved high levels of guest and employee satisfaction.

Overall performance

Our strong financial results were primarily driven by three factors: a strong performance of our hotels in London, which were aided by the London Olympic Games, improved margins, and our increased hotel ownership in The Netherlands.

A large proportion of our revenue is generated by our London hotels which performed very well throughout the year. This result was further aided by key events in London, particularly the Olympic Games in August, during which our hotels experienced a significant uplift in RevPAR. Our flagship hotel, Park Plaza Westminster Bridge London continued to be our stand-out hotel throughout the year delivering a significant increase in RevPAR year-on-year.

In March 2012, we acquired full ownership of our three established hotels in The Netherlands – Park Plaza Amsterdam Airport, Park Plaza Victoria Amsterdam, Park Plaza Utrecht – and the art'otel amsterdam project from our former joint venture partner. This transaction doubled the revenue and profit contributions from the three established hotels during the period. On a like for like basis, our Dutch hotels delivered a solid performance against a challenging trading environment.

The German and Hungarian region, which has historically been the most challenging region in which we operate, delivered an improved performance. This, along with tight cost control, resulted in a significant reduction of the EBITDA loss for this region, which positively contributed to the Group's cash flow.

In line with our strategy, our team's key focus was on growing our average room rate, whilst tightly managing our cost base. In addition, we made progress towards delivering our hotel development pipeline which will add further value to the Group in the near future.

Our development approach

We are committed to sustain growth. A key priority for the Group is to drive revenues by enhancing our established hotels through investment in renovation and extension projects, expanding our presence in existing markets and maintaining an active development pipeline. In addition we look to capitalise on new hotel opportunities in new markets.

Our future development plans will continue to capitalise on our expertise in construction, development, design and operations. We own or part-own the majority of our hotels but we also work with well-chosen partners for capital investment projects, joint ventures, management contracts, operating leases and franchise agreements. This approach allows us to review and assess individual development opportunities as they arise.

Renovation projects and new development pipeline

During the period we completed extensive renovations at Park Plaza Leeds in the United Kingdom, Park Plaza Amsterdam Airport and Park Plaza Victoria Amsterdam in The Netherlands, art'otel berlin city center west in Germany and art'otel budapest in Hungary. We believe our investment in these hotels will improve the long-term operational performance by enhancing our customers' experience and our reputation for providing high quality affordable luxury.

Following extensive renovations at three Arenaturist hotels in Croatia, these hotels were rebranded as Park Plaza and opened in early summer 2012. This project has added over 800 rooms to the Park Plaza® Hotels & Resorts brand.

Looking to the future we are excited about the imminent opening of our new art'otel amsterdam, which will offer guests a unique lifestyle and art experience. This 107 room hotel is located in an iconic landmark building in the centre of Amsterdam, opposite Central Station. We continue to make progress on two new development projects in London; art'otel london hoxton and a two-acre site in West London. In addition, our fourth Park Plaza hotel in Germany is on track to open in Nuremberg in 2014. These development projects will significantly expand our presence in key gateway cities and will add a further 800 rooms to our portfolio by the end of 2015.

On 8 January 2013, we announced the conditional sale of our site at Pattaya Bay in Thailand and completion is expected in the first half of 2013. Having had the opportunity, however, to review the Thai market since acquiring the site in August 2011, the Board decided to sell its interest in the project and re-invest in other locations. The Board believes that Thailand offers exciting opportunities and under the terms of the disposal has the option to manage the completed development and/or acquire the serviced apartment element of the project.

Industry recognition

We are delighted that the industry has continued to recognise our hard work and dedication through industry accolades. During 2012 a number of our hotels were awarded the 'Tripadvisor Certificate of Excellence' and two of our team members were recognised in the Golden Key MVP Awards, winning 'Concierge of the Year Award' and the 'Service through Friendship Award'.

This recognition has continued into the new year with PPHE Hotel Group being awarded by the Sunday Times Best Companies to Work for "Ones to Watch" standard for 2013 and our flagship hotel, Park Plaza Westminster Bridge London, was voted third out of over 900 hotels in the 'Best City Centre Hotels' by Laterooms.com's 'Simply the Guest Awards'.

Our strategic relationship

We have a unique relationship with Carlson, one of the industry's leading hotel operators. We have continued to leverage this strategic relationship, which gives us the benefits of scale through access to a state-of-the-art reservation system enabling us to market our products globally, sophisticated sales tools, loyalty marketing programmes, promotional activity and global sales initiatives. These platforms and programmes provide us with incremental revenue for our hotels and generate significant exposure for the brands we operate.

Carlson opened several new Park Plaza hotels during the year including new hotels in Bangkok and Delhi. The continued expansion of Park Plaza will benefit the Group through greater customer recognition and improved cross-marketing and sales opportunities.

We participate in Carlson's guest, corporate client and meeting planners' loyalty reward programme, Club Carlson SM. This scheme provides substantial benefits for its members with guest members earning gold points for each stay which can then be redeemed for rewards and hotels benefit from more frequent and longer visits by member guests. The loyalty scheme has grown significantly in the last year boasting nearly 10 million members worldwide (2011: circa 8 million members).

Marketing activity

We actively look for opportunities to improve our overall performance through innovative revenue generation and marketing initiatives.

Increasing online booking activity across multi-platforms and growth in social media has continued apace and, in partnership with Carlson, we have further invested in expanding our online footprint. On the back of the growth of smartphones and tablet devices we have seen a strong increase in booking via these devices and in the summer we launched an art'otel mobile website.

We have benefited from the growth in social media with Park Plaza's social media fan base now well over 100,000 members, which is larger than most of our competitors.

Our marketing activities included distributing nearly ten million targeted marketing emails to guests and subscribers. We achieved a record performance from marketing campaigns in the summer and winter periods, which drove a record level of visitors to our websites and increased room nights booked, generating direct revenue to the Group.

Following the Company name change to PPHE Hotel Group Limited in early 2012, we launched a new corporate website www.pphe.com, strengthening our standing as an international, multi-brand hotel operator and owner.

Revenue management

We have introduced a new, centralised revenue management structure to further drive our corporate revenue strategy and ensure revenue opportunities at all hotels are capitalised on. We have restructured the sales team with a clearer split between account management and new business development managers, with a view to improving efficiency and further implementing a target based approach. In addition we have introduced a highly sophisticated revenue management system, IDEAS which will enable us to identify revenue generation opportunities based on historic performances, market trends and anticipated demand levels.

Guest experience

Our guests' experience is at the heart of everything we do and we are always looking at ways to enhance our service quality and improve our operational performance. As a result, we closely monitor guest and employee satisfaction as this is a key indicator for continued success.

We invite all our guests to complete a guest satisfaction survey online following their stay at our hotels. Guests rate the overall satisfaction of their stay and areas such as service levels provided and product quality. The hotels collectively generated nearly 70,000 completed surveys and recorded record levels with guest satisfaction at 8.30 (on a scale of 1-10) and service satisfaction of 8.48. We were able to achieve this impressive result thanks to the hard work and dedication of all our team members. In the year we have launched an Inspirational Service training programme which has also contributed to this improved service delivery.

Despite the pressure in some of the markets in which we operate, we have been able to continue to motivate our teams and maintained our high levels of employee satisfaction at 82.1%, with a continued high participation rate of 92%. This strong result is underpinned by our investment in employee career development. During the year, we developed our 'Feeling Welcome' induction programme to welcome all new team members and ensure they understand, live and breathe the PPHE Hotel Group culture and provide consistency of service to our guests.

We also fully launched you:niverse, our bespoke and highly intuitive intranet and e-leaning portal across the Group. You:niverse has improved internal communications across the Group and provides a collaborative environment for all our team members.

Current trading

Our performance in January and February of 2013 has not changed significantly compared to previous years. The first quarter of the year is generally our weakest and with the continued uncertainty in the macroeconomic environment, we remain on our guard and continue to focus on revenue generation whilst tightly managing our costs.

Boris Ivesha
President and Chief Executive Officer

Our business model

We intend to use our established portfolio, paired with our entrepreneurial spirit, to grow the number of hotels

PPHE Hotel Group's primary objective is to create and realise shareholder value by becoming 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 partnership as the contributor to further grow revenues.

Our business types

Full ownership

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.

Joint ventures

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.

Management contracts

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.

Operating leases

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.

Franchise agreements

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 company 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.

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 developments.

Our strategy and performance
Measuring our success

Strategic objectives	Performance	Indicator	Looking forward
Improving our EBITDA margin	Improved margin as a result of strong revenue generation, paired with cost-effective management. Efficiency in payroll, sales and marketing expenditure, commissions and administration.	35.4%[1] EBITDA margin increased by 322bps year-on-year to 35.4% [1] EBITDA divided by total revenue.	Growing our EBITDA margin by further improving our operational performance, retaining our cost-effective management approach, further developing our financial structure and asset management initiatives.
Enhancing our service quality through improving our operational performance	Record levels of guest satisfaction, driven by a strong service performance. Launched Inspirational Service training programme. Full launch of you:niverse intranet improving communications and fostering best practice. Active management of balanced scorecard system.	8.30[2] Overall guest satisfaction score, a record 8.48[2] Service performance score, another record [2] Based on Online Satisfaction Surveys; scale 1-10.	Further grow guest and employee satisfaction and loyalty through managing and acting on guest and employee feedback, delivering a tailored service culture and training programme and launching the you:niversity business school.
Driving revenue growth and expanding our hotel portfolio through a variety of business models	Extensive renovations completed in all operating regions. Progression of development projects. Gearing up for opening of art'otel amsterdam, a new direction for the art'otel brand.	8 Major renovation projects completed, including the opening of three new resorts	Successfully delivering renovation and construction projects, advancing projects in our development pipeline and capitalising on new hotel opportunities.
Outperforming our competitors and improving our overall performance through innovative revenue generation and marketing initiatives	Sales and revenue re-organisation and a new commercial approach. Cross-channel marketing campaigns. Introduction of IDEAS revenue management system. Wide variety of e-commerce activities.	9.4% RevPAR[3] growth year-on-year to €101.3 [3] Revenue per available room.	Generating more business through our own channels, expanding our online footprint, engaging with our customers online, increasing conversion rates and developing new strategic alliances.
Leveraging our partnership with Carlson to further grow revenues	Loyalty programme member activation and engagement focus. Launch of Club Carlson[SM] programme extension for small, medium enterprises. Rich marketing campaigns.	10 million Club Carlson members	Actively embracing all marketing, sales and distribution programmes and opportunities available to us through the Carlson partnership, driving more business direct and increasing customer loyalty and engagement.
Managing and mitigating our impact on the environment and positively contributing to the local communities in which we operate	Executive Management ownership. Cross-departmental, international Corporate Social Responsibility (CSR) team. Development of second CSR policy. Awards won. Baselines defined and targets set.	-20% CO_2 reduction target Various awards won	Introducing the next generation of our CSR policy, measuring our performance with key indicators, introducing a new energy saving scheme, further educating our stakeholders and embedding CSR in our brands.

Strategic objective

Improving our EBITDA margin

Our EBITDA margin, key to measuring profitability, increased 322bps to a record 35.4%.

Strategy

Growing our EBITDA margin by further improving our operational performance, retaining our cost-effective management approach, further developing our financial structure and asset management initiatives.

2012 performance

Our 2012 reported EBITDA margin, an important instrument to measure profitability, was 35.4%, representing an increase on 2011 of 322bps. This improvement was driven by a combination of factors. Not only were we able to significantly grow our revenues, we also focused on operating our business as efficiently as possible, without losing focus on delivering great customer experiences and maintaining the high quality of our products.

Our margins were further improved due to efficient management of areas such as payroll, marketing expenditure, third party commissions and administration expenses. We also incurred fewer expenses in our sales organisation due to a restructuring of our teams. Collectively, the increase in revenues and active cost management has helped us to improve our EBITDA margin.

Our strategy for 2013 will be two-pronged. We will continue to focus on revenue generation, whilst looking for ways to operate more efficiently, enabling us to further grow the profitability of our operations.

art'otel berlin mitte

35.4%
EBITDA margin

322bps
increase from 2011

Effective cost management

Strategic objective

Enhancing our service quality through improving our operational performance

The introduction of the Group-wide Inspirational Service training programme has contributed to record guest satisfaction.

Strategy

Further grow guest and employee satisfaction and loyalty through managing and acting on guest and employee feedback, delivering a tailored service culture and training programme and launching the you:niversity business school.

2012 performance

The cornerstone of any hospitality company is to consistently deliver a high level of service to all guests. Satisfied guests are more likely to return, are usually less price sensitive and they will share their experience with friends and family direct and on their social media pages.

In 2008, when we first introduced the Connect! training programme, we ensured that the guest experience is at the heart of everything we do. We created a context model for the Group, whereby the desired guest experience was the starting point leading to desired employee behaviours, the required working climate and culture for our team members to deliver and finally, the role of senior management. This model was created to ensure our guests always feel welcome when they stay with us, sense our passion for delivering exceptional hospitality and are pleasantly surprised by their overall experience.

Despite the global economic crisis and continued uncertainty in certain markets, we have continued to invest in learning and development initiatives. 2012 was no exception: as a follow up of the Connect! training programme, we introduced the Group-wide Inspirational Service training programme. This programme aims to further improve our service delivery.

Our collective training activities have helped us to significantly increase our service performance score to a record 8.48*, contributing to an improved overall guest satisfaction score of 8.30*, another record. Our guests have rated our hotel products, and in particularly our service, higher than ever before. This is a great result and we are very proud of our teams' achievement.

Highly motivated and engaged teams are instrumental in continuing to deliver such good performances. Employee satisfaction has been high too this year, at 82.1%. With a participation ratio of 92.0%, we have a clearly committed workforce. Their views are taken seriously, and we have further improved communications and created a culture of sharing best practice, supported by the full launch of our you:niverse intranet which has been fully embraced by the organisation.

* Based on Online Satisfaction Surveys; scale 1-10.

art'otel dresden

2,500
team members

82.1%
employee satisfaction score

8.30
overall guest satisfaction score (scale 1-10)

Strategic objective

Driving revenue growth and expanding our hotel portfolio through a variety of business models

In 2012 we delivered a great number of renovation projects across all the regions in which we operate, we acquired various hotel interests and significantly advanced the exciting projects in our development pipeline.

Strategy

Successfully delivering renovation and construction projects, advancing projects in our development pipeline and capitalising on new hotel opportunities.

2012 performance

Our hotel operating track record is strong and we generally outperform our competitors. To ensure we stay ahead of the competition it is important to continuously deliver excellent service, but we must also continue to invest in our hotels. 2012 was no exception and we delivered a great number of renovation projects, across all the regions in which we operate.

We completed the extension of art'otel berlin city center west, the hotel with Andy Warhol as its signature artist, and in addition to the introduction of 61 new contemporary rooms, we added two meeting rooms, a leisure facility and we opened a brand new bar and lounge. At art'otel budapest we renovated 75 rooms and created a new restaurant, further strengthening the hotel's already strong position.

At Park Plaza Leeds we completed the renovation of all rooms and the hotel's performance improved immediately as a result. The hotel with the greatest makeover during the year was Park Plaza Amsterdam Airport. Following extensive planning, the hotel's entire ground floor was remodelled and several new facilities were introduced including a new restaurant, bar, board room, executive lounge and spa and wellness facility. At its sister hotel, Park Plaza Victoria Amsterdam, we renovated the meeting rooms.

In partnership with Arenaturist, the Croatian hospitality company which we operate and part own, three resorts were renovated and rebranded to Park Plaza in time for the 2012 summer season.

In the first half of 2012, we acquired the joint venture interests from a long term partner in three hotels and one hotel development in The Netherlands, giving us full control over these hotels.

Future development projects were advanced in the year, with construction on schedule for art'otel amsterdam opening in 2013. The acquisition of the two-acre site adjacent to the A40 motorway in West London was completed in the year and simultaneously sold and leased back. Planning to construct a 158-room hotel was granted in the year and preparations for this project are now well under way. We also advanced the construction and design preparations for Park Plaza Nuremberg in Germany and art'otel london hoxton in the United Kingdom.

In January 2013, we entered into a conditional agreement to sell our shares in the Pattaya Bay development in Thailand, whilst retaining the option to manage the completed development.

art'otel cologne

8
major renovation projects completed in 2012, including the opening of the first three Park Plaza branded resorts

2013
opening of art'otel amsterdam

4
exciting new developments

Strategic objective

Outperforming our competitors and improving our overall performance through innovative revenue generation and marketing initiatives

Our new commercial approach, with a clear and distinct strategy for sales, revenue and marketing, has led to a significantly improved revenue performance.

Strategy

Generating more business through our own channels, expanding our online footprint, engaging with our customers online, increasing conversion rates and developing new strategic alliances.

2012 performance

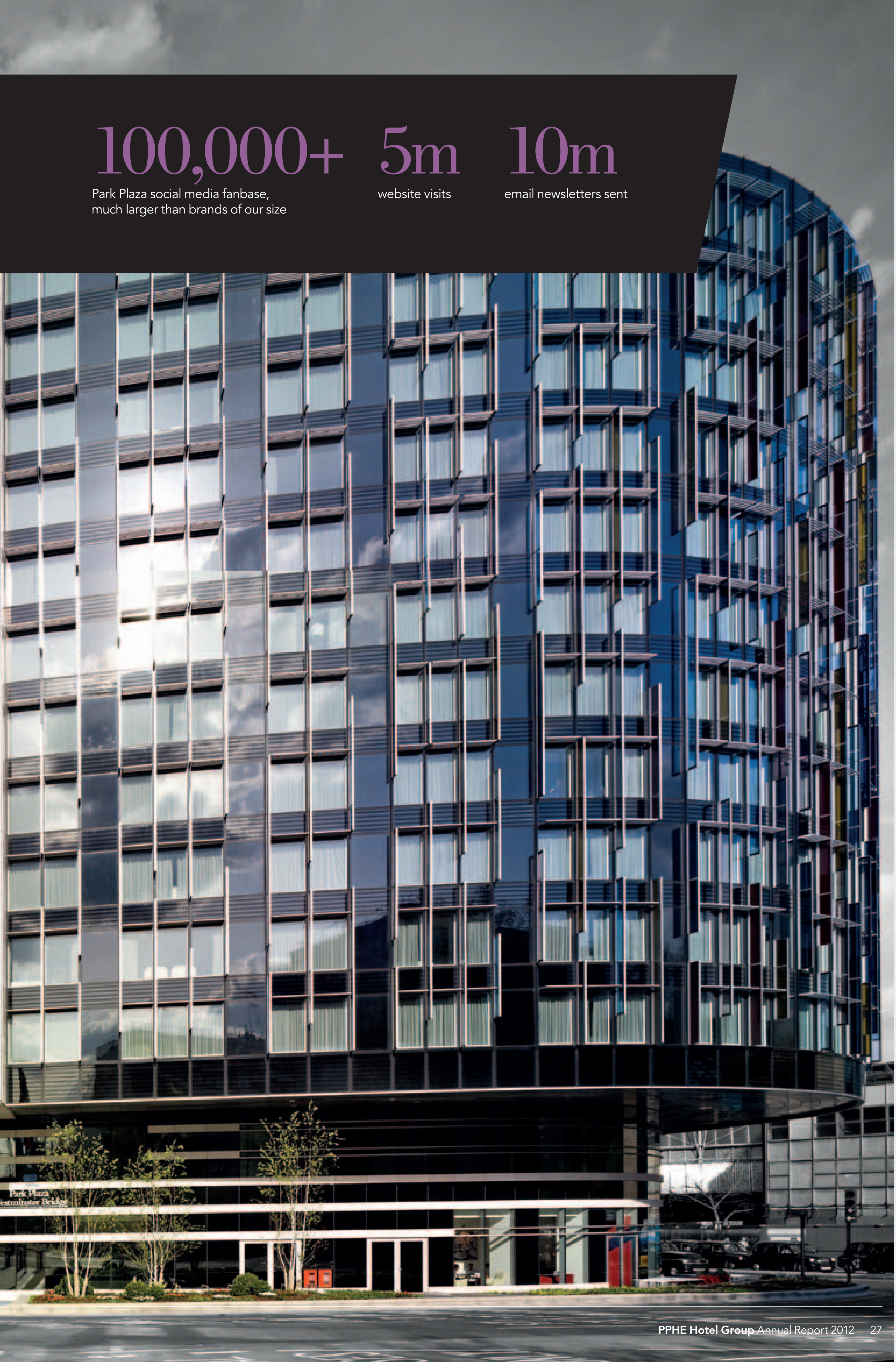
During the year we introduced a new sales structure, whereby we created a more defined split between the areas of key account management and new business development, each with its own dedicated teams. The revenue organisation was restructured too, whereby corporate level revenue management functions were introduced and new regional structures implemented. These changes enable us to have a consistent approach to revenue management across all regions, based on a corporate strategy, whilst being attuned to the local markets. As a result, the commercial function is now stronger than ever before, with a strong collaboration between sales, revenue and marketing, ensuring we capitalise on all revenue opportunities.

Following extensive research and trialling several systems, we have selected IDEAS as our preferred revenue management system and we are in the process of implementing this sophisticated tool across a large number of hotels.

Our hotels benefited significantly in the year from a number of rich, cross-channel marketing campaigns, delivering incremental revenue in periods where the hotels needed an additional push and generating significant exposure for the brands.

Our e-commerce activities have been taken to the next level and, following last year's launch of a mobile website for Park Plaza, a new mobile website for art'otel was introduced in the summer. Visits to our websites increased significantly year-on-year to approximately five million. Our social media strategy has led to a significant increase of our social media fanbase and, at the end of 2012, our 100,000+ fanbase was substantially bigger than that of other hotel brands our size. Across several metrics, we have seen impressive growth and we have truly been able to expand our online footprint by increasing our online advertising activities, building our affiliate networks and most significantly, further optimising email marketing.

Park Plaza Westminster Bridge London



100,000+
Park Plaza social media fanbase, much larger than brands of our size

5m
website visits

10m
email newsletters sent

Strategic objective

Leveraging our partnership with Carlson to further grow revenues

Our global relationship with Carlson has gone from strength to strength and we have benefited from this intensified relationship and new initiatives.

Strategy

Actively embracing all marketing, sales and distribution programmes and opportunities available to us through the Carlson partnership, driving more business direct and increasing customer loyalty and engagement.

2012 performance

In 2012, Carlson and the Rezidor Hotel Group, joined forces to leverage their significant synergies. Carlson is the largest shareholder in the Rezidor Hotel Group and we have enjoyed good working relationships with both companies for several years. The formation of this new entity has helped us to better align our activities and together we have a truly global approach when it comes to commercial areas such as sales, e-commerce, distribution and loyalty marketing. Through this strategic relationship, we are able to sell our hotel rooms in all relevant distribution channels around the world, we enjoy procurement and strategic partner benefits and participate in loyalty programmes for guests, travel agents, meeting planners and corporate companies. The global sales team assists us in generating sales leads for our hotels and the e-commerce team helps us to further develop our online position and marketing.

In 2012, the Club Carlson[SM] loyalty programme continued to grow in importance for us. Total membership at year end was nearly 10 million, providing us with excellent database marketing opportunities.

As a result of a larger database, we have welcomed back more programme members than in previous years and they have been spending more of their loyalty points with us on hotel stays, food and beverage and other services. Activity levels, and the Park Plaza brand's profile, were further boosted by the largest and richest brand campaign, The Ultimate Night Giveaway, which generated several thousand room nights for our hotels.

Our collaboration with the global sales team has improved significantly which has led to increased sales leads presented to our hotels. Significant steps were also made in e-commerce, leading to increased traffic to the websites and reservations made online.

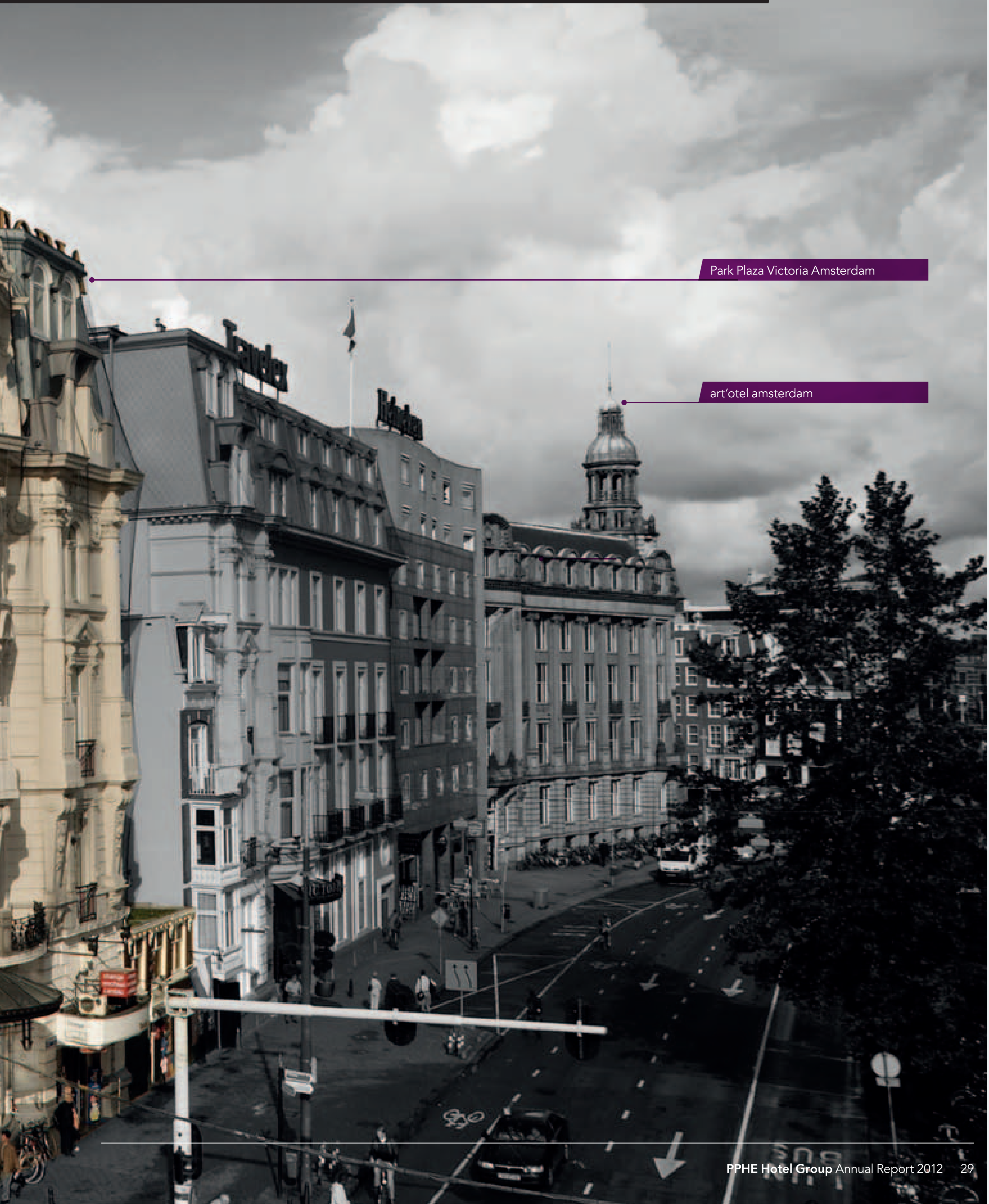
Park Plaza Victoria Amsterdam

Largest Park Plaza Brand campaign to date

Record level of Club Carlson^{SM} member award stays

10m

Club Carlson^{SM} members worldwide



Strategic objective

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

In 2012, we have been able to reduce our waste and reduce our water and energy consumption, contributing to a reduction in CO_2 emissions for our Group.

Strategy

Introducing the next generation of our Corporate Social Responsibility policy, measuring our performance with key indicators, introducing a new energy saving scheme, further educating our stakeholders and embedding CSR in our brands.

2012 performance

In 2012, we have made significant progress in our strategic approach to CSR. On an Executive Management level, progress has been carefully monitored and to ensure we continue to drive change across the entire organisation, cross-departmental and cross-regional teams have been established, each with clearly defined tasks and responsibilities. Locally, our teams have been actively involved in their communities and have initiated and/or embraced many charitable events throughout the year. Most significantly, as a collective we have been able to significantly reduce our waste and our consumption of natural resources. Based on these activities and achievements, several of our hotels have seen their accreditation status improve, with other hotels having been rated for the first time this year.

Our CSR policy has now been fully updated with a view to creating a more pragmatic and measurable framework ready to be implemented across all hotels. As we have been collecting more data in recent years, we have now defined a clear baseline and have set ambitious targets, with a goal set of further reducing our 2011 carbon dioxide emissions by 20% before the end of 2017.

Park Plaza Histria Pula

20%

our aim is to reduce our 2011 carbon dioxide emissions by 20% before the end of 2017

business review

Our financial performance in 2012

art'otel berlin city center west

Chief Financial Officer's statement

Another record year, with good growth and improved margins

"Reported EBITDA increased by 31.6% to €85.6 million"

* In the like for like comparison figures, the financial contribution of Park Plaza Amsterdam Airport, Park Plaza Victoria Amsterdam and Park Plaza Utrecht has been calculated on the basis of the ownership interest of PPHE Hotel Group in those hotels during the same period in 2011.

2012 has been another record year, with the Group delivering significant revenue and EBITDA growth. These results were primarily achieved through a strong operational performance of our London hotels, which benefited from the London Olympic Games, and our increased ownership within our Dutch hotel portfolio whilst continuing to focus on cost management and operational efficiencies.

Occupancy

During the period occupancy across the Group was broadly maintained at 77.4% (2011: 77.7%), which was achieved alongside our continued focus on growing average room rates.

Average room rate

In line with our strategy to grow average room rate and increase market share, we are pleased to report significant growth in average room rate to €130.9 (2011: €119.2), an increase of 9.8%.

RevPAR

Improved revenue generation has been achieved with RevPAR increasing 9.4% to €101.3 (2011: €92.6), driven by a combination of maintained occupancy and growth in average room rate during the period.

Room revenue

Reported room revenue increased by 19.6% to €166.2 million (2011: €139.0 million) during the period. On a like-for-like basis*, room revenue grew by 12.9% to €156.9 million.

Total revenue

During the period, reported total revenue for the Group grew by 19.6% to €242.1 million (2011: €202.4 million). This growth was primarily driven by our increased hotel ownership in The Netherlands and a strong operational performance of our London hotels and for the UK region the strengths of the Sterling against the Euro. On a like-for-like basis*, total revenue increased by 13.0% to €228.8 million, showing a strong underlying performance.

Before inter-company elimination, total revenue for the Management and Holdings Operations increased by 17.6% to €33.6 million (2011: €28.5 million). This growth is mainly a result of improved trading at our hotels in London and Arenaturist in Croatia, and a performance related incentive fee for one of our managed hotels.

EBITDA

Reported EBITDA increased by 31.6% to €85.6 million (2011: €65.0 million), reflecting a strong performance of our London hotels, improved margins, full ownership in three hotels in The Netherlands and a foreign exchange translation impact.

The improvement in EBITDA, and our continued focus on closely managing our cost base and driving operational efficiencies, resulted in a 322bps increase in EBITDA margin to 35.4% (2011: 32.1%).

On a like for like basis*, EBITDA increased by 24.5% to €81.0 million and our EBITDA margin increased to 35.4%.

EBITDA for Management and Holdings Operations increased by 31.9% to €14.2 million (2011: €10.8 million).

Profit before tax

Normalised profit before tax increased by 76.7% to €24.0 million (2011: €13.6 million). This profit relates mainly to the improved operating performance of our London hotels, our Management and Holdings Operations and the increased ownership in three hotels in the Netherlands.

Reported profit before tax was €67.6 million (2011: €10.6 million). The increase in reported profit relates mainly to gains arising from the application of IFRS accounting following the Group obtaining 100% control of previously jointly owned entities (refer to Note 3a to the Consolidated financial statements) amounting to €45.7 million in capital gains and negative goodwill arising from the newly acquired interests in hotels amounting to €4.3 million and such other adjustments as outlined in the table on the adjacent page (see Notes 23, 24 and 25 to the Consolidated financial statements). The Group also had impairment charges of €6.2 million for the provincial hotels in the United Kingdom. In addition, the EBITDA contribution from the increased ownership in three hotels in the Netherlands amounted to €4.6 million.

The adjustments are detailed in the table on the adjacent page.

Earnings per share

Reported basic/diluted earnings per share for the period increased by 349.2% to €1.64 (2011: €0.37). Normalised earnings per share was €0.59 (2011: €0.33), representing an 81.5% increase.

Dividend

The Directors are proposing a final dividend of 6.0 pence per share (2011: 6.0 pence). Together with the interim dividend of 6.0 pence per share (2011: Nil), paid on 3 October 2012, the total dividend for the year is 12.0 pence (2011: 6.0 pence).

Subject to shareholder approval at the Annual General Meeting, to be held on 13 May 2013, the dividend will be paid on 14 May 2013 to shareholders on the register at 2 April 2013. The shares will go ex-dividend on 27 March 2013.

Total revenue	EBITDA	Normalised profit before tax
€242.1m	€85.6m	€24.0m
+19.6%	+31.6%	+76.7%

Financial position

Net bank debt as at 31 December 2012 was €460.6 million, an increase of € 73.5 million (as at 31 December 2011: €387.1 million). This includes €46.2 million of liquid assets (as at 31 December 2011: €31.0 million), of which cash and cash equivalents were €44.9 million (as at 31 December 2011: €29.5 million) and other liquid financial assets of €1.3 million (as at 31 December 2011: €1.5 million).

During the period, the movement in net bank debt included a €57.2 million increase due to the assumed debt of the acquired joint venture interests in three hotels and one development project in the Netherlands, €24.0 million increase to finance the acquisition of the joint venture interests in these three hotels and one development project, €6.7 million increase in loans for construction and renovation purposes, an increase due to foreign exchange of €7.6 million and a decrease of €8.7 million due to 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 1.9% to 62.0% (as at 31 December 2011: 63.9%).

Financial structure and investments

Acquisition of remaining interest in three hotels and one hotel project in The Netherlands

On 16 May 2012, the Group completed the acquisition of 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 from its joint venture partner.

The consideration for the acquisition comprised €23.0 million in cash, of which €12.0 million was funded by a new term loan with Bank Hapoalim B.M. and the remainder of the cash consideration was financed from existing facilities, the issue of 700,000 shares in the capital of the Company and deferred consideration payable on the fourth anniversary of the transfer of the shares under the terms of the agreement. Further details are set out in Note 3a to the Consolidated financial statements.

Acquisition and simultaneous sale and leaseback of a development site in West London

On 18 June 2012, the Group acquired the freehold property at 628 Western Avenue in West London for £6.0 million (€7.3 million) and simultaneously announced that it had completed the sale of the site at a price of £7.0 million (€8.6 million) and the leaseback of the site at an initial rent of £306,500 (€373,000) per year. Further details are set out in Note 17c2c to the Consolidated financial statements.

Construction financing for mixed-use development Pattaya Bay, Thailand

On 12 September 2012, the Group entered into a Thai Baht 1,100 million (€27.5 million) facility agreement. The facility was made available to finance the construction of a mixed-used development project located in Pattaya Bay (Thailand) with United Overseas Bank. The final maturity of the loan is September 2016. In January 2013, the Group entered into a conditional agreement to sell its shares in this project. Further details are set out in Note 32 to the Consolidated financial statements.

Construction financing for development Nuremberg, Germany

On 22 October 2012, we entered into a €11.7 million facility agreement with Deutsche Hypothekenbank to finance the conversion of a building in Nuremberg, Germany, into a hotel. The final maturity of the loan is 31 December 2016 and further details are set out in Note 17a8 to the Consolidated financial statements.

Purchase of shares

On 29 August 2012, we announced the purchase of 200,000 of our own Ordinary shares, increasing the number of shares held in treasury to 1,862,000 (constituting 4.49% of the Company's issued share capital, excluding treasury shares). Further details are set out in Note 15b to the Consolidated financial statements.

Looking ahead

The Company is considering how best to fund its future expansion and take advantage of a number of opportunities to pursue organic expansion or acquisitions. One option that the Company is considering is the release of part of the value of its hotel assets whilst retaining operational control. This process is underway and will take a number of months.

In the year ahead, we look forward to building on the successes of 2012. We will remain focused on delivering a further EBITDA margin improvement through strong operational performance, our cost-effective management approach and further development of our financial structure and asset management initiatives.

Chen Moravsky
Chief Financial Officer

	Year ended 31 Dec 2012 € million	Year ended 31 Dec 2011 € million
Reported profit before tax	**67.6**	10.6
Fair value movements on derivatives recognised in the profit and loss	**(0.5)**	4.7
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)	**(0.6)**	–
Impairment of assets	**6.2**	–
Sales and marketing expenses in the Thai development project	**0.4**	–
Waiver of liabilities to related parties	**–**	(2.5)
Forfeited deposits from rescinded contracts of unit sales of Park Plaza Westminster Bridge London	**–**	(0.7)
Strategic advice expenses	**0.9**	1.5
Normalised profit before tax	**24.0**	13.6

Review of 2012
United Kingdom


Park Plaza Westminster Bridge London


Park Plaza Westminster Bridge London

Hotel operations	Euro (€)		GBP (£)	
	Year ended 31 December 2012	Year ended 31 December 2011	**Year ended 31 December 2012**	Year ended 31 December 2011
Total revenue	**€161.1 million**	€140.0 million	**£130.5 million**	£121.8 million
EBITDAR	**€60.7 million**	€48.9 million	**£49.2 million**	£42.5 million
EBITDA	**€59.5 million**	€47.5 million	**£48.2 million**	£41.3 million
Occupancy	**81.7%**	82.1%	**81.7%**	82.1%
Average room rate	**€169.2**	€145.6	**£137.1**	£126.7
RevPAR	**€138.2**	€119.6	**£112.0**	£104.0
Room revenue	**€114.3 million**	€98.6 million	**£92.6 million**	£85.8 million

Strong performance and benefiting from the London Olympic Games

United Kingdom hotel portfolio performance

Our hotels in London performed well during the year, due to continued strong corporate and leisure demand. In addition, in August our hotels benefited strongly from the Olympic Games, with increased demand for hotel rooms and meeting and event spaces. All of the Group's London hotels, except one, outperformed their competitive set in RevPAR during the year (source: STR Global, December 2012). Our flagship hotel, Park Plaza Westminster Bridge London reported another strong performance in 2012, significantly outperforming its competitive set in terms of occupancy by 2.8%, average room rate by 25.0% and RevPAR by 28.5%.

Despite continued challenging trading conditions in the provincial destinations, in our first year of ownership, Park Plaza Leeds and Park Plaza Nottingham both delivered a slightly improved EBITDA contribution. Park Plaza Nottingham outperformed its competitive set in terms of occupancy, average room rate and RevPAR (source: STR Global, December 2012).

In line with strategy, management remained focused on increasing average room rate across the portfolio which resulted in overall RevPAR growth in Sterling of 7.7% to £112.0 (2011: £104.0). Occupancy remained flat at 81.7% (2011: 82.1%). Total revenue grew by 7.2% to £130.5 million (2011: £121.8 million) and EBITDA grew by 16.8% in Sterling to £48.2 million (2011: £41.3 million). The reported results for the region were positively impacted by the strength of Sterling against the Euro.

Renovation projects and development pipeline

Since acquiring Park Plaza Leeds and Park Plaza Nottingham in 2010 we have invested in extensive renovation works at both hotels to refurbish rooms and public areas. Most of the renovation works at Park Plaza Leeds were completed in the first half of 2012. This investment and the repositioning of these hotels is expected to deliver an improved performance over the long term, although the recovery of the provincial markets in general is expected to take longer.

On 18 June 2012, the Company completed the acquisition and simultaneous sale-and-leaseback of a two-acre development site at 628 Western Avenue in West London. Planning permission for a hotel was granted in 2012. The hotel that will be developed will offer 158 bedrooms, a lounge and bar, several meeting rooms and a health and fitness facility.

We continued to progress our plans for the development of art'otel london hoxton, our first art'otel in the United Kingdom. The hotel will have state-of-the-art guest rooms and facilities will include a modern top-floor restaurant and bar, spa facilities, a publicly accessible arts centre, an art gallery and space for video artists and photographic studios.

During the year we developed a new restaurant concept called TOZI, which is due to open at Park Plaza Victoria London in March 2013. The name TOZI is derived from the Venetian dialect for "a group of close friends" and will reflect the restaurant's concept of sharing food, whilst in the company of friends.

The United Kingdom hotel market

In 2012 the United Kingdom hotel market delivered year-on-year growth. RevPAR grew by 1.4% to £58.33, driven by a 1.5% decrease in occupancy to 72.5% and a 2.9% increase in average room rate to £80.50 (source: STR Global, December 2012).

The London hotel market enjoyed its third successive year of profit growth, with the city particularly benefiting from the London Olympic Games in August. RevPAR increased by 3.4% to £112.37 reflecting a 3.7% increase in average room rates to £138.50. Occupancy was flat (source: TRI Hospitality HotStats, December 2012).

The hotel market outside of London continued to be more impacted by the economic recession, with increasing cost pressures outpacing revenue rises. Nevertheless, RevPAR increased by 1.4% to £49.05, driven by a 0.9% increase in occupancy and a 0.5% increase in average room rate (source: TRI Hospitality HotStats, December 2012).

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 this page (Occupancy, Average Room Rate, RevPAR, Total Revenue, Room Revenue, EBITDAR, EBITDA).

Rooms in operation
2,789

Rooms in pipeline
510

Review of 2012
The Netherlands

Park Plaza Eindhoven

Park Plaza Victoria Amsterdam

Hotel operations	Euro (€)	
	Year ended 31 December 2012	Year ended 31 December 2011
Total revenue	**€37.8 million**	€24.8 million
EBITDAR	**€12.4 million**	€7.8 million
EBITDA	**€12.3 million**	€7.8 million
Occupancy	**72.6%**	74.9%
Average room rate	**€108.5**	€109.4
RevPAR	**€78.8**	€82.0
Room revenue	**€27.0 million**	€17.8 million

Strong increase in revenue and EBITDA due to increased ownership

Our Dutch hotel portfolio performance

Overall our hotels in the Netherlands reported a 52.5% increase in total revenue to €37.8 million (2011: €24.8 million) and a 58.6% increase in EBITDA to €12.3 million (2011: €7.8 million). These results were driven by the Group's increased ownership to 100% (previously 50%) of three hotels – Park Plaza Amsterdam Airport, Park Plaza Victoria Amsterdam and Park Plaza Utrecht – from its former joint venture partner.

On a like-for-like basis* total revenue declined by 1.3% to €24.5 million and EBITDA declined by 0.4% to €7.7 million, reflecting the continued challenging market conditions in The Netherlands.

Occupancy fell by 2.3% to 72.6% (2011: 74.9%) reflecting the reduction in demand. Average room rate was broadly flat at €108.5 (2011: €109.4) resulting in an overall RevPAR reduction of 3.9% to €78.8 (2011: €82.0).

Despite the continued market challenges, each of the Group's hotels in the region, except Park Plaza Amsterdam Airport which was undergoing significant refurbishment in the year, delivered RevPAR ahead of its competitive set. In particular, the Group's provincial hotels, Park Plaza Eindhoven and Park Plaza Utrecht, outperformed their competitive sets, reporting RevPAR 12.6% and 41.3% ahead of their competitors respectively (source: STR Global, December 2012).

Renovation projects and development pipeline

The Group has invested in extensive renovation works at Park Plaza Amsterdam Airport to remodel all the public areas and introduce new facilities, including an Executive Lounge, upscale boardroom, spa and fitness centre and a new bar and restaurant. The hotel is one of Amsterdam's largest conference hotels and this investment will improve the longer term revenue generation at the hotel.

Renovations of the meeting rooms at Park Plaza Victoria Amsterdam were also completed in 2012.

Construction of art'otel amsterdam is progressing well and is on track to open in the second half of 2013. In line with the art'otel brand, the hotel will be contemporary in interior design and will house a 10,000 sq ft art gallery which will be complemented by an extensive lounge, restaurant and entertainment facilities.

The Amsterdam hotel market

The Amsterdam hotel market has continued to be impacted by the macroeconomic environment. The city experienced a marginal increase in demand with occupancy up 1.2% to 78.9%. However, average room rates remained under pressure and declined by 0.8%. RevPAR improved slightly by 0.5% (source: TRI Hospitality HotStats, December 2012).

Wholly owned hotels

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

Rooms in operation

1,010

Rooms in pipeline

107

* In the like for like comparison figures, the financial contribution of Park Plaza Amsterdam Airport, Park Plaza Victoria Amsterdam and Park Plaza Utrecht has been calculated on the basis of the ownership interest of PPHE Hotel Group in those hotels during the financial year ended 31 December 2011.

Review of 2012
Germany and Hungary


art'otel berlin mitte


art'otel berlin mitte

Hotel operations Euro (€)

	Year ended 31 December 2012	Year ended 31 December 2011
Total revenue	**€32.6 million**	€30.2million
EBITDAR	**€8.8 million**	€7.5 million
EBITDA	**€(0.5) million**	€(1.0) million
Occupancy	**73.5%**	71.7%
Average room rate	**€72.7**	€70.9
RevPAR	**€53.4**	€50.9
Room revenue	**€24.9 million**	€22.6 million

All of our hotels grew their average room rate during the year

German and Hungarian hotel portfolio performance

Our hotels in Germany and Hungary delivered a 7.9% increase in total revenue to €32.6 million (2011: €30.2 million). The EBITDA loss was reduced by 53.0% to €(0.5) million (2011: €(1.0) million loss). This improvement was the result of an improved revenue generation and effective cost management.

Across our portfolio, occupancy increased to 73.5% (2011: 71.7%) and average room rate grew by 2.5% to €72.7 (2011: €70.9) respectively, resulting in a 5.1% increase in RevPAR to €53.4 (2011: €50.9), a much improved performance compared to previous years.

All our German hotels' average room rate increased during the year with three of our hotels in Berlin and our art'otel in Budapest delivering RevPAR ahead of their competitive sets (source: STR Global, December 2012).

Renovation projects and development pipeline

During 2012, extensive renovation works at art'otel berlin city center west and art'otel budapest were completed. The investment in these hotels will strengthen their market positions and increase the revenue potential of these hotels.

Following the introduction of a 61-room extension at art'otel berlin city center west in 2011, we further improved this hotel in 2012 by introducing a new bar and lounge, two meeting rooms and fitness facilities.

At art'otel budapest a significant number of rooms were renovated and a new bar and lounge facilities were introduced.

The fourth Park Plaza in Germany, located in the historic city centre of Nuremberg, is due to open in 2014.

The German and Hungarian hotel market

Overall the German hotel market reported an improved performance. Occupancy increased by 2.2% to 66.3% and average room rate increased by 3.4% to €94.0. This resulted in a 5.7% increase in RevPAR to €62.4 (source: STR Global, December 2012).

The Berlin market reported a RevPAR increase of 8.5% to €63.8, driven by a combination of 4.6% occupancy growth to 72.5% and 3.7% increase in average room rate to €88.0. The Cologne hotel market reported a near flat performance, with RevPAR down 0.2% to €67.6, due to a 1.4% decrease in average room rate to €100.0, which was offset by a 1.2% increase in occupancy to 67.6% (source: STR Global, December 2012).

Leased hotels

art'otel budapest
art'otel berlin city center west
art'otel berlin kudamm
art'otel berlin mitte
art'otel cologne
art'otel dresden
Park Plaza Prenzlauer Berg Berlin
Park Plaza Wallstreet Berlin

Franchised hotel*

Park Plaza Trier

* Franchised hotels do not count towards any of the figures presented in the table on this page (Occupancy, Average Room Rate, RevPAR, Total Revenue, Room Revenue, EBITDAR, EBITDA).

Rooms in operation

1,423

Rooms in pipeline

177

Review of 2012
Management and Holdings Operations

Management and Holdings Operations	Euro (€)	
	Year ended 31 December 2012	Year ended 31 December 2011
Total revenue before elimination	**€33.6 million**	€28.5million
Revenue within the consolidated Group	**€23.0 million**	€21.1 million
External and reported revenue	**€10.6 million**	€7.4 million
EBITDA	**€14.2 million**	€10.8 million

Our Management and Holdings Operations reported strong growth

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 an intra-group revenue.

Prior to consolidation and elimination of intra-group revenue, total Management and Holdings revenue increased by 17.6% to €33.6 million (2011: €28.5 million). This growth is primarily a result of improved trading of our hotels in London and Arenaturist in Croatia, and a performance related incentive fee. After consolidation and the elimination of intra-group revenue, reported revenues increased by 47.7% to €10.6 million (2011: €7.4 million).

Reported EBITDA increased by 34.0% to €14.2 million (2011: €10.8 million).

	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 employs General Manager and Financial Controller	Third party
Sales, Marketing, Distribution and Revenue Support	PPHE Hotel Group	PPHE Hotel Group	PPHE Hotel Group
Day-to-day Sales, Marketing, Distribution and Revenue Management	PPHE Hotel Group	PPHE Hotel Group	Third party
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 Incentive fee as percentage of gross operating profit Central Services fee as percentage of revenue Marketing fee as percentage of revenue	Franchise fee as percentage of revenue Marketing fee as percentage of revenue

Review of 2012
Croatia


Park Plaza Histria Pula


Park Plaza Histria Pula


Park Plaza Medulin

2012 was a truly special year as we opened the first three Park Plaza resorts

Our relationship

Arenaturist group is one of Croatia's best known hospitality groups and consists of eight 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 Medulin.

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

Our progress

2012 was a truly special year as we opened the first three Park Plaza branded resorts in partnership with Arenaturist. Following extensive renovations, we opened the flagship Park Plaza Histria Pula, which occupies a stunning seaside location and provides all the amenities expected of a full-service, upscale hotel including a large spa and wellness and conference centre, the adjacent Park Plaza Verudela Pula which is especially suited for families due to its range of apartment-style accommodation and Park Plaza Medulin which has created its own niche and caters to couples only. Our affiliation with Carlson gives us a distinct advantage in marketing these properties as the region continues to attract a growing number of tourists.

In preparation for their opening, our human resources teams trained all Arenaturist team members about the Park Plaza brand and Company values and the role every individual has in ensuring we consistently exceed guest expectations and deliver exceptional memories.

Croatia in general has yet again reported growth in visitor numbers, although not as strong as reported in 2011. Despite this slowdown in growth, Arenaturist has had a good summer season, and in particular the newly opened resorts delivered an excellent performance. Not only did these three Park Plaza resorts perform above expectations, they also generated very positive guest reviews, they won awards, improved their business mix and are now true market leaders in these destinations.

Looking forward, we will continue with the further redevelopment of the Arenaturist group and we are pleased to report that Hotel Palma, which was located adjacent to Park Plaza Histria Pula, has now officially closed down for extensive renovations. Upon completion, the 127 guest rooms of this former hotel will become part of Park Plaza Histria Pula, further solidifying its flagship status. The extension of Park Plaza Histria Pula is expected to be completed in May, before the summer season commences.

The remaining guest rooms at Park Plaza Medulin, which were not included in the 2012 renovation project, are being renovated and will be ready for the 2013 summer season.

Further renovation projects across other Arenaturist properties are currently being reviewed.

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

Co-owned hotels

Park Plaza Histria Pula
Park Plaza Medulin
Guest House Riviera
Hotel Belvedere
Hotel Brioni
Hotel Holiday
(Hotel Palma)[1]
Hotel Park

Co-owned resorts

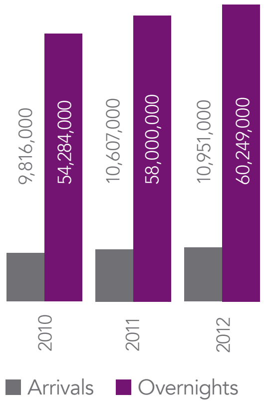
Park Plaza Verudela Pula
Ai Pini Medulin Resort
Horizont Resort
Splendid Resort
Verudela Beach and Villas Resort
Kamp Kazela

[1] Hotel Palma is now permanently closed. Following extensive renovations, 127 guest rooms of this former hotel will be added to the inventory of Park Plaza Histria Pula in summer 2013.

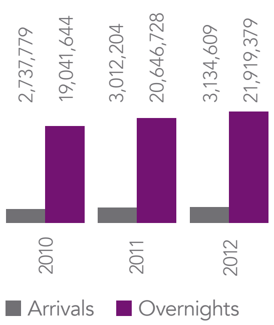
Rooms in operation

2,830

Croatia – tourism statistics
Arrivals & overnights



Istria – tourism statistics
Arrivals & overnights



Istria – tourism statistics
Overnights by country

Germany	**5,921,534**	29%
Slovenia	**2,931,068**	14%
Austria	**2,279,634**	11%
Italy	**2,180,032**	11%
Netherlands	**1,460,538**	7%
Croatia	**996,346**	5%
Russia	**752,647**	4%
Czech Republic	**704,663**	3%
Total	**20,646,728**	

Corporate Social Responsibility

Our CSR policy is a genuine, active and responsible commitment to our environment and society

In 2012 the Company made a significant leap forward in terms of its strategic approach to Corporate Social Responsibility (CSR). We have re-introduced our TREE policy which represents the strategic environmental ethos of the Group, appointed Green Teams across our three primary operating regions and co-ordinated our CSR activities through cross-regional conference calls and senior management meetings.

Most importantly, we have taken a strategic decision to measure our consumption of electricity, gas and water and to measure our waste management. This enables us to benchmark our business practices and to determine, for example, how much electricity we consume per guest stay, per room occupied or per square metre at each hotel. It also allows us to set targets for reducing our CO_2 emissions.

In our ambition to further improve our performance, we have set a goal to reduce our CO_2 emission by 20% before the end of 2017.

It has also been a tremendously successful year in terms of awards and accolades and we are happy to report that in the United Kingdom Park Plaza Leeds was awarded a Silver Award from the Green Tourism Business Scheme UK; Park Plaza Nottingham was upgraded from Bronze to Silver, Park Plaza Sherlock Holmes London was awarded a Silver Award and Park Plaza Victoria London was upgraded in a recent survey conducted by the scheme from Bronze to Silver. In the Netherlands, Park Plaza Utrecht was upgraded to Gold award status by the Green Key and Park Plaza Eindhoven's activities were recognised by the local municipality with a Silver award in their Sustainable Entrepreneur scheme. We have also included CSR parameters in our electronic guest satisfaction surveys and are pleased to report that our CSR policy has continued to grow in importance amongst our team members too, with our 2012 Climate Analysis Survey showing that 82% of our team members are familiar with our CSR policy against 80% in 2011. In addition, 82.2% agreed or strongly agreed with the statement that "At my hotel/company, we take care of the environment" compared to 81.6% in 2011.

As one of the very few truly integrated hotel developers and owner-operator companies in the world, we have dedicated our years of achievements to inspire our guests through individuality and passion. We care not only about our guests but also about the physical environment and the social environment in which we operate. That is why the Company with approximately 2,500 team members dedicates significant time and resources to address corporate social responsibilities seriously.

In our industry people will always need to travel the world, in fact the travel industry has shown consistent and resilient growth year on year and we share the anticipation that more and more travellers will visit new and old destinations every year. This is particularly true with the emerging economies of Brazil, Russia, India, China and other nations backing the trend and exporting tourism.

Our vision

Realise growth potential

Our mission statement

Inspiring our guests through individuality and passion

Our guests, team members, suppliers and the communities within which we operate demonstrate strong feelings and care for the environment and more personal and business choices are made today with such considerations in mind than in previous years.

Because this is a collaborative effort we have re-launched our policy:

TREE

Total Responsibility for Everyone's Environment

TREE is the backbone of PPHE Hotel Group's CSR policy and is the core principle of the environmental and sustainable business practice across the Company.

It ensures that all hotels within the Group adopt it and include it in their day-to-day operation. TREE continuously engages team members, hotels' 'green teams' and corporate offices across the Group to reduce resource consumption, minimise waste, support local communities and ensure that all our team members are working in an ethically fair environment with access to training and personal development.

Managing CSR at PPHE Hotel Group

Our Corporate Social Responsibility policy forms an integral part of our values and context and is pro-actively lived by the hotels and their teams.

Our values

At PPHE Hotel Group we feel 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 values.

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

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

Teamwork
Active participation in the realisation and achievement of common goals.

Enthusiasm
Choosing to be positive, energetic and happy.

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

Care
Showing compassion and adapting to the needs of colleagues and guests alike, regardless of the situation.

Total

Impact on our environment and resource consumption

PPHE Hotel Group recognises the environment as an integral and fundamental part of our business.

We are aware of the impact our actions and work have on the environment, its resources and communities around us today and for the future. Our CSR policy TREE ensures that all hotels within the Group adopt this policy and make it part of their day-to-day operation. The policy engages all our team members to work towards a low-carbon environment and a sustainable workplace. It is also communicated to our clients, guests, investors and business partners and is included in our guest satisfaction surveys to encourage continued improvements.

The total impact on our environment is a combination of the consumption of resources, sustainable business practices and initiatives, the contributions towards our communities and the engagement of our people.

To make a difference we need to measure our impact on the environment and our usage of natural resources and reduce those against set targets.

Measuring our key energy and water consumption and CO_2 emissions per guest stay gives us the opportunity to improve measurements, work on implementation of new technologies and initiatives. It also allows us to focus on reducing natural resources consumption, reuse, recycle and to work towards a business with reduced carbon dioxide emissions.

Responsibility

Sustainable business practices

Reduce, reuse, recycle

We have committed and implemented on-site bottling plants, waste to water recycling schemes, in-room towel and bed-linen schemes, passive infrared motion sensors, water flow technologies, LED-lights and combined heat & power units as well as collecting rain water to name only a few key examples of on-going improvements within our business.

These initiatives reflect the importance of resource management which PPHE Hotel Group operates across all regions.

CO_2 reduction target

-20%

Corporate Social Responsibility continued

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 in this 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 Sherlock Holmes London	Silver award (new)	The Green Tourism Business Scheme, UK
Park Plaza Victoria London	Silver award (upgraded from Bronze)	The Green Tourism Business Scheme, UK
Park Plaza Leeds	Silver award (new)	The Green Tourism Business Scheme, UK
Park Plaza Nottingham	Gold award (upgraded from Silver)	The Green Tourism Business Scheme, UK
Park Plaza Victoria Amsterdam	Silver award	The Green Key
Park Plaza Utrecht	Gold award (upgraded from Silver)	The Green Key
Park Plaza Eindhoven	Gold award	The Green Key
Park Plaza Eindhoven	Sustainable Entrepreneur – Silver award (new)	Local municipality

Encouragement and engagement

A sustainable business is a business which includes its people, team members, guests and suppliers. Green teams across all hotels work on projects to keep TREE alive, to get involved with local communities and to improve the "green" guest experience. They work towards environmental audit schemes such as the Green Tourism award to have their work assessed to reflect successes and work on further developments. "Green-Questions" on our guest satisfaction email surveys highlight new ideas and concerns guests may have towards our practices and gives us the opportunity to constantly develop our CSR policy.

Everyone's environment

Communities

PPHE Hotel Group's TREE reaches out to its team members, guests, business partners and local communities to connect and make a positive impact.

With hotels in operation across a number of countries we are fully aware of the important role we play in our local communities. With the commitment to making a difference in people's lives and the local community, PPHE Hotel Group is actively involved with a number of fundraising partners and activities throughout the year. We support too many charities to name them all here. 2012 charitable efforts included Springboard, Fight For Sight, Movember, Kinderhilfe, StreetSmart SleepSmart, Parkinson's UK, Thames 21, hospitality Action, Breast Cancer Care Cymru and the Willow Foundation

Ethical work place

Being a truly multi-national organisation with over 71 languages spoken and over 30 different nationalities working in our business, PPHE Hotel Group believes that a strong set of core principles is essential to help ensure that our team members, agents and business partners all operate to the highest ethical and legal standards.

We operate honestly and in good faith, free from bribery, fraud and deception across all parts of our business and believe in this as our fundamental elements of our business principles. PPHE Hotel Group has a zero-tolerance of bribery, fraud, discrimination and all team members fully comply to our Code of Ethics, which is also accessible for everyone through the company's intranet. All our team members are committed to comply fully with the 2011 UK Bribery Act. Where relevant this commitment has been adapted to the requirement of local legislation. Our performance in this area is measured through the annual employee satisfaction survey.

Development

Learning and development is part of PPHE Hotel Group's work ethos. It ensures that all team members have the required knowledge, skills and are fully engaged to deliver excellent service and are part of a positive working environment. CSR is ingrained in our day-to-day operations and this starts with the company's induction programme, "Feeling Welcome", which every employee must attend. During this programme, our CSR activities are extensively covered including every team member's role in driving change.

In 2012 the company reviewed learning and development programmes and laid key focus on delivering PPHE Hotel Group's mission statement (Inspiring our guests through individuality and passion) through a Group-wide newly tailor-made Inspirational Service training programme, which every team member at every level attended and is now part of the company's induction.

Furthermore, we conduct group and individual trainings with in-house and out-sourced support. We want to ensure that everyone benefits from participating in the Learning & Development programme, and that PPHE Hotel Group plays a significant part of every team member's working career for now and in the future.

People's engagement

Green teams across all business units work on different projects to continuously deliver our TREE policy and to encourage everyone to uphold our tactical policy to Save Energy and Switch Off Now (SEASON) which will be re-launched during 2013.

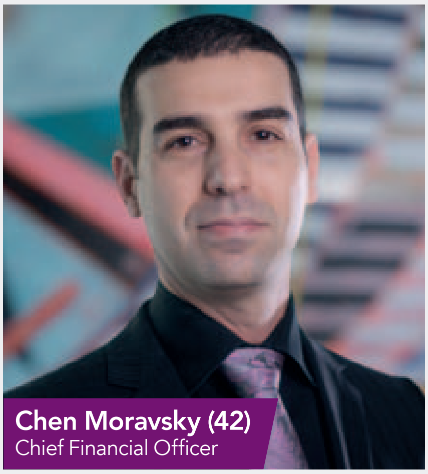
To ensure our teams are fully familiar with our CSR policy and procedures, and embrace the supporting initiatives, these have now been fully included in our mandatory staff induction programmes. The policy and best practice examples are also made available on our newly launched you:niverse intranet and e-learning portal and the policy document is available on our company website pphe.com.

Our annual employee satisfaction survey, which is conducted each November by an independent third party continued to demonstrate a high participation rate (92%), high job satisfaction in general and our Ethical Standards rating continued to be high with 84.3% against 84.8% in 2011.

Board of Directors

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.

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.



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.

Kevin McAuliffe (55)
Non-Executive Director
Senior Independent Director

Elisha Flax (51)
Non-Executive Director

Nigel Jones (51)
Non-Executive Director

Mr. McAuliffe is currently the Executive 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.

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.

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 B L Management Guernsey 2011 Limited, part of The British Land Company PLC.

Directors' report

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2012.

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 majority of the Group's hotels operate under two distinct brands, Park Plaza® Hotels & Resorts and art'otel®.

The Group has an exclusive licence from Carlson℠, a global privately 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 fully 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 8,200 rooms.

The Group's development pipeline includes four new hotels, which together are expected to add approximately a further 800 rooms to the portfolio by the end of 2015.

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 2012.

Results and 2012 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 €1.64 (2011: €0.37). The Board recommends to the Annual General Meeting to declare the payment of a final dividend of 6.0 pence per share for the year ended 31 December 2012.

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.

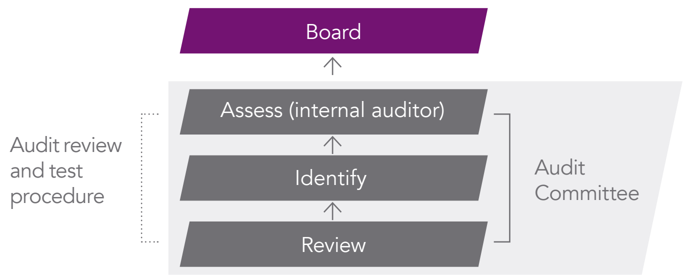
Principal risks and uncertainties

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, an independent internal auditor was appointed to act 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 section of this 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 below. 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.

Number of issued shares	43,377,292
Held in treasury by PPHE Hotel Group	1,862,000
Number of issued shares (excluding treasury)	41,515,292

Shareholders with holdings of 3% or more of the Company's issued share capital (excluding treasury) as at 19 February 2013	Number of shares	Percentage of issued share capital (excluding treasury)
Red Sea Group	18,552,714	44.68%
Molteno Limited	7,990,027	19.25%
Aroundtown Property Holdings Limited	3,762,000	9.06%
Elbit Medical Imaging	1,707,640	4.11%
Habrok Capital Management	1,589,047	3.83%



Risk and impact	Mitigation	Grading	Year-on-year
Risk name			
Information technology and systems 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. 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 is implemented in order to maintain the safety of personal customer information.	High	↔
Market and hotel industry risks 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 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 17 and 31h to the Consolidated financial statements.	Medium	↔
Fixed operating expenses 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	↔

Directors’ report continued

Risk and impact	Mitigation	Grading	Year-on-year
Risk name			
Foreign exchange rate fluctuations 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 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.	Low	↔
The Park Plaza® Hotels & Resorts brand and reservation system The Group's rights to the Park Plaza® Hotels & Resorts brand stem from a territorial licence agreement with Carlson℠, 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	↔
Guaranteed return of investment to Park Plaza Westminster Bridge London unit holders Marlbray Limited, the freehold owner of Park Plaza Westminster Bridge London, and the Company have guaranteed (directly or indirectly) to all (but four) of the purchasers of units in Park Plaza Westminster Bridge London a 5% or 6% return on their investment (with the exception of two units in respect of which the guaranteed annual return is less than 5%) for a period of five years from the second month of completion. To the extent that net income is less than the guaranteed return, Marlbray and the Company will be obliged to make up any shortfall.	Marlbray is entitled to receive and retain all net income generated by the units sold during the term of the guarantees and if such income exceeds guaranteed return, Marlbray benefits from the surplus. This arrangement, combined with a regular monitoring of revenues, allows management to effectively control costs and to minimise the impact of any shortfalls.	Low	↔
Key senior personnel and management 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. The Group has further enhanced its management structure by appointing a Director of Revenue, Director of Sales and Director of Health & Safety.	Low	↔

↔ Unchanged during the year
↑ Increased during the year
↓ Reduced during the year

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)

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 2012, taking into account all our hotels, under all types of contract, nearly 2,500 employees were working for PPHE Hotel 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 15 of the Consolidated financial statements.

Largest shareholders
The table provided on page 52 contains shareholders holding 3% or more of the issued Ordinary Shares (excluding treasury) as at 19 February 2013, of which the Company has been notified by its Registrar.

Auditors
Ernst & Young LLP have expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

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 2013 and 2014 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 2012 Consolidated financial statements on a going concern basis.

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

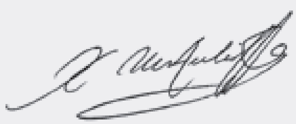
10 April 2013

Corporate governance

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 or explain against the requirements of the UK Corporate Governance Code published by the Financial Reporting Council (FRC) in 2010 (the "Corporate Governance Code") and available from the FRC website (www.frc.org.uk). The Board recognises the value of high standards and has put in place a framework for corporate governance which enables the Company to voluntarily comply with the main requirements of the Corporate Governance Code.

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.



Kevin McAuliffe
Senior Independent Director

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.

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 there have been meetings between the Non-Executive Directors without the Executive Directors present.

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.

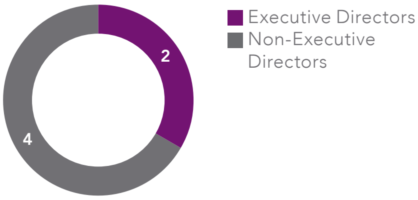
The Board considers agenda items laid out in the Notice of Board meeting and agenda which are formally circulated to the Board in advance of the Board meetings as part of the Board papers and therefore Directors may request any agenda items to be added that they consider appropriate for Board discussion. 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.

Composition of Board



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 six Board and five 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 and always provided 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 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

An Audit Committee has been established and comprises Kevin McAuliffe (Chairman), Elisha Flax and Nigel Jones and meets at least three times a year. The Audit Committee assists the Board in observing its responsibility for 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 information from the Chief Financial Officer, the Company Secretary, the internal auditor and the external auditors.

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 existing Committee members' substantial experience of dealing with financial matters is more than adequate to enable the Committee to properly discharge its duties in light of the nature of the Company's business.

Audit Committee Report for 2012

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

Meeting and Committee attendance

Name	Role	Board meetings*	Audit Committee	Remuneration Committee	Nominations Committee
Eli Papouchado	Non-Executive Chairman	2	NA	NA	NA
Boris Ivesha	President and Chief Executive Officer	7	NA	1†	NA
Chen Moravsky	Chief Financial Officer	6	2†	1†	NA
Kevin McAuliffe	Non-Executive Director and Senior Independent Director	10	5	2	0
Elisha Flax	Non-Executive Director	4	6	2	0
Nigel Jones	Non-Executive Director	10	5	NA	0
Total meetings held		**11**	**6**	**2**	**0**

* Includes five ad hoc Board Committee meetings.
† Attended as a non-member at the request of the respective Committee.

During these meetings the Audit Committee:

- reviewed and recommended for adoption by the Board the financial information that is publicly disclosed, which included:
  - the financial statements for the year ended 31 December 2012; and
  - the interim results for the period ended 30 June 2012.
- monitored the performance of the Group's assets throughout the year;
- reviewed arrangements reached with related parties;
- considered refinancing transactions;
- considered the Group's internal control and risk management policies and systems, and their effectiveness, including review of reports from the internal auditor relating to:
  - financial controls in operation at Park Plaza Riverbank London;
  - Group asset management systems;
  - IT systems; and
  - the Group's bank borrowing and corporate risk management.
- monitored the auditor's performance during the year;
- considered the recoverability of receivables and impairment of assets;
- considered the determination of fair values in the context of acquisitions;
- considered and satisfied itself that the external auditor is independent of the Group;
- reviewed the performance, appropriateness and expertise of the Chief Financial Officer and confirmed his suitability for the position; and
- met with both the internal and external auditors without the presence of management.

The Audit Committee recommends that the Board presents the resolution to the shareholders at the Annual General Meeting to re-appoint Ernst & Young LLP as external auditors.

Objectives achieved following recommendations by the Audit Committee:

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

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 have been two Remuneration Committee meetings during 2012.

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 have been no new candidates to the Board during 2012 and therefore no meetings of the Nominations Committee have taken place during 2012.

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 13 May 2013 are included in the Notice of Annual General Meeting which will be 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. 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.

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 Registrars
34 Beckenham Road
Beckenham
Kent BR3 4TU
United Kingdom

E: ssd@capitaregistrars.com

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
8.30am to 5.30pm.

Investor relations enquiries

Chen Moravsky
Chief Financial Officer
Viñoly Tower, 5th floor
Claude Debussylaan 14
1082 MD Amsterdam
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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 2013
Final: March 2014

Annual General Meeting:
13 May 2013

London Stock Exchange trading code

LSE: PPH

Report of the Remuneration Committee and Directors' Remuneration 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).

Service 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 is entitled to pension contributions of £100,000 per annum and Mr Moravsky is entitled to pension contributions at the rate of 15% of annual salary. Otherwise the 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 2012 and 2011.

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	123	420	275	818
Other taxable benefits	–	209	92	301
Total remuneration for the year ended 31 December 2012	123	629	367	1,119
Total remuneration for the year ended 31 December 2011	115	577	388	1,080

Non-Executive Directors	Kevin McAuliffe	Nigel Jones	Elisha Flax	Total
Salary and fees	59	47	59	165
Total remuneration for the year ended 31 December 2012	59	47	59	165
Total remuneration for the year ended 31 December 2011	46	40	46	132

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 2012	Exercise price
Chen Moravsky	95,000	95,000	£1.00
	210,000	–	£2.34
Total	**305,000**	**95,000**	–

On behalf of the Board

Kevin McAuliffe
Chairman of the Remuneration Committee

Financial statements

Consolidated statement of financial position

	Note	As at 31 December 2012 €'000	2011 €'000
Assets			
Non-current assets:			
Intangible assets	4	38,174	40,748
Property, plant and equipment	5	762,922	610,881
Apart-hotel units under management	6	172,812	168,607
Prepaid leasehold payments	7	453	234
Investment in associate	8	21,561	21,508
Other non-current financial assets	9	8,195	30,311
Restricted deposits and cash	17b	9,953	12,620
		1,014,070	884,909
Current assets:			
Inventories under construction	10	16,356	7,851
Restricted deposits and cash	17b	5,987	3,563
Inventories		1,256	1,265
Other current financial assets	11	1,339	1,499
Trade receivables	12	19,753	16,939
Other receivables and prepayments	13	5,895	9,057
Cash and cash equivalents	14	44,903	29,506
		95,489	69,680
Total assets		1,109,559	954,589
Equity and liabilities			
Equity:	15		
Issued capital		–	–
Share premium		239,504	237,729
Other reserves		(36,524)	(36,544)
Treasury shares		(3,701)	(3,181)
Foreign currency translation reserve		(34,471)	(35,565)
Hedging reserve		(22,626)	(17,072)
Accumulated earnings		117,715	55,864
Total equity		259,897	201,231
Non-current liabilities:			
Bank borrowings	18	474,447	411,215
Advance payments from apart-hotel unit holders	6	186,595	182,060
Deposits received from apart-hotel unit holders	17b	9,360	12,279
Other financial liabilities	19	68,798	86,502
Deferred income taxes	26	12,865	4,121
		752,065	696,177
Current liabilities:			
Trade payables		10,931	14,249
Other payables and accruals	20	54,236	36,019
Bank borrowings	18	32,430	6,913
		97,597	57,181
Total liabilities		849,662	753,358
Total equity and liabilities		1,109,559	954,589

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

Date of approval of the financial statements 10 April 2013.

Boris Ivesha, President and Chief Executive Officer

Chen Moravsky, Chief Financial Officer

Consolidated income statement

	Note	Year ended 31 December 2012 €'000	2011 €'000
Revenues	21	242,092	202,380
Operating expenses	22	(145,296)	(127,351)
EBITDAR		96,796	75,029
Rental expenses		(11,196)	(9,979)
EBITDA		85,600	65,050
Depreciation, amortisation and impairment loss		(28,079)	(18,492)
EBIT		57,521	46,558
Financial expenses	23	(28,854)	(28,227)
Financial income	24	3,323	3,511
Other income and expenses	25	49,210	1,720
Interest expenses guaranteed to apart-hotel unit holders	17c	(11,180)	(10,426)
Share in loss of associate	8	(2,430)	(2,502)
Profit before tax		67,590	10,634
Income tax benefit	26	386	4,619
Profit for the year		67,976	15,253
Profit attributable to:			
Owners of the parent		67,976	15,253
Non-controlling interests		–	–
Basic and diluted earnings per share in Euro	27	1.64	0.37

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

Consolidated statement of comprehensive income

	Note	Year ended 31 December 2012 €'000	2011 €'000
Profit for the year		67,976	15,253
Other comprehensive income (loss):			
Fair value gain (loss) on available-for-sale financial assets[1]		55	(107)
Reclassification adjustment for (profit) loss from available-for-sale financial assets recorded in income statement[1]		(48)	–
Loss from cash flow hedges[2]		(5,554)	(15,985)
Foreign currency translation adjustments of foreign operations[3]		1,064	1,360
Foreign currency translation adjustment of associate[3]		30	(418)
Other comprehensive income (loss)		(4,453)	(15,150)
Total comprehensive income		63,523	103
Attributable to:			
Owners of the parent		63,523	103
Non-controlling interests		–	–

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	Non-controlling interests	Total equity
Balance as at 1 January 2011	–	237,729	(36,445)	(1,083)	(36,507)	(1,087)	40,611	203,218	–	203,218
Profit for the year	–	–	–	–	–	–	15,253	15,253	–	15,253
Other comprehensive loss for the year	–	–	(107)	–	942	(15,985)	–	(15,150)	–	(15,150)
Total comprehensive profit	–	–	(107)	–	942	(15,985)	15,253	103	–	103
Purchase of treasury shares	–	–	–	(2,098)	–	–	–	(2,098)	–	(2,098)
Share-based payments	–	–	8	–	–	–	–	8	–	8
Balance as at 31 December 2011	–	237,729	(36,544)	(3,181)	(35,565)	(17,072)	55,864	201,231	–	201,231
Profit for the year	–	–	–	–	–	–	67,976	67,976	–	67,976
Other comprehensive loss for the year	–	–	7	–	1,094	(5,554)	–	(4,453)	–	(4,453)
Total comprehensive profit	–	–	7	–	1,094	(5,554)	67,976	63,523	–	63,523
Purchase of treasury shares	–	–	–	(520)	–	–	–	(520)	–	(520)
Issue of Ordinary shares related to business combination	–	1,775	–	–	–	–	–	1,775	–	1,775
Share-based payments	–	–	13	–	–	–	–	13	–	13
Dividend Distribution	–	–	–	–	–	–	(6,125)**	(6,125)	–	(6,125)
Balance as at 31 December 2012	–	239,504	(36,524)	(3,701)	(34,471)	(22,626)	117,715	259,897	–	259,897

* No par value.
** The dividend distribution comprises a final dividend for the year ended 31 December 2011 of 6.0 pence per share and an interim dividend of 6.0 pence per share paid on 3 October 2012.

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

Consolidated statement of cash flows

	Note	Year ended 31 December 2012 €'000	2011 €'000
Cash flows from operating activities:			
Profit for the year		67,976	15,253
Adjustment to reconcile profit to cash provided by operating activities:			
Financial expenses and interest expenses guaranteed to apart-hotel unit holders		40,034	38,653
Financial income	24	(3,323)	(3,511)
Income tax benefit	26	(386)	(4,619)
Capital gain from obtaining control in a former jointly controlled entity	3a	(45,672)	–
Negative goodwill on obtaining control in a former jointly controlled entity	3a	(4,317)	–
Fair value gain deferred consideration business combinations	19	(557)	
Share in loss of associates	8c	2,430	2,502
Depreciation, amortisation and impairment loss	4, 5, 7	28,079	18,492
Share-based payments		13	8
		16,301	51,525
Changes in operating assets and liabilities:			
Increase in inventories under construction		(8,453)	(6,487)
Decrease in inventories		130	100
Increase in trade and other receivables		1,570	55
Increase (decrease) in trade and other payables		4,049	(12,373)
		(2,704)	(18,705)
Cash paid and received during the period for:			
Interest paid		(38,140)	(30,521)
Interest received		135	146
Taxes paid		(110)	(114)
		(38,115)	(30,489)
Net cash provided by operating activities		43,458	17,584
Cash flows from investing activities:			
Investments in property, plant, equipment and apart-hotel units	5, 6	(23,602)	(10,973)
Net change in cash upon acquisition of Dutch joint venture interest	3a	(21,553)	–
Investments in intangible fixed assets	4	–	(1,003)
Loans to jointly controlled entities and to partners in jointly controlled entities		–	(82)
Decrease in restricted deposits		3,414	8,551
Proceeds from sale of available-for-sale investments		199	–
Increase in restricted cash		(2,334)	(2,173)
Net cash used in investing activities		(43,876)	(5,680)

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

	Year ended 31 December	
	2012 €'000	2011 €'000
Cash flows from financing activities:		
Purchase of treasury shares	(520)	(2,098)
Proceeds from long-term loans	30,524	10,484
Repayment of long-term bank loans and other long-term liabilities	(14,481)	(17,052)
Proceeds from assets sold and leased back under a finance lease	8,638	–
Dividend payment	(6,125)	–
(Repayment) loans from jointly controlled entities and from partners in jointly controlled entities	(2,674)	44
Net cash provided by (used in) financing activities	15,362	(8,622)
Increase in cash and cash equivalents	14,944	3,282
Net foreign exchange differences	453	587
Cash and cash equivalents at beginning of year	29,506	25,637
Cash and cash equivalents at end of year	44,903	29,506

	Year ended 31 December	
	2012 €'000	2011 €'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") for the year ended 31 December 2012 were authorised for issuance in accordance with a resolution of the Directors on 10 April 2013.

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.

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.

Note 2 Summary of significant accounting policies

a. Basis of preparation:

Statement of compliance

The Consolidated financial statements of the Company and its subsidiaries ("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) which comprise standards and interpretations approved by the International Accounting Standards Board (IASB), and International Financial Reporting Standards Interpretations Committee as issued by the International Accounting Standards Board (IASB) as adopted by the European Union.

The accounting policies used in preparing the Consolidated financial statements for the years ended 31 December 2012 and 2011 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 has an interest in a mixed-use development project in Thailand. For details on the Group's subsidiaries and investments as at 31 December 2012 (see Appendix A).

For details on the Company's interests in jointly controlled entities (proportionately consolidated as at 31 December 2012) (see Appendix B).

c. Changes in accounting policy and disclosures:

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective 1 January 2012:

IAS 12 Deferred Tax: Recovery of Underlying Assets (Amendment)

IFRS 7 – Disclosures – Transfers of financial assets (Amendment)

Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters (Amendments to IFRS 1)

The adoption of these standards or interpretations did not have a material effect on the Company.

Note 2 Summary of significant accounting policies continued

d. Significant accounting judgments, estimates and assumptions:

The preparation of the Group's 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 number 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.

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.

Share-based payments:

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires the determination of the most appropriate valuation model, and is dependent on the terms and conditions of the grant. This estimate also requires the determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 16.

Estimates and assumptions

The key assumptions made in the 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.

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. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Additional information is provided in Note 26.

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.

Note 2 Summary of significant accounting policies continued

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 interests 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.

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.

Note 2 Summary of significant accounting policies continued

g. **Jointly controlled entities** continued

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 intragroup 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 realisable 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 Great British Pound. The Consolidated financial statements are presented in Euro as a significant portion of the Group's operations are conducted 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.

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.

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

	As at 31 December	
	2012 In Euro	2011 In Euro
Great British Pound	1.227	1.197
Thai Baht	0.025	0.025
Hungarian Forint	0.003	0.003

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

	As at 31 December	
	2012 %	2011 %
Great British Pound	2.5	3.1
Thai Baht	1.2	–
Hungarian Forint	6.3	(12.8)

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.

Note 2 Summary of significant accounting policies continued

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	121-125
Hotel buildings	50-95
Furniture and equipment	2-15

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.

Significant judgments applied in determining accounting policy:

In light of the complexity of the Park Plaza Westminster Bridge London ("Westminster Bridge hotel") project, a number of significant judgments have been made by the Board, in consultation with and upon the recommendation of Management, in determining the accounting policies around the derecognition of the units sold to buyers and the recognition of resultant revenues.

These significant judgments relate to the timing of when substantially all the significant risks and rewards of ownership of the units and continuing managerial involvement are deemed to have been ceded by the Group.

Because of the complexity of the project and the potential for evolution of accounting guidance of the subject, the Board and Management will continue to re-evaluate the relevant judgments on an ongoing basis.

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".

Note 2 Summary of significant accounting policies continued

l. **Financial instruments** continued**:**

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 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.

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.

Note 2 Summary of significant accounting policies continued

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.

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.

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 license 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.

Note 2 Summary of significant accounting policies continued

r. **Revenue recognition** continued**:**

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.

Customer loyalty programme

The Company participates in the Club Carlson^{SM} customer loyalty programme (formerly Gold Points® Plus) 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 Company 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 plans.

The Group will have no legal obligation to pay further contribution. The contributions in the defined contribution plan are recognised as an expense and no additional provision is required in the 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 income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised 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.

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.

Note 2 Summary of significant accounting policies continued

w. Taxation continued:

Deferred income tax continued

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 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, and are subject to adoption by the European Union, up to the date of issuance of the Group's 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 effective.

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 addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015.

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 2013. As a consequence of this change IAS 27 "Consolidated and Separate Financial Statements" has been amended.

IFRS 11 – Joint arrangements

IFRS 11 is a more realistic reflection 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. This standard becomes effective for annual periods beginning on or after 1 January 2013, 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.

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 has no impact on the Group's financial position or performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

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. The Group is currently assessing the impact that this standard will have on the financial position and performance, but based on the preliminary analyses, no material impact is expected. This standard becomes effective for annual periods beginning on or after 1 January 2013.

Presentation of items of other comprehensive income (Amendments to IAS 1)

The main change resulting from these amendments is a requirement for entities to group items presented in "other comprehensive income" (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The amendment is effective as per 1 July 2012 and is not expected to have an effect on performance or the financial position.

Note 2 Summary of significant accounting policies continued

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

IAS 32 - Financial Instruments: Presentation and IFRS 7 – Financial Instruments: Disclosure:

In December 2011, the IASB issued amendments to IAS 32 ("the amendments to IAS 32") regarding the offsetting of financial assets and liabilities. The amendments to IAS 32 clarify, among others, the meaning of "currently has a legally enforceable right of set-off" ("the right of set-off"). Among others, the amendments to IAS 32 prescribe that the right of set-off must be legally enforceable not only during the ordinary course of business of the parties to the contract but also in the event of bankruptcy or insolvency of one of the parties. The amendments to IAS 32 also state that in order for the right of set-off to be currently available, it must not be contingent on a future event, there may not be periods during which the right is not available, or there may not be any events that will cause the right to expire.

Simultaneously, the IASB issued amendments to IFRS 7 ("the amendments to IFRS 7") regarding the offsetting of financial assets and liabilities. According to the amendments to IFRS 7, the Company is required, among others, to provide disclosure of rights of set-off and related arrangements (such as collateral agreements), the composition of amounts that are set off, and amounts subject to enforceable master netting arrangements that do not meet the offsetting criteria of IAS 32.

The amendments to IAS 32 are to be applied retrospectively commencing from the financial statements for periods beginning on 1 January 2014, or thereafter. Earlier application is permitted, but disclosure of early adoption is required as well as the disclosures required by the amendments to IFRS 7 as described above. The amendments to IFRS 7 are to be applied retrospectively commencing from the financial statements for periods beginning on 1 January 2013, or thereafter.

The Company estimates that the amendments to IAS 32 are not expected to have a material impact on its financial statements. The required disclosures pursuant to the amendments to IFRS 7 will be included in the Company's financial statements.

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 IAS 19 Employee Benefits (issued 16 June 2011)

IFRIC Interpretation 20: Stripping Costs in the Production Phase of a Surface Mine

Amendments to IFRS 1 with respect to Government Loans

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) (issued on 31 October 2012)

Annual Improvements May 2012

These improvements will not have an impact on the Group, but include:

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

IAS 34 Interim Financial Reporting

These improvements are effective for annual periods beginning on or after 1 January 2013.

Note 3 Business combinations in 2012

a. 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 comprises:

1. €23 million in cash which has been 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 Acquisition Date is €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 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 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)

From the Acquisition Date (being 30 March 2012) to 31 December 2012, the Hotels (at 100% ownership) have made a contribution of €26.7 million to the Group's revenue and €0.5 million to the Group's profit. If the combination had taken place at the beginning of 2012, the total consolidated revenues and profit for the year ended 31 December 2012 would have amounted to €245.3 million and €67.0 million, respectively.

Out of the gross contractual amount in trade receivables of €1.4 million, €1.3 million is expected to be collected.

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 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 2011	23,936	24,468	4,000	–	52,404
Additions during the year	–	–	–	1,003	1,003
Balance as at 31 December 2011	23,936	24,468	4,000	1,003	53,407
Accumulated amortisation:					
Balance as at 1 January 2011	4,044	4,427	1,620	–	10,091
Amortisation	1,206	1,214	148	–	2,568
Balance as at 31 December 2011	5,250	5,641	1,768	–	12,659
Amortised cost as at 31 December 2011	18,686	18,827	2,232	1,003	40,748
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
Amortised cost as at 31 December 2012	17,480	17,613	2,083	998	38,174

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 14.5 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 14.5 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 14.5 years.

c. Other intangible assets:

These include development costs incurred in connection with a new concept which is currently being developed by the Group using modular construction to minimise the construction period as well as the construction costs.

d. Impairment:

In 2012, 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 2011	180,063	396,592	76,606	653,261
Additions during the year	67	1,730	6,651	8,448
Disposals	–	–	(134)	(134)
Adjustment for exchange rate differences	3,805	8,651	2,225	14,681
Balance as at 31 December 2011	183,935	406,973	85,348	676,256
Accumulated depreciation:				
Balance as at 1 January 2011	1,836	15,713	30,470	48,019
Disposals	–	–	(134)	(134)
Provision for depreciation	354	6,328	9,232	15,914
Adjustment for exchange rate differences	67	470	1,039	1,576
Balance as at 31 December 2011	2,257	22,511	40,607	65,375
Depreciated cost as at 31 December 2011	181,678	384,462	44,741	610,881
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:				
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
Depreciated cost as at 31 December 2012	267,811	439,500	55,611	762,922

* reference to note 3a

	31 December 2012 €'000	2011 €'000
(1) Cumulative expenditures for hotels under construction included in cost balances	15,129	3,829

a. Cumulative expenditure for hotels under development relates to the renovation and conversion of the Victoria Monument building (located in Amsterdam) into art'otel amsterdam, as well as the development of art'otel® london hoxton and Park Plaza Nuremberg.

b. The amount of borrowing costs capitalised during the year ended 31 December 2012 was €887,000 (2011: €320,000). The rate used to determine the amount of borrowing costs eligible for capitalisation was 4.8 % (2011: 4.9%), which is the average effective interest rate of the specific borrowing.

(2) For information regarding liens, see Note 17.

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

	31 December 2012 €'000	2011 €'000
Cost – capitalised finance leases	20,068	11,200
Accumulated depreciation	(1,158)	(958)
Net book value	18,910	10,242

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 internal value in use calculations using discounted cash flow projections for the relevant cash-generating units. 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 8.65% and cash flows beyond the five-year period are extrapolated using a growth rate of 1.5%. 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 2011	19,296	135,787	5,503	160,586
Additions during the year	–	1,238	1,287	2,525
Exchange rate differences	623	4,504	369	5,496
Balance as at 31 December 2011	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
Accumulated depreciation:				
Balance as at 31 December 2011	–	–	–	–
Balance as at 31 December 2012	–	–	–	–

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 within the Group and the owner of the freehold of the hotel, hold the sole voting share, being an "A" Ordinary share. This results in Marlbray having control in 1WB until the later of:

1. The completion date of the sale of the last of the units forming part of the hotel; and
2. The expiry of the period of guaranteed returns to purchasers (i.e. five years from the last completion),

provided that the relevant date shall not in any event be later than 31 December 2017.

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 (€186.6 million) have been accounted for as an advance payment until such time as they can be recognised as revenue (see Note 2j). For information regarding commitments and contingent liabilities, reference is made to Note 17.

Note 7 Prepaid leasehold payments

	Year ended 31 December 2012 €'000	2011 €'000
Cost:		
Balance as at 1 January	448	448
Acquisitions through subsidiaries*	466	–
Additions	–	–
Disposals*	(448)	–
Balance as at 31 December	466	448
Accumulated amortisation:		
Balance as at 1 January	214	204
Disposals*	(220)	–
Provision for amortisation	19	10
Balance as at 31 December	13	214
Amortised cost as at 31 December	453	234

* See Note 3a.

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.

Note 8 Investment in associate

a. Acquisition of 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 eight hotels, five 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:

	31 December	
	2012 €'000	2011 €'000
Loan to associate	29,906	27,453
Foreign currency translation adjustment	317	287
Share of associate's net assets under equity method	(8,662)	(6,232)
Loan to associate (adjusted for losses recognised under the equity method)	21,561	21,508

c. Share of the associate's balance sheet:

	31 December	
	2012 €'000	2011 €'000
Current assets	2,588	1,635
Non-current assets	32,695	29,221
Current liabilities	1,902	(2,515)
Non-current liabilities	38,054	(30,595)
Net liabilities	(4,673)	(2,254)
Loan to associate:		
Opening balance	27,453	25,695
Interest on loans	2,494	2,288
Foreign currency translation reserve	(41)	(530)
Closing balance	29,906	27,453
Share of the associate's revenue and loss:		
Revenue	8,390	7,316
Loss	(2,430)	(2,502)

Note 9 Other non-current financial assets

	As at 31 December	
	2012 €'000	2011 €'000
Loans to jointly controlled entities (see Note 29)	6,670	19,829
Loans to partners in jointly controlled entities	–	8,555
Trade receivables associates (see Note 29)	1,113	1,113
Rent security deposits[1]	412	814
	8,195	30,311

1 Relates to leases described in Note 17c(2).

Note 10 Inventories under construction

In August 2011, the Company indirectly acquired a majority stake in a Thai company holding a development site in Pattaya Bay, Thailand. The site is developed by the Group into a mixed-use development with the intention to sell the majority of apartments constructed to third parties. For subsequent events relating to this project, see Note 32.

Note 11 Other current financial assets

	As at 31 December	
	2012 €'000	2011 €'000
Available-for-sale investment shares[1,2]	1,339	1,499

1 The fair value of the available-for-sale investment in shares and bonds is based on quoted market prices.
2 Gains (losses) from unrealised available-for-sale investment in shares and bonds for an amount of €48,000 (2011: €107,000) were recorded in other comprehensive income.

	31 December	
Currency	2012 €'000	2011 €'000
ILS	–	135
EUR	1,339	1,267
USD	–	97
	1,339	1,499

Note 12 Trade receivables

a. Composition:

	As at 31 December	
	2012 €'000	2011 €'000
Trade receivables	17,559	13,673
Related parties (see Note 29)	2,642	3,743
Less – allowance for doubtful debts	(448)	(477)
	19,753	16,939

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

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

	€'000
As at 1 January 2011	428
Additions	37
Exchange rate differences	12
As at 31 December 2011	477
Deductions	(38)
Exchange rate differences	9
As at 31 December 2012	448

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	30-60 days €'000	60-90 days €'000	> 90 days €'000
2012	19,753	6,282	7,311	3,120	792	2,248
2011	16,939	5,640	5,516	2,465	1,067	2,251

Note 13 Other receivables and prepayments

	As at 31 December 2012 €'000	As at 31 December 2011 €'000
Prepaid expenses	4,756	5,639
VAT	260	553
Related parties*	89	1,527
Receivables from jointly controlled entities (see Note 29)	–	546
Others	790	792
	5,895	9,057

* The amount owed by related parties bears no interest and has no repayment date see Note 29.

Note 14 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 15 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 2012, the number of Ordinary shares issued was 43,377,292 (2011: 42,677,292), 1,862,000 of which were held as treasury shares (2011: 1,662,000).

As at 16 May 2012, Elbit was issued 700,000 shares as part of the transaction referred to in Note 3a.

As of 30 June 2011, the Company's shares, previously traded on AIM, were 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 of treasury shares amounts to 1,862,000.

c. Nature and purpose of reserves:

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.

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.

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.

Note 16 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 Group's Remuneration Committee met on 15 November 2012, to consider option packages of senior employees to ensure they are properly incentivised in the future. On 15 November 2012, the Remuneration Committee made its recommendation to the Board of Directors and the Board agreed to grant 786,000 options to several employees at an exercise price of 233.5 pence.

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.

Note 16 Share-based payments continued

The following lists the inputs to the binomial model used in 2012 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 2012 is €13,000 (2011: €8,000). As at 31 December 2012, zero options became exercisable (2011: 62,269). Total exercisable options at 31 December 2012 amounts to 244,800 (2011: 249,404).

Movements during the year

The following table illustrates the number (No.) and weighted exercise prices (EP) of, and movements in, share options during 2012 and 2011.

	No. of options A	No. of options B	EP
Outstanding as at 1 January 2012	178,550	202,050	£1.00
Options forfeited during the year	35,000	100,800	£1.00
Options granted during the year	786,000	–	£2.34
Outstanding as at 31 December 2012	929,550	101,250	£2.02
Outstanding as at 31 December 2011	178,550	202,050	£1.00

The weighted average remaining contractual life for the share options outstanding as at 31 December 2012 is nine years (2011: seven years).

Note 17 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. For certain loans, the Group companies are required to comply with certain financial covenants as described below:

1. Riverbank Hotel Holding B.V., Victoria London Hotel Holding B.V. and Grandis Netherlands Holding B.V. (the "Borrowers") have two loan facilities with Aareal Bank totalling £165.0 million (€191.5 million). Facility A has a nominal amount of £153.6 million (€178.3 million) and facility B has a nominal amount of £11.4 million (€13.2 million). The facilities bear an interest rate ranging between 2.75% and 2.95% per annum over three-month Libor. The maturity dates of the facilities are 26 November 2015.

   The facility agreement provides that the Borrowers must ensure that the aggregate amount of the outstanding facilities does not exceed 68% 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 (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 120%.

2. Victoria Hotel C.V., Utrecht Victoria Hotel B.V., Victoria Schiphol C.V. and The Mandarin Hotel B.V., ("the Borrowers"), have a loan facility with Aareal Bank totalling €111.0 million. The facility bears a fixed interest rate ranging between 4.56% and 5.116% per annum. The maturity date of the facility is 28 April 2017.

   The facility agreement provides that the Borrowers must ensure that the aggregate amount of the outstanding facilities do not exceed 70% 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 (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 120%.

   In the event of cash distributions deriving from the sale, disposal or refinancing of Schiphol Hotel or upon repayment of the loan, the Borrowers shall pay to the lender an amount ("exit fee") equivalent to 15% of the difference between the market value of the Schiphol hotel at the transaction date and €30.0 million plus such proven renovation cost and equity injections as approved by the lender. The estimated the exit fee as of 31 December 2012 is €736,000 (2011: 196,000).

3. On 14 September 2008 three wholly-owned subsidiaries, Parkvondel Hotel Real Estate B.V. ("PHRE"), as borrower, and Parkvondel Hotel Holding B.V. ("PHH") and Parkvondel Hotel Management B.V. ("PHM"), each a guarantor, entered into a €21.0 million secured term facility agreement with Aareal Bank as lender. The maturity date of this facility is 3 September 2013. For further details, see Note 31h(2).

   The facility agreement provides that the borrower must ensure that the aggregate amount of the outstanding facility does not exceed 70% of the value of the hotel as set out in the most recent valuation. In addition, the borrower must ensure that, on each interest payment date, the Debt Service Cover Ratio ("DSCR" Test) (the Net Operating Income of the hotel for each of the four preceding financial quarters relative to the principal, interest and other costs payable by the borrower for the next four financial quarters) is not less than 120%.

Note 17 Pledges, contingent liabilities and commitments continued

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

4. In September 2011, Victoria Monument B.V. signed a facility agreement with Bank Hapoalim B.M., totalling €26.0 million of which €14.0 million was used to settle amounts owed to the bank under the then outstanding Facility in connection with the acquisition costs of the property, while the additional amount is available to fund the development of a new art'otel®. The facility agreement provides that Victoria Monument B.V. must ensure that the aggregate amount of the outstanding loans do not exceed 75% of the value of the property.

5. On 1 June 2011, Marlbray Limited ("Marlbray") signed a facility agreement with Bank Hapoalim B.M., totalling £115.0 million (€141.0 million). The maturity date of this facility is 1 June 2018. The facility bears an interest of 2.65% per annum over three-month Sterling LIBOR.

   The agreement provides that Marlbray 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, Marlbray 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 Marlbray for the next four financial quarters) is not less than 130%.

6. Leno Investments Limited has a loan facility totalling £3 million (€3.6 million). The loan bears a stepped interest of Libor+6% on the first year, Libor+8% on the second year and Libor+10% on the third year. The maturity of the loan is August 2013.

   Laguna Estates (Leeds) Limited has a term facility from The Royal Bank of Scotland plc. amounting to £13.6 million (€15.8 million), of which £11.3 million (€13.7 million) carries a variable interest of 1.3% per annum over three-month Libor and £2.3 million (€2.8 million) carries a variable interest of 1.7% per annum over three month Libor. The facility is repayable in 2019.

   Katmandu Limited has a term facility from National Westminster Bank plc, amounting to £5.9 million (€7.2 million). The loan carries a variable interest of 1.3% per annum over three month Libor and is repayable in 2027.

7. On 16 May 2012 PPHE Netherlands B.V. entered into a facility agreement with Bank Hapoalim, totalling €12.0 million to finance the acquisition of the remaining 50% interest of the Dutch hotels (see Note 3). The facility bears an interest of 3.9% over three month LIBOR and is repayable in May 2015. The facility agreement provides for the following covenants:

   a. the shareholders equity of the Company is not less than the lower of €150 million (if calculated in Euro), or £110 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 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;

   e. the outstanding loans under the Aareal facility in The Netherlands (Note 17 a 2) do not exceed 70% of the value of the mortgaged properties under the Aareal facility; and

   f. the debt service cover ratio under the Aareal facility in The Netherlands (Note 17 a 2) (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%.

8. On 22 October 2012 Park Plaza Nuremberg GmbH entered into a €11.7 million facility agreement with Deutsche Hypothekenbank to finance the conversion of a building located in Nuremberg (Germany) into a hotel. The facility bears an annual interest of three-month EURIBOR plus 1.6%. The final maturity date of the loan is 31 December 2016.

   The facility agreement provides that as of completion of the hotel throughout the entire term of the loan, Park Plaza Nuremberg GmbH must ensure that the aggregate amount of the outstanding loan does not exceed 65% of the value of the property. Furthermore Park Plaza Nuremberg GmbH must, on the basis of full calendar years, observe a debt service ratio of at least 140%. The debt service ratio is the ratio of Net Operating Profit compared to the debt service (interest and regular redemptions (if any).

9. On 12 September 2012 Bali Hai Co. Ltd. (Thailand) entered into a Thai Baht 1,100 million (€27.5 million) facility agreement with United Overseas Bank (Thai) Public Company Limited ("UOB"). The facility was made available to finance the construction of a mixed-used development located in Pattaya, Thailand. The facility bears an annual interest of the higher of MLR minus 2% and Tier 12-month FD rate plus 2%. The final maturity of the loan is September 2016. The agreement provides that the borrower shall maintain a positive Tangible Net Worth (total tangible assets less the sum of total liabilities plus any subordinated indebtedness). The borrower must further maintain during the term of the loan in the debt service reserve account an amount of not less than Baht 10 million which is reserved for certain payments under the agreement (refer to subsequent events in note 32).

For guarantees on above facilities see Note 17c4. For hedging arrangements on above facilities see Note 31h. As at 31 December 2012, the Group is in compliance with all its banking covenants except for the DSCR Test under the facility agreement with Aareal Bank referred to in Note 17a3 which has been waived by Aareal Bank until maturity of the loan.

Note 17 Pledges, contingent liabilities and commitments continued

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 2012, a balance of £7.9 million (€10 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 (see Note 17(a)(5)), 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 £2.6 million (€3.3 million).

(iii) For the purpose of compliance with the financial covenants of the facility agreement in respect of Park Vondel Hotel Real Estate B.V. (see Note 17(a)(3)), on 27 December 2012 an amount of €2 million has been deposited by the Group with Aareal Bank, which amount can be used at any time by the bank for the repayment of the loan.

(iv) In connection with two lease agreements in the German region, an amount of €0.8 million has been deposited in a restricted bank account.

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' gross room or total revenues, as applicable, as well as 7% to 10% of the gross operating profit. The Group is also charging marketing fees as a percentage of room 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 sub-franchise license allowing them the utilisation, throughout the term of the management agreements, of the "Park Plaza® Hotels & Resorts or art'otel®" name, in consideration for royalties of a certain percentage of the gross room revenues.

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:

	2012 €'000	2011 €'000
Within one year	1,387	1,080
After one year but not more than five years	5,546	4,320
More than five years	152,813	103,320
	159,745	108,720
Less amounts representing finance charges	(139,677)	(97,520)
Present value of minimum lease payments	20,068	11,200

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

	2012 €'000	2011 €'000
Within one year	–	–
After one year but not more than five years	1	1
More than five years	20,067	11,199
	20,068	11,200

Following are details regarding the finance lease agreements:

a) In September 2000, Grandis Netherlands Holding B.V., a wholly owned subsidiary company, acquired a land leasehold interest expiring in 2095, of Park Plaza Sherlock Holmes, for a sum of £10.0 million (€13.6 million plus an initial annual rent of £400,000 (€545,000) (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.

Note 17 Pledges, contingent liabilities and commitments continued

c. **Commitments** continued**:**

As at 31 December 2012, the current rent review date is 29 September 2006 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 2006 plus interest, plus the increased rent going forward in accordance with the terms of the lease, subject to the further review as at 29 September 2011. Depending on the outcome of the review, Grandis could be liable to pay a proportion of the landlord's legal costs. Please see Note 32 for subsequent events relating to the results of the arbitration.

b) In May 2000, Riverbank Hotel Holding B.V., a jointly controlled company, acquired a land leasehold interest expiring in 2125, in Park Plaza Riverbank London, located at Albert Embankment, London, for a sum of £12.0 million (€16.3 million) plus an initial annual rent of £500,000 (€681,000), subject to rent review every five years.

c) On 18 June 2012, Club A40 Holdings B.V. (Club A40) has 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 million (€7.3 million). Simultaneously, Club A40 has completed the sale of the Site at a price of £7 million (€8.6 million) and the leaseback of the Site at an initial rent of £306,500 (€373,000) per year (the "Sale and Leaseback") for 170 years. Under the terms of the Sale and Leaseback, PPHE Hotel Group 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.

On 25 July 2012, the Group was granted planning permission to construct a new hotel at the front of the Site.

(ii) The Group operates hotels 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:

	2012 €'000	2011 €'000
Within one year	9,179	9,366
After one year but not more than five years	36,168	36,401
More than five years	94,515	103,460
	139,862	149,227

3. Construction contract commitment:

As at the reporting date, Victoria Monument B.V., entered into capital commitments amounting to €2.8 million for converting a building into a hotel.

As at the reporting date, Park Plaza Nuremberg GmbH, entered into capital commitments amounting to €1.0 million for converting a building into a hotel.

As at the reporting date, Bali Hai Co. Ltd. entered into capital commitments amounting to Thai Baht 1,065 million (€ 26.6 million) for construction of a mixed use development project.

Note 17 Pledges, contingent liabilities and commitments continued

c. **Commitments** continued:

4. Guarantees:

   a) On completion of each sale of the 535 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 includes 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 5% or 6% p.a. yield (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.

   b) The Company guarantees principal, interest and costs under facility B under the loan facility of Park Plaza Riverbank London, Park Plaza Sherlock Holmes London and Park Plaza Victoria London. The Company also guarantees the facility that was made available for the close out costs incurred in the termination of an interest rate swap agreement that had been entered into in connection a previous facility.

   c) The Company guarantees all amounts due to Elbit in connection with the acquisition of their 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 project.

   d) The Company guarantees 65% of the amounts owed by Victoria Monument B.V. to Bank Hapoalim in relation to this financing.

   e) Under the terms of the UOB facilities received for the construction in Pattaya Bay, Thailand 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 development project.

   f) 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.

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

   h) The Company guarantees the construction facility provided to Park Plaza Nuremberg GmbH.

5. Lease guarantees

   The Group provided guarantees for commitments under certain hotel lease agreements. The total of these guarantees do not exceed €12.2 million.

Note 18 Bank borrowings

Composed as follows:

Current

	Interest rate %	As at 31 December 2012 €'000	As at 31 December 2011 €'000
Bank loan in €	EURIBOR + 1.65%	18,910	–
Bank loan in £	LIBOR + 10%	3,681	–
Current maturities of long-term bank loans		9.839	6,913
		32,430	6,913

Non-current

	As at 31 December 2012 €'000	As at 31 December 2011 €'000
Loans in €	136,605	82,479
Loans in £	347,533	335,649
Loans in THB	148	–
	484,286	418,128
Less – current maturities	(9,839)	(6,913)
	474,447	411,215

The balance includes €6,051,000 capitalised finance expenses.

* For details of interest rate swap (see Note 31(h)).

Note 18 Bank borrowings continued

The loans are payable in future years, as follows:

	As at 31 December	
	2012 €'000	2011 €'000
1. Loan in €:		
First year – current maturities	3,700	1,495
Second year	22,892	20,118
Third year	7,250	7,617
Fourth year	–	–
Fifth year	103,395	–
Thereafter	–	54,355
Less: capitalised finance expenses	(632)	(1,106)
	136,605	82,479
2. Loan in £:		
First year – current maturities	6,139	5,418
Second year	7,562	9,951
Third year	191,333	6,594
Fourth year	3,792	187,619
Fifth year	3,982	3,414
Thereafter	140,144	129,188
Less: capitalised finance expenses	(5,419)	(6,535)
	347,533	335,649

For securities and pledges, see Note 17.

Note 19 Other financial liabilities

	As at 31 December	
	2012 €'000	2011 €'000
Derivative financial instruments (see Note 31h)	28,464	28,603
Lease liability (see Note 17c2)	20,068	11,200
Loans from jointly controlled entities (see Note 29)	6,737	19,232
Deferred consideration business combination*	3,815	3,119
Other loans from third parties	–	9,360
Loans from partners in jointly controlled entities	–	8,764
Other	9,714	6,224
	68,798	86,502

* €1.1 million relates to the 2012 business combination for the acquisition of Dutch hotels described in Note 3(a). € 2.7 million relates to the 2010 business combination for the acquisition of various UK hotels. 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 £5.0 ("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 £5.0 ("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 £1.50 ("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:

d) The present value of the contingent cash payment using a discount rate of 5%.
e) Plus the value of an American call option (using a binomial model) with an exercise price of the Floor.
f) 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 2012 for the fair value measurement of the American call options:

Dividend yield (%)	5.1
Expected volatility of the share prices (%)	40.4
Risk-free interest rate (%)	0.50-0.59
Expected life of share options (years)	3-3.5

Note 20 Other payables and accruals

	As at 31 December	
	2012 €'000	2011 €'000
Employees	2,483	1,225
VAT and taxes	5,241	5,315
Accrued interest	578	449
Corporate income taxes	39	304
Accrued expenses	16,605	15,096
Other loans from third parties	9,630	2,674
Accrued rent	4,152	3,808
Derivative financial instruments (see Note 31h)	6,408	6,253
Deposits received from apart-hotel unit sales (see Note 10)	9,100	833
Related parties	–	62
	54,236	36,019

Note 21 Revenues

	As at 31 December	
	2012 €'000	2011 €'000
Rooms	166,175	139,030
Food and beverage	60,179	52,408
Minor operating	5,244	3,516
Management fee (see Note 17c(1))	6,925	3,214
Franchise and reservation fee (see Note 17c(1))	2,009	1,575
Marketing	1,237	2,184
Other	323	453
	242,092	202,380

Note 22 Operating expenses

	As at 31 December	
	2012 €'000	2011 €'000
Salaries and related expenses	65,255	57,124
IT expenses	1,998	1,887
Utilities	6,990	6,089
Supplies	3,357	2,838
Laundry, linen and cleaning	4,179	3,716
Administration costs	5,679	5,488
Communication, travel and transport	2,175	1,935
Maintenance	4,129	3,715
Marketing expenses	1,804	1,771
Food and beverage	11,924	10,365
Franchise fees, reservation and commissions	17,081	14,389
Leases	1,257	1,336
Insurance	11,338	9,071
Other expenses	8,130	7,627
	145,296	127,351

Note 23 Financial expenses

	As at 31 December	
	2012 €'000	2011 €'000
Interest and other finance expenses on bank loans	26,418	20,472
Interest expenses from jointly controlled entities	197	902
Interest on other loans from third parties	727	1,076
Interest on finance lease liability	1,111	1,035
Foreign exchange differences	112	–
Interest related parties (see Note 29)	814	–
Fair value loss derivative financial instruments (see Note 31h)	–	4,693
Other	362	374
	29,741	28,552
Less – borrowing costs capitalised	(887)	(325)
	28,854	28,227

Note 24 Financial income

	As at 31 December	
	2012 €'000	2011 €'000
Interest on restricted deposit	86	78
Profit on sale of available for sale investments	48	–
Interest on bank deposits	71	84
Interest from related parties (see Note 29(b))	2,494	2,288
Interest on VAT loans to unit holders	–	56
Adjustment to fair value on derivative financial instruments (see Note 31h)	505	–
Foreign exchange differences	–	75
Interest and other finance income from jointly controlled entities (see Note 29b)	119	757
Interest and other finance income from partners in jointly controlled entities	–	167
Other	–	6
	3,323	3,511

Note 25 Other income and expenses

	As at 31 December	
	2012 €'000	2011 €'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	–
Release of liabilities (see Note 29(b))	–	2,515
Income from forfeited deposits	–	687
Fair value adjustment deferred consideration business combinations	557	–
Marketing expenses Thai development project (see Note 10)	(430)	–
Strategic advice expenses	(906)	(1,482)
	49,210	1,720

Note 26 Income tax benefit

a. Tax benefit included in the income statement:

	As at 31 December	
	2012 €'000	2011 €'000
Current taxes	(73)	41
Deferred taxes	(313)	(4,660)
	(386)	(4,619)

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

Note 26 Income tax benefit continued

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	Inventories under construction €'000	Total €'000
Balance as at 31 December 2010	2,769	(2,721)	(8,818)	(8,770)
Reclassification	–	(8.818)	8.818	–
Amounts charged to income statement	–	4,660	–	4,660
Adjustments for exchange rate differences	–	(11)	–	(11)
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 3a)	–	(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)

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	
	2012 €'000	2011 €'000
Profit before income taxes	67,590	10,634
Expected tax at the tax rate of The Netherlands 25%[1] (2011: 25%)	(16,898)	(2,659)
Adjustments in respect of:		
Effects of other tax rates	2,960	378
Non-deductible expenses	(2,537)	(2,813)
Utilisation of previously unrecorded tax losses	4,195	6,755
Non-taxable income[2]	12,251	74
Unrecognised current year tax losses	(962)	(2,860)
Other differences	1,377	1,255
Release of deferred tax liability related to changes in the expected manner of recovery	–	4,660
Under (over) provision of tax liability in previous years	–	(125)
Other	–	(46)
Income tax benefit reported in the income statement	386	4,619

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.

2 The non-taxable income in 2012 relates mainly to the capital gain recognized on acquisition of the remaining interest in the Dutch hotels (see Note 3a).

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% (2011: 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. Taxation in Thailand: corporate income tax rate is 30%.

e. Losses carried forward for tax purposes:

The Company and its subsidiaries have carry forward losses for tax purposes estimated at approximately €190.3 million (2011: €206.4 million). The Group did not establish deferred tax assets in respect of losses amounting to €179.3 million (2011: €195.4 million) of which tax losses amounting to €27.6 million may be utilised for a period up to seven years. The remaining tax losses may be carried forward indefinitely.

Note 27 Earnings per share

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

	As at 31 December	
	2012 €'000	2011 €'000
Profit	67,976	15,253
Weighted average number of Ordinary shares outstanding	41,357	41,682

Potentially dilutive instruments (134,000) in 2012 (2011: 195,000) had an immaterial effect on the basic earnings per share.

Note 28 Segments

For management purposes, the Group's activities are divided into Owned Hotel Operations and Management Activities (for further details see Note 17c(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 2012					
	The Netherlands €'000	Germany and Hungary €'000	United Kingdom €'000	Management €'000	Holding companies and adjustments[2] €'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

	The Netherlands	Germany and Hungary	United Kingdom	Holding companies and adjustments	Consolidated
Geographical information					
Non-current assets[1]	223,418	8,635	703,135	39,173	974,361

1 Non-current assets for this purpose consist of property, plant and equipment, apart-hotel units under management, prepaid leasehold payments and intangible assets.

2 Consist of inter-company eliminations. For further details, see Note 17c (1).

Note 28 Segments continued

	As at 31 December 2011					
	The Netherlands €'000	Germany and Hungary €'000	United Kingdom €'000	Management €'000	Holding companies and adjustments[1] €'000	Consolidated €'000
Revenue						
Third party	24,820	30,205	139,981	7,374	–	202,380
Inter-segment	–	–	–	21,146	(21,146)	–
Total revenue	24,820	30,205	139,981	28,520	(21,146)	202,380
Segment EBITDA	7,766	(966)	47,487	10,596	167	65,050
Depreciation and amortisation						(18,492)
Financial expenses						(28,227)
Financial income						3,511
Interest expenses guaranteed to Apart-hotel unit holders						(10,426)
Other income, net						1,720
Share in loss of associate						(2,502)
Profit before tax						10,634

	The Netherlands	Germany and Hungary	United Kingdom	Holding companies and adjustments	Consolidated
Geographical information					
Non-current assets[2]	75,958	7,499	695,861	41,152	820,470

[1] Consist of inter-company eliminations. For further details, see Note 17c(1).
[2] Non-current assets for this purpose consist of property, plant and equipment, apart-hotel units under management, prepaid leasehold payments and intangible assets.

Note 29 Related parties

a. Balances with related parties:

	31 December	
	2012 €'000	2011 €'000
Loans to jointly controlled entities[2]	6,670	19,829
Loan to associate – WH/DMREF Bora B.V.[1]	29,906	27,453
Short-term receivables	89	2,073
Loans from jointly controlled entities[3]	6,737	19,232
Trade receivables – the Arenaturist group[1]	3,755	4,856
Trade payables – WW Gear Construction Limited	–	4,431
Short-term payables – WW Gear Construction Limited	–	51
Short-term payables – other	–	11

b. Transactions with related parties:

	As at 31 December	
	2012 €'000	2011 €'000
Management fees income – the Arenaturist Group[1]	1,718	1,366
Reimbursement of expenses – the Arenaturist Group[1]	357	298
Sales and marketing fees – the Arenaturist Group[1]	693	1,472
Development management fees – the Arenaturist Group[1]	547	358
Interest charges Gear Construction Management Limited (see Note 29ba)	814	–
Construction management charges - Gear Construction Management Limited	664	2,515
Interest from associate – WH/DMREF Bora B.V.[1]	2,494	2,288
Interest income from jointly controlled entities	119	757

[1] The Group holds 20% of the equity in WH/DMREF Bora B.V. (see Note 8).
[2] Includes loans to jointly controlled entities in the amount of €6.7 million (2011: €19.1 million) bearing fixed interest of LIBOR +3% per annum.
[3] Includes loans from jointly controlled entities in the amount of €6.7 million (2011: €10.6 million) bearing an interest of LIBOR+3% per annum.

Note 29 Related parties continued

Significant other transactions with related parties

a. In January 2012, 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 of £45,000 (plus VAT) for a period of 36 months with effect from September 2011. GC is also entitled to reimbursement of properly incurred expenses in connection with the provision of the services.

b. In January 2012, Marlbray Limited, a wholly owned subsidiary of the Company, 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 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 2012:

	Position	Base salary and fees €'000	Pension contributions €'000	Other benefits €'000	Total €'000
Boris Ivesha	President & CEO	420	123	86	629
Chen Moravsky	CFO	275	41	51	367
Eli Papouchado	Non-Executive Chairman of the Board	123	–	–	123
Kevin McAuliffe	Non-Executive Director & Senior Independent Director	59	–	–	59
Nigel Jones	Non-Executive Director	47	–	–	47
Elisha Flax	Non-Executive Director	59	–	–	59
		983	164	137	1,284

Director's interests in employee share incentive plan

As at 31 December 2012, the CFO holds 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.

e. Compensation to key management personnel (Executive and Non-Executive Board members) for the year ended 31 December 2011:

	Position	Base salary and fees €'000	Pension contributions €'000	Other benefits €'000	Total €'000
Boris Ivesha	President & CEO	389	115	73	577
Chen Moravsky	CFO	275	41	72	388
Eli Papouchado	Non-Executive Chairman of the Board	115	–	–	115
Kevin McAuliffe	Non-Executive Director & Senior Independent Director	46	–	–	46
Nigel Jones	Non-Executive Director	40	–	–	40
Elisha Flax	Non-Executive Director	46	–	–	46
		911	156	145	1,212

Director's interests in employee share incentive plan

As at 31 December 2011, the CFO holds share options to purchase 95,000 Ordinary shares. The Options are fully exercisable with an exercise price of £1.00 (€1.12). The options will expire in 2017. No share options have been granted to Non-Executive members of the Board.

Note 30 Jointly controlled entities

The Group has an interest in a jointly controlled entity (Appendix B) which are engaged in the development of a hotel. For further information regarding the terms of loans with jointly controlled entities see Note 29. 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	
	2012 €'000	2011 €'000
Non-current assets	15,324	85,951
Current assets	141	3,921
	15,465	89,872
Non-current liabilities	13,404	62,024
Current liabilities	41	4,699
	13,445	66,723
	2,020	23,149

The Group has an interest in a jointly controlled entity (as per Appendix B), which is engaged in the development of a hotel. All other entities that were jointly controlled as at 31 December 2011 were acquired in full by the Company on 30 March 2012, as detailed in Note 3(a).

Note 30 Jointly controlled entities continued

	As at 31 December	
	2012 €'000	2011 €'000
Revenues	162	16,457
Operating expenses	(30)	(11,392)
EBITDAR	132	5,065
Rental expenses	–	(43)
EBITDA	132	5,022
Depreciation and amortisation	–	(1,484)
EBIT	132	3,538
Financial expenses, net	(380)	(1,598)
(Loss) profit before income taxes	(248)	1,940
Income tax benefit (expense)	–	–
(Loss) profit for the year	(248)	1,940

Note 31 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.

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 two 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 €220,000.

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 2012 amounts to a liability of €34.8 million (2011: liability of €34.9 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 50 bps, the fair value of the swaps, and the hedge reserve in equity would increase/decrease by €5.3 million (2011: €6.3 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 17b) were held in bank accounts in the United Kingdom bearing interest at an average annual rate of 0.8% (2011: 0.2%). If the interest rate increase/decrease is an average of 50bps, the profit of the Group would change by €40,000.

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 have 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 31 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, as at 31 December 2012, has a balance of €3.8 million (2011: €4.8 million) from associates. The Group has agreed that most of the outstanding amount will be settled in the course of 2013.

d. Market risk:

As at 31 December 2012, the Group has an available-for-sale investment in securities, in the amount of €1.3 million (2011: €1.5 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 1%, the equity of the Group would increase/decrease by €13,000 (2011: €15,000).

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 2012 and 2011 based on contractual undiscounted payments.

	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 to Elbit	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

	As at 31 December 2011					
	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]	7,501	22,623	60,774	248,589	193,596	533,083
Deposits received from unit holders	–	–	–	–	12,279	12,279
Derivative financial instruments	1,993	5,979	7,479	9,653	8,362	33,466
Loans to jointly controlled entities and partners in jointly controlled entities	–	–	–	–	(28,385)	(28,385)
Loans from jointly controlled entities and partners in jointly controlled entities	–	–	–	–	27,615	27,615
Loans to Elbit	1,546	1,854	10,015	2,000	1,500	16,915
Lease liability[2]	270	810	1,080	3,241	115,304	120,705
Trade payables	9,818	4,431	–	–	–	14,249
Other liabilities	17,088	10,030	–	–	10,345	37,463
	38,216	45,727	79,348	263,483	340,616	767,390

1 See Note 17(a) 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 CPI's, respectively.

Note 31 Financial risk management objectives and policies continued

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.

	2012 €'000	2011 €'000
Interest bearing bank loans and borrowings	506,877	418,128
Less – cash and cash equivalents	(44,903)	(29,506)
Less – other liquid assets	(1,339)	(1,499)
Net debt	460,635	387,123
Equity	259,897	201,231
Hedging reserve	22,626	17,072
Total capital	282,523	218,303
Capital and net debt	743,158	605,426
Gearing ratio	62.0%	63.9%

g. Fair value of financial instruments:

The fair value 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. 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.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique.

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 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	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 31 Financial risk management objectives and policies continued

As at 31 December 2011, the Group held the following financial instruments measured at fair value:

Assets

	31 December 2011 €000	Level 1 €000	Level 2 €000	Level 3 €000
Available-for-sale financial assets:				
Equity shares	1,491	1,491	–	–

Liabilities

	31 December 2011 €000	Level 1 €000	Level 2 €000	Level 3 €000
Financial liabilities:				
Deferred consideration business combinations	3,119	–	3,119	–
Interest rate swaps	34,856	–	34,856	–

During the year as at 31 December 2011, 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.

The following table specifies the Company's estimation of the fair value of its financial assets:

	Carrying amount 31 December		Fair value 31 December	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Financial assets				
Other non-current financial assets	38,101	30,311	39,820	30,917
Restricted deposits	15,940	16,183	15,940	16,183
Other current financial assets	1,339	1,499	1,339	1,499
Trade receivables	19,753	17,416	19,753	17,416
Other receivables	780	2,865	780	2,865
Cash and cash equivalents	44,903	29,506	44,903	29,506
Total assets	120,816	97,780	122,535	98,386

	Carrying amount 31 December		Fair value 31 December	
	2012 €'000	2011 €'000	2012 €'000	2011 €'000
Financial liabilities				
Floating rate borrowings	400,598	362,759	400,598	362,759
Fixed rate borrowings	106,279	55,369	118,085	59,409
Derivative financial instruments	34,873	34,856	34,873	34,856
Other financial liabilities	11,278	41,151	11,484	43,303
Lease liability	20,068	11,200	20,068	11,200
Trade payables	10,931	14,249	10,931	14,249
Deposits received from unit holders	9,360	12,279	9,360	12,279
Other payables and accruals	18,711	13,010	18,711	13,010
Total	612,098	544,873	624,110	551,065

Note 31 Financial risk management objectives and policies continued

h. Derivative financial instruments:

The majority of the Group's borrowings are at variable interest rates based on LIBOR. 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 26 November 2010, the Group entered into an interest rate swap with AarealBank with a nominal value of £130.6 million (€151.6 million) with fixed quarterly interest payments at a rate of 5.295% per annum (including Close out costs margin) for periods up until November 2013 and for the period November 2013 until November 2015 at a rate of 3.275%.

   As at 31 December 2012, the fair value of the swap is estimated at a liability of £12.0 million (€14.8 million) (2011: liability of £13.6 million (€16.3 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. Up to 1 July 2011, the Company recorded the fair value changes on these swaps in the income statement.

   The amount recorded in the other comprehensive income amounts to €(2.1) million. The total amount of ineffectiveness recorded in the income statement amounts to €173,000.

2. In 2008, PHRE, PHH and PHM entered into an interest rate swap according to which PHRE, PHH and PHM swapped the Variable interest rate of three months EURIBOR on a loan in the amount of €21.0 million received from Aareal Bank, bearing fixed quarterly interest payments, at the rate of 3.77% per annum, for the period until September 2013. As at 31 December 2012, the fair value of the swap is estimated at a liability of €0.5 million (2011: liability of €0.9 million). The swap of the expected future interest was assessed to be very effective and the change in fair value is recorded in the other comprehensive income. The amount recorded in the other comprehensive income was immaterial for both 2011 and 2010.

3. In 2004 Laguna and 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 (€18.5 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 2012, the fair value of the swap is estimated at a liability of £3.6 million (€4.4 million). Katmandu swapped the variable interest rate of three month LIBOR on a loan of £6.0 million (€7.4 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 2011 the fair value of the swap is estimated at a liability of £2.3 million (€2.8 million).

   The Companies 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. Up to 1 July 2011, the Company recorded the fair value changes on these swaps in the income statement.

   The amount recorded in the other comprehensive income amounts to €(0.5) million. The total amount of ineffectiveness recorded in the profit and loss account amounts to €0.3 million.

4. In 2011, Marlbray entered into several interest rate swap transactions pursuant to which Marlbray swapped the variable interest rate of three months LIBOR on a loan from Bank Hapoalim. The swap nominal amounts are £111.0 million, with an 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 2012, the fair value of the swap is estimated at a liability of £10.1 million (€12.5 million). The swap of the expected future interest of was assessed to be effective and the change in fair value is recorded in the other comprehensive income. The amount recorded in the other comprehensive income amounts to (€3.4 million).

Note 32 Subsequent events

1. At 8 January 2013 the Company announced that it has entered into a conditional agreement with Red Sea Hotels Limited ("Red Sea") for the sale of all the Company's shares in its subsidiary, Leno Finance Limited ("Leno"), the company through which PPHE Hotel Group owns its interest in the site in Pattaya Bay, Thailand, and certain related loans and receivables, for a total consideration of US$20 million (the "Disposal").The consideration for the Disposal will not be payable on completion of the Disposal ("Completion"), but the whole of the consideration 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. As security for payment of the consideration, the Company will be granted a charge over the shares in Leno to be held by Red Sea, being no less than 63% of Leno's share capital.

   Under the terms of the Disposal the Group will have an option to manage the completed development and/or acquire the serviced apartment element of the Project for US$20 million. However, the Group will not be under any obligation to the Buyer to proceed with either.

   Red Sea has agreed to use all reasonable endeavours to obtain the release of the Company from its obligation due to the UOB facility. The Group is currently assessing the impact that this transaction will have on the financial position and performance.

   Completion is subject to the fulfilment of various conditions, including the consent of UOB, by 8 April 2013 (or such later date as the Company and Red Sea may agree).

2. The landlord of the lease of Park Plaza Sherlock Holmes was seeking to increase the then passing rent of £650,000 as at 29 September 2006. An arbitrator was appointed to determine the reviewed rent. On 8 February 2013, the arbitrator issued the arbitration award. The award provides that the increased rent as at 29 September 2006 will be £810,000, an increase of £160,000 per annum. In accordance with the award, Grandis must pay an additional £1,000,000 (for the period 29 September 2006 up and until 29 December 2012) alongside an interest payment of approximately £35,000. The award did not affect the result and equity of the Group, as the dispute was sufficiently provided for.

3. On 25 March 2013 the Company conditionally agreed to acquire a prime site near Waterloo Station in London for a consideration of £23.5 million in cash. The Company intends to arrange appropriate financing for the acquisition of the property or to use its existing cash resources. The acquisition of the property is conditional on an underlease being entered into with the occupier of a small part of the property which would require such occupier to vacate the property by no later than 28 September 2013 or the seller procuring vacant possession of the property by mid October 2013. Completion is due to take place by the end of October 2013.

4. The Directors are proposing a final dividend of 6 pence per share (2011: 6.0 pence per share), which will absorb £2.4 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.	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]	Holding company	The Netherlands	100
Victoria Hotel and Restaurant Investment B.V.[2]	Holding company	The Netherlands	100
Victoria Schiphol Holding B.V.	Holding company	The Netherlands	100
Victoria Hotel and Restaurant Management Services B.V.[2]	Hotel operation	The Netherlands	100
Utrecht Victoria Hotel C.V.	Hotel operation	The Netherlands	100
Victoria Hotel C.V.	Hotel operation	The Netherlands	100
Melbourne Personeel B.V.	Holding company	The Netherlands	100
Schiphol Victoria Hotel C.V.	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 Investments 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	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 Nuremberg GmbH	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
Leno Finance Limited[4]	Holding company	Guernsey	100
Affiliate Members Limited[2]	Holding company	Thailand	49
Keen Tech Limited[2]	Holding company	Thailand	74
Come Global Co. Limited[2]	Holding company	Thailand	87
Bali Hai Co. Limited[2, 5]	Asset company	Thailand	93
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

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	Holding company	British Virgin Islands	50

1 Direct holdings.
2 Indirect holdings.
3 Investment in an associate.
4 100% voting, 90% profits.
5 93% voting, 89.9% profits.

Glossary

A

Arenaturist; One of Croatia's best known hospitality groups and consists of eight 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

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®.

ARR; Average Room Rate. Total room revenue divided by number of rooms sold.

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; is 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 websites 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 to 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 Group's 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

OTA; Online Travel Agency. Same as third party intermediaries, third party website that sells hotel rooms. Within PPHE Hotel Group we refer to TPI's.

Occupancy Rate; total occupied rooms divided by net available rooms or RevPAR divided by ARR.

P

parkplaza.com; Brand website for Park Plaza® Hotels & Resorts.

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 included 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

PPHE Hotel Group; PPHE Hotel Group Limited is also referred to as PPHE Hotel Group.

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

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 the only five star product within the portfolio. 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

TPI's; Third Party Intermediaries. Third party websites 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:niversity; The core Learning and Development offering for employees of PPHE Hotel Group.

you:niverse; PPHE Hotel Group's Intranet.

Current and committed projects

Project	Location	Operating structure	No of rooms	Status
Extension of Park Plaza Histria Pula*	Pula, Croatia	Co-owned and management contract	127	Expected to open 2013
art'otel amsterdam	Amsterdam, The Netherlands	Owned and management contract	107	Expected to open 2013
Park Plaza Nuremberg	Nuremberg, Germany	Owned and management contract	177	Expected to open 2014
Park Royal	London, United Kingdom	Owned and management contract	158	Expected to open 2015
art'otel london hoxton	London, United Kingdom	Joint venture and management contract	352	Expected to open 2015

* Following extensive renovations, the rooms of Hotel Palma (which are part of the Arenaturist group), will be added to the room inventory of Park Plaza Histria Pula, and they are therefore not additional rooms for the Group.

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Chen Moravsky	(Chief Financial Officer)
Elisha Flax	(Non-Executive Director)
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Useful links
Corporate website:
pphe.com

For reservations:
parkplaza.com
artotels.com
arenaturist.com
arenacamps.com

Strategic partner:
carlson.com
carlsonrezidor.com

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