INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PPHE HOTEL GROUP LIMITED

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of PPHE Hotel Group Limited (the Group), which comprises the consolidated statement of financial position as at 31 December 2022, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements:

– give a true and fair view of the financial position of the Group as at 31 December 2022 and of its financial performance and its cash flows for the year then ended;
– have been properly prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union; and
– have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the consolidated financial statements' section of our report. We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), including the UK FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the key matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the 'Auditor's responsibilities for the audit of the consolidated financial statements' section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matters 2022
Decentralised operations
As discussed in Notes 1b and 28 to the consolidated financial statements, the Group comprises more than 100 legal entities, grouped in four reportable segments. The geographical decentralised structure, multiplicity of IT systems and number of Group entities (components) increase the complexity of the Group's control environment and thus affects our ability as Group auditor to obtain an appropriate level of understanding of these components. Also, in our role as Group auditor, it is essential that we obtain an appropriate level of understanding of the significant components in the Group and the audit work performed by the component's auditors.

How our audit addressed the matter
We have evaluated the Group's internal controls, including the centralised monitoring controls that exist at both Group and segment level. The Group has developed an internal control framework with control activities that are required to be implemented by the components. Management continually reviews its systems and procedures for improvements and harmonisation across the Company.

During our audit, we have specifically focused on risks in relation to the decentralised structure and, as a result, we have extended our involvement in audit work performed by the components' auditors. Among other audit procedures, we organised site visits, meetings and conference calls with components' auditors. We have also requested components' auditors to specifically address certain risks and attention areas defined at Group level, by requiring all teams to perform specific audit procedures in order to ensure a consistent approach in areas that were deemed most relevant from a Group audit perspective to mitigate the risks identified by the Group auditor. We also performed tests on consolidation adjustments and manual journal entries, at both Group and component level to obtain an understanding of significant entries made.

Other information included in the Group's 2022 Annual Report
Other information consists of the information included in the 2022 Annual Report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PPHE HOTEL GROUP LIMITED CONTINUED

Responsibilities of management and the Audit Committee for the financial statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 management either intends to liquidate the Group or to cease operations or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

– identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
– obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
– evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
– conclude, on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
– evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
– obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and Regulatory Requirements:
Pursuant to Section 9.8.10 (1) and (2) of the Listing Rules of the Financial Conduct Authority, we were engaged to review management's statement pursuant to Section 9.8.6 R (6) of the Listing Rules of the Financial Conduct Authority that relate to provisions 6 and 24 to 29 of the UK Corporate Governance Code and the Management Board's statement pursuant to Section 9.8.6 R (3) of the Listing Rules in the United Kingdom in the financial year 2022 included in the 'Viability statement' on page 85 and in the section 'Going concern' on page 129. We have no exceptions to report.

The partner in charge of the audit resulting in this independent auditors' report is Osnat Aba.

Osnat Aba

OSNAT ABA
(For and on behalf of Kost Forer Gabbay & Kasierer, member of Ernst & Young Global)
Tel Aviv, Israel
01 MARCH 2023

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	As at 31 December 2022 £'000	2021 £'000
Assets			
Non-current assets:			
Intangible assets	4	**12,805**	14,290
Property, plant and equipment	5	**1,335,184**	1,236,000
Right-of-use assets	18	**225,443**	215,921
Investment in joint ventures	6	**4,961**	4,315
Other non-current assets	7	**47,245**	16,386
Restricted deposits and cash	13(b)	**9,272**	8,121
Deferred income tax asset	26	**12,909**	10,221
		1,647,819	1,505,254
Current assets:			
Restricted deposits and cash	13(b)	**9,229**	5,204
Inventories		**3,181**	1,840
Trade receivables	8	**18,533**	6,811
Other receivables and prepayments	9	**17,866**	19,457
Cash and cash equivalents	10	**163,589**	136,802
		212,398	170,114
Total assets		**1,860,217**	1,675,368

	Note	As at 31 December 2022 £'000	2021 £'000
Equity and liabilities			
Equity:	11		
Issued capital		**–**	–
Share premium		**133,177**	131,229
Treasury shares		**(5,472)**	(3,482)
Foreign currency translation reserve		**20,039**	3,806
Hedging reserve		**10,950**	(434)
Accumulated earnings		**156,364**	147,350
Attributable to equity holders of the parent		**315,058**	278,469
Non-controlling interests		**188,187**	168,742
Total equity		**503,245**	447,211
Non-current liabilities:			
Borrowings	14	**817,631**	729,284
Provision for concession fee on land	15	**5,331**	5,057
Financial liability in respect of Income Units sold to private investors	16	**121,084**	124,551
Other financial liabilities	17	**265,494**	253,362
Deferred income taxes	26	**5,922**	7,236
		1,215,462	1,119,490
Current liabilities:			
Trade payables		**13,565**	16,650
Other payables and accruals	19	**80,844**	53,177
Borrowings	14	**47,101**	38,840
		141,510	108,667
Total liabilities		**1,356,972**	1,228,157
Total equity and liabilities		**1,860,217**	1,675,368

The accompanying notes are an integral part of the consolidated financial statements. Date of approval of the financial statements 1 March 2023. Signed on behalf of the Board by Boris Ivesha and Daniel Kos.

Boris Ivesha
President & Chief Executive Officer

Daniel Kos
Chief Financial Officer & Executive Director

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	Year ended 31 December **2022** **£'000**	 2021 £'000
Revenues	20	**330,091**	141,377
Operating expenses	21	**(233,087)**	(113,808)
EBITDAR		**97,004**	27,569
Rental expenses	18	**(2,421)**	(2,504)
EBITDA		**94,583**	25,065
Depreciation and amortisation	4, 5, 18	**(40,006)**	(43,283)
EBIT		**54,577**	(18,218)
Financial expenses	22	**(37,257)**	(31,369)
Financial income	23	**1,516**	333
Other expenses	24a	**(6,791)**	(9,418)
Other income	24b	**9,992**	3,784
Net expenses for financial liability in respect of Income Units sold to private investors	25	**(10,783)**	(1,949)
Share in results of joint ventures	6	**202**	(718)
Profit (loss) before tax		**11,456**	(57,555)
Income tax benefit	26	**3,356**	5,051
Profit (loss) for the year		**14,812**	(52,504)
Profit (loss) attributable to:			
Equity holders of the parent		**10,159**	(52,129)
Non-controlling interests		**4,653**	(375)
		14,812	(52,504)
Basic and diluted profit (loss) per share (in Pound Sterling)	27	**0.24**	(1.23)

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

	Year ended 31 December	
	2022 £'000	2021 £'000
Profit (loss) for the year	**14,812**	(52,504)
Other comprehensive income (loss) to be recycled through profit and loss in subsequent periods:[1]		
Profit from cash flow hedges	**21,133**	507
Foreign currency translation adjustments of foreign operations	**22,000**	(23,083)
Other comprehensive income (loss)	**43,133**	(22,576)
Total comprehensive loss	**57,945**	(75,080)
Total comprehensive loss attributable to:		
Equity holders of the parent	**37,732**	(68,858)
Non-controlling interests	**20,213**	(6,222)
	57,945	(75,080)

1 There is no other comprehensive income that will not be reclassified to the profit and loss in subsequent periods.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022

In £'000	Issued capital[1]	Share premium	Treasury shares	Foreign currency translation reserve	Hedging reserve	Accumulated earnings	Attributable to equity holders of the parent	Non-controlling interests	Total equity
Balance as at 1 January 2022	**–**	**131,229**	**(3,482)**	**3,806**	**(434)**	**147,350**	**278,469**	**168,742**	**447,211**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**10,159**	**10,159**	**4,653**	**14,812**
Other comprehensive income for the year	**–**	**–**	**–**	**16,191**	**11,382**	**–**	**27,573**	**15,560**	**43,133**
Total comprehensive income	**–**	**–**		**16,191**	**11,382**	**10,159**	**37,732**	**20,213**	**57,945**
Share-based payments	**–**	**2,056**	**–**	**–**	**–**	**–**	**2,056**	**81**	**2,137**
Share buy-back	**–**	**–**	**(2,098)**	**–**	**–**	**–**	**(2,098)**	**–**	**(2,098)**
Dividend distribution[2]	**–**	**–**	**–**	**–**	**–**	**(1,278)**	**(1,278)**	**–**	**(1,278)**
Exercise of options		**(108)**	**108**	**–**	**–**	**–**	**–**	**–**	**–**
Transactions with non-controlling interests (see Note 6)	**–**	**–**	**–**	**42**	**2**	**133**	**177**	**(849)**	**(672)**
Balance as at 31 December 2022	**–**	**133,177**	**(5,472)**	**20,039**	**10,950**	**156,364**	**315,058**	**188,187**	**503,245**
Balance as at 1 January 2021	–	131,389	(3,482)	20,804	(703)	161,587	309,595	95,358	404,953
Loss for the year	–	–	–	–	–	(52,129)	(52,129)	(375)	(52,504)
Other comprehensive income (loss) for the year	–	–	–	(16,998)	269	–	(16,729)	(5,847)	(22,576)
Total comprehensive income (loss)	–	–		(16,998)	269	(52,129)	(68,858)	(6,222)	(75,080)
Share-based payments	–	1,182	–	–	–	–	1,182	86	1,268
Exercise of options settled in cash	–	(1,342)	–	–	–	–	(1,342)	–	(1,342)
Transactions with non-controlling interests (see Note 6)	–	–	–	–	–	37,892	37,892	79,520	117,412
Balance as at 31 December 2021		131,229	(3,482)	3,806	(434)	147,350	278,469	168,742	447,211

1 No par value.
2 The dividend distribution comprises an interim dividend of 3 pence per share paid in 2022 (2021: nil pence per share).

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	Year ended 31 December 2022 £'000	2021 £'000
Cash flows from operating activities:			
Profit (loss) for the year		**14,812**	(52,504)
Adjustment to reconcile loss to cash provided by operating activities:			
Financial expenses and expenses for financial liability in respect of Income Units sold to private investors		**48,040**	33,318
Financial income	23	**(1,516)**	(333)
Income tax benefit	26	**(3,356)**	(5,051)
Loss on buy-back of Income Units sold to private investors	24	**1,499**	543
Re-measurement of lease liability	24	**3,704**	3,565
Revaluation of Park Plaza County Hall London Units	24	**(300)**	(602)
Capital loss (gain) on sale of fixed assets, net	24	**47**	(996)
Impairment of property, plant and equipment	5	**–**	4,424
Share in results of joint ventures	6	**(202)**	718
Share appreciation rights revaluation	24, 6c(i)	**119**	(1,750)
Fair value movement derivatives through profit and loss	24	**(9,692)**	–
Depreciation and amortisation	4, 5, 18	**40,006**	38,859
Share-based payments		**2,137**	1,268
		80,486	73,963
Changes in operating assets and liabilities:			
(Increase) decrease in inventories		**(1,228)**	337
(Increase) decrease in trade and other receivables		**(16,118)**	(19,167)
Increase in trade and other payables		**20,772**	21,679
		3,426	2,849
Cash paid and received during the period for:			
Interest paid		**(43,520)**	(33,729)
Interest received		**1,728**	316
Taxes paid		**(311)**	(469)
Taxes received		**87**	–
		(42,016)	(33,882)
Net cash provided by (used in) operating activities		**56,708**	(9,574)

	Note	Year ended 31 December 2022 £'000	2021 £'000
Cash flows from investing activities:			
Investments in property, plant and equipment	5	**(90,870)**	(58,582)
Disposal of property, plant and equipment		**–**	1,406
Investments in intangible assets	4	**(386)**	(176)
Acquisition of Londra & Cargill in Rome, Italy	3a	**–**	(28,298)
Acquisition of Arena FRANZ ferdinand, Austria	3b	**–**	(12,783)
Loan to joint venture		**(403)**	(400)
Increase in restricted cash		**(4,695)**	(6,332)
Net cash used in investing activities		**(96,354)**	(105,165)
Cash flows from financing activities:			
Proceeds from loans and borrowings		**106,879**	53,666
Buy-back of Income Units previously sold to private investors		**(4,887)**	(1,934)
Dividend payment		**(1,278)**	–
Repayment of loans and borrowings		**(31,087)**	(26,653)
Repayment of leases		**(4,890)**	(6,825)
Net proceeds from transactions with non-controlling interest		**(672)**	124,562
Purchase of treasury shares		**(2,098)**	–
Exercise of options settled in cash		**–**	(1,342)
Net cash provided by financing activities		**61,967**	141,474
Increase in cash and cash equivalents		**22,321**	26,735
Net foreign exchange differences		**4,466**	(4,104)
Cash and cash equivalents at beginning of year		**136,802**	114,171
Cash and cash equivalents at end of year		**163,589**	136,802
Non-cash items:			
Lease additions and lease re-measurement		**14,499**	4,226
Outstanding payable on investments in property, plant and equipment		**5,786**	3,469

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

Note 1 General

a. The consolidated financial statements of PPHE Hotel Group Limited (the 'Company') and its subsidiaries (together the 'Group') for the year ended 31 December 2022 were authorised for issuance in accordance with a resolution of the Directors on 1 March 2023.

The Company was incorporated in Guernsey on 14 June 2007 and is listed on the Premium Listing segment of the Official List of the UK Listing Authority (the UKLA) and the shares are traded on the Main Market for listed securities of the London Stock Exchange.

b. Description of the Group business:

The Group is an international hospitality real estate group, which owns, co-owns and develops hotels, resorts and campsites, operates the Park Plaza® brand in EMEA and owns and operates the art'otel® brand.

The Group has interests in hotels in the United Kingdom, the Netherlands, Germany, Hungary, Serbia, Italy and Austria and hotels, self-catering apartment complexes and campsites in Croatia.

c. Assessment of going concern and liquidity:

As part of their ongoing responsibilities, the Directors have recently undertaken a thorough review of the Group's cash flow forecast and potential liquidity risks. Detailed budgets and cash flow projections, which take into account the current trading environment and the industry-wide cost pressures, have been prepared for 2023 and 2024, and show that the Group's hotel operations are expected to be cash generative during this period. Furthermore, under those cash flow projections it is expected that the Group will comply with its' loan covenants and no further covenant waivers will be required (for more details see note 14c). Having reviewed those cash flow projections, the Directors have determined that the Company is likely to continue in business for at least 12 months from the date of approval of the consolidated financial statements.

Note 2 Summary of significant accounting policies

a. Basis of preparation

The consolidated financial statements of the Group have been prepared on a historical cost basis, except for derivative financial instruments and investments in marketable securities which are measured at fair value. The consolidated financial statements are presented in Pound Sterling and all values are rounded to the nearest thousand (£'000) except where otherwise indicated.

Statement of compliance:

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

The accounting policies used in preparing the consolidated financial statements for the years ended 31 December 2022 and 2021 are set out below. These accounting policies have been consistently applied to the periods presented, except where otherwise indicated.

b. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2022. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

Note 2 Summary of significant accounting policies continued

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

c. Significant accounting judgments, estimates and assumptions

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

Judgments

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

Acquisition of companies that are not business combinations

At the acquisition date of companies and groups of assets, the Company determines whether the transaction constitutes an acquisition of a business in a business combination transaction pursuant to IFRS 3. If the acquisition does not constitute a business as defined in IFRS 3, the cost of purchase is allocated only to the identifiable assets and liabilities of the acquired company on the basis of their relative fair values at the date of purchase and including any minority interest according to its share of the fair value of net identifiable assets at the acquisition date.

In determining whether a business was acquired, the Company evaluates whether the acquired integrated set of activities and assets include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The following criteria which indicate acquisition of a business are considered: the variety of assets acquired; the extent to which ancillary services to operate the property are provided; and the complexity of the management of the property.

Estimates and assumptions

The key assumptions made in the consolidated financial statements concerning uncertainties at the reporting date and the critical estimates computed by the Group for which there is a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Group bases its assumptions and estimates on parameters available when the consolidated financial statements are prepared. However, these parameters may change due to market changes or other circumstances beyond the control of the Group. Such changes are reflected in the assumptions and estimates when they occur.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.
The key assumptions used to determine the recoverable amount for the different CGUs, are disclosed and further explained in Notes 4 and 5.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

Note 2 Summary of significant accounting policies continued

Deferred tax assets

Deferred tax assets are recognised for unused carried forward tax losses and temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilised. The amount of deferred tax assets that can be recognised is based upon the likely timing and level of future taxable profits together with future tax planning strategies. Additional information is provided in Note 26.

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments. See Note 30 for further disclosures.

d. Business combinations and goodwill

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

The Group determines that it has acquired a business when the acquired set of activities and assets include an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired process is considered substantive if it is critical to the ability to continue producing outputs, and the inputs acquired include an organised workforce with the necessary skills, knowledge or experience to perform that process or it significantly contributes to the ability to continue producing outputs and is considered unique or scarce or cannot be replaced without significant cost, effort or delay in the ability to continue producing outputs.

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

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date through profit or loss. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not re-measured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments is measured at fair value with the changes in fair value recognised in the income statement in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

Note 2 Summary of significant accounting policies continued

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

e. Business combinations involving entities under common control

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

f. Investment in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are accounted for using the equity method. Under the equity method, the investment in an associate or joint venture is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate or joint venture.

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

The aggregate of the Group's share of profit or loss of an associate or a joint venture is shown on the face of the income statement outside EBIT and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

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

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognises the loss as 'Share in result of associate and joint ventures' in the income statement.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in the income statement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS **CONTINUED**

FOR THE YEAR ENDED 31 DECEMBER 2022

Note 2 Summary of significant accounting policies continued

g. Foreign currency translation

The functional currency of the Company is Pound Sterling. The consolidated financial statements are also presented in Pound Sterling.

Each entity of the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

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

The assets and liabilities of the entities whose functional currency is not Pound Sterling are translated at exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the period. Equity items are translated at the historical exchange rates. Exchange differences arising on the translation are recognised in other comprehensive income and classified as a separate component of equity (foreign currency translation reserve). Such translation differences are recognised in the income statement in the period in which the entity is disposed of.

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

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

The following exchange rates in relation to Pound Sterling were prevailing at reporting dates:

	As at 31 December	
	2022 In Pound Sterling	2021 In Pound Sterling
Euro	**0.885**	0.838
Hungarian Forint	**0.002**	0.002
Croatian Kuna	**0.117**	0.112
US Dollar	**0.830**	0.740

Percentage increase (decrease) in exchange rates at yearend compared to the previous year:

	As at 31 December	
	2022 %	2021 %
Euro	**5.6**	(6.6)
Hungarian Forint	**(3.5)**	(6.7)
Croatian Kuna	**2.5**	(6.3)
US Dollar	**12.2**	1.2

Note 2 Summary of significant accounting policies continued

h. Intangible assets

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

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

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

i. Property, plant and equipment

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

	Years
Hotel buildings	50 to 95
Furniture and equipment	2 to 25

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

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

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

j. Impairment of non-financial assets

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS **CONTINUED**

FOR THE YEAR ENDED 31 DECEMBER 2022

Note 2 Summary of significant accounting policies continued

k. Financial instruments

i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost or fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. The Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are 'solely payments of principal and interest' (SPPI) on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a timeframe established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in two categories:

- financial assets at amortised cost (debt instruments); and
- financial assets at fair value through profit or loss.

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model with the objective of holding financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost include trade receivables and loans to joint ventures.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets that are debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the income statement.

Note 2 Summary of significant accounting policies continued

This category includes derivative instruments and listed equity investments. Dividends on listed equity investments are recognised as other income in the income statement when the right of payment has been established.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a Group of similar financial assets) is primarily derecognised (i.e. removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit loss (ECL) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original EIR. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

The Group considers a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, as measured at amortised cost (loans and borrowings and payables) or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivative financial instruments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2022

Note 2 Summary of significant accounting policies continued

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the income statement.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as financial expenses in the income statement.

This category generally applies to interest-bearing loans and borrowings.

Financial liability in respect of Income Units sold to private investors

In 2010, the construction of Park Plaza Westminster Bridge London was completed and the hotel opened to paying customers. Out of 1,019 rooms, 535 rooms ('Income Units') were sold to private investors under a 999-year lease. The sales transactions are accounted for as an investment scheme in which the investors, in return for the upfront consideration paid for the Income Units, receive 999 years of net income from a specific revenue-generating portion of an asset (contractual right to a stream of future cash flows). The amounts received upfront are accounted for as a floating rate financial liability and are being recognised as income over the term of the lease (i.e. 999 years). Changes in future estimated cash flows from the Income Units are recognised in the period in which they occur. Since November 2014, the Company has bought back 52 Income Units from private investors. Upon buy-back of a unit, the financial liability relating to that unit is derecognised and any difference between the purchase price and the liability derecognised is recorded in profit and loss.

The entire hotel is accounted for at cost less accumulated depreciation.

The replacement costs for the Income Units are fully reimbursed by the private investors. An amount of 4% of revenues is paid by the investors on an annual basis ('FF&E reserve') and is accounted for in profit and loss. The difference between the actual depreciation cost and the FF&E reserve is a timing difference which is recorded in the statement of financial position as a receivable or liability to the investor in each respective year.

Note 2 Summary of significant accounting policies continued

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

l. Inventories

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

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

m. Cash and cash equivalents

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

n. Derivative financial instruments and hedge accounting

As permitted by IFRS 9, the Group has elected to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements of IFRS 9.

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS **CONTINUED**

FOR THE YEAR ENDED 31 DECEMBER 2022

Note 2 Summary of significant accounting policies continued

o. Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer.

Owned, co-owned and leased hotels

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

Management fees

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

Franchise fees

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

Marketing fees

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

Customer loyalty programme

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

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

Contract balances

Trade receivables

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e. only the passage of time is required before payment of the consideration is due).

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability (advance payments received) is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Note 2 Summary of significant accounting policies continued

p. Alternative Performance Measures

EBITDAR

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

EBITDA

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

EBIT

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

q. Leases

The Group accounts for a contract as a lease when the contract terms convey the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group as lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

	Years
Land	**50 to 200**
Hotel buildings	**5 to 95**
Offices and storage	**1 to 12**
Furniture and equipment	**2 to 25**

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment. Refer to the accounting policies in section (j), Impairment of non-financial assets.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as rent expenses in the period in which the event or condition that triggers the payment occurs.

Note 2 Summary of significant accounting policies continued

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the lease payments (e.g. changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in Other financial liabilities (see Note 17).

Variable lease payments that depend on an index:

On the commencement date, the Company uses the index rate prevailing on the commencement date to calculate the future lease payments.

For leases in which the Company is the lessee, the aggregate changes in future lease payments resulting from a change in the index are discounted (without a change in the discount rate applicable to the lease liability) and recorded as an adjustment of the lease liability and the right-of-use asset, only when there is a change in the cash flows resulting from the change in the index (that is, when the adjustment to the lease payments takes effect).

Variable lease payments:

Variable lease payments that do not depend on an index or interest rate but are based on performance or usage are recognised as an expense as incurred when the Company is the lessee, and are recognised as income as earned when the Company is the lessor.

Lease extension and termination options:

A non-cancellable lease term includes both the periods covered by an option to extend the lease when it is reasonably certain that the extension option will be exercised and the periods covered by a lease termination option when it is reasonably certain that the termination option will not be exercised.

In the event of any change in the expected exercise of the lease extension option or in the expected non-exercise of the lease termination option, the Company re-measures the lease liability based on the revised lease term using a revised discount rate as of the date of the change in expectations. The total change is recognised in the carrying amount of the right-of-use asset until it is reduced to zero, and any further reductions are recognised in profit or loss.

Lease modifications:

If a lease modification does not reduce the scope of the lease and does not result in a separate lease, the Company re-measures the lease liability based on the modified lease terms using a revised discount rate as of the modification date and records the change in the lease liability as an adjustment to the right-of-use asset.

If a lease modification reduces the scope of the lease, the Company recognises a gain or loss arising from the partial or full reduction of the carrying amount of the right-of-use asset and the lease liability. The Company subsequently re-measures the carrying amount of the lease liability according to the revised lease terms, at the revised discount rate as of the modification date and records the change in the lease liability as an adjustment to the right-of-use asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of furniture and equipment (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Note 2 Summary of significant accounting policies continued

r. Employee benefits

Share-based payments

The Board has adopted a share option plan, under which employees and Directors of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity-settled transactions).

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by using an appropriate pricing model, further details of which are given in Note 12.

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

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

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

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

Pension

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

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

s. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the income statement, net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Note 2 Summary of significant accounting policies continued

t. Borrowing costs for qualifying assets

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

u. Taxation

Current income tax

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

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or from an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and jointly controlled entities, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and jointly controlled entities, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

Note 2 Summary of significant accounting policies continued

v. Treasury shares

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

w. Earnings (loss) per share

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

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

x. Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate. The income from the government grants is netted off against the operating expenses account in the income statement.

y. Changes in accounting policies and disclosures

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2022. Several other amendments and interpretations apply for the first time in 2022, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

An onerous contract is a contract under which the unavoidable costs of meeting the obligations under the contract (i.e., the costs that the Group cannot avoid because it has the contract) exceed the economic benefits expected to be received under it. The amendments specify that, when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services including both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract and costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

This amendment had no impact on the consolidated financial statements of the Group.

Reference to the Conceptual Framework – Amendments to IFRS 3

The amendments replace a reference to a previous version of the IASB's Conceptual Framework with a reference to the current version issued in March 2018 without significantly changing its requirements. The amendments add an exception to the recognition principle of IFRS 3 Business Combinations to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date. The amendments also add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

In accordance with the transitional provisions, the Group applies the amendments prospectively, i.e., to business combinations occurring after the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). These amendments had no impact on the consolidated financial statements of the Group as there were no business combinations during the period.

Note 2 Summary of significant accounting policies continued

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

In accordance with the transitional provisions, the Group applies the amendments retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment (the date of initial application). These amendments had no impact on the consolidated financial statements of the Group as there were no sales of such items produced by property, plant and equipment made available for use on or after the beginning of the earliest period presented.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39 Financial Instruments: Recognition and Measurement.

In accordance with the transitional provisions, the Group applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment (the date of initial application). These amendments had no impact on the consolidated financial statements of the Group as there were no modifications of the Group's financial instruments during the period.

z. Standards issued but not yet applied

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

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

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. In October 2022, the IASB issued a subsequent amendment. The amendments clarify:

- what is meant by a right to defer settlement;
- that a right to defer must exist at the end of the reporting period;
- that classification is unaffected by the likelihood that an entity will exercise its deferral right; and
- that only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Note 2 Summary of significant accounting policies continued

Definition of Accounting Estimates – Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

The amendments are not expected to have a material impact on the Group.

Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgments, in which it provides guidance and examples to help entities apply materiality judgments to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023, with earlier application permitted. Since the amendments to Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Group is currently assessing the amendments to determine the impact they will have on the Group's accounting policy disclosures.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12

In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability should also be recognised for all deductible and taxable temporary differences associated with leases and decommissioning obligations.

The amendments to IAS 12 are applicable for annual periods beginning on or after 1 January 2023.

The amendments are not expected to have a material impact on the Group.

Note 3 Business combination

In 2022 there were no business combinations. Below is a description of the business combinations that took place in 2021.

a. **Acquisition of Londra & Cargill Hotel in Rome, Italy**

On 10 November 2021 PPHE Hotel Group, through its wholly owned subsidiary Londra Cargill Parent S.r.l, acquired 100% of the shares of Società Immobiliare Alessandro De Gasperis S.r.l. which owns and operate the Londra & Cargill Hotel in Rome, Italy (the 'hotel'). The hotel offers 99 rooms and suites, a restaurant, bar, meeting facilities and private parking and will continue to operate while the Group finalises its plans to reposition the property as an upper upscale lifestyle hotel. The hotel is expected to be relaunched in Q1 2024. The purchase price of €33.1 million (£28.3 million) was funded from the Group's excess cash position. Transaction costs of £0.5 million were expensed and are included in other expenses in the consolidated income statement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

Note 3 Business combination continued

The fair values of identifiable assets and liabilities of the hotel at the date of acquisition were as follows:

	Fair value £'000
Property, plant and equipment	33,052
Trade and other receivables	43
Indemnification asset	
Trade and other payables	(3,784)
Bank loan	(483)
Deferred tax liabilities, net	(530)
Net assets	28,298
Cash flow on acquisition:	
Cash acquired with the subsidiary	8
Cash paid	(28,306)
Net cash outflow	(28,298)

From the date of acquisition, Società Immobiliare Alessandro De Gasperis S.r.l. contributed £0.2 million of revenue and a loss of £(0.2) million to loss before tax of the Group for the year ended 31 December 2021. If the combination had taken place at the beginning of 2021, the effect on revenues and profit before tax of the Group in 2021 would have been immaterial.

b. Acquisition of the FRANZ ferdinand Mountain Resort Hotel in Nassfeld, Austria

On 3 December 2021, Arena Hospitality Group d.d., through its subsidiaries Sugarhill Investments B.V. and ARENA FRANZ ferdinand GmbH, acquired the FRANZ ferdinand Mountain Resort Nassfeld, a 4-star hotel in Nassfeld, Austria. The purchase price of €15.3 million (£12.8 million) was partially funded from Arena's excess cash and partially by bank debt of €10.5 million (£8.8 million) with Erste Group Bank AG. Transaction costs of £0.5 million were expensed and are included in other expenses in the consolidated income statement.

The fair values of identifiable assets and liabilities of the hotel at the date of acquisition were as follows:

	Fair value £'000
Property, plant and equipment	13,155
Inventories	31
Trade and other payables	(403)
Net assets	12,783
Cash paid	(12,783)

From the date of acquisition, FRANZ ferdinand Mountain Resort Nassfeld contributed £0.3 million of revenue and a loss of £(0.1) million to loss before tax for the year ended 31 December 2021. If the combination had taken place at the beginning of the 2021, the effect on revenues and profit before tax of the Group in 2021 would have been immaterial.

Note 4 Intangible assets

	Park Plaza® Hotels & Resorts management rights (a)[1] £'000	Park Plaza® Hotels & Resorts franchise rights (a)[2] £'000	art'otel® franchise rights (b) £'000	Other intangible assets (c) £'000	Total £'000
Cost:					
Balance as at 1 January 2022	**20,063**	**20,510**	**3,643**	**3,291**	**47,507**
Additions	**–**	**–**	**–**	**386**	**386**
Disposals	**–**	**–**	**–**	**(15)**	**(15)**
Adjustment for exchange rate differences	**1,132**	**1,157**	**206**	**197**	**2,692**
Balance as at 31 December 2022	**21,195**	**21,667**	**3,849**	**3,859**	**50,570**
Accumulated amortisation:					
Balance as at 1 January 2022	**14,507**	**14,909**	**1,925**	**1,876**	**33,217**
Disposals	**–**	**–**	**–**	**(15)**	**(15)**
Amortisation	**1,029**	**1,037**	**185**	**340**	**2,591**
Adjustment for exchange rate differences	**857**	**881**	**116**	**118**	**1,972**
Balance as at 31 December 2022	**16,393**	**16,827**	**2,226**	**2,319**	**37,765**
Net book value as at 31 December 2022	**4,802**	**4,840**	**1,623**	**1,540**	**12,805**
Cost:					
Balance as at 1 January 2021	21,475	21,954	3,899	3,347	50,675
Adjustment for exchange rate differences	(1,412)	(1,444)	(256)	(222)	(3,334)
Additions	–	–	–	176	176
Disposals	–	–	–	(10)	(10)
Balance as at 31 December 2021	20,063	20,510	3,643	3,291	47,507
Accumulated amortisation:					
Balance as at 1 January 2021	14,446	14,868	1,866	1,741	32,921
Disposals	–	–	–	(10)	(10)
Amortisation	1,035	1,042	186	268	2,531
Adjustment for exchange rate differences	(974)	(1,001)	(127)	(123)	(2,225)
Balance as at 31 December 2021	14,507	14,909	1,925	1,876	33,217
Net book value as at 31 December 2021	5,556	5,601	1,718	1,415	14,290

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS **CONTINUED**

FOR THE YEAR ENDED 31 DECEMBER 2022

Note 4 Intangible assets continued

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

(1) Management rights – rights held by the Group relating to the management of Park Plaza® Hotels & Resorts in Europe, the Middle East and Africa. The management rights are included in the consolidated financial statements at their fair value as at the date of acquisition and are being amortised over a 20-year period based on the terms of the existing contracts and management estimation of their useful life. The remaining amortisation period is 4.5 years.

(2) Franchise rights relating to the brand 'Park Plaza® Hotels & Resorts' are included in the consolidated financial statements at their fair value as at the date of acquisition and are being amortised over a 20-year period based on management's estimation of their useful life. The remaining amortisation period is 4.5 years.

b. Acquisition of art'otel® rights

In 2007, the Group acquired from CCS Capital Concept Services Gmbh (the 'vendor') the worldwide rights to use the art'otel® brand name for an unlimited period of time. The rights are being amortised over a 20-year period based on management's estimation of their useful life. The remaining amortisation period is 4.5 years. In December 2020, the Group acquired certain rights which were assigned to the vendor under the original agreement for a cash consideration of €0.3 million (£0.2 million) and 80,000 shares of the Company. The additional rights are amortised based on management's estimation of their useful life.

c. Other intangible assets

These mainly include the brand name and internal domain obtained in the acquisition of Arena. The rights are being amortised over 20 years based on management's estimation of their useful life.

d. Impairment

In 2022, there were no indicators of impairment

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Note 5 Property, plant and equipment

	Land £'000	Hotel buildings £'000	Property & assets under construction £'000	Income Units sold to private investors[1] £'000	Furniture, fixtures and equipment £'000	Total £'000
Cost:						
Balance as at 1 January 2022	**348,614**	**717,296**	**45,725**	**137,902**	**268,129**	**1,517,666**
Additions during the year	**–**	**13,337**	**72,856**	**623**	**8,050**	**94,866**
Disposal	**–**	**(94)**	**–**	**–**	**(372)**	**(466)**
Buy-back of Income Units sold to private investors	**427**	**3,082**	**–**	**(3,806)**	**297**	**–**
Reclassification[2]	**(22)**	**24,119**	**33,985**	**–**	**(58,082)**	**–**
Adjustment for exchange rate differences	**13,811**	**22,023**	**1,461**	**–**	**4,861**	**42,156**
Balance as at 31 December 2022	**362,830**	**779,763**	**154,027**	**134,719**	**222,883**	**1,654,222**
Accumulated depreciation and impairment:						
Balance as at 1 January 2022	**15,669**	**106,255**	**–**	**23,237**	**136,505**	**281,666**
Provision for depreciation	**316**	**15,420**	**–**	**1,190**	**13,936**	**30,862**
Disposal	**–**	**(94)**	**–**	**–**	**(325)**	**(419)**
Reclassification		**15**			**(15)**	**–**
Buy-back of Income Units sold to private investors	**–**	**402**	**–**	**(662)**	**260**	**–**
Adjustment for exchange rate differences	**1,114**	**3,291**	**–**	**–**	**2,524**	**6,929**
Balance as at 31 December 2022	**17,099**	**125,289**	**–**	**23,765**	**152,885**	**319,038**
Net book value as at 31 December 2022	**345,731**	**654,474**	**154,027**	**110,954**	**69,998**	**1,335,184**
Cost:						
Balance as at 1 January 2021	353,931	699,516	24,095	138,199	240,865	1,456,606
Additions during the year	–	1,750	25,175	363	32,153	59,441
Disposal	(77)	(1,835)	(23)	–	(375)	(2,310)
Acquisition of subsidiaries (Note 3)	6,169	38,443	–	–	1,595	46,207
Buy-back of Income Units sold to private investors	174	1,253	–	(1,534)	107	–
Reclassification	–	1,998	(1,964)	874	(1,080)	(172)
Adjustment for exchange rate differences	(11,583)	(23,829)	(1,558)	–	(5,136)	(42,106)
Balance as at 31 December 2021	348,614	717,296	45,725	137,902	268,129	1,517,666
Accumulated depreciation and impairment:						
Balance as at 1 January 2021	11,043	96,933	–	22,435	124,837	255,248
Provision for depreciation	317	13,922	–	643	14,778	29,660
Disposal	–	(1,571)	–	–	(329)	(1,900)
Reclassification	–	(12)	–	418	(384)	22
Buy-back of Income Units sold to private investors	–	157	–	(259)	102	–
Impairment	4,424	–	–	–	–	4,424
Adjustment for exchange rate differences	(115)	(3,174)	–	–	(2,499)	(5,788)
Balance as at 31 December 2021	15,669	106,255	–	23,237	136,505	281,666
Net book value as at 31 December 2021	332,945	611,041	45,725	114,665	131,624	1,236,000

1 This includes 483 rooms (2021: 498) in Park Plaza Westminster Bridge London, for which the cash flows, derived from the net income generated by these Income Units, were sold to private investors (see Note 2(k)). The proceeds from the purchases have been accounted for as a variable rate financial liability (see Note 16).

2 Mainly includes a reclassification of c.£64.2 million from Furniture, fixtures and equipment to Property & assets under construction on account of additions that relate to the construction of art'otel London Hoxton until December 2021 and a reclassification of c.£30.0 million due to the completion of the construction of Hotel Brioni Pula from Property & assets under construction to Furniture, fixtures and equipment and Hotel buildings.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS **CONTINUED**
FOR THE YEAR ENDED 31 DECEMBER 2022

Note 5 Property, plant and equipment continued

a. For information regarding liens, see Note 13.

b. Impairment

In 2022, there were no indicators for impairment.

c. Capitalised borrowing costs

On 7 April 2020, the Group entered into a building contract to develop art'otel London Hoxton on a site located by Old Street, Rivington Street, Great Eastern Street and Bath Place, London EC1, which is expected to be completed in H1 2024 (see Note 29c(i)). The cumulative expenditure for this project as at 31 December 2022 was £125.4 million (2021: £66.7 million). The amount of borrowing costs capitalised related to this project during the year ended 31 December 2022 was £3.5 million (2021: £1.3 million). The rate used to determine the amount of borrowing costs eligible for capitalisation was Sonia +3.67%, which is the effective interest rate of the specific borrowing.

Note 6 Investment in joint ventures and subsidiaries with significant non-controlling interests

a. Investment in joint ventures

	As at 31 December	
	2022 £'000	2021 £'000
Loans to joint ventures[1]	**5,573**	5,222
Share of net assets under equity method	**(612)**	(907)
Investment in joint ventures	**4,961**	4,315

1 The loans to joint ventures amount includes a Euro loan bearing an interest of Euribor +2.5% per annum, for which repayment is due on 13 January 2024.

The share in net profit amounts to £202 thousand (2021: net loss of £718 thousand).

b. Summarised financial information of subsidiary with material non-controlling interests

(i) Long-term partnership for 49% of Park Plaza London Riverbank and art'otel London Hoxton development project

On 23 June 2021, a wholly owned subsidiary of PPHE Hotel Group entered into a sale and purchase agreement with Clal Insurance ('Clal'), one of Israel's leading insurance and long-term savings companies. As part of this agreement, Clal became a minority partner and owner of 49% of the shares of Signature Top Ltd, a wholly owned subsidiary of the Group ('Signature Top') which indirectly holds the real estate and operations of both the 646-room Park Plaza London Riverbank ('Riverbank') and the 343-room art'otel London Hoxton development project ('Hoxton'), which is scheduled to open in 2024. As part of this agreement, the Group has secured a 20-year hotel management agreement in respect of both hotels.

Note 6 Investment in joint ventures and subsidiaries with significant non-controlling interests continued

In addition, Clal was granted 5 million share appreciation rights (SAR) of the Company which has a seven-year maturity with a strike price of £16 per share and a cap of £21 per share. The SAR will vest as follows:

- 500,000 SAR Units shall vest and become exercisable on the first anniversary of the completion of the sale and purchase agreement ('Completion')
- 500,000 SAR Units shall vest and become exercisable on the date being 18 months after Completion
- The remaining four million SAR Units shall vest and become exercisable on the second anniversary of Completion.

Upon exercise, the Company will have a right to determine whether an amount equal to the SAR Value as of the date of the exercise will be satisfied by a payment of cash or by the issuance of the Company's shares.

The SAR instrument, which is included in Level 2 in the fair value hierarchy, was valued on inception by an independent valuer using the Black–Scholes model. The following lists the inputs used for the fair value measurement:

Dividend yield	0%
Expected volatility of the share price	29.13%
Risk-free interest rate	0.931%
Years to expiration	7 years

The total price paid by Clal in connection with the transaction amounts to £113.7 million in cash, subject to working capital adjustments, out of which £7.2 million was allocated to the SAR. In addition, Clal provided further cash injection of £12.1 million to fund their portion of the remaining equity commitments of the art'otel London Hoxton development project.

The arrangements between the Group and Clal contain customary exit provisions which include a right for Clal to require a sale of either or both of the companies which own the hotels following seven years from completion or earlier in a change of control of PPHE and certain events of default. If triggered, such provisions afford the Group a pre-emption right in respect of such companies. The Group has also given certain guarantees to Clal regarding completion of the art'otel London Hoxton development project.

The Group has assessed this transaction and concluded that the sale of the ownership interest in Signature Top does not trigger a change of control and should be accounted for as an equity transaction in accordance with IFRS 10 Consolidated Financial Statements. The excess of consideration received over the carrying amount of the non-controlling interests (net of £1.2 million of transaction costs) in the amount of £37.9 million is recognised in equity of the parent. The Group has elected to recognise this amount in accumulated earnings. Furthermore, upon initial recognition the SAR liability in the amount of £7.2 million was classified as a Financial liability measured at fair value through profit or loss in line with IAS 32 Financial Instruments: Presentation and IFRS 9 Financial Instruments.

As at 31 December 2022, the SAR instrument was valued internally at an amount of £5.5 million (2021: £5.6 million) using the Black–Scholes model and is included in current liabilities under Other payables and accruals in the Group's consolidated balance sheet. The following lists the inputs used for the fair value measurement:

Dividend yield	0%
Expected volatility of the share price	29.4%
Risk-free interest rate	3.808%
Years to expiration	5.5 years

The amount of income and comprehensive income allocated to the non-controlling interests in 2022 amounts to £1,343 thousand (2021: loss of £2,199 thousand) and £11,431 thousand (2021: comprehensive loss of £2,199 thousand) respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS **CONTINUED**
FOR THE YEAR ENDED 31 DECEMBER 2022

Note 6 Investment in joint ventures and subsidiaries with significant non-controlling interests continued

Below is selected financial information relating to the long-term partnership with Clal, as of 31 December 2022 and 2021, and for the year ended 31 December 2022 and the six months ended 31 December 2021.

	2022 £'000	2021 £'000
Non-current assets	**382,778**	306,046
Current assets	**13,437**	15,891
Non-current liabilities	**202,940**	152,076
Current liabilities	**10,840**	10,327
Revenue	**37,196**	10,723
EBITDA	**10,968**	2,108
Profit (loss) for the period	**5,030**	(4,488)
Total comprehensive income (loss)	**24,646**	(4,488)

(ii) Arena Hospitality Group d.d.

As at December 2022, the Group owned approximately 53.2% (2021: 52.95%) of Arena Hospitality Group d.d. ('Arena'). During 2022, Arena Hospitality Group d.d. purchased 24,329 of its own shares for a consideration of HRK5.9 million (£0.7 million). The difference between the adjustment of the non-controlling interests and the net consideration paid of approximately £133 thousand was recorded in retained earnings. As a result of those transactions, the Group's share in Arena increased to 53.2%.

The amount of profit and comprehensive profit allocated to the non-controlling interests in 2022 amounts to £2,188 thousand (2021: profit of £1,824 thousand) and £8,136 thousand (2021: loss of £4,023 thousand) respectively.

Below is selected financial information relating to Arena, as of 31 December 2022 and 2021, and for the years ended 31 December 2022 and 2021.

	As at 31 December	
	2022 £'000	2021 £'000
Non-current assets	**373,543**	343,051
Current assets	**69,481**	49,884
Non-current liabilities	**192,894**	166,841
Current liabilities	**38,755**	31,458
Revenue	**93,469**	52,542
EBITDA	**26,616**	18,642
Profit for the period	**4,543**	4,115
Total comprehensive loss	**17,242**	(8,831)

Note 7 Other non-current assets
a. Non-current financial assets

	As at 31 December	
	2022 £'000	2021 £'000
Income Units in Park Plaza County Hall London[1]	**16,100**	15,800
Rent security deposits	**358**	346
Derivative financial instruments (see note 30a)	**30,539**	–
Other non-current assets	**248**	240
	47,245	16,386

1 On 14 July 2017, the Group acquired an ownership interest in Park Plaza County Hall London through its purchase of 44 aparthotel units and the associated shares in the management company of the hotel, South Bank Hotel Management Company Limited. The purchase price was £16.0 million. In October 2017, an additional two units were purchased for £0.7 million. Upon initial recognition, the investment was designated in the consolidated financial statements at fair value through profit and loss. In return for the consideration paid, the Company receives 999 years of net income from specific revenue-generating units of the hotel (contractual right to a stream of future cash flows). This investment is managed and its performance is evaluated by the Group management on a fair value basis in accordance with the Group investment strategy. As the cash flows from this investment are not solely payments of principal and interest, under IFRS 9 the investment is classified and measured at fair value through profit or loss. The fair value of the Income Units as of the reporting date was £16.1 million based on an independent valuation prepared by Savills using a cap rate of 6.25%.

Note 8 Trade receivables
a. Composition:

	As at 31 December	
	2022 £'000	2021 £'000
Trade receivables	**19,214**	7,701
Less – allowance for doubtful debts	**(681)**	(890)
	18,533	6,811

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

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

	2022 £'000
As at 1 January 2022	**(890)**
Write-off	**320**
Additions	**(85)**
Exchange rate differences	**(26)**
As at 31 December 2022	**(681)**
As at 1 January 2021	(704)
Write-off	45
Additions	(265)
Exchange rate differences	34
As at 31 December 2021	(890)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS **CONTINUED**

FOR THE YEAR ENDED 31 DECEMBER 2022

Note 8 Trade receivables continued

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

2022	**Total £'000**	**Not past due £'000**	**Past due < 30 days £'000**	**31 to 60 days £'000**	**61 to 90 days £'000**	**> 90 days £'000**
Trade receivables	**19,214**	**8,824**	**7,633**	**1,317**	**474**	**966**
Allowance for doubtful debts	**(681)**					**(681)**
	18,533	**8,824**	**7,633**	**1,317**	**474**	**285**

2021	Total £'000	Not past due £'000	Past due < 30 days £'000	31 to 60 days £'000	61 to 90 days £'000	> 90 days £'000
Trade receivables	7,701	4,326	1,691	636	118	930
Allowance for doubtful debts	(890)					(890)
	6,811	4,326	1,691	636	118	40

Note 9 Other receivables and prepayments

	As at 31 December **2022 £'000**	2021 £'000
Prepaid expenses	**7,296**	5,352
VAT	**4,706**	6,686
Related parties[1]	**100**	56
Government grants for fixed costs receivables	**–**	6,285
Investments in marketable securities	**–**	22
Escrow account[2]	**4,666**	–
Others	**1,098**	1,056
	17,866	19,457

1 The amount owed by related parties bears no interest; see Note 29.

2 Funds for the acquisition of 12 Park Plaza Westminster Bridge London units that were transferred to an escrow account. After the reporting period, the acquisition was finalised.

Note 10 Cash and cash equivalents

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

Note 11 Equity

a. Share capital

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

As at 31 December 2022, the number of ordinary shares issued was 44,347,410 (2021: 44,347,410), 1,909,042 of which were held as treasury shares (2021: 1,808,070).

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

b. Treasury shares

During 2022, the Company issued 56,165 of its ordinary shares from its treasury account for no consideration in order to satisfy an exercise of options. As a result, £108 thousand were transferred from the treasury account to the share premium account.

Note 11 Equity continued

On 28 June 2022, the Company's Board of Directors approved the commencement of a share buy-back programme to buy up to a maximum of 300,000 ordinary shares for an aggregate consideration (excluding expenses) of up to a maximum of £1.7 million. On 18 November 2022, this share buy-back programme was further extended to buy up to a maximum of 500,000 ordinary shares for an aggregate consideration (excluding expenses) of up to a maximum of £3.7 million. As at 31 December 2022, the Company completed a purchase of 157,137 shares under this programme for a total consideration of £2,098 thousand, representing an average price of 1,350 pence per share.

The total number of treasury shares as at 31 December 2022 is 1,909,042 (2021: 1,808,070).

c. **Nature and purpose of reserves**

Foreign currency translation reserve

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

Hedging reserve

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

Note 12 Share-based payments

The Company operates two option plans for the benefits of employees of the Group, the first was adopted in 2007 and the second was adopted in 2020.

2007 Option Plan

The 2007 Plan has two types of options: Option A and Option B. The exercise price of both options will not be less than the closing price of a share on the dealing day immediately preceding the grant date (as published in the Daily Official List of the London Stock Exchange). Option A vests over a period of three years from the grant date and Option B vests at the end of three years from the grant date. Unexercised options expire ten years after the grant date. The plan does not include any performance conditions.

As at 31 December 2022, there were 220,500 exercisable options outstanding under the 2007 Option Plan. These options were granted to employees of the Company in past years. No further grants can be made under this plan.

2020 PPHE Executive Share Option Plan

The Board has adopted a '2020 PPHE Executive Share Option Plan', under which employees of the Company and its subsidiaries receive remuneration in the form of share-based compensation. The plan has the following principal terms:

a. The plan has four types of options:

- Option A: market value options – options that are linked to the market value of the shares in the Company.
- Option B: salary related options – whereby employees agree to a reduction in their base salary in exchange for the right to acquire shares at nil-cost. These options normally vest after 12 months subject to an additional six-month holding period.
- Option C: deferred bonus awards – allowing the award of the number of shares determined by the Remuneration Committee in lieu of some or all of the annual bonus.
- Option D: performance share awards – options which are granted subject to specified performance targets. Notwithstanding the extent to which any performance target is satisfied, the number of vested award shares may be reduced by the Committee to ensure that the number of vested award shares is appropriate taking into account the underlying business performance of the Group.

These awards are subject to the rules of the PPHE Executive Incentive Plan 2020 which may include: long-term vesting periods prescribed by the Committee upon grant; good-leaver and bad-leaver provisions allowing the Committee to exercise discretion as to when it might be appropriate for an award to vest in spite of the relevant employee leaving the Group; post vesting holding periods determined by the Committee at the time of the award; performance conditions; and share capital dilution limits. The plan allows dividends or dividend equivalents to accrue, subject to the Committee's discretion.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS **CONTINUED**

FOR THE YEAR ENDED 31 DECEMBER 2022

Note 12 Share-based payments continued

b. At any time, the total number of shares issued and/or available for grant (in a ten-year period) under the 2007 Share Option Plan, the 2020 PPHE Executive Incentive Plan and under any other employee share scheme which the Company may establish in the future may not exceed 5% of the Company's issued share capital at that time.

c. In June 2022, the Remuneration Committee approved a Long-Term Incentive Plan ("LTIP") conditional grant of 93,000 options with a nil exercise price (Option D under the 2020 Option Plan). The grant is subject to performance conditions determined by the Remuneration Committee in accordance with the 2020 Option plan rules and the company's Remuneration Policy and has a vesting period of 36 months starting 1 January 2022 with a 24 months holding period. Furthermore, the Remuneration Committee approved an annual bonus plan for 2022 which included an award to members of the Executive Leadership Team of 99,000 options with a nil exercise price (Option C under the 2020 Option Plan). This award was subject to certain performance criteria which have been met for 2022. Those options have an immediate vesting and are subject to a holding period of 12 months post grant.

The following lists the inputs to the binomial model used for the fair value measurement of the 93,000 options granted:

Dividend yield	1.0%
Expected volatility of the share prices	45.58%
Risk-free interest rate	1.9327%
Expected life of share options	5 years
Weighted average share price at the grant date	1,455.0 pence
Fair value per option	1,398.0 pence

The following lists the inputs to the binomial model used for the fair value measurement of the 99,000 options:

Dividend yield	1.0%
Expected volatility of the share prices	45.58%
Risk-free interest rate	1.9327%
Expected life of share options	3 years
Weighted average share price at the grant date	1,455.0 pence
Fair value per option	1,440.0 pence

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

d. The expense arising from equity-settled share-based payment transactions during 2022 was £1,965 thousand (2021: £1,085 thousand). Total exercisable options at 31 December 2022 amounted to 150,223 (2021: 69,867).

Note 12 Share-based payments continued

Movements during the year

The following table illustrates the number (No.) and weighted average exercise prices (EP) of, and movements in, share options during 2021 and 2022:

	No. of options A (2007 Option Plan)	No. of options A (2020 Option Plan)	No. of options B (2020 Option Plan)	No. of options C (2020 Option Plan)	No. of options D (2020 Option Plan)	EP
Outstanding as at 1 January 2022	**265,500**	**250,500**	**69,867**	**–**	**–**	**£10.51**
Options forfeited during the year	**–**	**(23,500)**	**–**	**–**	**–**	**£13.00**
Options exercised in the year	**(45,000)**	**–**	**(18,644)**	**–**	**–**	**£1.65**
Options granted during the year	**–**	**–**	**–**	**99,000**	**93,000**	**–**
Outstanding as at 31 December 2022	**220,500**	**227,000**	**51,223**	**99,000**	**93,000**	**£8.32**
Outstanding as at 1 January 2021	412,290	714,000	70,706	–	–	£11.05
Options forfeited during the year	(25,000)	(13,500)	(839)	–	–	£13.55
Options exercised in the year	(121,790)	–	–	–	–	£5.70
Options voluntarily waived[1]	–	(450,000)	–	–	–	13.00
Outstanding as at 31 December 2021	265,500	250,500	69,867	–	–	£10.51

1 In 2021, a few of the Group's employees agreed to voluntarily waive their rights in connection with the grant of 450,000 options in October 2020 given the underlying requirements of the NOW scheme issued in the Netherlands.

2 The options exercised in the year were cashless, as described in note 11.

As at 31 December 2022, the number of exercisable options was 370,723 (2021: 335,367) with an EP of £7.54 (2021: £8.64).

The weighted average remaining contractual life for the share options outstanding as at 31 December 2022 is 7.3 years (2021: 7.2 years).

Note 13 Pledges, contingent liabilities and commitments

a. Pledges, collateral and securities

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

b. Restricted cash

Under certain facility agreements, funds need to be held in restricted deposit accounts in order to pay the debt service for a subsequent period. The total deposits held amount to £18.5 million and are presented as restricted in the financial statements.

c. Commitments

(i) Management and franchise agreements

1. The Group entered into a Territorial Licence Agreement (the 'Master Agreement') with Radisson Hotel Group ('Radisson'). Under the Master Agreement, the Group, among other rights, is granted an exclusive licence to use the brand 'Park Plaza® Hotels & Resorts' in 56 territories throughout Europe, the Middle East and Africa in perpetuity (the 'Territory').

   The Master Agreement also allows the Group to use, and license others to use, the Radisson systems within the Territory, which right includes the right to utilise the Radisson systems' international marketing and reservations facilities and to receive other promotional assistance. The Group pays Radisson a fee based on a percentage of the hotels' gross room revenue.

2. Within the terms of the management agreements, the hotels were granted by the Group a licence allowing them to use, throughout the term of the management agreements, the 'Park Plaza® Hotels & Resorts' and 'art'otel®' brand names.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2022

Note 13 Pledges, contingent liabilities and commitments continued

(ii) Construction contract commitment

As at 31 December 2022, the Group had capital commitments amounting to £81 million for the construction of the development of art'otel London Hoxton and £9 million for the refurbishment of Londra & Cargill Hotel in Rome, Italy.

(iii) Guarantees

1. In January 2013, the Company sold to Red Sea Hotels Limited ('Red Sea') all of the Company's shares in its subsidiary, Leno Finance Limited ('Leno'), the company through which the Company owned an interest in the site in Pattaya, Thailand (the 'Project'), and certain related loans and receivables, for a total consideration of Thai Baht 600 million.

   Under the terms of the United Overseas Bank (UOB) credit facilities received for the construction of the Project, the Company is obliged to provide certain financial support in the event of a cost overrun or funding shortfall in relation to the Project, to satisfy the payment of unpaid interest or fees until completion of the Project and, in certain circumstances, may be required to purchase serviced apartments after completion of the Project for a maximum of Thai Baht 600 million to fund any amounts that are outstanding under the UOB credit facilities. In addition, the Company undertook to take all necessary acts to ensure the completion of the Project as planned. Red Sea has agreed to indemnify the Company in respect of these continuing obligations (except for the obligation to purchase serviced apartments after completion where there is a continuing event of default) and as security Red Sea has pledged the shares held by it in Bali Hai Company Limited (the Thai subsidiary of Leno that owns and develops the Project) ('Bali Hai') and certain affiliated Thai companies.

   The sponsor support deed with UOB provides that the Company shall maintain a net gearing ratio (the ratio of (i) any interest-bearing indebtedness owed to financial institutions or under financial debt instruments of the Company less any cash balances or cash equivalent instruments maintained by the Company) to (ii) its tangible net worth (total tangible assets less all external liabilities in respect of money borrowed or raised by the Company) not exceeding 3:1. As at 31 December 2022, the Company was in compliance with the aforementioned covenants.

   The Project encountered planning issues and as a result construction has been halted since 2016, there is no certainty that the planning issues will be resolved and it is probable that Bali Hai will go into liquidation if such an application is filed by its creditors. UOB has secured judgment against Bali Hai for repayment of principal and interest and a first mortgage over the Project, and will be entitled to receive the proceeds of such a sale and apply to liquidate Bali Hai for any shortfall.

   During 2018, UOB has made demand of the Company for certain interest it contends is outstanding. The Company has responded to UOB and rejected its demands. The Company is working closely with Red Sea to refute UOB's demands (in respect of any liability for which the Company would benefit from the Red Sea indemnity). There were a couple of attempts to reach a compromise during 2018 and 2019 which have not materialised. The Company hasn't heard from UoB since then.

   As before, the Company continues to believe that, given the Red Sea indemnity in favour of the Company, it is not probable that any material outflow of resources embodying economic benefits will be required to settle the obligations of the Company under the sponsor support deed and as such no provision has been included in the accounts.

2. The Company guarantees principal and interest under the €10.7 million (£9.3 million) facility granted by Deutsche Hypothekenbank AG to ABM Hotel Holding B.V. and PPBK Hotel Holding B.V. (formerly known as ABK Hotel Holding B.V.). The Company has entered into a counter-guarantee with Arena effective as of 1 January 2018 whereby Arena guarantees the Company's obligations under the Company's guarantee.

Note 13 Pledges, contingent liabilities and commitments continued

3. The Company guarantees cost overruns and the practical completion of the art'otel London Hoxton development under the £180 million construction financing facility agreement granted by Bank Hapoalim B.M.

4. In relation to the long-term partnership with Clal relating to the art'otel London Hoxton development project further detailed at Note 6, the Company has provided certain guarantees relating to practical completion, cost overruns and delays.

Note 14 Borrowings

The borrowings of the Group are composed as follows:

As at 31 December 2022	€ denominated £'000	£ denominated £'000	$ denominated £'000	HRK denominated £'000	Total £'000
Fixed interest rate	**270,203**	**420,635**	**–**	**36,540**	**727,378**
Weighted average interest rate	**2.41%**	**3.61%**	**–**	**1.44%**	
Variable interest rate	**35,284**	**90,990**	**15,896**	**–**	**142,170**
Weighted average interest rate	**6.07%**	**7.28%**	**8.28%**	**–**	
Total	**305,487**	**511,625**	**15,896**	**36,540**	**869,548**
Weighted average interest rate	**2.52%**	**4.26%**	**8.28%**	**1.44%**	**3.60%**

Maturity analysis 2022	Outstanding amount	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Total borrowings	**869,548**	**47,901**	**32,651**	**61,685**	**365,509**	**46,199**	**315,603**
Capitalised transaction costs and other adjustments	**(4,816)**	**(800)**	**(800)**	**(800)**	**(800)**	**(800)**	**(816)**

For securities and pledges, see Note 13.

As at 31 December 2021	€ denominated £'000	£ denominated £'000	$ denominated £'000	HRK denominated £'000	Total £'000
Fixed interest rate	245,709	426,481	–	21,530	693,720
Weighted average interest rate	2.29%	3.61%	–	1.94%	
Variable interest rate	19,540	43,935	16,381	–	79,856
Weighted average interest rate	1.87%	3.58%	3.50%	–	
Total	265,249	470,416	16,381	21,530	773,576
Weighted average interest rate	2.26%	3.61%	3.50%	1.94%	3.09%

Maturity analysis 2021	Outstanding amount	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Total borrowings	773,576	39,640	22,893	17,255	57,747	355,328	280,713
Capitalised transaction costs and other adjustments	(5,452)	(800)	(800)	(800)	(800)	(800)	(1,452)
	768,124	38,840	22,093	16,455	56,947	354,528	279,261

For securities and pledges, see Note 13.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS **CONTINUED**

FOR THE YEAR ENDED 31 DECEMBER 2022

Note 14 Borrowings continued

a. **Finance agreements entered in the period:**

Arena Grand Kažela campsite refinance

On 9 November 2022, Arena had entered into a new loan agreement with PRIVREDNA BANKA ZAGREB in Croatia for the purpose of refinancing its existing €10.2 million loan used for the development of Arena Grand Kažela Campsite. The facility is in a total amount of €2.9 million (£2.5 million), maturing in 2028 at a fixed interest rate of 1.5%.

Financing for the refurbishment of art'otel in Budapest

On 3 October 2022, Arena, through its wholly owned subsidiary SW Szállodaüzemeltető Korlátolt, entered into a new loan agreement with Erste & Steiermärkische bank d.d. for the purpose of financing the CAPEX investments in art'otel Budapest. The facility is in a total amount of €2 million (£1.8 million), maturing in 2031 at a fixed interest rate of 3.5%.

Financing for Arena Stoja Campsite

On 10 May 2022, Arena entered into a new loan agreement with Croatian Bank for Reconstruction and Development (HBOR). Arena intends to use this facility to purchase 75 upscale mobile homes for the Arena Stoja Campsite. The facility is in a total amount of €18.5 million (£16.4 million), maturing in 2036 at a fixed interest rate of 2.95%.

Financing for development of art'otel in Zagreb, Croatia

On 30 March 2022, Arena, through its wholly owned subsidiary Ulika d.o.o., entered into a new loan agreement with Erste & Steiermärkische bank d.d. for the purpose of financing the development of its premium lifestyle art'otel in Zagreb, Croatia. The facility is in a total amount of €12.6 million (£10.8 million), maturing in 2034 at a fixed interest rate of 2.2%.

Financing of Londra & Cargill Hotel in Rome, Italy

On 22 February 2022, Londra Cargill Parent S.r.l, a wholly owned subsidiary of the Company, entered into a €25 million (£21 million) facility with UniCredit S.p.A. (the 'Facility'). The Facility consists of two tranches: Tranche A in the amount of €17.25 million is available for immediate drawdown upon signing the Facility agreement and Tranche B in the amount of €7.75 million will be available for drawdown upon completion of the hotel refurbishment and meeting certain conditions. The term of the Facility is four years and it will bear an interest rate of six month Euribor, which was fixed by an interest rate swap at a rate of 0.6065%, plus a margin of 3.2%.

Given that there is an economic relationship between the hedged item and the hedging instrument as the terms of the interest rate swap match the terms of the loan (i.e., notional amount, maturity and payment), the Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the interest rate swap is identical to the hedged risk component. As at 31 December 2022, the interest rate swap had a fair value of £1.2 million and is included in other non-current assets. The change in the fair value of the interest rate swap in the amount of £1.2 million for the year ended 31 December 2022 is recorded as other comprehensive income. The interest rate swap is valued using valuation techniques for swap models, using present value calculations. The models incorporate various inputs, including the credit quality of counterparties, and interest rate curves. The fair value measurement is Level 2 of the fair value hierarchy.

Grandis facility

On 25 June 2021, Grandis Netherlands Holding B.V. ('Grandis'), a wholly owned subsidiary of the Company, voluntarily prepaid the loan facility with Aareal Bank AG ('Aareal') which had an outstanding balance of £9.2 million. The break costs of the early prepayment which amounted to £0.6 million were recorded in other expense in the Group's consolidated income statement. On 17 December 2021, Grandis and Aareal signed an agreement to include Grandis under the existing Aareal facility for the Dutch properties. Under this agreement, the additional facility amount of £16.3 million will mature on 16 June 2026 and will bear a fixed interest rate of 3.3% per annum.

Arena Hospitality Group d.d., Croatia capital financing loan

On 20 September 2021, Arena entered into a new long-term working capital financing loan facility agreement with Zagrebačka banka d.d. as part of the HBOR programme for insurance of liquidity portfolio for exporters related with COVID-19 measurements. The facility is in a total amount of €20 million (£16.8 million), maturing on 30 June 2025 at a fixed interest rate of 0.9% per annum.

Note 14 Borrowings continued

FRANZ ferdinand Mountain Resort Hotel in Nassfeld, Austria

On 24 November 2021, ARENA FRANZ ferdinand GmbH, a wholly owned subsidiary of Arena, entered into a €10.5 million (£8.8 million) facility, maturing in 2033, with Erste Group Bank AG for the purpose of acquiring hotel FRANZ ferdinand Mountain Resort in Nassfeld (Austria).

b. The following financial covenants must be complied with by the relevant Group companies:

- Under the two Aareal facilities, for Park Plaza London Riverbank (the 'Riverbank hotel') and all six of the Group's Dutch hotels and Grandis (the 'Dutch hotels and Grandis'), the borrowers must ensure that the aggregate amount of the outstanding facilities does not exceed 62.2% of the value of the Dutch hotels and Grandis and 60% of the value of the Riverbank hotel as set out in the most recent valuation (loan-to-value). In addition, the borrowers must ensure that, on each interest payment date, the Debt Service Coverage Ratio (DSCR) is not less than 115%. In January 2021, the Group received from the bank a waiver for the DSCR and the loan-to-value covenants until 30 June 2022 (inclusive) with the first test due in July 2022 based on the results for 30 June 2022. In addition the loan amortisation for 2021 was deferred to 2022. In December 2021, as part of the inclusion of Grandis under the Dutch hotels facility, it was agreed that the DSCR covenant will be tested from 30 June 2023 and the loan-to-value will be tested from 30 June 2022 for the Dutch hotels and Grandis. In February 2022, the Group received a letter from the bank confirming that the financial covenant testing for Riverbank Hotel will be postponed to 2023 with the first test due in April 2023 based on the results for 31 March 2023.
- Under the AIG Asset Management (Europe) Limited facility for Park Plaza Westminster Bridge London, the borrower must ensure that the aggregate amount of the outstanding facility does not exceed 70% of the value of the hotel as set out in the most recent valuation (loan-to-value). In addition, the borrower must ensure that, on each interest payment date, the historical and projected DSCR are not less than 140%. The floating rate leg of this loan £6.3 million (as at 31 December 2020) has an associated interest rate cap, hedging the risk of the all-in rate exceeding 3.5%. In January 2021, the Group received from the bank a waiver for the DSCR and the loan-to-value covenants until 30 April 2022 (inclusive) with the first test due in July 2022 based on the results for 30 June 2022. In January 2022, the Group received from the bank a waiver for the DSCR and the loan-to-value covenants until 30 April 2023 (inclusive) with the first test due in July 2023 based on the results for 30 June 2023.
- Under the facility arranged by Cornerstone Real Estate Advisers Europe LLP, a member of the MAFF Mutual Financial Group, for Park Plaza Victoria London, the borrower must ensure that the aggregate amount of the outstanding facility does not exceed 75% of the value of the hotel as set out in the most recent valuation (loan-to-value). In addition, the borrower must ensure that, on each interest payment date, the historical and projected DSCR are not less than 180%. In January 2021, the Group received from the bank a waiver for the DSCR and the loan-to-value covenants until 19 July 2022 with the first test due on 20 July 2022 based on the results for 30 June 2022. In January 2022, the Group received from the bank a waiver for the DSCR and the loan-to-value covenants until 19 July 2023 (inclusive) with the first test due in July 2023 based on the results for 30 June 2023.
- Under the Bank Hapoalim Loan for three of the Group's UK hotels and the 46 units owned within Park Plaza County Hall London, the borrowers must ensure that the aggregate amount of the outstanding loan does not exceed 65% of the value of the properties and units secured (loan-to-value). In addition, on each interest payment date, the borrowers must ensure that the historical debt service cover should be at least 110% from March 2019, rising to 120% following the third anniversary of the agreement. In February 2021, the Group received from the bank a waiver for the DSCR and the loan-to-value covenants until 30 March 2022 with the first test due on 30 April 2022 based on the results for 31 March 2022. In addition, it was agreed that the DSCR covenant for 31 March 2022 and 30 June 2022 will be set at 110% and will be tested over a period of six and nine months respectively. In February 2022, the Group received from the bank a waiver for the DSCR covenant until 30 March 2023 (inclusive) with the first test due in April 2023 based on the results for 31 March 2023. In November 2022, an amendment to the facility was signed in which it was agreed to remove the DSCR covenant and increase the annual loan amortisation by £1 million.
- In March 2019, W29 Owner LLC entered into a loan agreement with Bank Hapoalim New York for an amount of US$22.15 million where PPHE Hotel Group is a guarantor. Under this agreement, PPHE Hotel Group must ensure that it maintains an aggregate net worth of at least US$33 million and have liquid assets with a market value of at least US$5 million. Since March 2019, the maturity date was extended a few times with the latest one, signed in September 2022, extending the maturity date to 13 September 2023.
- Under the Bank Hapoalim loan relating to art'otel London Hoxton, the borrower must ensure that the aggregate amount of the outstanding facility does not exceed 75% of the value of the hotel as set out in the most recent valuation from 7 April 2022 onwards. The borrower must also ensure that the DSCR is not less than 1.2 on each quarter test date starting from either 7 April 2025 or one year after practical completion. Any breach of the aforementioned covenants is subject to an equity cure option.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

Note 14 Borrowings continued

In addition, on each test date, the total equity of PPHE Hotel Group must not be less than: (i) £150 million; and (ii) 20% of its asset value.

- Under the £20 million financing agreement entered into by Waterloo Hotel Holding B.V. with Santander UK Plc on 23 June 2020, the borrower must ensure that the amount of the outstanding loan does not exceed 40% of the value of Park Plaza London Waterloo based on the most recent valuation. The DSCR must also not be less than 125% on each quarter with the first test date being 30 September 2021. In June 2021 the Group received from the bank a waiver for the DSCR until 30 June 2022 (inclusive) with the first test due in July 2022 based on the results for 30 June 2022. In February 2022, the first date of the financial covenants was further extended to 30 March 2023 (inclusive) with the first test due in April 2023 based on the results for 31 March 2023.
- Under the loan agreement granted by Santander UK Plc to Park Plaza Hotels (UK) Limited pursuant to the Coronavirus Large Business Interruption Loan Scheme (the 'CLBILS Facility'), the borrower must ensure that at all times its tangible net worth exceeds £300 million. In addition, the borrower must: (i) ensure that the UK borrowings to aggregate UK asset value does not at any time exceed 60%; (ii) ensure that on each test date, the UK interest cover ratio for the borrower and its subsidiaries is greater than 1.25 with the first test date being 31 December 2021; (iii) in the event that the Waterloo facility referred to above is repaid or cancelled, ensure that the aggregate market value of all hotels unencumbered by any security (determined in accordance with the most recent valuation of such hotels) is at least two times the amount of the total commitments under the CLBILS Facility; and (iv) maintain minimum liquidity of £3 million at all times. In May 2021, as part of the facility extension to £40 million, it was agreed that the first date of the financial covenants will be extended to 30 June 2022 (inclusive) with the first test due in July 2022 based on the results for 30 June 2022. In February 2022, the first date of the financial covenants was further extended to 30 March 2023 (inclusive) with the first test due in April 2023 based on the results for 31 March 2023.
- Under the £1.6 million loan granted by Santander UK Plc to PPHE Living Limited dated 29 January 2020, the interest coverage ratio ('ICR') for each 12-month period must not be less than 125%. In addition, the borrower must ensure that the outstanding loan does not exceed 65% of the value of the borrower's freehold property at Acton Lane (based on the most recent valuation).
- Under the UniCredit S.p.A. facility for Società Immobiliare Alessandro De Gasperis S.r.l., signed on 22 February 2022, the borrower must ensure throughout the entire term of the loan that the outstanding amount of the loan does not exceed 60% of the value of the property. Furthermore, from the earlier of (i) 30 June 2024; and (ii) the first interest payment date falling after 12 months following the completion of the property renovation (the 'first test date'), The borrower undertakes to ensure that the ratio between (i) the EBITDA of the borrower relating to the 12 month period preceding the relevant test date and (ii) the finance costs for the same applicable period (ICR) and the ratio between (i) the net operating profit of the borrower generated in the 12 month period preceding each test date and (ii) the principal amount of all facilities outstanding under this facilities agreement at that test date are higher than 2.0 and 7.5% respectively for the first test date and higher than 2.5 and 9% respectively for each test date thereafter.
- Under the Deutsche Hypothekenbank AG facility for ACO Hotel Holding B.V. and ABK Hotel Holding B.V., the borrower must ensure throughout the entire term of the loan that the outstanding amount of the loan does not exceed 70% of the value of the properties and that the DSCR is not less than 110%. In September 2022, the Group received a letter from the bank confirming that all financial covenant testing will be postponed to 30 September 2023.
- Under the Deutsche Hypothekenbank AG facility for Park Plaza Nuremberg, the borrower must ensure throughout the entire term of the loan that the outstanding amount of the loan does not exceed 65% of the value of the property and that the DSCR is not less than 180%.
- Under the Zagrebačka Banka d.d. joint €32.0 million and HRK 205.0 million facilities, the borrower must ensure that at year end, based on audited standalone financial statements of the borrower, the DSCR is equal to or greater than 120% during the life of the loan and that the Net Debt/EBITDA ('net leverage ratio') is equal to or lower than 5.5 at year end 2019, is equal to or lower than 5.0 at year end 2020, and is equal to or lower than 4.5 at year end 2021 and for each succeeding calendar year during the remaining life of the loan.
- Under the Zagrebačka Banka d.d. €10.0 million and HRK 60.0 million facilities, the borrower must ensure that at year end, based on audited consolidated financial statements of the borrower, the DSCR is equal to or greater than 120% during the life of the loan and that the net leverage ratio is equal to or lower than 5.5 at year end 2019, is equal to or lower than 5.0 at year end 2020, and is equal to or lower than 4.5 at year end 2021 and for each succeeding calendar year during the remaining life of the loan. Moreover, under the HRK 60 million facility, the amount of the loan cannot exceed 70% of the value of the properties.

Note 14 Borrowings continued

- Under the Erste Bank €5.0 million and €10.2 million facilities, the borrower must ensure throughout the entire term of the loan that the ICR is at least three times EBITDA and net leverage which is equal to or lower than 7.0 at year end 2022 and equal or lower than 4.5 thereafter. The first covenant test will be based on the annual audited consolidated financial statements for 2022 and is due by the end of June 2023.
- Under the Erste Banka d.d. and Zagrebačka Banka d.d. facility for the purpose of financing the refurbishment of Hotel Brioni Pula in the total amount of €24.0 million, the borrower has to comply with the following consolidated covenants, tested once a year using audited financial statements for the preceding year: DSCR 1, which includes the cash opening balance for the year, is equal to or greater than 3.0 until 2022 and 3.5 from 2023 onwards. DSCR 2, which excluding cash, is equal or greater than 1.2 throughout the life of the loan. Net leverage ratio is equal to or lower than 4.5, the testing of which starts for the 2023 financial year end and onwards. The amount of the loan cannot exceed 70% of the property used as collateral. The withdrawal of the loan is also subject to a deposit of up to €7.0 million, which has a release mechanism embedded subject to certain defined conditions. The net assets test has to be at least 30%.
- Under the OTP Banka d.d. facility for the purpose of financing the purchase and subsequent refurbishment of Guest House Hotel Riviera, Pula, in the total amount of €10.0 million the borrower has to comply with the following standalone covenants, tested once a year using audited financial statements for the preceding year: net leverage ratio is equal to or lower than 6.0 at year end 2021 and equal to or lower than 4.5 at year end 2022 and onwards. The net assets test has to be at least 55%. The loan consists of two equal tranches in the amount of €5.0 million each. The loan has a deposit build up mechanism, subject to certain conditions. Arena cannot pay dividend until year end 2021 (and in line with the contractual limitations for entities that used government support during the pandemic) and a dividend basket of HRK 25.0 million until year end 2022. No limitations on profit distribution thereafter.
- Under the AIK Banka a.d. facility for the purpose of financing the purchase of 88 Rooms Hotel in Belgrade, Serbia, in the total amount of €4.2 million the borrower (Arena 88 Rooms Holding d.o.o.) has to ensure that the value of the purchased asset is not lower by more than 35% when compared with the value of the asset as defined during 2020 by an external reputable valuator.
- Under the Zagrebačka banka d.d. loan signed in September 2021 as part of HBOR's programme for insurance of liquidity portfolio for exporters related with COVID-19 measurements in amount €20 million (£16.8 million) the borrower must ensure that DSCR is equal or greater than 3.5 and that the ratio between financial debt and EBITDA is lower than 4.5 starting at December 2023 and onwards.
- Under the Erste Group Bank AG loan signed in November 2021 for the purpose of financing the purchase of hotel FRANZ ferdinand Mountain Resort in Nassfeld, Austria, in the total amount €10.5 million (£8.8 million) the borrower has to comply with the following standalone covenants: projected DSCR is equal or greater than 1.15 at year end 2021 and historical DSCR is equal or greater than 1.35 from year end 2023 onwards. The amount of the loan cannot exceed 75% of the property used as collateral starting year end 2021 to year end 2023 and 65% at the year end 2024 until year end 2026.
- Under the Privredna banka d.d. loan signed in November 2022 for the purpose of refinancing investments done in Arena Kazela Campsite in previous years, in the total amount of €18.5 million, the borrower has to comply with the following standalone covenants: the DSCR is equal to or greater than 1.2 during the life of the loan, the net leverage ratio based on audited standalone financial statements is equal to or lower than 4.5 from 2022 and for each succeeding calendar year during the remaining life of the loan, and net leverage ratio based on audited consolidated financial statements is equal to or lower than 6.5 at year end 2023, and is equal to or lower than 5.5 at year end 2024 and for each succeeding calendar year during the remaining life of the loan. Moreover, the amount of the loan cannot exceed 70% of the value of the properties used as collateral.
- Under the HRVATSKA BANKA ZA OBNOVU I RAZVITAK loan signed in May 2022 for the purpose of financing the purchase of mobile homes in Arena Stoja Campsite, in the total amount of €2.9 million, the borrower has to comply with the equity ratio being at least 30% calculated based on standalone financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS **CONTINUED**
FOR THE YEAR ENDED 31 DECEMBER 2022

Note 14 Borrowings continued

- Under the ERSTE&STEIERMÄRKISHE BANK d.d. loan signed in March 2022 for the purpose of financing the investment in a hotel in Zagreb, in the amount of €12 million, the borrower has to comply with the following consolidated covenants tested once a year using audited financial statements for the preceding year: DSCR 1 is equal to or greater than 3.0 until 2022 and 3.5 from 2023 onwards. DSCR 2 is equal or greater than 1.2 throughout the life of the loan. Net leverage ratio is equal to or lower than 7 at year end 2022 and 4.5 at year end 2023 and for each succeeding calendar year during the remaining life of the loan. The amount of the loan cannot exceed 100% of the property used as collateral. The equity ratio has to be at least 30%.
- Under the OTP Bank Nyrt loan signed in October 2022 for the purpose of refurbishment of art'otel Budapest, in the amount of €2 million, the borrower has to comply with the following covenant: Annual debt service cover ratio is equal to or greater than 1.2 during the life of the loan.

Pursuant to bank loan agreements with certain subsidiaries, these subsidiaries are required to retain their cash balances for use in their hotel operations and are restricted from transferring the cash to other entities in the Group without a prior approval from the lenders.

As at 31 December 2022, taking into account all the covenant waivers received, the Group is in compliance with all of its banking covenants. The Group expects that it will comply with its' loan covenants going forward and no additional waivers will be needed.

Note 15 Provisions

Provision for concession fee on land

In accordance with the provisions of the Tourist and Other Construction Land Not Appraised During the Transition and Privatisation Process Act from 2010 (the 'TLA'), Arena submitted requests to the Republic of Croatia and the relevant municipality for the award of tourist land concessions in relation to land areas in eight campsites and three tourist resorts in Croatia. The TLA failed to produce the desired impact or to resolve the issues of the ownership/use of the tourist land. This in turn caused far-reaching consequences in the form of lack of investments into tourist land, reduced the international competitiveness of Croatian tourism due to lack of development and reduced income for the state and local municipalities. The Croatian government therefore adopted a new legislation to deal with, inter alia, the so-called tourist land and proprietary relationships between the owner of such land and the owner of the facilities built thereon. In May 2020, the new Non-Appraised Construction Land Act (the 'NCLA') replaced the TLA and all initiated requests based on the TLA were suspended. Pursuant to the NCLA, the ownership of the land underneath the facilities in the campsites that were assessed into the share capital of Arena is now also legally recognised as ownership of Arena, while the Republic of Croatia will be the sole owner of the other land in the camps. In respect to the tourist resorts, the ownership of the land underneath the facilities that have been assessed into the share capital of Arena is now also recognised as ownership of Arena, together with the land surrounding such facilities that makes (together with the relevant facilities) the technological and functional unity. Tourist land in the tourist resorts which was not assessed into the share capital of Arena and which serves the standard usage of the resorts shall be owned by a local municipality. In relation to the land in campsites owned by the Republic of Croatia and the land in tourist reports owned by the local municipalities, Arena will ex lege be deemed long-term (50 years) lessee and will conclude the lease agreement with the state/local municipalities once the procedure envisaged by the NCLA is complete. However, the government has still not adopted the secondary level regulation that would govern the rent payable by the lessees for such lease, nor have the procedures required for the implementation of the Act and actual registration of the ownership over the respective part of land in campsites/tourist resorts been completed. This creates uncertainties in relation to the current and future assets and obligations of Arena. While the TLA was still applicable, Arena paid 50% of the concession fee in respect of the eight campsites and accrued the remaining 50% until entering into the envisaged concession agreements. As the new NCLA has not yet set the rules for the rent payable based on the lease agreement, Arena made assessment of concession fee in the most prudent manner based on the most up-to-date available information. Concession fee liability for 2022 was recognised in the balance sheet under short-term liabilities. The new way of calculation concession fee almost doubled Arena's yearly expenses compared with expenses in the pre-COVID period. There was no payment of concession fee during 2022.

	2022 £'000	2021 £'000
Balance as at 1 January	**5,057**	5,399
Exchange rate differences	**274**	(342)
Balance as at 31 December	**5,331**	5,057

Note 16 Financial liability in respect of Income Units sold to private investors

	2022 £'000	2021 £'000
Total liability	**139,754**	142,573
Due from investors for reimbursement of capital expenditure	**(18,670)**	(18,022)
	121,084	124,551

This liability originated from the proceeds received from the sale to private investors of the future 999-year cash flows, derived from certain Income Units in Park Plaza Westminster Bridge London. Furthermore, as the investors are required to fund all CAPEX to be made in connection with these rooms, a receivable is recorded in each period for any excess of depreciation expense over the amounts paid by the investors on account of CAPEX. This receivable is offset from the liability to the investors.

This liability is amortised over the term of the agreement, that being 999 years.

Note 17 Other financial liabilities

	As at 31 December	
	2022 £'000	2021 £'000
Derivative financial instruments	**–**	457
Lease liabilities (see Note 18)	**261,544**	245,274
Share appreciation rights (Note 6b)	**–**	4,860
Retention liability[1]	**2,691**	1,082
Other	**1,259**	1,689
	265,494	253,362

1 Retention in relation to the building contract with Gear Construction UK Limited for the design and construction of the art'otel London Hoxton hotel (see Note 29).

Note 18 Leases

Group as a lessee

The Group has lease contracts for various items which mainly includes hotels, including land, offices and storage buildings. Leases of land have lease terms between 125 and 199 years while hotel buildings, offices and storage have lease terms between 2 and 95 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets.

The Group also has certain leases with lease terms of 12 months or less and leases with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2022

Note 18 Leases continued

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	Land £'000	Hotel buildings £'000	Offices and other £'000	Furniture, fixtures and equipment £'000	Total £'000
Cost:					
Balance as at 1 January 2022	**88,454**	**129,032**	**8,640**	**23,873**	**249,999**
Additions during the year	**–**	**215**	**50**	**–**	**265**
Re-measurement of right-of-use assets	**13,028**	**705**	**501**	**–**	**14,234**
Adjustment for exchange rate differences	**1,202**	**696**	**57**	**–**	**1,955**
Balance as at 31 December 2022	**102,684**	**130,648**	**9,248**	**23,873**	**266,453**
Accumulated depreciation and impairment:					
Balance as at 1 January 2022	**5,384**	**13,331**	**2,737**	**12,626**	**34,078**
Provision for depreciation	**504**	**2,761**	**878**	**2,410**	**6,553**
Adjustment for exchange rate differences	**9**	**342**	**28**	**–**	**379**
Balance as at 31 December 2022	**5,897**	**16,434**	**3,643**	**15,036**	**41,010**
Net book value as at 31 December 2022	**96,787**	**114,214**	**5,605**	**8,837**	**225,443**

Cost:					
Balance as at 1 January 2021	86,693	130,465	11,045	23,873	252,076
Additions during the year	–	212	–	–	212
Disposal	–	–	(2,381)	–	(2,381)
Re-measurement of right-of-use assets	3,261	919	46	–	4,226
Adjustment for exchange rate differences	(1,500)	(2,564)	(70)	–	(4,134)
Balance as at 31 December 2021	88,454	129,032	8,640	23,873	249,999
Accumulated depreciation and impairment:					
Balance as at 1 January 2021	4,934	11,184	1,928	10,236	28,282
Provision for depreciation	461	2,699	1,117	2,390	6,667
Disposal	–	–	(290)	–	(290)
Adjustment for exchange rate differences	(11)	(552)	(18)	–	(581)
Balance as at 31 December 2021	5,384	13,331	2,737	12,626	34,078
Net book value as at 31 December 2021	83,070	115,701	5,903	11,247	215,921

The amount of borrowing costs capitalised during the year ended 31 December 2022 was £215 thousand (2021: £212 thousand).

Note 18 Leases continued

Impairment

In 2022, there were no indicators of impairment.

Set out below are the carrying amounts of lease liabilities (included under Other financial liabilities and Other payables) and the movements during the period:

	2022 £'000	2021 £'000
As at 1 January	**251,618**	254,044
Additions	**50**	–
Disposals	**–**	(2,088)
Accretion of interest[1]	**9,952**	7,473
Reclassification	**–**	(158)
Payments	**(14,627)**	(13,011)
Re-measurement of lease liability recorded in other expenses	**3,704**	3,565
Re-measurement of lease liability adjusted against right-of-use assets	**14,234**	4,226
Exchange rate differences recorded in profit and loss	**1,662**	84
Adjustments for foreign exchange differences	**458**	(2,517)
As at 31 December	**267,051**	251,618
Current	**5,507**	6,344
Non-current	**261,544**	245,274

1 The amount of borrowing costs capitalised during the year ended 31 December 2022 was £215 thousand (2021: £212 thousand).

Set out below is a split of the lease liabilities, cash payments and effect in the income statement between lease agreements for a period longer than 40 years ('long-term leases') and leases for a period of up to 40 years ('short-term leases').

	Year ended 31 December 2022 £'000		
	Long-term leases (>40)	**Short-term leases (<40)**	**Total**
Lease liabilities	**234,050**	**33,001**	**267,051**
Fixed lease payments	**9,031**	**5,596**	**14,627**
Accretion of interest	**8,968**	**984**	**9,952**
Depreciation	**3,774**	**2,779**	**6,553**

	Year ended 31 December 2021 £'000		
	Long-term leases (>40)	Short-term leases (<40)	Total
Lease liabilities	216,204	35,414	251,618
Fixed lease payments	9,176	3,835	13,011
Accretion of interest	7,380	93	7,473
Depreciation	3,611	3,056	6,667

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2022

Note 18 Leases continued
Details regarding certain long-term lease agreements are as below:

(a) On 29 January 2020, the Group through its subsidiary Arena, entered into a 45-year lease for the development and operation of a contemporary branded hotel in Zagreb, Croatia. The development, which is subject to obtaining the necessary permits, involves the conversion of an iconic building in a prime location in the historic heart of the city. Once opened, this 118-room hotel will include a destination restaurant and bar, wellness and spa facilities, fitness centre, event space and parking.

(b) Grandis has a land leasehold interest, expiring in 2095, of Holmes Hotel London. Based on the latest rent review that was signed on 29 September 2022, the annual rent amounts to £1,250 thousand.

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

(c) Riverbank Hotel Holding B.V. has a land leasehold interest, expiring in 2125, for Park Plaza London Riverbank, subject to rent review every five years, based on CPI. Based on the latest rent review, effective from 10 May 2015, the annual rent amounts to £1,001 thousand.

(d) On 18 June 2012, Park Royal Hotel Holding B.V. ('Park Royal') completed the purchase of the freehold property at 628 Western Avenue, Park Royal, London (the 'Site'), which was a development site on one of the main thoroughfares into London, for £6.0 million. Simultaneously, Park Royal completed the sale of the Site at a price of £7.0 million and the leaseback of the Site at an initial rent of £306 thousand per year for 170 years. Based on the latest rent review, with effect from 15 June 2022, the annual rent amounts to £417 thousand.

(e) On 20 July 2017, Waterloo Hotel Holding B.V. completed the sale of Park Plaza London Waterloo for £161.5 million subject to a leaseback for 199 years. The initial rent of £5.6 million per year will have annual inflation adjustments subject to a cap of 4% and collar of 2%.

The following are the amounts recognised in profit or loss:

	As at 31 December	
	2022 £'000	2021 £'000
Depreciation expense	**6,553**	6,667
Interest expense on lease liabilities	**9,737**	7,261
Expense relating to low-value assets and short-term leases (included in operating expenses)	**169**	129
Expense relating to low-value assets and short-term leases (included in rent expenses)	**877**	944
Variable lease payments (included in rent expenses)	**1,544**	1,561
Total amount recognised in profit or loss	**18,880**	16,562

The Group had total cash outflows for leases of £17,217 thousand in 2022 (2021: £15,645 thousand).

Note 18 Leases continued

The following provides information on the Group's variable lease payments, including the magnitude in relation to fixed payments in 2022 and 2021:

	As at 31 December 2022		
	Fixed payments £'000	Variable payments £'000	Total £'000
Fixed rent	**13,369**	**–**	**13,369**
Variable rent with minimum payment	**1,258**	**–**	**1,258**
Variable rent only	**–**	**1,544**	**1,544**

	As at 31 December 2021		
	Fixed payments £'000	Variable payments £'000	Total £'000
Fixed rent	12,253	–	12,253
Variable rent with minimum payment	758	5	763
Variable rent only	–	1,556	1,556

Note 19 Other payables and accruals

	As at 31 December	
	2022 £'000	2021 £'000
Current portion of lease liabilities	**5,507**	6,344
Current portion of share appreciation rights (Note 6b)	**5,519**	540
Employees	**4,640**	1,666
VAT and taxes	**14,514**	11,891
Accrued interest	**3,128**	3,089
Corporate income taxes	**130**	56
Accrued expenses	**26,808**	20,252
Advance payments received	**8,238**	6,021
Accrued rent	**4,402**	2,458
Variable income payment to holders of Income Units	**4,137**	860
Related parties[1]	**3,712**	–
Other	**109**	–
	80,844	53,177

1 Majority of this balance (£3,527 thousand) relates to an accrual for costs of the building contract with Gear Construction UK Limited for the design and construction of the art'otel London Hoxton hotel that were paid after the balance sheet date (see Note 29).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS **CONTINUED**

FOR THE YEAR ENDED 31 DECEMBER 2022

Note 20 Revenues

	Year ended 31 December	
	2022 £'000	2021 £'000
Rooms	**237,793**	84,430
Campsites and mobile homes	**22,592**	16,446
Food and beverage	**56,711**	27,814
Minor operating (including room cancellation)	**7,401**	8,277
Management fee (see Note 13(c)(i))	**2,183**	529
Franchise and reservation fee (see Note 13(c)(i))	**1,466**	458
Marketing fee	**718**	156
Other	**1,227**	3,267
	330,091	141,377

Note 21 Operating expenses

	Year ended 31 December	
	2022 £'000	2021 £'000
Salaries and related expenses	**109,412**	68,710
Franchise, reservation and commissions expenses (see Note 13(c)(i))	**28,419**	12,186
Food and beverage	**16,471**	8,675
Insurance and property taxes	**19,156**	10,004
Utilities	**11,570**	7,736
Administration costs	**7,905**	3,607
Maintenance	**6,839**	4,693
Laundry, linen and cleaning	**5,472**	1,941
Supplies	**4,573**	2,186
IT expenses	**2,195**	1,639
Communication, travel and transport	**1,939**	1,141
Marketing expenses	**1,864**	1,523
Government grants payroll	**(183)**	(12,079)
Government grants fixed costs	**(2,461)**	(9,578)
Defined contribution pension premiums	**4,588**	3,174
Other expenses	**15,328**	8,250
	233,087	113,808

Note 22 Financial expenses

	Year ended 31 December	
	2022 £'000	2021 £'000
Interest and other finance expenses on bank loans	**24,815**	24,015
Interest on lease liabilities	**9,737**	7,261
Foreign exchange differences, net	**2,012**	–
Other	**693**	93
	37,257	31,369

Note 23 Financial income

	Year ended 31 December	
	2022 £'000	2021 £'000
Income from Park Plaza County Hall London Units	**887**	27
Interest on bank deposits	**375**	163
Foreign exchange differences, net	**–**	42
Interest and other financial income from jointly controlled entities (see Note 29(b))	**117**	101
Other	**137**	–
	1,516	333

Note 24 Other income and expenses

a. Other expenses

	Year ended 31 December	
	2022 £'000	2021 £'000
Capital loss on buy-back of Income Units previously sold to private investors	**1,499**	543
Re-measurement of lease liability[1]	**3,704**	3,565
Loss on disposal of fixed assets[2]	**47**	436
Other non-recurring expenses (including pre-opening expenses)	**1,422**	305
Revaluation of share appreciation rights (see Note 6b(i))	**119**	–
Loan early repayment break costs (see Note 14b)	**–**	505
Business combination acquisition costs (see Notes 3a and 3b)	**–**	1,017
Arena – legal settlement[3]	**–**	3,047
	6,791	9,418

1 This amount represents re-measurement of the Waterloo lease liability based on the 2% collar (see Note 18).
2 Loss on disposal in 2021 mainly relates to the write-off and disposals of fixed assets due to reconstruction of Hotel Brioni Pula.
3 In 2013, Tehnoekologija d.o.o. (TE) initiated a litigation procedure against Arena for the compensation of the investments that TE supposedly had made in the campsite Kažela, Medulin, between the years 1998 and 2005 when Kažela, Medulin, was operated by TE based on the lease agreement entered into between Arena and TE. Arena and TE have reached a settlement for this long-term litigation which resulted in a compensation to TE in the amount of HRK 26 million (£3 million). An accrual for the expected settlement amount was recorded in 2021 under other payables and accruals. In 2022, the settlement amount was fully paid.

b. Other income

	Year ended 31 December	
	2022 £'000	2021 £'000
Revaluation of share appreciation rights (see Note 6b(i))	**–**	1,750
Revaluation of interest rate swap (note 30a)	**9,692**	–
Revaluation of Income Units Park Plaza County Hall London (see Note 7)	**300**	602
Gain on sale of fixed assets	**–**	1,432
	9,992	3,784

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

Note 25 Net expenses for financial liability in respect of Income Units sold to private investors

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Variable return (see Note 2(k))	**11,947**	2,567
Reimbursement of depreciation expenses (see Note 2(k))	**(1,164)**	(618)
	10,783	1,949

Note 26 Income taxes

a. Tax benefit (expense) included in the income statement

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Current taxes	**(394)**	(350)
Adjustments in respect of current income tax of previous year	**87**	61
Deferred taxes	**3,663**	5,340
	3,356	5,051

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

	Tax loss carry forward and timing difference on provisions £'000	Property, plant and equipment and intangible assets £'000	Tax incentives £'000	Total £'000
Balance as at 1 January 2022	**8,334**	**(11,009)**	**5,660**	**2,985**
Amounts charged to income statement	**4,134**	**274**	**(745)**	**3,663**
Change in tax rate				
Adjustments for exchange rate differences	**460**	**(399)**	**278**	**339**
Balance as at 31 December 2022	**12,928**	**(11,134)**	**5,193**	**6,987**
Balance as at 1 January 2021	4,208	(11,999)	6,043	(1,748)
Amounts charged to income statement	3,962	1,378	–	5,340
Amount recognised in business combination (see Note 3(a))	378	(908)	–	(530)
Adjustments for exchange rate differences	(214)	520	(383)	(77)
Balance as at 31 December 2021	8,334	(11,009)	5,660	2,985

The above deferred taxes have been set off when they relate to the same jurisdictions and presented in the consolidated financial statements as follows:

	As at 31 December 2022 £'000	As at 31 December 2021 £'000
Deferred tax assets	**12,909**	10,221
Deferred tax liabilities	**(5,922)**	(7,236)
	6,987	2,985

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Note 26 Income taxes continued

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

	Year ended 31 December	
	2022 £'000	2021 £'000
Profit before income taxes	**11,456**	(57,555)
Expected tax at the tax rate of the United Kingdom 19% (2021: 19%)	**(2,177)**	10,936
Adjustments in respect of:		
Effects of other tax rates	**1,265**	2,594
Non-deductible expenses	**(3,825)**	(8,269)
Utilisation of carried forward losses and temporary differences for which deferred tax assets were not previously recorded	**5,406**	291
Temporary differences for which no deferred tax asset was recorded		(211)
Non-taxable income	**135**	114
Unrecognised current year tax losses	**(1,695)**	(5,299)
Recognition of deferred tax asset on losses from previous years	**4,072**	3,634
Other differences	**175**	1,261
Income tax benefit (expense) reported in the income statement	**3,356**	5,051

d. Tax laws applicable to the Group companies:

(i) The Company is subject to taxation under the laws of Guernsey. The Company is therefore taxed at the standard rate of 0%.

(ii) Foreign subsidiaries are subject to income taxes in their country of domicile in respect of their income, as follows:

1. Taxation in the Netherlands: corporate income tax rate is 25.8%.
2. Taxation in the United Kingdom: corporate income tax rate for domiciled companies and for non-domiciled companies is 19% (2021: 19%).
3. Taxation in Germany: aggregated corporate tax rate and trade income rate 29.7%.
4. Taxation in Hungary: corporate income tax rate 9%.
5. Taxation in Croatia: corporate income tax rate 18%.
6. Taxation in Italy: aggregated corporate tax rate (IRES) and local tax (IRAP) rate 27.9%.
7. Taxation in Austria: corporate income tax rate 25%.
8. Taxation in Serbia: corporate income tax rate 15%.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2022

Note 26 Income taxes continued

Corporate tax rate in the UK – In March 2021, the UK government adopted the Spring Budget 2021 which included an increase in the UK corporate tax rate from 19% to 25% from 1 April 2023.

Corporate tax rate in the Netherlands – In 2020, under the 2021 tax plan which was adopted on 15 December 2020 it was decided that the reduction in corporate income tax rate to 21.7% will be cancelled and the tax rate will remain at 25%. In 2021, under the 2022 tax plan which was adopted on 21 December 2021, it was decided that the corporate income tax rate will increase to 25.8% starting 1 January 2022.

e. Losses carried forward for tax purposes

The Group has carried forward losses for tax purposes estimated at approximately £208.8 million (2021: £200.8 million). The Group did not establish deferred tax assets in respect of losses amounting to £152.6 million (2021: £161.5 million) which may be carried forward indefinitely.

The carried forward losses relate to individual companies in the Group, each in its own tax jurisdiction. When analysing the recovery of these losses the Group assesses the likelihood that these losses can be utilised against future trading profits. In this analysis the Group concluded that for the majority of these companies it is not highly likely that future profits will be achieved that can be offset against these losses, mainly due to the nature of their trade (i.e. holding companies or tax exempt activities). Based on this uncertain profitability, the Company determined that it could not recognise deferred tax assets for the majority of the losses. The Company is performing this analysis on an ongoing basis.

f. Tax incentives

In May 2019, based on confirmation from the Ministry of Economy and pursuant to the Investment Promotion and Development of Investment Climate Act in Croatia, Arena became eligible to claim incentive allowances. Investments eligible for incentives are investments done in Arena One 99 Glamping Campsite, Arena Grand Kažela Campsite, Hotel Brioni, Verudela Beach self-catering apartment complexes, among others.

Arena has the right to use the investment tax credits until 2027. The execution of the investment project is subject to supervision by the relevant institutions throughout the period of use of the tax credits and Arena will need to present regular annual reports to the tax authority in which it will evidence that the conditions for the use of the tax credits are met.

Note 27 Earnings per share

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

	Year ended 31 December	
	2022 £'000	2021 £'000
Profit (loss) attributable to equity holders of the parent	**10,159**	(52,129)
Weighted average number of ordinary shares outstanding	**42,523**	42,539

Potentially dilutive instruments 399,294 in 2022 had an immaterial effect on the basic earnings per share (2021: 177,027 were not considered, since their effect is antidilutive).

Note 28 Segments

For management purposes, the Group's activities are divided into Owned Hotel Operations and Management and Central Services Activities (for further details see Note 13(c)(i)). Owned Hotel Operations are further divided into four reportable segments: the Netherlands, Germany, Croatia and the United Kingdom. Other includes individual hotels in Hungary, Serbia, Italy and Austria.
The operating results of each of the aforementioned segments are monitored separately for the purpose of resource allocations and performance assessment. Segment performance is evaluated based on EBITDA, which is measured on the same basis as for financial reporting purposes in the consolidated income statement.

	Year ended 31 December 2022							
	The Netherlands £'000	Germany £'000	United Kingdom £'000	Croatia £'000	Other[1] £'000	Management and Central Services £'000	Adjustments[2] £'000	Consolidated £'000
Revenue								
Third party	41,573	17,724	190,105	69,237	6,344	5,108		330,091
Inter-segment		16	302	168		32,365	(32,851)	
Total revenue	41,573	17,740	190,407	69,405	6,344	37,473	(32,851)	330,091
Segment EBITDA	11,163	6,368	56,218	21,426	(629)	37		94,583
Depreciation, amortisation								(40,006)
Financial expenses								(37,257)
Financial income								1,516
Net expenses for liability in respect of Income Units sold to private investors								(10,783)
Other income (expenses), net								3,201
Share in result of joint ventures								202
Profit before tax								11,456

1 Includes art'otel Budapest in Hungary, 88 Rooms Hotel in Belgrade, Serbia, Londra & Cargill Hotel in Rome, Italy, and FRANZ ferdinand Mountain Resort in Nassfeld, Austria.
2 Consist of inter-company eliminations.

	The Netherlands £'000	Germany £'000	United Kingdom £'000	Croatia £'000	Other £'000	Adjustments[2] £'000	Consolidated £'000
Geographical information							
Non-current assets[1]	194,833	72,537	949,931	241,312	59,307	55,512	1,573,432

1 Non-current assets for this purpose consist of property, plant and equipment, right-of-use assets and intangible assets.
2 This includes the non-current assets of Management and Central Services.

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Note 28 Segments continued

	Year ended 31 December 2021							
	The Netherlands £'000	Germany £'000	United Kingdom £'000	Croatia £'000	Other[1] £'000	Management and Central Services £'000	Adjustments[2] £'000	Consolidated £'000
Revenue								
Third party	10,352	6,618	75,277	44,618	853	3,659		141,377
Inter-segment						14,308	(14,308)	
Total revenue	10,352	6,618	75,277	44,618	853	17,967	(14,308)	141,377
Segment EBITDA	1,071	6,671	11,221	14,556	(853)	(7,601)		25,065
Depreciation, amortisation and impairment								(43,283)
Financial expenses								(31,369)
Financial income								333
Net expenses for liability in respect of Income Units sold to private investors								(1,949)
Other income (expenses), net								(5,634)
Share in result of joint ventures								(718)
Profit before tax								(57,555)

1 Includes art'otel Budapest in Hungary, 88 Rooms Hotel in Belgrade, Serbia, Londra & Cargill Hotel in Rome, Italy, and FRANZ ferdinand Mountain Resort in Nassfeld, Austria.
2 Consist of inter-company eliminations.

	The Netherlands £'000	Germany £'000	United Kingdom £'000	Croatia £'000	Other £'000	Adjustments[2] £'000	Consolidated £'000
Geographical information							
Non-current assets[1]	188,701	71,402	869,324	217,779	64,442	53,878	1,465,526

1 Non-current assets for this purpose consist of property, plant and equipment, right-of-use assets and intangible assets.
2 This includes the non-current assets of Management and Central Services.

Note 29 Related parties

a. Balances with related parties

	As at 31 December 2022 £'000	2021 £'000
Loans to joint ventures (see Note 6a)	**5,573**	5,222
Short-term receivables	**100**	56
Payable to GC Project Management Limited	**(185)**	(125)
Payable to Gear Construction UK Limited (see Notes 17 and 19)	**(6,218)**	(1,082)

b. Transactions with related parties

	As at 31 December 2022 £'000	2021 £'000
Cost of transactions with GC Project Management Limited	**(300)**	(60)
Cost of transactions with Gear Construction UK Limited	**(47,872)**	(27,735)
Rent income from sub-lease of office space	**67**	173
Management fee revenue from jointly controlled entities	**822**	271
Interest income from jointly controlled entities	**118**	101

c. Significant other transactions with related parties

(i) **Construction of the art'otel London Hoxton** – Following the approval by the independent shareholders, on 7 April 2020 the Group entered into a building contract with Gear Construction UK Limited ('Gear') for the design and construction of the art'otel London Hoxton hotel on a 'turn-key' basis (the 'building contract'). Under the building contract Gear assumes the responsibility for the design and construction of the main works for the design and build of art'otel London Hoxton for a lump sum of £160 million (exclusive of VAT) (the 'Contract Sum'). Of this amount, c.£24.6 million is based on provisional sums, primarily in respect of FF&E and fit out of the hotel which are detailed and set out as provisional sums in the building contract. This might cause the total amount payable to Gear UK under the building agreement to be greater or less than the Contract Sum. On top of the Contract Sum, the Group novated certain existing contracts relating to the project to Gear at cost subject to a cap of £6 million (exclusive of VAT). Gear is required to complete the works to be executed under the building contract by 2024.

Gear makes monthly applications for payments in line with the building contract and following construction industry contractual norms. The applications will be valued by AECOM acting as the Employer's agent and providing cost management services, who is appointed by the Employer but has a duty to act fairly in accordance with the terms of the contract. The Employer's Agent will also be responsible for assessing any applications by Gear for extensions of time, variations or additional scope of work or additional loss and/or expense under the building agreement.

Gear's obligations and liabilities under the building contract are supported by a corporate guarantee from Red Sea Hotels Limited, an associate of Euro Plaza Holdings B.V. and therefore a related party of the Company, in the amount of 10% of the Contract Sum (the 'corporate guarantee'). The corporate guarantee expires on the later of: (i) the expiry of the two-year defects rectification period which follows practical completion of the works; and (ii) the issue of the latent defect insurer's approval or final technical audit report.

As part of entering into the building contract, the Hoxton Project Management Agreement dated 21 June 2018 was terminated.

(ii) **Sub-lease of office space** – A member of the Group has agreed to sub-lease a small area of office space to members or affiliates of the Red Sea Group at its County Hall corporate office in London. The rent payable by the Red Sea Group to PPHE Hotel Group is based on the cost at which the landlord is leasing such space to PPHE Hotel Group.

(iii) **Pre-Construction and Maintenance Contract** – The Group frequently uses GC Project Management Limited (GC) to undertake preliminary assessment services, including appraisal work, and provide initial estimates of the construction costs. Further, GC provides ad-hoc maintenance work when required to the Group's various sites. Accordingly, the Group has entered into an agreement with GC for the provision of pre-construction and maintenance services by GC to the Group for a fixed annual retainer of £60,000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
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Note 29 Related parties continued

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

(v) **Londra & Cargill project management agreement** – On 26 August 2022, the Group entered into an agreement with GC Project Management Limited for the provision of project management services to the Group in respect of the redevelopment of Hotel Londra & Cargill in Rome, Italy for a fixed total fee of £640,000 to be paid in monthly instalments for the duration of the project. The contractual framework is the same as for all such prior project management agreements entered into with GC Project Management Limited.

Summary of the remuneration for Executive and Non-Executive Directors for the year ended 31 December 2022:

	Base salary and fees £'000	Bonus £'000	Pension contributions £'000	Other benefits £'000	Total £'000
Chairman and Executive Directors	1,148	531	64	13	1,756
Non-Executive Directors	284	–	–	–	284
	1,432	531	64	13	2,040

Summary of the remuneration for Executive and Non-Executive Directors for the year ended 31 December 2021:

	Base salary and fees £'000	Salary sacrifice options £'000	Pension contributions £'000	Other benefits £'000	Total £'000
Chairman and Executive Directors	953	47	115	16	1,131
Non-Executive Directors	269	–	–	–	269
	1,222	47	115	16	1,400

Directors' interests in employee share incentive plan

As at 31 December 2022, the Executive Directors held share options to purchase 70,000 ordinary shares (2021: 29,308). 25,000 options were fully exercisable with an exercise price of £14.30 (2021: 25,000) and 23,000 options were fully exercisable with a £nil exercise price (2021: 4,308). No share options were granted to Non-Executive Directors of the Board.

Note 30 Financial instruments risk management objectives and policies

The Group's principal financial instruments, other than derivatives, comprise bank borrowings, cash and cash equivalents and restricted deposits. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

	Changes in financial liabilities arising from financing activities								
	As at 1 January 2022 £'000	**Cash flows £'000**	**Re-measurement through profit and loss £'000**	**Re-measurement against right-of-use assets £'000**	**Re-measurement against equity £'000**	**Foreign exchange movement £'000**	**New leases/ loans, net £'000**	**Other £'000**	**As at 31 December 2022 £'000**
Non-current interest-bearing loans and borrowings	**729,284**	–	**–**	**–**	**–**	**16,091**	**100,415**	**(28,159)**	**817,631**
Non-current lease liability	**245,274**	–	**3,704**	**14,234**	**–**	**307**	**50**	**(2,024)**	**261,545**
Financial liability in respect of Income Units sold to private investors	**124,551**	**(3,388)**	**–**	**–**	**–**	**–**	**–**	**(78)**	**121,085**
Derivative financial instruments	**457**	**(109)**	**(9,814)**	**–**	**(21,002)**	**(71)**	**–**	**–**	**(30,539)**
Non-current share appreciation rights	**4,860**	–	**–**	**–**	**–**	**–**	**–**	**(4,860)**	**–**
Current share appreciation rights	**540**	–	**119**	**–**	**–**	**–**	**–**	**4,860**	**5,519**
Current interest-bearing loans and borrowings	**38,840**	**(21,330)**	**–**	**–**	**–**	**3,187**	**(2,440)**	**28,844**	**47,101**
Current lease liability[1]	**6,344**	**(4,890)**	**–**	**–**	**–**	**151**	**–**	**3,901**	**5,506**
	1,150,150	**(29,717)**	**(5,991)**	**14,234**	**(21,002)**	**19,665**	**98,025**	**2,484**	**1,227,848**

1 Includes accrued interest on deferred lease payments.

	Changes in financial liabilities arising from financing activities							
	As at 1 January 2021 £'000	Cash flows £'000	Re-measurement through profit and loss £'000	Re-measurement against right-of-use assets £'000	Foreign exchange movement £'000	New leases/ loans, net £'000	Other £'000	As at 31 December 2021 £'000
Non-current interest-bearing loans and borrowings	721,006	–	–	–	(18,013)	38,886	(12,595)	729,284
Non-current lease liability	243,650	–	3,565	4,226	(2,250)	(2,088)	(1,829)	245,274
Financial liability in respect of Income Units sold to private investors	126,155	(1,390)	–	–	–	–	(214)	124,551
Derivative financial instruments	880	–	–	–	(53)	–	(370)	457
Non-current share appreciation rights	–	6,435	(1,575)	–	–	–	–	4,860
Current share appreciation rights	–	715	(175)	–	–	–	–	540
Current interest-bearing loans and borrowings	36,369	(9,486)	–	–	(844)	(2,388)	15,189	38,840
Current lease liability[1]	10,393	(6,825)	–	–	(267)	–	3,043	6,344
	1,138,453	(10,551)	1,815	4,226	(21,427)	34,410	3,224	1,150,150

1 Includes accrued interest on deferred lease payments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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Note 30 Financial instruments risk management objectives and policies continued

The main risks arising from the Group's financial instruments are cash flow interest rate risk, credit risk and liquidity risk. The Board of Directors reviews and agrees on policies for managing each of these risks which are summarised below. The Group's accounting policies in relation to derivatives are set out in Note 2.

a. **Interest rate risk**

The Group's exposure to the risk for changes in market interest rates relates primarily to the Group's long-term debt obligations with a floating interest rate.

The Group's policy is to manage its interest costs using fixed-rate debt. To manage its interest costs, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. Furthermore, the Group uses fixed interest rate debts. For this reason the Group's cash flow is not significantly sensitive to possible changes in market interest rates.
Possible changes in interest rates do, however, affect the Group's equity as the fair value of the swap agreements changes with interest rate changes. These swaps are designated to hedge underlying debt obligations.

Given the recent interest rate movements and in order to mitigate the interest rate risk that can potentially crystallise upon future refinance, the Group entered to the following forward interest rate swap agreements:

– On 17 February 2022, PPHE Hoxton B.V. entered into a forward interest rate swap agreement with Bank Hapoalim B.M. (BHI) in order to hedge the variable interest exposure of the £180 million facility with BHI to fund the development of art'otel London Hoxton (the 'Facility'). The interest rate swap has a notional amount of £180 million, amortising 2% per year starting September 2024 in line with the Facility, whereby on a quarterly basis starting 20 June 2024 PPHE Hoxton B.V. will receive a variable rate equal to three month Sonia and will pay a fixed rate of interest of 1.4765% on the outstanding notional amount. The interest rate swap will mature on 8 April 2030 in line with the final maturity date of the Facility (including a six-year extension).

  Given that there is an economic relationship between the hedged item and the hedging instrument as the terms of the interest rate swap match the terms of the loan (i.e., notional amount, maturity and payment), the Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the interest rate swap is identical to the hedged risk component. As at 31 December 2022, the interest rate swap has a fair value of £18.4 million and is included in other non-current assets. The change in the fair value of the interest rate swap in the amount of £18.4 million for the year ended 31 December 2022 is recorded as other comprehensive income.

– On 25 April 2022, Park Plaza Hotels (UK) ltd, a wholly owned subsidiary of the Company, entered into two forward interest rate swap agreements with Santander UK Plc in order to partially hedge the interest rate exposure of the outstanding €165.6 million and £208.6 million loans that are expected to be refinanced in June 2026. The first interest rate swap has a notional amount of £100 million whereby on a quarterly basis starting 30 June 2026 until 30 June 2031 Park Plaza Hotels (UK) ltd will receive a variable rate equal to three-month Sonia and will pay a fixed rate of interest of 1.941% on the notional amount. The second interest rate swap has a notional amount of €100 million whereby on a quarterly basis starting 30 June 2026 until 30 June 2031 Park Plaza Hotels (UK) ltd will receive a variable rate equal to three-month Euribor and will pay a fixed rate of interest of 1.95% on the notional amount. The interest rate swap agreements include a mandatory early termination at 30 June 2026. Although the Group has entered into these interest rate swaps to serve as an economic hedge against changes in future interest payments, the interest rate swaps do not qualify as accounting hedges under IFRS 9 due to the mandatory early termination. Accordingly, these interest rate swaps are accounted for as financial instruments measured at fair value through profit or loss. As at 31 December 2022, the interest rate swaps have a fair value of £9.8 million and are included in other non-current assets. The change in the fair value of the interest rate swaps in the amount of £9.7 million for the year ended 31 December 2022 is recorded as other income in the consolidated income statement.

The interest rate swaps mentioned above are valued using valuation techniques for swap models, using present value calculations. The models incorporate various inputs, including the credit quality of counterparties, and interest rate curves. The fair value measurement is Level 2 of the fair value hierarchy.

The Group also has other interest rate swaps from previous years that are valued using the techniques that described above.

The fair value of all of the swaps of the Group as at 31 December 2022 amounts to an asset of £30.5 million (2021: liability of £457 thousand).

Note 30 Financial instruments risk management objectives and policies continued

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings affected, after the impact of hedge accounting. With all other variables held constant, the Group's profit before tax is affected through the impact on floating rate borrowings, as follows:

	Effect on profit before tax £'000		
Increase in floating interest rate[1]	**GBP**	**EUR**	**US Dollar**
1%	**910**	**89**	**159**
2%	**1,820**	**177**	**318**
5%	**4,550**	**443**	**795**

1 The assumed movement in floating interest rate for the interest rate sensitivity analysis is based on the currently observable market environment, showing a significantly higher volatility than in prior years.

b. Credit risk

The Group trades only with recognised, creditworthy third parties. It has policies in place to ensure that sales are made to customers with an appropriate credit history. The Company's policies ensure that sales to customers are settled through advance payments, in cash or by major credit cards (individual customers). Since the Group trades only with recognised third parties, there is no requirement for collateral for debts with third parties. Furthermore, the Group has no dependency on any of its customers.
The receivable balances are monitored on an ongoing basis. Management monitors the collection of receivables through credit meetings and weekly reports on individual balances of receivables. The maximum credit exposure equals the carrying amount of the trade receivables and other receivables since a loss allowance for expected credit losses is recorded in respect of all trade and other receivables. The result of these actions is that the Group's exposure to bad debts is not significant.

With respect to credit risk arising from other financial assets of the Group, which comprise cash and cash equivalents and investment in securities, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Group has limited concentration risk in respect of its cash at banks.

c. Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans. The Group's policy is to arrange medium-term bank facilities to finance its construction operation and then to convert them into long-term borrowings when required.

The Group continues to hold a strong liquidity position with an overall consolidated cash balance of £163.6 million as at 31 December 2022.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2022

Note 30 Financial instruments risk management objectives and policies continued

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2022 and 2021 based on contractual undiscounted payments.

	As at 31 December 2022					
	Less than 3 months £'000	3 to 12 months £'000	Year 2 £'000	Year 3 to 5 £'000	> 5 years £'000	Total £'000
Interest-bearing loans and borrowings[1]	**19,319**	**56,534**	**59,962**	**545,414**	**322,947**	**1,004,176**
Financial liability in respect of Income Units sold to private investors[2]	**3,285**	**9,855**	**13,140**	**39,420**	**121,084**	**186,784**
Lease liability[3]	**3,248**	**9,919**	**13,498**	**39,848**	**890,068**	**956,581**
Trade payables	**13,565**	**–**	**–**	**–**	**–**	**13,565**
Other liabilities	**37,707**	**37,630**	**–**	**–**	**18,062**	**93,399**
	77,124	**113,938**	**86,600**	**624,682**	**1,352,161**	**2,254,505**

	As at 31 December 2021					
	Less than 3 months £'000	3 to 12 months £'000	Year 2 £'000	Year 3 to 5 £'000	> 5 years £'000	Total £'000
Interest-bearing loans and borrowings[1]	15,863	47,249	46,130	492,447	299,642	901,331
Financial liability in respect of Income Units sold to private investors[2]	493	1,477	9,198	39,420	124,551	175,139
Derivative financial instruments	57	171	229	–	–	457
Lease liability[3]	3,653	18,019	12,962	36,170	605,497	676,301
Trade payables	16,650	–	–	–	–	16,650
Other liabilities	23,097	24,035	4,860	–	16,304	68,296
	59,813	90,951	73,379	568,037	1,045,994	1,838,174

1 See Note 14 for further information.
2 Presented according to discounted amount due to the variability of the payments over the balance of the 999-year term.
3 Lease liability includes four leases with upward rent reviews based on future market rates in one lease and changes in the CPI/RPI in the other lease and, thus, future payments have been estimated using current market rentals and current United Kingdom-based CPIs/RPIs, respectively, except Park Plaza London Waterloo where the amounts included 50 years of future payments regarding the lease of Park Plaza London Waterloo instead of 199 years as stated in the lease agreement. Also, the amounts do not take into account the collar of 2%. The Group's management believes that the amount included in the above table reflects the relevant cash flow risks to which the Group would be reasonably exposed in the ordinary course of business.

Note 30 Financial instruments risk management objectives and policies continued

d. Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. The Group monitors capital using a gearing ratio, which is net bank debt divided by total capital plus net bank debt. The Group's policy is to keep the gearing ratio between 50% and 60%. The Group includes within net bank debt interest-bearing bank loans and borrowings, less cash and cash equivalents and other liquid assets. Capital includes equity less the hedging reserve.

	2022 £'000	2021 £'000
Interest-bearing bank loans and borrowings	**864,732**	768,124
Less – cash and cash equivalents	**(163,589)**	(136,802)
Less – long-term restricted cash	**(9,272)**	(8,121)
Less – short-term restricted cash	**(9,229)**	(5,204)
Less – investments in marketable securities	**–**	(22)
Net debt	**682,642**	617,975
Equity	**503,245**	447,211
Hedging reserve	**(20,398)**	434
Total capital	**482,847**	447,645
Capital and net debt	**1,165,489**	1,065,620
Gearing ratio	**58,6%**	58.0%

e. Fair value of financial instruments

The fair values of the financial assets and liabilities are included in the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of cash and cash equivalents, trade receivables, trade payables, and other current assets and liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments. The fair value of floating interest rate liabilities also approximate their carrying amount as the periodic changes in interest rates reflect the movement in market rates.

The fair value of loans from banks and other financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by a valuation technique based on the lowest level input that is significant to the fair value so determined:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
Level 2: other techniques for which all inputs which have significant effect on the recorded fair value are observable, either directly or indirectly.
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

Note 30 Financial instruments risk management objectives and policies continued

Fair value of investments in marketable securities is derived from quoted market prices in active markets. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1. The Group enters into derivative financial instruments with financial institutions with investment grade credit ratings. Derivatives are valued using valuation techniques for swap models, using present value calculations. The models incorporate various inputs, including the credit quality of counterparties, and interest rate curves. The Group also granted share appreciation rights of the Company to Clal (see Note 6b) which is valued by using the Black–Scholes model. In addition, the Group also holds 46 Income Units in Park Plaza County Hall London which were valued by external valuator using a discounted cash flow technique.

These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

As at 31 December 2022, the Group held the following financial instruments measured at fair value:

Liabilities

	31 December 2022 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Share appreciation rights	**5,519**	–	5,519	–

Assets

	31 December 2022 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Interest rate swaps used for hedging	**30,539**	–	30,539	–
Income Units in Park Plaza County Hall London	**16,100**	–	16,100	–

As at 31 December 2021, the Group held the following financial instruments measured at fair value:

Liabilities

	31 December 2021 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Interest rate swaps used for hedging	457	–	457	–
Share appreciation rights	5,400	–	5,400	–

Assets

	31 December 2021 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Investments in marketable securities	22	22	–	–
Income Units in Park Plaza County Hall London	15,800	–	15,800	–

Note 30 Financial instruments risk management objectives and policies continued

During 2022 and 2021, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

The carrying amounts and fair values of the Group's financial instruments other than those whose carrying amount approximates their fair value are as follows:

	Carrying amount 31 December		Fair value 31 December	
	2022 £'000	2021 £'000	**2022 £'000**	2021 £'000
Financial liabilities				
Bank borrowings	**864,732**	768,124	**811,179**	784,167

Note 31 Subsequent events

a European Hospitality Real Estate Fund

After the reporting period, the Group announced that it is in advanced discussions with a potential cornerstone investor with a view to launching a new European Hospitality Real Estate Fund ("the Fund") of up to €250 million equity subject to regulatory approval.

The Group intends to participate in the Fund for an amount up to €50 million in cash and/or assets and €75 million equity commitment will be received from the cornerstone investor. It is the expectation that in the coming year, additional investors will be able to participate for the remaining €125 million equity, following the receipt of regulatory approval.

It is the intention of the Group that the existing PPHE Rome asset, which is currently undergoing refurbishment and repositioning ahead of its opening as Italy's first art'otel, will be contributed into the Fund as a seed asset by the Group. This hotel will be managed by the Group under its hospitality management platform.

b Final Dividend

The Board is proposing a final dividend payment of 12 pence per share (2021: Nil pence per share). Subject to shareholder approval at the Annual General Meeting, to be held on 23 May 2023, the dividend will be paid on 31 May 2023 to shareholders on the register at 28 April 2023. The shares will go ex-dividend on 27 April 2023.

APPENDICES

Subsidiaries included in the Group

Name of company	Principal activity	Country of incorporation	Direct and indirect holdings %
1 Westminster Bridge Plaza Management Company Limited	Hotel operation	United Kingdom	51.2
A40 Data Centre B.V.	Holding company	Netherlands	100
A40 Office B.V.	Holding company	Netherlands	100
ABK Hotel Holding B.V.	Holding company	Netherlands	53.20
ACO Hotel Holding B.V.	Holding company	Netherlands	53.20
Amsterdam Airport Hotel Holding B.V. (formerly known as Victoria Schiphol Holding B.V.)	Holding company	Netherlands	100
Amsterdam Airport Hotel Operator B.V.	Hotel Operation	Netherlands	100
Arena 88 Rooms Holding d.o.o.	Holding company	Serbia	53.20
Arena 88 Rooms d.o.o.	Hotel operation	Serbia	53.20
ARENA FRANZ Ferdinand GmbH	Hotel company	Austria	53.20
Arena Hospitality Group d.d.	Hotel operation	Croatia	53.20
Arena Hospitality Management d.o.o.	Management	Croatia	53.20
art'amsterdam Hotel Operator B.V.	Hotel operation	Netherlands	100
art'otel Berlin City Center West GmbH	Hotel operation	Germany	53.20
art'otel köln betriebsgesellschaft mbH	Hotel operation	Germany	53.20
Art'otel (I.L.) Management Services Limited (under liquidation)	Holding company	Israel	100
Aspirations (Limited)	Holding company	Guernsey	51
Bora B.V. (formerly known as WH/DMREF Bora B.V.)	Holding company	Netherlands	100
Bora Finco B.V.	Holding company	Netherlands	100
County Hall Hotel Holdings B.V. (formerly known as PPHE Arena Holding B.V.)	Holding company	Netherlands	100
Dvadeset Osam d.o.o. (formerly known as W2005/Dvadeset Osam d.o.o.)	Holding company	Croatia	100
Eindhoven Hotel Operator B.V.	Hotel operation	Netherlands	100
Euro Sea Hotels N.V.	Holding company	Netherlands	100
Germany Real Estate B.V.	Holding company	Netherlands	53.20
Golden Wall Investments Limited	Finance company	British Virgin Islands	100
Grandis Netherlands Holding B.V.	Holding company	Netherlands	100
Hotel Club Construction B.V. (formerly Hotel Maastricht B.V.)	Holding company	Netherlands	100
Hotel Leeds Holding B.V.	Holding company	Netherlands	100
Hotel Nottingham Holding B.V.	Holding company	Netherlands	100
Hoxton Hotel Operator Limited	Hotel operation	United Kingdom	51
Leeds Hotel Operator Limited (formerly Nottingham Park Plaza Hotel Operator Limited)	Hotel operation	United Kingdom	100
Leno Investment Limited	Holding company	Guernsey	100
Londra Cargill Parent S.r.l.	Holding company	Italy	100
Marlbray Limited	Holding company	United Kingdom	100
Mazurana d.o.o.	Holding company	Croatia	53.20

Name of company	Principal activity	Country of incorporation	Direct and indirect holdings %
North Lambeth Holding B.V.	Holding company	Netherlands	100
Nottingham Hotel Operator Limited	Hotel operation	United Kingdom	100
Oaks Restaurant Operator Limited	Hotel operation	United Kingdom	100
Park Plaza Berlin Hotelbetriebsgesellschaft mbH (in liquidation)	Hotel operation	Germany	53.20
Park Plaza County Hall London Ltd	Holding company	United Kingdom	11.50
Park Plaza Germany Holdings GmbH	Holding company	Germany	53.20
Park Plaza Hospitality Services (UK) Limited	Hotel operation	United Kingdom	100
Park Plaza Hotels (Germany) Services GmbH	Hotel operation	Germany	53.20
Park Plaza Hotels (UK) Limited	Holding company	United Kingdom	100
Park Plaza Hotels (UK) Services Limited	Management	United Kingdom	100
Park Plaza Hotels Berlin Wallstrasse GmbH	Hotel operation	Germany	53.20
Park Plaza Hotels Europe (Germany) B.V.	Holding company	Netherlands	100
Park Plaza Hotels Europe B.V.	Management	Netherlands	100
Park Plaza Hotels Europe Holdings B.V.	Holding company	Netherlands	100
Park Plaza Nürnberg GmbH	Hotel operation	Germany	53.20
Park Royal Hotel Holding B.V. (formerly known as Club A40 Holding B.V.)	Holding company	Netherlands	100
Park Royal Hotel Operator Limited (formerly known as Club A40 Hotel Operator Limited)	Hotel operation	United Kingdom	100
Parkvondel Hotel Holding B.V.	Holding company	Netherlands	100
Parkvondel Hotel Operator B.V.	Hotel operation	Netherlands	100
Parkvondel Hotel Real Estate B.V.	Holding company	Netherlands	100
PPHE Art Holding B.V.	Holding company	Netherlands	100
PPHE Coop B.V.	Holding company	Netherlands	100
PPHE Germany B.V.	Holding company	Netherlands	100
PPHE Germany Holdings GmbH	Holding company	Germany	53.20
PPHE Headco Limited	Holding company	United Kingdom	100
PPHE Holdings Limited	Holding company	United Kingdom	100
PPHE Hotel Group Limited	Holding company	Guernsey	100
PPHE Hoxton B.V.	Holding company	Netherlands	51
PPHE Living Limited	Holding company	United Kingdom	100
PPHE Management (Croatia) B.V.	Holding company	Netherlands	100
PPHE Netherlands B.V. (formerly Maastricht Hotel Holding B.V.)	Holding company	Netherlands	100
PPHE NL Region B.V.	Holding company	Netherlands	100
PPHE Nürnberg Operator Hotelbetriebsgesellschaft mbH	Hotel operation	Germany	53.20
PPHE Support Services Limited	Hotel operation	United Kingdom	100
PPHE UK Holding B.V. (formerly Club Euro Hotels B.V.)	Holding company	Netherlands	100
PPHE USA B.V.	Holding company	Netherlands	100
PPHE USA Holding B.V.	Holding company	Netherlands	100
PPHE West 29th Street USA Inc	Holding company	Delaware	100
PPWL Parent B.V.	Holding company	Netherlands	100
Riverbank Hotel Holding B.V.	Holding company	Netherlands	51
Riverbank Hotel Operator Limited	Hotel operation	United Kingdom	51
Sherlock Holmes Hotel Shop Limited	Hotel operation	United Kingdom	100
Sherlock Holmes Park Plaza Limited	Hotel operation	United Kingdom	100

APPENDICES CONTINUED

Name of company	Principal activity	Country of incorporation	Direct and indirect holdings %
Signature Sub BV	Holding company	Netherlands	51
Signature Top Ltd	Holding company	United Kingdom	51
Signature Top II Ltd	Holding company	United Kingdom	100
Società Immobiliare Alessandro De Gasperis S.r.l.	Hotel operation	Italy	100
South Bank Hotel Management Company Ltd	Holding company	United Kingdom	11.50
Suf Holding B.V.	Holding company	Netherlands	100
Sugarhill Investments B.V.	Holding company	Netherlands	53.20
SW Szállodaüzemeltetö Kft	Hotel operation	Hungary	53.20
The Mandarin Hotel B.V.	Holding company	Netherlands	100
TOZI Restaurant Operator Limited	Hotel operation	United Kingdom	100
Ulika d.o.o.	Holding company	Croatia	53.20
Utrecht Hotel Holding B.V.	Holding company	Netherlands	100
Utrecht Hotel Operator B.V.	Hotel operation	Netherlands	100
Victoria Amsterdam Hotel Holding B.V.	Holding company	Netherlands	100
Victoria Amsterdam Hotel Operator B.V.	Hotel operation	Netherlands	100
Victoria London (Real Estate) B.V.	Holding company	Netherlands	100
Victoria London B.V. (formerly known as Club Luton Hotel Holding B.V. and Club Ealing Hotel Holding B.V.)	Holding company	Netherlands	100
Victoria Monument B.V.	Holding company	Netherlands	100
Victoria Park Plaza Operator Limited	Hotel operation	United Kingdom	100
W29 Development LLC	Holding company	Delaware	100
W29 Owner LLC	Holding company	Delaware	100
Waterloo Hotel Holding B.V. (formerly known as Hercules House Holding B.V.)	Holding company	Netherlands	100
Waterloo Hotel Operator Limited (formerly known as Hercules House Operator Limited)	Hotel operation	United Kingdom	100
Westminster Bridge Hotel Operator Limited	Hotel operation	United Kingdom	100
Westminster Bridge London (Real Estate) B.V.	Holding company	Netherlands	100
Westminster Bridge London B.V.	Holding company	Netherlands	100

Jointly controlled entities

Name of company	Principal Activity	Country of incorporation	Direct and indirect holdings %
art'otel berlin mitte/Park Plaza Betriebsgesellschaft mbH[1]	Hotel operation	Germany	50
Park Plaza Betriebsgesellschaft mbH[1]	Hotel operation	Germany	50
PPBK Hotel Holding B.V. (formerly known as ABK Hotel Holding B.V.)[1]	Holding company	Netherlands	50
ABM Hotel Holding B.V.[1]	Holding company	Netherlands	50

1 Indirectly held through Arena Hospitality Group d.d.

Current renovation, repositioning and pipeline projects

Project	Location	Scope	Status
art'otel London Hoxton	London, United Kingdom	New development	Expected to open 2024
art'otel in New York City	New York City, United States	New development	Temporarily paused
88 Rooms Hotel	Belgrade, Serbia	Repositioning	In design process
art'otel Zagreb	Zagreb, Croatia	New development	Expected to open 2023
Guest House Hotel Riviera, Pula	Istria, Croatia	Repositioning	In design process
FRANZ ferdinand Mountain Resort	Nassfeld, Austria	Repositioning	Phase one completed
Development site Park Royal London	London, United Kingdom	New development	In design process
Development site Westminster Bridge Road, London	London, United Kingdom	New development	Planning submitted
art'otel Rome	Rome, Italy	Repositioning	Expected to open 2024

GLOSSARY

Adjusted	Excluding the effect of exceptional items and any relevant tax.
Annual General Meeting	The Annual General Meeting of PPHE Hotel Group on 23 May 2023.
Annual Report and Accounts	The Annual Report of PPHE Hotel Group in relation to the year ended 31 December 2022.
Arena Campsites	Are located in eight beachfront sites across the southern coast of Istria, Croatia. They operate under the Arena Hospitality Group umbrella, of which PPHE Hotel Group is a controlling shareholder. www.arenacampsites.com
Arena Hospitality Group	Arena Hospitality Group is also referred to as Arena and is one of the most dynamic hospitality groups in Central and Eastern Europe, currently offering a portfolio of 30 owned, co-owned, leased and managed properties with more than 10,000 rooms and accommodation units in Croatia, Germany, Hungary, Serbia and Austria. PPHE Hotel Group has a controlling ownership interest in Arena Hospitality Group. www.arenahospitalitygroup.com.
Arena Hotels & Apartments	A collection of hotels and self-catering apartment complexes offering relaxed and comfortable accommodation within beachfront locations across the historical settings of Pula and Medulin in Istria, Croatia. They operate under the Arena Hospitality Group umbrella, of which PPHE Hotel Group is a controlling shareholder.
art'otel®	A lifestyle collection of hotels that fuse exceptional architectural style with art-inspired interiors, located in cosmopolitan centres across Europe. PPHE Hotel Group is owner of the art'otel® brand worldwide. www.artotel.com
Board	Eli Papouchado (Non-Executive Chairman), Yoav Papouchado (Alternate Director), Boris Ivesha (President & Chief Executive Officer), Daniel Kos (Chief Financial Officer & Executive Director), Kevin McAuliffe (Non-Executive Deputy Chairman), Nigel Keen (Non-Executive Director & Senior Independent Director), Kenneth Bradley (Non-Executive Director), Stephanie Coxon (Non-Executive Director), Marcia Bakker (Non-Executive Director).
Capital expenditure	Purchases of property, plant and equipment, intangible assets, associate and joint venture investments, and other financial assets.
Company	PPHE Hotel Group Limited, a Guernsey incorporated Company listed on the Main Market of the London Stock Exchange plc.
Derivatives	Financial instruments used to reduce risk, the price of which is derived from an underlying asset, index or rate.
Direct channels	Methods of booking hotel rooms (both digital and voice) not involving third party intermediaries.
Dividend per share	Proposed/approved dividend for the year divided by the weighted average number of outstanding shares after dilution at the end of the period.
Employee engagement survey	We ask our team members to participate in a survey to measure employee engagement.
EPRA (European Public Real Estate Association)	The EPRA reporting metrics analyse performance (value, profit and cash flow) given that we have full ownership of the majority of our properties.
EPS	Earnings per share.
EU	The European Union.
Euro/€	The currency of the European Economic and Monetary Union.
Exceptional items	Items that are disclosed separately because of their size or nature.
Exchange rates	The exchange rates used were obtained from the local national banks website.
FF&E	Furniture, fittings and equipment.
Franchise	A form of business organisation in which a company which already has a successful product or service (the franchisor) enters into a continuing contractual relationship with other businesses (franchisees) operating under the franchisor's trade name and usually with the franchisor's guidance, in exchange for a fee.
Franchisee	An owner who uses a brand under licence from PPHE Hotel Group.
Goodwill	The difference between the consideration given for a business and the total of the fair values of the separable assets and liabilities comprising that business.
GRS	Guest Rating Score is the online reputation score used by ReviewPro – an industry leader in guest intelligence solutions.
Guernsey	The Island of Guernsey.
Hotel revenue	Revenue from all revenue-generating activity undertaken by managed and owned and leased hotels, including room nights, food and beverage sales.
Income Units	Cash flows derived from the net income generated by rooms in Park Plaza Westminster Bridge London, which have been sold to private investors.
Like-for-like	Results achieved through operations that are comparable with the operations of the previous year. Current years' reported results are adjusted to have an equivalent comparison with previous years' results in the same period, with similar seasonality and the same set of hotels.
Like-for-like hotels including renovation	Like-for-like hotels plus hotels under renovation during the current and/or previous financial year compared.
LSE	London Stock Exchange. PPHE Hotel Group's shares are traded on the Premium Listing segment of the Official List of the UK Listing Authority.
Number of properties	Number of owned hotel properties at the end of the period.
Number of rooms	Number of rooms in owned hotel properties at the end of the period.
Online travel agent	Online companies whose websites permit consumers to book various travel related services directly over the Internet.
parkplaza.com	Brand website for Park Plaza® Hotels & Resorts.
Park Plaza Hotel	One hotel from the Park Plaza® Hotels & Resorts brand.
Park Plaza® Hotels & Resorts	Upper upscale hotel brand. PPHE Hotel Group is master franchisee of the Park Plaza® Hotels & Resorts brand owned by Radisson Hotel Group. PPHE Hotel Group has the exclusive right to develop the brand across 56 countries in Europe, the Middle East and Africa. parkplaza.com
Pipeline	Hotels/rooms that will enter the PPHE Hotel Group system at a future date.
Pound Sterling/£	The currency of the United Kingdom.
PPHE Hotel Group	PPHE Hotel Group is also referred to as the Group and is an international hospitality real estate group. Through its subsidiaries, jointly controlled entities and associates, the Group owns, co-owns, develops, leases, operates and franchises hospitality real estate. The Group's primary focus is full-service upscale, upper upscale and lifestyle hotels in major gateway cities and regional centres, as well as hotel, resort and campsite properties in select resort destinations.
Radisson Hotel Group	Created in early 2018, one of the largest hotel companies in the world. Hotel brands owned by Radisson Hotel Group are Radisson Collection™, Radisson Blu®, Radisson®, Radisson RED®, Radisson Individuals, Park Plaza®, Park Inn® by Radisson, Country Inn & Suites® by Radisson, and Prizeotel. The portfolio of Radisson Hotel Group includes more than 1,400 hotels in operation and under development, located across 115 countries and territories, operating under global hotel brands. Jin Jiang International Holdings is the majority shareholder of Radisson Hotel Group. www.radissonhotelgroup.com

Radisson Rewards™	The hotel rewards programme of Radisson Hotel Group, including Park Plaza® Hotels & Resorts and art'otel®. The programme is owned by Radisson Hotel Group. Gold Points® is the name of the currency earned through the Radisson Rewards™ programme. www.radissonrewards.com
Responsible Business	PPHE Hotel Group's Responsible Business strategy is a genuine, active and responsible commitment to our environment and society.
Room count	Number of rooms franchised, managed, owned or leased by PPHE Hotel Group.
Subsidiary	A company over which the Group exercises control.
Weighted average number of shares outstanding during the year	The weighted average number of outstanding shares taking into account changes in the number of shares outstanding during the year.
Working capital	The sum of inventories, receivables and payables of a trading nature, excluding financing and taxation items.

Alternative Performance Measures

In order to aid stakeholders and investors in analysing the Group's performance and understanding the value of its assets and earnings from a property perspective, the Group have disclosed the following Alternative Performance Measures which are commonly used in the Real Estate and the Hospitality sectors.

EBIT	Earnings before interest and tax.
EBITDA	Earnings before interest, tax, depreciation and amortisation.
EBITDA margin	EBITDA divided by total revenue.
EBITDAR	Revenue less cost of revenues (operating expenses). EBITDAR, together with EBITDA, is used as a key management indicator.
Earnings (loss) per share	Basic earnings (loss) per share amounts are calculated by dividing the net profit (loss) for the year by the weighted average number of ordinary shares outstanding during the year. Diluted earnings (loss) per share amounts are calculated by dividing the net profit (loss) for the year by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.
Basic earnings per ordinary share	Profit available for PPHE Hotel Group equity holders divided by the weighted average number of ordinary shares in issue during the year.
Adjusted EPRA earnings	EPRA earnings with the Company's specific adjustments. The main adjustments includes removal of unusual or onetime influences and adding back the reported depreciation charge, which is based on assets at historical cost, and replacing it with a charge calculated as 4% of the Group's total revenues, representing the Group's expected average cost to upkeep the real estate in good quality.
Adjusted EPRA earnings per share	Adjusted EPRA earnings divided by the weighted average number of ordinary shares outstanding during the year.
EPRA earnings	Shareholders' earnings from operational activities adjusted to remove changes in fair value of financial instruments and reported depreciation.
EPRA earnings per share	EPRA earnings divided by the weighted average number of ordinary shares outstanding during the year.
EPRA Net asset value (EPRA NAV)	Recognised equity, attributable to the parent company's shareholders, including reversal of derivatives, deferred tax asset for derivatives, deferred tax liabilities related to the properties and revaluation of operating properties.
EPRA Net Re-instatement Value (EPRA NRV)	Recognised equity, attributable to the parent company's shareholders on a fully diluted basis adjusted to include properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long-term investment property business model.
EPRA Net Re-instatement Value (EPRA NRV) per share	EPRA NRV divided by the fully diluted number of shares at the end of the period.
EPRA Net Disposal Value (EPRA NDV)	Recognised equity, attributable to the parent company's shareholders on a fully diluted basis adjusted to include properties, other investment interests, deferred tax, financial instruments and fixed interest rate debt at disposal value.
EPRA Net Disposal Value (EPRA NDV) per share	EPRA NDV divided by the fully diluted number of shares at the end of the period.
EPRA Net Tangible Assets (EPRA NTA)	Recognised equity, attributable to the parent company's shareholders on a fully diluted basis adjusted to include properties and other investment interests at fair value and to exclude intangible assets and certain items not expected to crystallise based on the Company's expectations for investment property disposals in the future.
EPRA Net Tangible Assets (EPRA NTA) per share	EPRA NTA divided by the fully diluted number of shares at the end of the period.
Gearing ratio	Net bank debt divided by the sum of total equity and net bank debt.
Debt Service Coverage Ratio (DSCR)	EBITDA, less net expenses for financial liability in respect of Income Units sold to private investors and lease payments, divided by the sum of interest on bank loans and yearly bank loans redemption.
Interest Cover ratio (ICR)	EBITDA, less net expenses for financial liability in respect of Income Units sold to private investors and lease payments, divided by interest on bank loans.
Loan-to-value ratio	Interest-bearing liabilities after deducting cash and cash equivalents as a percentage of the properties' market value at the end of the period.
Market capitalisation	The value attributed to a listed Company by multiplying its share price by the number of shares in issue.
Market share	The amount of total sales of an item or group of products by a company in a particular market. It is often shown as a percentage, and is a good indicator of performance compared to competitors in the same market sector.
Net debt	Borrowings less cash and cash equivalents long-term and short-term restricted cash, including the exchange element of the fair value of currency swaps hedging the borrowings.
Normalised profit before tax	Profit before tax adjusted to remove unusual or onetime influences.
Occupancy	Total occupied rooms divided by net available rooms or RevPAR divided by ARR.
Average room rate (ARR)	Total room revenue divided by the number of rooms sold.
RevPAR	Revenue per available room. Total rooms revenue divided by net available rooms or ARR x occupancy %.

CONTACTS

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Yoav Papouchado	(Alternate Director)
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Daniel Kos	(Chief Financial Officer & Executive Director)
Kevin McAuliffe	(Non-Executive Deputy Chairman)
Nigel Keen	(Non-Executive Director & Senior Independent Director)
Kenneth Bradley	(Non-Executive Director)
Stephanie Coxon	(Non-Executive Director)
Marcia Bakker	(Non-Executive Director)

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Useful links

Company websites

pphe.com
arenahospitalitygroup.com

For reservations

parkplaza.com
artotel.com
arenahotels.com
arenacampsites.com

Strategic partner

radissonhotelgroup.com

Forward-looking statements

This document may contain certain "forward-looking statements" which reflect the Company's and/or the Directors' current views with respect to financial performance, business strategy and future plans, both with respect to the Group and the sectors and industries in which the Group operates. Statements which include the words "expects", "intends", "plans", "believes", "projects", "anticipates", "will", "targets", "aims", "may", "would", "could", "continue" and similar statements are of a future or forward-looking nature. All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause the Group's actual results to differ materially from those indicated in these statements. Any forward-looking statements in this document reflect the Group's current views with respect to future events and are subject to risks, uncertainties and assumptions relating to the Group's operations, results of operations and growth strategy. These forward-looking statements speak only as of the date on which they are made. Subject to any legal or regulatory obligations, the Company undertakes no obligation publicly to update or review or revise any forward-looking statement, whether as a result of new information, future developments or otherwise. All subsequent written and oral forward-looking statements attributable to the Group or individuals acting on behalf of the Group are expressly qualified in their entirety by this paragraph. Nothing in this document should be considered as a profit forecast.

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