

AUDIT & RISK COMMITTEE REPORT



Committee Meetings and Attendance

The committee met six times during 2023.

| Member | Attendance |
|--------------------|------------|
| Cathriona Hallahan | 6/6 |
| Elizabeth McMeikan | 6/6 |
| Margaret Sweeney * | 2/2 |
| Gervaise Slowey * | 2/2 |
| Jon Mortimore * | 2/3 |

* Margaret Sweeney retired from the Board on 27 April 2023; Gervaise Slowey joined the Committee for the period of 27 April to 01 August 2023, while Jon Mortimore was appointed to the Board on 01 August 2023.

All members of the committee are considered by the board to be independent.

The board considers that the committee chair has sufficient recent and relevant financial experience for the role and that there is sufficient financial and commercial experience within the committee as a whole.

See the Committee's terms of reference on www.dalatahotelgroup.com

Dear Shareholder,

As chair of the audit and risk committee, I am pleased to present this report on the committee's work during 2023.

The Group's performance has been built on a sound financial platform and development strategy, which has supported the Group through a period of business uncertainty and increased costs. The committee has reviewed the Group's financial position throughout the year and is satisfied that sound financial and reporting structures are in place.

The committee also supported the board in assessing the principal and emerging risks facing the Group, including reviewing the Group's risk management framework and internal control systems, overseeing the operation of the Group's internal audit function, assessing the key accounting judgements and estimates, and highlighting some of the other important, relevant topics and themes arising during the year.

Key accounting judgements

Throughout the year, the committee considered the key accounting judgement considerations. This process typically commences mid-year for interim reporting and continues through to the annual report and financial statements the following February.

At its June meeting, the committee received a detailed presentation from management on the key considerations and accounting judgements for the upcoming interim financial statements. These focused on property valuations, hotel acquisitions, existing hotel revaluations, the carrying value of goodwill and right-of-use assets and the Group's self-insurance programme.

The committee further considered these topics at its August meeting and conducted a thorough review of the interim financial statements and investor presentation. The committee also reviewed the dividend consideration paper at this meeting. The external auditors' report on management's approach was also provided to the committee.

At its October meeting, management outlined the key accounting judgement considerations for the 2023 year-end financial reporting cycle. A detailed explanation of the assessment process concerning these items is provided later in the committee's report.

The committee is satisfied that in all of these matters, the accounting treatment adopted complies with relevant IFRS, and none gave rise to disagreement between management, the external auditors or the committee.

During 2023, the committee considered a query by the Financial Reporting Supervision Unit of IAASA relating to the accounting treatment of income from the sale of residential property at the site of the former Tara Towers hotel. Detailed briefings were provided by management and the external auditor. Additional details are set out in [Note 2](#) of the Financial Statements.

Assessment of whether the annual report, taken as a whole, is fair, balanced and understandable

The committee receives copies of the annual report and financial statements during the drafting stage and reviews the content, along with results announcements and investor presentations to be published by the Group.

The committee ensures that the key messages communicated in the annual report and the other publications accurately reflect the Group's performance and the strategy being pursued and are consistent.

The committee is satisfied that all of the key events reported to the board by management during the year, positive and negative, are suitably narrated in the annual report.

Viability Statement

The committee received and considered the draft viability statement, reviewed and challenged the assumptions upon which the scenario analysis was based and its conclusions, and advised the board on the adoption of the statement.

Further reporting

In the following pages, the committee sets out, in more detail, how it fulfilled its role under a range of headings, including significant accounting judgements and key sources of estimation uncertainty, external audit, internal control and risk management, internal audit, whistleblowing, compliance framework, health and safety and insurance programmes, information security and data protection.

In conclusion

My thanks to my colleagues on the committee, the management team, external and internal auditors, and advisors to the company who assisted the committee in its work in 2023.

Cathriona Hallahan

Chair Audit and Risk Committee

Role of the Committee

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| Monitor the integrity of the group's financial statements, accounting policies and key judgements made in the financial statements. |
| Assess whether the annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for the shareholders to assess the company's position and performance, business model and strategy. |
| Oversee the group's relationship with our external auditor. |
| Review the effectiveness of the group's internal control systems. |
| Monitor the group's risk management systems and the identification of our principal risks. |
| Monitor the effectiveness of the internal audit function. |
| Review the group's compliance framework. |
| Monitor health, safety and operational risks and the group's insurance programmes. |

Significant Financial Judgements and Key Sources of Estimation Uncertainty

| Matter | Significant financial judgements and key sources of estimation uncertainty |
|--|---|
| ACCOUNTING FOR ACQUISITIONS The Group completed a number of business combinations and asset purchases during the year. | <p>During 2023, the Group completed the acquisition of three hotels and one development site. Depending on the nature of the transactions, these were accounted for as business combinations, the details of which are set out in note 13 to the Group consolidated financial statements, or as asset purchases, the details of which are outlined in note 15 to the Group consolidated financial statements.</p> <p>The Committee has evaluated the accounting treatment of the consideration paid, allocation to assets and liabilities acquired, and costs incurred as presented by management for each of the aforementioned transactions. Management have reported in detail to the Committee in relation to the accounting treatment applied to each transaction and the treatment of associated transaction costs in each case. In addition, the Committee discussed the transactions during the year with management and with the External Auditor. Accordingly, the Committee is satisfied that the correct accounting method has been chosen for each of the aforementioned transactions.</p> <p>Where applicable, the Committee has considered the valuations which underpin the accounting and which were performed by suitably qualified professional valuers, as reported to them by management.</p> <p>Based on the above, the Committee is satisfied that the assumptions used and judgements made in accounting for business combinations are reasonable and is satisfied that the acquired assets and liabilities and goodwill arising have been correctly stated and appropriately disclosed in the Group consolidated financial statements.</p> |

AUDIT & RISK COMMITTEE REPORT (CONTINUED)

| Matter | Significant financial judgements and key sources of estimation uncertainty |
|---|---|
| <p>PROPERTY REVALUATIONS</p> <p>In line with the group's revaluation policy for land and buildings, valuations are carried out by suitably qualified professional valuers at each reporting period end.</p> | <p>The net carrying value of land and buildings at 31 December 2023 was €1,479 million (note 15) (2022: €1,281 million). The carrying value of land and buildings is determined using fair value. The calculation of fair value and the allocation of fair value to land and buildings requires judgement.</p> <p>The assumptions utilised by the valuation specialists are disclosed in note 15 to the Group consolidated financial statements and include projected cash flows for future revenue and costs, terminal value multiples and discount rates. Management has engaged appropriately qualified professional valuation specialists to determine the value attributable to land and buildings.</p> <p>Management have reported in detail to the Committee in relation to the valuation approach, as determined by suitably qualified professionals, of land and buildings at 31 December 2023. The Committee has discussed the valuation approach undertaken with management.</p> <p>Through discussion with management and considering the findings of the External Auditor, the Committee is satisfied that the property valuations at 31 December 2023 are reasonable and that the revaluation movements have been appropriately presented in the Group consolidated financial statements.</p> |
| <p>CARRYING VALUE OF RIGHT-OF-USE ASSETS AND GOODWILL</p> <p>Detailed impairment reviews are undertaken to determine whether the carrying value of right-of-use assets and goodwill is impaired.</p> | <p>Right-of-use assets, representing the group's right to use underlying hotel assets which are operated under lease, amounted to €685.2 million at 31 December 2023 (2022: €658.1 million). Goodwill amounted to €53.8 million at 31 December 2023 (2022: €30.2 million).</p> <p>The carrying values of hotel cash-generating units (CGUs), which contain right-of-use assets, are reviewed whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, whilst CGUs to which goodwill has been allocated are required to be tested at least annually for impairment or also if there is an indication of impairment. At 31 December 2023, as a result of the carrying amount of the net assets of the Group being more than its market capitalisation, the Group tested each cash generating unit ('CGU') for impairment as both were deemed to be potential impairment indicators. On 31 December 2023, the market capitalisation of the Group (€1,032 million) was lower than the net assets of the Group (market capitalisation is calculated by multiplying the share price on that date by the number of shares in issue). Market capitalisation can be influenced by a number of different market factors and uncertainties. In addition, share prices reflect a discount due to lack of control rights.</p> <p>The Group applies IAS 36 <i>Impairment of Assets</i> to determine whether a cash-generating unit with goodwill and/or a right-of-use asset is impaired and accounts for any identified impairments through profit or loss, or to determine whether any previous impairment of right-of-use assets and fixtures, fittings and equipment should be reversed.</p> <p>Management undertook detailed impairment reviews on a hotel-by-hotel basis, taking account of the valuations prepared by qualified professional valuation specialists and other factors. The assumptions utilised by management in conducting these analyses are disclosed in note 12 to the group consolidated financial statements and include projected cash flows for future revenue and costs, terminal value multiples and discount rates.</p> <p>The committee has reviewed the approach taken by management, as outlined in management's report to the committee, in conducting these impairment reviews and, in particular, the assumptions utilised by management. As part of their audit, the external auditor assessed the Group's impairment calculations on a CGU-by-CGU basis.</p> <p>Discussions were undertaken between management and the external auditor as to the underlying assumptions. Following discussions with management and with the external auditor, the committee is satisfied that these are reasonable.</p> <p>The recoverable amount was not deemed lower than the carrying amount for any of the Group's CGUs as at 31 December 2023, and as a result, no impairment charges for goodwill, right-of-use assets and fixtures, fittings and equipment were recognised in profit or loss for the year.</p> <p>Accordingly, the committee has concluded that the carrying value of right-of-use assets and goodwill is appropriately stated at 31 December 2023 and that the disclosures included within note 12, note 14 and note 16 of the group consolidated financial statements are adequate.</p> |

External Audit

Appointment

Our External Auditor is KPMG, who was appointed in 2014 and reappointed in 2016 when the company became an EU Public Interest Entity (PIE) following its admission to the main markets of Euronext Dublin (formerly the Irish Stock Exchange) and the London Stock Exchange.

The external auditor is subject to mandatory rotation ten years after the company becomes an EU PIE. As the ten-year limit is approaching, the committee, during 2023, considered the overall strategy and approach to this matter. The company has no immediate plan to tender for external audit services voluntarily.

Evaluation

During 2023, we evaluated KPMG based on their work completed, management feedback and our review of the documentation provided to the committee. The committee received a detailed presentation from KPMG in October 2023, setting out its strategy and priorities for the upcoming audit. This allowed the committee to provide input and monitor progress against the plan.

The committee noted that there would be a change in the group's audit partner after the completion of the 2023 audit and considered the handover process for the incoming partner. This will also be reviewed in 2024.

KPMG attends all of the committee's meetings and regularly meets the committee without management present. The committee is satisfied that the statutory audit process and services provided by KPMG were satisfactory and effective.

Independence

The committee assessed the auditor's independence by reviewing the information and assurances given by the auditor concerning its independence and the procedures it puts in place to safeguard integrity, independence and objectivity considerations relating to the provision of non-audit services and their fees.

The committee has implemented a procedure to pre-approve any non-audit services provided by KPMG to the company.

During 2023, KPMG provided non-audit services primarily concerning the review of the half-year financial statements and certain other permitted services. KPMG fees for 2023 are set out in [note 4](#) to the financial statements. Under the EU fee cap rules, non-audit services are not permitted to exceed a ratio of 70% of the average annual audit fee for the preceding three-year period. The actual ratio for 2023 non-audit fees was 18.5%.

The company has adopted a policy concerning the employment of former employees of the external auditor.

Considering our findings regarding the effectiveness of the audit process and the independence of KPMG, the committee is satisfied that KPMG continues to be independent and free from any conflicting interests with the Group.

Internal Control & Risk Management

The board has overall responsibility for risk management and has delegated this task to the committee. A consideration of the Group's risk register, with particular emphasis on principal risks, emerging risks and changes to risk profiles, is a standing agenda item for each committee meeting. The committee reviews documentation prepared by management and internal audit in this regard.

Additional details on our risk management framework, processes and principal risks are set out in the Risk Management Section.

The committee also has responsibility for the oversight of the internal control structures. These are reviewed throughout the year through the consideration of internal audit reports and other relevant papers. An assessment of the Group's high-level internal controls environment was also considered in January 2024.

Internal Audit

The committee oversees the scope, work and effectiveness of the Group's internal audit function, which operates to formal terms of reference. At each meeting, the committee considers the findings noted in the internal audit reviews and management's responses to matters noted.

On an annual basis, the Group Internal Auditor sets out the planned departmental strategy and scope of work for the following year for consideration by the committee. The plan includes core internal control and risk management assessments covering the Group's activities and projects designed to provide additional insight and support the committee in this area. This plan is reviewed on an ongoing basis and updated at each committee meeting. The use of group-wide data analytics to provide assurance, harnessing the Group's investment in business system platforms, is now standard. This is supported by detailed business risk and control assessments in targeted business activities and consideration of the Group's wider risk and control environment.

The committee meets with the Group Internal Auditor after each meeting without management present.

Tax and Treasury Updates

At its May meeting, the committee received and considered reports from management on the company's tax and treasury positions. The tax update provided an overview of the Group's existing and emerging tax risks, tax strategy, and related priorities for the coming years.

The treasury update provided an overview of existing interest rate hedging arrangements, future hedging strategy, and consideration of the Group's treasury policy. The committee also considered the Group's updated banking arrangements in the Republic of Ireland following the departure of Ulster Bank from the market.

Whistleblowing & Speak-up

The board has approved a Confidential Disclosure Policy (Whistleblowing Policy), which is reviewed annually. A copy of the Confidential Disclosure Policy is included in the Employee Handbook, which is provided to all employees. Ongoing initiatives across the Group's communications platforms to increase awareness of this facility are also in place.

At its January meeting, the committee considered the Group's whistleblowing policy and arrangements, reviewed the whistleblowing incidents and outcomes,

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and assisted the board in assessing the adequacy of these arrangements. There are no outstanding matters of concern raised by employees using the whistleblowing arrangements during 2023.

Health and Safety and Insurance Programme

The committee is responsible for monitoring the effectiveness of the Group's health and safety and operational risks, and also the Group's insurance programmes.

In relation to health and safety, the committee received a detailed update from management in May on the Group's health and safety environment, emerging risks and the outcome of external assessments completed at the hotels by Bureau Veritas.

The committee also received a comprehensive briefing from management and the company's insurance brokers on the performance of the Group's insurance programme, including self-insurance trends, market conditions and the Group's claims environment.

The committee considered the Group's insurance cover and associated risks, including property, business interruption, public and employer's liability and other insurance coverage. Consideration was also given to emerging insurance-related risks and cover available to the Group. The committee is satisfied that the company has an appropriate insurance programme in place.

Compliance Framework

Compliance with S225(2) Companies Act 2014

The committee carries out an annual review of the company's compliance framework and compliance with certain obligations specified in section 225(2) of the Companies Act 2014 arising from the Companies Act 2014, the Market Abuse (Directive 2003/6/EC) Regulation 2005, the Prospectus (Directive 2003/71/EC) Regulation 2005, the Transparency (Directive 2004/109/EC) Regulation 2007 and Tax Laws. This review is based on an analysis prepared by internal audit of compliance activity during the year.

During 2023, the committee considered a report into the Group's structures and procedures overseeing compliance with the Market Abuse Regulations, including awareness and training in this area and the work of the disclosure committee during 2023.

The committee also carried out an annual review of the company's risk assessment and policies concerning modern slavery, anti-bribery and corruption and anti-money laundering.

Information Security

The committee monitors the management of information security risks and the Group's technology risk environment. The committee is aware of the increased risk profile in this area and is satisfied that the company, through its ongoing investment in information technology, continues to mitigate its information security risk (see the Risk Management section for further analysis). The Group has a cyber liability insurance policy and reviews the limits and scope of this cover annually.

At its October meeting, the committee considered an information security management report, prepared by management, outlining the Group's strategy in this area. External information security experts also attended this presentation and provided the committee with updates on the wider technology security environment.

The Group's IT department maintains a detailed information system risk register and has implemented a comprehensive suite of information security tools supported by detailed policies and training resources.

Data Protection & Privacy

The committee has oversight of data and privacy risk management at Dalata. The structured approach to data risk management and compliance with the General Data Protection Regulation (GDPR) enables the Group's compliance team to respond to, mitigate and manage these risks proactively.

At its October meeting, the committee considered a data protection accountability framework report and a management presentation on privacy, risks and priorities for 2024.

The Group has an active privacy committee, which met 11 times in 2023. Relevant senior management, supported by external expertise, attends privacy committee meetings.

The compliance team maintains a detailed incident register and provides support throughout the business in this complex area. 45 low-level incidents were recorded in 2023, with two incidents reported to the relevant data protection regulator.

The Group recognises the importance of ongoing training and communication to raise awareness of best practices when handling data and to help prevent personal data incidents. GDPR officers are in place at each hotel to lead their property in good GDPR practices, to promote GDPR awareness among colleagues and to be a point of contact between the hotels and central office.