



BUILDING FOR THE FUTURE

PEOPLE & PROPERTY

ANNUAL REPORT
& ACCOUNTS 2018



AT A GLANCE



**MALDRON HOTEL
KEVIN STREET**
Theodora Laroche,
Front Office Manager

1,224
New Rooms
opened
in 2018

4.7%
RevPar
Increase

Data as at 31 Dec 2018

4,923
Employees:
Full-time
and part-time

8,746
Hotel
Rooms

51
Hotels

42 Operating
9 Under development

€393.7m
2018
Revenue

€119.6m
2018
Adjusted
EBITDA

€1.2bn
Hotel
Assets

1,212
Pipeline Rooms
announced
in 2018

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**CLAYTON HOTEL
CHISWICK**
RED BEAN ROASTERY



**CLAYTON HOTEL
BALLSBRIDGE**

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PURPOSE & VALUES

We Are a People Business

When Dalata was founded in 2007 it acquired eight hotels and launched the Maldron Hotel brand with a vision to develop a distinctive hotel operating company with people at the heart of the business.

We adopt a differentiated, decentralised approach to managing our business and delivering on customers' expectations. We trust our hotel general managers and their teams to manage and develop their business, manage customer relationships and develop deep roots in the local community. Our central team supports the hotels, providing strategic oversight, leveraging our strength as a Group and directing investment to get the best return for shareholders.

In 2018, we opened five hotels with internally recruited management teams. Many of these team members are graduates of our development programmes. Our continual investment in our people and fostering of long-term relationships with trusted development partners and suppliers on both the capital and operational sides of the business supports a sustainable business model. We want to make our hotels the number one choice for business and leisure travellers looking for quality service in well located and well invested hotels throughout Ireland and the UK.

This puts our people at the centre of Dalata.

Our strategic objective is to drive long-term shareholder returns by becoming the leading four-star hotel operator in Ireland and the UK. Our culture has a relentless focus on success but it is never about winning at all costs. We are committed to doing business ethically and in accordance with our values of people, fairness, service and individuality.



MALDRON HOTEL
BELFAST CITY
Adam Curley,
Head Chef

1 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.



Tony McGuigan,
Head of Procurement,
with Helen Gees
from G's Jams

2 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.



CLAYTON HOTEL
BALLSBRIDGE

3 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.



MALDRON HOTEL
BELFAST INTERNATIONAL AIRPORT

4 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.

CHAIR'S STATEMENT



Introduction

Welcome to the annual report of Dalata Hotel Group for 2018, and thank you for taking the time to read what we have to say about the Group.

I am pleased to report that 2018 was another very successful year for Dalata. During the year we added five hotel properties to our portfolio and a sixth just after year-end, marking a year of great achievement by the development and operations teams. All of our newly acquired and constructed properties are trading strongly, and the Group continues to grow, with further new openings in the pipeline.

Total revenues in the business increased from €352 million in 2017 to €394 million in 2018, and our Adjusted EBITDA climbed to €119.6 million in 2018 from €104.9 million in the previous year. We ended the year with a very strong balance sheet with non-current assets of over €1.2 billion. We also put in place new borrowing facilities during the year at attractive rates, and we commenced paying dividends with an interim dividend of 3 cent per share. Further details of our financial performance can be found in the Financial Review on pages 28 to 39.

Culture and People

Of course, financial performance is nothing more than a consequence of actions and decisions taken every day in the business. These actions and decisions are taken by our people and are driven in large part by our culture. In my view, the single biggest factor in the success of Dalata is the culture that affects everything that we do.

What is this culture? It is hard to define, but it has at least four vital characteristics: customer focus, transparency, empowerment and support. First and foremost, we are hotel operators, and our customers are the lifeblood of our business. Ultimately, what we do is driven by our desire to provide the best customer experience that we can.

Dalata is an open organisation, and communication is encouraged at all levels within and outside the Group.

We continuously engage with employees and customers, seeking feedback that will help us improve service and employee engagement. We celebrate success and seek to learn from challenging experiences. We encourage people to speak up, and most important of all, we seek to listen, openly, at all times.

Our business model seeks to empower our people at all levels. Hotel general managers, supported by their teams, are given full decision-making authority, responsibility and accountability over their properties. At the centre we also seek to empower our people by communicating what is expected of them and letting them get on with it. This is done within an atmosphere of strong encouragement and support.

We recruit with great care, and we support the development of our people through high quality training and development courses. We have reached the stage where most of the appointments to higher levels in the organisation are now internal. This is a testament to the success of our recruitment activities, and to the support and training, on and off the job, that our people receive as a normal part of their employment in Dalata.

I have observed the Dalata culture, described above, in action many times in the last year. One occasion was during the extreme weather we endured in Ireland in early March 2018. As much of the country ground to a halt, and flights were cancelled on a wholesale basis, I watched as our properties made arrangements to provide accommodation at very short notice to stranded travellers; and to some of our staff who could not get home. We pooled resources between properties, so that necessary food and other supplies were available for guests and staff alike; and our people worked tirelessly to make it all seem effortless. This was a real-life example of top-class customer service, transparency, empowerment and support in action.

I applaud and thank our people for their true dedication to customer service – the key to our continued success.

Board and Corporate Governance

The Dalata Board comprises four non-executive directors and three executive directors, supported by Dalata's company secretarial team. Board members meet formally at regular Board meetings and in Board committees, and also less formally, to discuss issues affecting the business of the Group. Several Board meetings each year are held at different Group hotel properties, affording the non-executive directors the opportunity to familiarise themselves with the product that our customers enjoy and to meet local management.

The non-executive directors also meet as a group, separately from the executive directors, from time to time.

Formal and informal Board meetings also include regular discussions of strategy, and relevant training for Board members.

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 and the company secretarial team for their hard work and commitment 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, 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

As I mentioned earlier, we commenced dividend payments in 2018 with a 3 cent per share interim dividend in October and the Board has recommended the payment of a final dividend of 7 cent per share which, subject to shareholder approval at the AGM, will be paid on 8 May 2019.

Brexit

As I write, the Brexit deadline of 29 March 2019 is fast approaching and there is still a great deal of uncertainty about the outcome. The sooner the uncertainty is removed the better. Any effect on our business will be an indirect one: how it affects our customers directly and the economies of the UK and Ireland generally will have a knock-on impact on Dalata. We are monitoring developments closely and, notwithstanding the uncertainty in the short-term, we remain confident of the long-term success of the business and our UK expansion strategy.

Outlook

Ireland continued to enjoy strong economic growth in 2018 and the UK economy continues to perform reasonably well. These factors, together with the expansion of our business, have helped Dalata to achieve strong growth in revenues and profits.

In the short term, uncertainty surrounding Brexit and issues in the wider global economy are matters that we continue to monitor, with a view to anticipating their likely effects on our business.

Looking forward, whilst rates of growth in RevPAR are unlikely to be at the same levels in 2019 as in 2018, we remain confident that Dalata will achieve further profitable growth in the coming year.

John Hennessy
Non-executive Chair

PAT'S REVIEW



2018 just seemed to have started when it was finished. We had so much going on in the company, every week rolled into the next. Even though we were all very busy it was a “good” busy.

There is an energy in the company that continues to drive us forward.

While a lot has been achieved in the year, we still have a way to go. In truth we will always have a way to go. We can never be happy with the status quo. We continue to see many opportunities both to grow the business but also to improve the business be that through technology, productivity, training, capital investment or a host of other initiatives.

We started 2018 with just over 7,500 rooms in the Group and following the opening of Clayton Hotel City of London in January 2019 we have 9,046 rooms which is a growth of circa 20%.

We have built and opened six new hotels and four major extensions with a total of almost 1,500 new rooms. All of these projects opened pretty much on time and on budget. I would like to say thanks to our development team led by Shane Casserly and our operations team led by Stephen McNally for this fantastic achievement. These new openings will drive earnings growth in Dalata for 2019 and 2020. The six hotels are all managed by internal Dalata teams. This is significant in that it de-risks the model. When opening a new hotel there is always an element of risk. However, having your own team to manage the business reduces that risk considerably. When you open a new hotel, it takes a period of time for that hotel to find its rhythm. It's like putting together a football team in that each member must know the strength and weakness of all the other team members. I have visited all our new openings on a number of occasions and I am delighted at how quickly they are settling down. I am also delighted with the quality and finish of the new hotels. If we can deliver the same quality and finish of product in our eight hotels in planning and construction, we will add great value to Dalata.

As we start 2019, our Capex Programme continues at a pace. The investment in our existing hotels over the past number of years is really paying off. Virtually all of our hotels are in really good shape. The investment planned for 2019 will further enhance the offering.

The outperformance in RevPAR and our customer satisfaction ratings tell me we have made a lot of good decisions in this area. I mentioned earlier our development pipeline which is robust and exciting. We have eight new hotels with 2,193 rooms coming out of the ground. They are all in superb locations and will add greatly to the business.

Looking at Dalata in two years' time, I see a business with well invested hotels and some fantastic new hotels that positions us well to continue to grow earnings.

We have put together a group of young, well invested hotels and new hotels in fantastic locations that will provide superior growth well into the future.

As with everything in life nothing ever comes easy, and in October 2018, the Irish government announced that the VAT rate on tourism would increase from 9% to its pre-2011 rate of 13.5%. This was a big blow to the industry and will have a very negative effect on smaller non-urban operators. Dalata will be fine and with careful management we will be able to mitigate the effects of the VAT increase. So far so good as we enter 2019. It will take a number of months for things to settle and we can assess the overall effects of the VAT change. At this stage I am satisfied with the work done by the Dalata team and nothing has changed in my outlook for the business.

There is so much noise going on around Brexit, it is impossible to plan for any outcome at this stage. Until we have a better sense of a final outcome, we will continue to monitor closely what's going on. We are very good at adapting our business model to suit any circumstance that may confront us. Over the years we have proved that we never waste a good crisis.

Our people development continues apace. Today we have 259 of our people on senior development programmes. It is fantastic to see all the young and not so young people growing and evolving in Dalata. Many of our people are building great careers in Dalata. Their sense of achievement is palpable. The sense of energy and enthusiasm across all our hotels is evident. I need them now to “monetise” this enthusiasm. Because of all the developments of people we are in a strong position when it comes to recruitment.

Many of our people join Dalata because of the fantastic training and development programmes we run.

While I am speaking about our people, it would be remiss of me not to mention Joe Quinn. Joe decided to retire from Dalata in December. Joe headed up our Clayton Hotels in Ireland and did a wonderful job in the integration of all the hotels we acquired. Joe and I have been friends and colleagues since 1989. Joe was your perfect Dalata man. He espoused everything that is good about Dalata. He is gone to improve his already low golf handicap and to work on his garden. I wish him and Nuala, his wonderful wife, a happy retirement.

During the year we gave a lot of thought to our broader impact on society and the environment.

Our commitment to conducting our affairs responsibly is embedded in our business and risk management strategies – not something separate. It is an important area (dealt with in detail from page 48 of this report) which I intend to return to in future reports.

Finally, despite all the “slings and arrows of outrageous fortune” I see 2019 as a year of strong growth for Dalata.

As a business we are in great shape. Our balance sheet is robust and our newly agreed debt facility adds to this. I want to acknowledge Carol Phelan, Head of Financial Reporting, Treasury and Tax for the work she and her team did on the refinancing, it was truly outstanding. We have a lot to do to achieve our ambitious targets in 2019. The teams are up for it. All we need to do is deliver the promise.

Pat McCann
Chief Executive

BUILDING FOR THE FUTURE:

PEOPLE & PROPERTY

Recent Openings

6 brand new hotels, 4 Maldron and 2 Clayton. Designed and finished to our exact specifications and managed by our talented teams give a glimpse of Dalata's exciting future.



MALDRON HOTEL KEVIN STREET
Head Chef Jennifer Donohoe and her team

JULY 6TH



MALDRON HOTEL SOUTH MALL
General Manager Robert McCarthy and his team

DECEMBER 20TH



CLAYTON HOTEL CITY OF LONDON
John Devine, Lizzy Rodger, Emma Dalton, James Feeney, Ian Bulpin

JANUARY 24TH

2018

2019



MARCH 13TH

MALDRON HOTEL BELFAST CITY
General Manager Mike Gatt, Councillor Nuala McAllister - Lord Mayor of Belfast, Non-executive Chair John Hennessy



NOVEMBER 23RD

CLAYTON HOTEL CHARLEMONT
General Manager Lynn Cawley and her team

DECEMBER 4TH



MALDRON HOTEL NEWCASTLE
Carl Davies, Jemma Cross, Anna Waddock, Amy Parkin, Danielle Breen, Michael Edgoose

DALATA'S MARKETS

Global Overview¹

Global economic expansion is driving growth in consumer spending, strong labour markets and rising incomes, and consequently growth in the travel and hospitality industry (including the hotel sector). The increasing global traveller pool has led to a doubling of the number of international travel departures from c. 600 million to 1.3 billion in the last two decades, with growth of 6.6% in 2018. Continued competition between low-cost and international airlines, strong corporate travel demand and the long-term trend in shifting consumer preference for experiential spending on recreation, travel and dining out over spending on durable goods also supports hotel sector growth.

Global GDP growth is estimated at 3.0% for 2018 (2017: 3.1%) with USA growth of 2.9% (2017: 2.2%) and Euro Area growth of 1.9% (2017: 2.4%).

In 2017 global travel and tourism grew by 4.6% and preliminary figures indicate that 2018 was another year of solid growth in a sector which has outperformed the global economy consistently for the past decade. In 2018, hotel revenue per available room (RevPAR) grew by 2.9% in USA and by 5.2% in Europe.

“In our annual analysis of the global economic impact of Travel and Tourism, the sector is shown to account for 10.4% of global GDP and 313 million jobs, or 9.9% of total employment, in 2017”

Gloria Guevara Manzo, President and CEO, World Travel and Tourism Council.

¹ Sources: World Travel and Tourism Council (WTTC): Travel and Tourism Economic Impact 2018; World Bank: Global Outlook January 2019; Deloitte: 2018 Travel and Hospitality Industry Outlook; IATA: Air Passenger Market Analysis December 2018, Airline Industry Outlook 2019, STR Global.

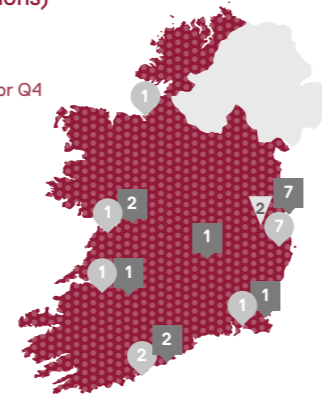
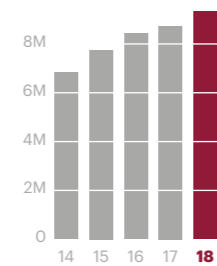
Republic of Ireland²

2018 was a record year for Irish tourism with estimated international visitor growth of 6.8%. North America was up 13% and mainland Europe grew 10% whilst the UK was flat and emerging markets grew by 5%. The domestic market was also very strong, buoyed by estimated GDP growth of 7.5% and consumer spending up 3.0%.

Visitor Numbers (in millions)

+6.8%

CSO statistics and estimation for Q4

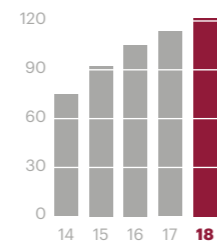


Dublin

RevPar (€)

+7.4%

STR Global



- Clayton Hotels
- Maldron Hotels
- ▼ Bespoke Brand Hotels

Commentary³

Dublin RevPAR grew 7.4% in 2018 with occupancy at 83.8%, the highest amongst leading European cities, and Average Daily Rate (ADR) reaching €145.20, placing 6th amongst peer European cities. 1,000 new rooms were added in the city in 2018, bringing the total market to approximately 20,500 rooms. 1,600 new rooms are in the pipeline for 2019.

² Irish Tourism Industry Confederation (ITIC): Year End Review 2018 and Outlook 2019; Central Bank of Ireland: Quarterly Bulletin Q1 2019
³ STR Global; Savills

Key Risks

See pages 42 to 45

Market Concentration

5

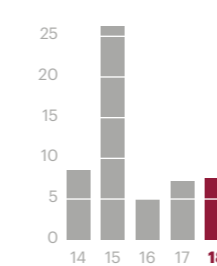
Republic of Ireland (continued)

The demand fundamentals remain positive heading into 2019, and the industry is cautiously optimistic about the year ahead notwithstanding the increase in VAT from 9% to 13.5% and uncertainty regarding the outcome of Brexit.

GDP Growth (as a percentage)

+7.5%

Central Bank

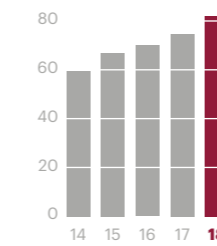


Regional Ireland

RevPar (€)

+9.7%

Trending.ie



Commentary⁴

Regional Ireland RevPAR grew 9.7% in 2018, led by the major cities, Cork (10.6%), Galway (7.6%) and Limerick (5.0%). Generally, there is ample capacity with average occupancy of 75.2% throughout Regional Ireland although some new supply will enter the Cork and Galway markets. Regional Ireland is more vulnerable to the VAT rate increase and to weakness in the UK market than Dublin.

⁴ Trending.ie, Central Bank

Key Risks

See pages 42 to 45

Human Resources

9 10

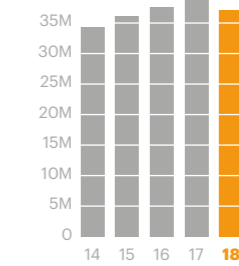
UK⁵

Market conditions in the UK were more challenging. The Bank of England estimates 2018 GDP growth of 1.3% (2017: 1.8%). Against a backdrop of Brexit uncertainty, consumer spending, wages, and growth in investment have all weakened. Visitor numbers were down an estimated 5.3% with domestic overnight trips up 1%.

Visitor Numbers

-5.3%

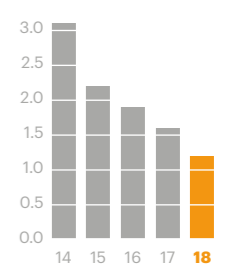
Office of National Statistics (+ Q4 estimate)



GDP Growth (as a percentage)

+1.3%

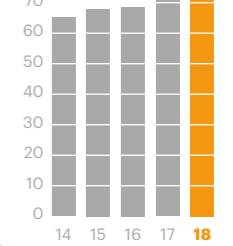
Bank of England



RevPar (€)

+2.5%

STR Global



Commentary⁶

Hotel performance across the UK was mixed. Birmingham and London had strong performances, with RevPAR growing by 5% and 3.1%, respectively. Moderate growth was seen in Leeds (0.6%) and Cardiff (0.9%), while Manchester fell slightly (0.3%). The performance of the city markets broadly reflected the tourism performance of their region with Belfast (RevPAR down 6.3%) feeling the effect of a significant increase in supply.

⁵ Bank of England Inflation Report February 2019; Office of National Statistics (ONS): Overseas Travel and Tourism Q3 2018
⁶ STR Global

Key Risks

See pages 42 to 45

UK Expansion Strategy

6

BUSINESS MODEL

Inputs

€1.2bn

In hotel assets

€76.2m

Spent on development of new build and extensions to hotels in 2018

42

Operating hotels with 8,746 rooms

208

Average rooms per operating hotel

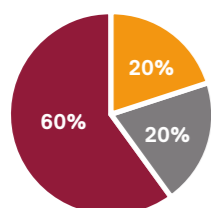
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Leading Hotel Brands: Clayton and Maldron

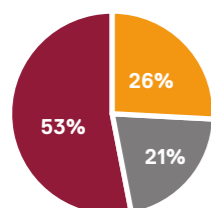
4,923

Full and part-time employees

Revenue



Owned and leased rooms



● Dublin ● Regional Ireland ● UK

What do we do

Dalata is a hotel operating company. Since the Company floated in 2014, we have grown to be the most successful and largest hotel Group in Ireland. We own two hotel brands – Maldron Hotels and Clayton Hotels and the majority of our hotels operate under these brands.

There are 20 Clayton hotels, which are all four-star, and 18 Maldron hotels which are comprised of four- and three-star ratings. We own and manage a number of other brands, which complement our main brands. These include our Red Bean Roastery, Club Vitae and Grain & Grill offerings. We run 42 hotels in cities across Ireland and the UK. Of these, we own 29, hold a leasehold interest in 10 and manage 3.

We operate in Ireland and the UK (see Dalata's Markets, page 10). Dublin is our largest market with 18 hotels. We also have a significant presence in the other main cities in Ireland, including Cork, Galway and Limerick. We have 11 hotels in the UK, in London, Belfast, Leeds, Manchester, Cardiff and Newcastle.

In 2018, we opened 5 new hotels – 2 in Dublin and 1 each in Belfast, Cork and Newcastle. Our development pipeline has a further 2,193 rooms, delivering expansion into key UK cities including Glasgow, Manchester Birmingham and Bristol, as well as two in Dublin.

How we do it – our key business drivers

We generate revenue through selling accommodation, food and beverage, meeting rooms and conferences and ancillary services to our customers. We have invested in industry leading revenue management tools, including local hotel revenue expertise, which drives our strategy of revenue maximisation.

A wide range of customers use our hotels, from leisure and tour guests to families, corporate guests and conference providers. Our hotels and facilities are set up to provide these services to targeted customer segments in line with each hotel's strategy.

We sell our products and services through different channels, including our own Maldron and Clayton websites, contracted business with tour operators and our corporate customers. Guests can also book directly with the hotel. The nature of our transactions means that we are a highly cash generative business. We place significant focus on costs and local hotel and Group performance indicators, driving the conversion of revenues earned into profitability.

In terms of direct controllable costs, we leverage the Group's size and specialised IT systems in all our hotels to deliver quality products at an appropriate cost point for the Group. We have centralised our main reporting systems, thereby providing both hotel and Group management with real-time accurate management information.

How we generate value for our stakeholders

We generate value by providing quality offerings at an appropriate price that our customers want.

We support and develop our employees so that they can have the skills and tools to deliver service to our guests. We invest in our employees and provide the ability for our employees to build careers with us, rather than simply have a job. We listen to what our customers tell us.

We seek out guest satisfaction and repeat business and improve our brand/product awareness in the hotel market.

We focus closely on the financials of running a hotel business and maximising the return on investment. We monitor key financial indicators and take decisive corrective action should it be needed. Central management expertise supports our hotels while providing guidance and oversight on our performance. We have a strategy of expansion into targeted UK cities, as well as expanding in Ireland where suitable opportunity exists. A considered and detailed approach is taken for all developments.

We work with well-established construction and financial partners to deliver hotels that both improve our financial performance and increase our market presence.

The difference with Dalata

At Dalata we have a business model that differentiates us from other operators. We own or have a long leasehold interest on almost all of our hotels, and we own all of our own brands. This means we control the overall direction of the asset, its development and its performance. This differentiates us from the market, where an owner/franchise model is predominately adopted.

We operate a decentralised model whereby the hotel general manager has ultimate responsibility for their hotel. This enables quick local decision making in relation to areas such as revenue and pricing, meeting customer needs and product offerings. It also encourages our managers to engage with their local communities and build strong relationships. Hotel management is supported by expert functional teams in Central Office, selected shared services and an experienced senior management team.

We are able to implement common group-wide business and IT systems, and deliver expertise in areas such as procurement, finance, health and safety and marketing.

We have developed and implemented group-wide training and development for our employees. We offer a range of development options to all employees, complementing our extensive training programmes. We are also able to provide a career path for our employees as we grow and add new hotels. We encourage our employees to move throughout our hotel portfolio and actively support a policy of filling vacancies from within wherever possible.

Outputs

3,972,090

Overnight guests

5,580,299

Meals served

14,000

Leisure club members

€119.6m

Adjusted EBITDA

€86.6m

Free Cash Flow

€109m

Aggregate Payroll Costs

Building for the Future

Top 5 Cities

Includes rooms under development

Dublin
5,040 Rooms

Manchester
972 Rooms

Glasgow
594 Rooms

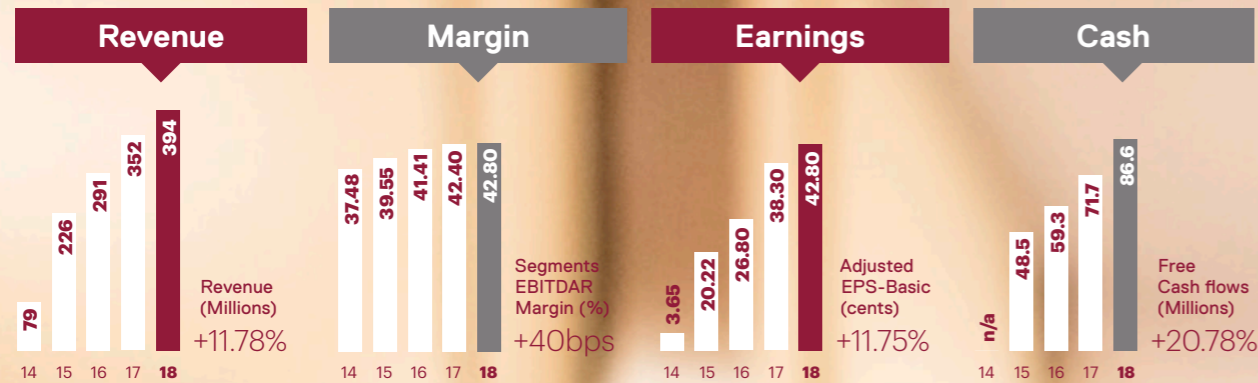
London
591 Rooms

Cork
574 Rooms

KPIs

FINANCIAL

NON-FINANCIAL



Total Revenue	Segments EBITDAR Margin	Adjusted EPS - Basic	Free Cash flow
Total Group 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.	Earnings before interest and finance cost, tax, depreciation, amortisation and rent (EBITDAR) divided by revenue. By excluding rent costs, leased and owned properties are comparable with each other.	Profit for the year divided by the number of ordinary shares and adjusted for the effect of items which are not reflective of normal trading activities or distort comparability either 'year on year' or with other similar businesses.	Net cash from operating activities less amounts paid for interest, finance costs and refurbishment capital expenditure and after adding back cash paid in respect of adjusting items to EBITDA.

New Rooms Added	Internal Promotions	Customer Satisfaction
Total number of new owned and leased rooms added through acquisitions or development in the Group.	Number of Internal Promotions in the Group for the year.	A measure of the quality of our product offering and service collected from customers.

Link to Strategy	Link to Strategy	Link to Strategy	Link to Strategy
Customers Growth Brands	Growth	Growth	Growth

Link to Strategy	Link to Strategy	Link to Strategy
Growth People Brands	Growth People	Customers People

Commentary	Commentary	Commentary	Commentary
Key top-line measure of the overall growth and development of the business.	EBITDAR is our key measure of operational profitability. Focus on the margin allows us to monitor conversion of incremental revenue to profit.	Key measure of the effective delivery of profitable growth for our shareholders.	The Group is focused on turning profit into cash for re-investment and dividend payments.

Commentary	Commentary	Commentary
Developing and delivering our pipeline is key to our growth strategy.	Development of our 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 hotel openings.	We are driven to improve customer experience through continuous investment to meet ever rising expectations.

Total Revenue has increased by €41.5 million in 2018 due mainly to strong trading performance in our Dublin Hotels.	The Group has achieved an EBITDAR Margin of 42.80% in 2018, an increase of 40 basis points from 2017, driven by an increase in revenue and a reduction in costs.	Increase of 4.5 cent on 2017, driven by strong underlying operating performance.	We have achieved free cash flows of €86.6 million in 2018, an increase of €14.9 million from 2017, driven by an increase in operating profit.
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2018 has been another successful year with 1,224 owned and leased rooms added to current stock. We have opened 5 new hotels and completed 4 extensions.	2018 was an excellent year for Learning and Development with 305 internal promotions. We recruited all of our new hotel our management teams internally.	Our Customer Satisfaction score has increased by 1.2% year on year and is in line with our values of being dedicated to service excellence and being a people business.
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Link to remuneration
 Rewards for the Executive Directors (discussed in detail on page 80) include annual and long-term incentive plans.

70% of the annual incentive is earnings based (EBIT) and the balance is based on personal objectives aligned with strategic goals.

50% of the LTIP is based on EPS performance and 50% is based on Total Shareholder Return.

STRATEGIC PRIORITIES



Customers

2018 Progress

The introduction of both “Click on Clayton” and “Make it Maldron” direct booking initiatives have facilitated more bookings coming through our business directly, while also serving to solidify the success of the two hotel brands individually.

2019 Focus

In 2019 we will continue improving our customer experience through improvements in our facilities, improvements in technologies and our focus on service excellence.

Strategy in Action

Read more about **Customers**

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18



Growth

2018 Progress

1,224 rooms added to the owned and leased portfolio through acquisition and development activity in 2018 and 1,212 to the pipeline. We completed the construction of five new hotels on time and on budget. Nine new development projects are on target.

2019 Focus

In 2019, we will continue our live development projects, commence construction in Manchester, Dublin and Glasgow and seek to secure a further 1,200 pipeline rooms targeting the UK market and any potential opportunities that may arise in Ireland.

Strategy in Action

Read more about **Growth**

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20

Building for the Future

Our strategic objective is to drive long-term shareholder returns by becoming the leading four-star hotel operator in Ireland and the UK and, in the process, developing a sustainable business that respects the interests of our wider stakeholders: our employees, customers, suppliers and communities.



People

2018 Progress

Our very successful Altitude Programme is in its 4th year and we have had excellent achievements to date with 30% of our current general managers having come through the programme.

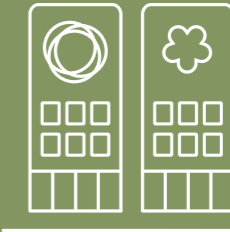
2019 Focus

Our key focus for 2019 will be to continue to promote from within and further develop our management programmes for our new hotels opening in the coming years.

Strategy in Action

Read more about **People**

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22



Brands

2018 Progress

We opened 5 new hotels this year; four Maldrons and one Clayton. We also refurbished 830 rooms across the hotels bringing to 3,100 the number of rooms refurbished since 2015. We are continuously improving our brand websites to increase market share and protect brand integrity.

2019 Focus

We will continue our refurbishment programme in 2019 for hotels under both brands and focus on bringing our new hotels up to speed with the rest of the Group.

Strategy in Action

Read more about **Brands**

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24



Our objective is to continuously improve our customers' experience at every stage of their journey from the moment they think about booking to check out and departure.

We work to understand our customers and to gain a better insight into their preferences and expectations in all areas of our business. To this end we have recently carried out market research into each segment of our business from which we have developed pen portraits and personas which represent each sector of our market. We combine this with direct customer feedback to paint a picture of our customers' attitudes to our brands and service and what we can do to improve this.

Across the Group we use an industry-leading online reputation management tool to help us monitor and measure customer feedback. In 2018, the customer feedback response rate increased by 11.5% on 2017. Not only has the response rate increased; our overall satisfaction rating also went up by 1% in the year to 84% overall. Key areas such as service, location, reception and cleanliness were all highly commended – this is encouraging, and also helps us understand areas that can be improved.

Following user research there has been a renewed focus on updating our websites in 2018. The more accessible our online platforms are, the easier it is for customers to book directly with us. The introduction of both "Click on Clayton" and "Make it Maldron" direct booking initiatives have facilitated more bookings coming through our business directly, while also serving to solidify the success of the two hotel brands individually. We have seen our direct market share increasing in the online booking space during 2018 as we respond to customer feedback.

During 2018 we engaged with customers to find out what aspects of our environmental, social and governance programme (discussed further on pages 48 - 57) they valued most. Their responses re-affirmed our commitment to guest safety and security, employees' wellbeing, training and development and our support for the local communities we operate in.

STRATEGIC PRIORITIES CUSTOMERS

2018 Progress

134,000

Customer reviews

84%

Customer satisfaction survey

88.5%

Dublin occupancy

4.8% higher than market performance



Building for the Future

Investment in market research is providing insight into our customers' ever evolving needs and is shaping our product development.



Strategy in Action

Pen Portraits

Embodying our customer care philosophy

Adrian Sherry, head of Market Development, discusses pen portraits

This past year, we commissioned our brand development agency to work with the central marketing team in developing pen portraits of our key customers. A number of workshops were held with customer facing team members from our hotels including customer service, front desk, restaurants and bar staff as well as management from different areas. These stories have enabled us to think about and understand what our customers want, and additionally to build for their future requirements. We identified several key customer profiles - let's meet a couple of them.

Clayton pen portrait – meet the Hylands

Karen Hyland was tasked with organising a family reunion last year, an event that was precious to her and especially to her dad. Karen, having stayed at a Clayton Hotel before, knew that it was the best option for her particular needs – comfortable rooms, great food and importantly, lots of parking!

Karen knew that when dealing with Clayton, she could expect both a warm welcome and a can do approach to any particular needs people may have – values that Clayton Hotels hold dearly. Karen could relax in the comforts provided by the hotel, and noted that she looked forward to enjoying the occasion herself – not to mention the brownie points earned in the eyes of her relatives for selecting such a great hotel!

Maldron pen portrait – meet Martin

Martin works in sales and spends 70% of his working week on the road either looking after current clients or following up on leads for new ones. His days are long, and often he needs his hotel room to double as a temporary working space. Martin values comfort, a handy location, good service and great value above all else. He also uses a gym to help keep his body and mind sharp.

Maldron facilitates Martin in all of these things, and that is why he keeps coming back. Great Wi-fi, a comfortable bed and efficient room service can be found at any Maldron; we are always seeking to meet customer expectations and provide for their varying needs.



STRATEGIC PRIORITIES

GROWTH

2018 Progress

1,224

New rooms added

1,212

Number of rooms added to the pipeline

9

New hotels in development

2018 was an extremely challenging and rewarding year for Dalata in terms of new hotel bedrooms.

The Company opened five new-build hotels on schedule:

- > Maldron Hotel Belfast
- > Maldron Hotel Kevin Street, Dublin
- > Maldron Hotel South Mall, Cork
- > Maldron Hotel Newcastle and
- > Clayton Hotel Charlemont, Dublin

We also completed extensions to Maldron Hotel Parnell Square, Maldron Hotel Sandy Road Galway, Clayton Hotel Ballsbridge, and Clayton Hotel Dublin Airport in 2018.

Dalata continues to focus on growing its portfolio, and during 2018 the Company committed to 5 new build opportunities which will deliver a further 1,212 bedrooms to continue our strategic expansion in the UK and Ireland. The successful execution of this pipeline is consistent with our strategic development plans and will provide a solid foundation to grow our pipeline further in 2019. Included within this pipeline is the Clayton Hotel City of London Hotel, which opened in January 2019 with 212 new bedrooms. The remainder of the hotels will open through 2020 and 2021. We also continue to examine opportunities for further expansion within our existing portfolio.

Pipeline announced 2018	2019 Rooms	2020 Rooms	2021 Rooms
Clayton City of London	212		
Maldron Birmingham		330	
Maldron Merrion Road, Dublin			140
Clayton Bristol		252	
Maldron Manchester			278

With a leading position established in Ireland, our central focus is our strategic objective to drive shareholder returns by becoming the leading four-star hotel operator in Ireland and the UK, concentrating on 20 attractive UK city markets we have identified. Naturally, we continue to remain alert to other opportunities of value that may arise, especially in London, as evidenced by the acquisition of the Clayton Hotel City of London. We are also researching and examining other potential markets and geographies, including Germany, which we believe could be an attractive host for the Maldron and Clayton brands. The focus for 2019 will be completing the live development projects, overseeing the commencement of construction at our new sites, and continuing to execute and secure new opportunities that add shareholder value and support our ambitious growth strategy.

It was extremely satisfying to take a half built property that had lain idle and neglected for so long, and through partnering with the city, deliver a brand new four-star hotel in the very centre of the city. A hotel that Dalata and Cork can be proud of!

Shane Casserly,
Head of Strategy and Development

Building for the Future

We currently have a pipeline of **2,193** new rooms and are confident that we will meet our goal of securing a further **1,200** rooms in 2019.

Strategy in Action

Maldron Hotel South Mall

Complex development on time and on budget

In June 2016, Dalata purchased a shell of a hotel building on Beasley Street, Cork, that had lain idle for eight years and had an expired planning permission for a 120 bedroom hotel. With the purchase, the Group also secured the freehold of two adjacent office buildings on the South Mall, Cork's main business street.

Immediately setting to work with its advisors and consultants, over the next 12 months the Group transformed the opportunity. Vacant possession was secured on the office buildings allowing the hotel entrance to pivot onto the highly trafficked South Mall. Planning permission was secured for a 163 bedroom full service Maldron Hotel, an increase of over 40 bedrooms from the original planning permission. In addition, planning permission was secured for an Italian Kitchen restaurant on Parnell Place and a Red Bean Roastery coffee shop facing onto the South Mall.

After a construction tender process in the autumn of 2017, JJ Rhatigan & Co commenced works in January 2018. The hotel and coffee shop successfully opened on December 20th 2018, with the Italian Kitchen due for completion in mid-2019.

The Maldron Hotel South Mall project demonstrates a number of Dalata's strengths; an understanding of strong central hotel locations and the related business models, a focus on delivering a highly efficient scheme and an ability to deliver quality development projects on schedule and on budget.





The development and education of our people in Dalata is critical to ensure that we have the talent pipeline needed to successfully supply our new build hotels and acquisitions from within the Group.

In order to prepare future general managers for our expansion, we run our very successful Altitude Programme. The Irish Management Institute and senior Dalata managers help deliver this programme. We have had excellent success stories coming through to date with 30% of our current general managers having completed the programme which is now in its fourth year.

During 2018, we have led the way in chef development through our collaboration with Tralee IT. The Certificate in Culinary Management and Innovation is a great example of how we continue to grow and develop great talent for our hotels and our industry. 15 senior chefs graduated in 2018 and we will run this programme again in 2019. As a major employer in the hospitality sector, we understand the benefits to the Group and the industry at large of partnering with an established third level institute.

We have also seen excellent levels of internal promotions across the hotels. 45 employees who are currently on a development programme have been promoted within the Group in 2018.

We are proud of our diverse workforce and pay attention to gender diversity. In 2018 61% of senior management in the hotels are under 40 years of age and 60% of that same team are female.

Our Ascend Graduate Programme 2018 has seen its highest intake to date with 27 colleagues commencing their journey with us in September 2018. In total we have 54 Ascend graduates across our business. The Group allows graduates from many different disciplines join the programme and gain valuable experience in the hospitality industry. We have expanded our Ascend programme in 2018 to now include Hotel Operations, Finance, Sales and Marketing, Human Resources and Revenue Management which is invaluable in developing graduates for key positions within the Group in the future.

Dalata was recognised at the 2018 HR Leadership Awards of 2018, winning the “HR Team of the Year” and also being shortlisted for “Best Organisation in Learning and Development” by the Early Careers Awards. In 2019 our objectives are to continue to promote from within and further develop our management programmes.

STRATEGIC PRIORITIES

PEOPLE

2018 Progress

305

Internal promotions

45

Management promotions from our development programmes

2,600

Employees participated in training courses or webinars



Strategy in Action

Clayton Hotel Charlemont

A spotlight on succession

Our new 189 bedroom hotel – Clayton Hotel Charlemont opened its doors on 23 November 2018 and has been a showcase for the success of our people strategy.

From the outset of the recruitment process, this new build hotel caught the imagination of the wider Dalata employee population. It offered the career opportunities that many were looking for and the attraction of a new build.

Overall the team of 100 includes 30 employees who were promoted or transferred from properties in Dublin and as far away as Clayton Hotel Galway and Clayton Hotel Chiswick.

These promotions and transfers created 30 further opportunities for progression in our hotels, an excellent illustration of our succession planning in action.

This high rate of internal promotion provides great comfort and de-risks the business model because the new team immediately embeds our processes and procedures and, most importantly, our culture.

Of the management team, 69% have been promoted from within the Group and eight have participated in one of our development programmes.

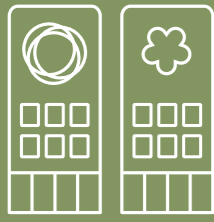
This allows the culture of career development and opportunity to be embedded in this new hotel and ensures that our succession pipeline continues.

The pipeline of internal applicants has been invaluable to us. The Dalata culture and values were already embedded in 30% of the team. This provided a vital support structure for our new employees. With most of our management team coming from internal promotions, our new employees can see that progression and opportunities are available to them in Dalata. This makes engagement easier for us, this is reflected in our customer feedback where our people are without doubt our greatest asset at Clayton Hotel Charlemont.

Lynn Cawley, General Manager
Clayton Hotel Charlemont

Building for the Future

Development of our own people is a key strategic objective and we are tailoring this each year to cover all functions of our hotels.



A cornerstone of our strategy is the development of our Clayton and Maldron hotel brands, and 2018 was a landmark year for both of them.

In November we opened the first new build Clayton Hotel at Charlemont Street in Dublin City Centre, a significant milestone for the brand's development. 2018 also saw the opening of four new build Maldron Hotel properties in Belfast (March), Kevin Street, Dublin (July), Newcastle (December) and South Mall Cork City (December).

During the last year, our central marketing team worked to learn more about how our brands were being received, and how they could be improved. Research was carried out by our brand development agency to facilitate these improvements.

The Clayton and Maldron hotel brands grew in strength during the year and this was evident in the rate of increase in direct online bookings. On the back of research and work completed in 2018, we saw the development of our other brands too, and are confident that the trend will continue into 2019.

Our brand signatures have come on significantly in 2018; as well as the opening of new hotels and extensions, we refurbished 830 rooms across the portfolio bringing to 3,100 the number of rooms refurbished since 2015. Meeting rooms, lobbies and other signatures are now much more uniform across the hotels. This facilitates clear and accurate expectation of service for all customers, whether they are in a corporate meeting, staying overnight or enjoying a meal at one of our hotels.

Our coffee brand, the Red Bean Roastery has come on tremendously in 2018. There are now more than 30 Red Bean Roastery outlets across our hotels, ranging from coffee docks to standalone sites. Our first standalone site, at Clayton Hotel Leopardstown, celebrated its first birthday in Q4 2018.

Our Grain and Grill restaurant brand has been rolled out across Maldron Hotels and we have developed a sense of individual food and beverage offerings at Clayton hotels with the customer profile of each hotel in mind.



Strategy in Action

The Italian Kitchen

We developed the Italian Kitchen concept at Clayton Hotel Dublin Airport to broaden the appeal of the food and beverage offering at this bustling airport property. It was so well received that we will open our second Italian Kitchen restaurant at Maldron Hotel South Mall, Cork in mid 2019.

When the hotel was being extended, it became clear we would need an ancillary food and beverage outlet to complement the already standing restaurant. We considered all available options, even suggesting franchising as an option at one stage. Ultimately, we settled on The Italian Kitchen, where our commitment to its core values has facilitated its resounding success. The values we have rooted the brand in are:

- > **Passion** – this is rooted in our knowledge of food – where ingredients originate, the story behind each dish, and a special welcome.
- > **Honest** – we are honest because it is in our nature to be. It instils confidence in our staff, and this translates to the guest.
- > **Inspiring** – we are not satisfied with good; we are inspired by excellence.

We are delighted with the progress of the brand, and with its future in Maldron Hotel South Mall. If the Airport is anything to go by, its future will look after itself.

I am most proud about its ability to stand on its own. Where traditionally a hotel might attract business and a restaurant benefit from that, with The Italian Kitchen the trend has been reversed – we now receive conference business because they want to eat at the restaurant! If that doesn't validate the work put into the brand, I don't know what else could.

Des McCann, Group General Manager of Clayton Hotels and formerly of Clayton Hotel Dublin Airport

Building for the Future

We opened **4** Maldron hotels and **1** Clayton hotel in 2018 and added **5** more hotels to the pipeline during 2018.

STRATEGIC PRIORITIES

BRANDS

2018 Progress

€8.1m

Investment in bedroom and ground floor refurbishments

830

Rooms refurbished

15

Average age of our hotels

(excluding hotels with leases remaining less than 5 years)

BUILDING FOR THE FUTURE:

PEOPLE & PROPERTY

Future Openings

8 hotels in development.

3 Claytons, 4 Maldrons and 1 bespoke.

2 in Dublin; 2 in Manchester; 2 in Glasgow; 1 in Bristol and 1 in Birmingham.



2020

2021

Q4

Q4

Q4

Q1

Q2

Q2

Q2

Q2



FINANCIAL REVIEW



I keep on saying each year that we have had another exciting year at Dalata. Running the risk of being accused of repeating myself, 2018 was another very exciting year at Dalata.

In 2016, we started to take the view that the asking prices for hotels in Dublin had gone beyond levels that we were willing to pay. Apart from the very attractive opportunities to buy Clayton Hotel Cardiff Lane and Clayton Hotel Liffey Valley on a piecemeal basis, we have not been in the market to buy hotels in Dublin since early 2016. In 2016 we focused on buying sites to build new hotels and making use of opportunities to build extensions at some of our existing hotels. We secured a significant pipeline in 2016 and 2018 was the year that we saw that pipeline come to fruition.

We completed the construction and opening of five new hotels across Dublin, Belfast, Cork and Newcastle as well as completing and opening extensions to three of our Dublin hotels and to Maldron Hotel Sandy Road in Galway. All projects were completed on time and within budget – this is not as easy as it sounds.

The development period and subsequent openings were a clear demonstration of our ability to meet our ambitious growth targets.

We continued to grow our pipeline during 2018 and announced new projects in Birmingham, Manchester, Bristol and London.

Since the year end, we have opened our new Clayton Hotel City of London which I am particularly excited about. We have also announced an agreement to lease a new hotel in Dublin. A busy year indeed for everyone in Shane Casserly's development function.

People ask me all the time how we are preparing for Brexit. As I write, there is still no clear indication of the final outcome which makes planning very difficult. We have reacted and planned as we best see fit. Firstly, on entering into commitments to lease new hotels, we (i) use conservative RevPAR projections, (ii) seek to attain a high rental cover of at least 1.85x by Year 3 and (iii) only accept prime city centre sites in the provincial UK cities that we are targeting. Secondly, we brought forward a full refinancing of our debt facilities at significantly improved terms. The new package is larger at €525 million, has a maturity date of October 2023, has lower margins and more flexibility. We wanted to avoid the uncertainty of negotiating new facilities at the very time Brexit was scheduled to happen. Carol Phelan and her team completed the refinance with exceptional quality and speed. We will continue to monitor Brexit and not only look at the risks it poses but also the opportunities it presents.

There is no point in building our portfolio unless we have the operational excellence to deliver the returns that our shareholders expect.

2018 was another year in which we grew RevPAR at a stronger pace than the market. We were particularly happy with our performance in Dublin.

We converted the additional revenue to profit and we continue to deliver very strong operating margins. Stephen Clarke and his financial analysis teams have been busy all year supporting the operations teams across the Group.

Group Revenue and EBITDA

€million	2018	2017
Revenue	393.7	352.2
Adjusted EBITDA	119.6	104.9
Group EBITDA	116.6	102.7
Profit before tax	87.3	77.3
Basic EPS	40.9 cents	37.2 cents

Group revenue increased by €41.5 million (11.8%) to €393.7 million due to (i) continued strong growth in RevPAR at our existing hotels, (ii) the full year contribution from hotels acquired during 2017 and (iii) the revenue generated at hotels we opened in 2018. We converted the additional revenue strongly to the EBITDAR line.

Rent increased marginally due to increases in performance related rents in some of our Dublin hotels and the full year rent impact of our Clayton hotels in Cardiff and Birmingham where we entered into new leases in mid-2017.

4.7%
Group RevPAR
increase

42.8%
Segments
EBITDAR margin

1,224
New rooms
opened from
acquisition and
development
activities in 2018

2,193
New rooms in our
current pipeline

€1.2 billion
Hotel assets at 31
December 2018

42.8 cent
Adjusted Basic
EPS

These increases were counterbalanced somewhat by savings in rent at Croydon Park Hotel (sold mid-2017) and the purchase of additional previously leased rooms at Clayton Hotel Cardiff Lane, Dublin.

Adjusting items to EBITDA

We disclose Adjusted EBITDA to show the underlying operating performance of the Group excluding items which are not reflective of normal trading activities or distort comparability either 'year on year' or with other similar businesses. The adjusting items of €3.0 million (net) for 2018 are explained below.

The Group adopts a revaluation policy for its hotel property assets. In 2018, while the overall value of our hotel assets has been revalued upwards by €99.8 million, we have had to write off €3.1 million of valuation reductions to the profit or loss account. €2.3 million relates to Clayton Hotel Silver Springs, Cork where we have had to spend significant capital amounts on fire safety works as well as further refurbishment works. €1.0 million relates to Clayton Whites Hotel in Wexford which has traded behind our expectations despite capital investment.

We received €2.6 million from our insurers as a result of a fire at a disused building on the site of Clayton Hotel Silver Springs. The proceeds have been recorded within other income in the profit or loss account. We also include pre-opening expenses (operational costs incurred prior to the opening of newly developed hotels) within adjusting items. We incurred a high level of such costs (€2.5 million) in 2018 due to the opening of five new hotels and the preparations for the opening of Clayton Hotel City of London.

Earnings Per Share (EPS)

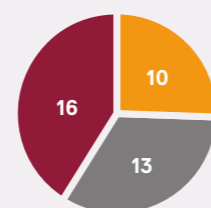
Basic EPS has grown by 9.9% to 40.9 cents.

This is primarily driven by the 13.5% increase in EBITDA. Depreciation has increased by €4.0 million to €19.7 million due to charges related to the new hotels opened during the year, the full year impact of assets purchased in 2017 and the charges associated with the ongoing refurbishment of the existing portfolio. Our finance costs are in line with 2017.

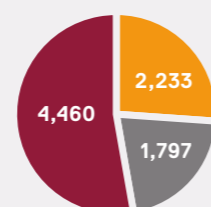
The Group's effective tax rate increased from 11.6% in 2017 to 13.8% in 2018 largely due to the non-recurring benefit in 2017 of tax losses from previous acquisitions to which no value had been initially attributed.

Group Snapshot of Owned and Leased Portfolio at 31 December 2018

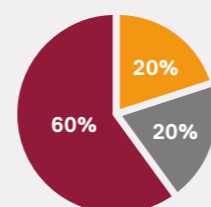
Hotels



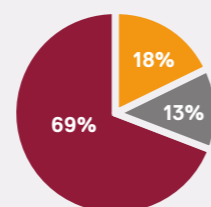
Room Numbers



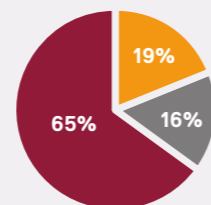
% of Revenue



% of Segments EBITDAR



% of Segments EBITDA



● Dublin ● Regional Ireland ● UK

Trading Review by Segment

In the following section I will analyse the results from the Group's portfolio of hotels in Dublin, Regional Ireland and United Kingdom.

1. Dublin

€million	2018	2017
Room revenue	168.7	144.4
Food and beverage revenue	50.6	46.2
Other revenue	15.6	12.8
Total revenue	234.9	203.4
EBITDAR	114.0	99.0
Rent	(27.6)	(26.4)
EBITDA	86.4	72.6
EBITDAR margin %	48.5%	48.7%

Performance statistics ⁱ	2018	2017
Occupancy	88.1%	85.6%
Average room rate (€)	129.49	122.59
RevPAR (€)	114.07	104.89
RevPAR increase %	8.8%	

Dublin owned and leased portfolio	2018	2017
Hotels	16	15
Room numbers	4,460	3,992

2018 was another excellent year for us in Dublin with 'like for like' RevPAR up 8.8% versus the STR growth for the city of 7.2%. All hotels showed growth which was an achievement given the extra capacity at three of our hotels and the disruption caused by works at these hotels. We converted 74.1% of our additional room revenue to the rooms department profit line which is very pleasing given that 30% of the growth in revenue related to occupancy.

Food and beverage revenue was €4.4 million ahead of last year, driven primarily by the additional capacity at Clayton Hotel Dublin Airport, the full year impact of Clayton Hotel Liffey Valley and the opening of Maldron Hotel Kevin Street. Food and beverage department profit margin was slightly behind last year at 30.3%.

EBITDAR margin before adjusting items was very strong again this year at 48.5%.

i, ii endnotes page 39

4,460

Dublin owned and leased rooms

8.8%

RevPAR increase at our Dublin hotels (excluding Clayton Hotel Dublin Airport)

48.5%

Dublin EBITDAR margin

410

Rooms in our current Dublin pipeline

1,797

Regional Ireland owned and leased rooms

5.2%

RevPAR increase at our Regional Ireland hotels

28.5%

Regional Ireland EBITDAR margin

2. Regional Ireland

€million	2018	2017
Room revenue	45.2	42.0
Food and beverage revenue	26.4	26.5
Other revenue	8.0	7.9
Total revenue	79.6	76.4
EBITDAR	22.7	21.5
Rent	(1.1)	(1.2)
EBITDA	21.6	20.3
EBITDAR margin %	28.5%	28.1%

Performance statistics ⁱⁱ	2018	2017
Occupancy	75.2%	75.5%
Average room rate (€)	97.98	92.79
RevPAR (€)	73.64	69.99
RevPAR increase %	5.2%	

Regional Ireland owned and leased portfolio	2018	2017
Hotels	13	12
Room numbers	1,797	1,643

RevPAR increased by 5.2% in our Regional Ireland hotels. We were broadly in line with the market in Cork and behind in Limerick and Galway. On an overall basis, it was a good performance. Our Cork hotels performed very well in a very strong market which is encouraging given our significant investment in Maldron Hotel South Mall which opened in December 2018. We converted 65.3% of the additional revenue to the rooms department profit line which I am very pleased with.

Food and beverage remains an area of opportunity in our Regional Ireland hotels and we are focused on increasing both revenue and profitability. Food and beverage department profit margin for 2018 was 25.1% which was slightly behind last year.

EBITDAR margin came in above last year at 28.5% and we will seek to further improve this in 2019.

i, ii endnotes page 39

3. United Kingdom (local currency)

Local currency - £million	2018	2017
Room revenue	48.1	42.5
Food and beverage revenue	15.2	14.0
Other revenue	5.8	5.2
Total revenue	69.1	61.7
EBITDAR	27.0	23.7
Rent	(3.7)	(2.9)
EBITDA	23.3	20.8
EBITDAR margin %	39.0%	38.4%

Performance statistics ⁱⁱ	2018	2017
Occupancy	84.7%	82.9%
Average room rate (£)	82.33	81.54
RevPAR (£)	69.70	67.58
RevPAR increase %	3.1%	

UK owned and leased portfolio	2018	2017
Hotels	10	8
Room numbers	2,233	1,731

2018 was another good year for us in the UK where RevPAR grew by 3.1%. We outperformed the market in Cardiff, Manchester, Belfast and Derry. We effectively matched the market in Leeds and were behind the market in Birmingham. In London, Clayton Hotel Chiswick significantly outperformed its local competitive set with RevPAR growth of 3.7% while Clayton Crown Hotel had a more challenging year due to a decrease in demand in its local area and increased competition. Rooms department profit margin in 2018 was 69.1% which was marginally behind last year but in line with our own expectations.

Meaningful year on year comparisons for our UK food and beverage business are complex, as we had the full year impact of Clayton Hotel Birmingham, the opening of Maldron Hotel Belfast City and six months of Croydon Park Hotel in 2017. When I look at our food and beverage performance generally in the region, I am very happy with the progress that we are making both in terms of revenue and profitability.

Our EBITDAR margin grew to 39.0% and we see this improving further due to the impact of Clayton Hotel City of London in 2019 and the new hotels in our pipeline for 2020 and beyond.

i, ii endnotes page 39

2,233

UK owned and leased rooms

3.1%

RevPAR increase at our UK hotels

39.0%

UK EBITDAR margin

1,783

Rooms in our current UK pipeline



CLAYTON HOTEL CHISWICK

Central costs and share-based payments expense

€million	2018	2017
Central costs	13.3	12.4
Share-based payments expense	2.8	1.7

Central costs increased by 7.5%. We have further increased the size of our central team to support the growing size of the portfolio. The additional people are based in both the UK and Ireland. Our share-based payments expense increased from €1.7 million to €2.8 million as a result of a higher cost being attributed to the 2017 and 2018 LTIP grants for accounting purposes. This is due to the EPS related performance condition attracting a higher fair value and additional employees joining the LTIP and SAYE scheme.

Finance costs

€million	2018	2017
Interest expense on loans	7.8	7.3
Impact of interest rate swaps	1.0	1.4
Other finance costs	2.8	2.3
Net exchange (gain)/loss on financing activities	(0.3)	0.2
Interest capitalised to property, plant and equipment	(1.8)	(1.6)
Finance costs	9.5	9.6

Finance costs are in line with 2017 despite the write off of a large element of the original facility unamortised costs at the date of refinance (€0.9 million). The weighted average interest rate for 2018 was 2.94% (2017: 3.16%), of which 2.15% (2017: 2.42%) related to margin.

Strong Operating Cash Flows Re-invested in the Business

Our portfolio of hotels generated strong operating cash flow during the year with free cash flow of €86.6 million. We have re-invested the bulk of this cash into the business through the completion of the development pipeline in 2018. We also paid our first dividend to shareholders in October 2018.

€million	2018	2017
Adjusted EBITDA	119.6	104.9
Add back: share-based payments expense	2.8	1.7
Adjusted Cash EBITDA	122.4	106.6
Net cash from operating activities	115.8	95.2
Finance costs paid	(13.2)	(10.1)
Refurbishment capital expenditure	(15.9)	(14.6)
Exclude adjusting items which have a cash effect	(0.1)	1.3
Free cash flow	86.6	71.8
Free cash flow conversion	70.8%	67.3%

Cash conversion was very strong in 2018 and increased by 350 bps. Cash conversion is marginally higher than a normalised 2017 due to the cash inflow from working capital (including from newly opened hotels) offset by the additional finance costs paid relating to the refinance of debt facilities and the timing of rent payments. There are a number of other different factors impacting the movement year on year. The conversion in 2017 was lower due to the non-cash release of €2.0 million of estimated accruals and liabilities relating to the successful conclusion of negotiations on a number of leased properties. The 2017 conversion would have been 70.5% excluding the impact of these items.

Property, Plant and Equipment

€million	2018	2017
Property, plant and equipment at end of the year	1,176.3	998.8

The value of our property, plant and equipment at the end of 2018 was just under €1.2 billion and exceeded that level when we completed the purchase of Clayton Hotel City of London in early January 2019.

The increase of €177.5 million during 2018 was driven by additions of €105.5 million, a net revaluation gain of €99.8 million, capitalised borrowing costs of €1.8 million. This was offset by the depreciation charge of €19.7 million, adverse foreign exchange movements which decreased the value of the UK hotel assets by €1.8 million and €8.1 million which was reclassified to contract fulfilment costs within non-current assets representing the portion of the Merrion Road site which will be developed into residential units.

Additions to property, plant and equipment

€million	2018	2017
Development capital expenditure:		
Acquisitions through business combinations	-	57.5
Acquisition of freeholds or site purchases	9.2	71.5
Hotel extensions and renovations	31.9	16.8
Construction of four new build hotels	44.2	42.3
Other development expenditure	4.3	7.6
Total development capital expenditure	89.6	195.7
Total refurbishment capital expenditure	15.9	14.6
Additions to property, plant and equipment	105.5	210.3

We typically allocate 4% of revenue to refurbishment capital expenditure. In 2018, we spent €6.1 million refurbishing our bedrooms and a further €9.8 million on public areas and completing health and safety works.

In 2018, our return on capital employed amounted to 11.2%. Excluding the impact of the five new hotels which opened during 2018 and assets under construction at year end, the normalised return on capital employed was in line with 2017 at 12.6%.

€106 million

Additions to property, plant and equipment

12.6%

Normalised return on capital employed

830

Rooms refurbished

Capital Structure

We are committed to carefully managing our capital structure to ensure we have the right mix of equity, debt and leases.



Dividends

In 2018, Dalata announced it had adopted a progressive dividend policy with payment based on a percentage of profit after tax. An interim dividend for 2018 of 3.0 cent per share was paid on 12 October 2018 on the ordinary shares in Dalata Hotel Group plc amounting to €5.5 million. On 25 February 2019, the Board proposed a final dividend of 7.0 cent per share. Subject to shareholders' approval at the Annual General Meeting on 2 May 2019, the payment date will be 8 May 2019 for the final dividend to shareholders registered on the record date 12 April 2019.

7.0 cent

Proposed final dividend per share

€525 million

New debt facility

2.3x

Net Debt to Adjusted EBITDA

Case Study

Leases

IFRS 16 became effective on 1 January 2019 and will result in almost all leases being 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 will be recognised. Fixed rental expenses will be removed from profit or loss and replaced with finance costs on the lease liability and depreciation of the right-of-use asset. We will apply IFRS 16 in our 2019 financial statements.

We are currently finalising the work on the discount rates of individual leases. The discount rate will be largely based upon the incremental borrowing rate and, with the vast majority of leasehold commitments guaranteed by Group, this should be closely aligned with recently refinanced bank borrowing rates as adjusted for tenure and asset specific considerations. Based on the work we have completed to date, we expect the discount rate not to be considerably different to the notional rate of 5% used for illustrative purposes in our financial statements and our November 2017 Capital Markets Day presentation on IFRS 16.

Using an indicative discount rate of 5% would result in the recognition of a lease liability of circa €350 million and a corresponding right-of-use asset of circa €350 million. Profit after tax would decrease by circa €7 million. As Dalata has entered into most of its leases relatively recently, there are significant unexpired terms. This together with the fact that they are guaranteed by the Group means the impact of front loading finance costs under IFRS 16 is more pronounced compared to companies with a more mature lease portfolio.

IFRS 16 will have no impact on strategy, commercial negotiations on leases or calculation of covenants which per the terms of the facility agreements are based on GAAP calculated without the application of IFRS 16.

Case Study

Supporting Our Growth With New Debt Facilities

During 2018 we successfully agreed a €525 million debt facility, completing the refinancing of our previous debt facilities. Our new debt package will ensure we have sufficient funding and flexibility to support our growth strategy into the future.

Our existing debt facilities were due to expire in February 2020. However, we made the decision to refinance early to take advantage of lower interest rates and to ensure the new facilities were agreed in advance of any potential Brexit fallout in 2019.

A summary of our new and old facilities is outlined in the table below:

2015 Facility	2018 Facility
> Term Loan facilities of approximately €300 million	> Term Loan facility of £176.5 million
> Aggregate Revolving Credit facilities of €190 million	> Multi-currency Revolving Credit Facility of €325 million
> Maturing February 2020	> Maturing October 2023

I am pleased to report that our existing banking partners, AIB Bank, Bank of Ireland, Barclays Bank and Ulster Bank, have been joined by HSBC Bank and Banco de Sabadell, demonstrating a growing attraction of Dalata to international lending institutions.

I spoke previously about the strength of the Dalata covenant and how we continuously use our balance sheet to add value. I am delighted to report that the new terms reflect the increased strength of the balance sheet since 2015. In 2018, our weighted average interest rate was 2.94% (2017: 3.16%) of which 2.15% (2017: 2.42%) related to margin.

As a significant portion of the drawn facilities (approximately 65%) are denominated in sterling we have maintained a natural hedge against the impact of sterling rate fluctuations on the euro value of our UK assets.

We have also continued to use hedging instruments to mitigate the risk associated with interest rate fluctuations. As at 31 December 2018, interest rate swaps covered approximately 99% of our sterling denominated borrowings. Please refer to note 21 (Interest-Bearing Loans and Borrowings) and note 14 (Derivatives) to the financial statements for additional information.

At 31 December 2018, we remain lowly geared with Net Debt to Adjusted EBITDA of 2.3x.

Post year end, we completed the acquisition of Clayton Hotel City of London which increased proforma Net Debt to Adjusted EBITDA to 3.0x. This is still below our guided upper level of 3.5x and is projected to fall again during 2019.

We also use a ratio, referred to as our 'Debt and Lease Service Cover', to assess the Group's ability to meet interest, rent and capital repayment commitments. It stood at 2.2x at the end of 2018. As there are no capital repayments under the new facility, this ratio is expected to rise in 2019. Please refer to the 'Glossary and Supplementary Financial Information' for a detailed calculation.

Case Study

Investing in Technology to Support Our Growing Business

We have made a significant investment in technology to support our existing and new hotels. As Dalata comprises primarily a portfolio of hotels acquired in multiple separate transactions since mid-2014 we had inherited different systems platforms at the various locations.

Over the past two years we have looked to streamline and consolidate processes, enhance controls and deliver efficiencies.

We rolled out the Alkimii human resources management system across the Group in 2016 which enables our hotel management teams to effectively manage their rosters and payroll costs.

Throughout 2017 and 2018 we implemented a new procurement system, Procure Wizard, which manages the ordering process from start to finish at the hotels. In 2018 we extended it to include all capital expenditure.

We have established a shared service centre in Cork to manage routine administration work in a highly efficient manner. This also gives our people on the ground in the hotels more time to focus on serving our customers and analysing our businesses.

All our hotels are now using Opera as their property management system. We have commenced the roll out of Opera Cloud which gives us real time rates and inventory integration to all main distribution channels. We have implemented IDEAS Revenue Management System at some of our larger hotels to aid the Revenue Manager in decision-making by providing powerful analytics.



Growth Strategy

We significantly expanded our portfolio of properties during 2018 with the opening of five new hotels and four extensions. This growth has continued into 2019 with the opening of Clayton Hotel City of London.

We have a large pipeline of new hotels across Dublin and the UK due to open in 2020 and 2021. This pipeline will add over 2,190 rooms and bring our total number of owned and leased rooms to almost 11,000.

Despite the uncertainty created around Brexit, we remain convinced that there is a significant opportunity for us in the UK. We will continue to look for opportunities to operate additional rooms in London and the opening of our third hotel in the city is helping raise our profile further with agents, property developers and hotel owners. Our London expansion will be opportunistic by nature.

The quality of the four-star offering in our target twenty provincial UK cities is very mixed. The market is fragmented in terms of branding, ownership and operators. Over 40% of the rooms are over 40 years old. The net result is an offering for the consumer that is very inconsistent and often very dated. We see an opportunity for our Clayton and Maldron brands to prosper in modern buildings located in the heart of those cities.

We have a very strong relationship with fixed income investors such as Deka Immobilien, Aberdeen Standard and M&G Real Estate who all own one or more of our current hotels. We are developing relationships with other interested institutions. These fixed income investors value the strength of our balance sheet and operating expertise. They are providing the finance for the rollout of our leased portfolio in the UK.

The size of the Dublin hotel market continues to grow in response to the very significant economic growth in the city. While the main focus for growth will be in the UK, we will seek to keep our market share at circa 20% in Dublin. Therefore, we will continue to seek out opportunities to lease or develop new hotels in the city.

We are committed to adding 1,200 new rooms each year to our development pipeline. We have already secured a new hotel in Spencer Place, Dublin which will deliver approximately 200 rooms. I am very confident that we will secure more new hotels and reach our target for 2019.

Conclusion

Although we are very focused on our growth strategy, we are also very focused on maximising the returns from our current portfolio.

We continue to invest in our people and I am very encouraged to see the majority of the management teams at the six hotels opened in the last twelve months were the result of internal promotions. 19 employees graduated from our Ascend Graduate Training Programme in January 2019. They will take up positions across all functions and regions and ultimately be our managers of the future.

We are investing in technology right across the business. This technology is helping us to both increase revenues and deliver efficiencies at our hotels. It is also helping us improve the quality of information throughout the business.

We are continuing to invest 4% of revenues back into the refurbishment of our hotels. This expenditure is focused on improving the customer experience at our hotels.

We will continue to focus on developing our people, growing our brands, refreshing our physical product and meeting the expectations of our customers. This will ensure that the financial returns for our shareholders will follow.

I look forward to 2019 with the confidence of knowing we have the team in place to face the challenges and make use of the opportunities that arise during the year.

Dermot Crowley
Deputy Chief Executive
Business Development & Finance

¹Revenue, cost of sales and the KPIs calculated thereon have been restated for the year ended 31 December 2017 as a result of the retrospective application of IFRS 15. The impact is limited to a reclassification between revenue and cost of sales in profit or loss. See note 1 in the financial statements for the year ending 31 December 2018 for further information.

²Performance statistics reflect a full twelve-month performance of the hotels in each portfolio for both years regardless of when acquired and exclude the new hotels which opened during 2018 (Clayton Hotel Charlemont and Maldron Hotel Kevin Street in Dublin, Maldron Hotel South Mall in Regional Ireland and Maldron Hotel Belfast City and Maldron Hotel Newcastle in the UK). In Dublin we have also excluded the Tara Towers Hotel which closed in September 2018 and Clayton Hotel Dublin Airport due to the significant extension completed during 2018 which distorts comparability.

RISK MANAGEMENT

The Board is responsible for risk management and has adopted a risk management policy which is reviewed annually. The Board sets the tone for the business through its engagement with management on key risk topics at its regular meetings and through the Board Committees, particularly the Audit and Risk Committee.

In addition to its regular meetings, the Board devotes one full day to strategy review and another full day as a group to Board training with an emphasis on topical areas of existing or emerging risk. More detail on the 2018 training day is set out on page 67.

Risk management structure

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 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 and Risk Committee (whose work on risk management is described by the Committee Chair in his report on page 74).
- › 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.

We have established a formalised risk management process whereby risks are identified, recorded on the risk register, reviewed and considered. Our risk management framework is best illustrated as follows:



Our Assurance Framework

First Line of Defence	Second Line of Defence	Third Line of Defence
Hotel and business management	Financial Control Health and Safety Management	Internal Audit

Risk management in practice

Risk management is integrated in the management of day to day activities and the CEO is incentivised through the annual bonus plan to continually improve the Group's risk management processes (see page 87).

The Company Secretary has oversight responsibility, reporting to the CEO, for risk management and compliance activities across the Group. This includes co-ordinating the activity of the Executive Risk Committee, on which the three executive directors sit. This Committee receives input from across the Executive team on the management of existing risks and the identification of emerging risks and will devote more time to topics that may receive relatively less attention from the Board and / or the Audit and Risk Committee.

A number of Central Office supports operate to maintain the focus on risk throughout the organisation. These include the work of the Group Health and Safety Manager, the Internal Audit department and the Group Learning and Development department. External specialists are brought in to support the work of this group, or in some cases to provide an additional layer of assurance, in relation to Health and Safety, Food Safety, Cyber Security and Data Protection.

A key element of overall risk management is the programme of in-depth reviews led by the executive directors with the management teams at each hotel twice yearly. These sessions are used to review business plans, monitor progress against financial and non-financial objectives and assess local management’s capacity to manage existing and emerging risks across all risk headings.

The Group has a strong culture and highly developed processes for financial reporting and bottom up forecasting that allows senior management to monitor progress against monthly and full year targets at individual hotel level and for the Group as a whole on a weekly basis. As the business has grown in recent years, targeted investment has been made in technology to support these processes in order to maintain the integrity of these key information flows as the Group increases in scale.

Further and ongoing technology investment is improving our financial and operating control systems, a number of these initiatives are highlighted in the case study on page 38; all the time there is an emphasis on ‘de-risking the business’.

This emphasis is also carried through to the process for the allocation of refurbishment capital expenditure where, in addition to programmed refurbishment work, adequate resources are made available to deal quickly with capital works required to deal with any risk to the health, safety or security of our customers and staff.

Key risk summary

The pervading theme in our assessment of key risks this year is an increasing level of uncertainty associated with a number of external factors. These include the imminent, but as yet unknown, effects of the UK’s decision to leave the EU. Additionally, we are conscious of the battle for talent and possible threats to our ability to attract and retain the people we need to drive the business.

On the back of continuing investment in control systems and other resources, we have excluded a number of risk headings associated with financial control and compliance from the key risk classification. These are risks generally common to most businesses. Thus, the emphasis in the risks discussed here is on those company or industry specific risks that are likely to have the greatest impact on our business in the foreseeable future.







Category	Ref	Risk	Impact on Strategic Priorities
External	1	Cyclical economic effect	Growth
	2	Geopolitics – including Brexit	Growth
	3	International terrorism	Growth
	4	Exchange rate fluctuation	Growth
Strategic	5	Market concentration	Growth
	6	UK expansion strategy	Growth
	7	Erosion of culture and values	People, Customer
	8	Senior Management succession	Growth, People
Operational	9	Development and retention of expertise	People, Customer
	10	Availability of human resources	People, Customer
	11	Building hotel extensions	Customer, Brand, Growth
	12	New hotel openings	Growth
	13	Reliance on third party IT systems	Customer, People
Reputational	14	Health and safety	Customer, Brand
	15	Cyber-attack – data loss	Customer, Brand

A detailed analysis of these risks is provided on pages 42 to 45.

RISK MANAGEMENT








KEY RISK ANALYSIS

Risk Category	Risk	What the risk means to us	Potential Impact
External	1 Cyclical economic effect	The hotel sector is vulnerable to events that negatively impact economic activity as a whole or that have the effect of reducing expenditure on travel and leisure services.	› Short-term or more prolonged mild to severe reduction in revenues and/or disruption to supplies.
	2 Geopolitics – including Brexit		
	3 International terrorism		
	4 Exchange rate fluctuation	› Reduction in number of UK visitors to Ireland.	
Strategic	5 Market concentration	The Group has 60% of its turnover in Dublin making it more vulnerable to changes in market dynamics in the city.	› Exposure to a decline in business in the event of either a decline in demand in Dublin or a significant increase in supply.
Strategic	6 UK expansion strategy	The Group's strategy is to expand its activities in the UK market, adopting a predominately capital-light leasing model.	› There is a risk that this strategy will not deliver on expectations resulting in financial losses or lower than expected returns.
Strategic	7 Erosion of culture and values	Rapid expansion may lead to a dilution of the culture that has been a key to the Group's success.	› Complacency in the ranks of management within hotels or at central office. › Underperformance.
Strategic	8 Senior management succession	Failure to manage succession at the senior level may interrupt corporate development.	› Loss of strategic direction; faltering leadership.

Mitigation	2018 Movement	2019 Focus	Link to our Strategy
<ul style="list-style-type: none"> › Actively maintaining preparations for adverse external events affecting the business as a whole. › Maintaining flexibility in the cost base to allow for timely reaction. › Staying relatively lowly geared, including operational leverage, with a key focus on cash. › Maintenance of a critical incident plan. › Development and maintenance of strong relationships and good communication with key customers and suppliers. › Development of wide spread of markets. 	<ul style="list-style-type: none"> › 2018 saw increasing levels of international uncertainty. The key near term risk for the Group is Brexit. › In 2018 UK visitor numbers to Ireland were flat but this was off-set by growth in other markets. 	<ul style="list-style-type: none"> › Monitoring and developing our plan to respond to Brexit bearing in mind the need to manage business as usual despite prevailing lack of clarity about the likely outcome. › Further commentary on Brexit in the Chair's statement on page 5, CEO's review on page 7 and Financial Review on page 29 › Continued market development. 	 <p>Growth</p>
<ul style="list-style-type: none"> › Primary focus of expansion plans away from Dublin. › As supply increases, invest to maintain Group market share. › Close monitoring of market trends. › Maintaining strong relationships with key customers. 	<ul style="list-style-type: none"> › The Dublin market continued to perform well in 2018 with RevPAR growth of 7.2%. 	<ul style="list-style-type: none"> › Continuing UK expansion. › Work ongoing on two new Dublin hotels in key locations. › Growth focused on new rooms. 	 <p>Growth</p>
<ul style="list-style-type: none"> › Disciplined approach to return on investment criteria. › Detailed analysis of potential investment locations, including Board scrutiny. › Focus on resilient city locations. › Management experience in UK hotel development. 	<ul style="list-style-type: none"> › Secured four additional UK locations in 2018. 	<ul style="list-style-type: none"> › Continued search for quality locations in this market; maintain discipline of location and investment criteria. 	 <p>Growth</p>
<ul style="list-style-type: none"> › Investment in training and development programmes. › Emphasis on internal promotion and management development. › Communication of company values and culture. › Senior management engagement with workforce. 	<ul style="list-style-type: none"> › Opening of five new hotels effectively managed. 	<ul style="list-style-type: none"> › Ongoing investment to identify future leaders to deliver 2020/21 expansion plan. › Development of formal Company code of conduct. 	 <p>People</p>
<ul style="list-style-type: none"> › Development of succession and contingency plans by Nomination Committee. › Training and development of senior leaders and emerging leaders in the business. 	<ul style="list-style-type: none"> › Board engagement with senior team. › Leadership development programmes. 	<ul style="list-style-type: none"> › Continuity of development programmes. 	 <p>Growth</p>
			 <p>People</p>

KEY RISK ANALYSIS (CONTINUED)

Risk Category	Risk	What the risk means to us	Potential Impact
Operational	9 Development and retention of expertise	Inability to attract people to work in the business and to retain and develop future leaders.	<ul style="list-style-type: none"> > Risk to successful execution of the expansion programme. > Upward pressure on costs.
	10 Availability of human resources		
Operational	11 Building hotel extensions	The building of an extension brings specific risks to the customer experience and for health and safety management at the subject hotel.	<ul style="list-style-type: none"> > Noise disruption, unhappy guests and a loss of revenue. > Project overrun and consequent loss of revenue. > Accident resulting in personal injury.
Operational	12 New hotel openings	Completion on time, planning, resourcing, attracting business to the hotel.	<ul style="list-style-type: none"> > Failure to deliver the desired customer experience, consequent impact on business, return on investment, reputation.
Operational	13 Reliance on third party IT systems	Risk of failure of a key third party system provider to provide ongoing and continued access.	<ul style="list-style-type: none"> > Interruption of service; loss of revenue; breakdown in payment or other key business processes.
Reputational	14 Health and safety	Risk of material operational health and safety related event (e.g. fire, food safety or public health).	<ul style="list-style-type: none"> > Injury or loss of life or major property damage. > Financial loss and damage to reputation.
Reputational	15 Cyber-attack – data loss	Information systems are subject to an external or internal cyber event with the potential for data loss/theft.	<ul style="list-style-type: none"> > Denial of service. > Data breach. > Loss of revenue. > Business disruption. > Reputational damage.

Mitigation	2018 Movement	2019 Focus	Link to our Strategy
<ul style="list-style-type: none"> > Development of Dalata employer brand to become employer of choice in the sector. > Investment in learning and development programmes. > Meaningful employee engagement responses. > Maintaining attractive compensation and benefits packages. 	<ul style="list-style-type: none"> > Increasingly challenging recruitment and retention environment. > New hotel openings created attractive opportunities for ambitious young managers. 	<ul style="list-style-type: none"> > Roll out of online training resources. > Redevelopment of corporate website, improving direct recruitment platform. 	 People
<ul style="list-style-type: none"> > Focus on high quality project management and site management. > Due diligence on third party contractors. > Support from central office for hotel. 	<ul style="list-style-type: none"> > A busy year with four major extensions completed successfully. 	<ul style="list-style-type: none"> > A number of projects in the planning stage; in the short term, this risk is reduced. > Consolidation of learning from 2018 projects. 	 Customers
<ul style="list-style-type: none"> > Project management and communication with construction team. > Adequate planning for recruitment and training. > Sales and revenue management planning. 	<ul style="list-style-type: none"> > Successful execution of five hotel openings. 	<ul style="list-style-type: none"> > One hotel opened in January 2019. > Focus on bedding in six hotels opened between March 2018 and January 2019. 	 Brand
<ul style="list-style-type: none"> > Due diligence on systems partners. > Business continuity and disaster recovery processes. > Internal audit programme to test resilience. 	<ul style="list-style-type: none"> > Continued consolidation to reduce the number of system versions and suppliers. > Increasing trend towards cloud computing. > Investment in resource to strengthen systems monitoring. 	<ul style="list-style-type: none"> > Further investment planned to enhance functionality and risk management. 	 Customers
<ul style="list-style-type: none"> > Health and safety training focused on prevention. > Incident management training and reporting. > Critical incident plan. > Investment in safety management systems and systems maintenance. > Audit of compliance and Board reporting. > Adequate cover for insurable risks and regular review of the insurance programme. 	<ul style="list-style-type: none"> > Implementation of improved reporting of obligatory health and safety training compliance to senior management and Board. 	<ul style="list-style-type: none"> > Review of loss management processes for liability claims. > Review of health and safety audit process. 	 People
<ul style="list-style-type: none"> > Established IT security systems, procedures and controls. > External support and monitoring on cyber risks. > IT security review programme. 	<ul style="list-style-type: none"> > Implementation of GDPR and development of compliance processes. 	<ul style="list-style-type: none"> > Implementation of information security management system. > Increase delivery of IT security training across the Group. 	 Customers
			 Brand

RISK MANAGEMENT

VIABILITY STATEMENT



MALDRON HOTEL PEARSE STREET
Oscar Lecki, F&B Supervisor

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 cash flows, liquidity position and borrowing facilities are explained in the Financial Review on pages 28 to 39.

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 three year period.

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 2021 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;
- It 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 pages 42 to 45 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 and 3 (page 42): Risks relating to the general economic backdrop to the business involving the specific risks to the economic environment including Brexit and geopolitical shocks.
- Risks 11 and 12 (page 44): Risks relating to delays on significant capital developments including the residential development at the site of the former Tara Towers Hotel.

The key risks assessed are risks relating to the general economic backdrop to the business involving the specific risks to the economic environment including Brexit and geopolitical shocks and 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, the potential impact of these other risks are not believed to be as potentially material as those tested in the above scenarios.

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 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 over 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 or geopolitical shock and is in compliance with its banking covenants.

In the general economic downturn or geopolitical shock scenario, RevPAR was 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 receipt of proceeds from the sale of the residential development in 2020 by three months, whilst making no adjustment to the capital expenditure committed.

In the key modelled scenario of general economic downturn or geopolitical shock, RevPAR was reduced by 25% within six months with a resultant impact on all other sales.

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. In 2018, the Group successfully completed the refinancing of its existing debt facilities. The Group entered into a €525 million multi-currency facility with a maturity date of 26 October 2023. As a result, the Group has reduced refinancing risk, has additional flexibility and headroom which reduces liquidity risk. Sufficient available funds headroom was maintained in addition to being in compliance with all debt covenants at each semi-annual review date in the modelled scenarios.

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.

RESPONSIBLE BUSINESS REPORT



Dear Shareholder,

In Dalata we are committed to ethical behaviour in business and to taking responsibility for our impact on society and the environment.

This responsibility starts with the example set by the Board and is, I hope, reflected in the decisions and behaviours of colleagues throughout the Group whether in one of our hotels or in central office.

The Board and senior management team sets the objectives for the organisation and subscribes to a set of values which puts people at the centre of the business. Our business strategy is explained in detail in this Annual Report and it is designed with our values: people, fairness, service and individuality in mind (page 2).

Doing business responsibly is part of the strategy and part of the culture of the organisation, not a bolt-on extra or 'nice to have'. Our culture also has a real competitive edge - a relentless focus on success but it's never about winning at all costs.

During the year we carried out research involving shareholders, employees, customers, suppliers and community participants to find out what they expect from us. For the most part it was no surprise to hear that health and safety, customer and employee welfare (including privacy), corporate governance and the environment were top of the list.

From a shareholder perspective there was a desire to see more connection between our priorities and our business strategy and our risk management. We believe this

connection exists and, in the course of 2019, we will take steps to communicate our ethos more effectively both internally and externally.

As a first step, we have adopted a structure to allow us to think more clearly about our impact on society and the environment that will serve as a guide for ourselves and colleagues throughout the business. Starting with governance, we will continue to develop and monitor Group policies, alignment with global standards for reporting, the development of KPIs and assurance. Our priorities under the three elements of the structure, people, culture and environment, are described in the following pages.

We are in the process of rebuilding our corporate website and implementing a content management plan, in conjunction with our social media communications to keep all interested parties up to date with what is going on around the company.

My thanks to many colleagues all across the business who live the values of the company every day through their interactions with customers, workmates and suppliers. We don't make grandiose claims to perfection but we aspire to be a company that people are proud to be associated with.

As I said at the outset of my review of the year on page 6 – while a lot has been achieved, we still have a way to go!

Pat McCann
Chief Executive

Our responsible business framework reflects **The Dalata Way** of doing business ethically with consideration for our impact on society and the environment.



During 2018 we carried out an extensive engagement with a variety of stakeholders to identify their expectations of us as a responsible corporate citizen. This helped us design a responsible business framework to call out and communicate the important priorities. In our design, we also had regard to our strategic priorities (pages 16 to 25) and our risk profile as a business (pages 40 to 47). Our responsible business framework is brought to life through a variety of initiatives. In the following pages we give some more detail on our priorities and share some example of progress made during the year.

RESPONSIBLE BUSINESS REPORT

GOVERNANCE

We have adopted a responsible business framework to allow the business respond in a structured and progressive way to our responsibilities to society and our impact on the environment.

The Board is responsible for policy development and oversight, including risk management as set out in the risk management report (pages 40 to 47). In the exercise of oversight the Board prioritises those non-financial matters that are essential to the growth and development of a sustainable business and organisation.

Dalata aims to comply with the European Union (Disclosure of Non-Financial and Diversity Information by certain large undertakings and groups) Regulations 2017. In the table to the right, we set out the company's response to managing its non-financial priorities and advise where further information on compliance may be found in this report.

Dalata has grown rapidly through acquisition over a five-year period and has operations in over 40 locations. In 2018 the Group commenced a process of standardisation of policy across the business. Our objective is to underpin the sustainability of the business by developing a coherent Group-wide understanding of our responsibilities and, using the responsible business framework as a guide, achieve a consistent level of compliance with priorities based on risk assessment and strategic relevance.

In 2019 this process will continue with the development of a Group code of conduct, supplier code of conduct and improved internal communication through investment in our HR systems and the roll out of an online learning and development platform. We will also use the re-launch our corporate website to enhance our engagement with stakeholders outside the organisation.

Reporting requirement	Policies and standards	Further information and risk management
Environmental matters	> Environmental policy	> Responsible Business: Environment (page 56)
Employee matters	> Employee handbook > Health and safety policy > Safe work practices policy > Bullying and harassment – dignity in the workplace policy > Equal opportunities policy > Whistleblowing > Statutory Training	> Strategic Priorities: People (page 22) > Responsible Business: People (page 52) > Responsible Business: Culture (page 54)
Social matters	> Food standards and traceability > Community support > Privacy policy	> Responsible Business: People (page 52)
Human rights	> Modern slavery statement > Data protection policy > Privacy policy	> Responsible Business: People (page 52)
Anti-bribery and corruption		> Responsible Business: People (page 52)
Business model		> Business model (page 12 and 13)
Policies followed, due diligence and outcome		> Our assurance framework (page 40) > Risk management in practice (page 41)
Description of principal risks and impact of business activity		> Key risk summary and analysis (page 41 to 45)
Non-financial key performance indicators		> Non-financial KPIs (page 15)

Case Study

Health and Safety Training

We are obliged by law or regulation to provide training to our employees, depending on their duties, in up to twelve specific areas. These include general health and safety within the hotel environment, manual handling, fire safety, food safety, responsible service of alcohol and cash handling.

All new employees complete a full day of induction within their first month of employment. They will receive a company welcome and partake in one full day's classroom training. Task specific manual handling, tailored to the department in which an individual works is completed on site upon commencement of employment. Each employee also receives and acknowledges our employee handbook which sets out in a comprehensive but accessible format the company's policy in a wide range of areas, including health and safety.

Training is delivered within the hotel environment by qualified personnel, usually from our Human Resources team with the use of external specialists where this is required. The overall programme is designed and monitored by Group Learning and Development based at our Central Office.

Monitoring is based on an extensive training matrix which is completed monthly at each property detailing the list of completed and required training for all employees, renewal dates for refresher training and department specific training. An overall compliance score is compiled for each matrix and a league table is created centrally to benchmark properties and create a culture where we strive for excellence in all areas of compliance.

Training records are subject to review by internal audit and the Company retains external experts to carry out regular unannounced audits of food, fire and general health and safety compliance. A part of each hotel General Manager's annual incentive is based on the property's health and safety compliance record.

The Board receives a copy of the overall compliance score and hotel league table as part of the Deputy Chief Executive's report at each scheduled board meeting.

¹ Based on a survey of 1,500 customers carried out in June 2018

² December 2018 Group compliance training matrix

#1

Responsible business priority for customers¹

—

92%

Overall compliance score²

—

94%

Health and safety awareness training completion²

—

94%

Fire safety awareness training completion²

RESPONSIBLE BUSINESS REPORT

PEOPLE

We aspire to be the employer of choice in the hospitality sector.

There are three broad headings in the people segment of our responsible business framework: training and succession planning, diversity and inclusion, and labour standards and human rights. Our actions are influenced by the feedback we receive through our employee engagement programme.

Training and succession planning

Our commitment to training and development of our staff and management is a strategic priority and details of progress in 2018 are set out on page 22 and illustrated in the case study on page 23. The company has recognised the importance of training and development by adopting the number of internal promotions as a Group KPI (see page 15).

Diversity and inclusion

Dalata embraces diversity at all levels in the organisation and has an **Equal Opportunities Policy** which is communicated to all employees through the **Employee Handbook**.

We are committed to providing a harmonious and fair working environment with real and equal opportunities for all in which no form of intimidation or discrimination exists. We enjoy and take pride in the diversity in our workplace. The Group HR department based in Central Office, reporting to the Deputy CEO, is responsible for the operation of this policy.

The workforce overall has a generally even gender balance and the Company monitors the gender balance of senior appointments. In 2018 56% of individuals

promoted in the business were female and there is a 50/50 gender split amongst participants on our development programmes.

Details of our **Board Diversity Policy** are set out in the Corporate Governance report on page 69. This policy is reviewed annually and the outcome of the 2018 review is reported on in the Nomination Committee report on page 73.

Labour standards and human rights

The Board has adopted a **Modern Slavery Policy** and the 2018 modern slavery statement is published on the company website. The Company recognises the engagement of agency staff as a primary risk area in this regard and reserves, and exercises, the right to audit the employment records of individuals contracted through key agency partners. In 2019 the company will adopt a supplier code of conduct applicable to all suppliers which will include provisions designed to provide assurance in relation to labour standards and respect for human rights through the supply chain. Supplier compliance procedures will be designed using a risk-based approach to provide further assurance.

Listening to our people

Around 3,600 of our people responded to our engagement survey in December 2018. The survey results showed an overall engagement score of 77%, a steady improvement on previous years. This score is however not an end in itself and for 2018 the company changed its engagement survey partner in order to derive a greater depth of insight from across the workforce. Over 34,000 pieces of qualitative feedback were received through the December survey and our General Manager's 2019 incentive plans include specific objectives based on the feedback received from employees.

50/50

Male / Female split of participants on development programmes

61%

of hotel management teams under 40

56%

of 2018 promotions were female

Case Study

Fire Safety

In 2018 an important improvement to Health & Safety has been the implementation of online fire safety system monitoring across all of our hotels. Every entry and exit point of the hotel has a tracker, and three times a day that tracker must be tagged by a Duty Manager. At the point of tagging, the Duty Manager is asked two questions: Is the extinguisher in the right place, accessible and hasn't been tampered with. Secondly, are the means of escape clear – lighting working, no obstacles in the way.

The results are made available to our Group Insurance, Risk and Health & Safety Manager, who can see which hotels have posted at any given time. This has led to a very high level of compliance and much greater assurance.

Fire safety is not the only benefit of the new system; the system naturally requires Duty Managers to keep regular checks on the general physical environment, which bring any immediate issue to light.

Overall, the system has been a great addition to our risk management process and benefits management, staff and guests alike.

The safety and security of our guests and staff is our primary concern.



CLAYTON HOTEL DUBLIN AIRPORT
THE ITALIAN KITCHEN

RESPONSIBLE BUSINESS REPORT

CULTURE

Our culture is reflected in the way that we engage with our customers, communities and suppliers and through our values of fairness, people, service and individuality.

Customers

True hospitality

We receive a wealth of feedback from customers which is a constant focal point for management in our hotels. We have compiled this feedback into one of the Group's KPIs which is disclosed on page 15 of this report.

Safety and security

Guest safety and security is a priority for our guests, and for us, and the work we do in the background to ensure their safety is illustrated in the case studies on page 51 and 53. The Board approves the **Group Health and Safety Policy** and this is reviewed annually. In 2018 we adopted a **Data Protection Policy** and updated our **Privacy Policy** to take account of the General Data Protection Regulation (GDPR) which came into effect in May. We have an active programme in place to ensure we are managing our customers data securely and plan to implement additional measures to protect data in 2019.

Communities

Employment and employability

We discuss diversity and our **Equal Opportunities Policy** on page 52 and this is relevant also for our relationships with our local communities. Our hotels welcome applicants from every background. And our managers can tell success stories of employees who joined us after a period of unemployment or for their first job. Many of these individuals have flourished in their jobs and, in time, have been promoted to take on greater responsibility.

Community engagement

Dalata has a tradition of supporting local community organisations and sponsors many small youth and local sports clubs. We value these relationships which are good for the business and our general managers are encouraged to engage with their local communities. Community engagement extends to our support and advocacy for the industry at large with CEO Pat McCann and Deputy CEO Stephen McNally both past Presidents of the Irish Hotels Federation. In recent years we have been proud to support CMRF Crumlin (see page 55), our charity partner in the Republic of Ireland, this was something small that has developed into an important part of our community engagement with hundreds of colleagues participating in fundraising events throughout the year.

Suppliers

Responsible supply chain

Over the last two years the company has invested in technology to dramatically improve the management of our supply chain (see case study page 38), starting with food and beverage suppliers in 2017 and on a phased basis reaching all suppliers for goods and services as we head into 2019. Building on this consolidation of the supply base, we will revise and extend the supplier standards which we apply to high-risk purchases (food and beverages mainly) across the supply base in the form of a broad supplier code of conduct. This will put our commitment to sustainability on a sounder footing as we go forward.

The Board has approved an **Anti-Bribery and Corruption Policy** and an **Anti-Money Laundering Policy**. The report on our **Whistleblowing Policy** is detailed on page 77.

Case Study

Dalata Digs Deep

2018 marked the third year of our charity initiative "Dalata Digs Deep", and what a great year it was. The Group has supported Great Ormond Street Hospital in the UK, Cancer Focus in Northern Ireland as well as CMRF Crumlin.

The success of our relationship with CMRF Crumlin has been greater than we could ever have imagined. This past year we set a new record for the amount of donations received, with the Group combining to raise over €350,000. Dalata Digs Deep has now raised over €930,000 since its inception – while we are immensely proud of that figure, it is equally important to us that we enjoy such great engagement from our staff.

This year's feat could not have been accomplished without The Great Dalata Cycle – where four of our Central Office team cycled around every Dalata hotel in Ireland in the name of CMRF Crumlin. The cycle generated donations that have helped fund two research projects in Neuroblastoma at the Hospital, work that helps doctors understand better this form of cancer.

Although the efforts of our cyclists grabbed the headlines, colleagues across the group contributed to the success of our partnership with CMRF Crumlin through a variety of events running throughout the year.

Our Northern Ireland staff make similar efforts to support Perinatal Trust Fund (NI) raising money for essential equipment, training and research for the Regional Neonatal Unit, Royal Maternity Hospital, Belfast. Meanwhile colleagues in England and Wales partnered with Great Ormond Street Hospital Children's Charity to raise money for parent and family accommodation to support families of children travelling to London for hospital care.

"In my view, the single biggest factor in the success of Dalata is the culture that affects everything that we do."

John Hennessy, Non-executive Chair,
Dalata Hotel Group plc
Annual Report 2018



James McNicholas, Maria Rooney, Michael McCann, Niall Macklin and Joe Quinn visit Limerick on the trail of the Great Dalata Cycle

RESPONSIBLE BUSINESS REPORT

ENVIRONMENT

Dalata recognises the significance of global climate change and is committed to minimising its impact on the 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.

Greenhouse Gas Emissions

Dalata recognises the importance of managing and reducing our energy and Greenhouse Gas (GHG) emissions across our businesses. To this end we have an active program of measurement and reporting our performance in these areas across all our properties. Last year we took the decision to report our Climate Change strategy and performance to the global best-practice environmental reporting framework, CDP. And as a first-time responder, we were encouraged to receive a 'C' score for our performance.

We are actively looking at projects throughout the Group to reduce our energy consumption including upgrading our lighting systems in our hotels to use a more energy efficient LED bulb, upgrading the building management systems in our hotels (BMS) and adding solar panels.

Water

We have continued to engage in conservation projects across our hotels, as well as establishing our practices in newly opened hotels. We have introduced glass bottles in all our meeting rooms, bars and restaurants to reduce our plastic and water usage.

Waste

In 2018, we have increased our efforts to remove single use plastics in our business by completely removing plastic straws in our hotels and replacing them with paper straws. The end goal is to remove all single use plastics from our business.

We manage food waste in our Irish hotels through a specialist food waste collection company, Food Surplus Management. For 2018, they confirmed the following data:

Total waste	1,155 tonne
Renewable energy produced	461.9 MWh
CO₂ emissions savings by diverting from landfill	577.4 tonne
Amount of fertiliser digestate	230.9 tonne

2019

Green ambassadors and green teams promote environmentally sustainable initiatives in our hotels. In late 2018, a Group Environmental Team was formed under the leadership of Conal O'Neill, Group General Manager Maldron Hotels, to co-ordinate their efforts, thoroughly review our environmental policy, agree KPI's and set meaningful medium-term targets to reduce our impact on the environment.

Case Study

CHP Unit at Clayton Hotel Cardiff Lane

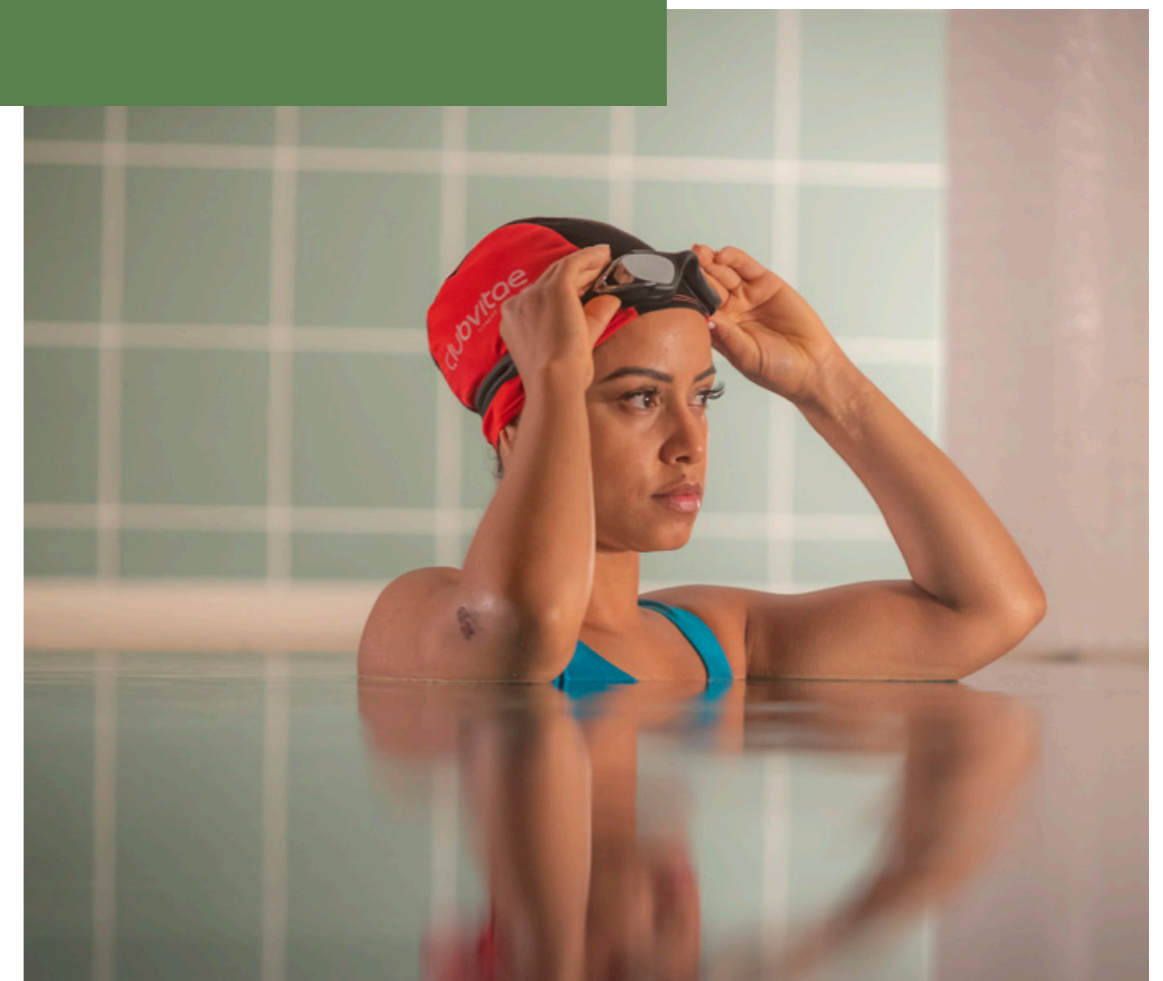
A combined heat and power unit (CHP) generates both electricity and hot water from a single source, in our case natural gas. The natural gas is used to drive an electricity generator and concurrently, hot water is supplied from the heat in the engine.

At Cardiff Lane, the CHP unit has been a resounding success. The electricity has been fantastic in enabling the property to use less traditional electricity and make use of a more environmentally sustainable resource.

On top of that, the excess hot water created by the unit isn't wasted – we use it to heat the on-site swimming pool and central heating system.

The success of the CHP is not isolated to Clayton Hotel Cardiff Lane. The system is also in place at Clayton Hotel Cork City and units are also being installed at Clayton Hotel Belfast and Clayton Hotel Sligo. There are also plans for further units in Clayton Hotel Liffey Valley and Clayton Hotel Silver Springs.

We are a first-time responder to CDP in 2018 and were encouraged to receive a "C" grade.



CORPORATE GOVERNANCE



OUR BOARD VISITING OUR NEW CLAYTON HOTEL CHARLEMONT IN FEBRUARY 2019

Sean McKeon (Company Secretary), John Hennessy (Non-executive Chair), Pat McCann (CEO), Stephen McNally, Margaret Sweeney, Dermot Crowley, Robert Dix, Alf Smiddy.

Principal responsibilities include

- ↘ Establishing the Group's strategy, business objectives and long-term plans.
- ↘ Review and approval of acquisitions, capital projects and group financing.
- ↘ Overseeing the business and affairs of the Group in light of emerging risks and opportunities.
- ↘ Selecting and maintaining a succession plan for the position of the Chief Executive Officer and key members of management.
- ↘ Review and approval of the annual budget.

Board meetings and attendance

The Board held eight formal meetings in 2018 and also met separately for a full day strategy review and a full day of tailored training.

Member	No. of meetings
John Hennessy	10/10
Pat McCann	10/10
Dermot Crowley	10/10
Stephen McNally	10/10
Margaret Sweeney	10/10
Alf Smiddy	10/10
Robert Dix	10/10

CHAIR'S OVERVIEW



Dear Shareholder,

I am pleased to introduce the Board's report on corporate governance for 2018.

In the following pages we introduce the directors (page 60) and the management team (page 62), explain the corporate governance structure (page 64) and set out the Company's corporate governance disclosures from page 65 along with examples of our governance in action.

The detailed report of the Board Committees follow on page 72 Nomination Committee, page 74 Audit and Risk Committee and page 80 Remuneration Committee.

I am pleased to report that the Group has complied with all of the relevant provisions of the 2016 UK Corporate Governance Code ("the Code") and the Irish Corporate Governance Annex published by Euronext Dublin.

There have been no changes to the composition of the Board or the Board Committees during 2018, however Board structure and composition is a matter that we keep under review on an ongoing basis. I am happy to report also that the result of the Board's self-evaluation provided evidence of the effective performance of the Board and provided feedback for improvements in 2019.

The Board closely monitored developments in corporate governance during 2018, particularly the publication of the revised Corporate Governance Code in July and guidelines published by the Investment Association and others. We are actively considering the adjustments we may need make to our governance structures to address the changes in the Code from the start of 2019.

We are grateful for the continued strong support we receive from shareholders, reflected in the results of the AGM where all resolutions were passed with high votes in favour.

We also appreciated the input we received from several of our large shareholders to our review of environmental, social and governance priorities which greatly assisted us with developing our responsible business framework which is explained in detail from page 48 of this report.

Once again, I conclude by reaffirming my commitment to continuing to oversee high standards of corporate governance at Dalata; the company has grown and evolved over the past five years and we are proud of what we have achieved.

As always, however we guard against complacency and our focus is on building on our success and creating long-term value for all of our stakeholders. If any shareholder wishes to contact me in relation to the content of the annual report, please do so through the Company Secretary at the company's address.

John Hennessy
Non-executive Chair

LEADERSHIP

OUR BOARD OF DIRECTORS



John Hennessy (62)
Non-executive Chair

Nationality

Irish

Date of appointment

27th Feb 2014

Committee membership

- > Remuneration
- > Nomination

Expertise

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

Other directorships

Listed:

- > Non-executive Chair of CPL Resources.

Non-Listed:

- > Non-executive Director of H&K International Ltd.



Pat McCann (67)
Chief Executive

Irish

28th Jan 2014

Pat began his career with The Ryan Hotels plc. In 1989 he joined Jurys Hotel Group plc as a general manager and in 1994 was appointed to the Board as Operations Director. From 2000 - 2006 Pat was the Chief Executive of Jurys Doyle Hotel Group plc and in 2007 founded Dalata Hotel Group.

Non-Listed:

- > Non-executive Director of a number of private companies.
- > Vice President of IBEC.



Stephen McNally (54)
Deputy Chief Executive

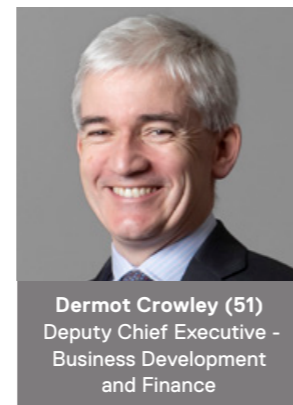
Irish

28th Jan 2014

Stephen started his career with Ramada Hotels in the UK and Germany. In 1989 he joined Jurys Hotel Group plc where he worked for 17 years. He managed hotels in the UK and Ireland before he was appointed as head of Group Operations. Stephen became Deputy Chief Executive at Dalata Hotel Group in 2007.

Non-Listed:

- > Director of St Patrick's Day Festival.

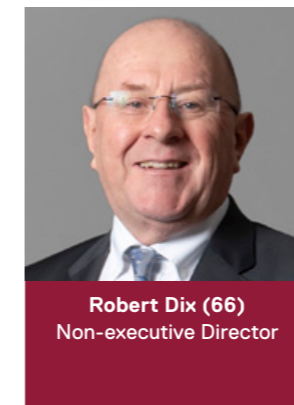


Dermot Crowley (51)
Deputy Chief Executive - Business Development and Finance

Irish

28th Jan 2014

Dermot worked with PWC, Procter & Gamble, Forte Hotels and Renault before joining Jurys Doyle Hotel Group plc in 2000 as Head of Development. He spent six years with Ion Equity before joining Dalata in 2012 as Deputy Chief Executive - Business Development and Finance. Dermot is a Fellow of Chartered Accountants Ireland.



Robert Dix (66)
Non-executive Director

Nationality

Irish

Date of appointment

27th Feb 2014

Committee membership

- > Remuneration
- > Audit & Risk (Chair)

Expertise

Robert was a partner in KPMG Ireland where he headed up the Transaction Services Division. Currently, Robert owns his own company Sopal Limited providing advice to different organisations on capital markets, corporate governance and strategic planning issues. He is a graduate of Trinity College Dublin and is a Fellow of Chartered Accountants Ireland.

Other directorships

Listed:

- > Non-executive Director of Glenveagh Properties plc.

Non-Listed:

- > Non-executive Chair of Quinn Property Group.
- > Non-executive Chair of Roadbridge Holdings Ltd.
- > Non-executive Director of Actavo Limited.
- > Non-executive Director and Chair of Audit Committee at Allianz Ireland.



Alf Smiddy (56)
Non-executive Director
Senior Independent Director

Irish

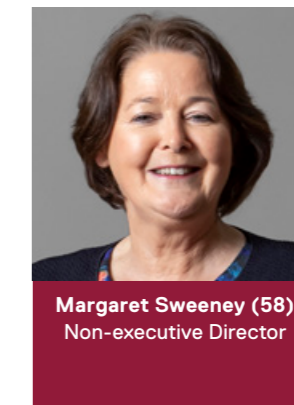
27th Feb 2014

- > Nomination (Chair)
- > Audit & Risk

Former Chair and Managing Director of Beamish and Crawford plc. Alf has over 25 years experience in the Irish and international hospitality and beverage sector. He is a Fellow of Chartered Accountants Ireland and the Irish Marketing Institute. He has a Diploma in Corporate Direction and a Masters in Executive Leadership.

Non-Listed:

- > Non-executive Director and Chair of Marketing, Brand and Customer Committee of ESB
- > Chair and Non-executive Director of a number of private companies.
- > Director of the Government backed Social Innovation Fund Ireland.



Margaret Sweeney (58)
Non-executive Director

Irish

27th Feb 2014

- > Remuneration (Chair)
- > Nomination
- > Audit & Risk

Margaret is CEO of Ires Reit plc and previously led DAA plc and Postbank Ireland Limited as CEO. Margaret worked with KPMG for 15 years as Director in Audit and Advisory Services. She is a Fellow of Chartered Accountants Ireland and a Chartered Director.

Listed:

- > CEO and Executive Director of Irish Residential Properties REIT plc.

Non-Listed:

- > Director HSBC Institutional Trust Services (Ireland) DAC.

Company Secretary



Sean McKeon (51)
Company Secretary,
Head of Risk and Compliance

Irish

28th Jan 2014

Sean worked with Dunnes Stores, Keelings and Diageo plc before joining Dalata in 2007. In 2017, he was appointed Company Secretary and Head of Risk & Compliance for the Group. Sean is a fellow of Chartered Accountants Ireland and an MBA graduate of the UCD Michael Smurfit Graduate Business School.

LEADERSHIP

EXECUTIVE MANAGEMENT TEAM

Development Team



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 B.Comm graduate of University College Cork.



Niall Macklin is Acquisitions and Development Manager. He joined Dalata in July 2015 having previously working in the KPMG

restructuring department for 9 years, where he managed large scale insolvency and restructuring assignments across 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.



Paul Maloney is Project Manager Developments. Prior to joining Dalata in June 2016, Paul worked as Construction and Asset Manager in

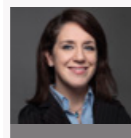
commercial developments. He has a Master's degree in Engineering from Trinity College Dublin and has worked in various roles in both the public and private sector, specialising in project and resource management involving development and construction in the commercial, industrial and hotel sectors.

Finance Team



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.



Carol Phelan is Group Head of Financial Reporting, Treasury and Tax. Carol 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 Masters of Accounting from UCD Michael Smurfit Graduate Business School.



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.

Marketing Team



Patrice Lennon is Head of Sales and Marketing. She previously held the role of Sales and Marketing Manager at the Clayton

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.



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 of 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.



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.

Operations Team



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. Conal is a fellow of the Irish Hospitality Institute and a BA graduate of the Hotel School at Galway Mayo Institute of Technology (GMIT).



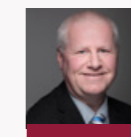
Emma Dalton is UK Group General Manager. She joined Dalata in October 2007 as General Manager of the Maldron Hotel Limerick and

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.



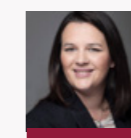
Des McCann was appointed Group General Manager - Clayton Hotels Ireland in December 2018. He joined Dalata in 2009

and was General Manager at Clyde Court Hotel, Ballsbridge Hotel and most recently Clayton Hotel Dublin Airport. He is a HR Management and Industrial Relations graduate of The National College of Ireland.



Tony McGuigan is Head of Procurement. 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.



Dawn Wynne is the Head of Human Resources and has been with Dalata since 2008. She previously worked internationally in the UK,

France and Italy in a regional capacity, including with Jurys Doyle Hotel Group plc where she held the position of Deputy Manager with the Burlington Hotel. Dawn is a graduate of Glasgow University and Glasgow Caledonian University and is CIPD qualified



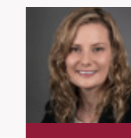
Duncan Little is Group Capital and Development Manager and has been with Dalata since 2008. He previously held positions at the

University of Bristol and Bank of Ireland. His primary degree was in engineering technology from UCD, followed by a degree in veterinary medicine and surgery from University of Glasgow. Duncan also holds an MBA from the UCD Michael Smurfit Graduate Business School.



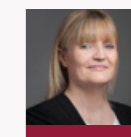
Anthony Murray is a graduate in Hospitality Management from DIT Cathal Brugha St, Anthony was employed by Quality Hotels and

Comfort Inns in an IT capacity prior to the acquisition by Dalata in 2007. A career spent entirely in the hospitality industry, he has held roles in various Operational and Management positions. Anthony has been involved in the opening of more than thirty hotels and is responsible for the strategy, development and implementation of all IT decisions and projects at the Group's hotels and Central Office.



Martha Mannion is Head of Rooms Revenue and Distribution. She joined Dalata Hotel Group Plc in 2008 having previously worked with

Jurys Doyle Hotel Group plc in the UK and Ireland in a number of locations including London, Manchester, Southampton and progressing to General Manager of Jurys Inn Galway. Martha is a graduate of Hotel Management and Business from Galway Mayo Institute of Technology and an MBA Graduate from Heriot-Watt University.



Caitriona Conroy is Group Insurance, Risk, Health and Safety Manager. She previously held the role of General Manager of

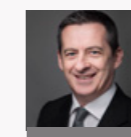
Maldron Hotel Portlaoise as well as fulfilling Deputy Manager and HR roles in Maldron Hotel Smithfield and Clayton Hotel Cardiff Lane. Prior to this Caitriona worked with Jurys Doyle Hotel Group. Caitriona holds a BA in Social Science from UCD.



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.

Internal Audit



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 UCD Michael Smurfit Graduate Business School.

CORPORATE GOVERNANCE REPORT

Dalata Corporate Governance Framework



Leadership

Board membership

There are seven members of the Board, which comprises of a Non-executive Chair, three Non-executive Directors and three Executive Directors.

The Directors are of the opinion that the composition of the Board provides the necessary skills, knowledge and experience, gained from a diverse range of industries and backgrounds, required to manage the Group.

The experience of each Director is set out in their biographies which are detailed on pages 60 to 61 and the Board considers that their biographies reflect suitable breadth and depth of strategic management experience.

Role of the Board

The Board is primarily responsible for the long-term success of the Group, for setting the strategy, for the leadership and control of the Group and to provide appropriate challenge to ensure management remains focused on achieving the strategic objectives for delivering value to the shareholders and other stakeholders.

There is a clear division of responsibilities within the Group between the Board and executive management, with the Board retaining control of strategic and other major decisions under a formal schedule of matters reserved to it 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;
- › Review and consideration of 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.

Chair and Chief Executive

As recommended by the Code, the roles of the Chair and the Chief Executive Officer are separately held and the division of their responsibilities is clearly established and has been set out in writing and approved by the Board.

The Chair, John Hennessy, is responsible for leadership of the Board and ensuring its effectiveness in all respects including ensuring accurate, timely and clear information for the Board. The Executive Directors, led by the Chief Executive, Pat McCann, are responsible for the day to day management of the Group's operations and for the implementation of the Group's strategy and policies agreed by the Board.

Senior Independent Director

Alf Smiddy is the Senior Independent Director. He is responsible for conducting an annual performance review of the Chair, facilitating the Board evaluation process, providing advice and judgement to the Chair 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 Chair, Chief Executive Officer or Deputy Chief Executive, Business Development and Finance.

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.

Company Secretary

The Directors have access to the advice and services of the Company Secretary, Sean McKeon, who is responsible for ensuring that board procedures are followed, assisting the Chair in relation to corporate governance matters, and ensuring compliance by the Group with its legal and regulatory requirements.

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 of any changes to these conflicts.

Effectiveness

Meetings and attendance

The Board meets sufficiently regularly to ensure that all its duties are discharged effectively. Board meetings are intentionally held at Dalata hotels in different locations to broaden the Board's exposure to the markets in which the Group operates and to provide opportunities to meet frontline staff and other colleagues.

During 2018, the Board held eight formal Board meetings and two full day meetings dealing with strategy and Board training. There was full attendance by all members.

Board Committees

The principal Committees of the Board are the Audit and Risk Committee, the Remuneration Committee and the Nomination Committee. They support the operation of the Board through their focus on specific areas of governance. Reports on the activities of the individual Committees are presented to the Board by the respective Committee Chair.

Further details on the activities of each Committee can be found in their respective reports on:

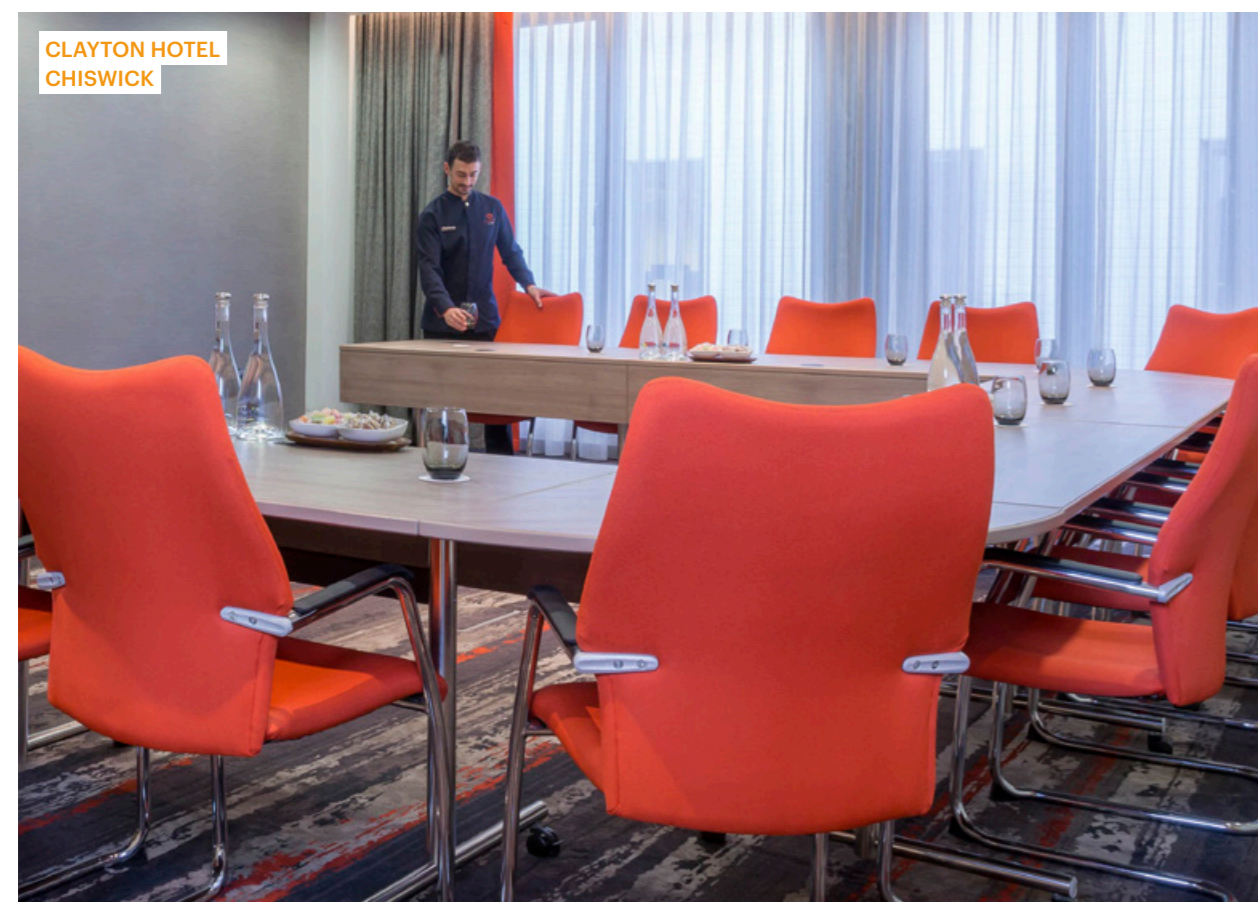
- › Nomination Committee page 72
- › Audit & Risk Committee page 74
- › Remuneration Committee page 80

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 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.

Time 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 2018, each Non-executive Director confirmed that they had been able to allocate sufficient time to discharge their responsibilities effectively during 2018.



Governance in Action:

Board Training

Every year the Board comes together for a full day group training seminar which is designed to address topics of strategic importance to the company. Four to six speakers are provided detailed briefings on the company and each session is designed to be highly interactive so that learning outcomes have a specific relevance for Board members. This year's session was held in Clayton Hotel Chiswick in November and the Board received presentations from the Chief Economist at EY Ireland on the overall global outlook of the economy, the UK and Ireland and the specific cities in which we operate, a very thought-provoking piece around Employee Engagement where valuable insights were gained about the Millennial Generation and an expert view on buy-side insights and investor relations best practices.

An interactive case study presented by Anthony Fitzsimons, the Chair of Reputability, a leading consultancy specialising in reputational risk and its root causes highlighted to the Board examples of corporate crises of recent years where Boards overlooked the role of culture and conduct within the business which led to the reputations of global companies being forever damaged. The case study provided the Board with an excellent opportunity to consider the risks currently present in our own organisation not only from a risk management perspective but also from an organisational behaviour perspective and how the Board can build greater resilience to any potential vulnerabilities.

Governance in Action:

Dividend Policy

In our March 2014 Admission Document, we explained to prospective shareholders that it was the Company's intention to commence the payment of dividends as soon as practicable after the investment of the proceeds of the share placing, following a progressive but prudent dividend policy thereafter, subject to retaining the financial resources required for the development of the Group.

Between 2014 and 2018 there were many debates in the boardroom about the timing of the first dividend and at what level of pay-out. There were also many conversations with shareholders in investor meetings during this time which were considered in board deliberations.

The Board consulted with the Company's brokers and analysed the dividend policies of a range of peer companies in both the Irish and international market. Sensitivity testing was carried out over a range of earnings and pay-out ratios which allowed the Board strike the balance between providing a meaningful and sustainable dividend return to shareholders while still retaining the flexibility required to fund organic growth.

After four years of successful growth and expansion, the Board agreed in early 2018 that the time was approaching to commence dividend payments. It revisited and refreshed its earlier analysis, and sought further advice and listened to the views of shareholders.

The Audit and Risk Committee reviewed the proposed policy, the supporting analysis and professional advice received, and considered the adequacy of distributable reserves and other technical matters.

On 27 February 2018, the Company announced its intention to adopt a progressive dividend policy with the pay-out based on a percentage of profit after tax in the range of 20% to 30%. An interim dividend of 3 cent per share was declared in September 2018 and was paid on 12 October 2018. A final dividend of 7 cent per share has been recommended by the Board for shareholder approval at the AGM on 2 May 2019. The total of 10 cent per share represents a return to shareholders of 25% of profit after tax.

BOARD ACTIVITY 2018 HIGHLIGHTS

Q1

January: Jameson Distillery

Audit and Risk Committee terms of reference

February: Central Office, Sandyford

Review

Financial statements 2017
Market announcement
Investor presentation
Annual Report

Approval

Commencement of Dividend payment policy and strategy Clayton Hotel Bristol agreement for lease

Q2

April: Clayton Hotel Leeds

Approval

Spencer Place
Charles St. Manchester
Maldron Hotel Birmingham

LTIP Vesting 2015 resolutions

May: Clayton Hotel Dublin Airport

AGM

June: Churchtown House, Dundrum

Board Strategy Day

Review of Financial and Development Strategy
Review of Culture

Q3

July: The Gibson Hotel

Approval

Clayton Hotel City of London
Maldron Hotel Merrion Road re-development

Revised share dealing code

September: Clayton Hotel Ballsbridge

Half year financials and investor presentation

Interim Dividend

SAYE Approval

Q4

October: Maldron Hotel Sandy Road, Galway

Approval

Re-Financing and Group re-organisation

November: Clayton Hotel Chiswick

Board Training Day

December: Clayton Hotel Burlington Road

Approval of 2019 Budget

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 2018. 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.

Re-election of Directors

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 Code, the Board has decided that all Directors should retire at the 2019 Annual General Meeting and offer themselves for re-election.

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 2018.

Ongoing Director training and development

The Board as a whole engages in development through a series of presentations with experts on a range of topics including risk management, corporate governance and strategy.

Presentations are also made by Executive Directors and senior management on various topics throughout the year in relation to their areas of responsibility. In November 2018, a Directors' Training Day was facilitated by the Company Secretary and was attended by both Executive and Non-executive Directors. See Governance in Action feature on page 67.

Each Director may obtain independent professional advice at the Company's expense in the furtherance of their duties as a Director. Each Committee is supported by the Company Secretary and his Deputy.

In addition, each Committee is able to seek independent professional advice.

Information flow at meetings

Eight formal board meetings and two additional full day meetings dealing with strategy and Board training were held during 2018. 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 Chair 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 Chair and Chief Executive Officer also maintain regular informal contact with all directors.

Board diversity

The Board has adopted a Board Diversity Policy which is reviewed annually, most recently in December 2018. The objective of the policy is to help achieve the optimum board composition of skills and experience.

In accordance with the policy, all Board appointments are made on merit, in the context of the skills, experience, independence and knowledge which the Board as a whole requires to be effective.

The policy statement also 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. These differences will be considered in determining the optimum composition of the Board and when possible will be balanced appropriately.

The Board Diversity Policy was considered as part of the Board's self evaluation process in 2018 and although there were no changes to the board composition during the year it will remain an important concern during 2019. Further detail is given in the Nomination Committee Report on page 73.

Board evaluation

We recognise the importance of evaluating the performance of the Board, its main Committees and all Directors, in line with the Code. Following the externally facilitated evaluation in 2017, Senior Independent Director Alf Smiddy conducted an internal evaluation at the end of 2018. The Chair also met with each Director individually during the year to discuss Board effectiveness and composition.

The 2018 evaluation was designed to follow the approach and findings of the previous year's external review and included a separate review of Committee effectiveness.

- › A comprehensive questionnaire was completed by each Director dealing with key areas of Board effectiveness.
- › These included Board composition, risk, working together, process and procedure, and ethics and compliance.
- › The individual responses were compiled by the Company Secretary and a report was prepared by the Senior Independent Director.
- › The findings were presented to the Nomination Committee and, following its review, to the Board.
- › Action areas identified for 2019 included a review of certain Board communications, along with the approach to specific areas of risk management and Board reporting.

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

Shareholder engagement

The Board recognises that, for the Group to be successful over the long term, it is important to build and maintain successful relationships with a wide range of stakeholders.

This is formalised within the ongoing comprehensive investor relations programme conducted by the CEO and /or Deputy Chief Executive Officer – Business Development and Finance. Throughout the year meetings are held with institutional investors and sell-side analysts. These meetings allow us to discuss the Company's strategy, business model and the markets we operate in. In addition, the Chair and Senior Independent Director are available to meet with shareholders on request, should they want to discuss any concerns they may have. The Board is kept informed of the views of the shareholders by receiving updates at Board meetings on any engagement undertaken. Analyst research on the Company is also shared with the Board.

The Group makes every effort to ascertain investor perceptions and regular reports of investor and analyst feedback are provided to the Board. During 2018, over 260 separate meetings and conference calls were held with existing and prospective shareholders.

The annual report and accounts are sent to all shareholders who wish to receive a copy and they are also available in the investor section of the Group's website www.dalatahotelgroup.com.

Other stakeholders

During 2018, the Board commissioned workshops and interviews with our employees, suppliers, communities and investors to identify the key priorities of each stakeholder. Further detail on the Company's stakeholders and examples of how the Company engages with them is included in the Responsible Business Report on pages 48 to 57.

Risk management

On page 40 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 42 to 45.

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.

AGM

The Annual General Meeting will be held on 2 May 2019 at the Clayton Hotel Ballsbridge, Merrion Road, Dublin.

Formal notification will be sent to shareholders at least 20 working days before the meeting in accordance with the provisions of the 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 Code. The Annual General Meeting gives shareholders an opportunity to hear about general development of the business and to ask questions of the Chair 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.

Governance in Action

Investor Relations Activity in 2018



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.

Committee meetings and attendance

The Committee met three times during 2018.

Member	No. of meetings
John Hennessy	3/3
Alf Smiddy	3/3
Margaret Sweeney	2/3

All members of the Committee are considered by the Board to be independent.



See the Committee's terms of reference on:
www.dalatahotelgroup.com

Dear Shareholder,

I am pleased to present the report of the Nomination Committee for 2018. The Committee had a busy year in 2018, meeting formally on three occasions during the year.

Our meetings covered a range of topics, including the following:

- Discussion and debate on Board size and composition
- Consideration of the process for the appointment of new directors
- Succession planning at Board and senior management level
- Guiding the training programme for Directors
- Carrying out an evaluation of the Board's effectiveness
- Reviewing Board policies on diversity
- Director re-election
- Evaluation and considering the principles and provisions of the revised Corporate Governance Code which came into effect on 1 January 2019.

2018 Activities

Board size and composition

The Board is currently made up of seven directors: a Non-executive Chair, three independent Non-executive Directors and three Executive Directors. The Board size and structure are reviewed on an ongoing basis and the Committee has considered this year the make up of skills and experience, in light of the ongoing development and expansion of the Group in the UK.

The Committee has identified the key attributes and skills for the future for Executive Director and Non-executive Director appointments.

Succession

The Committee receives updates from management on succession planning activity through the business. Indeed Non-executive Directors avail of opportunities to engage regularly with members of the executive team below director level. Senior managers regularly present at Board, strategy and training meetings, and this process has become more structured throughout 2018. The Committee also promotes and provides input to the training and development of the Executive Directors.

The Committee discussed and is aware of the Code provisions concerning Board independence, composition and succession. Succession planning is fully considered by the Committee on an ongoing basis.

Director training

The Board is committed to training and development. Individual directors are expected to take responsibility for their own development needs, which they are encouraged to identify as part of the annual Board evaluation process, and the Board is regularly updated on such training.

The Company also carries out research to identify suitable training opportunities and facilitates attendance by individual directors.

In November each year the Board dedicates a full day to a collective training event, which allows all members to consider topics of strategic importance to the business with input from external experts. Last November's session focused on the:

- Economic risks facing the Company and how these may impact strategy execution,
- Leading recent research on reputational risk management,
- Insights on employee engagement from a large employee owned organisation and
- The impact of changes in regulation on the operation of capital markets and shareholder engagement.

Board evaluation

Following our first externally facilitated Board evaluation carried out in 2017, the Committee facilitated the internal review conducted at the end of 2018. We redesigned the questionnaire used to collect inputs from Directors to make sure we had continuity with the previous year's process. The evaluation provided eight to ten discussion points and actions arising, which will further enhance elements of Board communication, risk management and Board reporting. Board evaluation takes place on an annual basis with external facilitation every third year.

Policy review

The Committee reviewed Board policies on diversity, Board evaluation and director re-election at its December meeting. This review took account of the changes to the Code published in July. Whilst the Code revision did not result in material change to our existing policies, nonetheless the review discussion provoked further debate on the application of these policies in the coming year.

The Group acknowledges the value of a diverse Board and in planning for Board succession and rotation. The Group considers candidates on merit against objective criteria, having due regard to the benefits of diversity of gender, skills, regional and industry experience, background and race.

Changes to the code for 2019

The Committee considered the changes to the provisions of the Code in July 2018. The provisions relating to Board composition have been studied and, as mentioned earlier will influence our approach to board succession planning.

A decision was made by the Board to appoint one of the independent non-executive directors to lead the Board's engagement with the company's workforce, and this appointment will be made in the first half of 2019.

Priorities for 2019

This year the Committee will continue the work commenced in 2018 on succession planning.

We will be following up on actions arising from the most recent board evaluation and continuing to work with the Company Secretary on the Board training and development programme.

Following the opening of six new-build hotels since last March, the company has entered in earnest to a new phase in its development, and I look forward to working with the Chair and the other members of the Board to ensure we have the right blend of skills and experience at Board level to continue the development of this exciting business.

I look forward also to meeting some of you at our AGM in May.

Alf Smiddy
Chair, Nomination Committee

AUDIT & RISK COMMITTEE REPORT



Role of the Committee

- Monitor the integrity of the Group's financial statements, accounting policies and the key judgments 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.

Committee meetings and attendance

The Committee met five times during 2018.

Member	No. of meetings
Robert Dix	5/5
Alf Smiddy	5/5
Margaret Sweeney	5/5

All members of the Committee are considered by the Board to be independent. The Board considers that the Committee Chair 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.



See the Committee's terms of reference on: www.dalatahotelgroup.com

Dear Shareholder,

I am pleased to report on the work of the Audit and Risk Committee for 2018. It has been another year of growth and development for the Company and the Committee has taken an active role in assessing risks associated with a number of milestone events, including the commencement of dividend payments and the refinancing of the Group's debt facilities.

The Committee pays close attention to the Group's accounting policies, especially those requiring a high degree of judgement. The basis on which the key judgements were made is explained in detail on pages 76 and 77 and the majority of them are connected with the Group's acquisition and development activity. Land and buildings are initially stated at cost and subsequently at fair value (significant accounting policies 1.(xi), pages 113 and 114). This provides users of the financial statements with a high degree of transparency. However this also introduces a significant level of judgement and the Company has engaged valuation specialists to assist in this process. The valuation process and results are subject to careful scrutiny by the external auditors and I am happy to report that there has been no disagreement with the judgement of the Company.

A description of the Committee's process for oversight of the relationship with the External Auditor is set out in detail on page 78 and I am satisfied that we continue to maintain a good working relationship with the audit team at KPMG who are represented at all of the Committee meetings. During the year, the Committee met with the External Auditor without the presence of management on two occasions to discuss matters relating to its remit and any issues arising from their work. Sean O'Keefe will step down as lead partner upon completion of the 2018 audit, having served for five years, and will be replaced by Patricia Carroll who takes over lead partner responsibility with immediate effect.

The Company commenced dividend payments in 2018 and the Committee invited management to present in detail on the rationale for the proposed policy.

These deliberations provided additional assurance to the Board that the decision was supported by thorough analysis and that the necessary professional advice had been obtained in relation to the adequacy of distributable reserves and other technical matters.

The Committee reviewed the structuring of the Group's new debt facilities announced in October and received detailed presentations from management and professional advisors on the strategies employed to manage the foreign exchange and interest rate risks associated with the new facilities.

This review also considered the tax treatment of interest payable to ensure that the arrangements for Group financing met the objectives of efficient tax planning and full compliance in each jurisdiction where the Group operates.

We continued to complement the work of the internal audit team led by Macarten McGuigan with a number of engagements carried out by EY into the operation of the Group's ICT infrastructure and business continuity planning. Detailed internal audit reports are reviewed at our quarterly meetings and we meet the Internal Auditor regularly without management present.

The Committee monitors the management of health, safety and operational risk and received detailed presentations at its May meeting to get a full picture on the management of these risks across the Group. The presentations included a review presented by the external specialist engaged to monitor compliance with health and safety standards in our hotels, a presentation from management on its health and safety management programme, and an analysis of the performance of the Group's self-insurance programme from the Company insurance brokers. The Committee also received a briefing on the renewal of the Company's insurance programmes in December.

In December, the Committee also received a presentation on non-financial reporting obligations in the context of the implementation of the non-financial reporting directive, feedback received from investors and other stakeholders through direct engagement work carried out during the year and in response to the revised Corporate Governance Code published in July.

We were happy to recommend the adoption of priorities reflected in the framework described in the Responsible Business report (pages 48 to 57) and look forward to overseeing the continued development of this important aspect of our corporate reporting.

The discussion of the risk register is a standing agenda item at each meeting of the Committee; a long list of risks is considered with a focus on the key risks, emerging risks and those where management present a view that the level of risk has increased or receded significantly.

The Committee sought and received presentations from management to satisfy the Committee that systems are in place and functioning adequately to support the Director's statement of compliance in the Directors' report on page 93. A review was also carried out of the draft Director's statements on going concern (page 94) and viability (pages 46 to 47) prior to recommending both for approval by the Board. The Committee also received a presentation in May from an external expert engaged to oversee the Company's preparations for compliance with the General Data Protection Regulation (GDPR).

2019 presents a new set of challenges and much to look forward to. We have given careful consideration over the past eighteen months to the implementation of new accounting standards, particularly IFRS 16 which will have a significant effect on the presentation of our financial statements. We are committed to implementing and communicating the changes in a way that helps the reader understand them. Meanwhile, the management team will continue to integrate the six new hotels opened since last March and is overseeing the development of a further eight scheduled to open between 2020 and 2021.

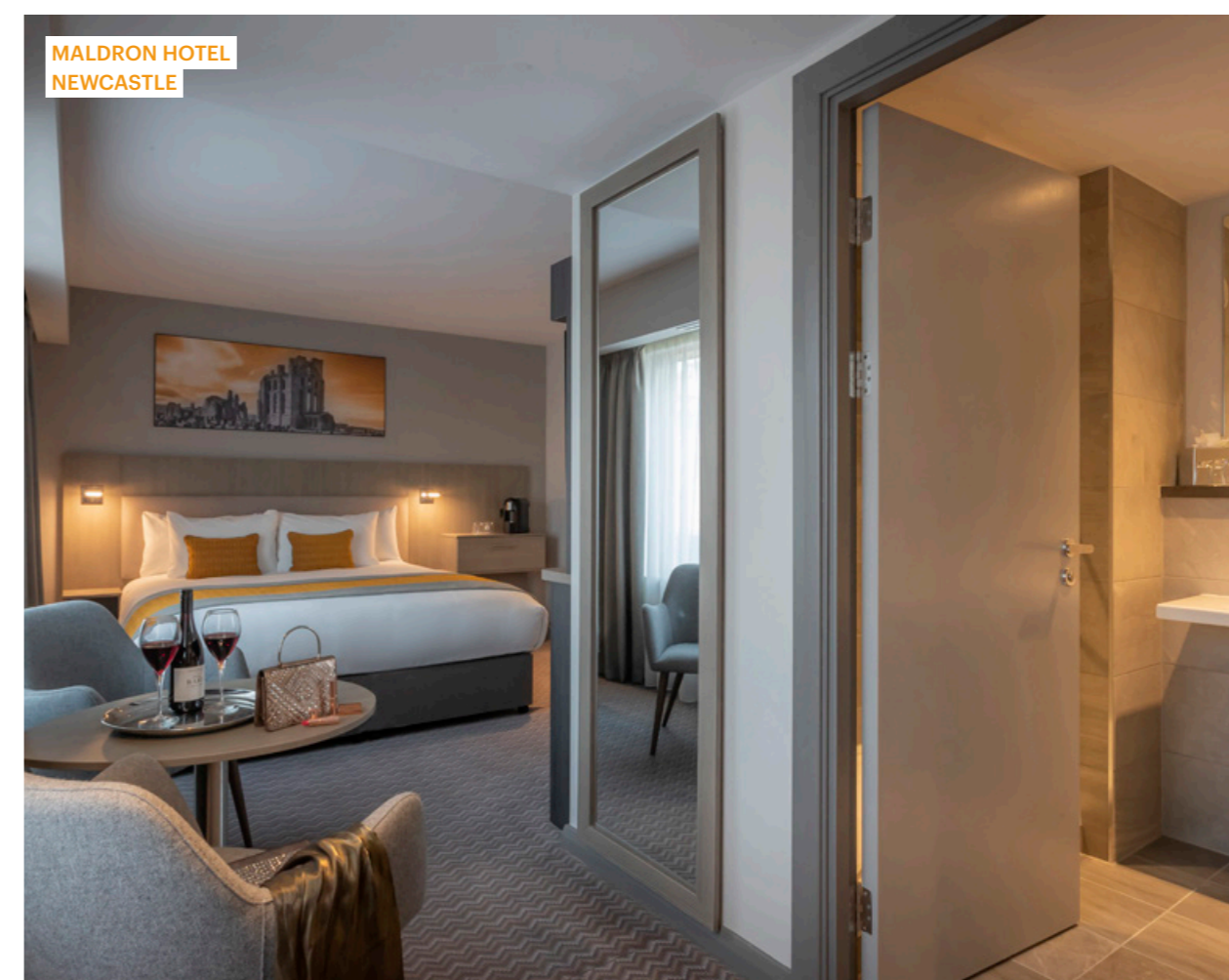
My thanks to the management team, internal audit and the Company advisors for their support and co-operation in helping the Committee in fulfilling its oversight responsibilities. I look forward to leading the Audit and Risk Committee in the year ahead, continuing to focus on developing the Company's risk management processes and overseeing the continued success of the Company.

Robert Dix
Chair, Audit and Risk Committee

Significant Financial Judgements in 2018

Matter	Judgements
<p>Property revaluations</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 2018 was €1.08 billion (note 11, pages 137 to 142). 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.</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 2018. The Committee has discussed the valuation approach undertaken with management.</p> <p>Through discussion with management and considering the findings of the External Auditor, the Committee is satisfied that the year end property valuations are reasonable and that the revaluation movements have been appropriately presented in the Group consolidated financial statements.</p>
<p>Depreciation of property, plant and equipment</p> <p>Depreciation is a key accounting estimate.</p>	<p>Depreciation requires judgement to be made in areas where there may be subjectivity or measurement uncertainty such as useful estimated lives of assets, the estimated residual values of buildings and the allocation of property values between land and buildings.</p> <p>The Committee reviewed in detail in 2017 the approach taken by management in relation to useful estimated lives and is satisfied, through discussion with management and considering the findings of the External Auditor that the approach during 2018 is consistent and remains reasonable.</p> <p>The Committee has discussed the allocation approach between land and buildings and the determination of residual values with management. This included discussion on the results of reports by external professional advisers engaged to update the calculation of residual values.</p> <p>Through discussion with management and considering the findings of the External Auditor, the Committee is satisfied that these judgements are reasonable.</p> <p>Accordingly, the Committee is satisfied that the depreciation of property, plant and equipment is correctly stated in the Group consolidated financial statements.</p>
<p>Carrying value of goodwill</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 €33.3 million at 31 December 2018 (2017: €33.4 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 certain CGUs were determined to be higher than their carrying values at 31 December 2018, 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 2018 and that the disclosures included within note 10 of the Group consolidated financial statements are adequate.</p>

Matter	Judgements
<p>Carrying value of other indefinite-lived intangible assets</p> <p>Other indefinite-lived intangibles represent the value of the Group's leasehold interest in respect of The Gibson Hotel, which was acquired during 2016.</p>	<p>The carrying value of other indefinite-lived intangible assets at 31 December 2018 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>CGUs 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 2018 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 2018.</p> <p>Accordingly, the Committee has concluded that the carrying value of intangible assets is appropriately stated at 31 December 2018 and that the disclosures included within note 10 of the Group consolidated financial statements are adequate.</p>



Whistleblowing

The Board has approved a Confidential Disclosure Procedure (Whistleblowing Policy) which is reviewed annually. The procedure allows for concerns to be raised by employees and ensures that they are addressed confidentially, promptly and thoroughly. No concerns were raised by employees using the procedure during the year. A summary of the Confidential Disclosure Policy is included in the Employee Handbook to ensure all employees have an understanding of the whistleblowing process.

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 lead engagement partner since 2014 is Sean O'Keefe. Sean will step down as audit partner upon completion of the 2018 audit and will be replaced by Patricia Carroll. The Group currently has no plans to tender for this service, although cognisant of the EU Audit Regulation and Directive requirements on auditor rotation, which are monitored on an ongoing basis.

KPMG attend all of our Committee meetings and, in October, they presented their audit plan 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. We also met with the External Auditor privately on two occasions in 2018, prior to the publication of our interim and final financial results.

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 has agreed a procedure with management for Committee pre-approval of these services.

KPMG carried out tax advisory services in 2018 related to capital allowances, the redevelopment of Tara Towers, the restructuring of a subsidiary company and a number of other matters. Other non-audit services included sustainability advisory services and a small number of incidental matters. The fees paid to KPMG for 2018 are set out on page 124. The ratio of non-audit to audit fees was 1.07:1.

We have evaluated KPMG on their work completed during 2018. 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

The assessment of the principal risks and risk management for the Group appear on the agenda at each Committee meeting. Of particular interest to us are the emergence of new risks and changes in the profile of particular risks or risk categories. Details on the Group's risk management framework are set out on pages 40 to 47.

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. Following on from our improvements to the internal control environment last year, we are expanding our shared service centre to streamline more services for our hotels, developing a new and improved income audit process within the individual hotels and further enhancing our procurement system. The Internal Audit function also reviews the effectiveness of these controls through its audit programme and internal audit reports are considered at each of our meetings.

Internal Audit

The Committee is responsible for overseeing the effectiveness, scope of work and operation of the Internal Audit function. At each Committee meeting we consider 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.

The Group Internal Auditor presented the planned internal audit approach and main focus areas for the year which were considered and approved by the Committee. The internal audit plan was developed from this approach and the Committee monitored progress against the plan. During 2018, the scope of hotel audits has also widened to include IT controls and in 2019 data protection testing will be introduced to support compliance in this area. EY provides technical expertise to support internal audit in relation to IT, cyber security and data protection. The Committee also received a presentation from the advisor appointed by the Company to assist with implementing procedures to comply with the GDPR at its May meeting.

At our December meeting we reviewed and updated the internal audit terms of reference and the role description of the Group Internal Auditor.



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 Group framework for the remuneration of the Executive Directors.
- Within the terms of the agreed policy, determine the total individual remuneration package of the Chair 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 and Chair is approved by the Board.

Committee meetings and attendance

The Committee met five times during 2018.

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

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



See the Committee's terms of reference on:
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 2018, another year of exceptional progress for the company.

The Committee has continued to apply the remuneration policy to ensure compensation is both competitive and aligned with the interests of shareholders and that payouts reflect performance and value generated.

2018 Performance

In 2018 the Group achieved or exceeded all of the objectives set by the Board. Financial performance¹ was 8% ahead of target, five new hotels were opened and four major hotel extensions were completed. All nine projects were delivered on time and within budget, adding 1,240 rooms to the portfolio, with 30 of the 42 management positions at the new hotels filled through internal promotion. In addition, five hotels with 1,210 rooms were added to the pipeline.

Incentive outcomes for 2018

The bonus outcome for 2018 reflects the strength of the performance in the year with profit performance exceeding the maximum target and excellent performance achieved against the individual strategic targets set for Executive Directors. This performance has resulted in 100% of the maximum bonus being paid to the

¹ Financial performance for annual bonus purposes is measured using an adjusted measure of EBIT 'Modified EBIT' described in detail in note (xiii) on page 186.

Executive Directors. A detailed analysis of performance against the financial and strategic performance criteria is set out on page 87. 20% of the bonus awarded will be paid in the form of shares and will be held in a restricted trust for a minimum period of three years.

Awards under the LTIP granted in early 2016 are due to vest in March of this year based on performance (Total Shareholder Return) over the three years from the date of grant. During these three years the management team has successfully executed the company's growth strategy and developed the organisation so that it is well positioned for future growth. At the time of writing, I expect vesting at around 50% of the maximum (final performance will be confirmed in next year's report). Upon vesting, these awards will be subject to a minimum additional holding period of two years bringing the total vesting and holding period for awards to five years. Further details are set out on page 88.

Remuneration in 2019

In preparation for 2019, and in light of the new Code, the Committee received a detailed presentation from the Group Head of HR, examining remuneration trends throughout the group including the general workforce and plans for wage and salary increases.

The Committee agreed a 2% base salary increase for Executive Directors for 2019. This is in line with the minimum increase applied for all employees across the Group on 1 January of this year. Pension and other benefits remain unchanged; the CEO does not receive any pension contributions from the company, the other executive directors receive a pension contribution of 15% of base salary.

The bonus plan for 2019 will operate on similar lines to 2018 with a maximum benefit of 110% and 100% of salary respectively for the CEO and the other executive directors. Performance will be measured against profitability targets (75%) and individual strategic objective (25%), as in 2018. Details of these targets will be disclosed retrospectively as in previous years.

During 2019 the CEO will be granted an award under the 2017 Long-Term Incentive Plan equal to 150% of salary and the other Executive Directors will be granted an award equal to 125% of salary. There are no changes in award levels from 2018. This is in line with the remuneration policy and the ultimate vesting of these awards in 2022 will be conditional on performance over the next three years based equally on two measures: Total Shareholder Return and Earnings per Share.

The Committee believes the performance targets set are stretching yet fair taking into account the effect of new hotel developments compared with hotel acquisitions in the past, the short-term negative impact of pre-opening costs and start-up operating losses where the seasonal timing of the opening has an important bearing, and the impact of the increase in VAT on hotel room sales in Ireland announced in late 2018. Further details are set out on page 85.

Shareholder engagement

2018 was a relatively quiet year in terms of shareholder engagement for the Remuneration Committee and this was reflected in the near unanimous (99.85%) approval of last year's remuneration report at the AGM.

We have, however been keeping a close eye on developments in corporate governance, including the new Code and publications issued by the Investment Association and others. We already comply with a number of the provisions set out in the new Code, for example we have a post vesting holding period for our LTIP and malus and clawback provisions apply. In the coming year we will review our Remuneration Policy for presentation to shareholders at the 2020 AGM to ensure it remains aligned with strategy and the creation of shareholder value. As part of this review we will give considerations to changes that may be required to comply with the Code. I look forward to engaging with shareholders on this later in the year.

Conclusion

It has been a pleasure to report on another successful year for Dalata and I am grateful for the continuing support of our shareholders. It seems that 2019 will be a year of greater global uncertainty but we look forward to facing whatever challenges that come our way with confidence.

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

Notes to the policy table:

- Dividend equivalents** - 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).
- Malus and clawback** - 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.
- Alignment with wider workforce pay and policies** - 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.
- Performance measures** - The choice of the performance measures applicable to the annual bonus 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.

Element	Purpose and operation	Maximum opportunity	Performance Metrics
Annual bonus	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 individual strategic 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.
Long-Term Incentive Plan (LTIP)	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.
Shareholding guidelines	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

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 2019 AGM.

Statement of Implementation for 2019

This section summarises the remuneration packages for the Directors for the 2019 financial year.

Base salaries

The following table shows the base salaries effective 1 January 2019 with comparative figures for 2018:

€'000	2019	2018	Increase
Pat McCann	598.2	586.5	2%
Stephen McNally	348.5	341.7	2%
Dermot Crowley	348.5	341.7	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 awarded for 2019, in line with pay increases for the general workforce.

In recommending the 2019 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 in 2017 that, during the lifetime of the 2017-2019 Policy, the rate of salary increase awarded to Executive Directors would be similar to that 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

The CEO will be eligible for a maximum bonus of 110% of base salary with other directors eligible for a maximum bonus of 100% of base salary. The bonus will be based 75% on a profitability measure and 25% on individual strategic objectives as set out below:



Maximum Annual Bonus (as a % of salary)	CEO	Others
Profitability¹	82.5%	75%
Individual strategic objectives	27.5%	25%
Total	110%	100%

¹ Financial performance for annual bonus purposes is measured using an adjusted measure of EBIT 'Modified EBIT' described in detail in note (xiii) on page 186.

The Committee has determined that the specific targets for 2019 are commercially sensitive and cannot be disclosed at this time. To the extent that the targets for 2019 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 2019 in accordance with rules of the 2017 LTIP. 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 a minimum 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)
Definition	TSR performance against the Index	EPS achieved in the year ending 31 December 2021
Threshold vesting (25% of maximum)	TSR equal to Index	€0.45
Maximum vesting	TSR equal to 10% or more per annum above Index	€0.55

- 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 2019 to 31 December 2021).
- Basic EPS may be adjusted to exclude items which are deemed one-off and thus not reflecting normal trading activities or distorting comparability either period on period or with other similar businesses. For reference, the relevant adjustments to EPS for 2017 and 2018 are set out in note 28 to the consolidated financial statements on pages 168 and 169. We want to encourage vigorous pursuit of the opportunities and by excluding certain one-off items, we drive the behaviours we seek from the executives and encourage management to invest for the long-term interests of shareholders.
- When setting the EPS threshold and maximum targets the Committee had regard to: company forecasts and underlying assumptions (including the negative impact, in the given current year, when hotels in development have opening dates later in the year), the approach to target setting in previous years, comparison with base year performance (2018), consensus forecasts for 2021, targets set in previous years and previous LTIP and bonus outcomes. The Committee also had regard to the estimated negative impact that the increase in VAT on hotel room sales in Ireland announced in late 2018 would have on 2021 EPS forecasts. Taking into account all of these reference points the Committee considers that the EPS targets set for the 2019 award are as stretching as those set in previous years and if achieved will deliver value for 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 2019 following the biennial review of Non-executive Director compensation for 2019/20 in accordance with the remuneration policy. The Board decided that it was appropriate to increase fees taking into account market practice for a company of our size and complexity and the time commitment required to fulfill the roles.

€'000	2019	2018
Board Chair	150	125
Basic Non-executive Director	65	60
Chair Audit and Risk Committee	20	15
Chair Remuneration Committee	20	15
Chair Nomination Committee	10	7.5
Senior Independent Director	10	7.5

Outcomes in Respect of 2018

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 2018 financial year (with the 2017 prior year comparator also shown).

€'000	Year	Base Salary/Fees	Pension	Benefits	Bonus	LTIP	Total
Executive Directors							
Pat McCann	2018	587	-	-	645	280	1,512
	2017	575	-	-	633	556	1,764
Stephen McNally	2018	342	51	3	342	163	901
	2017	335	50	3	335	347	1,070
Dermot Crowley	2018	342	51	12	342	163	910
	2017	335	50	12	335	347	1,079
Non-executive Directors							
John Hennessy	2018	125	-	-	-	-	125
	2017	125	-	-	-	-	125
Robert Dix	2018	75	-	-	-	-	75
	2017	75	-	-	-	-	75
Alf Smiddy	2018	75	-	4 ¹	-	-	79
	2017	75	-	6 ¹	-	-	81
Margaret Sweeney	2018	75	-	-	-	-	75
	2017	75	-	-	-	-	75

¹ Expenses incurred in travelling to and from board meetings

- 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 2018 (and 2017) 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 for the relevant financial year. 20% of the bonus shown above will be deferred into Dalata shares for a minimum period of three years.
- For the LTIP, the value shown for 2018 reflects the anticipated vesting of the LTIP award granted on 3 March 2016 with TSR to be measured over the three-year performance period to 2 March 2019. Vesting of the 2016 award is based on TSR performance against a group of eleven peer companies (see page 88 for further details). The values have been calculated using TSR data as at 15 February 2019 (which gives an estimated vesting of 53% of maximum) and a three-month average share price to 31 December 2018 of €5.23 in accordance with the methodology set out in the UK reporting regulations. The final level of vesting will be disclosed in the 2019 Directors' remuneration report. 10% of the value disclosed in respect of the 2016 LTIP relates to the increase in share price from the date of the award.
- The LTIP value for 2017 is restated to reflect the final outcome of the vesting of 100% which took place on 9 April 2018 and the share price on the date of vesting of €6.26, compared to the estimated outcome. The adjusted LTIP outcomes are €556,000 for Pat McCann and €347,000 for Stephen McNally and Dermot Crowley compared to €504,000 and €315,000 respectively as originally disclosed in the 2017 Annual Report.

Annual bonus plan outcome for 2018 (audited)

The maximum bonus for 2018 was 100% of salary for Stephen McNally and Dermot Crowley and 110% of salary for CEO Pat McCann, in line with the Policy. This was based 75% on the achievement of a stretching profitability target and 25% on individual strategic objectives aligned to the delivery of key strategic and operational objectives.

Profitability

Financial performance for annual bonus evaluation is measured using Modified EBIT for Bonus Calculation (Modified EBIT). EBIT is thus modified to remove the effect of fluctuations between the annual and budgeted EUR/GBP exchange rate and other items including, for 2018, the proceeds from an insurance claim, hotel pre-opening expenses and net revaluation movements through profit or loss, which were considered, in the opinion of the Remuneration

Committee, to fall outside of the framework of the budget target set for the year. Modified EBIT is described in detail and reconciled to Profit Before Tax in note (xiii) on page 186.

	Threshold (40% payout)	Target (50% payout)	Maximum (100% payout)	Actual	Outcome
Modified EBIT	€87.7m	€92.4m	€98.8m	€99.5m	Performance exceeded the maximum target leading to a 100% (of maximum) bonus pay-out.

Individual strategic objectives

The Committee considered performance against individual strategic objectives set, particularly noting the opening of five new hotels and four major extensions on time and within budget, the RevPAR growth outperformance by our hotels of the markets in which they operate, the addition of over 1,200 rooms to the development pipeline, and the successful refinancing of the Group banking facilities. Accordingly, the Committee judged that all of these objectives for each of the Directors has been achieved in full and therefore it was appropriate that this element of the bonus should be paid in full.

Pat McCann

Risk: drive continuous improvement in risk management to mitigate the effects of new and increasing risks (see Risk Management in Practice on page 41). **2018 maximum:** 27.5% (base salary)

Strategy: develop and communicate Dalata's differentiated operational strategy (see The Difference with Dalata on page 13). **2018 achieved:** 27.5%

Succession: continued development of senior executive team (see Strategic Priorities: People on page 22).

Culture: continually nurture and communicate the Group's values and culture which are essential to the company's strategic development (see Culture on page 54).

Technology: review ICT resources to maximise opportunity from developing technology and minimise emerging risks (see Investing in Technology to Support our Growing Business on page 38).

Stephen McNally

Management team: implement HR development plan to support expansion plan and leadership development (see Strategic priorities - People on page 22). **2018 maximum:** 25% (base salary)

Hotel openings: develop pre and post opening plans for five new hotels (see Recent Openings on pages 8 and 9). **2018 achieved:** 25%

Hotel extensions: complete four hotel extensions and develop revised marketing and operations strategies to secure their long-term sustainability.

RevPar: achieve agreed targets in each city in the UK.

Refurbishment Capex: execute agreed programme, securing maximum value for money with minimal business disruption.

Purchasing: Develop Group purchasing power through effective use of technology.

Customer Relationship Management: Maintain and develop relationship with key revenue accounts, conference and corporate agents and corporate partners.

Industry engagement: Develop relationships with and support tourism development agencies and industry representative bodies (including Failte Ireland, Tourism Ireland, Northern Ireland Tourism and Dublin Chamber of Commerce).

Investor relations: increase participation in investor relations management activities.

Dermot Crowley

Finance function development: personnel and communication; technology; shared services centre development. **2018 maximum:** 25% (base salary)

Investor relations: develop investor relations to mitigate the impact of MiFID2 (see Investor Relations Activity on page 71). **2018 achieved:** 25%

Funding: manage funding within existing facility; deliver refinance of existing facilities; develop institutional property investor relationships (see Supporting our Growth with New Debt Facilities on page 37).

Acquisitions & Development: Secure 1,200 pipeline rooms; manage current pipeline on target / budget to brand standards; execute development agreement for Tara Towers (Merrion Road, Dublin) property (see Future Openings on pages 26 and 27).

Group Strategy: development of strategic planning process with five-year horizon.

Corporate social responsibility: leadership of relationship with corporate charity partners (see Dalata Digs Deep on page 55).

LTIP – vesting outcome of the 2016 award (audited)

The LTIP award granted to Executive Directors on 3 March 2016 will vest after 2 March 2019 subject to the TSR performance of Dalata compared to a comparator group of eleven listed peers measured over that three year period. The performance period for this award was substantially complete by the end of the 2018 financial year and therefore the vesting of this award is reported in this year's report (in accordance with the UK reporting regulations) based on the expected vesting level. As at the date of this report, it is anticipated that 53% of the award will vest based on the current assessment of the TSR performance, as shown below.

LTIP Targets

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

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

Estimated Outcome

Outcome	TSR achieved ¹	Expected vesting outcome
Group Median	19.9%	
Group Upper quartile	32.1%	
Dalata	24.5%	Dalata's TSR exceeds the Median; 53% of the award is expected to vest

¹TSR calculated as at 15 February 2019.

Share incentive plan interests awarded during 2018 (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	145,221	25%	1 Jan 2018 to 31 Dec 2020
Dermot Crowley	LTIP	125% of salary	70,506	25%	1 Jan 2018 to 31 Dec 2020
Stephen McNally	LTIP	125% of salary	70,506	25%	1 Jan 2018 to 31 Dec 2020

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 Adjusted Basic EPS achieved in FY20 with threshold vesting for EPS equal to €0.43 and maximum vesting if EPS is equal to or greater than €0.54.

b) The number of shares awarded was calculated using the volume weighted average share price on 6 March 2018 (€6.058), the day prior to the date of grant.

Additional Disclosures

Directors' and Company Secretary's share interests

	Shares beneficially owned as at 31 December 2017	Shares beneficially owned as at 31 December 2018	Option to acquire shares under Sharesave Scheme	2016 award vesting in 2019	2017 award vesting in 2020	2018 award vesting in 2021	Total conditional awards subject to the achievement of performance conditions
Pat McCann	1,121,014	1,274,515	6,132	101,279	174,130	145,221	420,630
Dermot Crowley	366,510	439,454	6,132	58,635	84,541	70,506	213,682
Stephen McNally	390,394	449,538	6,132	58,635	84,541	70,506	213,682
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	119,023	77,938	6,132	32,623	34,069	28,413	95,105

a) Shares beneficially owned include those of connected persons and include shares held in trust which are subject to deferral or holding periods.

b) LTIP awards to Executive Directors represent the maximum number of shares which may vest under the 2016, 2017 and 2018 LTIP awards based on the performance conditions as described elsewhere in this report.

As described above, 53% of the 2016 award is expected to vest in March 2019 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.

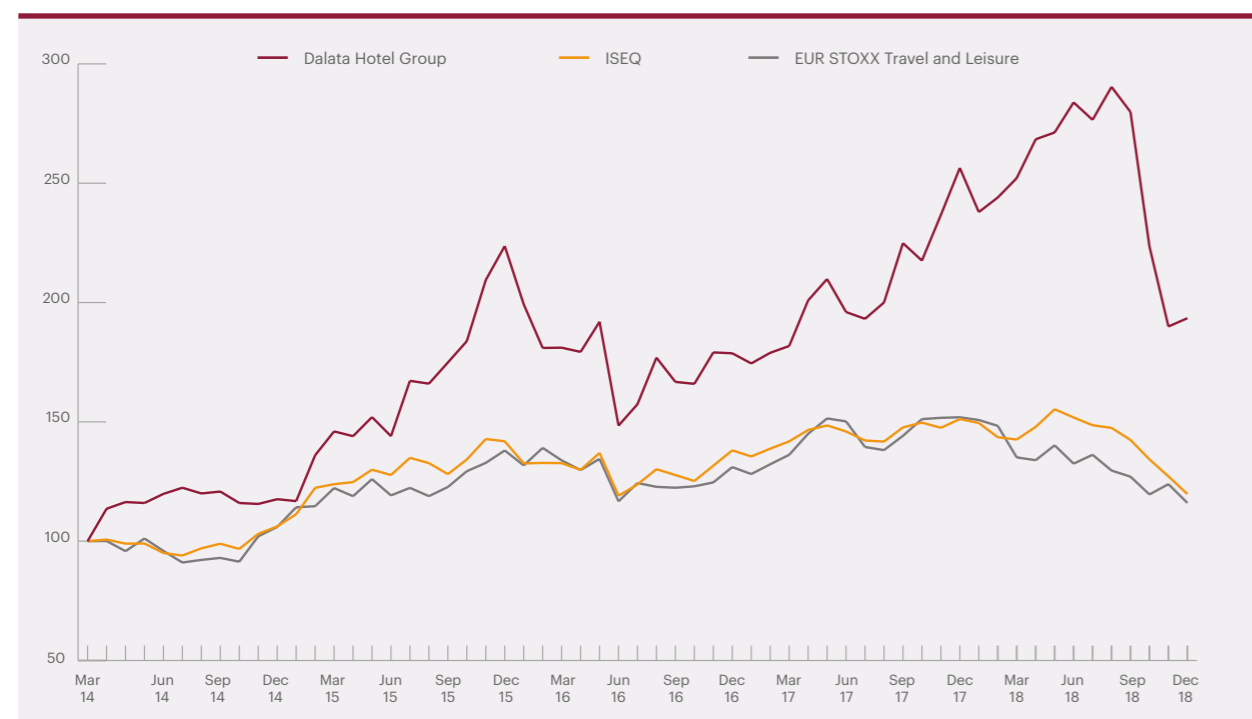
Shareholding guidelines

Executive Directors are required to build up and maintain a beneficial holding of at least 200% of base salary. Based on the closing share price at 31 December 2018 of €4.74, the Executive Director's beneficial holdings as a percentage of base salary were as follows:

	Beneficial shareholding % base salary
Pat McCann	1,030%
Dermot Crowley	610%
Stephen McNally	624%

TSR performance summary and historic remuneration outcomes

The graph below compares the TSR (re-based to 100) over the period since listing to the Dow Jones European STOXX Travel and Leisure Index.



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

	2014 ¹	2015	2016	2017 ²	2018
Single figure (€'000)	441	840	1,603	1,764	1,512
Annual bonus outcome (% of maximum)	67%	100%	90%	100%	100%
LTIP vesting (% of maximum)	N/A	N/A	100%	100%	53%

¹Includes remuneration prior to IPO

²2017 single figure is restated to reflect the final vesting outcome of LTIP awards granted in 2015 which vested in April 2018.

Relative spend on pay

The following table shows the Group's aggregate actual spend on pay (for all employees) and dividends in respect of the current and previous financial year. There were no share buy backs in either year.

	2017	2018	Change
Dividend	€0.0m	€5.5m	100%
Aggregate employee remuneration	€86.5m	€99.0m	14%

AGM voting

At last year's Annual General Meeting, the following votes were received on the resolution to receive and consider the Director's Report on Remuneration for the year ended 31 December 2017.

	Votes	%
Votes For	131,605,764	99.85%
Votes Against	193,965	0.15%
Total Votes	131,799,729	100.00%
Votes Withheld	671,968	

At the 2017 AGM, the following votes were received on the resolution to approve the Directors Remuneration Policy.

	Votes	%
Votes For	134,056,854	99.11%
Votes Against	1,197,842	0.89%
Total Votes	135,254,696	100.00%
Votes Withheld	0	

Remuneration Committee and advisors

In addition to the Remuneration Committee members, Non-executive Director Alf Smiddy attended each meeting at the invitation of the Chair. The Chief Executive Officer and the Company Secretary attended at the invitation of the Committee Chair (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.

The members of the Committee 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 London Stock Exchange or Euronext Dublin and associated guidance and investor guidelines on executive remuneration. The Committee received a detailed report from the Group Head of HR in September detailing remuneration trends throughout the group, including the general workforce as a whole, benchmarked against the market. The remuneration of the Non-executive Directors is approved by the Board.

During 2018, the Committee continued to receive independent advice from Deloitte LLP, based in London, 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. Deloitte Ireland also provided unrelated corporate finance advisory services during the year.

Deloitte LLP was appointed by the Committee. It is the view of the Committee that the Deloitte LLP engagement partner and team that provide remuneration advice to the Committee do not have connections with Dalata that may impair their independence. The Committee reviewed the potential for conflicts of interest and judged that there were appropriate safeguards against such conflicts.

The Committee considers that the advice received from the advisors is independent, straightforward, relevant and appropriate and that it has an appropriate level of access to them and has confidence in their advice.

Fees charged by Deloitte LLP during the year were £15,300. These fees were charged on a time and materials basis.

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 2018.

Principal activities and business review

Dalata Hotel Group plc is the largest hotel operator in the Republic of Ireland and operates eleven hotels in the UK. Shareholders are referred to the Chair’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 2018, the outlook for 2019 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 2018 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 €75,224,000 (2017: €68,308,000).

Dividends

An interim dividend of 3.0 cent per share, amounting to €5.5 million, was paid to shareholders on 12 October 2018. The Directors recommend the payment of a final dividend of 7.0 cent per share in respect of the year ended 31 December 2018. Subject to shareholders’ approval at the Annual General Meetings on 2 May 2019, the payment date for the final dividend is 8 May 2019 to shareholders registered on the record date of 12 April 2019.

Future developments

A review of future developments of the business is included in the Financial Review on pages 28 to 39.

Directors and Company Secretary

The names of the Directors and Company Secretary and a biographical note on each appear on pages 60 to 61. 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 2019 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 page 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 74 to 79.

Share capital

The issued share capital of Dalata Hotel Group plc at 25 February 2019 consists of 184,349,666 ordinary shares. Each share has a nominal value of €0.01. All shares have equal voting and dividend rights. The Group has in place a number of employee share schemes, the details of which are set out in the Remuneration Committee Report and in Note 7 to the consolidated financial statements.

Substantial holdings

As at 25 February 2019, the Company has been notified of the following interests of 3% or more in its share capital:

Holder	Number of Ordinary Shares	% of Shares in issue
Ameriprise Financial, Inc	18,452,348	10.01%
FMR LLC	12,410,255	6.73%
Pioneer Asset Management S.A.	7,936,156	4.30%
Prudential plc*	7,340,000	3.98%
I.G. International Limited	6,867,668	3.73%
TimesSquare Capital Management, LLC	5,913,290	3.21%
Allianz Global Investors GmbH	5,755,071	3.12%
Vanguard International Explorer Fund	5,644,800	3.06%
BlackRock, Inc.	5,530,988	3.00%

*M&G Investment Funds, an Open Ended Investment Company (OEIC), has notified the Company that it is interested in 3.05% 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 3.98% 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 40 to 47. The Financial Risk Management policies are set out in Note 23 to the consolidated financial statements.

Non-financial reporting directive

Dalata aims to comply with the requirements of the Non-Financial Reporting Directive (S.I 360/2017) and these requirements are addressed throughout the Strategic Report. Information pertaining to each of the matters addressed by these regulations is set out on page 50.

Additionally, non-financial concerns are reflected in our business model on pages 12 and 13 and in our risk management report on pages 40 to 47. The Company uses a number of non-financial metrics, several of which are disclosed in this report, including in our key performance indicators on page 15.

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 80 to 91 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 48 to 57, is deemed to be incorporated in this part of the Directors’ Report together with details of earnings per share in note 28 to the consolidated financial statements, employment details in note 6 and details of financial instruments in note 23.

Corporate Governance regulations

As required by company law, the Directors have prepared a Report on Corporate Governance which is set out on pages 58 to 71, 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 18 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 External 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 External 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 2004/109EC) Regulations 2007 and Tax laws (‘relevant obligations’).

The Directors confirm that:

- › a compliance policy statement has been drawn up setting out the Company’s policies that in their opinion are appropriate with regard to such compliance;
- › appropriate arrangements and structures have been put in place that 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 current activities of the Group and those factors likely to affect its future development, together with a description of its financial position, are described in the Strategic Report. Principal risks and uncertainties affecting the Group, and the steps taken to mitigate these risks are described in the Risk Management section of the Strategic Report on pages 40 to 47. Critical accounting estimates affecting the carrying values of assets and liabilities of the Group are discussed in note 1 to the consolidated financial statements.

After making appropriate enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for three years (in line with the Viability Statement on pages 46 to 47). In making this assessment, the Directors considered the going concern status for a period of at least 12 months from the date of signing this Annual Report and Accounts. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

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 27 to the consolidated financial statements.

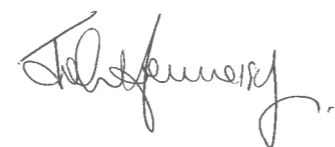
Subsequent events

Details of subsequent events are set out in note 26 to the consolidated financial statements.

Approval of Financial Statements

The Financial Statements were approved by the Board on 25 February 2019.

On behalf of the Board



John Hennessy
Chair



Pat McCann
Director

25 February 2019

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 for each financial 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 applicable law including Article 4 of the IAS Regulation. The Directors have elected to prepare the Company financial statements in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of 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 Group's profit or loss 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 whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group's and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or Company or to cease operations, or have no realistic alternative but to do so.

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 and Article 4 of the IAS Regulation. They are responsible for 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, and have general responsibility 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 also responsible for preparing a Directors' Report that complies with the requirements of the Companies Act 2014.

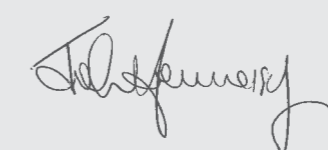
The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's and Company's website www.dalatahotelgroup.com. Legislation in the Republic of Ireland concerning the preparation and dissemination of financial statements may differ from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

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

Each of the Directors, whose names and functions are listed on pages 60 to 61 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 Companies Act 2014, give a true and fair view of the assets, liabilities, and financial position of the Group and Company at 31 December 2018 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 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
Chair
25 February 2019



Patrick McCann
Director
25 February 2019

Independent Auditor's Report

to the members of Dalata Hotel Group plc

Report on the audit of the financial statements

Opinion

We have audited the Group and Company financial statements of Dalata Hotel Group plc ('the Company') for the year ended 31 December 2018 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 related notes, including the summary of significant accounting policies set out in note 1. 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 financial statements give a true and fair view of the assets, liabilities and financial position of the Group and Company as at 31 December 2018 and of the Group's profit for the year then ended;
- 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 three years ended 31 December 2018.

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 public interest entities. No non-audit services prohibited by that standard were provided.

Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, 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 €1,077.2m (2017: €848.8m)

Refer to page 76 (Audit and Risk Committee Report), pages 113 to 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 and under its accounting policies applies the revaluation model to its land and buildings included within property, plant and equipment. This gives rise to a risk of material misstatement if periodic revaluations are not performed on an appropriate basis or are not accounted for in accordance with relevant accounting standards. The Group engages independent external experts to perform periodic hotel revaluations, which are inclusive of fixtures, fittings and equipment, which the Group accounts for under the cost model. Appropriate allocations of hotel valuations must therefore be made between land 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 valuation 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 material 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 are appropriate. The disclosures in the financial statements relating to property valuations are adequate to provide an understanding of the basis of the valuations.

Depreciation of property, plant and equipment - €19.7m (2017: €15.7m)

Refer to page 76 (Audit and Risk Committee Report), pages 113 to 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 highly material amounts of property, plant and equipment. Determining the appropriate amount of depreciation requires judgements to be made in relation to areas where there may be subjectivity, for example, in relation to useful lives or the allocation of property values between land and buildings, and the estimation of residual values of buildings.

How the matter was addressed in our audit

Our audit procedures in relation to depreciation of buildings included, among others:

- evaluating the allocation of property values between land and buildings, and assessing the assumptions made in that regard;

- considering the process undertaken by management in the determination of residual values of buildings, examining reports by external professional advisers engaged by management on the calculation of residual values for a number of hotel buildings, assessing the assumptions made and evaluating management's application of the results in those reports to their estimation of residual values of other hotels;
- assessing whether there were any property-specific matters which would indicate that the 50 year useful life assumption applied to buildings was inappropriate;
- testing the commencement of depreciation from the appropriate available for use date for new hotel buildings in the year; and
- performing an analysis on the Group and other companies in the hotel and leisure sector of the ratio of building depreciation charges versus valuation (or cost where relevant) of land and buildings.

Our audit procedures in relation to depreciation of fixtures, fittings and equipment included, among others:

- for assets held at the beginning of the year, testing the consistency of the application for depreciation purposes of the useful lives of different categories of fixtures, fittings and equipment; and
- for a sample of additions in 2018, evaluating whether those assets were classified in the appropriate category and whether the useful lives applied to those assets for depreciation purposes were consistent with the existing asset categories.

Our findings

Our audit procedures did not identify any material issues with the depreciation charges calculated by the Group. The Group's approach to depreciation charges appeared to be applied correctly and without any bias. Assumptions in relation to the allocation of property values to land and buildings, and the residual values of buildings, for the purpose of determining the applicable depreciation charge for buildings were reasonable. The depreciation of fixtures, fittings and equipment was consistently applied from year to year.

Independent Auditor's Report

to the members of Dalata Hotel Group plc (continued)

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 €4.3m (2017: €3.9m). This has been calculated with reference to a benchmark of Group profit before taxation. 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 2018 amounted to €1,319.1m (2017: €1,101.1m) and our materiality measure represents 0.33% of total assets (2017: 0.36%) 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 (2017: €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 €4.0m (2017: €3.9m), determined with reference to a benchmark of total assets, of which it represents 0.54% (2017: 0.5%).

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 94 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

Other information

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. The other information comprises the information included in the Directors' Report, Chair's Statement, Chief Executive's Review, Purpose and Values section, Recent Openings section, Strategy and Business Model section, Future Openings section, Financial Review, Risk Management section, Responsible Business Report, Chair's Overview – 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 section. The financial statements and our auditor's report thereon do not comprise part of the other 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.

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 our work on the other information we report that, in those parts of the Directors' Report specified for our review:

- we have not identified material misstatements in the Directors' Report;
- 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 46 and 47 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

Independent Auditor's Report

to the members of Dalata Hotel Group plc (continued)

- 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; and
- *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 Statement on pages 58 to 71 and the Directors' Report, 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/EC) Regulations 2016 and specified for our consideration, is consistent with the financial statements and has been prepared in accordance with the Act;

- 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; and
- the Directors' Report contains the information required by the European Union (Disclosure of Non-Financial and Diversity Information by certain large undertakings and groups) Regulations 2017.

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

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

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 Companies Act 2014 also requires us to report to you if, in our opinion, the Company has not provided the information required by section 5(2) to (7) of the European Union (Disclosure of Non-Financial and Diversity Information by certain large undertakings and groups) Regulations 2017 for the year ended 31 December 2018 as required by the European Union (Disclosure of Non-Financial and Diversity Information by certain large undertakings and groups (Amendment)) Regulations 2018.

The Listing Rules of the Euronext Dublin and UK Listing Authority require us to review:

- the Directors' Statements, set out on pages 46, 47 and 94, in relation to going concern and longer term viability;

Independent Auditor's Report

to the members of Dalata Hotel Group plc (continued)

- the part of the Corporate Governance Statement on pages 58 to 71 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.

Respective responsibilities and restrictions on use

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.

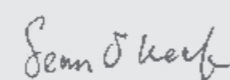
Auditor's responsibilities

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 and 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

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

25 February 2019

Consolidated statement of profit or loss and other comprehensive income

for the year ended 31 December 2018

	Note	2018 €'000	Restated* 2017 €'000
Continuing operations			
Revenue	2	393,736	352,172
Cost of sales		(142,275)	(131,956)
Gross profit		251,461	220,216
Administrative expenses		(157,515)	(134,032)
Other income	4	2,869	739
Operating profit		96,815	86,923
Finance costs	5	(9,514)	(9,636)
Profit before tax		87,301	77,287
Tax charge	8	(12,077)	(8,979)
Profit for the year attributable to owners of the Company		75,224	68,308
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss</i>			
Revaluation of property	11	102,946	53,533
Related deferred tax	22	(9,634)	(5,498)
		93,312	48,035
<i>Items that are or may be reclassified subsequently to profit or loss</i>			
Exchange difference on translating foreign operations		(2,667)	(9,309)
Gain on net investment hedge		1,625	7,127
Fair value movement on cash flow hedges	14	(554)	269
Cash flow hedges – reclassified to profit or loss	14	1,026	1,348
Related deferred tax	22	(59)	(203)
		(629)	(768)
Other comprehensive income for the year, net of tax		92,683	47,267
Total comprehensive income for the year attributable to owners of the Company		167,907	115,575
Earnings per share			
Basic earnings per share	28	40.9 cents	37.2 cents
Diluted earnings per share	28	40.4 cents	36.9 cents

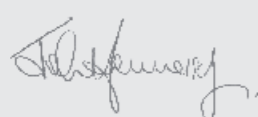
*Revenue and cost of sales have been restated for the year ended 31 December 2017 as a result of the retrospective application of IFRS 15. The impact is limited to a reclassification between revenue and cost of sales in profit or loss (note 1).

Consolidated statement of financial position

at 31 December 2018

	Note	2018 €'000	2017 €'000
Assets			
Non-current assets			
Intangible assets and goodwill	10	54,417	54,562
Property, plant and equipment	11	1,176,260	998,812
Investment property	12	1,560	1,585
Deferred tax assets	22	2,613	3,571
Contract fulfilment costs	13	9,066	-
Other receivables	15	14,759	4,343
Derivatives	14	-	1
Total non-current assets		1,258,675	1,062,874
Current assets			
Trade and other receivables	15	22,566	20,704
Inventories	16	1,954	1,765
Cash and cash equivalents	17	35,907	15,745
Total current assets		60,427	38,214
Total assets		1,319,102	1,101,088
Equity			
Share capital	18	1,843	1,837
Share premium	18	503,113	503,113
Capital contribution	18	25,724	25,724
Merger reserve	18	(10,337)	(10,337)
Share-based payment reserve	18	4,232	2,753
Hedging reserve	18	(1,279)	(1,692)
Revaluation reserve	18	248,418	155,106
Translation reserve	18	(13,198)	(12,156)
Retained earnings		144,061	73,045
Total equity		902,577	737,393
Liabilities			
Non-current liabilities			
Loans and borrowings	21	301,889	241,933
Deferred tax liabilities	22	41,129	31,858
Derivatives	14	1,306	1,778
Provision for liabilities	20	4,783	4,716
Total non-current liabilities		349,107	280,285
Current liabilities			
Loans and borrowings	21	-	18,206
Trade and other payables	19	65,250	64,853
Current tax liabilities		309	351
Provision for liabilities	20	1,859	-
Total current liabilities		67,418	83,410
Total liabilities		416,525	363,695
Total equity and liabilities		1,319,102	1,101,088

On behalf of the Board:



John Hennessy
Chair



Patrick McCann
Director

Consolidated statement of changes in equity

for the year ended 31 December 2018

	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 2018	1,837	503,113	25,724	(10,337)	2,753	(1,692)	155,106	(12,156)	73,045	737,393
Comprehensive income:										
Profit for the year	-	-	-	-	-	-	-	-	75,224	75,224
<i>Other comprehensive income</i>										
Exchange difference on translating foreign operations	-	-	-	-	-	-	-	(2,667)	-	(2,667)
Gain on net investment hedge	-	-	-	-	-	-	-	1,625	-	1,625
Revaluation of properties	-	-	-	-	-	-	102,946	-	-	102,946
Fair value movement on cash flow hedges	-	-	-	-	-	(554)	-	-	-	(554)
Cash flow hedges – reclassified to profit or loss	-	-	-	-	-	1,026	-	-	-	1,026
Related deferred tax	-	-	-	-	-	(59)	(9,634)	-	-	(9,693)
Total comprehensive income for the year	-	-	-	-	-	413	93,312	(1,042)	75,224	167,907
Transactions with owners of the Company:										
Equity-settled share-based payments (note 7)	-	-	-	-	2,800	-	-	-	-	2,800
Vesting of share awards (note 7)	6	-	-	-	(1,321)	-	-	-	1,321	6
Dividends paid (note 18)	-	-	-	-	-	-	-	-	(5,529)	(5,529)
Total transactions with owners of the Company	6	-	-	-	1,479	-	-	-	(4,208)	(2,723)
At 31 December 2018	1,843	503,113	25,724	(10,337)	4,232	(1,279)	248,418	(13,198)	144,061	902,577

Consolidated statement of changes in equity

for the year ended 31 December 2017

	Attributable to owners of the Company									
	Share capital	Share premium	Capital contribution	Merger reserve	Share-based payment reserve	Hedging reserve	Revaluation reserve	Translation reserve	Retained earnings	Total
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
At 1 January 2017	1,830	503,113	25,724	(10,337)	2,126	(3,106)	107,531	(9,974)	3,475	620,382
Comprehensive income:										
Profit for the year	-	-	-	-	-	-	-	-	68,308	68,308
<i>Other comprehensive income</i>										
Exchange difference on translating foreign operations	-	-	-	-	-	-	-	(9,309)	-	(9,309)
Gain on net investment hedge	-	-	-	-	-	-	-	7,127	-	7,127
Revaluation of properties	-	-	-	-	-	-	53,533	-	-	53,533
Transfer of revaluation gains to retained earnings on sale of property	-	-	-	-	-	-	(460)	-	460	-
Fair value movement on cash flow hedges	-	-	-	-	-	269	-	-	-	269
Cash flow hedges – reclassified to profit or loss	-	-	-	-	-	1,348	-	-	-	1,348
Related deferred tax	-	-	-	-	-	(203)	(5,498)	-	-	(5,701)
Total comprehensive income for the year	-	-	-	-	-	1,414	47,575	(2,182)	68,768	115,575
Transactions with owners of the Company:										
Equity-settled share-based payments (note 7)	-	-	-	-	1,690	-	-	-	-	1,690
Vesting of share awards (note 7)	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
At 31 December 2017	1,837	503,113	25,724	(10,337)	2,753	(1,692)	155,106	(12,156)	73,045	737,393

Consolidated statement of cash flows

for the year ended 31 December 2018

	2018	2017
	€'000	€'000
Cash flows from operating activities		
Profit for the year	75,224	68,308
Adjustments for:		
Depreciation of property, plant and equipment	19,698	15,710
Net revaluation movements through profit or loss	3,137	1,425
Share-based payments expense	2,800	1,690
Finance costs	9,514	9,636
Tax charge	12,077	8,979
Gains on disposal of property freehold interests and subsidiary	-	(469)
Amortisation of intangible asset	44	24
	122,494	105,303
Increase in trade payables and provision for liabilities	7,950	4,484
Increase in current and non-current receivables	(2,414)	(5,253)
(Increase)/decrease in inventories	(191)	62
Tax paid	(12,085)	(9,389)
Net cash from operating activities	115,754	95,207
Cash flows from investing activities		
Acquisitions of undertakings through business combinations, net of cash acquired	-	(56,719)
Purchase of property, plant and equipment	(112,692)	(136,060)
Contract fulfilment cost payments	(304)	-
Costs paid on entering new leases and agreements for leases	(3,734)	-
Deposits and costs paid for future acquisitions	(5,613)	-
Proceeds from sale of properties resulting in operating leases	-	57,985
Net cash used in investing activities	(122,343)	(134,794)
Cash flows from financing activities		
Interest and finance costs paid	(13,188)	(10,101)
Receipt of bank loans	137,902	36,680
Repayment of bank loans	(92,563)	(49,896)
Dividends paid	(5,529)	-
Proceeds from vesting of share awards	6	7
Net cash from/(used in) financing activities	26,628	(23,310)
Net increase/(decrease) in cash and cash equivalents	20,039	(62,897)
Cash and cash equivalents at the beginning of the year	15,745	81,080
Effect of movements in exchange rates	123	(2,438)
Cash and cash equivalents at the end of the year	35,907	15,745

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 2018 include the Company and its subsidiaries (together referred to as the 'Group'). The financial statements were authorised for issue by the Directors on 25 February 2019.

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.

The key judgements and estimates impacting these consolidated financial statements are:

- Carrying value and depreciation of own-use property measured at fair value (note 11); and
- Carrying value of goodwill and intangible assets including assumptions underpinning the impairment tests (note 10).

Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of assets and liabilities at fair value. 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 23 – 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).

(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 page 10 to 27 of the annual report. Note 23 to the consolidated financial statements includes: the Group's objectives, policies and processes for managing its capital; details of its financial instruments and hedging activities; and its exposures to credit, currency and liquidity risks.

Having assessed the business risks, the 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 2018 and their impact on the Group's reported profit and/or net assets in these consolidated financial statements are discussed below.

- IFRS 15 *Revenue from Contracts with Customers*; and
- IFRS 9 *Financial Instruments*.

Notes to the consolidated financial statements

(continued)

1 Significant accounting policies (continued)

(ii) Statement of compliance (continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 *Revenue from Contracts with Customers* replaced the previous guidance in IAS 18 *Revenue*. The Group has undertaken an assessment of revenue earned in respect of its customer agreements. The Group previously accounted for revenue earned in connection with certain customers, net of commissions.

Under IFRS 15, all such revenue is now 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.

The Group has applied IFRS 15 retrospectively. The effect of applying IFRS 15 in the prior year would have resulted in an increase in revenue of €3.7 million for the year ended 31 December 2017, with a corresponding increase in cost of sales of the same amount. These comparatives have been restated in the current profit or loss. The impact of this change on the financial statements for the Group for the year ended 31 December 2018 is presented hereafter.

	As reported in 31 December 2017 Financial Statements €'000	31 December 2017 Adjustments €'000	31 December 2017 Restated €'000
Continuing operations			
Revenue	348,474	3,698	352,172
Cost of sales	(128,258)	(3,698)	(131,956)
Gross profit	220,216	-	220,216

If the Group had applied the previous standard IAS 18 *Revenue* in accounting for revenue earned in connection with certain customers, net of commissions, this would have resulted in a decrease in reported revenue of €4.7 million for the year ended 31 December 2018, with a corresponding decrease in cost of sales of the same amount.

IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* replaced the previous 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 has assessed the impact from the application of IFRS 9 on its consolidated financial statements. The vast majority of financial assets held are trade receivables and cash, which continue to be accounted for at amortised cost. The derivatives continue to be accounted for at fair value and as they are effective hedges, any gains or losses are recorded in other comprehensive income and equity. On this basis, the classification and measurement changes have not resulted in a material impact to the Group's consolidated financial statements, and comparatives have not been restated for the impact of IFRS 9.

Given historic loss rates, normal receivable ageing and the significant portion of trade receivables that are within agreed terms, the move from an incurred loss model to an expected loss model has not had a material impact.

On 26 October 2018, the Group completed the refinancing of its debt facilities. This was accounted for in accordance with the requirements of IFRS 9 *Financial Instruments* (note 21).

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.
- 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).
- Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018).
- Amendment to IFRS 3 *Business Combinations* (issued on 22 October 2018).
- Amendments to IAS 1 and IAS 8: *Definition of Material* (issued on 31 October 2018).

Notes to the consolidated financial statements

(continued)

1 Significant accounting policies (continued)

(ii) Statement of compliance (continued)

The following standard has been endorsed by the EU, is available for early adoption and is effective from 1 January 2019 as indicated in the following section. The Group has not adopted this standard early.

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* 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.

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 profit or loss and will be replaced with finance costs on the lease liability and depreciation on the right-of-use asset. The only exemptions are short-term and low-value leases. Variable lease payments which are dependent on external factors such as hotel performance will continue to be recognised directly in profit or loss.

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 has been assessed. The following conclusions and decisions have been made by the Group:

- the Group did not early adopt IFRS 16;
- 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 prepayments and initial direct costs. This means that, generally, 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;
- the Group intends to use the practical expedient whereby it will not reassess whether contracts in place at the date of initial application are or contain leases;

- the Group will avail of exemptions for short-term leases and low-value items in relation to a small number of leases for equipment;
- the Group intends to avail of the practical expedient to apply a single discount rate to a portfolio of leases for multiple rooms within a single hotel property;
- the Group intends to exclude initial direct costs from measuring the right-of-use asset at the date of initial application for certain leases; and
- the Group does not intend to use practical expedients 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 2018 were €33.2 million (2017: €31.0 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 2018 was €7.5 million (2017: €7.6 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 (existing alternative performance measures as defined in note 2), 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 costs versus the existing straight-line rent expense under IAS 17 *Leases*.

Notes to the consolidated financial statements

(continued)

1 Significant accounting policies (continued)

(ii) Statement of compliance (continued)

IFRS 16 Leases (continued)

Covenants as currently calculated under existing debt arrangements will not be amended as their calculation is in accordance with generally accepted accounting principles, policies, standards and practices applicable on the date of entry into the agreements. IFRS 16 is not expected to have any impact on strategy or commercial negotiation.

Consolidated statement of financial position

As 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 commitments 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 non-cancellable commitments on all operating leases as at 31 December 2018 are €672.7 million (31 December 2017: €624.4 million) (note 24). The Group's commitments at that date 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 Group has set out in note 24 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. Despite being used primarily for illustrative purposes, based on the work completed to date, we do not expect the weighted average discount rate to be considerably different.

(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 or million and this is clearly set out in the financial statements where applicable.

(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.

Notes to the consolidated financial statements

(continued)

1 Significant accounting policies (continued)

(iv) Basis of consolidation (continued)

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 by the Group. 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. Car park revenue is recognised when the service is provided.

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

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

Revenue in respect of contracts with customers for sale of residential property is based on when the performance obligations inherent in the contract are completed. The contract for sale is assessed in line with IFRS 15 *Revenue from Contracts with Customers* and revenue is recognised when the performance obligations inherent in the contract are met.

(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.

Notes to the consolidated financial statements

(continued)

1 Significant accounting policies (continued)

(ix) Tax

Tax charge comprises current and deferred tax.

Tax charge 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 or taxable 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.

(x) Earnings per share (“EPS”)

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 and potential 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 or non-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 significant 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.	

Notes to the consolidated financial statements

(continued)

1 Significant accounting policies (continued)

(xi) Property, plant and equipment (continued)

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 or for both, but not for sale in the ordinary course of business.

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

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

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 and IFRS 13.

(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 generate 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.

Notes to the consolidated financial statements

(continued)

1 Significant accounting policies (continued)

(xiii) Goodwill (continued)

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 are 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.

(xiv) Intangible assets other than goodwill

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.

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.

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. Inventories represent assets that are sold in the normal course of business by the Group and consumables.

(xvi) Contract fulfilment costs

Contract fulfilment costs are stated at the lower of cost and recoverable amount. Contract fulfilment costs represent assets that are to be sold by the Group but do not form part of normal trading. Costs capitalised as contract fulfilment costs include costs incurred in fulfilling the specific contract. The costs must enhance the asset, be used in order to satisfy the obligations inherent in the contractual arrangement and should be recoverable. Costs which are not recoverable are written off to the profit or loss as incurred.

(xvii) Trade and other receivables

Trade and other receivables are stated initially at their fair value and subsequently at amortised cost, less any expected credit loss provision. The Group applies the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. Bad debts are written off to profit or loss on identification.

(xviii) 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.

(xix) 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.

In the consolidated 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.

Notes to the consolidated financial statements

(continued)

1 Significant accounting policies (continued)

(xx) Finance costs

Finance costs comprise interest expense on borrowings and related financial instruments, amortisation of capitalised costs directly related to debt raises, commitment fees and other costs relating to financing of the Group.

Interest expense is recognised using the effective interest method. The effective interest rate of a financial liability is calculated on initial recognition of a financial liability. In calculating interest expense, the effective interest rate is applied to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

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 or sale. The Group uses two capitalisation rates being the weighted average interest rate after the impact of hedging instruments 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.

(xxi) 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.

(xxii) 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.

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.

(xxiv) 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 an effective interest rate basis over the 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.

(xxv) Derecognition of financial liabilities

The Group removes a financial liability from its statement of financial position when it is extinguished (when its contractual obligations are discharged or cancelled, or expire).

Notes to the consolidated financial statements

(continued)

1 Significant accounting policies (continued)

(xxv) Derecognition of financial liabilities (continued)

The Group also derecognises a financial liability when the terms and the cash flows of the modified liability are substantially different. The terms are substantially different if the discounted present value of the cash flows under the new terms, discounted using the original effective interest rate, including any fees paid net of any fees received, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability, the '10% test'.

If the financial liability is deemed substantially modified (greater than 10 per cent different), a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss.

If the financial liability is deemed non-substantially modified (less than 10 per cent different), the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate is adjusted to reflect the current market terms at the time of the modification. Any costs and fees directly attributable to the modified financial liability are recognised as an adjustment to the carrying amount of the modified financial liability and amortised over its remaining term by re-computing the effective interest rate on the instrument. Any unamortised costs attributable to the original financial liability, with the exception of unamortised arrangement fees, are recognised as an adjustment to the carrying amount of the modified financial liability and amortised over its remaining term by re-computing the effective interest rate on the instrument. Unamortised arrangement fees relating to the original liability are expensed to profit or loss on modification.

(xxvi) 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 a portion of 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.

(xxvii) 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.

Notes to the consolidated financial statements

(continued)

1 Significant accounting policies (continued)

(xxvii) Cash flow hedge accounting (continued)

The amount accumulated in equity is retained in other comprehensive income and reclassified to profit or loss in the same period or periods during which the hedged item affects profit or loss.

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

(xxviii) 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 a Group entity that is 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.

(xxix) Adjusting items

Consistent with how business performance is measured and managed internally, the Group reports both statutory measures prepared under IFRS and certain alternative performance measures ('APMs') that are not required under IFRS.

These APMs are sometimes referred to as 'non GAAP' measures and include, amongst others, Adjusted EBITDA, Adjusted profit and Adjusted EPS.

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 stakeholders with a more meaningful understanding of the underlying financial and operating performance of the Group.

Adjusted measures of profitability represent the equivalent IFRS measures adjusted to show the underlying operating performance of the Group and exclude items which are not reflective of normal trading activities or distort comparability either period on period or with other similar businesses.

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, Deputy CEOs and the 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 2018, the Group owns 27 hotels (31 December 2017: 24 hotels) and has effective ownership of one further hotel which it operates (31 December 2017: 1 hotel). It also owns the majority of one of the other hotels which it operates (31 December 2017: 1 hotel). The Group also leases ten hotel buildings from property owners (31 December 2017: 9 hotels) 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	2018	Restated*
	€'000	€'000
Dublin	234,907	203,402
Regional Ireland	79,554	76,367
United Kingdom	78,107	70,417
Managed Hotels	1,168	1,986
Total revenue	393,736	352,172

*Revenue and cost of sales have been restated for the year ended 31 December 2017 as a result of the retrospective application of IFRS 15. The impact is limited to a reclassification between revenue and cost of sales in profit or loss (note 1).

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) Regional 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)

	2018 €'000	2017 €'000
Segmental results - EBITDAR		
Dublin	114,007	99,006
Regional Ireland	22,679	21,450
United Kingdom	30,494	27,036
Managed Hotels	1,168	1,986
EBITDAR for reportable segments	168,348	149,478
Segmental results - EBITDA		
Dublin	86,368	72,630
Regional Ireland	21,577	20,271
United Kingdom	26,298	23,777
Managed Hotels	1,168	1,986
EBITDA for reportable segments	135,411	118,664
Reconciliation to results for the year		
Segmental results - EBITDA	135,411	118,664
Rental income	271	270
Central costs	(13,299)	(12,371)
Share-based payments expense	(2,800)	(1,690)
Adjusted EBITDA	119,583	104,873
Net property revaluation movements through profit or loss	(3,137)	(1,425)
Proceeds from insurance claim	2,598	-
Hotel pre-opening expenses	(2,487)	-
Acquisition-related costs	-	(1,260)
Gains on disposal of property freehold interests and subsidiary	-	469
Group EBITDA	116,557	102,657
Depreciation of property, plant and equipment	(19,698)	(15,710)
Amortisation of intangible assets	(44)	(24)
Finance costs	(9,514)	(9,636)
Profit before tax	87,301	77,287
Tax charge	(12,077)	(8,979)
Profit for the year attributable to owners of the Company	75,224	68,308

Notes to the consolidated financial statements

(continued)

2 Operating segments (continued)

Group EBITDA represents earnings before interest and finance costs, tax, depreciation and amortisation of intangible assets.

Adjusted EBITDA is presented as an alternative performance measure to show the underlying operating performance of the Group excluding items which are not reflective of normal trading activities or distort comparability either period on period or with other similar businesses. Consequently, Adjusted EBITDA represents Group EBITDA before:

- Acquisition-related costs in 2017 (note 3);
- Net property revaluation movements through profit or loss (note 11);
- Gains on disposal of property freehold interests and subsidiary in 2017 (note 4);
- Proceeds from insurance claim (note 4); and
- Hotel pre-opening expenses (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 expense 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 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 €32.9 million in 2018 (2017: €30.8 million).

Disaggregated revenue information

Disaggregated revenue is reported in the same way as it is reviewed and analysed internally by the chief operating decision makers, primarily the CEO, Deputy CEOs and the Board of Directors. The key components of revenue reviewed by the chief operating decision makers are:

- Room revenue which relates to the rental of rooms in each hotel. Revenue is recognised when the hotel room is occupied, and the service is provided;
- Food and beverage revenue which relates to sales of food and beverage at the hotel property. This revenue is recognised at the point of sale;
- Other revenue includes revenue from leisure centres, car park revenues, meeting room hire and other revenue sources at the hotels. Leisure centre revenue is recognised over the life of the membership while the other items are recognised when the service is provided; and
- Revenue from 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 under the terms of the contract. Management fee revenues are not disaggregated.

Notes to the consolidated financial statements

(continued)

2 Operating segments (continued)

Disaggregated revenue information (continued)

Revenue review by segment – Dublin	2018 €'000	Restated* 2017 €'000
Room revenue	168,642	144,422
Food and beverage revenue	50,640	46,198
Other revenue	15,625	12,782
Total revenue	234,907	203,402

Revenue review by segment – Regional Ireland	2018 €'000	Restated* 2017 €'000
Room revenue	45,167	41,975
Food and beverage revenue	26,441	26,529
Other revenue	7,946	7,863
Total revenue	79,554	76,367

Revenue review by segment – United Kingdom	2018 €'000	Restated* 2017 €'000
Room revenue	54,416	48,525
Food and beverage revenue	17,167	16,000
Other revenue	6,524	5,892
Total revenue	78,107	70,417

Other geographical information

Revenue	2018			Restated 2017*		
	Republic of Ireland €'000	United Kingdom €'000	Total €'000	Republic of Ireland €'000	United Kingdom €'000	Total €'000
Leased and owned hotels	314,461	78,107	392,568	279,769	70,417	350,186
Managed hotels	747	421	1,168	1,728	258	1,986
Total revenue	315,208	78,528	393,736	281,497	70,675	352,172

* Revenue and cost of sales have been restated for the year ended 31 December 2017 as a result of the retrospective application of IFRS 15. The impact is limited to a reclassification between revenue and cost of sales in profit or loss (note 1).

Notes to the consolidated financial statements

(continued)

2 Operating segments (continued)

Other geographical information (continued)

Assets and liabilities	At 31 December 2018			At 31 December 2017		
	Republic of Ireland €'000	United Kingdom €'000	Total €'000	Republic of Ireland €'000	United Kingdom €'000	Total €'000
Assets						
Intangible assets and goodwill	41,588	12,829	54,417	41,588	12,974	54,562
Property, plant and equipment	930,676	245,584	1,176,260	758,192	240,620	998,812
Investment property	1,560	-	1,560	1,585	-	1,585
Other non-current assets	12,725	11,100	23,825	3,231	1,112	4,343
Current assets	44,016	16,411	60,427	29,708	8,506	38,214
Total assets excluding derivatives and tax assets	1,030,565	285,924	1,316,489	834,304	263,212	1,097,516
Derivatives			-			1
Deferred tax assets			2,613			3,571
Total assets			1,319,102			1,101,088
Liabilities						
Loans and borrowings	102,508	199,381	301,889	63,627	196,512	260,139
Trade and other payables	54,225	11,025	65,250	52,978	11,875	64,853
Total liabilities excluding provisions, derivatives and tax liabilities	156,733	210,406	367,139	116,605	208,387	324,992
Provisions			6,642			4,716
Derivatives			1,306			1,778
Current tax liabilities			309			351
Deferred tax liabilities			41,129			31,858
Total liabilities			416,525			363,695
Revaluation reserve	225,290	23,128	248,418	139,802	15,304	155,106

The above information on assets, 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 are classified as liabilities in the United Kingdom, €197.3 million (£176.5 million) of which acts as a net investment hedge as at 31 December 2018 (2017: €196.5 million (£174.4 million)). 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

	2018	2017
	€'000	€'000
Depreciation of property, plant and equipment	19,698	15,710
Hotel pre-opening expenses	2,487	-
Operating lease rentals: Land and buildings (including central office lease costs)	33,171	31,047
Acquisition-related costs	-	1,260

Hotel pre-opening expenses relate to costs incurred by the Group in 2018 in advance of six new hotels which opened in 2018 and 2019. These costs primarily relate to payroll expenses, sales and marketing costs and training costs of new staff.

Acquisition-related costs for the year ended 31 December 2017 included professional fees, stamp duty costs, redundancy and other costs associated with the business combinations outlined in note 9.

	2018	2017
	€'000	€'000
Auditor's remuneration		
Audit of Group, Company and subsidiary financial statements	301	278
Other assurance services	20	20
Tax advisory and compliance services	262	195
Other non-audit services	39	78
	622	571

Auditor's remuneration for the audit of the Company financial statements was €10,000 (2017: €10,000).

Other assurance services relates to review of the interim condensed consolidated financial statements.

The majority of the fees for tax and other non-audit services in 2018 relate to taxation advice on the sale, at completion, of the residential property which the Group is developing at the site of the Tara Towers hotel (note 13), review of capital allowances and other miscellaneous tax projects.

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

Notes to the consolidated financial statements

(continued)

3 Statutory and other information (continued)

	2018	2017
	€'000	€'000
Directors' remuneration		
Salary and other emoluments	2,617	2,568
Gains on vesting of awards granted in 2014 under the 2014 Long-Term Incentive Plan	-	1,480
Gains on vesting of awards granted in 2015 under the 2014 Long-Term Incentive Plan	1,250	-
Fees	350	350
Pension costs – defined contribution	103	101
	4,320	4,499

Gains associated with the shares which issued to the Directors on vesting of awards granted in 2014 and 2015 under the 2014 Long-Term Incentive Plan ("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.

Details of the Directors' remuneration and interests in conditional share awards are set out in the Remuneration Committee report on pages 80 to 91.

4 Other income

	2018	2017
	€'000	€'000
Rental income	271	270
Proceeds from insurance claim	2,598	-
Gains on disposal of freehold interests and subsidiary	-	469
	2,869	739

In October 2018, the Group received a commercial settlement amounting to €2.6 million from an insurance claim as a result of a fire in December 2016 at Clayton Hotel Silver Springs, Cork in which a vacant building located on the grounds, but separate to, and unused by the hotel, was destroyed.

In 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).

In 2017, the Group disposed of a subsidiary undertaking which held the leasehold interest in the Croydon Park Hotel, UK for €0.1 million and recorded a gain on disposal of €0.2 million.

In 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.

Notes to the consolidated financial statements

(continued)

5 Finance costs

	2018	2017
	€'000	€'000
Interest expense on bank loans and borrowings	7,801	7,346
Cash flow hedges – reclassified from other comprehensive income	1,026	1,348
Other finance costs	2,760	2,327
Net exchange (gain)/loss on financing activities	(325)	204
Interest capitalised to property, plant and equipment	(1,748)	(1,589)
	9,514	9,636

The Group uses interest rate swaps to convert the interest rate on part of its debt from floating rate to fixed rate (note 14). This cash flow hedge net cash outflow is shown separately within finance costs and represents the additional interest the Group paid under the interest rate swaps.

Other finance costs include the amortisation of capitalised debt costs, the write-off of unamortised arrangement fees relating to the original loan facility on modification of €0.9 million (notes 23, 28), commitment fees and other banking fees.

Exchange gain/loss on financing activities relates principally to loans which did not form part of the net investment hedge (note 23).

Interest on loans and borrowings amounting to €1.7 million was capitalised to assets under construction on the basis that this cost was directly attributable to the construction of qualifying assets (note 11) (2017: €1.6 million). 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 2.03% (2017: 2.45%) and 3.43% (2017: 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:

	2018	2017
Administration	510	417
Other	2,869	2,627
	3,379	3,044

Full-time equivalents split by geographical region was as follows:

	2018	2017
Dublin (including the Group's central functions)	1,845	1,596
Regional Ireland	950	905
United Kingdom	584	543
	3,379	3,044

Notes to the consolidated financial statements

(continued)

6 Personnel expenses (continued)

The aggregate payroll costs of these persons were as follows:

	2018	2017
	€'000	€'000
Wages and salaries	95,077	84,001
Social welfare costs	9,925	8,542
Pension costs – defined contribution	1,087	688
Share-based payments expense	2,800	1,690
Severance costs	35	149
	108,924	95,070

7 Share-based payments expense

The total share-based payment expense for the Group's employee share schemes charged to the profit or loss during the year was €2.8 million (2017: €1.7 million), analysed as follows:

	2018	2017
	€'000	€'000
Long-Term Incentive Plans	2,374	1,375
Save As You Earn Scheme	426	315
	2,800	1,690

Details of the schemes operated by the Group are set out below:

Long-Term Incentive Plans

During the year ended 31 December 2018, the Board approved the conditional grant of 743,795 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 (89 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 2018 to 31 December 2020 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 Group's 2020 audited consolidated financial statements, of €0.43 with 100% vesting for adjusted basic EPS of €0.54 or greater. Awards will vest on a straight-line basis for performance between these points. EPS targets may be amended in restricted circumstances if an event occurs which causes the Remuneration Committee to determine an amended or substituted performance condition would be more appropriate and not materially more or less difficult to satisfy. Further details of the plans are set out in the Directors Remuneration Report on pages 80 to 91.

Notes to the consolidated financial statements

(continued)

7 Share-based payments expense (continued)

Long-Term Incentive Plans (continued)

Movements in the number of share awards are as follows:

	2018	2017
	Awards	Awards
Outstanding at the beginning of the year	2,114,579	2,088,379
Granted during the year	743,795	829,049
Forfeited during the year	(30,415)	(88,551)
Exercised during the year	(668,550)	(714,298)
Outstanding at the end of the year	2,159,409	2,114,579

Grant date	2018	2017
	Awards	Awards
March 2015	-	595,962
October 2015	-	72,588
March 2016	621,253	621,253
May 2017	816,407	824,776
March 2018	721,749	-
Outstanding at the end of the year	2,159,409	2,114,579

During the year ended 31 December 2018, the Company issued 668,550 shares on foot of the vesting of awards granted in March 2015 and October 2015 under the terms of the 2014 LTIP. Over the course of the three year performance period, 25,764 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 €6.14.

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:

	March 2018	May 2017	March 2016	October 2015	March 2015
Fair value at grant date	€3.03	€2.14	€2.45	€2.43	€1.92
Share price at grant date	€6.06	€5.09	€4.69	€4.27	€3.55
Exercise price	€0.01	€0.01	€0.01	€0.01	€0.01
Expected volatility	29.77% p.a.	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%	1.5%
Performance period	3 years	3 years	3 years	3 years	3 years

Notes to the consolidated financial statements

(continued)

7 Share-based payments expense (continued)

Measurement of fair values (continued)

For measurement purposes, the dividend yield is based upon adjusted non-zero yields as though the Group was a zero-dividend yield company at these dates which 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, 2017 and 2018 awards and of a comparator group of companies for awards in prior periods.

Awards granted in 2017 and 2018 under the 2017 LTIP include 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, which equals the share price less exercise price. 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.

Save As You Earn Scheme

During the year ended 31 December 2018, 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. 379 employees availed of the 2018 Scheme (515 employees availed of the 2017 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 2017 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.

Movements in the number of share options and the related weighted average exercise price ("WAEP") are as follows:

	2018		2017	
	Options	WAEP € per share	Options	WAEP € per share
Outstanding at the beginning of the year	1,429,099	3.52	837,545	2.94
Granted during the year	411,966	5.02	702,888	4.13
Forfeited during the year	(202,794)	3.94	(111,334)	2.98
Exercised during the year	(152)	2.91	-	-
Outstanding at the end of the year	1,638,119	3.85	1,429,099	3.52

The weighted average remaining contractual life for the share options outstanding at 31 December 2018 is 1.7 years (2017: 2.3 years).

Notes to the consolidated financial statements

(continued)

8 Tax charge

	2018	2017
	€'000	€'000
Current tax		
Irish corporation tax	9,094	8,517
UK corporation tax	2,320	1,615
Under/(over) provision in respect of prior periods	127	(582)
	11,541	9,550
Deferred tax charge/(credit) (note 22)	536	(571)
	12,077	8,979

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.

	2018	2017
	€'000	€'000
Profit before tax	87,301	77,287
Tax on profit at standard Irish corporation tax rate of 12.5%	10,913	9,661
<i>Effects of:</i>		
Income taxed at a higher rate	445	738
Insurance proceeds non-taxable	(325)	-
Expenses not deductible for tax purposes	481	598
Impact of revaluation losses not deductible for tax purposes	392	-
Overseas income taxed at higher rate	770	585
Losses utilised at higher rate	(445)	(738)
Under/(over) provision in respect of current tax in prior periods	127	(582)
Under provision in respect of deferred tax in prior periods	53	174
Losses and similar deductions not previously recognised	(8)	(666)
Other differences	(326)	(791)
	12,077	8,979

The deferred tax assets and liabilities arising in the UK at 31 December 2018 have been calculated based on the rate of 17% (2017: 17%) substantively enacted at that date.

Notes to the consolidated financial statements

(continued)

9 Business combinations in prior year

There were no business combinations by the Group in the year ended 31 December 2018.

Prior year acquisitions – year ended 31 December 2017

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:

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

The acquisition method of accounting was used to consolidate the business acquired in the Group's consolidated financial statements. No goodwill was 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, now trading as Clayton Hotel Liffey Valley

During 2017, in a separate transaction to the aforementioned business combination, the Group purchased the long leasehold interest (freehold equivalent) of 46 suites in the Clayton Hotel Liffey Valley for €10.6 million plus capitalised acquisition costs of €0.5 million. These acquisitions were treated as asset acquisitions and capitalised to property, plant and equipment.

During 2018, the Group purchased the long leasehold interest (freehold equivalent) of 34 suites in the Clayton Hotel Liffey Valley for €7.6 million plus capitalised acquisition costs of €0.7 million. These acquisitions were treated as asset acquisitions and capitalised to property, plant and equipment (note 11).

Notes to the consolidated financial statements

(continued)

9 Business combinations in prior year (continued)

Prior year acquisitions – year ended 31 December 2017 (continued)

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:

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

The acquisition method of accounting was used to consolidate the business acquired in the Group's consolidated financial statements. No goodwill was 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.

Notes to the consolidated financial statements

(continued)

10 Intangible assets and goodwill

	Goodwill	Other indefinite-lived intangible assets	Other intangible assets	Total
	€'000	€'000	€'000	€'000
Cost				
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)
Balance at 31 December 2017	79,126	20,500	676	100,302

Balance at 1 January 2018	79,126	20,500	676	100,302
Effect of movements in exchange rates	(96)	-	(5)	(101)
Balance at 31 December 2018	79,030	20,500	671	100,201

Accumulated amortisation and impairment losses

Balance at 1 January 2017	(45,716)	-	-	(45,716)
Amortisation of other intangible assets	-	-	(24)	(24)
Balance at 31 December 2017	(45,716)	-	(24)	(45,740)

Balance at 1 January 2018	(45,716)	-	(24)	(45,740)
Amortisation of other intangible assets	-	-	(44)	(44)
Balance at 31 December 2018	(45,716)	-	(68)	(45,784)

Carrying amounts

At 1 January 2017	33,767	20,500	-	54,267
At 31 December 2017	33,410	20,500	652	54,562
At 31 December 2018	33,314	20,500	603	54,417

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.

Based on our annual impairment review conducted at 31 December 2018, goodwill was not considered to be impaired and accordingly, no impairment was recognised during 2018. 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.

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.

Notes to the consolidated financial statements

(continued)

10 Intangible assets and goodwill (continued)

Goodwill (continued)

Included in the goodwill figure is €12.2 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 2018 resulted in a foreign exchange loss of €0.1 million and a corresponding decrease in goodwill. The comparative translation at 31 December 2017 resulted in a foreign exchange loss of €0.4 million.

	Number of Cash - Generating Units At 31 December 2018	2018 €'000	2017 €'000
Carrying amount of goodwill allocated			
Moran Bewley Hotel Group (i)	7	24,491	24,576
Other acquisitions (i)	3	1,956	1,967
2007 Irish hotel operations acquired (ii)	4	6,867	6,867
		33,314	33,410

The above table represents the number of CGUs to which goodwill was allocated at 31 December 2018.

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 recorded as 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. Management have considered the manner and potential impact of the United Kingdom's departure from the European Union. Brexit may have a negative impact on both the United Kingdom and Irish economies. The Group continues to monitor the ongoing uncertainty surrounding Brexit but has seen no impact on trading and there is no indicator of impairment at 31 December 2018 as a result of this.

(i) Moran Bewley Hotel 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 (2018: Ireland 8.46%, UK 6.8%; 2017: Ireland 8.46%, UK 6.8%). Purchasers costs are a key difference between value in use and fair value less costs of disposal as prepared by external valuers.

At 31 December 2018, the recoverable amounts of the 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 prepared by management 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);

Notes to the consolidated financial statements

(continued)

10 Intangible assets and goodwill (continued)

Annual goodwill testing (continued)

(i) Moran Bewley Hotel Group and other single asset acquisitions (continued)

- Revenue and EBITDA for the first year of the projections is based on budgeted figures for 2019 prepared by management. Budgeted revenue and EBITDA are based on expectations of future outcomes taking into account past experience, adjusted for anticipated revenue and cost growth;
- Cash flow projections 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 refurbishment 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 8.25% to 11.50% (Ireland: 9.50% to 11.25%; UK: 8.25% to 11.50%) (2017: 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 2018, the recoverable amount was determined to be 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 2018.

(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 at 31 December 2018 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 (2018: 8.46%, 2017: 8.46%). Purchasers costs are a key difference between value in use and fair value less costs of disposal as prepared by external valuers.

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 2019 prepared by management. Budgeted revenue and EBITDA are based on expectations of future outcomes taking into account past experience, adjusted for anticipated revenue and cost 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 refurbishment 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

Notes to the consolidated financial statements

(continued)

10 Intangible assets and goodwill (continued)

Annual goodwill testing (continued)

(ii) 2007 Irish hotel operations acquired (continued)

- The cash flows are discounted using a risk adjusted discount rate specific to each property which ranged from 10.25% to 11.25% (2017: 10.75% to 11.50%). 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 2018, the recoverable amount was determined to be 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 2018.

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. The carrying value of this asset amounted to €20.5 million at 31 December 2017 and 31 December 2018 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 indefinite-lived intangible assets annually for impairment or more frequently if there are indicators it may be impaired.

At 31 December 2018, 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 2019 prepared 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;
- 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 11.00% (2017: 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 2018, the recoverable amount was determined to be significantly higher than the carrying amount of the CGU. There is no reasonably foreseeable change in assumptions that would impact adversely on the carrying value.

Notes to the consolidated financial statements

(continued)

10 Intangible assets and goodwill (continued)

Other indefinite-lived intangible assets (continued)

Acquired leasehold interests (continued)

The Directors concluded that the carrying value of other indefinite-lived intangible assets was not impaired at 31 December 2018.

Other intangible assets

Other intangible assets (€0.6 million) represent 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 (operating lease) of that hotel property in 2017. The lease term is 15 years and the intangible asset is being 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 assets' recoverable amount is estimated.

At 31 December 2018, 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 2018.

11 Property, plant and equipment

	Land and buildings €'000	Assets under construction €'000	Fixtures, fittings and equipment €'000	Total €'000
At 31 December 2018				
Valuation	1,077,208	-	-	1,077,208
Cost	-	26,404	106,680	133,084
Accumulated depreciation (and impairment charges) *	-	-	(34,032)	(34,032)
Net carrying amount	1,077,208	26,404	72,648	1,176,260
At 1 January 2018, net carrying amount	848,777	97,365	52,670	998,812
Additions through freehold or site purchases	9,187	-	-	9,187
Other additions through capital expenditure	1,133	76,231	18,971	96,335
Reclassification from assets under construction to land and buildings and fixtures, fittings and equipment for assets that have come into use	140,194	(152,047)	11,853	-
Transfer from land and buildings to asset under construction for land which is being developed into a new hotel	(6,615)	6,615	-	-
Transfer from land and buildings to contract fulfilment costs (note 13)	(8,085)	-	-	(8,085)
Capitalised borrowing costs (note 5)	-	1,748	-	1,748
Transfer of capitalised borrowing costs from assets under construction to land and buildings for assets that have come into use	3,300	(3,300)	-	-
Revaluation gains through OCI	111,221	-	-	111,221
Revaluation losses through OCI	(8,275)	-	-	(8,275)
Reversal of revaluation losses through profit or loss	290	-	-	290
Revaluation losses through profit or loss	(3,402)	-	-	(3,402)
Depreciation charge for the year	(8,927)	-	(10,771)	(19,698)
Translation adjustment	(1,590)	(208)	(75)	(1,873)
At 31 December 2018, net carrying amount	1,077,208	26,404	72,648	1,176,260

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

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	Assets under construction	Fixtures, fittings and equipment	Total
	€'000	€'000	€'000	€'000
At 31 December 2017				
Valuation	848,777	-	-	848,777
Cost	-	97,365	75,931	173,296
Accumulated depreciation (and impairment charges) *	-	-	(23,261)	(23,261)
Net carrying amount	848,777	97,365	52,670	998,812
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)
At 31 December 2017, net carrying amount	848,777	97,365	52,670	998,812

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

The carrying value of land and buildings (revalued at 31 December 2018) is €1,077.2 million. The value of these assets under the cost model is €803.4 million. In 2018, unrealised revaluation gains of €111.2 million and unrealised losses of €8.3 million have been reflected through other comprehensive income and in the revaluation reserve in equity. A revaluation loss of €3.4 million and a reversal of prior period revaluation losses of €0.3 million have been reflected in administrative expenses through profit or loss.

Notes to the consolidated financial statements

(continued)

11 Property, plant and equipment (continued)

Included in land and buildings at 31 December 2018 is land at a carrying value of €412.7 million which is not depreciated.

Additions to land and buildings during the year ended 31 December 2018 include the following asset purchases:

- Purchase of the long leasehold interest (freehold equivalent) of 34 suites in the Clayton Hotel Liffey Valley for €7.6 million plus capitalised acquisition costs of €0.7 million; and
- Purchase of the long leasehold interest (freehold equivalent) of two suites in the Clayton Hotel, Cardiff Lane for €0.8 million plus capitalised acquisition costs of €0.1 million.

Additions to assets under construction during the year ended 31 December 2018 include the following:

- Development expenditure incurred on new build hotels of €44.6 million;
- Development expenditure incurred on hotel extensions and renovations of €31.6 million; and
- Interest capitalised on loans and borrowings relating to qualifying assets of €1.7 million (note 5).

Property previously classified as assets under construction (€152.0 million) and interest capitalised on loans and borrowings relating to qualifying assets previously classified as assets under construction (€3.3 million) has been transferred to land and buildings and fixtures and fittings as a result of the assets coming into use during the year ended 31 December 2018. This includes the following:

- The completed construction of Maldron Hotel Belfast City, Belfast with operations beginning 13 March 2018;
- The completed construction of Maldron Hotel Kevin Street, Dublin with operations beginning 6 July 2018;
- The completed construction of Clayton Hotel Charlemont, Dublin with operations beginning 23 November 2018;
- The substantially completed construction of Maldron Hotel South Mall, Cork with operations beginning 20 December 2018;
- Additional bedrooms at Clayton Hotel Dublin Airport;
- Additional bedrooms at Maldron Sandy Road, Galway;
- Additional bedrooms at Maldron Parnell Square, Dublin; and
- New restaurant, meeting rooms and additional bedrooms at Clayton Hotel Ballsbridge, Dublin.

Arising from a change in use by the Group of previously recognised property plant and equipment during the year there has been a transfer to contract fulfilment costs (€8.1 million) relating to the element of the land on the site of the former Tara Towers hotel which is to be used to build a residential development (note 13). The Group has a forward sale agreement on this development with completion expected late 2020/early 2021.

Also, arising from a change of use of property previously recognised as land and buildings, there has been a transfer to assets under construction (€6.6 million) relating to the element of the land on the site of the former Tara Towers hotel which is to be used to build a new hotel which will be operated by the Group.

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.

The value of the Group's property at 31 December 2018 reflects open market valuations carried out in December 2018 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 2018, properties included within land and buildings with a carrying amount of €895.9 million (2017: €848.8 million) were pledged as security for loans and borrowings.

Notes to the consolidated financial statements

(continued)

11 Property, plant and equipment (continued)

Measurement of fair value

The fair value measurement of the Group's own-use property has been categorised as a Level 3 fair value based on the inputs to the valuation technique used. At 31 December 2018, 29 properties were revalued by independent external valuers engaged by the Group (31 December 2017: 25).

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 the profile of 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 final valuation also includes a deduction of full purchaser's costs based on the valuers' estimates at 8.46% for Republic of Ireland domiciled assets (2017: 8.46%) and 6.8% for United Kingdom domiciled assets (2017: 6.8%).

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)

Measurement of fair value (continued)

The significant unobservable inputs and drivers thereof are summarised in the following table.

Significant unobservable inputs

	31 December 2018			Total
	Dublin	Regional Ireland	United Kingdom	
	<i>Number of hotel assets</i>			
RevPAR				
< €75/£75	2	7	5	14
€75-€100/£75-£100	3	4	2	9
> €100/£100	5	1	-	6
	10	12	7	29
Terminal (Year 10) capitalisation rate				
<8%	4	2	2	8
8%-10%	6	10	5	21
	10	12	7	29
Price per key*				
< €150k/£150k	2	9	5	16
€150k-€250k/£150k-£250k	2	2	1	5
> €250k/£250k	7	-	1	8
	11	11	7	29

	31 December 2017			Total
	Dublin	Regional Ireland	United Kingdom	
	<i>Number of hotel assets</i>			
RevPAR				
< €75/£75	1	7	4	12
€75-€100/£75-£100	3	3	2	8
> €100/£100	4	1	-	5
	8	11	6	25
Terminal (Year 10) capitalisation rate				
<8%	1	2	2	5
8%-10%	7	9	4	20
	8	11	6	25
Price per key*				
< €150k/£150k	2	10	4	16
€150k-€250k/£150k-£250k	2	-	1	3
> €250k/£250k	4	1	1	6
	8	11	6	25

* 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)

Measurement of fair value (continued)

The valuers also applied risk adjusted discount rates of 9.25% to 11.25% for Dublin assets (31 December 2017: 9.50% to 11.75%), 9.50% to 12.00% for Regional Ireland assets (31 December 2017: 9.00% to 12.00%) and 8.25% to 12.00% for United Kingdom assets (31 December 2017: 8.50% to 12.50%).

The most significant factors which have impacted valuations this year are the uplifts on newly built hotels and extensions which were built at a cost below fair value and reflection of continued improvements in trading performance across hotels.

The manner and potential impact of the United Kingdom's departure from the European Union may have a negative impact on both the United Kingdom and Irish economies. The Group continues to monitor the ongoing uncertainty surrounding Brexit but has seen no impact on trading and there is no indicator of impairment at 31 December 2018 as a result of this.

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

	2018 €'000	2017 €'000
Cost or valuation		
At 1 January	1,585	3,245
Transfer to property, plant and equipment (note 11)	-	(585)
Transfer to intangible assets on sale and operating leaseback of property	-	(682)
Disposal on sale and operating leaseback of property	-	(813)
Transfer from property, plant and equipment (note 11)	-	385
Gain on revaluation recognised in profit or loss	-	35
Loss on revaluation recognised in profit or loss	(25)	-
At 31 December	1,560	1,585

Investment properties with a carrying value of €nil (2017: €1.6 million) was pledged as security for loans and borrowings at 31 December 2018.

Investment property at 31 December 2018 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 12 and 8 years remaining at 31 December 2018.
- In 2017, 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 was transferred to investment property from property, plant and equipment.
- In the year to 31 December 2017, transfers to property, plant and equipment 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 was transferred to property, plant and equipment (note 11).

Notes to the consolidated financial statements

(continued)

12 Investment property (continued)

- In the year to 31 December 2017, the Group completed the sale and operating leaseback of the Clayton Hotel Cardiff, UK. 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 2018 reflect an open market valuation carried out in December 2018 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 10.5% (2017: 6.75% to 10.75%).

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 Contract fulfilment costs

	2018 €'000	2017 €'000
Non-current asset		
At 1 January	-	-
Transfer from land and buildings to contract fulfilment costs (note 11)	8,085	-
Other costs incurred in fulfilling contract to date	981	-
At 31 December	9,066	-

Contract fulfilment costs, within non-current assets, relate to the Group's contractual agreement with Irish Residential Properties REIT PLC ("IRES") entered into on 16 November 2018, for IRES to purchase a residential development the Group is developing (comprising 69 residential units) on the site of the former Tara Towers hotel.

Revenue and the associated cost will be recognised on this contract in profit or loss when the performance obligation in the contract has been met. Based on the terms of the contract this will be on legal completion of the contract which will occur on practical completion of the development project which is expected to be late 2020/early 2021. As a result, revenue will be recognised at a point in time in the future when the performance obligation is met, rather than over time.

Arising from the change in use by the Group of previously recognised property, plant and equipment during the year, following the closure of the former Tara Towers Hotel, there was a transfer to contract fulfilment costs within non-current assets (€8.1 million) relating to the element of the land on the site of the former Tara Towers hotel (note 11) which will be used for the residential development.

Notes to the consolidated financial statements

(continued)

13 Contract fulfilment costs (continued)

Other costs incurred during the year in fulfilling the contract (€1.0 million) which relate directly to this contractual arrangement with IRES are also included within non-current assets at 31 December 2018. These costs have enhanced the asset which will be used for the residential development, have been used in order to satisfy the contract and the costs are expected to be recovered. They primarily relate to legal costs, architectural and planning costs and other professional fees incurred up to 31 December 2018 in fulfilling the contract.

The overall sale value of the transaction is expected to be up to €42.4 million (excluding VAT). The overall value of the transaction will vary depending on how Part V obligations (Social and Affordable housing allocation) are settled with Dublin City Council.

14 Derivatives

The Group have entered into interest rate swaps and a cap agreement with a number of financial institutions in order to manage the interest rate risks arising from the Group's borrowings (note 21).

Interest rate swaps are employed by the Group to partially convert the Group's Sterling denominated borrowings from floating to fixed interest rates. An interest rate cap is employed to limit the exposure to upward movements in floating interest rates on Euro denominated borrowings.

On 26 October 2018, as a result of the refinancing (note 21), the Group decided to hedge the floating interest rate on all the term borrowings for a five year term.

The terms of the derivatives are as follows:

- On refinancing the interest rate swaps with a maturity date of 3 February 2020 were retained which fix the LIBOR benchmark rate to 1.5025% on a notional of £101.5 million Sterling denominated borrowings;
- On 26 October 2018, two new interest rate swaps were employed with an effective date of 3 February 2020 which hedge the LIBOR benchmark rate on £101.5 million of the Sterling denominated borrowings for the period to the maturity of the term borrowings on 26 October 2023. These swaps fix the LIBOR benchmark rate to 1.39%; and
- On 26 October 2018, two new interest rate swaps were employed with an effective date of 26 October 2018 and a maturity date of 26 October 2023 to hedge the LIBOR benchmark rate on a total notional of £75 million of the Group's Sterling denominated borrowings. These swaps fix the LIBOR benchmark rate at 1.27% on a notional of £63 million and 1.28% on a notional of £12 million of Sterling denominated borrowings.

As at 31 December 2018, the interest rate swaps cover approximately 99% of the Group's Sterling denominated borrowings.

The Group also retained the interest rate cap with a maturity date of 30 September 2019, covering approximately 8% of the Group's Euro denominated borrowings at 31 December 2018. 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 IFRS 9.

Notes to the consolidated financial statements

(continued)

14 Derivatives (continued)

	2018	2017
	€'000	€'000
Fair value		
Non-current asset		
Interest rate cap asset	-	1
Total derivative asset	-	1
Non-current liabilities		
Interest rate swap liabilities	(1,306)	(1,778)
Total derivative liabilities	(1,306)	(1,778)
Net derivative financial instrument position at year end	(1,306)	(1,777)

	2018	2017
	€'000	€'000
Included in other comprehensive income		
<i>Fair value (losses)/gains on derivative instruments</i>		
Fair value (loss)/gain on interest rate swap liabilities	(553)	275
Fair value loss on interest rate cap asset	(1)	(6)
	(554)	269
Reclassified to profit or loss (note 5)	1,026	1,348
	472	1,617

The amount reclassified to profit or loss during the year represents the incremental interest expense arising under the interest rate swaps because actual LIBOR rates were lower than the swap rates.

15 Trade and other receivables

	2018	2017
	€'000	€'000
Non-current assets		
Other receivables	900	900
Deposit paid on acquisitions	5,086	-
Prepayments	8,773	3,443
	14,759	4,343
Current assets		
Trade receivables	9,300	8,957
Prepayments	8,943	7,469
Contract assets	2,614	1,664
Accrued income	1,709	2,614
	22,566	20,704
Total	37,325	25,047

Notes to the consolidated financial statements

(continued)

15 Trade and other receivables (continued)

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.

Non-current assets include deposits paid of €5.1 million (£4.6 million) in relation to the acquisition of Hintergard Limited, a company holding a developed hotel at Aldgate, London. This transaction completed on 3 January 2019 (note 26). Professional fees incurred to 31 December 2018 of €1.1 million (£1.0 million) associated with this transaction are included in non-current prepayments. There was no comparable deposit on acquisitions at 31 December 2017.

Also included within non-current prepayments at 31 December 2018 is €6.8 million (31 December 2017: €2.8 million) relating to costs associated with entering into leases which are being amortised over the life of the relevant leases as it represents up-front costs associated with entering the leases. These include the following:

- An amount of €2.6 million (2017: €nil) relating to costs incurred by the Group as a result of entering into a new lease at the hotel now trading as Maldron Hotel Newcastle. The costs are being amortised on a straight-line basis over the 35 year life of the lease;
- An amount of €1.5 million (2017: €1.6 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 net costs are being amortised on a straight-line basis over the 25 year life of the lease;
- An amount of €1.1 million (2017: €1.1 million) relating to the sale and operating leaseback of Hotel La Tour, Birmingham on 11 August 2017. The costs are amortised over the 35 year life of the lease; and
- The remainder relates to costs associated with entering a number of other leases by the Group as well as professional fees associated with future lease agreements for hotels currently being constructed or in planning. When these leases are initiated, amortisation will occur on a straight-line basis over the life of the leases.

Also included within non-current prepayments at 31 December 2018 is an amount of €0.9 million (2017: €0.6 million) relating to a prepayment made for IT services relating to 2020 and 2021.

Trade receivables are subject to the new expected credit loss model in IFRS 9 *Financial Instruments*. The Group has therefore revised its impairment methodology. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the number of days past due.

Aged analysis of trade receivables

	Gross receivables	Expected credit loss rate	Impairment provision	Net receivables
	2018	2018	2018	2018
	€'000	€'000	€'000	€'000
Not past due	4,607	0.1%	(5)	4,602
Past due < 30 days	2,313	0.4%	(9)	2,304
Past due 30 - 60 days	1,011	0.8%	(8)	1,003
Past due 60 - 90 days	320	3.8%	(12)	308
Past due > 90 days	1,569	31.0%	(486)	1,083
	9,820		(520)	9,300

Notes to the consolidated financial statements

(continued)

15 Trade and other receivables (continued)

Aged analysis of trade receivables (continued)

No changes to the impairment provisions were made on transition to IFRS 9. Management has not restated the prior year for the effect of IFRS 9 *Financial Instruments* as the effect of this change was not considered material. Impairment provisions in the prior year under the incurred loss model were not materially different to the expected credit loss rates used in 2018.

	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
	9,283	(326)	8,957

Management does not expect any significant losses from receivables that have not been provided for as shown above.

16 Inventories

	2018	2017
	€'000	€'000
Goods for resale	1,584	1,419
Consumable stores	370	346
	1,954	1,765

Inventories recognised as cost of sales during the year amounted to €27.8 million (2017: €27.4 million).

17 Cash and cash equivalents

	2018	2017
	€'000	€'000
Cash at bank and in hand	35,907	15,745
	35,907	15,745

Notes to the consolidated financial statements

(continued)

18 Capital and reserves

Share capital and share premium

At 31 December 2018

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	184,349,666	1,843
Share premium		503,113

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		503,113

All ordinary shares rank equally with regard to the Company's residual assets.

During the year ended 31 December 2018, the Company issued 668,550 shares of €0.01 per share on foot of the vesting of awards granted in March 2015 and October 2015 under the 2014 LTIP (note 7). 152 shares relating to the 2016 SAYE scheme were issued during 2018 (note 7).

Dividends

The dividends paid in respect of ordinary share capital were as follows:

	2018	2017
	€'000	€'000
Interim dividend - paid 3.0 cent per Ordinary Share (2017: €nil)	5,529	-

An interim dividend for 2018 of 3.0 cent per share was paid on 12 October 2018 on the ordinary shares in Dalata Hotel Group plc and amounted to €5.5 million (2017: €nil).

On 25 February 2019, the Board proposed a final dividend of 7.0 cent per share. This proposed dividend is subject to approval by the shareholders at the Annual General Meeting. These consolidated financial statements do not reflect this dividend.

Notes to the consolidated financial statements

(continued)

18 Capital and reserves (continued)

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 €40.0 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 vested in the year, are disclosed in note 7 and on pages 88 to 89 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.

(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 (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 (note 23).

Notes to the consolidated financial statements

(continued)

19 Trade and other payables

	2018	2017
	€'000	€'000
Trade payables	18,490	14,127
Accruals	34,072	41,175
Contract liabilities	9,421	6,674
Value added tax	775	713
Payroll taxes	2,492	2,164
	65,250	64,853

Accruals include capital expenditure accruals including work in progress at year end which has not yet been invoiced (2018: €9.5 million, 2017: €16.0 million).

20 Provision for liabilities

	2018	2017
	€'000	€'000
Non-current liabilities		
Insurance provision	4,783	4,716
Current liabilities		
Insurance provision	1,859	-
	6,642	4,716

The reconciliation of the movement in the provision for the year ended 31 December 2018 is as follows.

	2018	2017
	€'000	€'000
At 1 January	4,716	3,040
Provisions made during the year – charged to profit or loss	2,784	2,501
Utilised during the year	(858)	(825)
At 31 December	6,642	4,716

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. The Group expects the majority of the insurance provision will be utilised within two to five years of the period end date however due to the nature of the provision there is a level of uncertainty in the timing of settlement as the Group generally cannot precisely determine the extent and duration of the claim process. The provision has been discounted to reflect the time value of money though the effect is not significant.

Notes to the consolidated financial statements

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21 Interest-bearing loans and borrowings

	2018	2017
	€'000	€'000
<i>Repayable within one year</i>		
Bank borrowings	-	19,300
Less: unamortised debt costs	-	(1,094)
	-	18,206
<i>Repayable after one year</i>		
Bank borrowings	306,078	243,010
Less: unamortised debt costs	(4,189)	(1,077)
	301,889	241,933
Total interest-bearing loans and borrowings	301,889	260,139

On 26 October 2018, the Group successfully completed the refinancing of its existing debt facility with a banking club of six lenders - four original lenders who had participated in the previous facility and two new lenders to the Group. A new €525 million five year multicurrency facility was entered into consisting of a €200 million term loan facility and a €325 million revolving credit facility. The new maturity date of the facility is 26 October 2023.

In line with IFRS 9 derecognition criteria, the Group assessed whether the terms and cash flows of the modified liability were substantially different on refinancing.

Based on the '10% test' referred to in note 1 (xxv) (derecognition of financial liabilities accounting policy), the loans and borrowings which were repriced to current market-terms and which related to the original lenders were deemed to be non-substantially modified. As they are floating-rate liabilities, the amortised cost of the loans and borrowings relating to the original lenders was recalculated by discounting the modified cash flows at an effective interest rate which reflected the current market terms of the refinanced liabilities on 26 October 2018, which resulted in no gain or loss. The current market terms are the margin and applicable variable interest rates at that date. These loans and borrowings are recognised at amortised cost with directly attributable costs of €3.5 million being amortised to profit or loss on an effective interest rate basis over the five year term. Unamortised arrangement fees of €0.9 million on the original loans that are not reflective of current market terms at the modification date are recognised immediately in finance costs in profit or loss (note 5).

The loans and borrowings drawn with the two new lenders on 26 October 2018 are accounted for as new financial liabilities and accounted for at fair value less directly attributable transaction costs on initial recognition and subsequently, stated at amortised cost with directly attributable costs amortised to profit or loss on an effective interest rate basis over the five year term. The directly attributable costs in relation to the two new lenders totalled €0.8 million.

As at 31 December 2018, the drawn facility is €306.1 million consisting of Sterling term borrowings of £176.5 million (€197.3 million) and revolving credit facility borrowings of €108.8 million - €106.7 million in Euro and £1.9 million (€2.1 million) in Sterling. Unamortised debt costs at that date total €4.2 million.

The undrawn loan facilities as at 31 December 2018 were €216.2 million. On 2 January 2019, £60 million and €30.5 million were drawn from the multicurrency revolving credit facility to fund the acquisition of Hintergard Limited (note 26).

The loans bear interest at variable rates based on 3 month Euribor/LIBOR plus applicable margins. The Group has entered into certain derivative financial instruments to hedge interest rate exposure on a portion of these loans (see note 14). The loans are secured by the Group's 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.

Notes to the consolidated financial statements

(continued)

21 Interest-bearing loans and borrowings (continued)

Reconciliation of movements of liabilities to cash flows arising from financing activities

	Liabilities			Equity		
	Loans and	Trade and	Derivatives	Share	Retained	Total
	borrowings	other		capital	earnings	
2018	2018	2018	2018	2018	2018	
	€'000	€'000	€'000	€'000	€'000	€'000
Balance as at 1 January 2018	260,139	64,853	1,778	1,837	73,045	401,652
<i>Changes from financing cash flows</i>						
Proceeds from vesting of share awards	-	-	-	6	-	6
Interest and finance costs paid	(3,693)	(8,469)	(1,026)	-	-	(13,188)
Receipt of bank loans	137,902	-	-	-	-	137,902
Repayment of bank loans	(92,563)	-	-	-	-	(92,563)
Dividends paid	-	-	-	-	(5,529)	(5,529)
Total changes from financing cash flows	41,646	(8,469)	(1,026)	6	(5,529)	26,628
<i>Liability-related other changes</i>						
The effect of changes in foreign exchange rates	(1,570)	-	-	-	-	(1,570)
Changes in fair value	-	-	554	-	-	554
Interest expense on bank loans and borrowings	-	7,801	-	-	-	7,801
Other finance costs - net amortisation of debt costs	1,674	-	-	-	-	1,674
Other finance costs - other	-	1,065	-	-	-	1,065
Total liability-related other changes	104	8,866	554	-	-	9,524
Total equity-related other changes	-	-	-	-	76,545	76,545
Balance as at 31 December 2018	301,889	65,250	1,306	1,843	144,061	514,349

Notes to the consolidated financial statements

(continued)

21 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 2018	174,352	196,512	65,797	262,309
<i>Cash flows</i>				
Facilities drawn down	43,251	48,726	89,176	137,902
Loan repayments	(39,251)	(44,287)	(48,276)	(92,563)
<i>Non-cash changes</i>				
Effect of foreign exchange movements	-	(1,570)	-	(1,570)
At 31 December 2018	178,352	199,381	106,697	306,078
<i>Cash and cash equivalents</i>				
At 1 January 2018				15,745
Movement during the year				20,162
At 31 December 2018				35,907
Net debt at 31 December 2018				270,171
<i>At 31 December 2017</i>				
At 1 January 2017	174,352	203,639	80,097	283,736
<i>Cash flows</i>				
Facilities drawn down	30,000	34,180	2,500	36,680
Loan repayments	(30,000)	(33,096)	(16,800)	(49,896)
<i>Non-cash changes</i>				
Effect of foreign exchange movements	-	(8,211)	-	(8,211)
At 31 December 2017	174,352	196,512	65,797	262,309
<i>Cash and cash equivalents</i>				
At 1 January 2017				81,080
Movement during the year				(65,335)
At 31 December 2017				15,745
Net debt at 31 December 2017				246,564

Net debt is calculated in line with the Group's loan facility agreement. As a result, at 31 December 2018, it excludes unamortised debt costs of €4.2 million (2017: €2.2 million) and interest rate swap liabilities of €1.3 million (2017: €1.8 million).

Notes to the consolidated financial statements

(continued)

22 Deferred tax

	2018 €'000	2017 €'000
Deferred tax assets	2,613	3,571
Deferred tax liabilities	(41,129)	(31,858)
Net liability	(38,516)	(28,287)
Movements in year		
	2018 €'000	2017 €'000
At 1 January - net liability	(28,287)	(23,157)
Acquisition through business combination – assets	-	1,150
Acquisition through business combination – liabilities	-	(1,150)
(Charge)/credit for year – to profit or loss (note 8)	(536)	571
Charge for year – to other comprehensive income	(9,693)	(5,701)
At 31 December – net liability	(38,516)	(28,287)

As at 31 December 2018, there are unrecognised tax losses available in Pillo Hotels Limited of €0.3 million (2017: €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.

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 (€9.2 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 (€6.8 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 £2.2 million (€2.5 million) of tax trading losses remain unrecognised. The tax effect of these losses is £0.4 million (€0.4 million).

Notes to the consolidated financial statements

(continued)

22 Deferred tax (continued)

Deferred tax arises from temporary differences relating to:

	Net balance at 1 January 2018 €'000	Recognised in profit or loss 2018 €'000	Recognised in OCI 2018 €'000	Acquired in business combinations 2018 €'000	Balance as at 31 December 2018		
					Net deferred tax 2018 €'000	Deferred tax assets 2018 €'000	Deferred tax liability 2018 €'000
Property, plant and equipment	(27,647)	(923)	(9,634)	-	(38,204)	363	(38,567)
Intangible assets	(2,562)	-	-	-	(2,562)	-	(2,562)
Tax losses carried forward	1,682	387	-	-	2,069	2,069	-
Other	240	-	(59)	-	181	181	-
Net deferred tax	(28,287)	(536)	(9,693)	-	(38,516)	2,613	(41,129)
Balance as at 31 December 2017							
	Net balance at 1 January 2017 €'000	Recognised in profit or loss 2017 €'000	Recognised in OCI 2017 €'000	Acquired in business combinations 2017 €'000	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	-
Net deferred tax	(23,157)	571	(5,701)	-	(28,287)	3,571	(31,858)

23 Financial instruments and risk management

Risk exposures

The Group is exposed to various financial risks arising in the normal course of business. Its financial risk exposures are predominantly related to the creditworthiness of counterparties and risks relating to changes in interest rates and foreign currency.

The Group uses financial instruments throughout its business: interest-bearing loans and cash and cash equivalents are used to finance the Group's operations; trade and other receivables, trade payables and accruals arise directly from operations; and derivatives are used to manage interest rate risks and to achieve a desired profile of borrowings. The Group uses Sterling denominated borrowings as a net investment hedge 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 2018. 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)

23 Financial instruments and risk management (continued)

Risk exposures (continued)

	Financial assets measured at fair value 2018 €'000	Financial assets at amortised cost 2018 €'000	Total carrying amount 2018 €'000	Level 1 2018 €'000	Level 2 2018 €'000	Level 3 2018 €'000	Total 2018 €'000
Financial Assets							
Trade and other receivables excluding prepayments and deposits paid on acquisitions (note 15)	-	14,523	14,523				
Cash at bank and in hand (note 17)	-	35,907	35,907				
	-	50,430	50,430				

	Financial liabilities measured at fair value 2018 €'000	Financial liabilities measured at amortised cost 2018 €'000	Total carrying amount 2018 €'000	Level 1 2018 €'000	Level 2 2018 €'000	Level 3 2018 €'000	Total 2018 €'000
Financial Liabilities							
Bank loans (note 21)	-	(301,889)	(301,889)		(301,889)		(301,889)
Trade payables and accruals (note 19)	-	(52,562)	(52,562)				
Derivatives (note 14) – hedging instruments	(1,306)	-	(1,306)		(1,306)		(1,306)
	(1,306)	(354,451)	(355,757)				

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	Financial assets 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
Financial Assets							
Derivatives (note 14) – hedging instruments	1	-	1		1		1
Trade and other receivables excluding prepayments and deposits paid on acquisitions (note 15)	-	14,135	14,135				
Cash at bank and in hand (note 17)	-	15,745	15,745				
	1	29,880	29,881				

	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
Financial Liabilities							
Bank loans (note 21)	-	(260,139)	(260,139)		(260,139)		(260,139)
Trade payables and accruals (note 19)	-	(55,302)	(55,302)				
Derivatives (note 14) – hedging instruments	(1,778)	-	(1,778)		(1,778)		(1,778)
	(1,778)	(315,441)	(317,219)				

Notes to the consolidated financial statements

(continued)

23 Financial instruments and risk management (continued)

Fair value hierarchy

The Group measures the fair value of financial instruments based on the degree to which inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurements. Financial instruments are categorised by the type of valuation method used. The valuation methods are as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the financial instrument, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- 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 2018, 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.

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 any expected credit loss 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. There is no difference between margins available in the market at the year end, and the margins that the Group were paying at the year end.

(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 due to the large number of 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 2018 is provided in note 15. Management does not expect any significant losses from receivables that have not been provided for as shown in note 15.

Notes to the consolidated financial statements

(continued)

23 Financial instruments and risk management (continued)

(a) Credit risk (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and give rise to credit risk on the amounts held with 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 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	Carrying amount
	2018	2017
	€'000	€'000
Trade receivables	9,300	8,957
Other receivables	900	900
Contract assets	2,614	1,664
Accrued income	1,709	2,614
Cash at bank and in hand	35,907	15,745
	50,430	29,880

(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 26 October 2018, the Group improved its liquidity position by refinancing its existing debt facility. A €525.0 million five year multicurrency facility was entered into with six banking partners. The facility consists of a €200.0 million term facility and €325.0 million revolving credit facility. The maturity date of the facility is 26 October 2023 and the Group has the option to extend the facility for an additional two years.

As at 31 December 2018, the entire term facility was drawn in Sterling equating to £176.5 million (€197.3 million) and €108.8 million was drawn from the revolving credit facility - €106.7 million in Euro and £1.9 million (€2.1 million) in Sterling. The undrawn loan facilities as at 31 December 2018 were €216.2 million. On 2 January 2019, £60.0 million and €30.5 million were drawn from the multicurrency revolving credit facility to fund the acquisition of Hintergard Limited (note 26).

The following are the contractual maturities of the Group's financial liabilities at 31 December 2018, including estimated interest payments. In the following table, bank loans are repaid on 26 October 2023, even though the Group has the flexibility to repay and draw the revolving credit facility throughout the term of the facility which would improve its liquidity position.

Notes to the consolidated financial statements

(continued)

23 Financial instruments and risk management (continued)

(b) Liquidity risk (continued)

	Carrying value	Total	6 months	6 – 12	1 – 2	2 – 5
	2018	2018	or less	months	years	years
	€'000	€'000	€'000	€'000	€'000	€'000
Bank loans	(301,889)	(341,809)	(3,844)	(3,909)	(7,665)	(326,391)
Trade payables and accruals	(52,562)	(52,562)	(52,562)	-	-	-
Interest rate swaps	(1,306)	(1,306)	(459)	(353)	(333)	(161)
	(355,757)	(395,677)	(56,865)	(4,262)	(7,998)	(326,552)

The equivalent disclosure for the prior year is as follows.

	Carrying value	Total	6 months	6 – 12	1 – 2	2 – 5
	2017	2017	or less	months	years	years
	€'000	€'000	€'000	€'000	€'000	€'000
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)
	(317,219)	(333,911)	(70,862)	(13,117)	(21,418)	(228,514)

(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 profit 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 (note 14) which hedge the variability in cash flows attributable to the interest rate risk.

The interest rate profile of the Group's interest-bearing financial liabilities as reported to the management of the Group is as follows;

	Nominal amount	
	2018	2017
	€'000	€'000
Variable rate instruments		
Financial liabilities – borrowings	306,078	262,310
Effect of interest rate swaps	(197,310)	(114,401)
Effect of interest rate cap	(8,212)	(19,413)
	100,556	128,496

The weighted average interest rate for 2018 was 2.94% (2017: 3.16%), of which 2.15% (2017: 2.42%) related to margin.

Notes to the consolidated financial statements

(continued)

23 Financial instruments and risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

The interest expense for 2018 has been sensitised in the below table for a reasonably possible change in variable interest rates. In relation to the downward sensitivity, the Group has 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 has reviewed seven years historical data for the 3 month Euribor and 3 month LIBOR rates and 3 month Euribor and 3 month LIBOR forward curves for the term of the loan facility. Based on this review, the Group believes that a reasonable change in the rates would be an uplift to the highest 3 month rate, which is a rate of 1.4% for 3 month LIBOR based on forward curves and 1.1% for 3 month Euribor based on historical data for 3 month Euribor.

At 31 December 2018, all Sterling term borrowings (£176.5 million) were hedged with interest rate swaps. As a result, a change in the LIBOR rate would have a minimal impact. In January 2019, the Group drew down an additional £60 million in Sterling from the revolving credit facility ("RCF") of which £25 million is hedged from 29 March 2019 to 31 December 2020. Given that Euribor is currently below zero, the Group have not hedged Euribor except for an interest rate cap which hedges Euribor on €8.2 million of Euro denominated debt.

The impact on profit or loss is shown below. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

	2018 actual weighted average variable benchmark rate	If rate sensitised upwards	If rate sensitised downwards
Euribor	0%	1.07%	0%
LIBOR	1.19%	1.45%	0.96%

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
31 December 2018		
(Increase)/decrease in interest on loans and borrowings	(1,555)	419
Decrease/(increase) in tax charge	194	(52)
(Decrease)/increase in profit	(1,361)	367
31 December 2017		
(Increase)/decrease in interest on loans and borrowings	(1,254)	287
Decrease/(increase) in tax charge	157	(36)
(Decrease)/increase in profit	(1,097)	251

* Only the interest on the unhedged portion of the loans has been sensitised. The sensitivity has no impact on the hedged portion.

Notes to the consolidated financial statements

(continued)

23 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 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 2018.

	31 December 2018			
	Carrying Amount €'000	Total €'000	12 months or less €'000	More than 1 year €'000
Interest rate swaps				
Liabilities	(1,306)	(1,306)	(812)	(494)

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 2018			
	Carrying Amount €'000	Total €'000	12 months or less €'000	More than 1 year €'000
Interest rate swaps				
Liabilities	(1,306)	(1,306)	(812)	(494)

(ii) Foreign currency risk

As per the Risk Management section of the Annual Report on page 40 to 47, 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.

The Group's 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 term debt to hedge part of the Group's investment in UK subsidiaries. The Group financed certain acquisitions and developments in the UK by obtaining funding at Group level through external term borrowings denominated in Sterling. These borrowings amounted to £176.5 million (€197.3 million) at 31 December 2018 (2017: £174.4 million (€196.5 million)) and are designated as net investment hedges. The net investment hedge was fully effective during the year.

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 twelve 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.

Notes to the consolidated financial statements

(continued)

23 Financial instruments and risk management (continued)

(c) Market risk (continued)

(ii) Foreign currency risk (continued)

Sensitivity analysis on transactional risk (continued)

On the upward sensitivity, due to current volatility in the market and the unknown impact of Brexit, the Group have used a 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 2018 was 0.88. The interest cost on Sterling loans in 2018 was £6.14 million (€6.94 million).

	Profit		Equity	
	Strengthening of Euro €'000	Weakening of Euro €'000	Strengthening of Euro €'000	Weakening of Euro €'000
Impact on interest costs of Sterling loans	801	(2,324)	801	(2,324)
Impact on tax charge	(100)	290	(100)	290
Increase/(decrease) in profit/equity	701	(2,034)	701	(2,034)

(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. 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 (note 2) ratio and seeks to keep it below 3.50. The Net Debt to Adjusted EBITDA as at 31 December 2018 is 2.3.

	2018 €'000	2017 €'000
Adjusted EBITDA (note 2)	119,583	104,873
Net debt (note 21)	270,171	246,564
Net Debt to Adjusted EBITDA as at 31 December	2.3	2.4

Notes to the consolidated financial statements

(continued)

24 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 2018

	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	26,576	24,106	73,587	226,560	200,273	121,606	672,708
Agreements for lease	2,585	9,947	55,660	181,086	192,114	240,088	681,480
	29,161	34,053	129,247	407,646	392,387	361,694	1,354,188

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
	25,275	23,651	88,915	299,840	293,750	246,686	978,117

*2019 financial year

The significant movement since the year ended 31 December 2017 is due principally to the following:

- The Group entered into a 35 year operating lease of a Maldron Hotel in Newcastle with an annual rent of £1.6 million per annum which had previously been disclosed as a commitment under an agreement for lease;
- The Group has signed an agreement to lease a Maldron Hotel, to be built in Manchester. On completion of construction, the Group will commence operations in the hotel through a 35 year operating lease;
- The Group has signed an agreement to lease a Clayton Hotel, to be built in Bristol. On completion of construction, the Group will commence operations in the hotel through a 35 year operating lease;
- The Group has signed an agreement to lease a Maldron Hotel, to be built in Birmingham. On completion of construction, the Group will commence operations in the hotel through a 35 year operating lease; and
- The Group has signed an agreement to lease a hotel, to be built in Dublin. On completion of construction, the Group will commence operations in the hotel through a 35 year operating lease.

The weighted average lease life of future minimum rentals payable under leases is 30.3 years (2017: 30.7 years).

The operating lease charges during 2018 amounted to €33.2 million (2017: €31.0 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 2018 was €7.5 million (2017: €7.6 million).

Notes to the consolidated financial statements

(continued)

24 Commitments (continued)

Leases (continued)

IFRS 16 impact

Note 1 (ii) contains details of the impact of IFRS 16 Leases on the Group.

An illustrative disclosure of one potential quantitative impact of IFRS 16, using a notional discount rate of 5% is included in the table below. While this rate is not a prediction of the discount rate as this rate was adopted merely 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, based on the work completed to date we expect the weighted average discount rate will not be considerably different to this.

The Group is finalising work on the discount rates of individual leases and the opening adjustments by lease. It is expected that the rate will be based largely upon the Group incremental borrowing rate as evidenced by the recent refinancing and adjusted for tenor of leases, expected risk free rates over the relevant periods and asset specific adjustments. The significant element of lease commitments benefit from a guarantee by the ultimate parent, Dalata Hotel Group plc and consequently will be closely aligned with Group borrowing rates. This coupled with historic low funding rates in both Euro and Sterling, the strength of the Group's covenant, and the quality of the leased assets having long remaining terms (weighted average lease life remaining of 30.3 years) means that the Group expects to have a relatively low discount rate and consequently a significant lease liability.

Operating leases at 1 January 2019 have been incorporated into the illustrative IFRS 16 impact analysis below. The actual impact of applying IFRS 16 on the 2019 financial statements will depend on the composition of the Group's lease portfolio throughout the year and is subject to change driven by any additional leases, lease modifications and/or movements in the timing of opening new hotels.

Illustrative impact on consolidated statement of financial position at 1 January 2019 using 5% notional discount rate

	€'000
Lease liability ¹	(355,951)
Right-of-use asset	355,951
Retained earnings	-
Impact on net assets	-

Illustrative impact on consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2019 using 5% notional discount rate

	€'000
Remove: Operating lease rentals ²	26,652
Add: Depreciation of right-of-use asset	(17,807)
Add: Interest on lease liability	(17,234)
Impact on profit before taxation	(8,389)

Lease liability ¹ : operating lease rentals ²	13.4x*
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*This has been determined by dividing the opening lease liability by the fixed operating lease rental expense.

Notes to the consolidated financial statements

(continued)

24 Commitments (continued)

Section 357 Companies Act 2014

Dalata Hotel Group plc, as the parent company of the Group and for the purposes of filing exemptions referred to in Section 357 of the Companies Act 2014, has entered into guarantees in relation to the liabilities of the Republic of Ireland registered subsidiary companies which are listed below.

- 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	- DHG Dalton Limited
- DHG Eden Limited	- Sparrowdale Limited
- Galsay Limited	- Cavernford Designated Activity Company
- DHG Fleming Limited	- DHG Glover Limited

Capital commitments

The Group has the following commitments for future capital expenditure under its contractual arrangements.

	2018 €'000	2017 €'000
Contracted but not provided for	26,701	98,282

This relates primarily to the development of the following new build hotels and extensions to currently operational hotels which are now contractually committed:

- Completion works at hotel opened in 2018: Maldron South Mall, Cork.
- Extensions and renovations: Maldron Parnell Square and Clayton Hotel Burlington Road.

It also includes other capital expenditure committed 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 €60.6 million (31 December 2017: €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 2018 revenues.

Notes to the consolidated financial statements

(continued)

25 Related party transactions

Under IAS 24 *Related Party Disclosures*, the Group has a related party relationship with shareholders and Directors of the Company.

Remuneration of key management

Key management is defined as the Directors of the Company and does not extend to any other members of the Executive Management Team. The compensation of key management personnel is set out in the Remuneration Committee report on pages 80 to 91. In addition, the share-based payments expense for key management in 2018 was €0.9 million (2017: €0.5 million).

26 Subsequent events

Acquisition of Hintergard Limited – Clayton Hotel City of London

On 2 January 2019, the Group drew down £60.0 million and €30.5 million from the multicurrency revolving credit facility to fund the acquisition of Hintergard Limited (note 21).

On 3 January 2019, the Group completed the acquisition of the long leasehold (effective freehold) interest of a newly built hotel, located in Aldgate, London for total consideration of £91 million through acquiring the entire issued share capital of Hintergard Limited. The acquisition will be treated as an acquisition of property, plant and equipment in line with IAS 16 *Property, Plant and Equipment*. The hotel opened on 24 January 2019 and has been branded Clayton Hotel City of London.

On 9 January 2019, two interest rate swaps were entered into with an effective date of 29 March 2019 and a maturity date of 31 December 2020 to hedge the LIBOR benchmark rate on a portion of the £60 million Sterling revolving credit facility borrowings. The swaps hedge the LIBOR benchmark rate at 1.086%.

Acquisition of site adjacent to Clayton Hotel Cardiff Lane

On 8 January 2019, the Group acquired a site adjacent to Clayton Hotel Cardiff Lane, Dublin for €5.5 million. The Group has plans to redevelop the area into circa 70 bedrooms and ancillary facilities.

Proposed dividend

On 25 February 2019, the Board proposed a final dividend of 7.0 cent per share. This proposed dividend is subject to approval by the shareholders at the Annual General Meeting. These consolidated financial statements do not reflect this dividend.

Notes to the consolidated financial statements

(continued)

27 Subsidiary undertakings

A list of all subsidiary undertakings at 31 December 2018 is set out below:

Subsidiary undertaking	Country of Incorporation	Activity	Ownership	
			Direct	Indirect
DHG Glover Limited ¹	Ireland	Holding company	100%	-
DHG Fleming Limited ¹	Ireland	Financing company	100%	-
Cenan BV ²	Netherlands	Financing company	100%	-
DHGL Limited ¹	Ireland	Holding company	-	100%
Dalata Limited ¹	Ireland	Holding company	-	100%
Hanford Commercial Limited ¹	Ireland	Hotel and catering	-	100%
Anora Commercial Limited ¹	Ireland	Hotel and catering	-	100%
Ogwell Limited ¹	Ireland	Hotel and catering	-	100%
Caruso Limited ¹	Ireland	Hotel and catering	-	100%
CI Hotels Limited ¹	Ireland	Hotel and catering	-	100%
Dalata Management Services Limited ¹	Ireland	Hotel management	-	100%
Tulane Business Management Limited ¹	Ireland	Hotel and catering	-	100%
Dalata Support Services Limited ¹	Ireland	Hotel and hotel management	-	100%
Fonteyn Property Holdings Limited ¹	Ireland	Hotel and hotel management	-	100%
Fonteyn Property Holdings No. 2 Limited ¹	Ireland	Asset management	-	100%
Suvanne Management Limited ¹	Ireland	Hotel and catering	-	100%
Carasco Management Limited ¹	Ireland	Hotel and catering	-	100%
Amelin Commercial Limited ¹	Ireland	Hotel and catering	-	100%
Lintal Commercial Limited ¹	Ireland	Hotel and catering	-	100%
Bernara Commercial Limited ¹	Ireland	Property investment	-	100%
Pillo Hotels Limited ¹	Ireland	Management company	-	100%
Loadbur Limited ¹	Ireland	Property holding company	-	100%
Swintron Limited ¹	Ireland	Holding company	-	100%
Heartside Limited ¹	Ireland	Hotel and catering	-	100%
Pondglen Limited ¹	Ireland	Hotel and catering	-	100%
Candlevale Limited ¹	Ireland	Hotel and catering	-	100%
Songdale Limited ¹	Ireland	Hotel and catering	-	100%
Palaceglen Limited ¹	Ireland	Hotel and catering	-	100%
Adelka Limited ¹	Ireland	Property holding company	-	100%
Bayvan Limited ¹	Ireland	Property holding company	-	100%
Leevian Limited ¹	Ireland	Hotel and catering	-	100%
DHG Arden Limited ¹	Ireland	Hotel and catering	-	100%
DHG Barrington Limited ¹	Ireland	Hotel and catering	-	100%
DHG Cordin Limited ¹	Ireland	Property holding company	-	100%
DS Charlemont Limited ¹	Ireland	Hotel and catering	-	100%
Cavernford DAC ¹	Ireland	Intermediate holding company	-	100%
Vizmol Limited ¹	Ireland	Intermediate holding company	-	100%
Sparrowdale Limited ¹	Ireland	Intermediate holding company	-	100%
Galsay Limited ¹	Ireland	Hotel and catering	-	100%

¹ The registered address of these companies is 4th Floor, Burton Court, Burton Hall Drive, Sandyford, Dublin 18.

² The registered address of this company is Van Heuven Goedhartlaan 935A, 1181 LD Amstelveen, The Netherlands.

Notes to the consolidated financial statements

(continued)

27 Subsidiary undertakings (continued)

Subsidiary undertaking	Country of Incorporation	Activity	Ownership	
			Direct	Indirect
Merzolt Limited ¹	Ireland	Hotel and catering	-	100%
DHG Burlington Road Limited ¹	Ireland	Hotel and catering	-	100%
DT Sussex Road Operations Limited ¹	Ireland	Dormant company	-	100%
DHG Eden Limited ¹	Ireland	Hotel and catering	-	100%
DHG Dalton Limited ¹	Ireland	Property holding company	-	100%
Williamsberg Property Limited ¹	Ireland	Property holding company	-	100%
Oak Lodge Management Company Limited by Guarantee ¹	Ireland	Management company	-	100%
DHG Belfast Limited ³	N Ireland	Hotel and catering	-	100%
DHG Derry Limited ³	N Ireland	Hotel and catering	-	100%
DHG Derry Commercial Limited ³	N Ireland	Property holding company	-	100%
DHG Brunswick Limited ³	N Ireland	Hotel and catering	-	100%
Dalata UK Limited ⁴	UK	Holding company	-	100%
Dalata Cardiff Limited ⁴	UK	Hotel and catering	-	100%
Trackdale Limited ⁴	UK	Hotel and catering	-	100%
Islandvale Limited ⁴	UK	Hotel and catering	-	100%
Crescentbrook Limited ⁴	UK	Hotel and catering	-	100%
Hallowridge Limited ⁴	UK	Hotel and catering	-	100%
Rush (Central) Limited ⁴	UK	Dormant company	-	100%
Hotel La Tour, Birmingham Limited ⁴	UK	Hotel and catering	-	100%

³ The registered address of these companies is Butcher Street, Londonderry, County Derry, BT48 6HL, United Kingdom.

⁴ The registered address of these companies is St Mary Street, Cardiff, Wales, CF10 1GD, United Kingdom.

28 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 available to ordinary shareholders 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 2018 and 31 December 2017.

	2018	2017
Profit attributable to shareholders of the parent (€'000) – basic and diluted	75,224	68,308
Adjusted profit attributable to shareholders of the parent (€'000) – basic and diluted	78,821	70,228
Earnings per share – Basic	40.9 cents	37.2 cents
Earnings per share – Diluted	40.4 cents	36.9 cents
Adjusted earnings per share – Basic	42.8 cents	38.3 cents
Adjusted earnings per share – Diluted	42.3 cents	37.9 cents
Weighted average shares outstanding – Basic	184,125,709	183,430,226
Weighted average shares outstanding – Diluted	186,156,827	185,243,000

Notes to the consolidated financial statements

(continued)

28 Earnings per share (continued)

The difference between the basic and diluted weighted average shares outstanding for the year ended 31 December 2018 is due to the dilutive impact of the conditional share awards granted in 2015, 2016, 2017 and 2018 (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 items considered by management to not reflect normal trading activities or distort comparability either period on period or with other similar businesses (note 2).

	2018 €'000	2017 €'000
Reconciliation to adjusted profit for the year		
Profit before tax	87,301	77,287
Finance costs	9,514	9,636
Profit before tax and finance costs	96,815	86,923
<i>Adjusting items (note 2)</i>		
Proceeds from insurance claim	(2,598)	-
Hotel pre-opening expenses	2,487	-
Net revaluation movements through profit or loss	3,137	1,425
Acquisition-related costs	-	1,260
Gains on disposal of property freehold interests and subsidiary	-	(469)
Adjusted profit before tax and finance costs	99,841	89,139
Finance costs	(9,514)	(9,636)
<i>Adjusting items in finance costs</i>		
Write off of unamortised arrangement fees on original loans (note 5)	946	-
Adjusted profit before tax	91,273	79,503
Tax charge	(12,077)	(8,979)
Tax adjustment for adjusting items	(375)	(296)
Adjusted profit for the year	78,821	70,228

29 Approval of the financial statements

The financial statements were approved by the Directors on 25 February 2019.

COMPANY FINANCIAL STATEMENTS

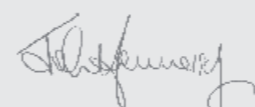
For the year ended
31 December 2018

Company statement of financial position

at 31 December 2018

	Note	2018 €'000	2017 €'000
Assets			
Non-current assets			
Investment in subsidiaries	2	46,704	42,519
Derivatives	3	-	1
Deferred tax asset		-	240
Total non-current assets		46,704	42,760
Current assets			
Trade and other receivables	4	36	116
Amounts owed by subsidiaries	5	744,203	730,234
Cash and cash equivalents	6	676	849
Total current assets		744,915	731,199
Total assets		791,619	773,959
Equity			
Share capital	9	1,843	1,837
Share premium	9	503,113	503,113
Share-based payment reserve		4,232	2,753
Hedging reserve		-	(1,692)
Retained earnings		263,113	(13,154)
Total equity		772,301	492,857
Liabilities			
Non-current liabilities			
Loans and borrowings	8	-	241,933
Derivatives	3	-	1,778
Total non-current liabilities		-	243,711
Current liabilities			
Loans and borrowings	8	-	18,206
Trade and other payables	7	19,318	19,185
Total current liabilities		19,318	37,391
Total liabilities		19,318	281,102
Total equity and liabilities		791,619	773,959

On behalf of the Board:



John Hennessy
Chair



Patrick McCann
Director

Company statement of changes in equity

for the year ended 31 December 2018

	Attributable to equity holders of the Company					
	Share capital	Share premium	Share-based payment reserve	Hedging reserve	Retained earnings	Total
At 1 January 2018	1,837	503,113	2,753	(1,692)	(13,154)	492,857
Comprehensive income:						
Profit for the year	-	-	-	-	280,475	280,475
Other comprehensive income	-	-	-	1,692	-	1,692
Total comprehensive income for the year	-	-	-	1,692	280,475	282,167
Transactions with owners of the Company:						
Equity-settled share-based payments	-	-	2,800	-	-	2,800
Vesting of share awards	6	-	(1,321)	-	1,321	6
Dividends paid	-	-	-	-	(5,529)	(5,529)
Total transactions with owners of the Company	6	-	1,479	-	(4,208)	(2,723)
At 31 December 2018	1,843	503,113	4,232	-	263,113	772,301
At 1 January 2017	1,830	503,113	2,126	(3,106)	(9,363)	494,600
Comprehensive income:						
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 year share issues	-	-	-	-	(261)	(261)
Total transactions with owners of the Company	7	-	627	-	802	1,436
At 31 December 2017	1,837	503,113	2,753	(1,692)	(13,154)	492,857

Company statement of cash flows

for the year ended 31 December 2018

	2018	2017
	€'000	€'000
Cash flows from operating activities		
Profit/(loss) for the year	280,475	(4,593)
<i>Adjustments for:</i>		
Dividends from subsidiary undertakings	(88,259)	-
Finance costs	10,545	11,021
Foreign exchange gain on borrowings	(56)	(7,247)
Share-based payments expense	874	522
Distribution income	(200,000)	-
	3,579	(297)
(Decrease)/increase in trade and other payables	(521)	403
Decrease/(increase) in trade and other receivables	34	(91)
Net cash from operating activities	3,092	15
Cash flows from investing activities		
Cash movements on amounts due to/from subsidiaries	72,679	(18,356)
Distribution received	200,000	-
Net cash from/(used in) investing activities	272,679	(18,356)
Cash flows from financing activities		
Interest and finance costs paid	(8,146)	(10,023)
Receipt of bank loans	74,459	36,680
Repayment of bank loans	(336,937)	(49,896)
Dividends paid	(5,529)	-
Proceeds from issue of share capital, net of expenses	6	7
Net cash used in financing activities	(276,147)	(23,232)
Net decrease in cash and cash equivalents	(376)	(41,573)
Cash and cash equivalents at the beginning of the year	849	43,388
Effect of movements in exchange rates	203	(966)
Cash and cash equivalents at the end of the year	676	849

Notes to 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.

Two new IFRS standards, IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments*, are effective for the first time in the financial year ended 31 December 2018. The application of both standards has not had a material impact on the Company's profit or net assets in these individual Company financial statements.

Significant accounting policies specifically applicable to these individual Company financial statements and which are not reflected within the accounting policies of the Group's 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

	2018	2017
	€'000	€'000
Investment in subsidiaries	46,704	42,519

	2018	2017
	€'000	€'000
Movements in year		
At beginning of year	42,519	41,350
Cost of share-based payments in respect of subsidiaries	1,926	1,169
Additions to investments	2,259	-
At end of year	46,704	42,519

On 25 October 2018, DHGL Limited paid a dividend in specie in favour of the Company of 2,000,100 ordinary £1 shares in Cenana BV (€2.3 million). This is the entire ordinary share capital of Cenana BV, and the Company is now the sole shareholder of Cenana BV.

On 26 October 2018, DHG Glover Limited, a wholly owned subsidiary, acquired the Company's investment in DHGL Limited for €200.0 million. The Company retained control of DHGL Limited as a result of the transaction. Accordingly, the €200.0 million proceeds are treated as distribution income by the Company in profit or loss. The €200.0 million received was used to repay a portion of the outstanding debt facilities (note 8).

Details of subsidiary undertakings are included in note 27 of the consolidated financial statements.

Notes to the Company financial statements

(continued)

3 Derivatives

<i>Fair value</i>	2018	2017
	€'000	€'000
Non-current asset		
Interest rate cap asset	-	1
Total derivative asset	-	1
Non-current liabilities		
Interest rate swap liabilities	-	(1,778)
Total derivative liability	-	(1,778)
Net derivative financial instrument position at year end	-	(1,777)

On 26 October 2018, the Group successfully completed the refinancing of its existing debt facilities. On this date, the Company repaid its outstanding external debt facilities to its banking club and DHG Glover Limited and DHG Fleming Limited drew down the refinanced debt facilities. As a result, the Company novated its derivative arrangements to subsidiary entities, DHG Glover Limited and DHG Fleming Limited, who hold the drawn external borrowings.

The three interest rate swaps which fix the LIBOR benchmark to 1.5025% were novated to DHG Glover Limited who holds the Sterling term debt facilities. The interest rate cap which caps the maximum Euribor benchmark rate to 0.25% was novated to DHG Fleming Limited who holds Euro borrowings.

The Company no longer designates these derivatives as hedging instruments for hedge accounting purposes. As a result, the interest rate swaps were derecognised and the accumulated cost was released from the hedging reserve. The accumulated cost relating to the interest rate cap in the hedging reserve was reclassified to profit or loss.

Interest rate swaps had been employed by the Company to partially convert the Company's borrowings from floating to fixed interest rates. The interest rate cap had been employed to limit the exposure to upward movements in floating interest rates.

4 Trade and other receivables

	2018	2017
	€'000	€'000
Prepayments	31	108
Value added tax	5	8
	36	116

Notes to the Company financial statements

(continued)

5 Amounts owed by subsidiaries

	2018	2017
	€'000	€'000
Amounts owed by subsidiaries	744,203	730,234
	744,203	730,234

Amounts owed by subsidiaries are non-interest bearing and are repayable on demand.

The amounts owed by subsidiaries have been reviewed and no credit losses are expected. As a result, no expected credit loss provision has been recognised.

6 Cash and cash equivalents

	2018	2017
	€'000	€'000
Cash at bank and in hand	676	849
	676	849

7 Trade and other payables

	2018	2017
	€'000	€'000
Trade payables	7	82
Accruals	1,720	2,154
Payroll taxes	216	218
Amounts due to subsidiary undertakings	17,375	16,731
	19,318	19,185

Amounts due to subsidiaries are non-interest bearing and are repayable on demand.

Notes to the Company financial statements

(continued)

8 Interest-bearing loans and borrowings

	2018	2017
	€'000	€'000
<i>Repayable within one year</i>		
Bank borrowings	-	19,300
<i>Less: unamortised debt costs</i>	-	(1,094)
	-	18,206
<i>Repayable after one year</i>		
Bank borrowings	-	243,010
<i>Less: unamortised debt costs</i>	-	(1,077)
	-	241,933
Total interest-bearing loans and borrowings	-	260,139

On 26 October 2018, the Group successfully completed the refinancing of its existing debt facilities. On this date, the Company repaid its outstanding external debt facilities to its banking partners and DHG Glover Limited and DHG Fleming Limited drew down the refinanced debt facilities. The Company had outstanding borrowings of €302.8 million on that date - £178.4 million (€201.1 million) in Sterling and €101.7 million in Euro.

On this date, the Company was repaid €103.8 million of the amounts owed by DHGL Limited who called on certain of its subsidiaries to repay its intercompany loans. These subsidiaries borrowed from DHG Fleming Limited who had drawn the refinanced borrowings in order to repay these loans to DHGL Limited.

On 26 October 2018, DHG Glover Limited acquired the Company's investment in DHGL Limited for €200.0 million (note 2). The Company used these funds to repay the remaining balance of its outstanding debt facilities.

Under the refinanced facility, the Company is a permitted borrower, however, as at 31 December 2018, the Company had no drawn external loans and borrowings.

During the year ended 31 December 2018, the Company paid all interest and fees accruing to the Company up to 26 October 2018. The loans bore interest at variable rates based on 3 month Euribor/LIBOR plus applicable margins. The Group novated its derivative financial instruments which hedged the Company's interest rate exposure to subsidiary entities as the Company no longer held external debt facilities (note 3).

Notes to the Company financial statements

(continued)

9 Share capital and premium

At 31 December 2018

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	184,349,666	1,843
Share premium		503,113

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		503,113

All ordinary shares rank equally with regard to the Company's residual assets.

During the year ended 31 December 2018, the Company issued 668,550 shares on foot of the vesting of awards granted in March 2015 and October 2015 under the 2014 LTIP. 152 shares relating to 2016 SAYE scheme were issued during 2018.

Notes to the Company financial statements

(continued)

10 Dividends

The dividends paid in respect of ordinary share capital were as follows:

	2018 €'000	2017 €'000
Interim dividend- paid 3.0 cent per Ordinary Share (2017: €nil)	5,529	-

An interim dividend for 2018 of 3.0 cent per share was paid on 12 October 2018 on the ordinary shares in the Company and amounted to €5.5 million (2017: €nil).

On 25 February 2019, the Board proposed a final dividend of 7.0 cent per share. This proposed dividend is subject to approval by the shareholders at the Annual General Meeting. These individual financial statements do not reflect this dividend.

During the year ended 31 December 2018, the Company earned dividend income from its subsidiary undertakings which has been included in profit or loss amounting to €88.3 million (2017: €nil), including a €2.3 million dividend in specie from DHGL Limited (note 2).

11 Financial instruments and risk management

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 23 of the consolidated financial statements.

12 Attributable profit or loss of the Company

The profit attributable to shareholders dealt with in the financial statements of the Company for the year ended 31 December 2018 was €280.5 million (2017: loss of €4.6 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.

Profit for the year ended 31 December 2018 principally includes distribution income of €200.0 million (note 2) and dividend income from subsidiary undertakings of €88.3 million (note 10).

13 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 (note 25 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 80 to 91 and note 25 of the consolidated financial statements.

Transactions with related parties

During the year ended 31 December 2018, the Company charged fees amounting to €3.6 million (2017: €3.7 million) to its subsidiary undertakings for services provided during the year. The Company also charged its subsidiary undertakings for the use of Group interest relief amounting to €3.6 million (2017: €nil).

Notes to the Company financial statements

(continued)

14 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:

Suvarne Management Limited	Candlevale Limited
Carasco Management Limited	DHG Arden Limited
Heartside Limited	Merzolt Limited
Palaceglen Limited	Pongglen 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	Leevian Limited
DHG Barrington Limited	Swintron Limited
Vizmol Limited	Fonteyn Property Holdings Limited
Fonteyn Property Holdings No. 2 Limited	DHG Dalton Limited
DHG Eden Limited	Sparrowdale Limited
Galsay Limited	Cavernford Designated Activity Company
DHG Fleming Limited	DHG Glover Limited

Other guarantees

At 31 December 2018, the Company has undertaken to guarantee the obligations of its subsidiaries in relation to the following:

Property	Subsidiary	Term (years)	Term remaining (years)
Lease			
Clayton Hotel Burlington Road	DHG Burlington Road Limited	25	22.9
The Gibson Hotel	Galsay Limited	35	34.0
Clayton Hotel Cardiff	Dalata UK Limited	35	33.4
Maldron Hotel Smithfield	Anora Commercial Limited	25	23.1
Clayton Hotel Birmingham	Hotel La Tour Birmingham Limited	35	33.6
Maldron Hotel Newcastle	Dalata Cardiff Limited	35	34.9
Agreement for Lease			
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
Clayton Hotel Bristol	Dalata Cardiff Limited	35	35.0
Maldron Hotel Birmingham	Dalata Cardiff Limited	35	35.0
Maldron Hotel Manchester	Dalata Cardiff Limited	35	35.0
Loans and borrowings			
DHG Fleming Limited	DHG Fleming Limited	5	4.8
DHG Glover Limited	DHG Glover Limited	5	4.8

Notes to the Company financial statements

(continued)

15 Post balance sheet events

Proposed dividend

On 25 February 2019, the Board proposed a final dividend of 7.0 cent per share. This proposed dividend is subject to approval by the shareholders at the Annual General Meeting. These financial statements do not reflect this dividend.

16 Approval of the financial statements

The financial statements were approved by the Directors on 25 February 2019.

ADDITIONAL INFORMATION

Glossary and Supplementary Financial Information

Alternative Performance Measures (“APM”) and other definitions

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 reporting these APMs provides useful supplemental information which, when viewed in conjunction with our IFRS financial information, provides investors with a more meaningful understanding of the underlying financial and operating performance of the Group and its operating segments.

These APMs are primarily used for the following purposes:

- to evaluate the historical and planned underlying results of our operations; and
- to discuss and explain the Group’s performance with the investment analyst community.

The APMs can have limitations as analytical tools and should not be considered in isolation or as a substitute for an analysis of our results in the consolidated financial statements which are prepared under IFRS. These performance measures may not be calculated uniformly by all companies and therefore may not be directly comparable with similarly titled measures and disclosures of other companies.

The definitions of and reconciliations for certain APMs are contained within the consolidated financial statements. A summary definition of these APMs together with the reference to the relevant note in the consolidated financial statements where they are reconciled is included below. Also 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 this 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.

(i) EBITDAR and Segments EBITDAR

EBITDAR is a non-GAAP measure representing earnings before rent, interest, finance costs, tax, depreciation and amortisation of intangible assets. A reconciliation is presented in note 2 to the consolidated financial statements for the year ended 31 December 2018.

Segments EBITDAR is a non-GAAP measure representing earnings before rent, interest, finance costs, tax, depreciation and amortisation of intangible assets for each of the reportable segments: Dublin, Regional Ireland, United Kingdom and Managed Hotels. Refer to note 2 to the consolidated financial statements for the year ended 31 December 2018 for the reconciliation.

(ii) EBITDA and Segments EBITDA

EBITDA is a non-GAAP measure representing earnings before interest, finance costs, tax, depreciation and amortisation of intangible assets. A reconciliation is presented in note 2 to the consolidated financial statements for the year ended 31 December 2018.

Segments EBITDA represents the EBITDA for the Group’s reportable segments: Dublin, Regional Ireland, United Kingdom and Managed Hotels. A reconciliation is presented in note 2 to the consolidated financial statements for year ended 31 December 2018.

(iii) Segments EBITDAR margin

Segments EBITDAR margin represents “Segments EBITDAR” as a percentage of the total revenue for the Group’s segments, Dublin, Regional Ireland and United Kingdom.

(iv) Adjusted EBITDA

Adjusted EBITDA is a non-GAAP measure representing earnings before interest, finance costs, tax, depreciation and amortisation of intangible assets adjusted to show the underlying operating performance of the Group and excludes items which are not reflective of normal trading activities or distort comparability either ‘year on year’ or with other similar businesses. The accounting policy for adjusting items is presented in note 1 (xxix) and a calculation is presented in note 2 to the consolidated financial statements for the year ended 31 December 2018.

Glossary and Supplementary Financial Information

(continued)

(v) Adjusted basic earnings per share (EPS)

Adjusted Basic EPS is a non-GAAP measure representing EPS adjusted to show the underlying operating performance of the Group excluding the tax adjusted effects of items which are not reflective of normal trading activities or distort comparability either ‘year on year’ or with other similar businesses. The calculation is presented in note 28 to the consolidated financial statements for the year ended 31 December 2018.

(vi) Net Debt to Adjusted EBITDA

Net Debt to Adjusted EBITDA represents loans and borrowings gross of unamortised debt costs less cash and cash equivalents divided by the “Adjusted EBITDA” for the year. See note 23 to the consolidated financial statements for the year ended 31 December 2018.

(vii) Effective tax rate

The Group’s 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 ended 31 December 2018.

Calculation - €’000	Reference in Consolidated Financial Statements	2018	2017
Tax charge	Statement of profit or loss and other comprehensive Income	12,077	8,979
Profit before tax		87,301	77,287
Effective tax rate		13.8%	11.6%

(viii) Free cash flow

Free cash flow is presented to show the cash available to fund acquisitions, development expenditure and dividends. The Group calculates free cash flow as net cash from operating activities, less amounts paid for interest, finance costs and refurbishment capital expenditure and after adding back cash paid in respect of adjusting items to EBITDA. The adjusting items which have a cash effect are added back to show how much cash would be generated by the underlying operating performance of the Group. The Group allocates approximately 4% of annual revenue to refurbishment capital expenditure to ensure the portfolio remains fresh for its customers and adheres to brand standards.

Calculation - €’000	Reference in Consolidated Financial Statements	2018	2017
Net cash from operating activities	Statement of cash flows	115,754	95,207
Less cash outflows:			
Interest and finance costs	Statement of cash flows	(13,188)	(10,101)
Refurbishment capital expenditure*		(15,868)	(14,633)
Add back adjusting items to EBITDA which have a cash impact:			
Hotel pre-opening costs	Note 3	2,487	-
Proceeds from insurance claim	Note 4	(2,598)	-
Acquisition-related costs	Note 3	-	1,260
Free cash flow		86,587	71,733

* Reconciliation of refurbishment capital expenditure:

Calculation - €’000	Reference in Consolidated Financial Statements	2018	2017
Hotel extensions and renovations		31,885	16,746
Construction of new hotels		44,198	42,318
Other development expenditure		4,384	7,547
Refurbishment capital expenditure		15,868	14,633
Other additions through capital expenditure	Note 11	96,335	81,244

Glossary and Supplementary Financial Information

(continued)

(ix) Free cash flow conversion

Free cash flow conversion is presented to show the proportion of the Group's Adjusted EBITDA, after adding back non-cash adjusting items, that is converted to free cash flow. The accounting cost of the LTIP and SAYE are excluded from Adjusted EBITDA as these items do not have an impact on cash.

Calculation - €'000	Reference in Consolidated Financial Statements	2018	2017
Adjusted EBITDA	Note 2	119,583	104,873
Add back non-cash items:			
Share-based payments expense	Note 7	2,800	1,690
Adjusted Cash EBITDA		122,383	106,563
Free cash flow - per above (viii)		86,587	71,733
Free cash flow conversion		70.8%	67.3%

(x) Return on capital employed (ROCE)

Return on capital employed represents Adjusted EBIT (see calculation at (xii) below) expressed as a percentage of the Group's average capital employed. The Group defines capital employed as total assets less total liabilities and excludes the accumulated revaluation gains/losses included in property, plant and equipment, net debt, derivative financial instruments and taxation related balances. The Group's net assets are also adjusted to reflect the average level of acquisition investment spend and the average level of working capital for the accounting period. The average capital employed is the simple average of the opening and closing capital employed figures.

Adjusted EBIT represents the Group's adjusted earnings before interest, finance costs and tax and excludes items which are not reflective of normal trading activities or distort comparability either 'year on year' or with other similar businesses.

Calculation - €'000	Reference in Consolidated Financial Statements	2018	2017
Net assets at balance sheet date	Statement of Financial Position	902,577	737,393
Revaluation uplift in Property, Plant and Equipment*		(273,774)	(171,200)
Net deferred tax liabilities	Note 22	38,516	28,287
Current tax liabilities	Statement of Financial Position	309	351
Derivatives	Note 14	1,306	1,777
Net debt	Note 21	270,171	246,564
Capital employed		939,105	843,172
Average capital employed		891,139	782,883
Adjusted EBIT - see below (xii)		99,841	89,139
Return on average capital employed		11.2%	11.4%

* Includes the combined net revaluation uplift included in property, plant and equipment since the revaluation policy was adopted in 2014 or in the case of hotel assets acquired after this date, since the date of acquisition. The value of property plant and equipment at 31 December 2018 was €1,077.2 million (2017: €848.8 million) and the corresponding value under the cost model as disclosed in note 11 to the consolidated financial statements was €803.4 million (2017: €677.6 million). Therefore, the revaluation uplift included in property plant and equipment is €273.8 million (2017: €171.2 million).

Glossary and Supplementary Financial Information

(continued)

(xi) Normalised return on capital employed (ROCE)

Normalised return on capital employed is presented to show the Group's return on capital excluding the impact of the investment in future hotel openings or hotels which have not traded for a full twelve months.

Calculation - €'000	Reference in Consolidated Financial Statements	2018	2017
Capital employed - see above (x)		939,105	843,172
Less assets under construction at year end	Note 11	(26,404)	(97,365)
Assets recently completed in the year*		(112,005)	-
Normalised capital employed		800,696	745,807
Average normalised capital employed		773,252	712,768
Adjusted EBIT excluding results from recently completed hotels ** - see below (xii)		97,760	89,139
Normalised return on average capital employed		12.6%	12.5%

* Assets recently completed in the year include the cost of constructing the five new hotels which opened during 2018: Maldron Hotel Belfast City (March 2018), Maldron Hotel Kevin Street, Dublin (July 2018), Clayton Hotel Charlemont, Dublin (November 2018), Maldron Hotel Newcastle (December 2018) and Maldron Hotel South Mall, Cork (December 2018) which completed during 2018 and therefore did not benefit from a full twelve months of trading

** Amount represents Adjusted EBIT of €99.8 million (2017: €89.1 million) as calculated in (xii) below and excludes EBIT of €2.1 million from new build hotels recently completed during the year, Maldron Hotel Belfast City, Maldron Hotel Kevin Street, Clayton Hotel Charlemont, Maldron Hotel Newcastle and Maldron Hotel South Mall which are also excluded from "normalised capital employed" to ensure consistent comparability.

(xii) Adjusted earnings before interest and tax (Adjusted EBIT)

Adjusted EBIT comprises profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income, before interest and finance costs, and excludes items which are not reflective of normal trading activities or distort comparability either 'year on year' or with similar businesses. The table below calculates the Adjusted EBIT for the years ending 31 December 2018 and 31 December 2017 for use in the calculation of return on capital employed in (x) and (xi) above. Note "Adjusted EBIT" is a separate APM to "Modified EBIT" calculated in (xiii) below.

Calculation - €'000	Reference in Consolidated Financial Statements	2018	2017
Profit before tax	Statement of profit or loss and other comprehensive income	87,301	77,287
Add back:			
Finance costs	Note 5	9,514	9,636
Adjusting items:			
Acquisition-related costs	Note 3	-	1,260
Gains on disposal	Note 4	-	(469)
Proceeds from insurance claim	Note 4	(2,598)	-
Hotel pre-opening expenses	Note 3	2,487	-
Net revaluation movements through profit or loss	Note 2	3,137	1,425
Adjusted EBIT		99,841	89,139
Adjusted EBIT from recently completed hotels		(2,081)	-
Adjusted EBIT excluding results from recently completed hotels		97,760	89,139

Glossary and Supplementary Financial Information

(continued)

(xiii) Modified earnings before interest and tax (Modified EBIT)

For the purposes of the annual bonus evaluation, EBIT is modified to remove the effect of fluctuations between the annual and budgeted EUR/GBP exchange rate and other items which are considered, at the discretion of the Remuneration Committee, to fall outside of the framework of the budget target set for the year.

Calculation - €'000	Reference in Consolidated Financial Statements	2018	2017
Profit before tax	Statement of profit or loss and other comprehensive income	87,301	77,287
Add back:			
Finance costs	Note 5	9,514	9,636
Foreign exchange (gains)/losses* (see note (xiii) below)		(324)	609
Adjusting items:			
Acquisition-related costs	Note 3	-	1,260
Proceeds from insurance claim	Note 4	(2,598)	-
Hotel pre-opening expenses	Note 3	2,487	-
Net revaluation movements through profit or loss	Note 2	3,137	1,425
Modified EBIT		99,517	90,217

* Foreign exchange gains and losses represent the difference on converting EBITDA from UK hotels at actual foreign exchange rates during 2018 versus budgeted foreign exchange rates, after depreciation. In 2018 the budgeted EUR/GBP exchange rate was 0.90 (2017: 0.85). A reconciliation is presented in the table below.

Calculation - €'000	Reference in Consolidated Financial Statements	2018	2017
UK hotels' EBITDA - GBP		23,290	20,856
UK hotels' EBITDA at budgeted FX rate - Euro		25,878	24,536
UK hotels' EBITDA at actual FX rates - Euro	Note 2	26,298	(23,777)
Foreign exchange (gains)/losses on EBITDA - Euro		(420)	759
Depreciation on UK assets - GBP		5,041	4,119
Depreciation on UK assets at budgeted FX rate - Euro		5,601	4,846
Depreciation on UK assets at actual FX rates - Euro		5,697	4,696
Foreign exchange losses/(gains) on depreciation - Euro		96	(150)
Foreign exchange (gains)/losses - Euro		(324)	609

Glossary and Supplementary Financial Information

(continued)

(xiv) Calculation of debt and lease service cover

Debt and lease service cover is presented to show the Group's ability to meet its debt and lease commitments. It is calculated as free cash flow calculated in (viii) above before rent, interest and finance costs divided by the total amount paid for interest and finance costs, rent and committed loan repayments.

Calculation - €'000	Reference in Consolidated Financial Statements	2018
Free cash flow - see (viii) above		86,587
Add back rent paid		37,375
Add back interest and finance costs paid	Statement of cash flows	13,188
Free cash flow excluding rent, interest and finance costs (A)		137,150
Rent paid		37,375
Interest and finance costs paid	Statement of cash flows	13,188
Total rent, interest and finance costs paid (B)		50,563
Debt and lease service cover excluding term loan repayments (A/B)		2.7x
Term loan repayments (C)		12,600
Total rent, interest and finance costs paid and term loan repayments (D=B+C)		63,163
Debt and lease service cover (A/D)		2.2x

Glossary and Supplementary Financial Information

(continued)

Other definitions:

Revenue per available room (RevPAR)

Revenue per available room is calculated as total rooms revenue divided by number of available rooms, which is also equivalent to the occupancy rate multiplied by the average daily room rate achieved.

Hotel assets

Hotel assets represents the value of property, plant and equipment per the consolidated statement of financial position at 31 December 2018.

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).

EPS

Earnings per share (see note 28 to the consolidated financial statements for calculation)

GM

General Manager

ICT

Information and Communications Technology

IFRS

International Financial Reporting Standard

IPO

Initial Public Offering (Dalata Hotel Group plc 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

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)

Advisor and Shareholder Contacts

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Allied Irish Bank plc

Bankcentre
Ballsbridge
Dublin 4
Ireland

Bank of Ireland plc

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Ireland

Barclays Bank Ireland plc

Two Park Place
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Ireland

HSBC Bank Plc

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