PIERRE & VACANCES GROUP

H1 2007/2008
BUSINESS REPORT

(1 OCTOBER 2007 TO 31 MARCH 2008)

I. MAIN EVENTS

1.1 Center Parcs Europe

In December 2007, the Group signed a letter of intent for the creation of a fifth Center Parcs village in France in the commune of Roybon in the Isère region. The project includes 1,000 cottages and leisure facilities with the opening slated for 2011.

The Group is also in the late stages of negotiations for the creation of a new Sunparks village in Germany in the town of Bostalsee. The project covers 500 cottages and leisure facilities, with an opening targeted for 2011. Investment spending is estimated at € 130 million , of which some €60 million financed by the regional authorities.

1.2 Adagio City Aparthotel

In H1 2008, the Montrouge residence opened its doors and H2 is set to see the openings of residences in Annecy, Basel, Bordeaux, Paris Opera and Strasbourg offering a further 581 apartments. In addition, four new openings have now been ratified for 2008/2009 (Brussels, Vienna, Nantes and Marseilles) for a total of 526 apartments.

Apart from the residence openings already planned is in the late stages of negotiations for a number of projects in France (Paris, Toulouse etc.) and in Europe (UK, Spain, Germany etc.). The target to operate 50 residences by 2012 has been confirmed.

1.3 Morocco

On 18 April 2008, the Group signed a Memorandum of Understanding with the Moroccan government for the first stages of Pierre & Vacances' development in Morocco. The project concerns a multi-brand development for 2013 based on three concepts, namely the Oasis Eco-Resort, city residences and second homes for retired people.

The Group's aim is to manage 10,000 beds by 2013, primarily in Marrakech and Agadir for resort residences and in Casablanca, Rabat and Tanger for city residences.

Property investments in tourism and city residences are to be financed by a specific investment company uniting the Group (15% of capital) and institutional investors (85%). Second homes for retired people are also set to be developed and marketed by a property company 50%-owned by Pierre & Vacances.

Operation of the resorts and city residences is likely to be handled by the Group via a management contract.

II. H1 2007/2008 RESULTS

2.1 H1 2007/2008 turnover and earnings (1 October 2007 to 31 March 2008)

CONSOLIDATED TURNOVER: €613.8 MILLION

euro millions	2007/2008	2006/2007	Current structure	Like-for-like*
Tourism	**500.7**	**419.4**	**+ 19.4%**	**+13.3%**
- Pierre & Vacances Europe[1]	220.5	190.6	+ 15.7%	+15.7%
- Center Parcs Europe[2]	280.2	228.8	+ 22.5%	+11.5%
Property development	**113.1**	**328.7**	**- 65.6%**	**- 67.2%**
- Pierre & Vacances	87.7	328.7	- 73.3%	- 73.3%
- Les Senioriales	25.4	-	-	+ 56.7%
Total H1	**613.8**	**748.1**	**- 17.9%**	**- 22.0%**

** Like-for-like H1 2006/2007 turnover is adjusted for the following items:*

- consolidation of the Sunparks and Les Seniorales groups as of 1 April 2007.

- Impact at Center Parcs Europe of Easter holidays falling in Q2 2007/2008 in Germany and Belgium.

Tourism turnover

H1 tourism turnover totalled €500.7 million, up 19.4% or 13.3% on a like-for-like basis.

Turnover at the **Pierre & Vacances Europe** brands rose 15.7%, with robust business in all destinations. The Group's strategy to develop foreign clients continued to pay off and these clients now account for one third of total turnover. The Group also pursued its strategy to increase internet sales, which grew by 58% and accounted for 17% of overall sales, compared with 13% in the year-earlier period.

Like-for-like turnover at **Center Parcs Europe** rose by 11.5%. Direct sales accounted for 90% of turnover. Internet sales rose by 58% and accounted for half of overall turnover. Turnover at Sunparks, which has been consolidated since 1 April 2007, totalled €14.3 million.

Property development turnover

Property development turnover stood at €113.1 million, compared with €328.7 million in the year-earlier period. The difference stemmed from a decline in the property offering due to a cautious acquisitions policy.

[1] Pierre & Vacances Europe includes the Pierre & Vacances, Adagio City Aparthotel, Maeva, Résidences MGM and Hôtels Latitudes brands

[2] Center Parcs Europe includes the Center Parcs and Sunparks brands

H1 2007/2008 EARNINGS

euro millions	H1 2007/2008	H1 2006/2007
Turnover	613.8	748.1
Current operating income	**-38.3**	**-11.3**
Financial items	-4.6	-1.2
Taxes (1)	13.4	3.3
Attributable current net income (1)	**-29.5**	**-9.2**
Other operating income/expense net of tax (1)	7.2	1.4
Attributable net income	**-22.3**	**-7.8**

(1) Other operating income/expense is presented net of tax and also includes non-recurring items associated with tax (tax savings, update of Group fiscal position) which are reclassified from accounting tax.

The €134.3 million decline in turnover stemmed from the €215.6 million fall in property development turnover, offset partly by growth in the tourism businesses.

The €27.0 million drop in current operating income corresponded to the decline in property development earnings.

Current operating loss of €38.3 million

Note that the seasonal nature of revenue trends in the Pierre & Vacances Europe division, and to a lesser extent, Center Parcs Europe, has the structural effect of pushing tourism operating profit into the red in H1 due to lower turnover in the winter season than that generated in the summer season, whereas fixed costs (especially rents) are booked in a linear manner.

The **tourism businesses** turned in a €48.8 million current operating loss vs. a €48.2 million loss in the year-earlier period:

- the **Pierre & Vacances Europe** brands incurred a current operating loss of €36 million vs. -€33.4 million in H1 2006/2007. Turnover growth helped offset the rise in costs prompted by inflation, the indexation of rents and the annualised nature of structural costs outside France. The rising momentum of new residences, for which the majority of turnover is generated in the summer season, took a temporary toll on H1 earnings;

- **Center Parcs** showed a current operating loss of €8.1 million vs. -€14.8 million in H1 2006/2007, with the improvement driven by turnover growth;

- **Sunparks** was affected by the more seasonal nature of its business given that two villages are located at seaside resorts. As such, its current operating loss stood at €4.7 million.

Current operating income in the **property development business** totalled €10.5 million vs. €36.9 million in the year-earlier period. This difference was due to the decline in turnover in the division.

Attributable net loss: €22.3 million

Financial expenses rose from €1.2 million to €4.6 million in H1 2007/2008 primarily due to interest expense on the financing of facilities at the Center Parcs Domaine du Lac d'Ailette.

Other operating income/expense net of tax stood €7.2 million and corresponded primarily to non-recurring tax savings.

2.2 Investments and balance sheet

MAIN CASH FLOWS

The change in cash flow during H1 2007/2008 stemmed primarily from:

- The seasonal nature of business in the Pierre & Vacances Europe division and to a lesser extent at Centre Parcs Europe which structurally caused the Group's cash flow to fall into the red in H1.

- In addition to this structural factor, the property development business was down in H1 2007/2008 relative to the year-earlier period given the temporary shortfall in property stocks.

  The combination of these two factors generated negative cash flow of €12.6 million and a €52.5 million increase in working capital requirements.

- Investment spending of €36.9 million for projects to renovate the tourism network and overhaul IT systems.

Overview of cash flows

euro millions	**H1 2007/2008**	**H1 2006/2007**
Cash flow (after financial interest and taxes)		
Change in working capital requirements	-12.6	0.7
	-52.5	71.4
Flows from operations	**-65.1**	**72.1**
Investments		
Asset disposals	-42.7	-53.0
	5.8	16.6
Flows attributed to investments	**-36.9**	**-36.4**
Capital increase		
Acquisitions and disposal of treasury stock	0.0	0.2
Dividends paid*	-1.6	0.0
Change in loans	-23.5	-21.8
	-8.6	-24.0
Flows attributed to financing	**-33.7**	**-45.6**
Change in net cash	**-135.7**	**-9.9**

* dividends paid to shareholders at the parent company and to minority shareholders in integrated companies

Operating of the Group's tourism and property development businesses in H1 2007/2008 generated cash flow requirements of €65.1 million vs. a resource of €72.1 million in the year-earlier period.

This was due to changes in working capital requirements (financing requirement of €52.5 million in H1 2007/2008 vs. a resource of €71.4 million in H1 2006/2007) and changes in cash flow after interest expenses and tax, which fell by €13.3 million.

The decline in **cash flow** (after interest expenses and tax) stemmed primarily from:

- Changes in EBITDA between H1 2006/2007 and H1 2007/2008 (-€20.2 million vs. -€4.1 million);

- The rise in interest expenses paid to €3.1 million, in particular due to the lease contract for the Center Parcs at Domaine du Lac d'Ailette opened in September 2007;

- The reimbursement of tax credit amounting € 10.0 million, mainly stemming from Center Parcs Europe.

The financing requirement generated in H1 2007/2007 by **changes in working capital requirements (€52.5 million)** was mainly due to:

- €69.6 million in investment spending or work undertaken during the period for programmes underway, either new or renovation, including €46.9 million for the Pierre & Vacances and Center Parcs programmes (Bois des Harcholins, Cannes Villa Francia, Hôtel Le Pouliguen, Les Menuires, Courchevel, Montrouge,…) and €22.7 million for Les Sénioriales (Saint Gilles Camargue, Grasse, Carcassonne Villegly, Hinx,…) ;

- €69.8 million in stock reductions prompted by disposals during the period, including €52.2 million for Pierre & Vacances programmes (Hôtel du Golf, Val d'Isère, Montrouge, Courchevel,…) and €17.6 million for Les Sénioriales programmes (Hinx dans les Landes, Saint Gilles Camargue, Carcassonne villegly, Saleilles,…) ;

- The decline in operating net debt due to the fall in property development business and the seasonal nature of the tourism business.

Net cash flows allocated to investment operations totalled €36.9 million. These corresponded primarily to investments in tourism operations, including:

- Net investments made by Center Parcs Europe (€24.4 million):

  - €12.6 million for improvements in the product mix, breaking down in geographical terms to €4.9 million for the Dutch villages, €4.1 million for the Belgian villages, €2.5 million for the German villages and €1.1 million for the French villages.
  - €1.2 million in additional works for the extension of central facilities at the French village at Bois-Francs.
  - €10.3 million for the Belgian Sunparks villages, as part of the renovation programme which is set to be financed by Foncière des Murs, which owns the assets.

- Investments made by the Pierre & Vacances Europe division (€12.5 million):

  - €8.4 million for renovation and modernisation works on the network operated, including €3.2 million for the Pont Royal village in Provence (construction of a seminar room).
  - €2.7 million for overhauling and improving the IT system.
  - €1.4 million for renewing televisions throughout the network.

The €8.6 million decline in loans (excluding bank overdraft facilities) on 31 March 2008 relative to 30 September 2007 corresponded mainly to:

- Amortisation of €9.3 million during the period for the Group's corporate debt contracts for acquisitions operations.
- A net increase of €2.1 million in property debt primarily due to the capital still to pay on loans contracted by the Group for property assets at Les Senioriales.

CHANGE IN BALANCE SHEET STRUCTURE

Given the asset and liability management principles adopted by the Pierre & Vacances Group in its tourism and property development businesses, the following points should be noted regarding the contribution of these two activities to the consolidated balance sheet:

- The **tourism business** is not very capital intensive since the Group does not intend to own the villages or residences that it operates. As such, investment spending primarily concerns:
  - Furniture for apartments sold unfurnished to individual investors.
  - Infrastructure facilities for the residences.
  - Leisure facilities for holiday villages (swimming pools, tennis courts, children's clubs etc.).
  - Commercial premises (restaurants, bars, conference rooms etc.).

Ownership of these assets is a guarantee of the Group's long-term management of the sites concerned.

Working capital requirements in the tourism business are structurally negative, but vary significantly over the year depending on the season.

- Concerning the group's traditional **property development businesses,** the new property construction activity should be distinguished from property renovation activities:

  - **New construction programmes** at Pierre & Vacances generally mobilise little equity and have the following financial characteristics:
    - The capital required to fund each new residence is equivalent to around 10% of the cost price before VAT.
    - Bridging loans are set up for each transaction, and maximum use is made of these facilities before the notarised deeds of sale are signed.
    - The relative size of balance-sheet items (accounts receivable, work in progress, deferred income and prepayments) is significant. Sales signed with a notary and not yet recognised in earnings are booked to the balance sheet as deferred income and accrued liabilities. At the same time, costs incurred in connection with the property business are recorded as work in progress, or in the case of selling costs, as accrued income and pre-paid expense. Turnover and margins on property programmes are booked under the progress method and no longer on delivery of the apartments, the method previously used by the Group under French accounting standards. The percentage of completion is calculated by multiplying the percentage of progress in construction work by the percentage of property sales signed at a notary. In contrast, stocks of completed properties and land are kept low by the Group's marketing method (properties sold off-plan for delivery on completion) as well as its policy to market properties before construction work is started and to not acquire land before final planning permission has been obtained.

  - **The property renovation programme** generates a temporary deterioration in working capital requirements. In this business, the Pierre & Vacances Group acquires existing two/three-sun rated residences in prime locations, generally from institutional investors, with the aim of renovating and upgrading them to a three/four sun rating and selling them on to individual investors under its traditional sales formulas. The fact that the group owns the land and property during the residence renovation period increases its property portfolio and hence, temporarily increases working capital requirements until the properties are delivered to individual investors.

Simplified balance sheet

euro millions	31/03/2008	30/09/2007	Change
Goodwill	148.5	148.5	0.0
Net fixed assets	549.8	528.9	20.9
INVESTMENTS	**698.3**	**677.4**	**20.9**
Shareholders' equity	378.9	425.4	-46.5
Provisions for risks and charges	54.4	56.3	-1.9
Net debt	202.5	74.4	128.1
Working capital requirements	62.5	121.3	-58.8
RESOURCES	**698.3**	**677.4**	**20.9**

No changes in the scope of consolidation leading to a change in the value of **goodwill** were incurred during H1 2007/2008.

Net book value therefore remained unchanged at €148.5 million and included the following main goodwill items:

- Pierre & Vacances Europe : €65.5 million
- Center Parcs Europe : €63.3 million
- Les Sénioriales : €17.8 million

The rise in the book value of **fixed assets** (€20.9 million) stemmed primarily from the investments made in tourism operations (€36.9m) after deduction of depreciation, amortisation and provisions set aside during the period (€20.0 million).

Net fixed assets on 31 March 2008 broke down as follows:
- €137.4 million in intangible fixed assets;
- € 374.9 million in tangible fixed assets;
- € 37.5 million in financial fixed assets.

The contribution from Center Parcs Europe to intangible fixed assets stood at €95.6 million, €85.9 million of which for the Center Parcs brand and € 5.5 million for Sunparks. The share of the sub-division in net tangible fixed assets was €288,2 million.

Attributable shareholders' equity totalled €378.9 million on 31 March 2008 vs. €425.4 million on 30 September 2007, after taking account of:
- A dividend pay-out of €23.5 million.
- A decline in equity before earnings of €0.7 million due to IFRS accounting of stock options, the Pierre & Vacances shares owned by the Group, as well as changes in the fair value of financial hedging instruments.
- The net loss of €22.3 million over the period.

Provisions for risks and charges totalled €54.4 million on 31 March 2008. The decline of €1.9 million over the period stemmed primarily from:
- Net provision write-backs for restructuring and disputes of €1.2 million following the unwinding of situations during the period.

- A net write-back of € 0.4 million for renovation provisions.

- A net write-back of €0.3 million for pension and retirement provisions.

On 31 March 2008, provisions for risks and charges broke down as follows:

- provisions for renovation : €37.9 million
- provisions for pensions and retirement : €11.4 million
- provisions for restructuring and various risks : €5.1 million

Net debt reported by the Group on 31 March 2008 broke down as follows net

euro millions	**31/03/2008**	**30/09/2007**	**Change**
Gross debt	226.6	234.1	-7.5
Cash pile (net of positive bank balances)	-24.1	-159.7	135.6
Net debt	**202.5**	**74.4**	**128.1**

The decline in gross debt is analysed in the paragraph "Main cash flows" presented above.

Net debt reported by the Group on 31 March 2008 (€202.5 million) corresponded primarily to:

- The capital still due (€ 74,0 million) on corporate debt refinanced by the Group on 26 March 2007 and relative to the loans taken out during acquisitions operations. The portfolio of refinancing loans on 31 March 2008 broke down as follows:
  - €57.1 million for the acquisition of the additional 50% stake in the Center Parcs Europe sub-group.
  - €16.9 million for the acquisition of Gran Dorado, the first 50% stake in Center Parcs Europe and Maeva.

- As part of this refinancing operation, debt maturity was extended by 2.5 years, with a final repayment deadline set on 26 March 2012. The provisional amortisation plan for this debt over the five years is linear and corresponds to a six-monthly reimbursement of the principal of €9.25 million.
- Financial debt (€118,0 million) booked for the adjustment of the lease contract for the central equipment at the new Center Parcs village at Lac d'Ailette.

- The loans contracted by the Group in order to finance property assets destined to be sold off (€22.1 million, of which €8.4 million for Pierre & Vacances and €13.7 million for Les Séniorales).

- Net of free cash.

III. OUTLOOK

3.1 2007/2008 current operating income target

Given the trend in tourism reservations so far for the second half of 2007/2008 (growth of 10% for Center Parcs Europe and 4% for Pierre & Vacances Europe), as well as prospective turnover in property development, the Group is targeting current operating income of between €95 million and €100 million.

Healthy performances in the tourism businesses should therefore help offset the majority of the decline in property business due to the temporary shortfall in property stocks, which are currently being rebuilt under new programmes.

3.2 2008/2009 outlook

Tourism business initiatives are to continue in 2008/2009.

Pierre & Vacances Europe is set to focus on the further development of sales to foreign clients under the umbrella brand P&V Holidays via the internet and by bolstering its sales offices outside France. This expansion is set to involve a parallel adaptation of the offering to suit these clients and enhanced visibility on the umbrella brand. In addition, internet sales are set to gain further momentum with the target for these to account for 24% of sales in 2009.

Center Parcs Europe is to focus on the rising momentum of new deliveries with:

- A target for higher occupancy rates at the Domaine du Lac d'Ailette which should exceed 80% in 2008/2009.
- Further growth in earnings at Sunparks following the completion of the renovation programme in 2008 and the opening of 62 new cottages at the De Haan village.
- The opening of 278 new cottages as extension to existing parks at the end of the year.

The **property development businesses** are set to benefit from the booking of the majority of the contribution from the new Center Parcs village in the Moselle region.

3.3 Expansion

In addition to active classic property prospecting and the development in Morocco, major projects should help substantially restore the Group's property stocks:

- **Center Parcs at Moselle**, with a first phase of 870 cottages followed by an extension of 450 cottages;

- The new **Center Parcs in Isère**, which represents 1,000 cottages;

- The extension of **Avoriaz**, representing 570 new apartments;

- **Deauville**, Presqu'île de la Touques, with 120 Résidences MGM apartments ;

- **Villages Nature**, in partnership with Eurodisney with the creation further out of 5,000 homes and apartments.

These projects represent potential additional turnover of €1 billion over the next four years.
The rebuilding of stocks should help boost performances in the property division and increase the tourism offering with innovative products, thereby meeting market expectations.