





**FROM BRAND SEGMENTATION**

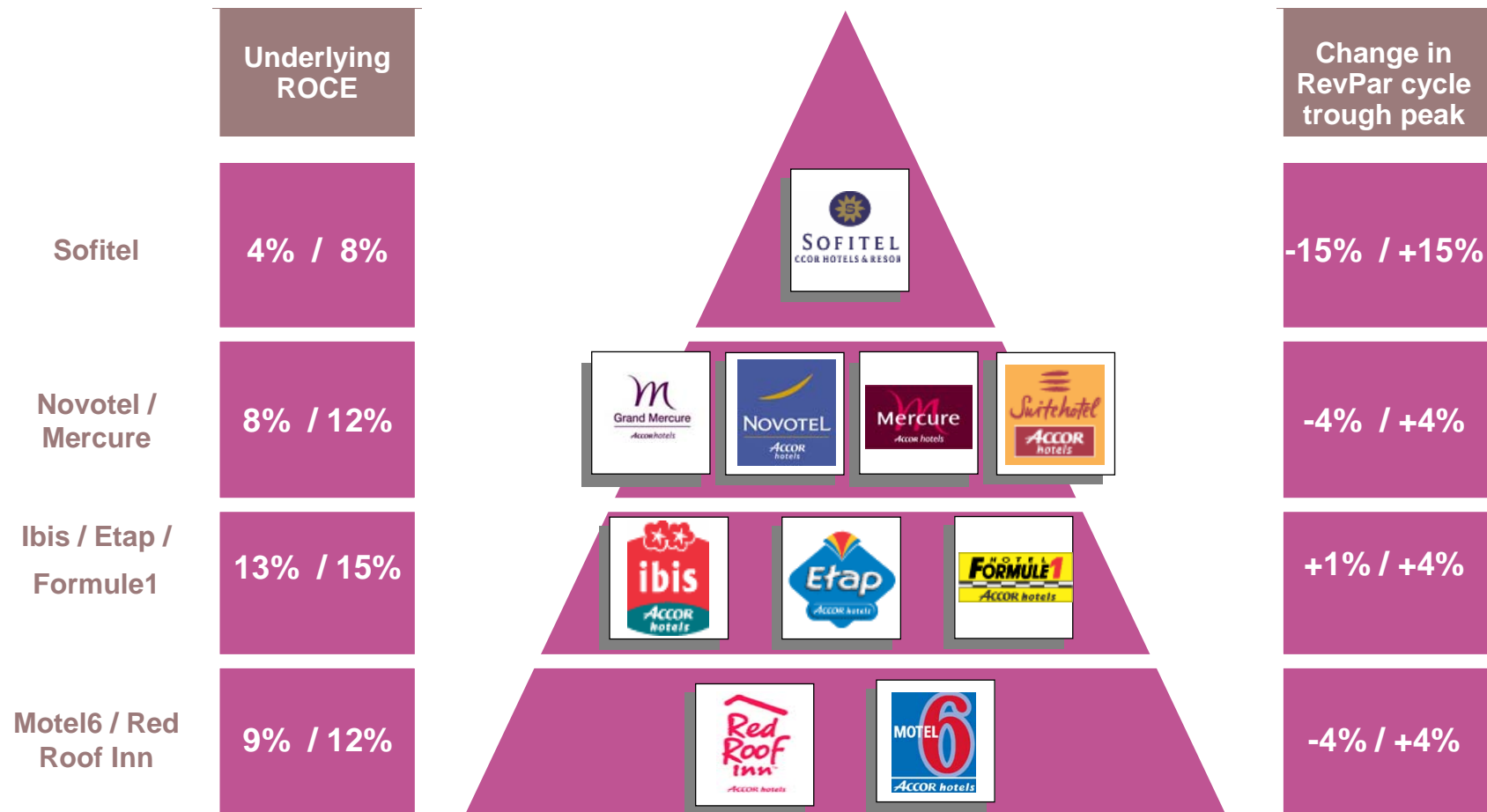
**TO**

**OPERATING STRUCTURES DIFFERENTIATION**





## Significant Differences in Profitability and Volatility Depending on the Hotel Segment





## SOFITEL PBT & ROCE Impacts

Sofitel / per room	Ownership	Lease Management	Franchise
Investment	350 000	87 500	0
OR	65%	65%	65%
ARR (HT)	230	230	230
Revpar	150	150	150
Revenue	91 304	91 304	5 332
EBITDAR	21 000	21 000	2 133
% sales	23,0%	23,0%	40,0%
Lease (6,25% Sofitel)	0	-16 406	0
Depreciation	-13 800	-9 833	0
Finance cost (4,5% LT)	-15 750	-3 938	0
<b>PBT</b>	<b>-8 550</b>	<b>-9 177</b>	<b>2 133</b>
<b>% Revenue</b>	<b>-9,4%</b>	<b>-10,1%</b>	<b>40,0%</b>
<b>ROCE</b>	<b>6,0%</b>	<b>5,3%</b>	<b>Infinite</b>





## NOVOTEL PBT & ROCE Impacts

Novotel / per room	Ownership	Lease	Management	Franchise
Investment	125 000	31 250	0	0
OR	68%	68%	68%	68%
ARR (HT)	97	97	97	97
Revpar	66	66	66	66
Revenue	37 879	37 879	2 515	1 515
EBITDAR	12 500	12 500	1 006	758
% sales	33,0%	33,0%	40,0%	50,0%
Lease	0	-5 859	0	0
Depreciation	-4 319	-3 070	0	0
Finance cost (4,5% LT)	-4 929	-1 232	0	0
<b>PBT</b>	<b>3 252</b>	<b>2 339</b>	<b>1 006</b>	<b>758</b>
<b>% Revenue</b>	<b>8,6%</b>	<b>6,2%</b>	<b>40,0%</b>	<b>50,0%</b>
<b>ROCE</b>	<b>10,0%</b>	<b>21,3%</b>	<b>Infinite</b>	<b>Infinite</b>





## IBIS PBT & ROCE Impacts

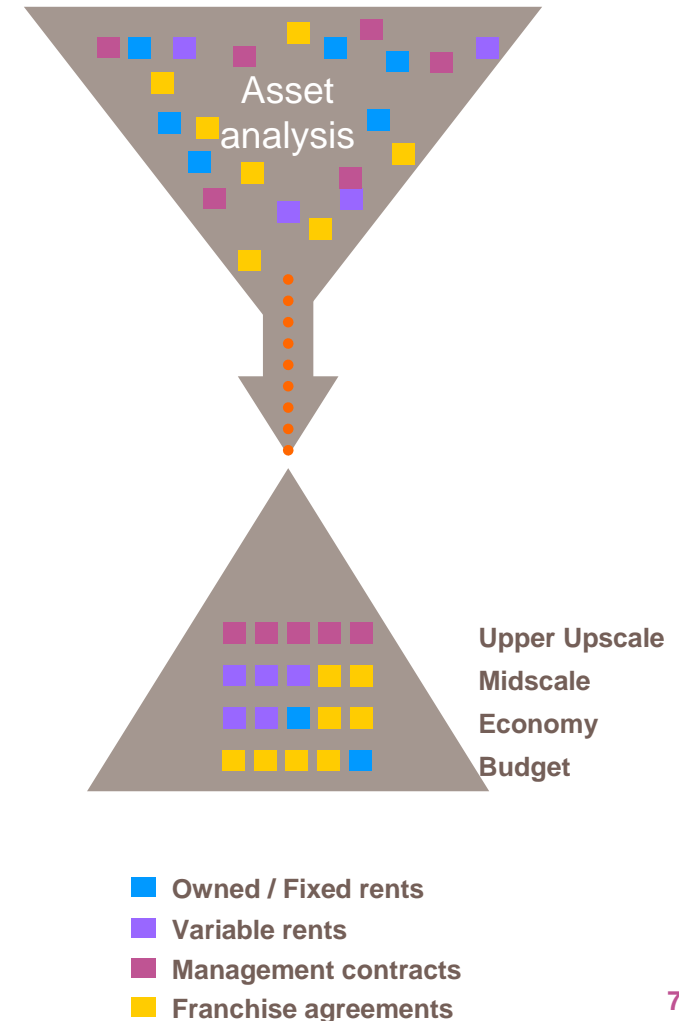
IBIS / per room	Ownership	Lease	Management	Franchise
Investment	55 000	13 750	0	0
OR	73%	73%	73%	73%
ARR (HT)	57	57	57	57
Revpar	42	42	42	42
Revenue	19 861	19 861	1 366	993
EBITDAR	7 150	7 150	547	497
% sales	36,0%	36,0%	40,0%	50,0%
Lease	0	-2 723	0	0
Depreciation	-2 334	-1 545	0	0
Finance cost (4,5% LT)	-2 475	-619	0	0
<b>PBT</b>	<b>2 341</b>	<b>2 264</b>	<b>547</b>	<b>497</b>
<b>% Revenue</b>	<b>11,8%</b>	<b>11,4%</b>	<b>40,0%</b>	<b>50,0%</b>
<b>ROCE</b>	<b>13,0%</b>	<b>32,2%</b>	<b>Infinite</b>	<b>Infinite</b>



# Rationalize the Hotel Portfolio 2006 – 2008 period

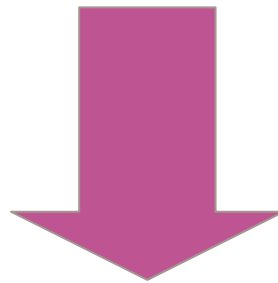
## 2 assets categories

- ▶ **Strategic hotels: a preferred operating structure for each segment**
  - Upper Upscale: Management contracts
  - Midscale: Variable rents
  - Economy Europe: Variable and fixed rents / Franchise agreements
  - Economy US: Franchise agreements
  
- ▶ **Non-strategic hotels**
  - Outright disposal or sale and franchise-back



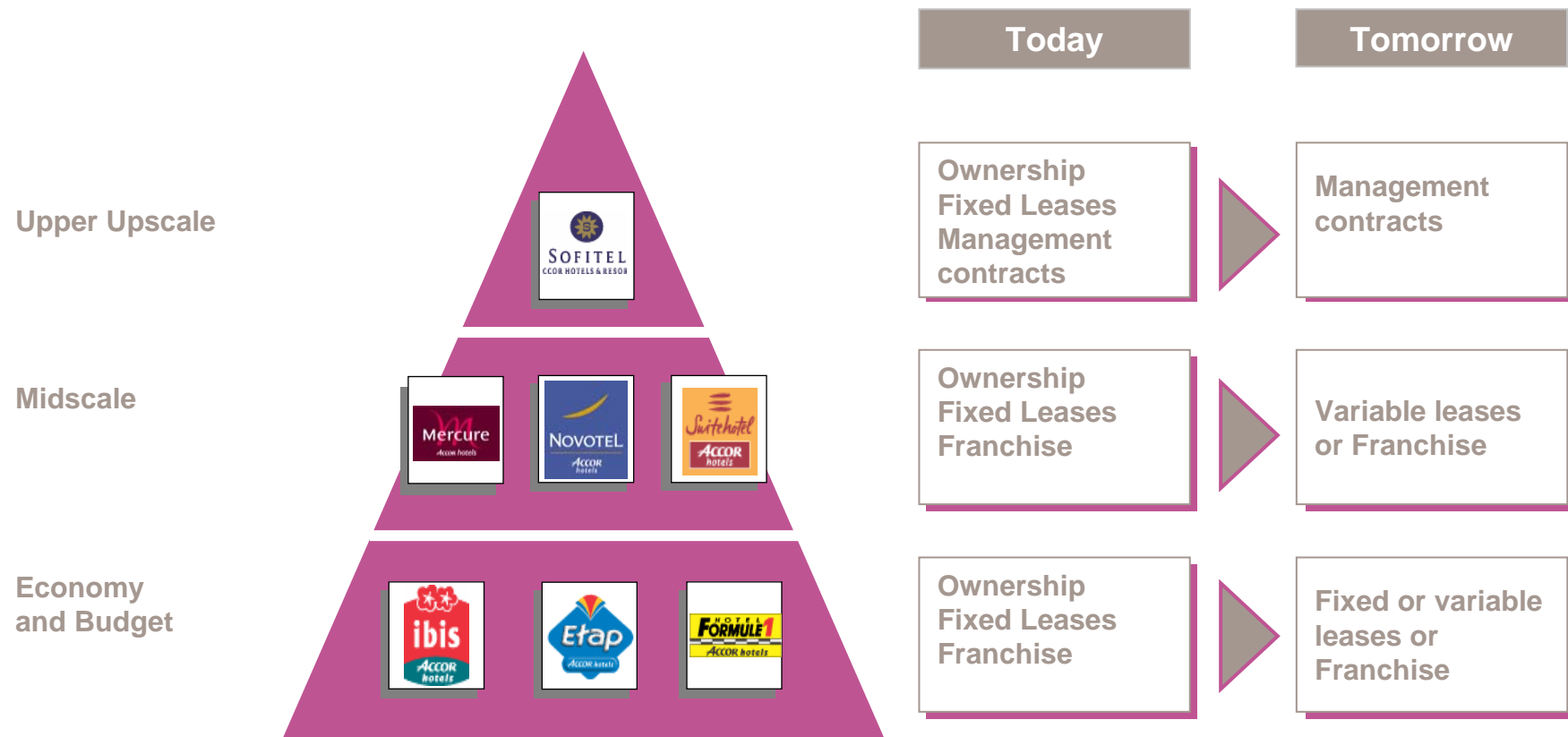


*To optimize capital employed and reduce earnings volatility in the Hotels business, we actively manage hotel operating structures on an ongoing basis.*



***ASSET MANAGEMENT***

## Mature markets



## Emerging Markets

Our risk-taking geared to improvements in the economic and political environment



Targeted countries: China, Brazil, India, Russia



## Strategic Hotels: Optimize the Financing Arrangement

A global real estate strategy with targeted partners to optimize asset value

	Europe	US	Asia / Pacific
Upper Upscale	Search for a partner	GEM Realty / Whitehall	Search for a partner
Midscale	Foncière des Murs Phase 1 – Phase 2 Search for a partner		TAHL Australia
Economy	Search for a partner	Search for a partner	



## Strategic Hotels / Upper Upscale Sale & Management-Back



### United States / Europe

- ▶ Sale of property and business assets to REITs → Reduce capital employed in a low-margin segment
- ▶ Maintain a 20-25% stake in the acquiring company → Benefit from the property's long-term appreciation
- ▶ Sign a long-term management contract (at least 25 years) → Assert our long-term presence in the segment. Low earnings volatility.



Upper Upscale



## Sale & Management-Back

2006

2007

### United States

- ▶ 6 Sofitel (of which 4 leased with a fixed price purchase option).
- ▶ Portfolio: \$370 million
- ▶ Cash: \$200 million
- ▶ Management contract: 25 years, with three 10-year rollovers
- ▶ 25% minority stake
- ▶ Capital gain: \$3 million
- ▶ Impact on 2006 profit before tax and non recurring items: +\$5 million

### Europe

- ▶ 14 Sofitel
- ▶ Leases with call options: 50%
- ▶ Portfolio approx. €650 million
- ▶ Long-term management contract

## Strategic Hotels / Midscale Sale & Variable Leaseback



### Europe

- ▶ Sale of Novotel, Mercure and Ibis properties to a cash flow-driven hotel REIT → Reduce capital employed
- ▶ Long-term (60-year) variable lease based on a percentage of revenue with no guaranteed minimum → Reduce earnings volatility
- ▶ Exit option every 12 years → Maintain a flexible network
- ▶ Partnership to acquire Midscale hotels → Speed up development



## Midscale/Economy



## Sale & Variable Leaseback

2005

2006

2007

2008

### France – Phase 1

- ▶ 128 hotels
- ▶ Rents: 15.5% of revenue
- ▶ Yield: 6.75%
- ▶ Market value: €1,025 M
- ▶ Capital gain: €107 M
- ▶ Cash : €146 M

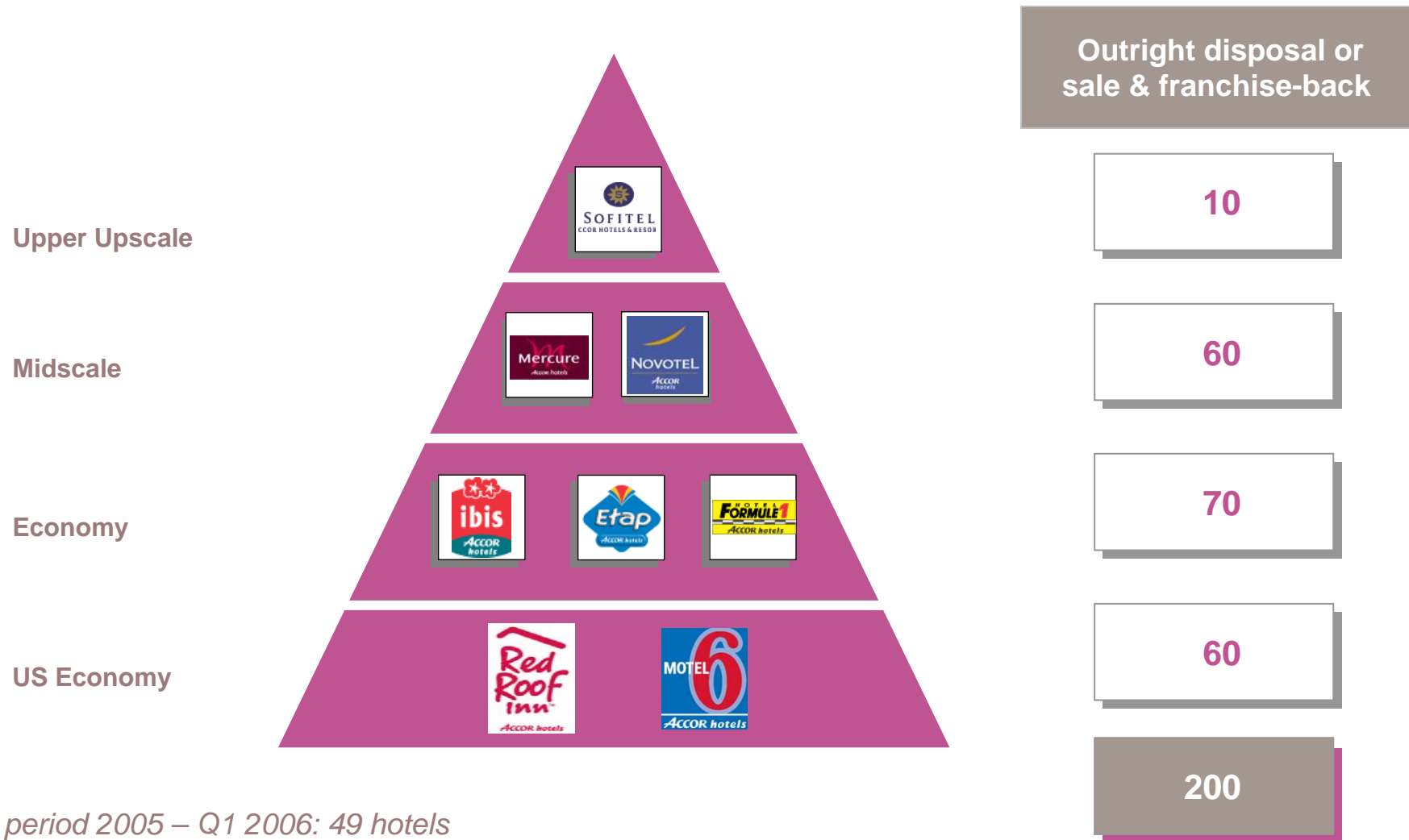
### France + Belgium – Phase 2

- ▶ 76 hotels
- ▶ Rents: 14% of revenue
- ▶ Yield: 6.25%
- ▶ Market value: €583 M
- ▶ Capital gain: approx. €150 M
- ▶ Cash : approx. €400 M

### Europe – Phase 3

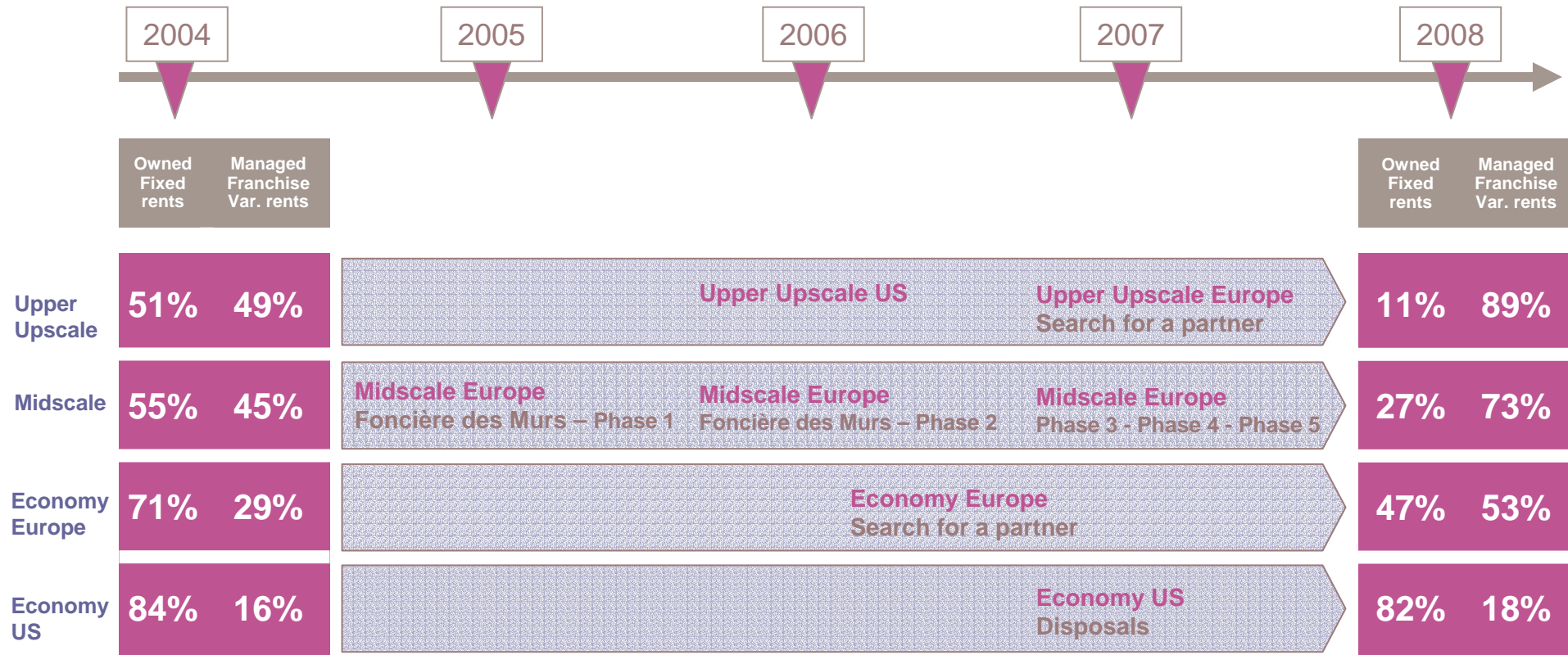
- ▶ UK, France, Belgium, Germany, Netherlands, Central Europe
- ▶ 130 hotels
- ▶ Market value: €1,300 M
- ▶ Lease with call options: 75%

## Non-Strategic Hotels: Plans of Disposals or Sale & Franchise-Back 2005 – 2008 period(\*)





## Change in Holding Structure 2004 – 2008 (excl. Development) in Mature Markets



- Cash 2005 - 2008 impact: €1,500 million
- ROCE: up 0.6 points

