



FOCUS & PROGRESS

Annual Report &
Accounts 2016



Dalata successfully operates Ireland's two largest hotel brands, Clayton and the Maldron Hotels across Ireland and the UK, as well as managing a portfolio of partner hotels. 24 of the hotels are owned by Dalata, 10 hotels are operated under lease agreements and 7 are operated under management agreements.

Dalata was founded in June 2007 by Pat McCann with investment from TVC Holdings plc and clients of Davy Property Holdings when it acquired a group of companies from Choice Hotels.

In March 2014 Dalata raised €265 million through the issue of ordinary shares and listed on AIM and ESM. In June 2016, the entire issued ordinary shares in the capital of Dalata were admitted to the primary listing segment of the Official List of the Irish Stock Exchange and the Official List of the Financial Conduct Authority of the UK by way of a standard listing, and to trading on the Irish Stock Exchange's and the London Stock Exchange's respective main markets for listed securities.

FOCUS & PROGRESS

Shane Casserly Head of Strategy & Development

As Head of Strategy and Development, I head up a small but focused team that is responsible for leading the conversation on the Group's strategic direction, whilst identifying and securing new acquisition and development opportunities to ensure the continued growth of the Group. It has been an exciting, challenging and rewarding period for the team, with over €1 billion worth of transactions since our IPO in March 2014.

Reflecting on 2016, some of the highlights include, but are not limited to, the acquisition of the Choice Ireland portfolio, the securing of development sites for new hotels in Dublin (x2), Cork, Belfast and Newcastle (UK); and the agreement of an operating lease for the Clayton Hotel Burlington Road, demonstrating our ability to partner with large institutional investors (Deka Immobilien) and allowing us to recalibrate our expectations in terms of target acquisitions. Looking forward to this year, our attention will very much be on ensuring the delivery of the development pipeline which will result in excess of 1,200 new bedrooms for the Group in 2018, a continued focus on securing new opportunities, both operating hotels and development sites with an enhanced concentration on the UK market, and re-examining our strategic direction and opportunities, thus ensuring we will continue to move forward in the same exciting manner as we have in the recent past.

The nature of my role means I have to be fast-moving whilst patient, disciplined but agile and delivery-focussed whilst maintaining our strategic direction. It's challenging and stretching but I wouldn't want it any other way!

Cover Image
Shane Casserly
Head of Strategy & Development

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Sylwia Sidua
Employee of the Year for 2016

OPERATING

Operates
41 Hotels

REVENUES

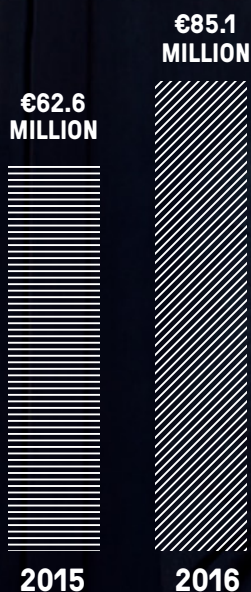
↑29% to
€290.6 million

NATIONALITIES

Staff from 78
different countries

AT A GLANCE

ADJUSTED EBITDA



EBITDA



No. 1

Hotel
Operator
in Ireland

8,013

Rooms

↑14.9%

RevPAR
increased
by 14.9%

250

Over 250
Charity
events
in a year

2

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CHAIRMAN'S STATEMENT



Welcome to the annual report and accounts of Dalata Hotel Group plc for the 12 months ended 31 December 2016.

I am pleased to report that in 2016 the Group has continued to grow in size and profitability.

Significant investments in assets made in 2015 have been converted successfully into high-performing hotel operations in Dublin, around the rest of Ireland and in the UK.

In addition, we have acquired freehold interests in five further hotels and we have integrated the former Choice Hotels Group into the Dalata business successfully. Towards the end of 2016 we entered into a new 25 year lease to operate the former Burlington Hotel in Dublin, now the Clayton Hotel Burlington Road. As indicated last year, we do not expect to make further acquisitions of hotels in Ireland in the foreseeable future. However, we are developing or planning to develop new hotels on two sites in Dublin, one in Belfast and one in Cork. We also expect to add significantly to our hotel interests in the UK in 2017 and beyond.

All of these developments mean that we now own or operate 5,336 hotel rooms (2015 – 4,429) in Ireland, and a further 1,768 (2015 – 1,749) in the UK. In 2016 we sold approximately 2.3 million room-nights (2015 – 2 million) to our guests. Total revenues in the business increased from €225.7 million in 2015 to €290.6 million in 2016, and our EBITDA climbed to €71.1 million in 2016 from €47 million in the previous year. Further details of our financial performance can be found in the Financial Review on pages 22 to 31.

People

The exceptional growth achieved in 2016 and previously has been made possible by the outstanding talent, energy and commitment of our people. At the end of 2016 Dalata employed 2,702 full time equivalents (2015 – 2,063), and this figure continues to increase. The standards of service delivered by our staff are exceptional, and this can only be achieved by a clear commitment to customer service and people development at all levels in the organisation. Our training and management development programmes are designed with these goals in mind, and we are proud of the fact that so many highly-talented and dedicated people have chosen to build their careers with Dalata. On

behalf of the Board, I would like to express my gratitude to all of them for their consistent delivery of excellent service to our customers and to the organisation.

Board and Corporate Governance

Your Board comprises four non-executive directors and three executive directors, ably supported by Dalata's company secretary. Board members meet frequently, both formally in Board committees and at Board meetings, and less formally, to discuss issues affecting the business of the Group. The non-executive directors also meet as a group from time to time. All of these communications centre on what is best for the business, and much of the focus of the Board is on considering the appropriate strategy for the business, while monitoring ongoing performance and considering carefully proposed major transactions. I would like to thank the Directors for their hard work and dedication during the year. The Group has undoubtedly continued to benefit from the experience, knowledge and expertise of each member of our Board.

At Dalata we are firmly committed to maintaining the highest standards of corporate governance. During 2016 the Company's shares were admitted to listing on the main markets of the Irish and London Stock Exchanges, a significant step-up from the smaller ESM and AIM markets on which our shares had been listed. Dalata seeks to comply with all requirements of the UK Corporate Governance Code (September 2014), the Irish Corporate Governance Annex and best practice generally in respect of its corporate governance practices. Details of our approach are set out in the separate Corporate Governance report.

Culture and Strategy

The essence of Dalata can be found in its culture, which is one of customer focus, transparency, inclusiveness and clear communication. Our core business is the operation of hotels, and our clear priority is to deliver the

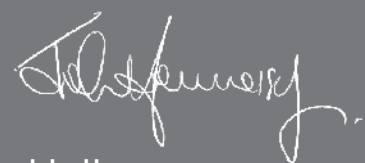
best possible experience to our guests. Central to achieving this is to be open and clear in our internal communications, to set clear goals for all of our people, and to encourage and support them in their efforts to achieve those goals.

A clear and positive culture allows us to focus on the delivery of our strategy. Through our two brands, Clayton and Maldron, we intend to continue to grow our business in Ireland and the UK by delivering outstanding service to our guests in our existing properties, and by adding selectively to our portfolio of hotels in locations favourable to our business model. We will continue to invest in the existing business, both in the physical assets in which we operate and in the IT and other systems that are essential to our business, in order to ensure that our product is recognised by our guests to be the best in our sector of the market.

Outlook

The year 2016 was characterised by challenging events and developments on the international political and economic stage. Of these, the one potentially of most relevance to our business was the Brexit vote in June. We have watched carefully for effects of this decision on our business since then, and, except for currency fluctuations, we have not yet detected any significant adverse impact. Our focus remains on delivering an excellent product to our guests, and we believe that this represents the best response to external events that are outside our control.

Our principal markets continue to show growth, and we expect to deliver further profitable growth in our business in the months ahead.



John Hennessy
Non-Executive Chairman

PAT'S REVIEW



2016 has been another year of great progress in Dalata. The earnings momentum has continued and is ahead of our expectations. We have also made great progress on the acquisition and development front. The vision we have for the business is really taking shape. We are only at the beginning of this wonderful journey.

The unique Dalata operating model is having a very positive effect on the hotels we have acquired since August 2014 and this is reflected in the trading numbers.

The Dalata decentralised model is fundamental to the way we manage our business. Essentially, each General Manager is given full autonomy to manage his/her business. In other words, they are expected to behave as if they owned the business. Because of the model, we expect to outperform in revenue generation and margin management. Shareholders sometimes ask how this model will continue to work as we get larger, and if there is an outer limit for the business. The answer is that it will continue to work extremely well as we grow and there is certainly no outer limit on how far we can take this. However, there are a number of key factors in us being able to sustain this model. The most important and critical is in our ability to develop and maintain the quality and quantity of management required to run this type of operating model. I am delighted to report that we are in an excellent place in relation to both the quality and quantity of people available to us. When we open our five new hotels (currently under construction) next year, all of the senior management teams will come from internal

resources. It is also very encouraging to see more and more high-quality candidates wishing to join Dalata across all areas of the business. We now have a culture in Dalata where entrepreneurial spirit abounds. It is not a culture where we are careless with our resources. The balance in the team ensures that we do the right thing and there is as much emphasis on controls and cost as there is on driving sustainable revenues.

I spoke earlier about our need for great people. We are extremely lucky in Dalata that we have many great committed people. It is not the easiest place to work and if you want a comfortable life it is not the place for you. Our development programmes are ramping up all the time. Our people see the internal promotions and are eager to join in the process. We are not perfect by a long shot. At the end of last year we completed our second staff survey. I was delighted to see the considerable improvement from the previous year. However, we still have a lot to do. What is evident from the survey is that at Senior Management and Supervisory level, we have a high level of satisfaction but below that we have communication and motivation issues that need significant improvement. On the development front, construction

has commenced on four of the new hotels we announced in 2016. The only exception is Maldron South Mall in Cork where we will commence construction this year. Likewise we are in the process of starting some of the extensions in four of our existing hotels. We are in final discussions with planners on some of the sites and we expect construction to start later this year. These are all significant developments and will deliver strong earnings over the coming years.

The acquisition of Choice Hotels Ireland has added significantly to the Group and we have already seen strong improvement in trading in these properties. All of these hotels have been rebranded with the exception of the Croydon Park Hotel and The Gibson Hotel.

Another extremely positive development is the long-term lease of the Clayton Hotel Burlington Road. The deal involved Deka Immobilien acquiring the hotel asset and Dalata taking a 25-year lease on the property. I was really impressed with our team on November 22nd when we took over the property which was Hilton-branded and managed. We had all of our systems up and running by lunchtime that day and impressively, all signage was changed in the same time frame.

**1600
ROOMS**

7 hotels and just under
1,600 rooms added in 2016.

**€8.2
MILLION**

750 rooms refurbished
€8.2 million in 2016.

**1200
NEW ROOMS**

1,200 new rooms in the pipeline.

Clayton Hotels and Maldron Hotels are the two largest hotel brands ever to exist in Ireland

Our brands continue to build. We added 4 hotels to the Clayton brand in 2016 and now operate 17 Clayton and 13 Maldron Hotels, with one Clayton and four Maldrons in the pipeline. Clayton Hotels and Maldron Hotels are the two largest hotel brands ever to exist in Ireland.

In 2016 we had a strong focus on our food and beverage offerings. A team led by Joe Quinn, General Manager of Clayton Hotels, has put significant work into developing a stronger sustainable food and beverage product. The roll-out of our Dalata Vitality Breakfast is complete although this will be constantly monitored. Our new coffee concept is also being rolled out. The Red Bean Roastery is proving very successful and we will continue its roll-out in 2017. Work on our lunch and dinner offering continues at pace, as does work on our meeting room product. As one of the largest leisure club operators in Ireland, we have rebranded all our clubs under the Club Vitae Brand.

It goes without saying that our customer is the focus of everything we do. We are continuing to invest in our hotels through our maintenance capex programmes. This investment is mainly in our bedroom product, but with some also going towards our ground floor product. Our “Trust You” customer satisfaction index continues to improve although

much work still needs to be done in some of our hotels. I expect to see strong improvements as we get through 2017.

Dalata was conceived ten years ago (February 2007) and born in August 2007. We have seen a number of highs and lows during the last ten years. During this time we have stuck to our principles and maintained our culture. The IPO in 2014 changed our business forever. Things have not changed in our culture and our operating structures. This is core to our success to date and will also be core to our future success.

As we look forward into 2017 and beyond, we see lots of opportunity for growth. This will not be without its challenges. If it was easy, everyone could do it. Business always faces challenges. I am very confident that we have the management and capability to grow Dalata into an even finer company than it is today. I look forward in the future to working with my colleagues and a strong supportive Board in delivering on the ambitious plans we have for Dalata.



Pat McCann
Chief Executive Officer

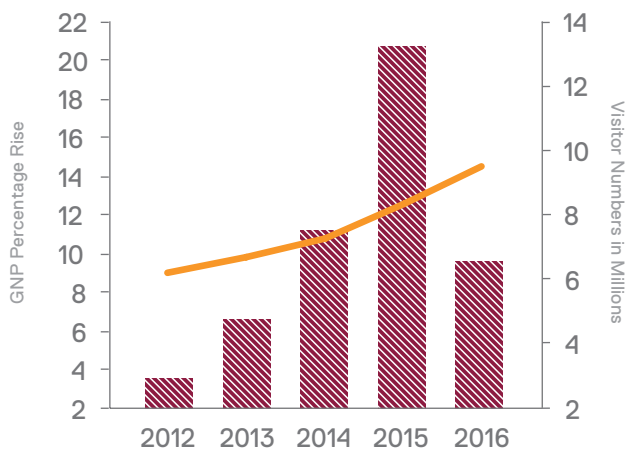
STRATEGY AND BUSINESS MODEL

INDUSTRY OVERVIEW

Dalata's business is based in Ireland and the UK. In Ireland it is the largest hotel operator with 6,142 rooms (32 hotels) in a total market of 66,131 rooms (9% market share); in the UK it operates 1,871 rooms (in 9 hotels) in a market of 628,454 rooms.

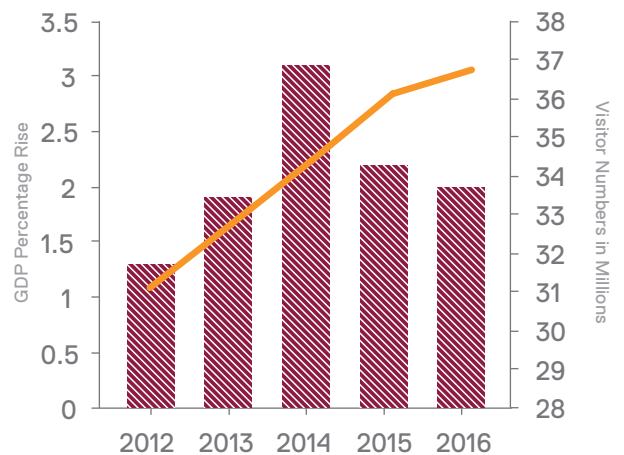
Growth is influenced in the near term by levels of economic and corporate activities in our markets, consumer confidence and international visitor numbers which in turn are influenced by a range of factors including economic growth in source markets, and movement in foreign currency exchange rates.

IRELAND



GNP Visitor Numbers source : CBI

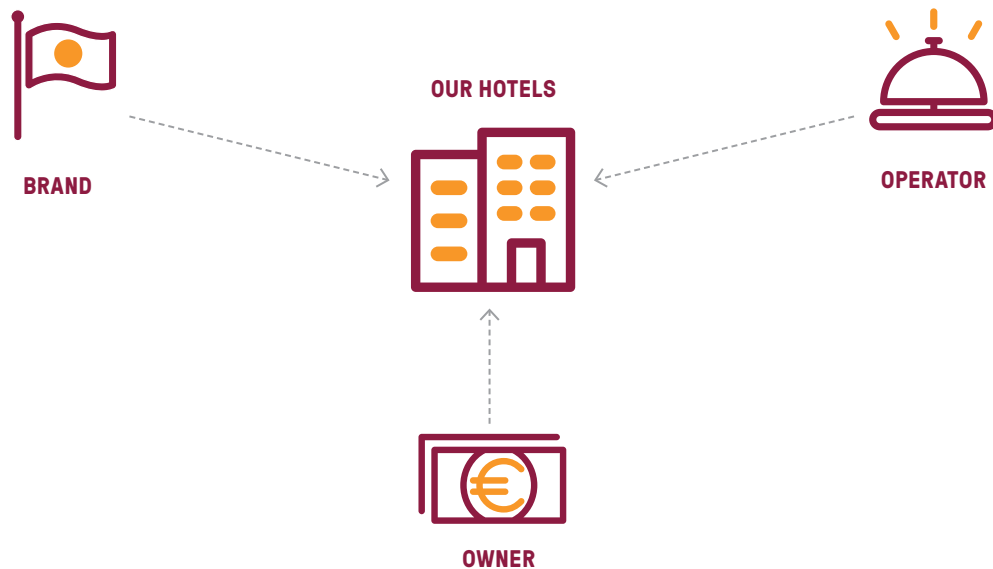
UK



GNP Visitor Numbers source: ONS 16.2.17

BUSINESS MODEL

Dalata is a hotel owner / operator and owner of the Clayton Hotel and Maldron Hotel brands. It operates in the three and four star market segments.



MARKET DYNAMICS

Our rooms product is highly perishable – we sell time – and the development of online selling has dramatically changed product distribution. On-line sales through hotel brand websites and online travel agents (OTAs) account for a growing share of room sales. Direct sales channels to travel companies, large corporate accounts and local clientele remain a vital component, supported by relationship selling. However, the growth of OTAs within the distribution models of the big brands and independent hotels alike has been such that the OTAs are, in their own right, a key participant in the sector.

The development of on-line channels has provided consumers with easy access to hotel room availability and pricing and also facilitated the growth of alternative providers of accommodation. Hotels operate in a highly transparent and competitive marketplace where pricing is highly dynamic and sensitive to fluctuation in demand.

Changes in the supply of hotel rooms happens at a slower pace because of the capital investment need to build new properties.

The sector is cyclical in nature with periods of growth interrupted by weakness in the economic cycle and / or localised spikes in supply.

OUR MANAGEMENT PHILOSOPHY

Dalata has a de-centralised management philosophy, we believe that local knowledge and management accountability, supported by effective information systems and talent development programmes, beats a centralised decision-making structure.

Hotel General Managers exercise operational decision-making discretion and are fully accountable for operating profitability. We will grow the business by increasing the number of owned and leased rooms through investing free cash to build new hotels and extend existing ones, and by leveraging the strength of our covenant to enter leasehold agreements with hotel investors.

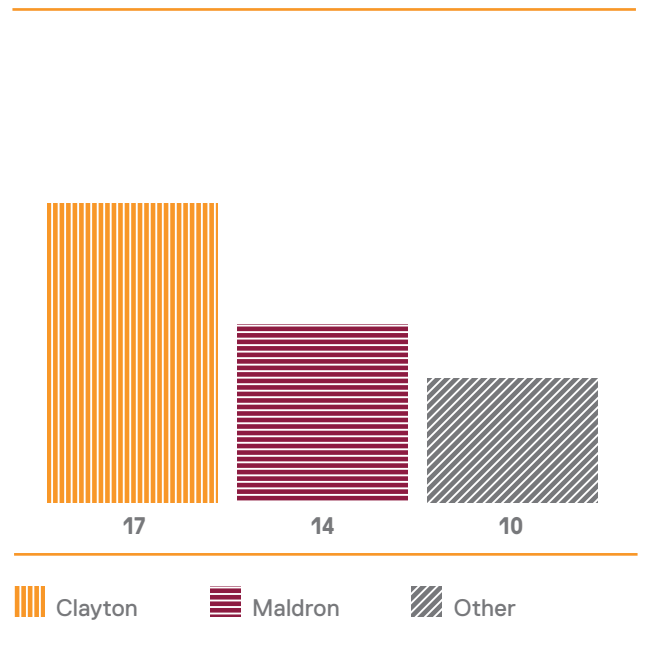
Central Office, located in Sandyford, Dublin manages strategic development, capital allocation, corporate finance, brand management, supplier price negotiation, talent management, and training and development programmes.

Investment at Central Office in talent development and information systems is designed to promote the scalability of the decentralised structure which is at the heart of the Dalata philosophy.

OUR OPERATIONS



OUR BRANDS



OUR MARKETS

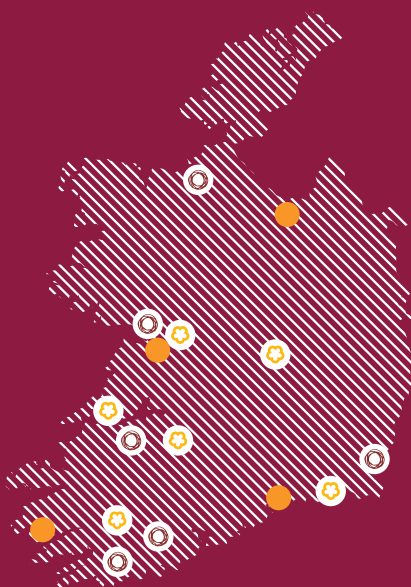
Ireland

In 2016 Irish hotels continued to see strong growth, revenue per available room (RevPAR), the leading performance indicator, grew by 16.1% in Dublin while the key regional cities, Cork, Galway and Limerick also enjoyed double digit growth.

UK

The UK market performance was more uneven in 2016 with regional cities performing better than London. The sector has seen solid growth for a number of years.

Regional Ireland



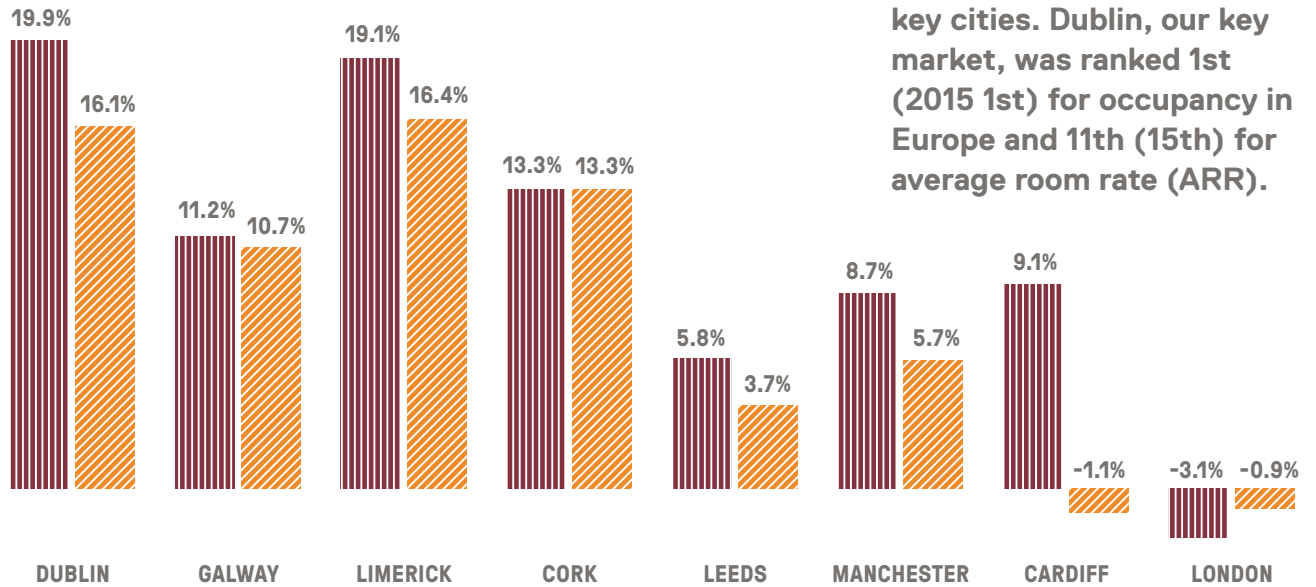
United Kingdom



Dublin



DALATA | RevPAR OUT PERFORMANCE

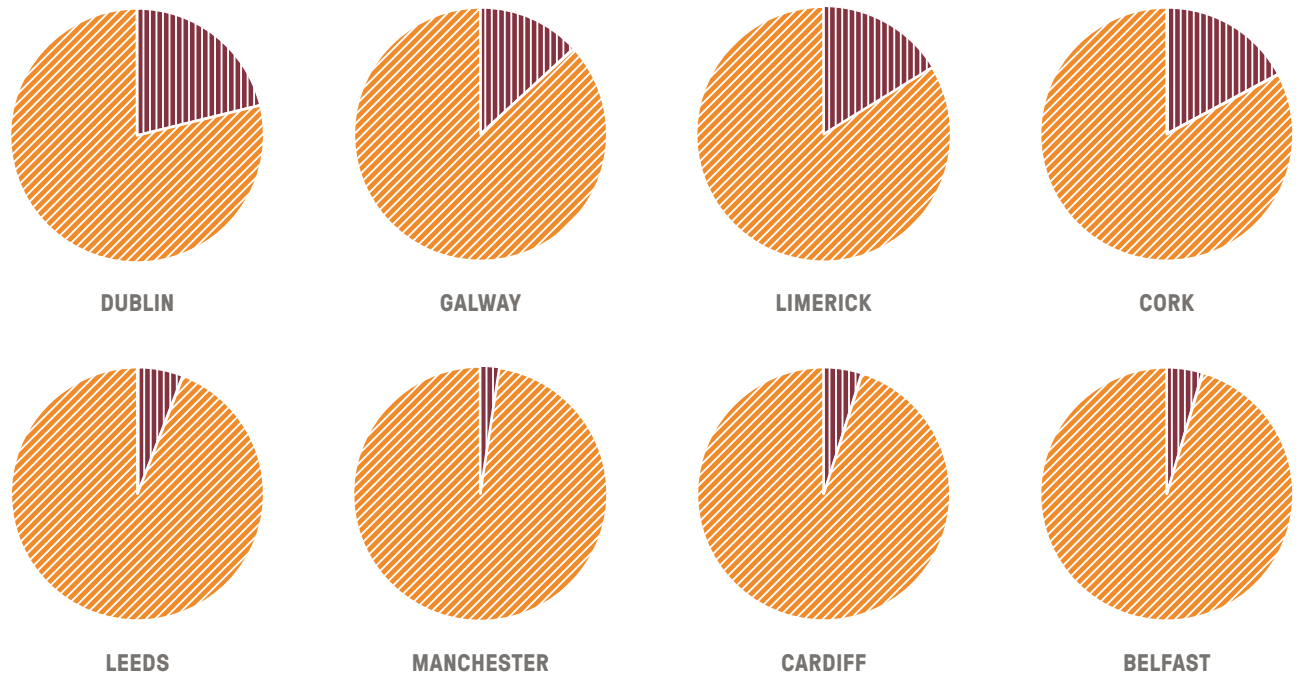


Dalata have outperformed the market in most of its key cities. Dublin, our key market, was ranked 1st (2015 1st) for occupancy in Europe and 11th (15th) for average room rate (ARR).

Dalata
 Market

2016 RevPAR Growth
Source: STR | Company Data

MARKET SHARE BY CITY



Our focus in the coming years will be to grow our market share in the UK.

Dalata
 Market

Source: STR 2016

OUR EVOLVING STRATEGY

Having built a market-leading portfolio in the recovering Irish economy, Dalata is maturing into an international hotel company focused on new growth opportunities.

2014-2016

- > Identified and exploited cyclical opportunity to acquire hotel assets under replacement cost
- > Invested over €1Bn in acquiring almost 7,000 rooms across Ireland and UK
- > Significant capital refurbishment programme commenced from mid 2014
- > Developed our highly skilled central office team

2017+

- > Operational excellence through revenue maximisation and driving cost efficiencies
- > +1,200 new bedrooms by end 2018
- > Maintain Net Debt/EBITDA at or below 3.5x
- > Seek to buy out remaining freehold of leased assets with open market rent reviews
- > Infill acquisitions in Ireland and targeted leasehold growth in the UK

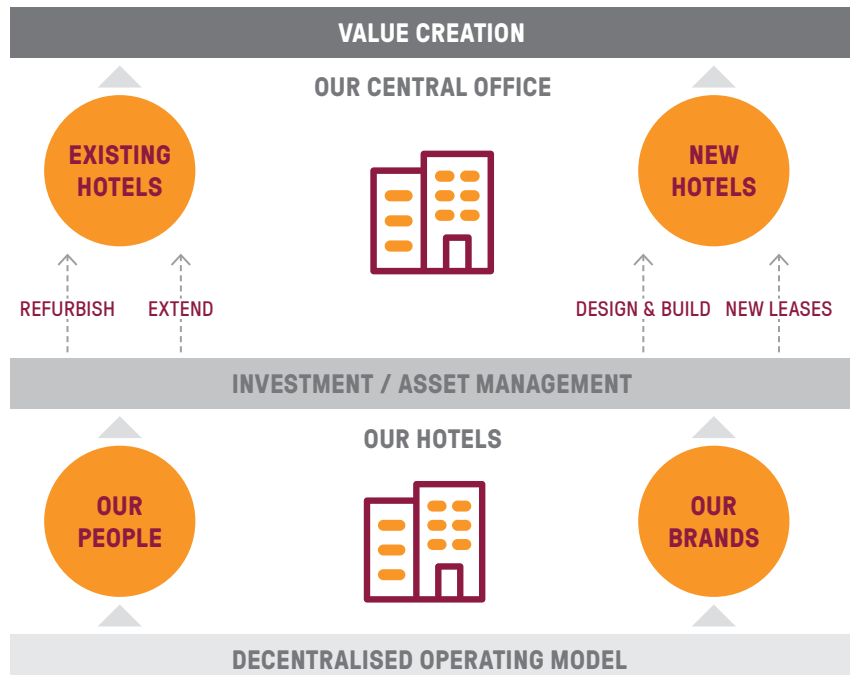
CONSOLIDATION PHASE LARGELY COMPLETED

ALREADY WELL UNDERWAY

OUR STRATEGY

HOW WE CREATE VALUE

We aim to create value through investment in our properties, our people and our brands.





OUR STRATEGY

**INVESTING
IN EXISTING
HOTELS**

We have invested €14.75 million in 1,380 room refurbishments in 2015 and 2016 and plan to spend €7.9 million in 2017. Our model rooms for both Maldron and Clayton brands are developed based on customer feedback. Procurement and contracting is managed by Central Office. The quality of our room stock is contributing to increased room rates.

We have extensions in the pipeline for completion in 2018 at four hotels.

Rooms Refurbished	2015	2016	2017	Total
	373	138	167	678
	260	610	770	1,640
				2,318

Newly refurbished Maldron room



OUR STRATEGY

PORTFOLIO
GROWTH

DRIVE PORTFOLIO GROWTH | OVER 1,200 NEW ROOMS BY END 2018

DUBLIN	2 New Hotels	3 Extensions	543 Rooms
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REGIONAL IRELAND	1 New Hotel	1 Extension	197 Rooms
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UK	1 New Hotel	1 New leased Hotel	463 Rooms
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We plan to add over 1,200 rooms by the end of 2018, almost 1,000 funded by the Group.

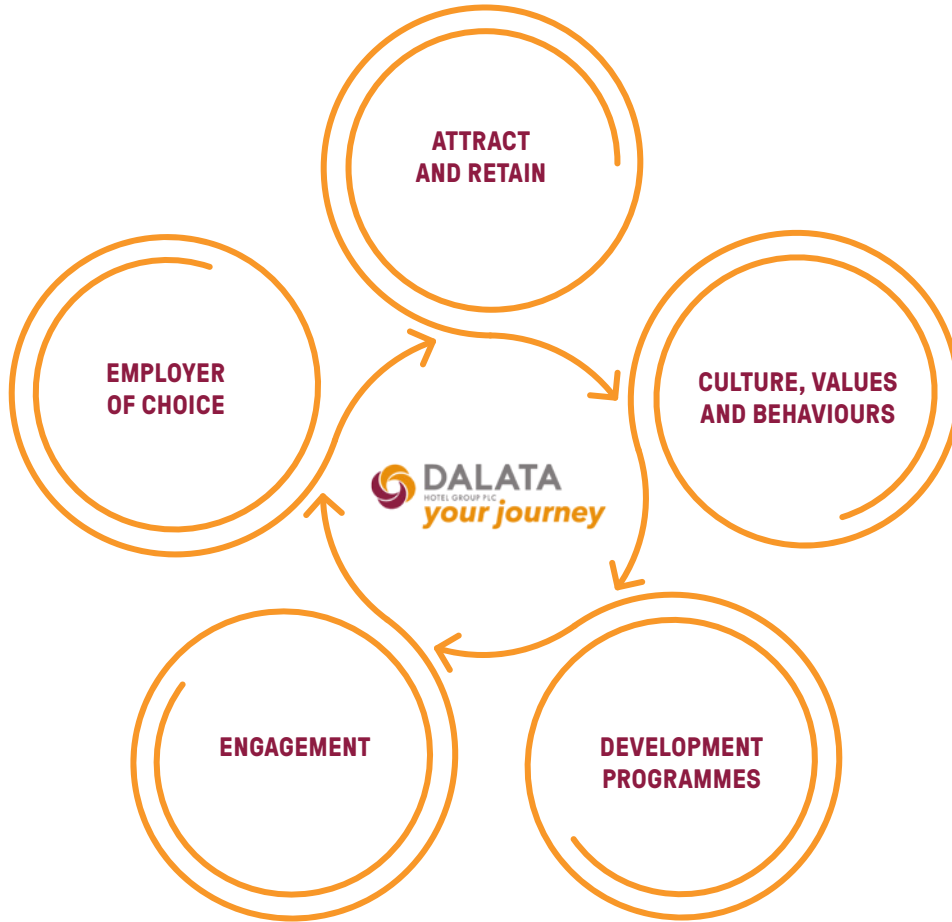
As we complete the strategic development of our business in Ireland, we see opportunity for our brands and our operating model in large UK provincial cities.

Our experienced development team is actively targeting key locations to further expand our UK business in 2019 and 2020.

OUR STRATEGY

**DEVELOPING
OUR PEOPLE**

We passionately believe that our decentralised operating model is unbeatable when we support it by developing people who understand it and can work it. When we open five new hotels in 2018, we will fill all of the management positions from within our own ranks, promoting graduates from our own development programmes.



IHI award winners 2016: (left to right) Des McCann, Lorraine Hanahoe, Áine Doyle, Keith Rynhart and Lynn Sharkey.



PINNACLE	Senior Management Leadership Journey
ALTITUDE	General Management Development Journey
ELEVATE	Management Development Journey
ASCEND	Graduate Journey
PLATFORM	Trainee Management Journey

OUR STRATEGY

DEVELOPING
OUR BRANDS

We are committed to developing the Clayton and Maldron Hotel brands and all aspects of the guest experience in our hotels. Our Red Bean Roastery coffee offer, launched in 2016 will be appearing in several properties in 2017 and the Maldron restaurant brand grain & grill will be rolled out this year also. Our leisure brand Club Vitae was re-launched in 2016 and has been extended across all of our 12 hotels with leisure clubs.



Go further at a Maldron...

Your Stay, Your way

“Broaden your horizons, safe in the knowledge that at a Maldron hotel, rest and relaxation is always guaranteed”

“It’s the sense of individuality, personality, character and efficiency that pervades through all of the hotels”

GILLIAN PIERCE

Brand Manager, Maldron Hotels

CLAUDIA EMMETT

Brand Manager, Clayton Hotels



RED BEAN

We have put time and consideration into coffee spaces allowing our customers the perfect environment to catch up with an old friend or catch up on their emails. The Red Bean Roastery is about capturing this moment in a perfect cup of coffee.

GRAIN & GRILL

‘grain & grill’ provides the perfect setting for our food and beverage offers, in warm, bright and contemporary spaces. It’s a place for our customers to relax and enjoy their meals at their own pace, regardless of whether it is part of their business day, a weekend stay or simply dropping in from the neighbourhood.

CLUB VITAE

People chose Club Vitae for the atmosphere and the dedication of the staff to guide them toward a healthier and more relaxed lifestyle. At the heart of each Club Vitae health and fitness club is our swimming pool – ideal to complement your exercise programme or just to relax and unwind.

STRATEGIC REPORT

STRATEGY AND BUSINESS MODEL



Go to page 20 for more on Maldron Hotels from Conal O'Neill (Group General Manager; (Maldron Hotels) and to page 19 to get a flavour of Clayton Hotels from Joe Quinn (Group General Manager, Clayton Hotels)

OUR STRATEGY

STRATEGY
IN ACTION

We acquired Clayton Hotel Dublin Airport (formerly Bewleys Hotel) in February 2015. In this case study we can see each element of our strategic approach in action.



2016 PERFORMANCE V 2014

↑ 37%	↑ 65%	↓ 4PP	↑ 8.5PP	↑ > 100%
Revenue	EBITDA	Payroll to sales ratio (PP stands for Percentage points)	EBITDA margin	Contracted Business

Decentralised operating model	<ul style="list-style-type: none"> > Introduced Dalata revenue management process; > Introduced Alkimii Team software for time and attendance and HR Management.
Investing in existing hotels	<ul style="list-style-type: none"> > Refurbishment of 160 rooms.
Developing our people	<ul style="list-style-type: none"> > Appointed a General Manager from within our team.
Developing our brands	<ul style="list-style-type: none"> > Rebranded as a Clayton Hotel and re-classified to four star. > Introduced our Red Bean Roastery coffee concept.
Portfolio growth	<ul style="list-style-type: none"> > Construction of 140 bedroom extension commencing in May 2017.



FOCUS & PROGRESS

Joe Quinn
Group General Manager
Clayton Hotels

My role in Dalata is definitely up there with the best when it comes to enrichment and variety. As Group General Manager of Clayton Hotels, no two days are the same, and yet a significant part of my job is to ensure consistency across the estate in many disciplines including brand, guest room presentation and offerings, service, quality, value for money, cleanliness and excellent hotel keeping.

When I joined Dalata two years ago, I was responsible for the integration of the Moran/Bewley hotels, which was both challenging and exciting. The Group then acquired the Choice Hotel Ireland portfolio and again I was responsible for its integration with Dalata and moreover, the Clayton brand. Most recently I was involved in the integration of the 504-bedroom Clayton Hotel on Burlington Road in Dublin.

A considerable amount of my time is taken up with General Manager Succession Planning, a cornerstone of our business in a dynamic and ever-expanding Group. I love to see people being promoted and then excelling. This aspect of the job is truly inspirational and gets me out of bed in the morning!

Another important element of my role is planning the refurbishment programmes for guest rooms, meeting rooms and ground floors, and working with the various teams to get the job done. We are very busy right now with guest room refurbishment, having recently designed a new Clayton bedroom which is being rolled out across all Clayton hotels. I also set up and chaired the Food and Beverage Committee in 2016, with the objective of improving the offering and consistency for our guests.

All of the above is a never-ending journey and I love it, I do!

FOCUS & PROGRESS

Conal O'Neill
Group General Manager
Maldron Hotels

2016 was a very successful year for Maldron Hotels. Over and above a very strong trading performance, we made lots of progress in a variety of areas that will further bolster the overall performance of the brand as we move ahead.

At the beginning of the year, we brought together a team of colleagues to form the “Maldron Brand Development Committee”, with the specific aim of initiating ideas and projects that will further enhance the standing of the brand in the market place and deliver even more memorable experiences for our guests. Some of the focus areas included a review of the brand architecture and a revamp of the brand itself, advancement in the rollout of new websites for all hotels across the brand, implementation of a new staff uniform standard and the launch of “Crafty Kids”, our new childrens’ club brand. Initiatives we continue to work on as we move into 2017 include the roll-out of our “Grain & Grill” restaurant and bar brand which will feature in most properties along with work being undertaken on the development of a Maldron hotels guest app.

The development pipeline means very exciting times indeed for the Maldron team with new hotel builds underway in Belfast, Dublin, Cork and Newcastle. All these projects are in full play as I write and we are working closely with the design and construction teams to ensure all our requirements are delivered as the building work progresses. Over and above the construction work, a critical priority over the coming months will be to ensure we bring together top-class teams from our existing hotels to lead the launch to market of these new hotels in 2018.

In total, I made close to 150 visits to hotels across the estate last year, and hence I can say that I lived the slogan that you can “go further at Maldron”. It is great to see our teams in action as I visit and I am very grateful for their dedication and commitment to our guests.





FOCUS & PROGRESS

Carol Phelan
Group Finance Manager
Central Office

Dalata has undergone an incredible transformation since its IPO. Nowhere have we lived this more than in my team, where, in the midst of all, we have successfully delivered significant levels of financial reporting and strategic forecasting, while supporting new funding raises, building a new team, integrating new systems to facilitate reporting and analysis, and ensuring the taxation impacts and opportunities of new acquisitions are managed and optimised.

And, no more than Dalata itself, we are far from finished with our ambitions. As I look to 2017, some of my priorities include revisiting our optimal capital structure in light of our recent growth, and focusing on our continuing aspirations. I will ensure that we use the next key stage in the Group's systems' development to make our reporting, treasury and risk management as efficient and effective as possible. In terms of the day-to-day, we will continue to communicate our financial results to all stakeholders clearly and fairly, seeking to minimise the jargon and to provide real insight into the Group's journey, something that has been recognised previously through our successes at the Chartered Accountants Published Accounts Awards. In particular, the significant impact on the Group of IFRS 16, which will overhaul how we account for our leases, will be one we will work hard to clearly set out and communicate.

I have the good fortune to lead a superb team and we are hugely ambitious as we look to the future; given the positive atmosphere across the Group and amongst our colleagues, it is impossible not to be.

FINANCIAL REVIEW



2016 was another really exciting year for Dalata. With revenue up 28.8% and adjusted EBITDA up 35.9%, we continue to demonstrate our focus of continuing to grow the scale and value of the Group. The growth was achieved in two primary ways in 2016.

FULL YEAR 2016 RESULTS HIGHLIGHTS

REVENUE UP 28.8%

on back of strong revenue management, buoyant markets and further acquisitions

ADJUSTED EBITDA GREW BY 35.9% TO €85.1 MILLION

ADJUSTED DILUTED EPS UP 7.4% TO 26.6 CENTS

DUBLIN HOTELS PERFORMED VERY STRONGLY

with RevPAR up 19.8% and EBITDAR margin up from 44.5% to 48.0%

STRONG CASHFLOW OF €77.8M GENERATED FROM OPERATING ACTIVITIES

NET DEBT TO EBITDA AT 2.4X REMAINS WELL BELOW GUIDED MAXIMUM LEVEL OF 3.5X

Firstly, I am particularly happy with the manner in which we have outperformed the Irish market in terms of RevPAR growth and how we then converted that revenue growth to EBITDAR. Our performance in the UK was also very strong. The investment that we continue to make in training and developing our people at all levels of the business is helping us maximise the returns from the hotels that we have bought over the last three years. We are also seeing significant increases in revenue and customer satisfaction from our continuing refurbishment programme, on which we spent €12.4 million in 2016.

Secondly, 2016 was also another year of significant transactions. We spent €150.8 million on a combination of leasehold and freehold interests in hotels new to the Group, sites for new hotels and the freehold interests of hotels we previously leased. The final transaction of the year was one of the most exciting. Deka Immobilien's purchase of the former Burlington Hotel and our simultaneous agreement to lease that hotel under the Clayton brand for 25 years both secured us one of the most prestigious hotels in Dublin and also demonstrated the attractiveness of our financial covenant to large international financial buyers of

hotels. We also launched our UK strategy at our investor day in May 2016 and despite some delays caused by the unexpected Brexit vote in June, we secured a very exciting opportunity to lease a new Maldron hotel in the centre of Newcastle.

We stepped up to the main market of both the Dublin and London stock exchanges in June and this marked another significant milestone in the relatively short life of Dalata as a quoted company.

GROUP REVENUE AND EBITDA

€'000	2016	2015	Variance
Revenue	290,551	225,673	1.3x
Adjusted EBITDA	85,132	62,626	1.4x
EBITDA	71,084	46,996	1.5x
Profit before tax	44,111	28,457	1.6x
Basic EPS	19.09 cents	14.55 cents	1.3x

The significant increase in revenue of €64.9 million and adjusted EBITDA of €22.5 million is reflective of another very successful year for the Group. The result is particularly pleasing given the impact of the fall in the value of sterling on the euro value of our sterling earnings. If the average sterling rate of £0.7218 in 2015 had pertained in 2016, adjusted EBITDA would have been €88.4 million and profit before tax would have been €45.8 million.

Acquisitions made at different stages of both 2015 and 2016 make 'like-for-like' comparisons very difficult. I explain in more detail below the operational performance in the three regions for which we now report results – Dublin, Regional Ireland and United Kingdom.

ADJUSTING ITEMS TO EBITDA

I am continuously looking at how our adjusted EBITDA is performing. Excluding acquisition-related costs, stock exchange listing costs, revaluation movements, impairments and one-off gains, adjusted EBITDA gives a clearer picture of the operating performance of the Group. Stamp duty and other acquisition-related costs decreased significantly due to a reduction in acquisition activity. In 2016 we spent €150.8 million on hotels and hotel sites compared to €558.8 million in 2015.

The most material adjusting item in 2016 is the impairment of goodwill. Goodwill arises where we attribute a higher value to a hotel than the external valuers on the date of acquisition. We often project a significant increase in future cashflows as a result of the hotel coming under the operational control of Dalata. The difference between the price we pay for the asset and the external valuation is treated as goodwill on acquisition. As we deliver the increased profitability over the following years the external valuation increases which is reflected in the revaluation reserve. As the external valuation of the hotel increases and comes closer to our valuation, in effect some of the goodwill crystallises. Under accounting standards, the goodwill is effectively impaired as the gap closes and this impairment is posted through profit or loss. However, the increases in the external valuations are posted to the revaluation reserve through other comprehensive income.

€'000	2016	2015
Acquisition-related costs	2,671	15,802
Stock exchange listing costs	1,293	-
Net revaluation movements through profit or loss	(241)	1,576
Net impact of Ballsbridge site sale	-	(1,947)
Impairment of goodwill	10,325	199
	14,048	15,630

EARNINGS PER SHARE

Basic EPS increased from 14.55 cents to 19.09 cents and adjusted diluted EPS increased from 24.76 cents to 26.58 cents. I look at the adjusted diluted EPS as it excludes the impact of the adjusting items outlined in the previous section and gives a better indication of underlying EPS growth. The growth from 2015 to 2016 is impacted by the fact that we issued 42.7 million shares on 6th October 2015. €39.9 million of the funds raised were used

to purchase hotel development sites while we had €81.1 million in cash and €52.2 million of unutilised debt facilities to fund the completion of those hotels over the next 18 months. We expect that the new hotels will greatly add to earnings from the time they open but will hold back EPS growth during the period in which they are being developed.

TRADING REVIEW BY SEGMENT

DUBLIN

€'000	2016	2015	Variance
Room revenue	107,370	82,611	24,759
Food and beverage revenue	35,392	30,391	5,001
Other revenue	9,183	7,757	1,426
Total revenue	151,945	120,759	31,186
EBITDAR	72,992	53,754	19,238
Rent	(19,520)	(14,492)	(5,028)
EBITDA	53,472	39,262	14,210
EBITDAR margin	48.0%	44.5%	3.5%

Performance statistics

(reflect full 12 months' performance of the hotels in this portfolio for both periods regardless of when acquired – Clayton Hotel Burlington Road is excluded due to the relatively short time that it was in the portfolio during 2016):

Occupancy	85.7%	83.1%	2.6%
Average Room Rate (€)	107.09	92.18	16.2%
RevPAR (€)	91.83	76.57	19.9%

The 14 hotels in the Dublin portfolio consists of six Maldrón hotels, five Clayton hotels and three individually branded hotels. The Dublin portfolio represents 52.1% of the Group's total owned and leased room count. The results from the Dublin portfolio accounts for 52.3% of the Group's revenue and 56.4% of the Group's segmental EBITDA. Total revenue from our Dublin hotels increased by €31.2 million since 2015. The full year impact of hotels acquired during 2015 contributed an additional €3.3 million and hotels acquired during 2016 contributed a further €19.0 million. These increases were offset by a loss in revenue of €9.6 million due to the closure of the Clyde Court Hotel in early January 2016. Of the remaining €18.4 million increase in revenue, I am pleased to report that 78.2% was converted to the EBITDAR line.

The Dublin hotel market had another very strong year with RevPAR up 16.1% for the city as a whole. Our hotels have significantly outperformed the market with a RevPAR increase of 19.9% reflecting our ongoing investment in our refurbishment programme and continued benefits from the introduction of our own decentralised revenue management strategies in each hotel.

Excluding the impact of the Clyde Court hotel (closed in early January 2016) and hotels acquired during 2016, food and beverage sales increased 1% for the year on a 'like-for-like' basis. Increases in food sales are curtailed by a shift to higher 'room only' rates.

Hotels acquired during 2016 and the full year impact of hotels acquired or closed in 2015 added a net €0.5m to other sales. 'Like-for-like' increase was 11.7%, driven by a very strong increase in leisure club sales.

The significant increase in rent is caused by the addition of the Gibson and Clayton Burlington Road hotels as well as increased performance-related rents at Ballsbridge Hotel and Maldron Dublin Airport. These increases were counterbalanced to a degree by the closure of the Clyde Court Hotel in early January 2016.

The increase in the EBITDAR margin from 44.5% to 48.0% reflects our determination to convert additional sales to the profit line.

REGIONAL IRELAND

€'000	2016	2015	Variance
Room revenue	36,100	20,573	15,527
Food and beverage revenue	25,174	17,694	7,480
Other revenue	7,193	4,722	2,471
Total revenue	68,467	42,989	25,478
EBITDAR	18,170	9,695	8,475
Rent	(1,939)	(1,961)	22
EBITDA	16,231	7,734	8,497
EBITDAR Margin	26.5%	22.6%	3.9%

Performance statistics

(reflect full 12 months' performance of the hotels in this portfolio for both periods regardless of when acquired):

Occupancy	73.9%	72.2%	1.7%
Average Room Rate (€)	86.16	78.94	9.1%
RevPAR (€)	63.68	57.03	11.7%

The 12 hotels in Regional Ireland comprise of seven Maldron hotels and five Clayton hotels and contain a total of 1,637 rooms.

RevPAR increased on a like-for-like basis in the Regional Ireland segment by 11.7%. The results from the Regional Ireland segment account for 23.6% of the Group's revenue and 17.1% of the Group's segmental EBITDA.

69% of Regional Ireland revenue is generated from the three main cities of Cork, Galway and Limerick. These three cities all grew RevPAR significantly in 2016 with an increase of 13.3% in Cork, 10.7% in Galway and 16.4% in Limerick. Our hotels outperformed the market in Galway and Limerick with RevPAR increases of 11.2% and 19.1% respectively. Our Cork hotels were in line with market with growth of 13.3%, despite disruption caused by refurbishment works at Clayton Hotel Silver Springs.

Revenue has increased by €25.5 million (59.3%) versus 2015. The full year impact of hotels acquired during 2015 contributed an additional €1.7 million and hotels acquired during 2016 contributed €20.3 million. These hotels were Clayton Hotel Cork City, Clayton Hotel Limerick

STRATEGIC REPORT

FINANCIAL REVIEW

and Clayton Hotel Sligo. Of the remaining €3.5 million increase in revenue, I am pleased to report that 73.3% was converted to the EBITDAR line.

Excluding hotels acquired during 2016, food and beverage sales increased 2.9% for the year on a 'like-for-like' basis.

Food and beverage revenue accounts for 36.8% of total revenue in Regional Ireland compared to 23.3% in the Dublin segment. EBITDAR margin is lower in our regional Ireland hotels due to lower average room rates and this higher mix of food and beverage revenue. EBITDAR margin has increased from 22.6% to 26.5% due to strong conversion of additional revenue and the addition of higher margin hotels such as Clayton Hotel Cork City and Clayton Hotel Limerick.

UNITED KINGDOM (LOCAL CURRENCY)

£'000	2016	2015	Variance
Room revenue	37,866	28,931	8,935
Food and beverage revenue	13,440	10,412	3,028
Other revenue	4,176	2,813	1,363
Total revenue	55,482	42,156	13,326
EBITDAR	21,883	16,068	5,815
Rent	(3,274)	(1,966)	(1,308)
EBITDA	18,609	14,102	4,507
EBITDAR Margin	39.4%	38.1%	1.3%

Performance statistics

(reflect full 12 months' performance of the hotels in this portfolio for both periods regardless of when acquired):

Occupancy	81.4%	81.3%	0.1%
Average Room Rate (£)	73.35	70.35	4.3%
RevPAR (£)	59.70	57.19	4.4%

The UK hotel portfolio is comprised of three hotels in London, three hotels in provincial UK and two hotels in Northern Ireland. There are six Clayton hotels, one Maldron hotel and the Croydon Park hotel and these contain a total of 1,768 rooms. The portfolio represents 24.9% of the Group's total owned and leased room count. RevPAR in the UK portfolio increased on a 'like-for-like' basis by 4.4%.

The results from the United Kingdom portfolio account for 23.2% of the Group's revenue and 23.7% of the Group's segmental EBITDA.

Revenue has increased by £13.3 million (31.5%) versus 2015. The full period impact of the hotels acquired during 2015 and the new hotel acquired in 2016 accounted for £8.9 million of the increase. The remaining increase in revenue of £4.4 million is driven by strong RevPAR increases of 8.0% in the three provincial UK hotels and 8.4% in the two Northern Ireland hotels. Our Clayton hotels in Cardiff, Manchester and Leeds outperformed the market as did the Maldron Hotel in Derry. Of this £4.4 million increase in revenue, we converted 73.8% to the EBITDAR line.

RevPAR in our London hotels fell by 3.1% on a “like-for-like” basis due to additional rooms in Clayton Hotel Chiswick and the general weakness of RevPAR in the London market which fell by 0.9%.

Excluding the impact of the Croydon Park Hotel, food and beverage sales were up 2.7% on a ‘like for like’ basis.

Rent increased by £1.3 million due to the addition of the leased Croydon Park Hotel to the portfolio in March 2016.

The strong conversion noted above was counterbalanced to some degree by the addition of the Croydon Park Hotel which has a lower EBITDAR margin than the average of our other UK properties.

MANAGED HOTELS

€'000	2016	2015	Variance
Revenue and EBITDA	2,641	3,555	(914)

We do not separately allocate central overheads to our managed hotels segment. As anticipated, revenue from management contracts with our partner hotels decreased as receivers continue to sell hotels. We expect this trend to continue in 2017. We are not currently seeking any new hotels to manage.

CENTRAL OVERHEAD

€'000	2016	2015
Central overhead	10,360	8,068

We have continued to increase the depth and talent of our central office team to support the growth of the business. We also increased our central marketing spend to support the growth of our two brands. The cost of the LTIP and the recently launched SAYE scheme are also included within central overheads.

OTHER INCOME

Rental income includes €0.5 million (2015: €0.4 million) relating to Clayton Hotel Cork City. We acquired the operating business of this hotel in March 2016 and therefore, this income will not reoccur in 2017. We also receive rental income from the investment properties adjacent to Maldron Hotel Pearse Street and Clayton Hotel Cardiff.

FINANCE COSTS

€'000	2016	2015
Total interest expense on loans	7,535	8,684
Impact of interest rate swaps and caps	1,206	655
Other finance costs	1,778	1,024
Net exchange loss on loans, borrowings and cash	977	-
Total finance costs	11,496	10,363

Finance costs increased by €1.1 million to €11.5 million in 2016. Approximately 38% of our euro denominated borrowings are subject to an interest rate cap until September 2019. We have taken out interest rate swaps covering 58% of our sterling denominated borrowings up until February 2020. As LIBOR was less than the rate that we fixed, we suffered a further interest cost of €1.2 million on top of actual interest paid. Other finance costs primarily

consists of commitment fees and the write-off of arrangement fees over the five-year term of our facilities. We suffered net exchange losses of €1.0 million on sterling deposits that we were holding at various times of the year for acquisitions and trading purposes. In 2015 there were net exchange gains of €1.9million in income.

OPERATING CASHFLOW

€'000	2016	2015
Net cash from operating activities	77,813	54,403
Amounts paid for refurbishment capital expenditure	(12,412)	(5,948)
Interest and finance costs paid	(9,983)	(13,753)
Adjusting cash items	3,964	13,855
Net cash generated to fund acquisitions, development capital expenditure and loan repayments	59,382	48,557

The portfolio is now becoming very cash generative. Our low level of gearing with a net Debt to adjusted EBITDA of 2.4x results in a relatively low interest charge. Additionally, the portfolio that we have purchased is relatively modern and refurbishment capital expenditure at 4% of annual turnover is adequate to ensure these hotels comfortably adhere to our brand standards. Adjusting cash items represent acquisition-related costs, stock exchange listing costs and the net impact of the Ballsbridge site sale as discussed under adjusting items to EBITDA. We generated just over €59 million in 2016 which, together with our debt facilities, will fund the continued growth of the Group through acquisitions and development.

GROUP FINANCING

We drew down €282 million in February 2015 to part-fund the acquisition of the Moran Bewley group of hotels. In May 2016, we entered into a new multi-currency facility of €80 million and increased the revolving credit facility from €20 million to €30 million. Under this new facility, on 9 June 2016, we drew down £18 million (€22.9 million) and €7.7 million. On 24 October 2016, the Group drew down a further £24 million (€27 million). We had bank debt of €280.4 million (net of deferred issue costs) at 31 December 2016, of which £174.4 million (€203.6 million) was held in sterling. We have deliberately drawn down a greater share of debt in sterling as a natural hedge against the impact of sterling exchange rate fluctuations on the euro value of our UK assets.

On 31 December 2016, the Group had cash and cash equivalents of €81.1 million of which €31.5 million was held in money market funds. Net debt to adjusted EBITDA stood at 2.4x at 31 December 2016. The Group also had undrawn facilities of €52.2 million at year end. All our facilities expire in February 2020. Our capital structure leaves us well placed to fund the growth planned for the next number of years. Our objective is to keep our net debt to EBITDA at 3.5x or below when we are fully invested.

PROPERTY, PLANT AND EQUIPMENT

€'000	2016	2015
Hotel assets acquired (including development sites)	131,749	490,819
Expenditure on new builds	3,043	–
Refurbishment capital expenditure	12,411	7,400
Development capital expenditure	13,028	17,656
Total	160,231	515,875

At the end of 2016, the carrying value of property, plant and equipment amounted to €822.4 million.

A net gain of €66.6 million arose on revaluation of our owned properties during 2016. The total of unrealised revaluation gains recognised on the balance sheet amounted to €107.5 million of which €98.2 million related to properties located in the Republic of Ireland.

We continued our acquisitions activity in 2016. We started the year with a focus on purchasing existing assets such as Tara Towers, Clarion Sligo and the leasehold interests of Clarion Limerick and Clarion Cork with a view to full ownership of those two assets. As hotel prices increased in Ireland significantly during the year, we switched our focus to acquiring sites and exploiting opportunities to add bedrooms to our existing hotels. We now have a pipeline of just under 1,000 rooms in key locations of the larger cities on the island of Ireland. We also continued our well-documented strategy of buying out the freehold interest of some of our leased hotels that had unfavourable rent review clauses – Clayton Hotel Limerick, Clayton Hotel Cardiff and Maldron Hotel Cork. We also entered into an agreement to lease a new Maldron hotel in Newcastle when it opens in 2018. We also completed the redevelopment of the Clayton Hotel Chiswick and Maldron Hotel Pearse Street properties as well as the redevelopment of the Ballroom and Event Centre at Clayton Hotel Silver Springs.

We invested €12.4 million in our rolling property refurbishment capital expenditure programme after spending €7.4 million in 2015. We are seeing the benefits of this expenditure and are fully committed to improving and then maintaining the physical condition of all our hotels.

There has been a significant increase in the depreciation charge from €10.0m to €15.5m. This is a direct result of (i) the number of hotels acquired in 2015 and 2016 and the associated depreciation charge on those assets, (ii) the depreciation charge on the significant levels of development capital expenditure in 2015 and 2016 and (iii) the depreciation charge on refurbishment capital expenditure over the last two years.

GOODWILL AND INTANGIBLE ASSETS

	€'000
Balance at 31 December 2015	46,803
Acquisition of Gibson Hotel leasehold interest	20,500
Impairment losses during the year	(10,325)
Movement in exchange rates	(2,711)
Balance at 31 December 2016	54,267

The Group recorded an impairment on goodwill of €10.3 million following impairment testing at year end where the carrying value of the CGU was in excess of the “value in use” estimates (for further information see note 11 to the consolidated financial statements). Goodwill arises on acquisitions where the price we pay for a hotel exceeds the external valuers’ assessments of fair value at date of acquisition. This is due to the potential increase in profitability that we believe we can deliver through increased revenues, cost synergies etc. The Group has a policy of revaluation of its owned hotels to fair value by independent external qualified valuers. The principal valuation technique used in the valuations is discounted cash flows based off projected earnings. Consequently, as the Group exploits and delivers the improved profitability, the external valuations increase and move closer to the Group’s original “value in use” on acquisition which effectively crystallises an element of the goodwill.

Under accounting standards, the Group is required to “impair” this element of the goodwill where the judgement is formed that there is not sufficient evidence that this element of goodwill can be carried following the revaluation gains recorded on the property. This results in a mismatch in that goodwill is impaired through profit or loss, thereby impacting earnings and EPS though the revaluation gains are taken to reserves through other comprehensive income. Following the goodwill impairment, an asset remains of €33.8 million at year end which relates to the remaining goodwill from the acquisition of the former Moran Bewley group (€24.9 million), other single asset acquisitions made in 2015 (€2.0 million) and the remaining goodwill from the original 2007 acquisitions following the formation of Dalata (€6.9 million). At 31 December 2016, there are intangible assets of €20.5 million which represent the acquired leasehold interest in The Gibson Hotel.

CONCLUSION

We remain very focused on growing the size and profitability of the Dalata Group. We will continue to assess any acquisition opportunities but our focus will be on our development pipeline and securing new or existing hotels in the UK on a capital-light model.

We currently have over 1,200 bedrooms in either planning or under construction and these are all due to open at different stages of 2018. The development team are very focused on delivering all these projects both on time and within budget. I am very confident that they will do so. I believe that the UK market represents a very exciting opportunity for us. In 2016, we entered into an agreement to lease a new Maldron hotel in Newcastle which will open in mid-2018. We are currently chasing down similar opportunities in other large UK provincial cities and by the end of this year, we are determined to have made significant progress in further growing our UK presence.

We have made great progress in improving the profitability of the portfolio that we have acquired since 2014 and we will continue this journey in 2017. I am delighted with the payroll efficiencies that we started to achieve from the middle of 2016 as a result of the introduction of the new Alkimii Team system. 2017 will see the start of a systems project aimed at centralising and simplifying our purchasing and payment processes. The new systems will also significantly improve our management information in these areas. We will also be investing in revenue management systems at some of our larger hotels to further assist our highly skilled revenue managers to maximise RevPARs at those properties.

I am very proud of the team that we are building at Dalata and what we have achieved together over the last three years. The strength, depth and energy of that team makes me very excited about what we can achieve over the next three years. The journey has only just begun.



Dermot Crowley

Deputy Chief Executive – Business Development and Finance



FOCUS & PROGRESS

Stephen Clarke
Group Financial Controller
Central Office

Dalata is unrecognisable from the Group I joined in 2008 and I believe that we in the Finance team have played our part in contributing to its success. Each year brings a new challenge, whether it be the integration of new assets or the implementation of new systems, the goal remains the same; to continually improve and look for ways to increase returns in the properties.

The Board look to me to ensure we have strong, robust financial controls in place and that we deliver sound financial analysis to enable good decision-making. I help set and beat challenging targets, so when the sales and marketing teams deliver additional revenue, we focus on ensuring that this is converted to additional profit.

I am tasked with ensuring that we have committed finance professionals in each hotel whose objective is to support the General Manager. I operate through a team of Regional Financial Controllers who continuously strive to outperform the market and deliver strong returns. We look to develop financial professionals from within the Group so as to keep pace with growth, but also to ensure that we maintain our culture and can-do attitude.

Our decentralised operating model means that every hotel operates independently of each other, which promotes better returns. However, the underlying disciplines remain the same. Instilling a sense of integrity, honesty and professionalism in everything we do means that we are accountable and operate to the very highest of standards whether it is in the application of our own internal controls or adherence to the rigours of external audits.

It is fast-paced, different and always challenging, which is why it attracts those who are commercial, focused, and want to make a difference. This is not a job, it is a career, and the people I work with believe the same.

RISK MANAGEMENT

MANAGING OUR RISKS

Managing our risks is part and parcel of operating and being a successful hotel group. Risk management happens on a daily basis within our hotels and is overseen by our management teams. The Executive team and Board have oversight on Dalata's key risks.

As a large hotel group, there are a wide range of risk types that could impact our business, including:

- > External risks such as those associated with general economic and political developments both in our operating markets of Ireland and the UK and further afield. Examples of these are the potential impact of Brexit, political changes, world economic performance or any events that affect tourism, leisure and business travel and the demand for our services across our revenue categories; or limit our ability to grow in accordance with our preferred growth strategy.
- > Operational risks associated with operating and managing hotels, particularly those in relation to the health and safety of our guests, employees and infrastructure, food safety and fire safety.

- > Risks associated with being a public company, including financial reporting risks, compliance, market risks, regulatory risks and reputational risks to our public profile.
- > In common with other enterprises we face risks relating to managing our business environment including areas such as sound financial controls, technology and security risks and data protection.

The Board recognises its responsibilities in managing risk and has delegated oversight responsibilities to its Audit and Risk Committee. Our organisational risk management framework is integrated throughout the Group and follows a "three lines of defence" risk management model. The key elements of this are:

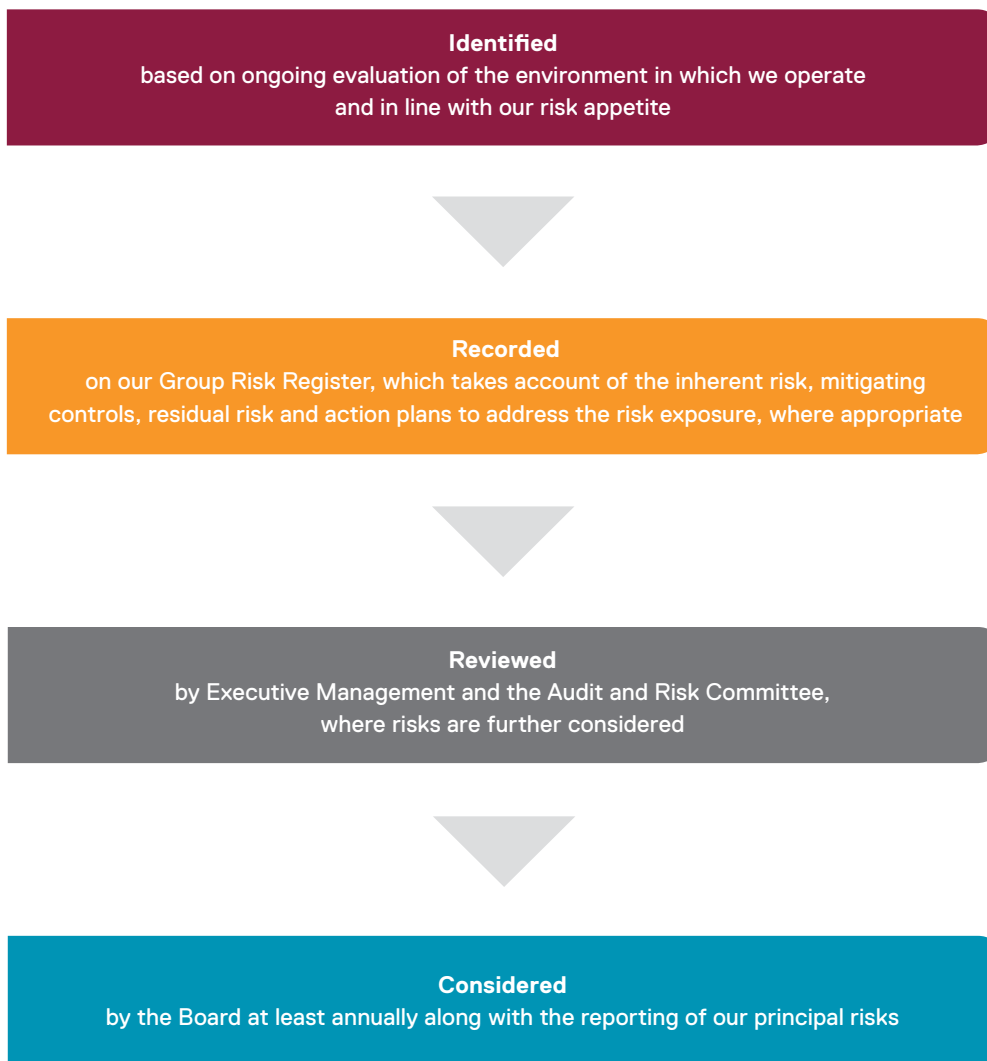
- > Board oversight of risk management, including a risk

management policy and regular Audit and Risk Committee review of our key risks.

- > Analysis of all key business decisions by the Board, taking account of our strategic goals and the potential impact, both positive and negative, of potential decisions taken. As part of this decision-making process we also have consideration of Dalata's appetite for risk and the areas where we believe risk is appropriate given the potential benefits to the Group. We also use external expertise where we consider this to be appropriate.
- > A risk-awareness culture, where the prevention of negative risk events arising in our business is foremost in our activities and planning, through management and team training, risk awareness and reporting.

- > A flat and agile Executive Management structure that enables prompt identification of risks and remedial action, where necessary.
- > Close support by the Executive Management team of hotel operations and regular interaction with the hotel General Managers and their teams.
- > A Group organisational structure and division of responsibilities that supports our business but also manages associated risks.
- > Resourced back-office risk management expertise, providing support and oversight in areas such as health and safety, food safety, supplier management, financial control, IT and human resource management.
- > Ongoing review and analysis of risks through regular business review, specific risk audits and external reviews of our risk environment.
- > An Internal Audit function that conducts independent risk-based reviews of our operations, supported by external expertise where appropriate.

At a high level, the organisational risk management framework supports Dalata's management of risks. In order to document and quantify the impact and likelihood of our risks a risk management process supports this framework, whereby risks are:



PRINCIPAL RISKS AND UNCERTAINTIES

The Group's principal risks and uncertainties, in the short and medium term, are set out as follows:

Risk description	Risk profile	Why this risk is important to us	How we manage and mitigate this risk
Potential impact of Brexit on our business and strategy	New / emerging risk	The Group is exposed to risks as a result of United Kingdom's proposed exit from the European Union, particularly in relation to a reduction in the value of sterling, the potential impact on UK visitors to Ireland and the impact on general economic activity.	The Board and Executive Management have reviewed our strategy and potential exposures arising from this risk and will remain focused on this area as it develops.
Information systems and data security risks	Increasing risk	The Group's information systems could be subject to an external/ internal cyber event with the potential for data loss/theft, denial of service or associated negative impact on the Group's reputation.	The Group's ICT systems operate on a robust IT infrastructure. Appropriate ICT security structures are in place and are monitored, complemented by external support providers. We plan to consider obtaining additional expert advice given the ongoing developments in this risk area.
Taxation risk associated with acquisitions and transactions	New / emerging risk	In the course of its development, the Group has entered, and will continue to enter, into a range of business acquisitions and other transactions. The tax implications of acquisitions are complex, especially in the context of VAT, corporation tax, CGT and stamp duty. There is also a risk that the Group may acquire an inherent tax liability or fail to fulfil conditions related to tax reliefs due to a lack of information regarding the tax history of an acquired property.	All our business acquisitions and other transactions are reviewed in detail by the Board, the Group's legal advisors and internal and external tax experts. Any tax matters, or potential tax matters, are considered in detail so as to avoid any material risk materialising in this complex area.
Other external and geopolitical risks	Increasing risk	These are other geopolitical and / or economic risks, which may be unforeseen, that are outside the Group's direct control but which can impact our performance by negatively affecting customer confidence, travel and general economic conditions. These would include matters such as political uncertainties, economic shocks and terrorism.	We monitor and consider developments in these areas on an ongoing basis. There is close involvement with industry bodies to determine any changes to market sentiment. We also monitor our forecasted revenues and costs closely across our different markets to promptly identify any changes in market conditions.

Risk description	Risk profile	Why this risk is important to us	How we manage and mitigate this risk
Risks associated with new hotel developments and hotel expansions	Increasing risk	Our Group has expanded rapidly since 2014 and our strategy is that this growth will continue. We currently have four new hotel projects underway along with a number of other hotel expansion projects. This strategy of developing new hotels creates risks associated with planning, construction, project management and costs.	All new developments and expansions are Board-approved following detailed analysis of costs, benefits and expected outcomes. During 2016 we introduced additional expertise to this area and centralised our project cost management structures which, supports the effective management of these risks.
Hotel operational and health and safety risks	Stable risk	As a large hotel operator, we manage extensive hotel and leisure centre facilities that are used by our employees, guests and patrons. As such, we have significant legal and health and safety responsibilities in these areas. A failure to properly manage a material operational health and safety-related event (for example, one resulting in loss of life, injury or major property damage) could result in financial loss and/or reputational damage to the Group.	The Group has put in place appropriate structures and resources to manage these risks, both at a hotel level and central office management level. These include a Group health and safety function, hotel health and safety committees, appropriate fire/lift safety servicing contracts, strict food and beverage procurement guidelines and ongoing training in these areas. These controls are supplemented by external audits of our hotel health and safety and food safety environments.
Market concentration risk	Stable risk	As part of our growth strategy we have expanded in the Dublin hotel market, with the effect that many of our large business units are concentrated in the Dublin market. While this market has had significant growth in recent years and therefore has been of benefit to the Group, any significant downturn in Dublin could have a material impact on the Group's performance.	The Group's strategy in relation to our expansion in Dublin has been considered in detail, including financial forecasting and market analysis. The performance of this market is also reviewed on an ongoing basis while planned developments in other markets will reduce our reliance on this market.

STRATEGIC REPORT

RISK MANAGEMENT

Risk description	Risk profile	Why this risk is important to us	How we manage and mitigate this risk
Risk of material financial controls failure	Stable risk	<p>The Group conducts a wide range of financial transactions, many of which are complex and across different jurisdictions and currencies.</p> <p>As such, there is a risk of a material financial controls failure, or management override of controls, which could result in either financial loss or misstatement in the financial statements.</p>	<p>As the Group has expanded there has been a corresponding growth in the Group's financial control environment, both in Group Finance and at a local hotel level.</p> <p>Additional dedicated resources in specific areas of financial expertise have been put in place and the Group has a clearly defined segregation of duties structure around financial transactions, supplemented by management, internal audit and external audit oversight.</p>
Capital expenditure programme risks	Stable risk	<p>There is a risk that capital expenditure is not properly evaluated, approved, monitored and/or accounted for, resulting in material overspend or financial misstatement.</p> <p>There is also a risk that capital expenditure is not properly evaluated, approved, monitored and/or accounted for in a tax context, resulting in either available deductions being under claimed or inappropriate deductions being taken in tax returns.</p>	<p>During 2016 the Group revised its structures and approvals for capital expenditure. All expenditure requires formal Executive approval, with supporting documentation, and all contractor invoicing and accounting for capital expenditure is managed by Group Finance. Any associated tax implications are also considered by Group Finance.</p>
ICT support systems risk	Stable risk	<p>There is a risk that our ICT applications are not suited to the expanded Group portfolio, the quantity of transactions to be processed and the delivery of timely and accurate management information.</p>	<p>The risks associated with different systems and manual interventions have been reviewed as the Group has expanded. In recent years we have implemented a new timekeeping and payroll interface that provides us with detailed cost and forecasting information along with a finance consolidation solution.</p> <p>We have also commenced a programme to upgrade our financial systems to a common platform more suited to the Group's needs. In addition we plan to implement a new purchasing and payment system in 2017 that is expected to deliver additional operational efficiencies and provide more timely management information.</p>
Succession planning and talent development risk	Stable risk	<p>Our growth and performance are materially dependent both on the retention of expertise within the Group and the development of our talent and expertise from within the Group.</p> <p>There is a risk that failure to retain key expertise and to develop talent within the Group could impact its ongoing and future success.</p>	<p>The Board's Remuneration Committee considers executive and staff remuneration and performance criteria. Our talent management strategy is to develop expertise from within and there are a range of different initiatives in this area including, for example, our General Manager Development Programme, Revenue Manager Programme and CAI-approved trainee accountant programme. There is also an internally managed training programme available for all employees, both online and in-house.</p>

VIABILITY STATEMENT

In accordance with the UK Corporate Governance Code (2014), the Directors have assessed the viability of the Group and its ability to meet its liabilities as they fall due over the medium-term.

This process takes into account the Group’s current financial position and the potential impact arising from the principal risks and uncertainties detailed on pages 35 to 37. The financial position of the Group, its cashflows, liquidity position and borrowing facilities are explained in the Financial Review on pages 22 to 31.

For the purposes of assessing the future prospects of the Company, the Directors have selected a three year time frame. This period corresponds with the Company’s current strategic planning horizon and coincides with the anticipated first full year of operation of hotels currently in the Company’s development pipeline. In this way the risks associated with this phase of development are fully considered.

The Company operates in an established sector with strong cash flows and mature patterns of demand and supply. At present, trading conditions are positive across the markets in which the Company operates.

However, the Company considers carefully events that may have a negative impact on the hotel market in Ireland and the UK and consequently demand for its services. In order to assess its future prospects the Company has examined the cyclical trading patterns in the Irish and UK hotel sector over several decades and considered the market dynamics in each of these two markets. During periods of slowdown, normally associated with economic recession, a significant negative geopolitical event or a terrorist attack, hotel revenues may decline sharply as consumers reduce or alter their travel plans. The Company has stress-tested its projections for a range of downside scenarios, based on how the hotel market has reacted to previous economic and

geopolitical shocks and considered what mitigating actions in terms of cost and cash management would be taken to protect the Company. Because the Company’s operations are spread across over forty locations, it has focused on risks that would have a Company-wide impact as these pose a greater risk to group viability. The Company also manages its debt profile to ensure it has adequate headroom to withstand a severe downturn.

Having reviewed the Company’s budget for 2017 and projections for a further two years at its December 5 2016 Board meeting, and examined a report detailing the stress-testing of these projections in February 2017, the Directors confirm that they have a reasonable expectation that the Company will continue to operate and meet its liabilities, as they fall due for the next three years.

(Bottom right) Maldron Newcastle opening 2018



CORPORATE RESPONSIBILITY

Dear Shareholder,

In our first annual report in 2014 we explained our core values as a company, focusing on our people, fairness, service and individuality. By now, doing business in an ethical and responsible way is an accepted part of our culture.

As we have grown we have taken on many initiatives which reflect this ethos and in 2016, for the first time, 30% of incentive pay for General Managers was awarded for measurable improvements in employee engagement, health and safety management and customer satisfaction scores.

In September, we launched a company-wide employee sharesave scheme and 379 employees applied to join. We hope to increase that number significantly this year.

In the past year we also launched #dalatadigsdeep our fundraising initiative. It has been a wonderful success on many levels and raised much needed funds for our partners CMRF Crumlin, Cancer Focus Northern Ireland and Great Ormond Street Hospital.

Our training and development programmes are providing personal development and skills training for increasing numbers of our colleagues and this is benefiting our business as more management positions are filled by programme graduates.

This year we will continue with this work and as we build new hotels we will bring greater focus to the impact of our business on the environment.

Pat McCann

Chief Executive Officer

Core Values	
Our people	Dalata is the place where you can do great things - individually and as a team.
Our fairness	We pride ourselves on creating an objective, supportive and fair working environment for our employees, shareholders, suppliers, customers and the communities we work within.
Our service	We ensure our service standards are consistently high at every opportunity.
Our individuality	Our people are as individual as our hotels. They bring their own personality, character and enthusiasm ensuring the experience we provide is always warm, welcoming, genuine and friendly.

OUR STRATEGIC APPROACH

Our approach to corporate responsibility is embedded in our values as a Group. We aim to do business in an ethical way.

By embracing our values and engaging with our stakeholders, we can achieve our strategic objectives and create shareholder value in a responsible and sustainable way.

This year we have added health and safety management to our corporate responsibility framework, expressly recognising our duty to our employees and guests to provide a safe environment to work and experience our facilities.



DEVELOPING OUR PEOPLE, GROWING OUR TALENT

We invest in our people, through a number of training and development initiatives, which expand and evolve continuously.



Lisa Halligan & Pat McCann

“I began working in the bar of the Forte Posthouse Hotel (now Maldron Hotel Dublin Airport) in 1998 and got the bug for the hospitality industry. I worked in reception as supervisor, in accounts and had a role as Front of House Manager. In 2013 I changed path and was appointed Corporate Sales Manager and later got the opportunity to participate in the Dalata Sales Development Programme. It helped me to change my approach to a more proactive one which is a must in any sales environment. I also gained confidence with making new contacts and in face-to-face meetings. I was honoured to be presented with ‘The Outstanding Student of the Year’ award at the Dalata Hotel Group Awards in 2015, and now I am a Mentor for new participants in the Dalata Sales Development Programme”.

LISA HALLIGAN, SALES & MARKETING MANAGER, CLAYTON HOTEL BALLSBRIDGE, DUBLIN

ENGAGING OUR TEAMS

In November 2016, we conducted an employee engagement survey in conjunction with ‘Great Places to Work’. Our first survey in 2015 covered 16 hotels; this grew to encompass 34 hotels and central office in 2016. With 3,325 surveys completed, we have received feedback from 91% of those employed across the 34 hotels and central office. This feedback will help us to set our People Strategy for 2017.

In September 2016, the Company launched a Revenue-approved Save as You Earn Scheme (‘SAYE’), which enables employees to save monthly for a fixed term and to purchase shares in the Company at the end of the term at a predetermined price. It also allows employees to participate and share in the success of the Group.

We celebrate employees’ accomplishments through monthly and quarterly awards and are very proud of our gala Employee Awards night. At this annual event, all Group hotels are represented and each hotel’s Employee of the Year attends as a guest of honour. Hotels are recognised for success in all aspects of the business.

HEALTH AND SAFETY

The Group recognises the importance of providing a safe and secure environment for our guests, employees, suppliers and those working or visiting our hotels or corporate offices.

Effective health and safety practices are encouraged through detailed policies and procedures, training, supervision and regular communication. During 2016, an independent third party health and safety audit was performed in all Dalata hotels, which provided an action plan for each hotel and follow-up visits were completed by those external auditors to ensure completion of each task. A full review was completed of all hotel safety statements and of hotel risk-assessment processes. A new Group risk assessment template was devised, as was a programme for training. In March 2016, our first Group Health and Safety Officer Forum was held. The theme for the day was prevention of slip, trips and fall incidents and we had a number of guest speakers to discuss maintenance of water, chemical safety, incident reporting and self-insurance. Other courses which were devised and delivered in 2016 included 'Safety & Security for Late Duty Managers and Night Teams' and 'Fire Safety for Night Teams'. In 2016 Group policy and procedures relating to Bomb Threat, Norovirus, and Bio-Hazard Waste were reviewed with each hotel.

Our priorities for 2017:

- > Continue to roll out the 'Fire Cloud 365' app in all hotels to enable oversight and ensure full compliance of fire safety procedures;
- > Roll-out of our new Health and Safety System, which will allow us to change how we report incidents, conduct improved incident analysis and complete monthly safety checklists;
- > Continued development of Health and Safety Officers through our

Dalata hotel-specific Health and Safety Officer Course;

- > Development of Health and Safety programmes to promote awareness amongst Heads of Departments, including Accommodation, Chefs, Night teams and Food and Beverage Managers; and
- > Continued review and development of Group safety procedures and policies.



Atrium – Leopardstown, Dublin

SERVING OUR CUSTOMERS

At Dalata we recognise the value of our guests and customers and strive to develop and maintain positive relationships with them. Our focus is on product quality, value and service.



GUEST SATISFACTION

Our aim is to be the hotel of choice in the markets in which we operate. Working with our employees and suppliers we identify, define and develop initiatives to improve guest satisfaction. We also recognise the importance of guest feedback, and listen to what our guests are telling us to establish how we can do better. Guest feedback is captured through various channels; guest satisfaction surveys, social media and internet based applications.

'Trust You', a leading reputational management tool was rolled out to our owned and leased hotels in 2015, to collate guest feedback

from social media, review websites and various booking websites. In 2016, this became a bigger focus for all hotels within the Group. The performance bonus of our General Managers was linked to their hotels' 'Trust You' rating; this was to encourage them to implement initiatives to improve their overall guest experience. Our hotels achieved an overall performance score of 83%, with 85% of our hotels increasing their score year on year. Out of 94,000 reviews, 85% of these have been positive. Overall the Group has performed very well over the last year and will continue to look at new initiatives to ensure they continue to maintain and increase their scores.

Peter Varga – Sous chef in the Gibson Hotel

FOOD AND BEVERAGE PHILOSOPHY

Dalata has developed a philosophy that focuses on healthy, fresh, natural and locally-sourced food and beverage options. Healthy and sustainably-sourced food supports our commitment to the health and well-being of our customers, our employees and our communities, and allows us to showcase our new brands, brands that care about people and also deliver on taste.

COLLABORATING WITH OUR SUPPLIERS

Over the past number of years, Dalata has moved towards more sustainable, local produce. We not only deliver excellence in product-quality and service to our customers, but collaborate with our suppliers to expand their product reach.

RESPONSIBLE SOURCING AND BUYING LOCAL

We have a central purchasing function that continues to work closely with all food suppliers, ensuring that the quality and traceability of all food is of the highest standard. We continue to develop the business through our wholesale partners and endeavour to find great Irish producers and bring them to the business through our Group food initiatives, highlighting the best food Ireland has to offer.

One recently-launched initiative is the 'Dalata Vitality Breakfast', which offers new healthier breakfast options to guests, using high-quality ingredients.

PADDYO CEREALS

PaddyO's Porridge Oats are grown and milled locally by farmers in County Laois.

"Danny Delaney, one of our expert growers from PaddyO's hometown of Cullahill, harvests the porridge oats in small batches to keep in the deliciously light, nutty and creamy flavour that families from all around Ireland love. The mill used by PaddyO's is of the highest quality, and the seeds that farmers like Danny use to grow PaddyO's Porridge Oats are provided by the mill – providing a closed-loop supply chain."

PADDY O'CONNELL, PADDYO'S CEREALS





HEANEY MEATS

Heaney Meats is a family-owned business with over 300 years of knowledge passed down from father to son. Heaney Meats works closely with its farmers to ensure that all Dalata's requirements and standards are met. Their team ensures they surpass all legislative requirements to bring the best of what Ireland has to offer to our customers. Heaney Meats operates at the highest level of HACCP* in the Country. They are EFSIS† and BRC‡ AA accredited. They work with their farmers to ensure full traceability from farm to fork. Heaney Meats has a close working relationship with the Irish Angus Producer Group and are passionate about quality and attention to detail.

“The Dalata Hotel Group is a proud partnership for us here at Heaney Meats. Dalata buys premium beef products and uses certified Angus beef products, providing their guests with the very best of Irish beef. Tony McGuigan and Darina Brennan of Dalata both regularly conduct farm visits with the Heaney brothers. This provides a true participation in the end-product used in Dalata hotels nationwide”.

SHAYNE AND KENNETH HEANEY,
HEANEY MEATS

“The Irish Angus Producer Group is proud to be associated with Dalata Hotel Group through our meat partners, Heaney Meats”

CHARLES SMITH, HEAD OF THE IRISH
ANGUS PRODUCER GROUP

*HACCP – Hazard Analysis and Critical Control Points

† European Food Safety Inspection Service

‡ BRC – Global Standards

CREATING AN ENVIRONMENTALLY SUSTAINABLE BUSINESS

We aim to be a truly sustainable Group, where social and environmental considerations are part of the culture and integrated in the way we run our hotels, infrastructure and processes, how we buy our goods and services, and how we support our guests. Our environmental practices and sustainability principles are aimed at:



USING OUR RESOURCES WITH CARE

Energy Initiatives

In 2016, we partnered with Elight to undertake a large-scale installation of LED light bulbs in 21 of our hotels with the remaining scheduled for completion in 2017.

As a result of these upgrades which were completed in association with

Philips, we will enjoy savings on all products installed of approximately 75% compared to the replaced incandescent lighting.

Summary of savings to date:

- > Reduced lighting energy use of 75%
- > Energy use reduced by over 2,250,000 kWh

- > Reduction of 119,700 Kg CO2
- > Reduction of 32.5 Tonnes Carbon

We are currently trialling a CHP unit (Combined Heat and Power) in the Clayton Hotel Cardiff Lane in Dublin. The CHP unit extracts both heat and electricity from gas, thereby increasing energy efficiency. It also avoids the traditional burning of



Stephen McNally, Aisling McGrath, Michael McCann and Ian McKenna (Elight)

award for ‘Overall Hotel Leisure Club of the Year’. This prestigious accolade is awarded to those reaching the highest standards in the areas of safety, hygiene and maintenance, customer engagement and human resources.



Build Smart

The design philosophy for our new buildings is to create cost effective, durable, low maintenance, energy efficient, low carbon and sustainable installations. Sustainable energy has two key components: renewable energy and energy efficiency. As part of our commitment to provide the best integrated design solutions, our design teams work collaboratively to target a LEED (Leadership in Energy and Environmental Design) rating of ‘Gold’. To achieve this level of certification, we must consider the most appropriate mix of technologies suitable for each site. Dalata is currently designing for a new Dublin hotel which will include Solar Photovoltaic technology as our main renewable energy source and will be teamed with various technologies such as LED lighting, lighting controls, variable speed devices for pumps and fans, BMS energy monitoring, water saving devices, heat recovery technology and bedroom occupancy linked controls to provide a modern, comfortable yet sustainable installation.

We acknowledge that achieving our goals will require many changes to be made over time. However, we believe that our efforts serve the interests of both current and future generations and constitute the foundation of long-lasting success.

fossil fuels, which produce harmful greenhouse gas emissions such as carbon dioxide.

Water Conservation

Water is essential to the hotel industry – for food preparation, cleaning and hygiene, guest comfort and recreation. We are conscious that water is a critical and limited resource and we continued our water conservation programmes in our hotels in 2016. For instance the application of Eco shower heads and tap flow regulators in the washhand basins. We have also addressed some of the public toilets with new sensor taps on a trial basis for future consideration.

Waste Management

During 2016 we agreed a contract with a specialist food waste collection company to manage all our food waste within our business and to provide clean bin exchange at each collection at each of our hotels on the island of Ireland. All food waste from our business is now being used to create renewable energy in an Anaerobic Digestion Plant, which converts Biogas from food waste to electricity.

- > The key to good recycling in a hospitality business is the management of food waste
- > Good food waste management ensures better recovery of mixed dry recyclables
- > Good food waste management greatly reduces landfill which lowers the environmental impact of waste as well as the costs

Engaging our people and our guests

The success of environmental sustainability efforts is dependent on the passion of the people leading the projects. To motivate our staff we have appointed Green Ambassadors to our hotels. The Green Ambassadors identify and implement hotel specific environmental initiatives. Our guests are also encouraged to be environmentally friendly by managing their towel and bed linen usage.

In 2016, Clayton Whites Hotel of Wexford won the ‘White Flag National Quality Standard’

POSITIVELY IMPACTING OUR COMMUNITIES

By finding innovative ways to do more with less, we aim to drive sustainability efforts and build resilience into our properties in order to continue positively impacting the communities in which we operate.

SUPPORTING LOCAL ECONOMIES

Our commitment to supporting the government and enterprise led schemes is shown through our partnerships with Jobs Centre Plus and the Momentum programme. The success of these schemes to both Dalata and the participants was evidenced at the recent Employee Awards ceremony, where Sylwia Sidua who joined Dalata through the Momentum Programme, was named Employee of the Year 2016.

SUPPORTING COMMUNITIES

As we continue to expand our footprint throughout Ireland and the UK, adding new hotels to our Clayton and Maldron brands, we also continue to grow our team. In doing so, we are acutely aware of the towns and cities in which we work and the lives of the

team that we employ. Our growth means we are reaching further and further into the core of communities throughout Ireland and the UK.

With a wider reach, we believe that we have a wider responsibility to give back, not only to our employees, but to the communities in which we live and work. With that in mind, we launched CMRF Crumlin as our charity partner in the Republic of Ireland in January 2016. CMRF Crumlin is the fundraising body for Our Lady's Children's Hospital, Crumlin and The National Children's Research Centre. All funds raised will go towards vital equipment needed in the hospital and also invaluable research for the cures of the future. Cancer Focus Northern Ireland was launched as our partner in Northern

Ireland, with all funds raised going towards the provision of a cancer support nurse in the community for a year. Finally, Great Ormond Street Hospital, the UK's largest children's hospital, was launched as our charity partner in the UK. Here we are supporting the families of the young patients by funding parental housing next to the hospital for a year.

Our fundraising initiative was named as 'Dalata Digs Deep'. A fundraising target of €150,000 was set for 2016, with €60,000 of this to be donated by the Group and the remainder to be raised through our hotels and in our central office, with the objective of supporting causes that help the lives of children and families in our communities.



STRATEGIC REPORT

CORPORATE RESPONSIBILITY

Throughout Dalata, employees volunteered themselves as Charity Ambassadors who would drive 'Dalata Digs Deep' locally in their properties. These Ambassadors travelled to both Crumlin Children's Hospital and Great Ormond Street Hospital where they had the opportunity to visit the patients and their families to see where these much-needed funds would be making the difference. Our personal relationships with our charities has developed significantly during 2016 through visits such as these, along with our fundraising activities which are often attended by the charities themselves.

Over 250 events were held across Ireland and the UK in aid of our charities in 2016. Our inaugural 'Dalata Digs Deep' week was held in every property during the first week in November, and, the drive and enthusiasm from our employees across the Group was palpable. During this one week alone, more funds were raised than the total of the preceding three months, showing how

the special effort our teams made to engage their colleagues, guests and communities, really made an impact towards our goal of raising €150,000.

We are so proud of our employees who, through their local fundraising initiatives, smashed this target, and raised €253,000 in our first year of 'Dalata Digs Deep.'

We are extremely proud to continue to support CMRF Crumlin, Great Ormond Street Hospital and Cancer Focus for 2017.

Sinéad O'Toole:
Assistant Group HR Manager

"At CMRF Crumlin we are reliant on the passion and compassion of our supporters and volunteers to ensure that Crumlin Hospital and the National Children's Research Centre can change sick children's lives every day. To have been chosen as a Dalata Digs Deep charity partner was a huge honour and throughout 2016 we were overwhelmed by the generosity, tenacity and passion of the Dalata family. Your imagination, determination and pure effort to raise funds for sick children is genuinely inspiring. The funds raised through "Dalata Digs Deep" Partnership are already hard at work finding cures and treatments for sick children attending Crumlin today and tomorrow, and knowing that we have your commitment throughout 2017 means that we can help hundreds of children to leave their illness behind them forever"

MARY O'DONOVAN,
DIRECTOR OF FUNDRAISING



CORPORATE GOVERNANCE



CHAIRMAN'S OVERVIEW

Dear Shareholder,

I am pleased to present the Corporate Governance Report of Dalata Hotel Group plc.

In the following pages we set out the governance structures and processes that are in place to ensure we set and maintain high standards of corporate governance.

GOVERNANCE

We view high standards of corporate governance as an essential part of our business and an important component of our success. On behalf of the Board I am pleased to report full compliance with the 2014 UK Corporate Governance Code and the Irish Corporate Governance Annex throughout 2016. In June 2016 the company moved its listing to the main markets of the London and Irish stock exchanges. This was an important landmark in the development of the Group, and is consistent with our commitment to the highest standards of corporate governance.

BOARD OF DIRECTORS

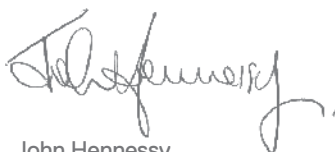
An important part of ensuring a high standard of governance is ensuring that our board has the right mix of skills, experience and knowledge. Dalata's Board comprises a balanced, diverse and experienced team that is committed to maintaining these standards while developing and supporting the delivery of Group strategy.

During the year Board members visited a number of the company's hotel properties and engaged with the business and the management team in a variety of ways. The Board also received training during the year on regulatory matters and prevailing trends in our industry, and we will continue to invest time in 2017 in the development of skills and knowledge relevant to the performance of our duties. Board performance is evaluated annually, and in 2017 this evaluation will be conducted with the assistance of an external facilitator.

REMUNERATION POLICY

A good deal of thought and time has been spent in recent months developing a three year Remuneration Policy (set out on pages 80 to 85)which we will submit, voluntarily, to an advisory vote at our AGM on 10th May 2017. This policy has been developed with the intention of ensuring as far as possible that the Group will continue to attract and retain people with the skills and abilities necessary for the delivery of long-term sustainable growth for the Dalata group.

I am proud to be the Chairman of Dalata and I am committed to continuing the good work of our board in ensuring a well-governed and successful business, creating long-term value for all of our stakeholders. If any shareholder wishes to contact me in relation to any of the content of the annual report, please do so through the Company Secretary at the Company's address.



John Hennessy
Non-Executive Chairman

BOARD OF DIRECTORS



JOHN HENNESSY
NON-EXECUTIVE CHAIRMAN

Committee membership:
Remuneration (Since February 2014)
Nomination (Since February 2014)

Age: 60
Appointed to the Board:
27 February 2014

Experience: John Hennessy SC is a practising barrister and a Chartered Director. He is a fellow of Chartered Accountants Ireland and of the Chartered Institute of Arbitrators. He is also an accredited mediator.

Other appointments: John is non-executive Chairman of CPL Resources plc and a non-executive director of H & K International Limited. He is also a member of the boards of a number of voluntary and non-profit making organisations.



PAT McCANN
CHIEF EXECUTIVE

Age: 65

Appointed to the Board:
28 January 2014 (previously a director of DHGL Limited, the former parent company of the Group)

Experience: Pat has over 46 years of experience in the hotel industry having started his career with Ryan Hotels plc. He joined Jurys Hotel Group plc as General Manager of its flagship Dublin hotel in 1989. He was appointed Operations Director, and to the Board of Jurys Hotel Group plc in 1994 and was responsible for the integration of the Doyle Hotel Group following its acquisition by Jurys in 1999. In 2000, he became Chief Executive of Jurys Doyle Hotel Group plc, a position he held until 2006. Pat worked as an independent consultant and became founder and Chief Executive Officer of Dalata in August 2007.

Other appointments: Pat is currently a non-executive director of a number of private companies.

He was a non-executive director of EBS Building Society and Greencore Group plc. He served as National President of the Irish Hotels Federation, and was a Member of the National Tourism Council (Ireland) and the Irish Tourism Review Group.

CORPORATE GOVERNANCE

BOARD OF DIRECTORS



STEPHEN McNALLY
DEPUTY CHIEF EXECUTIVE

Age: 52

Appointed to the Board:

28 January 2014 (previously a director of DHGL Limited, the former parent company of the Group)

Experience: Stephen completed his hotel studies in Rockwell Hotel and Catering School. Having worked with Ramada Hotels in the UK and Germany and completed the Ramada management development programme, he joined Jurys Hotel Group plc in 1989. During his seventeen years with Jurys, which subsequently became Jurys Doyle Hotel Group plc, he managed the company's hotels in the UK and Ireland, and ultimately headed up operations for the entire hotel group, including its properties in the USA. In August 2007 he was appointed as Deputy Chief Executive of Dalata where he has overall responsibility for the Group's hotel operations.

Other appointments: Stephen is a member of the Government-led Tourism Leadership Group and was appointed as a director of the St. Patrick's Festival Board in December 2016. He served as National President of the Irish Hotels Federation, from February 2014 to February 2016.



DERMOT CROWLEY
DEPUTY CHIEF EXECUTIVE –
BUSINESS DEVELOPMENT AND
FINANCE

Age: 49

Appointed to the Board:

28 January 2014 (previously a director of DHGL Limited, the former parent company of the Group)

Experience: Dermot joined Dalata in 2012 where he has overall responsibility for business development and finance. He led the acquisition of the Moran Bewley Hotel Group in February 2015. He also played a leading role in the IPO of the Company in March 2014 and the equity fundraising in September 2015. Dermot has responsibility for Finance, Development, Strategy and Investor Relations within Dalata. He is a Fellow of Chartered Accountants Ireland. He previously worked with PricewaterhouseCoopers, Procter & Gamble, Forte Hotels and Renault Ireland, before joining Jurys Doyle Hotel Group plc as Head of Development from 2000 to 2006. From 2006 to 2012 he worked at Ion Equity on a number of transactions which included the establishment of Pillo Hotels.



ROBERT DIX
NON-EXECUTIVE DIRECTOR

Committee membership:

Audit and Risk (Chairman)
(Since February 2014)
Remuneration (Since February 2014)

Age: 64

Appointed to the Board:

27 February 2014

Experience: Robert was a partner in KPMG Ireland where he headed up the Transaction Services division until his retirement from the firm in 2008. He operates his own company, Sopal Limited, where he provides advice to organisations on capital markets, corporate governance and strategic planning issues. He is a graduate of Trinity College Dublin and is a Fellow of Chartered Accountants Ireland.

Other appointments: Robert is non-executive chairman of Bank of Ireland, Private Bank and of the Quinn Property Group. He is director & chairman of the audit committee of Allianz plc and Actavo plc. He also serves as chairman & non-executive director of a number of private companies.



ALF SMIDDY
SENIOR INDEPENDENT DIRECTOR

Committee membership:

Nomination (Chairman)
(Since February 2014)
Audit and Risk (Since February 2014)

Age: 54

Appointed to the Board:

27 February 2014

Experience: Alf has over 25 years' experience in the Irish and international hospitality and beverage sector, having held the roles of Chairman and Managing Director of Beamish & Crawford plc. He runs his own company working with leadership teams and boards in the private and public sectors in Ireland on organisational strategy and design, marketing and business development, and strategic financial management. He is a Fellow of Chartered Accountants Ireland, a Fellow of the Irish Marketing Institute, and has a Diploma in Corporate Direction from the Institute of Directors In Ireland. He has a Masters in Executive Leadership through Boston College and the University of Ulster.

External appointments: Alf is a non-executive Director of ESB, where he is a member of the Audit and Risk Committee and Chairman of the Marketing and Customer Committee. He is also serves as director of a number of private companies.



MARGARET SWEENEY
NON-EXECUTIVE DIRECTOR

Committee membership:

Remuneration (Chairman)
(Since February 2014)
Audit and Risk (Since July 2016)
Nomination (Since February 2014)

Age: 56

Appointed to the Board:

27 February 2014

Experience: Margaret has held a number of senior positions including CEO of Dublin Airport Authority (daa plc) and Postbank Ireland Limited. She was a Director in Audit and Advisory Services in KPMG and worked with the firm for 15 years. She is a Fellow of Chartered Accountants Ireland and a Chartered Director with the Institute of Directors.

External appointments: Margaret is a non-executive Director of Irish Residential Properties REIT plc and chair of its Audit and Risk Committee. She is a director of HSBC Institutional Trust Serves (Ireland) DAC. She also serves as Chairman and non-executive Director of a number of private companies and financial services companies authorised by the Central Bank of Ireland.



SEÁN McKEON
COMPANY SECRETARY
CHIEF FINANCIAL OFFICER

Age: 49

Appointed Company Secretary:

28 January 2014

Experience: Seán joined the Group as Chief Financial Officer and Company Secretary in 2007 having developed his career in retail and FMCG distribution with companies including Dunnes Stores, Keelings and Diageo plc. He leads the finance team at Dalata and as Company Secretary he plays a leading role in the implementation of the corporate governance practices determined by the Board. He is a Fellow of Chartered Accountants Ireland and an MBA graduate of the UCD Michael Smurfit Graduate Business School.

EXECUTIVE MANAGEMENT TEAM

The Executive Management Team comprises the Executive Directors, Chief Financial Officer and Company Secretary, see pages 52 to 54, and the Senior Managers below.



L - R
Shane Casserly
Stephen Clarke
Caitriona Conroy



L - R
Patrice Lennon
Duncan Little
Niall Macklin

Shane Casserly is Head of Development and Strategy. He previously worked at Jurys Doyle Hotel Group PLC as Head of Development and held senior positions at Ion Equity, Microsoft Europe and Supervalu/Centra. Shane is a fellow of Chartered Accountants Ireland and a graduate of University College Cork.

Stephen Clarke is Group Financial Controller having joined the Group in 2008. He started his career as a graduate trainee in AIB and progressed to senior finance roles in Roches Stores and Campus Oil. He is a member of the Chartered Institute of Management Accountants. Stephen holds a B. Comm (International) from UCD and MBS from the Michael Smurfit Graduate School of Business.

Caitriona Conroy is Group Insurance, Risk, Health and Safety Manager. She previously held the role of General Manager of Maldron Hotel Portlaoise as well as fulfilling Deputy Manager and HR roles in Maldron Hotel Smithfield and Cardiff Lane. Prior to this Caitriona worked with Jury's Doyle Hotel Group. Caitriona holds a BA in Social Science from UCD.

Patrice Lennon is Head of Sales and Marketing. She previously held the role of Sales and Marketing Manager at the Maldron Hotel Cardiff Lane from its opening in 2005. Prior to this she worked with Jurys Doyle Hotel Group plc and Radisson Hotels Ireland, holding management positions within Sales and Marketing. Patrice is a graduate of Dublin Institute of Technology and University College Dublin.

Duncan Little is Group Capital and Development Manager and has been with Dalata since 2008. He previously held positions at Bank of Ireland and the University of Bristol. His primary degree was in engineering technology from UCD, followed by a degree in veterinary science from Glasgow University. Duncan also holds an MBA from the UCD Michael Smurfit Graduate Business School.

Niall Macklin is Acquisitions and Development Manager. He joined Dalata in July 2015 having previously worked in the KPMG Restructuring department for 9 years, where he managed large scale insolvency and restructuring assignments across a wide range of industries, specialising in the hotel and leisure sector. Niall is a member of Chartered Accountants Ireland and a graduate of Dublin City University.



L - R
Paul Maloney
Martha Mannion
Michael McCann
Macarten McGuigan



L - R
Tony McGuigan
Anthony Murray
Josephine Norton
Conal O'Neill

Paul Maloney is Project Manager Developments. Prior to joining Dalata in June 2016, Paul worked as an Asset Manager in Avid Asset Management. He has a Masters degree in Engineering from Trinity College Dublin and has worked in various roles in both the public and private sector, specialising in project and resource management involving development and construction in the commercial, industrial and hotel sectors.

Martha Mannion is Head of Rooms Revenue and Distribution. She worked with Jurys Doyle Hotel Group plc in the UK and Ireland, progressing to Deputy General Manager of Jurys Inn Manchester and subsequently General Manager of Jurys Inn Galway. Martha is a graduate of Galway Mayo Institute of Technology (GMIT).

Michael McCann is Group Leisure Club and Ancillary Revenue Manager. He previously worked as a Fund Accountant before joining Dalata's Graduate Management Programme in January 2014. He has a BA from University College Dublin and an MSc in Finance and Financial Regulation from Newcastle University.

Macarten McGuigan is Group Internal Auditor. Prior to joining the Group he was Head of Internal Audit at The Doyle Collection Hotel Group and also at Dublin Airport Authority plc. Macarten is a fellow of the Association of Chartered Certified Accountants and also holds an MBA from the UCD Michael Smurfit Graduate Business School.

Tony McGuigan is Group Head of Purchasing/Food and Beverage Manager. Tony started his career as a chef and obtained his qualifications with City and Guilds London. He has previously held executive chef and food and beverage management positions with Forte Hotels in London and senior management roles with Choice Hotels in Ireland.

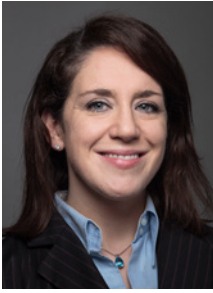
Anthony Murray is the Group IT Manager. He has seventeen years of experience in the hospitality industry having previously worked with both national and international hotel groups in Ireland and abroad, including Rezidor Hotel Group, Quality Hotels and Comfort Inns in Ireland. Anthony is an Honours Graduate of Dublin Institute of Technology Cathal Brugha Street with a Higher Diploma in Hotel and Catering Management. He also holds a Bachelor of Science Degree in Management.

Josephine Norton is Group Marketing and E-Commerce Manager with responsibility for creating and implementing the strategic marketing direction of the brands. Josephine joined Dalata from Carlson Rezidor Hotel Group where she worked as Regional Marketing Manager in Ireland and the UK. She is a Marketing graduate of Dublin Business School and holds a diploma in Tourism Management from Inchicore VEC.

Conal O'Neill is Group General Manager – Maldron Hotels. He joined Dalata from Pillo Hotels where he was Managing Director. Prior to this he was employed at Jurys Doyle Hotel Group plc where he spent 15 years in a variety of senior roles including Group General Manager in the UK.

CORPORATE GOVERNANCE

EXECUTIVE MANAGEMENT TEAM



L - R
Carol Phelan
Joe Quinn
Keith Rynhart



L - R
Adrian Sherry
Dawn Wynne

Carol Phelan is Group Finance Manager and joined Dalata in November 2014. She has extensive experience in corporate finance, strategy development, financial reporting and controls from previous senior roles in Ion Equity and KPMG, and is a fellow member of Chartered Accountants Ireland and holds a First Class Honours Master of Accounting from UCD Michael Smurfit Graduate Business School.

Joe Quinn is Group General Manager – Clayton Hotels. He previously worked at Jurys Inns as Chief Operations Officer and also held various senior positions in the Jurys Doyle Hotel Group plc. He also worked for Ramada Hotels, InterContinental Hotels and Hilton. He is a graduate of Galway Mayo Institute of Technology (GMIT) and Ashridge Business School (UK).

Keith Rynhart is Financial Planning and Analysis Manager, having joined the Group in 2010. He previously held the role of Regional Financial Controller, responsible for South Dublin and London hotels as well as Financial Controller roles at Clayton Hotel Cardiff Lane, Ballsbridge and Clyde Court Hotels. Prior to this, Keith worked with Edward Hotels Group. He holds a BA in Business Studies from the Dublin Institute of Technology.

Adrian Sherry is Head of Market Development. He joined Dalata in February 2015 from Moran Bewley Hotel Group where he was Marketing Director. He previously held the role of Sales and Marketing Director at Choice Hotels Ireland and held senior marketing positions at CIE Tours International, Abbey Travel and Failte Ireland. Adrian is a marketing graduate of Galway Mayo Institute of Technology (GMIT) and holds an MSc in Tourism Management from Dublin Institute of Technology.

Dawn Wynne is the Group Human Resource Manager having joined the Group in 2008 following a number of HR Management appointments within the Group. She previously worked internationally in the UK, France and Italy in a regional capacity, including in Jurys Doyle hotel Group plc where she held the position of Deputy Manager of the Burlington Hotel. Dawn is a graduate of Glasgow University and Glasgow Caledonian University and is CIPD qualified.

CORPORATE GOVERNANCE REPORT

STATEMENT OF COMPLIANCE WITH THE 2014 UK CORPORATE GOVERNANCE CODE

In June 2016, the Company moved its stock market listing to the main markets of the Irish and London Stock Exchanges from ESM/AIM. The provisions of the UK Corporate Governance Code ('the 2014 Code') as issued by the Financial Reporting Council in September 2014, were therefore applicable to the financial year covered by this Report and is the standard together with the terms of the Irish Corporate Governance Annex published by the Irish Stock Exchange (together 'the Codes') in respect of the Company's corporate governance practices.

In April 2016, the Financial Reporting Council published an updated Corporate Governance Code (the '2016 Code') which applies to financial years commencing on or after 17 June 2016. Whilst the 2016 Code does not apply to Dalata until year ending December 2017, we have chosen to early adopt certain provisions of the 2016 Code on a voluntary basis.

The full text of the 2014 Code (and the 2016 Code) can be found on the Financial Reporting Council's website www.frc.org.uk. A copy of the Irish Corporate Governance Annex can be obtained from the ISE's website www.ise.ie.

The Board considers that the Company has, throughout the accounting period, complied with all relevant provisions set out in the Codes.

LEADERSHIP

Corporate Governance Framework

The Board is responsible for setting and monitoring the Group's governance framework. Implementation of governance throughout the Group is the responsibility of the Executive Management Team. Regular updates are provided to the Board and its committees by the Chief Executive Officer and the Executive Management Team. The Board regularly meets the Executive Management Team to establish how the business is progressing and to ensure that the governance framework is fully embedded within the Group.



Role of the Board

The key responsibilities of the Board are to set strategy, to monitor management and hold them accountable for performance against agreed targets, and to provide appropriate challenge to ensure management remains focused on achieving the strategic objectives for delivering value to the shareholders and other stakeholders. Although not involved in the day-to-day management activities, the Board does have a formal schedule of matters reserved for its own consideration which includes:

- › Group strategy, business objectives, long range plans and annual budgets;
- › Determining the nature and extent of the risks the Group is willing to accept to achieve its strategic objectives;
- › Board membership and senior appointments within the Group;
- › Major changes to the Group's capital, corporate or management structure;
- › Material acquisitions, disposals and contracts;
- › Annual and interim results;
- › Major changes to the Group's internal controls, risk management or financial reporting policies and procedures; and
- › Treasury policy.

The Board has delegated a number of these responsibilities to standing committees of the Board as detailed below and also to the Executive Management Team of the Group, having first approved the terms of reference of those committees and the authority limits of management, and receives regular reports in respect of all delegated authorities.

Board composition

The Board comprises a Non-Executive Chairman, three Non-Executive Directors and three Executive Directors (Chief Executive Officer, Deputy Chief Executive and Deputy Chief Executive - Business Development and Finance).

The Board considers that there is an appropriate balance between Executive and Non-Executive Directors for governing the business effectively and promoting shareholder interests. It also considers that both Executive and Non-Executive Directors have the necessary skills, knowledge and experience, gained from a diverse range of industries and backgrounds, required to manage the Group.

Detailed biographies of current Directors are set out on pages 52 to 54.

The overall composition and balance of the Board is kept under review as detailed in the programme of work undertaken by the Nomination Committee, set out in its report on pages 94 to 95. The Nomination Committee has reviewed the size and performance of the Board during 2016. A Board size of seven directors is a size which functions efficiently, comprises the skills and expertise required by Dalata, and meets corporate governance best practice guidelines on independence. The Board will continue to manage the orderly succession of Non-Executive Directors.

Division of responsibilities

The roles of the Chairman and the Chief Executive Officer are separately held and the division of their responsibilities is clearly established.

CHAIRMAN

The Chairman's primary responsibility is to lead the Board, to ensure it has a common purpose, is effective as a group and at individual director level and upholds and promotes high standards of integrity and corporate governance. He is also responsible for ensuring that all directors have full and timely access to the information necessary to enable them to discharge their duties. He ensures that Board agendas cover the key strategic issues confronting the Group and that the Board reviews and approves management's plans for the Group. He is responsible for overseeing the annual board evaluation.

The Chairman is the link between the Board and the Company. He is specifically responsible for establishing and maintaining an effective working relationship with the Chief Executive Officer, and promotes a culture of strong open dialogue between the Executive and Non-Executive Directors. He has the responsibility to ensure that there is ongoing and effective communication with shareholders and to ensure that members of the Board develop and maintain an understanding of the views of the shareholders.

CHIEF EXECUTIVE OFFICER

The Chief Executive Officer is responsible for the day to day management of the Group's operations and for the implementation of the Group strategy and policies agreed by the Board. The Chief Executive also has a key role in the process of setting and reviewing strategy. The Chief Executive instils the Group's culture and standards which includes appropriate corporate governance throughout the Group.

NON-EXECUTIVE DIRECTORS

The Non-Executive Directors' main responsibilities are to review the performance of management and the Group's financial information, assist in strategy development, and ensure appropriate and effective systems of internal control and risk management are in place. The Non-Executive Directors review the relationship with external auditors through the Audit and Risk Committee, monitor the remuneration structures and policy through the Remuneration Committee and consider the Board composition and succession planning through the Nomination Committee.

The Non-Executive Directors provide a valuable breadth of experience and independent judgement to Board discussions. Details of the Non-Executive Directors are set out on pages 52 to 54 and the Board considers that their biographies reflect suitable breadth and depth of strategic management experience.

SENIOR INDEPENDENT DIRECTOR

Mr Alf Smiddy is the Senior Independent Director. He is responsible for conducting an annual performance review of the Chairman, facilitating the board evaluation every three years, providing advice and judgement to the Chairman as necessary, to serve as an intermediary to the other directors when necessary, and being available for shareholders who have concerns that cannot be addressed through the normal channels of Chairman, Chief Executive Officer or Chief Financial Officer.

COMPANY SECRETARY

The Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that board procedures are followed, assisting the Chairman in relation to corporate governance matters, and ensuring compliance by the Group with its legal and regulatory requirements. The Company's Articles of Association and Schedule of Matters reserved for the Board provide that the appointment or removal of the Company Secretary is a matter for the full Board. Directors have access to independent professional advice, at the Group's expense if, and when required.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE REPORT

EXECUTIVE MANAGEMENT TEAM

The Executive Management Team has collective responsibility for the day-to-day running of the Group's business. It is chaired by the Chief Executive Officer and includes the Deputy Chief Executive, Deputy Chief Executive - Business Development and Finance, Chief Financial Officer and Company Secretary, and Senior Managers. Detailed biographies of the Executive Management Team are set out on pages 55 to 57.

CONFLICTS OF INTEREST

The Board reviews potential conflicts of interest as a standing agenda item at each board meeting. Directors have continuing obligations to update the Board on any changes to these conflicts.

D&O INSURANCE

The Company maintains Directors' and Officers' liability insurance cover, the level of which is reviewed annually.

ATTENDANCE AT BOARD MEETINGS DURING THE YEAR ENDED 31 DECEMBER 2016

During 2016, the Board held eight scheduled meetings. In addition to the scheduled meetings, the Board also met on two occasions to address specific matters. Individual attendance at these meetings is set out in the table below. The main areas of focus during 2016 are detailed on page 62.

Director	Number of Board Meetings attended
John Hennessy	10/10
Patrick McCann	10/10
Dermot Crowley	10/10
Stephen McNally	9 /10
Margaret Sweeney	10/10
Alf Smiddy	10/10
Robert Dix	10/10

The Chairman and the Non-Executive Directors met as a group without the Executive Directors from time to time throughout the year.

The main areas of focus for the Board in 2016 were:

Strategy	The review and discussion of hotel acquisitions strategy and criteria for investments.
	Approval of acquisitions and review of related documentation, data and analysis.
	Receipt of acquisition and development updates from Deputy Chief Executive Officer – Business Development and Finance and Head of Development and Strategy.
	Receipt of regular industry updates from Deputy Chief Executive Officer.
	Approval of the Group's budget for 2017.
	Approval of step-up to Main Market of the Irish and London Stock Exchanges from AIM/ESM.
	Approval of Group's tax structure.
	Discussion of potential implications of Brexit for the Group
	Discussion of Group's dividend policy
Performance monitoring	Receipt of operational and integration updates from Deputy Chief Executive Officer.
	Review of monthly reports from Chief Financial Officer on performance versus budget and forecast.
	Review of reports from Chief Financial Officer on the financial position of the Group including treasury management.
	Review of regular reports from chairmen of the Audit and Risk, Remuneration and Nomination committees.
	Approval of year-end and half-year results.
	Approval of 2015 annual report and accounts.
Governance and risk	Review of Group governance documentation.
	Regular review of significant risks.
	Receipt of Health and Safety updates from Deputy Chief Executive Officer.
	Approval of Group's insurance strategy.
	Discussion of the Board evaluation process and findings.
	Consideration and review of Market Abuse Regulation implications.
People and values	Conduct of five hotel site visits to meet with management and review operations.
	Review and consideration of management development programmes.
Shareholder engagement	Receipt of updates from Chief Executive Officer and Deputy Chief Executive Officer – Business Development and Finance, on investor meetings and roadshows.
	Receipt of reports from brokers on shareholder feedback from meetings with the Chief Executive Officer and Deputy Chief Executive Officer – Business Development and Finance.
	Review of 2016 AGM proxy voting figures.
	Approval of appointment of joint stockbroker, Berenberg

STRATEGY REVIEW

The Board continued to develop strategy through its annual strategy day in October 2016, and discussions on strategy at the majority of Board meetings.

REMUNERATION

Details of Directors' Remuneration are set out in the Remuneration Committee Report on pages 75 to 93.

EFFECTIVENESS

Board Independence

The independence of each of the Non-Executive Directors is considered upon appointment, and on an annual basis by the Board. The Board has determined all of the Non-Executive Directors to be independent within the meaning of the term as defined in the 2014 Code. The Board gave particular consideration to the independence of Robert Dix given his directorship in The Quinn Property Group. Both Robert Dix and Pat McCann are currently Non-Executive Directors in The Quinn Property Group. The Board has concluded that notwithstanding this relationship, his breadth of expertise, experience, knowledge and connections brings significant value to the Board. The Board remain satisfied that he is able to apply objective, unfettered and independent judgement and act in the best interests of the Company regardless of this relationship.

The independence of the Non-Executive Directors is fundamental to the Board's decision-making and discussion. Any director who has concerns about the running of the Group or a proposed course of action is encouraged to express those concerns which are then minuted. No such concerns were raised during 2016.

Appointments to Board

The Nomination Committee is responsible for a formal, rigorous and transparent procedure for the appointment of new directors. There were no board appointments during 2016. The terms and conditions of the Non-Executive Directors are set out in their letters of appointment, which are available for inspection at the Company's registered office during normal office hours and at the AGM of the Company.

Commitment

Under the terms of their appointment all Directors agreed to the 'Time Commitment Schedule' which requires them to allocate sufficient time to discharge their responsibilities effectively. As part of the Board evaluation process completed in December 2016, each Non-Executive Director confirmed that they had been able to allocate sufficient time to discharge their responsibilities effectively during 2016.

New Director Inductions

All new Non-Executive Directors joining the Board undertake an induction programme which covers briefings on the operation and activities of the Group, the Group's principal risks and uncertainties, the role of the Board and the matters reserved to it, the responsibilities of the Board Committees, and the strategic challenges and opportunities facing the Group. There were no board appointments during 2016.

Ongoing Director Training and Development

In order to ensure that the Directors discharge their duties to the best extent possible, the Chairman is responsible for ensuring that all directors receive ongoing training and development. The Company Secretary regularly updates the Board on regulatory and legal matters, or relevant changes, as part of meetings, and circulates information on relevant training courses and resources available to Directors.

Board meetings are intentionally held at Dalata hotels in different locations to broaden the Board's exposure to the markets in which the Group operate and to provide opportunities to meet frontline staff and other colleagues. In November 2016, a Directors' Training Day was facilitated by the Company Secretary and was attended by both Executive and Non-Executive Directors. The topics covered included Market Abuse Regulations, a regulatory update, the Takeover Code and an update on, distribution trends and market statistics.

Information Flow at Board Meetings

Formal board meetings are held approximately 10 times per year. Prior to each board meeting the Directors receive an agenda item with supporting papers. Included in these papers are detailed monthly accounts together with reports from the Chief Executive Officer, Deputy Chief Executive, and Deputy Chief Executive – Business Development and Finance.

The Chief Executive Officer and the Chief Financial Officer ensure that the Board is kept fully aware on a timely basis of business issues and prospects throughout the Group.

The structure of the Executive Management Team and the open communication approach in the Group enables issues to be raised easily. Many of these key issues are brought to the attention of the Board.

In consultation with the Chairman and Chief Executive Officer, the Company Secretary manages the provision of information to the Board for their formal board meetings and at other appropriate times. The Chairman and Chief Executive Officer also maintain regular informal contact with all directors.

Board Evaluation

An evaluation of the performance of the Board, its committees and its directors is carried out annually. Every three years an external facilitator is appointed to carry out the Board revaluations and the first externally managed reviews will take place in 2017.

In November 2016, a performance evaluation of the Board and its Committees was conducted. This process was internally facilitated by the Senior Independent Director and comprised of the following steps:

- > A questionnaire covering key aspects of board effectiveness, including composition of the Board, the running of the Board and Committee meetings, corporate governance, risk, financial reporting and internal controls, directors' continuing education process and their individual training needs and time commitment requirements was circulated and completed by the directors.
- > The Senior Independent Director met with each director individually and the Company Secretary in November 2016.
- > The results of the Board evaluation were presented by the Senior Independent Director to the Nomination Committee and the Board on 5 December 2016.
- > Focus areas were identified and agreed with the Board on 5 December 2016.

The outcomes of the board evaluation process have been positive, and have confirmed to the Chairman that the Board and its Committees operate effectively and that each Director contributes to the overall effectiveness and success of the Group.

Re-election

The Company's Articles of Association provide that one third of the Directors retire by rotation each year and that each Director seeks re-election at the Annual General Meeting every three years. New Directors are subject to election by shareholders at the next Annual

General Meeting following their appointment. However, in accordance with the provisions of the 2014 Code, the Board has decided that all Directors should retire at the 2017 Annual General Meeting and offer themselves for re-election.

ACCOUNTABILITY

Financial and Business Reporting

On pages 7 to 21 an explanation is provided of the basis on which the Group seeks to generate value over the long-term and how it intends to deliver on its strategic objectives.

Going Concern

After making enquiries, the Directors are satisfied that the Company, and the Group as a whole, have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they have adopted the going concern basis in preparing the financial statements. Further detail is set out in the Viability Statement on page 38.

Risk Management

On pages 35 to 37 it is explained how the Board oversees risk management.

Internal Controls

The Board has responsibility for maintaining sound risk management and internal control systems, and at least annually reviewing the effectiveness of these systems. These internal control systems are designed to manage rather than eliminate the risk of failing to achieve a business objective. They can therefore only provide reasonable and not absolute assurance against material misstatement or loss.

Annual Assessment of the Principal Risks Facing the Group

The Board and Audit and Risk Committee received and reviewed reports from Group Internal Audit, to help with their annual assessment of the principal risks facing the Group, and the controls in place to mitigate these risks. The principal risks and the mitigating factors are outlined on pages 35 to 37.

Annual Assessment of the Effectiveness of Risk Management, Internal Control and Financial Reporting Systems

The Board and Audit and Risk Committee received and reviewed reports from Group Internal Audit and the Group's External Auditor, to help with their annual assessment of the effectiveness of the Group's risk management, internal control and financial reporting systems, and are satisfied that the systems have been operating effectively throughout the year to the date of the report.

Whistleblowing

The Board adopted a Confidential Disclosure Procedure (Whistleblowing Policy) in 2015 to ensure that any concerns are addressed confidentially, promptly and thoroughly.

No concerns were raised by employees during the year. This was reported by the Company Secretary to the Audit and Risk Committee on 26 January 2017.

The Confidential Disclosure Policy is included in the Employee Handbook to ensure all employees have an understanding of the whistleblowing process.

RELATIONS WITH SHAREHOLDERS

Share Ownership and Dealing - MAR

Details of each Directors' interests in Dalata shares are set out in the Remuneration Report on page 91. The Company has a policy on dealing in shares that applies to all Directors and Management and was comprehensively reviewed following the introduction of the

Market Abuse Regulation ('MAR') in July 2016. Under the policy and in accordance with the provisions of MAR, Directors are required to obtain clearance from the Chairman before dealing in Company shares. Directors and Management are prohibited from dealing in Company shares during designated prohibited periods and at any time when the individual is in possession of price-sensitive information.

Shareholder Communication

The Group recognises the importance of communication with all shareholders. Presentations are made to both existing and prospective institutional shareholders, principally after the release of the interim and annual results. Significant matters relating to trading or development of the business are disseminated to the market by way of Stock Exchange announcements which also appear on the Company's website www.dalatahotelgroup.com. The website also contains annual and interim reports and investor presentations. The Board is kept informed of the views of shareholders through executive directors' attendance at investor and results presentations. Furthermore, relevant feedback from such meetings, investor relations reports and brokers' notes are provided to the Board on a regular basis.

During 2016, over 250 separate meetings and conference calls were held with existing and prospective shareholders. These meetings were attended principally by the Chief Executive Officer and/or Deputy Chief Executive Officer – Business Development and Finance. Several meetings were also attended by the Deputy CEO, CFO, and the Group Head of Acquisitions and Development. The meetings focused primarily on the Group's trading operations and the Group's strategy.

Annual General Meeting

The Annual General Meeting will be held on 10 May 2017 at the Clayton Hotel Burlington Road, Upper Leeson Street, Dublin 4. Formal notification will be sent to shareholders at least 20 working days before the meeting in accordance with the provisions of the UK Corporate Governance Code. Other general meetings may also be convened from time to time upon at least 14 working days' notice or where certain requirements are met, including prior approval by shareholders by way of a special resolution, upon 14 working days' notice in accordance with the corporate governance code. The Annual General Meeting gives shareholders an opportunity to hear about general development of the business and to ask questions of the Chairman and, through him, the chairmen of the various Committees and its Committee members.

Any shareholder attending the Annual General Meeting has the right to ask questions. Any questions relating to the business will be dealt with at the meeting, unless, for example, it is undesirable to do so, whether in the interests of the Company (such as disclosure of confidential information) or for good order of the meeting. Shareholders attending the meeting are informed of the number of proxy votes lodged for each resolution.

Details of the meeting and the resolutions to be proposed are sent out in the shareholders' Notice of Meeting.

BOARD COMMITTEES

The principal Committees of the Board are the Audit and Risk Committee, the Remuneration Committee and the Nomination Committee. These Committees have been established with formally delegated duties and responsibilities. Details of the Committees and their activities are outlined on pages 68 to 95.

Following the introduction of the Market Abuse Regulation in July 2016, the Company established a Disclosure Committee. This Committee comprises of two executive Directors and the Company Secretary and has responsibility for, among other things, considering and advising on a timely basis the disclosure treatment of material information disclosed in public filings, determining on a timely basis the disclosure treatment of material information, overseeing the preparation of regulatory filings and assisting in the design, implementation and periodic evaluation of the adequacy and effectiveness of disclosure controls and procedures.

AUDIT AND
RISK COMMITTEE
REPORT

Dear Shareholder,

As Chairman of Dalata's Audit and Risk Committee, I am pleased to present to you the Committee's report for the year ended 31 December 2016.

The Board has overall responsibility for the management of business risk. The Audit and Risk Committee assists the Board in discharging this responsibility. This report sets out how the Committee has discharged its responsibilities under the Committee's terms of reference.

The main role the Committee carries out is to monitor and review the integrity of the Group's results, its internal controls and risk management systems, to monitor and review the effectiveness of the Group's internal audit function and to make recommendations to the Board in relation to the External Auditor.

Other key roles the Committee carries out are to:

- > Review half year and full year results and financial statements;
- > Consider the appropriateness of our accounting policies and judgements;
- > Review the effectiveness of internal controls and risk management systems, including reviewing and updating the risk register to ensure it includes an assessment of all risks facing the Group on an ongoing basis;
- > Review and consider the findings of the Group's Internal Auditor;
- > Oversee the relationship with the External Auditor, review their remuneration and the non-audit services provided to the Group, review and consider the external audit plan in advance of the annual audit, and the audit report on key audit findings following completion of the audit;
- > Review the adequacy of the Group's systems in relation to fraud detection, whistleblowing and compliance with laws and regulations, including anti-money laundering and bribery prevention; and
- > Review the adequacy of loss provisions under the Group's self-insurance programme
- > Review health and safety and the operational risk control environment, and monitor the Group's safety culture and performance

The full terms of reference under which we operate are available on the Company's website at www.dalatahotelgroup.com.

The Audit and Risk Committee has a frank, open working relationship with

CORPORATE GOVERNANCE

AUDIT AND RISK COMMITTEE REPORT

management and with internal and external auditors and a very high level of mutual respect exists. Management are expected to pro-actively ensure that the Committee is fully informed of all relevant issues.

During 2016 we considered the internal audit programme, Group Internal Auditor's reports on internal controls and management's responses to matters identified. In addition, we reviewed the risk management structure, the Group's risk register, principal risks and mitigating controls. Our review of risk management is now an agenda item for each Committee meeting.

A range of presentations and discussions on relevant matters were made to the Committee during 2016. The topics covered included the Group's health and safety policy, an update from the Group's advisors on the insurance market and the self-insurance programme, tax planning, the development of the Group's finance function and options for business support and transaction processing systems.

The Committee met five times during the year and details on the key focus areas from these meetings are set out in more detail on page 73.

Robert Dix
Chairman, Audit and Risk Committee

SIGNIFICANT FINANCIAL JUDGEMENTS IN 2016

Matter	Judgements
<p>Accounting for Acquisitions</p> <p>The Group completed a number of business combinations and asset purchases during the year.</p>	<p>The Group completed the acquisition of four leasehold interests and two properties during 2016, the details of which are set out in note 10 to the consolidated financial statements on pages 134 to 136. These transactions were accounted for as business combinations. The Group also purchased the freehold interest of three hotels, one partially complete hotel and four sites during the year, the details of which are outlined in note 12 to the consolidated financial statements on page 142. These were accounted for as asset purchases.</p> <p>The Committee has evaluated the accounting treatment of the consideration paid and costs incurred as presented by management for each of the aforementioned transactions. Management have reported in detail to the Committee in relation to the accounting treatment applied to each transaction and the treatment of associated transaction costs in each case. In addition, the Committee discussed the transactions during the year with management and with the External Auditor. Accordingly, the Committee is satisfied that the correct accounting method has been chosen for each of the aforementioned transactions.</p> <p>Where applicable, the Committee has considered the valuations which underpin the accounting and which were performed by suitably qualified professional valuers.</p> <p>Based on the above, the Committee is satisfied that the assumptions used and judgements made in determining the fair values are reasonable and is satisfied that the fair value of the acquired assets and liabilities has been correctly stated and appropriately disclosed in the consolidated financial statements.</p>

Building Revaluations

In line with the Group's revaluation policy for land and buildings, valuations are carried out by suitably qualified professional valuers at each reporting period end.

The net carrying value of land and buildings at 31 December 2016 was €822.4 million (note 12, pages 142 to 144). The carrying value of land and buildings is determined using fair value. The calculation of fair value and the allocation of fair value to land and buildings requires judgement. The determination of residual values and the allocation of fair value to land and buildings also impacts depreciation.

Management has engaged professional valuation specialists to determine the value separately attributable to land, buildings and residual property values.

Management have reported in detail to the Committee in relation to the valuation, as determined by professional valuers, of land and buildings at 31 December 2016. The Committee has discussed the valuation approach and allocation approach undertaken with management and has considered the key assumptions made. Through discussion with management and considering the findings of the External Auditor the Committee is satisfied that the year end valuations are reasonable and that the revaluation movements have been appropriately presented in the financial statements.

Management have reported to the Committee as to the appropriateness of the depreciation method and the depreciation rates used during the year. Based on their review of these findings the Committee is satisfied as to the appropriateness of the depreciation method and the depreciation rates used by management. Accordingly, the Committee is satisfied that the asset values are correctly stated and are adequately disclosed.

Carrying Value of Goodwill

Detailed impairment reviews are undertaken on an annual basis to determine whether the carrying value of goodwill is impaired.

Goodwill amounted to €33.8 million at 31 December 2016 (2015: €46.8 million).

The carrying values of hotel cash generating units (CGU's) to which goodwill has been allocated are required to be tested annually for impairment. Management undertook detailed impairment reviews on a hotel by hotel basis, taking account of the property valuations prepared by the qualified professional valuation specialists and other factors. The assumptions utilised by management in conducting these analyses are disclosed in Note 11 to the consolidated financial statements and include projected cash-flows for future revenue and costs, terminal value multiples and discount rates.

The Committee has reviewed the approach taken by management as outlined in management's report to the Committee in conducting these impairment reviews and in particular, the assumptions utilised by management. As part of their audit, the External Auditor assessed the Group's impairment calculations on a CGU by CGU basis. Discussions were undertaken between management and the External Auditor as to the underlying assumptions. Following discussions with management and with the External Auditor, the Committee is satisfied that the assumptions made are reasonable. As the recoverable amounts of certain CGUs were less than their pre-impairment review carrying value at 31 December 2016, an impairment of goodwill amounting to €10.3 million was recognised.

Accordingly, the Committee has concluded that the carrying value of goodwill is appropriately stated at 31 December 2016 and that the disclosures included within Note 11 of the consolidated financial statements are adequate.

Carrying Value of Intangible Assets

The Group acquired intangible assets during the year as part of the acquisition of the Choice Hotel Group.

The acquisition of the leasehold interests of the Choice Hotel Group (Note 10, page 134) in March 2016, resulted in additions to intangible assets of €29.4 million. These additions related to the Gibson Hotel Dublin and the Clarion Limerick, which is now trading as the Clayton Hotel Limerick. During the year, €8.9 million relating to the Clayton Hotel Limerick, was transferred from intangible assets to property, plant and equipment when the Group purchased the freehold interest in this property in June 2016. This transfer is reflective of the increase in the fair value of the hotel arising from the Group now owning both the freehold and leasehold interest.

The carrying value of intangible assets at 31 December 2016 amounted to €20.5 million, which represents the value of the Group's leasehold interest in the Gibson Hotel. The useful life has been determined to be indefinite on the basis of the existence of renewal rights and the current intention of the Group to exercise such rights in the future. The indefinite useful life of this asset will be reviewed at least on an annual basis to determine whether any circumstances exist that would require a change in this assumption.

Management reported to the Committee in detail as to the rationale which supports the accounting for the Choice Hotel Group business combination including the acquisition and related useful lives of intangible assets. The Committee has discussed the accounting treatment for the intangibles acquired as part of the Choice Hotel Group business combination with management. The External Auditor's conclusions as to the accounting treatment have also been considered by the Committee. Furthermore, the Committee has considered the assumptions in determining the indefinite useful life of the intangible asset remaining at 31 December 2016. Following discussions with management and the External Auditor, the Committee is satisfied that these are reasonable.

Cash-generating units containing indefinite lived intangible assets are required to be assessed annually for impairment. Management have undertaken a detailed impairment review which supports the carrying value of the remaining intangible asset at 31 December 2016 relating to the Gibson Hotel on a value-in-use basis. Based on discussions with management in relation to the key valuation assumptions used including projected cashflows, terminal values and discount rates, and also having considered the External Auditor's findings on this matter, the Committee is satisfied that management's conclusions are reasonable i.e. that the carrying value of intangible assets was not impaired at 31 December 2016.

Accordingly, the Committee has concluded that the carrying value of intangible assets is appropriately stated at 31 December 2016 and that the disclosures included within Note 11 of the consolidated financial statements are adequate.

THE EXTERNAL AUDITOR

KPMG was appointed as External Auditor to the company in February 2014. The Committee engaged throughout the year with the KPMG, receiving and considering their audit plans and the findings arising from their audit of the financial statements. The Committee pays particular attention to ensure that the audit work focuses on matters it considers to be important, by virtue of their size, potential impact, complexity and level of judgement.

It is the Group's practice to employ KPMG on assignments additional to their statutory audit duties where their expertise and experience with the Group are important. These additional assignments principally include tax compliance and transaction matters. During the year, KPMG were retained to provide non-audit reporting accountant services in relation to the acquisition of the Choice Hotel Group, the listing of the Group on the main markets in the UK and Republic of Ireland and a transaction whereby the Group entered into a lease in respect of the Burlington Hotel, which is now trading as the Clayton Hotel Burlington Road. Such services are considered to be non-recurring transactions and relate to acquisitions or once-off items. KPMG were also retained to carry out certain tax work including capital allowances related services. The total fees paid to KPMG are set out in Note 3 to the consolidated financial statements.

The Committee has evaluated the External Auditor on their work completed in the year to 31 December 2016 and is satisfied with their effectiveness, objectivity and their independence. Specifically, the Committee has reviewed the non-audit services provided to the Group during the year by the External Auditor and does not consider these services to be an impediment to their objectivity or independence. In assessing their independence and objectivity the Committee also considered the internal processes which the External Auditor has in place to ensure their independence and objectivity is monitored and reviewed sufficiently. The Committee acknowledges a letter dated 23 February 2017 received from the External Auditor on this matter which states that their independence and objectivity has not been breached. The Committee does not consider it necessary to require the External Auditor to tender for the audit work at this time. This matter will be reviewed on an annual basis.

INTERNAL CONTROL AND RISK MANAGEMENT

The Committee is responsible for monitoring internal controls and risk management on behalf of the Board. During 2016 the Committee considered the Group's risk management policy, risk register and principal risks as part of both the interim and year-end reviews. Consideration of the risk register is now included as an agenda item for each Committee meeting, which facilitates assessment of ongoing and emerging risks that could impact the Group.

The Group's internal control environment is considered as part of the Group Internal Auditor detailed reviews and also reviews completed by the External Auditor as part of their work on the interim and year-end financial statements. In particular, management responses and actions taken to address material matters noted are considered in detail by the Committee.

The Chairman of the Committee provides an update at each meeting of the Board on the activities of the Committee.

CORPORATE GOVERNANCE

AUDIT AND RISK COMMITTEE REPORT

THE MAIN AREAS THE AUDIT AND RISK COMMITTEE FOCUSED ON IN 2016 WERE:

Financial Reporting	<ul style="list-style-type: none">> Consideration of the key accounting judgements and key matters arising from the review of the interim and full-year financial statements.> Review of and consideration of the half-year and year-end financial statements.> Review of the interim results announcement and the preliminary results announcement.
Narrative Reporting	<ul style="list-style-type: none">> Review of content of the annual report and financial statements and advising of the Board in relation to its compliance with the UK Corporate Governance Code and the Irish Corporate Governance Annex.
Internal Controls and Risk Management Systems	<ul style="list-style-type: none">> Review of the Risk Management Policy, internal control structures and consideration of the Group's risk register and principal risks.> Review of the Group Confidential Disclosure Policy.> Review of the Group Health and Safety Policy and receipt of an update from the Group's insurance broker on the claims environment and the Group's self-insurance programme.
Internal Audit	<ul style="list-style-type: none">> Review of, at each Committee meeting of the Internal Audit reports and findings, including discussions with management on internal control matters identified.> Review of the completion of the Internal Audit work programme, resourcing and auditable risks.> Consideration of the Internal Audit role description and terms of reference documents.> Met with Group Internal Auditor after each Committee meeting in the absence of management.
External Audit	<ul style="list-style-type: none">> Review of the External Auditor reports and findings on both the year-end and half-year financial statements.> Discussion of the External Auditor plan, scope and fees for the 2016 audit.> Meeting with the KPMG audit partner without management present.> Assessing the qualifications, expertise, resources and independence of KPMG.
Other Areas Relevant to the Committee	<ul style="list-style-type: none">> Consideration of ongoing developments in relation to Group Finance resourcing and structures given the Group's additional reporting and accounting complexities.> Consideration of the Directors' Compliance Policy Statement and review of steps undertaken to support the Directors' Compliance Statement in the annual report.> Review of with management the level of professional fees incurred by the Group and the process for approval of such fees.> Consideration of the Group's approach to tax planning.

COMMITTEE MEMBERSHIP AND MEETINGS

Member	Number of meetings attended
Robert Dix	5 / 5
Alf Smiddy	5 / 5
Margaret Sweeney ¹	2 / 2

1. Margaret Sweeney was appointed as a member of the Audit and Risk Committee on 4 July 2016

All members of the Committee are considered by the Board to be independent. The Board considers that the Committee Chairman has sufficient recent and relevant financial experience for the role and that there is sufficient financial and commercial experience within the Committee as a whole.

In addition to the Committee members, the Chief Executive Officer and relevant members of the Executive Management Team, the Group Internal Auditor and the external auditors KPMG, attend the Committee meetings by invitation. Pat McCann, Chief Executive Officer, Maccarten McGuigan, Group Internal Auditor, a representative of Company Secretarial and at least two members of the Executive Management Team (being Carol Phelan, Group Finance Manager and Stephen Clarke, Group Financial Controller) attended all five Audit Committee meetings held during the year. At least one additional executive director, other than the Chief Executive Officer, also attended all five Audit Committee meetings held during the year.

REMUNERATION
COMMITTEE
REPORT

Dear Shareholder,

The Committee's challenge is to ensure that we set a policy that enables us to motivate our people and to retain and recruit the experienced talent that we need to lead the Company to build a sustainable business and continue its record of profitable growth.

I am pleased to present to you, the report of the Remuneration Committee of Dalata Hotel Group plc for the year ended 31 December 2016, a year in which the Company has continued its excellent progress.

COMMITTED TO HIGHEST STANDARDS OF DISCLOSURE

During the year, Dalata moved its listing on to the Main Markets of the London and Irish Stock Exchanges. As an Irish-incorporated company, Dalata is not subject to the UK remuneration reporting regulations which apply to UK incorporated companies. However, in keeping with our longstanding commitment to high standards of corporate governance, the Committee has decided to voluntarily comply with these disclosure requirements.

As a result, this report is split into three parts:

- > This introductory statement, which summarises the key changes we are proposing for the year ahead and the outcomes in respect of 2016;
- > Our Directors' Remuneration Policy (pages 80 – 85) which sets out the parameters of the remuneration framework for our directors, which we intend to operate under for the forthcoming three year period; and
- > The 2016 Annual Report on Remuneration (pages 86 – 93), which provides the detail on remuneration outcomes for 2016, and the supporting disclosures required under the UK reporting regulations.

We will be submitting the Directors' Remuneration Policy and the Annual Report on Remuneration to advisory votes at our 2017 AGM.

CONTEXT FOR CHANGES – CONTINUED GROWTH IN THE BUSINESS

Over the last three years Dalata Hotel Group has demonstrated continued growth and strong performance following its IPO in 2014. Our remuneration

strategy has been to ensure that a sustainable growth business was developed with remuneration policy following demonstrable achievement by the leadership team which is transparent, equitable and supporting the long term good of the Company.

2016 saw continued expansion and, in addition to earnings growth, management has successfully repositioned the Company from its original strategy of exploiting a market opportunity in the recovering Irish economy to what is now a sustainable growth business with a pipeline of development projects in the Irish and UK markets. Growth of this nature brings new challenges and demands. The Committee, in developing the new remuneration policy, has weighted carefully market and investor concerns about escalation in executive remuneration with its responsibility to protect the Company's interest in a competitive marketplace for talent as our business continues to expand significantly beyond Ireland into the UK market. We believe that the remuneration structure in the Group is appropriate for the Company's strategy and business needs over the coming three years and will drive the right behaviours and maintainable performance at all levels in the business.

Our objective is to retain our key executives and establish a solid platform for succession planning in the coming years. I have written to and engaged with many of you among our larger shareholders in recent weeks to listen to your concerns and hear your views on the proposed remuneration policy.

PERFORMANCE AND INCENTIVE OUTCOMES IN 2016

The financial and operational performance of the business during 2016 was exceptionally good and the Committee determined that approximately 90% of the maximum annual bonus should be paid. In addition to revenue and adjusted EBITDA growth of 29% and 36% respectively, significant strides have been made in the strategic development of the business. We have seen this in the opening of the pipeline of new rooms, development of key relationships with financial investors (notably securing the leasehold interest in the flagship Clayton Hotel Burlington Road) and in developing internal structures and the culture of the company to position it for future growth. Further detail on the underlying targets is included on page 89.

The Long-Term Incentive Plan (LTIP) award made to the executive directors following the IPO in 2014 is based on the Group's total shareholder return (TSR) performance over the three year period to 18 March 2017 against a selected group of comparators. While the performance period had not ended at the date of this report, the Group's TSR performance to the date of this report exceeds the upper quartile TSR of the comparator group and therefore the award is expected to vest in full. Details of this award have therefore been included in this report.

PROPOSED CHANGES FOR 2017

The Committee reviewed the executive remuneration framework during 2016, in the context of the continuing expansion of the Group and ahead of our intention to codify the framework into a formal Remuneration Policy for shareholder approval. The current remuneration arrangements were put in place at the time of listing, February 2014, when the Company was of a much smaller scale and operating under a distinctly different business model.

The Committee adopted a policy that executive remuneration should remain generally aligned with the pre-IPO structures until such time as the Company had delivered on the promise it demonstrated when it entered the markets to raise risk capital. The Committee believes our remuneration arrangements must align with the strategy for the Company and therefore must evolve in line with the growth in the business and should

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REMUNERATION COMMITTEE REPORT

support the building of a strong sustainable business and organization. Accordingly, the emphasis of the proposed changes is on the LTIP.

The Committee proposes the following changes for 2017:

Broadening the LTIP performance measures to incorporate stretching basic earnings per share (EPS) targets. Awards under the LTIP made since Admission to the ESM/AIM markets in 2014 have been based solely on TSR. The Committee believes the time is right to broaden the performance measures in the LTIP to reflect the Company's financial performance as well as relative market performance. For the 2017 LTIP awards:

- › 50% will be based on targets for adjusted basic EPS in FY19. Threshold vesting (25% of max) will occur for EPS of €0.37 with maximum vesting for €0.46 (representing compound annual growth of approximately 11% and 19% respectively), which the Committee believes represents a significant stretch in the current environment. The Company will use EPS as a key measure of the underlying earnings performance of the business.
- › The remaining 50% will be based on relative TSR assessed against the Dow Jones European STOXX Travel and Leisure Index, a robust and recognised equity benchmark for the sector (this will replace the previous comparator group which comprised a bespoke mix of hotel and Irish-listed companies). Threshold vesting (25% of the max) will occur for TSR performance equal to the index and maximum vesting will occur for outperformance of the index by 10% or more per annum.
- › Introduction of a "holding period" into the LTIP. In line with developments in market best practice and the evolving expectations of investors, LTIP awards made in 2017 and beyond will include an additional post-vesting holding period of at least two years, which will extend the time horizon between grant and release of vested shares to the Executive Directors to at least five years.
- › Introduction of shareholding guidelines. To further strengthen the long term alignment between executives and shareholders, we are also introducing shareholding guidelines under which executive directors will be expected to build up and retain a shareholding of at least 200% of their base salary.

We believe the addition of the stretching EPS measure serves to make the variable remuneration framework more challenging; and, in conjunction with the introduction of the holding period and shareholding guidelines, will promote the long-term success of Dalata while providing strong alignment between the interests of Executive Directors and our shareholders.

The 2017 Policy will also incorporate those features of our current framework which are already in line with best practice (including bonus deferral and malus / clawback provisions on all our incentive plans).

REFLECTING THE INCREASED SCALE AND COMPLEXITY OF THE BUSINESS

The Committee reviewed the quantum of the remuneration framework against the continued expansion in the scale and complexity of the business and the roles. It sought to ensure packages remain appropriately market competitive, to reward and motivate the senior executive team (to continue to build a successful and sustainable business built on a sound culture) and to fairly reward performance against challenging targets (aligned to shareholders and other stakeholder objectives).

In this context, the following changes are proposed for 2017:

Base salaries are set so as to be sufficient to attract and retain the calibre of executive talent needed to support the long term interests of the business.

Under the policy, the Committee takes account of:

- > the salary review across the Group
- > trading circumstances
- > growth in size, scale and complexity of the Group
- > personal performance
- > market data for an appropriate comparator group of companies and local market data

Larger increases may be awarded due to changes in the scope of role and responsibilities, where market conditions indicate a level of under-competitiveness for certain roles and where the Committee judges that there is a risk in relation to attracting or retaining executives.

Base salaries will be adjusted to the following levels: Pat McCann – €575K, Stephen McNally and Dermot Crowley – €335K. These increases in base salary reflect the substantial increase in the size of the Group and the commensurate expansion of responsibilities of the roles, and have regard to competitive market data. Under the stewardship of the current Executive team, since listing in 2014, the Company has experienced revenue growth of greater than 350%; market capitalization growth of 56%; and, profit after tax growth of greater than 1000%. While we continue to believe the revised salary levels fairly reflect the significant expansion of the Company's operations, we recognise the concerns that investors have about executive salary inflation and that levels of fixed pay have been increased in consecutive years. The Committee has decided therefore that, during the lifetime of the proposed policy, no increases in salary will be made to executive directors above those awarded to the general workforce.

No **pension contribution** is paid for the CEO and a defined contribution pension payment of 15% of base salary will remain unchanged for the other executive directors.

The maximum **annual bonus** will remain at 110% of salary for the CEO and 100% of salary for the other Executive Directors. The bonus for 2017 will be subject to stretching profit before interest and tax (PBIT) and personal targets which will be disclosed retrospectively.

LTIP awards will be increased from 100% of salary to 150% of salary for CEO and 125% of salary for other Executive Directors. These awards will be subject to the stretching earnings and TSR performance targets referred to previously which are directly aligned to the delivery of exceptional financial performance and shareholder returns. A post-vesting holding period of at least two years will also apply to these awards.

In considering salary and variable incentive award levels, the Committee determined the proposed levels to meet the criteria defined above. The Committee did not seek to "match the median" of any particular data set, but did consider market data as a reference point. The Committee notes that the salary levels above are positioned close to the lower quartile of a group of listed businesses of broadly similar market capitalisation. The annual bonus is at or below the lower quartile, and the revised LTIP will be within the market competitive range.

The increases in the maximum opportunity proposed are weighted toward variable reward as follows:

83% (LTIP and bonus) / 17% (fixed remuneration) for the CEO, and
75% (LTIP and bonus) / 25% (fixed remuneration) for other Executive Directors.

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Overall, the Committee believes the combination of components results in a market competitive package for the size and scope of the business and aligns with the strategy and shareholders' objectives. The feedback I received in our recent consultations with shareholders was taken into account by the Committee in finalising the proposals and I welcome the continued views of all shareholders in our policy development.

We look forward to receiving your continuing support.

Margaret Sweeney

Chairman, Remuneration Committee

This report has been prepared in accordance with the disclosure requirements of Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended).

DIRECTORS' REMUNERATION POLICY 2017 – 2019

This policy will be submitted as an advisory vote to shareholders at the 2017 AGM and will apply to payments made on or after 10 May 2017.

As an Irish-incorporated company, Dalata does not have the benefit of the statutory protections afforded by the UK Companies Act 2006 in relation to the remuneration reporting regime. Accordingly, if there is any inconsistency between the Company's Policy (as approved by shareholders) and any contractual entitlement or other right of a Director, the Company may be obliged to honour that existing entitlement or right.

Policy Table for Executive Directors

The Group's policy on Executive Directors' remuneration is designed to ensure that employment and remuneration conditions reward, retain and motivate them to perform in the best interests of shareholders. The elements of the remuneration package which may apply to Executive Directors are base salary, pension and benefits, annual bonus, and the long-term incentive plan.

Element	Purpose and operation	Maximum opportunity	Performance Metrics
Base Salary	An appropriate level of fixed remuneration to reflect the skills and experience of the individual. Salaries are reviewed annually by the Committee, taking into account all relevant factors, which may include the size and scope of the role, the experience and performance of the individual, and appropriate market data.	There is no prescribed maximum. Salary increases are normally in line with those of the wider workforce. Larger increases may be awarded to reflect circumstances such as an increase in the size of the Group or the responsibilities of the role, or changes in the competitive market place.	N/A
Pension	Contributions into the Company's defined contribution pension scheme, or an equivalent cash supplement.	15% of base salary.	N/A
Benefits	To provide a market competitive benefits package. The benefits available currently comprise a company car and fuel, and benefits under the group risk benefit scheme which includes death in service cover and disability benefit. The Committee may determine that other benefits will apply where appropriate. Directors are eligible to participate in the Company's Sharesave Scheme on the same basis as all other employees.	The level of benefits is set at an appropriate market rate. Participation in Sharesave Scheme up to statutory limits.	N/A

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REMUNERATION COMMITTEE REPORT

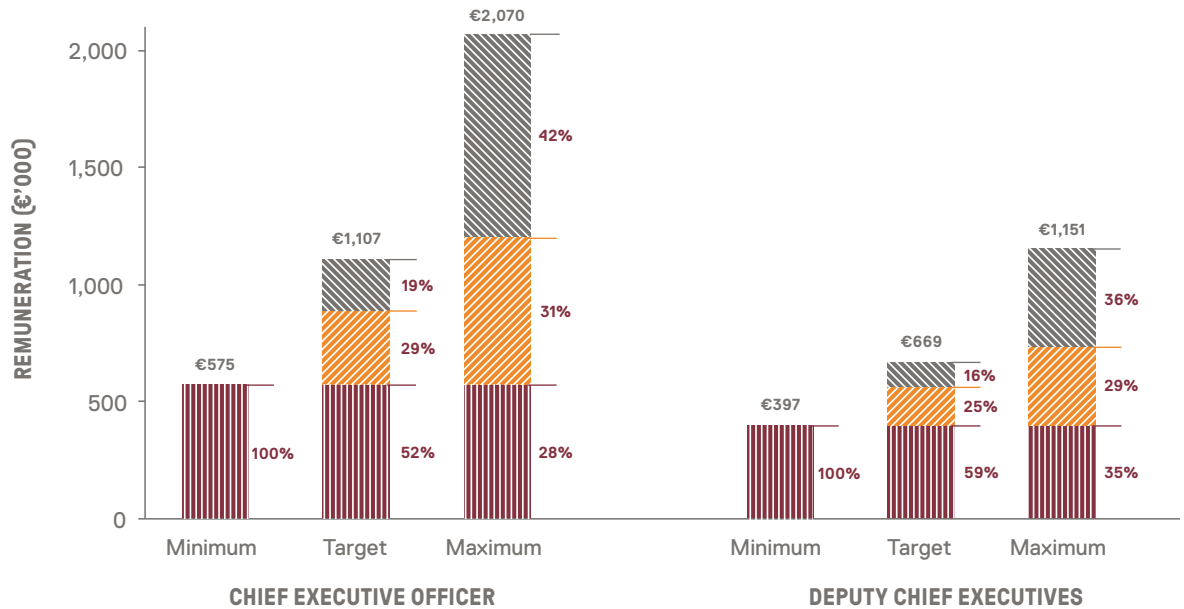
Element	Purpose and operation	Maximum opportunity	Performance Metrics
Annual bonus	<p>To drive and reward the delivery of business objectives over the financial year.</p> <p>The bonus is discretionary and any pay-out is determined by the Committee based on performance. Targets are set and assessed by the Committee each year.</p> <p>At least 20% of the bonus will be delivered in the form of Dalata shares deferred for a period of at least three years. The remainder is payable in cash following the year end. This deferral may be operated under the terms of a restricted share trust.</p> <p>Malus and clawback provisions apply.</p>	<p>The maximum opportunity is:</p> <ul style="list-style-type: none"> > CEO: 110% of salary > Other executive directors: 100% of salary. 	<p>Payment is determined by reference to performance assessed over one financial year, and will normally be measured against a combination of financial and personal performance targets. The Committee determines the weightings of the performance measures each year. The overall framework will normally be weighted towards financial measures of performance. The Committee will consider the Group's overall performance before determining final bonus payment levels.</p>
Long-term Incentive Plan (LTIP)	<p>To reward executive directors for the delivery of long-term performance and align their interests with shareholders.</p> <p>Awards are made under, and subject to the terms of, the 2017 LTIP subject to shareholder approval at the 2017 AGM.</p> <p>Awards are in the form of shares which vest no earlier than the third anniversary of the award grant date, subject to performance.</p> <p>Vested shares are subject to an additional holding period of at least two years. Shares subject to a holding period may be placed in a restricted share trust.</p> <p>Malus / clawback and dividend equivalent provisions apply (see notes to the table)</p>	<p>The maximum annual award level is</p> <ul style="list-style-type: none"> > CEO: 150% of salary > Other executive directors: 125% of salary. 	<p>Performance targets are measured over a period of three financial years, using performance measures aligned to the strategy and shareholder value. This may include measures such as total shareholder return (TSR) and earnings per share (EPS). 25% vests for threshold performance. The Committee has discretion to use different or additional performance measures to ensure that LTIP awards remain appropriately aligned to the business strategy and objectives. The Committee will consider the Group's overall performance before determining the final vesting level.</p>
Shareholding Guidelines	<p>To increase long term alignment between executives and shareholders. Executive Directors are required to build up and maintain a beneficial holding of at least 200% of base salary. Unvested deferred bonus shares and vested LTIP shares within a holding period will count towards the guideline (on a net of tax basis).</p>	N/A	N/A

Notes to the table:

- a) LTIP awards may incorporate the right to receive an amount equal to the value of dividends which would have been paid on the shares under an award that vests up to the time of vesting (or where, the award is subject to a holding period, up to the time of release).
- b) The annual bonus and the LTIP contain malus and clawback provisions. The cash and share elements of the annual bonus may be clawed back for a period of three years and awards under LTIP may be cancelled (prior to vesting), reduced or clawed back for a period of two years post vesting, in the event of a material misstatement of results or serious misconduct.
- c) The remuneration framework for other employees is based on broadly consistent principles used to determine the policy for Executive Directors. All executives and senior managers are generally eligible to participate in an annual bonus plan. Participation in the LTIP is extended to executives and senior managers, with LTIP performance conditions generally consistent across all levels. Individual salary and pension levels and incentive award sizes vary according to the level of seniority and responsibility, in line with market data.
- d) The choice of the performance measures applicable to the annual bonus (currently adjusted PBIT and personal performance measures) reflects the Committee's belief that any incentives should be aligned to the Group's financial and strategic objectives. In the LTIP, the current measures provide a balance between incentivising long term profit growth from the execution of the strategy and recognising performance delivered for shareholders via share price growth and dividend performance relative to sector peers. For both the bonus and the LTIP, the Committee sets challenging targets taking into account the Board's objectives for the business and shareholder expectations. Performance conditions may be amended or substituted by the Committee if an event occurs which causes the Committee to determine an amended or substituted performance condition would be more appropriate and not materially more or less difficult to satisfy.
- e) The Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the policy set out above where the terms of the payment were agreed (i) before the policy set out above came into effect, or (ii) at a time when the relevant individual was not a director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a director of the Company.

Illustration of application of Remuneration Policy 2017 – 2019

The chart below illustrates the composition of the Executive Directors’ remuneration packages at different levels of performance, both as a percentage of total remuneration opportunity and as a total value.



Base salary, benefits and pension
 Annual bonus
 LTIP

Notes:

- a) “Minimum” includes the value of fixed pay components – annual base salary effective in FY17, pension (zero for the CEO and 15% of base salary for Deputy CEOs), and benefits (assumed for FY17).
- b) “Target” includes fixed pay and “target” annual bonus (50% of the maximum) and threshold vesting of the maximum LTIP awards (25% of the maximum).
- c) “Maximum” includes fixed pay and maximum annual bonus (CEO: 110% of salary, Deputy CEOs: 100% of salary) and full vesting of LTIP awards (CEO: 150% of salary, Deputy CEOs: 125% of salary).

Policy Table for Non-Executive Directors

Element	Purpose and operation
Chairman and Non-Executive Director (“NED”) Fees	To attract and retain non-executive directors with the required qualities, skills and experience. Fees for the Chairman are set by the Committee and fees for the NEDs are set by the Board (excluding the NEDs). The Chairman receives a single fee. NED fees include a base fee and may include additional fees for other Board or Committee duties. The Chairman and Non-Executive Directors do not participate in any incentive plan or pension arrangement. Where appropriate, benefits may be provided. Non-Executive Directors may be reimbursed for business expenses (and any associated tax liabilities) incurred when travelling in performance of duties.

Service contracts/letters of appointment

The service contracts for Pat McCann and Stephen McNally are dated 9 August 2007. The service contract for Dermot Crowley is dated 24 October 2013. The service contracts have a notice period of 24 weeks for Pat McCann and Stephen McNally and six months for Dermot Crowley. Other than entitlement to notice and a payment of salary and contractual benefits in lieu of notice, the Executive Directors are not entitled to compensation on termination of their respective contracts. These terms would normally apply to a service contract for a new executive director.

Each of the Non-Executive Directors has been appointed pursuant to the terms of their Non-Executive Directors’ letters of appointment dated 27 February 2014. Appointment is for an initial term of three years, upon and subject to the articles of association, and continuation of appointment is contingent on satisfactory performance. Appointment is terminable by either party giving one month’s written notice.

Policy on payments for loss of office

In addition to a payment in lieu of notice referred to above, a departing executive director may be eligible for incentive awards, which will be treated in accordance with the rules of the relevant plan, as summarised in the table below:

Incentive plan	Summary of leaver provisions
Annual bonus	Annual bonus may be payable with respect to performance in the financial year of cessation (pro-rated for time, unless the Committee determines otherwise). The Committee retains discretion to deliver any such bonus solely in cash, without any deferred share element.
Deferred bonus	Awards will continue to vest on the original vesting date, subject to the malus provisions.
2017 LTIP	The default treatment is that any unvested awards lapse on cessation of employment. However, in certain “good leaver” circumstances as defined in the plan rules, awards will vest. In such circumstances, awards will normally vest on their normal vesting date, to the extent the Committee determines taking into account the satisfaction of the relevant performance conditions and, unless the Committee determines otherwise, the proportion of the performance period served.

Remuneration on recruitment

The remuneration package for a new Executive Director would be set in accordance with the terms of the Policy Table for Executive Directors. Salaries would be set at an appropriately competitive level to reflect the skills and experience of the individual, and the scope of the role.

Where an individual forfeits remuneration with a previous employer as a result of appointment to the Company, the Committee may offer compensatory payments or awards to facilitate recruitment. Any such payments or awards would be in such form as the Committee considers appropriate and would normally reflect the nature, time horizons and performance requirements attaching to that remuneration. There is no limit on the value of such compensatory awards, but the Committee's intention is that the value awarded would be no higher than the value forfeited.

Consideration of conditions elsewhere in the Company

When determining remuneration arrangements for Executive Directors, the Committee considers the pay and conditions of employees throughout the Group. In particular, the Committee considers the general level of salary increases and incentive award outcomes within the wider population. Whilst the Committee does not directly consult with employees as part of the process of determining executive pay, the Company carries out detailed employee surveys and will in future solicit feedback on executive remuneration policy which it will take into account when reviewing executive pay. To the extent that employees are shareholders, they can vote on remuneration resolutions at the AGM.

Consideration of shareholder views

The Committee undertook a consultation exercise with major shareholders in respect of the development of this Remuneration Policy, and the feedback received was taken into account in finalising the proposals.

During each year, the Committee considers shareholder feedback received in relation to the AGM, plus any additional feedback received through other means of dialogue. The Committee also regularly reviews the policy in the context of published shareholder guidelines.

ANNUAL REMUNERATION REPORT

This report will be submitted as an advisory vote to shareholders at the 2017 AGM.

Statement of implementation for 2017

This section summarises the remuneration packages for the Directors for the 2017 financial year.

Base salaries

The following table shows the base salaries effective 1st January 2017:

€'000	2017
Pat McCann	575
Stephen McNally	335
Dermot Crowley	335

The Committee set these salaries at a market competitive level for the scope of the roles and the size and complexity of the business. These salaries reflect the increased scale and complexity of the business and the roles following the sustained expansion in the size of the business and adjusting for a level of under competitiveness in senior executive pay, as discussed in the Remuneration Committee Chairman's introductory statement.

We recognise that levels of fixed pay have been increased in consecutive years and in light of those increases, the Committee has decided that, during the lifetime of the proposed policy, no future increases in salary will be made to executives above those awarded to the general workforce.

Pension

The CEO does not receive a pension contribution. Other executive directors will receive a contribution into the defined contribution pension scheme, or an equivalent cash salary supplement, of 15% of base salary, in line with the Policy.

Annual bonus

Executive Directors will be eligible for a maximum annual bonus as set out in the Policy. The bonus will be based on the following performance measures:

Maximum Annual Bonus (as a % of salary)	CEO	Others
Adjusted PBIT	82.5%	75%
Personal targets	27.5%	25%
Total	110%	100%

The Committee has determined that the specific targets for 2017 are commercially sensitive and cannot be disclosed at this time. To the extent that the targets for 2017 are no longer deemed to be commercially sensitive, they will be disclosed in next year's report.

20% of any bonus earned will be deferred into Dalata shares for a period of at least three years in line with the Policy.

LTIP

These awards will be made under the 2017 LTIP following shareholder approval at the 2017 AGM. Awards will vest after a three year performance period based on the TSR and EPS

CORPORATE GOVERNANCE

REMUNERATION COMMITTEE REPORT

targets shown in the table below. Vested shares will be subject to an additional two year post-vesting holding period.

The CEO will be awarded LTIP awards of 150% of salary and the Deputy CEO's will be awarded 125% in line with policy.

	TSR (50% of award)	EPS (50% of award)
Definition	TSR performance against the Index	EPS achieved in the year ending 31 December 2019
Threshold vesting (25% of maximum)	TSR equal to Index	€0.37
Maximum vesting	TSR equal to 10% or more per annum above Index	€0.46

- No vesting below threshold performance.
- Straight-line vesting between points.
- For TSR, the "Index" referred to in the schedule is the Dow Jones European STOXX Travel and Leisure Index. TSR will be calculated using a 3 month average at start and end of the performance period (1 January 2017 to 31 December 2019).
- EPS will exclude items which are deemed one-off. For reference, the relevant adjustments to EPS for 2015 and 2016 are set out in note 29 in the financial statements on pages 167 and 168.
- We want to encourage vigorous pursuit of the opportunities and by excluding these costs, we drive the behaviours we seek from the executives and encourage management to invest for the long-term interests of shareholders.
- EPS targets may be amended if an event occurs which causes the Committee to determine an amended or substituted performance condition would be more appropriate and not materially more or less difficult to satisfy.

Non-executive director fees

The following table shows the fees effective 1st January 2017:

€'000	2017
Chairman fee	125
Basic NED fee	60
Committee chairmanship / SID fee	15

Following a review of the Chairman and Non-Executive fees, it was agreed to increase the Chairman's fee (by €25,000) to reflect the growth in the size of the business since the previous review (in 2015), with an additional fee of €15,000 for the Chairman of the Audit Committee, the Chairman of the Remuneration Committee and the Senior Independent Director.

OUTCOMES IN RESPECT OF 2016

Where indicated the disclosure has been audited in accordance with the UK reporting regulations.

Single total figure of remuneration (audited)

The following table summarises the remuneration received by the Directors for the 2016 financial year (with the 2015 prior year comparator also shown).

€'000	Year	Base Salary / Fees	Pension	Benefits	Bonus	LTIP	Total
Executive Directors							
Pat McCann	2016	475	-	-	470	548	1,493
	2015	420	-	-	420	-	840
Stephen McNally	2016	275	41	3	254	342	915
	2015	250	38	3	250	-	541
Dermot Crowley	2016	275	41	12	254	342	924
	2015	250	38	12	250	-	550
Non-Executive Directors							
John Hennessy	2016	100	-	-	-	-	100
	2015	100	-	-	-	-	100
Robert Dix	2016	60	-	-	-	-	60
	2015	60	-	-	-	-	60
Alf Smiddy	2016	60	-	-	-	-	60
	2015	60	-	-	-	-	60
Margaret Sweeney	2016	60	-	-	-	-	60
	2015	60	-	-	-	-	60

- a) Base salary / fees represent all amounts received in respect of the financial year.
- b) Pension represents payments into the Company's defined contribution pension plan. For 2016 (and 2015) Pat McCann did not participate in the pension plan.
- c) Benefits includes a company car and fuel, and benefits under the group risk benefit scheme which includes death in service cover and disability benefit.
- d) Bonus represents the value of the bonus receivable in respect of the Group's annual bonus plan (see section below for further detail) for the relevant financial year.
- e) For the LTIP, the value shown for 2016 reflects the anticipated vesting of the LTIP award granted on 18 March 2014 with TSR to be measured over the three year performance period to 18 March 2017. The values have been calculated using TSR data as at 24 February 2017 and a three month average share price to 31 December 2016 in accordance with the methodology set out in the UK reporting regulations. No value is shown for 2015 as no LTIP vested in respect of performance to 2015.

CORPORATE GOVERNANCE

REMUNERATION COMMITTEE REPORT

Annual bonus plan outcome for 2016 (audited)

Under the 2016 annual bonus, the Executive Directors could receive up to a maximum of 100% of salary and in the case of CEO 110% of salary. This was based 75% on the achievement of stretching adjusted EBITDA targets and 25% on personal objectives aligned to the delivery of key strategic and operational objectives (for the CEO it was based solely on the adjusted EBITDA targets). The adjusted EBITDA target was based on the budgeted EUR/GBP exchange rate which was set at £0.74 for 2016, and was revised upwards in April 2016 following the acquisition of the Choice Hotel Group.

The adjusted EBITDA target range and a summary of the personal objectives for the year (where relevant) are set out in the table below

	Threshold (25% payout)	Target (50% payout)	Maximum (100% payout)	Actual	Outcome
Adjusted EBITDA	€76.7m	€80.7m	€88.8m	€87.7m ¹	108% of the target EBITDA was achieved leading to a 90% (of maximum) bonus payout for the CEO and the Deputy CEO's
Personal targets	Objectives aligned to strategic and operational goals, including:				
	Stephen McNally				Stephen McNally
	<ul style="list-style-type: none"> > Deliver Phase II General Manager development programme > Deliver cost synergies in Dublin region > Develop UK management structure > Deliver refurbishment programme with targets > Deliver energy / environmental savings 				100%
	Dermot Crowley				Dermot Crowley
	<ul style="list-style-type: none"> > Debt fundraising > Increase sell-side analyst coverage > Development of Financial Planning and Analysis Function > Secure Choice acquisition > Commence pipeline development 				100%

1. The adjusted EBITDA outcome at constant currency EUR/GBP exchange rate (£0.74) was €87.7 million, the adverse movement against the budgeted exchange rate gives rise to a €2.6 million difference between this figure and the reported €85.1 million adjusted EBITDA for the year.

LTIP – vesting outcome of the 2014 award (audited)

The LTIP award granted to Executive Directors on 18 March 2014 will vest on 18 March 2017 subject to the TSR performance of Dalata compared to a comparator group of 12 listed peers measured over that three year period.

The performance period for this award was substantially complete by the end of the 2016 financial year and therefore the vesting of this award is reported in this year's report (in accordance with the reporting regulations) based on the expected vesting level. As at the

date of this report, it is anticipated that the award will vest in full based on the current assessment of the TSR performance, as shown below.

LTIP targets	Vesting outcome (% of maximum)	Required TSR performance vs group ¹
Threshold	25%	Median
Maximum	100%	Upper quartile

1. Comparator group companies are: Whitbread plc, Accor plc, Intercontinental Hotels plc, Millennium & Copthorne plc, Tsogo Sun Holdings, Melia Hotels International SA, CPL Resources, ICG, UTV Media plc, Total Produce plc, FBD plc, Independent News and Media. Straight-line vesting between points

Outcome	TSR achieved ¹	Expected vesting outcome
Group Median	14%	
Group Upper quartile	77%	Dalata's TSR exceeds the upper quartile and the award is expected to vest in full.
Dalata	80%	

1. TSR calculated as at 24 February 2017 being the closest reasonably practicable date ahead of finalisation of this report

Share incentive plan interests awarded during 2016 (audited)

The table below provides details of the LTIP awards made during the year to the Executive Directors.

Director	Type of Award	Face value of the award at grant	Number of shares awarded	Vesting at threshold (% of maximum)	Performance period
Pat McCann	LTIP	100% of salary	101,279	25%	3 March 2016 – 2 March 2019
Dermot Crowley	LTIP	100% of salary	58,635	25%	3 March 2016 – 2 March 2019
Stephen McNally	LTIP	100% of salary	58,635	25%	3 March 2016 – 2 March 2019

- a) Vesting is based on relative TSR using the same vesting schedule and comparator group shown above for the 2014 LTIP award.
- b) The number of shares awarded was calculated using the face value and a share price of €4.69 (being the closing price on the day prior to the date of grant).

CORPORATE GOVERNANCE

REMUNERATION COMMITTEE REPORT

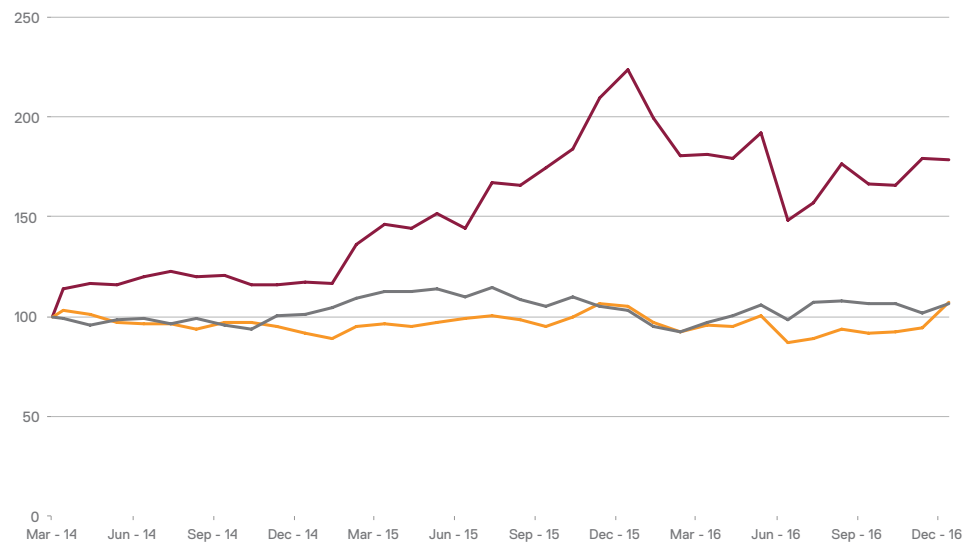
Directors' and Company Secretary's Share Interests

	Shares beneficially owned as at 31 December 2015	Shares beneficially owned as at 31 December 2016	2016 Option to acquire shares under Sharesave Scheme	Interest in unvested LTIP awards subject to performance conditions			Total
				2014 award vesting in 2017	2015 award vesting in 2018	2016 award vesting in 2019	
Pat McCann	839,927	914,927	6,132	128,000	88,889	101,279	318,168
Dermot Crowley	241,727	276,727	6,132	80,000	55,556	58,635	194,191
Stephen McNally	282,611	300,611	6,132	80,000	55,556	58,635	194,191
John Hennessy	83,000	100,000	-	-	-	-	-
Robert Dix	67,858	67,858	-	-	-	-	-
Alf Smiddy	66,646	66,646	-	-	-	-	-
Margaret Sweeney	46,787	46,787	-	-	-	-	-
Sean McKeon	80,000	80,000	6,132	51,000	35,417	32,623	119,040

- a) Shares beneficially owned include those of connected persons.
- b) LTIP awards to Executive Directors represent the maximum number of shares which may vest under the 2014, 2015 and 2016 LTIP awards based on the TSR performance condition as described elsewhere in this report. As described above, the 2014 award is expected to vest in full in March 2017 based on the achievement against the performance conditions.
- c) There was no change in the beneficial interest of the Directors between the year end and the date of this report.

TSR performance summary and historic remuneration outcomes

The graph below compares the TSR (re-based to 100) over the period since listing to the performance of the ISE ESM Index and the median of the current LTIP peer group.



— Dalata Hotel Group — ESM — LTIP TSR group (median)

The following table shows the remuneration for the CEO for each financial year over the same period.

	2014 ¹	2015	2016
Single figure (€'000)	441	840	1,493
Annual bonus outcome (% of maximum)	67%	100%	90%
LTIP vesting (% of maximum)	N/A	N/A	100%

1 Includes remuneration prior to IPO

Percentage change in Chief Executive's remuneration

The table below shows the percentage change in the remuneration of the CEO from the prior year compared to the average percentage change in remuneration for all other employees. Total employee remuneration in the Company (including Executive Directors) increased by 24% in 2016 (from €61.2 million in 2015 to €76.2 million in 2016).

	CEO	All employees ¹
Salary	13%	6% ²
Benefits	N/A ³	N/A
Bonus	12%	7%

1 The Group employs a large workforce of full-time, part-time and seasonal staff making the basis for the calculation complex and unreliable. Accordingly, a comparator group of management and specialist staff was selected.

2 A minimum 2% pay increase was applied for all staff on 1 January 2016. Larger pay increases were awarded for employees where it was merited on the basis of personal performance, increased responsibility, specialist skills or market conditions.

3 The CEO does not receive any benefits from the Company.

Relative spend on pay

The following table shows the Company's aggregate actual spend on pay (for all employees) and dividends in respect of the current and previous financial year.

	2015	2016	Change
Dividend	€0.0m	€0.0m	€0.0m
Aggregate employee remuneration	€61.2m	€76.2m	24.5%

AGM voting

At last year's Annual General Meeting, the following votes were received on the Directors' Remuneration Report:

	Votes	%
Votes For	110,331,179	88.76%
Votes Against	13,976,770	11.24%
Total Votes	124,307,949	100%
Votes Withheld	0	0

CORPORATE GOVERNANCE

REMUNERATION COMMITTEE REPORT

Remuneration Committee and advisors

The Remuneration Committee comprises three independent Non-Executive Directors and operates in accordance with its terms of reference which are available on the Company's website www.dalatahotelgroup.com. Details of Committee membership and attendance at meetings in 2016 are outlined in the table below:

Member	No. of meetings
Margaret Sweeney	6/6
John Hennessy	5/6
Robert Dix	6/6

In addition to the Remuneration Committee members, Non-Executive Director Alf Smiddy attended each meeting at the invitation of the Chairman. The Chief Executive Officer and the Company Secretary attended at each meeting (but were not present for discussions on their own remuneration).

The Committee's independent advisor Deloitte LLP and the Group HR Manager also attended some meetings.

All members of the Remuneration Committee are considered by the Board to be independent. The Board considers the Remuneration Committee Chairman to have relevant financial and commercial experience for the role and that there is sufficient financial and commercial experience within the Remuneration Committee as a whole. These Directors have no financial interest and no potential conflicts of interest, other than as shareholders, in the matters to be decided, and no day-to-day involvement in the running of the business.

In carrying out its duties, the Committee considers any relevant legal requirements, the recommendations in the UK Corporate Governance Code and the Listing Rules of the LSE/ISE and associated guidance and investor guidelines on executive remuneration. The Committee considers annually remuneration trends within the Group and externally in the market with particular attention to peer companies and practice within the hospitality sector. The remuneration of the Non-Executive Directors is approved by the Board.

During 2016, the Committee continued to receive independent advice from Deloitte LLP in respect of the development of the Remuneration Policy. Deloitte LLP is a member of the Remuneration Consultants Group and adheres to its code in relation to executive remuneration consulting. Fees charged by Deloitte LLP during the year were £34,400.

NOMINATION
COMMITTEE
REPORT

Dear Shareholder,

I am pleased to present to you the report of the Nomination Committee for 2016.

The Committee comprises of three independent Non-Executive Directors:

- > Mr Alf Smiddy (Chairman)
- > Mr John Hennessy
- > Ms Margaret Sweeney

All members of the Committee are determined by the Board to be independent Non-Executive Directors. The Committee operates to formal terms of reference which are available on the Company's website at www.dalatahotelgroup.com.

ACTIVITIES FOR 2016

Board and Committee Composition

During the year the Committee assessed the effectiveness and composition of the Board taking into account the breadth of experience and skills required. The Committee also reviewed and recommended changes to the composition of the Audit & Risk and Nomination Committees. Following the step-up to the main markets and in light of the company's market capitalisation, a third non-executive director, Margaret Sweeney, was appointed to the Audit and Risk Committee. We also listened to feedback from shareholders and reviewed market practice in relation to the composition of the Nomination Committee following which CEO, Pat McCann, offered to step down from the Committee.

Succession Planning

The Committee monitors succession planning at executive director and senior management level on an ongoing basis, receiving updates from the CEO and availing of opportunities to engage with members of the senior management team throughout the year.

Board Performance Evaluation

I led an internal board evaluation during 2016, the outcome of which was positive, and some valuable feedback was gathered. The Company's findings were presented to the Board in December 2016.

PRIORITIES FOR 2017

The Committee will continue to focus on succession planning and talent development for both the Board and the Executive Management Team. We will also continue to review the composition of the Board in light of expansion in scale and geographically. An external facilitator will be appointed to perform the board evaluation in 2017.

CORPORATE GOVERNANCE
NOMINATION COMMITTEE REPORT

Finally, the board recently renewed my appointment as senior-executive director and I am happy to continue to be of service in this role.

Alf Smiddy

Chairman, Nomination Committee

Committee meetings

Member	Number of meetings attended
Alf Smiddy	3/3
John Hennessy	3/3
Margaret Sweeney	3/3

Principal responsibilities

The principal responsibilities and duties of the Committee include:

- > Reviewing the structure, size and composition of the Board and making recommendations to the Board with regard to any changes.
- > Assessing the effectiveness and performance of the Board and each of its Committees including consideration of the balance of skills, experience, independence and knowledge of the Company on the Board, its diversity, including gender, how the Board works together as a unit, and other factors relevant to its effectiveness.
- > Considering succession planning for directors and members of the Executive Management Team.
- > Responsibility for identifying and nominating new members to the Board.
- > Reviewing the results of the Board performance evaluation process that relate to the composition of the Board.
- > Reviewing annually the time required from Non-Executive Directors.

REPORT OF THE DIRECTORS

The Directors present their report and the consolidated financial statements of Dalata Hotel Group plc (“Dalata” or the “Company”) and its subsidiaries (the “Group”) for the year ended 31 December 2016.

Principal Activities and Business Review

Dalata Hotel Group plc is the largest hotel operator in the Republic of Ireland, and operates nine hotels in the UK. Shareholders are referred to the Chairman’s Statement, Chief Executive Officer’s Review and the Financial Review which contain a review of operations and the financial performance of the Group for 2016, the outlook for 2017 and the key performance indicators used to assess the performance of the Group. These are deemed to be incorporated in the Report of the Directors.

Results for the Year

The consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016 and the consolidated statement of financial position at that date are set out on pages 109 and 110 respectively. The profit for the year after tax amounted to €34,923,000 (2015: €21,626,000).

Dividends

There were no dividends paid or proposed by the Company during the year.

Future Developments

A review of future developments of the business is included in the Financial Review on pages 22 to 31.

Directors and Company Secretary

The names of the Directors and Company Secretary and a biographical note on each appear on pages 52 to 54.

In accordance with the provisions contained in the UK Corporate Governance Code, all directors will voluntarily retire and be subject to election by shareholders at the 2017 Annual General Meeting.

Directors’ and Company Secretary’s Interests

Details of the Directors’ and Company Secretary’s share interests and interests in unvested share awards of the Company and Group companies are set out in the Remuneration Committee Report on pages 75 to 93.

Audit Committee

The Group has an established Audit and Risk Committee comprising of three independent non-executive directors. Details of the Committee and its activities are set out on pages 68 to 74.

Share Capital

The issued share capital of Dalata Hotel Group plc at 27 February 2017 consists of 182,966,666 ordinary shares. Each share has a nominal value of €0.01. All shares have equal voting and dividend rights. The Group has in place a number of employee share schemes, the details of which are set out in the Report of the Remuneration Committee on Directors’ Remuneration and in Note 8 to the consolidated financial statements.

CORPORATE GOVERNANCE

REPORT OF THE DIRECTORS

Substantial Holdings

As at 27 February 2017, the Company has been notified of the following interests of 3% or more in its share capital:

	Number of Ordinary Shares	% of shares in issue
Franklin Templeton Institutional, LLC	16,869,449	9.22%
FMR LLC	14,993,500	8.19%
Ameriprise Financial, Inc	14,913,632	8.15%
Prudential plc ¹	9,833,849	5.37%
Pioneer Asset Management S.A.	7,936,156	4.34%
Schroders plc	7,212,704	3.94%
I.G. International Limited	6,867,668	3.75%
Zurich Life Assurance plc	5,988,700	3.27%
Allianz Global Investors GmbH	5,755,071	3.15%

¹ M&G Investment Funds, an Open Ended Investment Company (OEIC), has notified the Company that it is interested in 4.37% of the Company's ordinary share capital carrying voting rights, and that its voting rights have been delegated to M&G Investment Management Limited (a wholly owned subsidiary of Prudential plc). M&G Investment Management Limited's holdings under management are reported in aggregate by Prudential plc. Accordingly, M&G Investment Funds' interests are included in the 5.37% interest notified by Prudential plc.

Except as disclosed above, the Company is not aware of and has not received any notification from any institution or person confirming that such institution or person is interested, directly or indirectly, in 3% or more of the issued share capital of the Company, nor is it aware of any person who directly or indirectly, jointly or severally, exercises or could exercise control over the Group.

Principal Risks and Uncertainties

Under Irish company law the Company is required to give a description of the principal risks and uncertainties which the Group faces. These principal risks and uncertainties form part of the Risk Management Report on pages 33 to 38. The Financial Risk Management policies are set out in Note 23 to the consolidated financial statements.

Accounting Records

The Directors believe that they have complied with the requirements of Sections 281 to 285 of the Companies Act 2014 with regard to adequate accounting records by employing accounting personnel with appropriate expertise and by providing adequate resources to the financial function. The accounting records of the Company are maintained at the registered office: 4th Floor, Burton Court, Burton Hall Drive, Sandyford Industrial Estate, Dublin 18.

Takeover Regulations 2006

For the purpose of Regulation 21 of Statutory Instrument 255/2006 'European Communities (Takeover Bids Directive (2004/25/EC)) Regulations 2006', the information given in Note 8 to the consolidated financial statements and in the Remuneration Committee report on pages 75 to 93 in relation to the Long-Term Incentive Plan, employee share schemes, directors service contracts and appointment and compensation for loss of office of directors is deemed to be incorporated in the Directors' Report.

Transparency Regulations 2007

For the purposes of information required by Statutory Instrument 277/2007 'Transparency (Directive 2004/109/EC) Regulations 2007' concerning the development and performance of the Group, the report on Corporate Responsibility set out on pages 39 to 49, is deemed to be incorporated in this part of the Report of the Directors together with details of earnings per share in Note 29 to the consolidated financial statements, employment details in Note 7 and details of financial instruments in Note 23.

Corporate Governance Regulations

As required by company law, the Directors have prepared a Report on Corporate Governance which is set out on pages 58 to 67 and which, for the purposes of Section 1373 of the Companies Act 2014, is deemed to be incorporated in this part of the Report of the Directors. Details of the capital structure and employee share schemes are included in Notes 18 and 8 to the consolidated financial statements respectively.

Relevant Audit Information

The Directors who held office at the date of approval of this Directors' report confirm that, so far they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Compliance Statement

The Directors, in accordance with Section 225(2) of the Companies Act 2014, acknowledge that they are responsible for securing the Company's compliance with certain obligations specified in that section arising from the Companies Act 2014 and, where applicable, the Market Abuse (Directive 2003/6/EC) Regulations 2005, the Prospectus (Directive 2003/71/EC) Regulations 2005, the Transparency (Directive 2004/109EC) Regulations 2007, and Tax laws ('relevant obligations').

The Directors confirm that:

- > a compliance policy statement has been drawn up setting out the Company's policies that in their opinion are appropriate with regard to such compliance;
- > appropriate arrangements and structures have been put in place that, in their opinion, are designed to provide reasonable assurance of compliance in all material respects with those relevant obligations; and
- > a review has been conducted, during the financial year, of those arrangements and structures

Going Concern

The Directors' statement on going concern is set out in the Corporate Governance Report on page 65

Political Contributions

There were no political contributions which require disclosure under the Electoral Act, 1997.

Independent Auditors

Pursuant to Section 383 (2) of the Companies Act 2014, the auditor, KPMG, Chartered Accountants, will continue in office.

CORPORATE GOVERNANCE

REPORT OF THE DIRECTORS

Subsidiaries

Information on the Group's subsidiaries is set out in Note 28 to the consolidated financial statements.

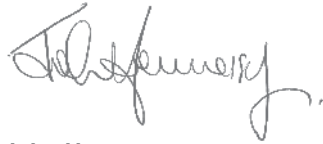
Subsequent events

There were no events subsequent to 31 December 2016 which would require an adjustment to or a disclosure thereon in the financial statements.

Approval of Financial Statements

The Financial Statements were approved by the Board on 27 February 2017.

On behalf of the Board



John Hennessy
Chairman



Patrick McCann
Director

27 February 2017



(clockwise from the top) Kevin Street
Dublin; Brunswick Street, Belfast &
Maldron reception staff.

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FINANCIAL STATEMENTS

Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the annual report and the consolidated and company financial statements, in accordance with applicable law and regulations.

Company law requires the Directors to prepare consolidated and company financial statements each year. Under that law, the Directors are required to prepare the consolidated financial statements in accordance with IFRS as adopted by the European Union and have elected to prepare the company financial statements in accordance with IFRS as adopted by the European Union, as applied in accordance with the Companies Act 2014.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the Group and Company and of the profit and loss of the Group for that year. In preparing each of the consolidated and company financial statements, the Directors are required to:

- › select suitable accounting policies and then apply them consistently;
- › make judgements and estimates that are reasonable and prudent;
- › state that the financial statements comply with IFRS as adopted by the European Union, and, as regards the Company, as applied in accordance with the Companies Act 2014; and
- › prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are also required by the Transparency (Directive 2004/109/EC) Regulations 2007 and the Transparency Rules of the Central Bank of Ireland to include a management report containing a fair review of the business and a description of the principal risks and uncertainties facing the Group.

The Directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the assets, liabilities, financial position and profit or loss of the Company, and which enable them to ensure that the financial statements of the Company comply with the provisions of the Companies Act 2014. The Directors are also responsible for taking all reasonable steps to ensure such records are kept by the Company's subsidiaries which enable them to ensure that the financial statements of the Group comply with the provisions of the Companies Act 2014. They are also responsible for safeguarding the assets

FINANCIAL STATEMENTS

STATEMENT OF DIRECTORS' RESPONSIBILITIES

of the Company and the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

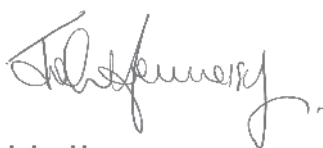
The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's and Company's website www.dalatahotelgroup.com. Legislation in the Republic of Ireland concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility Statement as required by the Transparency Directive and UK Corporate Governance Code

Each of the Directors, whose names and functions are listed on pages 52 to 54 of this Annual Report, confirm that, to the best of each person's knowledge and belief:

- › the consolidated financial statements, prepared in accordance with IFRS as adopted by the European Union, and the company financial statements, prepared in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2014, give a true and fair view of the assets, liabilities and financial position of the Group and Company at 31 December 2016 and of the profit of the Group for the year then ended;
- › the Directors' Report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that they face; and
- › the Annual Report and financial statements, taken as a whole, provides the information necessary to assess the Group's position and performance, business model and strategy and is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

On behalf of the Board



John Hennessy
Chairman



Patrick McCann
Director

27 February 2017

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DALATA HOTEL GROUP PLC

OPINIONS AND CONCLUSIONS ARISING FROM OUR AUDIT

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Dalata Hotel Group plc for the year ended 31 December 2016 which comprise the consolidated statement of profit or loss and other comprehensive income, the consolidated and company statements of financial position, the consolidated and company statements of changes in equity, the consolidated and company statements of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is Irish law and International Financial Reporting Standards (IFRS) as adopted by the European Union, and, as regards the company financial statements, as applied in accordance with the provisions of the Companies Act 2014. Our audit was conducted in accordance with International Standards on Auditing (ISAs) (UK & Ireland).

In our opinion:

- > the consolidated financial statements give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2016 and of its profit for the year then ended;
- > the company statement of financial position gives a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2016;
- > the consolidated financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- > the company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2014; and
- > the company financial statements and consolidated financial statements have been properly prepared in accordance with the requirements of the Companies Act 2014 and, as regards the consolidated financial statements, Article 4 of the IAS Regulation.

2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the consolidated financial statements the risks of material misstatement that had the greatest effect on our group audit were as follows:

Acquisitions in the year

Refer to page 69 (Audit and Risk Committee Report), page 116 (accounting policy for basis of consolidation) and Note 10 to the consolidated financial statements (financial disclosures – business combinations)

The risk – A number of significant transactions were completed during the year ended 31 December 2016, including the acquisition of the business of Choice Hotel Group, the business and property of Tara Towers Hotel, the business and property of Clarion Hotel Sligo, the freehold properties of certain existing leased hotels and certain development sites. This gives rise to a risk of material misstatement if these acquisitions are not accounted for in accordance with relevant accounting standards. In particular for business combinations the

FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

consideration paid, the costs incurred, the fair value of the assets and liabilities acquired and any goodwill arising must all be identified, measured and recorded appropriately.

Our response – Our audit procedures included, among others, inspecting acquisition agreements and related documentation, and considering whether the acquisitions were business combinations or asset purchases and accordingly whether the relevant accounting standards for each had been applied.

For business combinations, we evaluated the identification of, and allocation of the purchase price to, the fair values of identifiable property, separable intangible assets and other assets and liabilities acquired, and the measurement of goodwill, if any, arising on acquisition. We did this by considering the financial and other information pertaining to the acquisition and related documents, and the Group's plans for the acquired businesses. We agreed the dates of commencement of control, and therefore inclusion in the Group's results, of the acquired businesses to documentary evidence. We agreed the costs incurred in relation to such acquisitions to relevant supporting documentation and assessed whether they had been expensed. We have also considered the adequacy of the Group's disclosures in relation to acquisitions in the year.

Property valuations and depreciation

Refer to page 70 (Audit and Risk Committee Report), pages 118 to 119 (accounting policy for property, plant and equipment) and Note 12 to the consolidated financial statements (financial disclosures – property, plant and equipment)

The risk – The Group has a large owned hotel property portfolio as a result of acquisitions and under its accounting policies applies the revaluation model to its land and buildings included within property, plant and equipment. This gives rise to a risk of material misstatement if periodic revaluations are not performed on an appropriate basis or are not accounted for in accordance with relevant accounting standards. The Group engages independent external experts to perform periodic hotel revaluations, which are performed inclusive of fixtures fittings and equipment, which the Group accounts for under the cost model. Appropriate allocations of hotel valuations must therefore be made between land (which is not depreciated), buildings, and fixtures fittings and equipment for accounting purposes.

Due to the size of the owned hotel property portfolio, depreciation of buildings is a significant accounting estimate. There is a risk of significant misstatement if the depreciation charge for buildings is not based on appropriate assumptions including the allocation of hotel valuations to buildings, the estimated residual values of buildings and their estimated useful lives. The Group engaged independent external experts to assist it in its determination of residual values.

Our response – Our audit procedures included, among others: evaluating the approach and findings of the work performed by the independent external experts engaged by the Group in relation to hotel valuations and residual values: considering the allocation of hotel valuations to land, buildings, and fixtures fittings and equipment; assessing the reasonableness of the assumptions made on residual values of buildings with regard to supporting documentation; recalculating the buildings depreciation charge on the basis of the assumptions made; and testing the amounts of individual property revaluation movements and their presentation either in other comprehensive income or in profit or loss, as appropriate.

3. Our application of materiality and an overview of the scope of our audit

The materiality for the consolidated financial statements as a whole was set at €2.8m (2015: €2.2m). This has been calculated with reference to a benchmark of group profit before taxation, normalised to exclude this year's acquisition-related costs of €2.7m and goodwill impairment of €10.3m as disclosed in Note 3 to the consolidated financial statements.

Materiality represents approximately 5% of this benchmark, which we consider to be one of the principal considerations for members of the Company in assessing the financial performance of the Group. We report to the Audit Committee all corrected and uncorrected misstatements we identified through our audit with a value in excess of €0.1m (2015: €0.1m), in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

We subjected all of the Group's reporting components to audits for group reporting purposes. The work on all components was performed by the Group audit team.

4. We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- > the Directors' statements on Risk Management on pages 33 to 38 and page 65, concerning the principal risks, their management, and, based on that, the Directors' assessment and expectations of the Group's continuing in operation over the three years to 31 December 2019; or
- > the disclosures in note 1 of the consolidated financial statements concerning the use of the going concern basis of accounting.

5. We have nothing to report in respect of the matters on which we are required to report by exception

ISAs (UK & Ireland) require that we report to you if, based on the knowledge we acquired during our audit, we have identified information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- > we have identified any inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider the Annual Report and financial statements as a whole is fair, balanced and understandable and provides information necessary for shareholders to assess the entity's position and performance, business model and strategy; or
- > the Audit and Risk Committee Report does not appropriately disclose those matters that we communicated to the Audit and Risk Committee.

The Listing Rules of the Irish Stock Exchange and UK Listing Authority require us to review:

- > the Directors' statements, set out on pages 38 and 65, in relation to going concern and longer-term viability;
- > the part of the Corporate Governance Statement on pages 58 to 67 relating to the Company's compliance with the provisions of the UK Corporate Governance Code and the Irish Corporate Governance Annex specified for our review; and
- > certain elements of disclosures in the report to shareholders by the Board of Directors' Remuneration Committee.

In addition, the Companies Act 2014 requires us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by law are not made.

6. Our conclusions on other matters on which we are required to report by the Companies Act 2014 are set out below

We have obtained all the information and explanations which we consider necessary for the purposes of our audit.

In our opinion the accounting records of the Company were sufficient to permit the financial statements to be readily and properly audited and the financial statements are in agreement with the accounting records.

In our opinion the information given in the Directors' Report is consistent with the financial statements and the description in the Corporate Governance Statement of the main features of the internal control and risk management systems in relation to the process for preparing the consolidated financial statements is consistent with the consolidated financial statements.

In addition we report, in relation to information given in the Corporate Governance Statement on pages 58 to 67, that:

- › based on knowledge and understanding of the Company and its environment obtained in the course of our audit, no material misstatements in the information identified above have come to our attention;
- › based on the work undertaken in the course of our audit, in our opinion:
 - › the description of the main features of the internal control and risk management systems in relation to the process for preparing the Group financial statements, and information relating to voting rights and other matters required by the European Communities (Takeover Bids (Directive 2004/25/EC)) Regulations 2006 and specified by the Companies Act 2014 for our consideration, are consistent with the financial statements and have been prepared in accordance with the Companies Act 2014; and
 - › the Corporate Governance Statement contains the information required by the Companies Act 2014.

Basis of our report, responsibilities and restrictions on use


As explained more fully in the Statement of Directors' Responsibilities set out on pages 102 to 103, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the consolidated and company financial statements in accordance with applicable law and International Standards on Auditing (ISAs) (UK & Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

An audit undertaken in accordance with ISAs (UK & Ireland) involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Whilst an audit conducted in accordance with ISAs (UK & Ireland) is designed to provide reasonable assurance of identifying material misstatements or omissions it is not guaranteed to do so. Rather the auditor plans the audit to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements does not exceed materiality for the financial statements as a whole. This testing requires us to conduct significant audit work on a broad range of assets, liabilities, income and expense as well as devoting significant time of the most experienced members of the audit team, in particular the engagement partner responsible for the audit, to subjective areas of the accounting and reporting.

Our report is made solely to the Company's members, as a body, in accordance with section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Sean O'Keefe
for and on behalf of
KPMG
Chartered Accountants, Statutory Audit Firm
1 Stokes Place
St. Stephen's Green
Dublin 2

27 February 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2016

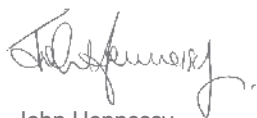
	Note	2016 €'000	2015 €'000
Continuing operations			
Revenue	2	290,551	225,673
Cost of sales		(109,864)	(86,907)
Gross profit		180,687	138,766
Administrative expenses, including goodwill impairment of €10.325 million (2015: €0.199 million), acquisition-related costs of €2.671 million (2015: €15.802 million) and main market listing costs of €1.293 million (2015: €nil)	3	(125,717)	(104,554)
Other income	4	637	2,745
Operating profit		55,607	36,957
Finance income	5	–	1,863
Finance costs	6	(11,496)	(10,363)
Profit before tax		44,111	28,457
Tax charge	9	(9,188)	(6,831)
Profit for the year attributable to owners of the Company		34,923	21,626
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss</i>			
Revaluation of property	12	66,403	46,567
Related deferred tax	22	(6,382)	(6,398)
		60,021	40,169
<i>Items that are or may be reclassified subsequently to profit or loss</i>			
Exchange difference on translating foreign operations		(35,730)	5,169
Gain/(loss) on net investment hedge		24,876	(4,329)
Fair value movement on cash flow hedges		(3,740)	(1,670)
Cash flow hedges – reclassified to profit or loss		1,206	655
Related deferred tax	22	316	127
		(13,072)	(48)
Other comprehensive income for the year, net of tax		46,949	40,121
Total comprehensive income for the year attributable to owners of the Company		81,872	61,747
Earnings per share			
Basic earnings per share	29	€0.1909	€0.1455
Diluted earnings per share	29	€0.1893	€0.1447

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2016

Assets	Note	2016 €'000	2015 €'000
Non-current assets			
Intangible assets and goodwill	11	54,267	46,803
Property, plant and equipment	12	822,444	608,792
Investment property	13	3,245	37,285
Deferred tax assets	22	1,894	3,936
Other receivables	15	4,748	2,216
Derivatives	14	7	26
Total non-current assets		886,605	699,058
Current assets			
Trade and other receivables	15	15,874	11,774
Inventories	16	1,817	1,349
Cash and cash equivalents	17	81,080	149,155
Total current assets		98,771	162,278
Total assets		985,376	861,336
Equity			
Share capital	18	1,830	1,830
Share premium	18	503,113	503,113
Capital contribution	18	25,724	25,724
Merger reserve	18	(10,337)	(10,337)
Share-based payment reserve	18	2,126	912
Hedging reserve	18	(3,106)	(888)
Revaluation reserve	18	107,531	47,510
Translation reserve	18	(9,974)	880
Retained earnings		3,475	(31,448)
Total equity		620,382	537,296
Liabilities			
Non-current liabilities			
Loans and borrowings	21	264,681	250,168
Deferred tax liabilities	22	25,051	15,859
Derivatives	14	3,401	885
Provision for liabilities	20	3,040	890
Total non-current liabilities		296,173	267,802
Current liabilities			
Loans and borrowings	21	15,734	15,970
Trade and other payables	19	52,050	39,290
Current tax liabilities		1,037	978
Total current liabilities		68,821	56,238
Total liabilities		364,994	324,040
Total equity and liabilities		985,376	861,336

On behalf of the Board:



John Hennessy
Chairman



Patrick McCann
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016

	Attributable to owners of the Company									
	Share capital €'000	Share premium €'000	Capital contribution €'000	Merger reserve €'000	Share-based payment reserve €'000	Hedging reserve €'000	Revaluation reserve €'000	Translation reserve €'000	Retained earnings €'000	Total €'000
At 1 January 2016	1,830	503,113	25,724	(10,337)	912	(888)	47,510	880	(31,448)	537,296
Comprehensive income:										
Profit for the year	–	–	–	–	–	–	–	–	34,923	34,923
<i>Other comprehensive income</i>										
Exchange difference on translating foreign operations	–	–	–	–	–	–	–	(35,730)	–	(35,730)
Gain on net investment hedge	–	–	–	–	–	–	–	24,876	–	24,876
Revaluation of property	–	–	–	–	–	–	66,403	–	–	66,403
Fair value movement on cash flow hedges	–	–	–	–	–	(3,740)	–	–	–	(3,740)
Cash flow hedges – reclassified to profit or loss	–	–	–	–	–	1,206	–	–	–	1,206
Related deferred tax	–	–	–	–	–	316	(6,382)	–	–	(6,066)
Total comprehensive income for the year	–	–	–	–	–	(2,218)	60,021	(10,854)	34,923	81,872
Transactions with owners of the Company:										
Issue of shares	–	–	–	–	–	–	–	–	–	–
Share issue costs	–	–	–	–	–	–	–	–	–	–
Equity-settled share-based payments (note 8)	–	–	–	–	1,214	–	–	–	–	1,214
Total transactions with owners of the Company	–	–	–	–	1,214	–	–	–	–	1,214
At 31 December 2016	1,830	503,113	25,724	(10,337)	2,126	(3,106)	107,531	(9,974)	3,475	620,382

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2015

	Attributable to owners of the Company									
	Share capital €'000	Share premium €'000	Capital contribution €'000	Merger reserve €'000	Share-based payment reserve €'000	Hedging reserve €'000	Revaluation reserve €'000	Translation reserve €'000	Retained earnings €'000	Total €'000
At 1 January 2015	1,220	295,133	25,724	(10,337)	273	–	7,341	40	(46,681)	272,713
Comprehensive income:										
Profit for the year	–	–	–	–	–	–	–	–	21,626	21,626
<i>Other comprehensive income</i>										
Exchange difference on translating foreign operations	–	–	–	–	–	–	–	5,169	–	5,169
Loss on net investment hedge	–	–	–	–	–	–	–	(4,329)	–	(4,329)
Revaluation of property	–	–	–	–	–	–	46,567	–	–	46,567
Fair value movement on cash flow hedges	–	–	–	–	–	(1,670)	–	–	–	(1,670)
Cash flow hedges – reclassified to profit or loss	–	–	–	–	–	655	–	–	–	655
Related deferred tax	–	–	–	–	–	127	(6,398)	–	–	(6,271)
Total comprehensive income for the year	–	–	–	–	–	(888)	40,169	840	21,626	61,747
Transactions with owners of the Company:										
Issue of shares (note 18)	610	209,716	–	–	–	–	–	–	–	210,326
Share issue costs (note 18)	–	(1,736)	–	–	–	–	–	–	(6,393)	(8,129)
Equity-settled share-based payments (note 8)	–	–	–	–	639	–	–	–	–	639
Total transactions with owners of the Company	610	207,980	–	–	639	–	–	–	(6,393)	202,836
At 31 December 2015	1,830	503,113	25,724	(10,337)	912	(888)	47,510	880	(31,448)	537,296

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2016

	2016 €'000	2015 €'000
Cash flows from operating activities		
Profit for the year	34,923	21,626
Adjustments for:		
Depreciation of property, plant and equipment	15,477	10,039
Impairment of goodwill	10,325	199
Net revaluation movements through profit or loss	(241)	1,576
Share-based payment expense	1,214	639
Finance costs	11,496	10,363
Finance income	–	(1,863)
Tax charge	9,188	6,831
	82,382	49,410
Increase in trade and other payables	3,092	6,683
(Increase)/decrease in trade and other receivables	(909)	1,568
Increase in inventories	(64)	(317)
Tax paid	(6,688)	(2,941)
Net cash from operating activities	77,813	54,403
Cash flows from investing activities		
Acquisitions of undertakings through business combinations, net of cash acquired	(62,428)	(479,087)
Purchase of property, plant and equipment	(108,604)	(28,551)
Purchase of investment property	–	(35,897)
Deposits paid on acquisitions	(1,024)	(1,316)
Interest received	–	6
Net cash used in investing activities	(172,056)	(544,845)
Cash flows from financing activities		
Interest and finance costs paid	(9,983)	(13,753)
Receipt of bank loans	57,607	283,090
Repayment of bank loans	(16,800)	(17,890)
Proceeds from issue of share capital, net of expenses	–	168,700
Payment for derivative asset	–	(156)
Net cash from financing activities	30,824	419,991
Net decrease in cash and cash equivalents	(63,419)	(70,451)
Cash and cash equivalents at the beginning of the year	149,155	217,807
Effect of movements in exchange rates	(4,656)	1,799
Cash and cash equivalents at the end of the year	81,080	149,155

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

forming part of the consolidated financial statements

1 Significant accounting policies

General information and basis of preparation

Dalata Hotel Group plc ('the Company') is a company domiciled in the Republic of Ireland. The Company's registered office is 4th Floor, Burton Court, Burton Hall Drive, Sandyford, Dublin 18. The consolidated financial statements of the Company for the year ended 31 December 2016 include the Company and its subsidiaries (together referred to as the 'Group'). The financial statements were authorised for issue by the Directors on 27 February 2017.

The consolidated financial statements have been prepared in accordance with IFRS, as adopted by the EU. The accounting policies set out below have been applied consistently by all Group companies.

The preparation of financial statements in accordance with IFRS as adopted by the EU requires the directors to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting year. Such estimates and judgements are based on historical experience and other factors, including expectation of future events, that are believed to be reasonable under the circumstances and are subject to continued re-evaluation. Actual outcomes could differ from those estimates.

Key judgements and estimates impacting these financial statements are:

- Accounting for acquisitions, including allocation of consideration to assets and liabilities acquired and treatment of acquisition costs (note 10);
- Carrying value of goodwill and intangible assets including assumptions underpinning the impairment tests (note 11); and
- Carrying value and depreciation of own-use property measured at fair value (note 12).

Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of assets and liabilities at fair values. When measuring the fair value of an asset or liability, the Group uses market observable data as far as possible, with non-financial assets being measured on a highest and best-use basis. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

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

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Further information about the assumptions made in measuring fair values is included in note 23 – Financial instruments and risk management in relation to financial assets and financial liabilities, with note 12 – Property, plant and equipment and note 13 – Investment property addressing non-financial assets.

(a) Going concern

The Directors have assessed the Group's ability to continue in operational existence for the foreseeable future by preparing detailed financial forecasts and carrying out stress testing on projections, with consideration of the macro-economic backdrop. The Directors also evaluated the strategy of the Group as set out on page 7 to 21 of the annual report. Note 23 to the consolidated financial statements includes the Group's objectives, policies and processes for managing its capital; details of its financial instruments and hedging activities; and its exposures to credit, currency and liquidity risks.

Having assessed the business risks, the Directors believe that the Group is well placed to manage these risks successfully, and they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

NOTES

(continued)

1 Significant accounting policies (continued)

(b) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and their interpretations issued by the International Accounting Standards Board (IASB) as adopted by the EU and those parts of the Companies Act 2014 applicable to companies reporting under IFRS and Article 4 of the IAS Regulation.

A number of new standards, amendments to standards and interpretations are effective for financial periods beginning on various dates after 1 January 2017 and have not been applied in preparing these financial statements. The Group does not plan to adopt these standards early, and instead intends to apply them from their effective dates as determined by their dates of EU endorsement. With the exception of IFRS 16 *Leases*, none of these standards are expected to have a material impact on the financial statements.

IFRS 16 *Leases*, which has an effective date of 1 January 2019 (expected to be endorsed in 2017), will have a significant effect on the Group's financial statements as the Group is a lessee in a number of material property leases. Under the new standard, the distinction between operating and finance leases is removed for lessees and almost all leases are reflected in the statement of financial position. Under IFRS 16, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exemptions are short-term and low-value leases. The standard introduces new estimates and judgemental thresholds that affect the identification, classification and measurement of lease transactions. More extensive disclosures, both qualitative and quantitative, are also required. The full impact of this standard on the Group's financial position and performance is currently being assessed taking into account the significant new leases both acquired and entered into by the Group in 2016.

The following standards and interpretations are not yet endorsed by the EU. The potential impact of these standards on the Group is under review.

- IFRS 14 *Regulatory Deferral Accounts*. The EU has decided not to launch the endorsement process of this interim standard.
- Sale or contribution of assets between an investor and its associate or joint venture (September 2014) (Amendments to IFRS 10 and IAS 28). Endorsement postponed indefinitely.
- Recognition of Deferred Tax Assets for Unrealised Losses (January 2016) (Amendments to IAS 12). Endorsement expected Q2 2017.
- Disclosure Initiative (January 2016) (Amendments to IAS 7). Endorsement expected Q2 2017.
- Clarifications to revenue from contracts with customers (April 2016) (Clarifications to IFRS 15). Expected to be endorsed Q1 2017.
- Classification and Measurement of Share-based Payment Transactions (June 2016) (Amendments to IFRS 2). Expected to be endorsed Q3 2017.
- Annual Improvements to IFRS Standards 2014-2016 Cycle (December 2016). Expected to be endorsed Q3 2017.
- Foreign Currency Transactions and Advance Consideration (December 2016) (IFRIC Interpretation 22). Expected to be endorsed Q3 2017.
- Transfers of Investment Property (December 2016) (Amendments to IAS 40). Expected to be endorsed Q3 2017.

The following standards have been endorsed by the EU, are available for early adoption and are effective from 1 January 2018. The Group does not plan to adopt these standards early, and instead intends to apply them from their effective dates as determined by their dates of EU endorsement.

- IFRS 15 *Revenue from contracts with customers* (May 2014) including amendments to IFRS 15 Effective date of IFRS 15 (September 2015); and
- IFRS 9 *Financial Instruments* (July 2014).

NOTES (continued)

1 Significant accounting policies (continued)

(c) Functional and presentation currency

These consolidated financial statements are presented in Euro, being the functional currency of the Company and the majority of its subsidiaries. All financial information presented in Euro has been rounded to the nearest thousand.

(d) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiary undertakings.

Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition and then subsequently re-measured at fair value through profit or loss.

When acquiring a business, the Group is required to bring acquired assets and liabilities on to the consolidated statement of financial position at their fair value, the determination of which requires a significant degree of estimation and judgement.

Acquisitions may also result in intangible benefits being brought into the Group, some of which may qualify for recognition as intangible assets while other such benefits do not meet the recognition requirements of IFRS and therefore form part of goodwill. All identifiable intangible assets acquired as part of a business combination are recognised separately from goodwill provided the criteria for recognition are satisfied.

Judgement is required in the assessment and valuation of any intangible assets, including assumptions on the timing and amount of future cash flows generated by the assets and the selection of an appropriate discount rate.

Depending on the nature of the assets and liabilities acquired, determined provisional fair values may be associated with uncertainty and possibly adjusted subsequently as permitted by IFRS 3 *Business Combinations*.

Business combinations are disclosed in note 10 to these consolidated financial statements.

When an acquisition does not represent a business, it is accounted for as a purchase of a Group of assets and liabilities, not as a business combination. The cost of the acquisition is allocated to the assets and liabilities acquired based on their relative fair values, and no goodwill is recognised.

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

NOTES

(continued)

1 Significant accounting policies (continued)

(e) Revenue recognition

Revenue represents sales (excluding VAT) of goods and services net of discounts provided in the normal course of business and is recognised when services have been rendered.

Revenue is derived from hotel operations and includes the rental of rooms, food and beverage sales, and leisure centre membership in leased and acquired hotels operated under the Group's brand names. Revenue is recognised when rooms are occupied and food and beverages are sold. Leisure centre membership revenue is recognised over the life of the membership.

Management fees are earned from hotels managed by the Group under contracts with the hotel owners. Management fees are normally a percentage of hotel revenue and/or profit and are recognised when earned and recoverable under the terms of the contract.

Rental income from investment property is recognised on a straight-line basis over the term of the lease and is included as other income.

(f) Sales discounts and allowances

The Group recognises revenue on a gross revenue basis and makes various deductions to arrive at net revenue as reported in profit or loss. These adjustments are referred to as sales discounts and allowances.

(g) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

Certain hotel operating lease agreements include minimum rental payments with further contingent rent payable depending on the financial performance of the hotel. Contingent rent is recognised in profit or loss based on performance in the period.

Initial direct costs associated with entering into a new lease are recognised as a prepayment and are amortised to profit or loss on a straight-line basis over the term of the lease.

(h) Share-based payments

The grant-date fair value of equity-settled share-based payment awards, incorporating the effect of market-based conditions, granted to employees is recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and any non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. The amount recognised as an expense is not adjusted for market conditions not being met.

NOTES
(continued)

1 Significant accounting policies (continued)

(i) Tax

Tax expense comprises current and deferred tax. Tax expense is recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in other comprehensive income or equity.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes except for the initial recognition of goodwill and other assets that do not affect accounting profit at the date of recognition.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously. Deferred tax liabilities have been recognised where the carrying value of land and buildings for financial reporting purposes is greater than their tax cost base.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable future taxable profits will be available against which the temporary difference can be utilised.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Such reductions are reversed when the probability of future taxable profits improves.

(j) Earnings per share

Basic earnings per share are calculated based on the profit for the year attributable to owners of the Company and the basic weighted average number of shares outstanding. Diluted earnings per share are calculated based on the profit for the year attributable to owners of the Company and the diluted weighted average number of shares outstanding.

Dilutive effects arise from share-based payments that are settled in shares. Conditional share awards to employees have a dilutive effect when the average share price during the period exceeds the exercise price of the awards and the market conditions of the awards are met, as if the current period end were the end of the vesting period. When calculating the dilutive effect, the exercise price is adjusted by the value of future services that have yet to be received related to the awards.

(k) Property, plant and equipment

Land and buildings are initially stated at cost, including directly attributable transaction costs, (or fair value when acquired through business combinations) and subsequently at fair value.

Assets under construction include sites where new hotels are currently being developed. These sites and the capital investment made post acquisition are recorded at cost in the financial statements. Once construction is complete and the hotel is operating, the assets will be transferred to land and buildings at cost, and will subsequently be measured at fair value. Depreciation will commence when the asset is available for use.

Fixtures, fittings and equipment are stated at cost, less accumulated depreciation and any impairment provision.

Cost includes expenditure that is directly attributable to the acquisition of property, plant and equipment unless it is acquired as part of a business combination under IFRS 3, where the deemed cost is its acquisition date fair value.

NOTES

(continued)

1 Significant accounting policies (continued)

(k) Property, plant and equipment (continued)

In the application of the Group's accounting policy, judgement is exercised by management in the determination of fair value at each reporting date, residual values and useful lives.

Depreciation is charged through profit or loss on the cost or valuation less residual value on a straight-line basis over the estimated useful lives of the assets which are:

Buildings	50 years
Fixtures, fittings and equipment	5 – 10 years
Land is not depreciated.	

Residual values and useful lives are reviewed and adjusted if appropriate at each reporting date.

Land and buildings are revalued by qualified valuers on a sufficiently regular basis using open market value (which reflects a highest and best use basis) so that the carrying value of an asset does not materially differ from its fair value at the reporting date. External revaluations of the Group's land and buildings have been carried out in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation Standards and IFRS 13.

Surpluses on revaluation are recognised in other comprehensive income and accumulated in equity in the revaluation reserve, except to the extent that they reverse impairment losses previously charged to profit or loss, in which case the reversal is recorded in profit or loss. Decreases in value are charged against other comprehensive income and the revaluation reserve to the extent that a previous gain has been recorded there, and thereafter are charged through profit or loss.

Fixtures, fittings and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Assets that do not generate independent cash flows are combined into cash-generating units. If carrying values exceed estimated recoverable amounts, the assets or cash-generating units are written down to their recoverable amount. Recoverable amount is the greater of fair value less costs to sell and value in use. Value in use is assessed based on estimated future cash flows discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

(l) Investment property

Investment property is held either to earn rental income, or for capital appreciation (including future re-development) or for both, but not for sale in the ordinary course of business.

Investment property is initially measured at cost, including transaction costs, (or fair value when acquired through business combinations) and subsequently valued by professional external valuers at their respective fair values. The difference between the fair value of an investment property at the reporting date and its carrying value prior to the external valuation is recognised in profit or loss.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

The Group's investment properties are valued by qualified valuers on an open market value basis in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation Standards.

NOTES (continued)

1 Significant accounting policies (continued)

(m) Goodwill

Goodwill represents the excess of the fair value of the consideration for an acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. Goodwill is the future economic benefits arising from other assets in a business combination that are not individually identified and separately recognised. When the excess is negative (a bargain purchase gain), it is recognised immediately in profit or loss.

Goodwill is measured at its initial carrying amount less accumulated impairment losses. The carrying amount of goodwill is reviewed at each reporting date to determine if there is an indication of impairment. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the 'cash-generating unit').

The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

The recoverable amount of a cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects a current market assessment of the time value of money and the risks specific to the asset.

An impairment loss is recognised in profit or loss if the carrying amount of a cash-generating unit exceeds its estimated recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the units on a pro-rata basis. Impairment losses of goodwill are not reversed once recognised.

The impairment testing process requires management to make significant judgements and estimates regarding the future cash flows expected to be generated by the cash-generating unit. Management evaluates and updates the judgements and estimates which underpin this process on an ongoing basis. The impairment methodology and key assumptions used by the Group for testing goodwill for impairment is outlined in note 11.

The assumptions and conditions for determining impairment of goodwill reflects management's best estimates, but these items involve significant inherent uncertainties, many of which are not under the control of management. As a result, accounting for such items could result in different estimates or amounts if management used different assumptions or if different conditions occur in the future.

An intangible asset is only recognised where the item lacks a physical presence, is identifiable, non-monetary, is controlled by the Group and is expected to provide future economic benefits to the Group.

(n) Intangible assets other than goodwill

An intangible asset is determined to have an indefinite useful life when, based on the facts and circumstances, there is no foreseeable limit to the period over which the asset is expected to generate future economic benefits for the Group. Intangible assets with indefinite lives are reviewed for impairment on an annual basis and are not amortised. The useful life of an intangible asset that is not subject to amortisation is reviewed at least annually to determine whether a change in the useful life is appropriate. Intangible assets acquired as part of business combinations are disclosed in note 10 to these consolidated financial statements.

(o) Inventories

Inventories are stated at the lower of cost (using the FIFO basis) and net realisable value.

NOTES

(continued)

1 Significant accounting policies (continued)

(p) Trade and other receivables

Trade and other receivables are stated initially at their fair value and subsequently at amortised cost, less any allowance for doubtful amounts. An allowance is made when collection of the full amount is no longer considered probable. Bad debts are written off to profit or loss on identification.

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less, which are carried at amortised cost, and money-market funds. Money-market funds are short-term highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value, and are measured at fair value through profit or loss.

In the statement of cash flows, cash and cash equivalents are shown net of any short-term overdrafts which are repayable on demand and form an integral part of the Group's cash management.

(r) Finance income and costs

Finance income comprises interest income and foreign currency gains on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings. All borrowing costs are recognised in profit or loss using the effective interest method.

(s) Foreign currency

Transactions in currencies other than the functional currency of a Group entity are recorded at the rate of exchange prevailing on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the respective functional currency at the relevant rates of exchange ruling at the reporting date. Foreign exchange differences arising on translation are recognised in profit or loss.

The assets and liabilities of foreign operations are translated into Euro at the exchange rate ruling at the reporting date. The income and expenses of foreign operations are translated into Euro at rates approximating the exchange rates at the dates of the transactions.

Foreign exchange differences arising on the translation of foreign operations are recognised in other comprehensive income, and are included in the translation reserve within equity.

(t) Provisions and contingent liabilities

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of an outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of an outflow of economic benefits is remote.

The provision in respect of self-insured risks includes projected settlements for known claims and incurred but not reported claims.

NOTES (continued)

1 Significant accounting policies (continued)

(u) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

(v) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value of consideration received, less directly attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings on an effective interest rate basis. Directly attributable transaction costs are amortised to profit or loss on a straight-line basis over the applicable term of the loans and borrowings. This amortisation charge is recognised within finance costs. Commitment fees incurred in connection with loans and borrowings are expensed as incurred to profit or loss.

(w) Derivative financial instruments

The Group's borrowings expose it to the financial risks of changes in interest rates. The Group uses derivative financial instruments such as interest rate swap agreements and interest rate cap agreements to hedge these exposures.

Interest rate swaps partially convert the Group's sterling denominated borrowings from floating to fixed interest rates. The interest rate cap limits the exposure of the Group's Euro denominated borrowings to upward movements in floating interest rates. The Group does not use derivatives for trading or speculative purposes.

Derivative financial instruments are recognised at fair value on the date a derivative contract is entered into plus directly attributable transaction costs 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.

The full fair value of a hedging derivative is classified as a non-current asset or non-current liability if the remaining maturity of the hedged item is more than twelve months and as a current asset or current liability if the remaining maturity of the hedged item is less than twelve months.

The fair value of derivative instruments is determined by using valuation techniques. The Group uses its judgement to select the most appropriate valuation methods and makes assumptions that are mainly based on observable market conditions (Level 2 fair values) existing at the reporting date.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

NOTES

(continued)

1 Significant accounting policies (continued)

(x) Cash flow hedge accounting

For those derivatives designated as cash flow hedges and for which hedge accounting is desired, the hedging relationship is documented at its inception. This documentation identifies the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and its risk management objectives and strategy for undertaking the hedging transaction. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, the effective part of any gain or loss on the derivative financial instrument is recognised in other comprehensive income and accumulated in equity in the hedging reserve. Any ineffective portion is recognised immediately in profit or loss as finance income/costs. The amount accumulated in equity is retained in other comprehensive income and reclassified to profit or loss in the same period or periods during which the hedged item affects profit or loss.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting or the designation is revoked. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. However, if a hedged transaction is no longer anticipated to occur, the net cumulative gain or loss accumulated in equity is reclassified to profit or loss.

(y) Net investment hedges

Where relevant, the Group uses a net investment hedge, whereby the foreign currency exposure arising from a net investment in a foreign operation is hedged using borrowings held by the parent company that are denominated in the functional currency of the foreign operation.

Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a foreign operation are recognised directly in other comprehensive income in the foreign currency translation reserve, to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognised in profit or loss. When the hedged part of a net investment is disposed of, the associated cumulative amount in equity is reclassified to profit or loss.

NOTES (continued)

2 Operating segments

The segments are reported in accordance with IFRS 8 *Operating Segments*. The segment information is reported in the same way as it is reviewed and analysed internally by the chief operating decision makers, primarily the CEO, and Board of Directors.

The Group segments its leased and owned business by geographical region within which the hotels operate – Dublin, Regional Ireland and United Kingdom. These, together with managed hotels, comprise the Group's four reportable segments.

Dublin, Regional Ireland and United Kingdom segments:

These segments are concerned with hotels that are either owned or leased by the Group. The Group leases ten hotel buildings from property owners and is entitled to the benefits and carries the risks associated with operating these hotels. As at 31 December 2016, the Group also owns 23 hotels and has effective ownership of one further hotel which it operates. It also owns part of one of the other hotels which it operates.

At 31 December 2015, the Clarion Cork hotel was classified as an investment property as the Group did not operate the hotel. The Group acquired the leasehold interest as part of a wider acquisition (see note 10) during 2016. As a result, this hotel is now operated by the Group and the results of the hotel are included in the segmental analysis presented below for the year ended 31 December 2016.

The Group's revenue from leased and owned hotels is primarily derived from room sales and food and beverage sales in restaurants, bars and banqueting. The main costs arising are payroll, cost of goods for resale, other operating costs and, in the case of leased hotels rent paid to lessors.

Managed Hotels segment:

Under management agreements, the Group provides management services for third party hotel proprietors.

Revenue	2016 €'000	2015 €'000
Dublin	151,945	120,759
Regional Ireland	68,467	42,989
United Kingdom	67,498	58,370
Managed Hotels	2,641	3,555
Total revenue	290,551	225,673

Revenue for each of the geographical locations represents the operating revenue (room revenue, food and beverage revenue and other hotel revenue) from leased and owned hotels situated in (i) Dublin, (ii) the rest of the Republic of Ireland and (iii) the United Kingdom.

Revenue from managed hotels represents the fees and other income earned from services provided in relation to partner hotels which are not owned or leased by the Group.

NOTES

(continued)

2 Operating segments (continued)

	2016 €'000	2015 €'000
Segmental results – EBITDAR		
Dublin	72,992	53,754
Regional Ireland	18,170	9,695
United Kingdom	26,505	22,249
Managed Hotels	2,641	3,555
EBITDAR for reportable segments	120,308	89,253
Segmental results – EBITDA		
Dublin	53,472	39,262
Regional Ireland	16,231	7,734
United Kingdom	22,511	19,535
Managed Hotels	2,641	3,555
EBITDA for reportable segments	94,855	70,086
Reconciliation to results for the period		
Segmental results – EBITDA	94,855	70,086
Rental income	637	608
Central costs	(10,360)	(8,068)
Adjusted EBITDA	85,132	62,626
Impairment of goodwill	(10,325)	(199)
Acquisition-related costs	(2,671)	(15,802)
Stock exchange listing costs	(1,293)	–
Net revaluation movements through profit or loss	241	(1,576)
Net impact of Ballsbridge site sale	–	1,947
Group EBITDA	71,084	46,996
Depreciation of property, plant and equipment	(15,477)	(10,039)
Finance income	–	1,863
Finance costs	(11,496)	(10,363)
Profit before tax	44,111	28,457
Tax	(9,188)	(6,831)
Profit for the period	34,923	21,626

NOTES (continued)

2 Operating segments (continued)

Group EBITDA represents earnings before interest, tax, depreciation and amortisation.

Adjusted EBITDA is presented as an alternative performance measure to show the underlying operating performance of the Group excluding the effects of depreciation, revaluation movements, goodwill impairment and items considered by management to be non-recurring or unusual in nature. Acquisition costs have been excluded to give a more meaningful measure given the scale of acquisitions in 2015 and 2016. Consequently, adjusted EBITDA represents Group EBITDA before:

- Stock exchange listing costs and acquisition-related costs (note 3);
- Net revaluation movements through profit or loss;
- Loss on revaluation of property;
- Impairment of goodwill (note 11); and
- Net impact of the Ballsbridge site sale (see below).

In 2015, the line item ‘Net impact of Ballsbridge site sale’ represented a sales incentive fee of €2.1 million (note 4) receivable by the Group following the sale by the landlord in 2015 of the Ballsbridge Hotel, Clyde Court Hotel and their respective sites, less associated exit costs of €0.2 million.

The line item ‘Central costs’ includes costs of the Group’s central functions including operations support, technology, sales and marketing, human resources, finance, corporate services and business development.

‘Segmental results – EBITDA’ for Dublin, Regional Ireland and United Kingdom represents the ‘Adjusted EBITDA’ for each geographical location before central costs and excluding rental income. It is the net operational contribution of leased and owned hotels in each geographical location.

‘Segmental results – EBITDA and EBITDAR’ for managed hotels represents fees earned from services provided in relation to partner hotels. All of this activity is managed through Group central office and specific individual costs are not allocated to this segment.

‘Segmental results – EBITDAR’ for Dublin, Ireland Regional and United Kingdom represents ‘Segmental results – EBITDA’ before rent. For leased hotels, rent paid to lessors amounted to €25.5 million in 2016 (2015: €19.2 million).

Other geographical information

Revenue	2016			2015		
	Republic of Ireland €'000	United Kingdom €'000	Total €'000	Republic of Ireland €'000	United Kingdom €'000	Total €'000
Leased and owned hotels	220,412	67,498	287,910	163,748	58,370	222,118
Managed hotels	2,488	153	2,641	3,327	228	3,555
Total revenue	222,900	67,651	290,551	167,075	58,598	225,673

NOTES

(continued)

2 Operating segments (continued)

Other geographical information (continued)

	At 31 December 2016			At 31 December 2015		
	Republic of Ireland €'000	United Kingdom €'000	Total €'000	Republic of Ireland €'000	United Kingdom €'000	Total €'000
Assets and liabilities						
<i>Assets</i>						
Intangible assets and goodwill	41,588	12,679	54,267	28,875	17,928	46,803
Property, plant and equipment	575,782	246,662	822,444	365,198	243,594	608,792
Investment property	1,750	1,495	3,245	37,285	–	37,285
Other non-current assets	4,748	–	4,748	2,216	–	2,216
Current assets	88,169	10,602	98,771	155,194	7,084	162,278
Total assets excluding derivatives and tax assets	712,037	271,438	983,475	588,768	268,606	857,374
Derivatives			7			26
Deferred tax assets			1,894			3,936
Total assets			985,376			861,336
<i>Liabilities</i>						
Loans and borrowings	76,776	203,639	280,415	85,810	180,328	266,138
Trade and other payables	42,760	9,290	52,050	29,729	9,561	39,290
Total liabilities excluding provisions, derivatives and tax liabilities	119,536	212,929	332,465	115,539	189,889	305,428
Provisions			3,040			890
Derivatives			3,401			885
Current tax liabilities			1,037			978
Deferred tax liabilities			25,051			15,859
Total liabilities			364,994			324,040
Revaluation reserve	98,238	9,293	107,531	41,359	6,151	47,510

The above information on assets and liabilities and revaluation reserve is presented by country as it does not form part of the segmental information routinely reviewed by the chief operating decision makers.

Loans and borrowings are categorised according to their underlying currency. Loans and borrowings denominated in Sterling, which act as a net investment hedge, of €203.6 million (£174.4 million) at 31 December 2016 (2015: €180.3 million, (£132.4 million)) are classified as liabilities in the United Kingdom. Loans and borrowings denominated in Euro are classified as liabilities in the Republic of Ireland.

NOTES
(continued)

3 Statutory and other information

	2016 €'000	2015 €'000
Depreciation of property, plant and equipment	15,477	10,039
Impairment of goodwill	10,325	199
Operating lease rentals:		
Land and buildings	25,694	19,229
Acquisition-related costs	2,671	15,802
Main market listing costs	1,293	–
Auditor's remuneration		
Audit of Group, Company and subsidiary financial statements	290	270
Tax advisory and compliance services	420	406
Other non-audit services	266	335
	976	1,011
Directors' remuneration		
Salary and other emoluments	2,018	1,855
Fees	280	280
Pension contributions	82	76
	2,380	2,211

Acquisition-related costs for the year ended 31 December 2016 and 31 December 2015 include professional fees, stamp duty costs, redundancy and other costs associated with the business combinations outlined in note 10. Details of the acquisition-related costs charged to profit or loss in 2016 and 2015 are outlined below.

	2016 €'000	2015 €'000
Stamp duty incurred on acquisitions	1,336	11,098
Professional fees incurred on acquisitions	292	2,764
Integration costs	1,043	1,940
Acquisition-related costs	2,671	15,802

Integration costs comprise severance costs and certain other non-recurring costs directly related to business combinations including the acquisition of the Moran Bewley Hotel Group in February 2015 and the acquisition of the leasehold interest in four hotels from the Choice Hotel Group in March 2016 (note 10).

The audit of Group, Company and subsidiary financial statements fees are inclusive of the fees relating to the reviews of interim condensed consolidated financial statements for the six month periods ended 30 June. Auditor's remuneration for the audit of the Company financial statements was €10,000 (2015: €10,000).

The majority of the fees for tax compliance and advisory and non-audit services in 2016 and 2015 relate to the acquisition of new hotels including the acquisition of the Choice Hotel Group in March 2016, the acquisition of the Moran Bewley Hotel Group in February 2015, the related fundraising, the subsequent fundraising in October 2015 and the main market step up in June 2016.

Details of the Directors' remuneration and interests in conditional share awards are set out in the Annual Remuneration report on pages 86 to 93.

NOTES

(continued)

4 Other income

	2016 €'000	2015 €'000
Rental income from investment property	637	608
Impact of Ballsbridge site sale (note 2)	–	2,137
	637	2,745

Rental income includes €0.5 million (2015: €0.4 million) relating to the Clayton Hotel Cork City. The Group accounted for this hotel as an investment property from November 2015 to 11 March 2016 on which date the Group acquired the operating business as part of the Choice Group acquisition (note 10).

5 Finance income

	2016 €'000	2015 €'000
Interest income on bank deposits	–	6
Exchange gain on cash and cash equivalents	–	1,857
	–	1,863

6 Finance costs

	2016 €'000	2015 €'000
Interest expense on bank loans and borrowings	7,535	8,684
Cash flow hedges – reclassified from other comprehensive income	1,206	655
Other finance costs	1,778	1,024
Net exchange loss on loans and borrowings, cash and cash equivalents	977	–
	11,496	10,363

The Group uses interest rate swaps to convert the interest rate on part of its debt from floating rate to fixed rate (note 14). This cash flow hedge cost is shown separately within finance costs and represents the additional interest the Group paid under the interest rate swaps. Other finance costs includes the negative yield on cash held in money-market funds in line with the Group treasury policy, the amortisation of debt capitalised costs and commitment fees.

Exchange loss on loans and borrowings relates principally to loans which did not form part of the net investment hedge (note 23).

NOTES
(continued)

7 Personnel expenses

The average number of persons (full-time equivalents) employed by the Group (including executive directors), analysed by category, was as follows:

	2016 Number	2015 Number
Administration	358	260
Other	2,344	1,803
	2,702	2,063

	2016 Number	2015 Number
Full time equivalents split by geographical region was as follows:		
Dublin (including the Group's central functions)	1,291	1,033
Regional Ireland	855	541
United Kingdom	556	489
	2,702	2,063

	2016 €'000	2015 €'000
The aggregate payroll costs of these persons were as follows:		
Wages and salaries	74,084	58,778
Social welfare costs	7,021	5,477
Pension costs – defined contribution	686	528
Share-based payment expense	1,214	639
Severance costs	208	1,281
	83,213	66,703

8 Long-term incentive plan

Equity-settled share-based payment arrangements

During the year ended 31 December 2016, the Remuneration Committee of the Board of Directors approved the conditional grant of 639,911 ordinary shares pursuant to the terms and conditions of the Group's Long Term Incentive Plan. The award was for eligible service employees across the Group (59 in total) and vests over a three year service period from the grant date (3 March 2016). The number of awards which will ultimately vest will depend on the Group achieving targets relating to a Total Shareholder Return ('TSR') market condition as measured against a comparator peer group of companies over a 3 year performance period.

In relation to TSR performance, 25% of an award will vest for TSR performance equal to the median TSR return of the comparator peer group of companies over the performance period. 100% of an award shall vest for TSR performance equal to the 75th percentile or greater TSR return of the comparator group. Awards shall vest on a pro-rated basis for TSR performance falling between these thresholds. Further detail of the plans are set out in the Annual Remuneration Report on pages 86 to 93.

NOTES

(continued)

8 Long-term incentive plan (continued)

Summary of expense charged to profit or loss relating to awards granted at dates:

	March 2016 €'million	October 2015 €'million	March 2015 €'million	March 2014 €'million	Total €'million
Total expected cost of award	1.43	0.20	1.08	1.04	3.75
<i>Amount charged against profit for year ended:</i>					
31 December 2016	(0.4)	(0.06)	(0.35)	(0.35)	(1.16)
31 December 2015	–	(0.02)	(0.27)	(0.35)	(0.64)
31 December 2014	–	–	–	(0.30)	(0.30)
Total amount charged against profit	(0.4)	(0.08)	(0.62)	(1.0)	(2.1)
Remaining amount	1.03	0.12	0.46	0.04	1.65

The remaining amount will be charged to profit or loss in equal instalments over the remainder of the three year vesting period for each award.

	Number of share awards granted	
	2016	2015
Outstanding share awards granted at beginning of year	1,448,468	754,154
Share awards granted during the year	639,911	694,314
Outstanding share awards granted at end of year	2,088,379	1,448,468

Measurement of fair values

The fair value of the conditional share awards was measured using Monte Carlo simulation. Service conditions attached to the awards were not taken into account in measuring fair value. The valuation and key assumptions used in the measurement of the fair values at grant date were as follows:

	March 2016	October 2015	March 2015	March 2014
Fair value at grant date	€2.45	€2.43	€1.92	€1.49
Share price at grant date	€4.69	€4.27	€3.55	€2.50
Exercise price	€0.01	€0.01	€0.01	€0.01
Expected volatility	30.20% p.a.	26.40% p.a.	26.03% p.a.	35.29% p.a.
Dividend yield	1.5%	1.5%	1.5%	1.5%
Performance period	3 years	3 years	3 years	3 years

NOTES
(continued)

8 Long-term incentive plan (continued)

For measurement purposes, the dividend yield is based upon adjusted non-zero yields as though the Group was a zero-dividend yield company at these dates that may not be reflective over the longer term. This percentage is not in any way indicative of the expected dividend yield of the Group. This will be decided by the Board of Directors as appropriate.

Expected volatility was based on the historical volatility of the Company's share price for the 2016 award and the historical volatility of the share prices of the comparator group of companies for awards in prior periods.

During the year ended 31 December 2016, the Remuneration Committee of the Board of Directors approved the granting of share options under a Save As You Earn ('SAYE') scheme for all eligible employees across the Group. 379 employees availed of the scheme. The scheme will last three years and employees may choose to purchase shares at the end of the three year period at the fixed discounted price set at the start. The share price for the scheme has been set at a 25% discount for Republic of Ireland based employees and 20% for United Kingdom based employees in line with the maximum amount permitted under tax legislation in both jurisdictions.

The total expected cost of the SAYE scheme was estimated at €0.7 million over the three year service period of which €0.05 million has been charged against profit for the year ended 31 December 2016. This charge, together with the expense in respect of the long-term incentive plan for the year of €1.2 million is the total charge in respect of share-based payments, which has been recognised directly in equity. The remaining €0.65 million will be charged against profit or loss in equal instalments over the remainder of the three year vesting period.

	SAYE Scheme Number of share options granted 2016
Outstanding share options granted at beginning of year	–
Share options granted during the year	837,545
Outstanding share options granted at end of year	837,545

NOTES
(continued)

9 Tax charge

	2016 €'000	2015 €'000
Current tax		
Irish corporation tax	5,155	3,015
UK corporation tax	1,727	824
Over provision in respect of prior periods	(300)	(70)
	6,582	3,769
Deferred tax charge (note 22)	2,606	3,062
	9,188	6,831

The tax assessed for the year is higher than the standard rate of corporation tax in Ireland for the year. The differences are explained below:

	2016 €'000	2015 €'000
Profit before tax	44,111	28,457
Tax on profit at standard Irish corporation tax rate of 12.5%	5,514	3,557
<i>Effects of:</i>		
Income taxed at a higher rate	782	543
Expenses not deductible for tax purposes	1,049	1,985
Impairment of goodwill not deductible for tax purposes	1,291	25
Overseas income taxed at higher rate	919	753
Losses utilised at higher rate	(795)	(432)
Over provision in respect of current tax in prior periods	(300)	(70)
Under provision in respect of deferred tax in prior periods	185	–
Other differences	543	470
	9,188	6,831

Reductions in the UK corporation tax rate to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were enacted on 26 October 2015. Finance Bill 2016 further reduced the 18% rate to 17% from 1 April 2020, following substantial enactment on 6 September 2016. Together this will reduce the Group's future tax charges accordingly. The deferred tax assets and liabilities arising in the UK at 31 December 2016 have been calculated based on the rate of 17% (2015: 18%) substantively enacted at the balance sheet date. The effect of this change in rate is a reduction in net deferred tax liabilities by €0.03 million (€0.58 million at 18% compared to €0.55 million at 17%).

NOTES (continued)

10 Business combinations

Acquisition of Choice Hotel Group

On 11 March 2016, the Group completed the acquisition of the leasehold interests in four hotels from the Choice Hotel Group for a consideration of €38.9 million, as a result of which the Group directly operates the hotel businesses in these properties. The transaction increases the scale of the Group and strengthens its position in these locations.

The hotel leasehold interests acquired were as follows:

- The Gibson Hotel Dublin;
- The Clarion Hotel Limerick, now trading as Clayton Hotel Limerick;
- The Clarion Hotel Cork, now trading as Clayton Hotel Cork City; and
- The Croydon Park Hotel, Croydon, UK.

	11 March 2016 Fair Value €'000
Recognised amounts of identifiable assets acquired and liabilities assumed:	
<i>Non-current assets</i>	
Property, plant and equipment	14,001
Intangible assets (note 11)	29,400
<i>Current assets</i>	
Inventories	223
Trade and other receivables	2,509
Cash	1,121
<i>Non-current liabilities</i>	
Provisions	(300)
Deferred tax liability	(2,562)
<i>Current liabilities</i>	
Trade and other payables	(5,469)
Total identifiable net assets	38,923
Total consideration	38,923
Satisfied by:	
Cash	38,923

The acquisition method of accounting has been used to consolidate the businesses acquired in the Group's financial statements.

No goodwill has been recognised on acquisition as the fair value of the net assets acquired equated to the consideration paid. Intangible assets acquired as part of this acquisition are disclosed in note 11 to these financial statements.

Acquisition-related costs of €1.3 million were charged to administrative expenses in profit or loss.

The Group previously purchased the freehold of the Clarion Hotel Cork, now trading as Clayton Hotel Cork City, in a separate transaction in November 2015 and this was accounted for as an investment property in the financial statements for the year ended 31 December 2015. As a result of the acquisition of the leasehold interest subsequently in March 2016, this property was transferred to property, plant and equipment during the year (notes 12 and 13).

NOTES

(continued)

10 Business combinations (continued)

In a separate transaction to this business combination, the Group purchased the freehold of the Clarion Hotel Limerick, now trading as Clayton Hotel Limerick, in June 2016 for €8.7 million (note 12). As a result, the intangible asset which represented the value of the leasehold interest acquired as part of the business combination was transferred from intangible assets to property, plant and equipment during the year (note 11 and note 12).

Acquisition of Tara Towers Hotel, Dublin

On 15 January 2016, the Group acquired full ownership of the property and business of Tara Towers Hotel, Dublin for a total cash consideration of €13.2 million. The fair value of the identifiable assets and liabilities acquired related to hotel property (land and buildings) of €13.2 million. The fair value of fixtures, fittings and equipment and net working capital assets was minimal. No goodwill arose on this acquisition.

Acquisition of Clarion Hotel, Sligo

On 18 March 2016, the Group acquired full ownership of the property and business of the Clarion Hotel Sligo, now trading as Clayton Hotel Sligo, for a total cash consideration of €12.8 million. The Group had been managing the property on behalf of an appointed receiver since April 2013. The fair value of the identifiable assets and liabilities acquired was: hotel property (land and buildings) €12.9 million, fixtures, fittings and equipment €0.2 million and net working capital liabilities of €0.3 million. No goodwill arose on this acquisition.

Impact of new acquisitions on trading performance

The post-acquisition impact of acquisitions completed during 2016 on the Group's profit for the financial year ended 31 December 2016 were as follows:

	Choice Hotel Group €'million	Tara Towers, Dublin €'million	Clarion Hotel, Sligo €'million	2016 €'million
Revenue	34.9	3.1	5.3	43.3
Profit before tax and acquisition-related costs	5.4	0.7	0.7	6.8

If the acquisitions had occurred at 1 January 2016, the acquisitions would have contributed the following to the consolidated results of the Group:

	Choice Hotel Group €'million	Tara Towers, Dublin €'million	Clarion Hotel, Sligo €'million	2016 €'million
Revenue	41.4	3.1	6.2	50.7
Profit before tax and acquisition-related costs*	7.0	0.7	0.8	8.5

*This assumes that the Group also owned the freehold of the Clarion Hotel Limerick, now trading as Clayton Hotel Limerick, which was acquired separately on 10 June 2016, for the full period.

NOTES
(continued)

10 Business combinations (continued)

Prior year acquisitions

Acquisition of Moran Bewley Hotel Group

On 3 February 2015, the Group completed the acquisition of nine hotels from the Moran Bewley Hotel Group for a consideration of €452.3 million. The transaction significantly increased the scale and geographical reach of the Group. The nine hotels acquired were as follows:

- Bewley’s Hotel Ballsbridge, Dublin, now trading as Clayton Hotel Ballsbridge;
- Bewley’s Hotel Dublin Airport, now trading as Clayton Hotel Dublin Airport;
- Bewley’s Hotel, Leopardstown, Dublin, now trading as Clayton Hotel Leopardstown;
- Bewley’s Hotel, Newlands Cross, Dublin, now trading as Maldron Hotel Newlands Cross;
- Silver Springs Moran Hotel, Cork, now trading as Clayton Hotel Silver Springs;
- Bewley’s Hotel Manchester Airport, now trading as Clayton Hotel Manchester Airport;
- Bewley’s Hotel Leeds, now trading as Clayton Hotel Leeds;
- Crown Moran Hotel, London, now trading as Clayton Crown Hotel; and
- Chiswick Moran Hotel London, now trading as Clayton Hotel Chiswick.

During 2015, the Group also acquired full ownership of the property and business of the following hotels:

- Clayton Hotel, Galway: acquired 21 January 2015;
- Whites Hotel, Wexford (now trading as Clayton Whites Hotel, Wexford): acquired 13 February 2015;
- Pillo Hotel, Galway (now trading as Maldron Hotel Sandy Road, Galway): acquired 13 February 2015; and
- Holiday Inn, Belfast (now trading as Clayton Hotel Belfast): acquired 24 March 2015.

The goodwill arising on the acquisitions is attributable to expected profitability and revenue growth, increased market share, and the synergies expected to arise within the Group after acquisition.

	Moran Bewley Hotel Group €'million	Clayton Hotel, Galway €'million	Whites Hotel, Wexford €'million	Pillo Hotel, Galway €'million	Holiday Inn, Belfast €'million
Hotel property (land and buildings)	419.1	16.0	13.3	8.0	20.7
Fixtures, fittings and equipment	6.1	0.4	0.4	0.2	0.4
Investment properties	–	–	–	0.6	–
Net deferred tax liabilities	(2.0)	–	–	–	–
Net working capital assets/(liabilities)	(3.1)	0.1	(0.2)	(0.1)	0.6
Total identifiable assets	420.1	16.5	13.5	8.7	21.7
Goodwill	32.2	0.1	1.5	1.8	4.0
Total consideration	452.3	16.6	15.0	10.5	25.7
Satisfied by:					
Cash	418.7	16.6	15.0	10.5	25.7
Issue of 12.2 million ordinary shares at €2.75 per share	33.6	–	–	–	–
	452.3	16.6	15.0	10.5	25.7

NOTES
(continued)

11 Intangible assets and goodwill

	Goodwill €'000	Other indefinite- lived intangible assets €'000	Total €'000
Cost			
Balance at 1 January 2015	42,258	–	42,258
Acquisitions through business combinations (see note 10)	39,557	–	39,557
Effect of movements in exchange rates	379	–	379
Balance at 31 December 2015	82,194	–	82,194
Balance at 1 January 2016	82,194	–	82,194
Acquisitions through business combinations (see note 10)	–	29,400	29,400
Transferred to property, plant and equipment (note 12)	–	(8,900)	(8,900)
Effect of movements in exchange rates	(2,711)	–	(2,711)
Balance at 31 December 2016	79,483	20,500	99,983
Impairment losses			
Balance at 1 January 2015	(35,192)	–	(35,192)
Impairment loss during the year	(199)	–	(199)
Balance at 31 December 2015	(35,391)	–	(35,391)
Balance at 1 January 2016	(35,391)	–	(35,391)
Impairment loss during the year	(10,325)	–	(10,325)
Balance at 31 December 2016	(45,716)	–	(45,716)
Carrying amounts			
At 1 January 2015	7,066	–	7,066
At 31 December 2015	46,803	–	46,803
At 31 December 2016	33,767	20,500	54,267

NOTES (continued)

11 Intangible assets and goodwill (continued)

Goodwill

Goodwill is attributable to factors including expected profitability and revenue growth, increased market share, increased geographical presence, the opportunity to develop the Group's brands and the synergies expected to arise within the Group after acquisition.

Additions to goodwill of €39.6 million in 2015 relate to the acquisition of the Moran Bewley Hotel Group (€32.2m), Clayton Hotel Galway (€0.1m), Whites Hotel Wexford (€1.5m), Pillo Hotel Galway (€1.8m) and Holiday Inn Belfast (€4.0m) (see note 10).

During 2016, following revaluation gains increasing the carrying value of assets an element of goodwill was impaired on eight of the Group's cash-generating units (CGUs) which resulted in a €10.3 million reduction in goodwill which was charged to profit or loss.

In 2007, the Group acquired a number of Irish hotel operations for consideration of €41.5 million. The goodwill arising represented the excess of costs and consideration over the fair value of the identifiable assets less liabilities acquired and amounted to €42.1 million. That goodwill was subsequently impaired in 2009 and the carrying value of that goodwill at the beginning and end of the year amounted to €6.9 million.

Included in the goodwill figure is €12.7 million (£10.9 million) which is attributable to goodwill arising on acquisition of foreign operations. Consequently, such goodwill is subsequently retranslated at the closing rate. The retranslation at year end resulted in a foreign currency translation loss of €2.7 million and a corresponding decrease in goodwill. The comparative year end translation for the year ended 31 December 2015 resulted in an increase to goodwill of €0.4 million.

	Number of Cash-Generating Units at 31 December		
	2016	2016	2015
Carrying amount of goodwill allocated		€'000	€'000
Moran Bewley Hotel Group (i)	7	24,886	32,563
Other acquisitions (i)	3	2,014	7,373
2007 Irish hotel operations acquired (ii)	4	6,867	6,867
		33,767	46,803

The above table represents the number of CGUs to which goodwill was allocated at 31 December 2016, subsequent to the impairment of goodwill which was recognised during the year of €10.3 million.

NOTES

(continued)

11 Intangible assets and goodwill (continued)

Annual goodwill testing

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. Due to the Group's policy of revaluation of land and buildings, and the allocation of goodwill to individual cash generating units, impairment of goodwill can occur as the Group realises the profit and revenue growth and synergies which underpinned the goodwill. As these materialise, these are revaluation gains to the carrying value of the property and consequently, elements of goodwill may be required to be written off if the carrying value of the cash-generating unit (which includes revalued property and allocated goodwill) exceeds its recoverable amount on a value in use basis. The impairment of goodwill is through profit or loss though the revaluation gains are taken to reserves through other comprehensive income.

Future under-performance in any of the Group's major cash-generating units may result in a material write-down of goodwill which would have a substantial impact on the Group's income and equity.

(i) Moran Bewley group and other single asset acquisitions

For the purposes of impairment testing, goodwill has been allocated to each of the hotels acquired as CGUs. As these hotel properties are valued annually by independent external valuers, the recoverable amount of the CGUs is based on a fair value less costs of disposal estimate, or where this value is less than carrying value of the asset, a value in use calculation is prepared.

At 31 December 2016, the recoverable amount of eleven CGUs were based on value in use, determined by discounting the future cash flows generated from the continuing use of these hotels. The value in use estimates were based on the following key assumptions:

- Cash flow projections are based on current operating results and budgeted forecasts prepared by management covering a ten year period. This period was chosen due to the nature of the hotel assets and corresponds to the valuation basis used by independent external property valuers when performing their hotel valuations (note 12);
- Revenue and EBITDA for the first year of the projections is based on budgeted figures for 2017. Budgeted revenue and EBITDA are based on expectations of future outcomes taking into account past experience, adjusted for anticipated revenue growth;
- Cash flow projections conservatively assume a long term compound annual growth rate of 2% in EBITDA for assets in the Republic of Ireland and 2.5% for assets in the United Kingdom;
- Cash flows include an average annual capital outlay on maintenance for the hotels dependent on the condition of the hotel or typically 4% of revenues but assume no enhancements to any property;
- The value in use calculations also include a terminal value based on terminal (Year 10) capitalisation rates consistent with those used by the external property valuers which incorporates a long term growth rate of 2% for Irish and 2.5% for UK properties; and
- The cash flows are discounted using a risk adjusted discount rate specific to each property which ranged from 8.75% to 11.75% (Ireland: 9.50% to 11.75%; UK: 8.75% to 11.50%). The discount rates were consistent with the external property valuers.

The values applied to each of these key assumptions are derived from a combination of internal and external factors based on historical experience and taking into account the stability of cash flows typically associated with these factors.

Costs of acquisition of a willing buyer which are factored in by external valuers when calculating the fair value price of the asset are significant for these assets (Ireland 4.46%, UK 6.8%). This is a key difference between the value in use calculations and valuations prepared by external valuers.

NOTES (continued)

11 Intangible assets and goodwill (continued)

At 31 December 2016, the recoverable amount was deemed lower than the carrying amount of the CGUs for eight of the eleven CGUs tested. Consequently, goodwill was impaired by €10.3 million. The carrying values of the CGUs were based on their value in use. The total impairment of €10.3 million is comprised as follows:

	Number of Cash- Generating Units	Recoverable amount €'000	Impairment recognised €'000
Moran Bewley Hotel Group	5	369,308	5,550
Other acquisitions	3	48,725	4,775
		418,033	10,325

The recoverable amounts stated above relate only to CGUs which were impaired during the year. The impairment recognised which amounted to €10.3 million is analysed by geographical segment as follows:

	2016 €'000	2015 €'000
Dublin	5,050	–
Regional Ireland	2,615	–
United Kingdom	2,660	199
	10,325	199

(ii) 2007 Irish hotel operations acquired

For the purposes of impairment testing, goodwill has been allocated to each of the cash-generating units (CGUs) representing the Irish hotel operations acquired in 2007. Eight hotels were acquired at that time but only four of these hotels have goodwill associated with them. As two of these hotel properties which have since been acquired are valued annually by independent external valuers, the recoverable amount of the CGU is based on a fair value less costs of disposal estimate. Where this value is less than the carrying value of the asset, a value in use calculation is prepared. The recoverable amounts of the remaining CGUs are calculated based on value in use calculations. Value in use is determined by discounting the future cash flows generated from the continuing use of these hotels. The assumptions underpinning these value in use calculations were as follows:

- Cash flow projections are based on current operating results and budgeted forecasts prepared by management covering a ten year period;
- Revenue for the first year of the projections is based on budgeted figures for 2017;
- Cash flow projections assume a long term compound annual growth rate of 2% in EBITDA;
- Cash flows include an average annual capital outlay on maintenance for the hotels of 4% of revenues but assume no enhancements to any property;
- The value in use calculations also include a terminal value based on an industry earnings multiple model which incorporates a long term growth rate of 2%; and
- The cash flows are discounted using a risk adjusted discount rate specific to each property which ranged from 10.50% to 11.0%. The discount rates used were consistent with similar hotels valued by external property valuers.

NOTES

(continued)

11 Intangible assets and goodwill (continued)

The values applied to each of these key assumptions are derived from a combination of internal and external factors based on historical experience and taking into account the stability of cash flows typically associated with these factors.

At 31 December 2016, the recoverable amount was determined to be significantly higher than the carrying amount of the group of CGUs. There is no reasonably foreseeable change in assumptions that would impact adversely on the carrying value of this goodwill. The Directors concluded that the carrying value of this goodwill is not impaired at 31 December 2016.

Key sources of estimation uncertainty

The key assumptions used in estimating the future cash flows in the impairment test are subjective and include projected EBITDA (as defined in note 2), discount rates and the duration of the discounted cash flow model. Expected future cash flows are inherently uncertain and therefore liable to change materially over time.

Other indefinite-lived intangible assets

Acquired leasehold interests

Other indefinite-lived intangible assets represent the intangible value of the leasehold interests acquired as part of the Choice Hotel Group business combination which completed in March 2016 (note 10). These assets also reflect the future economic benefits which are expected to flow to the Group arising from the acquisition of these interests.

On acquisition of these leasehold interests, intangible assets were recognised at their fair value and amounted to €29.4 million. Arising from the subsequent purchase by the Group of the freehold interest in the Clarion Hotel Limerick (now trading as the Clayton Hotel Limerick), in June 2016, an intangible asset, with a carrying value of €8.9 million, which represented the value of the leasehold interest previously acquired in the Clayton Hotel Limerick, was transferred from intangible assets to property, plant and equipment (note 12).

The carrying value of €20.5 million at 31 December 2016 represents the leasehold interest in The Gibson Hotel and is recognised as an asset with an indefinite life based upon the intentions of the Group for the long term operation of the business of this hotel and the statutory renewal rights which exist in Ireland to the benefit of the lessee. The Group tests intangible assets annually for impairment or more frequently if there are indicators it may be impaired.

At 31 December 2016, the recoverable amount of the CGU (The Gibson Hotel) was based on value in use, determined by discounting the future cash flows generated from the operation of this hotel by the Group. This value in use estimate was based on the following key assumptions:

- Cash flow projections are based on current operating results and budgeted forecasts prepared by management covering a ten-year period. This period was chosen as it corresponds to the valuation basis used by independent external property valuers when performing their hotel valuations (note 12) for similar properties;
- Revenue and EBITDA for the first year of the projections is based on budgeted figures for 2017. Budgeted revenue and EBITDA are based on expectations of future outcomes taking into account past experience, adjusted for anticipated revenue growth;
- Cash flow projections conservatively assume a long-term compound annual growth rate of 2% in EBITDA;
- Cash flows include an average annual capital outlay of 4% of revenues but assume no enhancements to the property;
- The value in use calculation also includes a terminal value based on an industry earnings multiple model which incorporates a long-term growth rate of 2%; and
- The cash flows are discounted using a risk adjusted discount rate specific to the property of 10.5%. This discount rate was consistent with discount rates used by the external property valuers in valuing similar properties.

The values applied to each of these key assumptions are derived from a combination of internal and external factors based on historical experience and taking into account the stability of cash flows typically associated with these factors.

At 31 December 2016, the recoverable amount was determined to be higher than the carrying amount of the CGU. There is no reasonably foreseeable change in assumptions that would impact adversely on the carrying value of intangible assets. The directors concluded that the carrying value of intangible assets is not impaired at 31 December 2016.

NOTES
(continued)

12 Property, plant and equipment

	Land and buildings €'000	Assets under construction €'000	Fixtures, fittings and equipment €'000	Total €'000
At 31 December 2016				
Valuation	744,611	–	–	744,611
Cost	–	42,865	50,205	93,070
Accumulated depreciation (and impairment charges)*	–	–	(15,237)	(15,237)
Net carrying amount	744,611	42,865	34,968	822,444
At 1 January 2016, net carrying amount	585,101	–	23,691	608,792
Acquisitions through business combinations	38,195	–	2,071	40,266
Other additions through freehold or site purchases	42,715	39,868	–	82,583
Transfers from intangible assets (note 10)	8,900	–	–	8,900
Other additions through capital expenditure	7,228	3,043	18,211	28,482
Transfer from investment properties (note 13)	36,032	–	–	36,032
Revaluation gain through OCI	67,901	–	–	67,901
Revaluation loss through OCI	(1,498)	–	–	(1,498)
Reversal of revaluation loss through profit or loss	988	–	–	988
Revaluation loss through profit or loss	(1,244)	–	–	(1,244)
Depreciation charge for the year	(7,489)	–	(7,988)	(15,477)
Translation adjustment	(32,218)	(46)	(1,017)	(33,281)
At 31 December 2016, net carrying amount	744,611	42,865	34,968	822,444

The equivalent disclosure for the prior year is as follows:

At 31 December 2015				
Valuation	585,101	–	–	585,101
Cost	–	–	31,173	31,173
Accumulated depreciation (and impairment charges)	–	–	(7,482)	(7,482)
Net carrying amount	585,101	–	23,691	608,792
At 1 January 2015, net carrying amount	46,709	–	5,585	52,294
Acquisitions through business combinations	477,081	–	7,875	484,956
Other additions	16,644	–	14,275	30,919
Disposals	–	–	(240)	(240)
Elimination of depreciation on disposal	–	–	233	233
Revaluation gain through OCI	46,567	–	–	46,567
Revaluation loss through profit or loss	(1,131)	–	–	(1,131)
Depreciation charge for the year	(5,905)	–	(4,134)	(10,039)
Translation adjustment	5,136	–	97	5,233
At 31 December 2015, net carrying amount	585,101	–	23,691	608,792

*Accumulated depreciation of buildings is stated after the elimination of depreciation, revaluation, disposals and impairments.

NOTES

(continued)

12 Property, plant and equipment (continued)

The carrying value of land and buildings is stated after the elimination of depreciation on revaluation.

The carrying value of land and buildings (revalued at 31 December 2016) is €744.6 million. The value of these assets under the cost model is €621.0 million. In 2016, unrealised revaluation gains of €67.9 million and unrealised losses of €1.5 million have been reflected through other comprehensive income and in the revaluation reserve in equity. A revaluation loss of €1.2 million and a reversal of prior period revaluation losses of €1.0 million have been reflected in administrative expenses through profit or loss.

Included in land and buildings at 31 December 2016 is land at a carrying value of €124.7 million (2015: €101.6 million) which is not depreciated.

Acquisitions through business combinations in the year ended 31 December 2016 includes the following:

- Clarion Hotel Sligo (see note 10);
- Tara Towers Hotel Dublin (see note 10); and
- Property, plant and equipment relating to the acquisition of the Choice Hotel Group (see note 10).

On the basis that the acquisition of the Clarion Hotel Cork leasehold interest as part of the Choice Hotel Group business combination represents an underlying increase in the fair value of the hotel, this acquisition has been accounted for as an addition to property, plant and equipment during the year of €12.2 million.

Other additions to land and buildings in the year ended 31 December 2016 include extensions to certain properties and the purchase of the following properties where the Group was already operating a hotel business:

- Freehold of Clayton Hotel Cardiff for €25.7 million (£23.0 million);
- Freehold of Clarion Hotel Limerick for €8.7 million; and
- Freehold of Maldron Hotel Cork for €8.3 million.

These amounts are inclusive of costs incurred in relation to the acquisition.

Additions to assets under construction in the year ended 31 December 2016 include the following:

- Development site at Charlemont Mall, Dublin 2 for €12.1 million;
- Part completed hotel at Beasley Street, Cork for €10.5 million;
- Development site at Kevin Street, Dublin for €8.3 million;
- Development site Brunswick Street, Belfast for €3.9 million (£3.3 million); and
- Adjacent site to Maldron Hotel Parnell Square for €5.1 million acquired with a view to extending that hotel.

The Group operates the Maldron Hotel Limerick and, since the acquisition of Fonteyn Property Holdings Limited in 2013, holds a secured loan over that property. The loan is not expected to be repaid. Accordingly, the Group has the risks and rewards of ownership and accounts for the hotel as an owned property, reflecting the substance of the arrangement. It is expected that the Group will obtain legal title to the property.

The value of the Group's property at 31 December 2016 reflects open market valuations carried out in December 2016 by independent external valuers having appropriate recognised professional qualifications and recent experience in the location and value of the property being valued. The external valuations performed were in accordance with the Valuation Standards of the Royal Institution of Chartered Surveyors.

At 31 December 2016, properties included within land and buildings with a carrying amount of €744.6 million were pledged as security for loans and borrowings.

NOTES (continued)

12 Property, plant and equipment (continued)

Measurement of fair value

The fair value measurement of the Group's own-use property has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

The principal valuation technique used in the independent external valuations was discounted cash flows. This valuation model considers the present value of net cash flows to be generated from the property over a ten year period (with an assumed terminal value at the end of Year 10) taking into account expected EBITDA and capital expenditure. The expected net cash flows are discounted using risk adjusted discount rates. Among other factors, the discount rate estimation considers the quality of the property and its location.

The significant unobservable inputs are:

- Forecast EBITDA;
- Risk adjusted discount rates of 8.50% to 12.00% (Ireland: 8.50% to 12.00%; UK: 8.50% to 11.75%) (Years 1-10); and
- Terminal (Year 10) capitalisation rates of 6.00% to 10.00% (Ireland: 6.50% to 10.00%; UK: 6.00% to 9.25%).

The estimated fair value under this valuation model would increase or decrease if:

- EBITDA was higher or lower than expected; and/or
- The risk adjusted discount rate and terminal capitalisation rate was lower or higher.

Valuations also had regard to relevant recent data on hotel sales activity metrics.

13 Investment property

Cost or valuation	2016 €'000	2015 €'000
At beginning of period	37,285	1,248
Transfer to property, plant and equipment (note 12)	(36,032)	–
Acquisitions through business combinations	1,431	585
Other additions – cost	–	35,098
Capitalised transaction costs	–	799
Gain/(loss) from fair value adjustments	497	(445)
Translation adjustment	64	–
	3,245	37,285

Investment properties with a carrying value of €3.2 million were pledged as security for loans and borrowings at 31 December 2016. Gains or losses arising from fair value adjustments are included within administrative expenses.

NOTES

(continued)

13 Investment property (continued)

Investment property comprises:

- Two commercial properties which were acquired on 29 August 2014 as part of the Maldron Hotel Pearse Street acquisition. The investment properties are leased to third parties for lease terms of 25 and 30 years, with 14 and 10 years remaining;
- Commercial properties which were acquired on 13 February 2015 as part of the Pillo Hotel Galway acquisition. The investment properties are leased to third parties for lease terms of 20 years, with 15 years remaining and a break clause in two years; and
- A commercial property acquired as part of the acquisition of the freehold of Clayton Hotel Cardiff on 26 October 2016. The restaurant of this hotel is leased to a third party for a lease term of 20 years, with 16 years remaining.

The freehold interest in the Clarion Hotel Cork was acquired on 2 November 2015 for a total cash consideration of €35.1m plus direct transaction costs of €0.8m. As at 31 December 2015, this investment property was leased to a third party for a lease term of 35 years, with 24 years remaining. On 11 March 2016, the Group acquired the leasehold interest of the Clarion Cork hotel as part of a wider Choice Hotel Group acquisition (see note 10) and became the operator of that hotel. Consequently, this property was transferred to property, plant and equipment in the financial statements for the year ended 31 December 2016.

Changes in fair values are recognised in administrative expenses in profit or loss.

The value of the Group's investment properties at 31 December 2016 reflect an open market valuation carried out in December 2016 by independent external valuers having appropriately recognised professional qualifications and recent experience in the location and category of property being valued. The valuations performed were in accordance with the Valuation Standards of the Royal Institution of Chartered Surveyors.

The fair value measurement of the Group's investment property has been categorised as Level 3 fair value based on the inputs to the valuation technique used.

The valuation technique adopted is the investment method of valuation. This method is based on a review of the current passing rent, open market rent and comparable investment sales. The valuations use a yield specific to each property and ranged from 6.8% to 11.5% (2015: 6.5%).

The estimated fair value under this valuation model would increase or decrease if:

- Rent was higher or lower than expected; or
- The yield used as the capitalisation rate was higher or lower.

NOTES

(continued)

14 Derivatives

In June 2015, the Group entered into interest rate swaps and a cap agreement with a syndicate of financial institutions in order to manage the interest rate risks arising from the Group's borrowings (see note 23).

Interest rate swaps are employed by the Group to partially convert the Group's borrowings from floating to fixed interest rates. An interest rate cap is employed to limit the exposure to upward movements in floating interest rates. The terms of the derivatives are as follows:

- Interest rate swaps with a maturity date of 3 February 2020, covering approximately 58% of the Group's sterling denominated borrowings at 31 December 2016. These swaps fix the Libor benchmark rate to 1.5025%; and
- Interest rate cap with a maturity date of 30 September 2019, covering approximately 38% of the Group's euro denominated borrowings at 31 December 2016. The cap limits the Group's maximum Euribor benchmark rate to 0.25%.

All derivatives have been designated as hedging instruments for the purposes of IAS 39.

Fair value	2016 €'000	2015 €'000
<i>Non-current</i>		
Interest rate cap asset	7	26
Total derivative asset	7	26
<i>Non-current</i>		
Interest rate swap liabilities	(3,401)	(885)
Total derivative liability	(3,401)	(885)
Net derivative financial instrument position at year-end	(3,394)	(859)

Included in other comprehensive income	2016 €'000	2015 €'000
<i>Fair value losses on derivative instruments</i>		
Fair value loss on interest rate swap liabilities	(3,723)	(1,540)
Fair value loss on interest rate cap asset	(17)	(130)
	(3,740)	(1,670)
Reclassified to profit or loss (note 6)	1,206	655
	(2,534)	(1,015)

The amount reclassified to profit or loss during the period represents the incremental interest expense arising under the interest rate swaps with actual Libor rates lower than the swap rate.

NOTES

(continued)

15 Trade and other receivables

	2016 €'000	2015 €'000
Non-current assets		
Other receivables	900	900
Deposits paid on acquisitions	1,024	1,316
Prepayments	2,824	–
	4,748	2,216
Current assets		
Trade receivables	7,823	6,001
Prepayments	5,266	3,315
Accrued income	2,785	2,458
	15,874	11,774
Total	20,622	13,990

Other receivables include a non-current deposit required as part of a hotel property lease contract. The deposit is interest-bearing and refundable at the end of the lease term.

At 31 December 2016, non-current assets include deposits paid for potential acquisitions. The balance at 31 December 2015 relates to a deposit of €1.3 million paid for the acquisition of the Tara Towers Hotel Dublin which completed on 15 January 2016 (note 10).

Included within non-current prepayments is an amount of €2.4 million relating to costs incurred by the Group as a result of entering into a new lease at the former Double Tree by Hilton Hotel, which is now trading as Clayton Hotel Burlington Road, on 22 November 2016. The Group incurred legal and professional fees in addition to an up-front payment to secure the lease. These costs will be amortised on a straight-line basis over the 25 year life of the lease. Also included within non current prepayments is an amount relating to a prepayment made for IT services relating to 2018.

NOTES
(continued)

15 Trade and other receivables (continued)

The Group has detailed procedures for monitoring and managing the credit risk related to trade receivables. Trade receivables are monitored by review of aged debtor reports by management. The aged analysis of trade receivables at the reporting date was as follows:

Aged analysis of trade receivables

	Gross receivables 2016 €'000	Impairment provision 2016 €'000	Net receivables 2016 €'000
Not past due	3,485	(5)	3,480
Past due < 30 days	2,365	–	2,365
Past due 30 – 60 days	812	(4)	808
Past due 60 – 90 days	83	(18)	65
Past due > 90 days	1,247	(142)	1,105
	7,992	(169)	7,823

	Gross receivables 2015 €'000	Impairment provision 2015 €'000	Net receivables 2015 €'000
Not past due	2,542	(87)	2,455
Past due < 30 days	1,902	(4)	1,898
Past due 30 – 60 days	693	(4)	689
Past due 60 – 90 days	453	(18)	435
Past due > 90 days	863	(339)	524
	6,453	(452)	6,001

Management does not expect any significant losses from receivables that have not been provided for as shown above.

NOTES

(continued)

16 Inventories

	2016 €'000	2015 €'000
Goods for resale	1,488	1,070
Consumable stores	329	279
	1,817	1,349

Inventories recognised as cost of sales during the year amounted to €23.8 million (2015: €20.8 million).

17 Cash and cash equivalents

	2016 €'000	2015 €'000
Cash at bank and in hand	49,601	25,202
Money-market funds	31,479	123,953
	81,080	149,155

18 Capital and reserves

Share capital and share premium

At 31 December 2016 and 2015

Authorised share capital	Number	€'000
Ordinary shares of €0.01 each	10,000,000,000	100,000

Allotted, called-up and fully paid shares	Number	€'000
Ordinary shares of €0.01 each	182,966,666	1,830
Share premium		503,113

All ordinary shares rank equally with regard to the Company's residual assets.

On 3 February 2015, the Company issued 18.3 million ordinary shares at €2.75 each which raised €48.6 million after costs of €1.7 million. 12.2 million of these shares with a value of €33.6 million were issued in a Vendor Placing, as consideration for the acquisition of the nine hotels within the Moran Bewley Hotel Group (see note 10).

On 6 October 2015, the Company issued 42.7 million ordinary shares for cash at €3.75 each which raised €153.6 million after costs of €6.4 million. The purpose of the fundraising was to raise finance for further hotel acquisitions, capital expenditure on existing hotels and potential new hotel developments.

NOTES (continued)

18 Capital and reserves (continued)

Following changes arising from the application of Companies Act 2014, expenses in relation to shares issued after 1 June 2015 must be charged to retained earnings, which will have a subsequent restriction on distributable reserves. Therefore, the costs relating to the October 2015 issue of €6.4 million were charged to retained earnings in 2015.

Nature and purpose of reserves

(a) Capital contribution and merger reserve

As part of a Group reorganisation in 2014, the Company became the ultimate parent entity of the then existing Group, when it acquired 100% of the issued share capital of DHGL Limited in exchange for the issue of 9,500 ordinary shares of €0.01 each. By doing so, it also indirectly acquired the 100% shareholdings previously held by DHGL Limited in each of its subsidiaries. As part of that reorganisation, shareholder loan note obligations (including accrued interest) of DHGL Limited were assumed by the Company as part of the consideration paid for the equity shares in DHGL Limited.

The fair value of the Group (as then headed by DHGL Limited) at that date was estimated at €40 million. The fair value of the shareholder loan note obligations assumed by the Company as part of the acquisition was €29.7 million and the fair value of the shares issued by the Company in the share exchange was €10.3 million.

The difference between the carrying value of the shareholder loan note obligations (€55.4 million) prior to the reorganisation and their fair value (€29.7 million) at that date represents a contribution from shareholders of €25.7 million which has been credited to a separate capital contribution reserve. Subsequently, all shareholder loan note obligations were settled in 2014 in exchange for shares issued in the Company.

The insertion of Dalata Hotel Group plc as the new holding company of DHGL Limited did not meet the definition of a business combination under IFRS 3 *Business Combinations*, and, as a consequence, the acquired assets and liabilities of DHGL Limited and its subsidiaries continued to be carried in the consolidated financial statements at their respective carrying values as at the date of the reorganisation. The consolidated financial statements of Dalata Hotel Group plc were prepared on the basis that the Company is a continuation of DHGL Limited, reflecting the substance of the arrangement.

As a consequence, an additional merger reserve of €10.3 million arose in the consolidated statement of financial position. This represents the difference between the consideration paid for DHGL Limited in the form of shares of the Company, and the issued share capital of DHGL Limited at the date of the reorganisation which was a nominal amount of €95.

(b) Share-based payment reserve

The share-based payment reserve comprises amounts equivalent to the cumulative cost of awards by the Group under equity-settled share-based payment arrangements. Details of the share awards are disclosed in note 8 of the financial statements and on page 91 of the Annual Remuneration report.

(c) Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges, net of deferred tax.

(d) Revaluation reserve

The revaluation reserve relates to the revaluation of land and buildings in line with the Group's policy to fair value these assets at each reporting date (see note 12), net of deferred tax.

(e) Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations, as well as the effective portion of any foreign currency differences arising from hedges of a net investment in a foreign operation (see note 23).

NOTES
(continued)

19 Trade and other payables

	2016 €'000	2015 Restated €'000
Trade payables	13,266	12,216
Accruals	28,785	20,679
Deferred income	6,954	3,091
Value added tax	1,422	1,894
Payroll taxes	1,623	1,410
	52,050	39,290

At 31 December 2015, the provision for insurance claims of €0.9m was included in accruals. However, during 2016 the provision has increased to a level that warrants separate presentation in the financial statements (see note 20). Prior year comparatives have been amended to reflect this reclassification from accruals to provisions.

20 Provision for liabilities

	2016 €'000	2015 Restated €'000
Insurance claims:		
Non-current	3,040	890
	3,040	890

Provisions for liabilities were classified as current in the financial statements for the year ended 31 December 2015 but have been reclassified to non-current in these financial statements.

The reconciliation of the movement in the provision for the year ended 31 December 2016 is as follows:

	€'000
At 1 January 2016	890
Provisions made during the year	2,040
Assumed in a business combination	300
Utilised during the year	(190)
At 31 December 2016	3,040

NOTES

(continued)

20 Provision for liabilities (continued)

This provision relates to actual and potential obligations arising from the Group's insurance arrangements where the Group is self-insured. The Group has third party insurance cover above specific limits for individual claims and has an overall maximum aggregate payable for all claims in any one year. The amount provided is principally based on projected settlements as determined by external loss adjusters. The provision also includes an estimate for incidents incurred but not yet reported which is reflective of the uncertainty arising as a result of the Group's operations and significant portfolio of hotels which it owns or operates.

The utilisation of the provision is dependent on the timing of settlement of the outstanding claims. However, based on past experience the Group expects that the claims which are provided for at 31 December 2016 will be paid over a period greater than one year. The provision has been discounted to reflect the time value of money though the effect is not significant.

Provisions assumed in a business combination relate to the acquisition of the Choice Hotel Group during the year (note 10).

21 Interest-bearing loans and borrowings

	2016 €'000	2015 €'000
<i>Repayable within one year</i>		
Bank borrowings	16,800	16,800
Less: deferred issue costs	(1,066)	(830)
	15,734	15,970
<i>Repayable after one year</i>		
Bank borrowings	266,936	252,728
Less: deferred issue costs	(2,255)	(2,560)
	264,681	250,168
Total interest-bearing loans and borrowings	280,415	266,138

Reconciliation of movement in net debt

	Sterling facility £'000	Sterling facility €'000	Euro facility €'000	Total €'000
<i>Interest-bearing loans and borrowings (excluding amortised debt costs)</i>				
At 1 January 2016	132,352	180,328	89,200	269,528
New facilities drawn down	42,000	49,910	7,697	57,607
Effect of foreign exchange	–	(26,599)	–	(26,599)
Capital repayment	–	–	(16,800)	(16,800)
At 31 December 2016	174,352	203,639	80,097	283,736
<i>Cash and cash equivalents</i>				
At 1 January 2016				149,155
Movement during the year				(68,075)
At 31 December 2016				81,080
Net debt at 31 December 2016				202,656
Net debt at 1 January 2016				120,373

NOTES

(continued)

21 Interest-bearing loans and borrowings (continued)

Net debt is calculated in line with the Group's loan facility agreements. As a result, at 31 December 2016 it excludes amortised debt costs of €3.3 million (2015: €3.4 million) and interest rate swap liabilities of €3.4 million (2015: €0.9 million).

On 17 December 2014, the Group entered into a multi-currency loan facility of €318 million (comprising of a €142 million Euro facility and a £132 million Sterling facility) with a syndicate of financial institutions. On 3 February 2015, the company drew down €282 million (comprising of a €106 million Euro facility and a £132 million Sterling facility) through five year term loan facilities with a maturity of 3 February 2020. The total loan facility of €318 million included a €20 million revolving credit facility and a standby facility of €16 million which was not drawn and has since expired.

On 6 May 2016, the Group entered into a new multi-currency loan facility of €80.0 million with a maturity date of 3 February 2020 and increased the revolving credit facility from €20.0 million to €30.0 million. On 9 June 2016 under this facility, the Group drew down £18.0 million (€22.9 million) and €7.7 million. On 24 October 2016, the Group drew down a further £24.0 million (€27.0 million).

The revolving credit facilities of €30.0 million were not drawn since entering the facility and remained undrawn as at 31 December 2016. €22.2 million of the other loan facilities were undrawn at 31 December 2016.

The loans bear interest at variable rates based on 3 month Euribor/Libor plus applicable margins. The Group has entered into certain derivative financial instruments to hedge interest rate exposure on a portion of these loans (see note 14). The 2016 actual weighted average interest rate paid including the impact of interest rate swaps was 3.25%. The loans are secured on the Group's hotel assets. Under the terms of the loan facility agreement, an interest rate floor is in place which prevents the Group from receiving the benefit of sub-zero benchmark Libor and Euribor rates.

22 Deferred tax

	2016 €'000	2015 €'000
Deferred tax assets	1,894	3,936
Deferred tax liabilities	(25,051)	(15,859)
Net liability	(23,157)	(11,923)
	2016 €'000	2015 €'000
Movements in year		
At beginning of year – net liability	(11,923)	(641)
Acquisition through business combination – assets	–	5,630
Acquisition through business combination – liabilities	(2,562)	(7,579)
Charge for year – to profit or loss (note 9)	(2,606)	(3,062)
Charge for year – to other comprehensive income	(6,066)	(6,271)
At end of year – net liability	(23,157)	(11,923)

NOTES
(continued)

22 Deferred tax (continued)

Deferred tax assets have only been recognised for losses that are expected to be used in the foreseeable future. As at 31 December 2016, there are unrecognised tax losses available in Pillo Hotels Limited of €0.3 million (2015: €0.3 million) which are not expected to be utilised against taxable profits of the company in future years. The tax effect of these losses is €0.04 million. Deferred tax arises from temporary differences relating to:

	Balance as at 31 December 2016						
	Net balance at 1 January 2016 €'000	Recognised in profit or loss 2016 €'000	Recognised in OCI 2016 €'000	Acquired in business combinations 2016 €'000	Net deferred tax 2016 €'000	Deferred tax assets 2016 €'000	Deferred tax liability 2016 €'000
Property, plant and equipment	(14,570)	(934)	(6,382)	–	(21,886)	603	(22,489)
Intangible assets	–	–	–	(2,562)	(2,562)	–	(2,562)
Tax losses carried forward	2,520	(1,672)	–	–	848	848	–
Other	127	–	316	–	443	443	–
Net deferred tax (liabilities)/assets	(11,923)	(2,606)	(6,066)	(2,562)	(23,157)	1,894	(25,051)

	Balance as at 31 December 2015						
	Net balance at 1 January 2015 €'000	Recognised in profit or loss 2015 €'000	Recognised in OCI 2015 €'000	Acquired in business combinations 2015 €'000	Net deferred tax 2015 €'000	Deferred tax assets 2015 €'000	Deferred tax liability 2015 €'000
Property, plant and equipment	(1,050)	(912)	(6,398)	(6,210)	(14,570)	1,289	(15,859)
Tax losses carried forward	355	(2,096)	–	4,261	2,520	2,520	–
Other	54	(54)	127	–	127	127	–
Net deferred tax (liabilities)/assets	(641)	(3,062)	(6,271)	(1,949)	(11,923)	3,936	(15,859)

NOTES

(continued)

23 Financial instruments and risk management

Risk exposures

The Group is exposed to various financial risks arising in the normal course of business. Its financial risk exposures are predominantly related to the creditworthiness of counterparties and risks relating to changes in interest rates and foreign currency.

The Group uses financial instruments throughout its business: interest-bearing loans and cash and cash equivalents are used to finance the Group's operations; trade and other receivables, trade payables and accruals arise directly from operations; and derivatives are used to manage interest rate risks and to achieve a desired profile of borrowings. The Group uses a net investment hedge with sterling denominated borrowings to hedge the translation risk from investments in certain UK operations. The Group does not trade in financial instruments.

The following tables show the carrying amount of Group financial assets and liabilities including their values in the fair value hierarchy for the year ended 31 December 2016. The tables do not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Financial assets measured at fair value 2016 €'000	Loans and receivables at amortised cost 2016 €'000	Total carrying amount 2016 €'000	Level 1 2016 €'000	Level 2 2016 €'000	Level 3 2016 €'000	Total 2016 €'000
Financial Assets							
Derivatives (note 14)	7	–	7		7		7
Trade and other receivables excluding prepayments and deposits paid on acquisitions (note 15)	–	11,508	11,508				
Cash at bank and in hand (note 17)	–	49,601	49,601				
Money-market funds (note 17)	31,479	–	31,479	31,479			31,479
	31,486	61,109	92,595				

	Financial liabilities measured at fair value 2016 €'000	Financial liabilities measured at amortised cost 2016 €'000	Total carrying amount 2016 €'000	Level 1 2016 €'000	Level 2 2016 €'000	Level 3 2016 €'000	Total 2016 €'000
Financial Liabilities							
Secured bank loans (note 21)	–	(280,415)	(280,415)		(280,415)		(280,415)
Trade payables and accruals (note 19)	–	(42,051)	(42,051)				
Derivatives (note 14)	(3,401)	–	(3,401)		(3,401)		(3,401)
	(3,401)	(322,466)	(325,867)				

NOTES (continued)

23 Financial instruments and risk management (continued)

The following tables show the carrying amount of Group financial assets and liabilities including their values in the fair value hierarchy for the year ended 31 December 2015. The tables do not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Financial assets measured at fair value 2015 €'000	Loans and receivables at amortised cost 2015 €'000	Total carrying amount 2015 €'000	Level 1 2015 €'000	Level 2 2015 €'000	Level 3 2015 €'000	Total 2015 €'000
Financial Assets							
Derivatives (note 14)	26	–	26		26		26
Trade and other receivables excluding prepayments and deposits paid on acquisitions (note 15)	–	9,359	9,359				
Cash at bank and in hand (note 17)	–	25,202	25,202				
Money-market funds (note 17)	123,953	–	123,953	123,953			123,953
	<u>123,979</u>	<u>34,561</u>	<u>158,540</u>				

	Financial liabilities measured at fair value 2015 €'000	Financial liabilities measured at amortised cost 2015 €'000	Total carrying amount 2015 €'000	Level 1 2015 €'000	Level 2 2015 €'000	Level 3 2015 €'000	Total 2015 €'000
Financial Liabilities							
Secured bank loans (note 21)	–	(266,138)	(266,138)		(266,138)		(266,138)
Trade payables and accruals (note 19)	–	(32,895)	(32,895)				
Derivatives (note 14)	(885)	–	(885)		(885)		(885)
	<u>(885)</u>	<u>(299,033)</u>	<u>(299,918)</u>				

NOTES

(continued)

23 Financial instruments and risk management (continued)

Fair value hierarchy

The Group measures the fair value of financial instruments based on the degree to which inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurements. Financial instruments are categorised by the type of valuation method used. The valuation methods are as follows.

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

Level 2: inputs other than quoted prices included within Level 1 that are observable for the financial instrument, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the financial instrument that are not based on observable market data (unobservable inputs).

The Group's policy is to recognise any transfers between levels of the fair value hierarchy as of the end of the reporting period during which the transfer occurred. During the period ended 31 December 2016, there were no reclassifications of financial instruments and no transfers between levels of the fair value hierarchy used in measuring the fair value of financial instruments.

Estimation of fair values

The principal methods and assumptions used in estimating the fair values of financial assets and liabilities are explained below.

Cash at bank and in hand

For cash at bank and in hand, the carrying value is deemed to reflect a reasonable approximation of fair value.

Money-market funds

Money-market funds are measured at fair value through profit or loss. Changes in fair value are recognised in finance costs (note 6). The fair value is based on quoted market prices at year-end.

Derivatives

Discounted cash flow analyses have been used to determine the fair value of the interest rate swaps and interest rate cap, taking into account current market inputs and rates (Level 2).

Receivables/payables

For the receivables and payables with a remaining term of less than one year or demand balances, the carrying value less impairment provision, where appropriate, is a reasonable approximation of fair value. The non-current receivables carrying value is a reasonable approximation of fair value.

Bank loans

For bank loans, the fair value was calculated based on the present value of the expected future principal and interest cash flows discounted at interest rates effective at the reporting date. The carrying value of variable rate interest-bearing loans and borrowings is equivalent to the fair value as there is no difference between current margins available in the market and the margins the group is paying.

NOTES

(continued)

23 Financial instruments and risk management (continued)

(a) Credit risk

Exposure to credit risk

Credit risk arises from granting credit to customers and from investing cash and cash equivalents with banks and financial institutions.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. There is no concentration of credit risk or dependence on individual customers. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Outstanding customer balances are regularly monitored and reviewed for indicators of impairment (evidence of financial difficulty of the customer or payment default). The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

The ageing profile of trade receivables at 31 December 2016 is provided in note 15. Management does not expect any significant losses from receivables that have not been provided for as shown in note 15.

Cash and cash equivalents

In addition to cash at bank and in hand, the Group holds significant cash balances in money-market funds with financial institutions. Cash and cash equivalents give rise to credit risk on the amounts due from counterparties. The maximum credit risk is represented by the carrying value at the reporting date. The Group's policy for investing cash is to limit risk of principal loss and to ensure the ultimate recovery of invested funds by limiting credit risk. The Group limits its exposure to credit risk on money-market funds by only investing in liquid securities which are held by counterparties which have AAA ratings from Standard & Poor's or equivalent credit ratings from other established rating agencies.

The carrying amount of the following financial assets represents the Group's maximum credit exposure. The maximum exposure to credit risk at year end was as follows:

	Carrying amount 2016 €'000	Carrying amount 2015 €'000
Trade receivables	7,823	6,001
Other receivables	900	900
Accrued income	2,785	2,458
Cash at bank and in hand	49,601	25,202
Money-market funds	31,479	123,953
	92,588	158,514

NOTES

(continued)

23 Financial instruments and risk management (continued)**(b) Liquidity risk**

The Group's approach to managing liquidity is to ensure as far as possible that it will always have sufficient liquidity to:

- Fund its ongoing activities;
- Allow it to invest in hotels that may create value for shareholders; and
- Maintain sufficient financial resources to mitigate against risks and unforeseen events.

The Group's treasury function ensures that sufficient resources are available to meet its liabilities as they fall due through a combination of cash and cash equivalents, cash flows and undrawn credit facilities.

On 6 May 2016, the Group improved its liquidity position by entering into a new multi-currency loan facility of €80 million (having a maturity date of 3 February 2020) and increasing its revolving credit facility from €20 million to €30 million.

On 9 June 2016, the Group drew down £18 million (€22.9 million) in Sterling and €7.7 million in Euro from the new facility.

On 24 October 2016, the Group drew down £24 million (€27.0 million) in Sterling.

The revolving credit facilities of €30 million and €22.2 million of other loan facilities were undrawn at 31 December 2016.

The following are the contractual maturities of the Group's financial liabilities at 31 December 2016, including estimated interest payments.

	Carrying Value 2016 €'000	Total 2016 €'000	6 months or less €'000	6 – 12 months €'000	1 – 2 years €'000	2 – 5 years €'000
Secured bank loans	(280,415)	(312,262)	(13,000)	(12,965)	(25,620)	(260,677)
Trade payables and accruals	(42,051)	(42,051)	(42,051)	–	–	–
Interest rate swaps	(3,401)	(3,438)	(662)	(631)	(1,158)	(987)
	(325,867)	(357,751)	(55,713)	(13,596)	(26,778)	(261,664)

The equivalent disclosure for the prior year is as follows:

	Carrying Value 2015 €'000	Total 2015 €'000	6 months or less €'000	6 – 12 months €'000	1 – 2 years €'000	2 – 5 years €'000
Secured bank loans	(266,138)	(309,843)	(13,585)	(13,553)	(26,814)	(255,891)
Trade payables and accruals	(32,895)	(32,895)	(32,895)	–	–	–
Interest rate swaps	(885)	(888)	(609)	(471)	(374)	566
	(299,918)	(343,626)	(47,089)	(14,024)	(27,188)	(255,325)

NOTES (continued)

23 Financial instruments and risk management (continued)

(c) Market risk

Market risk is the risk that changes in market prices and indices, such as interest rates and foreign exchange rates will affect the Group's income or the value of its holdings of financial instruments.

(i) Interest rate risk

The Group is exposed to floating interest rates on its debt obligations and uses hedging instruments to mitigate the risk associated with interest rate fluctuations. This is achieved by entering into interest rate swaps and an interest rate cap (see note 14) which hedge the variability in cash flows attributable to the interest rate risk.

The interest rate profile of the Group's interest-bearing financial liabilities as reported to the management of the Group is as follows:

	Nominal amount	
	2016 €'000	2015 €'000
Variable rate instruments		
Financial liabilities – borrowings	280,415	266,138
Effect of interest rate swaps	(118,550)	(138,293)
Effect of interest rate cap	(30,618)	(44,614)
	131,247	83,231

The weighted average interest rate for 2016 was 3.25% (2015: 3.82%), of which 2.43% (2015: 3.00%) related to margin.

The interest expense for 2016 has been sensitised in the below table for a reasonably possible change in variable interest rates. In relation to the downward sensitivity, the Group have used a zero benchmark interest rate as the lowest variable interest rate due to floors embedded in the loan facilities and as a result, the Group does not benefit from any reduction in benchmark rates below zero. For the upward sensitivity, the Group have reviewed five years historical data for the 3 month Euribor and 3 month Libor rates. Based on this historical data, the Group believe that a reasonable change in the rates would be an uplift in benchmark rates to the highest average rates for 3 month Euribor and 3 month Libor in that five year period which would have been rates of 1.1% for each. Based on the forward curves received at year end, the rates are not expected to reach this point. However, they have been used in this sensitivity to show the impact as a reasonably possible scenario. The impact on profit or loss is shown below. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

	2016 actual weighted average variable benchmark rate	If rate sensitised upwards	If rate sensitised downwards
Euribor	0%	0.72%	0%
Libor	1.20%	1.38%	1.05%

The rates above are the weighted average interest rates including the impact of hedging on both the hedged and unhedged portions of the underlying loans.

NOTES
(continued)

23 Financial instruments and risk management (continued)

(c) **Market risk** (continued)

Cash flow sensitivity analysis for variable rate instruments

	Effect on profit or loss	
	Increase in rate €'000	Zero variable rate €'000
31 December 2016		
(Increase)/decrease in interest on loans and borrowings	(971)	279
(Decrease)/increase in profit	(971)	279
	100 bp increase €'000	100 bp decrease €'000
31 December 2015		
(Increase)/decrease in interest on loans and borrowings	(1,624)	548
(Decrease)/increase in profit	(1,624)	548

The cash flow sensitivity analysis for the year ended 31 December 2016 has been prepared on a different basis to the prior period, which is reflective of revised information being used in preparing this analysis at 31 December 2016.

The following table indicates the periods in which the cash flows associated with the interest rate swaps are expected to occur and the carrying amounts of the related hedging instruments. The interest rate cap asset was not material at 31 December 2016.

	31 December 2016			
	Carrying amount €'000	Total €'000	12 months or less €'000	More than 1 year €'000
Interest rate swaps				
Liabilities	3,401	3,438	1,293	2,145
	3,401	3,438	1,293	2,145

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to impact profit or loss and the carrying amounts of the related hedging instruments:

	31 December 2016			
	Carrying amount €'000	Total €'000	12 months or less €'000	More than 1 year €'000
Interest rate swaps				
Liabilities	3,401	3,438	1,293	2,145
	3,401	3,438	1,293	2,145

NOTES (continued)

23 Financial instruments and risk management (continued)

(c) Market risk (continued)

(ii) Foreign currency risk

As per the Risk Management section of the annual report on pages 33 to 38, the Group is exposed to fluctuations in the Euro/Sterling rate.

The Group is exposed to transactional foreign currency risk on trading activities conducted by subsidiaries in currencies other than their functional currency and to translation foreign currency risk on the retranslation of foreign operations to euro.

Group policy is to manage foreign currency exposures commercially and through netting of exposures where possible. The Group's principal transactional exposure to foreign exchange risk relates to interest costs on its sterling borrowings. This risk is mitigated by the earnings from UK subsidiaries which are denominated in sterling.

The Group's gain or loss on retranslation of the net assets of foreign currency subsidiaries is taken directly to the translation reserve.

The Group limits its exposure to translation foreign currency risk by using sterling debt to hedge part of the Group's investment in UK subsidiaries. The Group financed certain operations in the UK acquired in 2015 and in 2016 by obtaining funding at Group level through external borrowings denominated in sterling. These borrowings amounted to £174.4 million (€203.6 million) at 31 December 2016 (2015: £132.4 million (€180.3 million)) and are designated as net investment hedges.

This enables gains and losses arising on retranslation of those foreign currency borrowings to be recognised in Other Comprehensive Income, providing a partial offset in reserves against the gains and losses arising on translation of the net assets of those UK operations.

Sensitivity analysis on transactional risk

The Group have reviewed the historical average monthly Euro/Sterling foreign exchange rates for the past eight years. Based on this data, the Group used the highest and lowest average monthly foreign exchange rates, of 0.92 and 0.66, respectively, in the below sensitivity analysis. Reflective of the current level of volatility in the market, market forecasts display a wide variation in foreign exchange rates which are broadly in line with the aforementioned range. The actual weighted average foreign exchange rate for interest expense in 2016 was 0.82. The interest cost on Sterling loans in 2016 was £5.37 million (€6.56 million).

	Profit		Equity	
	Strengthening of Euro €'000	Weakening of Euro €'000	Strengthening of Euro €'000	Weakening of Euro €'000
Impact on interest costs of sterling loans:				
Increase/(decrease) in profit/equity	723	(1,532)	723	(1,532)

NOTES

(continued)

23 Financial instruments and risk management (continued)

(d) Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The step-up to main market listings on the Irish and London Stock Exchanges during the year ended 31 December 2016 was a manifestation of this policy. Management monitors the return on capital to ordinary shareholders.

The Board of Directors seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. The Group's target is to achieve a pre-tax leveraged return on equity of at least 15% on investments.

The Group monitors capital using a ratio of net debt to EBITDA ratio calculated in accordance with the banking facilities agreements and seeks to keep it below 3.50. The calculation of the net debt to EBITDA ratio includes amendments required as per the bank facilities agreement to the EBITDA as disclosed in note 2 of the financial statements.

	2016 €'000	2015 €'000
Net debt to EBITDA ratio	2.40	1.63

24 Commitments

Operating leases

Non-cancellable operating lease rentals payable are set out below. These represent the minimum future lease payments in aggregate that the Group is required to make under existing lease arrangements.

	2016 €'000	2015 €'000
Less than one year	27,537	14,182
Between one and five years	105,305	49,192
After five years	474,935	212,986
	607,777	276,360

The significant increase since the year ended 31 December 2015 is due principally to the new lease entered into for the Clayton Hotel Burlington Road.

Under the terms of certain hotel operating leases, contingent rents are payable, in excess of minimum lease payments, based on the financial performance of the hotels. The amount of contingent rent expense charged to profit or loss in the year ended 31 December 2016 was €6.7 million (2015: €4.5 million).

NOTES (continued)

24 Commitments (continued)

Section 357 Companies Act 2014

Dalata Hotel Group plc, as the parent company of the Group and for the purposes of filing exemptions referred to in Section 357 of the Companies Act 2014, has entered into guarantees in relation to the liabilities of the Republic of Ireland registered subsidiary companies which are listed below.

- | | |
|--|---|
| <ul style="list-style-type: none"> – Suvanne Management Limited – Carasco Management Limited – Heartside Limited – Palaceglen Limited – Songdale Limited – Amelin Commercial Limited – DHG Burlington Road Limited – Dalata Support Services Limited – Bernara Commercial Limited – Adelka Limited – DS Charlemont Limited – DHG Barrington Limited – Vizmol Limited – Fonteyn Property Holdings No. 2 Limited – DHG Dalton Limited | <ul style="list-style-type: none"> – Candlevale Limited – DHG Arden Limited – Merzolt Limited – Pondglen Limited – Bayvan Limited – Lintal Commercial Limited – Dalata Management Services Limited – Pillo Hotels Limited – Loadbur Limited – DHG Cordin Limited – Leevlan Limited – Swintron Limited – Fonteyn Property Holdings Limited – DT Sussex Road Operations Limited – DHG Eden Limited |
|--|---|

Capital expenditure commitments

The Group has the following commitments for future capital expenditure under its contractual arrangements.

	2016 €'000	2015 €'000
Contracted but not provided for	77,099	2,237

The increase relates primarily to the development of the following sites which are now contractually committed: Charlemont, Dublin; Brunswick Street, Belfast; and Kevin Street, Dublin.

25 Stock Exchange listing

On 30 June 2016, the Company moved the listing of its entire issued share capital from the AIM market of the London Stock Exchange ('LSE') and the ESM market of the Irish Stock Exchange ('ISE') to the primary listing segment of the Official List of the ISE and the standard listing segment of the Official List of the UK Listing Authority and to trading on ISE's and the LSE's respective main markets for listed securities.

It is expected that these listings will further boost the Company's profile as well as potentially increasing the liquidity of trading in its securities enabling its ordinary shares to be acquired by a wider group of investors.

The Company did not raise any funds or issue any new shares in connection with admission. Accordingly, the interests of existing shareholders of the Company were not diluted or affected as a result of the move to the Official Lists. On admission there were 182,966,666 ordinary shares in issue.

NOTES

(continued)

26 Related party transactions

Under IAS 24, Related Party Disclosures, the Group has a related party relationship with shareholders and directors of the Company.

(a) Remuneration of key management

Key management is defined as the Directors of the Company. The compensation of key management personnel is set out in the Remuneration Committee report on pages 75 to 93. In addition, the share-based payment expense for key management in 2016 was €0.4 million (2015: €0.2 million).

(b) Transactions with related parties

A number of the executive Directors of the Group were also directors of Sanjay Limited and Citywest Resort Limited at 31 December 2016. The Group formerly operated a hotel management contract for Citywest Resort Limited (that company has now ceased trading) and Sanjay Limited.

During 2016, the Group received fees of €18,304 (2015: €337,198) from Sanjay Limited, and fees of €40,000 (2015: €130,000) from Citywest Resort Limited for management services provided to both companies. At 31 December 2016, the following amounts were owed in the normal course of business to the Group by these parties: Sanjay Limited €1,230 (2015: €198); Citywest Resort Limited €nil (2015: €110,700).

During 2016, the Group paid fees to Professional Granite Consulting Limited of €24,335 (2015: €nil) for sales and marketing services received. A non-executive director of the Group was also a director of Professional Granite Consulting Limited. At 31 December 2016, €21,166 (2015: €nil) was owed in the normal course of business by the Group to this company.

27 Subsequent events

There were no events subsequent to 31 December 2016 which would require an adjustment to or a disclosure thereon in these financial statements.

NOTES
(continued)

28 Subsidiary undertakings

A list of all subsidiary undertakings at 31 December 2016 is set out below:

Subsidiary undertaking	Country of Incorporation	Activity	Ownership	
			Direct	Indirect
DHGL Limited ¹	Ireland	Holding company	100%	–
Dalata Limited ¹	Ireland	Holding company	–	100%
Hanford Commercial Limited ¹	Ireland	Hotel and catering	–	100%
Anora Commercial Limited ¹	Ireland	Hotel and catering	–	100%
Ogwell Limited ¹	Ireland	Hotel and catering	–	100%
Caruso Limited ¹	Ireland	Hotel and catering	–	100%
CI Hotels Limited ¹	Ireland	Hotel and catering	–	100%
Dalata Management Services Limited ¹	Ireland	Hotel management	–	100%
Tulane Business Management Limited ¹	Ireland	Hotel and catering	–	100%
Dalata Support Services Limited ¹	Ireland	Hotel and hotel management	–	100%
Fonteyn Property Holdings Limited ¹	Ireland	Hotel and hotel management	–	100%
Fonteyn Property Holdings No. 2 Limited ¹	Ireland	Asset management	–	100%
Suvanne Management Limited ¹	Ireland	Hotel and catering	–	100%
Carasco Management Limited ¹	Ireland	Hotel and catering	–	100%
Amelin Commercial Limited ¹	Ireland	Hotel and catering	–	100%
Lintal Commercial Limited ¹	Ireland	Hotel and catering	–	100%
Bernara Commercial Limited ¹	Ireland	Property investment	–	100%
Pillo Hotels Limited ¹	Ireland	Management company	–	100%
Loadbur Limited ¹	Ireland	Property holding company	–	100%
Swintron Limited ¹	Ireland	Holding company	–	100%
Heartside Limited ¹	Ireland	Hotel and catering	–	100%
Pondglen Limited ¹	Ireland	Hotel and catering	–	100%
Candlevale Limited ¹	Ireland	Hotel and catering	–	100%
Songdale Limited ¹	Ireland	Hotel and catering	–	100%
Palaceglen Limited ¹	Ireland	Hotel and catering	–	100%
Adelka Limited ¹	Ireland	Property holding company	–	100%
Bayvan Limited ¹	Ireland	Hotel and catering	–	100%
Leevlan Limited ¹	Ireland	Property holding company	–	100%
DHG Arden Limited ¹	Ireland	Hotel and catering	–	100%
DHG Barrington Limited ¹	Ireland	Property holding company	–	100%
DHG Cordin Limited ¹	Ireland	Property holding company	–	100%
DS Charlemont Limited ¹	Ireland	Property holding company	–	100%
Cavernford DAC ¹	Ireland	Intermediate holding company	–	100%
Vizmol Limited ¹	Ireland	Intermediate holding company	–	100%
Sparrowdale Limited ¹	Ireland	Intermediate holding company	–	100%
Galsay Limited ¹	Ireland	Hotel and catering	–	100%
Merzolt Limited ¹	Ireland	Hotel and catering	–	100%
DHG Burlington Road Limited ¹	Ireland	Hotel and catering	–	100%
DT Sussex Road Operations Limited ¹	Ireland	Hotel and catering	–	100%
DHG Eden Limited ¹	Ireland	Hotel and catering	–	100%
DHG Dalton Limited ¹	Ireland	Hotel and catering	–	100%

¹ The registered address of these companies is 4th Floor, Burton Court, Burton Hall Drive, Sandyford, Dublin 18.

NOTES
(continued)

28 Subsidiary undertakings (continued)

Subsidiary undertaking	Country of Incorporation	Activity	Ownership	
			Direct	Indirect
DHG Belfast Limited ²	N Ireland	Hotel and catering	–	100%
DHG Derry Limited ²	N Ireland	Hotel and catering	–	100%
DHG Derry Commercial Limited ²	N Ireland	Property holding company	–	100%
DHG Brunswick Limited ²	N Ireland	Property holding company	–	100%
Dalata UK Limited ³	UK	Holding company	–	100%
Dalata Cardiff Limited ³	UK	Hotel and catering	–	100%
Trackdale Limited ³	UK	Hotel and catering	–	100%
Islandvale Limited ³	UK	Hotel and catering	–	100%
Crescentbrook Limited ³	UK	Hotel and catering	–	100%
Hallowridge Limited ³	UK	Hotel and catering	–	100%
Kasterlee UK Limited ³	UK	Hotel and catering	–	100%
Rush (Central) Limited ³	UK	Property holding company	–	100%
Cenan BV ⁴	Netherlands	Financing company	–	100%

² The registered address of these companies is Butcher Street, Londonderry, County Derry BT48 6HL, United Kingdom.

³ The registered address of these companies is St Mary Street, Cardiff, Wales, CF10 1GD, United Kingdom.

⁴ The registered address of this company is Jachthavenweg 109H, 1081 KM Amsterdam, The Netherlands

29 Earnings per share

Basic earnings per share is computed by dividing the profit for the year available to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share is computed by dividing the profit for the year by the weighted average number of ordinary shares outstanding and, when dilutive, adjusted for the effect of all potentially dilutive shares. The following table sets out the computation for basic and diluted earnings per share for the years ended 31 December 2016 and 31 December 2015:

	2016 €'000	2015 €'000
Profit attributable to shareholders of the parent (€'000) – basic and diluted	34,923	21,626
Adjusted profit attributable to shareholders of the parent (€'000) – basic and diluted	49,040	37,004
Earnings per share – Basic	19.09 cents	14.55 cents
Earnings per share – Diluted	18.93 cents	14.47 cents
Adjusted earnings per share – Diluted	26.58 cents	24.76 cents
Weighted average shares outstanding – Basic	182,966,666	148,648,310
Weighted average shares outstanding – Diluted	184,499,060	149,427,201

The difference between the basic and diluted weighted average shares outstanding for the year ended 31 December 2016 is due to the dilutive impact of the conditional share awards granted in 2014, 2015 and 2016 (see note 8).

Adjusted diluted earnings per share is presented as an alternative performance measure to show the underlying performance of the Group excluding the tax adjusted effects of revaluation movements, goodwill impairment and items considered by management to be non-recurring or unusual in nature (see note 2). Acquisition costs have been excluded to give a more meaningful measure given the scale of acquisitions in 2015 and 2016.

NOTES
(continued)

29 Earnings per share (continued)

	2016 €'000	2015 €'000
Reconciliation to adjusted profit for the year		
Profit before tax	44,111	28,457
Adjusting items (see note 2)		
Impairment of goodwill	10,325	199
Acquisition-related costs	2,671	15,802
Stock exchange listing costs	1,293	–
Net revaluation movements through profit or loss	(241)	1,576
Net impact of Ballsbridge site sale	–	(1,947)
Adjusted profit before tax	58,159	44,087
Tax	(9,188)	(6,831)
Tax adjustment for adjusting items	69	(252)
Adjusted profit for the year	49,040	37,004

30 Approval of the financial statements

The financial statements were approved by the Directors on 27 February 2017.

COMPANY FINANCIAL STATEMENTS

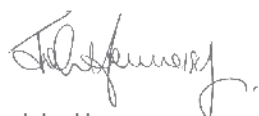
for the year ended 31 December 2016

COMPANY STATEMENT OF FINANCIAL POSITION

at 31 December 2016

	Note	2016 €'000	2015 €'000
Assets			
Non-current assets			
Investment in subsidiaries	2	41,350	40,557
Derivatives	7	7	26
Deferred tax asset		444	127
Total non-current assets		41,801	40,710
Current assets			
Trade and other receivables	3	281	468
Amounts owed by subsidiaries	4	700,450	584,367
Cash and cash equivalents	5	43,388	128,499
Total current assets		744,119	713,334
Total assets		785,920	754,044
Equity			
Share capital	8	1,830	1,830
Share premium	8	503,113	503,113
Share-based payment reserve		2,126	912
Hedging reserve		(3,106)	(888)
Retained earnings		(9,363)	(21,430)
Total equity		494,600	483,537
Liabilities			
Non-current liabilities			
Loans and borrowings	7	264,681	250,168
Derivatives	7	3,401	885
Total non-current liabilities		268,082	251,053
Current liabilities			
Loans and borrowings	7	15,734	15,970
Trade and other payables	6	7,504	3,484
Total current liabilities		23,238	19,454
Total liabilities		291,320	270,507
Total equity and liabilities		785,920	754,044

On behalf of the Board:



John Hennessy
Chairman



Patrick McCann
Director

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016

	Attributable to equity holders of the Company					Total €'000
	Share capital €'000	Share premium €'000	Share- based payment reserve €'000	Hedging reserve €'000	Retained earnings €'000	
At 1 January 2015	1,220	295,133	273	–	(1,509)	295,117
Comprehensive income:						
Loss for the year	–	–	–	–	(13,528)	(13,528)
Other comprehensive loss	–	–	–	(888)	–	(888)
Total comprehensive loss for the year	–	–	–	(888)	(13,528)	(14,416)
Transactions with owners of the Company:						
Issue of shares	610	209,716	–	–	–	210,326
Share issue costs	–	(1,736)	–	–	(6,393)	(8,129)
Equity-settled share-based payments	–	–	639	–	–	639
Total transactions with owners of the Company	610	207,980	639	–	(6,393)	202,836
At 31 December 2015	1,830	503,113	912	(888)	(21,430)	483,537
Profit for the year	–	–	–	–	12,067	12,067
Other comprehensive loss	–	–	–	(2,218)	–	(2,218)
Total comprehensive income for the year	–	–	–	(2,218)	12,067	9,849
Transactions with owners of the Company:						
Equity-settled share-based payments	–	–	1,214	–	–	1,214
Total transactions with owners of the Company	–	–	1,214	–	–	1,214
At 31 December 2016	1,830	503,113	2,126	(3,106)	(9,363)	494,600

Attributable profit or loss of the Company

The profit attributable to shareholders dealt with in the financial statements of the Company for the year ended 31 December 2016 was €12.1 million (2015: €13.5 million loss). As permitted by Section 304 of the Companies Act 2014, the statement of profit or loss and other comprehensive income for the Company has not been separately presented in these financial statements.

COMPANY STATEMENT OF CASH FLOWS

for the year ended 31 December 2016

	2016 €'000	2015 €'000
Cash flows from operating activities		
Profit/(loss) for the period	12,067	(13,528)
<i>Adjustments for:</i>		
Finance income	–	(1,863)
Finance costs	12,770	10,439
Foreign exchange (gain)/loss on borrowings	(26,599)	4,329
Share-based payment expense	419	242
	(1,343)	(381)
Increase/(decrease) in trade and other payables	4,020	(810)
Decrease in trade and other receivables	187	2,065
Tax refunded	–	4
Net cash from operating activities	2,864	878
Cash flows from investing activities		
Loans to subsidiaries	(118,398)	(500,527)
Interest received	–	6
Net cash used in investing activities	(118,398)	(500,521)
Cash flows from financing activities		
Interest and finance costs paid	(9,983)	(13,753)
Receipt of bank loans	57,607	282,000
Repayment of bank loans	(16,800)	(16,800)
Payment for derivative asset	–	(156)
Proceeds from issue of share capital, net of expenses	–	168,700
Net cash from financing activities	30,824	419,991
Net decrease in cash and cash equivalents	(84,710)	(79,652)
Cash and cash equivalents at the beginning of the period	128,499	206,422
Effect of movements in exchange rates	(401)	1,729
Cash and cash equivalents at the end of the period	43,388	128,499

NOTES TO THE COMPANY FINANCIAL STATEMENTS

forming part of the company financial statements

1 Significant accounting policies

The individual financial statements of the Company have been prepared in accordance with IFRS as adopted by the EU, and as applied in accordance with the Companies Act 2014.

Significant accounting policies specifically applicable to these individual Company financial statements and which are not reflected within the accounting policies for the Group financial statements are detailed below.

(a) Investments in subsidiaries

Investments in subsidiaries are accounted for in these individual Company financial statements on the basis of the direct equity interest, rather than on the basis of the reported results and net assets of investees. Investments in subsidiaries are carried at cost less impairment.

Share-based payments in respect of employees in subsidiaries are accounted for as an increase in the cost of investments in subsidiaries.

(b) Intra-group guarantees

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of companies within the Group, the Company considers these to be insurance arrangements and accounts for them as such. The Company treats the guarantee contract as a contingent liability until such time as it becomes probable that it will be required to make a payment under the guarantee.

2 Investments in subsidiaries

	2016 €'000	2015 €'000
Investments in subsidiaries at initial fair value	40,000	40,000
Accumulated cost of share-based payments in respect of subsidiaries	1,350	557
	41,350	40,557

Details of subsidiary undertakings are included in note 28 of the consolidated financial statements.

3 Trade and other receivables

	2016 €'000	2015 €'000
Prepayments	65	–
Value added tax	216	468
	281	468

NOTES
(continued)

4 Amounts owed by subsidiaries

	2016 €'000	2015 €'000
Amounts owed by subsidiaries	700,450	584,367
	700,450	584,367

Amounts owed by subsidiaries are non-interest bearing and are repayable on demand.

5 Cash and cash equivalents

	2016 €'000	2015 €'000
Cash at bank and in hand	11,909	4,546
Money-market funds	31,479	123,953
	43,388	128,499

6 Trade and other payables

	2016 €'000	2015 €'000
Trade payables	8	319
Accruals	2,210	1,397
Payroll taxes	63	58
Amounts due to subsidiary undertakings	5,223	1,710
	7,504	3,484

7 Loans and borrowings, and derivatives

Details of loans and borrowings, and derivative financial instruments, are given in notes 14, 21 and 23 of the consolidated financial statements.

Profit or loss for the Company includes the foreign exchange gain of €26.6 million (2015: €4.3 million loss) on the loans and borrowings which are accounted for through other comprehensive income in the consolidated financial statements.

NOTES

(continued)

8 Share capital and premium

At 31 December 2016 and 2015

Authorised Share Capital	Number	€'000
Ordinary shares of €0.01 each	10,000,000,000	100,000

Allotted, called-up and fully paid shares	Number	€'000
Ordinary shares of €0.01 each	182,966,666	1,830
Share premium		503,113

9 Financial instruments and risk management

Money-market funds (see note 5) are measured at fair value and are categorised as a Level 1 fair value.

The carrying value of the Company's other financial assets and liabilities are a reasonable approximation of their fair value.

Relevant disclosures on Group financial instruments and risk management are given in note 23 of the consolidated financial statements.

10 Company related party disclosures

Under IAS 24, Related Party Disclosures, the Company has related party relationships with directors of the Company, and with its subsidiary undertakings (see note 26 of the consolidated financial statements).

Remuneration of key management

Key management is defined as the directors of the Company. The compensation of key management personnel is set out in the Remuneration Committee report on pages 75 to 93 and note 26 of the consolidated financial statements.

Transactions with related parties

During the period ended 31 December 2016, the Company charged fees of €2.88 million (2015: €2.37 million) to its subsidiary undertakings for services provided.

NOTES
(continued)

11 Commitments

Section 357 Companies Act 2014

Dalata Hotel Group plc, as the parent company of the Group and for the purposes of filing exemptions referred to in Section 357 of the Companies Act 2014, has entered into guarantees in relation to the liabilities of Republic of Ireland registered subsidiary companies which are listed below.

- | | |
|---|--------------------------------------|
| - Suvanne Management Limited | - Candlevale Limited |
| - Carasco Management Limited | - DHG Arden Limited |
| - Heartside Limited | - Merzolt Limited |
| - Palaceglen Limited | - Pondglen Limited |
| - Songdale Limited | - Bayvan Limited |
| - Amelin Commercial Limited | - Lintal Commercial Limited |
| - DHG Burlington Road Limited | - Dalata Management Services Limited |
| - Dalata Support Services Limited | - Pillo Hotels Limited |
| - Bernara Commercial Limited | - Loadbur Limited |
| - Adelka Limited | - DHG Cordin Limited |
| - DS Charlemont Limited | - Leevlan Limited |
| - DHG Barrington Limited | - Swintron Limited |
| - Vizmol Limited | - Fonteyn Property Holdings Limited |
| - Fonteyn Property Holdings No. 2 Limited | - DT Sussex Road Operations Limited |
| - DHG Dalton Limited | - DHG Eden Limited |

Rent guarantee

The Company has undertaken to guarantee the obligations of its subsidiaries as follows at 31 December 2016: CI Hotels Limited in relation to the lease of the Maldron Hotel Portlaoise for a period of 30 years of which there are 19 years, 7 months remaining; DHG Burlington Road Limited in relation to the lease of the Clayton Hotel Burlington Road for a period of 25 years of which there are 24 years, 11 months remaining; and Dalata Cardiff Limited in relation to an agreement for a 35 year lease of a Maldron Hotel to be built in Newcastle, England.

12 Approval of the financial statements

The financial statements were approved by the Directors on 27 February 2017.

ADDITIONAL INFORMATION

Stockbrokers

Davy

Davy House
49 Dawson Street
Dublin 2
Ireland

Berenberg

60 Threadneedle Street
London
EC2R 8HP
United Kingdom

Solicitor

A&L Goodbody

IFSC
North Wall Quay
Dublin 1
Ireland

Auditor

KPMG

1 Stokes Place
St Stephen's Green
Dublin 2
Ireland

Investor Relations and PR

FTI Consulting

10 Merrion Square
Dublin 2
Ireland

Registrar

Computershare Investor Services (Ireland) Limited

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Ireland

Allied Irish Bank plc

Bankcentre
Ballsbridge
Dublin 4
Ireland

Bank of Ireland plc

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Burlington Road
Dublin 2
Ireland

Barclays Bank Ireland plc

Two Park Place
Hatch Street
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Ireland

SHAREHOLDER INFORMATION

**Company Secretary and
Registered Office**

Seán McKeon
Dalata Hotel Group plc
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Sandyford
Dublin 18

Registered Number
534888

Contact Details:
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Fax: 00353 1 206 9401

Company Website
www.dalatahotelgroup.com

GLOSSARY

Adjusted EBITDA

Non-GAAP measure representing earnings before rent, interest, tax, depreciation and amortisation adjusted for revaluation movements, goodwill impairment and other items considered by management to be non-recurring or unusual in nature. See note 2 to the consolidated financial statements

AIM

Alternative Investment Market of the London Stock Exchange (LSE)

ARR

Average Room Rate (also ADR – Average Daily Rate)

CGU

Cash Generating Unit (relating to impairment testing, see note 11 to the consolidated financial statements)

CGT

Capital Gains Tax

Diluted adjusted EPS

Non-GAAP measure representing EPS adjusted for the net of tax effects of revaluation movements, goodwill impairment and other items considered by management to be non-recurring or unusual in nature (see note 29 to the consolidated financial statements for calculation)

EBITDA

Non-GAAP measure representing earnings before interest, tax, depreciation and amortisation (see note 2 to the consolidated financial statements for calculation)

EBITDAR

Non-GAAP measure representing earnings before rent, interest, tax, depreciation and amortisation (see note 2 to the consolidated financial statements for calculation)

EPS

Earnings per share (see note 29 to the consolidated financial statements for calculation)

ESM

Emerging Securities Markets of the Irish Stock Exchange (ISE)

FY17

Financial year ending 31 December 2017

GM

General Manager

ICT

Information and Communications Technology

IFRS

International Financial Reporting Standards

IPO

Initial Public Offering (Dalata listed in March 2014)

LTIP

Long-Term Incentive Plan (see note 8 to the consolidated financial statements and the Remuneration Committee Report)

MAR

Market Abuse Regulation

NED

Non-Executive Director

OTA

Online Travel Agents

RevPAR

Revenue per available room (calculated as total rooms revenue divided by number of rooms available)

SID

Senior Independent Director

STR

Global hotel industry market research specialists

TSR

Total Shareholder Return

VAT

Value Added Tax (also known as Goods and Services Tax)

DALATA HOTEL GROUP PLC

ANNUAL REPORT AND ACCOUNTS 2016

Dalata Hotel Group PLC

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