HOSTELWORLD GROUP

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Hostelworld Group plc

("Hostelworld" or the "Group")

Preliminary Results for the Year ended 31 December 2018

Continued growth in core Hostelworld brand gross bookings of 4%

'Roadmap for Growth' programme developed post strategic review

2 April 2019: Hostelworld, the global hostel-focussed online booking platform, is pleased to announce its preliminary results for the year ended 31 December 2018.

Operational & Financial Highlights

- Continued growth in core Hostelworld brand gross bookings
    - Hostelworld brand bookings growth of 4%, total Group bookings growth flat reflecting the managed decline in supporting brands.
- 22% increase in bookings from the app (from 33% of bookings in 2017 to 40% of bookings in 2018).
- The Group generated revenue of €82.1m in the year (2017: €86.7m) plus an additional €2.9m of deferred revenue which will be recognised in 2019. Excluding the impact of deferred revenue, Group revenue grew by 1% on a constant currency basis.
    - Deferred revenue is the result of the successful rollout of our free cancellation booking option in 2018, which was a key product release to broaden our customer offering. €2.9m of revenue collected from customers will be recognised in 2019, net of any future cancellations, once the option to cancel the booking has passed.
    - Average Booking Value ("ABV") (gross) of €11.9 (2017: €11.6), a 3% increase on 2017, 6% increase on a constant currency basis.
- Adjusted EBITDA of €21.4m, a 19% decrease, or an 8% decrease when excluding the impact of deferred revenue (2017: €26.4m).
- Adjusted Earnings per Share of 18.33 euro cent (2017: 22.73 euro cent).
- Strong cash flow generation with cash conversion of 97% and free cash flow of €20.7m (2017: €21.5m).
- Proposed final dividend of 9.0 euro cent per share (2017: 12.0 euro cent), resulting in full year dividend of 13.8 euro cent per share, in line with stated dividend policy.

Strategic Developments

- New 'Roadmap for Growth' programme developed and implemented by CEO, Gary Morrison following the completion of a strategic review in Q4 2018.
- Strategic review highlighted the opportunity for significant long-term growth in the business.
- Strengthened management team now in place to deliver the growth plans.
- Key area of focus in 2019 is strengthening the capability of our core platform to improve its flexibility and the experience for our customers.

- Plans in place to utilise and leverage our rich data sources to target and grow the most profitable customer segments.
- Marketing activity and investment now focussed on driving core customer acquisition, a move away from category advertising.

Gary Morrison, Chief Executive Officer, commented:

"We are pleased to have reported continued growth in our core Hostelworld brand gross bookings of 4% during the year and to have successfully developed the 'Roadmap for Growth' programme.

Hostelworld is operating in a highly competitive market, which is growing. We have a very relevant brand which is trusted by a loyal and engaged customer base. Following the completion of our strategic review, we identified and developed a 'Roadmap for Growth' programme to allow the Group to capitalise on these significant opportunities available and to return the business to growth. We started work on a number of initiatives during the second half of 2018 and we look to 2019 as a year of investment to fund the growth drivers for 2020 and beyond. We anticipate that organic growth will be self-funded from our existing cash resources and cash generated from the business.

Trading in the first quarter of 2019 is in line with the Board's expectations. We remain committed to delivering value to shareholders and continue to assess our capital allocation approach in line with investment choices and priorities."

Analyst Presentation

A presentation will be made to analysts today at 9.00am, a copy of which will be available on our Group website http://www.hostelworldgroup.com. If you would like to attend or dial into the presentation, please contact Powerscourt on the contact details provided below:

For further information please contact:

Hostelworld Group plc

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About Hostelworld Group

Hostelworld Group is the leading hostel-focussed online booking platform, sparking social experiences for young and independent travellers.

Our customers are not your average tourists; they crave unique experiences that we facilitate with the best choice of hostels around the world offered in 19 languages across the website and 13 languages on our app of our core brand Hostelworld.

We have 20 years' experience as the hostel Online Travel Agent ("OTA") experts, and today we work with over 16,500 hostel properties globally, in addition to 20,000 other forms of budget accommodation.

Our customers have access to an extensive database of more than 11.5 million customer reviews which allows them to choose the hostel that's right for them.

Since 1999 we've partnered with hostels worldwide, enabling them to manage and distribute their inventory to our highly engaged and valuable global customer base.

This announcement contains forward-looking statements. These statements relate to the future prospects, developments and business strategies of Hostelworld. Forward-looking statements are identified by the use of such terms as "believe", "could", "envisage", "estimate", "potential", "intend", "may", "plan", "will" or variations or similar expressions, or the negative thereof. Any forward-looking statements contained in this announcement are based on current expectations and are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied by those statements. If one or more of these risks or uncertainties materialise, or if underlying assumptions prove incorrect, Hostelworld's actual results may vary materially from those expected, estimated or projected. Any forward-looking statements speak only as at the date of this announcement. Except as required by law, Hostelworld undertakes no obligation to publicly release any update or revisions to any forward-looking statements contained in this announcement to reflect any change in events, conditions or circumstances on which any such statements are based after the time they are made.

Chairman's Statement

2018 was a year of significant activity and change for the Hostelworld Group. Despite experiencing challenging industry conditions during the summer months, we are pleased to report continued growth in gross bookings from our core Hostelworld brand of 4%, although the managed decline in our supporting brands resulted in flat overall Group bookings. In response to customer demand and following a pilot launch, in July we successfully rolled out our free cancellation booking option globally, which further enhanced and broadened our customer product offering.

In June 2018 Gary Morrison joined Hostelworld as Chief Executive Officer, following the departure of Feargal Mooney from the Group. Gary worked for Expedia for over seven years and brings a wealth of experience and knowledge of the Online Travel Agent ("OTA") marketplace. Following his arrival, Gary undertook a detailed strategic review of the Group which he completed in November 2018. As outlined in more detail in his Chief Executive's review, this confirmed the significant growth opportunity for Hostelworld and the strengths and continuing relevance of our brand, in addition to highlighting areas that require future investment.

Results and Financial Position

Gross bookings for the year were flat given the managed decline in our supporting brands which offset the growth of 4% in the Hostelworld brand. As indicated at the time, the peak summer months were impacted by unseasonably hot weather in Europe and the timing of the World Cup. The Group's core brand, Hostelworld, currently represents 96% of total Group bookings (2017: 93%) with this percentage likely to increase further during 2019 as per our strategy. The successful rollout of the free cancellation booking option during the year led to a deferral of revenue recognition, which has impacted reported earnings in 2018, however this has not had an impact on cash receipts. At 31 December 2018, €2.9m of revenue from free cancellation bookings was collected from customers and deferred and will be recognised, net of any future cancellations, in 2019 when the last cancellation date has passed.

Revenue for the year was €82.1m (2017: €86.7m) a decrease of 5%, primarily due to the impact of the deferred revenue. Adjusted EBITDA (as defined in the Financial Review) for the year was €21.4m (2017: €26.4m) and operating profit for the year was €6.7m (2017: €11.9m). Both were also impacted by the deferred revenue.

The business continues to be strongly cash generative, with Adjusted Free Cash Flow (as defined in the Financial Review) of €20.7m (2017: €21.5m). Cash balances at year end were €26.0m (2017: €21.3m), after payment of €16.1m of dividends during the year (2017: €24.8m).

Dividend and Capital Structure

The Board is recommending a full year final dividend of 9.0 euro cent per share which together with the interim dividend of 4.8 euro cent per share brings the total dividend for 2018 to 13.8 euro cent. This reflects a distribution of 75% of the Adjusted Profit after Taxation for the year and is in line with our stated dividend policy. The Board continues to review its approach to returning capital to shareholders, whilst retaining flexibility to enable us to stabilise and strengthen our core platform.

Board Composition

The composition of the Board is fully compliant with the UK Corporate Governance Code as applied to small companies. The Board has undertaken an appraisal of the Directors, as well as of the Board and each sub-committee, which concluded that the Board is functioning effectively.

There was significant change to the Board during 2018. In May 2018, we announced that Feargal Mooney who had been with Hostelworld for 16 years would be leaving the Board in June and would be succeeded by Gary Morrison.

Earlier in 2018, Mari Hurley who had been with the Group for 11 years as Chief Financial Officer, resigned from the Board. In August 2018 we announced that TJ Kelly would be taking up the position of Chief Financial Officer and would be joining the Group and the Board in November 2018. TJ was formerly Chief Financial Officer of Glanbia plc's Performance Nutrition division and brings a wealth of financial experience in international consumer-focussed businesses and a proven track record in financial leadership.

Pursuant to changes to the composition of the audit committee as set out in the 2018 Corporate Governance Code, I stepped down as a member of the Audit Committee in December 2018. In February 2018 Éimear Moloney was appointed as a member of both the Nomination Committee and Remuneration Committee. There were no other changes to the Audit Committee, Remuneration Committee and Nomination Committee during the year.

Colleagues, Customers and Shareholders

On behalf of the Board, I would like to thank all members of the Hostelworld team for their commitment and hard work during the year. I would like to particularly acknowledge the dedication of our product and technology development teams based in Dublin and Porto. Our expanded in-house capability is key to our plans to leverage Hostelworld's data assets and native app development strengths and reaffirm our competitive position as a leading hostel focussed online booking platform.

Following Gary Morrison's appointment as Chief Executive Officer, he developed a 'Roadmap for Growth' programme and strengthened the management team to better resource us to deliver the significant future growth opportunities in the business. In addition to the appointment of TJ Kelly as Chief Financial Officer, a number of key appointments and internal promotions have been made across the business in areas including Product, Technology, and Analytics and Insights in order to deliver our ambitious growth objectives.

I would also like to thank our customers and hostel partners, whom we continue to place at the heart of our business, for their loyalty and support.

Finally, to our shareholders for their confidence and commitment, we look forward to returning our business to growth and continuing to return value to our shareholders.

Michael Cawley

Chairman

1 April 2019

Chief Executive's Statement

Since its foundation twenty years ago, Hostelworld has grown into a global business focussed on facilitating a social travelling experience for young and independent travellers and others seeking a sense of adventure, community and interaction with like-minded international travellers. Since joining the business in June I have completed my strategic review, which has confirmed why I decided to join the Group. Hostelworld has a very relevant brand which is trusted by a loyal and engaged customer base and has access to exclusive inventory of high quality hostels. By leveraging our significant accumulated data assets and native app development skills to exploit our unique and focussed position in the hostel ecosystem, we are not just well positioned in a growing market, but as a market leading category specialist we can compete effectively with the generalist lodging online travel agents ("OTAs").

It is also clear that in recent years, while Hostelworld has had a strong track record of EBITDA delivery, this has not been matched by consistent top line growth. Furthermore the reliance on, and significant investment in category advertising to drive customer acquisition has not accelerated the core business and translated into bookings growth, despite operating in a growing market. My strategic review, announced in November, also identified a number of areas where there has been a lack of investment, most notably in our core platform, that need to be addressed to ensure that we remain competitive in our marketplace. These will be the main focus of our attention in the coming year. At the same time, I have identified and developed a 'Roadmap for Growth' programme in order to capitalise on the significant opportunities for the business and to return it to a proper growth trajectory. In order to deliver this, I have taken steps to strengthen the management team with a number of significant hires and internal promotions.

The main elements of our 'Roadmap for Growth' programme have now been agreed, with a number of initiatives started during the second half of 2018. As we look to 2019 as a year of investment to fund the 'return to growth drivers' in 2020, there will be a number of key focus areas for the management team as described in more detail below. It is anticipated that organic growth will be self-funded from our existing cash resources and cash generated from the business. Appropriate deployment of capital against organic and inorganic growth opportunities will be subject to continual assessment and appraisal by the Board.

Returning to Growth

Gross bookings were flat year on year (2017: 6% growth) with modest growth of 4% in the Hostelworld brand, which now accounts for 96% of total bookings, being offset by the managed decline in our supporting brands. As announced in August at the time of our half year results, bookings growth in 2018 was impacted by some softness in trading seen during the peak Summer months as a result of the hot weather in Europe and the timing of the World Cup.

Our focus is on the hostel market and we are operating in a growing market: the total value of hostel revenue is forecast to grow from US$5.5bn in 2017 to US$6.4bn in 2020 (Source: Phocuswright's "The Global Hostel Market Place Second Edition", March 2018). The market is highly fragmented, but with a growing supply base of high quality accommodation. We are seeing significant investment and some modest consolidation by the top chains within the hostel segment and the share of bookings made through OTAs, such as Hostelworld, is forecast to grow at a faster rate than the traditional hostel market. We also have a strong and trusted brand that provides relevant and valuable customers to the hostel sector. It is therefore imperative that we are correctly positioned to take advantage of the growth opportunities in our marketplace and that we appropriately invest in our core product, platform, technological capabilities and marketing in order to achieve this.

Our Strategy

The strategic review has highlighted the opportunity for significant growth for the business. The positive market dynamics showcase the potential pace for growth, which a purely hostel focussed business can exploit. We have identified a number of key focus areas as our strategic objectives for 2019. These are as follows:

- **Investing in our Platform**

One of the key areas of our focus in 2019 will be on strengthening the core platform in order to improve its flexibility and the experience of our customers bringing it up to competitive parity. Since 2015 there was underinvestment in the total product and engineering headcount, which was insufficient to maintain our platform competitiveness against other OTAs. I have identified closing this technological gap as a key priority for my management team.

During 2018 we rolled out our free cancellation option for customers which has now been successfully embedded, with cancellation rates performing in line with our expectations. We plan to make further improvements to the range of booking options we offer our customers which will result in greater flexibility to make online changes and a wider range of payment options, including different currencies and different payment methods.

We plan to improve the search experience for our customers in order to present the right hostels to the right customers at the right time through more dynamically optimised search functions. This will involve expanding and improving the hostels available to our customers with unique experiences and improved site and hostel content localisation.

We are also investing in our current platform to upgrade connectivity for hostel owners and to offer improved and more flexible rate plan configurations. Hostelworld has significant exclusive inventory and in order to retain this position we need to invest and ensure that our platform is as flexible and convenient as possible for hostel owners to use. In recent years the use of third party platforms has increased with these platforms typically providing connections to multiple OTAs, including Hostelworld. This has allowed more competitors to gain access to the hostel market. Therefore upgrading our third party platform connectivity is a key priority in order to defend our competitive position, ensuring we have the best access to inventory for our customers.

- **Best-in-Class App Technology**

Hostelworld launched its first app in 2010 and this has been one of the key factors in our success over the past few years with continued growth in bookings via our app every year. In 2018 40% of all bookings were made via the app up from 33% in 2017. Since we launched our iOS and Android apps in 2014, they have won industry awards and recognition. However, in an increasingly competitive market where our customers have more choice and options, we need to ensure that our app has the best functionality with the most relevant content, together with the appropriate inventory for our chosen segment. We expect to see app usage continue to grow in the future and this will continue to drive marketing efficiencies by lowering our customer acquisition and transaction costs.

One of Hostelworld's key strengths is our experience and expertise in native app development. Our software development office in Porto which we opened in 2017 has been significantly expanded during 2018. As at 31 December 2018 we had 53 people employed in Porto compared to 24 at the end of 2017. During 2019 our Dublin and Porto product and development teams will continue to update and expand our app capability. The native app development skills that Hostelworld has developed are a key source of competitive advantage for our business.

- **Leveraging our Data Assets**

Hostelworld has millions of stored anonymised itineraries which provide a rich data source and have historically been under-utilised by the Group. We can use this data to better understand the preferences of different types of customer: for example, a single destination trip customer will typically have different requirements and be looking for different features in their hostel stay compared to a multi destination trip traveller who is seeking a different type of hostel experience. By using this data we can generate highly relevant bespoke recommendations and suggestions for our customers. For Hostelworld, leveraging our data will allow us to target and grow the most profitable customer segments, such as multi destination customers.

- **Driving Customer Acquisition**

In recent years Hostelworld has invested in category advertising through some high profile celebrity advertising campaigns. However, whilst these generated strong interest on social media, it is difficult to measure the related core business growth and associated returns. The conclusions of the recent strategic review are that in 2019 these resources would be more productively deployed in investing in our products and systems as previously outlined and that marketing activities will be focussed on core customer acquisition.

We know that our most engaged customer base who book for four or more destinations per trip is significantly more valuable than those who book two or three destinations per trip, both for Hostelworld and for our hostel partners. Providing the right customer to the right hostel at the right time not only increases the chances of repeat bookings through Hostelworld, but it also delivers the most valuable customers for the hostels. These are customers who understand the hostel experience and who are most likely to leave positive reviews. Hostelworld customers are also best known for contributing to the atmosphere in the hostel, by participating most fully in the activities of the hostel and using in-house food and beverage facilities during their stay.

Business Model

In operating a global hostel-focussed online booking platform, we offer a simple and comprehensive online mechanism that gives providers of hostels and other budget accommodation a shop window to show their accommodation to young and independent travellers. We provide the technology solution to facilitate bookings between the hostel and traveller, offering a high quality booking experience that provides us with commission based revenue.

At the time of booking, hostel travellers pay a deposit directly to us, and the remainder of the cost of their stay directly to the hostel at the time of their visit. The deposit equates to our revenue from the transaction. This efficient business model has favourable working capital attributes and strong cash conversion. Debt collection and invoicing overheads are all minimised.

During 2018, we rolled out a global free cancellation model to further broaden our product offering. As with the other deposit models, at the time of booking, hostel travellers pay a deposit directly to us, and the remainder of the cost of their stay directly to the hostel at the time of their visit. If the hostel traveller cancels their free cancellation booking, within a specified period, we will refund their deposit. The introduction of the free cancellation booking option has resulted in a portion of gross bookings being cancelled and the deposits refunded to customers. Underlying cancellation rates are performing in line with our expectations.

The Market

The second independent study of the global hostel market (“Second Edition”) was published by Phocuswright in 2018.

The topline findings of the Second Edition include:

- Phocuswright estimates total property count globally of approximately 18,200 in 2016, increasing significantly from 15,700 properties in 2014.
- Phocuswright projects 5% hostel revenue growth per year through 2020 for the global hostel market (on pace with the global hotel industry), when it estimates that total hostel revenue will reach nearly US$6.4 billion in revenue.

- Online channels accounted for 62% of global hostel revenue in 2016. OTAs are the fastest-growing channel, processing 46% of global hostel bookings in 2016, and estimated to rise to 54% by 2020.

Phocuswright's conclusions provide us with additional confidence in the strength of our target market and the long term growth opportunities it offers the Group as a leading provider of bookings into this niche market.

Investing in People

In order to deliver our 'Roadmap for Growth' programme, since my appointment in June I have made a number of important changes to strengthen the management team. In November, TJ Kelly joined Hostelworld from Glanbia as our Chief Financial Officer.

In addition, I have made a number of internal promotions: Breffni Horgan to Chief Product Officer, Noel Maher to Chief Technology Officer and Catriona Flood to Chief Analytics Officer. As previously described, these key areas represent clear priorities for the Group in 2019 and beyond and I am delighted to be working with a talented young team. This leaves us well placed to deliver the ambitious growth objectives that I have set for the business.

We will continue to invest in talent across the business especially in product, technology and in our Porto office. We are fortunate to have an excellent and diverse pool of talented individuals working across our organisation who are critical to our future success. I would like to thank the entire team, in Dublin, London, Porto, Shanghai and Sydney for their hard work in 2018.

Optimising Capital Allocation

After our people, capital is our most important resource and it is critical that we invest it wisely. My strategic review has highlighted insufficient investment in our core platform and product suite in recent years. Therefore my priorities for future capital allocation are on focussed marketing programmes that will drive growth in core customer acquisition and re-investment in our core platform in order to reaffirm and strengthen our position as a leading hostel-focussed online booking platform. Most of our existing growth plans can be delivered organically using the existing resources and experience of the Group, including more effective leveraging of our under-utilised existing data assets. However, we will continue to appraise complementary target acquisitions that would accelerate our growth or provide us with a unique capability to improve our offering to our customers or hostel partners.

2019 will be a year of investment for Hostelworld to fund the 'return to growth' drivers for 2020 and beyond. It is anticipated that organic growth will be self-funded through our existing cash resources and the strong cashflows generated from the business.

Outlook

Hostelworld is operating in a highly competitive market, which is growing. We have a very relevant brand which is trusted by a loyal and engaged customer base. Trading in the first quarter of 2019 is in line with the Board's expectations. We remain committed to delivering value to shareholders and continue to assess our capital allocation approach in line with investment choices and priorities.

Gary Morrison

Chief Executive

1 April 2019

Financial Review

Introduction

- Hostelworld gross brand bookings growth of 4%, total Group bookings growth flat reflecting the managed decline in supporting brands
- Average Booking Value ("ABV") (gross) of €11.89, a 3% increase on 2017, 6% increase on a constant currency basis
- Revenue decreased by 5%, 3% decrease on a constant currency basis, impacted by deferred revenue. Excluding the impact of deferred revenue, Group revenue decreased by 2% and grew by 1% on a constant currency basis
- €2.9m of revenue generated from free cancellation bookings has been deferred (2017: €nil) and will be recognised, net of any future cancellations, in future periods
- Marketing expenses represented 38% of Revenue (2017: 38%)
- Adjusted EBITDA decreased by 19%, 17% decrease on a constant currency basis
- Excluding the impact of deferred revenue, Adjusted EBITDA would have decreased by €2.1m (8%)
- Adjusted EBITDA margin of 26% (2017: 30%) impacted by deferred revenue. Excluding the impact of deferred revenue, Adjusted EBITDA margin would have been 29%
- Strong underlying cash conversion (97%) and final proposed dividend of 9.0 euro cent per share

Key Performance Indicators

	2018	2017	% change Reported	% change constant currency
Gross Bookings:				
Bookings – Hostelworld brand (m)	7.27	7.00	4%	
Bookings – supporting brands and channels (m)	0.28	0.54	(47%)	
Total Booking Volume (m)	7.55	7.54	0%	
Net Bookings:				
Net Bookings – Hostelworld brand (m)	6.96	7.00	(1%)	
Total Net Group Bookings Volume (m)	7.24	7.54	(4%)	
Average Booking Value ("ABV") (gross) (€)	11.89	11.55	3%	6%
Revenue (€m)	82.1	86.7	(5%)	(3%)
Deferred Free Cancellation Revenue (€m)	2.9	n/a		
Adjusted EBITDA (€m)	**21.4**	**26.4**	**(19%)**	**(17%)**

The Group believes that both gross booking volume ("Gross Bookings", "Bookings") and booking volume net of cancellations ("Net Bookings") are key performance indicators and are critical in assessing the operational performance of the business.

The Group's gross booking volumes were flat in 2018 (2017: 6% growth), with 4% growth in the core Hostelworld brand (2017: 13% growth) offset by 47% decline in the Group's supporting brands (2017: 41% decline). The Group's core brand, Hostelworld, represents 96% of Group bookings (2017: 93%). Bookings growth was skewed towards H1 2018, with Hostelworld brand bookings growth of 6% (H2 2018: 2% growth) which was partially attributed to softer booking volume in the key summer months due to the World Cup and the unusually hot weather in Europe.

In 2018 in response to customer demand, the Group rolled out a free cancellation booking option, to further broaden our product offering. This booking option was rolled out on a phased basis in H1 2018 and globally in H2 2018. As with the other deposit models, at the time of booking, hostel travellers pay a deposit directly to us, and the remainder of the cost of their stay directly to the hostel at the time of their visit. If the hostel traveller cancels their free cancellation booking, within a specified period, we will refund their deposit.

This has led to a deferral of revenue recognition, which has impacted reported earnings in 2018, however this has not had an impact on cash receipts. At 31 December 2018, €2.9m of revenue from free cancellation bookings was collected from customers and deferred and will be recognised, net of any future cancellations, in 2019 when the last cancellation date has passed. Any cancellations that were processed by customers up to and including 31 December 2018 have been refunded and are not included in this deferred revenue balance.

The introduction of the free cancellation booking option has resulted in a portion of gross bookings being cancelled and refunded to customers. Group bookings, net of any cancellations processed by 31 December 2018, have declined by 4% in 2018, with Hostelworld brand net bookings declining by 1%. Underlying cancellation rates are performing in line with our expectations.

Bookings generated from the app and mobile web channels represented 59% of Group bookings (2017: 54%), with bookings from the app growing by 22% during the year to 40% of all bookings. The Group's booking volumes are seasonal and peak between May and August during the summer travel period in the northern hemisphere.

While the Group operates in one segment and is managed as such, business performance is reviewed on a bookings volume and average booking value basis for both the Hostelworld brand as well as all supporting brands (including Hostelbookers, Hostels.com, booking engines and affiliates).

Revenue decreased by 5% during the year to €82.1m (2017: €86.7m), a 3% decrease on a constant currency basis, partially as a result of the impact of €2.9m deferred revenue (2017: €nil). Excluding the impact of deferred revenue, Group revenue would have declined by €1.7m (2%) and increased by 1% on a constant currency basis during the year.

All of the marketing costs in relation to these bookings have been recognised in the year.

Average Booking Value ("ABV") is the average value paid by a customer for a gross booking. ABV grew by 3% during the year, and 6% in constant currency. The average commission rate in 2018 increased to 15.4% (2017: 14.3%), primarily driven by a base commission increase during the year. The commission increase and an increase in the underlying base price per bed were offset by the continued decline in the number of bed nights per booking with the continued shift to mobile bookings and the negative impact of exchange rate movements in 2018.

The Group continues to actively manage its marketing mix with marketing investment as a percentage of net revenue of 38% in 2018 (2017: 38%). Excluding the impact of deferred free cancellation revenue, marketing investment would be 37% of revenue (2017: 38%). While exchange rate movements had a negative impact on Revenue and Adjusted EBITDA, there was a partial offsetting benefit to marketing expenses as the majority of marketing investment is denominated in US dollars.

Adjusted EBITDA

The Group uses Earnings before Interest, Tax, Depreciation and Amortisation, excluding exceptional and non-cash items ("Adjusted EBITDA") as a key performance indicator when measuring the outcome in the business. Exceptional items by their nature and size can make interpretation of the underlying trends in the business more difficult. We believe this alternative performance measure reflects the key drivers of profitability for the Group and removes those items which do not impact underlying trading performance.

Adjusted EBITDA of €21.4m (2017: €26.4m) has decreased by €5.0m (19%) in the year and by 17% on a constant currency basis. Adjusted EBITDA as a percentage of revenue declined to 26% (2017: 30%) due in part to the impact of €2.9m revenue relating to free cancellation bookings that was received but deferred in the year. Excluding the impact of the deferral of this revenue, Adjusted EBITDA would have declined by €2.1m (8%), by 5% on a constant currency basis, and Adjusted EBITDA margin would have been 29%. Any future cancellations (made within a specified period) will reduce the amount of deferred revenue that can be recognised in future periods.

Administration expenses increased by €1.6m (3%) to €61.9m in 2018. A contributory factor in this increase was the increase in exceptional costs, and in staff and other administration costs due to the increased investment in the technology development centre in Porto during the year as part of the strategy of the Group to invest in its development capacity.

Gross staff costs (excluding share based payment expense and before the impact of capitalised development labour) increased from €18.7m to €19.2m. Average full time equivalent headcount increased by 13% from 254 in 2017 to 288 in 2018. Excluding the impact of development labour capitalised in accordance with IFRS standards (2018: €1.7m; 2017: €1.7m), share based payment expense and the impact of bonus provisions, staff costs increased by 3% on a constant currency basis.

Reconciliation between Operating Profit and Adjusted EBITDA:

€'m	2018	2017
Operating profit	6.7	11.9
Depreciation	1.2	1.1
Amortisation of development costs	1.9	2.9
Amortisation of acquired intangible assets	10.3	10.4
Exceptional items	1.6	(0.5)
Share based payment (credit) / expense	(0.3)	0.6
Adjusted EBITDA	**21.4**	**26.4**

The exceptional costs for the year of €1.6m were primarily restructuring related costs. In 2017 exceptional gains for the year of €0.5m were due to the release of an accrual relating to previously recognised merger and acquisition costs.

The share based payment credit of €0.3m (2017: €0.6m expense) reflects the share based payment charge arising on the issuance of options in accordance with the Group's Long Term Incentive Plan ("LTIP") and Save as you Earn ("SAYE") plan offset by the release of previously recognised expenses relating to options which have been forfeited during the year.

Adjusted Profit after Taxation

Reconciliation between Adjusted EBITDA and Profit for the Year:

€'m	2018	2017
Adjusted EBITDA	21.4	26.4
Depreciation	(1.2)	(1.1)
Amortisation of development costs	(1.9)	(2.9)
Corporation tax	(0.8)	(0.7)
Adjusted Profit after Taxation	**17.5**	**21.7**

Exceptional items	(1.6)	0.5
Amortisation of acquired intangibles	(10.3)	(10.4)
Net finance costs	0.0	(0.1)
Share based payment credit / (expense)	0.3	(0.6)
Deferred taxation	(0.2)	0.1
Profit for the year	**5.7**	**11.2**

Adjusted Profit after Taxation ("Adjusted PAT") is an alternative performance measure that the Group uses to calculate the dividend payout for the year, subject to Company Law requirements regarding distributable profits. It excludes exceptional costs, amortisation of acquired domain and technology intangibles, impairment charges, net finance costs, share based payment expenses and deferred taxation which can have large impacts on the reported result for the year, and which can make underlying trends difficult to interpret.

Adjusted PAT decreased by 19% from €21.7m to €17.5m (2017: 12% increase) and 16% on a constant currency basis due in part to the impact of €2.9m revenue related to free cancellation bookings that was received but deferred in the year.

Based on the weighted average number of shares in issue during 2018, reported Earnings per Share ("EPS"), as set out in Note 9 to the financial statements, is 5.95 euro cent per share for the financial year (2017: earnings per share 11.77 euro cent). Using Adjusted PAT as the measure of earnings would result in an adjusted EPS of 18.33 euro cent per share for the year. The corresponding EPS for 2017 calculated on the same basis, using the weighted average number of shares in issue as at 31 December 2017 is 22.73 euro cent per share. Adjusted EPS is an alternative performance measure that excludes exceptional items, amortisation of acquired domain and technology intangibles, net finance costs, share based payment expenses and deferred taxation which can have large impacts on the reported result for the year, and which can make underlying trends difficult to interpret.

Given that the capital nature of the Group post IPO is fully equity funded, there is minimal net finance costs in 2018 of €0.0m (2017: €0.1m).

Taxation

The Group corporation tax charge of €0.8m (2017: €0.7m) results in an effective tax rate (corporation tax as a percentage of profit before taxation) of 11.6% (2017: 6.0%). The low effective tax rate in 2017 was primarily as a result of carried forward tax losses arising from the previous capital structure of the Group.

The Group's deferred tax charge for the year ended 31 December 2018 was €0.2m (2017: €0.1m credit) and relates to the movement in deferred tax assets offset by the movement in deferred tax liabilities.

Adjusted Free Cash Flow Conversion

€'m	2018	2017
Adjusted EBITDA	21.4	26.4
Acquisition of intangible assets	(1.8)	(1.8)
Capital expenditure	(0.7)	(1.8)
Interest and tax paid	(0.8)	(0.6)
Net movement in working capital [1]	2.6	(0.7)
Adjusted Free Cash Flow	**20.7**	**21.5**
Adjusted Free Cash Flow conversion	*97%*	*81%*

[1] changes in working capital excludes the effects of exceptional costs

The Group has a business model which produces strong free cash flow conversion, with a negative working capital cycle on operational cash flows. The movement in working capital in 2018 was at a higher level than 2017, due to the impact of €2.9m of revenue related to free cancellation bookings which was collected but deferred. This resulted in a higher adjusted free cash flow conversion of 97% (2017: 81%). Excluding the impact of the deferral of this revenue, adjusted free cash flow conversion would have been 85% (2017: 81%).

Total cash at 31 December 2018 was €26.0m (2017: €21.3m) and there were no borrowings at 31 December 2018 (2017: €nil).

Foreign Exchange Risk

The Group's primary operating currency is euro. The Group also has significant sterling and US dollar cash flows. In 2018 the average US dollar to euro exchange rate weakened by 5% and the average sterling to euro exchange rate weakened by 1% in comparison to 2017. Restated on a constant currency basis, ABV has increased by 6%, revenue has decreased by 3% (€2.4m) and Adjusted EBITDA has decreased by 17% (€4.3m) in 2018. Constant currency is calculated by applying the average exchange rates for the year ended 31 December 2018 to the financial results for the year ended 31 December 2017 on a month by month basis. The Group's principal policy is to match cash flows of like currencies, with excess sterling and US dollar revenues being settled into euros on a timely basis.

Dividend

The directors are pleased to recommend a full year final dividend payout of €8.6m equating to 9.0 euro cent per share. This is in addition to the interim dividend of €4.6m or 4.8 euro cent per share paid in September 2018. This payout of €13.2m or 13.8 euro cent per share (2017: 17.1 euro cent per share) reflects a distribution of 75% of the Adjusted PAT for the year ended 31 December 2018 and is in line with our stated dividend policy.

The final dividend of 9.0 euro cent per share is to be approved by shareholders at the 2019 AGM on 31 May 2019. If approved, the dividend will be paid on 5 June 2019 to members appearing on the register at close of business on 10 May 2019.

The Board continually reviews its approach to returning capital to shareholders in order to ensure that the Group maintains an efficient and prudent capital structure, which looks to provide increased returns to shareholders, whilst at the same time retaining flexibility for capital and other investment growth opportunities. After payment of the proposed final dividend for 2018 the Group will have returned €56.7m to shareholders in dividends since IPO in November 2015.

TJ Kelly

Chief Financial Officer

1 April 2019

HOSTELWORLD GROUP PLC

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 €'000	2017 €'000
Revenue	3	**82,087**	86,672
Administrative expenses	4	**(61,939)**	(60,380)
Depreciation and amortisation	4	**(13,453)**	(14,395)
Operating profit		**6,695**	11,897
Financial income		**20**	9
Financial costs	7	**(63)**	(75)
Profit before taxation		**6,652**	11,831
Taxation	8	**(961)**	(582)
Profit for the year attributable to the equity owners of the parent company		**5,691**	11,249
Basic earnings per share (euro cent)	9	**5.95**	11.77
Diluted earnings per share (euro cent)	9	**5.95**	11.71

HOSTELWORLD GROUP PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018	2017
	€'000	€'000
Profit for the year	**5,691**	11,249
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**(2)**	3
Total comprehensive income for the year attributable to equity owners of the parent company	**5,689**	11,252

HOSTELWORLD GROUP PLC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Note	**2018 €'000**	2017 €'000
Non-current assets			
Intangible assets	10	**117,726**	128,108
Property, plant and equipment		**3,256**	3,774
Deferred tax assets		**99**	480
		121,081	132,362
Current assets			
Trade and other receivables	11	2,814	3,966
Cash and cash equivalents		25,974	21,294
		28,788	25,260
Total assets		**149,869**	157,622
Issued capital and reserves attributable to equity owners of the parent			
Share capital		**956**	956
Foreign currency translation reserve		**16**	18
Share based payment reserve		**630**	960
Retained earnings		**134,650**	145,015
Total equity attributable to equity holders of the parent company		**136,252**	146,949
Non-current liabilities			
Deferred tax liabilities		**262**	457
		262	457
Current liabilities			
Trade and other payables	12	**12,946**	9,832
Corporation tax		**409**	384

	13,355	10,216
Total liabilities	**13,617**	10,673
Total equity and liabilities	**149,869**	157,622

The financial statements were approved by the Board of Directors and authorised for issue on 1 April 2019 and signed on its behalf by:

Gary Morrison **TJ Kelly**

Chief Executive Officer **Chief Financial Officer**

Hostelworld Group plc registration number 9818705 (England and Wales)

HOSTELWORLD GROUP PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	Share Capital €'000	Retained Earnings €'000	Other Reserves €'000	Foreign Currency Translation Reserve €'000	Share Based Payment Reserve €'000	Total €'000
As at 1 January 2017		956	154,986	3,628	15	351	159,936
Total comprehensive income for the year		-	11,249	-	3	-	11,252
Dividends	16	-	(24,848)	-	-	-	(24,848)
Release of merger reserve		-	3,628	(3,628)	-	-	-
Credit to equity for equity-settled share based payments		-	-	-	-	609	609
As at 31 December 2017		**956**	**145,015**	**-**	**18**	**960**	**146,949**
Total comprehensive income for the year		**-**	**5,691**	**-**	**(2)**	**-**	**5,689**
Dividends	16	**-**	**(16,056)**	**-**	**-**	**-**	**(16,056)**
Debit to equity for equity-settled share based payments		**-**	**-**	**-**	**-**	**(330)**	**(330)**
As at 31 December 2018		**956**	**134,650**	**-**	**16**	**630**	**136,252**

HOSTELWORLD GROUP PLC

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 €'000	2017 €'000
Cash flows from operating activities			
Profit before tax		**6,652**	11,831
Depreciation of property, plant and equipment	4	**1,232**	1,064
Amortisation of intangible assets	4	**12,221**	13,331
Financial income		**(20)**	(9)
Financial expense	7	**63**	75
Employee equity settled share based payment (credit)/ expense	14	**(346)**	623
Changes in working capital items:			
Increase in trade and other payables		**3,129**	149
Decrease/ (increase) in trade and other receivables		**1,152**	(1,340)
Cash generated from operations		**24,083**	25,724
Interest paid		**(63)**	(75)
Interest received		**20**	9
Income tax paid		**(749)**	(551)
Net cash from operating activities		**23,291**	25,107
Cash flows from investing activities			
Acquisition/capitalisation of intangible assets		**(1,839)**	(1,820)
Purchases of property, plant and equipment		**(714)**	(1,780)
Net cash used in investing activities		**(2,553)**	(3,600)
Cash flows from financing activities			
Dividends paid	16	**(16,056)**	(24,848)
Net cash used in financing activities		**(16,056)**	(24,848)
Net increase/ (decrease) in cash and cash equivalents		**4,682**	(3,341)
Cash and cash equivalents at beginning of year		**21,294**	24,632
Effect of foreign exchange rate changes		**(2)**	3
Cash and cash equivalents at end of year		**25,974**	21,294

1. GENERAL INFORMATION AND BASIS OF PREPARATION

The financial information, comprising of the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows and related notes, has been taken from the consolidated financial statements of Hostelworld Group plc ("Company") for the year ended 31 December 2018, which were approved by the Board of Directors on 1 April 2019. The financial information does not constitute statutory accounts within the meaning of sections 435(1) and (2) of the Companies Act 2006 or contain sufficient information to comply with the disclosure requirements of International Financial Reporting Standards ("IFRS").

An unqualified report on the consolidated financial statements for the year ended 31 December 2018 has been given by the auditors, Deloitte. It did not include reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain any statement under section 498 (2) or (3) of the Companies Act 2006. The consolidated financial statements will be filed with the Registrar of Companies, subject to their approval by the Company's shareholders at the Company's Annual General Meeting on 31 May 2019.

The Company, is a public limited company incorporated in the United Kingdom on the 9 October 2015. The registered office of the Company is High Holborn House, 52 - 54 High Holborn, London, WC1V 6RL, United Kingdom.

The Company and its subsidiaries (together “the Group”) provide software and data processing services that facilitate hostel, B&B, hotel and other accommodation bookings worldwide.

Basis of Preparation

The consolidated financial statements incorporate the financial statements of the Company and its directly and indirectly owned subsidiaries, all of which prepare financial statements up to 31 December. The consolidated financial statements have been prepared in accordance with IFRS, International Financial Reporting Interpretations Committee (“IFRIC”) interpretations and those parts of the Companies Act 2006, applicable to companies reporting under IFRS. The Group financial statements have been prepared in accordance with IFRSs adopted by the European Union (“the EU”) which comprise standards and interpretations approved by the International Accounting Standards Board (“IASB”).

The consolidated financial statements have been prepared on the historical cost basis.

The directors have assessed the ability of the Company and Group to continue as a going concern and are satisfied that it is appropriate to prepare the financial statements on a going concern basis of accounting. In doing so, the directors have assessed that there are no material uncertainties to the Company's and Group's ability to continue as a going concern for the foreseeable future, being a period of at least 12 months from the date of approval of the financial statements.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors considered relevant. Actual results may differ from these estimates.

(a) The critical judgements that have been made that have the most significant effect on the amounts recognised in the consolidated financial statements are set out below:

Capitalisation of development costs

Development costs are capitalised in accordance with accounting policies. Determining the amount to be capitalised requires the directors to make assumptions regarding expected future cash generation of the asset and expected period of benefit.

Tax provisioning

The Group, as a global business, is subject to both international and local transfer pricing legislation. The directors review the transfer pricing position to ensure any potential exposure is adequately assessed.

(b) Key sources of estimation that have been made that have the most significant effect on the amounts recognised in the consolidated financial statements are set out below:

Useful lives for amortisation of intangible assets

Intangible assets are disclosed in note 10. The amortisation charge is dependent on the estimated useful lives of the assets. The directors regularly review estimated useful lives of each type of intangible asset and change them as necessary to reflect its current assessment of remaining lives and the expected pattern of future economic benefit embodied in the asset. Changes in asset lives can have a significant impact on the amortisation charges for that year.

Impairment of goodwill and intangible assets

The directors assess annually whether goodwill has suffered any impairment, in accordance with the relevant accounting policy and intangible assets are assessed for possible impairment where indicators of impairment exist. The recoverable amounts of cash-generating units ("CGUs") are determined based on value-in-use calculations that require the use of estimates.

The value-in-use calculations are prepared using cash flow projections based on three year budgets approved by the directors and extended out for a further 2 years. The cash flow projections take into account key assumptions including historical trading performance, anticipated changes in future market conditions, industry and economic factors and business strategies

Further details on the assumptions used are set out in note 10.

Deferred Tax

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profits will be available in future periods against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits.

3. REVENUE & SEGMENTAL ANALYSIS

The Group is managed as a single business unit which provides software and data processing services that facilitate hostel, hotel and other accommodation worldwide, including ancillary on-line advertising revenue.

The directors determine and present operating segments based on the information that is provided internally to the Chief Executive Officer, who is the Company's Chief Operating Decision Maker ("CODM"). When making resource allocation decisions, the CODM evaluates booking numbers and average booking value. The objective in making resource allocation decisions is to maximise consolidated financial results.

The CODM assesses the performance of the business based on the consolidated adjusted profit/ (loss) after tax of the Group for the year. This measure excludes the effects of certain income and expense items, which are unusual by virtue of their size and incidence, in the context of the Group's ongoing core operations, such as the impairment of intangible assets and one-off items of expenditure.

All revenue is derived wholly from external customers and is generated from a large number of customers, none of whom is individually significant.

The Group's major revenue-generating asset class comprises its software and data processing services and is directly attributable to its reportable segment operations. In addition, as the Group is managed as a single business unit, all other assets and liabilities have been allocated to the Group's single reportable segment.

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss.

Reportable segment information is presented as follows:

	2018	2017
	€'000	€'000
Europe	**49,060**	52,114
Americas	**15,149**	16,196
Asia, Africa and Oceania	**17,878**	18,362
Total revenue	**82,087**	86,672

As at 31 December 2018, €2,892k of revenue relating to free cancellation bookings has been deferred (2017: €nil).

Disaggregation of revenue is presented as follows:

	2018	**2017**
	€'000	**€'000**
Technology and data processing fees	**79,696**	84,517
Advertising revenue and ancillary services	**2,391**	2,155
Total revenue	**82,087**	86,672

In the year ended 31 December 2018, the Group generated 97% (2017: 98%) of its revenues from the technology and data processing fees that it charged to accommodation providers.

Revenue is recognised at the time the reservation is made in respect of non-refundable commission on the basis that the Group has met its performance obligations at the time the booking is made. In respect of the free cancellation product, which offers the traveller the opportunity to make a booking on a free cancellation basis and to receive a refund of their deposit in certain circumstances, such related revenue is not recognised until the last cancellation date has passed as one party can withdraw from the contract until such a date has passed. Deferred revenue is expected to be recognised within twelve months of initial recognition.

Advertising revenue and revenue generated from other services are recognised over the period when the service is performed.

The Group's non-current assets are located in Ireland, Luxembourg, Portugal and the UK. Out of the total non-current assets in the Group of €121,081k (2017: €132,362k), the non-current assets of the Group located in the UK are €1,654k (2017: €2,659k) and in Portugal are €623k (2017: €617k).

4. OPERATING EXPENSES

Profit for the year has been arrived at after charging/ (crediting) the following operating costs:

	Note	2018 €'000	2017 €'000
Marketing expenses		**31,203**	33,068
Staff costs	6	**17,179**	17,543
Credit card processing fees		**2,379**	2,048
Exceptional Items	5	**1,590**	(494)
FX loss/ (gain)		**64**	(102)
Other administrative costs		**9,524**	8,317
Total administrative expenses		**61,939**	60,380
Depreciation of tangible fixed assets		**1,232**	1,064
Amortisation of intangible fixed assets	10	**12,221**	13,331
Total operating expenses		**75,392**	74,775

Auditors’ remuneration

During the year, the Group obtained the following services from its Auditors:

	2018	2017
	€’000	€’000
Fees payable for the statutory audit of the Company	**41**	35
Fees payable for other services:		
- statutory audit of subsidiary undertakings	**96**	115
- tax advisory services	**-**	-
- other assurance services	**-**	-
- corporate finance services	**-**	-
- other services	**2**	4
Total	**139**	154

5. EXCEPTIONAL ITEMS

	2018	2017
	€’000	€’000
Restructuring costs	**1,590**	-
Merger and acquisition credit	**-**	(494)
Total	**1,590**	(494)

Restructuring costs of €1,590k include costs relating to the restructure of the senior management team and an internal reorganisation of the Group’s non-current assets (see note 17). The credit of €494k in 2017 relates to the release of an accrual relating to previously recognised merger and acquisition costs within the Group.

6. STAFF COSTS

The average monthly number of people employed (including executive directors) was as follows:

	2018	2017
Average number of persons employed		
Administration and sales	**188**	165
Development and information technology	**106**	89
Total	**294**	254

The aggregate remuneration costs of these employees is analysed as follows:

	Note	2018 €'000	2017 €'000
Staff costs comprise:			
Wages and salaries		**16,194**	16,073
Social security costs		**1,889**	1,800
Pensions costs		**389**	356
Other benefits		**711**	438
Long-term employee incentive (credit)/ costs	14	**(346)**	623
Capitalised development labour		**(1,658)**	(1,747)
Total		**17,179**	17,543

7. FINANCIAL COSTS

	2018 €'000	2017 €'000
Bank charges	**63**	75
Total	**63**	75

8. TAXATION

	2018	2017
	€'000	€'000
Corporation tax:		
Current year	**776**	686
Adjustments in respect of prior years	**(1)**	24
Total	**775**	710
Deferred tax charge/ (credit)	**186**	(128)
Total	**961**	582

Corporation tax is calculated at 12.5% (2017: 12.5%) of the estimated taxable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. The charge for the year can be reconciled to the consolidated income statement as follows:

	2018	2017
	€'000	€'000
Profit before tax on continuing operations	**6,652**	11,831
Tax at the Irish corporation tax rate of 12.5% (2017: 12.5%)	**832**	1,479
Effects of :		
Tax effect of expenses that are not deductible in determining taxable profit	**622**	515
Tax effect of utilisation of tax losses not previously recognised	**(827)**	(1,662)
Capital allowances in excess of depreciation	**(283)**	(293)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**201**	299
Reversal of deferred tax asset on tax losses	**417**	220
Adjustments in respect of prior years	**(1)**	24
Total	**961**	582

The tax losses arise primarily from the previous capital structure of the Group.

The Group has an unrecognised deferred tax asset as at 31 December 2018 of €3,476k (31 December 2017: €3,125k) which has not been recognised in the consolidated financial statements as there is insufficient evidence that the asset will be recovered in the foreseeable future.

9. EARNINGS PER SHARE

Basic earnings per share is computed by dividing the net profit for the year available to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

	2018	2017
Weighted average number of shares in issue (‘000s)	**95,571**	95,571
Profit for the year (€’000s)	**5,691**	11,249
Basic earnings euro cent per share	**5.95**	11.77

Diluted earnings per share is computed by dividing the net profit for the year by the weighted average number of ordinary shares outstanding and, when dilutive, adjusted for the effect of all potentially ordinary shares.

	2018	2017
Weighted average number of ordinary shares in issue (‘000s)	**95,571**	95,571
Effect of dilutive potential ordinary shares:		
Share options (‘000s)	**11**	473
Weighted average number of ordinary shares for the purpose of diluted earnings per share (‘000s)	**95,582**	96,044
Diluted earnings euro cent per share	**5.95**	11.71

Actual earnings per share, calculated by dividing the net profit attributable to ordinary shareholders by the actual number of ordinary shares in issue at 31 December 2018, is 5.95 euro cent (2017: earnings per share of 11.77 euro cent).

10. INTANGIBLE ASSETS

The table below shows the movements in intangible assets for the year:

	Goodwill €'000	Domain Names €'000	Technology €'000	Affiliates Contracts €'000	Capitalised Development Costs €'000	Total €'000
<u>Cost</u>						
Balance at 1 January 2017	47,274	214,640	13,814	5,500	8,120	289,348
Additions	-	-	73	-	1,747	1,820
Balance at 31 December 2017	47,274	214,640	13,887	5,500	9,867	291,168
Balance at 1 January 2018	**47,274**	**214,640**	**13,887**	**5,500**	**9,867**	**291,168**
Additions	**-**	**-**	**181**	**-**	**1,658**	**1,839**
Balance at 31 December 2018	**47,274**	**214,640**	**14,068**	**5,500**	**11,525**	**293,007**
<u>Accumulated amortisation and impairment</u>						
Balance at 1 January 2017	(29,426)	(96,304)	(13,445)	(5,500)	(5,054)	(149,729)
Charge for year	-	(10,149)	(257)	-	(2,925)	(13,331)
Balance at 31 December 2017	(29,426)	(106,453)	(13,702)	(5,500)	(7,979)	(163,060)
Balance at 1 January 2018	**(29,426)**	**(106,453)**	**(13,702)**	**(5,500)**	**(7,979)**	**(163,060)**
Charge for year	**-**	**(10,247)**	**(106)**	**-**	**(1,868)**	**(12,221)**
Balance at 31 December 2018	**(29,426)**	**(116,700)**	**(13,808)**	**(5,500)**	**(9,847)**	**(175,281)**
<u>Carrying amount</u>						
At 31 December 2017	**17,848**	**108,187**	**185**	**-**	**1,888**	**128,108**
At 31 December 2018	**17,848**	**97,940**	**260**	**-**	**1,678**	**117,726**

Goodwill

The goodwill balance at 31 December 2018 relates to an investment in Hostelworld.com Limited in 2009 which resulted in a goodwill amount of €17,848k. The carrying value of this balance as at 31 December 2018 is €17,848k (2017: €17,848k).

Goodwill, which has an indefinite useful life, is subject to annual impairment testing, or more frequent testing if there are indicators of impairment. The recoverable amounts of the cash generating units ("CGUs") are determined from value in use calculations. The cash flow projections are initially based on the three year budgets approved by the directors and extended out for a further 2 years. The cash flow projections take into account key assumptions including historical trading performance, anticipated changes in future market conditions, industry and economic factors and business strategies.

The pre-tax discount rate which has been applied in determining value in use is 10.8% (2017: 10.7%). The discount rate is based on the Group estimated weighted average cost of capital adjusted for the business specific risk of the CGU. The revised discount rate in 2018 was calculated from first principles by a third party professional advisor. Growth rates are assessed based on the approved three year 2019 budget and over the two year forecast period after 2021, they range from 5% to 6%. Cash flows beyond the 5 year period are extrapolated using the estimated long- term growth rate of 2.8% (2017: 2.5%). This long term growth rate was calculated using global rates by a third party professional advisor.

There are no reasonably possible or material changes to the assumptions presented above that would result in any further impairment recorded in each of the years presented in these financial statements.

Following impairment testing, no impairment was recognised for goodwill in 2018.

Other Intangible Assets

Additions during the year comprised of internally generated additions of €1,658k (2017: €1,747k) and other separately acquired additions of €181k (2017: €73k).

There were no indicators to require an impairment test of intangible assets in the current year.

In 2018, as a result of a strategic review of the business by the directors, the estimated useful life of the Hostels.com domain name was reduced to a period of 12 months from 1 July 2018, to be amortised on a straight line basis. This had a result of increasing the amortisation charge relating to Hostels.com by €305k in 2018 and similarly increasing this amortisation charge by the same amount in 2019. Management considers that this change in relation to Hostels.com domain name does not have implications on goodwill.

11. TRADE AND OTHER RECEIVABLES

	2018 €'000	2017 €'000
Amounts falling due within one year		
Trade receivables	**1,067**	1,017
Prepayments	**804**	932
Value Added Tax	**943**	2,017
Total	**2,814**	3,966

The carrying value of trade and other receivables also represents their fair value. Trade receivables are non-interest bearing and trade receivable days are 5 days (2017: 4 days). Given the nature of the business, allowance for impairment of receivables is not material.

12. TRADE AND OTHER PAYABLES

	2018 €'000	2017 €'000
Amounts falling due within one year		
Trade payables	2,361	2,265
Accruals and other payables	5,937	5,273
Deferred Revenue	4,095	1,734
Payroll taxes	553	560
Total	**12,946**	9,832

At 31 December 2018, €2,892k deferred revenue related to free cancellation bookings is included in Deferred Revenue (2017: €nil).

The average credit period for the Group in respect of trade payables is 21 days (2017: 20 days). The directors consider that the carrying amount of trade payables approximates to their fair value.

13. COMMITMENTS AND CONTINGENCIES

(i) Operating Leases

At the reporting date, the Group had commitments under non-cancellable operating leases which fall due as follows:

	2018	2017
	€'000	€'000
Operating leases		
Within one year	**1,124**	1,017
Within two to five years	**2,653**	3,077
More than five years	**725**	1,294
Total	**4,502**	5,388

All operating lease commitments relate to buildings. These relate to four leases of office space in Ireland, UK, Portugal and China. These leases are due to expire in 2035, 2025, 2022 and 2020 respectively. If the Group was to exercise available break options, the leases in Ireland and the UK would expire in 2025 and 2020 respectively.

The operating lease charge included in the consolidated income statement was €1,144k in 2018 (2017: €1,040k).

(ii) Contingencies

In the normal course of business the Group may be subject to indirect taxes on its services in certain foreign jurisdictions. The directors perform ongoing reviews of potential indirect taxes in these jurisdictions. Although the outcome of these reviews and any potential liability is uncertain, no provision has been made in relation to these taxes as the directors believe that it is not probable that a material liability will arise.

14. SHARE-BASED PAYMENTS

Long Term Incentive Plan ("LTIP") scheme

In April 2016, the Group introduced a Long Term Incentive Plan for executive directors and selected management. The proportion of each award which vests, will depend on the Adjusted Earnings per Share

("EPS") performance and Total Shareholder Return ("TSR") of the Group over a three year period ("the performance period").

Up to 70% of the shares/options subject to an award will vest according to the Group's adjusted EPS growth compared with target during the performance period. Up to 30% of the shares/options subject to an invitation will vest according to the Group's TSR performance during the performance period measured against the TSR performance indicators approved by the Remuneration Committee. An award will lapse if a participant ceases to be an employee or an officer within the Group before the vesting date and is not subject to good leaver provisions.

During the year ended 31 December 2018, the Remuneration Committee approved the grant of 773,797 share options pursuant to the terms and conditions of the Group's LTIP Rules. These were granted in three separate offerings. In 2018, €141k was expensed in the consolidated income statement in relation to these awards. €608k was credited to the consolidated income statement for the year ended 31 December 2018 for the awards made in 2016 and 2017. This credit is mainly due to the forfeiture of the 2016 awards which will not vest in April 2019 due to vesting conditions not being satisfied and a change in the estimate of shares that will vest under the EPS component of the 2017 awards.

Details of the share options outstanding during the year are as follows:

	2018 **No. of share options**	2017 No. of share options
Outstanding at beginning of year	**1,324,039**	928,464
Granted during the year	**773,797**	847,663
Forfeited during the year	**(1,221,879)**	(452,088)
Exercised during the year	**-**	-
Expired during the year	**-**	-
Outstanding at the end of the year	**875,957**	1,324,039
Exercisable at the end of the year	**-**	-

Included in the number of options forfeited in 2018, are 562,626 options of the 2016 awards which did not meet the vesting conditions based on performance conditions from 1 January 2016 to 31 December 2018.

The remaining awards will vest on the later of the 3rd anniversary of the grant and the determination of the performance condition, and will then remain exercisable until the 7th anniversary of the date of grant, provided the individual remains an employee or officer of the Group or is subject to good leaver provisions. The measurement period for the 2017 and 2018 awards for performance conditions is over 3 years from 1 January 2017 to 31 December 2019 and from 1 January 2018 to 31 December 2020 respectively.

Share options under the LTIP scheme have an exercise price of £nil. The fair value, at the grant date, of the TSR-based conditional awards was measured using a Monte Carlo simulation model.

Fair value of options granted during the year:

At the grant date, the fair value per conditional award and the assumptions used in the calculations are as follows:

	December 2018	**June 2018**	**April 2018**	**March 2017**
Year of potential vesting	2021	2021	2021	2020
Number of share options granted	98,520	175,723	499,554	847,663
Share price at grant date	£1.99	£3.15	£3.86	£2.33
Exercise price per share option	£nil	£nil	£nil	£nil
Expected volatility of Company share price	41.5%	47.0%	46.0%	46.0%
Expected life	3 years	3 years	3 years	3 years
Expected dividend yield	7.6%	4.8%	3.8%	5.7%
Risk free interest rate	0.75%	0.76%	0.88%	0.21%
Weighted average fair value at grant date	£1.48	£2.64	£3.35	£1.92
Remaining weighted average life of options (years)	2.93	2.50	2.28	1.24

Expected volatility was determined in line with market performance of the Company and comparator companies as there was insufficient historic data available for the Company at the grant date of the awards up to and including the June 2018 awards. The expected volatility for the December 2018 awards was determined based on the market performance of the Company over 2.07 years, corresponding to the remaining time left of the measurement period. Market based vesting conditions, such as the TSR condition, have been taken into account in establishing the fair value of equity instruments granted. Non-market based performance conditions, such as the EPS conditions, were not taken into account in establishing the fair value of equity instruments granted, however the number of equity instruments included in the measurement of the transaction is adjusted so that the amount recognised is based on the number of equity instruments that eventually vest.

Save As You Earn ("SAYE") scheme

During the year ended 31 December 2018, the Remuneration Committee approved the granting of share options under a SAYE scheme for all eligible employees across the Group. 24 employees in Ireland availed of the scheme in 2018 (2017: 73 employees availed of the 2017 scheme). The scheme will last 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 has been set at a 20% discount for Irish and UK based employees in line with amounts permitted under tax legislation in both jurisdictions.

The total expected cost of the 2018 SAYE scheme was estimated at €41k of which €7k has been recognised in the consolidated income statement for the year ended 31 December 2018. The remaining

€34k will be charged against profit or loss in equal instalments over the remainder of the three year vesting period. The total expected cost of the 2017 SAYE scheme was estimated at €200k of which €115k (2017: €37k) has been recognised in the consolidated income statement for the current year.

	Number of SAYE share options granted	
	2018	2017
Outstanding at beginning of year	**171,333**	-
Granted during the year	**90,819**	181,208
Forfeited during the year	**(96,990)**	(9,875)
Outstanding share options granted at end of year	**165,162**	171,333

Fair value of options granted during the year:

At the grant date, the fair value per conditional award and the assumptions used in the calculations are as follows:

Scheme	**Irish office**	**UK office**	**Irish office**
Grant date	September 2018	July 2017	July 2017
Year of potential vesting	2021	2020	2020
Share price at grant date	€2.40	£3.37	€4.00
Exercise price per share option	€2.56	£2.78	€3.24
Expected volatility of company share price	47.5%	45.0%	44.6%
Expected life	3 years	3 years	3 years
Expected dividend yield	6.9%	4.0%	4.0%
Risk free interest rate	(0.40%)	0.38%	0.38%
Weighted average fair value at grant date	€0.45	£0.99	€1.10
Valuation model	Black Scholes	Black Scholes	Black Scholes

Expected volatility was determined in line with market performance of the Company and comparator companies as there was insufficient historic data available for the Company at the grant date of the awards.

The charge of €121k (2017: €37k) in relation to the SAYE schemes, together with the credit in respect of the long-term incentive plan for the year of €467k (2017: €586k expense) is the total charge in respect of share-based payments, which has been recognised directly in equity. The LTIP and SAYE schemes are accounted for as equity-settled in the financial statements.

The Group recognised a credit of €346k (2017: €623k expense) relating to equity-settled share-based payment transactions in the consolidated income statement during the year.

Cash settled share-based payments

During 2018, the Group issued to certain individuals share appreciation rights ("SARs"), in the form of Phantom Shares that require the Group to pay the intrinsic value of the SAR at the date of exercise. The Group has recorded liabilities of €3k and a corresponding expense of €3k in relation to these SARs as at 31 December 2018 (2017: €nil). The fair value of these SARs was determined by using a Black Scholes model.

15. RELATED PARTY TRANSACTIONS

SUBSIDIARIES

The following is a list of the Company's current investments in subsidiaries, including the name, country of incorporation, and proportion of ownership interest:

Company	Holding	Nature of Business	Registered Office
WRI Nominees DAC	100%*	Holding of IP	Floor 2, One Central Park, Leopardstown, Dublin 18, Ireland 15, Boulevard Friedrich Wilhelm Raiffeisen, L-2411 Luxembourg **
Hostelworld.com Limited	100%	Technology trading company	Floor 2, One Central Park, Leopardstown, Dublin 18, Ireland
Hostelworld Services Portugal LDA	100%	Marketing and research and development services company	Aviz Trade Center, Rua Engenheiro Ferreira Dias, 924, 2nd Andar, Sala E27, 4100-246 Porto, Portugal
Hostelworld Services Limited	100%*	Marketing services and technology trading company	High Holborn House, 52 - 54 High Holborn, London, WC1V 6RL, United Kingdom

** held directly by the Company*

*** WRI Nominees DAC is dually incorporated in Luxembourg and Ireland with registered offices in both locations. Its place of business is in Luxembourg. On 12 March 2019, WRI Nominees DAC was placed in liquidation by way of members' voluntary winding up.*

All subsidiaries have the same reporting date as the Company being 31 December.

On 30 November 2018, Hostelworld Korea Limited was placed into voluntary liquidation.

On 24 March 2017, Hostelworld Services LDA was incorporated in Portugal. On 13 November 2017, Wings Lux 3 S.à r.l. and Cornetto Bidco Limited transferred their shares in Hostelworld Services Limited to the Company. On 21 December 2017, WRI Nominees DAC purchased 96 ordinary shares in Hostelworld.com Limited which represents a 49% ownership. Hostelworld Group plc owns the remaining 51% directly.

During 2017, as part of a group reorganisation, Wings Lux 2 S.à r.l., Wings Lux 3 S.à r.l., Wings Holdco Limited and Cornetto Bidco Limited were liquidated/ wound up.

Directors' remuneration

	2018	2017
	€'000	€'000
Salaries, fees, bonuses and benefits in kind	**1,004**	1,321
Amounts receivable under long-term incentive schemes	**44**	207
Termination benefits	**467**	-
Pension contributions	**52**	58
Total	**1,567**	1,586

Retirement benefit charges of €52k (2017: €58k) arise from pension payments relating to 4 executive directors (2017: 2).

Key management personnel

The Group's key management comprise the Board of Directors and senior management having authority and responsibility for planning, directing and controlling the activities of the Group.

	2018	2017
	€'000	€'000
Short term benefits	**2,892**	2,882
Share based payments (credit)/ charge	**(253)**	420
Termination benefits	**1,121**	-
Post employment benefits	**123**	112
Total	**3,883**	3,414

In 2018, it was determined that the non-market vesting condition of the 2016 LTIPs was not satisfied and there was a change in vesting estimate for the non-market vesting condition of the 2017 LTIPs, as disclosed in note 14. This led to a reversal of the cumulative expense recognised in 2016 and 2017 in relation to this element of these awards in accordance with the requirements of IFRS2 and as a result, there is a negative expense included for share based payments in the Key Management Personnel disclosure.

16. DIVIDENDS

Amounts recognised as distributions to equity holders in the financial year:

	2018 €'000	2017 €'000
Final 2017 dividend of €0.12 per share (paid 14 June 2018)	**11,468**	
Interim 2018 dividend of €0.048 per share (paid 21 September 2018)	**4,588**	
Final 2016 dividend of €0.104 per share (paid 6 June 2017)		9,939
Supplementary 2016 dividend of €0.105 per share (paid 6 June 2017)		10,035
Interim 2017 dividend of €0.051 per share (paid 22 September 2017)		4,874
	16,056	24,848
Proposed final dividend for the year ended 31 December 2018 of €0.09 per share (2017: €0.12 per share)	**8,601**	11,468

In accordance with the Group's dividend policy, the directors recommend the payment of a final dividend for 2018 of €0.09 per share amounting to €8.6m (2017: €0.12 per share amounting to €11.5m).

The proposed dividends are to be approved by the shareholders at the 2019 AGM on 31 May 2019.

17. EVENTS AFTER THE BALANCE SHEET DATE

As part of a group reorganisation, Hostelworld.com Limited acquired certain assets from WRI Nominees DAC for a consideration of €151m on 12 March 2019. On 12 March 2019, WRI Nominees DAC was placed in liquidation by way of members' voluntary winding up.

There were no other significant events after the balance sheet date.