Notes to the consolidated financial statements

forming part of the consolidated financial statements

1 SIGNIFICANT ACCOUNTING POLICIES

General information and basis of preparation

Dalata Hotel Group plc (the 'Company') is a company domiciled in the Republic of Ireland. The Company's registered office is 4th Floor, Burton Court, Burton Hall Drive, Sandyford, Dublin 18. The consolidated financial statements of the Company for the year ended 31 December 2017 include the Company and its subsidiaries (together referred to as the 'Group'). The financial statements were authorised for issue by the Directors on 26 February 2018.

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

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

Revision of estimated useful lives of property, plant and equipment

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

The key judgements and estimates impacting these financial statements are:

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

Measurement of fair values

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

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

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

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

Further information about the assumptions made in measuring fair values is included in note 22 – Financial instruments and risk management (in relation to financial assets and financial liabilities), note 11 – Property, plant and equipment and note 12 – Investment property (in relation to non-financial assets).

Notes to the consolidated financial statements

(continued)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Going concern

The Directors have assessed the Group's ability to continue in operational existence for the foreseeable future by preparing detailed financial forecasts and carrying out stress testing on projections, with consideration of the macro-economic backdrop. The Directors also evaluated the strategy of the Group as set out on pages 10 to 25 of the annual report. Note 22 to the consolidated financial statements includes: the Group's objectives, policies and processes for managing its capital; details of its financial instruments and hedging activities; and its exposures to credit, currency and liquidity risks.

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

(ii) Statement of compliance

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

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

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

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

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

The following standards have been endorsed by the EU, are available for early adoption and are effective from 1 January 2018 or 1 January 2019 as indicated below. The Group has not adopted these standards early, and instead intends to apply them from their effective dates as determined by their dates of EU endorsement.

– IFRS 15 *Revenue from contracts with customers* (May 2014) including amendments to IFRS 15 (September 2015). Effective date 1 January 2018;
– IFRS 9 *Financial Instruments* (July 2014). Effective date 1 January 2018; and
– IFRS 16 *Leases* (January 2016). Effective date 1 January 2019.

IFRS 16 Leases

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

Notes to the consolidated financial statements
(continued)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Statement of compliance (continued)

IFRS 16 Leases (continued)
Under the new standard, the distinction between operating and finance leases is removed for lessees and almost all leases are reflected in the statement of financial position. As a result, an asset (the right-of-use of the leased item) and a financial liability to pay rental expenses are recognised. Fixed rental expenses will be removed from the statement of comprehensive income and will be replaced with finance costs on the lease liability and depreciation on the right-of-use asset. Variable lease payments which are dependent on external factors such as hotel performance will continue to be recognised directly in profit or loss. The only exemptions are short-term and low-value leases.

The standard introduces new estimates and judgemental thresholds that affect the identification, classification and measurement of lease transactions. More extensive disclosures, both qualitative and quantitative, are also required. The full impact of this standard on the Group's financial position and performance continues to be assessed. However, a substantial element of work has been completed which has resulted in the following conclusions and decisions:

- the Group does not intend to early adopt IFRS 16;
- the Group does not intend to use a practical expedient for lease definition (change in standard has not resulted in any material changes);
- the Group does not intend to avail of exemptions in relation to short term leases or low-value items;
- the Group intends to use the modified retrospective approach under which prior year financial information will not be restated. Upon transition, the lease liability will be based on the present value of remaining lease payments and the right-of-use asset will be an amount equal to the lease liability adjusted for prepaid/accrued payments. This means that largely information only available at the date of transition will be used to apply IFRS 16 and there will be no impact on retained earnings on transition; and
- the Group does not intend to use practical expedients to apply a single discount rate to portfolios of leases or to review for impairment.

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

Consolidated statement of profit or loss and other comprehensive income

Administrative expenses will decrease, as the Group currently recognises rental expenses therein. The Group's rental expenses for 2017 were €31.0 million (2016: €25.7 million) and are disclosed in note 3 to these consolidated financial statements. Under IFRS 16, contingent rents will not form part of the lease liability measurement and will remain in administrative expenses. Under the terms of certain hotel operating leases, contingent rents are payable in excess of minimum lease payments, based on the financial performance of the hotels. The amount of contingent rent expense charged to profit or loss in the year ended 31 December 2017 was €7.6 million (2016: €6.7 million).

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

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

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

Notes to the consolidated financial statements
(continued)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Statement of compliance (continued)

IFRS 16 Leases (continued)

Consolidated statement of financial position

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

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements
(continued)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(iv) Basis of consolidation
The consolidated financial statements include the financial statements of the Company and all of its subsidiary undertakings.

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

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

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

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

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

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

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

Business combinations are disclosed in note 9 to these consolidated financial statements.

When an acquisition does not represent a business, it is accounted for as a purchase of a group of assets and liabilities, not as a business combination. The cost of the acquisition is allocated to the assets and liabilities acquired based on their relative fair values, and no goodwill is recognised. Where the Group solely purchases the freehold interest in a property, this is accounted for as an asset purchase and not as a business combination on the basis that the asset(s) purchased do not constitute a business. Asset purchases are accounted for as additions to property, plant and equipment.

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

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

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

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

Notes to the consolidated financial statements
(continued)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

(viii) Share-based payments
The grant-date fair value of equity-settled share-based payment awards incorporating the effect of market-based conditions and the estimated fair value of equity-settled share-based payment awards issued with non-market performance conditions, granted to employees is recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards.

The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and any non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. The amount recognised as an expense is not adjusted for market conditions not being met.

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

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements
(continued)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

Assets under construction include sites where new hotels are currently being developed and major development projects at hotels which are currently operational. These sites and the capital investment made are recorded at cost in the financial statements. Borrowing costs incurred in the construction of major assets which take a substantial period of time to complete are capitalised in the financial period in which they are incurred. Once construction is complete and the hotel is operating, the assets will be transferred to land and buildings at cost, and will subsequently be measured at fair value. Depreciation will commence when the asset is available for use.

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

Cost includes expenditure that is directly attributable to the acquisition of property, plant and equipment unless it is acquired as part of a business combination under IFRS 3, where the deemed cost is its acquisition date fair value. In the application of the Group's accounting policy, judgement is exercised by management in the determination of fair value at each reporting date, residual values and useful lives.

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

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

Land is not depreciated.

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

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

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

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

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

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

Notes to the consolidated financial statements
(continued)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

The impairment testing process requires management to make significant judgements and estimates regarding the future cash flows expected to be generated by the cash-generating unit. Management evaluates and updates the judgements and estimates which underpin this process on an ongoing basis. The impairment methodology and key assumptions used by the Group for testing goodwill for impairment is outlined in note 10.

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

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

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

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

Notes to the consolidated financial statements
(continued)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements
(continued)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

Derivative financial instruments are recognised at fair value on the date a derivative contract is entered into plus directly attributable transaction costs and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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

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

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

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

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

Notes to the consolidated financial statements
(continued)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

Adjusting items refer to items such as:

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

Notes to the consolidated financial statements
(continued)

2 OPERATING SEGMENTS

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

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

Dublin, Regional Ireland and United Kingdom segments
These segments are concerned with hotels that are either owned or leased by the Group. As at 31 December 2017, the Group owns 24 hotels (31 December 2016: 23 hotels) and has effective ownership of one further hotel which it operates (31 December 2016: one). It also owns the majority of one of the other hotels which it operates. The Group also leases nine hotel buildings from property owners (31 December 2016: 10) and is entitled to the benefits and carries the risks associated with operating these hotels.

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

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

Revenue	2017 €'000	2016 €'000
Dublin	**200,705**	151,945
Regional Ireland	**76,040**	68,467
United Kingdom	**69,743**	67,498
Managed Hotels	**1,986**	2,641
Total revenue	**348,474**	290,551

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

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

Notes to the consolidated financial statements
(continued)

2 OPERATING SEGMENTS (continued)

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

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

Notes to the consolidated financial statements
(continued)

2 OPERATING SEGMENTS (continued)

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

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

The line item 'Central costs' includes costs of the Group's central functions including operations support, technology, sales and marketing, human resources, finance, corporate services and business development. Share-based payments cost is presented separately from Central costs as this expense relates to employees across the Group.

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

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

'Segmental results – EBITDAR' for Dublin, Regional Ireland and United Kingdom represents 'Segmental results – EBITDA' before rent. For leased hotels, rent amounted to €30.8 million in 2017 (2016: €25.5 million).

Other geographical information

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

Notes to the consolidated financial statements
(continued)

2 OPERATING SEGMENTS (continued)

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

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

Loans and borrowings are categorised according to their underlying currency. Loans and borrowings denominated in Sterling, which act as a net investment hedge, of €196.5 million (£174.4 million) at 31 December 2017 (2016: €203.6 million (£174.4 million)) are classified as liabilities in the United Kingdom. Loans and borrowings denominated in Euro are classified as liabilities in the Republic of Ireland.

Notes to the consolidated financial statements
(continued)

3 STATUTORY AND OTHER INFORMATION

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

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

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

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

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

Notes to the consolidated financial statements
(continued)

3 STATUTORY AND OTHER INFORMATION (continued)

The audit of Group, Company and subsidiary financial statements fees are inclusive of the fees relating to the reviews of interim condensed consolidated financial statements for the six-month periods ended 30 June. Auditor's remuneration for the audit of the Company financial statements was €10,000 (2016: €10,000).

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

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

4 OTHER INCOME

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

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

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

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

5 FINANCE COSTS

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

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

Notes to the consolidated financial statements
(continued)

5 FINANCE COSTS (continued)

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

Exchange loss on loans and borrowings relates principally to loans which did not form part of the net investment hedge (note 22).

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

6 PERSONNEL EXPENSES

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

	2017	2016
Administration	417	358
Other	2,627	2,344
	3,044	2,702

Full time equivalents split by geographical region was as follows.

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

The aggregate payroll costs of these persons were as follows.

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

Notes to the consolidated financial statements
(continued)

7 LONG-TERM INCENTIVE PLANS

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements
(continued)

7 LONG-TERM INCENTIVE PLANS (continued)

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

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

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

For measurement purposes, the dividend yield is based upon adjusted non-zero yields as though the Group was a zero-dividend yield company at these dates that may not be reflective over the longer term. This percentage is not in any way indicative of the expected dividend yield of the Group. This will be decided by the Board of Directors as appropriate. Expected volatility is based on the historical volatility of the Company's share price for the 2016 and 2017 awards and of a comparator group of companies for awards in prior periods.

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

Notes to the consolidated financial statements
(continued)

7 LONG-TERM INCENTIVE PLANS (continued)

Save As You Earn Scheme

During the year ended 31 December 2017, the Remuneration Committee of the Board of Directors approved the granting of share options under a Save As You Earn ('SAYE') Scheme (the 'Scheme') for all eligible employees across the Group. 515 employees availed of the 2017 Scheme (379 employees availed of the 2016 Scheme). The Scheme is for three years and employees may choose to purchase shares at the end of the three year period at the fixed discounted price set at the start. The share price for the Scheme (as per the 2016 scheme) has been set at a 25% discount for Republic of Ireland based employees and 20% for United Kingdom based employees in line with the maximum amount permitted under tax legislation in both jurisdictions.

The total expected cost of the 2017 SAYE scheme was estimated at €0.8 million over the three year service period of which €0.08 million has been charged against profit for the year ended 31 December 2017.

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

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

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

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

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

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

Notes to the consolidated financial statements
(continued)

8 TAX CHARGE

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

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

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

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

Notes to the consolidated financial statements
(continued)

9 BUSINESS COMBINATIONS

Acquisition of Clarion Hotel, Liffey Valley

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

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

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

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

Subsequent asset purchase transactions relating to Clarion Hotel, Liffey Valley

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

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

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

Acquisition of Hotel La Tour, Birmingham

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

Notes to the consolidated financial statements
(continued)

9 BUSINESS COMBINATIONS (continued)

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

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

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

Impact of new acquisitions on trading performance

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

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

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

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

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

Notes to the consolidated financial statements
(continued)

9 BUSINESS COMBINATIONS (continued)

Prior year acquisitions

Acquisition of Choice Hotel Group

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

The hotel leasehold interests acquired were:

- The Gibson Hotel Dublin;
- The Clarion Hotel, Limerick, now trading as Clayton Hotel Limerick;
- The Clarion Hotel, Cork, now trading as Clayton Hotel Cork City; and
- The Croydon Park Hotel, Croydon, UK (the Group has subsequently disposed of this leasehold interest (note 4)).

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

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

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

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

Notes to the consolidated financial statements
(continued)

10 INTANGIBLE ASSETS AND GOODWILL

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

Goodwill

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

Arising from an annual impairment review conducted at 31 December 2017, goodwill was not considered to be impaired and accordingly, no impairment was recognised during 2017. During 2016, goodwill was impaired on eight of the Group's cash-generating units (CGUs) which resulted in a €10.3 million reduction in goodwill which was charged to profit or loss.

Notes to the consolidated financial statements
(continued)

10 INTANGIBLE ASSETS AND GOODWILL (continued)

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

Included in the goodwill figure is €12.3 million (£10.9 million) which is attributable to goodwill arising on acquisition of foreign operations. Consequently, such goodwill is subsequently retranslated at the closing rate. The retranslation at 31 December 2017 resulted in a foreign exchange loss of €0.4 million and a corresponding decrease in goodwill. The comparative translation at 31 December 2016 resulted in a foreign exchange loss of €2.7 million.

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

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

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

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

(i) Moran Bewley Group and other single asset acquisitions
For the purposes of impairment testing, goodwill has been allocated to each of the hotels acquired as CGUs. As these hotel properties are valued annually by independent external valuers, the recoverable amount of each CGU is based on a fair value less costs of disposal estimate, or where this value is less than the carrying value of the asset, the value in use of the CGU is assessed.

Costs of acquisition of a willing buyer which are factored in by external valuers when calculating the fair value price of the asset are significant for these assets (2017: Ireland 8.46%, UK 6.8%, 2016: Ireland 4.46%, UK 6.8%). The increase in purchasers costs versus 2016 was due to the increase in stamp duty relating to commercial property from 2% to 6% in the Republic of Ireland as a result of Budget 2018. Purchasers costs are a key difference between value in use and fair value less costs of disposal as prepared by external valuers.

Notes to the consolidated financial statements
(continued)

10 INTANGIBLE ASSETS AND GOODWILL (continued)

At 31 December 2017, the recoverable amounts of ten CGUs were based on value in use, determined by discounting the future cash flows generated from the continuing use of these hotels. The value in use estimates were based on the following key assumptions:

- Cash flow projections are based on current operating results and budgeted forecasts covering a ten year period. This period was chosen due to the nature of the hotel assets and is consistent with the valuation basis used by independent external property valuers when performing their hotel valuations (note 11);
- Revenue and EBITDA for the first year of the projections is based on budgeted figures for 2018 provided by management. Budgeted revenue and EBITDA are based on expectations of future outcomes taking into account past experience, adjusted for anticipated revenue growth;
- Cash flow projections conservatively assume a long-term compound annual growth rate of 2% in EBITDA for assets in the Republic of Ireland and 2.5% for assets in the United Kingdom;
- Cash flows include an average annual capital outlay on maintenance for the hotels dependent on the condition of the hotel or typically 4% of revenues but assume no enhancements to any property;
- The value in use calculations also include a terminal value based on terminal (Year 10) capitalisation rates consistent with those used by the external property valuers which incorporates a long-term growth rate of 2% for Irish and 2.5% for UK properties; and
- The cash flows are discounted using a risk adjusted discount rate specific to each property which ranged from 8.75% to 11.75% (Ireland: 9.50% to 11.75%; UK: 8.75% to 11.50%) (2016: Ireland: 9.50% to 11.75%, UK: 8.75% to 11.50%). The discount rates were consistent with those used by the external property valuers.

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

At 31 December 2017, the recoverable amount was determined to be significantly higher than the carrying amount of the group of CGUs. There is no reasonably foreseeable change in assumptions that would impact adversely on the carrying value of this goodwill. The Directors concluded that the carrying value of this goodwill is not impaired at 31 December 2017.

(ii) 2007 Irish hotel operations acquired
For the purposes of impairment testing, goodwill has been allocated to each of the cash-generating units (CGUs) representing the Irish hotel operations acquired in 2007. Eight hotels were acquired at that time but only four of these hotels have goodwill associated with them. Three of these hotels which have since been purchased by the Group are valued annually by independent external valuers, as the freehold interest in the property is owned by the Group. One property is leased by the Group. Where hotel properties are valued annually by independent external valuers, the recoverable amount of each CGU is based on a fair value less costs of disposal estimate, or where this value is less than the carrying value of the asset, the value in use of the CGU is assessed. The recoverable amount of each of these four CGUs which have associated goodwill was based on value in use. Value in use is determined by discounting the future cash flows generated from the continuing use of these hotels.

Costs of acquisition of a willing buyer which are factored in by external valuers when calculating the fair value price of the asset are significant for these assets (2017: 8.46%, 2016: 4.46%). The increase in purchasers costs versus 2016 was due to the increase in stamp duty relating to commercial property from 2% to 6% in the Republic of Ireland as a result of Budget 2018. Purchasers costs are a key difference between value in use and fair value less costs of disposal as prepared by external valuers.

Notes to the consolidated financial statements
(continued)

10 INTANGIBLE ASSETS AND GOODWILL (continued)

The assumptions underpinning these value in use calculations were as follows:

- Cash flow projections are based on current operating results and budgeted forecasts prepared by management covering a ten-year period;
- Revenue and EBITDA for the first year of the projections is based on budgeted figures for 2018 provided by management. Budgeted revenue and EBITDA are based on expectations of future outcomes taking into account past experience, adjusted for anticipated revenue growth;
- Cash flow projections assume a long-term compound annual growth rate of 2% in EBITDA;
- Cash flows include an average annual capital outlay on maintenance for the hotels of 4% of revenues but assume no enhancements to any property;
- The value in use calculations also include a terminal value based on an industry earnings multiple model which incorporates a long-term growth rate of 2%; and
- The cash flows are discounted using a risk adjusted discount rate specific to each property which ranged from 10.75% to 11.50% (2016: 10.50% to 11.00%). In the case of owned hotels, the discount rates were consistent with rates used by the valuers. Discount rates applied to calculate value in use in respect of leased properties are comparable with rates used by external property valuers in their valuations of similar hotels.

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

At 31 December 2017, the recoverable amount was determined to be significantly higher than the carrying amount of the group of CGUs. There is no reasonably foreseeable change in assumptions that would impact adversely on the carrying value of this goodwill. The Directors concluded that the carrying value of this goodwill is not impaired at 31 December 2017.

Key sources of estimation uncertainty
The key assumptions used in estimating the future cash flows in the impairment test are subjective and include projected EBITDA (as defined in note 2), discount rates and the duration of the discounted cash flow model. Expected future cash flows are inherently uncertain and therefore liable to change materially over time.

Other indefinite-lived intangible assets
Acquired leasehold interests
Other indefinite-lived intangible assets represent the intangible value of the Group's leasehold interest in respect of The Gibson Hotel, which was acquired as part of the Choice Hotel Group business combination which completed in March 2016 (note 9). The carrying value of this asset amounted to €20.5 million at 31 December 2016 and 31 December 2017 and is recognised as an asset with an indefinite life based upon the intentions of the Group for the long-term operation of the business of this hotel and the statutory renewal rights which exist in Ireland to the benefit of the lessee. The Group tests intangible assets annually for impairment or more frequently if there are indicators it may be impaired.

Notes to the consolidated financial statements
(continued)

10 INTANGIBLE ASSETS AND GOODWILL (continued)

At 31 December 2017, the recoverable amount of the CGU (The Gibson Hotel) was based on value in use, determined by discounting the future cash flows generated from the operation of this hotel by the Group. This value in use estimate was based on the following key assumptions:

- Cash flow projections are based on current operating results and budgeted forecasts prepared by management covering a ten-year period. This period was chosen as it corresponds to the valuation basis used by independent external property valuers when performing their hotel valuations (note 11) for similar properties;
- Revenue and EBITDA for the first year of the projections is based on budgeted figures for 2018. Budgeted revenue and EBITDA are based on expectations of future outcomes taking into account past experience, adjusted for anticipated revenue growth;
- Cash flow projections conservatively assume a long-term compound annual growth rate of 2% in EBITDA;
- Cash flows include an average annual capital outlay of 4% of revenues but assume no enhancements to the property;
- The value in use calculation also includes a terminal value based on an industry earnings multiple model which incorporates a long-term growth rate of 2%; and
- The cash flows are discounted using a risk adjusted discount rate specific to the property of 10.50%. This discount rate was comparable with discount rates used by the external property valuers in valuing similar properties.

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

At 31 December 2017, the recoverable amount was determined to be higher than the carrying amount of the CGU. There is no reasonably foreseeable change in assumptions that would impact adversely on the carrying value. The Directors concluded that the carrying value of other indefinite-lived intangible assets is not impaired at 31 December 2017.

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

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

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

Notes to the consolidated financial statements
(continued)

11 PROPERTY, PLANT AND EQUIPMENT

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

Notes to the consolidated financial statements
(continued)

11 PROPERTY, PLANT AND EQUIPMENT (continued)

The equivalent disclosure for the prior year is as follows.

	Land and buildings €'000	Assets under construction €'000	Fixtures, fittings and equipment €'000	Total €'000
At 31 December 2016				
Valuation	744,611	-	-	744,611
Cost	-	42,865	50,205	93,070
Accumulated depreciation (and impairment charges)*	-	-	(15,237)	(15,237)
Net carrying amount	**744,611**	**42,865**	**34,968**	**822,444**
At 1 January 2016, net carrying amount	585,101	-	23,691	608,792
Acquisitions through business combinations	38,195	-	2,071	40,266
Other additions through freehold or site purchases	42,715	39,868	-	82,583
Transfer from intangible assets (note 10)	8,900	-	-	8,900
Other additions through capital expenditure	7,228	3,043	18,211	28,482
Transfer from investment properties (note 12)	36,032	-	-	36,032
Revaluation gains through OCI	67,901	-	-	67,901
Revaluation losses through OCI	(1,498)	-	-	(1,498)
Reversal of revaluation losses through profit or loss	988	-	-	988
Revaluation losses through profit or loss	(1,244)	-	-	(1,244)
Depreciation charge for the year	(7,489)	-	(7,988)	(15,477)
Translation adjustment	(32,218)	(46)	(1,017)	(33,281)
At 31 December 2016, net carrying amount	**744,611**	**42,865**	**34,968**	**822,444**

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

The carrying value of land and buildings is stated after the elimination of depreciation on revaluation.

The carrying value of land and buildings (revalued at 31 December 2017) is €848.8 million. The value of these assets under the cost model is €677.6 million. In 2017, unrealised revaluation gains of €55.2 million and unrealised losses of €1.6 million have been reflected through other comprehensive income and in the revaluation reserve in equity. A revaluation loss of €2.8 million and a reversal of prior period revaluation losses of €1.3 million have been reflected in administrative expenses through profit or loss.

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

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

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

Notes to the consolidated financial statements
(continued)

11 PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

Additions to assets under construction during the year ended 31 December 2017 include the following:

- Development expenditure incurred on new builds of €42.3 million;
- Development expenditure incurred on hotel extensions of €16.8 million;
- Interest capitalised on loans and borrowings relating to qualifying assets of €1.6 million (note 5); and
- Arising from a change in use by the Group of a previously recognised investment property, €0.6 million has been transferred to property, plant and equipment from investment property (note 12).

Property previously classified as assets under construction has been transferred to land and buildings and fixtures and fittings as a result of the assets coming into use in 2017. This relates to additional bedrooms, a restaurant and staff facilities at Clayton Hotel Dublin Airport costing €7.0 million.

Arising from a change in use by the Group of previously recognised property, plant and equipment during the year as a result of securing a sub-lease in respect of the property, €0.4 million has been transferred to investment property from property, plant and equipment (note 12).

On 16 June 2017, the Group completed the sale and operating leaseback of the Clayton Hotel Cardiff for €25.1 million resulting in a gain on sale of €0.2 million. As part of this transaction the Group retained €2.4 million of fixtures and fittings and an intangible asset with a value of €0.7 million (note 10), representing the Group's interest in a sub-lease (as sub-lessor) in respect of a self-contained restaurant within the hotel. The Group now operates this hotel under an operating lease with a term of 35 years. Costs incurred in respect of this transaction amounting to €0.1 million have been included in profit or loss as part of the net gain on the sale of €0.2 million, included within other income (note 4).

On 11 August 2017, the Group completed the sale and operating leaseback of Hotel La Tour, Birmingham for €33.1 million (£30.0 million). Included within non-current prepayments is €1.1 million which represents the differential between the proceeds received and the acquisition price and will be deferred and amortised over the lease term as it represents up-front costs associated with entering the lease. The Group now operates this hotel under an operating lease with a term of 35 years.

Notes to the consolidated financial statements
(continued)

11 PROPERTY, PLANT AND EQUIPMENT (continued)

During the year, the Group revised the estimated useful lives of its fixtures, fittings and equipment (note 1). Arising from the Group's assessment of the useful lives of its fixtures, fittings and equipment during the year, assets with a net book value of €7.0 million were reclassified from land and buildings to assets under construction and fixtures, fittings and equipment.

The Group operates the Maldron Hotel Limerick and, since the acquisition of Fonteyn Property Holdings Limited in 2013, holds a secured loan over that property. The loan is not expected to be repaid. Accordingly, the Group has the risks and rewards of ownership and accounts for the hotel as an owned property, reflecting the substance of the arrangement. It is expected that the Group will obtain legal title to the property.

The value of the Group's property at 31 December 2017 reflects open market valuations carried out in December 2017 by independent external valuers having appropriate recognised professional qualifications and recent experience in the location and value of the property being valued. The external valuations performed were in accordance with the Valuation Standards of the Royal Institution of Chartered Surveyors.

At 31 December 2017, properties included within land and buildings with a carrying amount of €848.8 million were pledged as security for loans and borrowings.

Measurement of fair value

The fair value measurement of the Group's own-use property has been categorised as a Level 3 fair value based on the inputs to the valuation technique used. At 31 December 2017, 25 properties were revalued by independent external valuers engaged by the Group (31 December 2016: 23).

The principal valuation technique used by the independent external valuers engaged by the Group was discounted cash flows. This valuation model considers the present value of net cash flows to be generated from the property over a ten-year period (with an assumed terminal value at the end of Year 10). Valuers forecast cashflow included in these calculations represents the expectations of the valuers for EBITDA (driven by revenue per available room ("RevPAR") calculated as total rooms revenue divided by rooms available) for the property and also takes account of the expectations of a prospective purchaser. It also includes their expectation for capital expenditure which the valuers, typically, assume as approximately 4% of revenue per annum. This does not always reflect actual capital expenditure incurred by the Group. On specific assets, refurbishments are, by nature, periodic rather than annual. Valuers expectations of EBITDA are based off their trading forecasts (benchmarked against competition, market and actual performance). The expected net cash flows are discounted using risk adjusted discount rates. Among other factors, the discount rate estimation considers the quality of the property and its location.

The valuers use their professional judgement and experience to balance the interplay between the different assumptions and valuation influences. For example, initial discounted cash flows based on individually reasonable inputs may result in a valuation which challenges the price per key metrics in recent transactions. This would then result in one or more of the inputs being amended for preparation of a revised discounted cash flow. Consequently, the individual inputs may change from the prior period or may look individually unusual and therefore must be considered as a whole and the individual importance of any should not be over-estimated in the context of the overall valuation.

Notes to the consolidated financial statements
(continued)

11 PROPERTY, PLANT AND EQUIPMENT (continued)

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

Significant unobservable inputs

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

31 December 2016	Dublin	Regional Ireland	United Kingdom	Total
	Number of hotel assets			
RevPAR				
< €75/£75	2	8	6	16
€75-€100/£75-£100	1	1	1	3
> €100/£100	3	1	-	4
	6	10	7	23
Terminal (Year 10) capitalisation rate				
< 8%	1	1	3	5
8%-10%	5	9	4	18
	6	10	7	23
Price per key*				
< €150k/£150k	1	9	5	15
€150k-€250k/£150k-£250k	3	-	1	4
> €250k/£250k	2	1	1	4
	6	10	7	23

*Price per key represents the valuation of a hotel divided by the number of rooms in that hotel.

Notes to the consolidated financial statements
(continued)

11 PROPERTY, PLANT AND EQUIPMENT (continued)

The valuers also applied risk adjusted discount rates of 9.50% to 11.75% for Dublin assets (31 December 2016: 9.50% to 11.75%), 9.00% to 12.00% for Regional Ireland assets (31 December 2016: 8.50% to 12.00%) and 8.50% to 12.50% for United Kingdom assets (31 December 2016: 8.50% to 11.75%).

The most significant factors which have impacted valuations this year are the uplifts on hotels where freeholds or freehold equivalents of previously leased buildings were acquired leading to crystallisation of a marriage value, and reflection of continued improvements in trading performance across hotels which offset the impact of increased stamp duty rates during 2017 on most hotel valuations.

The estimated fair value under this valuation model would increase or decrease if:

– Valuers forecast cashflow was higher or lower than expected; and/or
– The risk adjusted discount rate and terminal capitalisation rate was lower or higher.

Valuations also had regard to relevant price per key metrics from hotel sales activity.

12 INVESTMENT PROPERTY

	2017 €'000	2016 €'000
Cost or valuation		
At 1 January	**3,245**	37,285
Transfer to property, plant and equipment (note 11)	**(585)**	(36,032)
Transfer to intangible assets on sale and operating leaseback of property (note 10)	**(682)**	-
Disposal on sale and operating leaseback of property	**(813)**	-
Transfer from property, plant and equipment (note 11)	**385**	-
Acquisitions through business combinations	**-**	1,431
Gain on revaluation recognised in profit or loss	**35**	497
Translation adjustment	**-**	64
At 31 December	**1,585**	**3,245**

Investment properties with a carrying value of €1.6 million were pledged as security for loans and borrowings at 31 December 2017.

Investment property at 31 December 2017 reflects the following assets and movements during the year.

– Two commercial properties which were acquired on 29 August 2014 as part of the Maldron Hotel Pearse Street acquisition. The investment properties are leased to third parties for lease terms of 25 and 30 years, with 13 and 9 years remaining.
– Arising from a change in use by the Group of previously recognised property, plant and equipment in Clayton Whites Hotel, Wexford from own-use to a sub leased property, €0.4 million has been transferred to investment property from property, plant and equipment (note 12). The investment property is leased to a third party for a lease term of 10 years.
– Transfers to property, plant and equipment in the year to 31 December 2017 includes part of a hotel property owned by the Group which was previously leased to a third party and which was recognised as investment property at 31 December 2016 (€0.6 million). Arising from a change in use by the Group of this property to own-use, this has been transferred to property, plant and equipment (note 11).

Notes to the consolidated financial statements
(continued)

12 INVESTMENT PROPERTY (continued)

- On 16 June 2017, the Group completed the sale and operating leaseback of the Clayton Hotel Cardiff. The Group's freehold interest in a self-contained portion of the property, and which was classified as investment property at 31 December 2016 (€1.5 million), was disposed of in connection with this transaction. The Group's retention of its interest in the sub-lease of the property has been recognised as an intangible asset (note 10).

Changes in fair values are recognised in administrative expenses in profit or loss.

The value of the Group's investment properties at 31 December 2017 reflect an open market valuation carried out in December 2017 by independent external valuers having appropriately recognised professional qualifications and recent experience in the location and category of property being valued.

The valuations performed were in accordance with the Valuation Standards of the Royal Institution of Chartered Surveyors.

The fair value measurement of the Group's investment property has been categorised as Level 3 fair value based on the inputs to the valuation technique used.

The valuation technique adopted is the investment method of valuation. This method is based on a review of the current passing rent, open market rent and comparable investment sales. The valuations use a yield specific to each property and ranged from 6.75% to 10.75% (2016: 6.75% to 11.50%).

The estimated fair value under this valuation model would increase or decrease if:

- Rent was higher or lower than expected; and/or
- The yield used as the capitalisation rate was higher or lower.

13 DERIVATIVES

In June 2015, the Group entered into interest rate swaps and a cap agreement with a syndicate of financial institutions in order to manage the interest rate risks arising from the Group's borrowings (see note 22).

Interest rate swaps are employed by the Group to partially convert the Group's borrowings from floating to fixed interest rates. An interest rate cap is employed to limit the exposure to upward movements in floating interest rates. The terms of the derivatives are as follows.

- Interest rate swaps with a maturity date of 3 February 2020, covering approximately 58% of the Group's Sterling denominated borrowings at 31 December 2017. These swaps fix the LIBOR benchmark rate to 1.5025%.
- Interest rate cap with a maturity date of 30 September 2019, covering approximately 30% of the Group's Euro denominated borrowings at 31 December 2017. The cap limits the Group's maximum Euribor benchmark rate to 0.25%.

All derivatives have been designated as hedging instruments for the purposes of IAS 39.

Notes to the consolidated financial statements
(continued)

13 DERIVATIVES (continued)

Fair value	2017 €'000	2016 €'000
Non-current		
Interest rate cap asset	1	7
Total derivative asset	1	7
Non-current		
Interest rate swap liabilities	(1,778)	(3,401)
Total derivative liability	(1,778)	(3,401)
Net derivative financial instrument position at year-end	(1,777)	(3,394)

Included in other comprehensive income	2017 €'000	2016 €'000
Fair value gains/(losses) on derivative instruments		
Fair value gain/(loss) on interest rate swap liabilities	275	(3,723)
Fair value loss on interest rate cap asset	(6)	(17)
	269	(3,740)
Reclassified to profit or loss (note 5)	1,348	1,206
	1,617	(2,534)

The amount reclassified to profit or loss during the year represents the incremental interest expense arising under the interest rate swaps with actual LIBOR rates lower than the swap rate.

14 TRADE AND OTHER RECEIVABLES

	2017 €'000	2016 €'000
Non-current assets		
Other receivables	900	900
Deposits paid on acquisitions	-	1,024
Prepayments	3,443	2,824
	4,343	4,748
Current assets		
Trade receivables	8,957	7,823
Prepayments	7,469	5,266
Accrued income	4,278	2,785
	20,704	15,874
Total	25,047	20,622

Other receivables includes a non-current deposit required as part of a hotel property lease contract (€0.9 million). The deposit is interest-bearing and is refundable at the end of the lease term.

Notes to the consolidated financial statements
(continued)

14 TRADE AND OTHER RECEIVABLES (continued)

At 31 December 2016, non-current assets included deposits paid for potential acquisitions. There are no comparable deposits on acquisitions at 31 December 2017.

Included within non-current prepayments at 31 December 2017 is an amount of €1.6 million (2016: €2.4 million) relating to costs incurred by the Group net of assets acquired as a result of entering into a new lease at the former Double Tree by Hilton Hotel, which is now trading as Clayton Hotel Burlington Road, on 22 November 2016. The Group incurred legal and professional fees in addition to an up-front payment to secure the lease. The net costs are being amortised on a straight-line basis over the 25 year life of the lease.

Included within non-current prepayments at 31 December 2017 is an amount of €1.1 million (2016: €nil) relating to the sale and operating leaseback of Hotel La Tour, Birmingham on 11 August 2017. This represents the difference between the proceeds received and the acquisition price and is deferred and amortised over the 35 year life of the lease in line with the benefits from the lease as it represents up-front costs associated with entering the lease.

Also included within non-current prepayments at 31 December 2017 is an amount of €0.6 million (2016: €0.4 million) relating to a prepayment made for IT services relating to 2019 and 2020.

The Group has detailed procedures for monitoring and managing the credit risk related to trade receivables. Trade receivables are monitored by review of aged debtor reports by management. The aged analysis of trade receivables at the reporting date was as follows.

Aged analysis of trade receivables

	Gross receivables 2017 €'000	**Impairment provision 2017 €'000**	**Net receivables 2017 €'000**
Not past due	**4,358**	**(2)**	**4,356**
Past due < 30 days	**2,153**	**-**	**2,153**
Past due 30 - 60 days	**1,483**	**-**	**1,483**
Past due 60 - 90 days	**453**	**-**	**453**
Past due > 90 days	**836**	**(324)**	**512**
	9,283	**(326)**	**8,957**

	Gross receivables 2016 €'000	Impairment provision 2016 €'000	Net receivables 2016 €'000
Not past due	3,485	(5)	3,480
Past due < 30 days	2,365	-	2,365
Past due 30 - 60 days	812	(4)	808
Past due 60 - 90 days	83	(18)	65
Past due > 90 days	1,247	(142)	1,105
	7,992	(169)	7,823

Management does not expect any significant losses from receivables that have not been provided for as shown above.

Notes to the consolidated financial statements
(continued)

15 INVENTORIES

	2017 €'000	2016 €'000
Goods for resale	**1,419**	1,488
Consumable stores	**346**	329
	1,765	1,817

Inventories recognised as cost of sales during the year amounted to €27.4 million (2016: €23.8 million).

16 CASH AND CASH EQUIVALENTS

	2017 €'000	2016 €'000
Cash at bank and in hand	**15,745**	49,601
Money-market funds	**-**	31,479
	15,745	**81,080**

17 CAPITAL AND RESERVES

Share capital and share premium

At 31 December 2017

Authorised share capital	**Number**	**€'000**
Ordinary shares of €0.01 each	10,000,000,000	**100,000**

Allotted, called-up and fully paid shares	**Number**	**€'000**
Ordinary shares of €0.01 each	183,680,964	**1,837**
Share premium		**503,113**

At 31 December 2016

Authorised share capital	**Number**	**€'000**
Ordinary shares of €0.01 each	10,000,000,000	**100,000**

Notes to the consolidated financial statements
(continued)

17 CAPITAL AND RESERVES (continued)

Allotted, called-up and fully paid shares	Number	€'000
Ordinary shares of €0.01 each	182,966,666	**1,830**
Share premium		**503,113**

All ordinary shares rank equally with regard to the Company's residual assets.

During the year ended 31 December 2017, the shares awarded under the 2014 Long Term Incentive Plan vested resulting in the issuance of 714,298 shares of €0.01 per share (note 7).

Nature and purpose of reserves

(a) Capital contribution and merger reserve

As part of a Group reorganisation in 2014, the Company became the ultimate parent entity of the then existing Group, when it acquired 100% of the issued share capital of DHGL Limited in exchange for the issue of 9,500 ordinary shares of €0.01 each. By doing so, it also indirectly acquired the 100% shareholdings previously held by DHGL Limited in each of its subsidiaries. As part of that reorganisation, shareholder loan note obligations (including accrued interest) of DHGL Limited were assumed by the Company as part of the consideration paid for the equity shares in DHGL Limited.

The fair value of the Group (as then headed by DHGL Limited) at that date was estimated at €40 million. The fair value of the shareholder loan note obligations assumed by the Company as part of the acquisition was €29.7 million and the fair value of the shares issued by the Company in the share exchange was €10.3 million.

The difference between the carrying value of the shareholder loan note obligations (€55.4 million) prior to the reorganisation and their fair value (€29.7 million) at that date represents a contribution from shareholders of €25.7 million which has been credited to a separate capital contribution reserve. Subsequently all shareholder loan note obligations were settled in 2014, in exchange for shares issued in the Company.

The insertion of Dalata Hotel Group plc as the new holding company of DHGL Limited did not meet the definition of a business combination under IFRS 3 *Business Combinations*, and, as a consequence, the acquired assets and liabilities of DHGL Limited and its subsidiaries continued to be carried in the consolidated financial statements at their respective carrying values as at the date of the reorganisation. The consolidated financial statements of Dalata Hotel Group plc were prepared on the basis that the Company is a continuation of DHGL Limited, reflecting the substance of the arrangement.

As a consequence, an additional merger reserve of €10.3 million arose in the consolidated statement of financial position. This represents the difference between the consideration paid for DHGL Limited in the form of shares of the Company, and the issued share capital of DHGL Limited at the date of the reorganisation which was a nominal amount of €95.

(b) Share-based payment reserve

The share-based payment reserve comprises amounts equivalent to the cumulative cost of awards by the Group under equity-settled share-based payment arrangements being the Group's Long Term Incentive Plans and the Save As You Earn schemes. On vesting, the cost of awards previously recognised in the share-based payments reserve is transferred to retained earnings. Details of the share awards, in addition to awards which vest in the year, are disclosed in note 7 of the financial statements and on pages 86 and 87 of the Remuneration Committee Report.

(c) Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges, net of deferred tax.

Notes to the consolidated financial statements
(continued)

17 CAPITAL AND RESERVES (continued)

(d) Revaluation reserve

The revaluation reserve relates to the revaluation of land and buildings in line with the Group's policy to fair value these assets at each reporting date (see note 11), net of deferred tax.

(e) Translation reserve

The translation reserve comprises all foreign currency exchange differences arising from the translation of the financial statements of foreign operations, as well as the effective portion of any foreign currency differences arising from hedges of a net investment in a foreign operation (see note 22).

18 TRADE AND OTHER PAYABLES

	2017 €'000	2016 €'000
Trade payables	**14,127**	13,266
Accruals	**41,175**	28,785
Deferred income	**6,674**	6,954
Value added tax	**713**	1,422
Payroll taxes	**2,164**	1,623
	64,853	52,050

Accruals include capital expenditure accruals including work in progress at year end which has not yet been invoiced (2017: €16.0 million) (2016: €5.0 million).

19 PROVISION FOR LIABILITIES

	2017 €'000	2016 €'000
Insurance claims:		
Non-current	**4,716**	3,040
	4,716	3,040

The reconciliation of the movement in the provision for the year ended 31 December 2017 is as follows.

	2017 €'000	2016 €'000
At 1 January	**3,040**	890
Provisions made during the year – charged to profit or loss	**2,501**	2,040
Assumed in a business combination	**-**	300
Utilised during the year	**(825)**	(190)
	4,716	3,040

Notes to the consolidated financial statements
(continued)

19 PROVISION FOR LIABILITIES (continued)

This provision relates to actual and potential obligations arising from the Group's insurance arrangements where the Group is self-insured. The Group has third party insurance cover above specific limits for individual claims and has an overall maximum aggregate payable for all claims in any one year. The amount provided is principally based on projected settlements as determined by external loss adjusters. The provision also includes an estimate for claims incurred but not yet reported.

The utilisation of the provision is dependent on the timing of settlement of the outstanding claims. However, based on past experience, the Group expects that the claims which are provided for at 31 December 2017 will be paid over a period greater than one year. The provision has been discounted to reflect the time value of money though the effect is not significant.

20 INTEREST-BEARING LOANS AND BORROWINGS

	2017 €'000	2016 €'000
Repayable within one year		
Bank borrowings	**19,300**	16,800
Less: deferred issue costs	**(1,094)**	(1,066)
	18,206	15,734
Repayable after one year		
Bank borrowings	**243,010**	266,936
Less: deferred issue costs	**(1,077)**	(2,255)
	241,933	264,681
Total interest-bearing loans and borrowings	**260,139**	280,415

Notes to the consolidated financial statements
(continued)

20 INTEREST-BEARING LOANS AND BORROWINGS (continued)

Reconciliation of movement in net debt

	Sterling facility £'000	Sterling facility €'000	Euro facility €'000	Total €'000
Interest-bearing loans and borrowings (excluding unamortised debt costs)				
At 1 January 2017	174,352	203,639	80,097	283,736
Cash flows				
New facilities drawn down	30,000	34,180	2,500	36,680
Capital repayment	(30,000)	(33,096)	(16,800)	(49,896)
Non-cash changes				
Effect of foreign exchange movements	-	(8,211)	-	(8,211)
At 31 December 2017	**174,352**	**196,512**	**65,797**	**262,309**
Cash and cash equivalents				
At 1 January 2017				81,080
Movement during the year				(65,335)
At 31 December 2017				15,745
Net debt at 31 December 2017				**246,564**
At 1 January 2016	132,352	180,328	89,200	269,528
Cash flows				
New facilities drawn down	42,000	49,910	7,697	57,607
Capital repayment	-	-	(16,800)	(16,800)
Non-cash changes				
Effect of foreign exchange movements	-	(26,599)	-	(26,599)
At 31 December 2016	174,352	203,639	80,097	283,736
Cash and cash equivalents				
At 1 January 2016				149,155
Movement during the year				(68,075)
At 31 December 2016				81,080
Net debt at 31 December 2016				**202,656**

Net debt is calculated in line with the Group's loan facility agreement. As a result, at 31 December 2017 it excludes unamortised debt costs of €2.2 million (2016: €3.3 million) and interest rate swap liabilities of €1.8 million (2016: €3.4 million).

Notes to the consolidated financial statements
(continued)

20 INTEREST-BEARING LOANS AND BORROWINGS (continued)

On 17 December 2014, the Group entered into a loan facility of €318 million (comprising of a €142 million Euro facility and a £132 million Sterling facility) with a syndicate of financial institutions. On 3 February 2015, the company drew down €282 million (comprising of a €106 million Euro facility and a £132 million Sterling facility) through five year term loan facilities with a maturity of 3 February 2020. The total loan facility of €318 million included a €20 million revolving credit facility. It also included a standby facility of €16 million which was not drawn and has since expired.

On 6 May 2016, the Group entered into a new multi-currency loan facility of €80 million with a maturity date of 3 February 2020 and increased the revolving credit facility from €20 million to €30 million. On 9 June 2016 under this facility, the Group drew down £18 million (€22.9 million) and €7.7 million. On 24 October 2016, the Group drew down a further £24 million (€27 million).

On 6 July 2017, the Group increased its revolving credit facility by €50 million to €80 million. On 16 July 2017, the Group drew down £30 million from the multi-currency revolving credit facility, which was subsequently repaid on 11 August 2017. On 28 December 2017, €2.5 million was drawn from the revolving credit facility. This amount is included in current liabilities. The undrawn loan facilities as at 31 December 2017 were €99.7 million, including €77.5 million of the revolving credit facility and €22.2 million of the other loan facilities.

The loans bear interest at variable rates based on 3 month Euribor/LIBOR plus applicable margins. The Group has entered into certain derivative financial instruments to hedge interest rate exposure on a portion of these loans (see note 13). The loans are secured on the Group's hotel assets. Under the terms of the loan facility agreement, an interest rate floor is in place which prevents the Group from receiving the benefit of sub-zero benchmark LIBOR and Euribor rates.

21 DEFERRED TAX

	2017 €'000	2016 €'000
Deferred tax assets	**3,571**	1,894
Deferred tax liabilities	**(31,858)**	(25,051)
Net liability	**(28,287)**	(23,157)

Movements in year	2017 €'000	2016 €'000
At beginning of year – net liability	**(23,157)**	(11,923)
Acquisition through business combination – assets	**1,150**	-
Acquisition through business combination – liabilities	**(1,150)**	(2,562)
Credit/(charge) for year – to profit or loss (note 8)	**571**	(2,606)
Charge for year – to other comprehensive income	**(5,701)**	(6,066)
At end of year – net liability	**(28,287)**	(23,157)

As at 31 December 2017, there are unrecognised tax losses available in Pillo Hotels Limited of €0.3 million (2016: €0.3 million) which are not expected to be utilised against taxable profits of the company in future years. The tax effect of these losses is €0.04 million.

Notes to the consolidated financial statements
(continued)

21 DEFERRED TAX (continued)

As outlined in note 9, the Group acquired Hotel La Tour (Birmingham) Limited in July 2017. At that time, the Company had tax trading losses forward of £8.2 million (€9.25 million) which were not recognised as an asset in the statutory accounts of that company. Hotel La Tour (Birmingham) Limited sold Hotel La Tour Birmingham in August 2017, at which time a taxable capital gain of £6.0 million (€6.77 million) arose. The Group opted to roll over this capital gain by correspondingly reducing the future tax base cost of capital assets.

The Group immediately recognised this deferred tax liability of £1.02 million (€1.15 million (note 9)), and recognised a matching deferred tax asset relating to the trading losses to the extent of the capital gain arising. A further £2.20 million (€2.47 million) of tax trading losses remain unrecognised. The tax effect of these losses is £0.37 million (€0.43 million).

Deferred tax arises from temporary differences relating to:

					Balance as at 31 December 2017		
	Net balance at 1 January 2017 2017 €'000	Recognised in profit or loss 2017 €'000	Recognised in OCI 2017 €'000	Acquired in business combinations 2017 €'000	**Net deferred tax 2017 €'000**	Deferred tax assets 2017 €'000	Deferred tax liability 2017 €'000
Property, plant and equipment	**(21,886)**	887	(5,498)	(1,150)	**(27,647)**	1,649	(29,296)
Intangible assets	**(2,562)**	-	-	-	**(2,562)**	-	(2,562)
Tax losses carried forward	**848**	(316)	-	1,150	**1,682**	1,682	-
Other	**443**	-	(203)	-	**240**	240	-
Net deferred tax (liabilities)/assets	**(23,157)**	571	(5,701)	-	**(28,287)**	3,571	(31,858)

					Balance as at 31 December 2016		
	Net balance at 1 January 2016 2016 €'000	Recognised in profit or loss 2016 €'000	Recognised in OCI 2016 €'000	Acquired in business combinations 2016 €'000	**Net deferred tax 2016 €'000**	Deferred tax assets 2016 €'000	Deferred tax liability 2016 €'000
Property, plant and equipment	**(14,570)**	(934)	(6,382)	-	**(21,886)**	603	(22,489)
Intangible assets	**-**	-	-	(2,562)	**(2,562)**	-	(2,562)
Tax losses carried forward	**2,520**	(1,672)	-	-	**848**	848	-
Other	**127**	-	316	-	**443**	443	-
Net deferred tax (liabilities)/assets	**(11,923)**	(2,606)	(6,066)	(2,562)	**(23,157)**	1,894	(25,051)

Notes to the consolidated financial statements
(continued)

22 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Risk exposures

The Group is exposed to various financial risks arising in the normal course of business. Its financial risk exposures are predominantly related to the creditworthiness of counterparties and risks relating to changes in interest rates and foreign currency.

The Group uses financial instruments throughout its business: interest-bearing loans and cash and cash equivalents are used to finance the Group's operations; trade and other receivables, trade payables and accruals arise directly from operations; and derivatives are used to manage interest rate risks and to achieve a desired profile of borrowings. The Group uses a net investment hedge with Sterling denominated borrowings to hedge the foreign exchange risk from investments in certain UK operations. The Group does not trade in financial instruments.

The following tables show the carrying amount of Group financial assets and liabilities including their values in the fair value hierarchy for the year ended 31 December 2017. The tables do not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Financial assets measured at fair value 2017 €'000	Loans and receivables at amortised cost 2017 €'000	Total carrying amount 2017 €'000	Level 1 2017 €'000	Level 2 2017 €'000	Level 3 2017 €'000	Total 2017 €'000
Financial Assets							
Derivatives (note 13)	1	-	1		1		1
Trade and other receivables excluding prepayments and deposits paid on acquisitions (note 14)	-	14,135	14,135				
Cash at bank and in hand (note 16)	-	15,745	15,745				
	1	**29,880**	**29,881**				

	Financial liabilities measured at fair value 2017 €'000	Financial liabilities measured at amortised cost 2017 €'000	Total carrying amount 2017 €'000	Level 1 2017 €'000	Level 2 2017 €'000	Level 3 2017 €'000	Total 2017 €'000
Financial Liabilities							
Secured bank loans (note 20)	-	(260,139)	(260,139)		(260,139)		(260,139)
Trade payables and accruals (note 18)	-	(55,302)	(55,302)				
Derivatives (note 13)	(1,778)	-	(1,778)		(1,778)		(1,778)
	(1,778)	**(315,441)**	**(317,219)**				

The following tables show the carrying amount of Group financial assets and liabilities including their values in the fair value hierarchy for the year ended 31 December 2016. The tables do not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

Notes to the consolidated financial statements
(continued)

22 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

	Financial assets measured at fair value 2016 €'000	Loans and receivables at amortised cost 2016 €'000	Total carrying amount 2016 €'000	Level 1 2016 €'000	Level 2 2016 €'000	Level 3 2016 €'000	Total 2016 €'000
Financial Assets							
Derivatives (note 13)	7	-	7		7		7
Trade and other receivables excluding prepayments and deposits paid on acquisitions (note 14)	-	11,508	11,508				
Cash at bank and in hand (note 16)	-	49,601	49,601				
Money-market funds (note 16)	31,479	-	31,479	31,479			31,479
	31,486	61,109	92,595				

	Financial liabilities measured at fair value 2016 €'000	Financial liabilities measured at amortised cost 2016 €'000	Total carrying amount 2016 €'000	Level 1 2016 €'000	Level 2 2016 €'000	Level 3 2016 €'000	Total 2016 €'000
Financial Liabilities							
Secured bank loans (note 20)	-	(280,415)	(280,415)		(280,415)		(280,415)
Trade payables and accruals (note 18)	-	(42,051)	(42,051)				
Derivatives (note 13)	(3,401)	-	(3,401)		(3,401)		(3,401)
	(3,401)	(322,466)	(325,867)				

Fair value hierarchy

The Group measures the fair value of financial instruments based on the degree to which inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurements. Financial instruments are categorised by the type of valuation method used. The valuation methods are as follows.

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the financial instrument, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for the financial instrument that are not based on observable market data (unobservable inputs).

The Group's policy is to recognise any transfers between levels of the fair value hierarchy as of the end of the reporting period during which the transfer occurred. During the year ended 31 December 2017, there were no reclassifications of financial instruments and no transfers between levels of the fair value hierarchy used in measuring the fair value of financial instruments.

Estimation of fair values

The principal methods and assumptions used in estimating the fair values of financial assets and liabilities are explained below.

Cash at bank and in hand

For cash at bank and in hand, the carrying value is deemed to reflect a reasonable approximation of fair value.

Notes to the consolidated financial statements
(continued)

22 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Money-market funds
Money-market funds are measured at fair value through profit or loss. Changes in fair value are recognised in finance costs (note 5). The fair value is based on quoted market prices. There were no amounts held in money-market funds at 31 December 2017.

Derivatives
Discounted cash flow analyses have been used to determine the fair value of the interest rate swaps and interest rate cap, taking into account current market inputs and rates (Level 2).

Receivables/payables
For the receivables and payables with a remaining term of less than one year or demand balances, the carrying value less impairment provision, where appropriate, is a reasonable approximation of fair value. The non-current receivables carrying value is a reasonable approximation of fair value.

Bank loans
For bank loans, the fair value was calculated based on the present value of the expected future principal and interest cash flows discounted at interest rates effective at the reporting date. The carrying value of variable rate interest-bearing loans and borrowings is equivalent to the fair value as there is no difference between current margins available in the market and the margins the Group is paying.

(a) Credit risk
Exposure to credit risk
Credit risk arises from granting credit to customers and from investing cash and cash equivalents with banks and financial institutions.

Trade and other receivables
The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. There is no concentration of credit risk or dependence on individual customers. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Outstanding customer balances are regularly monitored and reviewed for indicators of impairment (evidence of financial difficulty of the customer or payment default). The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

The ageing profile of trade receivables at 31 December 2017 is provided in note 14. Management does not expect any significant losses from receivables that have not been provided for as shown in note 14.

Cash and cash equivalents
In addition to cash at bank and in hand, the Group held significant cash balances in money-market funds with financial institutions during the year. At year end there were no cash balances held in money-market funds. Cash and cash equivalents give rise to credit risk on the amounts due from counterparties. The maximum credit risk is represented by the carrying value at the reporting date. The Group's policy for investing cash is to limit risk of principal loss and to ensure the ultimate recovery of invested funds by limiting credit risk. The Group limits its exposure to credit risk on money-market funds by only investing in liquid securities which are held by counterparties which have AAA ratings from Standard & Poors or equivalent credit ratings from other established rating agencies.

Notes to the consolidated financial statements
(continued)

22 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

The carrying amount of the following financial assets represents the Group's maximum credit exposure. The maximum exposure to credit risk at year end was as follows.

	Carrying amount 2017 €'000	Carrying amount 2016 €'000
Trade receivables	8,957	7,823
Other receivables	900	900
Accrued income	4,278	2,785
Cash at bank and in hand	15,745	49,601
Money-market funds	-	31,479
	29,880	92,588

(b) Liquidity risk
The Group's approach to managing liquidity is to ensure as far as possible that it will always have sufficient liquidity to:

- Fund its ongoing activities;
- Allow it to invest in hotels that may create value for shareholders; and
- Maintain sufficient financial resources to mitigate against risks and unforeseen events.

The Group's treasury function ensures that sufficient resources are available to meet its liabilities as they fall due through a combination of cash and cash equivalents, cash flows and undrawn credit facilities.

On 6 July 2017, the Group improved its liquidity position by increasing its revolving credit facility by an additional €50 million (having a maturity date of 3 February 2020). On 16 July 2017, the Group drew down £30 million from the multi-currency revolving credit facility, which was subsequently repaid on 11 August 2017. On 28 December 2017, €2.5 million was drawn from the revolving credit facility.

€77.5 million of the revolving credit facility and €22.2 million of other loan facilities were undrawn at 31 December 2017.

The following are the contractual maturities of the Group's financial liabilities at 31 December 2017, including estimated interest payments.

	Carrying value 2017 €'000	Total 2017 €'000	6 months or less €'000	6 – 12 months €'000	1 – 2 years €'000	2 – 5 years €'000
Secured bank loans	(260,139)	(276,831)	(15,017)	(12,654)	(20,858)	(228,302)
Trade payables and accruals	(55,302)	(55,302)	(55,302)	-	-	-
Interest rate swaps	(1,778)	(1,778)	(543)	(463)	(560)	(212)
	(317,219)	(333,911)	(70,862)	(13,117)	(21,418)	(228,514)

Notes to the consolidated financial statements
(continued)

22 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)
The equivalent disclosure for the prior year is as follows.

	Carrying value 2016 €'000	Total 2016 €'000	6 months or less €'000	6 – 12 months €'000	1 – 2 years €'000	2 – 5 years €'000
Secured bank loans	(280,415)	(312,262)	(13,000)	(12,965)	(25,620)	(260,677)
Trade payables and accruals	(42,051)	(42,051)	(42,051)	-	-	-
Interest rate swaps	(3,401)	(3,438)	(662)	(631)	(1,158)	(987)
	(325,867)	(357,751)	(55,713)	(13,596)	(26,778)	(261,664)

(c) Market risk
Market risk is the risk that changes in market prices and indices, such as interest rates and foreign exchange rates will affect the Group's income or the value of its holdings of financial instruments.

(i) Interest rate risk
The Group is exposed to floating interest rates on its debt obligations and uses hedging instruments to mitigate the risk associated with interest rate fluctuations. This is achieved by entering into interest rate swaps and an interest rate cap (see note 13) which hedge the variability in cash flows attributable to the interest rate risk.

The interest rate profile of the Group's interest-bearing financial liabilities as reported to the management of the Group is as follows.

	Nominal amount 2017 €'000	2016 €'000
Variable rate instruments		
Financial liabilities – borrowings	260,139	280,415
Effect of interest rate swaps	(114,401)	(118,550)
Effect of interest rate cap	(19,413)	(30,618)
	126,325	131,247

The weighted average interest rate for 2017 was 3.16% (2016: 3.25%), of which 2.42% (2016: 2.43%) related to margin.

The interest expense for 2017 has been sensitised in the below table for a reasonably possible change in variable interest rates. In relation to the downward sensitivity, the Group have used a zero benchmark interest rate as the lowest variable interest rate due to floors embedded in the loan facilities and as a result, the Group does not benefit from any reduction in benchmark rates below zero. For the upward sensitivity, the Group have reviewed six years historical data for the 3 month Euribor and 3 month LIBOR rates. Based on this historical data, the Group believe that a reasonable change in the rates would be an uplift in benchmark rates to the highest average rates for 3 month Euribor and 3 month LIBOR in that six year period which would have been rates of 1.1% for each. Based on the forward curves received at year end, the rates are not expected to reach this point. However, they have been used in this sensitivity to show the impact as a reasonably possible scenario. The impact on profit or loss is shown below. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

Notes to the consolidated financial statements
(continued)

22 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(c) Market risk (continued)
(i) Interest rate risk (continued)

	2017 actual weighted average variable benchmark rate	If rate sensitised upwards	If rate sensitised downwards
Euribor	0.00%	0.80%	0.00%
LIBOR	1.00%	1.33%	0.86%

The rates above are the weighted average interest rates including the impact of hedging on both the hedged and unhedged portions of the underlying loans.

Cash flow sensitivity analysis for variable rate instruments

	Effect on profit or loss Increase in rate €'000	Zero variable rate* €'000
31 December 2017		
(Increase)/decrease in interest on loans and borrowings	(1,254)	287
Decrease/(increase) in tax	157	(36)
(Decrease)/increase in profit	**(1,097)**	**251**
31 December 2016		
(Increase)/decrease in interest on loans and borrowings	(971)	279
Decrease/(increase) in tax	121	(35)
(Decrease)/increase in profit	**(850)**	**244**

*Only the interest on the unhedged portion of the loans has been sensitised. The sensitivity has no impact on the hedged portion.

The following table indicates the periods in which the cash flows associated with the interest rate swaps are expected to occur and the carrying amounts of the related hedging instruments. The interest rate cap asset was not material at 31 December 2017.

	31 December 2017 Carrying Amount €'000	Total €'000	12 months or less €'000	More than 1 year €'000
Interest rate swaps				
Liabilities	1,778	1,778	1,006	772

Notes to the consolidated financial statements
(continued)

22 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to impact profit or loss and the carrying amounts of the related hedging instruments.

	31 December 2017			
	Carrying Amount €'000	Total €'000	12 months or less €'000	More than 1 year €'000
Interest rate swaps				
Liabilities	1,778	1,778	1,006	772

(ii) Foreign currency risk

As per the Risk Management section of the Annual Report on pages 36 to 43, the Group is exposed to fluctuations in the Euro/Sterling rate.

The Group is exposed to transactional foreign currency risk on trading activities conducted by subsidiaries in currencies other than their functional currency and to translation foreign currency risk on the retranslation of foreign operations to Euro.

Group policy is to manage foreign currency exposures commercially and through netting of exposures where possible. The Group's principal transactional exposure to foreign exchange risk relates to interest costs on its Sterling borrowings. This risk is mitigated by the earnings from UK subsidiaries which are denominated in Sterling.

The Group's gain or loss on retranslation of the net assets of foreign currency subsidiaries is taken directly to the translation reserve.

The Group limits its exposure to foreign currency risk by using Sterling debt to hedge part of the Group's investment in UK subsidiaries. The Group financed certain operations in the UK acquired in 2015 and in 2016 by obtaining funding at Group level through external borrowings denominated in Sterling. These borrowings amounted to £174.4 million (€196.5 million) at 31 December 2017 (2016: £174.4 million (€203.6 million)) and are designated as net investment hedges.

This enables gains and losses arising on retranslation of those foreign currency borrowings to be recognised in other comprehensive income, providing a partial offset in reserves against the gains and losses arising on translation of the net assets of those UK operations.

Sensitivity analysis on transactional risk

The Group have reviewed the historical average monthly Euro/Sterling foreign exchange rates for the previous eleven years. The lowest average foreign exchange rate of 0.66 has been used in calculating the impact of euro weakening against Sterling as it is reflective of a period of market volatility due to strong economic growth. On the upward sensitivity, due to current volatility in the market and the unknown impact of Brexit, the Group have decided to use Euro/Sterling foreign exchange rate of 1 (parity) in the sensitivity. The aforementioned rates are broadly in line with market forecasts which display a wide variation in foreign exchange rates. The actual weighted average foreign exchange rate for interest expense in 2017 was 0.88. The interest cost on Sterling loans in 2017 was £6.03 million (€6.88 million).

Notes to the consolidated financial statements
(continued)

22 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(c) Market risk (continued)

(ii) Foreign currency risk (continued)

Sensitivity analysis on transactional risk (continued)

	Profit		Equity	
	Strengthening of Euro €'000	Weakening of Euro €'000	Strengthening of Euro €'000	Weakening of Euro €'000
Impact on interest costs of Sterling loans	855	(2,203)	855	(2,203)
Impact of tax	(107)	276	(107)	276
Increase/(decrease) in profit/equity	**748**	**(1,927)**	**748**	**(1,927)**

(d) Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The step-up to main market listings on the Irish and London Stock Exchanges during the year ended 31 December 2016 was a manifestation of this policy. Management monitors the return on capital to ordinary shareholders.

The Board of Directors seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. The Group's target is to achieve a pre-tax leveraged return on equity of at least 15% on investments.

The Group monitors capital using a ratio of net debt to adjusted EBITDA ratio (note 2) and seeks to keep it below 3.50.

	2017 €'000	2016 €'000
Profit before tax	**77,287**	44,111
Add back/(deduct)		
Finance costs (note 5)	**9,636**	11,496
Depreciation of property, plant and equipment (note 2)	**15,710**	15,477
Acquisition-related and integration costs (note 3)	**1,260**	2,671
Net property revaluation movements through profit or loss (note 2)	**1,425**	(241)
Gain on disposal of property freehold interests and subsidiary (note 2)	**(469)**	-
Amortisation of intangible asset (note 2)	**24**	-
Stock exchange listing costs (note 2)	**-**	1,293
Impairment of goodwill (note 2)	**-**	10,325
Adjusted EBITDA	**104,873**	85,132
Net debt (note 20)	**246,564**	202,656
Net Debt to Adjusted EBITDA as at 31 December	**2.4**	2.4

Notes to the consolidated financial statements
(continued)

23 COMMITMENTS

Leases

Non-cancellable operating lease rentals payable under operating lease and agreements for lease are set out below. These represent the minimum future lease payments in aggregate that the Group is required to make under existing lease arrangements. An agreement for lease is a binding agreement between prospective landlords and the Group to enter into a lease at a future date.

At 31 December 2017

	Less than 1 year €'000	1 - 2 years* €'000	2 - 5 years €'000	5 - 15 years €'000	15 -25 years €'000	After 25 years €'000	Total €'000
Operating lease	24,827	21,859	66,065	205,313	192,771	113,569	624,404
Agreements for lease	448	1,792	22,850	94,527	100,979	133,117	353,713
	25,275	**23,651**	**88,915**	**299,840**	**293,750**	**246,686**	**978,117**

At 31 December 2016

	Less than 1 year €'000	1 - 2 years €'000	2 - 5 years €'000	5 - 15 years €'000	15 -25 years €'000	After 25 years €'000	Total €'000
Operating lease	27,537	25,399	74,265	232,797	162,845	23,933	546,776
Agreements for lease	-	806	4,835	16,651	17,503	21,206	61,001
	27,537	**26,205**	**79,100**	**249,448**	**180,348**	**45,139**	**607,777**

*2019 financial year.

The significant movement since the year ended 31 December 2016 is due principally to the following:

- New operating leases entered into for Clayton Hotel Birmingham and Clayton Hotel Cardiff following sale and operating leasebacks (note 11);
- Cessation of the operating lease of Croydon Park Hotel, UK following disposal of the subsidiary (note 4);
- Cessation of the operating lease of Maldron Hotel Portlaoise following purchase of the freehold interest (note 11);
- Cessation of operating leases of components of Clayton Hotel Cardiff Lane following purchase of the long leasehold interests (note 11);
- The Group has signed an agreement to lease a Clayton Hotel, to be built in Manchester. On completion of construction (expected completion Q1 2021), Dalata will commence operations in the hotel through a 35 year operating lease with an initial annual rent of circa £2.5 million, depending on the final size of the hotel after the end of the planning process;
- The Group has signed an agreement to lease a Clayton Hotel, to be built in Glasgow. On completion of construction (expected completion Q4 2020), Dalata will commence operations in the hotel through a 35 year operating lease with an initial annual rent of circa £2.4 million, depending on the final size of the hotel after the end of the planning process; and
- The Group has signed an agreement to lease a Maldron Hotel, to be built in Glasgow. On completion of construction (expected completion Q2 2020), Dalata will commence operations in the hotel through a 35 year operating lease with an initial annual rent of circa £1.6 million, depending on the final size of the hotel after the end of the planning process.

Notes to the consolidated financial statements
(continued)

23 COMMITMENTS (continued)

Leases (continued)

In 2016, the Group signed an agreement to lease a Maldron Hotel, to be built in Newcastle. On completion of construction (expected completion February 2019), Dalata will commence operations in the hotel through a 35 year operating lease with an initial annual rent of £1.6 million.

The weighted average lease life of future minimum rentals payable under leases and agreement for leases is 32.3 years (2016: 25.8 years).

The operating lease charges during 2017 amounted to €31.0 million (2016: €25.7 million).

Under the terms of certain hotel operating leases, contingent rents are payable in excess of minimum lease payments based on the financial performance of the hotels. The amount of contingent rent expense charged to profit or loss in the year ended 31 December 2017 was €7.6 million (2016: €6.7 million).

IFRS 16 impact

Note 1 (ii) contains details of the impact of IFRS 16 *Leases* on the Group. Work on the most significant area of judgement and estimation, setting of the discount rate, is ongoing and in any case cannot be set until the transition date of 1 January 2019.

An illustrative disclosure of one potential quantitative impact of IFRS 16, using a notional discount rate of 5% is included in the table below. However this rate should not be considered to be a prediction of the discount rate as this rate was randomly selected to enable users of the financial statements to appreciate the potential magnitude of the impact on the financial statements at the date of implementation of IFRS 16 at only that selected discount rate.

Operating leases that are expected to be active at 1 January 2019 have been incorporated into the illustrative IFRS 16 impact analysis below. Obviously leases in existence in the future at the date of transition may be significantly different depending on developments such as new leases, changes in timing of opening of new hotels to be capitalised under lease etc.

Illustrative impact on consolidated statement of financial position at 1 January 2019

	€'000
Lease liability	(350,093)
Right-of-use asset	350,093
Retained earnings	-
Impact on net assets	**-**

Illustrative impact on consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2019

	€'000
Operating lease rentals	23,868
Depreciation of right-of-use asset	(14,746)
Interest on lease liability	(16,843)
Impact on profit before taxation	**(7,721)**

Notes to the consolidated financial statements
(continued)

23 COMMITMENTS (continued)

Section 357 Companies Act 2014
Dalata Hotel Group plc, as the parent company of the Group and for the purposes of filing exemptions referred to in Section 357 of the Companies Act 2014, has entered into guarantees in relation to the liabilities of the Republic of Ireland registered subsidiary companies which are listed below.

- Suvanne Management Limited
- Carasco Management Limited
- Heartside Limited
- Palaceglen Limited
- Songdale Limited
- Amelin Commercial Limited
- DHG Burlington Road Limited
- Dalata Support Services Limited
- Bernara Commercial Limited
- Adelka Limited
- DS Charlemont Limited
- DHG Barrington Limited
- Vizmol Limited
- Fonteyn Property Holdings No. 2 Limited
- DHG Dalton Limited
- Sparrowdale Limited
- Cavernford Designated Activity Company
- Candlevale Limited
- DHG Arden Limited
- Merzolt Limited
- Pondglen Limited
- Bayvan Limited
- Lintal Commercial Limited
- Dalata Management Services Limited
- Pillo Hotels Limited
- Loadbur Limited
- DHG Cordin Limited
- Leevlan Limited
- Swintron Limited
- Fonteyn Property Holdings Limited
- DT Sussex Road Operations Limited
- DHG Eden Limited
- Galsay Limited

Capital commitments
The Group has the following commitments for future capital expenditure under its contractual arrangements.

	2017 €'000	2016 €'000
Contracted but not provided for	98,282	77,099

This relates primarily to the development of the following new-build hotels and extensions to currently operational hotels which are now contractually committed:

– New-build Hotel Developments: Clayton Hotel Charlemont, Dublin; Maldron Hotel Kevin Street, Dublin; Maldron Hotel, South Mall, Cork; and Maldron Hotel Brunswick Street, Belfast.
– Extensions: Maldron Hotel Sandy Road, Galway; Maldron Hotel Parnell Square, Dublin; Clayton Hotel Dublin Airport; and Clayton Hotel Ballsbridge, Dublin.

It also includes other capital expenditure committed to at other hotels in the Group.

The Group also has other commitments in relation to fixtures, fittings and equipment in some of its leased hotels. Under certain lease agreements, the Group has committed to spending a percentage of turnover on capital expenditure in respect of fixtures, fittings and equipment in the leased hotels over the life of the lease. The Group has estimated the commitment in relation to these leases to be €55.3 million spread over the life of the various leases which range in length from 25 years to 35 years. The turnover figures used in this estimate have been based on 2017 revenues.

Notes to the consolidated financial statements
(continued)

24 RELATED PARTY TRANSACTIONS

Under IAS 24 *Related Party Disclosures*, the Group has a related party relationship with shareholders and Directors of the Company.

(a) Remuneration of key management
Key management is defined as the Directors of the Company and does not extend to any members of the Executive Management Team. The compensation of key management personnel is set out in the Remuneration Committee Report on pages 78 to 89. In addition, the share-based payment expense for key management in 2017 was €0.5 million (2016: €0.4 million).

(b) Transactions with related parties
A number of the Executive Directors of the Group were also directors of Sanjay Limited and Citywest Resort Limited at 31 December 2017. The Group formerly operated a hotel management contract for Citywest Resort Limited (that company has now ceased trading) and Sanjay Limited.

During 2016, the Group received fees of €18,304 from Sanjay Limited, and fees of €40,000 from Citywest Resort Limited for management services provided to both companies. During 2017, the Group did not receive any fees and had no monies owed at 31 December 2017.

During 2017, the Group paid fees to Professional Granite Consulting Limited of €100,212 (2016: €24,335) for sales and marketing services received. A Non-Executive Director of the Group is also a director of Professional Granite Consulting Limited. At 31 December 2017, €1,507 (2016: €21,166) was owed in the normal course of business by the Group to this company.

25 SUBSEQUENT EVENTS

There were no events subsequent to 31 December 2017 which would require an adjustment to or a disclosure thereon in these financial statements.

Notes to the consolidated financial statements
(continued)

26 SUBSIDIARY UNDERTAKINGS

A list of all subsidiary undertakings at 31 December 2017 is set out below.

Subsidiary undertaking	Country of Incorporation	Activity	Ownership Direct	Ownership Indirect
DHGL Limited[1]	Ireland	Holding company	100%	
Dalata Limited[1]	Ireland	Holding company	-	100%
Hanford Commercial Limited[1]	Ireland	Hotel and catering	-	100%
Anora Commercial Limited[1]	Ireland	Hotel and catering	-	100%
Ogwell Limited[1]	Ireland	Hotel and catering	-	100%
Caruso Limited[1]	Ireland	Hotel and catering	-	100%
CI Hotels Limited[1]	Ireland	Hotel and catering	-	100%
Dalata Management Services Limited[1]	Ireland	Hotel management	-	100%
Tulane Business Management Limited[1]	Ireland	Hotel and catering	-	100%
Dalata Support Services Limited[1]	Ireland	Hotel and hotel management	-	100%
Fonteyn Property Holdings Limited[1]	Ireland	Hotel and hotel management	-	100%
Fonteyn Property Holdings No. 2 Limited[1]	Ireland	Asset management	-	100%
Suvanne Management Limited[1]	Ireland	Hotel and catering	-	100%
Carasco Management Limited[1]	Ireland	Hotel and catering	-	100%
Amelin Commercial Limited[1]	Ireland	Hotel and catering	-	100%
Lintal Commercial Limited[1]	Ireland	Hotel and catering	-	100%
Bernara Commercial Limited[1]	Ireland	Property investment	-	100%
Pillo Hotels Limited[1]	Ireland	Management company	-	100%
Loadbur Limited[1]	Ireland	Property holding company	-	100%
Swintron Limited[1]	Ireland	Holding company	-	100%
Heartside Limited[1]	Ireland	Hotel and catering	-	100%
Pondglen Limited[1]	Ireland	Hotel and catering	-	100%
Candlevale Limited[1]	Ireland	Hotel and catering	-	100%
Songdale Limited[1]	Ireland	Hotel and catering	-	100%
Palaceglen Limited[1]	Ireland	Hotel and catering	-	100%
Adelka Limited[1]	Ireland	Property holding company	-	100%
Bayvan Limited[1]	Ireland	Hotel and catering	-	100%
Leevlan Limited[1]	Ireland	Property holding company	-	100%
DHG Arden Limited[1]	Ireland	Hotel and catering	-	100%
DHG Barrington Limited[1]	Ireland	Property holding company	-	100%
DHG Cordin Limited[1]	Ireland	Property holding company	-	100%
DS Charlemont Limited[1]	Ireland	Property holding company	-	100%
Cavernford DAC[1]	Ireland	Intermediate holding company	-	100%
Vizmol Limited[1]	Ireland	Intermediate holding company	-	100%
Sparrowdale Limited[1]	Ireland	Intermediate holding company	-	100%
Galsay Limited[1]	Ireland	Hotel and catering	-	100%
Merzolt Limited[1]	Ireland	Hotel and catering	-	100%
DHG Burlington Road Limited[1]	Ireland	Hotel and catering	-	100%
DT Sussex Road Operations Limited[1]	Ireland	Dormant company	-	100%
DHG Eden Limited[1]	Ireland	Hotel and catering	-	100%
DHG Dalton Limited[1]	Ireland	Hotel and catering	-	100%

[1]*The registered address of these companies is 4th Floor, Burton Court, Burton Hall Drive, Sandyford, Dublin 18.*

Notes to the consolidated financial statements
(continued)

26 SUBSIDIARY UNDERTAKINGS (continued)

Subsidiary undertaking	Country of Incorporation	Activity	Ownership Direct	Ownership Indirect
DHG Belfast Limited[2]	N Ireland	Hotel and catering	-	100%
DHG Derry Limited[2]	N Ireland	Hotel and catering	-	100%
DHG Derry Commercial Limited[2]	N Ireland	Property holding company	-	100%
DHG Brunswick Limited[2]	N Ireland	Property holding company	-	100%
Dalata UK Limited[3]	UK	Holding company	-	100%
Dalata Cardiff Limited[3]	UK	Hotel and catering	-	100%
Trackdale Limited[3]	UK	Hotel and catering	-	100%
Islandvale Limited[3]	UK	Hotel and catering	-	100%
Crescentbrook Limited[3]	UK	Hotel and catering	-	100%
Hallowridge Limited[3]	UK	Hotel and catering	-	100%
Rush (Central) Limited[3]	UK	Dormant company	-	100%
Hotel La Tour (Birmingham) Limited[3]	UK	Hotel and catering	-	100%
Cenan BV[4]	Netherlands	Financing company	-	100%

[2]*The registered address of these companies is Butcher Street, Londonderry, County Derry BT48 6HL, United Kingdom.*
[3]*The registered address of these companies is St Mary Street, Cardiff, Wales, CF10 1GD, United Kingdom.*
[4]*The registered address of this company is Jachthavenweg 109H, 1081 KM Amsterdam, The Netherlands.*

27 EARNINGS PER SHARE

Basic earnings per share is computed by dividing the profit for the year available to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share is computed by dividing the profit for the year by the weighted average number of ordinary shares outstanding and, when dilutive, adjusted for the effect of all potentially dilutive shares. The following table sets out the computation for basic and diluted earnings per share for the years ended 31 December 2017 and 31 December 2016.

	2017	2016
Profit attributable to shareholders of the parent (€'000) – basic and diluted	**68,308**	34,923
Adjusted profit attributable to shareholders of the parent (€'000) – basic and diluted	**70,228**	49,040
Earnings per share – Basic	**37.2 cents**	19.1 cents
Earnings per share – Diluted	**36.9 cents**	18.9 cents
Adjusted earnings per share – Basic	**38.3 cents**	26.8 cents
Adjusted earnings per share – Diluted	**37.9 cents**	26.6 cents
Weighted average shares outstanding – Basic	**183,430,226**	182,966,666
Weighted average shares outstanding – Diluted	**185,243,000**	184,499,060

Notes to the consolidated financial statements
(continued)

27 EARNINGS PER SHARE (continued)

The difference between the basic and diluted weighted average shares outstanding for the year ended 31 December 2017 is due to the dilutive impact of the conditional share awards granted in 2015, 2016 and 2017 (note 7). There have been no adjustments made to the number of weighted average shares outstanding in calculating adjusted basic earnings per share and adjusted diluted earnings per share.

Adjusted diluted earnings per share is presented as an alternative performance measure to show the underlying performance of the Group excluding the tax adjusted effects of revaluation movements, goodwill impairment, gains on disposals of assets and items considered by management to be non-recurring or unusual in nature (see note 2). Acquisition costs have been excluded to give a more meaningful measure given the scale of acquisitions in 2016 and 2017 and the fluctuations in these costs in different years.

	2017 €'000	2016 €'000
Reconciliation to adjusted profit for the year		
Profit before tax	77,287	44,111
Adjusting items (see note 2)		
Acquisition-related costs	1,260	2,671
Gains on disposal of property freehold interests and subsidiary	(469)	-
Net revaluation movements through profit or loss	1,425	(241)
Impairment of goodwill	-	10,325
Stock exchange listing costs	-	1,293
Adjusted profit before tax	79,503	58,159
Tax	(8,979)	(9,188)
Tax adjustment for adjusting items	(296)	69
Adjusted profit for the year	70,228	49,040

28 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Directors on 26 February 2018.