

10 April 2019

Safestay plc

("Safestay", the "Company" or the "Group")

Final Results for the year Ended 31 December 2018

Safestay (AIM: SSTY), the owner and operator of a new brand of contemporary hostel,

2018 Financial highlights

- 39% increase in total revenues to £14.6 million (2017: £10.5 million)
- 8% increase in like for like sales in mainland Europe with Group like for like sales up 1% to £10.6 million (2017: £10.5 million) as UK is down by 1% due to the disruption from adding 73 beds in Elephant & Castle
- 43% or £6.2 million of net revenue now coming from mainland Europe versus 19% in 2017
- Occupancy grew to 76% (2017: 73%)
- Adjusted EBITDA of £3.4m (2017: £3.2 million)
- Loss before tax reduced to £0.60 million (2017: £0.86 million)
- Loss per share 2.56p (2017: 2.55p)
- Completed successful £10.36 million capital raise in December 2018 to fund future expansion

2018 Operational highlights

- Added 575 beds with 3 new properties in the key gateway cities of Barcelona, Brussels and Vienna
- Significant improvements in operating margins led to profit before tax from UK hostels increasing by 14% to £1.76 million (2017: £1.55 million)
- Hostel EBITDAR margins have increased by 7% to 48% (2017 44.8%)
- Guest recommendation rate increased to 81% (2017 80%)
- Enhanced website and booking engine implemented in Q4 2018
- Adopted common property management system (Cloudbeds) now operating in all hostels
- Madrid rooftop bar open since July 2018

Post year end

- Completed 73-bed extension to Elephant & Castle on 20 January 2019, triggering a £1.18 million final payment to Safestay under the re-financing transaction in February

Larry Lipman commenting on the results said:

“2018 was a positive year for the business and I am confident that 2019 will deliver continued growth. The portfolio is maturing and shows the benefits of the Group gaining from economies of scale, geographic spread and group wide automation. This, together with continuing global demand for the modern hostel experience means we are well placed to sell an increasing number of bed nights in 2019 and add further destination cities to our portfolio.”

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Chairman's statement

Introduction

I am very pleased to present the results for the year to 31 December 2018 which show the Group performing strongly, recording a 39% increase in revenues alongside occupancy improving across the portfolio to 75.6%.

Since establishing its first hostel, Safestay has expanded rapidly achieving a 66% CAGR (Compounded Average Annual Growth Rate) in revenues over the last 4 years. Initially focused in the UK with hostels in London, York and Edinburgh, Safestay moved into mainland Europe in 2017 with new hostels in Madrid, Prague, Lisbon and Barcelona. In 2018, 3 new properties were opened in the popular cities of Brussels, Barcelona and Vienna. Today, the Company operates 2,890 beds in 12 hostels spread across 6 countries, with a flagship hostel under construction in the centre of Paris due to open in 2020.

Perceptions of the hostel market have changed substantially over the last 5 years and Safestay's contemporary properties have played a part in this cultural shift. Offering a stylish, comfortable and safe stay to a broad profile of guests within beautiful buildings that are centrally located in popular cities but still with an average bed rate of just £20. This has proven to be a successful formula for Safestay and along with other modern hostel operators has led to the concept of a premium hostel becoming more widely recognised which in turn is increasing the global customer base as awareness spreads.

2018 was a good year, the Group grew significantly whilst strengthening central platforms, systems and operational profitability. This, together with the successful £10.36 million fund raising completed in December 2018, ensures the Group is well placed to both to continue to make selective acquisitions as well drive operational improvements.

Financial Results

Revenue

Group revenue for the financial year ended 31 December 2018, increased by 39% to £14.6 million (2017: £10.5 million). £6.2 million came from non-UK properties representing 43% of total revenues, up from 19% in 2017, reflecting the successful expansion of the Group and the ability to diversify into new markets.

Food & beverage sales in 2018 were £1.7 million (2017: £1.4 million). In the UK, this segment grew by 7% in a challenging environment. With the opening of the Rooftop bar in Madrid in July 2018 and the renovation of the restaurant in Elephant & Castle completed in February 2019, we expect this trend to continue in the current year.

Adjusted EBITDA

Adjusted EBITDA provides a key measure of progress made. Adjusted EBITDA for the year to December 2018 was £3.4 million (2017: £3.2 million).

Adjusted EBITDA is as follows:

	2018	2017
	£'000	£'000
Operating Profit	1,044	971
<i>Add back:</i>		
Depreciation	1,421	1,538
Amortisation	181	161
Loss on disposal of fixed assets	74	-
Exceptional expenses	662	495
Share based payment expense	34	34
Adjusted EBITDA	3,416	3,199

The exceptional expenses totalled £0.66 million and included costs in relation to acquisitions made in 2018 as well as costs in relation to projects which did not materialise.

Finance Costs

Finance costs in 2018 were £1.6 million (2017: £1.8 million). There has not been significant change since 2017 when the Group refinanced its borrowings with a 5-year £18.4 million secured bank facility with HSBC.

The properties in Edinburgh and Elephant & Castle were also refinanced in 2017 and have been accounted for as finance leases. Our lease at Kensington Holland Park is also being accounted for as a finance lease rather than an operating lease, under IAS17 (to be superseded by IFRS16 from 1 January 2019).

Earnings per Share

Basic loss per share for the year ended 31 December 2018 was 2.56p (2017: loss 2.55p) based on the weighted number of shares, 35,387,458 (2017: 34,219,134) in issue during the year.

The total number of shares in issue as at 31 December 2018 was 64,679,014 following the 30,459,880 share issue completed on 17 December 2018

Cash flow, capital expenditure and debt

Net cash generated from operations was £1.8 million (2017: £1.9 million). The increase in cash from the hostels was partly offset with the increases in the central costs, in line with the growth of the business. The Group had cash balances of £9.9 million at 31 December 2018 (2017: £4.5 million).

The cash was used in 2018 to make acquisitions and grow the European network. £2.2 million was invested in the acquisition of a third property in Barcelona (380 beds on Passeig de Gracia) in March. Of the consideration payable, £0.62 million was paid immediately on acquisition with the balance due in 4 annual instalments from 2019. In October, The Group purchased an existing company in Belgium for £1.2m to take over a hotel operating under leasehold in the tourist quarter in Brussels. The take over an existing hotel in Vienna under a new leasehold did not involve any consideration.

In the UK, the Group undertook the extension of the Elephant & Castle property adding a further 73 beds. The project completed in January 2019 for a total cost of £2.4 million. In line with the property refinancing

agreement, on completion Safestay received £1.18 million back from the landlord which helped finance the extension with the balance being financed from internal cash resources.

The Group also invested £0.1m in adding a rooftop bar and terrace to the Madrid hostel which completed in July 2018.

From the beginning of 2019, 4% of revenue generated from the hostel operation will be set aside to invest in a continual programme of renovation and upkeep across the portfolio. This will ensure the brand is maintained as a premium product in line with our guests expectations of a Safestay hostel.

In addition, the successful placing and open offer completed in December 2018 increased our cash balance by £9.7 million (net of £0.65 million of fees). This gives us the capital to implement our roll-out plans and continue to grow our network through existing and new leaseholds as well as acquisitions.

Outstanding bank loans was £18.1 million (2017: £18.2 million). This includes a £18.2 million loan with HSBC (2017: £18.4 million), as well as £0.2 million local loans in Belgium and Spain (2017: £0.1 million), minus the £0.3 million amortised loan fees (2017: £0.3 million). The finance lease obligations amount to £21.2 million (2017: £21.2 million). This results in a £39.3 million debt at 31 December 2018 (2017: £39.4 million). The gearing ratio (inclusive of obligations under finance lease) has reduced from 207% in 2017 to 141% in 2018. The company is fully compliant with the HSBC debt covenants as at 31 December 2018: The historic (376%) and projected (450%) interest cover as well as the historic (287%) and projected (280%) service cover are all significantly in excess of the minimum covenant ratios (150%).

Net asset value per share decreased to 43p (2017: 55p) as a result of the successful share issue completed on 17 December 2018 at a price of 34p per share.

Operational Review

In 2018, our primary focus was to increase our operational profitability whilst also seeking to improve the quality of the Safestay proposition.

It was pleasing therefore to achieve operational efficiencies, particularly on the payroll costs, that led to an improvement in EBITDA margins in the UK to 47.4% (2017 44.4%) adding a further £0.2 million to net profit.

2018 was the first full year of trading for 5 European properties purchased in 2017 in Spain, Portugal and the Czech Republic. It was extremely satisfactory to see that these hostels all achieved occupancy levels in excess of 70% in 2018, with an average occupancy of 76.8% (versus 70.6% in 2017 achieved over the last 6 months of the year).

In total, the mainland European business generated £6.2m revenue in 2018, £4.2m more than in 2017. The EBITDA margin in these hostels which are all operated under leasehold has also increased up from 19.1% to 20.1% with room to improve further as the sites mature and benefit from further economies of scale.

The new sites in Brussels and Vienna added in 2018 are currently operating as hotels and will be converted to hostels in 2019.

The operating performance achieved to date in Europe confirms our belief in the scalability of the business outside the UK which has increased our confidence in achieving our portfolio growth targets.

Revenue management in 2018 was also a core focus. We are targeting generating a revenue split of 40% from a broad range of group bookings, 20% from direct bookings into our website and 40% through Online Travel Agencies ('OTAs'). To achieve this will be a shift away from OTA's to the more higher margin direct and group bookings.

To support these objectives the website was refreshed in Q4 2018 along with a fully revamped booking experience for our guests which is expected to increase traffic, conversion and ultimately grow contribution from direct booking channels.

In parallel, we have built an in-house revenue management expertise to better control and yield the average bed rates in all properties. The roll out of one property management system (Cloudbeds) in all properties give us this data consistency and integrity which is the foundation for an efficient yield and distribution management.

We have also reinforced our central group sales team to grow and support more efficiently this segment of business and deliver the more customised service and product needed.

The Board

Following the expansion of the board in 2017 with the appointment of two new non-executive directors, Michael Hirst in May 2017 and Anson Chan in December 2017, a new appointment was made in August 2018. Hervé Deligny joined the board as CFO. Hervé Deligny has spent 20 years in the hospitality industry, with Accorhotels and onefinestay. He brings a wealth of knowledge in the operational finance and property investment area and has been instrumental to the successful acquisition and fund raising in December 2018. Paul Cummins was appointed alternate director for the non-executive director Anson Chan.

Outlook

In a challenging market, our forward bookings are strong and we are on track to achieve our forecast this year.

The modern hostel sector is a fast-growing market and we believe Safestay is well placed within it. The brand is gaining a good reputation for offering safe, stylish accommodation in well located attractive buildings. In 2019, we will distribute over one million bed nights, move into net profitability and become self-funding as the Group benefits from the growing economies and group wide automation.

Larry Lipman
Chairman
9 April 2019

Safestay Plc

Condensed Consolidated Income Statement

Year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Revenue	2	14,620	10,547
Cost of sales		(2,228)	(1,561)
Gross profit		12,392	8,986
Administrative expenses		(10,686)	(7,520)
Operating profit before exceptional expenses		1,706	1,466
Exceptional expenses		(662)	(495)
Operating profit after exceptional expenses		1,044	971
Finance costs		(1,648)	(1,833)
Loss before tax		(604)	(862)
Tax		(303)	(11)
Loss for the financial year attributable to owners of the parent company		(907)	(873)
Basic and diluted loss per share	3	(2.56p)	(2.55p)

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Condensed Consolidated Statement of Comprehensive Income

Year ended 31 December 2018

	2018	2017
	£'000	£'000
Loss for the year	(907)	(873)
Other comprehensive income:		
Items that will be reclassified subsequently to profit and loss		
Exchange differences on translating foreign operations	106	-
Total comprehensive (loss) for the year	(801)	(873)
attributable to owners of the parent company	(801)	(873)

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Condensed Consolidated Statement of Financial Position

31 December 2018

	Note	2018 £'000	2017 £'000
Non-current assets			
Property, plant and equipment	4	47,522	45,971
Intangible assets	5	1,268	1,410
Goodwill	5	10,506	7,301
Total non-current assets		59,296	54,682
Current assets			
Stock		45	25
Trade, Derivative financial instruments and other receivables		1,200	903
Cash and cash equivalents		9,859	4,504
Total current assets		11,104	5,432
Total assets		70,400	60,114
Current liabilities			
Loans and overdrafts	6	353	168
Finance lease obligations	7	28	26
Trade, Derivative financial instruments and other payables		1,890	1,625
Current liabilities		2,271	1,819
Non-current liabilities			
Bank loans and convertible loan notes	6	17,772	17,990
Finance lease obligations	7	21,176	21,202
Deferred tax liabilities		105	105
Trade and other payables due in more than one year		1,140	-
Total non-current liabilities		40,193	39,297
Total liabilities		42,464	41,116
Net assets		27,936	18,998
Equity			
Share capital	8	647	342
Share premium account		23,904	14,504
Other components of equity		6,221	6,081
Retained earnings		(2,836)	(1,929)
Total equity attributable to owners of the parent company		27,936	18,998

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Condensed Consolidated Statement of Changes in Equity

31 December 2018

	Share Capital	Share premium account	Other Components of Equity	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000
Balance as at 1 January 2017	342	14,504	6,047	(1,056)	18,998
Comprehensive income					
Loss for the year	-	-	-	(873)	(873)
Total comprehensive income	-	-	-	(873)	(873)
Transactions with owners					
Share based payment charge for the period	-	-	34	-	34
Balance at 31 December 2017	342	14,504	6,081	(1,929)	18,998
Comprehensive income					
Loss for the year	-	-	106	(907)	(801)
Total comprehensive loss	-	-	106	(907)	(801)
Transactions with owners					
Issue of shares	305	9,400	-	-	9,705
Share based payment charge for the period	-	-	34	-	34
Balance at 31 December 2018	647	23,904	6,221	(2,836)	27,936

Safestay plc**Condensed Consolidated Statement of Cash Flows****Year ended 31 December 2018**

	Note	2018 £'000	2017 £'000
Operating activities			
Cash generated from operations		2,056	1,911
Income tax paid		(224)	(48)
Net cash generated from operating activities		1,832	1,863
Investing activities			
Purchases of property, plant and equipment		(2,510)	(1,088)
Purchases of intangible assets		(24)	(48)
Acquisitions, net of cash acquired	9	(1,791)	(7,298)
Net cash outflow from investing activities		(4,325)	(8,434)
Financing activities			
Proceeds from property refinancing transaction		-	11,420
New bank loans drawn		-	18,400
Bank loans repaid		(304)	(17,600)
Loan and refinancing arrangement fees		-	(375)
Proceeds from issue of share capital		10,356	-
Fees related to the issue of shares		(652)	-
Amounts paid under finance leases		(960)	(916)
Interest paid		(592)	(591)
Net cash generated from financing activities		7,848	10,338
Net increase /(decrease) in cash and cash equivalents		5,355	3,767
Cash and cash equivalents at beginning of year		4,504	737
Cash and cash equivalents at end of year		9,859	4,504

Basis of Preparation

On 9 April 2019, the Directors approved this preliminary announcement for publication. Copies of this announcement are available from the Company's registered office at la Kingsley Way, London N2 OFW and on its website, www.safestay.com. The Annual Report and Accounts will be sent to shareholders in due course and will be available on the Company's website, www.safestay.com. The financial information presented above does not constitute statutory financial statements as defined by section 435 of the Companies Act 2006 for the year ended 31 December 2018.

The financial information for the year ended 31 December 2018 is derived from the statutory financial statements for that year, prepared under IFRS, under which the auditors have reported. The audit report was unqualified, did not include references to matters to which the auditor drew attention by way of emphasis without qualifying their report and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. The statutory financial statements for the year ended 31 December 2018 will be delivered to the Registrar of Companies following the Company's Annual General Meeting.

The accounting policies applied in this announcement are consistent with those of the annual financial statements for the year ended 31 December 2017, as described in those financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES FOR THE GROUP

New standards and interpretations effective in the year

The following standards were effective from 1 January 2018.

- IFRS 9: Financial Instruments
- IFRS 15: Revenue from contracts with customers

The adoption of IFRS9 Financial Instruments and IFRS15 Revenues from contracts with customers have not had a material effect on the financial statements.

New standards and interpretations issued but not yet applied

The following standard is in issue but is not effective in the year and has not yet been endorsed for use in the EU:

- IFRS 16: Leases - effective 1 January 2019

The Directors consider the implementation of IFRS 16, which replaces IAS 17 Leases, will have a material impact on the financial statements of the Group in future periods. The Standard will require recognition of current operating leases to be accounted for within the balance sheet by recognising a new category of right-of-use asset and a liability for future lease payments, discounted to present value. In addition, IFRS 16 replaces the straight-line operating lease expense in the income statement with a depreciation charge for the lease asset (included within operating costs) and an interest expense on the lease liability (included within finance costs). As a result, the adjusted EBITDA, as well as the Cash generated from operations reported in the Consolidated Statement of Cash Flows statement will both be increased by an amount equivalent to the operating lease expense previously reported under IAS 17.

The Group's full assessment of its potential impact on the financial statements is not yet complete. As an indicative assessment, the 2018 Consolidated Income Statement includes a £1.7m rental charge for all hostel leases currently treated as operating leases under IAS 17. The future minimum lease payments under non-cancellable term for these leases is £8.7m.

Going concern

Although the group reports a loss before tax in the consolidated income statement, it generates significant cash from its operations and expects to continue to do so for the foreseeable future. The group's strategy is to continue to develop and expand the premium hostel offering provided by the group within the UK and through its European acquisitions. The plan, based on the Group's budgets and financial projections 12 months from the date of approval, expects significant increase in group revenue, building on the recent expansion and management's expertise, and the directors consider this to be achievable. In addition, the group maintains a cash surplus for the foreseeable future.

As a result, the directors believe that the group and company should have adequate resources to continue in operational existence for at least 12 months after the date of approval of these financial statements and continues to adopt the going concern basis of accounting in preparing the financial statements.

Business combinations

Acquisitions of subsidiaries and businesses are accounted using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to former owners of the acquire and the equity interest issued by the Group in exchange for control of the acquire. Acquisition costs are expensed as incurred.

At the acquisition date, the identifiable assets acquired and liabilities assumed are recognised at their fair value at the acquisition date.

Goodwill

Goodwill is measured as the excess of the sum of the consideration transferred over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. A review of the goodwill is carried out annually.

Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision makers, who are responsible for allocating resources and assessing performance of the operating segments, have been identified as the executive directors. Currently there are only operating segment, which is the operation of hostel accommodation in the UK and Europe.

Revenue

Revenue is stated net of VAT and comprises revenues from overnight hostel accommodation, income from the rental of student accommodation during the academic year and the sale of ancillary goods and services such as food & beverage and merchandise. Accommodation and the sale of ancillary

goods and services is recognised when provided. Income from the rent of student accommodation is recognised on a straight-line basis over the academic year to which the rent relates.

The sale of ancillary goods comprises sales of food, beverages and merchandise.

Deferred income comprises deposits received from customers to guarantee future bookings of accommodation. This is recognised as revenue once the bed has been occupied.

Leases

The Group as lessor:

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

The Group as lessee:

Assets held under finance leases are recognised as assets of the group at the present value of the lease payments at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction in lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in the income statement.

All other leases are classified as operating leases. Operating leases are recognised in the income statement on a straight-line basis over the life of the lease.

Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Sterling which is the Company's functional currency.

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are generally recognised in profit and loss. They are deferred in equity if they relate to qualifying cash flow hedges, qualifying net investment hedges or are attributable to part of the investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss within finance costs. All other exchange gains and losses are presented in the statement of profit or loss within administrative expenses.

Non-monetary items that are measured at fair-value in a foreign currency are translated using the exchange rates at the date when fair-value was determined. Translation differences on assets or liabilities carried at fair-value are reported as part of the fair-value gain or loss.

The results and financial position of foreign operations that have a functional currency different to the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position are translated using the closing rate at the date of that statement of financial position.
- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates.
- All resulting exchange differences are recognised in other comprehensive income.

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

Property, plant and equipment

Freehold property is stated at fair value and revalued periodically in accordance with IAS 16 Property Plant and Equipment. Valuation surpluses and deficits arising in the period are included in other comprehensive income. Fixtures fittings and equipment are stated at cost less depreciation and are depreciated over their useful lives. The applicable useful lives are as follows:

Fixtures, fittings and equipment	3-5 years
Freehold properties	50 years
Leasehold properties	50 years or term of lease if shorter

Assets held as finance leases are depreciated over the shorter of the lease term and their expected useful lives on the same basis as owned assets.

Impairment of property, plant and equipment

At each statement of financial position date, the Group reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount.

An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease, but a negative revaluation reserve is not created.

For revalued assets, where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been

determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. Any remaining balance of the reversal of an impairment loss is recognised in the income statement. For assets carried at cost, any reversals of impairments are recognised in the income statement.

Intangible assets

Intangible assets are initially recognised and measured at fair market value.

Where an intangible has a determinable finite useful life, the intangible asset is amortised on a straight-line basis over that useful life. The applicable useful life is

10 years for the life of the interest in the head lease

13 years for tenancy sublease

3 years for website development.

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the fair value of the identifiable net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units (CGUs), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Other intangible assets

Intangible assets acquired in a business combination are recognised at fair value at the acquisition date.

Assets with a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives set out above.

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (CGUs). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

Exceptional Items

The Group separately discloses on the face of the Income Statement items of income or expense which nature or amount would, without separate disclosure, distort the reporting of the underlying business.

Critical accounting judgements and key sources of estimation and uncertainty

The fair value of the Group's property is the main area within the financial information where the Directors have exercised significant estimates.

Judgements

- The Holland Park lease showed indicators that it could be treated as either a finance or operating lease. The Group's decision to treat it as a finance lease was based on a balanced judgment of relevant factors. Furthermore, the fair value of the Group's finance lease asset is inherently subjective. The methodology applies a discount rate to the future lease payments to approximate to the fair value of the asset. Details of the methodology of property valuations are detailed in note 4.
- Judgements were made around the capitalised leases for Edinburgh and Elephant & Castle. The valuations will remain fixed going forward. The valuation of the leasehold interest was performed by external valuers as set out in note 4. No tax arises on these transactions.
- The Group has identified certain costs as exceptional in nature in that, without separate disclosure, would distort the reporting of the underlying business.

Estimates

- The fair-value of the assets and liabilities recognised on the acquisition of an operation or entity is determined using both external valuations and directors' valuations. Details of the fair values are set out in the note 9.
- Assessment of impairment of goodwill requires estimation of future cash flows, which are uncertain, discounted to present value which also requires estimation by management. The key assumptions used to calculate the value in use (VIU) to test the goodwill for each cash generating units (CGUs) are detailed in note 5.

2. SEGMENTAL ANALYSIS

	2018	2017
	£'000	£'000
Hostel accommodation	12,171	8,641
Food and Beverages sales	1,746	1,383
Other income	703	523
Total Income	14,620	10,547
Like-for-like income	10,643	10,547

The 2017 figures were restated to reallocate the rental income in Edinburgh from Hostel accommodation to Other income. This rental income was £330,000 in 2017 and £342,000 in 2018.

Management consider the like-for-like income only for acquisitions and continuing operations that were operational during the same period in the prior year.

The Group has two operating segments: UK and Europe. The operating segments are organised and managed separately due to the location of each market. The Group provides a shared services function to its operating segments and reports these activities separately.

The most important measures used to evaluate the performance of the business are revenue and adjusted EBITDA, which is the operating profit after excluding non-cash items such as depreciation and amortisation, and removing non-recurring expenditure which would otherwise distort the cash generating nature of the segment.

2018	UK	Europe	Shared services	TOTAL
	£'000	£'000	£'000	£'000
Revenue	8,393	6,227	-	14,620
Operating Profit after exceptional expenses	2,981	801	(2,738)	1,044
Depreciation, Amortisation & disposals	1,320	356	-	1,676
Exceptional & Share based payment expense	-	-	696	696
Adjusted EBITDA	4,301	1,157	(2,042)	3,416
2017	UK¹	Europe		TOTAL
	£'000	£'000		£'000
Revenue	8,496	2,051		10,547
Operating Profit after exceptional expenses	922	49		971
Depreciation & Amortisation	1,450	249		1,699
Exceptional & Share based payment expense	529	-		529
Adjusted EBITDA	2,901	298		3,199

¹Shared Services are included within the adjusted EBITDA of the UK segment in 2017.

The above information is presented in the format of that frequently reviewed by the Chief Operating Decision Maker (CODM), and decisions made on the basis of adjusted segment operating results.

As segment assets and liabilities are not regularly provided to the CODM, the Group has elected, as provided under IFRS 8 Operating Segments (amended), not to disclose a measure of segment assets and liabilities.

3. LOSS PER SHARE

The calculation of the basic and diluted loss per share is based on the following data:

	2018	2017
	£'000	£'000
Loss for the period attributable to equity holders of the company	(907)	(873)
	2018	2017
	'000	'000
Weighted average number of ordinary shares for the purposes of basic loss earnings per share	35,387	34,219
Effect of dilutive potential ordinary shares	1,830	1,807
Weighted average number of ordinary shares for the purposes of diluted loss per share	37,217	36,026
Basic loss per share	(2.56p)	(2.55p)
Diluted loss per share	(2.56p)	(2.55p)

There is no difference between the diluted loss per share and the basic loss per share presented. Due to the loss incurred in the year the effect of the share options in issue is anti-dilutive.

The total number of shares in issue as at 31 December 2018 was 64,679,014 following the 30,459,880 share issue completed on 17 December 2018.

4. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings £'000	Leasehold land and buildings £'000	Fixtures, fittings and equipment £'000	Assets under construction £'000	Total £'000
Cost or valuation					
At 1 January 2017	32,460	13,122	1,253	-	46,835
Transfer	(29,777)	29,777	-	-	-
Additions	-	818	149	121	1,088
Acquired in business combination	-	-	598	-	598
Exchange movements	-	-	52	-	52
At 31 December 2017	2,683	43,717	2,052	121	48,573
Transfer	18	(230)	-	-	(212)
Additions	-	208	207	2,084	2,499
Acquired in business combination	-	319	259	-	578
Disposals	-	-	(48)	(55)	(103)
Transfer to current assets	-	-	-	(88)	(88)
Exchange movements	-	-	43	-	43
At 31 December 2018	2,701	44,014	2,513	2,062	51,290
Depreciation					
At 1 January 2017	153	333	578	-	1,064
Charge for the period	108	698	732	-	1,538
At 31 December 2017	261	1,031	1,310	-	2,602
Transfer	(205)	(25)	-	-	(230)
Charge for the year	28	904	489	-	1,421
Released on disposal	-	-	(25)	-	(25)
At 31 December 2018	84	1,910	1,774	-	3,768
Net book value:					
At 31 December 2018	2,617	42,104	739	2,062	47,522
At 31 December 2017	2,422	42,686	742	121	45,971

Assets in the course of construction represent additional letting rooms in the London Elephant & Castle hostel, which completed after the balance sheet date.

Included in disposals is a transfer from assets under construction to current receivables representing development costs that were reimbursed by the landlord post year end.

5. INTANGIBLE ASSETS AND GOODWILL

	Website Development £'000	Leasehold rights £'000	Goodwill £'000	Total £'000
Cost				
At 1 January 2017	-	1,400	525	1,925
Additions	48	-	-	48
Arising in business combination	-	302	6,685	6,987
Exchange movements	-	9	91	100
At 31 December 2017	48	1,711	7,301	9,060
Additions	24	-	-	24
Arising in business combination (note 9)	-	-	3,109	3,109
Exchange movements	-	15	96	111
At 31 December 2018	72	1,726	10,506	12,304
Amortisation				
At 1 January 2017	-	188	-	188
Charge for the period	4	157	-	161
At 31 December 2017	4	345	-	349
Charge for the period	20	161	-	181
At 31 December 2018	24	506	-	530
Net book value:				
At 31 December 2018	48	1,220	10,506	11,774
At 31 December 2017	44	1,366	7,301	8,711

Leasehold Rights

The directors identified intangible assets in the following transactions:

- acquisition of the business on Smart City hostel in Edinburgh in 2015 identified an intangible asset in relation the lease with the University of Edinburgh, which terminates in 2027
- acquisition of the Barcelona Sea property in 2017 identified a sublease agreement with a tenant in-situ for the duration of the head lease.

Amortisation of leasehold rights is based on a straight-line basis for the term of the lease.

Goodwill

Goodwill arising from business combinations in the year are disclosed in note 9. Goodwill in a business combination is allocated to the cash generating units (CGUs) that are expected to benefit from that business combination. The group's CGUs have been defined as each operating hostel.

This conclusion is consistent with the approach adopted in previous years and with the operational management of the business.

Goodwill is not amortised but tested annually for impairment. The recoverable amount of each CGU is determined from value in use (VIU) calculations based on future expected cash flows discounted to present value using an appropriate pre-tax discount rate.

The key assumptions used in the VIU calculations for all hostels are based on forecasts approved by management performed for a 5-year period:

- Pre-tax discount rate of 11%
- 2018 average bed rate per property, increasing in line with inflation in following years
- Earnings before interest, tax, depreciation, amortisation and rent (EBITDAR) margin of 2018 with an increase up to 3 basis points over 5 years

Four hostels acquired from one vendor in 2017 show the lowest relative VIU headroom. These operations of these hostels are still being optimised following their acquisition in 2017. Management are confident that the improvement in operating margin and utilisation of space within the hostels will not lead to any impairment once the expected improvements have been completed.

No impairment has been identified for the year ended 31 December 2018.

Sensitivity analysis

Headroom between the carrying and recoverable value of an asset is dependent upon sensitivities to the following assumptions:

For each of CGU, a fall in operating margin and average bed rate (ABR), or an increase in the weighted average cost of capital (WACC) by the following rates of change would result in the carrying value of goodwill falling below its recoverable amount:

CGU	Operating margin	ABR	WACC
Barcelona Gothic	2bps	1%	1bps
Barcelona Sea	2bps	1%	1bps
Lisbon	2bps	1%	2bps
Madrid	8bps	9%	20bps
Prague	3bps	2%	3bps

6. LOANS

	2018 £'000	2017 £'000
At amortised cost		
Bank Loan and other loans	18,389	18,503
Loan arrangement fees	(264)	(345)
	18,125	18,158
<hr/>		
Loans repayable within one year	353	168
Loans repayable after more than one year	17,772	17,990
	18,125	18,158

7. LEASES

	Minimum lease payments due			
	Within 1 year £'000	1 to 5 years £'000	After 5 years £'000	Total £'000
31 December 2018				
Lease payments	960	3,840	43,955	48,755
Finance charges	(932)	(3,707)	(22,912)	(27,551)
Net present values	28	133	21,043	21,204
<hr/>				
31 December 2017				
Lease payments	960	3,840	44,915	49,715
Finance charges	(934)	(3,716)	(23,837)	(28,487)
Net present values	26	124	21,078	21,228

The group continues to treat the Holland Park lease as a finance lease on the basis that the present value of the lease payments constitutes the substantial part of a theoretical freehold valuation.

The average effective borrowing rate was 6.55%. The lease is on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

On 31 March 2017 the group property refinancing transactions on its hostels in Edinburgh and Elephant & Castle, receiving gross proceeds of £5.32 million and £6.1 million respectively. The properties were independently valued at £14.3 million and £16.0 million; as the undervaluation matched by lease rentals is below the full market rate, the directors have deemed the transactions as outside the scope of IAS17 and treatment as finance leases is considered appropriate.

The average effective rate of borrowing for the transactions was 7.74% and 7.81% respectively.

The fair value of the group's lease obligations is approximately equal to their carrying amount. The Group's finance leases disclosed above are in sterling.

8. EQUITY

CALLED UP SHARE CAPITAL

	£'000
Allotted, issued and fully paid	
34,219,134 Ordinary Shares of 1p each as at 1 January 2018	342
27,609,496 Ordinary Shares of 1p each issued on 17 December 2018	276
1,802,269 Ordinary Shares of 1p each issued on 17 December 2018	18
1,048,115 Ordinary Shares of 1p each issued on 17 December 2018	11
	<hr/> 647 <hr/> <hr/>

At the 31 December 2018, the ordinary shares rank pari passu. There are no changes to the voting rights of the ordinary shares since the balance sheet date.

9. BUSINESS COMBINATIONS

See accounting policy in note 1.

On 7 March 2018, the Group acquired its third hostel in Barcelona for a consideration of £2.2m, of which £0.62m was paid at acquisition; the balance is due in 4 annual instalments and is recognised as a Balance Sheet liability at its discounted rate. The transaction has been treated as a business combination as the hostel was operational at the point of purchase.

On 1 October 2018, the Group acquired the trade of a hotel in Vienna, Austria for £nil consideration. The staff, customer listing and supply chain was transferred from the existing operator. Simultaneously, the Group entered into a lease with the property owner for a period of 20 years.

On 10 October 2018, the Group purchased 100% of the shares of Arcadie SA, an entity incorporated in Belgium. Consideration for the operator of Hotel Opera in Brussels totalled £1.16m. Following acquisition, the hotel immediately commenced trading as Safestay Brussels.

	Barcelona	Vienna	Brussels	2018	2017
Number of sites purchased				3	5
Provisional fair value	£'000	£'000	£'000	£'000	£'000
Property, plant & equipment	415	-	163	578	598
Intangible assets	-	-	-	-	401
Current assets	55	61	12	128	156
Cash	-	-	-	-	470
Debt	-	-	(189)	(189)	-
Deferred revenue, trade & other payables	(51)	(61)	(151)	(263)	(442)
Deferred tax	-	-	-	-	(100)
Goodwill	1,770	5	1,334	3,109	6,685
Consideration					
Cash paid on acquisition	617	5	1,169	1,791	7,768
Deferred payments	1,572	-	-	1,572	-
Total Consideration	2,189	5	1,169	3,363	7,768

Goodwill recognised on each acquisition reflects the future growth of the group and represent the first stage in establishing a pan-European network of Safestay Hostels. All goodwill acquired has been allocated to a cash generating unit.

The Board reviewed each business on acquisition for its separately identifiable assets:

- 1) Brand – the hostels were purchased from two selling entities, each with a large portfolio of hostels that are continuing to trade under their original brand names. For this reason, management do not attribute the future earnings to the brands purchased; the key asset purchased is the future potential of each hostel as operated under the Safestay management team, and as an extension of the existing Safestay portfolio.

- 2) Advanced deposits – each acquisition resulted in the purchase of advanced deposits taken under previous management that would result in potential sales whilst under Safestay control. The Board quantified the value of contracted sales under their original terms of sale and found the contracts to be immaterial at acquisition.
- 3) Property, plant and equipment – the Board reviewed the asset registers of each entity and performed an impairment of each. The book value of assets was agreed to represent the fair value of each asset class.
- 4) Intangible assets – the Board reviewed the agreements with customers and found no intangible assets for capitalisation.

The group incurred acquisition costs of £0.118 million on legal fees and due diligence costs. These have been charged to operating exceptional items in the Consolidated Income Statement.

The acquisitions have contributed the following revenue and operating profits to the Group in the year ended 31 December 2018 from the date of acquisition:

	Barcelona	Vienna	Brussels
	£'000	£'000	£'000
Revenue	1,696	305	241
Operating profit	40	81	62

It is not practicable to identify the related cash flows, revenue and profit on an annualised basis as the months for which the businesses have been controlled by Safestay are not indicative of the annualised figures.

The pre-acquisition trading results are not indicative of the trading expectation under Safestay's stewardship; the Group deployed its Property Management System and digital marketing platform, updated internal processes and undertook a light re-branding exercise in each new property in the year ended 31 December 2018.

10. OPERATING LEASES

The Group's leases are all in Europe and provide for periodic rent reviews in line with inflation, and enjoy statutory rights to renewal on expiry. Generally, they do not contain conditions to rent escalation, rights to purchase, concessions or other material provision of an unusual nature.

Total future minimum lease rental payments under non-cancellable leases as follows:

	2018	Restated 2017
	£'000	£'000
Due after one year	2,180	1,359
Between one and five years	4,094	4,695
After five years	2,402	5,481

11. POST REPORTING DATE EVENTS

As disclosed in the 2017 Annual Report, the Group underwent refinancing on its Edinburgh and Elephant & Castle locations in March 2017, receiving proceeds of £5.32 million and £6.1 million respectively.

The transaction included receipt of additional consideration of £1.18 million upon completion of extension works to the Elephant & Castle location in February 2019; a milestone that was reached on 20 January 2019.

No further adjusting or significant non-adjusting events have occurred between the 31 December reporting date and the date of authorisation.