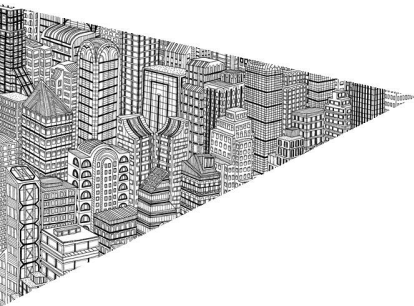


International hotel chains in Russia - 2016



EY

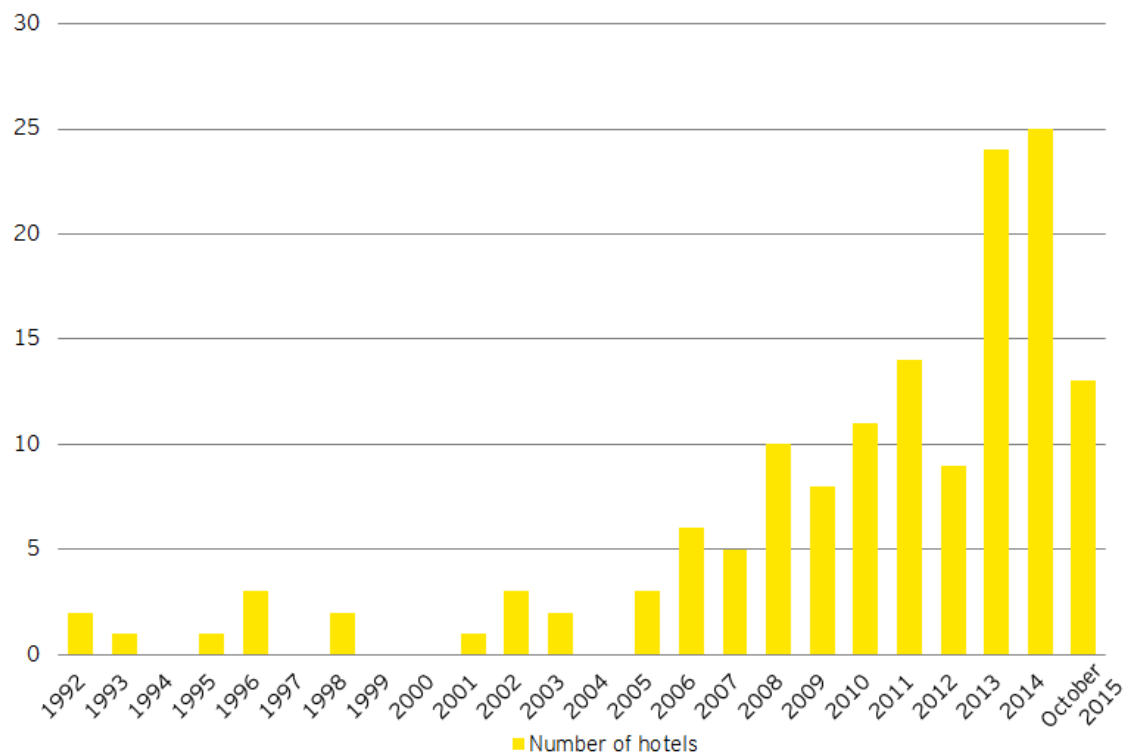
Building a better
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International hotel chains in Russia

According to the annual EY market research of the international hotel brands presence in Russia, in October 2015 there were 152 hotels under international management with the total room stock of 34,466 keys operating in the region.

Therefore, 13 new branded hotels (2,271 rooms) were opened in January - October 2015, compared to 37 hotels with the total room stock of 6,662 keys commissioned in Russia in 2014.

Dynamics of new hotels under international brand opening, per year
(October 2015)



Source: hotel operators' data, EY analysis

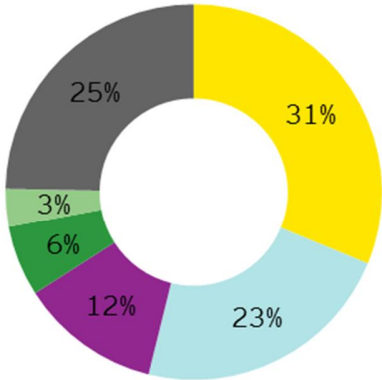
More than a half of the existing rooms supply is concentrated in Moscow and St. Petersburg (54%), followed by Sochi (12%), the Moscow Region (6%), Ekaterinburg (3%) and other locations.

It is planned that by 2020 the number of hotels under international management will increase by 118 new properties (23,450 rooms). Thus, if by 2020 all announced hotels open, the number of hotels under international management in Russia will amount to 270 hotels (57,916 rooms) located in 54 towns and cities.

In this case, by 2020 the share of Moscow and St. Petersburg will decrease by 6% (to 48%), the share of Sochi to 9%, due to the growth of branded hotel supply in the Moscow Region (8%) and Nizhny Novgorod (3%).

Moreover, opening of first branded hotels is planned in 16 new locations: Arkhangelsk, Vladivostok, Vladimir, Zelenogradsk, Kemerovo, Khabarovsk, Naberezhnye Chelny, Novorossiysk, Pereslavl-Zalesky, Saransk, Saratov, Stavropol, Surgut, Tver, Tolyatti, Ulyanovsk.

Share of existing by cities in Russia (October 2015)



■ Moscow ■ St. Petersburg ■ Sochi
■ Moscow region ■ Ekaterinburg ■ Other

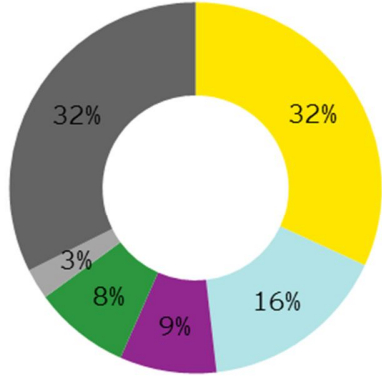
Source: hotel operators' data, EY analysis

Generally, today the hotels under international brands are located in 38 cities and towns of Russia. By 2020 the international hotel operators' presence is planned already in 54 cities and towns.

The geography of the international hotel operators' footprint is enlarging due to a number of international-scale events. In 2018 the most expected event is The FIFA World Cup which will held in Russia in 11 cities and towns:

- ▶ Nizhny Novgorod
- ▶ Rostov-on-Don
- ▶ Samara
- ▶ St. Petersburg
- ▶ Saransk
- ▶ Sochi
- ▶ Kazan
- ▶ Kaliningrad
- ▶ Moscow
- ▶ Ekaterinburg
- ▶ Volgograd

Share of future room supply by cities in Russia (including existing room supply)

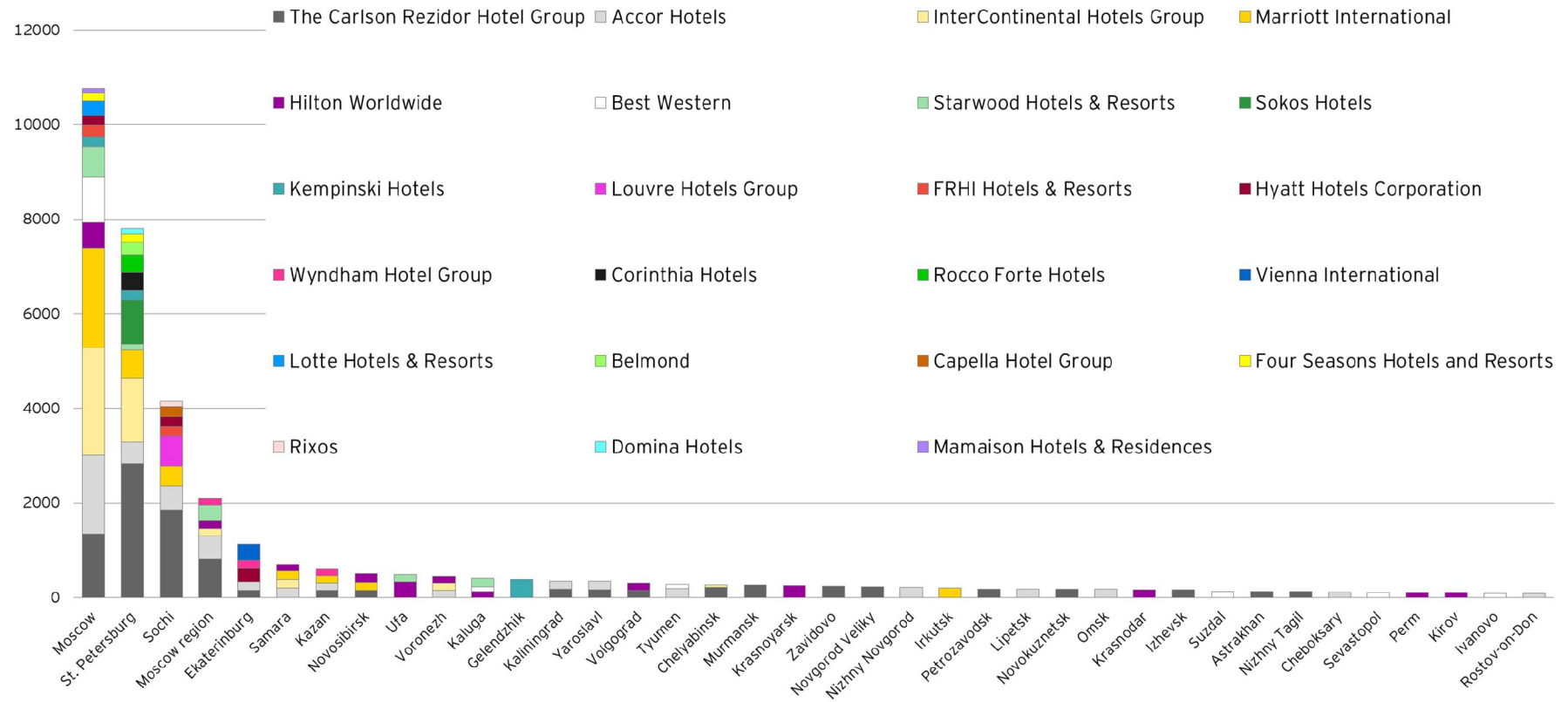


■ Moscow ■ St. Petersburg ■ Sochi
■ Moscow region ■ Nizhny Novgorod ■ Other

Now the local branded stock in World Cup 2018 host cities is represented by 106 hotels (26,129 rooms). It is planned that by 2018 the number of hotels will increase by 61 new properties (12,977 rooms).

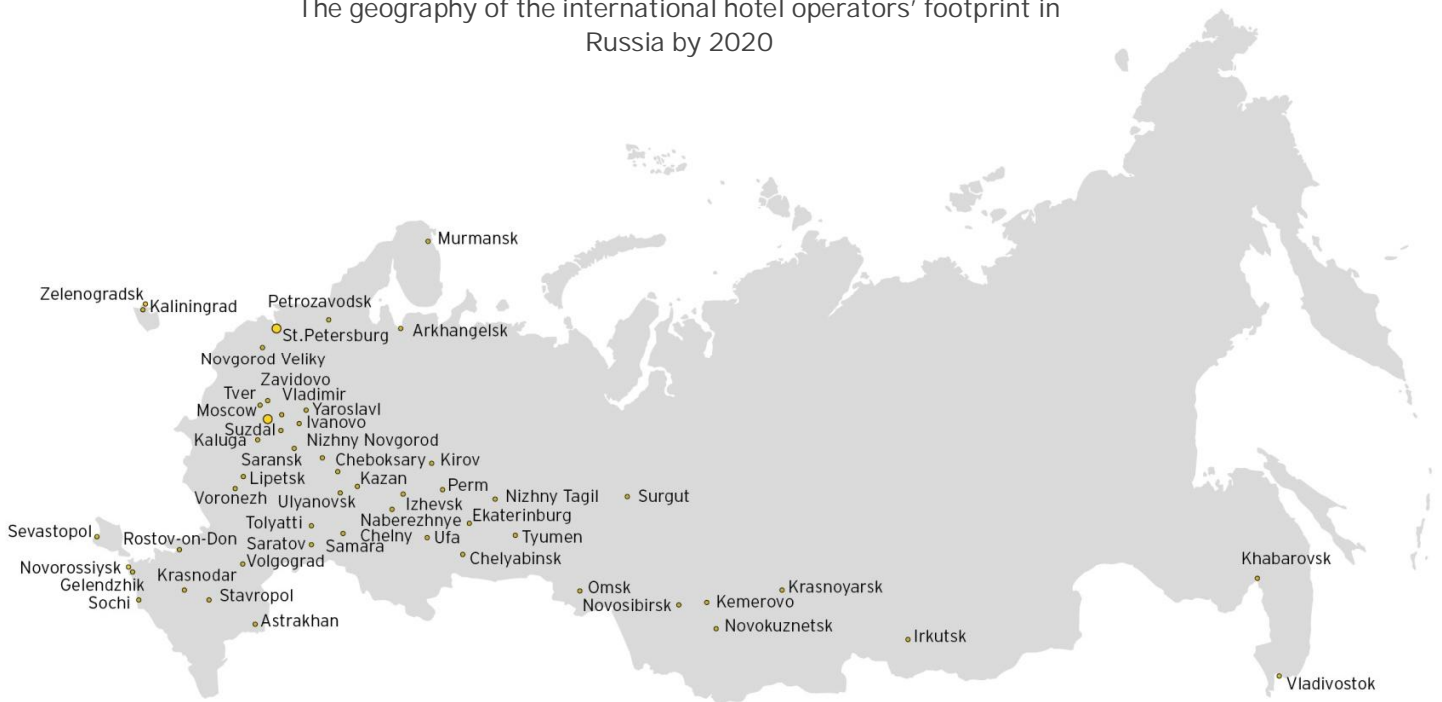
The diagram below demonstrates the presence of the international hotel chains in Russia as of October 2015:

Division of existing rooms supply under international management by cities in Russia (October 2015)



Source: hotel operators' data, EY analysis

The geography of the international hotel operators' footprint in Russia by 2020

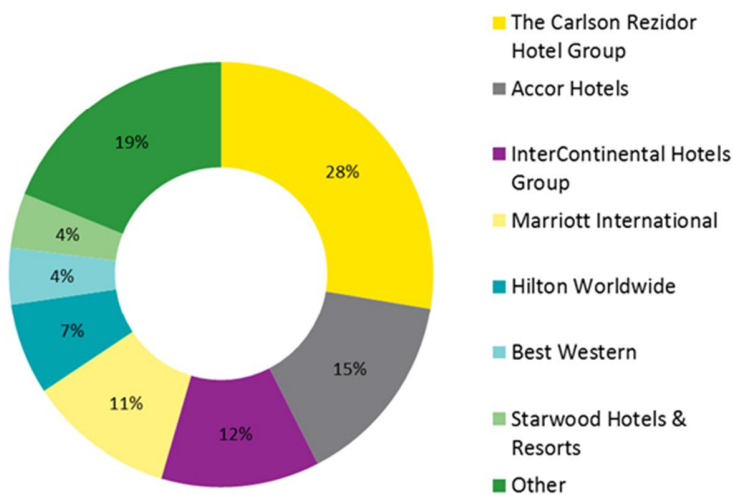


Source: hotel operators' data, EY analysis

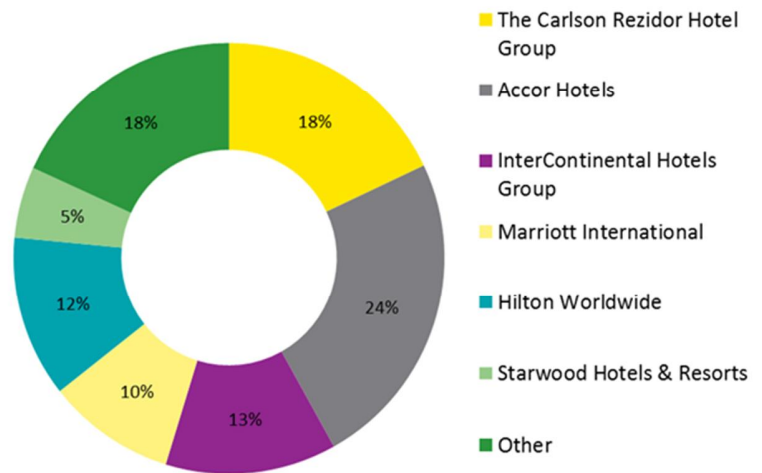
The total branded room stock available in Russia as of October 2015 (i.e. 152 hotels with 34,466 keys in 38 locations) is operated or franchised by 23 international hotel chains currently presented in the region.

The biggest market share (66%) is divided between The Carlson Rezidor Hotel Group, Accor Hotels, InterContinental Hotels Group and Marriott International. The graphs below demonstrate the actual and projected footprint of hotel operating companies in Russia as of October 2015.

Share of hotel operators – distribution of existing room supply, Russia



Share of hotel operators – distribution of future room supply by 2020, Russia (including existing rooms supply)



Source: hotel operator's data, EY analysis

Russian hotel brands

In addition, to international chains, Russian hotel operators increase their presence in both Russia and abroad. National hotel brands as a rule have significantly smaller proportion in the markets of most countries (except U.S.) than hotels under international management. This is true of the Russian market: at the moment the share of the hotels under international brands (152 hotels) is almost 2.5 times higher than the share of the hotels under national management (73 hotels).

In October 2014 there were 137 hotels under international management in Russia vs. 72 hotels operated by Russian chains. Thus, this year the difference has grown by 16 hotels in favor of international chains.

Russian hotel operators in the regional and international markets
(October 2015)

Hotel chain name	Number of hotels in Russia / abroad	Cities of presence in Russia	Countries of presence
Azimut Hotels	14 / 9	Moscow, St. Petersburg, Vladivostok, Murmansk, Ufa, Voronezh, Novosibirsk, Nizhny Novgorod, Kostroma, Astrakhan, Adler/Sochi	Germany, Austria
Amaks Hotels & Resorts	21 / 4	Perm, Vladimir, Kazan, Ufa, Belgorod, Rostov-on-Don, Tambov, Voronezh, Valday, Azov, Novgorod Veliky, Kurgan, Krasnoyarsk, Novy Urengoy, Staraya Russa, Yokshar-Ola, Tolyatti, Izhevsk, Omsk, Ust-Kachka, Essentuki	Belarus
Heliopark Hotels & Resorts	10 / 2	Moscow, Moscow region, Kaliningrad, Nebug, Penza, Sochi, Suzdal	Germany, Switzerland
Intourist Hotel Group	5 / 3	Moscow, Petrozavodsk, Lipetsk region, Gorno-Altaysk	The Czech Republic, Italy, Namibia
Cronwell Hotels & Resorts	10 / 3	St. Petersburg, Hanti-Mansiysk, Uray, Balabanovo	Greece
Korston Hotels	3 / -	Moscow, Kazan, Serpukhov	-
Alliance Hotel Management	4 / -	Moscow, Obninsk, Saransk, Abakan, Tuapse	-
Soyuz Marins Grupp	6 / -	Nizhny Novgorod, Sochi, Yalta, Ekaterinburg, Novosibirsk, Rostov-on-Don	-
Total:	73 / 21		

Source: hotel operators' data, EY analysis

New hotels: 2015 – 2016

During the first nine months of 2015 the Russian hotel market was supplemented by 13 new hotels operating under international brands.

According to the information EY compiled from hotel operators and open sources, 11 more hotels are to be commissioned by the end of 2015. We believe however that some projects' opening may be postponed till 2016.

Hotels opened under international management in Russia
in January – October 2015

Operator	Hotel name	Number of rooms	City
Accor Hotels	Ibis Cheboksary	110	Cheboksary
	Ibis Moscow Dynamo	317	Moscow
	Mercure Tyumen Center	192	Tyumen
	Mercure Voronezh	155	Voronezh
Hilton Worldwide	Hampton by Hilton Ufa	160	Ufa
	Hilton Garden Inn Ufa Riverside	167	Ufa
Marriott International	Moscow Marriott Novy Arbat Hotel	234	Moscow
Starwood Hotels & Resorts	Four Points by Sheraton Kaluga	174	Kaluga
	Sheraton Ufa	161	Ufa
The Carlson Rezidor Hotel Group	Park Inn Nizhny Tagil	127	Nizhny Tagil
	Park Inn Novokuznetsk	174	Novokuznetsk
	Park Inn Novosibirsk	150	Novosibirsk
	Park Inn Volgograd	150	Volgograd
Total:	13 hotels	2 271	

Source: hotel operators' data, EY analysis

Hotels under international management planned to open in Russia
by the end of 2015

Operator	Hotel name	Number of rooms	City
Accor Hotels	Ibis Krasnodar	220	Krasnodar
	Ibis Krasnoyarsk	110	Krasnoyarsk
	Novotel Krasnoyarsk	90	Krasnoyarsk
	Ibis Stupino	120	Moscow Region
Hilton Worldwide	DoubleTree by Hilton Ekaterinburg	141	Ekaterinburg
	Hampton by Hilton Moscow Strogino	214	Moscow
	DoubleTree by Hilton Tyumen	196	Tyumen
	Hilton Garden Inn Ulyanovsk	175	Ulyanovsk
InterContinental Hotels Group	Holiday Inn Ufa	193	Ufa
Starwood Hotels & Resorts	Sheraton Rostov-on-Don	307	Rostov-on-Don
Wyndham Hotel Group	Ramada Plaza Voronezh City Center	210	Voronezh
Total:	11 hotels	1 976	

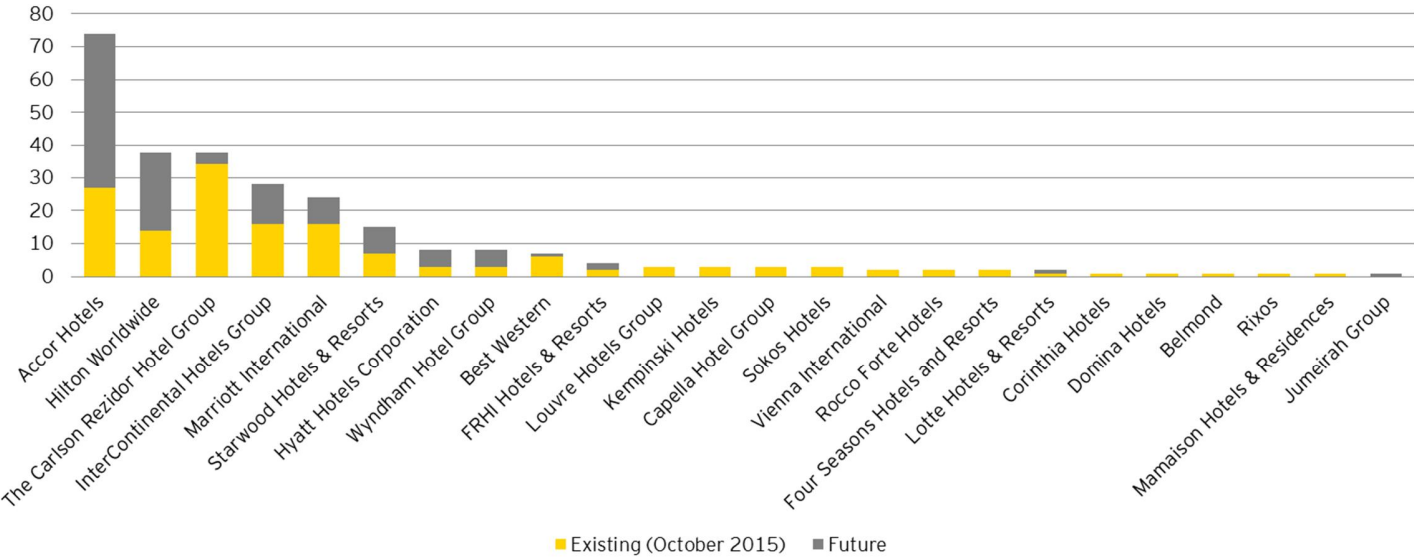
Source: hotel operators' data, EY analysis

Summary of international hotels operators' data - Russia

Operator	Existing		Future		Total amount by 2020 (existing + future)	
	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
Accor Hotels	27	5,116	47	8,744	74	13,860
Hilton Worldwide	14	2,405	24	4,617	38	7,022
The Carlson Rezidor Hotel Group	34	9,524	4	886	38	10,410
InterContinental Hotels Group	16	4,164	12	3,276	28	7,440
Marriott International	16	3,844	8	1,732	24	5,576
Starwood Hotels & Resorts	7	1,434	8	1,651	15	3,085
Hyatt Hotels Corporation	3	700	5	1,218	8	1,918
Wyndham Hotel Group	3	446	5	760	8	1,206
Best Western	6	1,477	1	125	7	1,602
FRHI Hotels & Resorts	2	436	2	365	4	801
Louvre Hotels Group	3	634	-	-	3	634
Kempinski Hotels	3	803	-	-	3	803
Capella Hotel Group	3	220	-	-	3	220
Sokos Hotels	3	927	-	-	3	927
Vienna International	2	348	-	-	2	348
Rocco Forte Hotels	2	367	-	-	2	367
Four Seasons Hotels and Resorts	2	357	-	-	2	357
Lotte Hotels & Resorts	1	304	1	-	2	304
Corinthia Hotels	1	388	-	-	1	388
Domina Hotels	1	109	-	-	1	109
Belmond	1	265	-	-	1	265
Rixos	1	114	-	-	1	114
Mamaison Hotels & Residences	1	84	-	-	1	84
Jumeirah Group	-	-	1	76	1	76
Total:	152	34,466	118	23,450	270	57,916

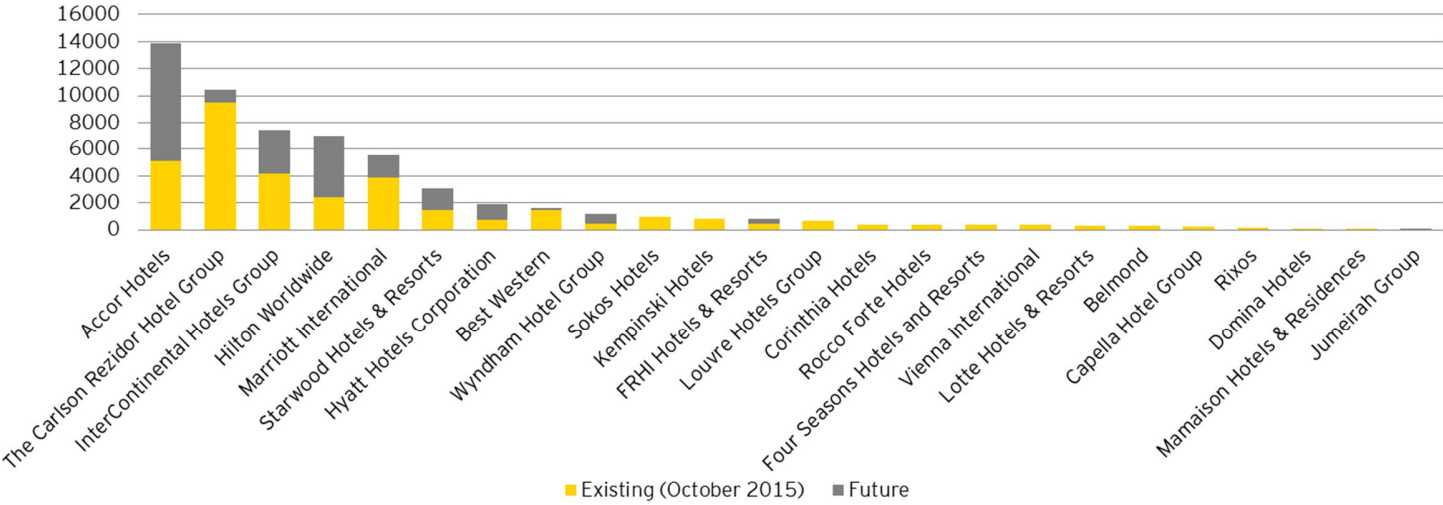
Source: hotel operators' data, EY analysis

Distribution of international operators by the number of hotels



Source: hotel operators' data, EY analysis

Distribution of international operators by room supply



Source: hotel operators' data, EY analysis

Hotel chain affiliations – main benefits

It is a prevailing opinion among hotel developers and owners – both local and foreign – that a global chain affiliation is an indispensable component of a hotel's success. Moreover, in recent years, banks and other lenders recognize the key role of the management in hotel business by providing more favorable terms to developers with an appropriate chain affiliation. Institutional, financial, and other passive investors, that view hotel assets as attractive investment targets, also typically prefer to “separate bricks from the brains” and purchase managed hotel properties where they do not have to be involved in operations.

As a company with specialized expertise in advising the hospitality industry, we meet hotel market players on a daily basis and observe that many local owners and developers prefer global chain affiliation. It is true not only for tomorrow's owners (seeking hotel concepts and operating projections development), but also for existing hotel owners who admit that they “have squeezed the maximum” from their properties as independent hotels and are now looking for global chains to assist in boosting performance even further.

At the same time, in spite of this demonstrated tendency towards global chain affiliation, thoughtful hotel owners should not underestimate the option of operating their hotels independently. Without advocating for either option and given the focus of this publication, below we share our thoughts on main benefits an owner may expect to get from global hotel chain affiliation.

Major benefits of global hotel chain affiliation

Benefit	Comment
Recognition	Recognizable hotel brand is perceived as a quality guarantee
Object status	International brand allows to raise the object status
Safety	Foreign tourists prefer to stay in hotels under well-known international brands in «unsafe» countries
Global booking system	Opportunity of booking via different electronic channels, search simplicity, booking without intermediaries
Integrated marketing	Integrated marketing allows brand promotion cost reduce due to the hotel presence on the operator's website, in booking systems, catalogs and brochures
Loyalty programs	Guests who join chain hotels loyalty program are motivated to choose hotels of this chain due to various benefits and discounts for regular guests
Level of service	Common service standards, management systems and staff training unification in chain hotels result in a higher level of service than in independent hotels
Stability in crisis time	Chain hotels are more sustainable to crisis for a number of reasons: more stable demand on the part of loyal guests, efficient occupancy management due to the several global reservation systems presence; highly skilled professionals with working experience in the unstable economy conditions
Lower costs	Hotel chains guarantee lower costs consumables, engineering maintenance, advertising and marketing costs due to the large purchases volume and costs distribution for all hotels in the chain
Investor's risk decrease	International brand lowers risks and provides great advantage when selling an object and granting a bank loan

Source: EY analysis

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