

Delivering  
Our Promise

**Annual Report  
& Accounts**

2017



## At a Glance

38

Operating 38 Hotels

€348.5m

2017 Revenue

€104.9m

2017 Adjusted EBITDA



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No.1

Hotels Operator in Ireland

€1bn

in Hotel Assets

7,674

Hotel Rooms

10%

RevPar increase

4,326

Employees: Full-time & Casual



980

New Rooms expected  
in 2018

55

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## The Dalata Way

**We are a people business!**

**We create a culture dedicated to service excellence and fairness, where our people can contribute their individual talents to growing a sustainable business that manages its social and environmental impacts responsibly.**

**We continue to advance the wellbeing of the people we engage with, work with and serve.**

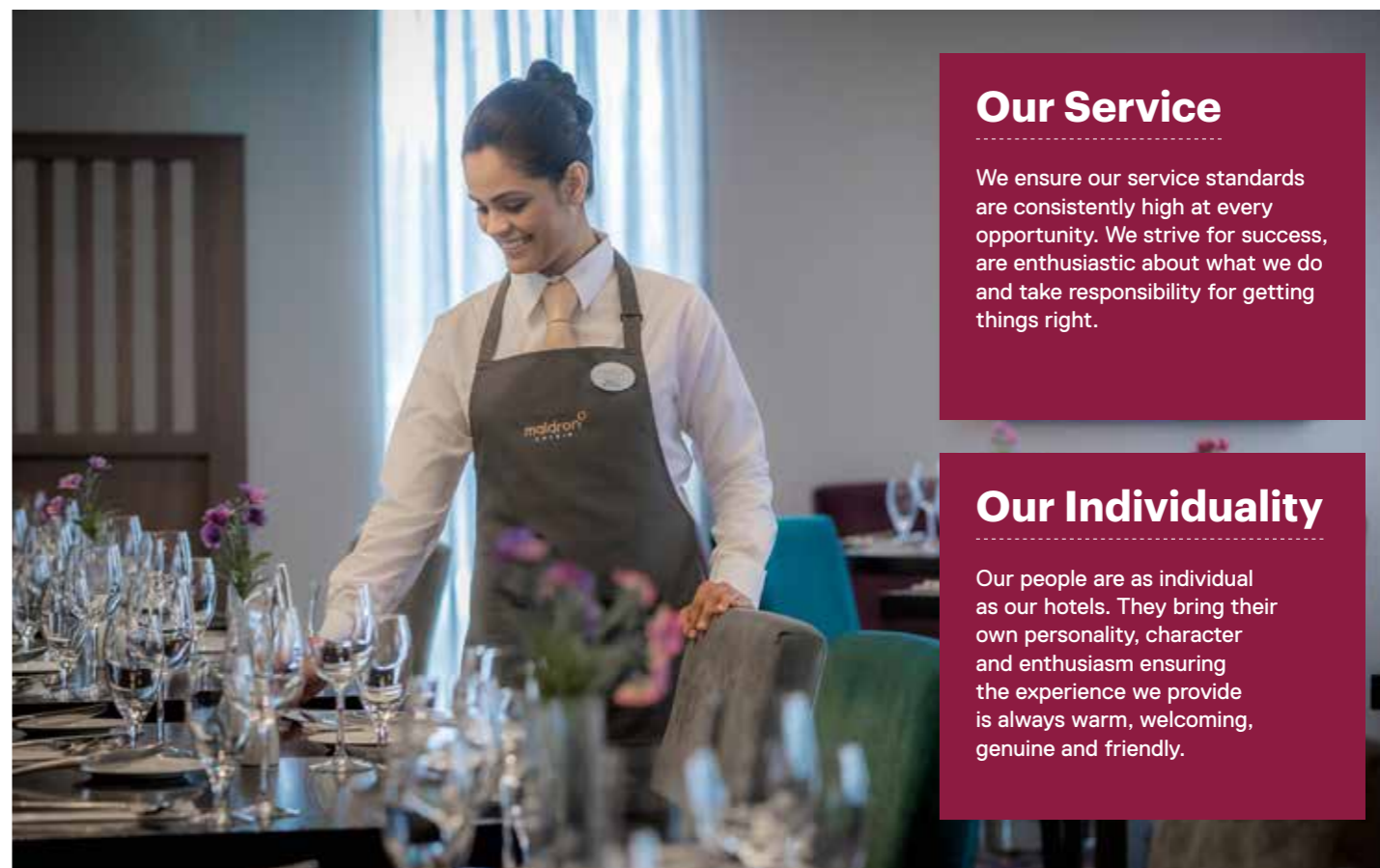


### Our People

Dalata is the place where you can do great things - individually and as a team. You will have the opportunity to develop your talent, be recognised and rewarded for your commitment and pursue a fulfilling career.

### Our Fairness

We pride ourselves on creating an objective, supportive and fair working environment for our employees, the people we deal with and the communities we work within.



### Our Service

We ensure our service standards are consistently high at every opportunity. We strive for success, are enthusiastic about what we do and take responsibility for getting things right.

### 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.

## Chairman's Statement



### Introduction

### Thank you for taking the time to read the annual report and accounts of Dalata Hotel Group plc for the 12 months ended 31 December 2017.

It is my pleasure to report that 2017 was a year of further growth and success for Dalata. During the year we added 265 rooms to our portfolio and continued our planned expansion in the UK. We also progressed the construction of new hotels on two sites in Dublin, one in Belfast and one in Cork. Meanwhile, assets acquired in 2016, including the Clayton Hotel, Burlington Road, have been integrated very successfully into the Group.

Although continued expansion of the Group, most immediately in the UK in the short term, remains a key priority for Dalata, we are first and foremost hotel operators. The acquisition and construction of hotel properties enables us to bring to the market our expertise and experience in operating hotels. Our aim is to deliver the best possible experience to all of our guests, and we do this through a combination of our culture and values, the experience and commitment of our people and the efficient use of systems and structures to support our business.

All of this has allowed us to deliver excellent financial performance in 2017. Total revenues in the business increased from €290.6 million in 2016 to €348.5 million in 2017, and our EBITDA climbed to €102.7 million in 2017 from €71.1 million in the previous year.

We ended the year with a strong balance sheet and with market capitalisation in excess of €1 billion. Further details of our financial performance can be found in the Financial Review on pages 26 to 35.

#### CULTURE AND VALUES

Dalata has grown quickly and profitably from small beginnings. This could only happen with the right culture and values in place in the organisation. Our culture is people-centred, with real decision-making power devolved to those responsible for the delivery of service to our guests. This allows our leaders to lead from the front, supported by strong and efficient services provided from the centre. We care about our

people, and we recruit, train, develop and motivate them to care about our guests, the communities in which we operate and the environment in which our properties are located. We listen carefully to feedback from our guests and our own people, obtained informally and formally through market and employee surveys, and we act on that feedback. Our goal is continuously to improve the experiences of our guests and our people.

#### PEOPLE

In response to our culture and values, our people continue to show exceptional talent, commitment and dedication, without which we would be unable to deliver the levels of growth and profitability we have achieved. At the end of 2017 Dalata employed 4,326 full-time and casual employees, and this figure continues to increase. Our training and management development programmes are designed to provide all of our people with the opportunity to grow with the organisation and to build satisfying and rewarding careers. On behalf of the Board, I would like to say thank you to all of our people for choosing to bring their skills and energy to the Group and for their consistent delivery of excellent service to our guests and to the organisation.

#### BOARD AND CORPORATE GOVERNANCE

Your Board comprises four non-executive directors and three executive directors, supported by Dalata's company secretarial team. Board members meet formally in Board committees and at Board meetings, and also less formally, to discuss issues affecting the business of the Group. The non-executive directors also meet as a group from time to time.

These communications address issues and transactions arising in the business, with a significant focus on the strategic direction of the business and on planning beyond the immediate future.

During 2017 an external evaluation of the performance of the Board was undertaken. The results were very positive, and recommendations arising have been incorporated into the work of the Board. The Group has continued to benefit from the extensive experience, knowledge and expertise of each member of our Board, and I would like to thank the Directors for their hard work and dedication during the year.

At Dalata we are firmly committed to maintaining the highest standards of corporate governance. Dalata seeks to comply with all requirements of the UK Corporate Governance Code 2016, 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.

#### DIVIDEND

We announced our intention to commence the payment of a dividend from 2018 onwards when we released our preliminary results for 2017. The Board will adopt a progressive dividend policy with the payout based on a percentage of profit after tax which is expected to be in the range of 20% to 30%. An interim dividend will be declared with the interim results in 2018. This announcement delivers on our promise to commence payment of dividends when the time is right.



Our culture is people-centred, with real decision-making power devolved to those responsible for the delivery of service to our guests.

#### OUTLOOK

The year 2017 was one of economic growth and falling unemployment in Ireland, together with continuing uncertainty around the political climates in the UK and the US, two very important markets for Irish tourism and for our business. Demand for hotel rooms in most of our markets, and especially in Dublin, has continued to grow. We continue to monitor and plan for events in our markets, while focusing on the delivery of excellent service to our guests and on the growth of the business. We remain confident that we will deliver further profitable growth in our business in the months ahead.

**John Hennessy**  
Non-Executive Chairman

## Pat's Review

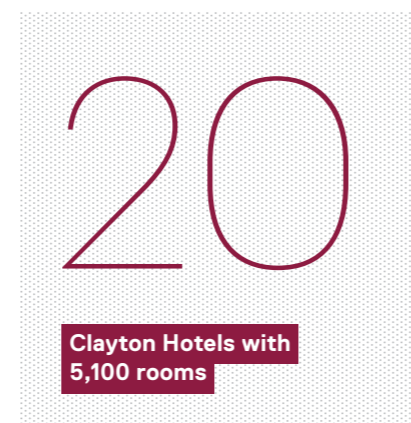


**There is an old saying “that time flies when you are having fun” – We must be having great craic in Dalata because time is just flying by. We celebrated our tenth birthday in August of 2017 and are starting our fifth year as a listed company. Since flotation we have seen dramatic changes in the company.**

In 2014 we had revenues of €79 million and adjusted EBITDA of €9 million. In 2017 we had revenues of €349 million and adjusted EBITDA of €105 million.

Over the past few years we put together a group of hotels that are well located, modern and well invested. We have developed two hotel brands that have significant traction particularly in the Irish market and are growing in the UK market. We have built really strong relationships with our key customers in all our locations. We have developed partnerships with our suppliers where they offer more than just product delivery. The most pleasing aspect of the last few years is the growth of our people. It is most rewarding to observe the large number of people that are growing up in Dalata. We now have foundations in place to continue building a long term sustainable business with excellent growth prospects.

2017 has seen a continuation of progress across all areas. There is great momentum in the business. You can sense the energy and the drive to improve and get things done. We know we have a long way to go and we cannot allow ourselves to become complacent in any way. It is so easy to become intoxicated with success and many organisations allow this to happen. In Dalata we are not great at celebrating success because we



know we have so much more to do. In 2017 we started the movement from acquisition to development and while we did complete some acquisitions in 2017 (Clayton Hotel Birmingham, Clayton Hotel Liffey Valley and Clayton Hotel Cardiff Lane, both in Dublin) we moved into a phase of new build with both extensions to existing hotels and new build hotels.

In Dalata we have the skillsets to do both acquisitions and develop new hotels and extensions. I am delighted that all our live building projects are on time and on budget. All of these projects will complete and open for business in 2018 with the exception of Maldron Hotel Newcastle which will open in early 2019 (there is a possibility Newcastle may open in 2018 but I am not promising that).

We are very focused on driving business in our existing portfolio of hotels. When a company is doing a lot of new development or acquisitions it is easy to lose focus on your current business. The way we are structured in Dalata means there is always someone “minding the shop”. We are currently building five new hotels and building four major extensions to existing hotels. This will add 980 new bedrooms to Dalata in 2018. We are also in planning for more hotels which will add an additional 1,000 plus bedrooms by 2020.

In Dalata we strongly believe in building our own brands which we will always remain in control of. We have built the two largest hotel brands ever to exist in Ireland with our Maldron and Clayton Hotels. We will continue to roll these out across key cities in the UK. Clayton Hotels are already performing well in the UK and we are looking forward to the opening of our new Maldron Hotel Newcastle. Both of these brands are continuing to build at pace.

We currently have:

- > 20 Clayton Hotels with 5,100 rooms
- > 13 Maldron Hotels with 1,757 rooms

By end of 2018 we will have:

- > 21 Clayton Hotels with 5,425 rooms
- > 17 Maldron Hotels with 2,552 rooms

We also have two Maldron Hotels in planning with 390 rooms and two Clayton Hotels in planning with 600 rooms. We are also developing a number of other brands in the company. There are three of these in existence today:

- > Grain and Grill
- > Club Vitae
- > Red Bean Roastery

Developing and controlling these ancillary brands in-house is key to maximising revenue and profitability in our ground floor operations. Grain and Grill is our food and beverage offering in our Maldron Hotels. We do not have a group branded food and beverage offering in our Clayton Hotels as each hotel has its own food and beverage offering.

Club Vitae is our leisure club brand. These clubs are attached to our hotels and attract outside paid membership but are free to hotel guests. Each has a fully equipped gym and swimming pool. We currently have 14 clubs and a total of 13,000 external members.

Red Bean Roastery is our coffee house brand. We have been rolling these out in each of our hotels over the past year. We currently have sixteen coffee docks in our Maldron and Clayton Hotels.

The roll out of another eighteen coffee docks will continue this year across existing hotels and will be in all new build hotels. All of this is a very clear strategy in Dalata to own and operate our own brands.



9

hotels in the pipeline plus

4

extensions with

2,234

rooms (including extensions)

5

hotels opening by Q1 2019 with

1,244

rooms (including extensions) and

4

hotels opening in 2020 with

990

rooms

When I meet with investors, I talk a lot about our people and growing our own. I also said as we open new hotels the senior teams will come internally. So this is a flavour of what's happening:

- > **Mike Gatt** moves from GM of Maldron Hotel Derry to open Maldron Hotel Belfast City. He is replaced by **Linda Folan**, Deputy GM of Clayton Hotel Leopardstown.
- > **Lynn Cawley** moves from Maldron Hotel Dublin Airport to open Clayton Hotel Charlemont. She is replaced by **Dara McEaney**, Deputy GM in Clayton Hotel Dublin Airport.
- > **Ann Marie Traynor** moves from GM Maldron Hotel Smithfield to open Maldron Hotel Kevin Street, she is replaced by **Patrick Cass** Deputy GM Maldron Hotel Parnell Square.
- > **Robert McCarthy** moves from GM Maldron Hotel Shandon Cork, he is replaced by **Tracy Newman** Deputy GM Clayton Hotel Silversprings Cork.
- > **Anna Wadcock** moves from GM Clayton Hotel Birmingham to Maldron Hotel Newcastle.

The result of these moves and others means that over one hundred people get promoted further enhancing the "grow your own" strategy. We have just completed our third employee survey. Overall I am reasonably happy with the results. However there are a number of areas which need our improvement. This will continue to be our focus this year. The survey is an excellent way of engaging with our people and gives us very clear guidance to the things we need to improve in this critical area.

I mentioned earlier how we are very focused on our customer engagement. It is relatively simple to engage with our large customers and we do a lot in this space. As always we need to do more. With our individual customers it is more difficult as in the new digital age you are not as close to your customer as

you would like. We have, however, developed a very robust system of customer feedback and this allows us to take corrective action in our product and service. Part of the General Managers bonus is based on performance in this area. I am comfortable with the progress we are making here. We will continue our efforts on constant improvement.

This year we will have seen the introduction of MIFID II. This will change the way we engage with our shareholders. In Dalata we believe in very open accessible engagement with our shareholders. In November 2017, we had a very successful Capital Markets Day in London. We also encourage our shareholders to visit our business and get to understand what we are about. We also believe that access to the CEO and Deputy CEO's is very important.



This page: Red Bean Roastery

Opposite: Grain & Grill Restaurant, Maldron Hotel Portlaoise



While this is time consuming we believe it is the correct way to ensure our message gets out there. We visit many shareholders and attend many investment conferences each year. For an organisation the size of Dalata we believe we can cover a lot of ground and this will not change.

Each year that I have written the piece for the annual report I say that the coming year will be one of great opportunities for Dalata, well this year is no different. We are looking forward to all our new hotel openings and the opening of the hotel extensions. I am also looking forward to announcing more exciting projects that are currently bubbling. Work continues on the existing hotels with refurbishment going at a pace.

My thanks to our Board and our people for the outstanding efforts in 2017. It simply can't be done without you. I come to work every day with the same energy and enthusiasm as I've always had. The energy comes from all the talented driven young and not so young people in Dalata.

Long may it last.

**Pat McCann**  
Chief Executive

# Dalata's Markets

“For the first time since the global financial crisis, all major regions of the world are experiencing an uptick in economic growth”

World Bank, Global Economic Prospects, January 2018

## Global Overview

A strong global economy is good for the travel and tourism industry and with it the hotel industry. Other key growth drivers include a competitive environment in the airline industry with continued growth of low cost carriers and prevailing low fuel prices, healthy demand for corporate travel driven by strong economies, and a shift in spending patterns

from products to experiences with consumers opting to spend more on recreation, travel and eating out compared with durable goods and clothing. According to World Bank figures international travel departures across the globe have doubled from approximately 600 million to 1.3 billion in the past two decades.<sup>1</sup>

Global international tourist arrivals were up 6.4% in the first half of 2017

(compared with 3.9% for the whole of 2016). For Europe the figures were 7.7% and 2.1% respectively and indicators for the remainder of the year were also positive.<sup>2</sup> 2017 was a good year for hotels globally with RevPAR up in all of the major regions; in Europe RevPAR increased by 5.1%.<sup>3</sup> The outlook continues to look positive. In January 2018 the World Bank forecast global real GDP growth of around 3% per annum for the next

three years, marginally up on its June 2017 prediction. For the industry this is encouraging, assuming there are no major events that could disrupt overall international tourism, whether related to terrorism, health scares or natural disasters.

1 Deloitte, 2018 Travel and Hospitality Industry Outlook  
2 World Travel and Tourism Council, November 2017 Monthly Economic Impact  
3 STR Global Hotel Review January 2018

## Ireland

Ireland's economy is growing with figures of close to 6% GDP growth estimated for 2017, backed by strong growth in investment, employment and consumer confidence.

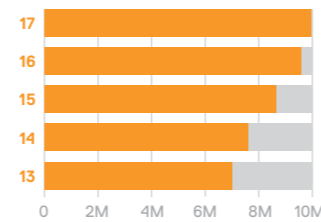
2017 was a record year for Irish tourism with the industry worth an estimated €8.7 billion annually<sup>4</sup>. Trips to Ireland reached 9.9m<sup>5</sup>, up 3.6% on 2016. Trips from Britain, fell by 5% but mainland Europe was up 5% and the North American and Rest of the World markets enjoyed double digit growth. The impact of Brexit on the EUR/GBP exchange rate is to blame for the weak numbers from Britain but increased North American airline capacity and effective selling of Ireland as a travel destination in international markets offset the damage. 65% of hotel business in Ireland is sourced from the Irish market (including Northern Ireland), 12% comes from the United States, 11% from

the UK, 10% from mainland Europe and 2% from other countries<sup>6</sup>.

The Irish Government's decision to maintain the 9% rate of VAT on tourism services, in line with the bulk of our European competitors, helped to maintain competitiveness in the industry. The outlook for the Irish economy is generally positive in the near term, according to commentators, but Brexit creates uncertainty.

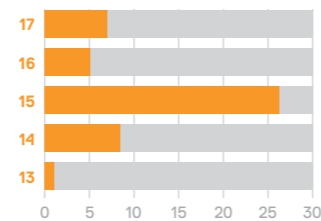
4 Irish Tourism Industry Confederation (ITIC) estimates  
5 Central Statistics Office Ireland, January 2018  
6 Crowe Horwath, Ireland Annual Hotel Industry Survey 2017

## Visitor Numbers



Source: Central Statistics Office Ireland

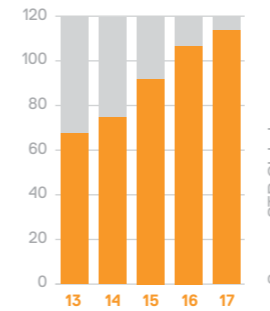
## GDP Growth



Source: Central Bank of Ireland

## Dublin

## RevPAR (€)



Source: STR Global

## Commentary

The Dublin market grew strongly in 2017 with RevPAR up 7.7% to €113.50, (83% Occupancy) and Average Daily Rates (ADR) up 6.9% to €136.80. Some new supply will enter the market in 2018 and RevPAR growth of 5% is forecast.<sup>10</sup>

10 STR Global

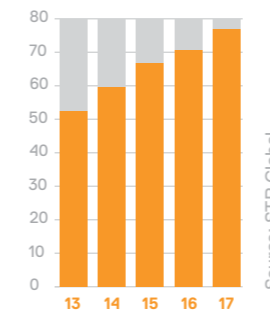
## Direct Links to Key Risks

See pages 38 to 41

- 1 2 5 7 11 13

## Regional Ireland

## RevPAR (€)



Source: STR Global

## Commentary

2017 was a good year in regional Ireland; in the key cities: Cork RevPAR was up 13.6% to €77.40 (80% occupancy), with ADR up 11% at €97.00; Galway RevPAR was up 7.6% to €80.20 (77% Occupancy), with ADR up 5% to €104.40. Limerick RevPAR was up 13.2% to €54.80 (72.1% Occupancy), with ADR up 9.6% to €76.00. Conditions are conducive to limited new supply in Cork and Galway but not in the rest of the country.

## Direct Links to Key Risks

See pages 38 to 41

- 1 2 7 11 13

## UK

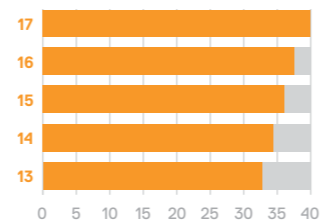
GDP growth in the UK is estimated at 1.7% in 2017 (1.8% in 2016)<sup>7</sup>. Following initial buoyancy in the six months following the decision to exit the EU in June 2016, economic growth in 2017 did not benefit from stronger growth in the global economy. Weaker consumer spending growth, low wage growth and weak investment growth are the factors cited for the slowdown.

The UK tourism industry is enjoying record numbers with an estimated 6% increase in international visitors to 39.9 million in 2017 and an 11.6% increase in expenditure to £25.1 billion<sup>8</sup>. 68% of visits to the UK are from mainland Europe, 10% from the USA, 8% from the Republic of Ireland, 7% from Asia and 7% from other markets<sup>9</sup>.

The outcome of Brexit negotiations is a source of uncertainty for economic forecasters with the Bank of England predicting 1.7% GDP growth in 2018 and similar levels in 2019.

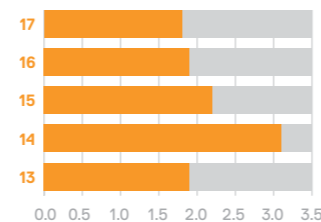
7 Bank of England, February 2018 Inflation Report  
8 Visitbritain.org  
9 British Office for National Statistics

## Visitor Numbers



Source: www.visitbritain.org

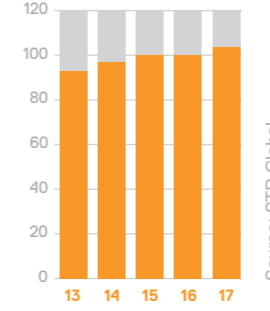
## GDP Growth



Source: Office of National Statistics

## UK

## RevPAR (£)



Source: STR Global

## Commentary

London RevPAR grew by 4.4% with early strength waning towards the end of the year.

Regional UK saw 3.7% growth in RevPAR with Belfast achieving a market leading 17% growth, Edinburgh was up 12%, Cardiff up 8%, Liverpool up 6%, Birmingham up 2% and Manchester saw marginal growth whilst Leeds and Southampton were flat.

## Direct Links to Key Risks

See pages 38 to 41

- 1 2 3 7 13

## Business Model

### Inputs

€1bn

In hotel assets

€129m

Spent on hotel acquisitions in 2017

26

Owned hotels with 5,247 rooms

9

Leased hotels with 2,234 rooms

210

Average rooms per owned and leased hotel

4,326

Full and part-time employees

### WHAT WE DO

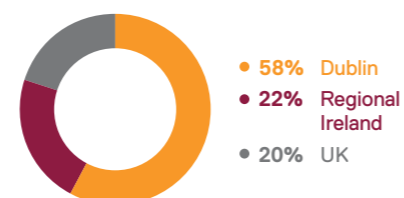
Dalata is a hotel owner, operator and brand owner. The Group operates 38 hotels, of which 26 are owned, nine are leased and three are operated under management contract. The portfolio includes 20 Clayton Hotels, 13 Maldron Hotels and 5 individually branded hotels. All Clayton Hotels are four star rated and Maldron Hotels has five four star and eight three star properties. 67% of group revenue is derived from the sale of accommodation, 26% comes from food and beverage sales and 7% from other services (including leisure centre membership and car parking).

The company owns property assets valued at €1 billion including €129 million spent on hotel acquisitions in 2017. The group employed 4,326 full and part-time employees at the end of 2017. Our customer promise is based on the quality and comfort of our bedrooms and facilities, good food and care for our guests by our friendly, helpful staff. We depend on many suppliers who are selected by the central purchasing team to support the hotels in service delivery. As set out on pages 20 and 21 the training and development of our staff is a strategic priority for the group to ensure we continue to develop and deliver the distinctive experience promised by our hotel brands. In 2017 we had 3.6 million overnight guests and served 5.3 million meals to our customers.

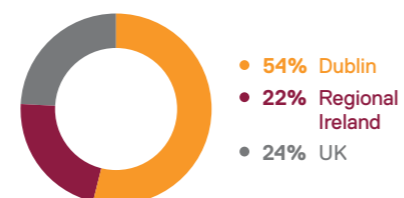
### WHERE WE OPERATE

15 Hotels, accounting for 58% of revenue are located in Dublin, 12 hotels (22% of revenue) are in Regional Ireland and 8 Hotels (20% of revenue) are in the United Kingdom. There are 7,674 rooms in the portfolio, including our managed properties, and our hotels are generally located in primary city-centre locations or close to key amenities (airports, central business districts, key attractions, etc). In Dublin our 3,992 rooms gives the group a 20% market share; Cork, 411 rooms (17% market share); Galway, 412 rooms (13%) and Limerick 300 rooms (16%). These four cities account for 91% of the group's business in the Republic of Ireland. Currently the group has UK hotels in Belfast, Derry, Cardiff, Birmingham, Manchester, Leeds and London.

#### Revenue



#### Owned and leased rooms



#### Key Cities

Dublin 3,992  
Rooms

Cork 411  
Rooms

Galway 412  
Rooms

Limerick 300  
Rooms

Belfast London Manchester  
Birmingham Leeds Cardiff

### HOW WE MAKE MONEY

We sell hotel accommodation, food and beverage and ancillary services; 2017 revenue was €348m. Revenues are sourced from direct bookings (brand website and through our sales teams) by key corporate accounts, tour operators, conference organisers and individual guests, and indirect bookings through agents (online travel agents, traditional travel agents, etc).

### WHAT DIFFERENTIATES US

Dalata exclusively owns and operates its own hotel brands. As the exclusive owner/operator we have invested in the resources to bring a singular focus to the maximisation of the return on investment in each individual hotel. One voice, one goal and full control.

In the hotel sector generally and specifically in our target market segments, brand ownership, business ownership and hotel operations are often fragmented across multiple interested parties. As such, interests may not be aligned and return on investment may be compromised.

Our hotel General Managers are encouraged to engage with their local communities and build strong relationships with their business clients. In addition to earnings targets, managers are incentivised to reach measurable targets for employee engagement, customer satisfaction and health and safety management.

This combination of incentives supported by our culture and values (pages 2 and 3) and our work ethic, creates a level of intensity around the business that drives the maximum return at each property.

General Managers compete for maintenance capital expenditure

After deducting costs of €245m (of which €95m, or 39% were payroll costs), the group reported €103m of EBITDA in 2017. Revenue recognition is straightforward with the majority of guest accounts settled on check-out. We have a strong balance sheet with total assets of €1.1bn including €1bn of property assets and total loans and borrowings of €260m.

allocations which are determined by Central Office. Decisions are made based on a number of criteria and are strongly influenced by customer feedback. Refurbishment projects are assessed for their return on investment and a reserve budget is maintained to deal with contingencies arising during the year.

Central Office provides strategic direction and oversight through its experienced management team and functional specialists. Central Office activities include group purchasing through central supply contracts, training and development programme design and delivery, and brand management. The group invests in information technology to provide common tools to help General Managers get the best from the business, manage rooms pricing optimally and input resources efficiently.

The systems infrastructure is also designed to provide central office with up to the minute information on group operations and financial performance.

The vertical integration of the business combined with our decentralised management structure allows us to develop a distinctive customer experience and brand integrity in the fragmented market segment in which we operate.

The business is highly cash generative with a negative investment in working capital. Trade and other payables exceeded trade and other receivable by €44 million at the end of 2017. Cash available after the payment of tax and debt service may be applied for maintenance capital expenditure, reinvestment in new assets or to provide a direct return to shareholders.

### Outputs

3.6m

Overnight guests

5.4m

Meals served

13

Thousand Leisure Club Members

€105m

Adjusted EBITDA

€95m

Net Cash from operating activities

€95m

Aggregate Payroll Costs



# Strategic Priorities

## DELIVERING OUR PROMISE

Our strategic objective is to develop a sustainable business that creates long term value for our shareholders and respects the interests of our wider stakeholders, our employees, customers, suppliers and communities. The Board is engaged in the process of strategy development and approves the long term objectives and strategy.



### Our Customers



### Our Growth



### Our People



### Our Brands

#### 2017 Progress

Feedback from over 120,000 customer reviews drove service improvement for customers and influenced investment decisions. We rolled out the Red Bean Roastery at 16 hotels and Grain and Grill restaurant at 13 Maldron Hotels as well as developing the Italian Kitchen restaurant concept at Clayton Hotel Dublin Airport.

#### 2018 Focus

In 2018 we will address areas for improvement in customer experience through continued investment in technology, our amenities and in service enhancement.

#### Strategy in Action

Read more about **Our Customers** on page

**16**

#### 2017 Progress

265 rooms (net) added to the owned and leased portfolio in 2017 and 850 to the pipeline as we deepened our relationships with key institutional development partners. Nine development projects (five new hotels and four extensions) are on target.

#### 2018 Focus

In 2018 we will complete our live development projects, commence construction in Manchester and Glasgow and seek to secure a further 1,200 pipeline rooms as our focus shifts towards the UK market.

#### Strategy in Action

Read more about **Our Growth** on page

**18**

#### 2017 Progress

Four graduates from our structured development programmes were promoted to General Manager positions with 160 colleagues enrolled on these programmes. The company was recognised as Ireland's Best Organisation in Learning and Development at the 2017 Early Career Awards.

#### 2018 Focus

The key objective for 2018 is to recruit from within to complete the management teams at our five new hotel openings.

#### Strategy in Action

Read more about **Our People** on page

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#### 2017 Progress

We invested €14.6 million to refurbish 889 hotel bedrooms to brand standards and, based on market research, updated key brand positioning statements and developed new creative platforms. We also invested in our own brand websites to increase market share and protect brand integrity.

#### 2018 Focus

We will continue our investment in our hotel brands through refurbishment and digital technology to maximise the investment in the properties we have acquired.

#### Strategy in Action

Read more about **Our Brands** on page

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## Strategic Priority

### Our Customers

Our customer strategy is based on putting customers at the centre of our thinking as we develop the other elements of our strategy for growth and development as a group. Through our market research we have identified the profile of key customers in each market segment for both Maldron and Clayton Hotel brands. We use this research along with direct customer feedback to inform our decision making at every level in the organisation: from day to day operational responses, to the development of service offerings, to local capital investment priorities, and through to design considerations for refurbishments and new builds.

We collect customer feedback from reviews posted online and post-stay follow up emails and in 2017 we received and processed over 120,000 customer reviews. This provides an extensive profile of each hotel's strengths and weaknesses and our General Managers are incentivised to continually improve their customer sentiment scores. We continue to prioritise the development of our food and beverage offering which accounts for 26% of group revenue. The highlights in 2017 were the roll out of the Red Bean Roastery coffee concept to 16 hotels, including the opening of the first standalone branded coffee shop at Clayton Hotel Leopardstown, the roll out of the Grain and Grill restaurant concept at 13 Maldron Hotels and extensive groundwork to

develop a high quality brand standard for meetings and events at all our hotels.

We strive to be easy to do business with and maintain a number of structures to achieve this goal. Executives at central office provide support for key customers in the travel trade, the conference and banqueting segment and large corporate accounts, providing a swift response to enquiries and co-ordinating communication across multiple properties where this is required. Members of our senior management team meet with representatives of the largest clients across the group to stay in touch with their evolving needs and collect direct feedback.

In 2018 we will address areas for improvement in customer experience through continued investment in technology, our amenities and in service enhancement.

## DELIVERING OUR PROMISE

We are driven to improve customer experience through continuous engagement and investment to meet ever rising expectations.

## 2017 Progress

120,000

Customer Reviews

16

Red Bean Roastery coffee docks opened

13

Grain and Grill restaurants opened

## Strategy in Action

### Clayton Hotel Leeds

#### Embodying Our Customer Care Philosophy



In 2017 Clayton Hotel Leeds grew its customer sentiment by three percentage points to 87%, one of the leading scores in the group and one of the most improved. Moreover the hotel led the group for employee engagement and grew RevPAR by 7% in a year when the Leeds city market was flat.

Hotel General Manager Roger Clark-Coates explains:

We believe passionately in the relationship between staff experience and the quality of the guest experience and I focus on employee satisfaction just as much as I do on customer sentiment. The management team buys into this philosophy so that we work as an effective unit rather than individual departments. In my early days at Clayton Hotel Leeds, we discovered we were at risk of losing a training company client that gave us regular conference and bedroom business; they felt standards had

slipped. I arranged to meet the client's management to really understand where we were failing in what we needed to do.

The whole team responded – duty managers, meeting and events co-ordinators, receptionists and porters – and we put a plan in place to win back confidence. It has been a great success and today we are this client's benchmark hotel, and the account has grown significantly. Every event is managed like it's the first one and we take care to build relationships across the team with the client. Last Christmas they even sent in presents for our staff!



Above: Clayton Hotel Leeds



## Strategic Priority

### Our Growth

## 2017 Progress

# 265

Net increase in owned  
and leased rooms

# 850

Rooms added to the pipeline

# 20

UK provincial cities identified for  
development potential

## DELIVERING OUR PROMISE

2017 was a year of continued growth with a net increase of 265 owned and leased rooms with the addition of Clayton Hotel Birmingham, Clayton Hotel Liffey Valley and the disposal of Croydon Park Hotel, along with the arrival of the first 35 rooms at the Clayton Hotel Dublin Airport extension. We also acquired the freehold equivalent interest in 232 rooms at Clayton Hotel Cardiff Lane and the freehold at Maldron Hotel Portlaoise.

The pipeline grew by 850 rooms with the announcement of Clayton Hotel Manchester (Portland Street), Clayton Hotel Glasgow (Clyde Street) and Maldron Hotel Glasgow (Renfrew Street), properties scheduled for 2020 openings.

Following three years of growth by acquisition we turned our attention in 2017 to completing the development of over 1,200 rooms announced in 2016 and growing the portfolio pipeline. Our live development projects, including five new hotels and four extensions are all on schedule;

We currently have a pipeline of over 2,200 new rooms and are seeking opportunities to expand our portfolio in the UK. We are confident that we will meet our goal of securing a further 1,200 rooms in 2018.

eight will open in 2018 with Maldron Newcastle following in Q1 2019.

We have seen an important evolution of our growth model in the past year as partnerships with Deka Immobilien and M&G Real Estate have allowed us to enter stable long term leases at a number of key properties including Clayton Hotel Cardiff, the Gibson Hotel Dublin and Clayton Hotel Birmingham. These transactions have demonstrated the group's attractiveness to institutional landlords and our ability to manage the balance sheet efficiently, growing the business through asset-light leasing structures (for more, see the case study opposite).

Having broadly attained our market share objectives in Ireland through acquisition, the development of three new properties scheduled to open in 2018 and extensions at four hotels, we have a targeted strategy to roll out the Clayton and Maldron brands across provincial UK.

Our research has identified 20 provincial cities where market conditions in the fragmented three and four star segment are attractive for the development of new build Clayton and Maldron Hotels. Our objective is to become the leading three / four star operator in these target city markets over a five to seven year period.

The focus for 2018 will be on completing our live development projects, overseeing the commencement of construction at the sites in Manchester and Glasgow and growing our rooms pipeline to meet our ambitious expansion strategy.



## Strategy in Action

### Clayton Hotel Birmingham

#### Efficient deal execution and integration

We acquired the 174 bed Clayton Hotel Birmingham (formerly Hotel La Tour) in an off-market transaction in July 2017 and in August 2017 completed a sale and leaseback of the hotel with Deka Immobilien, valuing the property at £30m. Under the terms of the lease, we will operate the hotel for a 35 year term with an initial annual rent of £1.6m subject to five year rent reviews linked to the retail price index.

The hotel was rebranded in October 2017 and fully integrated into the group before year-end. A new management team is in place and we have restructured the food and beverage offer based on customer feedback.

This year we will re-configure the room stock to increase the number of twin rooms making the hotel more attractive at weekends – increasing occupancy and boosting revenue.

Clayton Hotel Birmingham exhibits a number of Dalata's strengths: a decisive execution of the acquisition and sale and leaseback transactions, negotiation of sustainable long-term lease terms (a demonstration of the strength of the group's covenant), and an efficient integration of the hotel, capitalising on opportunities for product enhancement and revenue growth.

Above: Clayton Hotel Birmingham



## Strategic Priority

### Our People

## 2017 Progress

160

Structured programme  
participants in 2017

4

2017 Altitude Programme  
promotions to General Manager

2,600

Workshop and webinar  
participants in 2017

Development of our own people is critical to ensure we have a talent pipeline for our new hotels and is a key element of managing the risk associated with new openings. We have developed twelve bespoke structured programmes to allow employees at all levels to develop and grow their careers with the group.

The Altitude programme, developed in partnership with the Irish Management Institute and involving several of the senior management team in its delivery, is designed for prospective General Managers and saw four graduates secure General Manager appointments in 2017.

Specialist programmes for sales and revenue management executives prepare participants for promotion, and our graduate programme exposes new recruits to all aspects of hotel management over an eighteen month period. To attract new talent, we have developed relationships with a number of universities and other third level institutions, promoting Dalata as an employer of choice. We have over twenty colleagues preparing for professional accounting qualifications throughout the business and in 2017 we joined with Institute of Technology Tralee to create a Certificate in Culinary Management and Innovation as part of our chef development programme. In 2017, our structured programmes have prepared 160

managers for further growth within our business.

We also have a suite of personal and skills workshops and modules, delivered face to face and by webinar. During 2017 we delivered over 250 face to face workshops and more than 40 webinars with content ranging from management, health and safety, and recruitment to service delivery skills, allowing over 2,600 colleagues attend internal training courses during the year.

A key focus for the business in 2017 was developing our food and beverage offering, and we backed this initiative with skills training and workshops for our food and beverage managers. Our customer service training is based on our core values of service and individuality and we measure our progress and target resources based on customer feedback.

Dalata was recognised as Ireland's 'Best Organisation in Learning and Development' at the 2017 Early Career Awards and our near-term objective is to promote from within to build the management teams for our new hotel openings in 2018.

## DELIVERING OUR PROMISE

Developing our own people is a key strategic objective and we now have the capacity to resource the management teams for our new hotels from within the group.

## Strategy in Action

### Maldron Hotel Belfast City

#### Spotlight on Internal Talent Development

Our 237 room Maldron Hotel in Belfast city centre opens in March 2018. The management team was assembled in the second half of 2017 and started working on the pre-opening phase of the project. Four of the six senior management team came from our internal development programmes.

Mike Gatt is the General Manager and previously managed Maldron Hotel Derry, Mike has worked with Dalata for four years and completed our Pinnacle Programme for General Managers which focuses on leadership, our culture and our core values.

Deputy General Manager Orlaith McCann is a graduate of the Altitude programme with a background in revenue management.

Most recently Deputy General Manager at Maldron Hotel Newlands Cross, Orlaith is charged with getting the team in place for opening day.

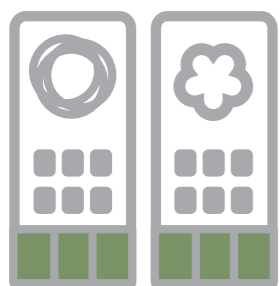
Sales & Marketing Manager Francine O'Hagan is a graduate of our Sales Development Programme and was promoted to Business Development Manager in Clayton Hotel Liffey Valley.

Revenue Manager Christine Beattie is making the short trip from Clayton Hotel Belfast where she was Reservations Supervisor. Christine was a part of our Revenue Development Programme in 2017 and brings an intimate understanding of the Belfast market to this busy rooms focused hotel.



Above: Maldron Hotel Belfast City management team

Left to right: Francine O'Hagan (Sales and Marketing Manager), Orlaith McCann (Deputy General Manager), Mike Gatt (General Manager) Christine Beattie (Revenue Manager).



## Strategic Priority

### Our Brands

## 2017 Progress

€14.6m

Investment in bedroom and ground floor refurbishments

889

Room refurbishments

30

New websites

## DELIVERING OUR PROMISE

Our brands are central to our business model (see page 13). Exclusively owning all of our brand assets combined with our differentiated operating model gives us total autonomy to optimise the strategy, and the return on investment at each individual hotel according to its location and characteristics.

We invested €14.6 million in 2017 refurbishing 889 rooms and transforming the ground floor experience at several of our hotels. This brings to 2,270 the number of rooms refurbished to our brand standards over the last four years.

As well as this investment in our physical assets, we engaged in extensive market research to gauge brand awareness for our brands, the effectiveness of our advertising campaigns and to benchmark the booking journey for our customers compared with leading competitors and online travel agents.

The research showed a high level of brand awareness and net promoter

We have developed our own brands and are continuously investing in the physical product and digital technologies to support these brands and maximise the return on investment in the hotels we have acquired.

scores for our brands. However we learned that we needed to do more to clarify the positioning of each brand in the mind of the consumer and that we needed to simplify our online booking journey.

To address these findings, we went back to basics, considering how our hotels are changing and the markets we have targeted for expansion in the next five years. Working with our brand agency, we updated the positioning for our Maldron and Clayton Hotel brands, our brand promises and clarified our target customers. For Autumn 2017 we developed a new creative platform for each brand inspired by the refreshed positioning.

We redesigned the brand and individual hotel websites and we moved to a new booking engine provider and digital marketing agency. Our websites were transformed, modernised and simplified, eliminating several steps from the booking process. We marked the change by launching a number of initiatives to increase market share through our brand websites (see opposite).

In 2017 we also continued to invest in the Gibson Hotel (a Clayton family member) and our food and beverage brands along with our leisure club brand Club Vitae, working to develop a clear identity for our offer across the group.

In 2018 we will continue our refurbishment programmes and investment in our brands to attract increasing numbers of customers through our direct booking channels.

## Strategy in Action

### Growing our share of online bookings

"Customers now receive an instant best price comparison from across the web right on our own website."

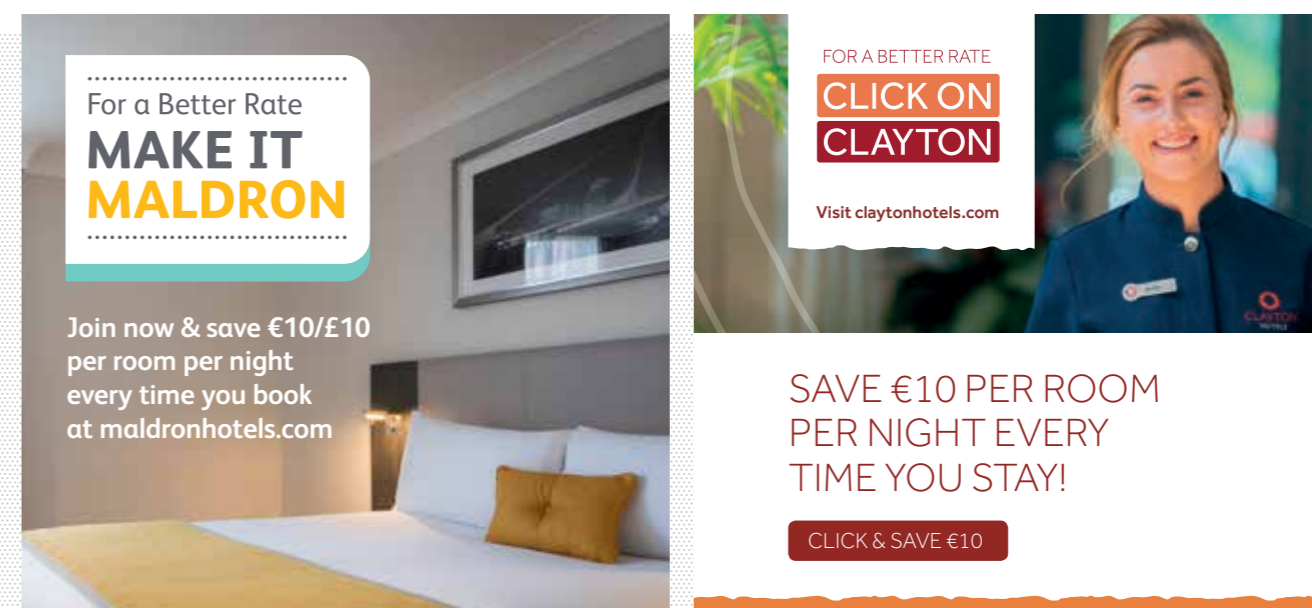
Our customer research told us we needed to change a few things so we've upgraded our booking engine software and taken some steps to encourage customers to book directly with us through our brand websites.

We know that nobody beats our online prices but we learned that customer perception differs, and tracking pricing across all online distributors is a challenge, so we implemented Triptease's price check widget. Customers now receive an instant best price comparison from across the web directly on our website. The software also alerts our Revenue Management team the moment a price disparity is reported so we can act quickly to resolve the issue and maintain the integrity of our best price promise.

We have also created a closed user group for loyal Clayton and Maldron customers. As an incentive to sign-up we offered a €10 or £10 saving per room per night. Launched in October 2017, "Click on Clayton" has attracted over 45,000 members to date. The closed group for Maldron Hotels, "Make It Maldron", launched in February 2018.

These initiatives are helping us grow our share of online bookings with a significant uptick in the rate of year on year sales growth in the second half of 2017.

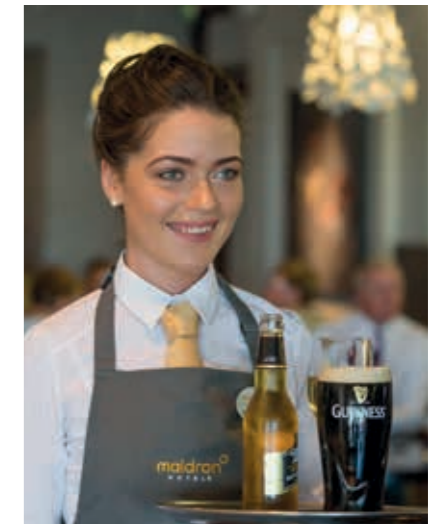
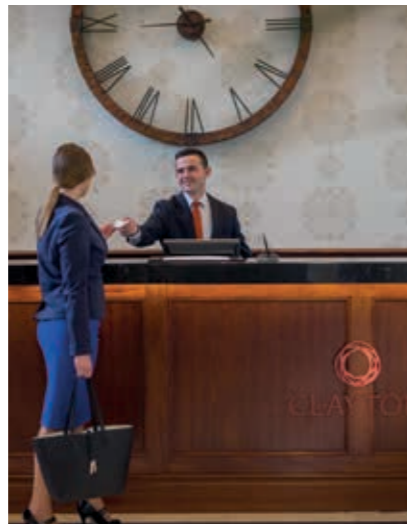
In 2018 we will continue to develop our technology platform and initiatives to cultivate a growing group of loyal direct customers.



## Our Brands

We exclusively own and operate all of our own brands.

This gives us the autonomy to optimise the return on investment at each hotel.



Clayton & Maldron Hotels are Ireland's two largest hotel brands with a growing presence in the larger cities in the UK.

Club Vitae is the largest leisure centre brand in Ireland.

Red Bean Roastery coffee brand has been rolled out to 16 hotels across the portfolio with another 18 hotels planned for 2018.

Grain & Grill restaurant brand has now been rolled out at almost all of our Maldron Hotels.

FOR A BETTER RATE  
**CLICK ON  
CLAYTON**

For a Better Rate  
**MAKE IT  
MALDRON**  
Join Now & Save €10

## Financial Review



**I am very pleased with the financial performance of the Group in 2017. Our RevPAR growth outperformed the market in each of the three regions leading to an increase of 10.4% in Group RevPAR.**

# 10.4%

Increase in Group RevPAR

# 42.9%

2017 Segments EBITDAR margin

# €129m

Spent on hotel acquisitions in 2017

# €1bn

Hotel assets at 31 December 2017

2017 was another very good year at Dalata for four key reasons. Firstly, the performance of our existing hotels was again very strong. Secondly, we had another year in which we managed to execute some very valuable acquisitions in Ireland and the UK. Thirdly, our development pipeline has proceeded on time and within budget and lastly, we made significant progress in defining and executing our UK growth strategy.

I am very pleased with the financial performance of the Group in 2017. Our RevPAR growth outperformed the market in each of our three regions leading to an increase of 10.4% in Group RevPAR. We converted additional revenue strongly to the EBITDAR line resulting in Segments EBITDAR margin growing from 41.4% to 42.9%.

We spent €129 million on acquisitions (business combination and hotel asset acquisitions) and €59 million

on the ongoing construction of our new hotels and extensions. The first of our new hotels opens in Belfast in March 2018 while the 141-room extension at Clayton Hotel Dublin Airport will be completed by the end of May 2018. We continue to secure new hotel developments in the UK. We have entered into a lease for Clayton Hotel Birmingham and have secured agreements to lease new Clayton hotels in Manchester and Glasgow as well as a new Maldron hotel in Glasgow. As expanded on in later paragraphs, we have continued to invest in technology and property refurbishment. This delivers benefits to our customers while our focus on our people has meant that our employee satisfaction remains high. I firmly believe that if you maintain your product, exceed the expectations of the customers who stay with you and take care of the employees that serve those customers, the financial returns will follow for shareholders.

### GROUP REVENUE & EBITDA

€'000	2017	2016	Variance
Revenue	348,474	290,551	19.9%
Adjusted EBITDA	104,873	85,132	23.2%
EBITDA	102,657	71,084	44.4%
Profit Before Tax	77,287	44,111	75.2%
Basic EPS	37.2 cents	19.1 cents	94.8%

Group Revenue grew by €57.9 million (19.9%) as a result of (i) the strong RevPAR growth within the existing portfolio, (ii) the full year contribution from those hotels acquired or first leased in 2016 and (iii) the revenue generated at hotels purchased in 2017. The additional revenue was converted strongly to the EBITDAR line. I will focus in more depth on this conversion within the commentary on the individual segments.

Rent increased substantially in 2017. There were a number of factors at play here, the most significant of which was the beginning of our leasehold at the Clayton Hotel Burlington Road Hotel in November 2016.

#### ADJUSTING ITEMS TO EBITDA

We isolate items that are not directly related to trading and are non-recurring in nature. In 2016, the adjusting items included impairment of goodwill, acquisition costs, stock exchange listing costs and net revaluation movements. The impairment of goodwill was the most significant at €10.3 million. There was no such impairment in 2017. The adjusting items in 2017 relate to a lower level of acquisition costs and net revaluation movements offset to a degree by gains on the disposal of properties and a subsidiary.

#### EARNINGS PER SHARE

Basic EPS has grown by a very satisfying 94.8% from 19.1 cent to 37.2 cent. This is driven primarily by the 44.4% increase in Group EBITDA to €102.7 million. The non-recurrence of the 2016 goodwill impairment charge of €10.3 million was a contributing factor to the €31.6 million increase in Group EBITDA. Our finance costs were lower due to the capitalisation of interest that related to borrowings used to fund our current development pipeline of new hotels and extensions. Our effective tax rate was also lower in 2017 at 11.6% (2016: 20.8%) due to (i) the impairment of goodwill in 2016 not being a tax-deductible cost and (ii) the benefit of tax losses from previous acquisitions to which no value had been initially attributed.

#### DIVIDENDS

In February 2018, the Board announced its intention to commence the payment of dividends during 2018. Having reviewed carefully our cash flow projections for the next three years, we concluded that we have the capacity to pay a dividend without restricting our growth strategies. In the same way as we pay interest to our lenders and rent to our landlords, we feel it is appropriate to pay dividends to our shareholders. It is intended that the dividend will be in the range of 20% to 30% of profit after tax.

## DELIVERING OUR PROMISE

We have entered into a lease for Clayton Hotel Birmingham and have secured agreements to lease new Clayton hotels in Manchester and Glasgow as well as a new Maldron hotel in Glasgow.

## TRADING REVIEW BY SEGMENT

## Dublin

€'000	2017	2016	Variance
Room revenue	141,725	107,370	34,355
Food and beverage revenue	46,198	35,392	10,806
Other revenue	12,782	9,183	3,599
Total revenue	200,705	151,945	48,760
EBITDAR	99,006	72,992	26,014
Rent	(26,376)	(19,520)	(6,856)
EBITDA	72,630	53,472	19,158
EBITDAR margin %	49.3%	48.0%	130bps

## Performance Statistics

(reflects full 12 months' performance of the hotels in this portfolio for both years regardless of when acquired – Clayton Hotel Burlington Road is excluded from the RevPAR statistics because its performance in the transitional period since its November 2016 acquisition has a disproportionate impact because of its size).

	2017	2016	Variance
Occupancy	86.4%	85.1%	130bps
Average room rate	€114.52	€104.79	€9.73
RevPAR	€99.00	€89.17	€9.83

Dublin remains our key market with 3,992 rooms, it generated 57.6% of Group revenue and 61.2% of the Group's Segment EBITDA in 2017. Therefore, I am delighted to report that we continued to outperform the Dublin market as a whole in 2017 with RevPAR growth (excluding Clayton Hotel Burlington Road) of 11.0% versus the market as a whole at 7.7%. I believe that this outperformance is a result of (i) our decentralised revenue management model, (ii) the benefits of our ongoing refurbishment programme and (iii) our mix of business being less reliant on the transient segment where growth in rates is currently more difficult to achieve. Clayton Hotel Cardiff Lane, Clayton Hotel Dublin Airport, Clayton Hotel Leopardstown, Maldron Hotel Dublin Airport, The Gibson Hotel and the Tara Towers Hotel all performed exceptionally well.

The full year impact of the Clayton Hotel Burlington Road added €8.4

million to food and beverage revenue. Growth in food and beverage revenue in other hotels continues to be more modest than growth in rooms revenue. Helped by the introduction of the Alkimii payroll management system in mid-2016, I am very pleased to see food and beverage department profit margins grew from 29.7% to 30.9%.

The existing Dublin hotels achieved a 'like for like' EBITDAR increase of €9.6 million, reflecting a very strong 75.0% conversion of additional revenue to EBITDAR. We are very focused on the conversion of additional revenue to profit and I am very pleased with the conversion rate we achieved in Dublin. EBITDAR margin came in at a very strong 49.3% for the year.

Rent increased by €6.9 million versus 2016 due to the full year impact of the acquisition of the leasehold interest at the Clayton Hotel Burlington Road

15

## Dublin hotels

11%

RevPAR increase at our Dublin hotels (excluding Clayton Hotel Burlington Road)

49.3%

## 2017 Dublin EBITDAR margin

(November 2016) and The Gibson Hotel (March 2016). There were increases in performance related rent payments in the Ballsbridge Hotel and Maldron Hotel Dublin Airport. The acquisition of certain parts of the long leasehold interests of the Clayton Hotel Cardiff Lane resulted in a rent saving of €1.2 million in 2017. The purchase of a property (€1.4 million) and a revised lease for another property (€0.6 million) during 2017 resulted in a €2 million release of estimated accruals and liabilities.

We added 35 new rooms in November to our Clayton Hotel in Dublin Airport. A further 106 rooms will be added in May 2018. Our new Maldron Hotel in Kevin Street, Dublin opens in June 2018 and there will be a new Clayton Hotel in Charlemont, Dublin by November 2018. We are also building extensions at Maldron Hotel Parnell Square and Clayton Hotel Ballsbridge in Dublin.

## TRADING REVIEW BY SEGMENT

## Regional Ireland

€'000	2017	2016	Variance
Room revenue	41,648	36,100	5,548
Food and beverage revenue	26,529	25,174	1,355
Other revenue	7,863	7,193	670
Total revenue	76,040	68,467	7,573
EBITDAR	21,450	18,170	3,280
Rent	(1,179)	(1,939)	760
EBITDA contribution	20,271	16,231	4,040
EBITDAR margin	28.2%	26.5%	170bps

## Performance Statistics

(reflects full 12 months' performance of the hotels in this portfolio for both years regardless of when acquired)

	2017	2016	Variance
Occupancy	75.5%	74.0%	150bps
Average room rate	€92.03	€86.16	€5.87
RevPAR	€69.45	€63.68	€5.77

Our Regional Ireland portfolio operates 1,643 rooms and represented 21.8% of the Group's total revenue and 17.1% of the Group's Segments EBITDA in 2017. 70% of revenues in our Regional Ireland portfolio are generated in the cities of Cork, Galway and Limerick.

Dalata's hotels in Regional Ireland achieved a RevPAR growth year on year of 9.1%. RevPAR in our Cork hotels grew by 8.7% versus the market growth of 13.6%. Maldron Hotel Shandon Cork City and Clayton Hotel Silver Springs outperformed the market. RevPAR growth at Clayton Hotel Cork City was impacted by a significant refurbishment project in Q1 2017 and the changeover from the Clarion Global Distribution System (GDS). RevPAR in our Galway hotels grew by 6.6% versus the market growth of 7.6%. Clayton Hotel Galway and Maldron Hotel Galway achieved higher than market RevPAR growth but Maldron Hotel Sandy Road was

behind market growth due to the impact of (i) very strong trading performance in 2016 where the hotel benefitted from a very large demand for rooms generated by a local project and (ii) the beginning of the redevelopment project at the hotel in the final quarter. Our Limerick hotels grew RevPAR by 18.4% versus the market growth of 13.2%.

Food and Beverage revenue increased by €1.4 million due to full year impact of Clayton Hotel Cork City, Clayton Hotel Limerick and Clayton Hotel Sligo (€1.2 million) and €0.2 million growth in other properties on a like for like basis. Food and Beverage profit margins grew slightly from 25.3% to 25.5% and this remains an area of focus for us as we seek to reap the full benefit of technology introduced in the Group.

EBITDAR grew on a 'like for like' basis by €2.8 million reflecting an excellent 71.8% conversion of

12

## Regional Ireland hotels

9.1%

RevPAR increase at our Regional Ireland hotels

28.2%

## 2017 Regional Ireland EBITDAR margin

additional revenue to the EBITDAR line. This was driven primarily by very strong conversion of rooms revenue to rooms department profit. EBITDAR margin for the year came in at 28.2%.

Rent decreased by €0.4 million due to the purchase of the freehold of Maldron Hotel Portlaoise (May 2017) and a further €0.4 million due to the full year impact of the freehold acquisition of Maldron Hotel Shandon Cork City in September 2016 and Clayton Hotel Limerick in June 2016.

Maldron Hotel South Mall Cork is scheduled to open in December 2018. We are also adding 63 rooms to Maldron Hotel Sandy Road in Galway as part of a full redevelopment of that hotel. Both are exciting new developments within our Regional Ireland portfolio.



## TRADING REVIEW BY SEGMENT

## United Kingdom (Local Currency)

£'000	2017	2016	Variance
Room revenue	41,957	37,866	4,091
Food and beverage revenue	14,017	13,440	577
Other revenue	5,168	4,176	992
<b>Total revenue</b>	<b>61,142</b>	<b>55,482</b>	<b>5,660</b>
EBITDAR	23,718	21,883	1,835
Rent	(2,862)	(3,274)	412
<b>EBITDA contribution</b>	<b>20,856</b>	<b>18,609</b>	<b>2,247</b>
EBITDAR margin	38.8%	39.4%	(60bps)

## Performance Statistics

(reflects full 12 months' performance of the hotels in this portfolio for both years regardless of when acquired)

	2017	2016	Variance
Occupancy	83.0%	80.3%	270bps
Average room rate	£80.31	£75.67	£4.64
RevPAR	£66.64	£60.78	£5.86

Our UK portfolio consists of 1,731 rooms and represented 20.0% of the Group's total translated revenue and 20.0% of the Group's translated Segments EBITDA in 2017. Given our current growth ambitions in the UK, we look very closely at the performance of our UK portfolio. For that reason, I am delighted that we managed to grow RevPAR by 9.6% in 2017. We performed particularly well in Leeds, Manchester and Cardiff and these are the types of regional cities that we plan to locate new hotels within. We also performed very well in London where the extended and refurbished Clayton Hotel Chiswick performed strongly.

Food and Beverage revenue rose on an overall basis by £0.6 million. The impact of the sale of the Croydon Park Hotel and the acquisition of the Clayton Hotel Birmingham broadly cancelled each other out in terms of food and beverage revenue. Excluding the disposed Croydon Park Hotel

and the acquired Clayton Hotel Birmingham, Food and Beverage profit margins fell marginally from 32.3% to 31.5% reflecting some inflationary pressures on payroll and food costs.

EBITDAR increased by £1.8 million in 2017. This was predominately driven by the performance of the existing UK hotels. As anticipated, the margin achieved in Clayton Hotel Birmingham in the second half of 2017 is lower than the Group's normal margins as it takes time and expense to implement Dalata's operating model. Excluding the results of Croydon Park Hotel and Clayton Hotel Birmingham, EBITDAR margin grew at our UK hotels from 40.2% to 40.5%.

Rent has decreased by £0.4 million due to the disposal of Croydon Park Hotel in June 2017 and the freehold acquisition of Clayton Hotel Cardiff in October 2016. These savings were offset to a degree by the subsequent

8

UK hotels

9.6%

RevPAR increase at our UK hotels

38.8%

2017 UK EBITDAR margin

sale and lease backs of Clayton Hotel Cardiff in June 2017 and Clayton Hotel Birmingham in August 2017.

Our new Maldron Hotel opens in Belfast in March 2018. A new Maldron is also currently under construction in Newcastle while we announced three very exciting new hotel developments in Glasgow (2) and Manchester during 2017. The full UK pipeline now consists of over 1,300 rooms.

1,731  
Rooms in our UK portfolio

## MANAGED HOTELS

€'000	2017	2016	Variance
Revenue and EBITDA	1,986	2,641	(655)

Income from management contracts continues to decrease in line with our strategy to focus on an owned

and leased portfolio. We are not actively seeking any additional hotels to manage.

## CENTRAL OVERHEADS &amp; SHARE BASED PAYMENTS

€'000	2017	2016	Variance
Central overhead	(12,371)	(9,146)	3,225
Share-based payment expense	(1,690)	(1,214)	476
<b>Total</b>	<b>(14,061)</b>	<b>(10,360)</b>	<b>3,701</b>

We have continued to invest in our central office team. We have increased resources across all our main functions as we continue to support our growing portfolio as well as seeking out new opportunities to grow further. During 2017, we started building a small central UK team which supports the hotels in the areas of operations, revenue management, sales and recruitment. This is a very important step in the evolution of our UK strategy as it provides a platform

to support our future growth in the UK. We have also increased our central marketing spend to support the growth of our brands across all three regions.

The increase in the share-based payment expense reflects both the cost of the Long-Term Incentive Plan (LTIP) and the very strong take-up in our Save As You Earn (SAYE) scheme which is available to all employees.

## FINANCE COSTS

€'000	2017	2016	Variance
Interest expense on loans	7,346	7,535	(189)
Impact of interest rate swaps and caps	1,348	1,206	142
Other finance costs	2,327	1,778	549
Net exchange loss on loans and borrowings and cash	204	977	(773)
Interest capitalised to property, plant and equipment	(1,589)	-	(1,589)
<b>Total finance costs</b>	<b>9,636</b>	<b>11,496</b>	<b>(1,860)</b>

Finance costs decreased by €1.9 million in 2017 predominately due to €1.6 million of interest being capitalised to the hotels currently under construction. Approximately 30% of our euro denominated borrowings are subject to an interest cap until September 2019. We have taken out interest rate swaps covering 58% of sterling denominated borrowings up until February 2020. As LIBOR was less than the rate we fixed, we incurred a further interest

cost of €1.3 million on top of actual interest paid.

Other finance costs include the negative yield on cash held in money-market funds, the amortisation of debt capitalised costs and commitment fees on loans and borrowings. The increase in other finance costs compared to 2016 is due to the amortisation of costs which were capitalised on the Group's loans and borrowings.

## OPERATING CASHFLOW

€'000	2017	2016	Variance
Net cash from operating activities	95,207	77,813	17,394
Amounts paid for refurbishment capital expenditure	(14,633)	(12,411)	(2,222)
Interest and finance costs paid	(10,101)	(9,983)	(118)
Adjusting cash items	1,260	3,964	(2,704)
Free cashflow	71,733	59,383	12,350
Key performance indicators			
Conversion of adjusted EBITDA to cash	68.4%	69.8%	(140 bps)
Net debt to Adjusted EBITDA	2.4	2.4	-

We define free cashflow as the net cash generated to fund acquisitions, development expenditure and loan repayments. Our portfolio is now generating high levels of free cashflow for three primary reasons. Firstly, our decentralised operating model is delivering high returns from our hotels. Secondly, it has been our stated strategy to purchase modern hotels that can be maintained to high standards at a reasonable ongoing cost. We allocate approximately 4% of revenue each year to refurbishment capital expenditure

for this purpose. Finally, our low level of gearing with a net debt to adjusted EBITDA of 2.4x results in a relatively low interest charge.

We generated over €71 million in free cashflow in 2017 which together with (i) the proceeds from sale and leaseback transactions and (ii) further drawdown of our loan facilities, we were able to fund scheduled loan repayments, acquisitions and the construction of our development pipeline.

## GROUP FINANCING

€'000	2017
Loans and borrowings at start of the year	280,415
New facilities drawn down	36,680
Capital repayment	(49,896)
Effect of foreign exchange movements	(8,211)
Amortisation of debt costs	1,151
Loans and borrowings at end of the year	260,139

The Group's loans and borrowings amounted to €260.1 million at 31 December 2017, of which €196.5 million (£174.4 million) was denominated in sterling. We deliberately hold a greater share of debt in sterling as it acts as a natural hedge against the impact of sterling exchange rate fluctuations on the euro value of our UK assets. The weakening in the value of sterling during 2017 reduced the euro value of those sterling loans in 2017.

On 6 July 2017, we increased the revolving credit facility by €50 million to €80 million. On 16 July 2017, we drew down £30.0 million from the multi-currency revolving credit facility to fund the purchase of Hotel La Tour in Birmingham. We subsequently repaid that amount on 11 August 2017 after the sale and leaseback of the same property. On 28 December 2017, €2.5 million was drawn from the revolving credit facility to fund working capital requirements.

€71m

Free cashflow in 2017

2.4x

Net debt to Adjusted EBITDA

At 31 December 2017 the Group had undrawn facilities of €99.7 million. Net debt to adjusted EBITDA was unchanged at 2.4x. This is well within our objective of keeping the ratio at 3.5x or below when we are fully invested.

The current debt facilities are due to expire in early 2020. However, we are engaging with banking partners early to discuss refinancing options and strategies.

## PROPERTY, PLANT AND EQUIPMENT

€'000	2017	2016
Property, plant & equipment	998,812	822,444

The value of the Group's property, plant and equipment was almost €1 billion at 31 December 2017. This is a significant milestone when you consider the comparable amount was only €23.9 million in June 2014. Revaluation gains of €155.1 million since 2014 reflect both the quality of the assets we have bought and the value at which we acquired them.

in 2017 due to additions (€210.3 million), a net revaluation gain (€52.1 million) and capitalised borrowing costs of €1.6 million. These increases were offset by the sale and leaseback transactions of two hotels (€62.1 million), the depreciation charge (€15.7 million) and adverse foreign exchange movements in the value of sterling which decreased the value of the UK hotel assets by €10.0 million.

The total value of property, plant and equipment increased by €176.4 million

## Additions to property, plant and equipment

€'000	2017	2016	Variance
Hotel assets acquired (including development sites)	129,027	131,749	(2,722)
Expenditure on new pipeline (including extensions)	59,064	3,043	56,021
Refurbishment capex expenditure	14,633	12,411	2,222
Development capex expenditure	7,547	13,028	(5,481)
Additions to property, plant and equipment	210,271	160,231	50,040

The Group spent €129.0 million on the acquisition of hotel assets during 2017. As part of the acquisition of the trading businesses of Clarion Hotel Liffey Valley (now trading as Clayton Hotel Liffey Valley) in August and Hotel La Tour, Birmingham (now trading as Clayton Hotel Birmingham) in July the Group acquired property assets valued at €22.7 million and €34.6 million respectively. Clayton Hotel Birmingham was subsequently sold and leased back through a separate transaction.

The Group purchased a further 104 rooms in the Clayton Hotel Liffey Valley in two separate transactions

totalling €10.6 million, bringing the total owned room count to 257 bedrooms. Certain elements of the long leasehold interest of Clayton Hotel Cardiff Lane (232 rooms, the public areas and a vacant conference area) were acquired in two distinct transactions totalling €48.2 million. The Group also purchased the freehold interest of Maldron Hotel Portlaoise for a cost of €8.5 million (the adjoining foodcourt was simultaneously sold to a third party for €1.7 million).

The construction of Maldron Hotel Kevin Street, Clayton Hotel Charlemont and Maldron Hotel

€1bn

Hotel assets at  
31 December 2017

€210m

Additions to property,  
plant and equipment in 2017

889

Rooms refurbished  
during 2017

Belfast City continued in 2017. We commenced construction of Maldron Hotel South Mall Cork in the final quarter of 2017. We also commenced construction of extensions at three of our Dublin hotels and one of our Galway hotels at various points during the year. The total spend on these hotel development projects was €59.1 million during 2017.

In addition to the amount spent on acquisitions the Group spent €22.2 million on other capital expenditure. In total 889 rooms were refurbished during 2017. €14.6 million was invested in on-going maintenance projects to refurbish rooms and public areas, upgrade technology and ensure the Group continues to adhere to health and safety standards. A further €7.6 million was spent bringing newly acquired hotels in line with brand standards.

#### GOODWILL AND INTANGIBLE ASSETS

€'000	2017	2016
Opening balance at start of the year	54,267	46,803
Acquisition of leasehold interest	-	20,500
Transferred from investment property	682	-
Impairment losses during the year	-	(10,325)
Amortisation of intangible assets	(24)	
Movement in exchange rates	(363)	(2,711)
Closing balance at end of the year	54,562	54,267

There were no significant movements in the value of goodwill and other intangible assets during the year ended 31 December 2017. The main components of the balance at year end are:

- > Goodwill of €33.4 million – an impairment review of the goodwill valuation was carried out at 31 December 2017 and it was concluded that the carrying value of €33.4 million was appropriate

- > An intangible asset with an indefinite life representing the Group's leasehold interest in The Gibson Hotel, which was acquired as part of the Choice Hotel Group business combination in March 2016 and has a carrying value of €20.5 million

#### NEW ACCOUNTING STANDARDS

##### IFRS 16 Leases

The new accounting standard on leases comes into effect from 1 January 2019 onwards. We outlined at our Capital Markets Day in November 2017 the potential impact of the standard on Dalata and this presentation is available in the Investor section of our website [www.dalatahotelgroup.com](http://www.dalatahotelgroup.com).

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. As a result, an asset (the right-of-use of the leased item) and a financial liability to pay rental expenses are recognised. Fixed rental expenses will be removed from the profit or loss account and replaced with finance costs on the lease liability and depreciation on the right-of-use asset. Variable lease payments which are dependent on external factors such as hotel performance will be recognised directly in profit or loss.

Despite the significant impact of the accounting change on our financial statements we do not see any material impact on strategy or the commercial negotiations of new leases. There will be no impact on cashflow. Additionally, bank covenants as currently calculated under existing debt arrangements will not be impacted as their calculation is based on GAAP on date of entry into the agreements.

The full impact of this standard on the Group's financial position and performance continues to be assessed. The Group does not intend to early adopt IFRS 16 and prior year financial information will not be restated resulting in no impact on retained earnings on transition.

An illustrative example of how the standard could impact the Group is presented in note 23 to the financial statements for the year ended 31 December 2017 on page 163. As these

calculations use a notional discount rate that is not indicative of what the actual rate will be (as the rate cannot yet be determined), the disclosure in note 23 is purely for illustrative purposes.

##### IFRS 15 Revenue from Contracts with Customers

Under IFRS 15, all revenue from customer contracts will be recorded on a gross basis with commissions deducted separately as cost of sales. The impact is limited to a reclassification between revenue and cost of sales in profit or loss, with no overall effect on profit. If IFRS 15 had been effective from 1 January 2017, this would have resulted in an increase in revenue of €3.6 million for the year ended 31 December 2017, with a corresponding increase in cost of sales of the same amount.

The Group will adopt IFRS 15 in the consolidated financial statements for the year ending 31 December 2018 and will restate the comparative numbers for the year ended 31 December 2017. Accordingly, revenue will increase as it is presented on a gross basis and cost of sales will increase due to the inclusion of commissions.

##### EVOLVING GROWTH STRATEGY

When we first floated Dalata in 2014, our focus was very much on purchasing hotel assets at very attractive prices in markets that we believed were about to recover very strongly. We continued that strategy into 2015.

In 2016, when we felt that there was less value available on the market, we focused on purchasing sites where we could develop new hotels as well as identifying opportunities to extend some of our existing hotels.

In 2016, we also exploited the strength of our balance sheet covenant for the first time in securing a long-term leasehold interest at Clayton Hotel Burlington Road in Dublin.

In 2017, we focused on constructing those new hotels and extensions but we also managed to execute some very attractive acquisitions. We had long sought to purchase the effective freehold interests of Clayton Hotel Cardiff Lane and in 2017, our patience paid off when we acquired 232 rooms, the public areas and a vacant conference area for €48.2 million in two separate transactions. We also managed to secure 257 rooms and the public areas of the now rebranded Clayton Hotel Liffey Valley for €33.6 million in three separate transactions.

In 2017, our UK strategy also gathered momentum. We partnered with M&G Real Estate to execute a sale and leaseback of our Clayton hotel in Cardiff. We teamed up with Deka Immobilien to secure a leasehold interest in the now rebranded Clayton Hotel Birmingham. Our operational expertise and the strength of our balance sheet is attractive to these partners and also helped us secure agreements to lease new hotels on completion in Glasgow (2) and Manchester.

In 2018, we will be focused on completing the projects that will deliver an additional 980 rooms to the Group. We will also be focused on getting these hotels up and running operationally as quickly as possible. The senior management teams have either been appointed or identified for each of the new hotels. We will also look to secure a further 1,200 rooms for our development pipeline.

Our growth strategy has evolved over the last four years and will continue to evolve into the future.

#### CONCLUSION

As you can see from the previous paragraph, we continue to be very hungry for further growth. However, we are equally focused on maximising the returns from our current portfolio.

We are very focused on developing our people to both ensure that the existing hotels are operated to the highest standards and new managers are trained for the pipeline we are building. We are constantly asking our customers what they think of us and acting on their feedback. We continue to develop our brands and believe that it is a significant advantage when you are the sole operator of your own brands.

We are investing in technology to help us better serve our customers, better manage our people, better manage our revenue opportunities and deliver operational efficiencies. The key is to now ensure that we use that technology effectively to deliver the expected benefits.

If we focus on our people, our product, our brands and our customers and support that focus with smart use of technology, financial returns to our shareholders will follow strongly. That is the focus for 2018.

I said last year that the journey had only begun. It now continues and it looks like a very exciting road ahead.



**Dermot Crowley**  
Deputy Chief Executive  
Business Development & Finance

If we focus on our people, our product, our brands and our customers and support that focus with smart use of technology, financial returns to our shareholders will follow strongly.

**DELIVERING  
OUR  
PROMISE**

# Risk Management

**As we grow our business and expand our hotels we face risks. Some risks are common to running a company of our size and other risks are specific to the environment in which we operate and with the growth strategy we have adopted.**

The Board recognises and accepts its responsibility in relation to risk management. The Board has delegated responsibility for this area to the Audit & Risk Committee. Risk management and consideration of the Group's principal risks are a standing agenda item for each Audit & Risk Committee meeting. In 2017 the Company made a decision to devote greater attention to strategic risk management in a senior level restructuring which saw the Company Secretary take responsibility for Group Risk Management and Compliance. As a result, the frequency and breadth of our review of key risks has been increased with input and engagement from a wider group of executive management. In 2018 we will continue the process of improving our risk management processes through the structures we have in place throughout the organisation.

We manage our risks through the adoption of the "three lines of defence" risk management model, adapted for our specific circumstances. In particular:

→ All major decisions related to the Group are made by the Board, following a detailed analysis process and the consideration of associated risks.

→ There is a clear division of responsibilities in relation to risk between the Board, Group management and our independent assurance. Executive management interact closely with our hotels, providing support to line management.

→ The Group's executive risk committee provides executive management consideration of the Group's principal risks and a forum for considering emerging risks. The matters considered then form the basis for consideration by the Audit & Risk Committee.

→ We have invested heavily in our hotel risk management programmes, including employee training, specific risk management systems, external reviews and enabling a risk awareness culture. We view all employees as being, in effect, risk managers, irrespective of their role and aim to provide employees with the tools to support this.

→ Effective risk management depends on the provision of quality information. During 2017 we invested significantly in upgrading the Group's business systems and IT security infrastructure. This will continue in 2018. These enhanced systems will provide us with better and more timely information, enabling us to better manage risks.

The Board and the Audit & Risk Committee have reviewed the Group's principal risks and have considered, in particular, the new risks introduced for 2018 along with those that are no longer considered as principal risks. These risks remain on the Group's risk register and their status is reviewed on an ongoing basis.

A summary of our principal risks, along with their status and our overall assessment of their impact and likelihood, is shown here.

The risks are grouped by their risk categories, which were reviewed during the year.

We view these risks as being of most importance considering the group's current strategic planning horizon. Additional detail on our risks is set out on pages 38 to 41.

Our risk management framework is best illustrated as follows:



Risk category	Risk
External	1 General Economic Risks
	2 Brexit Risks
Internal: Strategic	3 Risks to UK Expansion Strategy
	4 Risk to our Culture & Values
	5 Market Concentration Risk
	6 Senior Management Succession Planning
	7 Development & Retention of Expertise
Internal: Reputational	8 Data Protection Compliance Risk
Internal: Financial Integrity	9 Capex Risk
Internal: Fraud	10 Financial Control Risk
Internal: Operational	11 Hotel New Extensions Risk
	12 Health & Safety Risks
	13 New Hotel Openings
Internal: Information	14 Cyber Attack - Data Loss
	15 Business System Third Party System Provider Failure

# Risk Management

Our risk category	Risk	What the risk means to us	Our key controls & mitigations	Our view on the risk	Link to our Strategy
External	<b>1</b> General Economic Risks	This risk covers the wide range of worldwide macroeconomic risks and also those associated with business financing.  There is a risk that negative external geopolitical and/or economic events could impact our financial performance and prospects.	<ul style="list-style-type: none"> <li>Board updates</li> <li>Financial forecasting models</li> <li>Monitoring of industry trends</li> <li>Agile management structure to react to material changes</li> </ul>	The cyclical nature of the business cycle was considered as was the group's sound operating model as a buffer against economic changes and to promote long-term sustainability. Our strategy is to diversify and spread the risk to lessen the impact should a material worsening in economic conditions materialise.	
External	<b>2</b> Brexit	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.	<ul style="list-style-type: none"> <li>Ongoing focus area</li> <li>Monitoring of developments</li> <li>Industry and government information/awareness</li> <li>Amended UK investment KPI's to reflect increased risk</li> </ul>	We note that the decline in UK visitors to Ireland has not had a very negative impact on Dalata.  The focus in this area is to concentrate on the "known" Brexit impact areas, while maintaining a watching brief on developments over the coming months and years.	
Internal: Strategic	<b>3</b> UK Expansion Strategy	The Group's strategy is to expand its activities in the UK market, adopting a predominately capital-light and leasing model.  There is a risk that this strategy will not deliver on expectations resulting in financial losses or lower than expected returns.	<ul style="list-style-type: none"> <li>Ongoing Board consideration</li> <li>Detailed analysis of potential investment locations</li> <li>Consideration of financial and non-financial indicators</li> <li>Liaison with developers/partners in terms of site selection and financing</li> <li>Management experience in UK development</li> </ul>	The investment hurdles have been amended to adopt more conservative criteria, for example, in relation to increased rent cover. A more targeted approach to sites/opportunities is also in place to concentrate on those opportunities with highest potential yields.	  
Internal: Strategic	<b>4</b> Risks to our Culture & Values	As the Group develops as a business there is a risk that the concept of "group think" could take hold or complacency could set in.  There is also a risk that the Group's established values and how it conducts itself could be diluted by future actions.	<ul style="list-style-type: none"> <li>Defined Group values that are embedded into the way that we, as a company and individuals, behave</li> <li>Focus on these behaviours by Executive management</li> </ul>	As Dalata expands we see that there is a risk that our culture and values could be damaged. It is important for us that we reinforce our current values as we grow.  Development of the "Dalata Way" values programme and a sustainable development strategy is underway. Communications to all employees will form a key part of this programme.	    

Key to Strategic Priorities:



Our risk category	Risk	What the risk means to us	Our key controls & mitigations	Our view on the risk	Link to our Strategy
Internal: Strategic	<b>5</b> Market Concentration	The Group's activities are more concentrated in the Dublin hotel market and, therefore, any downturn in Dublin is likely to have a material impact on the Group's performance.  There is also risk associated with significantly increased supply in the Dublin market.	<ul style="list-style-type: none"> <li>Detailed business plans for each hotel, taking account of their specific markets and offerings</li> <li>Strategy of diversification and UK expansion</li> <li>Monitoring of Dublin supply pipelines</li> </ul>	We expect that our expansion strategy should lessen the impact of Dublin on the Group's performance. In addition, the Dublin hotel business plans provide a buffer in terms of any material downturn in this market.	 
Internal: Strategic	<b>6</b> Senior Management Succession Planning	There is a risk that proper senior management succession planning is not conducted, which could result in overstretched resources, and a loss of management continuity and expertise to the Group.	<ul style="list-style-type: none"> <li>Consideration of this matter by Board committee</li> <li>Retention strategies in place</li> </ul>	The Board reviews on a regular basis the Group's management structure, skills and expertise and we continue to plan for a range of future events.	 
Internal: Strategic	<b>7</b> Development and Retention of Expertise	The Group's business model is built on our ability to grow and retain expertise. There is a failure to retain key risk of expertise and experience and develop talent within the Group to ensure its ongoing and future success.	<ul style="list-style-type: none"> <li>Investment by the Group, including 5 hotel management &amp; graduate development programmes, trainee accountant and revenue management programmes</li> <li>Targeted experience for next generation of GM's/Deputy GM's</li> <li>Review of market remuneration trends</li> </ul>	This risk area continues to be key and is linked to our overall strategy. The rollout of the Dalata business model is dependent on the availability of key people to manage the hotels.  The rollout of Dalata online, our e-learning platform, will continue in 2018 as will the expansion of our training programmes, which are available to all employees.	 
Internal: Reputational	<b>8</b> Data Protection Compliance Risk	The General Data Protection Regulation (GDPR) comes into force in May 2018. As a holder and processor of personal data, there is a risk that the Group does not comply with these requirements.	<ul style="list-style-type: none"> <li>A GDPR Action Group, led by senior management and supported by external expertise has been established to set out the Group's response to the regulation</li> <li>An independent assessment of our GDPR readiness will be completed in early 2018</li> </ul>	As the deadline for the GDPR is approaching, there is additional focus on delivering and maintaining compliance, both by the May enforcement date and beyond.	  
Internal: Financial Integrity	<b>9</b> Capex Risk	Capital expenditure is not properly evaluated, approved, monitored and/or accounted for, resulting in material overspend.	<ul style="list-style-type: none"> <li>All Capex is approved, monitored and accounted for in Central Office</li> <li>Use of Procure Wizard system for capex purchasing</li> <li>Executive capex project update meetings</li> </ul>	There are a number of developments ongoing in this area in 2018. An updated capital procurement system is expected to be implemented, along with a new fixed asset accounting module. These will provide additional controls over this area.	 

Key to Strategic Priorities:



Our Customers



Our Growth



Our People



Our Brands

Our risk category	Risk	What the risk means to us	Our key controls & mitigations	Our view on the risk	Link to our Strategy
Internal: Fraud	<b>10</b> Financial Control Risk	There is a risk that a material <b>financial controls failure</b> , or management over-ride of controls, results in either financial loss or misstatement in the financial statements.	<ul style="list-style-type: none"> <li>&gt; Group Finance expertise</li> <li>&gt; External auditor review of financial statements and key financial judgements</li> <li>&gt; Audit &amp; Risk Committee and Board review</li> <li>&gt; Clear division of responsibilities in key finance areas</li> </ul>	The Group's financial control system is well established. We implemented an updated group-wide accounting platform in 2017, which enhances the control environment. We also identify and flag key areas of judgement for discussion between our external auditors, Group Finance and Board. An example of this was our revised depreciation policy and the potential impact of IFRS 16, both of which were reviewed during 2017.	
Internal: Operational	<b>11</b> Hotel New Extensions	The Group is currently undertaking a number of <b>material hotel extension projects</b> . Although all project contracts are in place and are being monitored there are risks associated with these projects as they are underway in a live operating environment where guests/patrons are present.	<ul style="list-style-type: none"> <li>&gt; Specific Group expertise for each hotel project</li> <li>&gt; External supporting Quantity Surveyor expertise</li> <li>&gt; Detailed project plans</li> <li>&gt; Use of approved and suitable contractors</li> <li>&gt; On-site health &amp; safety expertise</li> <li>&gt; Detailed site, site access and handover routines</li> </ul>	The hotel extensions at Clayton Hotel Dublin Airport and Maldron Hotel Sandy Road Galway are well underway and have provided valuable lessons and learning for our other extension projects. As we undertake more extensions we are becoming better at managing the associated risks.	
Internal: Operational	<b>12</b> Health & Safety Risks	A material operational <b>health &amp; safety, food safety or public health event</b> (for example, resulting in loss of life, injury or major property damage) occurs at a hotel and is not properly managed.	<ul style="list-style-type: none"> <li>&gt; Group H&amp;S function, with hotel H&amp;S managers</li> <li>&gt; Group policies and procedures</li> <li>&gt; Investment in hotel life, fire and food safety infrastructure</li> <li>&gt; External H&amp;S and HACCP audits</li> <li>&gt; Reviews by external bodies (Environmental Health Officer, Fire Officers)</li> <li>&gt; Employee and management training</li> </ul>	<p>As a hotel operator this remains a key risk area and there is continual focus on this matter from Board level through to hotel management.</p> <p>Lessons are being learned from incidents that arise (both external and internal) and revised policies then implemented, as needed.</p> <p>In 2018 we will continue the rollout of a standardised incident recording solution, and Fire Cloud, which is an online tool for recording hotel fire walks.</p>	

Our risk category	Risk	What the risk means to us	Our key controls & mitigations	Our view on the risk	Link to our Strategy
Internal: Operational	<b>13</b> New Hotel Openings	The Group plans to open a number of new hotels in 2018 and subsequent years. There are specific risks associated with new openings relating to costs, timing, customer service delivery and financing.	<ul style="list-style-type: none"> <li>&gt; Pre-opening plan established well in advance of opening date</li> <li>&gt; Appointment of hotel senior management team in advance</li> <li>&gt; Finalisation of hotel's business strategy and plan</li> <li>&gt; Co-ordination of other Group functions to deliver the hotel and operational systems</li> </ul>	In 2018 we plan to open 5 new hotels. The management team has been appointed for Maldron Hotel Belfast City, due to open in March 2018.  Plans are well advanced for the Maldron Hotel Kevin Street, Clayton Hotel Charlemont, Maldron Hotel South Mall and Maldron Hotel Newcastle, all due to open later in the year.  Our strategy and the performance of these hotels will be closely monitored.	
Internal: Information	<b>14</b> Cyber Attack – Data Loss	The Group's information systems are subject to an external/internal <b>cyber event with the potential for data loss/theft, denial of service or associated negative impact</b> .	<ul style="list-style-type: none"> <li>&gt; Established IT security systems, procedures and controls</li> <li>&gt; External support and monitoring on cyber risks</li> <li>&gt; IT security review programme</li> </ul>	Considerable focus has been placed in this area during 2017. Additional IT security tools have been being implemented across the network and supporting policies and procedures are being rolled out. The Group has appointed external IT security expertise to provide guidance in this area. An external cyber security review was also completed in 2017 and the findings have been reviewed by the Audit & Risk Committee.  We plan to complete additional work in this area in 2018.	
Internal: Information	<b>15</b> Third-party system provider failure	There is a risk that the failure of a key third-party system provider to provide ongoing and continued access results in loss of system availability and reduced guest service.  This risk is increasing given the strategy of implementing Group-wide and cloud based business systems.	<ul style="list-style-type: none"> <li>&gt; Due diligence undertaken for new system providers with selection based on market presence and expertise</li> <li>&gt; Contracts in place</li> <li>&gt; Backup/recovery routines are in place with additional contingency plans should the risk arise</li> </ul>	During 2018 we invested heavily in new or enhanced business systems including our property management systems, accounting platform, procurement and time management systems, many of which are now cloud-based and Group-wide.  This has increased our risk profile in this area as many of these new systems are cloud-based, international systems that are operated on a single platform across the Group.	

## Viability Statement

In accordance with provision C.2.2 of the UK Corporate Governance Code, the Directors have assessed the long-term viability of the Group by analysing the Group's current position, trading performance, contracted capital expenditure and future prospects, in severe but plausible scenarios. The financial position of the Group, its cashflows, liquidity position and borrowing facilities are explained in the Financial Review on pages 26 to 35.

The Group considered the principal risks and uncertainties facing the Group and the impact of these crystallising, individually and in combination taking into account the Board's risk appetite and risk management strategy.

The Directors have assessed the prospects of the Group over a longer period than 12 months as required by the 'Going Concern' provision. The Directors reviewed the viability period and concluded that a three year period remained suitable. A three year period to December 2020 is considered appropriate as:

- › It coincides with the Group's current strategic planning horizon used for investment and development projects which is reviewed on an ongoing basis by the Board of Directors;
- › Aligns with the Group's risk assessment timeline of current risks facing the Group;
- › All current committed projects are expected to be completed during this period and in this way, the risks associated with this phase of development are fully considered; and
- › A longer period would lead to less certainty around market performance and expectations.

The Directors have carried out a robust assessment of the principal risks that could potentially threaten the business model, future performance, solvency or liquidity of the Group within the viability period. These risks are included in the risk section on page 38 to 41 and are linked to the overall Group strategy.

For the purposes of assessing the Group's viability, the Directors identified, that of these risks, the following are the most significant to the assessment of the viability of the Group:

- › Risks 1,2 (page 38): Risks relating to the general economic backdrop to the business involving the specific risks to the economic environment including Brexit and geo-political shocks.
- › Risks 9 (page 39), 11 (page 40), 13 (page 41): Risks relating to delays on significant capital developments

The other risks, are also deemed very important. However, these risks are difficult to model for sensitivity analysis as the financial impact would vary depending on the extremity of the situation. However, it is not believed that it would be as material to the Group as the risks that have been financially assessed and mitigating actions would be more easily taken to reduce the impact insofar as possible.

All these risks are managed through the adoption of the 'three lines of defence' risk management model, adapted for the Group's specific circumstances and are reviewed and discussed at each Audit and Risk Committee meeting.

Based on these risks, the Group has chosen robust downside financial scenarios which could affect the viability of the Group. The Group

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 Group operates. However, the Group carefully considers 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 Group 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 an economic downturn, a significant negative geopolitical event or a terrorist attack, hotel revenues may decline sharply as consumers reduce or alter their travel plans.

The Group has stress-tested its projections based on how the hotel market has reacted to previous economic and geopolitical shocks and the impact of new hotel openings being delayed by three months and considered what mitigating actions in terms of cost and cash management would be taken to protect the Group. The Group's operations are spread across close to forty locations, therefore it has focused on risks that would have a Group-wide impact as these pose a greater risk to Group viability. The Group also manages its debt profile to ensure it has adequate headroom to withstand a severe downturn/geo-political shock and is in compliance with existing banking covenants. In the general economic downturn/geo-political shock scenario, RevPARS were reduced by 25% within six months with a resultant impact on all other sales. If this was to occur, the Group would seek to take all necessary measures on a timely basis to ensure the viability of the Group. This would include adjusting strategic capital management to preserve cash including reducing, if necessary, any non-essential capital expenditure in addition to reducing the cost base

of the business. Under the scenario modelled, the Group also delayed the opening of new builds by three months, whilst making no adjustment to the capital expenditure committed.

In performing this analysis, the Directors have assumed that the Group will be able to refinance loan facilities sufficiently in advance of maturity of its current facilities in February 2020.

The above scenarios were firstly evaluated on a standalone basis, and then collectively. Once mitigation plans were applied to these scenarios, there was no threat to the viability of the Group. Sufficient available funds headroom was maintained in addition to being in compliance with all debt covenants at each semi-annual review date.

Taking into account the assessment performed and risk management controls in place, the Directors have reasonable expectations that the Group will continue in operation and meet its liabilities as they fall due for the three year period. It is recognised that such future assessments are subject to a level of uncertainty that increases with time and, therefore, future outcomes cannot be guaranteed or predicted with certainty.

Below: Clayton Hotel Chiswick



# Responsible Business Report



**Dear Shareholder,**  
**On pages 2 and 3 of this annual report we present the culture and values that spell out what Dalata stands for. There is nothing new here, as a company and as individuals we endeavour to go about our business in a responsible way.**

Before we listed as a public company, we were tested when, during the years of the financial crisis, our focus was on sustaining employment and at the same time working with our suppliers and shareholders to meet our financial obligations. During that time we continued to contribute in our communities, making our facilities available to support local organisations and promoting local employment.

Over the years we have not formalised a responsible business or sustainability strategy but we have been strategic in our outlook and true to our values, making strides each year to have a positive impact across a range of areas. Our focus has been on our stakeholders, our people, customers, suppliers, communities and investors taking account of our responsibility for health and safety and our impact on the environment. I am delighted to see our employee engagement measures heading steadily in the right direction and to report that we are supporting and promoting several smaller producers

of high quality food and beverage products. The enthusiasm and creativity of colleagues across the business to raise funds (and have fun) through our DalataDigsDeep charity initiative has been inspiring and is something to be truly proud of. We have also made important progress in energy and waste management, and above all, we have continually invested in our capacity to manage our health and safety risks in a responsible way.

In 2018 we plan to refine our approach somewhat, it will be evolution rather than revolution. We intend to broaden our engagement with our stakeholder groups to check-in and find out what is most important to them in terms of our environmental, social and governance responsibilities. As part of this process I look forward to hearing what is on the minds of you, our shareholders. We will prioritise what is most important and clarify the areas where we can have the most impact. This will bring a little

## DELIVERING OUR PROMISE

We are strategic in our approach to sustainability, making strides each year to have a positive impact across a range of areas.

more structure to what we do and report on in these pages, maybe even uncovering good work we're already doing that we're not telling you about. Whatever sustainable business initiatives we undertake in the future will continue to be aligned with our culture and values and with our business priorities, in other words, they will be in and of themselves sustainable.

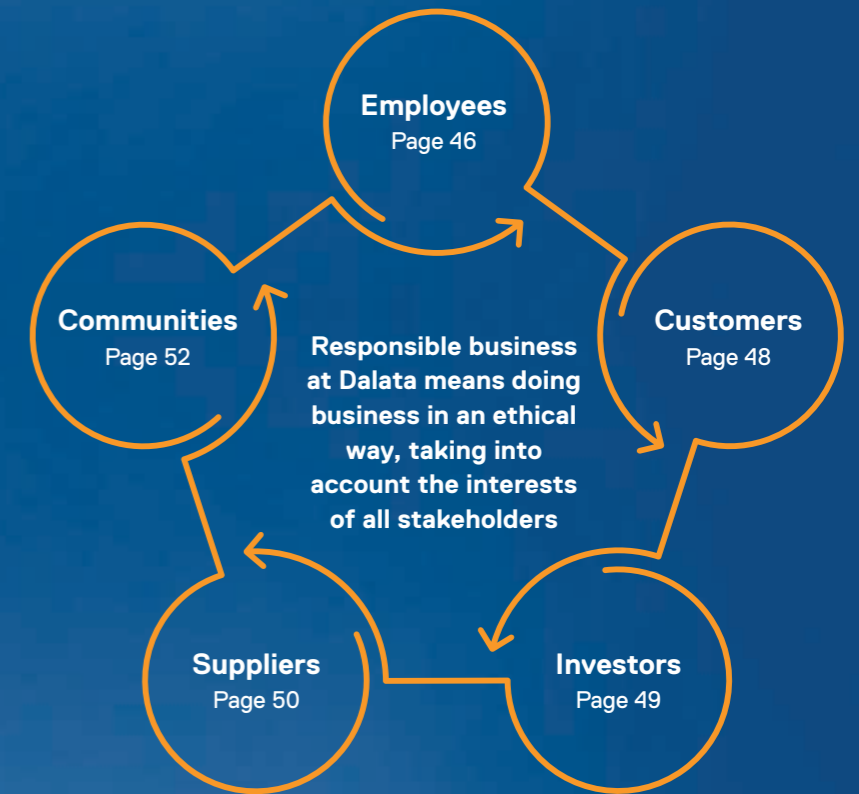
I look forward to continued progress and take this opportunity to thank all of my colleagues who take the lead in bringing our corporate values to life, doing important small things that we don't measure.

**Pat McCann**  
Chief Executive

## Our Responsible Business Approach

Our approach to responsible business 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. In 2018 we have started an internal review of our sustainability programmes and will develop a renewed strategy and vision. Through this we can enhance the Company's resilience to external environmental and social challenges while improving the experience of our customers.



Below: The Gibson Hotel, Dublin  
(A Clayton family member)





## Employees

We support the development and growth of our employees and aim to provide a safe environment for them to work in.

70%

of people feel there is opportunity to grow not just in their hotel but in the wider company.

88%

believe the customer is at the centre of everything we do.

84%

of people feel their manager trusts them to do a good job without looking over their shoulder.

### ENGAGING “OUR PEOPLE” AS A KEY TO SUCCESS

One of Dalata’s core Key Business Objectives is to “grow our own people” in order to retain and support succession throughout the group and maintain the talent pipeline for the success of the group. One of the company values is that of “Our People”. In order to achieve this, the company focuses on a robust training and development strategy along with driving employee engagement.

### “WHAT GETS MEASURED, GETS DONE”

They say “silence is golden” but this could not be further from our truth. Just like that of our customers the voice of our employees is golden. A cornerstone of our engagement strategy is our Employee Engagement Survey. We work with an independent provider to confidentially reach out to each and every one of our employees.

Our employee feedback allows us to reflect, review and improve on relevant things at Dalata. Ensuring we gain insight on retaining, motivating and engaging our employees and becoming an employer of choice in our industry is key to our people strategy.

This year 82% of our people took the time to give us their feedback, we have maintained strong engagement results year on year. We actively use this feedback to plan and review during the year with a commitment to ensuring Dalata is a great place to work.



We love to celebrate the success of Our People. In the last year alone, 18 of Our People were shortlisted at the Irish Hospitality Institute Annual Awards and Event Industry Awards recognising the best in our sector.

Outside of the industry awards our commitment to our people has been recognised by the Chambers of Ireland, HR & Leadership Awards, Early Career Awards, Facilities Management Awards, Accommodation Services Awards, Sandyford Business District Awards, and Caterer UK Awards. All were for strategies directly related to our people.

### HEALTH & SAFETY

To ensure the Health & Safety of our people, our training courses have been expanded and developed extensively. We also held Insurance workshops with all General Managers in the year to assist in dealing with types of claims that are experienced in the properties and help prevent reoccurrence.

81%

of our people believe their manager works well with other managers and leaders.

99%

of our central office believe that management is honest and ethical in its business practices.

Our HR and Company Secretarial Teams collecting the IPSA Awards for Best New Share Plan 2017 and Employee Share Plan Champion of the Year 2017.

## Save as you earn

The launch of our SAYE (Save as you Earn) scheme is another significant element of engaging “Our People”, by giving employees the opportunity to invest in their future with Dalata and also allowing the company to communicate our commitment to the future of our employees while supporting a strategic objective of our retention strategy.

The SAYE scheme is open to every employee with 3 months’ service regardless of their type of contract. To date circa 20% of eligible employees are participating in the scheme which allows participants to buy shares at the end of the three-year savings period at a price determined at the start of the saving period.

Employees in the SAYE scheme stand to make a good return on their savings, which although not guaranteed, comes with no downside risk.

The company is benefitting in two ways: a higher rate of retention and a greater sense of engagement from colleagues with the overall success

of the company, as they have a “sense of ownership”.

The list of approved SAYE schemes in Ireland is dominated by UK listed companies that establish schemes in the UK and then extend them into Ireland. We are so proud that Dalata is a great example of an Irish company that has expanded into the UK and been able to establish both an Irish and a UK SAYE scheme simultaneously. Dalata did not wait to see how an Irish SAYE launch fared before going into the UK; rather its commitment to employee share ownership was group-wide and it was committed to setting up both schemes at the earliest opportunity for all employees of the group.

Dalata sought to maximise access and inclusiveness when designing the SAYE schemes. For example, it ensured that it would be possible for SAYE purposes to aggregate continuous service across participating companies for employees who may move between hotel sites as part of the ongoing training and promotion programme.



## Customers

The comfort, safety and security of our guests is our primary concern.

### 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 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.

In 2017 we received and processed over 120,000 customer reviews. Our hotels achieved an overall performance score of 82%,

with 74% of our hotels increasing their score year on year. Out of the 120,000 reviews, 85% of these have been positive. We are always responding to do things better.

### HEALTH & SAFETY

Throughout 2017, there has been a strong emphasis and drive to continually develop and improve H&S awareness, policies and procedures within the Group.

Independent third-party Health & Safety Audits were carried out during the year in all properties, with additional criteria added to the audits during the year.

Firecloud365 is an app that was introduced in 2016 and is now active in all hotels. This gives us oversight and ensures full compliance with fire safety procedures in all our hotels on a daily basis.

During 2017 we introduced a new system to improve incident reporting and tracking. This is a valuable tool providing a central dashboard which will help us improve focus on trends and prevention of accidents.

A major program of PAT (Portable Appliance Testing), fixed wire testing and thermal imaging was rolled out in all properties. This 5-year programme ensures the hotels remain compliant with legislation, while also ensuring the safety of our guests and team members.

### ENVIRONMENT

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.

### 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 2017.

## Investors

We aim to manage our business in ways that are in tune with the sustainability objectives of our investors.

### INVESTORS

Executive management meets regularly with investors and potential investors, and receives regular input from brokers and advisors which is shared with the Board. We note increased concern about how companies manage their environmental, social and governance responsibilities and are responding to these concerns.

### Responsible procurement

As detailed in our Supplier section, Dalata works closely with all its suppliers to ensure an effective and

transparent supply chain. Our goals for our suppliers are for them to supply quality goods from ethical sources at competitive prices.

### Waste-Environment

We aim to be a sustainable business, 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.

### Build Smart

Central to our core objective of designing sustainable new hotels 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. In the UK we are targeting a high BREEAM (Building Research Establishment Environmental Assessment Method) rating which incorporates not only sustainable integrated design solutions for the hotel but also integrates that in an environmentally sustainable way that our customers, suppliers and staff interact with the operations and use of the hotel ensuring the

maximum possible enjoyment for customers as a result. As part of our commitment to provide the best integrated design solutions, our design teams also 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. Our design teams are therefore working to produce the optimum sustainable design solutions. These include Combined Heat & Power (CHP's) recovery technology and solar photovoltaic technology as our main renewable energy source. We will compliment these various technologies such as LED lighting, lighting controls, etc. Furthermore, our transport strategies, waste strategies and water and conservation strategies will be integrated to produce the desired LEED/BREEAM rating to produce a holistic environmentally sustainable hotel commensurate with its environment and with an excellent customer experience.

Below: The Italian Kitchen, Clayton Hotel Dublin Airport



## Case Study: Bord Gais Energy Initiative

In September 2017 Dalata contracted Bord Gáis Energy to supply the group with electricity sourced 100% from renewable electricity sources across Ireland and Europe incorporating technologies such as wind, solar and hydro.

### Summary of Savings from 2016 v 2017

- › Reduced 1,859,956 kWh YOY which is a 6% reduction

“Demonstrating a clear commitment to sustainability, Dalata Group has entered into a two year electricity supply agreement for circa 64 GWh of renewable electricity and is thereby contributing directly to Ireland and Europe’s ambitious green electricity targets.”

John Smyth, Key Account Manager, Bord Gais Energy

## Suppliers

We collaborate with suppliers to responsibly source quality assured products for our hotels.

### Our Approach to Supplier Relationship Management

We have a central purchasing team that works closely with our suppliers to ensure that the quality of all of our inputs is of the highest standard.

We develop our business through wholesale partnerships to find the best products to deliver on our brand promises.

In order to attain a listing with Dalata, food suppliers go through a detailed due diligence review that allows us to understand their compliance regime,

product traceability procedures, product recall procedures, country of origin certification, third party accreditations, temperature control procedures and microbiological testing regimes. We also make a variety of other enquiries and, for key suppliers, carry out our own inspection of facilities.

We like to develop relationships with our suppliers and gain assurance from working with producers, processors and manufacturers who demonstrate a good fit with our culture and values.



We also seek out and promote smaller producers of high quality products and provide them with distribution access to the group through our wholesale platform.

Here are some examples of our approach to procurement in action.

## Le Pâtissier

Le Pâtissier was started in 2013 from the kitchen table in Skerries. The concept was and still remains to create desserts and patisserie from basic ingredients, locally procured and Irish wherever possible. All our dairy is Irish including butter, milk, cream and cream cheese along with pasteurised free-range eggs from Co Cavan.

Based in Dublin 15 we have a team of 13 dedicated professionals with a common goal of delivering high end desserts and patisserie with passion and creativity.

Working closely with Darina and her team in Dalata we continue to develop bespoke menus to include various flavours, shapes and textures to offer a one stop shop for the hotels and corporate banquets alike.

**Robert Bullock, Le Pâtissier**



## Kaymed

King Koil has been in Ireland under license since 1982 and is now part of the Kaymed group.

“ King Koil is proud to partner the Dalata Hotel Group in ensuring the most comfortable night’s sleep for every guest. The Dalata Hotel Group was the first to design and brand its own custom made bed collection in partnership with King Koil. Each King Koil bed was carefully chosen by Dalata to meet the needs of different hotel brands and guest bedroom experiences. King Koil hotel beds are made by 300 skilled workers in Kilcullen, Co. Kildare and are renowned for their proven comfort, durability and value. King Koil is proud to work alongside Ireland’s leading hotel chain.”

**Conor Stapleton, Kaymed**

## Riverview Eggs

In 1966 Margaret Kelleher, of Riverview Eggs, with the help and support of her late husband, Dan Joe, started producing eggs on the home farm. In 2016, the Kelleher family celebrated its Golden Anniversary—50 years in business.

Providing employment for approximately twenty-four people in the local Watergrasshill area and a further forty on a national level, through its family operated production farms. All Riverview eggs are produced

to the very high Bord Bia EQAS and have achieved 'Grade A' status in the Retail Consortium Global Food Standard (BRC) accreditation. All production farms are family owned and operated as part of a family farm unit, which ensures the strictest controls and more “hands on” running of the farms.

Riverview have recently become the first food production company in Ireland to successfully complete a “GS1 Global Traceability Conformance Audit.”



## Communities

We support local communities by providing employment, engaging with society and taking care of our impact on the environment.

### Supporting Local Economies

Supporting our employees and developing them both professionally and personally while working with Dalata is a fundamental part of our

sustainability as an employer. In saying that we also turn our focus to the communities we work within and strive to become an employer of choice that provides future career paths for those who live in them. An excellent example of this strategy in action is our Hospitality Academy in Belfast which we set up in partnership with Belfast City Council and the Department for the Economy ahead of the opening in 2018 of our new build hotel – Maldron Hotel Belfast City.

The academy is a bespoke pre-employment programme aimed at those currently unemployed and living in the communities surrounding the hotel, with the objective of introducing them to the world of hospitality employment opportunities while upskilling them to be in an

excellent opportunity to obtain real jobs in the hotel.

Already we have seen strong interest with over 200 people attending pre-programme interviews with 75 people currently approved to complete the programme. The first offers of employment were made at the time of going to print. Many of the people we have met did not think of hospitality as a career or a job option but now are very excited about what the future holds for them.

This is a great example of how we find employees with the right attitude and behaviours and upskill them in the required department. This has been an excellent success and we look forward to replicating this academy model with our other new build hotels as we expand.

### Supporting Communities Dalata Digs Deep

We have now completed two years of our charity initiative “Dalata Digs Deep”. We have continued to support our three chosen charities in 2017 - Great Ormond Street Hospital (GOSH) in the UK, Cancer Focus in Northern Ireland and CMRF Crumlin, in the Republic of Ireland.

We closed out 2017 with a fundraising total across the group of over €500,000. In less than two years this is something we are extremely proud of, not only because of the benefit of this money to our chosen charities but because of the engagement, drive and involvement of our employees to get behind these causes, reach out to their communities and ensure that Dalata Digs Deep continues to be a success now and for the future.



" I would like to express sincere thanks to Dalata Hotel Group for your wonderful support of our work. Partnerships like that with Dalata Hotel Group allows CMRF Crumlin to make the greatest impact for sick children, you are making progress in children’s health possible. Your support is allowing more tailored treatments for Neuroblastoma which means less risk and fewer side effects for children affected by this cancer."

**Lisa-Nicole Dunne**  
CEO, CMRF Crumlin

## Case Study: Food Surplus Management

### 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.

In 2017 Food Surplus Management confirmed the following:

“ Dalata Hotel Group are leading the way in responsibly dealing with their food waste in the most sustainable way possible. The commitment by the management and staff to implement this service was a breath of fresh air and the benefits were immediately achieved. The key to good recycling in a food or hospitality business is the management of food waste. Good food waste management ensures better recycling, and greatly reduces the use of landfill which lowers the environmental impact of waste as well as the costs. Dalata have embraced this and continue to improve recycling across the group”.

**Niall J Lord, Managing Director Food Surplus Management Ltd**

#### Waste recycled & Recovered for Renewable Electricity

Material Details	EWC Code	Quantity (T)
Biodegradable Food Waste	02 02 03	643.6T

#### Renewable Energy Production and Recycling Information

Total Waste (Tons)	Renewable Energy Produced	CO2 emission on savings by diverting from landfill	Amount of Fertiliser Digestate
643.6T	257.4 MWh	321.8TT	128.7T

## Our Charity Partners

### Great Ormond St Hospital, UK

Our fundraising will pay for parental housing to ensure that there is accommodation near the hospital for patients to stay free of charge nearby. As a national hospital patients and their families come from all over the UK to the hospital. This ensures that there is one less worry for them when they want to stay near their ill little ones. Having a national presence in the UK we believe this is a very relevant cause for our people and their communities.

### Cancer Focus, NI

Our fundraising will support the salary of a cancer support nurse who will support the community patients and their family who are undergoing ongoing treatments. This outreach is one in which goes into the homes of those in the community and one is which is close to many of our employees.

### CMRF Crumlin

Due to the size of our presence in Ireland we have quickly become the largest corporate charity partner for CMRF Crumlin.

The €157k raised by Dalata Digs Deep in year one of the partnership for CMRF was distributed to commission a ground breaking research programme looking into new treatments for Neuroblastoma, a paediatric cancer. Dalata Hotel Group has committed to the sponsorship of this three-year project.

## Corporate Governance

**The Board is responsible for the stewardship of the Company, overseeing its conduct and affairs to create sustainable value for the benefit of its shareholders.**



Our Board visiting our new Maldron Hotel Belfast City build in May 2017. There they met with McAleer & Rushe, our development Contractors, who brought the Board Members around the site which was half way through its build.

From left to right: Pat McCann, Dermot Crowley, Séan McKeon, Margaret Sweeney, Alf Smiddy, Robert Dix, Stephen McNally and John Hennessy.

### Statement of compliance with the UK Corporate Governance Code 2016

The provisions of the UK Corporate Governance Code 2016 ("the 2016 Code") as issued by the Financial Reporting Council, were 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.

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

The Board considers that the Company has, throughout the year ended 31 December 2017, complied with all relevant provisions set out in the Codes.

## Chairman's Overview



**Dear Shareholder, 2017 was another busy year for the Board and in the following pages we try to give you a sense of the work that the Board and Committees have been doing over the course of the past year as well as describing the governance structures and processes that are in place and providing you with the information we are required to disclose legally and in accordance with applicable corporate governance codes.**

#### LEADERSHIP

There have been no changes in the composition of the Board or its Committees in 2017. The non-executive directors continue to retain their independence and have a high level of engagement with the business. Our meetings (which were held at a variety of company locations during the year and also included building site inspections at Belfast and Cork) provide an opportunity for the non-executive directors to challenge and give their input to the strategic development of the company in equal measure. The annual strategy day in June was one of the highlights of the year and the full board attended our capital markets event in London when our UK growth strategy was presented in detail to shareholders.

#### EFFECTIVENESS

The Board and Committees have access to adequate information and support to carry out their functions and during 2017 our annual performance evaluation was, for the first time, externally facilitated. The findings from this process were very positive and are outlined on page 68. Board members, in addition to individually dedicating time to their professional development, participated in a tailored roundtable training day facilitated by the Company Secretary. This year, in accordance with our re-election policy, all directors will be subject to re-election at the AGM.

#### ACCOUNTABILITY

The Audit & Risk Committee held seven meetings during 2017, with dedicated meetings convened to consider changes to accounting for depreciation of fixtures, fittings and equipment and to consider the potential effect of the implementation of IFRS 16 in 2019. The latter topic was the subject of a detailed presentation at the capital markets day. We also took time to listen to feedback on the quality of our public reporting which resulted in some changes in this year's annual report. During 2017 the company also made changes to the management structure to increase the focus on risk management and compliance.

#### REMUNERATION

We presented a new remuneration policy and LTIP at last year's

AGM and I am grateful for strong shareholder support for both initiatives which are designed to ensure executive remuneration is fair and that incentives are aligned with the interests of shareholders.

#### RELATIONS WITH SHAREHOLDERS





In addition to the executive directors' meetings with shareholders to coincide with results announcements and at other times throughout the year, the non-executive directors appreciated your input to the remuneration policy and LTIP development in the first quarter. We enjoyed meeting many of you at our capital markets day in London in November. The Annual General Meeting is also a very important opportunity for the directors to meet our shareholders and I look forward to meeting many of you at our AGM in May 2018.





I am proud to serve as 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

# Leadership

## Our Board of Directors

			
<b>John Hennessy (61)</b> Non-Executive Chairman	<b>Pat McCann (66)</b> Chief Executive	<b>Stephen McNally (53)</b> Deputy Chief Executive	<b>Dermot Crowley (50)</b> Deputy Chief Executive - Business Development & Finance
<b>Nationality:</b> Irish	Irish	Irish	Irish
<b>Date of Appointment:</b> 27 Feb 2014	28 Jan 2014 <sup>1</sup>	28 Jan 2014 <sup>1</sup>	28 Jan 2014 <sup>1</sup>
<b>Committee Membership:</b> Remuneration (Since February 2014) Nomination (Since February 2014)			
<b>Expertise</b> John 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.	Pat has over 47 years' 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. In 2000, he became Chief Executive of Jurys Doyle Hotel Group plc, a position he held until 2006. Pat founded and became Chief Executive of Dalata in 2007.	Stephen began his hotel career with Ramada Hotels in the UK and Germany before joining Jurys Hotel Group plc in 1989. In his 17 years with Jurys he managed hotels in the UK and Ireland before heading up operations for the entire group including its properties in the USA. In August 2007 he was appointed Deputy Chief Executive of Dalata Hotel Group. He is past President of the Irish Hotels Federation and is a member of the Government's Tourism Leadership Group.	Dermot is a fellow of Chartered Accountants Ireland. He previously worked with PriceWaterhouse Coopers, 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 with Ion Equity. He joined Dalata in 2012 as Deputy Chief Executive - Business Development and Finance.
<b>Other Directorships:</b> Non - Executive Chairman of CPL Resources  Non - Executive Director of H&K International Ltd	Non - Executive Director of a number of private companies.		

			
<b>Robert Dix (65)</b> Non-Executive Director	<b>Alf Smiddy (55)</b> Non-Executive Director	<b>Margaret Sweeney (57)</b> Non-Executive Director	<b>Sean McKeon (50)</b> Company Secretary, Head of Risk and Compliance
<b>Nationality:</b> Irish	Irish	Irish	Irish
<b>Date of Appointment:</b> 27 Feb 2014	27 Feb 2014	27 Feb 2014	28 Jan 2014 <sup>1</sup>
<b>Committee Membership:</b> Remuneration (Since February 2014) Audit & Risk (Chairman) (Since February 2014)	Nomination (Chairman) (Since February 2014) Audit & Risk (Since February 2014)	Remuneration (Chairman) (Since Feb 2014) Audit & Risk (Since July 2016) Nomination (Since Feb 2014)	
<b>Expertise</b> 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.	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 and Crawford plc. 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.	Margaret has held a number of senior positions including CEO of DAA plc and Postbank Ireland Limited. She was a Director in Audit and Advisory Services in KPMG and worked in the firm for 15 years. She is a Fellow of Chartered Accountants Ireland and a Chartered Director with the Institute of Directors.	Seán developed his career in retail and FMCG distribution with companies including Dunnes Stores, Keatings and Diageo plc. In 2017 he became Company Secretary and Head of Risk and Compliance for the group. 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.
<b>Other Directorships:</b> Non-Executive Chairman of Bank of Ireland, Private Bank and of the Quinn Property Group. Director and Chairman of the Audit Committee of Allianz plc and Actavo plc. Non- Executive Director of Glenveagh Properties plc.	Non-Executive Director, member of Audit & Risk Committee and Chairman of Marketing and Customer Committee of ESB. Chairman and Non-Executive Director of a number of private companies.	CEO and director of Irish Residential Properties REIT plc. Director HSBC Institutional Trust Services (Ireland) DAC.	

<sup>1</sup> Pat McCann and Stephen McNally were founder Directors of Dalata in August 2007. Seán McKeon joined the Group and was appointed Company Secretary in November 2007 and Dermot Crowley joined in November 2012 and was appointed a Director in May 2013. Dalata Hotel Group plc was registered in November 2013 and listed on the Irish and London Stock Exchanges in March 2014.

## Leadership

### Executive Management Team



1. Shane Casserly



2. Stephen Clarke



3. Caitriona Conroy



4. Emma Dalton



5. Patrice Lennon



6. Duncan Little



7. Niall Macklin



8. Paul Moloney



9. Martha Mannion



10. Michael McCann



11. Macarten McGuigan



12. Tony McGuigan



13. Anthony Murray



14. Josephine Norton



15. Conal O'Neill



16. Carol Phelan



17. Joe Quinn



18. Keith Rynhart



19. Adrian Sherry



20. Dawn Wynne

**1. Shane Casserly** is Head of Strategy and Development. 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.

**2. 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.

**3. 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 Jurys Doyle Hotel Group. Caitriona holds a BA in Social Science from UCD.

**4. Emma Dalton** is UK Group General Manager. She joined Dalata in October 2007 as General Manager of the Maldron Hotel Limerick and opened the Clayton Hotel Cardiff in 2011. She was appointed

UK Group General Manager in July 2017. Emma previously worked with Jurys Doyle Hotel Group and is a graduate of Galway Mayo Institute of Technology.

**5. 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.

**6. Duncan Little** is Group Capital and Project 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.

**7. 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.

**8. 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 Master's 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.

**9. 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).

**10. Michael McCann** is Head of Ancillary Revenue. 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.

**11. 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.

**12. Tony McGuigan** is Head of Purchasing/Food and Beverage. 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.

**13. 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.

**14. 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.

**15. 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.

**16. Carol Phelan** is Group Head of Financial Reporting, Treasury and Tax 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. Carol is a fellow of Chartered Accountants Ireland and holds a First Class Honours Master of Accounting from UCD Michael Smurfit Graduate Business School.

**17. 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).

**18. 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.

**19. 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.

**20. Dawn Wynne** is the Head of Human Resources 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

## Corporate Governance Framework

### BOARD

**Chairman, Chief Executive Officer,  
Deputy Chief Executive Business Development & Finance  
Deputy Chief Executive, and three Non-Executive Directors**

#### THE BOARD IS GOVERNED BY:

- › A schedule of Matters reserved for the Board which sets matters that only can be decided by the Board
- › Terms of Reference for Committees which set out matters the Board has authorised the Committees to deal with
  - › Terms of reference are available on the Group's website at [www.dalatahotelgroup.com](http://www.dalatahotelgroup.com)

### OUR COMMITTEES

Nomination Committee	Audit & Risk Committee	Remuneration Committee
<ul style="list-style-type: none"> <li>› Three Independent Non-Executive Directors</li> <li>› Leads the process for Board appointments and re-election, succession planning of Directors and the Chairman and Board Performance Evaluation</li> <li>› Committee Report on pages 70 to 71</li> </ul>	<ul style="list-style-type: none"> <li>› Three Independent Non-Executive Directors</li> <li>› Responsible for overseeing the Group's financial reporting, internal and external audit, internal control and risk management system</li> <li>› Committee Report on pages 72 to 77</li> </ul>	<ul style="list-style-type: none"> <li>› Three Independent Non-Executive Directors</li> <li>› Responsible for advising the Board on remuneration of Executive Directors and setting an overall policy for remunerating the Group's employees.</li> <li>› Committee Report on pages 78 to 89</li> </ul>

### CHIEF EXECUTIVE OFFICER

Executive Risk Committee	Disclosure Committee
<ul style="list-style-type: none"> <li>› Head of Risk and Compliance and Group Senior Managers</li> <li>› The Committee meets regularly during the year to review and consider the Groups risk management policy and risk register.</li> </ul>	<ul style="list-style-type: none"> <li>› Chief Executive Officer, Deputy Chief Executive Business Development &amp; Finance and Company Secretary</li> <li>› The Committee meets regularly during the year to consider the Group's disclosure obligations and to review results announcements prior to release</li> </ul>

### Executive Management Team

Chief Executive Officer, Deputy Chief Executive Business Development & Finance,  
Deputy Chief Executive

### LEADERSHIP

#### 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 56 to 57. 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 70 to 71. The Nomination Committee has reviewed the composition of the Board during 2017. 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 56 and 57 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 process, providing advice and judgement to the Chairman as necessary, serving 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 Deputy Chief Executive, Business Development & Finance.

#### 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.

#### 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, Company Secretary, and Senior Managers. Detailed biographies of the Executive Management Team are set out on pages 58 and 59.

#### 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 2017

During 2017, 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 Chairman and the Non-Executive Directors met as a group without the Executive Directors from time to time throughout the year.

#### Number of Board Meetings attended by Directors:

Member	No. of meetings
John Hennessy	8/8
Patrick McCann	8/8
Dermot Crowley	8/8
Stephen McNally	8/8
Margaret Sweeney	8/8
Alf Smiddy	8/8
Robert Dix	8/8

## EFFECTIVENESS

#### Meetings

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.

During the year the Board spent significant time considering the Company's key strategic projects, receiving deep dive management presentations and comprehensive updates. Projects included the Sale and Leaseback of Clayton Hotel Cardiff and Hotel La Tour, Birmingham and also signing of agreements to lease new hotels on completion in Manchester and Glasgow.

In May the Board went to Belfast, to visit the construction site of our new Maldron Hotel opening in 2018. They met with the new General Manager of the Hotel and had a tour around the site.

In June they held a strategy day, where they spent the day considering the Group's strategy for the coming years. The Board regularly have discussions on strategy at the majority of Board meetings.

#### 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.

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.

#### 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 2016 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 2017.

Photo: Meeting Room, Clayton Hotel Chiswick



## Our Board During 2018

Board and Committee meetings are held at different locations throughout the year allowing non-executive directors to engage with the business. Meeting agendas are designed to comprehensively cover oversight responsibilities of the Board and the duties of the Committees.

The Board reviews financial results and receives updates from operations, and acquisition and developments at each regular meeting. Here is a summary of our activity and a selection of highlights from 2017.

January	February	March	April	May	June
<b>Clayton Hotel Dublin Airport</b>  <b>Board</b> <ul style="list-style-type: none"> <li>&gt; Review planned extension with General Manager</li> <li>&gt; Strategy scope</li> </ul>	<b>Clayton Hotel Ballsbridge</b>  <b>Board Remuneration Nomination</b> <ul style="list-style-type: none"> <li>&gt; Full year results</li> <li>&gt; 2017 LTIP</li> </ul>	<b>Clayton Hotel Ballsbridge</b>  <b>Remuneration</b> <ul style="list-style-type: none"> <li>&gt; Vesting 2014 LTIP</li> </ul> <p><b>No board meeting in March.</b></p> <ul style="list-style-type: none"> <li>&gt; Post-results Shareholder engagement</li> </ul>	<b>Clayton Hotel Silver Springs Cork</b>  <b>Board Remuneration</b> <ul style="list-style-type: none"> <li>&gt; Visits to three hotels and South Mall site</li> <li>&gt; Portlaoise, Liffey Valley and Cardiff Lane acquisitions</li> <li>&gt; Cardiff sale and leaseback</li> <li>&gt; Employee engagement</li> </ul>	<b>Clayton Hotel Belfast</b>  <b>Board Remuneration</b> <ul style="list-style-type: none"> <li>&gt; New Maldron Hotel site inspection</li> <li>&gt; Market research and customer sentiment</li> </ul>	<b>Churchtown House, Dublin</b>  <b>Board Strategy Day</b> <ul style="list-style-type: none"> <li>&gt; Five year strategy</li> <li>&gt; UK market analysis</li> </ul>
<b>Central Office Dublin</b>  <b>Audit and Risk</b> <ul style="list-style-type: none"> <li>&gt; Risk review</li> <li>&gt; Finance and purchasing systems</li> </ul>	<b>Gibson Hotel Dublin</b>  <b>Audit and Risk Remuneration</b> <ul style="list-style-type: none"> <li>&gt; Full year results</li> <li>&gt; Annual Remuneration Policy</li> </ul>			<b>Maldron Hotel Pearse St, Dublin</b>  <b>Audit and Risk</b> <ul style="list-style-type: none"> <li>&gt; Health and safety</li> <li>&gt; Self-Insurance</li> </ul>	

July	August	September	October	November	December
<b>Maldron Hotel Limerick</b>  <b>Board Nomination Audit and Risk</b> <ul style="list-style-type: none"> <li>&gt; Hotel La Tour acquisition</li> <li>&gt; Depreciation review</li> </ul>	<b>Central Office Dublin</b>  <b>Audit and Risk</b> <ul style="list-style-type: none"> <li>&gt; Interim results</li> <li>&gt; EY IT risk review</li> </ul>	<b>Clayton Hotel Burlington Road</b>  <b>Board</b> <ul style="list-style-type: none"> <li>&gt; Interim results</li> <li>&gt; Liffey Valley Suites</li> <li>&gt; Maintenance capex update</li> <li>&gt; Electricity tender</li> <li>&gt; SAYE offer</li> </ul>	<b>Clayton Hotel Birmingham</b>  <b>Board Audit and Risk</b> <ul style="list-style-type: none"> <li>&gt; Development projects detailed review</li> <li>&gt; IFRS 16 analysis</li> </ul>	<b>Clayton Hotel Chiswick</b>  <b>Board Training</b> <ul style="list-style-type: none"> <li>&gt; MIFID2</li> <li>&gt; IT Strategy</li> <li>&gt; Sustainability</li> <li>&gt; Governance</li> </ul>	<b>Gibson Hotel Dublin</b>  <b>Board</b> <ul style="list-style-type: none"> <li>&gt; Board evaluation</li> <li>&gt; Budget 2018</li> </ul>
			<b>Maldron Hotel Dublin Airport</b>  <b>Audit and Risk</b> <ul style="list-style-type: none"> <li>&gt; Cybersecurity</li> <li>&gt; Tax</li> <li>&gt; External Audit plan</li> </ul>		<b>Maldron Hotel Pearse St, Dublin</b>  <b>Remuneration</b> <ul style="list-style-type: none"> <li>&gt; Companywide Remuneration</li> <li>&gt; Market review</li> <li>&gt; 2018 proposals</li> </ul>

### 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 2017. 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 November 2017, each Non- Executive Director confirmed that they had been able to allocate sufficient time to discharge their responsibilities effectively during 2017.

### 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 2017.

### 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.

In November 2017, a Directors' Training Day was facilitated by the Company Secretary and was attended by both Executive and Non- Executive Directors. The topics covered included an update on MIFID 2 and developments in sustainability, non-financial reporting and governance.

### Information Flow at Board Meetings

Formal board meetings are held approximately ten times per year. Prior to each board meeting the Directors receive their papers on a fully encrypted electronic portal

system. Included in these papers are detailed monthly accounts together with reports from the Chief Executive, Deputy Chief Executive Officer, and Deputy Chief Executive – Business Development and Finance.

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

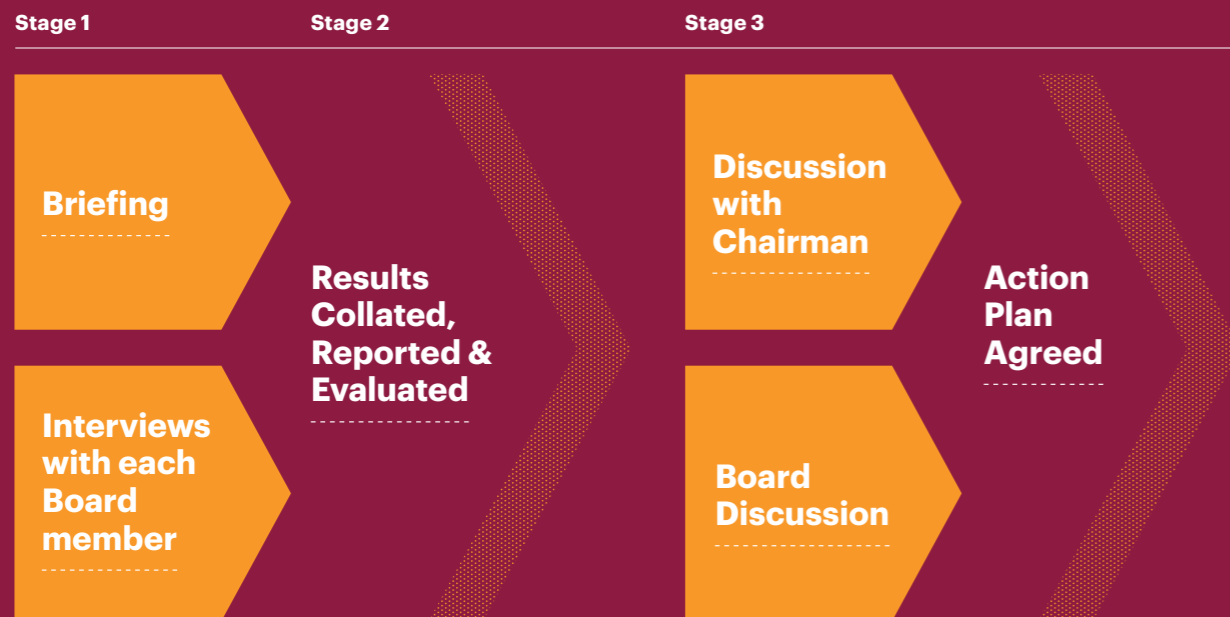
The structure of the Executive Management Team and the open communication approach in the

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

In 2017 the Board evaluation was externally facilitated for the first time.



### Board Evaluation

The assessment of the Board was conducted according to the guidance in the 2016 Code and was facilitated by Mr Geoffrey Shephard of ICSA Board Evaluation ("the Evaluator"). Neither Mr Shephard nor ICSA Board Evaluation has any other connection with the Company aside from the provision of the Board evaluation.

#### Stage 1

A comprehensive brief was given to the Evaluator by the Chairman and the Chair of the Nomination Committee in October 2017.

In October, detailed one-to-one interviews were conducted with each Board member. All participants were interviewed on the following topics

- > Board Responsibilities
- > Oversight
- > Board Meetings
- > Support for the Board

- > Board Composition
- > Working together
- > Outcome and achievements

#### Stage 2

The report was compiled by the Evaluator, based on the information and views supplied at the interviews. All recommendations in the report subsequently were based on best practice as described in the 2016 Code and other corporate governance guidelines.

#### Stage 3

Draft conclusions were discussed initially with the chairman and subsequently with the whole Board at its meeting in December, with Mr Shephard present. The conclusion of the discussion was recorded in the minutes of the meeting.

#### Board Review Insights 2017

The broad message from the report was that the Board and committees work very well together and are clearly aware of the need to build on

the Company's success and to avoid complacency.

The directors felt the re-organisation of the Company Secretary's duties had been successful and had produced the desired results.

The following items were recommended and will be on the Board's agenda for 2018,

- > instituting a formal process for approval by the Board for selecting new Board members.
- > attention to the definition of the company's key values.
- > the Chairman and Company Secretary review the content of each Board agenda to ensure that papers are fit for purpose and that only essential items are included.
- > establishing a formal induction process for new directors in readiness for new appointees.

### 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 2016 Code, the Board has decided that all Directors should retire at the 2018 Annual General Meeting and offer themselves for re-election.

### ACCOUNTABILITY

#### Audit and Risk Committee

The report of the Audit and Risk Committee on pages 72 to 77 sets out in detail the work of the Committee in providing assurance to the Board in relation to the company's financial reporting, risk management and internal control environment.

#### 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 pages 42 to 43.

### Risk Management

On page 36 we explain 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.

#### 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 38 to 41.

#### 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 22 February 2018.

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

Photo: Maldron Hotel Pearse Street, Dublin



**REMUNERATION**

Details of Directors' Remuneration are set out in the Remuneration Committee Report on pages 78 to 89.

**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 87. 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 Board promotes open communication with shareholders. This is formalised within the framework of an ongoing investors relations programme conducted by the CEO and/or Deputy Chief Executive Officer – Business Development and Finance. The programme includes the presentation of preliminary and half-year results, which can be accessed on [www.dalatahotelgroup.com](http://www.dalatahotelgroup.com) and a large number of meetings with existing shareholders and potential investors throughout the year. The Company makes every effort to ascertain investor perceptions and regular reports of investor and analyst

feedback are provided to the Board. During 2017, over 250 separate meetings and conference calls were held with existing and prospective shareholders. The meetings focused primarily on the Group's trading operations and the Group's strategy.

The Chairman of the Remuneration Committee engaged with shareholders representing approximately 70% of the share register during 2017 on the Directors Remuneration Policy and feedback received was considered by the Remuneration Committee and the Board. An Investor Day was held in November 2017 at our Clayton Hotel Chiswick London, which was attended by all members of the Board. This provided shareholders, fund managers and analysts an opportunity to visit the newly renovated Clayton hotel and to talk to members of the Board.

The Company maintains regular dialogue with key relationship banks which includes semi-annual meetings with presentations from the Executive Finance Management Team.

All shareholders are entitled to attend the AGM. Shareholders are given the opportunity to lodge their votes by way of proxy and/or to attend the meeting in person where they have the opportunity to ask questions of the Board, including the chairs of the Board Committees, vote by way of a poll and meet informally with the Directors to discuss any issues they may wish to raise.

In line with the authority given at its 2015 AGM, the Company uses its website and email as the primary means of communication with its shareholders. This arrangement provides significant benefits for

shareholders and the Company in terms of timeliness of information and reduced environmental impact and cost. Shareholders may still opt to receive their communication in a paper format. The Company's corporate website ([www.dalatahotelgroup.com](http://www.dalatahotelgroup.com)) contains information for shareholders, including share price information and regulatory announcements.

**Annual General Meeting**

The Annual General Meeting will be held on 3 May 2018 at the Clayton Hotel Dublin Airport, Stockhole Lane, Swords, County Dublin. 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 2016 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 Chairs of the various Committees and its Committee members. 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.



Globe Bar, Clayton Hotel Chiswick, London

Opposite:  
Grain & Grill Restaurant,  
Maldron Hotel Newlands Cross, Dublin



# Nomination Committee Report



## Principal Responsibilities

- › 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.
- › 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 input required from Non-Executive Directors.

A copy of the Committee's terms of reference can be found on the Group's website: [www.dalatahotelgroup.com](http://www.dalatahotelgroup.com)

## Dear Shareholder, I am pleased to present to you the report of the Nomination Committee for 2017.

The Committee has been very active during 2017, meeting on three occasions and covering a range of topics including succession planning and senior management development, committee appointments, the role of the Company Secretary, board evaluation, training activities, and policy review in the areas of evaluation, diversity and board re-election.

Our board comprises the Chairman (independent upon appointment), three executives (CEO, and two deputy CEOs) and three independent non-executive directors. Each non-executive director sits on more than one committee and it is customary for the committee chairman to invite attendance by non-member, non-executive directors to attend meetings. This lends to good communication across the non-executive cohort which is particularly helpful. For my own part, attendance at the Remuneration Committee in 2017 has allowed me to contribute to the development of the remuneration policy and also to gain insight to the management structures within the organisation as a whole from hearing the Group Head of HR's presentation on companywide remuneration structures.

## ACTIVITIES FOR 2017

### Succession

The Board is committed to effectively managing leadership succession and proactively engages with the senior management team to assess the executive talent pool. The Committee and the Board receives regular contributions from individuals in the wider executive group at meetings of the Board and Committees throughout the year. These contributions are valuable for our decision making and have helped the Non-Executive Directors to develop a clear understanding of the strength of the management team.

The Committee is also active in promoting personal leadership development plans for the senior team, monitoring progress throughout the year. Succession planning is designed to consider the planned process of transition to new leadership over time and also the potential for unforeseen change over a shorter timeframe.

The Committee keeps in touch with the talent development process throughout the organisation, conscious of the strategic importance

of promoting from within as far as possible to support the Company's growth plans as set out in the Strategic Report.

### Board and Committee Composition

Following changes in the composition of both the Audit & Risk Committee and Nomination Committee in 2016, the Committee reviewed progress and considered feedback gathered in the 2016 Board evaluation, concluding that the committees were working well. Accordingly, no changes in the membership were recommended for 2017.

### Board Performance Evaluation

The Board, on the Committee's recommendation appointed the Institute of Chartered Secretaries and Administrators (ICSA) to facilitate the 2017 board evaluation. The findings from this independent evaluation, based on in-depth interviews with each Director, were very positive and provided a number of valuable insights and recommendations which we will follow up on in 2018. The process and the outcomes are set out in more detail in the Governance Report on page 66.

### Board Training

In November the board held its second annual training day at Clayton Hotel Chiswick. The training day is an important date in our calendar where we invite subject matter experts from outside the company (and some internal) to present to the Board in an informal roundtable setting on topics of strategic importance to the Company and the Board. This year we debated with our guest speakers:

- › the implications for MIFID 2 for the Company
- › the past present and future of ICT development within Dalata
- › our strategy and the market environment in the UK
- › what our annual report reveals about our approach to corporate governance
- › our strategic approach to sustainability

These presentations and discussions provided valuable insights and stimulated debate, adding appreciable value to the work of the Board.

### Diversity

The Committee reviews the Board Diversity Policy annually and did so most recently at its December 2017 meeting. The policy acknowledges that an effective Board will include and make good use of differences in the skills, regional and industry experience, background, race, gender and other distinctions between Directors and emphasises that in identifying suitable candidates for appointment to the Board, the Committee will consider candidates on merit against objective criteria, with due regard for the benefits of diversity on the Board.

### Role of the Company Secretary

In light of the growth of the business and the increasing complexity of the regulatory environment the Committee considered that the Company had reached the point where the Company Secretariat merited dedicated resource, independent of the finance function. In May 2017, Company Secretary Seán McKeon, who was also responsible for financial management, was appointed Company Secretary and Head of Risk and Compliance, reporting to the Chairman and CEO. The change has been well received and is a boost to the effectiveness of the Company's risk and compliance management processes. This change has also brought a greater focus to environmental, social and governance matters and provides a platform for increased engagement with shareholders in this area in the future.

### Committee meetings

The Committee comprises of three independent, non-executive directors, Alf Smiddy (Chairman), John Hennessy and Margaret Sweeney.

Details of attendance at meetings in 2017 are outlined in the table below.

Member	No. of meetings
Alf Smiddy	3/3
John Hennessy	3/3
Margaret Sweeney	3/3

Robert Dix, non-executive director, also attended each meeting during 2017.

### PRIORITIES FOR 2018

The Committee will continue to focus on succession planning and talent development for both the Board and the Executive Management Team in 2018. We also continue to monitor board composition in light of the group's expansion and of the future governance needs of the Company. Finally, it was great to meet a number of you at the AGM in May and our capital markets event in London in November, as the Company grows and develops, I look forward to participating in events which support the board's engagement with all of our stakeholders.

**Alf Smiddy**  
Chairman,  
Nomination Committee

## Audit & Risk Committee Report



### Role of the Committee

- › Monitor the integrity of the Group's financial statements, accounting policies and the key judgements made in the financial statements.
- › Assess whether the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.
- › Oversee the Group's relationship with our External Auditor.
- › Review the effectiveness of the Group's internal control systems.
- › Monitor the Group's risk management systems and the identification of our principal risks.
- › Monitor the effectiveness of the Internal Audit function.
- › Review the Group's compliance framework.
- › Monitor health, safety and operational risks and the Group's insurance programmes.

A copy of the Committee's terms of reference, which were updated in January 2018 can be found on the Group's website: [www.dalatahotelgroup.com](http://www.dalatahotelgroup.com).

### Dear Shareholder, As Chairman of the Audit and Risk Committee (the 'Committee') I am very pleased to present the Committee's report for 2017. It has been a busy year for the Committee, we have covered a wide range of matters within our remit, and I outline these in the following sections.

On the financial reporting front, as outlined on pages 74 and 75 most of the significant accounting judgements arise from the acquisition activity of the Group, whether during 2017 or the valuation of assets acquired in previous years. The company seeks the advice of qualified independent experts to determine the value of property and also consults with external accounting experts on occasion to confirm its approach on finer technical points. I am happy to report that in making the important judgement calls, the Committee's view in all cases was endorsed by the External Auditor.

As the business grows the risks evolve and the compliance environment becomes more complex. During the year the Company invested further resources in risk management and the Committee expects to see ongoing improvement in the Company's risk management capacity in 2018.

We maintain a very good working relationship with the External Auditor who attends all of the Committee's meetings. The Committee also meets the External Auditor without management present following the presentation of their report on both the interim and full year financial statements.

In 2017 we held two additional meetings in order to deal in depth with specific accounting matters. In June we received a presentation on the estimates of useful lives for fixtures, fittings and equipment. The evidence presented strongly supported the adoption of a more granular approach to depreciation of guestroom fixtures, fittings and equipment, in particular. In October we reviewed, with the finance team, the likely impact of IFRS 16 *Leases*, which when adopted will have a significant effect on our accounts. We shared our findings with you

at our capital markets event in November, which I attended, and I believe our proactive work in this area was well received by those who analyse our financial data.

Our Internal Audit team led by Macarten McGuigan continues to provide assurance through detailed reporting at each of our meetings.

The Committee proactively monitored the design, project management and installation of new financial and procurement systems during the year. These have been significant changes. The Committee also receives updates on the development of human resources in the finance function and regularly invites members of the finance team to attend and participate at Committee meetings.

We monitor carefully the management of health and safety and operational risk. The Group operates a self-insurance programme and the Committee invites the Company's insurance broker and claims advisor to present annually on the management of claims and assessment of losses.

During the year the Company received correspondence from the Irish Auditing and Accounting Supervisory Authority (IAASA) with enquiries in relation to our 2016 accounts. We were happy to engage with IAASA and I believe that the presentation and disclosures in this year's financial statements reflect a number of suggestions made by the regulator.

The Committee considered the requirements of the Irish Companies Act 2014 in relation to the Directors' Compliance Statement, and is satisfied that appropriate steps have been taken to ensure full compliance by the Company with these requirements.

The Committee reviewed the draft Going Concern and Viability Statement prior to recommending it for approval by the Board. The Viability Statement is included in the Risk Management Report on pages 42 and 43.

Looking to 2018 I expect the Committee to be no less busy as the business proceeds with its planned expansion. Cyber security will stay on our agenda as well as the implementation of the enforcement provisions of the General Data Protection Regulation (GDPR), in addition to the day to day business.

You may be assured that the Audit and Risk Committee will maintain its proactive approach and engagement with management to maintain high standards of accountability across the Group.

**Robert Dix**  
Chairman,  
Audit & Risk Committee

### SIGNIFICANT FINANCIAL JUDGEMENTS FOR 2017

In considering the Group's financial statements for 2017 the Committee reviewed a number of key judgement areas. These were reviewed with Group Finance, Executive Management and KPMG at our meetings. These related to the following areas.

Matter	Judgements
<p><b>Accounting for acquisitions</b></p> <p>The Group completed a number of business combinations and asset purchases during the year.</p>	<p>During 2017, the Group completed the acquisition of two hotels, which were accounted for as business combinations, Clarion Hotel, Liffey Valley and Hotel La Tour Birmingham. Details of both transactions are set out in note 9 to the Group consolidated financial statements on page 130.</p> <p>The Group completed a number of property transactions during the year including the purchase of long leasehold interests and freehold interests in certain properties, the details of which are outlined on page 138 in note 11 to the Group consolidated financial statements. 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, as reported to them by management.</p> <p>Based on the above, the Committee is satisfied that the assumptions used and judgements made for business combinations 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 Group consolidated financial statements.</p>
<p><b>Sale and leaseback transactions</b></p> <p>The Group completed two sale and leaseback transactions during the year.</p>	<p>The Group completed the sale and leaseback of Clayton Hotel Cardiff and Hotel La Tour, Birmingham during 2017, the details of which are also set out in note 11 to the Group consolidated financial statements on page 138. Both of the resulting leases were classified as operating leases.</p> <p>Management have reported in detail to the Committee in relation to the key judgements underpinning the classification of these leases as operating leases. In addition, the Committee discussed these transactions during the year with management and with the External Auditor.</p> <p>The Committee is satisfied that the assumptions used and judgements made in accounting for these transactions are reasonable, that these leases have been correctly accounted for as operating leases and that appropriate disclosures are included in the Group consolidated financial statements.</p>
<p><b>Building revaluations</b></p> <p>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.</p>	<p>The net carrying value of land and buildings at 31 December 2017 was €848.8 million (note 11, page 138). 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.</p> <p>Management has engaged appropriately qualified professional valuation specialists to determine the value attributable to land and buildings.</p> <p>Management have reported in detail to the Committee in relation to the valuation, as determined by suitably qualified professional valuers, of land and buildings at 31 December 2017. The Committee has discussed the valuation approach and allocation approach undertaken with management. 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 Group consolidated financial statements.</p>

Matter	Judgements
<p><b>Depreciation and estimated useful lives of fixtures, fittings and equipment</b></p> <p>The Group revised its estimate of the useful lives of fixtures, fittings and equipment.</p>	<p>During 2017, the Group revised its estimate of the useful lives of its fixtures, fittings and equipment. The details of this change in accounting estimate are outlined at the start of note 1 to the Group consolidated financial statements on page 108.</p> <p>Management have reported in detail to the Committee in relation to the determination of useful lives of the Group's fixtures, fittings and equipment. The Committee has reviewed the key assumptions and estimates used by management. Through discussion with management and considering the findings of the External Auditor, the Committee is satisfied that they are reasonable and that the estimated useful lives have been determined appropriately.</p> <p>Accordingly, the Committee is satisfied that the depreciation of fixtures, fittings and equipment is correctly stated in the Group consolidated financial statements.</p>
<p><b>Carrying value of goodwill</b></p> <p>Detailed impairment reviews are undertaken on an annual basis to determine whether the carrying value of goodwill is impaired.</p>	<p>Goodwill amounted to €33.4 million at 31 December 2017 (2016: €33.8 million).</p> <p>The carrying values of hotel cash-generating units (CGUs) 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 valuations prepared by the qualified professional valuation specialists and other factors. The assumptions utilised by management in conducting these analyses are disclosed in note 10 to the Group consolidated financial statements and include projected cash-flows for future revenue and costs, terminal value multiples and discount rates.</p> <p>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.</p> <p>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 these are reasonable. As the recoverable amounts of the CGUs were determined to be higher than their carrying values at 31 December 2017, no impairment of goodwill was recognised.</p> <p>Accordingly, the Committee has concluded that the carrying value of goodwill is appropriately stated at 31 December 2017 and that the disclosures included within note 10 of the Group consolidated financial statements are adequate.</p>
<p><b>Carrying value of other indefinite-lived intangible assets</b></p> <p>Other indefinite-lived intangibles represent the value of the Group's leasehold interest in respect of The Gibson Hotel, which was acquired in 2016.</p>	<p>The carrying value of other indefinite-lived intangible assets at 31 December 2017 amounted to €20.5 million, which represents the value of the Group's leasehold interest in The Gibson Hotel, Dublin.</p> <p>Management reviewed the useful life of this asset and concluded based on the existence of renewal rights and the intention of the Group to exercise such rights in the future, that the indefinite useful life remains appropriate. Following discussions with management and the External Auditor, the Committee is satisfied that this is reasonable.</p> <p>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 this intangible asset at 31 December 2017 on a value-in-use basis. The External Auditor has also reviewed the underlying assumptions and supporting calculations. Based on discussions with management and considering the External Auditor's findings, 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 2017.</p> <p>Accordingly, the Committee has concluded that the carrying value of intangible assets is appropriately stated at 31 December 2017 and that the disclosures included within note 10 of the Group consolidated financial statements are adequate.</p>

**EXTERNAL AUDIT**

Our External Auditor, KPMG, was appointed in 2014 and reappointed in 2016, when the Company became an EU Public Interest Entity (EU PIE) following its admission to the main markets of the Irish and London Stock Exchanges. Our audit partner since 2014 is Sean O'Keefe. The Group has no current plans to tender for this service, though the Group is cognisant of the EU Audit Regulation and Directive requirements on auditor rotation, which are monitored on an ongoing basis.

KPMG attend each of our Committee meetings and, in October/November of each year, present to us a detailed document setting out their audit scope, materiality and assessment of key risk areas for the statutory audit. We review this in detail prior to the commencement of the audit process. A similar document is also prepared for the interim accounts review, usually at our May/June meeting. We meet with the External Auditor privately on a regular basis throughout the year, usually coinciding with the publication of our financial statements.

The Group also uses KPMG for the provision of non-audit services, usually relating to Group transactions or one-off areas of technical advice. The Committee monitors the provision of these services and are advised, in advance by management, of the rationale behind their proposed appointment and the business reasons for the work.

Tax advisory assignments carried out by KPMG in 2017 related to assessment of capital allowances, transfer pricing analysis, the acquisition of the Clayton Hotel Cardiff Lane and Clayton Hotel Liffey Valley, review of corporation tax returns, review of tax provisions, and various smaller acquisition-related and ad-hoc enquiries. Other non-audit services included financial due diligence in

relation to the acquisition of Clayton Hotel Birmingham (formerly Hotel La Tour Birmingham), reporting for landlords on turnover rents, sustainability services and small number of other incidental matters.

The fees paid to KPMG for 2017 are set out on page 123 of the report. The ratio of non-audit to audit fees was 0.94:1.

We have evaluated KPMG on their work completed during 2017, based on our assessment of their work, feedback from management and review of their documentation. The Committee is satisfied with their effectiveness, objectivity and independence. The Committee also considered the External Auditor's internal processes for monitoring objectivity and independence, including peer partner review. We are satisfied that these processes have operated effectively.

**INTERNAL CONTROL AND RISK MANAGEMENT**

While the Board has ultimate responsibility for risk management it has delegated this task to the Committee. The Committee has responsibility for the oversight of the Group's system of internal control along with the oversight of the Internal Audit function.

**Assessment of the risk management framework and internal controls**

Risk management and assessment of the principal risks facing the Group are a standing item for each Committee meeting. We review the Group's risk register at each meeting and consider reports from the Head of Risk and Compliance and also senior management's opinion on the status of these risks. Of particular interest to us is the emergence of new risks or where the profile of a particular risk has changed. Details on the Group's risk management framework is set out on pages 36 to 43.

The Group has an established internal control environment which is in place to assist in managing risks and to maintain appropriate controls over the Group's activities. During the year we considered enhancements to the internal control environment with the implementation of an upgraded accounting platform, the development of a shared service centre and our new procurement system. This project will continue in 2018. The Internal Audit function also reviews the effectiveness of these controls through its audit programme and we consider the internal audit reports at each of our meetings.

**INTERNAL AUDIT**

The effectiveness, scope of work and operation of the Internal Audit function is a focus area for the Committee. At each Committee meeting we review the findings arising from the Group Internal Auditor's reviews. In particular, we consider any control weaknesses identified and the remedial action to be taken. Management's opinion on the matters raised is also considered. We meet with the Group Internal Auditor without management present at each Committee meeting.

During the year we considered the planned internal audit approach and the main audit focus areas as presented by the Group Internal Auditor. This provided the basis for developing the internal audit plan, which was reviewed and approved by the Committee. The ongoing completion of this plan is also reviewed regularly. At our June meeting we reviewed and updated the internal audit terms of reference and the role description of the Group Internal Auditor.

We identified that the Group faced increasing risks in relation to IT and data, particularly given the external environment and Group developments in this area. To address this, and following an assessment process by management and Internal Audit, we appointed an external partner, EY, to provide additional internal audit technical expertise in this area. A detailed IT risk assessment was completed and a programme of audits has been agreed. Updates on this area are provided to the Committee and the audits are ongoing.

**THE WORK OF THE COMMITTEE IN 2017**

The Committee met seven times during 2017. Attendance at these meetings was:

Member	No. of meetings
Robert Dix	7/7
Alf Smiddy	7/7
Margaret Sweeney	7/7

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.



# Remuneration Committee Report



## Role of the Committee

- Review the ongoing appropriateness and relevance of the remuneration policy, having regard to the pay and employment conditions across the group.
- Consider and recommend to the Board the framework for the remuneration of the Executive Directors and Chairman.
- Within the terms of the agreed policy, determine the total individual remuneration package of the Chairman and each Executive Director, including salary benefits, bonuses and incentive payments.
- Review the design of all incentive plans for approval by the Board and Shareholders and, for each such plan, recommend whether awards are made and, if so, the overall amount of such awards, the individual awards to Executive Directors and the performance targets to be used.

The remuneration of the Non-Executive Directors is approved by the Board.

A copy of the Committee's terms of reference can be found on the company's website: [www.dalatahotelgroup.com](http://www.dalatahotelgroup.com).

## Dear Shareholder, I am pleased to present the report of the Remuneration Committee of Dalata Hotel Group plc for the year ended 31 December 2017, another year of exceptional progress for the company.

2017 was a very busy year for the Remuneration Committee as we developed and implemented a new Remuneration Policy and a new Long-Term Incentive Plan (LTIP). The company has grown at a great pace and these structures set out our approach to executive remuneration providing a sign of the growing maturity of the organisation and its corporate governance. I was delighted to have the opportunity to speak with many of you as we developed the Policy, at the AGM in May and again at the capital markets event in November. As an Irish-incorporated company, we are not subject to the UK remuneration reporting regulations. However, in keeping with our longstanding commitment to high standards of corporate governance, the Committee decided to voluntarily comply with these requirements, which is why we sought shareholder approval for the Policy.

We presented three resolutions for your approval at the AGM and I am grateful for your approval of each of them. The new Remuneration Policy and LTIP received 99% and 97%

backing respectively, illustrating the extent of support for the structures we had developed alongside our investors. We noted that the remuneration report received a lower level of support (approximately 75%) and we understand, from our engagement with you and your proxy voting agencies in the lead up to the AGM, that there were some who had a concern with the percentage increase, for 2017, in the executive director's salaries. The increases at that time were a response to the delivery of exceptional performance against the expectations set when the company listed in 2014 and part of our strategy to establish a fair remuneration framework reflecting the increased scale and complexity of business with an emphasis on reward for performance. I set out in detail the context and rationale for the increase in my discussions during the year with individual shareholders (representing approximately 70% of the register) and in our 2016 report. The Committee has listened to the concerns of those investors and as a result has committed that no increases would be made to executive

director's salaries above those awarded to the general workforce during the lifetime of the current remuneration policy and we are happy to reiterate that commitment.

I believe the new structures align the interests of management closely with those of shareholders and I am reassured by your strong support for the new remuneration policy and the LTIP.

I would like to take this opportunity to thank all of you who took my calls and for your input which continues to inform the Committee's deliberations.

## PERFORMANCE AND INCENTIVE OUTCOMES IN 2017

2017 was another year of exceptional growth in revenue and earnings as well as progress with the construction of new hotel assets and hotel extensions. Further strides were made in building the development pipeline to underpin Dalata's growth model and, as set out in this annual report, continued development in human resources and technology systems to support business strategy.

The Committee determined that 100% of the annual bonus to executive directors should be awarded and further detail on the underlying target is set out on page 85. A portion of this award will be deferred into Dalata Shares.

The LTIP award made to the executive directors in March 2015 is based on the Group's total shareholder return (TSR) performance over the three year period to 27 March 2018 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 on page 84.

## DEFERRAL AND HOLDING PERIODS

Our remuneration policy calls for the delivery of 20% of bonus payments in the form of Dalata shares, deferred for a period of three years. Conditional shares granted under the 2014 LTIP have a three year performance period with a holding period of at least two years. In 2017 the Committee implemented an extended five year deferral period for the 20% portion of the 2016 bonus delivered in shares and a five year holding period for the net awards vesting under the LTIP. Similar extended deferral and holding periods will apply for bonus payments delivered and share awards vesting in 2018.

## PROPOSED CHANGES FOR 2018

In preparation for its review of executive remuneration for 2018, the Remuneration Committee received presentations from the Group Head of Human Resources, which analysed pay and reward conditions across the employee population, and from our independent remuneration advisors, Deloitte LLP, dealing with the wider market considerations for executive remuneration and developments in corporate governance and regulation.

The Committee determined that basic pay for the executive directors would be increased by 2% on January 2018. This increase was determined having regard to the company's trading conditions and is in line with pay increases for the wider employee population. This is in keeping with our commitment that no increase in salary will be granted to executive directors in the lifetime of the 2017 to 2019 remuneration policy above those granted 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 2018 will be subject to stretching earnings before interest and tax (EBIT) and personal targets which will be disclosed retrospectively.

LTIP awards of 150% of salary for the CEO and 125% of salary for the other executive directors will be awarded. These are the same award levels as last year, in line with our Remuneration Policy. 50% of the vesting will be based on EPS achieved in 2020 - threshold vesting (25% of the maximum) will occur for 2020 Basic EPS of €0.43, with the maximum vesting for EPS of €0.54. The remaining 50% will be based on TSR against the Dow Jones European STOXX Travel and Leisure index over the three year performance period, with threshold vesting (25% of maximum) for TSR equal to the index and with maximum vesting for out-performance of the index by 10% or more per annum.

Continuing our longstanding commitment to the highest standards of disclosure, this report has been prepared in accordance with the disclosure requirements of Schedule 8 of the UK Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended).

We look forward to receiving your continuing support.

**Margaret Sweeney**  
Chairman,  
Remuneration Committee

**DIRECTORS' REMUNERATION POLICY 2017 – 2019**

Dalata's Remuneration Policy was approved by shareholders at the 2017 AGM. A summary of the Remuneration Policy table for executive directors is reproduced below for information only.

The full Remuneration Policy is set out on pages 80 to 85 of the 2016 Annual Report.

**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
<b>Base Salary</b>	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
<b>Pension</b>	Contributions into the Company's defined contribution pension scheme, or an equivalent cash supplement.	15% of base salary.	N/A
<b>Benefits</b>	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
<b>Annual bonus</b>	To drive and reward the delivery of business objectives over the financial year.  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.  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.  Malus and clawback provisions apply.	The maximum opportunity is:  > CEO: 110% of salary > Other executive directors: 100% of salary.	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.

Element	Purpose and operation	Maximum opportunity	Performance Metrics
<b>Long-term Incentive Plan (LTIP)</b>	To reward executive directors for the delivery of long-term performance and align their interests with shareholders.  Awards are made under, and subject to the terms of, the 2017 LTIP approved by shareholders at the 2017 AGM.  Awards are in the form of shares which vest no earlier than the third anniversary of the award grant date, subject to performance.  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.  Malus / clawback and dividend equivalent provisions apply (see notes to the table)	The maximum annual award level is > CEO: 150% of salary > Other executive directors: 125% of salary.	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.
<b>Shareholding Guidelines</b>	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).	N/A	N/A

Notes to the table:

- 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).
- 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.
- 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.
- The choice of the performance measures applicable to the annual bonus (currently adjusted EBIT 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.

**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

was for an initial term of three years, and is extended annually for further terms of one year, 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.

**ANNUAL REMUNERATION REPORT**

This report will be submitted as an advisory vote to shareholders at the 2018 AGM.

**Statement of implementation for 2018**

This section summarises the remuneration packages for the Directors for the 2018 financial year.

**Base salaries**

The following table shows the base salaries effective 1 January 2018 with comparative figures for 2017:

€'000	2018	2017	Increase
Pat McCann	586.5	575.0	2%
Stephen McNally	341.7	335.0	2%
Dermot Crowley	341.7	335.0	2%

Salaries for the Executive Directors are set at a market competitive level for the scope of the roles and the size and complexity of the business. A 2% increase was granted for 2018, in line with pay increases for the wider employee population. In recommending the 2018 salary increase, the Committee took account of the review of wages and salaries across the group, trading circumstances for the group, and the personal performance of each individual. This is consistent with our Policy and the commitment made last year that, in recognition that levels of fixed pay had been increased in consecutive years up to 2017, the Committee has decided that during the lifetime of this Policy, no future increases in salary will be made to Executive Directors 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 EBIT	82.5%	75%
Personal targets	27.5%	25%
<b>Total</b>	<b>110%</b>	<b>100%</b>

The Committee has determined that the specific targets for 2018 are commercially sensitive and cannot be disclosed at this time. To the extent that the targets for 2018 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**

The following awards will be made in 2018 in accordance with rules of the 2017 LTIP approved at last year's AGM. Awards will vest after a three year performance period based on the TSR and EPS 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 other executive directors will be awarded 125% of salary in line with policy.

	TSR (50% of award)	EPS (50% of award)
<b>Definition</b>	TSR performance against the Index	EPS achieved in the year ending 31 December 2020
<b>Threshold vesting (25% of maximum)</b>	TSR equal to Index	€0.43
<b>Maximum vesting</b>	TSR equal to 10% or more per annum above Index	€0.54

- 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 2018 to 31 December 2020).
- Basic EPS will exclude items which are deemed one-off. For reference, the relevant adjustments to EPS for 2016 and 2017 are set out in note 27 to the consolidated financial statements.  
We want to encourage vigorous pursuit of the opportunities and by excluding these one-off items, 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 1 January 2018. There will be no increase to fees for 2018.

€'000	2018
Chairman fee	125
Basic NED fee	60
Committee chairmanship / SID fee	15

**OUTCOMES IN RESPECT OF 2017**

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 2017 financial year (with the 2016 prior year comparator also shown).

€'000	Year	Base Salary/Fees	Pension	Benefits	Bonus	LTIP	Total
<b>Executive Directors</b>							
<b>Pat McCann</b>	2017	575	0	0	633	504	1,712
	2016	475	0	0	470	658	1,603
<b>Stephen McNally</b>	2017	335	50	3	335	315	1,038
	2016	275	41	3	254	411	984
<b>Dermot Crowley</b>	2017	335	50	12	335	315	1,047
	2016	275	41	12	254	411	993
<b>Non-Executive Directors</b>							
<b>John Hennessy</b>	2017	125	0	0	0	0	125
	2016	100	0	0	0	0	100
<b>Robert Dix</b>	2017	75	0	0	0	0	75
	2016	60	0	0	0	0	60
<b>Alf Smiddy</b>	2017	75	0	6 <sup>1</sup>	0	0	81
	2016	60	0	0	0	0	60
<b>Margaret Sweeney</b>	2017	75	0	0	0	0	75
	2016	60	0	0	0	0	60

<sup>1</sup> Expenses incurred

- Base salary / fees represent all amounts received in respect of the financial year.
- Pension represents payments into the Company's defined contribution pension plan. For 2017 (and 2016) the CEO, Pat McCann, did not participate in the pension plan.
- Benefits includes a company car and fuel, and benefits under the group risk benefit scheme which includes death in service cover and disability benefit.
- 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. 20% of the bonus shown above will be deferred into Dalata shares for a period of five years.
- For the LTIP, the value shown for 2017 reflects the anticipated vesting of the LTIP award granted on 27 March 2015 with TSR to be measured over the three year performance period to 26 March 2018. The values have been calculated using TSR data as at 16 February 2018 and a three month average share price to 31 December 2017 in accordance with the methodology set out in the UK reporting regulations.
- The LTIP value for 2016 is restated to reflect the final outcome of the vesting which took place on 22 May 2017.

**Annual bonus plan outcome for 2017 (audited)**

Under the 2017 annual bonus, the Executive Directors could receive up to a maximum of 100% of salary and in the case of CEO 110% of salary, in line with the Policy. This was based 75% on the achievement of stretching adjusted EBIT targets and 25% on personal objectives aligned to the delivery of key strategic and operational objectives. The adjusted EBIT target was based on the budgeted EUR/GBP exchange rate which was set at £0.85 for 2017. The adjusted EBIT target range and a summary of the personal objectives for the year are set out in the table below:

	Threshold (25% payout)	Target (50% payout)	Maximum (100% payout)	Actual	Outcome
<b>Adjusted EBIT</b>	€78.6m	€82.7m	€88.5m	€90.2m <sup>1</sup>	Adjusted EBIT was in excess of the maximum target leading to a 100% (of maximum) bonus payout for the CEO and the Deputy CEOs

- For the purpose of the annual bonus evaluation, EBIT is adjusted to remove the effect of fluctuations between the actual and budgeted EUR/GBP exchange rate and other one-off items considered, at the discretion of the Committee, to fall outside of the framework of the budget target set for the year. A reconciliation of adjusted EBIT to Profit before tax is provided in the Glossary and Supplemental Financial Information section on page 182.

The directors had a number of personal objectives aligned to the strategic and operational objectives of the business for 2017.

**Personal targets**

Objectives aligned to strategic and operational goals, including:

**Pat McCann**

- Development and presentation of five year strategy (described in Strategic Priority: Our Growth on page 18); 2017 Personal objectives at maximum: 27.5% (base salary)
- Implementation of structures to support the business operating model and IT systems to support the business strategy (described in the Business Model: What Differentiates Us on page 13); 2017 Full year performance: 27.5%
- implementation of the management succession planning process (described in Strategic Priority: Our People on page 20);
- implementation of enhanced strategic risk management process for the business (reflected in the Risk Management report on page 36).

**Stephen McNally**

- Development of opening plans for properties launching in 2018 (see Strategy in Action case study Strategic Priority: Our People on page 21); 2017 Personal objectives at maximum: 25% (base salary)
- Delivery of HR plan for new UK business; development of account relationships with key group B2B customers (see Strategic Priority: Our Customers page 16); 2017 Full year performance: 25%
- Maintain customer satisfaction levels and revenues at hotels undergoing extension work (see Strategic Priorities: Our Customers on page 16 and Our Brands on page 22);
- Implementation of systems and structures to deliver strategic cost management objectives (for example, see energy supply case study, Responsible Business Report page 48).

**Dermot Crowley**

- Development of finance function resources and structure (referred to by Audit and Risk Committee Chairman on page 72); 2017 Personal objectives at maximum: 25% (basic salary)
- Delivery of the investor relations programme considering effect of MIFID 2 regulatory changes and effectively communicating long term strategy to investors (described in the Governance Report on page 68); 2017 Full year performance: 25%
- Secure debt funding and assess refinancing options (see Note 20 to the Financial Statements on page 150);
- Secure specified acquisition and pipeline development targets (described in Pat's Review on page 7);
- Support development of revenue management and rooms distribution change initiatives (see Strategy in Action case study on page 23);
- Lead Dalata group community initiative to support CMRF at Crumlin Children's Hospital, Great Ormond Street and Cancer Focus Northern Ireland (see Responsible Business Report page 53).

**LTIP – vesting outcome of the 2015 award (audited)**

The LTIP award granted to Executive Directors on 27 March 2015 will be eligible for vesting from 26 March 2018 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 2017 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 <sup>1</sup>
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 plc, ICG, Wireless Group plc, Total Produce plc, FBD plc, Independent News and Media. Straight-line vesting between points

Outcome	TSR achieved <sup>1</sup>	Expected vesting outcome
Group Median	11%	
Group Upper quartile	84.3%	Dalata's TSR exceeds the upper quartile and the award is expected to vest in full.
Dalata	91.4%	

1. TSR calculated as at 16 February 2018

**Share incentive plan interests awarded during 2017 (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	150% of salary	174,130	25%	1 Jan 2017 to 31 Dec 2019
Dermot Crowley	LTIP	125% of salary	84,541	25%	1 Jan 2017 to 31 Dec 2019
Stephen McNally	LTIP	125% of salary	84,541	25%	1 Jan 2017 to 31 Dec 2019

- a) Vesting is based on two separate performance criteria: 50% of the award is based on TSR performance compared with the Dow Jones European STOXX Travel and Leisure Index. Threshold vesting occurs for TSR equal to the index and maximum vesting where TSR is equal to or greater than 10% per annum above the index. The remaining 50% is based on basic EPS achieved in FY19 with threshold vesting for EPS equal to €0.37 and maximum vesting if EPS is equal to or greater than €0.46.
- b) The number of shares awarded was calculated using the volume weighted average share price on 19 May 2017 (€4.95), the day prior to the date of grant.

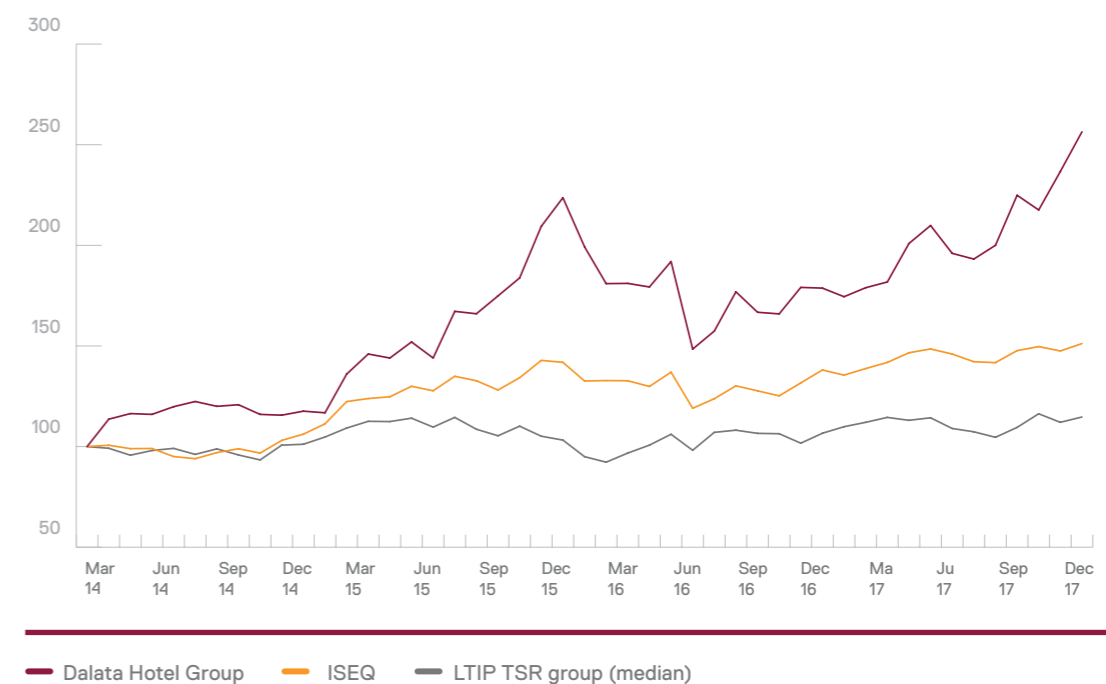
**Directors' and Company Secretary's Share Interests**

	Shares beneficially owned as at 31 December 2016	Shares beneficially owned as at 31 December 2017	2017 Option to acquire shares under Sharesave Scheme	Interest in unvested LTIP awards subject to performance conditions			
				2015 award vesting in 2018	2016 award vesting in 2019	2017 award vesting in 2020	Total
Pat McCann	914,927	1,121,014	6,132	88,889	101,279	174,130	364,298
Dermot Crowley	276,727	366,510	6,132	55,556	58,635	84,541	198,732
Stephen McNally	300,611	390,394	6,132	55,556	58,635	84,541	198,732
John Hennessy	100,000	100,000		-	-	-	
Robert Dix	67,858	67,858		-	-	-	
Alf Smiddy	66,646	66,646		-	-	-	
Margaret Sweeney	46,787	46,787	-	-	-	-	
Sean McKeon	80,000	119,023	6,132	35,417	32,623	34,069	102,109

- 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 2015, 2016 and 2017 LTIP awards based on the performance conditions as described elsewhere in this report. As described above, the 2015 award is expected to vest in full in March 2018 based on the achievement against the performance conditions.
- c) There was no change in the beneficial interests 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 ISEQ Index and the median of the current LTIP peer group.



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

	2014 <sup>1</sup>	2015	2016 <sup>2</sup>	2017
Single figure (€'000)	441	840	1,603	1,712
Annual bonus outcome (% of maximum)	67%	100%	90%	100%
LTIP vesting (% of maximum)	N/A	N/A	100%	100%

1 Includes remuneration prior to IPO

2 2016 single figure is restated to reflect the final vesting outcome of LTIP awards granted in 2014 which vested in May 2017

### 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 a comparator group of other employees.<sup>1</sup>

Total employee remuneration in the Company (including Executive Directors) increased by 14% in 2017 (from €76.2 million in 2016 to €86.5 million in 2017).

	CEO	Comparator group of employees <sup>1</sup>
Salary	21%	9%
Benefits	N/A <sup>3</sup>	N/A
Bonus	35%	14%

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 2017, including part-time and seasonal staff. 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.

	2016	2017	Change
Dividend	€0.0m	€0.0m	€0.0m
Aggregate employee remuneration	€76.2m	€86.5m	14%

### AGM voting

At last year's Annual General Meeting, the following votes were received on resolutions dealing with executive remuneration:

	2016 Directors Remuneration		Directors Remuneration Policy 2017 to 2019		2017 LTIP Rules	
	Votes	%	Votes	%	Votes	%
Votes For	100,403,551	74.56%	134,056,854	99.11%	131,791,482	97.44%
Votes Against	34,258,162	25.44%	1,197,842	0.89%	3,463,214	2.56%
Total Votes	134,661,713	100.00%	135,254,696	100.00%	135,254,696	100.00%
Votes Withheld	592,983		0		0	

We noted that the remuneration report received approximately 75% support and we understand, from our engagement with investors and proxy voting agencies that there were some who had a concern with the percentage increase, for 2017, in the executive director's salaries. The increases at that time were a response to the delivery of exceptional performance against the expectations set when the company listed in 2014 and part of our strategy to establish a fair remuneration framework reflecting the increased scale and complexity of business with an emphasis on reward for performance. The Committee has listened to the concerns of those investors and as a result has committed that no increases would be made to executive director's salaries above those awarded to the general workforce during the lifetime of the current remuneration policy.

### 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](http://www.dalatahotelgroup.com).

Details of Committee membership and attendance at meetings in 2017 are outlined in the table below.

Member	No. of meetings
Margaret Sweeney	6/6
John Hennessy	6/6
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 2017, 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 £64,750.

# Directors' Report

## 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 2017.

### Principal Activities and Business Review

Dalata Hotel Group plc is the largest hotel operator in the Republic of Ireland and operates eight 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 2017, the outlook for 2018 and the key performance indicators used to assess the performance of the Group. These are deemed to be incorporated in the Directors' Report.

### Results for the Year

The consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017 and the consolidated statement of financial position at that date are set out on pages 103 and 104 respectively. The profit for the year after tax amounted to €68,308,000 (2016: €34,923,000).

### 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 26 to 35.

### Directors and Company Secretary

The names of the Directors and Company Secretary and a biographical note on each appear on pages 56 to 57.

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 2018 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 78 to 89.

### 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 72 to 77.

### Share Capital

The issued share capital of Dalata Hotel Group plc at 26 February 2018 consists of 183,680,964 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 7 to the consolidated financial statements.

### Substantial Holdings

As at 26 February 2018, 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
Amerprise Financial, Inc	18,452,348	10.05%
FMR LLC	15,561,669	8.47%
Prudential plc <sup>1</sup>	9,176,149	4.99%
Pioneer Asset Management S.A.	7,936,156	4.32%
I.G. International Limited	6,867,668	3.74%
Allianz Global Investors GmbH	5,755,071	3.13%
Vanguard International Explorer Fund	5,719,200	3.11%

<sup>1</sup> 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 4.99% 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 36 to 43. The Financial Risk Management policies are set out in Note 22 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 its 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 7 to the consolidated

financial statements and in the Remuneration Committee report on pages 78 to 89 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 Responsible Business Report set out on pages 44 to 53, is deemed to be incorporated in this part of the Directors' Report together with details of earnings per share in Note 27 to the consolidated financial statements, employment details in Note 6 and details of financial instruments in Note 22.

#### Corporate Governance Regulations

As required by company law, the Directors have prepared a Report on Corporate Governance which is set out on pages 60 to 69, and which, for the purposes of Section 1373 of the Companies Act 2014, is deemed to be incorporated in this part of the Directors' Report. Details of the capital structure and employee share schemes are included in Notes 17 and 7 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 as, 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, the Market Abuse (Directive 2003/6/EC) Regulations 2005, the Prospectus (Directive 2003/71/EC) Regulations 2005, the Transparency (Directive 2004/109/EC) 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 67.

#### 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.

#### SUBSIDIARIES

Information on the Group's subsidiaries is set out in Note 26 to the consolidated financial statements.

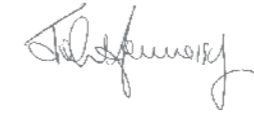
#### SUBSEQUENT EVENTS

There were no events subsequent to 31 December 2017 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 26 February 2018.

On behalf of the Board



**John Hennessy**  
Chairman



**Patrick McCann**  
Director

26 February 2018



CGI of Clayton Hotel Glasgow,  
Custom House Dock, Glasgow.  
Projected opening Q4 2020.



## Financial Statements

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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 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](http://www.dalatahotelgroup.com). Legislation in the Republic of Ireland concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

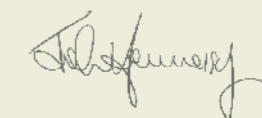
#### Responsibility Statement as required by the Transparency Directive and UK Corporate Governance Code

Each of the Directors, whose names and functions are listed on pages 56 to 57 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 2017 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

26 February 2018

## Independent Auditor's Report

to the members of Dalata Hotel Group plc

### 1. Opinion: our opinion is unmodified

We have audited the financial statements of Dalata Hotel Group plc for the year ended 31 December 2017 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.

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 2017 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 2017;
- > 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 consolidated financial statements and company 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.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) ("ISAs (Ireland)") and applicable law. Our responsibilities under those standards are further described in the *Auditor's Responsibilities* section of our report. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit and Risk Committee.

We were appointed as auditor by the directors on 30 June 2016. The period of total uninterrupted engagement is the two years ended 31 December 2017. We have fulfilled our ethical responsibilities under, and we remained independent of the Group in accordance with, ethical requirements applicable in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority (IAASA) as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

### 2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the

audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows:

#### Property valuations - carrying value of land and buildings €848.8m (2016: €744.6m)

Refer to page 74 (*Audit and Risk Committee Report*), page 114 (*accounting policy for property, plant and equipment*) and Note 11 to the consolidated financial statements (*financial disclosures – property, plant and equipment*)

#### The key audit matter

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 include fixtures, fittings and equipment, which the Group accounts for under the cost model. Appropriate allocations of hotel valuations must therefore be made between land and buildings, and fixtures fittings and equipment for accounting purposes.

## Independent Auditor's Report

to the members of Dalata Hotel Group plc (continued)

### How the matter was addressed in our audit

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, including assessing and challenging the key assumptions applied in their discounted cash flow calculations; considering the allocation of hotel valuations to land and buildings, and fixtures fittings and equipment; testing the amounts of individual property revaluation movements and their presentation either in other comprehensive income or in profit or loss, as appropriate; and evaluating the adequacy of the Group's disclosures in relation to property valuations.

### Our findings

Our audit procedures did not identify any issues with the assumptions adopted in the property valuations. The allocation of valuations between land and buildings and fixtures, fittings and equipment and the inclusion of revaluation movements in other comprehensive income or in profit or loss was appropriate. The disclosures in the financial statements relating to property valuations are adequate to provide an understanding of the basis of the valuations.

### Acquisitions in the year

Refer to page 74 (*Audit and Risk Committee Report*), page 112 (*accounting policy for basis of consolidation*) and Note 9 to the consolidated financial statements (*financial disclosures – business combinations*)

### The key audit matter

A number of significant transactions were completed during the year ended 31 December 2017, including acquisitions of: (i) the Hotel La Tour

Birmingham; (ii) the main element of the hotel and business of Clarion Hotel Liffey Valley; (iii) further suites in the Clarion Hotel Liffey Valley; and (iv) the freehold or long leasehold interests in properties of certain hotels which were previously leased by the Group. 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 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.

### How the matter was addressed in our audit

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 based on accounting papers prepared by Group management.

For business combinations, we evaluated the identification of, and allocation of the purchase price to, the fair values of identifiable property 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.

### Our findings

Comprehensive papers had been prepared by management analysing the Group's accounting treatment of these transactions and we found that the analysis was supported by underlying transaction documentation. As such, we found that the transactions identified in notes 9 and 11 to the financial statements had been appropriately accounted for as business combinations or asset purchases as described.

### Depreciation – change in useful lives of fixtures, fittings and equipment

Refer to page 75 (*Audit and Risk Committee Report*), page 108 (*accounting policy disclosure of revision of estimated useful lives of property, plant and equipment*, page 114 (*accounting policy for property, plant and equipment*) and Note 11 to the consolidated financial statements (*financial disclosures – property, plant and equipment*)

### The key audit matter

During the year, the Group revised its estimates of the useful lives of fixtures, fittings and equipment with effect from 1 January 2017. This resulted in a material reduction of €4.0m in the depreciation charge compared to the estimation technique applied in previous years. There is a risk of significant misstatement if the depreciation charge under the revised approach is not based on appropriate assumptions.

### How the matter was addressed in our audit

Our audit procedures included, among others: evaluating the process undertaken by management to assess the useful lives and

## Independent Auditor's Report

to the members of Dalata Hotel Group plc (continued)

determining whether it involved input from management with the relevant knowledge and experience combined with appropriate review and approval procedures; assessing whether appropriate consideration had been given to potential alternative treatments and whether there was appropriate documentary support of the rationale for the selected treatment; testing whether the revised useful lives were consistent for similarly classified assets in each hotel; recalculating depreciation charges on the basis of the revised assumptions made; comparing the revised useful lives to similar information, where available, for other relevant public companies in the hotel and leisure sector for any evidence that the revised depreciation approach was inappropriate; and evaluating the adequacy of the Group's disclosures in relation to this material change in estimate.

### Our findings

The Group established a comprehensive process to assess the useful lives of individual sub-categories of fixtures, fittings and equipment. This produced a much more granular analysis of the relevant assets. The application of the revised methodology to the asset base appeared to be applied correctly and without any bias. The change in estimate has been disclosed appropriately in note 1 to the financial statements.

### 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 €3.9m (2016: €2.8m). This has been calculated with reference to a benchmark of group profit before taxation, normalised to exclude this

year's acquisition-related costs of €1.3m 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. The Group has a significant asset base which we also consider in establishing materiality. Total assets at 31 December 2017 amounted to €1,101.1m (2016: €985.4m) and our materiality measure represents 0.35% of total assets (2016: 0.28%) which is below the materiality measure of 0.5%-1.0% typically used for this measure, where applicable, in public company audits.

We report to the Audit and Risk Committee all corrected and uncorrected misstatements we identified through our audit with a value in excess of €0.2m (2016: €0.2m), 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.

Materiality for the company financial statements as a whole was set at €3.9m (2016: €2.8m), determined with reference to a benchmark of total assets, of which it represents 0.5% (2016: 0.36%).

### 4. We have nothing to report on going concern

We are required to report to you if:

- › we have anything material to add or draw attention to in relation to

the directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group's and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or

- › if the related statement under the Listing Rules set out on page 67 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

### 5. We have nothing to report in respect of the other information in the annual report

The directors are responsible for the other information presented in the annual report. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon (Directors' Report, Chairman's Statement, Chief Executive's Review, Strategy and Business Model section, Financial Review, Risk Management section, Responsible Business Report, Chairman's Overview – Corporate Governance section, Board of Directors section, Executive Management Team section, Corporate Governance Report, Nomination Committee Report, Audit and Risk Committee Report, Remuneration Committee Report, and Additional Information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

## Independent Auditor's Report

to the members of Dalata Hotel Group plc (continued)

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Based solely on that work, we report that:

- › we have not identified material misstatements in the Directors' Report or other accompanying information;
- › in our opinion, the information given in the Directors' Report is consistent with the financial statements;
- › in our opinion, the Directors' Report has been prepared in accordance with the Companies Act 2014.

### Disclosures of principal risks and longer-term viability

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

- › the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated;
- › the directors' confirmation within the Viability Statement on pages 42 and 43 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity; and
- › the directors' explanation in the Viability Statement of how they have assessed the prospects of the Group, over what period they have

done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

### Other corporate governance disclosures

We are required to address the following items and report to you in the following circumstances:

- › *Fair, balanced and understandable:* if we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
- › *Report of the Audit and Risk Committee:* if the section of the annual report describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee;
- › *Statement of compliance with UK Corporate Governance Code:* if the directors' statement does not properly disclose a departure from provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

In addition as required by the Companies Act 2014, we report, in relation to information given in the Corporate Governance Report on pages 60 to 69, that:

- › based on the work undertaken for our audit, in our opinion, the description of the main features of internal control and risk management systems in relation to the financial reporting process, and information relating to voting rights and other matters required by the European Communities (Takeover Bids (Directive 2004/25/EC)) Regulations 2016 and specified for our consideration, is consistent with the financial statements and has been prepared in accordance with the Act; and
- › based on our knowledge and understanding of the company and its environment obtained in the course of our audit, we have not identified any material misstatements in that information.

We also report that, based on work undertaken for our audit, other information required by the Companies Act 2014 is contained in the Corporate Governance Report.

### 6. Our opinions on other matters prescribed by the Companies Act 2014 are unmodified

We have obtained all the information and explanations which we consider necessary for the purpose 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 company's statement of financial position is in agreement with the accounting records.

## Independent Auditor's Report

to the members of Dalata Hotel Group plc (continued)

### 7. We have nothing to report on other matters on which we are required to report by exception

The Companies Act 2014 requires us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions required by sections 305 to 312 of the Act are not made.

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

- the Directors' statements, set out on pages 42, 43 and 67, in relation to going concern and longer-term viability;
- the part of the Corporate Governance Report on pages 60 to 69 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.

### 8. Respective responsibilities

#### Directors' responsibilities

As explained more fully in their statement set out on pages 96 and 97, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless

they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

#### Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than for one resulting from error, as they may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation not just those directly affecting the financial statements.

A fuller description of our responsibilities is provided on IAASA's website at [https://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description\\_of\\_auditors\\_responsibilities\\_for\\_audit.pdf](https://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsibilities_for_audit.pdf)

### 9. The purpose of our audit work and to whom we owe our responsibilities

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 our 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

26 February 2018

## Consolidated statement of profit or loss and other comprehensive income

for the year ended 31 December 2017

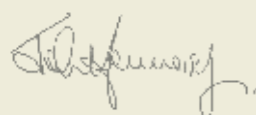
	Note	2017 €'000	2016 €'000
<b>Continuing operations</b>			
Revenue	2	348,474	290,551
Cost of sales		(128,258)	(109,864)
<b>Gross profit</b>		<b>220,216</b>	180,687
Administrative expenses, including goodwill impairment of €nil (2016: €10.325 million)		(134,032)	(125,717)
Other income	4	739	637
<b>Operating profit</b>		<b>86,923</b>	55,607
Finance costs	5	(9,636)	(11,496)
<b>Profit before tax</b>		<b>77,287</b>	44,111
Tax charge	8	(8,979)	(9,188)
<b>Profit for the year attributable to owners of the Company</b>		<b>68,308</b>	34,923
<b>Other comprehensive income</b>			
<i>Items that will not be reclassified to profit or loss</i>			
Revaluation of property	11	53,533	66,403
Related deferred tax	21	(5,498)	(6,382)
		<b>48,035</b>	60,021
<i>Items that are or may be reclassified subsequently to profit or loss</i>			
Exchange difference on translating foreign operations		(9,309)	(35,730)
Gain on net investment hedge		7,127	24,876
Fair value movement on cash flow hedges		269	(3,740)
Cash flow hedges – reclassified to profit or loss		1,348	1,206
Related deferred tax	21	(203)	316
		<b>(768)</b>	(13,072)
<b>Other comprehensive income for the year, net of tax</b>		<b>47,267</b>	46,949
<b>Total comprehensive income for the year attributable to owners of the Company</b>		<b>115,575</b>	81,872
<b>Earnings per share</b>			
Basic earnings per share	27	37.2 cents	19.1 cents
Diluted earnings per share	27	36.9 cents	18.9 cents

## Consolidated statement of financial position

at 31 December 2017

	Note	2017 €'000	2016 €'000
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets and goodwill	10	54,562	54,267
Property, plant and equipment	11	998,812	822,444
Investment property	12	1,585	3,245
Deferred tax assets	21	3,571	1,894
Other receivables	14	4,343	4,748
Derivatives	13	1	7
<b>Total non-current assets</b>		<b>1,062,874</b>	<b>886,605</b>
<b>Current assets</b>			
Trade and other receivables	14	20,704	15,874
Inventories	15	1,765	1,817
Cash and cash equivalents	16	15,745	81,080
<b>Total current assets</b>		<b>38,214</b>	<b>98,771</b>
<b>Total assets</b>		<b>1,101,088</b>	<b>985,376</b>
<b>Equity</b>			
Share capital	17	1,837	1,830
Share premium	17	503,113	503,113
Capital contribution	17	25,724	25,724
Merger reserve	17	(10,337)	(10,337)
Share-based payment reserve	17	2,753	2,126
Hedging reserve	17	(1,692)	(3,106)
Revaluation reserve	17	155,106	107,531
Translation reserve	17	(12,156)	(9,974)
Retained earnings		73,045	3,475
<b>Total equity</b>		<b>737,393</b>	<b>620,382</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Loans and borrowings	20	241,933	264,681
Deferred tax liabilities	21	31,858	25,051
Derivatives	13	1,778	3,401
Provision for liabilities	19	4,716	3,040
<b>Total non-current liabilities</b>		<b>280,285</b>	<b>296,173</b>
<b>Current liabilities</b>			
Loans and borrowings	20	18,206	15,734
Trade and other payables	18	64,853	52,050
Current tax liabilities		351	1,037
<b>Total current liabilities</b>		<b>83,410</b>	<b>68,821</b>
<b>Total liabilities</b>		<b>363,695</b>	<b>364,994</b>
<b>Total equity and liabilities</b>		<b>1,101,088</b>	<b>985,376</b>

On behalf of the Board:



John Hennessy  
Chairman



Patrick McCann  
Director

## Consolidated statement of changes in equity

for the year ended 31 December 2017

	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 2017	1,830	503,113	25,724	(10,337)	2,126	(3,106)	107,531	(9,974)	3,475	<b>620,382</b>
<b>Comprehensive income:</b>										
Profit for the year	-	-	-	-	-	-	-	-	68,308	<b>68,308</b>
<i>Other comprehensive income</i>										
Exchange difference on translating foreign operations	-	-	-	-	-	-	-	(9,309)	-	<b>(9,309)</b>
Gain on net investment hedge	-	-	-	-	-	-	-	7,127	-	<b>7,127</b>
Revaluation of properties	-	-	-	-	-	-	53,533	-	-	<b>53,533</b>
Transfer of revaluation gains to retained earnings on sale of property	-	-	-	-	-	-	(460)	-	460	-
Fair value movement on cash flow hedges	-	-	-	-	-	269	-	-	-	<b>269</b>
Cash flow hedges – reclassified to profit or loss	-	-	-	-	-	1,348	-	-	-	<b>1,348</b>
Related deferred tax	-	-	-	-	-	(203)	(5,498)	-	-	<b>(5,701)</b>
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,414</b>	<b>47,575</b>	<b>(2,182)</b>	<b>68,768</b>	<b>115,575</b>
<b>Transactions with owners of the Company:</b>										
Equity-settled share-based payments (note 7)	-	-	-	-	1,690	-	-	-	-	<b>1,690</b>
Vesting of share awards	7	-	-	-	(1,063)	-	-	-	1,063	<b>7</b>
Additional costs of prior period share issues	-	-	-	-	-	-	-	-	(261)	<b>(261)</b>
<b>Total transactions with owners of the Company</b>	<b>7</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>627</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>802</b>	<b>1,436</b>
<b>At 31 December 2017</b>	<b>1,837</b>	<b>503,113</b>	<b>25,724</b>	<b>(10,337)</b>	<b>2,753</b>	<b>(1,692)</b>	<b>155,106</b>	<b>(12,156)</b>	<b>73,045</b>	<b>737,393</b>

## 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
<b>Comprehensive income:</b>										
Profit for the year	-	-	-	-	-	-	-	-	34,923	34,923
<i>Other comprehensive income</i>										
Exchange difference on translating foreign operations	-	-	-	-	-	-	(35,730)	-	(35,730)	(35,730)
Gain on net investment hedge	-	-	-	-	-	-	24,876	-	24,876	24,876
Revaluation of properties	-	-	-	-	-	-	66,403	-	66,403	66,403
Fair value movement on cash flow hedges	-	-	-	-	-	(3,740)	-	-	(3,740)	(3,740)
Cash flow hedges – reclassified to profit or loss	-	-	-	-	-	1,206	-	-	1,206	1,206
Related deferred tax	-	-	-	-	-	316	(6,382)	-	(6,066)	(6,066)
<b>Total comprehensive income for the year</b>	-	-	-	-	-	(2,218)	60,021	(10,854)	34,923	81,872
<b>Transactions with owners of the Company:</b>										
Equity-settled share-based payments (note 7)	-	-	-	-	1,214	-	-	-	-	1,214
<b>Total transactions with owners of the Company</b>	-	-	-	-	1,214	-	-	-	-	1,214
<b>At 31 December 2016</b>	<b>1,830</b>	<b>503,113</b>	<b>25,724</b>	<b>(10,337)</b>	<b>2,126</b>	<b>(3,106)</b>	<b>107,531</b>	<b>(9,974)</b>	<b>3,475</b>	<b>620,382</b>

## Consolidated statement of cash flows

for the year ended 31 December 2017

	2017 €'000	2016 €'000
<b>Cash flows from operating activities</b>		
Profit for the year	68,308	34,923
Adjustments for:		
Depreciation of property, plant and equipment	15,710	15,477
Impairment of goodwill	-	10,325
Net revaluation movements through profit or loss	1,425	(241)
Share-based payment expense	1,690	1,214
Finance costs	9,636	11,496
Tax charge	8,979	9,188
Gains on disposal of property freehold interests and subsidiary	(469)	-
Amortisation of intangible asset	24	-
	<b>105,303</b>	<b>82,382</b>
Increase in trade payables and provision for liabilities	4,484	3,092
Increase in current and non-current receivables	(5,253)	(909)
Decrease/(increase) in inventories	62	(64)
Tax paid	(9,389)	(6,688)
<b>Net cash from operating activities</b>	<b>95,207</b>	<b>77,813</b>
<b>Cash flows from investing activities</b>		
Acquisitions of undertakings through business combinations, net of cash acquired	(56,719)	(62,428)
Purchase of property, plant and equipment	(136,060)	(108,604)
Proceeds from sale of properties resulting in operating leases	57,985	-
Deposits paid on acquisitions	-	(1,024)
<b>Net cash used in investing activities</b>	<b>(134,794)</b>	<b>(172,056)</b>
<b>Cash flows from financing activities</b>		
Interest and finance costs paid	(10,101)	(9,983)
Receipt of bank loans	36,680	57,607
Repayment of bank loans	(49,896)	(16,800)
Proceeds from vesting of share awards	7	-
<b>Net cash (used in)/from financing activities</b>	<b>(23,310)</b>	<b>30,824</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(62,897)</b>	<b>(63,419)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>81,080</b>	<b>149,155</b>
Effect of movements in exchange rates	(2,438)	(4,656)
<b>Cash and cash equivalents at the end of the year</b>	<b>15,745</b>	<b>81,080</b>

## 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 2017 include the Company and its subsidiaries (together referred to as the 'Group'). The financial statements were authorised for issue by the Directors on 26 February 2018.

The consolidated financial statements have been prepared in accordance with IFRS, as adopted by the EU. In the preparation of these consolidated financial statements 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.

#### Revision of estimated useful lives of property, plant and equipment

The Group reviews the useful lives of its property, plant and equipment at least annually to determine whether the existing estimated useful lives remain appropriate. Arising from the Group's assessment during the year ended 31 December 2017, the Group has revised its estimate of the useful lives of its fixtures, fittings and equipment. Previously the average estimated useful life was 5 to 10 years whereas, as a result of the change in estimate, the average estimated useful life is 3 to 15 years depending on the categorisation of asset. Were the previous useful lives applied for the year ended 31 December 2017, this would have resulted in a total depreciation charge in respect of the Group's property, plant and equipment of €19.7 million, which is €4.0 million higher than the recognised depreciation charge of €15.7 million in profit or loss for the year. It is impracticable to disclose the prospective impact of this change beyond the end of 2017 on the basis that this would require the Group to further estimate the timing, quantum and asset classification of future capital expenditure.

The key judgements and estimates impacting these financial statements are:

- Accounting for acquisitions, including allocation of consideration to assets and liabilities acquired and the treatment of acquisition costs (note 9);
- Carrying value of goodwill and intangible assets including assumptions underpinning the impairment tests (note 10); and
- Carrying value, depreciation and estimated useful lives of own-use property measured at fair value (note 11).

#### 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 observable market 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 22 – Financial instruments and risk management (in relation to financial assets and financial liabilities), note 11 – Property, plant and equipment and note 12 – Investment property (in relation to non-financial assets).

## Notes to the consolidated financial statements

(continued)

### 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (i) 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 pages 10 to 25 of the annual report. Note 22 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 cash flow forecasts and available bank facilities, 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.

#### (ii) 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.

The following standards and interpretations were effective for the Group for the first time from 1 January 2017. These standards have no material effect on the consolidated results of the Group.

- Amendments to IAS 7 *Statement of Cash Flows*.
- Amendments to IAS 12 *Income Taxes*.

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 17 *Insurance Contracts*, IASB effective date 1 January 2021.
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration* (issued on 8 December 2016).
- IFRIC 23 *Uncertainty over Income Tax Treatments* (issued on 7 June 2017).
- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions* (issued on 20 June 2016).
- Amendments to IAS 40 *Transfers of Investment Property* (issued on 8 December 2016).
- Amendments to IFRS 9 *Prepayment Features with Negative Compensation* (issued on 12 October 2017).
- Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures* (issued on 12 October 2017).
- *Annual Improvements to IFRS Standards 2015-2017 Cycle* (issued on 12 December 2017).
- *Amendments to IAS 19 Plan Amendment, Curtailment or Settlement* (issued on 7 February 2018).

The following standards have been endorsed by the EU, are available for early adoption and are effective from 1 January 2018 or 1 January 2019 as indicated below. The Group has not adopted 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 (September 2015). Effective date 1 January 2018;
- IFRS 9 *Financial Instruments* (July 2014). Effective date 1 January 2018; and
- IFRS 16 *Leases* (January 2016). Effective date 1 January 2019.

#### IFRS 16 Leases

IFRS 16 *Leases* was issued in January 2016 and replaces IAS 17 *Leases*, IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases - Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 *Leases*, which has an effective date of 1 January 2019, will have a significant effect on the Group's financial statements as the Group is a lessee in a number of material property operating leases.



## Notes to the consolidated financial statements

(continued)

**1 SIGNIFICANT ACCOUNTING POLICIES (continued)****(ii) Statement of compliance (continued)****IFRS 16 Leases (continued)**

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. As a result, an asset (the right-of-use of the leased item) and a financial liability to pay rental expenses are recognised. Fixed rental expenses will be removed from the statement of comprehensive income and will be replaced with finance costs on the lease liability and depreciation on the right-of-use asset. Variable lease payments which are dependent on external factors such as hotel performance will continue to be recognised directly in profit or loss. 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 continues to be assessed. However, a substantial element of work has been completed which has resulted in the following conclusions and decisions:

- the Group does not intend to early adopt IFRS 16;
- the Group does not intend to use a practical expedient for lease definition (change in standard has not resulted in any material changes);
- the Group does not intend to avail of exemptions in relation to short term leases or low-value items;

- the Group intends to use the modified retrospective approach under which prior year financial information will not be restated. Upon transition, the lease liability will be based on the present value of remaining lease payments and the right-of-use asset will be an amount equal to the lease liability adjusted for prepaid/accrued payments. This means that largely information only available at the date of transition will be used to apply IFRS 16 and there will be no impact on retained earnings on transition; and
- the Group does not intend to use practical expedients to apply a single discount rate to portfolios of leases or to review for impairment.

The adoption of the new standard will have a material impact on the Group's consolidated statement of profit or loss and other comprehensive income and consolidated statement of financial position, as follows.

*Consolidated statement of profit or loss and other comprehensive income*

Administrative expenses will decrease, as the Group currently recognises rental expenses therein. The Group's rental expenses for 2017 were €31.0 million (2016: €25.7 million) and are disclosed in note 3 to these consolidated financial statements. Under IFRS 16, contingent rents will not form part of the lease liability measurement and will remain in administrative expenses. 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 2017 was €7.6 million (2016: €6.7 million).

Depreciation and finance costs as currently reported in the Group's consolidated statement of profit or loss will increase, as under the new standard a right-of-use asset will be capitalised and depreciated over the term of the lease and a finance cost will be applied annually to the lease liability.

Consequently, EBITDA and Adjusted EBITDA (as defined in note 2), existing alternative performance measures, will be significantly impacted by the implementation of IFRS 16 due to the effective reclassification of non-contingent rent (currently included in EBITDA) to depreciation and interest (not included in EBITDA). Total lease expenses will increase in the early years of implementation of IFRS 16 due to the front-loading effect of finance charges versus the existing straight-line rent expense under IAS 17 *Leases*.

Covenants as currently calculated under existing debt arrangements will not be amended as their calculation is based on GAAP on date of entry into the agreements. IFRS 16 is not expected to have any impact on strategy or commercial negotiation.

## Notes to the consolidated financial statements

(continued)

**1 SIGNIFICANT ACCOUNTING POLICIES (continued)****(ii) Statement of compliance (continued)****IFRS 16 Leases (continued)***Consolidated statement of financial position*

At the transition date, the Group will calculate the lease commitments outstanding and apply the appropriate discount rate to calculate the present value of the lease commitment which will be recognised as a liability and a right-of-use asset on the Group's statement of financial position. The Group's outstanding commitments on all operating leases as at 31 December 2017 are €624.4 million (31 December 2016: €546.8 million) (note 23). The Group's commitments as at 31 December 2017 provide an indication of the scale of leases held and how significant leases currently are to the Group's business. However, this figure is undiscounted and is not therefore an accurate measure of the impact of IFRS 16.

The remaining area of focus for the Group is on establishing an approach to setting the discount rate at the transition date (which inherently cannot be reliably determined until date of implementation 1 January 2019 when using the modified retrospective approach). However, the Group has set out in note 23 - Commitments, an illustrative impact of the application of IFRS 16 in 2019 using a notional discount rate to enable users of the financial statements to appreciate the potential magnitude of the impact on the financial statements at that rate. Given that this is a notional discount rate it is not indicative of

what the discount rate may be (as it cannot yet be determined) and the proforma disclosure is purely for illustrative purposes.

**IFRS 15 Revenue from Contracts with Customers**

IFRS 15 *Revenue from Contracts with Customers* was issued in May 2014 and has an effective date of 1 January 2018. The Group has assessed the impact that the initial application of IFRS 15 will have on its consolidated financial statements. This impact is not considered to be material.

The Group has undertaken an assessment of revenue earned in respect of its customer agreements. The Group currently accounts for revenue earned in connection with certain customers, net of commissions. Certain contracts with other customers are accounted for on a gross basis, where the related commission is included in cost of sales.

Under IFRS 15, all such revenue will be recorded on a gross basis with commissions deducted separately as cost of sales. Accordingly, the impact is limited to a reclassification between revenue and cost of sales in profit or loss.

If IFRS 15 had been effective from 1 January 2017, this would have resulted in an increase in revenue of €3.6 million for the year ended 31 December 2017, with a corresponding increase in cost of sales of the same amount.

The Group plans to adopt IFRS 15 using the retrospective method with the effect of initially applying this standard recognised at the start of the earliest period presented. Accordingly, in the consolidated financial statements for the year ended 31 December 2018, revenue associated with these contracts for 2018 and 2017 will be presented on a gross basis with commissions deducted as cost of sales.

**IFRS 9 Financial Instruments**

IFRS 9 *Financial Instruments* replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Group is continuing to assess the potential impact from the application of IFRS 9 on its consolidated financial statements from 1 January 2018. The vast majority of financial assets held are trade receivables and cash, which are expected to continue to be accounted for at amortised cost. The derivative asset is expected to continue to be accounted for at fair value through profit or loss and as it is hedged, any gains or losses are recorded in other comprehensive income in equity. On this basis, the classification and measurement changes are not expected to have a material impact on the Group's consolidated financial statements.

The new hedging requirements of IFRS 9 will align hedge accounting more closely to the Group's risk management policies. However, based on the nature of the Group's current effective hedging arrangements at 31 December 2017, there will be no impact on the consolidated financial statements.

## Notes to the consolidated financial statements

(continued)

### 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (iii) 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.

#### (iv) 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 of 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 9 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. Where the Group solely purchases the freehold interest in a

property, this is accounted for as an asset purchase and not as a business combination on the basis that the asset(s) purchased do not constitute a business. Asset purchases are accounted for as additions to property, plant and equipment.

#### 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.

#### (v) 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 owned 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.

## Notes to the consolidated financial statements

(continued)

### 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (v) Revenue recognition (continued)

Rental income from investment property is recognised on a straight-line basis over the term of the lease and is included within other income. Also included within other income are non-routine gains arising on disposals or divestments.

#### (vi) 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.

#### (vii) 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.

#### (viii) Share-based payments

The grant-date fair value of equity-settled share-based payment awards incorporating the effect of market-based conditions and the estimated fair value of equity-settled share-based payment awards issued with non-market performance 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.

On vesting of the equity-settled share-based payment awards, the cumulative expense recognised in the share-based payment reserve is transferred directly to retained earnings. An increase in ordinary share capital is recognised reflecting the issuance of shares as a result of the vesting of the awards.

The dilutive effect of outstanding awards is reflected as additional share dilution in calculating diluted earnings per share.

#### (ix) 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.

## Notes to the consolidated financial statements

(continued)

**1 SIGNIFICANT ACCOUNTING POLICIES (continued)****(x) 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.

**(xi) 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 and major development projects at hotels which are currently operational. These sites and the capital investment made are recorded at cost in the financial statements. Borrowing costs incurred in the construction of major assets which take a substantial period of time to complete are capitalised in the financial period in which they are incurred. 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. 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 as follows.

Buildings	50 years
Fixtures, fittings and equipment	3 – 15 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.

**(xii) 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.

## Notes to the consolidated financial statements

(continued)

**1 SIGNIFICANT ACCOUNTING POLICIES (continued)****(xii) Investment property (continued)**

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.

When the use of a property changes from owner occupied to investment property (as a result of a sub-lease on the property), the property is remeasured to fair value and reclassified accordingly. Any gain on this remeasurement is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in other comprehensive income and presented in the revaluation reserve. Any loss 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.

**(xiii) 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 10.

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.

**(xiv) Intangible assets other than goodwill**

Intangible assets are measured at cost (or fair value when acquired through business combinations) less accumulated amortisation and impairment losses.

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.

## Notes to the consolidated financial statements

(continued)

### 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (xiv) Intangible assets other than goodwill (continued)

Other intangible assets are amortised over the period of their expected useful lives by charging equal annual instalments to profit or loss. The useful life used to amortise finite intangible assets relates to the future performance of the asset and management's judgement as to the period over which economic benefits will be derived from the asset.

#### (xv) Inventories

Inventories are stated at the lower of cost (using the first-in, first-out (FIFO) basis) and net realisable value.

#### (xvi) 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.

#### (xvii) Trade and other payables

Trade and other payables are initially recorded at fair value, which is usually the original invoiced amount, and subsequently carried at amortised cost using the effective interest rate method. Liabilities are derecognised when the obligation under the liability is discharged, cancelled or expires.

#### (xviii) 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.

#### (xix) 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 rate method.

Finance costs comprise interest on borrowings, and other costs relating to financing of the Group.

Finance costs incurred for qualifying assets, which take a substantial period of time to construct, are added to the cost of the asset during the period of time required to complete and prepare the asset for its intended use. The Group uses two capitalisation rates being the weighted average interest rate including the cost of hedging for Sterling borrowings which is applied to United Kingdom qualifying assets and the weighted average interest rate for Euro borrowings which is applied to Republic of Ireland qualifying assets. Capitalisation commences on the date on which the Group undertakes activities that are necessary to prepare the asset for its intended use. Capitalisation of borrowing costs ceases when the asset is ready for its intended use.

#### (xx) 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.

#### (xxi) 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.

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

## Notes to the consolidated financial statements

(continued)

### 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (xxii) Provisions and contingent liabilities (continued)

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.

#### (xxiii) 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.

#### (xxiii) 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.

#### (xxiv) 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.

#### (xxv) 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.

## Notes to the consolidated financial statements

(continued)

### 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (xxv) Cash flow hedge accounting (continued)

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.

#### (xxvi) 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.

#### (xxvii) Adjusting items

Certain material items, by virtue of their nature and amount, are disclosed separately in segmental reporting and adjusted earnings per share calculations in order for the user to obtain a more detailed understanding of the financial information. These items relate to events or circumstances that are not related to normal trading activities and are disclosed in reconciling adjusted EBITDA to Group EBITDA (note 2) and adjusted profit for the year (note 27) to the Group profit as per the consolidated statement of profit or loss and other comprehensive income.

Adjusting items refer to items such as:

- Acquisition-related costs;
- Net property revaluation movements through profit or loss;
- Gains or losses on disposal of property freehold interests or subsidiaries;
- Impairments to goodwill or other intangible assets; and
- Stock exchange listing costs.

## Notes to the consolidated financial statements

(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. As at 31 December 2017, the Group owns 24 hotels (31 December 2016: 23 hotels) and has effective ownership of one further hotel which it operates (31 December 2016: one). It also owns the majority of one of the other hotels which it operates. The Group also leases nine hotel buildings from property owners (31 December 2016: 10) and is entitled to the benefits and carries the risks associated with operating these hotels.

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, commissions paid to online travel agents on room sales, 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	2017 €'000	2016 €'000
Dublin	200,705	151,945
Regional Ireland	76,040	68,467
United Kingdom	69,743	67,498
Managed Hotels	1,986	2,641
<b>Total revenue</b>	<b>348,474</b>	<b>290,551</b>

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 to the consolidated financial statements

(continued)

## 2 OPERATING SEGMENTS (continued)

	2017 €'000	2016 €'000
<b>Segmental results - EBITDAR</b>		
Dublin	99,006	72,992
Regional Ireland	21,450	18,170
United Kingdom	27,036	26,505
Managed Hotels	1,986	2,641
<b>EBITDAR for reportable segments</b>	<b>149,478</b>	<b>120,308</b>
<b>Segmental results - EBITDA</b>		
Dublin	72,630	53,472
Regional Ireland	20,271	16,231
United Kingdom	23,777	22,511
Managed Hotels	1,986	2,641
<b>EBITDA for reportable segments</b>	<b>118,664</b>	<b>94,855</b>
<b>Reconciliation to results for the year</b>		
Segmental results - EBITDA	118,664	94,855
Rental income	270	637
Central costs	(12,371)	(9,146)
Share-based payments expense	(1,690)	(1,214)
<b>Adjusted EBITDA</b>	<b>104,873</b>	<b>85,132</b>
Acquisition-related costs	(1,260)	(2,671)
Net property revaluation movements through profit or loss	(1,425)	241
Gains on disposal of property freehold interests and subsidiary	469	-
Impairment of goodwill	-	(10,325)
Stock exchange listing costs	-	(1,293)
<b>Group EBITDA</b>	<b>102,657</b>	<b>71,084</b>
Depreciation of property, plant and equipment	(15,710)	(15,477)
Amortisation of intangible assets	(24)	-
Finance costs	(9,636)	(11,496)
<b>Profit before tax</b>	<b>77,287</b>	<b>44,111</b>
Tax	(8,979)	(9,188)
<b>Profit for the year attributable to owners of the Company</b>	<b>68,308</b>	<b>34,923</b>

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

## Notes to the consolidated financial statements

(continued)

## 2 OPERATING SEGMENTS (continued)

Adjusted EBITDA is presented as an alternative performance measure to show the underlying operating performance of the Group excluding the effects of impairment of goodwill (2016), revaluation movements through profit or loss, and items considered by management to be non-recurring or unusual in nature. Acquisition-related costs have been excluded to give a more meaningful measure given the scale of acquisitions in 2016 and 2017 and the fluctuations in these costs in different years. Consequently, Adjusted EBITDA represents Group EBITDA before:

- Acquisition-related costs (note 3);
- Net property revaluation movements through profit or loss (note 11);
- Gains on disposal of property freehold interests and subsidiary (note 4);
- Impairment of goodwill in 2016 (note 10); and
- Stock exchange listing costs in 2016 (note 3).

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. Share-based payments cost is presented separately from Central costs as this expense relates to employees across the Group.

'Segmental results - EBITDA' for Dublin, Regional Ireland and United Kingdom represents the 'Adjusted EBITDA' for each geographical location before central costs, share-based payments expense 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, Regional Ireland and United Kingdom represents 'Segmental results - EBITDA' before rent. For leased hotels, rent amounted to €30.8 million in 2017 (2016: €25.5 million).

## Other geographical information

Revenue	2017			2016		
	Republic of Ireland €'000	United Kingdom €'000	Total €'000	Republic of Ireland €'000	United Kingdom €'000	Total €'000
Leased and owned hotels	276,745	69,743	346,488	220,412	67,498	287,910
Managed hotels	1,728	258	1,986	2,488	153	2,641
<b>Total revenue</b>	<b>278,473</b>	<b>70,001</b>	<b>348,474</b>	<b>222,900</b>	<b>67,651</b>	<b>290,551</b>

## Notes to the consolidated financial statements

(continued)

## 2 OPERATING SEGMENTS (continued)

	At 31 December 2017			At 31 December 2016		
	Republic of Ireland €'000	United Kingdom €'000	Total €'000	Republic of Ireland €'000	United Kingdom €'000	Total €'000
<b>Assets and liabilities</b>						
<i>Assets</i>						
Intangible assets and goodwill	41,588	12,974	54,562	41,588	12,679	54,267
Property, plant and equipment	758,192	240,620	998,812	575,782	246,662	822,444
Investment property	1,585	-	1,585	1,750	1,495	3,245
Other non-current assets	3,231	1,112	4,343	4,748	-	4,748
Current assets	29,708	8,506	38,214	88,169	10,602	98,771
<b>Total assets excluding derivatives and tax assets</b>	<b>834,304</b>	<b>263,212</b>	<b>1,097,516</b>	<b>712,037</b>	<b>271,438</b>	<b>983,475</b>
Derivatives			1			7
Deferred tax assets			3,571			1,894
<b>Total assets</b>			<b>1,101,088</b>			<b>985,376</b>
<i>Liabilities</i>						
Loans and borrowings	63,627	196,512	260,139	76,776	203,639	280,415
Trade and other payables	52,978	11,875	64,853	42,760	9,290	52,050
<b>Total liabilities excluding provisions, derivatives and tax liabilities</b>	<b>116,605</b>	<b>208,387</b>	<b>324,992</b>	<b>119,536</b>	<b>212,929</b>	<b>332,465</b>
Provisions			4,716			3,040
Derivatives			1,778			3,401
Current tax liabilities			351			1,037
Deferred tax liabilities			31,858			25,051
<b>Total liabilities</b>			<b>363,695</b>			<b>364,994</b>
<b>Revaluation reserve</b>	<b>139,802</b>	<b>15,304</b>	<b>155,106</b>	<b>98,238</b>	<b>9,293</b>	<b>107,531</b>

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 €196.5 million (£174.4 million) at 31 December 2017 (2016: €203.6 million (£174.4 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 to the consolidated financial statements

(continued)

## 3 STATUTORY AND OTHER INFORMATION

	2017 €'000	2016 €'000
Depreciation of property, plant and equipment	15,710	15,477
Impairment of goodwill	-	10,325
Operating lease rentals:		
Land and buildings (including central office lease costs)	31,047	25,694
Acquisition-related costs	1,260	2,671
Stock exchange listing costs	-	1,293
<b>Auditor's remuneration</b>		
Audit of Group, Company and subsidiary financial statements	290	290
Tax advisory and compliance services	195	420
Other non-audit services	78	266
	<b>563</b>	<b>976</b>
<b>Directors' remuneration</b>		
Salary and other emoluments	2,568	2,018
Gains on vesting of 2014 LTIP	1,480	-
Fees	350	280
Pension contributions	101	82
	<b>4,499</b>	<b>2,380</b>

Gains associated with the shares which issued to the Directors on vesting of the 2014 LTIP represent the difference between the quoted share price per ordinary share and the exercise price of the award on the vesting date (note 7). These shares are held in a restricted share trust and may not be sold or dealt with in any way for a period of five years and 30 days from the vesting date.

Acquisition-related costs for the year ended 31 December 2017 and 31 December 2016 include professional fees, stamp duty costs, redundancy and other costs associated with the business combinations outlined in note 9. Main market listing costs in 2016 relate to the step up to the main markets for listed securities in the Republic of Ireland and the United Kingdom. Details of the acquisition-related costs charged to profit or loss in 2017 and 2016 are outlined below.

	2017 €'000	2016 €'000
Stamp duty incurred on acquisitions	501	1,336
Professional fees incurred on acquisitions	424	292
Integration costs	335	1,043
Acquisition-related costs	<b>1,260</b>	<b>2,671</b>

Integration costs comprise severance costs and certain other non-recurring costs directly related to business combinations including the acquisition of Hotel la Tour, Birmingham in July 2017 and the acquisition of the main element of the Clarion Hotel, Liffey Valley in August 2017 (note 9).

## Notes to the consolidated financial statements

(continued)

### 3 STATUTORY AND OTHER INFORMATION (continued)

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 (2016: €10,000).

The majority of the fees for tax and other non-audit services in 2017 and 2016 relate to the acquisition of new hotels including the acquisition of Hotel la Tour, Birmingham in July 2017 and acquisition of the Choice Hotel Group in March 2016 and other one-off projects.

Details of the Directors' remuneration and interests in conditional share awards are set out in the Remuneration Committee report on pages 78 to 89.

### 4 OTHER INCOME

	2017 €'000	2016 €'000
Rental income from investment property	270	637
Gains on disposal of property freehold interests and subsidiary	469	-
	<b>739</b>	<b>637</b>

On 16 June 2017, the Group completed the sale and operating leaseback of the Clayton Hotel Cardiff for €25.1 million, resulting in a gain on sale of €0.2 million (after transaction costs of €0.1 million).

On 30 June 2017, the Group disposed of a subsidiary undertaking which held the leasehold interest in the Croydon Park Hotel, Croydon, UK for €0.1 million and recorded a gain on disposal of €0.2 million. The Croydon Park Hotel generated revenue of €3.7 million and losses of €0.1 million for the six-month period ended 30 June 2017.

On 17 August 2017, the Group sold the freehold interest of a stand-alone residential property previously owned by the Group, resulting in a gain on disposal of €0.1 million.

### 5 FINANCE COSTS

	2017 €'000	2016 €'000
Interest expense on bank loans and borrowings	7,346	7,535
Cash flow hedges – reclassified from other comprehensive income	1,348	1,206
Other finance costs	2,327	1,778
Net exchange loss on loans and borrowings, cash and cash equivalents	204	977
Interest capitalised to property, plant and equipment	(1,589)	-
	<b>9,636</b>	<b>11,496</b>

The Group uses interest rate swaps to convert the interest rate on part of its debt from floating rate to fixed rate (note 13). This cash flow hedge cost is shown separately within finance costs and represents the additional interest the Group paid under the interest rate swaps.

## Notes to the consolidated financial statements

(continued)

### 5 FINANCE COSTS (continued)

Other finance costs include the negative yield on cash held in money-market funds, the amortisation of capitalised debt 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 22).

During the year, interest on loans and borrowings amounting to €1.6 million was capitalised to assets under construction on the basis that this cost was deemed to be directly attributable to the construction of qualifying assets (note 11) (2016: €nil). The capitalisation rates applied by the Group, which were reflective of the weighted average interest cost in respect of Euro denominated borrowings and Sterling denominated borrowings for the year, were 2.45% and 3.43% respectively.

### 6 PERSONNEL EXPENSES

The average number of persons (full-time equivalents) employed by the Group (including Executive Directors), analysed by category, was as follows.

	2017	2016
Administration	417	358
Other	2,627	2,344
	<b>3,044</b>	<b>2,702</b>

Full time equivalents split by geographical region was as follows.

	2017	2016
Dublin (including the Group's central functions)	1,596	1,291
Regional Ireland	905	855
United Kingdom	543	556
	<b>3,044</b>	<b>2,702</b>

The aggregate payroll costs of these persons were as follows.

	2017 €'000	2016 €'000
Wages and salaries	84,001	74,084
Social welfare costs	8,542	7,021
Pension costs – defined contribution	688	686
Share-based payment expense	1,690	1,214
Severance costs	149	208
	<b>95,070</b>	<b>83,213</b>



## Notes to the consolidated financial statements

(continued)

### 7 LONG-TERM INCENTIVE PLANS

#### Equity-settled share-based payment arrangements

During the year ended 31 December 2017, the Board approved the conditional grant of 829,049 ordinary shares ('the Award') pursuant to the terms and conditions of the Group's 2017 Long Term Incentive Plan ('the 2017 LTIP'). The Award was made to senior employees across the Group (79 in total). Vesting of the Award is based on two independently assessed performance targets, each one representing 50% of the Award. The first is based on earnings per share ('EPS') and the second on total shareholder return ('TSR'). The performance period for the award is 1 January 2017 to 31 December 2019 and 25% of the award will vest at threshold performance, provided service conditions attaching to the awards are met. Threshold performance for the TSR condition is performance in line with the Dow Jones European STOXX Travel and Leisure Index with 100% vesting for outperformance of the index by 10% per annum. Threshold performance for the EPS condition, which is a non-market based performance condition, is based on the achievement of adjusted basic EPS, as disclosed in the Company's 2019 audited financial statements, of €0.37 with 100% vesting for EPS of €0.46 or greater. Awards will vest on a straight-line basis for performance between these points.

The total expected cost of this award was estimated at €1.86 million over the three-year service period of which €0.38 million has been expensed to profit or loss for the year ended 31 December 2017. The remaining €1.48 million will be charged to profit or loss in equal instalments over the remainder of the three-year vesting period.

€1.0 million has been charged against profit for the year ended 31 December 2017 for the awards made in 2014, 2015 and 2016.

During the year ended 31 December 2017, the company issued 714,298 shares on foot of the vesting of awards granted under the 2014 LTIP. Over the course of the three-year performance period, 39,856 share awards lapsed due to vesting conditions which were not satisfied. The weighted average share price at the date of exercise for awards exercised during the year was €5.01. No awards vested or were exercised during the year ended 31 December 2016.

Further details of the plans are set out in the Remuneration Committee Report on pages 78 to 89.

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

	May 2017	March 2016	October 2015	March 2015	March 2014	Total
	€'million	€'million	€'million	€'million	€'million	€'million
Total expected cost of award	1.86	1.43	0.20	1.08	1.06	5.63
<i>Amount charged against profit for year ended:</i>						
31 December 2017	(0.38)	(0.48)	(0.06)	(0.37)	(0.09)	(1.38)
31 December 2016	-	(0.40)	(0.06)	(0.35)	(0.35)	(1.16)
31 December 2015	-	-	(0.02)	(0.27)	(0.35)	(0.64)
31 December 2014	-	-	-	-	(0.27)	(0.27)
Total amount charged against profit	(0.38)	(0.88)	(0.14)	(0.99)	(1.06)	(3.45)
Remaining amount	1.48	0.55	0.06	0.09	-	2.18

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.

## Notes to the consolidated financial statements

(continued)

### 7 LONG-TERM INCENTIVE PLANS (continued)

	Number of share awards granted	
	2017	2016
Outstanding share awards granted at beginning of year	2,088,379	1,448,468
Share awards granted during the year	829,049	639,911
Share awards forfeited during the year	(88,551)	-
Share awards exercised during the year	(714,298)	-
Outstanding share awards granted at end of year	2,114,579	2,088,379

#### Measurement of fair values

The fair value, at the grant date, of the TSR-based conditional share awards was measured using a Monte Carlo simulation model. Non-market based performance conditions attached to the awards were not taken into account in measuring fair value at the grant date. The valuation and key assumptions used in the measurement of the fair values at the grant date were as follows.

	May 2017	March 2016	October 2015	March 2015
Fair value at grant date	€2.14	€2.45	€2.43	€1.92
Share price at grant date	€5.09	€4.69	€4.27	€3.55
Exercise price	€0.01	€0.01	€0.01	€0.01
Expected volatility	25.89% p.a.	30.20% p.a.	26.40% p.a.	26.03% p.a.
Dividend yield	1.5%	1.5%	1.5%	1.5%
Performance period	3 years	3 years	3 years	3 years

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 is based on the historical volatility of the Company's share price for the 2016 and 2017 awards and of a comparator group of companies for awards in prior periods.

The 2017 LTIP includes EPS-based conditional share awards. The EPS-related performance condition is a non-market performance condition and does not impact the fair value of the award at the grant date. Instead, an estimate is made by the Group as to the number of shares which are expected to vest based on satisfaction of the EPS-related performance condition, and this, together with the fair value of the award at grant date, determines the accounting charge to be spread over the vesting period. The estimate of the number of shares which are expected to vest is reviewed in each reporting period over the vesting period of the award and the accounting charge is adjusted accordingly.

## Notes to the consolidated financial statements

(continued)

### 7 LONG-TERM INCENTIVE PLANS (continued)

#### Save As You Earn Scheme

During the year ended 31 December 2017, the Remuneration Committee of the Board of Directors approved the granting of share options under a Save As You Earn ('SAYE') Scheme (the 'Scheme') for all eligible employees across the Group. 515 employees availed of the 2017 Scheme (379 employees availed of the 2016 Scheme). The Scheme is for 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 (as per the 2016 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 2017 SAYE scheme was estimated at €0.8 million over the three year service period of which €0.08 million has been charged against profit for the year ended 31 December 2017.

€0.23 million has been charged against profit for the year ended 31 December 2017 for the SAYE awards made in 2016 (2016: €0.05 million).

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

	October 2017 €'million	October 2016 €'million	Total €'million
Total expected cost of award	0.82	0.71	1.53
<i>Amount charged against profit for year ended:</i>			
31 December 2017	(0.08)	(0.23)	(0.31)
31 December 2016	-	(0.05)	(0.05)
Total cumulative amount charged against profit	(0.08)	(0.28)	(0.36)
Remaining amount	0.74	0.43	1.17

These charges, together with the expense in respect of the long-term incentive plan for the year of €1.38 million (2016: €1.16 million) represent the share-based payments expense which has been recognised for the year, with a corresponding increase in the share-based payment reserve.

The remaining €0.74 million in respect of the 2017 SAYE scheme will be charged against profit or loss in equal instalments over the remainder of the three year vesting period.

	Number of SAYE share options granted	
	2017	2016
Outstanding share options granted at beginning of year	837,545	-
Share options granted during the year	702,888	837,545
Share awards forfeited during the year	(111,334)	-
Outstanding share options granted at end of year	1,429,099	837,545

## Notes to the consolidated financial statements

(continued)

### 8 TAX CHARGE

	2017 €'000	2016 €'000
<b>Current tax</b>		
Irish corporation tax	8,517	5,155
UK corporation tax	1,615	1,727
Over provision in respect of prior periods	(582)	(300)
	9,550	6,582
<b>Deferred tax (credit)/charge (note 21)</b>	(571)	2,606
	8,979	9,188

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.

	2017 €'000	2016 €'000
Profit before tax	77,287	44,111
Tax on profit at standard Irish corporation tax rate of 12.5%	9,661	5,514
<i>Effects of:</i>		
Income taxed at a higher rate	738	782
Expenses not deductible for tax purposes	598	1,049
Impairment of goodwill not deductible for tax purposes	-	1,291
Overseas income taxed at higher rate	585	919
Losses utilised at higher rate	(738)	(795)
Over provision in respect of current tax in prior periods	(582)	(300)
Under provision in respect of deferred tax in prior periods	174	185
Losses and similar deductions not previously recognised	(666)	-
Other differences	(791)	543
	8,979	9,188

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 2017 have been calculated based on the rate of 17% (2016: 17%) substantively enacted at the balance sheet date.

## Notes to the consolidated financial statements

(continued)

### 9 BUSINESS COMBINATIONS

#### Acquisition of Clarion Hotel, Liffey Valley

On 31 August 2017, the Group acquired full ownership of the main element of the hotel and business of the Clarion Hotel, Liffey Valley, now trading as Clayton Hotel Liffey Valley, for total cash consideration of €23.0 million. Previously, the Group had been managing this hotel, under a management contract, on behalf of a receiver since March 2016. The fair value of the identifiable assets and liabilities acquired were as follows.

	31 August 2017
Recognised amounts of identifiable assets acquired and liabilities assumed	Fair value
<b>Non-current assets</b>	<b>€'000</b>
Hotel property (land and buildings)	22,700
Fixtures and fittings	284
<b>Current assets</b>	
Net working capital assets	16
<b>Total identifiable net assets</b>	<b>23,000</b>
<b>Total consideration</b>	<b>23,000</b>

#### Satisfied by:

Cash	23,000
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The acquisition method of accounting has been used to consolidate the business acquired in the Group's consolidated financial statements. No goodwill has been recognised on acquisition as the fair value of the net assets acquired equated to the consideration paid.

Acquisition-related costs of €0.8 million were charged to administrative expenses in profit or loss in respect of this business combination.

#### Subsequent asset purchase transactions relating to Clarion Hotel, Liffey Valley

On 29 September 2017, in a separate transaction to the aforementioned business combination, the Group purchased the long leasehold interest of 33 suites in Clarion Hotel, Liffey Valley for €8.6 million plus capitalised acquisition costs of €0.3 million (note 11).

On 18 December 2017, in a further transaction to the aforementioned business combination, the Group purchased the long leasehold interest of 13 suites in Clarion Hotel, Liffey Valley for €2.0 million plus capitalised acquisition costs of €0.2 million (note 11).

These transactions have been accounted for as asset purchases and are included in additions to property, plant and equipment during the year (note 11).

#### Acquisition of Hotel La Tour, Birmingham

On 21 July 2017, the Group acquired 100% of the share capital of Hotel La Tour (Birmingham) Limited, thereby acquiring full ownership of the property and business of Hotel La Tour, Birmingham, now trading as Clayton Hotel Birmingham, for cash consideration amounting to €34.2 million (£30.6 million). The fair value of the identifiable assets and liabilities acquired were as follows.

## Notes to the consolidated financial statements

(continued)

### 9 BUSINESS COMBINATIONS (continued)

	21 July 2017
Recognised amounts of identifiable assets acquired and liabilities assumed	Fair value
<b>Non-current assets</b>	<b>€'000</b>
Hotel property (land, buildings and fixtures and fittings)	34,565
Deferred tax asset	1,150
<b>Current assets</b>	
Inventories	44
Trade and other receivables	595
Cash and cash equivalents	447
<b>Current liabilities</b>	
Trade and other payables	(1,485)
<b>Non-current liabilities</b>	
Deferred tax liability	(1,150)
<b>Total identifiable net assets</b>	<b>34,166</b>
<b>Total consideration</b>	<b>34,166</b>

#### Satisfied by:

Cash	34,166
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The acquisition method of accounting has been used to consolidate the business acquired in the Group's consolidated financial statements. No goodwill has been recognised on acquisition as the fair value of the net assets acquired equated to the consideration paid. Acquisition-related costs of €0.5 million (£0.4 million) were charged to administrative expenses in profit or loss in respect of this business combination.

Subsequently on 11 August 2017, the Group completed the sale of the Hotel La Tour, Birmingham property and entered into an operating lease in respect of the property (note 11).

#### Impact of new acquisitions on trading performance

The post-acquisition impact of acquisitions completed during 2017 on the Group's profit for the financial year ended 31 December 2017 was as follows.

	Clarion Hotel, Liffey Valley	Hotel la Tour, Birmingham	2017
	€'million	€'million	€'million
Revenue	2.4	3.4	5.8
Profit before tax and acquisition-related costs	0.6	-	0.6

If the acquisitions had occurred on 1 January 2017, the acquisitions would have contributed the following to the consolidated results of the Group.

	Clarion Hotel, Liffey Valley	Hotel la Tour, Birmingham	2017
	€'million	€'million	€'million
Revenue	6.5	7.5	14.0
Profit before tax and acquisition-related costs	2.0	0.4	2.4

These two transactions have added to the scale of the Group with the acquisition of Hotel La Tour, Birmingham increasing the geographical spread of the Group in line with the Group's strategy of expanding across larger UK cities.

## Notes to the consolidated financial statements

(continued)

## 9 BUSINESS COMBINATIONS (continued)

## Prior year acquisitions

## 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 increased the scale of the Group and strengthened its position in these locations.

The hotel leasehold interests acquired were:

- 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 (the Group has subsequently disposed of this leasehold interest (note 4)).

During 2016, the Group also acquired full ownership of the property and business of the following hotels:

- Tara Towers Hotel, Dublin: acquired 15 January 2016; and
- Clarion Hotel, Sligo (now trading as Clayton Hotel Sligo): acquired 18 March 2016.

No goodwill was recognised on acquisitions in 2016 as the fair value of the net assets acquired equated to the consideration paid.

	Choice Hotel Group €'million	Tara Towers €'million	Clarion Hotel, Sligo €'million
Hotel property (land and buildings)	14.0	13.2	12.9
Fixtures and fittings	-	-	0.2
Intangible assets	29.4	-	-
Net working capital liabilities	(1.6)	-	(0.3)
Net deferred tax liabilities and provisions	(2.9)	-	-
<b>Total identifiable net assets</b>	<b>38.9</b>	<b>13.2</b>	<b>12.8</b>
Goodwill	-	-	-
<b>Total consideration</b>	<b>38.9</b>	<b>13.2</b>	<b>12.8</b>
<b>Satisfied by:</b>			
Cash	38.9	13.2	12.8

## Notes to the consolidated financial statements

(continued)

## 10 INTANGIBLE ASSETS AND GOODWILL

	Goodwill €'000	Other indefinite- lived intangible assets €'000	Other intangible assets €'000	Total €'000
<b>Cost</b>				
Balance at 1 January 2016	82,194	-	-	82,194
Acquisitions through business combinations (see note 9)	-	29,400	-	29,400
Transferred to property, plant and equipment (note 11)	-	(8,900)	-	(8,900)
Effect of movements in exchange rates	(2,711)	-	-	(2,711)
<b>Balance at 31 December 2016</b>	<b>79,483</b>	<b>20,500</b>	<b>-</b>	<b>99,983</b>
Balance at 1 January 2017	79,483	20,500	-	99,983
Transferred from investment property during the year (note 12)	-	-	682	682
Effect of movements in exchange rates	(357)	-	(6)	(363)
<b>Balance at 31 December 2017</b>	<b>79,126</b>	<b>20,500</b>	<b>676</b>	<b>100,302</b>
<b>Accumulated amortisation and impairment losses</b>				
Balance at 1 January 2016	(35,391)	-	-	(35,391)
Impairment loss during the year	(10,325)	-	-	(10,325)
<b>Balance at 31 December 2016</b>	<b>(45,716)</b>	<b>-</b>	<b>-</b>	<b>(45,716)</b>
Balance at 1 January 2017	(45,716)	-	-	(45,716)
Impairment loss during the year	-	-	-	-
Amortisation of other intangible assets	-	-	(24)	(24)
<b>Balance at 31 December 2017</b>	<b>(45,716)</b>	<b>-</b>	<b>(24)</b>	<b>(45,740)</b>
<b>Carrying amounts</b>				
At 1 January 2016	46,803	-	-	46,803
At 31 December 2016	33,767	20,500	-	54,267
<b>At 31 December 2017</b>	<b>33,410</b>	<b>20,500</b>	<b>652</b>	<b>54,562</b>

## 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.

Arising from an annual impairment review conducted at 31 December 2017, goodwill was not considered to be impaired and accordingly, no impairment was recognised during 2017. During 2016, 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.

## Notes to the consolidated financial statements

(continued)

### 10 INTANGIBLE ASSETS AND GOODWILL (continued)

In 2007, the Group acquired a number of Irish hotel operations for consideration amounting to €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 €12.3 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 31 December 2017 resulted in a foreign exchange loss of €0.4 million and a corresponding decrease in goodwill. The comparative translation at 31 December 2016 resulted in a foreign exchange loss of €2.7 million.

	Number of Cash-Generating Units at 31 December		
	2017	2017	2016
Carrying amount of goodwill allocated		€'000	€'000
Moran Bewley Hotel Group (i)	7	24,576	24,886
Other acquisitions (i)	3	1,967	2,014
2007 Irish hotel operations acquired (ii)	4	6,867	6,867
		<b>33,410</b>	<b>33,767</b>

The above table represents the number of CGUs to which goodwill was allocated at 31 December 2017.

#### 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 profit 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 each CGU is based on a fair value less costs of disposal estimate, or where this value is less than the carrying value of the asset, the value in use of the CGU is assessed.

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 (2017: Ireland 8.46%, UK 6.8%, 2016: Ireland 4.46%, UK 6.8%). The increase in purchasers costs versus 2016 was due to the increase in stamp duty relating to commercial property from 2% to 6% in the Republic of Ireland as a result of Budget 2018. Purchasers costs are a key difference between value in use and fair value less costs of disposal as prepared by external valuers.

## Notes to the consolidated financial statements

(continued)

### 10 INTANGIBLE ASSETS AND GOODWILL (continued)

At 31 December 2017, the recoverable amounts of ten 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 covering a ten year period. This period was chosen due to the nature of the hotel assets and is consistent with the valuation basis used by independent external property valuers when performing their hotel valuations (note 11);
- Revenue and EBITDA for the first year of the projections is based on budgeted figures for 2018 provided by management. 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%) (2016: Ireland: 9.50% to 11.75%, UK: 8.75% to 11.50%). The discount rates were consistent with those used by 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 of the valuers and of management and taking into account the stability of cash flows typically associated with these factors.

At 31 December 2017, 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 2017.

#### (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. Three of these hotels which have since been purchased by the Group are valued annually by independent external valuers, as the freehold interest in the property is owned by the Group. One property is leased by the Group. Where hotel properties are valued annually by independent external valuers, the recoverable amount of each CGU is based on a fair value less costs of disposal estimate, or where this value is less than the carrying value of the asset, the value in use of the CGU is assessed. The recoverable amount of each of these four CGUs which have associated goodwill was based on value in use. Value in use is determined by discounting the future cash flows generated from the continuing use of these hotels.

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 (2017: 8.46%, 2016: 4.46%). The increase in purchasers costs versus 2016 was due to the increase in stamp duty relating to commercial property from 2% to 6% in the Republic of Ireland as a result of Budget 2018. Purchasers costs are a key difference between value in use and fair value less costs of disposal as prepared by external valuers.

## Notes to the consolidated financial statements

(continued)

### 10 INTANGIBLE ASSETS AND GOODWILL (continued)

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 and EBITDA for the first year of the projections is based on budgeted figures for 2018 provided by management. Budgeted revenue and EBITDA are based on expectations of future outcomes taking into account past experience, adjusted for anticipated revenue growth;
- 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 10.75% to 11.50% (2016: 10.50% to 11.00%). In the case of owned hotels, the discount rates were consistent with rates used by the valuers. Discount rates applied to calculate value in use in respect of leased properties are comparable with rates used by external property valuers in their valuations of similar hotels.

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

At 31 December 2017, 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 2017.

#### 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 Group's leasehold interest in respect of The Gibson Hotel, which was acquired as part of the Choice Hotel Group business combination which completed in March 2016 (note 9). The carrying value of this asset amounted to €20.5 million at 31 December 2016 and 31 December 2017 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.

## Notes to the consolidated financial statements

(continued)

### 10 INTANGIBLE ASSETS AND GOODWILL (continued)

At 31 December 2017, 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 11) for similar properties;
- Revenue and EBITDA for the first year of the projections is based on budgeted figures for 2018. 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 10.50%. This discount rate was comparable 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 2017, 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. The Directors concluded that the carrying value of other indefinite-lived intangible assets is not impaired at 31 December 2017.

#### Other intangible assets

Additions to other intangible assets during the year (€0.7 million) represents the Group's interest in a sub-lease (as sub-lessor) retained in respect of part of the Clayton Hotel Cardiff, UK following the sale and leaseback (on an operating lease) of that hotel property (note 11). The remaining lease term is 15 years and this intangible asset will be amortised over that period.

The Group reviews the carrying amounts of other intangible assets annually to determine whether there is any indication of impairment. If any such indicators exist then the asset's recoverable amount is estimated.

At 31 December 2017, there were no indicators of impairment present and the Directors concluded that the carrying value of other intangible assets was not impaired at 31 December 2017.

## Notes to the consolidated financial statements

(continued)

## 11 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings €'000	Assets under construction €'000	Fixtures, fittings and equipment €'000	Total €'000
<b>At 31 December 2017</b>				
Valuation	848,777	-	-	848,777
Cost	-	97,365	75,931	173,296
Accumulated depreciation (and impairment charges)*	-	-	(23,261)	(23,261)
<b>Net carrying amount</b>	<b>848,777</b>	<b>97,365</b>	<b>52,670</b>	<b>998,812</b>
At 1 January 2017, net carrying amount	744,611	42,865	34,968	822,444
Acquisitions through business combinations	57,265	-	284	57,549
Other additions through freehold or site purchases	71,478	-	-	71,478
Other additions through capital expenditure	381	59,064	21,799	81,244
Disposals of property, plant and equipment	(61,139)	-	(922)	(62,061)
Reclassification from land and buildings to assets under construction and fixtures, fittings and equipment	(6,960)	495	6,465	-
Reclassification from assets under construction to land and buildings and fixtures, fittings and equipment for assets that have come into use	5,967	(7,020)	1,053	-
Transfer from investment properties (note 12)	-	585	-	585
Transfer to investment properties (note 12)	(385)	-	-	(385)
Capitalised borrowing costs (note 5)	-	1,589	-	1,589
Revaluation gains through OCI	55,176	-	-	55,176
Revaluation losses through OCI	(1,643)	-	-	(1,643)
Reversal of revaluation losses through profit or loss	1,295	-	-	1,295
Revaluation losses through profit or loss	(2,471)	-	(284)	(2,755)
Depreciation charge for the year	(7,686)	-	(8,024)	(15,710)
Translation adjustment	(7,112)	(213)	(2,669)	(9,994)
<b>At 31 December 2017, net carrying amount</b>	<b>848,777</b>	<b>97,365</b>	<b>52,670</b>	<b>998,812</b>

## Notes to the consolidated financial statements

(continued)

## 11 PROPERTY, PLANT AND EQUIPMENT (continued)

The equivalent disclosure for the prior year is as follows.

	Land and buildings €'000	Assets under construction €'000	Fixtures, fittings and equipment €'000	Total €'000
<b>At 31 December 2016</b>				
Valuation	744,611	-	-	744,611
Cost	-	42,865	50,205	93,070
Accumulated depreciation (and impairment charges)*	-	-	(15,237)	(15,237)
<b>Net carrying amount</b>	<b>744,611</b>	<b>42,865</b>	<b>34,968</b>	<b>822,444</b>
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
Transfer 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 12)	36,032	-	-	36,032
Revaluation gains through OCI	67,901	-	-	67,901
Revaluation losses through OCI	(1,498)	-	-	(1,498)
Reversal of revaluation losses through profit or loss	988	-	-	988
Revaluation losses 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)
<b>At 31 December 2016, net carrying amount</b>	<b>744,611</b>	<b>42,865</b>	<b>34,968</b>	<b>822,444</b>

\*Accumulated depreciation of buildings is stated after the elimination of depreciation, revaluation, disposals and impairments.

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 2017) is €848.8 million. The value of these assets under the cost model is €677.6 million. In 2017, unrealised revaluation gains of €55.2 million and unrealised losses of €1.6 million have been reflected through other comprehensive income and in the revaluation reserve in equity. A revaluation loss of €2.8 million and a reversal of prior period revaluation losses of €1.3 million have been reflected in administrative expenses through profit or loss.

Included in land and buildings at 31 December 2017 is land at a carrying value of €150.8 million (2016: €124.7 million) which is not depreciated.

Acquisitions through business combinations during the year ended 31 December 2017 include the following:

- Clarion Hotel Liffey Valley, now trading as Clayton Hotel Liffey Valley (note 9); and
- Hotel La Tour, Birmingham now trading as Clayton Hotel Birmingham (note 9).

## Notes to the consolidated financial statements

(continued)

### 11 PROPERTY, PLANT AND EQUIPMENT (continued)

Other additions to land and buildings during the year ended 31 December 2017 include the following asset purchases:

- Purchase of the long leasehold interest (freehold equivalent) in the ground and lower ground floors, 170 bedrooms and vacant ground floor area of Clayton Hotel Cardiff Lane for €39.5 million plus capitalised acquisition costs of €1.1 million;
- Purchase of the long leasehold interest (freehold equivalent) of a further 24 suites (62 bedrooms) in the Clayton Hotel Cardiff Lane for €8.7 million plus capitalised acquisition costs of €0.5 million;
- Purchase of the long leasehold interest (freehold equivalent) of 33 suites in the Clarion Hotel, Liffey Valley, now trading as Clayton Hotel Liffey Valley, for €8.6 million plus capitalised acquisition costs of €0.3 million;
- Purchase of the long leasehold interest (freehold equivalent) of a further 13 suites in Clayton Hotel Liffey Valley for €2.0 million plus capitalised acquisition costs of €0.2 million;
- Purchase of the freehold interest of Maldron Hotel Portlaoise, a hotel property previously operated under an operating lease by the Group and the adjoining foodcourt, for €8.5 million. The adjoining foodcourt was simultaneously sold to a third party for €1.7 million. The net cost of the transaction was €6.8 million plus capitalised acquisition costs of €0.4 million; and
- Purchase of the freehold interest of Steamboat Quay Carpark, Clayton Hotel Limerick for €1.6 million plus capitalised acquisition costs of €0.1 million.

Additions to assets under construction during the year ended 31 December 2017 include the following:

- Development expenditure incurred on new builds of €42.3 million;
- Development expenditure incurred on hotel extensions of €16.8 million;
- Interest capitalised on loans and borrowings relating to qualifying assets of €1.6 million (note 5); and
- Arising from a change in use by the Group of a previously recognised investment property, €0.6 million has been transferred to property, plant and equipment from investment property (note 12).

Property previously classified as assets under construction has been transferred to land and buildings and fixtures and fittings as a result of the assets coming into use in 2017. This relates to additional bedrooms, a restaurant and staff facilities at Clayton Hotel Dublin Airport costing €7.0 million.

Arising from a change in use by the Group of previously recognised property, plant and equipment during the year as a result of securing a sub-lease in respect of the property, €0.4 million has been transferred to investment property from property, plant and equipment (note 12).

On 16 June 2017, the Group completed the sale and operating leaseback of the Clayton Hotel Cardiff for €25.1 million resulting in a gain on sale of €0.2 million. As part of this transaction the Group retained €2.4 million of fixtures and fittings and an intangible asset with a value of €0.7 million (note 10), representing the Group's interest in a sub-lease (as sub-lessor) in respect of a self-contained restaurant within the hotel. The Group now operates this hotel under an operating lease with a term of 35 years. Costs incurred in respect of this transaction amounting to €0.1 million have been included in profit or loss as part of the net gain on the sale of €0.2 million, included within other income (note 4).

On 11 August 2017, the Group completed the sale and operating leaseback of Hotel La Tour, Birmingham for €33.1 million (£30.0 million). Included within non-current prepayments is €1.1 million which represents the differential between the proceeds received and the acquisition price and will be deferred and amortised over the lease term as it represents up-front costs associated with entering the lease. The Group now operates this hotel under an operating lease with a term of 35 years.

## Notes to the consolidated financial statements

(continued)

### 11 PROPERTY, PLANT AND EQUIPMENT (continued)

During the year, the Group revised the estimated useful lives of its fixtures, fittings and equipment (note 1). Arising from the Group's assessment of the useful lives of its fixtures, fittings and equipment during the year, assets with a net book value of €7.0 million were reclassified from land and buildings to assets under construction and fixtures, fittings and equipment.

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 2017 reflects open market valuations carried out in December 2017 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 2017, properties included within land and buildings with a carrying amount of €848.8 million were pledged as security for loans and borrowings.

#### 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. At 31 December 2017, 25 properties were revalued by independent external valuers engaged by the Group (31 December 2016: 23).

The principal valuation technique used by the independent external valuers engaged by the Group 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). Valuers forecast cashflow included in these calculations represents the expectations of the valuers for EBITDA (driven by revenue per available room ("RevPAR") calculated as total rooms revenue divided by rooms available) for the property and also takes account of the expectations of a prospective purchaser. It also includes their expectation for capital expenditure which the valuers, typically, assume as approximately 4% of revenue per annum. This does not always reflect actual capital expenditure incurred by the Group. On specific assets, refurbishments are, by nature, periodic rather than annual. Valuers expectations of EBITDA are based off their trading forecasts (benchmarked against competition, market and actual performance). 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 valuers use their professional judgement and experience to balance the interplay between the different assumptions and valuation influences. For example, initial discounted cash flows based on individually reasonable inputs may result in a valuation which challenges the price per key metrics in recent transactions. This would then result in one or more of the inputs being amended for preparation of a revised discounted cash flow. Consequently, the individual inputs may change from the prior period or may look individually unusual and therefore must be considered as a whole and the individual importance of any should not be over-estimated in the context of the overall valuation.



## Notes to the consolidated financial statements

(continued)

## 11 PROPERTY, PLANT AND EQUIPMENT (continued)

The significant unobservable inputs and drivers thereof are summarised in the following table.

## Significant unobservable inputs

	31 December 2017			Total
	Dublin	Regional Ireland	United Kingdom	
	<i>Number of hotel assets</i>			
<b>RevPAR</b>				
< €75/£75	1	7	4	12
€75-€100/£75-£100	3	3	2	8
> €100/£100	4	1	-	5
	8	11	6	25
<b>Terminal (Year 10) capitalisation rate</b>				
< 8%	1	2	2	5
8%-10%	7	9	4	20
	8	11	6	25
<b>Price per key*</b>				
< €150k/£150k	2	10	4	16
€150k-€250k/£150k-£250k	2	-	1	3
> €250k/£250k	4	1	1	6
	8	11	6	25

	31 December 2016			Total
	Dublin	Regional Ireland	United Kingdom	
	<i>Number of hotel assets</i>			
<b>RevPAR</b>				
< €75/£75	2	8	6	16
€75-€100/£75-£100	1	1	1	3
> €100/£100	3	1	-	4
	6	10	7	23
<b>Terminal (Year 10) capitalisation rate</b>				
< 8%	1	1	3	5
8%-10%	5	9	4	18
	6	10	7	23
<b>Price per key*</b>				
< €150k/£150k	1	9	5	15
€150k-€250k/£150k-£250k	3	-	1	4
> €250k/£250k	2	1	1	4
	6	10	7	23

\*Price per key represents the valuation of a hotel divided by the number of rooms in that hotel.

## Notes to the consolidated financial statements

(continued)

## 11 PROPERTY, PLANT AND EQUIPMENT (continued)

The valuers also applied risk adjusted discount rates of 9.50% to 11.75% for Dublin assets (31 December 2016: 9.50% to 11.75%), 9.00% to 12.00% for Regional Ireland assets (31 December 2016: 8.50% to 12.00%) and 8.50% to 12.50% for United Kingdom assets (31 December 2016: 8.50% to 11.75%).

The most significant factors which have impacted valuations this year are the uplifts on hotels where freeholds or freehold equivalents of previously leased buildings were acquired leading to crystallisation of a marriage value, and reflection of continued improvements in trading performance across hotels which offset the impact of increased stamp duty rates during 2017 on most hotel valuations.

The estimated fair value under this valuation model would increase or decrease if:

- Valuers forecast cashflow 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 price per key metrics from hotel sales activity.

## 12 INVESTMENT PROPERTY

	2017 €'000	2016 €'000
<b>Cost or valuation</b>		
At 1 January	3,245	37,285
Transfer to property, plant and equipment (note 11)	(585)	(36,032)
Transfer to intangible assets on sale and operating leaseback of property (note 10)	(682)	-
Disposal on sale and operating leaseback of property	(813)	-
Transfer from property, plant and equipment (note 11)	385	-
Acquisitions through business combinations	-	1,431
Gain on revaluation recognised in profit or loss	35	497
Translation adjustment	-	64
<b>At 31 December</b>	<b>1,585</b>	<b>3,245</b>

Investment properties with a carrying value of €1.6 million were pledged as security for loans and borrowings at 31 December 2017.

Investment property at 31 December 2017 reflects the following assets and movements during the year.

- 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 13 and 9 years remaining.
- Arising from a change in use by the Group of previously recognised property, plant and equipment in Clayton Whites Hotel, Wexford from own-use to a sub leased property, €0.4 million has been transferred to investment property from property, plant and equipment (note 12). The investment property is leased to a third party for a lease term of 10 years.
- Transfers to property, plant and equipment in the year to 31 December 2017 includes part of a hotel property owned by the Group which was previously leased to a third party and which was recognised as investment property at 31 December 2016 (€0.6 million). Arising from a change in use by the Group of this property to own-use, this has been transferred to property, plant and equipment (note 11).

## Notes to the consolidated financial statements

(continued)

### 12 INVESTMENT PROPERTY (continued)

- On 16 June 2017, the Group completed the sale and operating leaseback of the Clayton Hotel Cardiff. The Group's freehold interest in a self-contained portion of the property, and which was classified as investment property at 31 December 2016 (€1.5 million), was disposed of in connection with this transaction. The Group's retention of its interest in the sub-lease of the property has been recognised as an intangible asset (note 10).

Changes in fair values are recognised in administrative expenses in profit or loss.

The value of the Group's investment properties at 31 December 2017 reflect an open market valuation carried out in December 2017 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 6.75% to 10.75% (2016: 6.75% to 11.50%).

The estimated fair value under this valuation model would increase or decrease if:

- Rent was higher or lower than expected; and/or
- The yield used as the capitalisation rate was higher or lower.

### 13 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 22).

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 2017. These swaps fix the LIBOR benchmark rate to 1.5025%.
- Interest rate cap with a maturity date of 30 September 2019, covering approximately 30% of the Group's Euro denominated borrowings at 31 December 2017. 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.

## Notes to the consolidated financial statements

(continued)

### 13 DERIVATIVES (continued)

	2017 €'000	2016 €'000
<b>Fair value</b>		
<b>Non-current</b>		
Interest rate cap asset	1	7
<b>Total derivative asset</b>	<b>1</b>	<b>7</b>
<b>Non-current</b>		
Interest rate swap liabilities	(1,778)	(3,401)
<b>Total derivative liability</b>	<b>(1,778)</b>	<b>(3,401)</b>
<b>Net derivative financial instrument position at year-end</b>	<b>(1,777)</b>	<b>(3,394)</b>
	2017 €'000	2016 €'000
<b>Included in other comprehensive income</b>		
<i>Fair value gains/(losses) on derivative instruments</i>		
Fair value gain/(loss) on interest rate swap liabilities	275	(3,723)
Fair value loss on interest rate cap asset	(6)	(17)
	269	(3,740)
Reclassified to profit or loss (note 5)	1,348	1,206
	<b>1,617</b>	<b>(2,534)</b>

The amount reclassified to profit or loss during the year represents the incremental interest expense arising under the interest rate swaps with actual LIBOR rates lower than the swap rate.

### 14 TRADE AND OTHER RECEIVABLES

	2017 €'000	2016 €'000
<b>Non-current assets</b>		
Other receivables	900	900
Deposits paid on acquisitions	-	1,024
Prepayments	3,443	2,824
	<b>4,343</b>	<b>4,748</b>
<b>Current assets</b>		
Trade receivables	8,957	7,823
Prepayments	7,469	5,266
Accrued income	4,278	2,785
	<b>20,704</b>	<b>15,874</b>
<b>Total</b>	<b>25,047</b>	<b>20,622</b>

Other receivables includes a non-current deposit required as part of a hotel property lease contract (€0.9 million). The deposit is interest-bearing and is refundable at the end of the lease term.

## Notes to the consolidated financial statements

(continued)

### 14 TRADE AND OTHER RECEIVABLES (continued)

At 31 December 2016, non-current assets included deposits paid for potential acquisitions. There are no comparable deposits on acquisitions at 31 December 2017.

Included within non-current prepayments at 31 December 2017 is an amount of €1.6 million (2016: €2.4 million) relating to costs incurred by the Group net of assets acquired 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. The net costs are being amortised on a straight-line basis over the 25 year life of the lease.

Included within non-current prepayments at 31 December 2017 is an amount of €1.1 million (2016: €nil) relating to the sale and operating leaseback of Hotel La Tour, Birmingham on 11 August 2017. This represents the difference between the proceeds received and the acquisition price and is deferred and amortised over the 35 year life of the lease in line with the benefits from the lease as it represents up-front costs associated with entering the lease.

Also included within non-current prepayments at 31 December 2017 is an amount of €0.6 million (2016: €0.4 million) relating to a prepayment made for IT services relating to 2019 and 2020.

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	Impairment provision	Net receivables
	2017	2017	2017
	€'000	€'000	€'000
Not past due	4,358	(2)	4,356
Past due < 30 days	2,153	-	2,153
Past due 30 - 60 days	1,483	-	1,483
Past due 60 - 90 days	453	-	453
Past due > 90 days	836	(324)	512
	<b>9,283</b>	<b>(326)</b>	<b>8,957</b>
	Gross receivables	Impairment provision	Net receivables
	2016	2016	2016
	€'000	€'000	€'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
	<b>7,992</b>	<b>(169)</b>	<b>7,823</b>

Management does not expect any significant losses from receivables that have not been provided for as shown above.

## Notes to the consolidated financial statements

(continued)

### 15 INVENTORIES

	2017	2016
	€'000	€'000
Goods for resale	1,419	1,488
Consumable stores	346	329
	<b>1,765</b>	<b>1,817</b>

Inventories recognised as cost of sales during the year amounted to €27.4 million (2016: €23.8 million).

### 16 CASH AND CASH EQUIVALENTS

	2017	2016
	€'000	€'000
Cash at bank and in hand	15,745	49,601
Money-market funds	-	31,479
	<b>15,745</b>	<b>81,080</b>

### 17 CAPITAL AND RESERVES

#### Share capital and share premium

At 31 December 2017

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	183,680,964	1,837

#### Share premium

At 31 December 2016

Authorised share capital	Number	€'000
Ordinary shares of €0.01 each	10,000,000,000	100,000

## Notes to the consolidated financial statements

(continued)

### 17 CAPITAL AND RESERVES (continued)

Allotted, called-up and fully paid shares	Number	€'000
Ordinary shares of €0.01 each	182,966,666	1,830
<b>Share premium</b>		<b>503,113</b>

All ordinary shares rank equally with regard to the Company's residual assets.

During the year ended 31 December 2017, the shares awarded under the 2014 Long Term Incentive Plan vested resulting in the issuance of 714,298 shares of €0.01 per share (note 7).

#### 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 being the Group's Long Term Incentive Plans and the Save As You Earn schemes. On vesting, the cost of awards previously recognised in the share-based payments reserve is transferred to retained earnings. Details of the share awards, in addition to awards which vest in the year, are disclosed in note 7 of the financial statements and on pages 86 and 87 of the Remuneration Committee 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.

## Notes to the consolidated financial statements

(continued)

### 17 CAPITAL AND RESERVES (continued)

#### (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 11), net of deferred tax.

#### (e) Translation reserve

The translation reserve comprises all foreign currency exchange 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 22).

### 18 TRADE AND OTHER PAYABLES

	2017 €'000	2016 €'000
Trade payables	14,127	13,266
Accruals	41,175	28,785
Deferred income	6,674	6,954
Value added tax	713	1,422
Payroll taxes	2,164	1,623
	<b>64,853</b>	<b>52,050</b>

Accruals include capital expenditure accruals including work in progress at year end which has not yet been invoiced (2017: €16.0 million) (2016: €5.0 million).

### 19 PROVISION FOR LIABILITIES

	2017 €'000	2016 €'000
Insurance claims:		
Non-current	4,716	3,040
	<b>4,716</b>	<b>3,040</b>

The reconciliation of the movement in the provision for the year ended 31 December 2017 is as follows.

	2017 €'000	2016 €'000
At 1 January	3,040	890
Provisions made during the year – charged to profit or loss	2,501	2,040
Assumed in a business combination	-	300
Utilised during the year	(825)	(190)
	<b>4,716</b>	<b>3,040</b>

## Notes to the consolidated financial statements

(continued)

## 19 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 claims incurred but not yet reported.

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 2017 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.

## 20 INTEREST-BEARING LOANS AND BORROWINGS

	2017 €'000	2016 €'000
<i>Repayable within one year</i>		
Bank borrowings	19,300	16,800
Less: deferred issue costs	(1,094)	(1,066)
	<b>18,206</b>	15,734
<i>Repayable after one year</i>		
Bank borrowings	243,010	266,936
Less: deferred issue costs	(1,077)	(2,255)
	<b>241,933</b>	264,681
<b>Total interest-bearing loans and borrowings</b>	<b>260,139</b>	280,415

## Notes to the consolidated financial statements

(continued)

## 20 INTEREST-BEARING LOANS AND BORROWINGS (continued)

## Reconciliation of movement in net debt

	Sterling facility £'000	Sterling facility €'000	Euro facility €'000	Total €'000
<i>Interest-bearing loans and borrowings (excluding unamortised debt costs)</i>				
At 1 January 2017	174,352	203,639	80,097	283,736
<i>Cash flows</i>				
New facilities drawn down	30,000	34,180	2,500	36,680
Capital repayment	(30,000)	(33,096)	(16,800)	(49,896)
<i>Non-cash changes</i>				
Effect of foreign exchange movements	-	(8,211)	-	(8,211)
<b>At 31 December 2017</b>	<b>174,352</b>	<b>196,512</b>	<b>65,797</b>	<b>262,309</b>

*Cash and cash equivalents*

At 1 January 2017		81,080
Movement during the year		(65,335)
<b>At 31 December 2017</b>		<b>15,745</b>
<b>Net debt at 31 December 2017</b>		<b>246,564</b>

At 1 January 2016	132,352	180,328	89,200	269,528
<i>Cash flows</i>				
New facilities drawn down	42,000	49,910	7,697	57,607
Capital repayment	-	-	(16,800)	(16,800)
<i>Non-cash changes</i>				
Effect of foreign exchange movements	-	(26,599)	-	(26,599)
<b>At 31 December 2016</b>	<b>174,352</b>	<b>203,639</b>	<b>80,097</b>	<b>283,736</b>

*Cash and cash equivalents*

At 1 January 2016		149,155
Movement during the year		(68,075)
<b>At 31 December 2016</b>		<b>81,080</b>
<b>Net debt at 31 December 2016</b>		<b>202,656</b>

Net debt is calculated in line with the Group's loan facility agreement. As a result, at 31 December 2017 it excludes unamortised debt costs of €2.2 million (2016: €3.3 million) and interest rate swap liabilities of €1.8 million (2016: €3.4 million).

## Notes to the consolidated financial statements

(continued)

### 20 INTEREST-BEARING LOANS AND BORROWINGS (continued)

On 17 December 2014, the Group entered into a 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. It also included 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 million with a maturity date of 3 February 2020 and increased the revolving credit facility from €20 million to €30 million. On 9 June 2016 under this facility, the Group 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).

On 6 July 2017, the Group increased its revolving credit facility by €50 million to €80 million. On 16 July 2017, the Group drew down £30 million from the multi-currency revolving credit facility, which was subsequently repaid on 11 August 2017. On 28 December 2017, €2.5 million was drawn from the revolving credit facility. This amount is included in current liabilities. The undrawn loan facilities as at 31 December 2017 were €99.7 million, including €77.5 million of the revolving credit facility and €22.2 million of the other loan facilities.

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 13). 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.

### 21 DEFERRED TAX

	2017 €'000	2016 €'000
Deferred tax assets	3,571	1,894
Deferred tax liabilities	(31,858)	(25,051)
<b>Net liability</b>	<b>(28,287)</b>	<b>(23,157)</b>

Movements in year	2017 €'000	2016 €'000
At beginning of year – net liability	(23,157)	(11,923)
Acquisition through business combination – assets	1,150	-
Acquisition through business combination – liabilities	(1,150)	(2,562)
Credit/(charge) for year – to profit or loss (note 8)	571	(2,606)
Charge for year – to other comprehensive income	(5,701)	(6,066)
<b>At end of year – net liability</b>	<b>(28,287)</b>	<b>(23,157)</b>

As at 31 December 2017, there are unrecognised tax losses available in Pillo Hotels Limited of €0.3 million (2016: €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.

## Notes to the consolidated financial statements

(continued)

### 21 DEFERRED TAX (continued)

As outlined in note 9, the Group acquired Hotel La Tour (Birmingham) Limited in July 2017. At that time, the Company had tax trading losses forward of £8.2 million (€9.25 million) which were not recognised as an asset in the statutory accounts of that company. Hotel La Tour (Birmingham) Limited sold Hotel La Tour Birmingham in August 2017, at which time a taxable capital gain of £6.0 million (€6.77 million) arose. The Group opted to roll over this capital gain by correspondingly reducing the future tax base cost of capital assets.

The Group immediately recognised this deferred tax liability of £1.02 million (€1.15 million (note 9)), and recognised a matching deferred tax asset relating to the trading losses to the extent of the capital gain arising. A further £2.20 million (€2.47 million) of tax trading losses remain unrecognised. The tax effect of these losses is £0.37 million (€0.43 million).

Deferred tax arises from temporary differences relating to:

	Net balance at 1 January 2017 2017 €'000	Recognised in profit or loss 2017 €'000	Recognised in OCI 2017 €'000	Acquired in business combinations 2017 €'000	Balance as at 31 December 2017		
					Net deferred tax 2017 €'000	Deferred tax assets 2017 €'000	Deferred tax liability 2017 €'000
Property, plant and equipment	(21,886)	887	(5,498)	(1,150)	(27,647)	1,649	(29,296)
Intangible assets	(2,562)	-	-	-	(2,562)	-	(2,562)
Tax losses carried forward	848	(316)	-	1,150	1,682	1,682	-
Other	443	-	(203)	-	240	240	-
<b>Net deferred tax (liabilities)/assets</b>	<b>(23,157)</b>	<b>571</b>	<b>(5,701)</b>	<b>-</b>	<b>(28,287)</b>	<b>3,571</b>	<b>(31,858)</b>

	Net balance at 1 January 2016 2016 €'000	Recognised in profit or loss 2016 €'000	Recognised in OCI 2016 €'000	Acquired in business combinations 2016 €'000	Balance as at 31 December 2016		
					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	-
<b>Net deferred tax (liabilities)/assets</b>	<b>(11,923)</b>	<b>(2,606)</b>	<b>(6,066)</b>	<b>(2,562)</b>	<b>(23,157)</b>	<b>1,894</b>	<b>(25,051)</b>

## Notes to the consolidated financial statements

(continued)

## 22 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 foreign exchange 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 2017. 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 2017 €'000	Loans and receivables at amortised cost 2017 €'000	Total carrying amount 2017 €'000	Level 1 2017 €'000	Level 2 2017 €'000	Level 3 2017 €'000	Total 2017 €'000
<b>Financial Assets</b>							
Derivatives (note 13)	1	-	1		1		1
Trade and other receivables excluding prepayments and deposits paid on acquisitions (note 14)	-	14,135	14,135				
Cash at bank and in hand (note 16)	-	15,745	15,745				
	<b>1</b>	<b>29,880</b>	<b>29,881</b>				

	Financial liabilities measured at fair value 2017 €'000	Financial liabilities measured at amortised cost 2017 €'000	Total carrying amount 2017 €'000	Level 1 2017 €'000	Level 2 2017 €'000	Level 3 2017 €'000	Total 2017 €'000
<b>Financial Liabilities</b>							
Secured bank loans (note 20)	-	(260,139)	(260,139)		(260,139)		(260,139)
Trade payables and accruals (note 18)	-	(55,302)	(55,302)				
Derivatives (note 13)	(1,778)	-	(1,778)		(1,778)		(1,778)
	<b>(1,778)</b>	<b>(315,441)</b>	<b>(317,219)</b>				

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.

## Notes to the consolidated financial statements

(continued)

## 22 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

	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
<b>Financial Assets</b>							
Derivatives (note 13)	7	-	7		7		7
Trade and other receivables excluding prepayments and deposits paid on acquisitions (note 14)	-	11,508	11,508				
Cash at bank and in hand (note 16)	-	49,601	49,601				
Money-market funds (note 16)	31,479	-	31,479	31,479			31,479
	<b>31,486</b>	<b>61,109</b>	<b>92,595</b>				

	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
<b>Financial Liabilities</b>							
Secured bank loans (note 20)	-	(280,415)	(280,415)		(280,415)		(280,415)
Trade payables and accruals (note 18)	-	(42,051)	(42,051)				
Derivatives (note 13)	(3,401)	-	(3,401)		(3,401)		(3,401)
	<b>(3,401)</b>	<b>(322,466)</b>	<b>(325,867)</b>				

## 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 year ended 31 December 2017, 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.

## Notes to the consolidated financial statements

(continued)

### 22 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

#### 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 5). The fair value is based on quoted market prices. There were no amounts held in money-market funds at 31 December 2017.

#### 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.

#### (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 2017 is provided in note 14. Management does not expect any significant losses from receivables that have not been provided for as shown in note 14.

##### Cash and cash equivalents

In addition to cash at bank and in hand, the Group held significant cash balances in money-market funds with financial institutions during the year. At year end there were no cash balances held in money-market funds. 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 & Poors or equivalent credit ratings from other established rating agencies.

## Notes to the consolidated financial statements

(continued)

### 22 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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 2017 €'000	Carrying amount 2016 €'000
Trade receivables	8,957	7,823
Other receivables	900	900
Accrued income	4,278	2,785
Cash at bank and in hand	15,745	49,601
Money-market funds	-	31,479
	<b>29,880</b>	<b>92,588</b>

#### (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 July 2017, the Group improved its liquidity position by increasing its revolving credit facility by an additional €50 million (having a maturity date of 3 February 2020). On 16 July 2017, the Group drew down £30 million from the multi-currency revolving credit facility, which was subsequently repaid on 11 August 2017. On 28 December 2017, €2.5 million was drawn from the revolving credit facility.

€77.5 million of the revolving credit facility and €22.2 million of other loan facilities were undrawn at 31 December 2017.

The following are the contractual maturities of the Group's financial liabilities at 31 December 2017, including estimated interest payments.

	Carrying value 2017 €'000	Total 2017 €'000	6 months or less €'000	6 - 12 months €'000	1 - 2 years €'000	2 - 5 years €'000
Secured bank loans	(260,139)	(276,831)	(15,017)	(12,654)	(20,858)	(228,302)
Trade payables and accruals	(55,302)	(55,302)	(55,302)	-	-	-
Interest rate swaps	(1,778)	(1,778)	(543)	(463)	(560)	(212)
	<b>(317,219)</b>	<b>(333,911)</b>	<b>(70,862)</b>	<b>(13,117)</b>	<b>(21,418)</b>	<b>(228,514)</b>



## Notes to the consolidated financial statements

(continued)

## 22 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

## (b) Liquidity risk (continued)

The equivalent disclosure for the prior year is as follows.

	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)

## (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 13) 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	
	2017 €'000	2016 €'000
<b>Variable rate instruments</b>		
Financial liabilities – borrowings	260,139	280,415
Effect of interest rate swaps	(114,401)	(118,550)
Effect of interest rate cap	(19,413)	(30,618)
	126,325	131,247

The weighted average interest rate for 2017 was 3.16% (2016: 3.25%), of which 2.42% (2016: 2.43%) related to margin.

The interest expense for 2017 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 six 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 six 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.

## Notes to the consolidated financial statements

(continued)

## 22 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

## (c) Market risk (continued)

## (i) Interest rate risk (continued)

	2017 actual weighted average variable benchmark rate	If rate sensitised upwards	If rate sensitised downwards
Euribor	0.00%	0.80%	0.00%
LIBOR	1.00%	1.33%	0.86%

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.

## Cash flow sensitivity analysis for variable rate instruments

	Effect on profit or loss	
	Increase in rate €'000	Zero variable rate* €'000
<b>31 December 2017</b>		
(Increase)/decrease in interest on loans and borrowings	(1,254)	287
Decrease/(increase) in tax	157	(36)
<b>(Decrease)/increase in profit</b>	<b>(1,097)</b>	<b>251</b>
<b>31 December 2016</b>		
(Increase)/decrease in interest on loans and borrowings	(971)	279
Decrease/(increase) in tax	121	(35)
<b>(Decrease)/increase in profit</b>	<b>(850)</b>	<b>244</b>

\*Only the interest on the unhedged portion of the loans has been sensitised. The sensitivity has no impact on the hedged portion.

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 2017.

	Carrying Amount €'000	31 December 2017		
		Total €'000	12 months or less €'000	More than 1 year €'000
<b>Interest rate swaps</b>				
Liabilities	1,778	1,778	1,006	772

## Notes to the consolidated financial statements

(continued)

## 22 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

## (c) Market risk (continued)

## (i) Interest rate risk (continued)

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 2017			
	Carrying Amount €'000	Total €'000	12 months or less €'000	More than 1 year €'000
<b>Interest rate swaps</b>				
Liabilities	1,778	1,778	1,006	772

## (ii) Foreign currency risk

As per the Risk Management section of the Annual Report on pages 36 to 43, 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 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 (€196.5 million) at 31 December 2017 (2016: £174.4 million (€203.6 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 previous eleven years. The lowest average foreign exchange rate of 0.66 has been used in calculating the impact of euro weakening against Sterling as it is reflective of a period of market volatility due to strong economic growth. On the upward sensitivity, due to current volatility in the market and the unknown impact of Brexit, the Group have decided to use Euro/Sterling foreign exchange rate of 1 (parity) in the sensitivity. The aforementioned rates are broadly in line with market forecasts which display a wide variation in foreign exchange rates. The actual weighted average foreign exchange rate for interest expense in 2017 was 0.88. The interest cost on Sterling loans in 2017 was £6.03 million (€6.88 million).

## Notes to the consolidated financial statements

(continued)

## 22 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

## (c) Market risk (continued)

## (ii) Foreign currency risk (continued)

*Sensitivity analysis on transactional risk (continued)*

	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	855	(2,203)	855	(2,203)
Impact of tax	(107)	276	(107)	276
<b>Increase/(decrease) in profit/equity</b>	<b>748</b>	<b>(1,927)</b>	<b>748</b>	<b>(1,927)</b>

## (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 adjusted EBITDA ratio (note 2) and seeks to keep it below 3.50.

	2017 €'000	2016 €'000
Profit before tax	77,287	44,111
<i>Add back/(deduct)</i>		
Finance costs (note 5)	9,636	11,496
Depreciation of property, plant and equipment (note 2)	15,710	15,477
Acquisition-related and integration costs (note 3)	1,260	2,671
Net property revaluation movements through profit or loss (note 2)	1,425	(241)
Gain on disposal of property freehold interests and subsidiary (note 2)	(469)	-
Amortisation of intangible asset (note 2)	24	-
Stock exchange listing costs (note 2)	-	1,293
Impairment of goodwill (note 2)	-	10,325
<b>Adjusted EBITDA</b>	<b>104,873</b>	<b>85,132</b>
<b>Net debt (note 20)</b>	<b>246,564</b>	<b>202,656</b>
<b>Net Debt to Adjusted EBITDA as at 31 December</b>	<b>2.4</b>	<b>2.4</b>

## Notes to the consolidated financial statements

(continued)

## 23 COMMITMENTS

## Leases

Non-cancellable operating lease rentals payable under operating lease and agreements for lease are set out below. These represent the minimum future lease payments in aggregate that the Group is required to make under existing lease arrangements. An agreement for lease is a binding agreement between prospective landlords and the Group to enter into a lease at a future date.

## At 31 December 2017

	Less than 1 year €'000	1 - 2 years* €'000	2 - 5 years €'000	5 - 15 years €'000	15 -25 years €'000	After 25 years €'000	Total €'000
Operating lease	24,827	21,859	66,065	205,313	192,771	113,569	624,404
Agreements for lease	448	1,792	22,850	94,527	100,979	133,117	353,713
	<b>25,275</b>	<b>23,651</b>	<b>88,915</b>	<b>299,840</b>	<b>293,750</b>	<b>246,686</b>	<b>978,117</b>

## At 31 December 2016

	Less than 1 year €'000	1 - 2 years €'000	2 - 5 years €'000	5 - 15 years €'000	15 -25 years €'000	After 25 years €'000	Total €'000
Operating lease	27,537	25,399	74,265	232,797	162,845	23,933	546,776
Agreements for lease	-	806	4,835	16,651	17,503	21,206	61,001
	<b>27,537</b>	<b>26,205</b>	<b>79,100</b>	<b>249,448</b>	<b>180,348</b>	<b>45,139</b>	<b>607,777</b>

\*2019 financial year.

The significant movement since the year ended 31 December 2016 is due principally to the following:

- New operating leases entered into for Clayton Hotel Birmingham and Clayton Hotel Cardiff following sale and operating leasebacks (note 11);
- Cessation of the operating lease of Croydon Park Hotel, UK following disposal of the subsidiary (note 4);
- Cessation of the operating lease of Maldron Hotel Portlaoise following purchase of the freehold interest (note 11);
- Cessation of operating leases of components of Clayton Hotel Cardiff Lane following purchase of the long leasehold interests (note 11);
- The Group has signed an agreement to lease a Clayton Hotel, to be built in Manchester. On completion of construction (expected completion Q1 2021), Dalata will commence operations in the hotel through a 35 year operating lease with an initial annual rent of circa £2.5 million, depending on the final size of the hotel after the end of the planning process;
- The Group has signed an agreement to lease a Clayton Hotel, to be built in Glasgow. On completion of construction (expected completion Q4 2020), Dalata will commence operations in the hotel through a 35 year operating lease with an initial annual rent of circa £2.4 million, depending on the final size of the hotel after the end of the planning process; and
- The Group has signed an agreement to lease a Maldron Hotel, to be built in Glasgow. On completion of construction (expected completion Q2 2020), Dalata will commence operations in the hotel through a 35 year operating lease with an initial annual rent of circa £1.6 million, depending on the final size of the hotel after the end of the planning process.

## Notes to the consolidated financial statements

(continued)

## 23 COMMITMENTS (continued)

## Leases (continued)

In 2016, the Group signed an agreement to lease a Maldron Hotel, to be built in Newcastle. On completion of construction (expected completion February 2019), Dalata will commence operations in the hotel through a 35 year operating lease with an initial annual rent of £1.6 million.

The weighted average lease life of future minimum rentals payable under leases and agreement for leases is 32.3 years (2016: 25.8 years).

The operating lease charges during 2017 amounted to €31.0 million (2016: €25.7 million).

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 2017 was €7.6 million (2016: €6.7 million).

## IFRS 16 impact

Note 1 (ii) contains details of the impact of IFRS 16 *Leases* on the Group. Work on the most significant area of judgement and estimation, setting of the discount rate, is ongoing and in any case cannot be set until the transition date of 1 January 2019.

An illustrative disclosure of one potential quantitative impact of IFRS 16, using a notional discount rate of 5% is included in the table below. However this rate should not be considered to be a prediction of the discount rate as this rate was randomly selected to enable users of the financial statements to appreciate the potential magnitude of the impact on the financial statements at the date of implementation of IFRS 16 at only that selected discount rate.

Operating leases that are expected to be active at 1 January 2019 have been incorporated into the illustrative IFRS 16 impact analysis below. Obviously leases in existence in the future at the date of transition may be significantly different depending on developments such as new leases, changes in timing of opening of new hotels to be capitalised under lease etc.

## Illustrative impact on consolidated statement of financial position at 1 January 2019

	€'000
Lease liability	(350,093)
Right-of-use asset	350,093
Retained earnings	-
<b>Impact on net assets</b>	<b>-</b>

## Illustrative impact on consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2019

	€'000
Operating lease rentals	23,868
Depreciation of right-of-use asset	(14,746)
Interest on lease liability	(16,843)
<b>Impact on profit before taxation</b>	<b>(7,721)</b>

## Notes to the consolidated financial statements

(continued)

### 23 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.

- 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
- Sparrowdale Limited	- Galsay Limited
- Cavernford Designated Activity Company	

#### Capital commitments

The Group has the following commitments for future capital expenditure under its contractual arrangements.

	2017	2016
	€'000	€'000
Contracted but not provided for	98,282	77,099

This relates primarily to the development of the following new-build hotels and extensions to currently operational hotels which are now contractually committed:

- New-build Hotel Developments: Clayton Hotel Charlemont, Dublin; Maldron Hotel Kevin Street, Dublin; Maldron Hotel, South Mall, Cork; and Maldron Hotel Brunswick Street, Belfast.
- Extensions: Maldron Hotel Sandy Road, Galway; Maldron Hotel Parnell Square, Dublin; Clayton Hotel Dublin Airport; and Clayton Hotel Ballsbridge, Dublin.

It also includes other capital expenditure committed to at other hotels in the Group.

The Group also has other commitments in relation to fixtures, fittings and equipment in some of its leased hotels. Under certain lease agreements, the Group has committed to spending a percentage of turnover on capital expenditure in respect of fixtures, fittings and equipment in the leased hotels over the life of the lease. The Group has estimated the commitment in relation to these leases to be €55.3 million spread over the life of the various leases which range in length from 25 years to 35 years. The turnover figures used in this estimate have been based on 2017 revenues.

## Notes to the consolidated financial statements

(continued)

### 24 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 and does not extend to any members of the Executive Management Team. The compensation of key management personnel is set out in the Remuneration Committee Report on pages 78 to 89. In addition, the share-based payment expense for key management in 2017 was €0.5 million (2016: €0.4 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 2017. 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 from Sanjay Limited, and fees of €40,000 from Citywest Resort Limited for management services provided to both companies. During 2017, the Group did not receive any fees and had no monies owed at 31 December 2017.

During 2017, the Group paid fees to Professional Granite Consulting Limited of €100,212 (2016: €24,335) for sales and marketing services received. A Non-Executive Director of the Group is also a director of Professional Granite Consulting Limited. At 31 December 2017, €1,507 (2016: €21,166) was owed in the normal course of business by the Group to this company.

### 25 SUBSEQUENT EVENTS

There were no events subsequent to 31 December 2017 which would require an adjustment to or a disclosure thereon in these financial statements.

## Notes to the consolidated financial statements

(continued)

## 26 SUBSIDIARY UNDERTAKINGS

A list of all subsidiary undertakings at 31 December 2017 is set out below.

Subsidiary undertaking	Country of Incorporation	Activity	Ownership	
			Direct	Indirect
DHGL Limited <sup>1</sup>	Ireland	Holding company	100%	
Dalata Limited <sup>1</sup>	Ireland	Holding company	-	100%
Hanford Commercial Limited <sup>1</sup>	Ireland	Hotel and catering	-	100%
Anora Commercial Limited <sup>1</sup>	Ireland	Hotel and catering	-	100%
Ogwell Limited <sup>1</sup>	Ireland	Hotel and catering	-	100%
Caruso Limited <sup>1</sup>	Ireland	Hotel and catering	-	100%
CI Hotels Limited <sup>1</sup>	Ireland	Hotel and catering	-	100%
Dalata Management Services Limited <sup>1</sup>	Ireland	Hotel management	-	100%
Tulane Business Management Limited <sup>1</sup>	Ireland	Hotel and catering	-	100%
Dalata Support Services Limited <sup>1</sup>	Ireland	Hotel and hotel management	-	100%
Fonteyn Property Holdings Limited <sup>1</sup>	Ireland	Hotel and hotel management	-	100%
Fonteyn Property Holdings No. 2 Limited <sup>1</sup>	Ireland	Asset management	-	100%
Suvanne Management Limited <sup>1</sup>	Ireland	Hotel and catering	-	100%
Carasco Management Limited <sup>1</sup>	Ireland	Hotel and catering	-	100%
Amelin Commercial Limited <sup>1</sup>	Ireland	Hotel and catering	-	100%
Lintal Commercial Limited <sup>1</sup>	Ireland	Hotel and catering	-	100%
Bernara Commercial Limited <sup>1</sup>	Ireland	Property investment	-	100%
Pillo Hotels Limited <sup>1</sup>	Ireland	Management company	-	100%
Loadbur Limited <sup>1</sup>	Ireland	Property holding company	-	100%
Swintron Limited <sup>1</sup>	Ireland	Holding company	-	100%
Heartside Limited <sup>1</sup>	Ireland	Hotel and catering	-	100%
Pondglen Limited <sup>1</sup>	Ireland	Hotel and catering	-	100%
Candlevale Limited <sup>1</sup>	Ireland	Hotel and catering	-	100%
Songdale Limited <sup>1</sup>	Ireland	Hotel and catering	-	100%
Palaceglen Limited <sup>1</sup>	Ireland	Hotel and catering	-	100%
Adelka Limited <sup>1</sup>	Ireland	Property holding company	-	100%
Bayvan Limited <sup>1</sup>	Ireland	Hotel and catering	-	100%
Leevlan Limited <sup>1</sup>	Ireland	Property holding company	-	100%
DHG Arden Limited <sup>1</sup>	Ireland	Hotel and catering	-	100%
DHG Barrington Limited <sup>1</sup>	Ireland	Property holding company	-	100%
DHG Cordin Limited <sup>1</sup>	Ireland	Property holding company	-	100%
DS Charlemont Limited <sup>1</sup>	Ireland	Property holding company	-	100%
Cavernford DAC <sup>1</sup>	Ireland	Intermediate holding company	-	100%
Vizmol Limited <sup>1</sup>	Ireland	Intermediate holding company	-	100%
Sparrowdale Limited <sup>1</sup>	Ireland	Intermediate holding company	-	100%
Galsay Limited <sup>1</sup>	Ireland	Hotel and catering	-	100%
Merzolt Limited <sup>1</sup>	Ireland	Hotel and catering	-	100%
DHG Burlington Road Limited <sup>1</sup>	Ireland	Hotel and catering	-	100%
DT Sussex Road Operations Limited <sup>1</sup>	Ireland	Dormant company	-	100%
DHG Eden Limited <sup>1</sup>	Ireland	Hotel and catering	-	100%
DHG Dalton Limited <sup>1</sup>	Ireland	Hotel and catering	-	100%

<sup>1</sup>The registered address of these companies is 4th Floor, Burton Court, Burton Hall Drive, Sandyford, Dublin 18.

## Notes to the consolidated financial statements

(continued)

## 26 SUBSIDIARY UNDERTAKINGS (continued)

Subsidiary undertaking	Country of Incorporation	Activity	Ownership	
			Direct	Indirect
DHG Belfast Limited <sup>2</sup>	N Ireland	Hotel and catering	-	100%
DHG Derry Limited <sup>2</sup>	N Ireland	Hotel and catering	-	100%
DHG Derry Commercial Limited <sup>2</sup>	N Ireland	Property holding company	-	100%
DHG Brunswick Limited <sup>2</sup>	N Ireland	Property holding company	-	100%
Dalata UK Limited <sup>3</sup>	UK	Holding company	-	100%
Dalata Cardiff Limited <sup>3</sup>	UK	Hotel and catering	-	100%
Trackdale Limited <sup>3</sup>	UK	Hotel and catering	-	100%
Islandvale Limited <sup>3</sup>	UK	Hotel and catering	-	100%
Crescentbrook Limited <sup>3</sup>	UK	Hotel and catering	-	100%
Hallowridge Limited <sup>3</sup>	UK	Hotel and catering	-	100%
Rush (Central) Limited <sup>3</sup>	UK	Dormant company	-	100%
Hotel La Tour (Birmingham) Limited <sup>3</sup>	UK	Hotel and catering	-	100%
Cenan BV <sup>4</sup>	Netherlands	Financing company	-	100%

<sup>2</sup>The registered address of these companies is Butcher Street, Londonderry, County Derry BT48 6HL, United Kingdom.<sup>3</sup>The registered address of these companies is St Mary Street, Cardiff, Wales, CF10 1GD, United Kingdom.<sup>4</sup>The registered address of this company is Jachthavenweg 109H, 1081 KM Amsterdam, The Netherlands.

## 27 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 2017 and 31 December 2016.

	2017	2016
Profit attributable to shareholders of the parent (€'000) – basic and diluted	68,308	34,923
Adjusted profit attributable to shareholders of the parent (€'000) – basic and diluted	70,228	49,040
Earnings per share – Basic	37.2 cents	19.1 cents
Earnings per share – Diluted	36.9 cents	18.9 cents
Adjusted earnings per share – Basic	38.3 cents	26.8 cents
Adjusted earnings per share – Diluted	37.9 cents	26.6 cents
Weighted average shares outstanding – Basic	183,430,226	182,966,666
Weighted average shares outstanding – Diluted	185,243,000	184,499,060

## Notes to the consolidated financial statements

(continued)

### 27 EARNINGS PER SHARE (continued)

The difference between the basic and diluted weighted average shares outstanding for the year ended 31 December 2017 is due to the dilutive impact of the conditional share awards granted in 2015, 2016 and 2017 (note 7). There have been no adjustments made to the number of weighted average shares outstanding in calculating adjusted basic earnings per share and adjusted diluted earnings per share.

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, gains on disposals of assets 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 2016 and 2017 and the fluctuations in these costs in different years.

	2017 €'000	2016 €'000
<b>Reconciliation to adjusted profit for the year</b>		
Profit before tax	77,287	44,111
<b>Adjusting items (see note 2)</b>		
Acquisition-related costs	1,260	2,671
Gains on disposal of property freehold interests and subsidiary	(469)	-
Net revaluation movements through profit or loss	1,425	(241)
Impairment of goodwill	-	10,325
Stock exchange listing costs	-	1,293
<b>Adjusted profit before tax</b>	<b>79,503</b>	<b>58,159</b>
Tax	(8,979)	(9,188)
Tax adjustment for adjusting items	(296)	69
<b>Adjusted profit for the year</b>	<b>70,228</b>	<b>49,040</b>

### 28 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Directors on 26 February 2018.

## Company Financial Statements

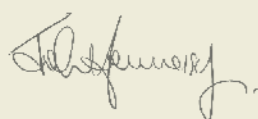
For the year ended  
31 December 2017

## Company statement of financial position

at 31 December 2017

	Note	2017 €'000	2016 €'000
<b>Assets</b>			
<b>Non-current assets</b>			
Investment in subsidiaries	2	42,519	41,350
Derivatives	7	1	7
Deferred tax asset		240	444
<b>Total non-current assets</b>		<b>42,760</b>	<b>41,801</b>
<b>Current assets</b>			
Trade and other receivables	3	116	281
Amounts owed by subsidiaries	4	730,234	700,450
Cash and cash equivalents	5	849	43,388
<b>Total current assets</b>		<b>731,199</b>	<b>744,119</b>
<b>Total assets</b>		<b>773,959</b>	<b>785,920</b>
<b>Equity</b>			
Share capital	8	1,837	1,830
Share premium	8	503,113	503,113
Share-based payment reserve		2,753	2,126
Hedging reserve		(1,692)	(3,106)
Retained earnings		(13,154)	(9,363)
<b>Total equity</b>		<b>492,857</b>	<b>494,600</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Loans and borrowings	7	241,933	264,681
Derivatives	7	1,778	3,401
<b>Total non-current liabilities</b>		<b>243,711</b>	<b>268,082</b>
<b>Current liabilities</b>			
Loans and borrowings	7	18,206	15,734
Trade and other payables	6	19,185	7,504
<b>Total current liabilities</b>		<b>37,391</b>	<b>23,238</b>
<b>Total liabilities</b>		<b>281,102</b>	<b>291,320</b>
<b>Total equity and liabilities</b>		<b>773,959</b>	<b>785,920</b>

On behalf of the Board:



John Hennessy  
Chairman



Patrick McCann  
Director

## Company statement of changes in equity

for the year ended 31 December 2017

	Attributable to equity holders of the Company					
	Share capital €'000	Share premium €'000	Share-based payment reserve €'000	Hedging reserve €'000	Retained earnings €'000	Total €'000
At 1 January 2017	1,830	503,113	2,126	(3,106)	(9,363)	494,600
<b>Comprehensive income:</b>						
Loss for the year	-	-	-	-	(4,593)	(4,593)
Other comprehensive income	-	-	-	1,414	-	1,414
Total comprehensive loss for the year	-	-	-	1,414	(4,593)	(3,179)
Transactions with owners of the Company:						
Equity-settled share-based payments	-	-	1,690	-	-	1,690
Vesting of share awards	7	-	(1,063)	-	1,063	7
Additional costs of prior period share issues	-	-	-	-	(261)	(261)
Total transactions with owners of the Company	7	-	627	-	802	1,436
<b>At 31 December 2017</b>	<b>1,837</b>	<b>503,113</b>	<b>2,753</b>	<b>(1,692)</b>	<b>(13,154)</b>	<b>492,857</b>
At 1 January 2016	1,830	503,113	912	(888)	(21,430)	483,537
<b>Comprehensive income:</b>						
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
<b>At 31 December 2016</b>	<b>1,830</b>	<b>503,113</b>	<b>2,126</b>	<b>(3,106)</b>	<b>(9,363)</b>	<b>494,600</b>

### Attributable profit or loss of the Company

The loss attributable to shareholders dealt with in the financial statements of the Company for the year ended 31 December 2017 was €4.6 million (2016: profit of €12.1 million). 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 2017

	2017 €'000	2016 €'000
<b>Cash flows from operating activities</b>		
(Loss)/profit for the year	(4,593)	12,067
<i>Adjustments for:</i>		
Finance costs	11,021	12,770
Foreign exchange gain on borrowings	(7,247)	(26,599)
Share-based payment expense	522	419
	(297)	(1,343)
Increase in trade and other payables	403	4,020
(Increase)/decrease in trade and other receivables	(91)	187
<b>Net cash from operating activities</b>	<b>15</b>	<b>2,864</b>
<b>Cash flows from investing activities</b>		
Loans to subsidiaries	(29,864)	(118,398)
Loans from subsidiaries	11,508	-
<b>Net cash used in investing activities</b>	<b>(18,356)</b>	<b>(118,398)</b>
<b>Cash flows from financing activities</b>		
Interest and finance costs paid	(10,023)	(9,983)
Receipt of bank loans	36,680	57,607
Repayment of bank loans	(49,896)	(16,800)
Proceeds from issue of share capital, net of expenses	7	-
<b>Net cash (used in)/from financing activities</b>	<b>(23,232)</b>	<b>30,824</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(41,573)</b>	<b>(84,710)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>43,388</b>	<b>128,499</b>
Effect of movements in exchange rates	(966)	(401)
<b>Cash and cash equivalents at the end of the year</b>	<b>849</b>	<b>43,388</b>

## 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 consolidated financial statements are detailed below.

#### (i) 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.

#### (ii) 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

	2017 €'000	2016 €'000
Investments in subsidiaries at initial fair value	40,000	40,000
Accumulated cost of share-based payments in respect of subsidiaries	2,519	1,350
	<b>42,519</b>	<b>41,350</b>

Details of subsidiary undertakings are included in note 26 of the consolidated financial statements.

### 3 TRADE AND OTHER RECEIVABLES

	2017 €'000	2016 €'000
Prepayments	108	65
Value added tax	8	216
	<b>116</b>	<b>281</b>



## Notes to the Company financial statements

(continued)

### 4 AMOUNTS OWED BY SUBSIDIARIES

	2017 €'000	2016 €'000
Amounts owed by subsidiaries	730,234	700,450
	<b>730,234</b>	<b>700,450</b>

Amounts owed by subsidiaries are non-interest bearing and are repayable on demand.

### 5 CASH AND CASH EQUIVALENTS

	2017 €'000	2016 €'000
Cash at bank and in hand	849	11,909
Money-market funds	-	31,479
	<b>849</b>	<b>43,388</b>

### 6 TRADE AND OTHER PAYABLES

	2017 €'000	2016 €'000
Trade payables	82	8
Accruals	2,154	2,210
Payroll taxes	218	63
Amounts due to subsidiary undertakings	16,731	5,223
	<b>19,185</b>	<b>7,504</b>

Amounts due to subsidiaries are non-interest bearing and are repayable on demand.

### 7 LOANS AND BORROWINGS, AND DERIVATIVES

Details of loans and borrowings, and derivative financial instruments, are given in notes 13, 20 and 22 of the consolidated financial statements.

Profit or loss for the Company for the year ended 31 December 2017 includes foreign exchange gains of €7.2 million (2016: €26.6 million) on loans and borrowings which are accounted for through other comprehensive income in the consolidated financial statements.

## Notes to the Company financial statements

(continued)

### 8 SHARE CAPITAL AND PREMIUM

At 31 December 2017

Authorised share capital	Number	€'000
Ordinary shares of €0.01 each	10,000,000,000	100,000
<b>Allotted, called-up and fully paid shares</b>	<b>Number</b>	<b>€'000</b>
Ordinary shares of €0.01 each	183,680,964	1,837
<b>Share premium</b>		<b>503,113</b>

At 31 December 2016

Authorised share capital	Number	€'000
Ordinary shares of €0.01 each	10,000,000,000	100,000
<b>Allotted, called-up and fully paid shares</b>	<b>Number</b>	<b>€'000</b>
Ordinary shares of €0.01 each	182,966,666	1,830
<b>Share premium</b>		<b>503,113</b>

All ordinary shares rank equally with regard to the Company's residual assets.

During the year ended 31 December 2017, the shares awarded under the 2014 Long Term Incentive Plan vested resulting in the issuance of 714,298 shares of €0.01 per share. Further details in relation to the vesting of these awards and the long-term incentive plans operated by the Group are disclosed in note 7 of the consolidated financial statements.

### 9 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Money-market funds (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 the Group's financial instruments and risk management policies are given in note 22 of the consolidated financial statements.

## Notes to the Company financial statements

(continued)

### 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 24 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 78 to 89 and note 24 of the consolidated financial statements.

#### Transactions with related parties

During the year ended 31 December 2017, the Company charged fees amounting to €3.7 million (2016: €2.9 million) to its subsidiary undertakings for services provided during the year.

### 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
- 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
- Sparrowdale Limited
- Cavernford Designated Activity Company
- 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
- Galsay Limited

## Notes to the Company financial statements

(continued)

### 11 COMMITMENTS (continued)

#### Rent guarantee

At 31 December 2017, the Company has undertaken to guarantee the obligations of its subsidiaries in relation to the following.

Property	Subsidiary	Term (years)	Term remaining (years)
<b>Lease</b>			
Clayton Hotel Burlington Road	DHG Burlington Road Limited	25	23.9
The Gibson Hotel	Galsay Limited	35	35.0
Clayton Hotel Cardiff	Dalata UK Limited	35	34.4
Maldron Hotel Smithfield	Anora Commercial Limited	25	24.1
Clayton Hotel Birmingham	Hotel La Tour (Birmingham) Limited	35	34.6
<b>Agreement for Lease</b>			
Maldron Hotel Newcastle	Dalata Cardiff Limited	35	35.0
Maldron Hotel Glasgow	Dalata Cardiff Limited	35	35.0
Clayton Hotel Glasgow	Dalata Cardiff Limited	35	35.0
Clayton Hotel Manchester	Dalata Cardiff Limited	35	35.0

### 12 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Directors on 26 February 2018.

## ADDITIONAL INFORMATION



## Advisors

### Stockbrokers

**Davy**  
Davy House  
49 Dawson Street  
Dublin 2  
Ireland

### Berenberg

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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**  
The Academy Building  
42 Pearse Street  
Dublin 2  
Ireland

### Registrar

**Computershare Investor Services (Ireland) Limited**  
Heron House  
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### Contact details:

T 00353 1 447 5566  
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E [webqueries@computershare.co.uk](mailto:webqueries@computershare.co.uk)

### Principal Banks

**Ulster Bank**  
George's Quay  
Dublin 2  
Ireland

### Allied Irish Bank plc

Bankcentre  
Ballsbridge  
Dublin 4  
Ireland

### Bank of Ireland plc

2 Burlington Plaza  
Burlington Road  
Dublin 2  
Ireland

### Barclays Bank Ireland plc

Two Park Place  
Hatch Street  
Dublin 2  
Ireland

## ADDITIONAL INFORMATION



## Shareholder Information

### Company Secretary and Registered Office

**Seán McKeon**  
**Dalata Hotel Group plc**  
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Burton Hall Drive  
Sandyford  
Dublin 18

### Registered Number

534888

### Contact Details:

**Tel:** 00353 1 206 9400  
**Fax:** 00353 1 206 9401

### Company Website

[www.dalatahotelgroup.com](http://www.dalatahotelgroup.com)

## ADDITIONAL INFORMATION

## Glossary and Supplementary Financial Information

### ALTERNATIVE PERFORMANCE MEASURES

The Group reports certain alternative performance measures ('APMs') that are not required under International Financial Reporting Standards ('IFRS'), which is the framework under which the consolidated financial statements are prepared. These are sometimes referred to as 'non-GAAP' measures.

The Group believes that the presentation of these APMs provides useful supplemental information which, when viewed in conjunction with the financial information presented under IFRS, provides investors with a more meaningful understanding of the underlying financial and operating performance of the Group.

None of these APMs should be considered as an alternative to financial measures which are included in the consolidated financial statements and which are prepared under IFRS. These APMs cannot be assumed to be calculated in a uniform way across comparator or peer companies and therefore should not be relied on in this context.

The definitions of and reconciliations for certain APMs are contained within the consolidated financial statements.

Included below is information pertaining to certain APMs which is not mentioned within the consolidated financial statements but which are referred to in other sections of the 2017 Annual Report. This information includes a definition of the APM in addition to a reconciliation of the APM

to the most directly reconcilable line item presented in the consolidated financial statements. References to the consolidated financial statements are included as applicable.

#### EBITDAR

##### Definition

Non-GAAP measure representing earnings before rent, interest, tax, depreciation and amortisation. See note 2 to the consolidated financial statements for a reconciliation of EBITDAR to profit before tax.

#### EBITDA

##### Definition

Non-GAAP measure representing earnings before interest, tax, depreciation and amortisation. See note 2 to the consolidated financial statements for a reconciliation of EBITDA to profit before tax.

#### Adjusted EBITDA

##### Definition

Non-GAAP measure representing earnings before interest, tax, depreciation and amortisation adjusted for revaluation movements and other items considered by management to be non-recurring or unusual in nature. See note 2 to the consolidated financial statements for a reconciliation of Adjusted EBITDA to profit before tax.

### Adjusted Diluted Earnings per Share ('Adjusted Diluted EPS')

##### Definition

Non-GAAP measure representing EPS adjusted for the net of tax effects of revaluation movements and other items considered by management to be non-recurring or unusual in nature. See note 27 to the consolidated financial statements for a reconciliation of adjusted profit for the year to profit before tax. Adjusted Diluted EPS is the adjusted profit for the year divided by the weighted average number of shares outstanding for diluted EPS purposes.

#### Segments EBITDA

##### Definition

Segments EBITDA represents the EBITDA for reportable segments. See note 2 to the consolidated financial statements for a reconciliation of Segments EBITDA to profit before tax.

#### Segments EBITDAR

##### Definition

Segments EBITDAR represents the 'Segments EBITDA' before rent. See note 2 to the consolidated financial statements for a reconciliation of Segments EBITDAR to profit before tax.

#### Segments EBITDAR margin

##### Definition

Segments EBITDAR margin represents Segments EBITDAR as a percentage of total revenue. See note 2 to the consolidated financial statements for a reconciliation of Segments EBITDAR to profit before tax.

## ADDITIONAL INFORMATION

## Glossary and Supplementary Financial Information (continued)

### Net Debt to Adjusted EBITDA

##### Definition

Net Debt to Adjusted EBITDA represents loans and borrowings less cash and cash equivalents divided by Adjusted EBITDA. See note 2 and note 20 to the consolidated financial statements for calculations of adjusted EBITDA and net debt.

### Effective tax rate

##### Definition

Effective tax rate represents the annual tax charge divided by the profit before tax presented in the consolidated statement of profit or loss and other comprehensive income for the year.

#### Reconciliation

€'millions	Reference to consolidated financial statements	2017	2016
Tax charge	Statement of profit or loss and other comprehensive income	9.0	9.2
Profit before tax	Statement of profit or loss and other comprehensive income	77.3	44.1
Effective tax rate		11.6%	20.9%

### Conversion of adjusted EBITDA to cash

##### Definition

Conversion of adjusted EBITDA to cash represents the amount of 'Adjusted EBITDA' converted to cash available to fund acquisitions, development expenditure and loan repayments. The cash figure is calculated as net cash from operating activities, less amounts paid for interest and finance costs, refurbishment capital expenditure and after adding back cash paid in respect of adjusting items to EBITDA.

## ADDITIONAL INFORMATION

## Glossary and Supplementary Financial Information

(continued)

## Conversion of adjusted EBITDA to cash (continued)

## Reconciliation

€'millions	Reference to consolidated financial statements	2017	2016
Net cash from operating activities	Statement of cash flows	95.2	77.8
Interest and finance costs paid	Statement of cash flows	(10.1)	(10.0)
Amounts paid for refurbishment capital expenditure (note (i) below)		(14.6)	(12.4)
Add back adjusting cash items:			
Acquisition-related costs	Note 2	1.3	2.7
Stock exchange listing costs	Note 2	-	1.3
Net cash generated to fund acquisitions, development expenditure and loan repayments		71.8	59.4
Adjusted EBITDA	Note 2	104.9	85.1
Conversion of adjusted EBITDA to cash		68.4%	69.8%
(i) Calculation of "refurbishment capital expenditure"			
Assets under construction	Note 11	59.1	3.1
Development capital expenditure		7.5	13.0
Refurbishment capital expenditure		14.6	12.4
Other additions through capital expenditure	Note 11	81.2	28.5

## Adjusted earnings before interest and tax ('Adjusted EBIT')

## Definition

Adjusted EBIT comprises profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income, adjusted for finance costs, acquisition-related costs, net revaluation movements through profit or loss and the effects of foreign exchange.

## Reconciliation

€'millions	Reference to consolidated financial statements	2017
Profit before tax	Statement of profit or loss and other comprehensive income	77.3
Adjusting items		
Acquisition-related costs	Note 2	1.3
Net revaluation movements through profit or loss	Note 2	1.4
Finance costs	Note 2	9.6
Foreign exchange losses* (see note (i) below)		0.6
Adjusted EBIT		90.2

\*Foreign exchange losses represent the difference on converting EBITDA from UK hotels at actual foreign exchange rates during 2017 versus budgeted foreign exchange rates, after depreciation. A reconciliation is included below.

## ADDITIONAL INFORMATION

## Glossary and Supplementary Financial Information

(continued)

Note (i)	Reference to consolidated financial statements	2017
Reconciliation		
UK hotels' EBITDA at budgeted FX rate		24.5
UK hotels' EBITDA at actual FX rates	Note 2	(23.8)
Foreign exchange losses on EBITDA		0.7
Depreciation on UK assets at budgeted FX rate		(4.8)
Depreciation on UK assets at actual FX rates		(4.7)
Foreign exchange gains on depreciation		(0.1)
Foreign exchange losses		0.6

## ADDITIONAL INFORMATION

### Glossary and Supplementary Financial Information (continued)

#### OTHER DEFINITIONS

##### RevPAR

Revenue per available room is calculated as total rooms revenue divided by the number of available rooms, which is also equivalent to the occupancy rate multiplied by the average daily rate achieved.

##### AIM

Alternative Investment Market of the London Stock Exchange (LSE)

##### ARR

Average Room Rate (also ADR – Average Daily Rate)

##### CGU

Cash Generating Unit (in the context of impairment testing, see note 10 to the consolidated financial statements)

##### CGT

Capital Gains Tax

##### EPS

Earnings per share (see note 27 to the consolidated financial statements for calculation)

##### ESM

Emerging Securities Markets of the Irish Stock Exchange (ISE)

##### FY17/FY18

Financial year ending 31 December 2017/financial year ending 31 December 2018

##### 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 7 to the consolidated financial statements and the Remuneration Committee Report)

##### MAR

Market Abuse Regulation

##### NED

Non-Executive Director

##### OTA

Online Travel Agents

##### 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)



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