Independent Auditor's Report

to the members of Dalata Hotel Group plc

1. Opinion: our opinion is unmodified

We have audited the financial statements of Dalata Hotel Group plc for the year ended 31 December 2017 which comprise the consolidated statement of profit or loss and other comprehensive income, the consolidated and company statements of financial position, the consolidated and company statements of changes in equity, the consolidated and company statements of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is Irish law and International Financial Reporting Standards (IFRS) as adopted by the European Union, and, as regards the company financial statements, as applied in accordance with the provisions of the Companies Act 2014.

In our opinion:

- the consolidated financial statements give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2017 and of its profit for the year then ended;
- the company statement of financial position gives a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2017;
- the consolidated financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2014; and
- the consolidated financial statements and company financial statements have been properly prepared in accordance with the requirements of the Companies Act 2014 and, as regards the consolidated financial statements, Article 4 of the IAS Regulation.

Basis for opinion

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

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

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

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

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

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

The key audit matter

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

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How the matter was addressed in our audit

Our audit procedures included, among others: evaluating the approach and findings of the work performed by the independent external experts engaged by the Group in relation to hotel valuations, including assessing and challenging the key assumptions applied in their discounted cash flow calculations; considering the allocation of hotel valuations to land and buildings, and fixtures fittings and equipment; testing the amounts of individual property revaluation movements and their presentation either in other comprehensive income or in profit or loss, as appropriate; and evaluating the adequacy of the Group's disclosures in relation to property valuations.

Our findings

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

Acquisitions in the year

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

The key audit matter

A number of significant transactions were completed during the year ended 31 December 2017, including acquisitions of: (i) the Hotel La Tour Birmingham; (ii) the main element of the hotel and business of Clarion Hotel Liffey Valley; (iii) further suites in the Clarion Hotel Liffey Valley; and (iv) the freehold or long leasehold interests in properties of certain hotels which were previously leased by the Group. This gives rise to a risk of material misstatement if these acquisitions are not accounted for in accordance with relevant accounting standards. In particular for business combinations the consideration paid, the costs incurred, the fair value of the assets and liabilities acquired and any goodwill arising must all be identified, measured and recorded appropriately.

How the matter was addressed in our audit

Our audit procedures included, among others, inspecting acquisition agreements and related documentation, and considering whether the acquisitions were business combinations or asset purchases and accordingly whether the relevant accounting standards for each had been applied based on accounting papers prepared by Group management.

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

Our findings

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

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

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

The key audit matter

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

How the matter was addressed in our audit

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

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

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

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

The materiality for the consolidated financial statements as a whole was set at €3.9m (*2016: €2.8m*). This has been calculated with reference to a benchmark of group profit before taxation, normalised to exclude this year's acquisition-related costs of €1.3m as disclosed in Note 3 to the consolidated financial statements. Materiality represents approximately 5% of this benchmark, which we consider to be one of the principal considerations for members of the Company in assessing the financial performance of the Group. The Group has a significant asset base which we also consider in establishing materiality. Total assets at 31 December 2017 amounted to €1,101.1m (*2016: €985.4m*) and our materiality measure represents 0.35% of total assets *(2016: 0.28%)* which is below the materiality measure of 0.5%-1.0% typically used for this measure, where applicable, in public company audits.

We report to the Audit and Risk Committee all corrected and uncorrected misstatements we identified through our audit with a value in excess of €0.2m (*2016: €0.2m*), in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

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

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

4. We have nothing to report on going concern

We are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group's and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- if the related statement under the Listing Rules set out on page 67 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

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

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

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

Based solely on that work, we report that:

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

Disclosures of principal risks and longer-term viability
Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated;
- the directors' confirmation within the Viability Statement on pages 42 and 43 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity; and
- the directors' explanation in the Viability Statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Other corporate governance disclosures
We are required to address the following items and report to you in the following circumstances:

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

We have nothing to report in these respects.

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

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

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

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

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

In our opinion the accounting records of the company were sufficient to permit the financial statements to be readily and properly audited and the company's statement of financial position is in agreement with the accounting records.

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to the members of Dalata Hotel Group plc (continued)

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

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

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

- the Directors' statements, set out on pages 42, 43 and 67, in relation to going concern and longer-term viability;
- the part of the Corporate Governance Report on pages 60 to 69 relating to the Company's compliance with the provisions of the UK Corporate Governance Code and the Irish Corporate Governance Annex specified for our review; and
- certain elements of disclosures in the report to shareholders by the Board of Directors' Remuneration Committee.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on pages 96 and 97, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on IAASA's website at https://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsiblities_for_audit.pdf

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

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

Sean O'Keefe
for and on behalf of
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26 February 2018