INTERNATIONAL HOTEL INVESTMENTS P.L.C.

# COMPANY ANNOUNCEMENT

**2014 Preliminary unaudited results and 2015 budget**

In the Business and Strategic Update published by way of a Company Announcement on 11th December 2014, we emphasized the geographic spread of our businesses and the financial resilience this brings about, notwithstanding *force majeure* in one or another of our hotel investment jurisdictions.

We had stated:

"*By its very nature, our business thrives on opportunities arising in distinct jurisdictions. The counter is that force majeure situations arising in certain countries impact our consolidated results. The challenge to IHI over recent years has been to identify a business strategy that is not overly dependent on any one subsidiary business in any one particular country, but to migrate towards a balanced geographic spread in our EBITDA contribution.*

*IHI has succeeded in achieving this objective. To the extent that the challenges in each of Tripoli and St Petersburg, have been partly mitigated by record EBITDA results in our other hotels in Malta, Budapest, Lisbon and London and markedly improving profits in our hotel in Prague.*"

This statement is no less true today following the tragic events at our Tripoli hotel on the 27th January 2015. We have already publicly declared that it is not for IHI to speculate on the motives behind the attack at the hotel. The events marked a traumatic and saddening day for all of our colleagues and guests. The loss of life was tragic and we continue to grieve. We are on the other hand inspired by the acts of courage of our colleagues who lived through the unfolding events with a bold sense of calmness and whose presence of mind played a tremendous part in limiting the loss of life. One small consolation is that all our employees were saved on that day. We have also been touched by the warm support and numerous expressions of sympathy sent to us from all corners of the world, including peers in the hotel investment community worldwide.

We have since commenced repair work at the hotel. The property suffered limited damage, mostly glass panes on the façades. Early estimates place the cost of repairs at somewhere around €1 million. Going forward, and in the wake of reduced demand for hotel accommodation in Tripoli, we are further downsizing our operational costs at the hotel to a bare minimum. It is important to point out that the Commercial Centre was not affected and has continued to operate uninterruptedly.

## OUR BUSINESS

The events in Tripoli came about just as IHI was putting final touches to a public announcement confirming record performances in each of our hotels in Malta, Prague, Budapest, Lisbon and London. These results are unaudited, but a snapshot of Gross Operating Profit and EBITDA per hotel is reproduced here. A comparison is being made between the audited results for 2013, the management accounts for 2014 and our budgets for 2015.

## CORINTHIA HOTEL BUDAPEST

| | 2013 Audited | 2014 Unaudited | 2015 Budget |
|---|---|---|---|
| GOP | €5,572,399 | €6,500,186 | €7,023,653 |
| EBITDA | €4,501,992 | €5,223,236 | €5,716,332 |
| EBITDA margin | 24% | 26% | 26% |

**Operating profits are up 17% year on year. The hotel trades in the uppermost position of the city's five-star hotel market. Marketing is now being expanded to target the high-end suite business from the United States.**

## CORINTHIA HOTEL LISBON

| | 2013 Audited | 2014 Unaudited | 2015 Budget |
|---|---|---|---|
| GOP | €4,322,221 | €5,673,792 | €5,841,174 |
| EBITDA | €3,601,089 | €4,672,664 | €4,807,782 |
| EBITDA margin | 20% | 24% | 23% |

**Operating profits are up 31% year on year.** The hotel has shifted its marketing strategy to target an ever-growing leisure segment, booked online, besides its traditional, long-standing conference market.

## CORINTHIA HOTEL PRAGUE

| | 2013 Audited | 2014 Unaudited | 2015 Budget |
|---|---|---|---|
| GOP | €2,846,435 | €4,064,327 | €4,090,343 |
| EBITDA | €2,397,478 | €3,236,421 | €3,303,900 |
| EBITDA margin | 17% | 21% | 21% |

**Operating profits are up 43% year on year.** This is the result of a major cost-efficiency drive, coupled with a marketing strategy targeting online leisure segments besides the hotel's traditional groups and conference business.

## CORINTHIA HOTEL ST GEORGE'S BAY

| | 2013 Audited | 2014 Unaudited | 2015 Budget |
|---|---|---|---|
| GOP | €1,500,858 | €2,848,198 | €3,299,011 |
| EBITDA | €1,098,193 | €2,278,194 | €2,683,787 |
| EBITDA margin | 9% | 17% | 19% |

**Operating profits are up 90% year on year,** a remarkable achievement under any circumstances. This is the result of a two-pronged strategy to drive efficiencies in operating costs and payroll, coupled with a yield strategy aimed to maximize room rates.

**CORINTHIA MARINA HOTEL**

| | **2013 Audited** | **2014 Unaudited** | **2015 Budget** |
|---|---|---|---|
| GOP | €1,343,270 | €1,822,238 | €2,332,855 |
| EBITDA | €1,104,582 | €1,566,378 | €2,000,673 |
| EBITDA margin | 16% | 20% | 24% |

**Profits are up 36% year on year.** The hotel trades at close to full occupancy for more than half the year and the strategy for 2014 has been to yield room rates to levels nudging the five-star market in Malta.

**CORINTHIA HOTEL TRIPOLI & COMMERCIAL CENTRE**

| | **2013 Audited** | **2014 Unaudited** | **2015 Budget** |
|---|---|---|---|
| GOP | €6,567,915 | €(1,215,200) | €(852,276) |
| Rent Income | €5,867,832 | €5,863,009 | €5,592,832 |
| Total EBITDA | €11,550,544 | €4,184,483 | €4,335,393 |
| EBITDA margin | 45% | 29% | 39% |

The circumstances of our Tripoli performance have been amply described earlier in this announcement. Our strategy remains focused at re-opening the hotel to a break-even target thereby allowing rental income to contribute towards overall profitability. One can only hope for the return of normality to the city's business climate, and it is worth noting that GOP in 2010 topped the €17 million mark.

**CORINTHIA HOTEL ST PETERSBURG & COMMERCIAL CENTRE**

| | **2013 Audited** | **2014 Unaudited** | **2015 Budget** |
|---|---|---|---|
| GOP | €7,619,172 | €2,949,277 | €3,873,035 |
| Rent Income | €3,940,168 | €3,496,000 | €3,163,920 |
| Total EBITDA | €7,598,071 | €4,008,000 | €4,122,905 |
| EBITDA margin | 33% | 22% | 28% |

The downturn in profits in St Petersburg is driven partly by sanctions on Russia but mostly by the devaluation of the local currency. The Rouble to Euro rate has devalued from a rate in the 40's at the start of 2014 to one in the high 70's by the year end, and this in the wake of a collapse in the price of oil, which in itself principally drives the Russian economy. The actual volume of business in our hotel in December 2014 and January 2015, which are the two immediate months following the Rouble devaluation, have stayed static, both in terms of occupancy as well as in terms of room rates as quoted in Roubles, when compared to the corresponding months 12 months prior. The foremost market for St Petersburg has always been Russian travellers – and with overseas trips for Russians now prohibitively expensive, our Russian market is increasing in importance, up to almost half of our guests. In building on this business, the hotel has established an online presence in Russian, opened a sales office in Moscow and consolidated its senior management team.

**CORINTHIA HOTEL LONDON**

| | 2013 Audited | 2014 Unaudited | 2015 Budget |
|---|---|---|---|
| GOP (100%) | €16,820,035 | €18,457,561 | €21,580,327 |
| GOP (50%) | €8,410,018 | €9,228,780 | €10,790,164 |

We are presenting the consolidated numbers to include our London hotel having allocated over 15% of our capital to this investment. IHI owns 50% of this hotel and adjoining residential development. In our financial statements, the London hotel's EBITDA is not consolidated into IHI's own EBITDA number since the shareholding does not exceed the 50% mark. On the other hand, for the purposes of reviewing the financial position of the Company, it is only appropriate to include our 50% share when reviewing overall metrics.

In this regard, the operation in London continues to grow and the hotel continues to establish itself at the forefront of London's luxury hotel market.

The main cost item below the GOP line to EBITDA is internal fees paid to CHI Limited (CHI), the Group's wholly owned hotel management company, in line with industry standard practice. CHI itself generates a profit on these fees, in the region of 30% margins. CHI's profits are consolidated into IHI's financial statements.

Other costs below the GOP line in our hotels but above EBITDA are insurance premia and, in certain countries, property taxes.

## COMMENTARY

The above results show a consolidated increase in GOP in our hotels in 2014 of 34% over 2013, when one excludes Tripoli and St Petersburg, both cities facing *force majeure* situations.

The improvements in those hotels which were not affected by *force majeure* did not happen accidentally. They are the consequence of an overhaul of CHI, which is the guardian of our owned Corinthia Brand and manages our hotels and a number of other hotels owned by third parties. Indeed, the results are all the more welcome when one considers the challenging trading environment in some of the countries in which these hotels are located and their feeder markets.

A two-year restructuring programme in CHI started in 2012 and is now bearing fruit. The strategy has four pillars.

Firstly, we have developed extensive training and HR structures in nurturing the right spirit for quality service to be given in our hotels, centered on our Corinthia Brand values. Great customer service is fundamental to any business in any sector, but more so in the hotel industry where bookings are increasingly influenced by online reviews of our hotels' service and facilities written by our own customers.

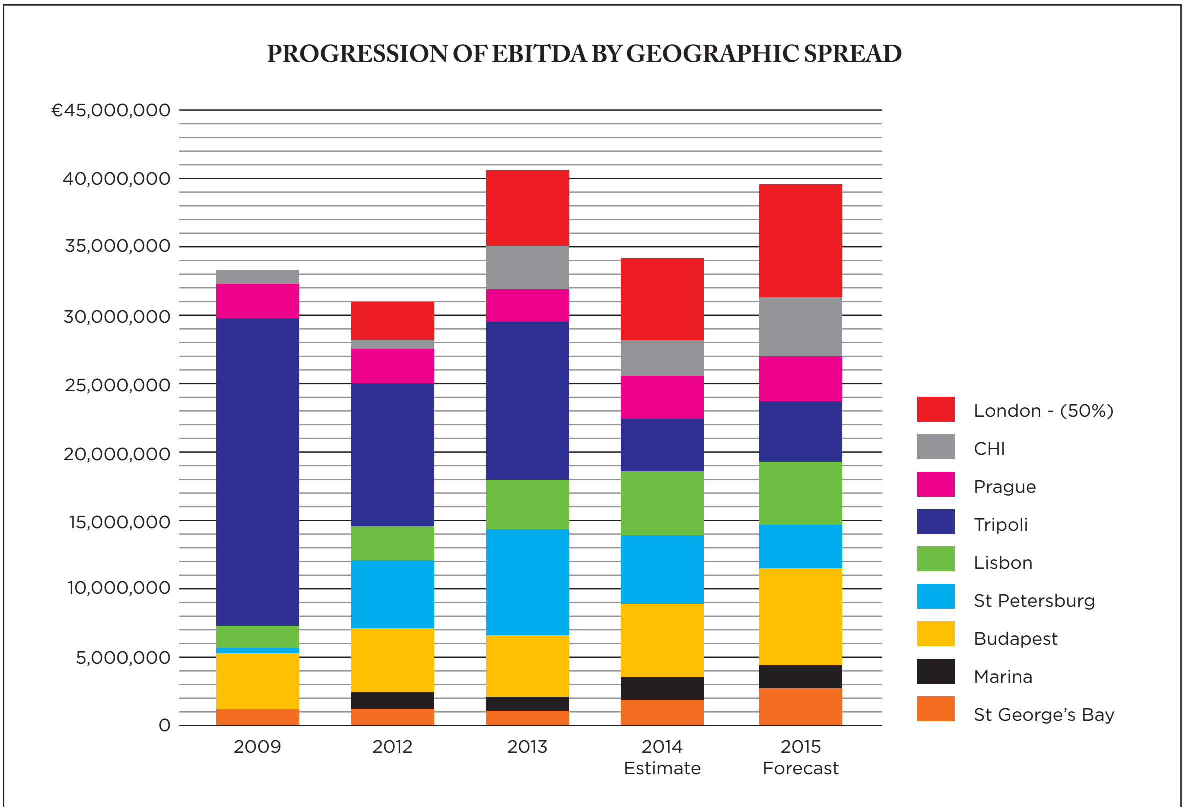
Secondly, we have placed marketing at the core of our management strategies. Corinthia as a Brand is now better defined, and better presented and distributed directly to the market. We have less reliance on sales intermediaries, and are focused on driving revenue from new segments and from new booking channels including our own websites, which we back with extensive social media and PR activities.

Thirdly, we have adopted incentive packages for management across the Company's hotels and CHI, which are tied to profit and service targets. A culture of rewards matched to financial measuress and service targets is now ingrained in our management teams.

Finally, we allocate a percentage of our revenues for the upkeep of our hotel properties to ensure that these are continuously kept in a pristine condition.

| CONSOLIDATED RESULTS | 2013 Audited | 2014 Unaudited | 2015 Budget |
|---|---|---|---|
| CHI GOP | €4,417,762 | €4,366,449 | €5,733,954 |
| Hotels GOP | €38,182,288 | €31,876,080 | €36,397,959 |
| Rent Income | €9,808,000 | €9,359,009 | €8,756,752 |
| TOTAL GOP | €52,408,050 | €45,601,538 | €50,888,665 |
| TOTAL EBITDA | €40,632,648 | €34,079,139 | €39,430,542 |

The chart below traces the growth and geographic spread of IHI's EBITDA. As in our December announcement, we selected four years to demonstrate this progression, these being 2009 as the first year of the financial crises in the western world, when our hotel in Tripoli was riding on the crest of an investment wave in Libya, moving onto 2012, the first year in post-revolutionary Libya, and finally, our results for 2013 and 2014 as well as budget for 2015.




In 2009, 66% of our EBITDA was generated by our hotel and commercial centre in Tripoli. We acknowledge the fact that having such a large part of our EBITDA coming from one particular property created a significant risk for the Group and therefore we worked hard over the years to mitigate this risk by diversifying our EBITDA. In fact, in 2014, not one of our properties contributed more than 17% of our EBITDA, the largest contributor being our 50% share in the London hotel, considered to be in a stable investment jurisdiction and this further amplifies our successes in diversifying our asset base and ensuing operating profit.

## FORWARD STATEMENT

IHI faces 2015 with confidence. We will repair the damages incurred at the Tripoli hotel and re-open with a product and service that is calibrated to match a break-even position at the very least in the hotel operation. We are of the view that Libya will no doubt achieve stability at some point in the future. We sincerely augur for this to happen for the benefit of all and particularly for the people of Libya.

The same applies to St Petersburg, where the hotel has been able to mitigate exchange rate losses to some degree. Indeed, data suggests that our hotel has made inroads in market share in recent months. IHI is following developments in Russia with interest, but is mostly concerned with the price of oil on international markets, which in itself underpins the Russian economy and the Rouble exchange rate.

In any case, IHI's business as a developer and operator of hotels and real estate has moved on, and our dependence on any single hotel is now marginal. The outlook for profits at all our remaining hotels remains positive for 2015, and whilst budgets have been ambitiously set, the Company remains focused on reaching all its targets in 2015. This also means the repayment of all our funding commitments as and when these fall due, which remain well within industry parameters for debt-service cover ratios.

## ISLAND HOTELS GROUP HOLDINGS PLC

As announced in earlier statements, the Company is about to commence a due diligence exercise on Island Hotels Group Holdings plc (IHGH), which it intends to acquire in the coming months. The principal driver of this acquisition has been declared in earlier announcements. In fact, we intend to maximize synergies in our Malta operations by merging the Malta operations of the IHGH into our own operating structures, whilst retaining IHGH as a corporate entity in its own right. We also intend to enhance development opportunities at our respective, adjoining sites in St Julian's, where we aim to redevelop fully the combined land plots, in a phased project over several years. Further details on this sizeable project will be announced in due course.

Alfred Fabri
Company Secretary

17th February 2015