



Accor

(a company established with limited liability in France)

€433,484,000

1 per cent. Exchangeable Notes due 2002

Exchangeable for Ordinary Shares of

Compass Group PLC

The €433,484,000 aggregate principal amount of 1 per cent. Exchangeable Notes due 2002 (the "Notes") of Accor ("Accor" or the "Issuer") will be deemed to be issued outside the Republic of France and will mature, unless previously redeemed (following the occurrence of an event of default or illegality), exchanged or purchased and cancelled, on 29 March 2002 at their principal amount, as set out in "Terms and Conditions of the Notes — Redemption and Purchase — Redemption at Maturity" and " — Events of Default and Illegality". The Issuer may not redeem the Notes prior to their maturity.

The Notes will bear interest at the rate of 1 per cent. per annum from, and including, 29 March 1999 to, but excluding, 29 March 2002. Interest will be payable in equal instalments annually in arrear on 29 March of each year, commencing on 29 March 2000 (see "Terms and Conditions of the Notes — Interest").

Payments in respect of the Notes will be made subject to any applicable French taxes. On the basis of present French law, payments in respect of the Notes may be made without deduction for, or on account of, French taxes (see "Terms and Conditions of the Notes — Tax Status").

Each Note (unless previously redeemed (following the occurrence of an event of default or illegality), exchanged or purchased and cancelled) will be exchangeable at the holder's option at any time, save during the periods mentioned herein, on or after 10 May 1999 and up to and including 22 March 2002 (the "Exchange Period") into fully-paid ordinary shares of Compass Group PLC ("Compass Group") of 2.5p nominal value each (the "Shares") at an exchange ratio, subject to adjustment on the occurrence of certain events, of 70.8215 Shares for one Note. The Issuer may, at its discretion, elect to pay holders exercising their option the cash equivalent in euro of the then market value of the relevant Shares, all as set out in "Terms and Conditions of the Notes — Exchange of the Notes into Shares" and " — Underlying Shares — Adjustments".

The Notes will constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer and will rank *pari passu* and without any preference among themselves and, subject to mandatory statutory exceptions, equally and rateably with all other present or future unsecured and unsubordinated obligations of the Issuer (see "Terms and Conditions of the Notes — Status and Negative Pledge").

Application has been made for the listing of the Notes on the Luxembourg Stock Exchange with effect from 29 March 1999. The Shares are listed on the London Stock Exchange under the symbol CPG. On 23 March 1999, the closing price per Share on the London Stock Exchange was 663p.

For a discussion of certain factors that should be considered by investors in evaluating an investment in the securities offered hereby see "Investment Considerations" commencing on page 12.

Issue Price: 100%

BT Alex. Brown International, a division of Bankers Trust International PLC, has acted as financial advisor to Accor.

The Notes will be issued in the denomination of €1,000 each and will at all times be represented in book entry form (*dématérialisée*), in compliance with article 94-II of French law no. 81-1160 of 30 December 1981, in the books of the Sicovam Account Holders (as defined in "Terms and Conditions of the Notes — Form, Denomination and Title"). No physical documents of title will be issued in respect of the Notes. The Notes will, upon issue, be inscribed in the books of Sicovam SA ("Sicovam") which shall credit the accounts of the Sicovam Account Holders including the depository banks for Cedelbank ("Cedelbank") and Morgan Guaranty Trust Company of New York, Brussels Office, as operator of the Euroclear System ("Euroclear"). The Notes have been accepted for clearance through Sicovam, Euroclear and Cedelbank.

Deutsche Bank

J.P. Morgan Securities Ltd.

The date of this Offering Circular is 24 March 1999.

Subject as set out below, the Issuer confirms that this document contains all information with respect to the Issuer, the Issuer and its subsidiaries taken as a whole (the "Group"), and the Notes which is material in the context of the issue and offering of the Notes; the statements contained in it relating to the Issuer, the Group and the Notes are in every material particular true and accurate and not misleading; the opinions and intentions expressed in this document with regard to the Issuer and the Group are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; there are no other facts in relation to the Issuer, the Group or the Notes the omission of which would, in the context of the issue and offering of the Notes, make any statement in this document misleading in any material respect; and all reasonable enquiries have been made by the Issuer to ascertain such facts and to verify the accuracy of all such information and statements.

The information contained in this Offering Circular with respect to Compass Group PLC ("Compass Group"), Compass Group and its subsidiaries taken as whole (the "CG Group") and the Shares is, or consists of extracts from or summaries of, publicly available information contained in the documents listed under "General Information — Compass Group Information". The Issuer accepts responsibility for the accuracy of such extraction and summarisation but accepts no further or other responsibility in respect of such information. The Issuer confirms that it has used its reasonable endeavours to ensure that such information comprises such publicly available information of which it is aware as is reasonably necessary to enable potential investors in the Notes to evaluate Compass Group, the CG Group and the Shares.

Certain information (the "Compass Group Information") concerning Compass Group, the CG Group and the Shares has been set out in this Offering Circular under "Historical Compass Group Share Price Data", "Compass Group Dividends", "Compass Group — Summary", "Information relating to Compass Group's Share Capital" and "Financial Information". Compass Group Information has not been prepared in connection with the offering of the Notes and has been derived from public sources and none of the Issuer or the Joint Lead Managers (as defined in "Subscription and Sale") has made any investigation or inquiry in connection with the offer of the Notes with respect to such public sources or the information concerning Compass Group, the CG Group and the Shares contained herein. Neither Joint Lead Manager makes any representation that such publicly available documents or Compass Group Information are accurate or complete, and the Joint Lead Managers disclaim any liability with respect to the accuracy or completeness of any such information. Each purchaser of Notes will be deemed to acknowledge and consent to such disclaimer. Compass Group has not participated in the preparation of this Offering Circular or in establishing the terms of the Notes. Consequently, there can be no assurance that all events occurring prior to the date hereof (including events that would affect the accuracy or completeness of the publicly available documents described in this paragraph or the Compass Group Information) that would affect the trading price of the Shares (and therefore the price of the Notes) have been publicly disclosed. Subsequent disclosure of any such events or the disclosure of or failure to disclose material future events concerning Compass Group, the CG Group and the Shares could affect the trading price of the Shares deliverable upon exchange of Notes and therefore the trading price of the Notes.

In connection with the issue and offering of the Notes, no person has been authorised to give any information or to make any representation other than those contained in this Offering Circular and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or the Joint Lead Managers. Neither the delivery of this Offering Circular, nor any sale made in connection with the issue of the Notes shall, under any circumstances, create any implication that the information in this Offering Circular is correct or complete as of any time subsequent to its date.

The distribution of this Offering Circular and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer and the Joint Lead Managers to inform themselves about and to observe any such restrictions.

This Offering Circular does not constitute, and may not be used for the purposes of, an offer or solicitation by anyone to any person to whom it is unlawful to make such offer or solicitation.

No action has been or will be taken by the Issuer, the Joint Lead Managers or any other person that would permit a public offering of the Notes or the distribution of this Offering Circular or any other offering material relating to the Notes, in any country or jurisdiction where regulatory action for that purpose is required.

THE NOTES AND THE SHARES TO BE DELIVERED UPON EXCHANGE OF THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "SECURITIES ACT") AND, SUBJECT TO CERTAIN EXCEPTIONS, THE NOTES AND THE SHARES TO BE DELIVERED UPON EXCHANGE OF THE NOTES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("REGULATION S")).

The Notes are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S and within the United States to "qualified institutional buyers" in reliance on Rule 144A under the Securities Act ("Rule 144A"). Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain further restrictions on offers, sales and transfers of the Notes and the Shares to be delivered upon exchange of the Notes, and the distribution of this Offering Circular, see "Subscription and Sale" and "Transfer Restrictions".

The Notes and the Shares to be delivered upon exchange of the Notes have not been approved or disapproved by the U.S. Securities and Exchange Commission, any State securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Notes or the accuracy or adequacy of this Offering Circular. Any representation to the contrary is a criminal offence in the United States.

NOTICE TO NEW HAMPSHIRE RESIDENTS: NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

Unless otherwise specified or the context requires, references herein to "French francs", "francs", "FRF" and "FF" are to the lawful currency of the Republic of France; to "€" and "euro" are to the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community; to "£", "sterling", "GBP", "p" and "pence" are to the lawful currency of the United Kingdom; to "CHF" are to the lawful currency of Switzerland; to "AUD" are to the lawful currency of Australia and to "U.S. dollars", "USD" and "US\$" are to the lawful currency of the United States of America.

In this Offering Circular, any discrepancies in any table between totals and the sums of the amounts listed in such table are due to rounding. References to "billions" are to thousands of millions.

Unless otherwise indicated, statements in this Offering Circular relating to market share, ranking and data are derived from management's estimates based on independent industry publications, reports by market research firms or other published independent sources.

The Issuer prepares its financial statements in accordance with generally accepted accounting principles in France, which differ in certain significant respects from generally accepted accounting principles ("U.S. GAAP").

This Offering Circular includes "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the U.S. Securities Exchange Act of 1934 (the "Exchange Act"). All statements other than statements of historical facts included in this Offering Circular, including, without limitation, those regarding the Issuer's financial position, business strategy, plans and objectives of management for future operations (including development plans and objectives relating to the Issuer's products), are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Issuer, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Issuer's present and future business strategies and the environment in which the Issuer will operate in the future. Many factors could cause the Issuer's actual results, performance or achievements to differ materially from those in the forward-looking statements. Some of these factors are discussed in more detail under "Investment Considerations" and "Accor — Business". These forward-looking statements speak only as of the date of this Offering Circular. The Issuer expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Issuer's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

IN CONNECTION WITH THIS ISSUE, DEUTSCHE BANK MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILISE OR MAINTAIN THE MARKET PRICE OF THE NOTES AND/OR THE SHARES AT A LEVEL WHICH MIGHT NOT OTHERWISE PREVAIL. SUCH STABILISING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. SUCH STABILISING WILL BE CARRIED OUT IN ACCORDANCE WITH ALL APPLICABLE LAWS AND REGULATIONS AND WILL BE UNDERTAKEN SOLELY FOR THE ACCOUNT OF THE JOINT LEAD MANAGERS AND NOT FOR OR ON BEHALF OF THE ISSUER.

OFFERING CIRCULAR SUMMARY

The following summary is qualified in its entirety by, and should be read in conjunction with, the detailed information and financial statements included elsewhere in this Offering Circular or incorporated herein by reference.

Accor

Accor was established as a *société anonyme* under the laws of France on 22 April 1960 with registered number 602 036 444 RCS Evry. Its registered office is at 2, rue de la Mare Neuve, 91000 Evry, France and its operational headquarters at Tour Maine Montparnasse, 33, avenue du Maine, 75015 Paris, France.

Accor is the parent company of the Accor group companies (the "Group"), an international group and a European leader in the areas of travel, tourism and corporate services. The Group is principally active in four major complementary market sectors: hotels; travel agencies; car rental; and corporate services (service vouchers). Through its hotel brands (mainly "Sofitel", "Novotel", "Mercure", "Ibis", "Etap'Hôtel", "Formule 1" and "Motel 6"), the Group is among the world's leading hotel groups and operates the largest European hotel network (on the basis of the number of rooms). The Group further operates an international business travel agency network under the "Carlson Wagonlit Travel" brand; Europe's second largest car rental company on the basis of the market share ("Europcar") and the world's leading corporate services business with, namely, "Ticket Restaurant" voucher, based on the volume of issuance. The Group also has interests in restaurants in France (including de-luxe caterer "Lenôtre" and grill restaurants "CourtePaille"); institutional catering in Italy; on-board catering and sleeper train services ("Wagons-Lits"); and casinos in France.

Accor's 1998 unaudited consolidated sales amounted to FF36,881 million, as compared to FF31,780 million in 1997, representing a 16.1% increase (or a 13.3% increase on a constant consolidation method basis).

The following table shows a breakdown of the Group's consolidated sales by activity in each of the three financial years ended 31 December:

Breakdown of Consolidated Sales by Activity

Business Area	Financial Year Ended					
	31 December 1996 (in FF million)	%	31 December 1997 (in FF million)	%	31 December 1998* (in FF million)	%
Hotels	15,931	56	18,574	58	20,817	56
Travel agencies	4,073	14	4,074	13	2,557**	7
Car rental	—	—	—	—	2,634	7
Corporate services	1,847	7	2,173	7	2,395	7
Restaurants	3,704	14	4,050	13	4,432	12
Railway on-board services	2,063	7	1,780	6	2,256	6
Casinos	—	—	372	1	847	2
Other activities	687	2	757	2	943	3
Total	<u>28,305</u>	<u>100</u>	<u>31,780</u>	<u>100</u>	<u>36,881</u>	<u>100</u>

*Unaudited figures

**The accounting treatment of sales generated by travel agencies was modified to conform to international practices in this sector and reflect changes underway in this activity.

The Group's principal geographical markets are France, the rest of Europe, North America and Latin America, which account for 37%, 33%, 17% and 11% respectively, of the Group's consolidated sales in the 1998 financial year. The following table shows a breakdown of the Group's consolidated sales by geographical area in each of the three financial years ended 31 December:

Breakdown of Consolidated Sales by Geographical Area

Geographical Area	Financial Year Ended					
	31 December 1996 (in FF million)	%	31 December 1997 (in FF million)	%	31 December 1998* (in FF million)	%
France	9,926	35	10,750	33	13,501	37
Rest of Europe	10,746	38	10,268	32	12,333	33
North America	3,989	14	6,529	21	6,162	17
Latin America	3,062	11	3,752	12	4,122	11
Rest of World	582	2	481	2	763	2
Total	<u>28,305</u>	<u>100</u>	<u>31,780</u>	<u>100</u>	<u>36,881</u>	<u>100</u>

* Unaudited figures

As at 30 June 1998, the Group employed a total of approximately 118,000 employees in 140 countries.

Compass Group

The CG Group is a leading international foodservice business providing services to customers and clients at locations where foodservice is not usually the prime reason for their visit. It has strong market positions in the UK, Continental Europe and the USA, together with businesses in emerging markets in Eastern Europe, South America and Asia. At 23 March 1999, the market capitalisation of the Compass Group was approximately £4.5 billion (based on the number of Shares outstanding at 30 September 1998) and at 30 September 1998 the CG Group employed over 170,000 people (including part-time employees) in over 50 countries.

For the financial period ended 30 September 1998, the CG Group's turnover totalled £4,213.8 million and its operating profit totalled £218.0 million. Net cash inflow from operating activities during the period ended 30 September 1998 totalled £257.0 million.

Summary Consolidated Financial and Operating Data

Accor

The following summary financial information relating to Accor has been extracted from the Unaudited Consolidated Financial Statements of Accor for the six months ended 30 June 1998 and the Consolidated Financial Statements of Accor for each of the financial periods in the three years ended 31 December 1997. This summary information should be read in conjunction with, and is qualified in its entirety by reference to, those consolidated financial statements. Figures included in this summary financial information are as originally reported for the relevant financial period.

Consolidated Statement of Income

	Year Ended 31 December			Six Months Ended 30 June (unaudited)	
	1995	1996	1997	1997	1998
	(in FF million)				
Consolidated revenues	31,012	28,305	31,780	14,991	17,929
Gross operating profit	5,997	5,989	7,283	3,376	4,104
Rental expenses	(1,241)	(1,505)	(1,857)	(898)	(1,241)
EBITDA	4,756	4,484	5,426	2,478	2,863
EBIT	2,919	2,576	3,435	1,486	1,908
Net financial expense	(1,640)	(1,260)	(1,071)	(543)	(536)
Group share in income of companies accounted for by the equity method	2	199	87	21	25
Total income from operations	1,281	1,515	2,451	964	1,397
Result from management of hotel portfolios	132	231	4	(77)	(121)
Current income before income taxes	1,413	1,746	2,455	887	1,276
Result from management of other assets	(91)	281	74	28	448
Amortisation of goodwill	(206)	(185)	(296)	(107)	(194)
Income taxes	(538)	(489)	(797)	(299)	(409)
Exceptional items (net of taxes)	643	—	269	39	7
Minority interest	(298)	(295)	(197)	(90)	(86)
Consolidated net income, Group share	923	1,058	1,508	458	1,042
Earnings per share (in FF)	32.30	34.20	42.4	12.9	29.0

Consolidated Balance Sheet

	31 December			30 June (unaudited)	
	1995	1996	1997	1997	1998
	(in FF million)				
Assets					
Intangible fixed assets	2,960	3,050	3,012	2,397	3,034
Goodwill (net of amortisation)	5,572	5,404	7,795	6,364	8,215
Property, plant and equipment net of accumulated depreciation	25,957	25,509	26,994	27,216	22,119
Total financial assets	5,403	6,291	5,053	5,731	4,541
Total fixed assets	39,892	40,254	42,854	41,708	37,909
Total current assets	14,319	14,502	20,100	16,056	23,016
Total prepaid expenses and deferred charges	521	678	838	617	1,315
Total Assets	<u>54,732</u>	<u>55,434</u>	<u>63,792</u>	<u>58,381</u>	<u>62,240</u>
Liabilities and shareholders' equity					
Total shareholders' equity	13,284	16,135	18,654	17,342	18,558
Total shareholders' equity and minority interests	16,072	17,868	19,909	18,493	19,669
Total long-term debt	17,307	15,903	16,784	16,648	11,660
Total non-current liabilities and shareholders' equity	37,886	38,187	42,194	40,300	37,411
Total current liabilities	16,419	16,671	21,259	17,523	24,430
Accrued liabilities	427	576	339	558	399
Total liabilities and shareholders' equity	<u>54,732</u>	<u>55,434</u>	<u>63,792</u>	<u>58,381</u>	<u>62,240</u>

Consolidated Statement of Sources and Uses of Funds

	Year Ended 31 December			Six Months Ended 30 June (unaudited)	
	1995	1996	1997	1997	1998
	(in FF million)				
Consolidated cash flow from operations	2,542	2,654	3,945	1,812	2,007
Investments for renovation and maintenance	(1,736)	(1,702)	(2,070)	(1,019)	(993)
Free cash flow	806	952	1,875	793	1,014
New capital and technology investments	(2,038)	(1,687)	(4,693)	(2,108)	(1,981)
Proceeds from asset sales	3,178	3,021	4,782	2,882	7,912
Changes in working capital	619	522	466	72	(219)
Dividends	(702)	(961)	(1,026)	(1,021)	(1,318)
Decrease in net indebtedness	1,863	1,847	222	(112)	5,369

Compass Group

The following summary financial information relating to Compass Group has been extracted from the Consolidated Financial Statements of Compass Group for the financial periods ended 30 September 1998, 28 September 1997 and 29 September 1996. This summary financial information should be read in conjunction with, and is qualified in its entirety by reference to, those financial statements. Figures included in this summary financial information are as originally reported for the relevant financial period. The Consolidated Financial Statements of Compass Group have been prepared in accordance with applicable laws, regulations and generally accepted accounting principles in the United Kingdom.

Consolidated Profit and Loss Account

	52 Week Period Ended 30 Sep. 1998	52 Week Period Ended 28 Sep. 1997 (in £ million)	52 Week Period Ended 29 Sep. 1996
Turnover			
Continuing operations	4,075.0	3,507.5	2,522.6
Acquisitions	138.8	195.5	114.3
Discontinued operations	—	—	15.0
Total turnover	<u>4,213.8</u>	<u>3,703.0</u>	<u>2,651.9</u>
Operating costs	<u>(3,999.4)</u>	<u>(3,531.6)</u>	<u>(2,521.8)</u>
Operating profit			
Continuing operations	212.9	175.0	129.7
Acquisitions	1.5	(3.6)	(2.8)
Discontinued operations	—	—	3.2
Operating profit of Compass Group and its subsidiary companies	<u>214.4</u>	<u>171.4</u>	<u>130.1</u>
Share of operating profits of associated undertakings	<u>3.6</u>	<u>2.9</u>	<u>7.0</u>
Total operating profit: CG Group and share of associated undertakings	<u>218.0</u>	<u>174.3</u>	<u>137.1</u>
Sale of investment	<u>—</u>	<u>8.7</u>	<u>20.0</u>
Profit on ordinary activities before interest	<u>218.0</u>	<u>183.0</u>	<u>157.1</u>
Interest receivable and similar income	8.3	6.0	7.4
Interest payable and similar charges	<u>(67.2)</u>	<u>(51.2)</u>	<u>(36.9)</u>
Profit on ordinary activities before taxation	<u>159.1</u>	<u>137.8</u>	<u>127.6</u>
Tax on profit on ordinary activities	<u>(41.4)</u>	<u>(36.8)</u>	<u>(27.0)</u>
Profit on ordinary activities after taxation	<u>117.7</u>	<u>101.0</u>	<u>100.6</u>
Equity minority interests	<u>(3.2)</u>	<u>(1.1)</u>	<u>(1.2)</u>
Profit for the financial year/period	<u>114.5</u>	<u>99.9</u>	<u>99.4</u>
Equity dividends	<u>(37.5)</u>	<u>(32.1)</u>	<u>(27.3)</u>
Profit for the year/period retained	<u>77.0</u>	<u>67.8</u>	<u>72.1</u>

Consolidated Balance Sheet

	30 Sep. 1998	28 Sep. 1997	29 Sep. 1996
	(in £ million)		
Fixed Assets			
Tangible assets	373.8	311.4	256.1
Investments	32.2	29.0	14.1
	406.0	340.4	270.2
Current assets			
Stocks	92.1	87.6	73.0
Debtors: amounts falling due within one year	510.4	443.7	323.4
amounts falling due after more than one year	53.4	70.3	50.3
Cash at bank and in hand	72.8	106.0	90.2
	728.7	707.6	536.9
Creditors: amounts falling due within on year	(1,023.3)	(856.2)	(708.1)
Net current liabilities	(294.6)	(148.6)	(171.2)
Total assets less current liabilities	111.4	191.8	99.0
Creditors: amounts falling due after more than one year			
Other creditors	(714.0)	(773.1)	(584.5)
Convertible bond	(214.9)	(214.4)	—
	(928.9)	(987.5)	(584.5)
Provisions for liabilities and charges	(58.5)	(65.4)	(69.2)
Equity minority interests	(5.6)	(9.8)	(3.0)
Net liabilities	(881.6)	(870.9)	(557.7)
Capital and reserves			
Called up share capital	16.9	16.2	15.9
Shares to be issued (including premium)	—	51.2	68.3
Share premium account	816.5	722.1	680.8
Other reserve: goodwill	(2,135.7)	(1,997.5)	(1,568.8)
Profit and loss account	420.7	337.1	246.1
Total equity shareholders' funds	(881.6)	(870.9)	(557.7)

The Offering

The Issuer	Accor, a company established with limited liability under the laws of France.
The Notes	€433,484,000 1 per cent. Exchangeable Notes due 2002 exchangeable for issued and outstanding fully-paid ordinary shares of Compass Group PLC of a nominal value of 2.5p each.
Issue Price	100 per cent. of their principal amount.
Issue Date	29 March 1999.
Listing	Application has been made to list the Notes on the Luxembourg Stock Exchange. The Compass Group shares are listed and traded on the London Stock Exchange.
Clearance	The Notes have been accepted for clearance through Sicovam, Cedelbank and Euroclear.
Use of Proceeds	The net proceeds from the issue of the Notes will be used by Accor to repay maturing short-term debt and for general corporate purposes.
Investment Considerations	Prospective investors should carefully consider certain matters discussed under "Investment Considerations".

The Notes

Form and Denomination	The Notes are issued in dematerialised bearer (<i>au porteur</i>) form in the denomination of €1,000 each. No physical document of title will be issued in respect of the Notes. In accordance with article 94-II of French law no. 81-1160 of 30 December 1981, title to the Notes will at all times be evidenced by book entries in the books of the Account Holders (as defined in "Terms and Conditions of the Notes — Form, Denomination and Title") including the depositary banks for Cedelbank and Euroclear. Transfers of Notes may only be effected through registration of the transfer in the books of the Account Holders.
Status of the Notes	The Notes constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer and will rank <i>pari passu</i> and without any preference among themselves and, subject to certain mandatory statutory exceptions, equally and rateably with all other present or future unsecured and unsubordinated obligations of the Issuer, all as more fully provided in "Terms and Conditions of the Notes — Status and Negative Pledge".
Interest	The Notes will bear interest at the rate of 1 per cent. per annum from, and including, 29 March 1999. Interest will be payable annually in arrear on 29 March in each year, commencing on 29 March 2000, all as more fully provided in "Terms and Conditions of the Notes — Interest". Exchanged Notes will cease to bear interest from the interest payment date immediately preceding the date on which the Exchange Right in respect of such Notes was exercised.
Exchange Rights	Each Note (unless previously redeemed following the occurrence of an event of default or illegality, exchanged or purchased and cancelled) will be exchangeable at the holder's option at any time, save during the periods mentioned herein, during the period from 10 May 1999 to 22 March 2002 (both dates inclusive) for issued and outstanding fully-paid ordinary shares of Compass Group of 2.5p nominal value each at an initial exchange ratio, subject to adjustment on the occurrence of certain events, of 70.8215 Shares for one Note, all as more fully provided in "Terms and Conditions of the Notes — Exchange of the Notes into Shares" and " — Underlying Shares". The Issuer may, at its option, deliver to a holder exercising its Exchange Rights the cash equivalent in euro of the then market value of the relevant Shares, all as more fully provided in "Terms and Conditions of the Notes — Exchange of the Notes into Shares — Exchange Rights".
Redemption of the Notes	The Issuer may not redeem the Notes prior to their maturity on 29 March 2002. Unless previously redeemed following the occurrence of an event of default or illegality, exchanged or purchased and cancelled, the Notes will be redeemed in cash on 29 March 2002 at their principal amount together with accrued interest, all as more fully provided in "Terms and Conditions of the Notes — Redemption and Purchase — Redemption at Maturity" and " — Events of Default and Illegality".

Events of Default and Illegality . .	The Notes will contain provisions entitling the Representatives of the <i>Masse</i> , upon the occurrence of certain events, to cause the Notes to become immediately due and payable at a price equal to the higher of (i) the principal amount of the Notes together with any accrued interest thereon and (ii) the Cash Value of the Notes together with any distributions granted by reference to a record date falling between the due date of early redemption of the Notes and delivery of the Shares (or their Cash Value), all as more fully provided in “Terms and Conditions of the Notes — Events of Default and Illegality”.
Taxation on Interest Payments . .	Payments in respect of the Notes will be made subject to any withholding or deduction in respect of French taxes which is required by law. The Notes being denominated in euro, are deemed to be issued outside the Republic of France for the purpose of Article 131 <i>quater</i> of the <i>Code Général des Impôts</i> (French General Tax Code). Accordingly interest and other revenues in respect of the Notes benefit at present from the exemption from deduction of tax at source provided by Article 131 <i>quater</i> of the <i>Code Général des Impôts</i> . As a result, such payments do not give the right to any tax credit from any French source. See also “Terms and Conditions of the Notes — Tax Status” and “Taxation — EU Withholding Tax Proposals”.
Underlying Shares	The Issuer is not required under the Conditions of the Notes to set aside any Shares to secure its obligation to deliver Shares on exercise of Exchange Rights, or to deposit any Shares with a custodian or escrow agent for so long as any Note is outstanding. The obligations of the Issuer under the Notes to deliver Shares (or pay their Cash Value) on exercise of Exchange Rights are unsecured. The Issuer will, however, undertake to procure that it or one of its wholly-owned subsidiaries either owns or is entitled to acquire such number of Shares as would enable the Exchange Rights relating to Notes of an aggregate principal amount not less than the then aggregate outstanding principal amount of Notes to be satisfied in full at the then current Exchange Ratio, all as more fully provided in “Terms and Conditions of the Notes — Underlying Shares — Issuer’s Continuing Entitlement to Shares”.
Governing Law	The Notes and the Agency Agreement to be entered into in respect of the Notes will be governed by French law.
Transfer Restrictions	The Notes, and any Shares delivered upon exchange of any Note, will be subject to certain restrictions on transfer as described in “Transfer Restrictions”.

INVESTMENT CONSIDERATIONS

In addition to the other information included or incorporated by reference in this Offering Circular, the following factors should be considered carefully by prospective investors in evaluating an investment in the Notes.

General Economic and Business Factors

Accor is an international hotel group operating throughout the world. As a result, its business and financial performance are affected by general economic conditions, including factors such as fluctuations in economic and business activity in the markets in which it operates, changes in government law, regulation, rates of taxation, the level of interest rates and exchange rates. Although the Group's activities are geographically diverse, they are currently principally centered in Europe and North America which, together, accounted in 1998 for 87% of its consolidated sales. Accordingly, adverse changes in any of the factors referred to above affecting in particular Europe and North America may significantly impact on its results of operations. In addition, many of the markets in which Accor operates (particularly the United States) are subject to a highly competitive environment which may also affect Accor's operations.

Furthermore, such general economic and business factors may also affect the economic performance of Compass Group and, accordingly, the value of the shares into which the Notes are exchangeable.

Emerging Markets

Accor has certain limited exposure to emerging markets, principally in Latin America. The recent monetary crisis in Brazil, where Accor's business is predominant in service vouchers, has resulted in the devaluation of the local currency (real) against the U.S. dollar. The impact of this crisis has been partially offset by an increase in Brazilian interest rates, so boosting financial income in the vouchers business. The Group will further implement a cost-cutting programme to limit the impact of a possible slowdown of the vouchers activity.

Impact of Taxation on Certain Service Voucher Activities

The Group's service voucher business has developed in countries where the use of meal vouchers generally benefits from certain tax advantages. In France for example, *Ticket Restaurant* are tax deductible up to an amount of FF28 per voucher. The level of tax deductibility of service vouchers depends on the country in question. The Group's corporate services division offers a variety of service vouchers to suit the needs of its clients, taking into consideration the corresponding tax advantages. As a result, any change in taxation affecting the tax deductibility of, or other tax advantages attached to, meal vouchers in any particular country would be likely to have an adverse effect on, or conversely benefit, the Group's service voucher operations in such country. Meal vouchers represented 56% of the Group's service voucher activity in terms of contribution to the volume of issuance as at 31 December 1998. See "Accor — Business — Corporate Services".

Year 2000 Compliance

Accor has conducted a detailed inventory of its systems and hardware likely to be affected by the so-called "millennium bug". A specific taskforce has been organised consisting of a group steering committee and dedicated taskforces for each of the Group's four main activities. The upgrading of the computer systems for year 2000 compliance purposes has been carried out jointly with the euro conversion procedures. The total cost, for Accor and hotel subsidiaries, of adapting to the year 2000 should range between FF90 million and FF130 million according to estimates made by Accor in March 1998. In addition, the information technology programmes included in the Accor 2000 project are already millennium compliant, thereby limiting the costs of this transition.

On the basis of tests carried out so far, Accor believes that it will be millennium compliant before 1 January, 2000 and, while there can be no certainty as to such compliance by its own

and other companies' systems, it does not believe that its business, operations or financial condition will be materially affected by such issues. See "Accor — Business — Year 2000 Issues".

Absence of Security and Escrow Arrangements

Accor is not required under the Conditions of the Notes to set aside any Shares to secure its obligation to deliver Shares on exercise of Exchange Rights, or to deposit any Shares with a custodian or escrow agent for so long as any Note is outstanding. Accordingly, the obligations of Accor under the Notes to deliver Shares (or pay their Cash Value) on exercise of Exchange Rights are unsecured and, following the exercise by a Noteholder of its Exchange Rights, the delivery of Shares (or the payment of their Cash Value) to the Noteholder is dependent on the performance by Accor of its obligations under the Notes and the Agency Agreement. However, Accor has undertaken to procure that, for so long as any Note is outstanding, it or one of its wholly-owned subsidiaries will either own, or be entitled to acquire, such number of Shares as would enable the Exchange Rights relating to Notes of an aggregate principal amount not less than the then aggregate outstanding principal amount of Notes to be satisfied in full at the then current Exchange Ratio. See "Terms and Conditions of the Notes — Underlying Shares — Issuer's Continuing Entitlement to Shares".

Taxation

Payments by Accor in respect of the Notes will be made subject to any withholding or deduction in respect of French taxes which may in the future be required by law. In the event of any such withholding or deduction, Accor is not required under the Conditions to pay to Noteholders any additional amounts which may be necessary in order to compensate Noteholders for any such deduction or withholding. See "Terms and Conditions of the Notes — Tax Status" and "Taxation — EU Withholding Tax Proposals".

Risks Attached to the Exercise of Exchange Rights

Investors should be aware that the Notes, being exchangeable for Shares (or their Cash Value), bear certain risks. If the Notes are exchanged, depending on the performance of the underlying Shares or the stock market prevailing at the time of exchange, the value of the Shares to be delivered (or their Cash Value) may be substantially lower than the initial investment. In addition, the value of the Shares to be delivered (or their Cash Value in euro) may vary substantially between the date on which Exchange Rights are exercised and the date on which such Shares (or their Cash Value) are delivered in accordance with the Conditions. See "Terms and Conditions of the Notes — Exchange of the Notes into Shares — Delivery of Shares or Cash". Should they have any doubt on the risks implied, investors should consult a professional investment adviser.

Failure to Exercise Exchange Rights

Failure by a Noteholder to exercise its Exchange Right on a timely basis in accordance with the Conditions prior to 17.00 hours (Paris time) on 22 March 2002 will result in the Notes being redeemed at their principal amount plus accrued interest. See "Terms and Conditions of the Notes — Redemption and Purchase — Redemption at Maturity".

Cash Option

Accor has the right under the Conditions to pay to any Noteholder exercising its Exchange Right the Cash Value of the Shares that would otherwise be deliverable to it in respect of such exercise in lieu of delivery of the Shares. This right may be exercised by Accor on a case by case basis following exercise by a Noteholder of its Exchange Right. Accordingly, Noteholders exercising their Exchange Right will not know at the time of exercise whether Accor will deliver Shares or pay their Cash Value. See "Terms and Conditions of the Notes — Exchange of the Notes into Shares — Exchange Rights".

Offers and Voting Rights

If an Offer for the Shares is made to the holders of the Shares, Accor, subject to certain conditions, has absolute discretion to accept or reject such offer (and as to the choice of any alternative consideration) on the final date for its acceptance.

If Accor does accept such an Offer (or if the Shares are subject to compulsory acquisition), Exchange Rights will, depending on the nature of the consideration received by Accor, be transformed into a right to receive, upon their exercise, either Substitute Shares at an adjusted Exchange Ratio or an amount equal to the higher of (i) the principal amount of the Notes together with accrued interest thereon and (ii) the Cash Value of the Notes (calculated as of the date on which the consideration for the Offer is made available to Accor) together with any distributions granted by reference to a record date falling between the date on which the Exchange Right is exercised and the date of payment of the Cash Value. See "Terms and Conditions of the Notes — Underlying Shares — General Offers".

Accor is not obliged to consult with Noteholders in connection with any scheme of arrangement, reorganisation, amalgamation or reconstruction of Compass Group or any other matter submitted to Shareholders and it shall at all times be entitled to vote on, exercise its rights in respect of, or otherwise participate in, any such scheme of arrangement, reorganisation, amalgamation, reconstruction or other matter as it thinks fit. In doing so, it is possible that Accor may act contrary to the best interests of some or all of the Noteholders.

Potential Limited Liquidity of the Notes

No public market exists for the Notes and no assurance can be given that such market will develop, or if a public market develops, as to its liquidity. There is no current intention to list the Notes other than on the Luxembourg Stock Exchange. The Joint Lead Managers intend, but are under no obligation, to make a market in the Notes and no assurances can be given as to whether a trading market for the Notes will develop or as to the liquidity of any such trading market. If any of the Notes are traded after their initial issue, they may trade at a discount or premium from their initial offering price, depending on prevailing interest rates, the market for similar securities and the market for Shares and other factors, including general economic conditions and the financial condition, performance and prospects of Accor and Compass Group. No assurance can be given as to the future price level of the Notes after their initial issue.

USE OF PROCEEDS

The net proceeds from the issue of the Notes, which will be approximately €422,284,000, will be used by Accor to repay maturing short-term debt and for other general corporate purposes.

CAPITALISATION OF ACCOR

The following table sets out the unaudited consolidated capitalisation of Accor as at 30 June 1998 and as adjusted to give effect to the issue of the Notes. The following data should be read in conjunction with the unaudited consolidated Financial Statements and Notes thereto of Accor included elsewhere herein.

	As at 30 June 1998	
	Actual	Pro Forma as Adjusted
	(in FF million)	
Cash & cash equivalents	5,358	5,358
Short-term financial debt:		
Bank debt	1,940	1,940
Debentures	5,266	2,496
Total short-term financial debt	7,206	4,436
Long-term financial debt:		
Notes offered hereby	0	2,843
Capital leases	1,385	1,385
Other long-term debt	8,260	8,260
Convertible bonds	2,015	2,015
Repackaged subordinated perpetual notes (TSDI)	2,755	2,755
Total long-term financial debt	14,415	17,258
Total financial debt	21,621	21,694
Share capital	3,589	3,589
Other shareholders' equity	14,969	14,969
Total shareholders' equity	18,558	18,558
Total consolidated capitalisation	40,179	40,252

* Save as disclosed in the table above, there has been no material change to the consolidated capitalisation of Accor since 30 June 1998.

HISTORICAL COMPASS GROUP SHARE PRICE DATA

The following table sets out, for each of the periods indicated, the reported highest and lowest closing quotations of a Share as derived from the Bloomberg Pricing Sources:

	<u>High</u> (p)	<u>Low</u> (p)
1996		
First Quarter	264.0	234.5
Second Quarter	308.0	264.0
Third Quarter	299.5	273.0
Fourth Quarter	313.8	283.5
1997		
First Quarter	371.3	307.0
Second Quarter	358.5	320.0
Third Quarter	340.5	291.3
Fourth Quarter	382.3	312.5
1998		
First Quarter	508.8	375.5
Second Quarter	689.0	498.0
Third Quarter	672.0	495.5
Fourth Quarter	698.5	497.0
1999		
1 January 1999 to 23 March 1999	809.5	663.0

On 23 March 1999 the closing mid-market price of a Share was 663.0 pence.

Source: Bloomberg Pricing Sources

The above prices have been adjusted to reflect sub-divisions, rights issues and bonus issues.

COMPASS GROUP DIVIDENDS

The following table sets out, for the periods indicated, information on (a) the consolidated earnings of Compass Group per Share in pence; and (b) the dividends in pence declared by Compass Group in respect of its Shares.

<u>Financial Year/Period Ended</u>	<u>Earnings per Share(1)(2)(3)</u>	<u>Dividends per Share(1)(4)(5)</u>
	(p)	(p)
1994	9.6	3.38
1995	11.3	3.80
1996	13.2	4.30
1997	15.6	4.90
1998	17.3	5.55(6)

- (1) Earnings per Share and net dividends per Share have been adjusted for the two for one subdivision of the ordinary shares of 5p each in the capital of Compass Group which occurred on 12 June 1998 (see "Information relating to Compass Group's Share Capital — Changes in the Issued Share Capital") and for the bonus element of a rights issues and a capitalisation issue during 1994.
- (2) For further information on earnings per Share see "Note 9 — Earnings Per Share" in the notes to the Financial Statements of Compass Group for the period ended 30 September 1998 set out elsewhere in this document.
- (3) The calculation of earnings per Share for 1998 has been based on profit after taxation and minority interests of £114.5 million (1997: £99.9 million; 1996: £99.4 million; 1995: £54.0 million; 1994: £39.4 million) and a weighted average number of 662,086,572 Shares (1997: 640,830,698 Shares; 1996: 629,029,544 Shares; 1995: 476,729,264 Shares; 1994: 410,040,024 Shares). Earnings per Share and the weighted average number of Shares have been restated following the share sub-division on 12 June 1998 (see "Information relating to Compass Group's Share Capital — Changes in the Issued Share Capital").
- (4) Dividends per Share are expressed net of tax at the rate of 20 per cent.
- (5) For further information on dividends per share see "Note 8 — Dividends" in the notes to the Financial Statements of Compass Group for the year ended 30 September 1998 set out elsewhere in this document.
- (6) Dividends in respect of the period ended 30 September 1998 include a final dividend of 3.80p (net) per Share which is due to be paid on 8 April 1999.

ACCOR

FINANCIAL REVIEW

The following summary review of the 1998 consolidated sales and of results of operation and financial condition at, and for the six month periods ended, 30 June 1997 and 1998 and at, and for the years ended, 31 December 1996 and 1997 is based on, and should be read in conjunction with, and is qualified in its entirety by reference to, the Issuer's Unaudited Consolidated Interim Financial Statements and Consolidated Financial Statements included in this Offering Circular. The Unaudited Consolidated Financial Statements and Consolidated Financial Statements were prepared in accordance with French generally accepted accounting principles and were, as regards the Issuer's Unaudited Consolidated Interim Financial Statements subject to a limited review, and as regards the Consolidated Financial Statements, audited, in each case by Barbier Finault & Autres and Deloitte, Touche, Tohmatsu-Audit, statutory auditors of the Issuer. See "Financial Information".

Consolidated Sales for the Year Ended 31 December 1998

Variation of 1998 Consolidated Sales as Compared to 1997 Figures by Activity

	Full Year		Change 98/97 Published	Change on a Constant Consolidation and Currency Basis
	1997	1998(1)		
	(in FF million)			
Business and leisure	10,353	11,995	+15.9%	+9.1%
Economy	4,100	4,534	+10.6%	+6.1%
Motel 6	4,121	4,288	+4.1%	+4.2%
s/t Hotels	18,574	20,817	+12.1%	+7.3%
Travel agencies	4,074	2,557(2)	-37.2%	+10.5%
Car rental	—	2,634	+21.8%(3)	+15.5%
Corporate services	2,173	2,395	+10.2%	+8.4%
Restaurants	4,050	4,432	+9.5%	+5.8%
Railway on-board Services	1,780	2,256	+26.7%	+3.5%
Casinos	372	847	+127.8%	+9.5%
Other	757	943	+24.5%	+39.9%
TOTAL	<u>31,780</u>	<u>36,881</u>	<u>+16.1%</u>	<u>+8.0%</u>

(1) Unaudited figures

(2) The accounting of sales generated by travel agencies was modified to conform to international practices in this sector and reflects changes underway in this activity.

(3) Pro-forma

Accor reported 1998 unaudited consolidated sales of FF36,881 million, as compared to FF31,780 million in 1997, representing a 16.1% increase. On a constant consolidation and currency basis, all principal sectors contributed to this increase which was helped by growth in the United States and Europe. This increase takes into account the integration of Europcar and the modification of the accounting principles used to integrate travel agency sales since 1 January 1998. Based on the constant accounting standards, 1998 consolidated sales increased by 13.3%, reflecting (i) the growth of existing activities (+8.0%), (ii) business development (+5.4%) and (iii) the impact of currency translation (-0.1% with -2.1% for the fourth quarter).

Hotels revenues grew by 12.1% (including 2% of negative currency impact for the fourth quarter), including 15.9% for the business and leisure segment, 10.6% for the economy segment and 4.1% for Motel 6. Based on the constant accounting standards, Travel agency sales increased by 10.5% in 1998. Car rental revenues increased by 21.8% over 1997, when they were not proportionally consolidated. 1998 revenues from corporate services operations rose by 10.2%, including 3.4% negative currency changes during the 4th quarter. Sales from railway on board services increased by 26.7%, as a result of the contract signed with SNCF in France. The revenues from casinos activities were only consolidated as from the second quarter of 1997, generating sales of FF847 million in 1998, a significant increase as compared to 1997 figures.

Activity Volume

Activity volume includes not only sales and other operating revenues of companies more than 50% owned by the Group (subsidiaries including Europcar and AAPC), but also sales generated by hotels operated under management contracts, sales of companies accounted for by the equity method corporate services activity volume, traffic volumes generated by travel agencies and sales of institutional restaurants operated under management contracts.

Activity volume totalled FF106,270 million in 1998, up 7.9%. The activity volume is as follows: (i) hotel activity volume (FF27,198 million), (ii) travel agency traffic (FF29,188 million), (iii) car rental activity volume (FF2,634 million), and (iv) corporate services volume of issuance (FF38,492 million).

Unaudited Consolidated Financial Statements at, and for the Six Months Ended, 30 June 1998

Financial Summary

	Six Months Ended 30 June 1997	Six Months Ended 30 June 1998	Variation
	(in FF million)		
Consolidated sales	14,991	17,929	+19.6%
EBIT	1,486	1,908	+28.4%
less interest	(543)	(536)	- 1%
Group share in equity accounted companies	21	25	+ 19%
Total income from operations	964	1,397	+44.9%
plus Result from management of hotel portfolio ...	(77)	(121)	
Current income before income taxes	887	1,276	
plus result from management of other assets	28	448	
Amortisation of goodwill	(107)	(194)	
Income taxes	(229)	(409)	
Exceptional Items (net of taxes)	39	7	
Minority interests	(90)	(86)	
Net income, Group share	458	1,042	+127.5%

Accor reported consolidated first-half 1998 sales of FF17,929 million, representing a 19.6% increase over the first-half 1997 level of FF14,991 million. This increase takes into account the consolidation on a proportional basis of Europcar since 1 January 1998. In addition, principles used to account for travel agency sales have been modified to reflect international standards and the evolution of the business. Based on the new accounting standards, consolidated sales for the first half of 1998 increased by 17.3%, reflecting +8.9% due to the growth of existing activities, 6.7% due to business development and 1.7% due to the impact of currency translation.

Earning before interest and taxes ("EBIT") rose by 28.4%, from FF1,486 million to FF1,908 million. This FF422 million increase reflected a FF271 million improvement in growth of businesses, particularly of hotels, a FF62 million increase due to the consolidation on a proportional basis of Europcar, and the impact of developments and currency translation. Of note was the 1998 Soccer World Cup which boosted June revenues in France.

Earnings Before Interest and Taxes

	Six Months Ended 30 June 1997	Six Months Ended 30 June 1998	Variation
	(in FF million)		
Business and leisure hotels	366	550	+184
Economy hotels	316	382	+66
Motel 6	460	482	+22
Travel agencies	52	27	(25)
Car rental	—	62	NS
Corporate services	290	299	+9
Other	2	106	+104
Group Total	<u>1,486</u>	<u>1,908</u>	<u>+422</u>

Net financial expenses remained unchanged from FF543 million at 30 June 1997, to FF536 million at 30 June 1998. This figure included the FF82 million increase in net financial expenses due to the integration of Europcar. Conversely, hotel refinancing led to a FF112 million decrease and lower interest rates to a FF18 million favorable impact on net financial expenses.

Income from companies accounted for by the equity method increased by FF4 million at 30 June 1997 to FF25 million at 30 June 1998. Following the full consolidation of Europcar and AAPC, the main associated companies are TAHL (hotel real estate companies in Australia) and SHCD (*Société des Hôtels et Casinos de Deauville*).

Total income from operations increased sharply by 44.9% (i.e. FF433 million) from FF964 million at 30 June 1997 to FF1,397 million at 30 June 1998. Pre-tax margin rose by 6.4% in the first six months of 1997 to 7.8% for sales at 30 June 1998.

Result from management of the hotel portfolio posted a loss of FF(121) million compared to a loss of FF(77) million for the first half 1997. This result included a FF40 million capital gain on sale of hotel properties, FF(70) million provisions for lease renegotiations in Germany and FF(91) million provisions for asset depreciation in France and in the U.S.

Current income (before taxes) increased by FF389 million, from FF887 million to FF1,276 million.

Result from management of other assets increased from FF28 million at the end of June 1997, to FF448 million at 30 June 1998, reflecting:

- capital gains on sale of securities (mainly the sale of 16.4 million Compass Group shares) for FF909 million;
- provisions for miscellaneous risks regarding mainly travel agencies and railway onboard services, of FF286 million, with no individual provision exceeding FF50 million;
- provisions for transition to Euro and Year 2000 of FF175 million.

Income taxes amounted to FF409 million, versus FF299 million for the first half of 1997, representing 32% of the Group's current income as compared to 33.7% for the corresponding period in 1997.

Exceptional items, net of taxes, represented FF7 million versus FF39 million at 30 June 1997. This figure included a capital gain on the sale of Hotelia (hotel residences for senior citizens), 77% of which the Group sold during the first half of 1998, for FF101 million, and a provision of FF(94) million on an additional lot of Motel 6 hotel properties to be sold (in addition to our initial program of USD1 billion announced in October 1997, and recently achieved).

Net income, Group share, for the first half of 1998, amounted to FF1,042 million, an increase of FF584 million (127.5%) compared to the FF458 million at 30 June 1997.

**1998 first half: Unaudited Consolidated Balance Sheet and
Statement of Sources and Uses of Funds**

	Six Months Ended 30 June 1997	Six Months Ended 30 June 1998	Variation
	(in FF million)		
Cash flow from operations	1,812	2,007	+195
Investment for renovation and maintenance	(1,019)	(993)	+26
Free cash flow	793	1,014	+221
New capital and technology investments	(2,108)	(1,981)	+127
Proceeds from asset sales	2,882	7,912	+5,030
Decrease in net indebtedness	(112)	5,369	+5,481

Cash flow from operations rose by FF195 million to FF2,007 million. With unchanged investments for renovation and maintenance, free cash flow amounted to FF1,014 million, representing a 27.9% increase.

New capital investments amounted to FF1,981 million for the six months ended 30 June 1998 (as compared to FF2,108 million for the first half of 1997) including (in FF million):

—Hotels	857
—Casinos	280
—Railway on-board services	250
—Car rental	200
—Investments in information technology (hotels and travel agencies)	153
—Miscellaneous	241

Asset sales amounted to FF7,912 million, versus FF2,882 million at 30 June 1997, including (in FF million):

—Motel 6 real estate	5,609
—Participation in Compass Group	1,314
—Hotel	421
—Hotel real estate in Europe	338
—Other asset sales	230

Taking into account dividends for FF1,318 million, changes in working capital and other balance sheet amounts, net indebtedness decreased by FF5,369 million to FF11,944 million. The debt-to-equity ratio decreased from 0.95 at 30 June 1997, to 0.61 at 30 June 1998 and interest cover ratio improved from 4.56 to 5.34.

Recent Developments

In January 1999, Accor acquired the Scandinavian company Good Morning Hotels which owns and operates 21 hotels (1,739 rooms) located in Sweden and Finland. The Good Morning Hotels chain generated an estimated €11.5 million total sales in 1998 and will become part of the Ibis network though retaining its own brand.

In February 1999, Accor acquired 85% of the share capital of Frantour, a French company with hotels and travel agency operations, from SNCF Participations, (a subsidiary of SNCF, the French national railway operator) who retained the remaining 35%. Frantour operates 30 hotels in France, 86 travel agencies and 7 tour operators situated in France and Europe.

In January 1999, Accor established a strategic alliance with Air France which mainly aims at sharing certain marketing efforts, namely reservation systems, and establishing links between their customer loyalty programmes. Another partnership agreement was signed between Accor and SNCF in February 1999, following the acquisition of Frantour, which also provides for joint marketing efforts.

During the period since 31 December 1998, there has been no material change in the number of hotels operated by the Group, or with respect to the Group's other operations. The Group is pursuing the implementation of its Group resource reallocation programme in particular in relation to the sale of its least profitable activities such as hotel real estate and non strategic businesses with re-investments of the capital realized by their disposals in higher profitable activities in which the Group enjoys a competitive edge.

Consolidated Financial Statements at, and for the Year Ended, 31 December 1997

Activity Volume

Activity volume includes not only sales and other operating revenues of companies more than 50% owned by the Group (subsidiaries), but also sales generated by hotels operated under management contracts and sales of companies accounted for by the equity method (Europcar, AAPC in 1997), corporate services activity volume, traffic volumes generated by travel agencies, and sales of institutional restaurants operated under management contracts.

The Group's activity totalled FF98,577 million in 1997, an increase of 16.8% over FF84,361 million in 1996. The 1996 figure has been restated following the merger of the travel agency activities of Carlson Companies and Wagonlit Travel effective 31 January 1997, to take into account 50% of the worldwide traffic volume of the new entity. The 1996 figure was also restated to include 50% of Europcar's activity volume in 1996.

Consolidated Sales

Consolidated sales amounted to FF31,780 million in 1997, up 12.3% from FF28,305 million in 1996. Of this increase, 5.4% reflects increased sales of existing activities, 2.7% business development, and 4.2% favourable currency impact (for a breakdown of the Group's consolidated sales by activity and by geographical area for each of the three financial years ended 31 December 1998. See "Accor — Business — Overview").

Excluding currency impact, consolidated sales therefore increased by 8.1% in 1997. The main business development initiatives relate to the full consolidation of Pannonia and SPIC (renamed Accor Casinos), over which Accor acquired control in 1997.

Earnings Before Interest and Taxes

The Group's EBIT rose by 33.3% to FF3,435 million in 1997. The FF859 million increase from the 1996 level breaks down as follows:

- FF503 million reflect improved operations;
- FF242 million business development;
- FF185 million favourable currency impact;
- and additional rental charges from the sale and leaseback of hotel properties reduced EBIT by FF71 million.

Earnings Before Interest and Taxes

	<u>1995</u>	<u>1996</u>	<u>1997</u>
	(in FF million)		
Business and leisure hotels	513	524	883
Economy hotels	578	592	734
Motel 6	871	834	1,061
Sub-total, hotels	1,962	1,950	2,678
Travel agencies	119	157	108
Corporate services	623	521	644
Restaurants	220	7	141
Railway on-board services	54	30	(4)
Casinos	—	—	72
Other activities and head offices	(59)	(89)	(204)
Total	<u><u>2,919</u></u>	<u><u>2,576</u></u>	<u><u>3,435</u></u>

Hotel Activities

Hotel activities increased in 1997, as measured by the overall increase in revenue per available room ("RevPAR") at year end. Growth in RevPAR, reflected both higher occupancy rates and higher average room rates. In business and leisure hotels, average room rates rose by 3.3%, and in economy hotels by 2.6%, resulting in increases in RevPAR of 8.5% and 6.6%, respectively.

Regarding Motel 6, RevPAR rose by 4.5% at 1997 year-end. The slight decline in occupancy rates was therefore more than offset by ongoing price increases as the US chain pursues its hotel renovation program. As of the end of March 1998, about two-thirds of all Motel 6 properties had been renovated.

The variation of RevPAR by geographical area reflected the strong recovery of the French market and of most European markets apart from Germany.

1997 sales of Accor's hotel activities, including new openings and acquisitions, rose by 16.6% to FF18,574 million, from FF15,931 million in 1996. Of this increase, favourable currency impact accounted for 4.4%, while business development contributed 6.7%. Apart from Germany, growth was significant in all European markets.

In 1997 sales of business and leisure hotels increased by 20.1% to FF10,353 million. On a constant structural and currency basis, sales would have risen by 6.7%. The balance reflects new hotel openings as well as the integration of Pannonia (Central European hotels) and Adagio. EBIT rose by 68.5% to FF883 million.

Sales of economy hotels increased by 7.6% to FF4,100 million (as compared to FF3,809 million in 1996). On a constant structural and currency basis, sales would have risen by 4.7%. EBIT increased by 24% from FF592 million to FF734 million. Finally, the 3.1% increase in Motel 6 in local currency terms reflects higher room rates, offset by the slight decline in occupancy rates. EBIT rose by 27% to FF1,061 million.

Travel Agencies

The stability in sales of travel agencies (FF4,074 million) reflected the proportional integration (50%) of Carlson Wagonlit Travel following the merger of the US and European entities which was effective from 31 January 1997. On a pro forma basis, however, sales increased by 12.7%. Likewise, 1996/1997 comparisons of EBIT from travel agency activities was distorted by the Carlson Wagonlit Travel merger. EBIT totalled FF108 million in 1997, as compared to FF119 million in 1996.

Corporate Services

Corporate services activities were sustained throughout 1997. Total issuance volume increased by 18.3% to FF35.5 billion in 1997. Accor issued a total of 1.2 billion vouchers in 26 countries, representing over 10 million daily users worldwide in 1997. The Group entered new geographical markets during the year: India, the Netherlands and Poland. New products were also launched in a number of existing markets.

Total sales from corporate services activities amounted to FF2,173 million, up 17.6% from FF1,847 million in 1996. On a constant structural and currency basis, sales would have increased by 7.7%, and on a constant currency basis, by 9.5%. In France, lower interest rates were offset by the growth in issuance volume. In Brazil, the loss of government contracts was offset by new accounts in other sectors. EBIT from corporate services activities rose from FF521 million in 1996 to FF644 million in 1997, an increase of 23.6%.

Other Activities

Total sales from restaurant activities rose by 9.3% to FF4,050 million in 1997. CourtePaille sales rose by nearly 10%, while Lenôtre benefited from an increase in catering activities and the favourable impact of the Salon du Bourget international air show in France. EBIT from restaurant activities rose from FF7 million in 1996 to FF141 million in 1997, primarily reflecting

improvements in Brazilian institutional catering activities (up FF90 million) and at Lenôtre (up FF15 million). Total sales from railway on-board services declined by 13.7% to FF1,780 million, primarily reflecting discontinuation of non-core activities in several countries (Austria, the Netherlands and Belgium). EBIT therefore dropped from FF30 million in 1996 to FF(4) million in 1997.

The casinos activity, following the acquisition of a controlling interest in SPIC (renamed Accor Casino), contributed FF372 million to Group sales in the last nine months of the year. EBIT amounted to FF72 million.

Total Income from Operations

Total income from operations (total of EBIT, net financial expense, and Group share in net result of companies accounted for by the equity method) increased by 61.8% to FF2,451 million, as compared to FF1,515 million in 1996.

	<u>1995</u>	<u>1996</u>	<u>1997</u>
		(in FF million)	
EBIT	2,919	2,576	3,435
Net financial expense	(1,640)	(1,260)	(1,071)
Group share in income from companies accounted for by the equity method	2	199	87
Total income from operations	<u>1,281</u>	<u>1,515</u>	<u>2,451</u>

Reflecting lower interest rates, net financial expense declined by FF189 million in 1997. Interest coverage stood at 5.07 a sharp improvement compared to 3.56 in 1996.

The Group share in income from companies accounted for by the equity method totalled FF87 million, as compared to FF199 million in 1996. It comprises the results of Europcar and AAPC. Europcar was consolidated through proportional integration (50%) and AAPC fully consolidated in 1998, and both companies were consolidated in the 1997 year-end balance sheet.

Europcar's performance improved sharply in 1997. The number of car rental transactions rose from 3.3 million in 1996 to 3.7 million in 1997, while the average rental fleet rose from 65,000 to nearly 80,000 vehicles. Europcar's market share improved throughout Europe. Accor's share in Europcar results rose from a loss of FF19 million in 1996 to an income of FF48 million in 1997. In 1995, Accor had reported a loss of FF152 million from its interest in Europcar.

With a network of 128 hotels at 1997 year-end, Accor Asia Pacific Corp. (AAPC) generated sales volume of FF3,986 million and sales of FF162 million in 1997. Accor's share in AAPC's results amounted to a loss of FF32 million last year. In December 1997, Accor launched a take-over offer for the 74.11% interest in AAPC not previously held by the Group.

Current Income

Results from management of hotel portfolio totalled FF4 million in 1997, as compared to FF231 million in 1996. Capital gains on the sale of hotel properties, totalling FF353 million, were offset by provisions for depreciation of operating items (primarily in Germany), totalling FF349 million. Current income amounted to FF2,455 million, an increase of 40.6% over FF1,746 million in 1996. Current income after taxes represented 80% of net income, Group share, before amortisation of goodwill, up from 40% in 1995 and 60% in 1996.

Result from management of other assets totalled FF74 million, including FF294 million in capital gains on the sale of various financial holdings, offset by miscellaneous provisions of FF140 million and employee profit-sharing (France and Brazil) of FF80 million.

The increase in amortisation of goodwill, from FF185 million in 1996 to FF296 million in 1997, primarily reflects the shortening from 40 to 20 years of the amortisation period relative to travel agencies, to account for technological changes in this activity, as well as the impact of

the Carlson Wagonlit Travel merger, with a combined impact of FF68 million. Other changes in the scope of consolidation resulted in a FF26 million increase in goodwill amortisation.

Income taxes amounted to FF797 million in 1997, representing an effective tax rate of 32.4%, versus 36.6% in 1996 (excluding Motel 6 tax credit).

Exceptional Items

Exceptional items, net of taxes, totalled FF269 million. Capital gains on total assets sold during the year amounted to FF1,608 million, including FF1,323 million on the sale of an 11.5% interest in Compass and FF326 million on the sale of the remaining interest in HRC (restaurant concessions). Exceptional provisions of FF1,339 million were written during the year, including:

- provisions on assets held for disposal of FF1,045 million in hotels and FF311 million primarily related to assets of the railway services sector, as part of the Group's resource reallocation program;
- provisions of FF279 million reflecting restructuring and reengineering charges related to the Accor 2000 Group project and the Carlson Wagonlit Travel merger;
- provisions of FF103 million for miscellaneous risks;
- The FF399 million provision for loss of value on the Europcar brand was reversed in 1997, reflecting the strong recovery of this activity.

Net Income

Net income, Group share amounted to FF1,508 million, up 42.5% over FF1,058 million in 1996. Earnings per share amounted to FF42.40, up from FF34.20 in 1996, an increase of 24%, based on the weighted average number of shares outstanding during the year (35.557 million shares).

Return on capital employed (EBDIT as a percentage of gross value of fixed assets plus working capital requirements) increased, from 9.0% in 1996 to 10.2% in 1997.

Financial Flows

Consolidated cash flow totalled FF6,090 million in 1997, up 84% over the 1996 level.

Consolidated cash flow from operations increased by 49% to FF3,945 million, from FF2,654 million in 1996. Capital expenditure jumped to FF2,070 million, from FF1,702 million in 1996. Free cash flow nearly doubled, from FF952 million to FF1,875 million in 1997. As part of the Group's resource reallocation strategy, FF4,782 million in assets were sold during the year, including:

<u>Disposals</u>	<u>(in FF million)</u>
11.5% interest in Compass	2,350
20% interest in HRC (Concession Restaurants)	252
16% interest in Parc Astérix	62
2.4% interest in Club Méditerranée	105
European hotel properties	940
Motel 6 hotel properties	773
Miscellaneous securities and equity holdings	300
Total	<u>4,782</u>

In addition, FF4,693 million were invested in the development of the following activities:

<u>Development</u>	(in FF million)
Accor Asia Pacific Corp. (AAPC)	1,621
Acquisition and construction of hotels	1,182
Pannonia (Central Europe)	563
Accor Casinos (formerly SPIC)	470
Business development: Corporate services, Restaurants and other activities	297
Travel agencies	226
Minority interests in Motel 6	169
New technologies	165
Total	<u>4,693</u>

Despite the FF692 million impact of the integration of Europcar, net indebtedness declined by FF222 million to FF17,313 million. Based on consolidated shareholders' equity of FF19,909 million at 1997 year end, net debt-to-equity ratio further improved, from 0.98 at 1996 year-end to 0.87 at 1997 year-end.

Accor currently holds 15.3 million Compass Group shares representing a 4.7% interest. The sale of this remaining holding is subject to the terms of the previous agreements with Compass Group, pursuant to which Accor cannot sell any additional Compass Group shares through 17 February 1999, without Compass Group's Board of Directors approval.

Buy-Out of IBL Minority Shareholders

Upon expiration of Accor's exchange offer for IBL in June 1996, Accor held a 95.37% interest in IBL. In June 1997, Accor purchased the remaining IBL shares for FF473 million.

Takeover Offer for Accor Asia Pacific Corp. ("AAPC")

Financial instability in the Asia Pacific region significantly altered AAPC's short-term profit outlook and the company's ability to rely on its existing shareholder base to fund its development. Underscoring its strategic interests in this region, on 4 December 1997 Accor launched a tender offer for all AAPC shares at a price of AUD0.65 per share. Prior to this offer, Accor held 25.88% of AAPC. This offer represented a significant premium over the last trading price of the AAPC share (AUD0.49), and was a success. In March 1998, AAPC was delisted from the Sydney Stock Exchange. Accor paid a total of FF1,208 million for the 74.11% of AAPC it did not previously own.

Integration of AAPC and Europcar

The impact of the full consolidation of AAPC in Accor's 1997 balance sheet amounted to FF1,692 million in additional net debt (including FF1,208 million in acquisition cost). Goodwill totalled FF1,285 million. In 1997, AAPC had sales of FF160 million and the impact of AAPC, accounted for by the equity method (26%), resulted in a FF32 million loss at the total income from operations level.

Accor has reaffirmed its decision to retain its long-term interest in Europcar, held jointly with Volkswagen AG, and has therefore *decided* to consolidate Europcar's balance sheet on a proportional basis at 31 December 1997, and to consolidate the company's income statement on a proportional basis starting in 1998. The impact of Europcar's proportional consolidation on Accor's net debt at 31 December 1997 amounted to FF692 million. In 1997, Europcar had sales of FF4,344 million. In 1997, the impact of Europcar, accounted for by the equity method, resulted in income of FF48 million at the total income from operations level.

1997 Management of Interest Rate and Currency Risks

Accor's use of financial instruments is directly linked to its financial strategy in terms of investments, financing, and interest rate hedging transactions. The management of interest rate exposure is part of the Group's debt management and financial assets management strategies. Finally, operating cash flows are partly covered by currency hedges.

Operations covered by such hedges and the use of financial instruments such as swaps, caps, and currencies forwards are detailed below.

Investment Strategy

Whenever the Accor parent company makes a direct or indirect investment in a foreign subsidiary, such investment is usually made in the local currency. Reflecting the long-term nature of these investments, they are not covered through currency hedging.

Short-Term Financing

Thanks to its position in international financial markets, Accor can gain direct access to a variety of short-term financing sources: French Treasury bills, Euro commercial paper in London, and commercial paper in the U.S..

Taking advantage of market opportunities, Accor frequently contracts short-term financing (less than six months) in a given currency and at a given price, subsequently swapping this financing into the currency of the transaction requiring funding, at corresponding interest rates in this currency. The use of such financial instruments optimises resources in the currency of the transaction requiring financing.

Interest Rate Hedging

Accor's consolidated debt comprises both variable-rate and fixed-rate instruments. Interest rate management takes this breakdown into account for each currency. Depending on developments in the makeup of its debt portfolio (i.e. new debt or repayment of debt at maturity), as well as expected changes in interest rates in each currency, the Group sets objectives for the breakdown of fixed-rate and variable-rate instruments. These targets are reviewed on a regular basis by Group management.

Based on these objectives, the Group's cash management department negotiates interest rate hedges. Based on underlying assets attached to specific financial conditions, the position is changed from fixed to variable rate (indexed on market benchmarks) or vice-versa.

Interest rate swaps are the most commonly used instruments. They are negotiated through international contracts in accordance with AFB/ISDA legal guidelines with banking institutions granted quality ratings.

Currency Hedging

Currency hedging is seldom used by the Group, since intra-Group currency flows are limited. In addition, for most of its activities, revenues and expenses are denominated in the same currency, thereby minimising currency risk exposure. The Group primarily relies on currency hedging in its travel agency activities. It primarily uses currency forward contracts, based on specified underlying assets (i.e. receivables).

As a result, the Group does not engage in speculative trading. Neither does Accor or the Group maintain open currency or interest rate positions with significant risk exposure. The Group's interest rate and currency risk management policy was developed to meet strict safety, liquidity, and profitability criteria. It is centralised by the Group's finance department.

BUSINESS

The market share, ranking and other data contained herein are based either on independent industry publications, reports by market research firms or other published independent sources, or on the management's own estimates and, in each case, are believed by the Group's management to be reasonable estimates. However, market share data is subject to change and cannot always be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any statistical survey of the market shares. In addition, consumption patterns and consumer preferences can and do change. As a result, investors should be aware that market share, ranking and other similar data set forth herein, and estimates and beliefs based thereon, may not be reliable.

Overview

Accor was established as a *société anonyme* under the laws of France on 22 April 1960 with registered number 602 036 444 RCS Evry. Its registered office is at 2, rue de la Mare Neuve, 91000 Evry, France and its operational headquarters at Tour Maine Montparnasse, 33, avenue du Maine, 75015 Paris, France.

Accor is the parent company of the Accor group companies (the "Group"), an international group and a European leader in the areas of, travel, tourism and corporate services. The Group is principally active in four major complementary market sectors: hotels; travel agencies; car rental; and corporate services (service vouchers). Through its hotel brands (mainly "Sofitel", "Novotel", "Mercure", "Ibis", "Etap'Hôtel", "Formule 1" and "Motel 6"), the Group is among the world's leading hotel groups and operates the largest European hotel network (on the basis of the number of rooms). The Group further operates an international business travel agency network under the "Carlson Wagonlit Travel" brand; Europe's second largest car rental company on the basis of the market share ("Europcar") and the world's leading corporate services business with, namely, "Ticket Restaurant" voucher, based on the volume of issuance. The Group also has interests in restaurants in France (including de-luxe caterer "Lenôtre" and grill restaurants "CourtePaille"); institutional catering in Italy; on-board catering and sleeper train services ("Wagons-Lits"); and casinos in France.

History

Accor's 1998 unaudited consolidated sales amounted to FF36,881 million, as compared to FF31,780 million in 1997, representing a 16.1% increase (or a 13.3% increase on a constant consolidation method basis).

The Group's principal geographical markets are France, the rest of Europe, North America and Latin America, which account for 37%, 33%, 17% and 11% respectively, of the Group's consolidated sales in the 1998 financial year.

The table below summarises the key dates and events in Accor's history.

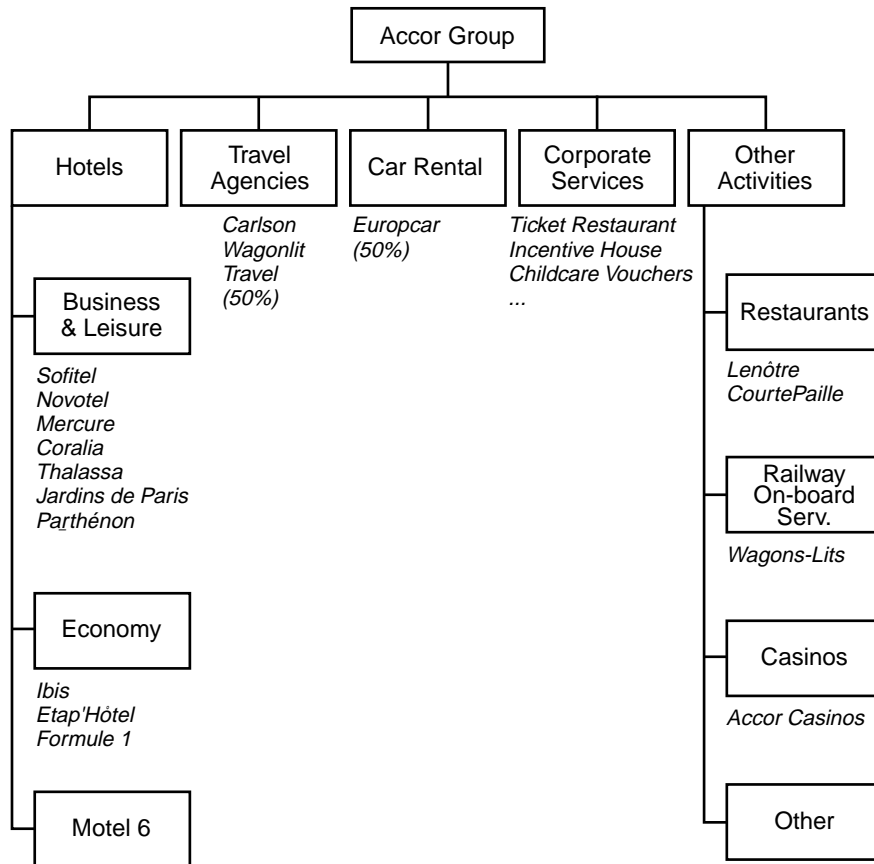
Accor's Corporate History since 1967 — Key Dates and Events

1967	Creation of SIEH and first Novotel hotel in Lille (France) by Paul Dubrule and Gérard Pelisson.
1973	Expansion in Europe and structural set-up in Brazil.
1973-1975	Expansion in Africa.
1974	Opening of first Ibis Hotel and takeover of the CourtePaille restaurant chain.
1975	Purchase of the Mercure hotel chain by Novotel.
1980	Takeover of the Sofitel hotel chain. Novotel is the second largest hotel chain in Continental Europe.
1981	Novotel SIEH listed on the Paris Stock Exchange.
1982	Acquisition of Jacques Borel International (Sofitel, service vouchers, public restaurants and institutional catering).
1983	Creation of Accor.
1985	Creation of Formule 1 hotel chain. Acquisition of Lenôtre.
1990	Acquisition of Motel 6 hotel chain.
1991	Takeover of the <i>Compagnie Internationale des Wagons-Lits et du Tourisme</i> (Car rental, travel agencies, institutional catering, railway services).
1993	Creation of AAPC in Asia. Acquisition of Hungarian hotel chain Pannonia.
1997	Merger of Carlson and Wagonlit Travel is completed. New management structure (Management Board and Supervisory Board).

Group Structure

The Group is structured under four major business divisions (hotels, travel agencies, car rental and corporate services). The Group's hotel division has three subdivisions which are: business and leisure hotels, economy hotels and Motel 6 (North American budget hotels).

The following organisational chart shows the Group's principal divisions and subdivisions:



Main Subsidiaries and Consolidated Financial Investments at 30 June 1998

The following table is a list of Accor's principal subsidiaries, with their activities as at 30 June 1998:

FRANCE		Spain	
H-SPHERE	100%	H-Novotel Espagne	100%
H-SOFITEL INT.	100%	T-Viajes Ecuador	49.72%
H-SIHN	100%	PR CS PR-Geresa	99.93%
H-PIH	100%	Sweden	
H-MIH	100%	CS-Rikskuponger	99.86%
T-S.E.A.V.T.(2)	49.72%	Switzerland	
PR-LENOTRE	99.81%	H-Novotel International	100%
PR-SERARE	99.99%	The Netherlands	
CR-Europcar Interent(2)	49.72%	H-Novotel Nederland	100%
OS-ACCOR CASINO SA	65.00%	H-Nhere BV	100%
OS-SFPTH SA	99.44%	H-MMH	100%
OS-DEVIMCO	99.97%	United Kingdom	
OS-RESINTER	99.88%	H-Novotel UK	100%
OS-Académie Accor	100%	T-WLT Travel UK(2)	49.72%
OS-S.H.C.D.(1)	34.89%	CS-Luncheon Vouchers	99.98%
EUROPE		LATIN AMERICA	
Austria		Argentina	
H-Accor GmbH	100%	CS-Servicios Ticket	83.99%
Belgium		Brazil	
H-Accor Hôtels Belgium	98.35%	H-N.H.T.	70.90%
H-Pullman Belgium	100%	PR-T.S. do Brasil	49.97%
T-W.L. Tourisme(2)	42.26%	Mexico	
CS-Accor T.R.B	100%	T-WLT Mexicana	69.61%
OS-Accoordination	99.09%	CS-Accor Servicios Emp.	93.00%
OS-CIWLTL	99.44%	NORTH AMERICA	
Denmark		Canada	
T-World Tourist(2)	49.72%	H-Group Accor of Canada	99.97%
Germany		T-Carlson Canada(2)	49.72%
H-Novotel DTC GmbH	100%	United States	
H-Mercure Hotels	100%	H-Accor North America	100%
H-Eurorheinische(1)	49.72%	H-IBL Ltd	99.96%
CS TR-Menu Scheck	100%	H-Miotel	100%
Greece		T-Carlson USA(2)	49.72%
H-SH Athenès Centre(1)	41.82%	AFRICA	
Hungary		Ivory Coast	
H-Pannonia	28.70%	H-Société Abidjanaise	74.97%
Italy		Senegal	
H-Sifalberghi	72.62%	H-SPHU	92.89%
H-Sagar	99.44%	ASIA PACIFIC	
H-Setac	99.44%	H-Accor Asia Pacific Corp	
PR CS-Gemeaz	94.64%	100%	
OS-Scapa Italia	97.00%		
Portugal			
H-Soltejo(2)	50.00%		
CS-ESA	46.05%		

(1) Associate company

(2) Company consolidated through proportional integration

NB 1: Percentage Indicates Group interest.

H-Hotels

T-Travel Agencies

CR-Car Rental

CS-Corporate Services

PR-Public Restaurants and Institutional Catering

RO-Railway On-board Services

OS-Other Services

Business Activities

Hotels

Over the years, Accor has developed one of the world's leading hotel networks. With 2,646 hotels and 291,770 rooms at 1998 year end, Accor is present in all segments of the hotel market — from economy facilities (Motel 6 in the U.S., Formule 1, Etap'Hotel, Ibis) to business and leisure hotels (Mercure, Novotel, Sofitel, Atria, Jardins de Paris), including resort hotels under the Coralia and Thalassa labels and hotel residences (Parthénon). Accor's hotel network is well balanced across geographical regions. In terms of rooms, as at 31 December 1998, 53% of the Group's hotel network was in Europe, 30% in North America, 9% in Asia Pacific, 5% in Africa-Middle East, and 3% in Latin America. The brands under which the Group conducts its business, are owned by Accor or, as the case may be, by entities of the Group.

The following table shows a breakdown of Accor's hotel portfolio and number of rooms by geographical area at 31 December 1998:

	France		Europe		North America		Latin America		Africa Middle East		Asia-Pacific		Total	
	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
Sofitel	31	5,246	25	3,748	8	2,171	10	1,485	19	4,268	20	3,777	113	20,695
Novotel	115	14,000	99	15,749	9	2,394	19	2,198	24	3,508	51	10,704	317	48,553
Mercure	212	20,805	111	14,397	—	—	7	1,059	14	2,058	43	6,607	387	44,926
Ibis	302	26,242	122	15,841	—	—	2	246	11	1,192	15	2,409	452	45,930
Etap' Hotel	108	7,896	52	4,124	—	—	—	—	19	1,327	—	—	179	13,347
Formule 1	280	20,409	26	1,814	—	—	—	—	2	148	4	333	312	22,704
Motel 6	—	—	—	—	782	84,926	—	—	—	—	—	—	782	84,926
Other Brands ...	24	1,753	7	1,534	1	242	50	4,296	13	1,814	9	1,050	104	10,689
Total	1,072	96,351	442	57,207	800	89,733	88	9,284	102	14,315	142	24,880	2,646	291,770

The Group carries out its hotel operations either directly (through direct ownership, leases or management contracts) or indirectly through franchising. As at 31 December 1998, the Group's hotel portfolio was 33% owned, 36% leased, 19% under management contracts and 12% franchised (in number of rooms). As compared to 1996, the Group's portion of owned hotels decreased significantly pursuant to its resource reallocation strategy so as to achieve greater efficiency in the Group's hotel property management.

As at 31 December 1997, the Group's hotel activities generated 58% of its consolidated sales and 78% of its earnings before interest and taxes ("EBIT").

In 1997, the Group's hotel activities were organised into three main divisions: business and leisure hotels, economy hotels and Motel 6 (North American budget hotels). In 1998, the business and leisure hotels division contributed FF11,955 million to consolidated sales as compared to FF4,534 million for the economy division and FF4,288 million for Motel 6.

The following table shows the increase in revenue per available room ("RevPAR") at year end:

Hotels RevPAR Structure (as of 31 December 1998)

	Occupancy Rate	Variation 98/97 (change in pts)	Average Room Rate	RevPAR 98/97
Business and Leisure Europe	65%	+1.5	+8.0%	+10.4%
Economy Europe	73.2%	+2.3	+3.1%	+6.5%
Motel 6 (US\$)	64.5%	-0.1	+6.3%	+6.2%

Business and Leisure Hotels.

Accor's business and leisure hotel activities include the Sofitel, Novotel, Mercure, Parthénon and Jardins de Paris chains as well as the Atria, Coralia and Thalassa labels, encompassing 921 hotels and 124,863 rooms worldwide.

Sofitel.

Sofitel is a worldwide chain of luxury hotels offering prestigious addresses for business and leisure travels in all major international metropolitan areas throughout the world. In 1998, the Group added 6 new hotels to the Sofitel network.

As at 31 December 1998, the Sofitel network encompassed 113 prestigious hotels with 20,695 rooms in 40 countries.

Novotel.

Created in 1967, Novotel is an international chain of hotels sharing the same modern, functional decor and original features and specialising in the business hotel segment.

As at 31 December 1998, the Novotel network comprised 317 hotels and 48,553 rooms in 50 countries around the world. This particularly dense network is the result of the Group's hotel construction strategy, with about 200 new facilities built in the past twenty years. Novotel is present in a wide variety of locations: airports, business districts, key transportation centres, as well as mountain and seaside resorts.

Mercure.

The Mercure hotel chain covers the full midscale segment through three different comfort and pricing categories: Relais Mercure facilities stand for simplicity, Hotels Mercure for attentive service, and Grands Hotels Mercure for refined comfort.

In 1998, Accor acquired the Dutch hotel chain Postiljon (10 hotels) which is being integrated within the Mercure network thereby strengthening its geographical coverage in central and eastern Netherlands.

As at 31 December 1998, the Mercure network comprised 387 hotels and 44,926 rooms in 29 countries around the world.

Other Business and Leisure Hotels.

The Group also operates hotels and resorts under other brands and labels which are Atria (as at 31 December 1998, the Atria network comprised 9 Novotel and Mercure hotels specially equipped to host conventions and seminars); Jardins de Paris (traditional hotels in the center of Paris); Coralia and Thalassa. As at 31 December 1998, the Coralia label included 191 hotels with leisure, relaxation and exploration themes and the Thalassa label, 21 seawater spa and fitness hotels (all under the Sofitel, Novotel and Mercure brands). In addition, the Group operates a leading Brazilian chain of residence hotels, Parthénon, comprising at as 31 December 1998, 48 hotels (3,665 rooms) in over 30 different cities.

Economy Hotels.

Accor's economy hotel activities include the Formule 1, Etap'Hotel and Ibis chains encompassing 943 hotels and 81,981 rooms worldwide.

Ibis.

Created in 1974, the Ibis chain offers extensive hotel amenities (24 hour reception desk and room service, restaurants, bars, etc) at moderate prices. In 1997, the Ibis hotel chain obtained ISO 9002 certification from Bureau Véritas Quality International for its quality control processes across the full range of its services. Ibis is the first international hotel chain to be awarded ISO 9002 certification. In 1997, the Ibis 2003 concept was developed with a view to defining new construction and design concepts to apply to the Ibis network.

In 1998, the Group announced its intention to operate a network of 50 Ibis hotels in Poland within five years with plans to add 25 new hotels to the Ibis Polish network by the year 2000. As at 31 December 1998, the Ibis hotel network comprised 452 hotel facilities and 45,930 rooms in 24 countries.

Etap'Hotel.

The Etap'Hotel chain offers basic services and rooms equipped with their own showers at budget prices. In 1997 and 1998, Etap'Hotel strengthened its positioning midway between Formule 1 and Ibis. The 1998 opening of a 486-room Etap'Hotel at Porte de St Ouen in Paris, next to a 464-room Formule 1 hotel, marks a new step in the development of budget hotels. The creation of this complex, the largest of its kind in Europe, represents the first time a budget hotel has been located in an urban area. With 16 openings in 1998, the Etap'Hotel chain comprised, as at 31 December 1998, 179 hotels and 13,347 rooms in 5 countries.

Formule 1.

The Formule 1 chain is a innovative concept, created by Accor in 1984, of modern and practical hotels at budget price for one, two or three people. Formule 1 retains its original approach: comfortable, clean, soundproofed rooms at the lowest price available.

In 1997, Formule 1 opened its first hotel in Germany, a hotel in South Africa and two new hotels in Australia. In 1998, Formule 1 pursued its development in Germany (with 4 new hotels) and entered the centre-city market with the opening of a 464 room hotel in Paris.

As at 31 December 1998, the Formule 1 chain comprised 312 hotels and 22,704 rooms in 10 countries.

Motel 6 (North American Budget Hotels).

Set up 36 years ago in Santa Barbara, California, Motel 6 was acquired by the Group in 1990 and is the leading budget hotel chain in the U.S.. As at 31 December 1998, the chain comprised 782 hotels with 84,926 rooms in 48 states. Motel 6 offers simple and comfortable rooms in the budget hotel segment.

Since 1997, Motel 6 has continued its hotel renovation strategy, that has brought the number of renovated rooms to 76.5% of the total at the end of 1998.

Motel 6 will accelerate its expansion, through franchising (24 franchised hotels joined the Motel 6 network in 1998) and acquisitions.

Travel Agencies

The Group is one of the world's largest operator of business travel agencies through its 50% holding in Carlson Wagonlit Travel. The merger between the French and American subsidiaries was effected on 31 January 1997, pursuant to a 1994 joint venture agreement. Carlson Wagonlit Travel advises large international groups in the development and implementation of their travel policies, and manages their travel budget in 130 countries with a total traffic volume of FF58.4 billion in 1998, representing a 13% increase as compared to 1997.

Carlson Wagonlit Travel expanded its worldwide network starting operations in Sweden, Brazil, the Netherlands, Aruba, Bhutan, Brunei, Ethiopia and Georgia in 1997 and in Eastern Europe in 1998.

In 1998, Carlson Wagonlit Travel pursued its reengineering programmes launched in the U.S. and Europe in 1996 which focuses on the development of technological systems enabling instant access to all sources of information. From 1997 to 2002 nearly US\$150 million is invested in this project. As an interim step, operations in Europe are being concentrated within large centres equipped with advanced telecommunications technology and employing between 50 and 100 people each. New generation Business Travel Centres have already been set up in Copenhagen, Madrid, Amsterdam, Brussels, Rome, Milan, Barcelona, London and Paris. At the end of 1998, more than 20 Business Travel Centers were operational throughout Europe.

Synergies with other Accor group units are being developed, mainly through VIP motivation programmes which enable Carlson Wagonlit Travel to offer its clients Accor hotel products and Europcar services under favourable conditions. An agreement with Accor Tour also enables the development of leisure travel in France.

Car Rental

Europcar, a 50/50 joint venture between Accor and Volkswagen AG, is the second largest European-based car rental company. With a fleet of 100,000 vehicles and more than 2,400 car rental agencies (subsidiaries or franchises) Europcar operates mainly in Europe but also in Africa and the Middle East.

With a view to developing crossover transatlantic client business, Europcar signed a worldwide strategic agreement with Dollar Rent A Car of the U.S. in late 1997, which provided that the two partners' networks will carry each other's logo with reciprocal commission arrangements. In early 1998, Europcar acquired British Car Rental in the UK and Trade Car A.S. in Norway, a former Europcar franchisee.

In the environmental area, Europcar expanded its French fleet in 1997 and 1998 with the acquisition of 1,000 LPG-fuelled Renault Megane vehicles, an initiative, supported by significant advertising and promotional efforts, which was well received by its customers.

Corporate Services

The Group is the world leader in service vouchers with a 46% market share and over 10.5 million daily users in 29 different countries (Europe, The Americas, Asia). Created in the late 1960's as a service that employers without corporate cafeterias could provide to their staff, the original *Ticket Restaurant* concept was expanded to 11 other types of services vouchers in a wide range of areas: from food or gas purchases to healthcare services, baby sitting, and work-apparel dry cleaning. Since 1995, smart cards have started replacing paper vouchers, particularly with "Cleanway" (work-apparel dry-cleaning), gasoline vouchers in Venezuela and, in the near future, food-purchasing vouchers.

Service vouchers are issued to client companies at face value, plus a service fee. Client companies in turn distribute them to their employees at a price below face value. The vouchers are tax deductible for different amounts depending on the country and product (FF28 for *Ticket Restaurant* in France, for example). Users redeem vouchers at affiliated restaurants, stores, or organisations of their choice. The participating organisation returns the vouchers to Accor for payment, minus a commission, thus benefiting from added business at no risk. Between the issuance and the redemption of the vouchers, Accor invests the funds, generating financial income which is included in total revenues alongside service fees. The Group's corporate services, which is the new name given to its service vouchers division, plays important economic and social roles, both in industrialised and developing countries.

In 1998, total activity volume in corporate services (vouchers and cards) increased by 8.5%, from FF35.5 billion in 1997 to FF38.5 billion in 1998. The Group believes that approximately 10.5 million people use its service vouchers on a daily basis. In 1998, service vouchers were introduced in Romania and Chile. Accor also continued to expand its product range in corporate services.

The considerable growth of corporate services, their increasing diversity, and the wide variety of economic sectors they serve are a sign of the social and economic value of these products.

Other Activities

In the restaurant business, Accor owns the CourtePaille chain of roadside steakhouses and de-luxe French caterer Lenôtre. Accor also manages institutional catering facilities in Italy and Brazil.

Under the Wagons-Lits brand, Accor provides on-board catering and sleeper car services in Europe and Egypt. Wagons-Lits was selected in early 1998 to provide on board catering services aboard trains operated by France's railway operator, the SNCF.

In 1997, Accor launched a strategic development in the area of casinos and gaming, raising its interests in SPIC, a company it helped found, to 65% (which has since been renamed Accor

Casinos). As at 1998 year-end, Accor Casinos operated 6 casinos, 5 of which are located on the French Riviera.

Restaurants.

Lenôtre.

Lenôtre is a de-luxe French catering company with 10 stores in France and 32 franchises abroad and that operates prestigious reception venues.

Lenôtre was appointed exclusive caterer for the 1998 Soccer World Cup. It first served a 1,800 guest meal in Marseille for the official selection of the participating teams and runs since then the panoramic restaurant located in Paris' new stadium built for the 1998 Soccer World Cup, the *Stade de France*. Lenôtre's sales increased by close to 40% in 1998 as a result of the positive impact of the 1998 Soccer World Cup on its activities.

CourtePaille.

CourtePaille are grill restaurants that specialise in charcoal-grilled meat. The chain's success lies in its speciality, as well as in its lively menus and its ongoing quest for top-quality products.

In 1998, CourtePaille gained new market shares with sales increasing by 11%, the same growth rate as in 1997. Synergies with Formule 1, Ibis and Etap'Hotel yielded additional clients, who benefited from attractive offers. In 1998, CourtePaille expanded its restaurant facilities to provide increased comfort and space, while preserving the intimate character of its 108 restaurants.

Wagons-Lits.

Wagons-Lits, specialising in on-board rail services, operates in key European countries, catering on-board day trains, sleeping cars and cabins on night trains.

Wagons-Lits has direct operations and has also set up subsidiaries such as the Cross Channel Catering Company (CCCC), a majority-owned subsidiary of Wagons-Lits running catering services on-board the Eurostar high-speed trains.

Wagons-Lits consolidated sales totalled FF2,256 million in 1998 representing a 26.7% increase compared to 1997. This increase is mainly due to the 1997 agreement with SNCF regarding on-board catering services on the French railways.

In Spain, the Euromed high-speed service linking Barcelona, Valencia and Alicante was launched on 30 May 1997. RENFE, the Spanish railway operator, selected Wagons-Lits Spain to provide catering services on this line in 1998. Finally, Wagons-Lits Spain was the first railway on-board services company to obtain ISO 9002 certification for the full range of its sleeper car, catering and logistics services.

Casinos.

In line with Accor's decision to become a major casino operator in France and the rest of the world, the Group raised to 65% its ownership interest in SPIC (*Société de Participations et d'Investissements de Casinos*), subsequently renamed Accor Casinos. With this development, Accor operates 6 Casinos in France: in Nice, Saint-Raphaël, Carry le Rouet, Cassis, Chamonix and Cannes Mandelieu. Accor Casinos has also acquired the Sainte Maxime casino to be opened in 1999 and has been selected to operate future casinos in Bordeaux, Dax (France) and Malta to be opened in 1999. In addition, Accor owns a 35% interest in the Barrière group's *Société Hôtelière des Casinos de Deauville*, with casinos in Deauville, Trouville, Ouistreham, Enghien, Menton and Hossegor (France). The *Société Hôtelière des Casinos de Deauville* owns the remaining 35% of Accor Casinos.

The Group is seeking further development opportunities in France (where Accor tenders for concessions to operate gaming facilities on behalf of local authorities) as well as in other major

cities in Europe, Africa, the Mediterranean and Asia Pacific, where casinos will complement the growth of the Group's hotel activities.

Other Activities.

Accor Tour.

In September 1997, the Group's tour operator specialising in long-distance travel — marketing under the Africatours/El Condor names — was renamed Accor Tour. The new name reflects the Group's ambition to clearly integrate this activity within Accor's hotel strategy, and to concentrate the Accor Tour product offering on destinations where Accor operates hotels (Africa, Egypt, Asia and French Caribbean). Accor Tour's activity increased significantly in 1998 with FF326 million sales as compared with FF185 million in 1997.

Business Strategies

Resource Reallocation Strategy

Considerable resources are required to fund the Group's growth ambitions. These are mostly generated by the Group's resource reallocation strategy. Accor is selling its least profitable activities such as hotel real estate (through sale leaseback transactions), non-strategic businesses or equity holdings, to re-invest the capital realised by these disposals in higher profitable activities in which the Group enjoys a competitive edge. In 1997, Accor sold assets worth FF4.8 billion to finance its investments and spent FF4.7 billion in business development including the opening of 180 new hotels, the buyout of minority interests in Accor Asia Pacific Corp. and the acquisition of majority control of the Pannonia hotel chain in Central Europe and Accor Casinos. In 1998, Accor sold assets worth an estimated amount of FF9.5 billion (mainly hotel real estate) to finance its business development.

Business Development

The Group intends to increase its hotel network by 10% per year on average with a particular emphasis in Europe to develop a federating network (e.g. France, Italy, Spain, Benelux, UK and Germany). In Emerging Markets (Central Europe, Africa, Asia and Latin America), Accor is seeking acquisition opportunities. In the U.S., Motel 6 will grow through its franchise programme (about 50 units per year). As far as Sofitel is concerned, the development strategy is to establish Sofitel properties in the main gateways.

As regards travel agencies, the Group's development will be pursued through the reengineering of existing activities and the transformation of the Group's business profile (large business travel centres rather than traditional agencies).

The objective in the Group's car rental activities is to become the European leader and develop a worldwide position.

Corporate services will continue to strengthen their positions through the launch of new products and development in new countries.

Accor 2000 Group Project

This Group project was launched by Jean-Marc Espalioux and the Management Board in January 1997, with the objective of improving the Group's profitability by the year 2000. After the achievement in 1997 of the multibrand organisation of hotels synergies across activities were developed and 24 priority initiatives in sales, marketing, IT, cost reduction and purchasing were implemented.

The Group's hotel salesforces have been reorganised, in order to develop a single worldwide network better positioned to monitor international clientele flows. The Group's purchasing strategy was extended to non-food items, and food purchasing was expanded outside France, in order to reduce costs while improving quality.

Accor's "technological leap forward" resulted in the equipment and wiring of 1,500 hotels in 1998, the development of a high performance internet-based marketing system, and the launch of a network of new-generation Business Travel Centres in the U.S..

The Group's training efforts have been amplified, with 20,000 Accor training sessions in 1998.

Emerging Markets

Asia

For Accor, a leading worldwide hotel group, Asia remains a priority market despite the current economic and financial crisis in certain countries of the region. The region will continue to provide good investment opportunities, both through purchases of individual units and acquisition of small or medium-sized local hotel groups.

Accor's exposure to the Asian crisis is relatively limited, for a number of reasons. First the geographical breakdown of Accor's hotel portfolio is favourable: at 1998 year end, the Group operated 142 hotels in the Asia-Pacific region, which 72 are located in Australia and Pacific and 70 in Asia. Further, three hotels are operated under management contracts, thereby limiting the direct investment of the Group. Finally, provisions were written in 1997 to cover doubtful receivables (risk of default or payment in a devalued currency) as well as Accor's minority ownership interests in the companies owning the properties.

Russia

Accor has only two hotels in Moscow which are operated through management contracts thereby limiting the direct investment of the Group.

Brazil

Accor Brazil is the unchallenged leader in corporate service with a 22 year experience. Accor's activities in Brazil are predominantly service vouchers, which generate 70% of total income from operations. The present monetary crisis in Brazil translates into a devaluation of the local currency (real) against the U.S. dollar. This negative impact is partially offset by the increase of interest rates which boosts the financial income, one of the key factors in the vouchers business.

Furthermore, Accor in Brazil will go through a cost-cutting programme to limit the impact of a possible slowdown of the activity. Finally, Accor in Brazil has some available cash which could facilitate opportunities of growth particularly in corporate services activities.

Year 2000 Issues

Accor has conducted a detailed inventory of its systems and hardware likely to be affected by the so-called "millennium bug". A specific taskforce was organised at the Group level consisting of group steering committee and special taskforces for each of the Group's four main activities. The upgrading of the computer systems for millennium compliance purposes has been carried out jointly with the euro conversion procedures. The total cost, for Accor and its hotel subsidiaries, of adapting to the year 2000 should range between FF90 million and FF130 million according to estimates made by Accor in March 1998. In addition, the information technology programmes included in the Accor 2000 project are already millennium compliant, thereby limiting the costs of such upgrading.

Environmental Policy

The Group is particularly alert to the need to preserve its environment, a key factor in improving quality of its services. Ongoing efforts are made at the operating level, aimed at encouraging employee awareness and defining specific action to be taken in the Group's various locations. The Group is also undertaking research and studies (performance ratios, technological integration, ISO 14000 standard) and developing partnerships with businesses,

associations and public authorities (namely EDF and ADEME in France), as well as specific training programmes.

Each of the Group's business locations signed an *Environmental Charter*, which provides for 15 specific initiatives, emphasising Accor's commitment in the area of environmental policy. This programme is tightly co-ordinated at Group level.

LITIGATION

None of Accor or its consolidated subsidiaries are involved in any litigation, arbitration or administrative proceedings relating to amounts which, individually or in the aggregate, are material in the context of the issue of the Notes and, to the best of the knowledge of Accor, there are no such litigation, arbitration or administrative proceedings pending or threatened.

MANAGEMENT AND EMPLOYEES

Management Structure

Accor was managed by a Board of Directors (*Conseil d'Administration*) until 7 January 1997. Accor's management structure was then changed and is now based on two bodies well suited to today's French corporate governance principles: the Management Board (*Directoire*) and the Supervisory Board (*Conseil de Surveillance*). In line with French corporate governance principles Accor has also created two bodies in charge of supervising Accor's activities, the Remunerations' Committee (*Comité des Rémunérations*) (created in October 1995) and the Audit Committee (*Comité des Comptes*) (created in April 1996).

The Management Board is responsible for the general management and strategic direction of Accor whilst the Supervisory Board acts in a supervisory role only. A charter, complementing Accor's by-laws, defines the working procedures of the Management Board and its relationship with the Supervisory Board as well as with the Group's subsidiaries and operating units. The charter also defines the code of conduct followed and implemented by Management Board members.

An ongoing dialogue has been established between Accor's Management and Supervisory Boards: in 1998, the Supervisory Board met formally on six occasions. The composition of the Supervisory Board reinforces the quality of the oversight it exercises over Accor's management — five of its 12 members are independent members, and two members are not French nationals.

The Remuneration Committee comprises four members (Paul Dubrule and Gérard Péliçon, Co-Chairmen of the Supervisory Board, Etienne Davignon and Jérôme Seydoux, two independent members of the Supervisory Board). The Remuneration Committee makes recommendations to the Supervisory Board regarding the remuneration of the Group's Executive Officers, as well as management stock option plans.

The Audit Committee comprises five members (Paul Dubrule and Gérard Péliçon, Isabelle Bouillot, and two independent members of the Supervisory Board, Etienne Davignon and Renaud d'Elissagaray). The Audit Committee is responsible for overseeing the reliability and consistency of the accounting methods used in relation to the Group's consolidated, and Accor's financial statements as well as the effectiveness of internal procedures set up to collect and control financial information. The Audit Committee also reviews the validity of the accounting treatment of all material transactions. Its members may meet with Group officers, executives and managers in charge of the establishment and control of the financial statements, including the Chairman of the Management Board, the Management Board member in charge of finances and Accor's statutory auditors. The Committee reports its findings to the Supervisory Board and brings to its attention any material information which is likely to raise difficulties or which requires a specific resolution of the Supervisory Board, thereby assisting the Board in its supervisory and audit functions.

Management Board

Under French law, the Management Board manages the company and is vested with the power to perform any act in the name of the company. The Management Board may consist of a maximum of seven members who may or may not be shareholders. The members of the Management Board are elected by the Supervisory Board.

The following is a list of the current members of the Management Board and their positions within Accor:

Chairman

Jean-Marc Espalioux

Other Members

Sven Boinet, in charge of hotels

Benjamin Cohen, in charge of finance and participations

John du Monceau, in charge of corporate services and car rental

The Management Board meets formally once every two weeks and on an informal basis once as often as is necessary. The members of the Management Board also hold other directorships and management positions with Accor's subsidiaries.

Supervisory Board

The role of the Supervisory Board is to supervise the Management Board's management of Accor. The Supervisory Board may consist of a minimum of three and a maximum of 12 members who are appointed by the shareholders. Members of the Supervisory Board must also be shareholders. The following is a list of the current members of the Supervisory Board (together with their principal external directorships and interests):

Co-Chairmen

Paul Dubrulle and Gérard Péliesson, Co-founders

Representatives of the Shareholders

Isabelle Bouillot (since 14 February 1996), Deputy Chief Executive Officer of Caisse des dépôts et consignations. Ms. Bouillot is a Director of La Poste and a member of the Supervisory Board of Caisse Centrale des Caisses d'Épargne.

Banque Nationale de Paris (since 16 May 1990), represented by Baudoin Prot, President and Chief Operating Officer. Mr. Prot is a Director of Rhône-Poulenc and Pechiney and a member of the Supervisory Board of Pinault-Printemps-Redoute.

CDC Participations (since 28 June 1983), represented by Willy Stricker, Chairman. Mr. Stricker is a member of the Supervisory Board of Club Méditerranée and a permanent representative of CDC Participations on the Board of Directors of Canal+.

IFIL Finanziaria di Partecipazioni SpA (since 15 December 1992), represented by Gabriele Galateri di Genola, Chief Executive Officer. Mr. Galateri di Genola is a member of the Supervisory Board of Worms & Cie and a Director of Arjo Wiggins Appleton plc.

Société Générale (since 28 June 1983), represented by Patrick Duverger, Managing Director, Mr. Duverger is a member of the Supervisory Board of Pinault-Printemps-Redoute and a permanent representative of Société Générale on the Board of Directors of TF1.

Independent Members

Etienne Davignon (since 16 May 1990), Chairman of Société Générale de Belgique. Mr. Davignon is a Director of Pechiney and ICL, and a member of the Supervisory Board of Suez-Lyonnaise des Eaux.

Renaud d'Elissagaray (since January 1988), former member of the Management Board of Banque Louis Dreyfus and director of Arca-Banque du Pays Basque and various investment companies, including Indosuez France Plus.

Jean-Marie Fourier (since 28 June 1983), Honorary Managing Director of Groupe Thomson.

Jérôme Seydoux (since 7 January 1997), Chairman and Chief Executive Officer of Pathé. Mr. Seydoux is a Director of Chargeurs, Danone and BSKyB.

Maurice Simond (since 28 June 1983), former Group Director of IBM Europe.

Pursuant to Accor's by-laws the Supervisory Board meets as often as is necessary and at least once every three months.

Employees

As at 30 June 1998, the Group employed 117,948 persons, compared with 121,396 as at 31 December 1997.

The following table shows the breakdown of employees of the Group's managed activities for each of the three financial years ended 31 December 1997:

Numbers of Employees at 31 December	1995	1996	1997
Hotels	73,440	76,558	80,795
Travel agencies	6,162	6,545	7,226
Car rental	4,199	3,974	4,271
Corporate services	2,397	2,353	2,840
Restaurants	22,440	22,453	18,471
Railway on-board services	6,642	7,007	6,830
Casinos	—	—	550
Other	5,388	5,458	413
Total	120,668	124,378	121,396

Accor tries to attract highly skilled and motivated people. In this respect, training the Group's present and future employees to support Accor corporate culture and ambitious growth plans is an increasingly important strategic priority. The Accor Academy is at the heart of this training organisation.

An important training programme, involving 40,000 people through the year 2000, including 20,000 in 1998, is currently being implemented in addition to the Accor Academy's ongoing programmes as part of the Accor 2000 Group project. Training will focus on sales development, information technology, hotel technical maintenance, etc. Fundamental changes in Accor's working methods and systems will also enrich and expand our businesses, enhancing the professional skills they require and the careers of all Group employees by offering exciting new opportunities.

Accor also makes special efforts in favour of youth employment — in France, 1,200 trainees undergo training in the Group's units on a ongoing basis, and ten regional conventions have been signed with the French educational authorities to adapt professional training programmes to the real needs of the hotel, leisure and travel industries. The expertise gained in France in this area is gradually expanded to other countries as well (Brazil, Egypt, Indonesia).

Accor's worldwide ambitions require detailed forecasting of its future employment needs, in terms of numbers, skills and geographical job transfer, both within a given country and at an international level, are an important factor in this process.

Finally, new compensation, profit-sharing and employees saving plans constitute powerful motivation and incentive tools.

Employee Stock Options and Profit-Sharing Plans

Stock Option Plans Issued by Accor

- At its 30 September 1992 meeting, the Board of Directors granted Group salaried employees 350,000 Accor stock options with an exercise price of FF508. This plan expired on 30 September 1997.

- At its 19 October 1993 meeting, the Board of Directors granted Group salaried employees 350,000 Accor stock options with an exercise price of FF590. This plan expired on 19 October 1998.
- At its August 1995 meeting, the Board of Directors granted Group salaried employees 200,000 Accor stock options with an exercise price of FF617. These options are exercisable from 1 August 1997 through to 1 August 2001.
- At its 7 January 1997 meeting, the Management Board granted Group salaried employees 200,000 Accor stock options with an exercise price of FF507. These options are exercisable 1 January 1997 through to 1 January 2005.
- At its 7 January 1998 meeting, the Management Board granted Group salaried employees 280,000 Accor stock options with an exercise price of FF1,065. These options are exercisable 7 January 2003 through to 7 January 2006.
- In addition, following its merger with Sphere International, Accor took over two stock option plans issued by this subsidiary:
 - 19 December 1994 plan: 52,960 shares with an exercise price of FF490.
 - 31 October 1996 plan: 137,108 shares with an exercise price of FF434.

Stock Option Plans Issued by Subsidiaries

Lenôtre has issued three stock option plans with an exercise price of FF1,120 per share:

- 29 December 1994: 4,700 options.
- 30 April 1996: 2,700 options.
- 25 October 1996: 600 options.

These options have been granted to 12 executives and managers of Accor.

Employee Profit-Sharing Plans

The mandatory profit-sharing scheme was negotiated between Accor and its French subsidiaries, on the one hand, and employee representatives, on the other. The special profit-sharing reserve (*réserve spéciale de participation*) amounted to FF40 million in 1997. Reflecting the Group's organisation and remunerations strategy, a number of profit-sharing schemes (*accords d'intéressement*) are in force at the level of Accor and that of its subsidiaries or operating units the terms of each scheme are based upon specific quantitative criteria adapted to each situation.

PRINCIPAL SHAREHOLDERS

As at 12 November 1998, Accor had received notice of the following interests in its shares:

Principal Shareholders of Accor as at 12 November 1998	Number of Shares	Number of Votes	% of Share Capital	% of Votes
Caisse des Dépôts et Consignations	1,970,545	3,777,576	5.5%	9.6%
Founders of Accor	1,218,866	1,755,280	3.4%	4.5%
Société Générale	788,756	788,756	2.2%	2.0%
Worms & Cie (IFIL)	475,528	951,056	1.3%	2.4%
BNP	256,938	513,863	0.7%	1.3%
Total — Supervisory Board	4,710,633	7,786,531	13.1%	19.8%
Public	31,388,184	31,641,502	86.9%	80.2%
Total	36,098,817	39,428,033	100.0%	100.0%

The number of outstanding shares of Accor as at 15 March 1999 was 36,140,999 shares. As at 15 March 1999, there were 2,099,029 outstanding 6.75% Convertible Bonds of Accor issued in 1991 (Paris Stock Exchange — code 8519), which are convertible into Accor shares at an exchange ratio of 1.15 Accor shares for one convertible bond (resulting potentially in 2,413,883 new shares created as a result of such conversion). In addition, the number of non-exercised stock options granted to employees pursuant to current stock option schemes as at 15 March 1999 amounted to 908,808 options (resulting potentially in 908,808 new shares created as a result of the exercise of such options).

By a resolution of the Management Board of Accor dated 12 February 1999, acting pursuant to resolution of the Extraordinary General Meeting of shareholders convened on 7 January 1997 authorising the Management Board to convert, subject to certain conditions, the share capital of Accor into euro, the share capital of Accor was redenominated into euro as at 12 February 1999. Accor's share capital therefore amounted to €542,114,985 as at 15 March 1999, divided into 36,140,999 shares with a nominal amount of €15 each.

To the best of the knowledge of Accor, there are no other shareholders holding directly or indirectly more than 2% of its share capital or voting rights and there are no shareholder agreements.

COMPASS GROUP — SUMMARY

The information in this section consists of, or is extracted from, a variety of publicly available information in respect of Compass Group and should be read in that context. The principal sources of information were the Annual Report and Accounts of Compass Group in respect of the financial periods ended 30 September 1996, 1997 and 1998 and the Offering Circular dated 11 July 1997 of Compass Group relating to the issue of its 5.75 per cent. Convertible Bonds due 2007, and such information therefore, dates from the respective dates thereof. In addition, information has been extracted or summarised from a number of other publicly available sources which are listed under "General Information" as well as from the Companies Register and public information disseminated by the London Stock Exchange. In this section, financial information relating to the Compass Group has been extracted from the Consolidated Financial Statements of Compass for each of the financial periods ended 30 September 1998. This financial information should be read in conjunction with, and is qualified in its entirety by reference to, those Consolidated Financial Statements. Those Consolidated Financial Statements have been prepared in accordance with applicable laws, regulations and generally accepted accounting principles in the United Kingdom.

Introduction

The CG Group is a leading international foodservice business providing services to customers and clients at locations where foodservice is not usually the prime reason for their visit. It has strong market positions in the UK, Continental Europe and the USA, together with businesses in emerging markets in Eastern Europe, South America and Asia. At 23 March 1999 the market capitalisation of the CG Group was approximately £4.5 billion (based on the number of Shares outstanding at 30 September 1998) and, at 30 September 1998, the CG Group employed over 170,000 people (including part-time employees) in over 50 countries.

For the financial period ended 30 September 1998, the CG Group's turnover totalled £4,213.8 million and its operating profit totalled £218.0 million. Net cash inflow from operating activities during the period ended 30 September 1998 totalled £257.0 million.

Three Year Record

	52 Week Period Ended 30 Sep 1998	52 Week Period Ended 28 Sep 1997	52 Week Period Ended 29 Sep 1996
Total turnover	£4,213.8m	£3,703.0m	£2,651.9m
Total operating profit	£ 218.0m	£ 174.3m	£ 137.1m
Profit on ordinary activities before taxation	£ 159.1m	£ 137.8m	£ 127.6m
Profit on ordinary activities after taxation	£ 117.7m	£ 101.0m	£ 100.6m
Earnings per Share	17.3p	15.6p	15.8p
Dividends per Share (net).....	5.55p	4.90p	4.30p

Notes:

- (1) Earnings per Share and net dividends per Share have been adjusted for the two for one subdivision of the ordinary shares of 5p each in the capital of Compass Group which occurred on 12 June 1998 (see "Information relating to Compass Group Share Capital — Changes in the Issued Share Capital").
- (2) Earnings per Share have been based on profit after taxation and minority interests of £114.5 million (1997: £99.9 million; 1996: £99.4 million) and a weighted average number of 662,086,572 shares (1997: 640,830,698; 1996: 629,029,544). For further information on earnings per Share see "Note 9 — Earnings Per Share" in the notes to the Financial Statements of Compass Group for the period ended 30 September 1998 set out elsewhere in this document.
- (3) Dividends per Share are expressed net of tax at the rate of 20 per cent. For further information on dividends per Share see "Note 8 — Dividends" in the notes to the Financial Statements of Compass Group for the period ended 30 September 1998 set out elsewhere in this document. Dividends in respect of the period ended 30 September 1998 include a final dividend of 3.80p (net) per Share which is due to be paid on 8 April 1999.
- (4) All figures in this table, other than in respect of earnings per Share and net dividends per Share (which have been adjusted as indicated above), are as originally reported for the relevant financial period (after the effect of exceptional items) and have not been adjusted.

History and Development

The CG Group was established in July 1987 on the acquisition, by way of management buy-out, of the contract services division of Grand Metropolitan PLC. The division was principally a

contract catering and hospital ownership and operation business, based in the UK. Compass Group was listed on the London Stock Exchange in December 1988 with a market capitalisation of approximately £158 million and became a constituent member of the FTSE 100 Share Index in March 1998.

Between 1988 and 1993, the business focussed initially on the development of the hospital division and latterly on the development of the UK contract catering division, which included the acquisitions of Travellers Fare and Latheby & Christopher in November 1992. Turnover and operating profits grew from £276.9 million and £24.7 million respectively (for the 52 week period ended 25 September 1988) to £345.1 million and £36.9 million respectively (for the 52 week period ended 27 September 1992). Following the disposal of its hospital ownership and operation business in December 1995 for £178.8 million, Compass Group has focussed on its core business as a foodservice provider.

In the past six years, the CG Group has grown from a largely domestic UK group in to an international group through a number of significant acquisitions, including:

- In June 1993, the CG Group acquired the Scandinavian airport restaurant and contract catering business of SAS Service Partner A/S, for £82.9 million in cash, including costs.
- In June 1994, the CG Group acquired Canteen Corporation, a foodservice and vending business in the U.S., for £311.7 million in cash, including costs.
- In September 1995, the CG Group acquired Eurest International, a contract catering business, with activities in 19 European countries and 8 other countries around the world, from Accor for £662.1 million in cash and shares, including costs. The acquisition included a 33.3 per cent. interest in Eurest France, the third largest contract caterer in France. The CG Group has subsequently acquired the remaining 66.6 per cent. of this business for £156.0 million in cash.
- On 16 June 1997, the CG Group completed its investment in 20 per cent. of Selecta Vending for CHF103 million, the consideration being split between cash and ordinary shares. Selecta Vending is a public company quoted on the Zurich Stock Exchange, which had an initial market capitalisation on flotation in May 1997 of CHF515 million. Selecta Vending is a group providing vending and foodservices to customers in both public and contract locations in Switzerland, France, Germany and other European countries.
- On 15 July 1997, the CG Group's United States subsidiary, Compass Holdings, Inc., completed a cash tender offer for DAKA International, Inc. ("DAKA"), a United States foodservice company serving the education and business and industry sectors. The consideration of £118.7 million, (including costs), was satisfied by the payment of £53.0 million in cash and the assumption of £65.7 million of debt.
- On 3 July 1997, the CG Group completed its acquisition of 93.32 per cent. of Group SHRM S.A. ("SHRM"), for a consideration of £227.4 million, including costs. SHRM is a French based group which operates principally in the French contract catering market, where it has a significant presence in the healthcare and education sectors. This complements the CG Group's business conducted through Eurest France. SHRM operates in a number of other jurisdictions, including Canada and Australia. The CG Group has since acquired most of the outstanding minority interests in SHRM for £10.9 million.
- In July 1998, the CG Group announced the completion of its acquisition of Restaurant Associates Corp. for a consideration of £54.9 million. Restaurant Associates Corp. ("Restaurant Associates") primarily provides retail foodservice in the United States at a range of locations, including leisure, sports and event facilities.
- In December 1998, Compass Group and Accor announced their agreement to establish a 50/50 joint venture in Brazil for the ownership and operation of GR SA, a leading foodservice provider in Brazil. Compass Group announced that its investment in the joint venture would be \$78 million, payable in cash.

Current Activities

Market Sectors

The CG Group operates in the following market sectors:

- Business and industry: providing contract catering to commercial and industrial clients, including fine dining and hospitality services and catering at offshore and remote site locations.
- Education: providing contract catering services in schools and universities.
- Healthcare: providing contract catering and other services to hospitals and nursing homes.
- Vending: supplying and operating food and beverage vending machines.
- Travel, retail and leisure: providing retail catering at airports, railway stations, shopping centres and leisure outlets and airline catering services.
- Sports and leisure events: providing retail catering and hospitality services at sports locations, conference centres and other events.
- The CG Group does not have any significant activities in high-street locations.

Operations

The supply of food and beverages to the customer typically takes place at the premises of the client. The nature of the supply of food, beverages, catering staff and catering equipment will depend on the contractual arrangements with the client. The CG Group normally operates these contracts under either a form of “cost plus” arrangement, whereby the client pays the CG Group for the provision of food and services plus a management fee, or a “profit and loss” arrangement, where the CG Group runs the account on a non-subsidised basis, normally for a fixed term. “Profit and loss” contracts typically give a greater opportunity to increase both revenues and margins as the costs and revenues are not under-pinned by the client.

Individual catering contracts typically do not have long fixed terms. Historically, however, these arrangements have continued for a number of years, contributing to the underlying stability of the CG Group’s business.

Food and beverages are also supplied to clients’ employees through vending machines. In addition, the CG Group operates a number of concessions where food and beverages are supplied directly to the general public. Prices are generally determined by CG Group and typically a concession rent is paid to the client. Rent is usually geared to the level of sales granted at that particular location.

Operating Divisions

The CG Group carries out its operations through four divisions:

- Global Business Division.
- Northern Europe Division.
- North America Division.
- Southern Europe and the Rest of the World Division.

The following table shows the turnover and operating profit of the CG Group by geographical region for the periods indicated:

	52 Week Period Ended		
	30 September 1998	28 September 1997	29 September 1996
	(in £ million)		
Turnover			
UK	746.6	668.2	602.7
Continental Europe and Rest of the World	2,073.2	1,790.1	1,277.4
North America	1,394.0	1,244.7	771.8
Total	<u>4,213.8</u>	<u>3,703.0</u>	<u>2,651.9</u>
Operating Profit			
UK	54.3	47.6	43.8
Continental Europe and Rest of the World	102.1	83.2	67.8
North America	61.6	43.5	25.5
Total	<u>218.0</u>	<u>174.3</u>	<u>137.1</u>

Global Business Division

This recently created division comprises the CG Group's global businesses: concessions, in-flight foodservice and offshore and remote site contracts.

The CG Group has a significant presence in the European airport restaurant catering business and operates in a number of Asian airports. The CG Group also has an inflight foodservice business.

The division is also responsible for the CG Group's provision of catering at offshore and remote site locations, such as contracts for the provision of catering services on offshore rigs and platforms and to police and armed forces personnel.

Northern Europe Division

The CG Group's Northern Europe (including UK) division is one of the leading foodservice providers in the UK with operations in the following sectors.

Business and Industry — Eurest.

The UK business and industry includes office and factory markets and civil servants. The business is carried out under the Eurest brand.

The CG Group's UK division also provides fine dining to business customers.

Travel, Shopping and Leisure — Select Service Partner.

The CG Group operates in the UK rail, air and retail markets providing branded retail services in railway stations, airports and shopping centres.

Healthcare — Bateman Catering.

Bateman Catering is the CG Group's healthcare specialist company in the United Kingdom, providing foodservices for patients, staff and visitors at NHS hospitals, private hospitals and care homes. Bateman Catering also provides ancillary services to clients where those services complement the CG Group's core food and beverage services.

Education — Chartwells.

Chartwells focuses on providing foodservices for staff and students at universities, colleges of further education and schools. The CG Group provides foodservices to both the independent and state school sectors.

Sports and Events — Letheby & Christopher and Payne & Gunter.

The CG Group acquired Letheby & Christopher, a leading sports and events caterer, in 1992. Since then, the CG Group has expanded its presence in this area by acquiring Payne & Gunter in May 1996 and National Leisure Catering in May 1997.

As a result of these acquisitions the CG Group's activities in the sports and events market cover catering at horse racing, football, rugby and rowing events. Social events include corporate functions and catering at major theatres and conference facilities.

The division also comprises certain businesses of Eurest International (including in Germany and Scandinavia). The CG Group is one of the largest providers of contracted-out catering services in Germany, providing these services in a range of different industry sectors. In Germany, the CG Group also operates a concessions business and in the healthcare sector.

In Scandinavia, the CG Group is one of the leading food service providers in the business and industry sector and also provides foodservices to customers in hospitals, schools and universities.

North America Division

The North America division is a leading foodservice provider in the business and industry sector and is a market leader in the U.S. vending sector.

Business and Industry.

In late 1995, the organisational structure of the business was split, separating the then U.S. division into two key businesses; vending (through Canteen Vending) and foodservice (launched as Eurest Dining Services). Customers include Microsoft and IBM.

Vending.

The CG Group's U.S. vending business involves the supply and operation of vending machines at factories, offices, universities and other such locations.

The business was expanded with the acquisition of the vending and dining foodservice assets of Service America Corporation in September 1996. Service America operates dining and vending accounts across a majority of the states in the United States.

Education — Chartwells.

In August 1996, the division purchased Professional Food-Service Management Inc., a private foodservice company based in Florida that serves the college and university marketplace.

In July 1997, the acquisition of the foodservice division of DAKA, which has a large majority of its turnover in the education sector, was completed.

Healthcare — Bateman Catering.

This division provides food and services management for clients and their customers across the U.S. in the healthcare sector under the Bateman Catering brand, particularly in the elderly care marketplace.

In 1998, the CG Group entered the concessions business in North America with the acquisition of Restaurant Associates (see "— History and Development").

Southern Europe and the Rest of the World Division

This division comprises certain of the businesses of Eurest International (including Holland, Spain and Portugal and extending to the developing markets in South American and Asia) and Eurest France.

France.

Following the acquisition of SHRM, (see “— History and Development”) the CG Group has become one of the leading foodservice providers in the French business and industry sector and has strong positions in the concessions, education and healthcare sectors.

Spain.

Eurest is a leader in the provision of foodservices in Spain, where it has been established since 1965. The business includes vending and foodservices in a range of sectors, including businesses and industry, healthcare and education.

Holland.

Eurest is a leading contract caterer in Holland, deriving its revenue principally from the business and industry and social institutions sectors.

Australia and New Zealand.

Following the acquisition of SHRM in 1997, the CG Group now has a presence, in partnership with Accor, in institutional catering in Australia and New Zealand.

Other Countries

The division also has operations in the rest of Europe, together with developing businesses in the rest of the world.

Directors

The Directors of Compass Group are as follows:

Non-Executive Chairman

John M. Thomson,^{1,2} formerly vice chairman of Barlow International PLC and formerly non-executive director of Thames Water PLC and Wellington Underwriting PLC.

Group Chief Executive and Deputy Chairman

Francis H. Mackay, formerly finance director. Non-executive director of Centrica PLC.

Chief Executive Officer North America Division

Michael J. Bailey, previously head of New Famous Foods, the Group's branded concept division. Formerly managing director of Gardner Merchant UK and for six years president of their U.S. business.

Non-Executive Director

Denis P. Cassidy,^{1,2} chairman of Ferguson International Holdings PLC and Oliver Group PLC. Formerly Chairman of Newcastle United PLC.

Non-Executive Director

Peter B. Cawdron,^{1,2} non-Executive Director of Pembertons Group PLC, Capita Group PLC, Christian Salvesen PLC, The Tetley Group PLC and Welcome Break Holdings Ltd. Formerly a director of Grand Metropolitan PLC.

(1) Audit Committee member.

(2) Remuneration Committee member.

Chief Executive Director Southern Europe and Rest of the World Division

Alain Dupuis, founder of Ticket Restaurant in Belgium and was previously managing director of Seafood Broiler, a Californian restaurant chain and National Cleaning Contractor, a building maintenance company in the U.S.

Group Finance Director

Andrew P. Lynch, formerly finance director for the UK Division having been finance director of Travellers Fare Limited.

Group Managing Director and Chief Executive Officer Northern Europe Division

Roger J. Matthews, formerly Group finance director having previously served as the finance director of the healthcare division, the overseas division, and the UK catering division. Non-executive director of London International Group PLC.

Non-Executive Deputy Chairman

John du Monceau,¹ member of the Management Board of Accor.

(1) Audit Committee member.

(2) Remuneration Committee member.

The business address of the Directors is Cowley House, Guildford Street, Chertsey, Surrey, KT16 9BA.

**INFORMATION RELATING TO
COMPASS GROUP'S SHARE CAPITAL**

General

(a) The authorised share capital of Compass Group is £25,000,000, divided into 1,000,000,000 Shares of 2.5 pence each. As at 30 September 1998, the issued share capital of Compass Group was £16,926,399 representing 677,055,943 Shares.

(b) Under Compass Group's employee share option schemes for directors and senior executives at 30 September 1998, employees held options in respect of 21,015,840 Shares as follows:

<u>Number of Shares</u>	<u>Option Price per Share</u>	<u>Exercisable</u>
24,410	78.62p	24 May 1992 — 24 May 1999
15,534	80.19p	3 Jul 1993 — 3 Jul 2000
44,390	91.68p	1 Jul 1994 — 1 Jul 2001
93,320	92.37p	20 Dec 1994 — 20 Dec 2001
654,286	119.64p*	20 May 1996 — 20 May 2000
249,050	115.60p	24 May 1996 — 24 May 2003
122,120	120.58p	30 Jun 1996 — 30 Jun 2003
353,520	145.93p	28 Apr 1997 — 28 Apr 2001
1,027,510	145.93p*	28 Apr 1997 — 28 Apr 2004
104,000	162.50p*	27 Jun 1997 — 27 Jun 2001
2,239,000	194.00p*	12 Jul 1998 — 12 Jul 2002
160,000	246.00p*	23 Feb 1999 — 23 Feb 2003
5,184,000	264.00p*	16 May 1999 — 16 May 2003
200,000	332.00p*	22 Jan 2000 — 22 Jan 2004
200,000	359.50p*	17 Feb 2000 — 17 Feb 2004
4,166,500	328.75p*	16 May 2000 — 16 May 2004
50,000	335.25p*	3 Jun 2000 — 3 Jun 2004
100,000	323.50p*	22 Sep 2000 — 22 Sep 2004
5,868,200	640.00p*	19 Jun 2001 — 19 Jun 2005
160,000	650.00p*	18 Jul 2001 — 18 Jul 2005

* These options will not involve the issue of new shares

(c) At 30 September 1998, there were outstanding options in respect of 8,079,079 Shares in respect of Compass Group's SAYE scheme as set out below:

<u>Number of Shares</u>	<u>Option Price per Share</u>	<u>Exercisable</u>
184,544	93.48p	1 Sep 1997 — 31 Mar 2000
243,088	97.13p	1 Sep 1993 — 31 Mar 2001
1,085,042	124.00p	1 Sep 1999 — 31 Mar 2002
955,854	143.00p	1 Sep 2000 — 31 Mar 2003
337,527	147.00p	18 May 2000
1,609,246	231.00p	1 Sep 2001 — 31 Mar 2004
1,847,138	272.00p	1 Sep 2000 — 31 Mar 2005
1,818,646	493.00p	1 Sep 2003 — 31 Mar 2006

(d) Compass Group has issued unsubordinated convertible Notes with a coupon of 5.75 per cent., maturing in 2007 and convertible into Shares. If the conversion rights attaching to all of the Notes outstanding at 30 September 1998 were exercised at that date, 53,012,048 Shares would have fallen to be issued.

(e) Pursuant to a special resolution passed at the Annual General Meeting of Compass Group held on 25 February 1999, the Directors of Compass Group were authorised, pursuant to Section 95(1) of the Companies Act 1985 (the "Act"), to allot equity securities (as defined in Section 94 the Act) for cash pursuant to the general authorities granted to the directors to allot relevant securities (within the meaning of Section 80 of the Act) on 30 January 1998 as if Section 89(1) of the Act did not apply to any such allotment provided that the power is limited to:

(i) the allotment of equity securities in connection with any rights issue in favour of the holders of Shares on the register of members at such record date or dates as the Directors may determine for the purpose of the issue where the equity securities respectively attributable to the interests of all such holders of Shares are proportionate (as nearly as may be) to the respective numbers of Shares held by them at any such record date or dates so determined but subject to such exclusion or arrangements as the Directors may deem necessary or desirable to deal with fractional entitlements or practical problems under the laws of any overseas territory, or the requirements of any regulatory body or stock exchange;

(ii) the allotment of equity securities pursuant to the terms of any share scheme for employees approved by the members in General Meeting; and

(iii) the allotment (otherwise than pursuant to sub-paragraphs (i) and (ii) above) of equity securities up to an aggregate nominal amount of £846,319;

and shall expire on the earlier of the date fifteen months from the passing of the resolution and the date of the next Annual General Meeting after the passing of the resolution save that Compass Group may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities of such offer or agreement as if the said authority had not expired.

(f) Under Section 80 of the Act, the allotment by the Directors of share capital and securities giving a right to subscribe or convert into share capital must be authorised by shareholders in General Meeting. Such authority was conferred by ordinary resolution passed at the Annual General Meeting of Compass Group held on 30 January 1998 generally and unconditionally in respect of a maximum nominal amount of relevant securities (within the meaning of section 80 of the Act) of £5,416,172. This authority expires on 29 January 2003.

In respect of the above authority, Compass Group may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred thereby had not expired.

(g) Pursuant to a special resolution passed at the Annual General Meeting held on 25 February 1999, the Directors of Compass Group were authorised to make market purchases (within the meaning of section 163 of the Act) on the London Stock Exchange of Shares in the capital of Compass Group provided that:

(i) the maximum number of Shares authorised to be purchased in aggregate is 67,705,594;

(ii) the minimum price which may be paid for each Share is 2.5p;

(iii) the maximum price which may be paid for each Share is an amount equal to 105 per cent. of the average of the middle market quotations for an Share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is purchased;

(iv) the authority conferred expires at the earlier of the conclusion of the next Annual General Meeting of Compass Group and the date eighteen months from the date this resolution was passed (except in relation to the purchase of ordinary shares the contract for which was concluded before such date and which would or might be executed wholly or partly after such date).

Changes in the Issued Share Capital

During the three financial periods ended on 30 September 1998, the following issues of ordinary shares, all of which are fully paid, have been made by Compass Group:

(a) On 8 December 1995, 4,910,460 ordinary shares of 5p each were issued by Compass Group as part of the acquisition of Eurest International, at 433p per share.

(b) On 2 August 1996, 1,604,113 ordinary shares of 5p each were issued by Compass Group as part of the acquisition of Professional Food-Service Management, at 556p per share.

(c) On 31 March 1997, 3,006,480 ordinary shares of 5p each were issued by Compass Group as part of the acquisition of Service America, at 559p per share.

(d) On 16 June 1997, 3,200,347 ordinary shares of 5p each were issued by Compass Group as part of the investment in Selecta Vending, at 708p per share.

(e) On 12 June 1998 ordinary shares of 5p each were subdivided into 2 Shares of 2.5p each.

(f) In the financial period ended 30 September 1998, 5,707,985 Shares were issued as part of the acquisition of Restaurant Associates (see “—History and Development”) and 18,038,880 Shares were issued as part of the acquisition of Service America Inc.

(g) The following numbers of shares were issued by Compass Group in respect of the exercise of share options under the Group’s share option schemes:

<u>52 Week Period Ended</u>	<u>Shares Issued</u>
29 September 1996	843,209 ordinary shares of 5p each
28 September 1997	1,574,637 ordinary shares of 5p each
30 September 1998	3,368,376 Shares

Principal Shareholders

As at 10 December 1998, Compass Group had received notice under the provisions of the Act of the following interests of more than 3 per cent. in the Shares:

	<u>%</u>
Accor	4.5(1)
Janus Capital Corporation	3.1

(1) As at the date of this Offering Circular, Accor held approximately 30.7 million Shares representing approximately 4.5 percent. of Compass Group’s share capital. On the basis of the initial exchange rates, the exchange of all the Notes for Shares would result in Accor’s holding being reduced to 0 Shares. Accor is represented on Compass Group’s Board of Directors by John Du Monceau, member of the Management Board of Accor.

If the exchange rights attaching to all of the Notes were exercised at the initial exchange ratio of 70.8215 Shares per €1,000 principal amount Note and assuming such exchange rights were all satisfied by the delivery of Shares, 30,699,987 Shares would fall to be delivered by Accor.

Description of the Shares

The following is a summary of certain of the provisions of the Articles of Association of Compass Group which are available for inspection as provided under “General Information”. See also “Disclosure of Interests in Compass Group Shares” for a description of certain matters which may affect the rights attaching to Shares.

Voting

On a show of hands every member who (being an individual) is present in person or (being a corporation) is present by a duly authorised representative has one vote, and on a poll every member present in person or by proxy has one vote for every share held by him.

Dividends and Other Distributions

Subject to any preferential or special rights attaching to any shares issued in the future, holders of Shares are entitled *pari passu* amongst themselves, but in proportion to the amounts paid up on the Shares held by them, to share in the whole of the profits of Compass Group paid out as dividends and the whole of any surplus in the event of any liquidation of Compass Group. Any dividend unclaimed for a period of 12 years after having been declared will, if the Board of Directors of Compass Group (the “Compass Board”) so resolves, be forfeited and will revert to Compass Group.

Transfer of Shares

Any member may transfer all or any of his Shares by an instrument of transfer in the usual form or in any other form which the Compass Group Board may approve. Every transfer must be executed by or on behalf of the transferor and, unless the Share is fully paid, by or on behalf of the transferee. The Compass Group Board may, in its absolute discretion and without giving any reason, refuse to register the transfer of an Share which is not fully paid. The Compass Group Board may refuse to register a transfer unless it is lodged, duly stamped, at the registered office of Compass Group or at such other place as the Compass Group Board may appoint and is accompanied by the certificate for the shares to which it relates and such other evidence as the Compass Group Board may reasonably require to show the right of the transferor to make the transfer; is in respect of only one class of shares; and is in favour of not more than four transferees. The registration of transfers of shares or of transfers of any class of shares may be suspended at such times and for such periods (not exceeding thirty days in any year) as the Compass Group Board may determine.

Variation of Class Rights and Alteration of Share Capital

(i) Whenever the capital is divided into different classes of shares, the rights attached to any class may (unless otherwise provided by the terms of issue of the shares of that class) be varied or abrogated, whether or not Compass Group is being wound up, either with the consent in writing of the holders of three quarters in nominal value of the issued shares of the class, or with the sanction of an extraordinary resolution passed at a separate general meeting of such holders (but not otherwise). Unless otherwise provided by the rights attached to any shares or class of shares, these rights are deemed to be varied by the reduction of the capital paid up on the shares and by the allotment of further shares ranking in priority for payment of a dividend or in respect of capital or which confer on the holders voting rights more favourable than those conferred by such first mentioned shares, but shall not otherwise be deemed to be varied by the creation or issue of further shares.

(ii) Subject to the provisions of the Companies Acts (as defined in the Articles) and without prejudice to any rights attached to any existing shares or class of shares, Compass Group may issue shares with such rights or restrictions as it may by ordinary resolution determine or, subject to and in default of such determination, as the Compass Group Board determines. Redeemable shares may be issued on such terms and in such manner as may be provided by the Articles.

(iii) Compass Group may by ordinary resolution increase its share capital, consolidate and divide its share capital into shares of a larger amount, subdivide its share capital into shares of smaller amount (subject to the provisions of Companies Acts) or cancel any shares which have not been taken or agreed to be taken by any person and diminish the amount of its authorised share capital by the amount of the shares so cancelled.

(iv) Subject to and in accordance with the provisions of the Companies Acts, Compass Group may by special resolution reduce its share capital, any capital redemption reserve and any share premium account in any way. Subject to and in accordance with the provisions of the Companies Acts and without prejudice to any relevant special rights attached to any class of shares, Compass Group may purchase its own shares.

Disclosure of Interests in Compass Group Shares

Section 198 of the Companies Act 1985 provides that a person (including a company and other legal entities) who acquires an interest of 3 per cent. or more of any class of shares comprised in a public company's "relevant share capital" (which, for these purposes, means that company's issued share capital carrying the right to vote in all circumstances at general meetings of the company) is obliged to notify that company of his interest within two business days following the day on which the obligation arises. After the 3 per cent. level is exceeded, similar notifications must be made, in respect of a whole percentage figure increase or decrease, rounding down to the next whole number.

For the purposes of the notification obligation, the interest of a person in shares means any kind of interest in shares including interests in any shares (i) in which his spouse or his child or

stepchild under the age of 18 is interested (ii) if a corporate body is interested in them and either (a) that corporate body or its directors are accustomed to act in accordance with that person's directions or instructions or (b) that person controls one-third or more of the voting power of that corporate body, or (iii) if another party is interested in shares and the person and that other party are parties to a "concert party" agreement under Section 204 of the Companies Act 1985 (being an agreement which provides for one or more parties to it to acquire interests in shares of a particular company which imposes obligations or restrictions on any one of the parties as to the use, retention or disposal of such interests acquired pursuant to such agreement and any interests in the company's shares is in fact acquired by any of the parties pursuant to the agreement). A holding of Notes will constitute an interest in the "relevant share capital" of Compass Group and, if the holding of Notes is such that the number of shares in Compass Group in which the relevant holder is interested, is equal to 3 per cent. or more of the "relevant share capital" of Compass Group, the relevant holder will have an obligation to notify Compass Group accordingly, as described above.

In addition, Section 212 of the Companies Act 1985 provides that a public company may, by notice in writing, require a person whom the company knows or has reasonable cause to believe to be, or to have been at any time during the three years immediately preceding the date on which the notice is issued, interested in shares comprised in the company's "relevant share capital" to confirm that fact or (as the case may be) to indicate whether or not that is the case, and where he holds or has during the relevant time held an interest in such shares, to give such further information as may be required relating to his interest and any other interest in the shares of which he is aware. If a notice is served under Section 212 on a person who is or was interested in shares of a company and that person fails to provide any information required by the notice within the time specified in it, the Companies Act 1985 provides that the company may apply to court for an order that the shares be subjected to certain restrictions. These restrictions include the following: that any transfer of shares is void; that any transfer of the shares is void; that no voting rights are exercisable in relation to them; that no further shares shall be issued pursuant to any offer made to their holder; and that, except in a liquidation, no payment shall be made in respect of them.

TERMS AND CONDITIONS OF THE NOTES

The terms and conditions of the Notes will be as follows:

The issue outside the Republic of France of €433,484,000 1 per cent. Exchangeable Notes due 2002 (the "**Notes**") of Accor (the "**Issuer**") exchangeable for shares of Compass Group PLC (the "**Company**") has been authorised by a resolution of the Management Board (*Directoire*) of the Issuer adopted on 24 February 1999 pursuant to a resolution of the Supervisory Board of the Issuer adopted on 7 January 1997 and two resolutions of the *Assemblée Générale Ordinaire* of the shareholders of the Issuer adopted on 16 June 1995 and 7 January 1997, respectively. The Issuer has entered into an agency agreement (the "**Agency Agreement**") dated 29 March 1999 with Paribas Luxembourg, as fiscal agent, principal paying and exchange agent and as calculation agent. The fiscal agent, principal paying agent, principal exchange agent and calculation agent, paying agents and exchange agents for the time being are referred to in these Conditions as the "**Fiscal Agent**", the "**Principal Paying Agent**", the "**Principal Exchange Agent**", the "**Calculation Agent**", the "**Paying Agents**" (which expression shall include the Principal Paying Agent) and the "**Exchange Agents**" (which expression shall include the Principal Exchange Agent), respectively, each of which expression shall include the successors from time to time of the relevant persons, in such capacities, under the Agency Agreement, and are collectively referred to as the "**Agents**". Certain statements in these Conditions are summaries of, and are subject to, the detailed provisions of the Agency Agreement, copies of which are available for inspection at the specified offices of the Paying Agents. Holders of the Notes (the "**Noteholders**") are deemed to have notice of the provisions of the Agency Agreement and are bound by, and entitled to the benefit of, those provisions which relate to their rights under the Notes. References below to "**Conditions**" are, unless the context otherwise requires, to the numbered paragraphs below.

1 Form, Denomination and Title

The Notes will be issued in dematerialised bearer (*au porteur*) form in the denomination of €1,000. Title to the Notes will be evidenced in accordance with article 94 II of French law no. 81-1160 of 30 December 1981 by book-entries (*dématisation*). No physical document of title (including *certificats représentatifs* pursuant to Article 7 of decree no. 83-359 of 2 May 1983) will be issued in respect of the Notes.

The Notes will, upon issue, be inscribed in the books of Sicovam S.A. ("**Sicovam**"), which shall credit the accounts of the Account Holders. For the purpose of these Conditions, "**Account Holder**" shall mean any authorised financial intermediary institution entitled to hold accounts on behalf of its customers with Sicovam, and includes the depositary banks for Cedelbank ("**Cedelbank**") and Morgan Guaranty Trust Company of New York, Brussels Office, as operator of the Euroclear System ("**Euroclear**").

Title to the Notes shall be evidenced by entries in the books of Account Holders and will pass upon, and transfer of Notes may only be effected through, registration of the transfer in such books.

2 Status and Negative Pledge

(a) Status of the Notes

The obligations of the Issuer in respect of the Notes constitute direct, unconditional, (subject as provided below) unsecured and unsubordinated obligations and rank and will rank *pari passu* and without any preference among themselves and (subject to such exceptions as are from time to time mandatory under French law) equally and rateably with all other present or future unsecured and unsubordinated obligations of the Issuer.

(b) Negative Pledge

So long as any of the Notes remains outstanding (as defined in the Agency Agreement), the Issuer will not create or permit to subsist any mortgage, charge, lien, pledge or other security interest (*sûreté réelle*) upon the whole or any part of its present or future assets or revenues for the benefit of any holders of any Relevant Debt (as defined below) to secure

(1) payment of any sum due in respect of any such Relevant Debt or (2) any payment under any guarantee of or indemnity or other like obligation relating to any Relevant Debt, unless the Issuer's obligations under the Notes are equally and rateably secured (A) by such mortgage, charge, lien, pledge or security interest or (B) by such other security as shall be approved by the *Masse* (as defined in Condition 11) pursuant to Condition 11.

"Relevant Debt" means any present or future indebtedness for borrowed money which is in the form of, or represented by, bonds or notes (*obligations*) which are at the relevant time listed on any stock exchange.

3 Interest

The Notes bear interest from, and including, 29 March 1999 (the **"Issue Date"**) at the rate of 1 per cent. per annum (calculated on the principal amount of the Notes) payable in equal instalments annually in arrear on 29 March in each year (each, an **"Interest Payment Date"**) commencing on 29 March 2000.

If interest is required to be calculated for a period of less than one year, it will be calculated on the basis of the actual number of days elapsed divided by 365 (or, if any of the days elapsed fall in a leap year, the sum of (A) the number of those days falling in a leap year divided by 366 and (B) the number of those days falling in a non-leap year divided by 365) and rounding the resultant figure to the nearest €0.01 (0.005 being rounded upwards).

Each Note will cease to bear interest (i) in the case of a Note in respect of which the Exchange Right (as defined below) has been exercised, from the Interest Payment Date immediately preceding the relevant Notification Date (as defined in Condition 4(b)) or, if the Note is exchanged before the first Interest Payment Date, from the Issue Date, subject to due exchange of the relevant Note in accordance with these Conditions, or (ii) in the case of a Note which is being redeemed pursuant to Condition 9, from the date on which it is to be redeemed, unless payment of the full amount due in respect of the Note is improperly withheld or refused on such due date. In such latter event, such Note shall continue to bear interest in accordance with this Condition (both before and after judgement) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder, and (b) the day seven days after the Fiscal Agent has notified Noteholders in accordance with Condition 12 of receipt of all sums due in respect of all Notes up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant Noteholders under these Conditions).

Interest payments will be made subject to, and in accordance with, the provisions of Conditions 7 and 8.

4 Exchange of the Notes into Shares

(a) Exchange Rights

(i) At any time on or after 10 May 1999 and up to 17.00 hours (Paris time) on 22 March 2002 (the **"Exchange Period"**), except as provided in Condition 4(a)(iv), a Noteholder shall have the right (the **"Exchange Right"**), subject to any applicable fiscal or other laws and regulations in the place of exchange and in the manner described below, to request that all or any of its Notes (which have not previously been redeemed) be redeemed through their exchange for Shares (as defined below) at an exchange ratio of 70.8215 Shares for one Note (expressed as a fraction (such fraction being rounded to four decimal places (0.00005 being rounded upwards)) the numerator of which is the number of Shares and the denominator of which is the number of Notes), as adjusted from time to time pursuant to Condition 5(a) (the **"Exchange Ratio"**), and subject also to the Issuer's right to elect to deliver cash in lieu of Shares as provided in Condition 4(a)(ii) below.

Upon exercise of Exchange Rights, the Issuer shall, except as otherwise provided in these Conditions, redeem any Note delivered for exchange on the relevant Settlement Date (as defined in Condition 4(d)) by procuring the delivery by the Principal Exchange Agent to, or to the order of, the relevant Noteholder on such Settlement Date of the corresponding number of Shares and the Cash Value (as defined below) of any fractional Share, if any. If

at the relevant time the Issuer has not made the election referred to in Condition 4(a)(ii) below, the Calculation Agent shall determine the number of Shares to be delivered in respect of the exercise of an Exchange Right by reference to the aggregate number of Notes in respect of which an Exchange Right has been exercised by a Noteholder on a particular date.

Fractional Shares will not be delivered upon the exchange of Notes. However, each Noteholder exchanging a number of Notes that would otherwise be entitled to a fraction of a Share will receive from the Issuer the Cash Value (as defined below) of such fractional Share. All Notes being exchanged by a Noteholder pursuant to an Exchange Notice (as defined in Condition 4(b)) will be aggregated for the purpose of determining the aggregate number of Shares for which such Notes shall be exchanged (and/or any Cash Value which may be due).

(ii) Notwithstanding the provisions of Condition 4(a)(i), the Issuer shall have the right to elect, by notice to the Principal Exchange Agent given not later than the time specified in Condition 4(d), that the Exchange Right in respect of any Note delivered for exchange shall be satisfied by (x) the delivery to the relevant Noteholder on the relevant Settlement Date of an amount of cash in euro equal to the Cash Value (each as defined below) of such Note and (y) the delivery to such Noteholder by the time required under Condition 4(e) of all amounts payable pursuant to Condition 4(e).

(iii) Interest will not be payable in respect of any exchanged Note for any period from the Interest Payment Date (as defined in Condition 3) immediately preceding the relevant Notification Date (as defined in Condition 4(b)), or, if the Note is exchanged before the first Interest Payment Date, from the Issue Date, to the relevant Settlement Date (as defined in Condition 4(d)), subject to due exchange of the relevant Note in accordance with these Conditions.

(iv) Exchange Rights shall not be exercisable during the period (x) referred to in Condition 5(b) in the event of an Offer and (y) from, and including, the date (the "**Expiry Date**") upon which notice is given in accordance with Condition 12 by the Representatives (as defined in Condition 11) to the Fiscal Agent specifying that the Notes have become immediately due and payable pursuant to Condition 9.

As used in these Conditions:

"**Business Day**" means any day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets are open for business in Paris and Luxembourg (or, if different, the city where the specified office of the Principal Exchange Agent is located).

"**Cash Value**" means:

(i) with respect to a fraction of a Share if Shares are delivered in exchange for Notes, the product of the fraction of a Share to which the relevant Noteholder would otherwise be entitled and the Closing Price of a Share on the London Stock Exchange on the Trading Day on which a price for the Shares is quoted on the London Stock Exchange immediately preceding the Notification Date relating to such exchange; or

(ii) if the Issuer elects pursuant to Condition 4(a)(ii), or is obliged pursuant to Conditions 4(d) or 5(b)(ii), to deliver cash in lieu of Shares, or if the Notes become due and payable pursuant to Condition 9, the product of (x) the Exchange Ratio in effect (except as otherwise provided in Conditions 5(a), 5(b) or 9) on the Notification Date, (y) the Settlement Price of the Shares, and (z) the number of Notes to be exchanged; and

in each case, converting the resultant amount into euro using the rate appearing at approximately 11.00 a.m. (London time) on the Business Day preceding (except as otherwise provided in Conditions 5(b) and 9) the Notification Date on the display designated as "Page ECB37" on Reuters (or, if it is not available, such other page or service as, in the Calculation Agent's opinion, may be substituted for it) and rounding the resultant amount to the nearest €0.01 (0.005 being rounded upwards), as determined by the Calculation Agent;

“**Closing Price**” means, with respect to a Trading Day on which a price for the Shares is quoted on the London Stock Exchange, the sale price taken from the daily official list of the London Stock Exchange at the close of such Trading Day.

“**Decision Date**” means the date on which the Principal Exchange Agent receives notice from the Issuer pursuant to Condition 4(d) as to whether the Issuer elects to deliver Shares or pay their Cash Value to any Noteholder exercising its Exchange Right (or if such date is not a day on which commercial banks are open in the city where the Principal Exchange Agent’s specified office is located, the first succeeding date which is such a day), or, in the absence of such notification by the time specified in Condition 4(d), the third Business Day following the relevant Notification Date.

“**London Business Day**” means a day on which commercial banks and foreign exchange markets are open in London.

“**Settlement Price**” means (i) the arithmetic mean of the Closing Price of the Shares on each Trading Day (being at least two in number) during the period of five consecutive London Business Days ending on the second London Business Day preceding the Notification Date; if there are less than two Trading Days in such period (or if a Closing Price is available on less than two Trading Days or if the Shares are no longer listed on the London Stock Exchange or any other European stock exchange as provided below), the Settlement Price will be determined by the Calculation Agent, after consultation with an independent investment bank of international repute selected by the Calculation Agent (an “**Expert**”); or (ii) in the circumstances set out in paragraph (ii) of Condition 5(b), the Offer Consideration expressed as an amount per Share;

“**Shares**” means issued and outstanding fully-paid ordinary shares of the Company, currently of a nominal value of £0.025 each, or, except where the context otherwise requires, the Substitute Shares, as defined in Condition 5(b).

“**Trading Day**” means a London Business Day on which the London Stock Exchange is open for trading other than a day on which trading ceases prior to its regular weekday closing time.

For the purposes of these Conditions, references to:

(i) the London Stock Exchange shall, if the Shares are not listed on the London Stock Exchange at the relevant time, be construed as references to such other North American or European Union stock exchange on which the Shares are so listed at such time, as selected by the Calculation Agent (and references to “**London Business Days**” shall be construed accordingly); and

(ii) a number of Business Days or, as the case may be, London Business Days prior to any date shall be construed as references to such number as determined on the first of such number of Business Days or, as the case may be, London Business Days prior to the relevant date.

(b) Exchange Notices

Each Noteholder may exercise Exchange Rights by causing (i) one or more notices of exchange (each an “**Exchange Notice**”) in, or substantially in, the then current form obtainable from the specified office of an Exchange Agent (the initial form of which is set out in the Agency Agreement), duly completed and signed by it or on its behalf, to be presented (x) in the case of Notes held through an Account Holder, to the relevant Account Holder, or (y) in the case of Notes held through Euroclear or Cedelbank, to Euroclear or Cedelbank, as the case may be, in each case with a copy to the Principal Exchange Agent; and (ii) the number of Notes being exchanged to be surrendered by transfer to the account of the Principal Exchange Agent, in each case during the Exchange Period (except as otherwise provided in Condition 4(a)(iv)). Copies of Exchange Notices may be obtained from the specified office of any Exchange Agent.

The Business Day immediately following the date on which the foregoing requirements have been satisfied is the “**Notification Date**”. Not later than 17.00 (Luxembourg time) on each Notification Date, the Principal Exchange Agent shall notify the Issuer of (i) any Exchange Notices received by it and (ii) the Cash Value (including all information necessary

for its calculation) which would be payable for the Notes presented for exchange pursuant to each Exchange Notice if the Issuer were to make the election set out in Condition 4(a)(ii); *provided*, however, that the Principal Exchange Agent shall provide the Issuer only with the information listed in item (ii) of the Exchange Notice as set forth below and shall not, unless required by law, provide the Issuer with any information regarding the identity of the Noteholder exercising his Exchange Rights or with any other information which should, in the reasonable opinion of the Principal Exchange Agent, remain confidential.

Each Exchange Notice must:

- (i) specify the name and address of the Noteholder;
 - (ii) specify the number and aggregate principal amount of Notes being exchanged;
 - (iii) specify the number of the Noteholder's account at Euroclear, Cedelbank or the relevant Account Holder, as the case may be, to be debited with such Notes;
 - (iv) irrevocably instruct and authorise Euroclear, Cedelbank or the relevant Account Holder, as the case may be, to debit the Noteholder's account immediately with the aggregate principal amount of Notes being exchanged;
 - (v) contain a representation and warranty from the relevant Noteholder to the effect that the Notes to which the Exchange Notice relates are free from all liens, charges, encumbrances and other third party rights;
 - (vi) contain representations and warranties from the relevant Noteholder to the effect, *inter alia*, that, at the time of signing and delivery of the Exchange Notice, either (x) it is not a U.S. person and is located outside the United States within the meaning of Regulation S ("**Regulation S**") under the U.S. Securities Act of 1933 (the "**Securities Act**") and is acquiring the Shares to be delivered upon exchange of the Notes in an offshore transaction (as defined in Regulation S) in accordance with Rule 903 or 904 of Regulation S, or (y) it is a qualified institutional buyer ("**QIB**") within the meaning of Rule 144A under the Securities Act that understands that the exchange of Notes into Shares is being made in the United States only through a private placement which is exempt from registration under the Securities Act to holders of Notes that are QIBs acquiring the Shares for their own account or for the account of another QIB and not with a view to distribution of the Shares;
 - (vii) if the Shares are at the relevant time a participating security in CREST and unless the Uncertificated Securities Regulations 1995, as amended from time to time (the "**Regulations**") and the rules of the relevant system (as defined in the Regulations) concerned otherwise require, specify whether the relevant Noteholder wishes to receive the Shares in uncertificated registered form;
 - (viii) specify (x) in the case of Shares to be delivered in certificated form, the name and address of the person(s) in whose name(s) the certificates for the Shares should be despatched or (y) in the case of Shares to be delivered in uncertificated form, the relevant CREST account details;
 - (ix) specify the number and account name of the euro account of the relevant Noteholder to which any amount payable in cash (x) to such Noteholder is to be credited with respect to the Cash Value of a fraction of a Share, or of all the Shares and (y) by such Noteholder is to be debited pursuant to Condition 4(c) with respect to expenses (other than Exchange Expenses (as defined in Condition 4(c)) payable by such Noteholder;
 - (x) irrevocably instruct and authorise Euroclear, Cedelbank or the relevant Account Holder, as the case may be, to debit on the relevant Settlement Date the Noteholder's account with the amount (if any) of expenses (other than Exchange Expenses) and to pay such expenses on the Noteholder's behalf; and
 - (xi) authorise the production of the Exchange Notice in any applicable administrative or legal proceedings,
- all as more fully provided in the Agency Agreement.

An Exchange Notice once given shall be irrevocable and may not be withdrawn without the consent in writing of the Issuer. A Noteholder may not transfer any Note which is the subject of an Exchange Notice given in accordance with Condition 4(b). An Exchange Notice shall only be valid to the extent that the relevant Account Holder, Euroclear, Cedelbank or the Principal Exchange Agent has not received conflicting prior instructions in respect of the Note(s) which is/are the subject of the Exchange Notice.

Failure to deliver a duly completed Exchange Notice in accordance with these Conditions may result in such notice being treated as null and void. Any determination as to whether any such notice has been duly completed and properly delivered as provided above shall be made by the relevant Account Holder, Euroclear, Cedelbank and the Principal Exchange Agent (and, in the event of disagreement, by the latter) and shall, save in the case of a manifest error, be conclusive and binding on the Issuer and the relevant Noteholder.

(c) Stamp and other Duties and Payments

Upon exercise of Exchange Rights, the Issuer will be obliged to make payment of all stamp duty, stamp duty reserve, transfer, registration and similar taxes and duties and brokers' commissions or other stock exchange transaction costs (if any) (together with any value added or other tax thereon) arising on exercise of such Exchange Rights and/or the transfer of Shares or cash to, or to the order of, the relevant Noteholder by the Issuer (or the Exchange Agents pursuant to the Agency Agreement) payable in, or imposed by, the Republic of France, the United Kingdom or any other jurisdiction in which the Shares (or their register) are located ("**Exchange Expenses**").

Noteholders exercising Exchange Rights will be obliged to pay to the relevant Exchange Agent (upon request by such Agent) any taxes, duties or costs arising in any other circumstances and incurred by such Agent in the proper performance of its duties under these Conditions and the Agency Agreement.

(d) Delivery of Shares or Cash

The Issuer may, not later than 17.00 hours (Paris time) on the third Business Day following the Notification Date, elect, by notice to the Principal Exchange Agent, to transfer on the relevant Settlement Date (as defined below) to, or to the order of, a Noteholder exercising its Exchange Right such number of Shares for which such Notes are exchangeable at the Exchange Ratio in effect on the Notification Date or make a cash payment equal to the Cash Value of the relevant Shares. If the Issuer fails to notify the Principal Exchange Agent of its election by the due time for such notification, it will be deemed (subject to the provisions of the last paragraph of this Condition 4(d)) to have elected to transfer the relevant number of Shares.

In order to effect the transfer and/or the delivery of the Shares, the Issuer shall take all necessary action to procure the transfer by the Agents of such Shares to exchanging Noteholders, all in accordance with prevailing regulations relating to the transfer of the Shares to exchanging Noteholders. Shares will not be available for delivery (i) (x) to, or to a nominee for, Euroclear, Cedelbank or any other person providing a clearance service within Section 96 of the Finance Act 1986 of the United Kingdom, or (y) to a person, or nominee or agent for a person, whose business is or includes issuing depositary receipts within Section 93 of the Finance Act 1986 of the United Kingdom or (ii) in violation of any applicable securities law or regulation of the United States of America.

Certificates (if certificates for Shares are then generally being issued) for Shares delivered on exchange will be despatched by mail free of charge but uninsured and at the risk of the person entitled thereto. If the Shares are then a participating security in CREST, unless the Regulations and the rules of the relevant system concerned otherwise require, the Shares to be delivered on exchange of any Note shall be delivered in certificated form unless otherwise specified by the Noteholder in the Exchange Notice. Shares to be delivered in uncertificated registered form shall be credited by the Issuer to the account with CREST of the person or persons designated in the relevant Exchange Notice.

In case of Shares, the Issuer will, subject to the two last paragraphs of this Condition 4(d), cause the transfer of Shares to be made through the Agents in accordance with the

provisions of the preceding paragraph not later than the eighth London Business Day following the Decision Date and, if a Cash Value is due in respect of a fractional Share, the Issuer will pay such Cash Value not later than the eighth Business Day following the Decision Date.

In the case of cash, the Issuer will pay the Cash Value of the relevant Shares not later than the eighth Business Day following the Decision Date (or, in the case of Condition 5(b)(ii), the Notification Date).

If, in the opinion of the Calculation Agent, it is not possible to effect the relevant transfer of Shares by the due date by reason of a suspension or material limitation of transfers of (i) Shares or (ii) shares of UK companies generally (including the Shares) ("**settlement disruption**"), the Issuer will cause the relevant transfer to be made on the next succeeding London Business Day on which there is, in the opinion of the Calculation Agent, no settlement disruption; *provided* that if there is still a settlement disruption on the eleventh London Business Day following the Decision Date, the Issuer will pay the Cash Value of the relevant Shares (and any amount due under Condition 4(e)) not later than the eighth Business Day following such eleventh London Business Day. The due date of delivery of the Shares or the Cash Value thereof is, in each case, the "**Settlement Date**".

If, at any time when the transfer of any Shares to a Noteholder would be required pursuant to these Conditions, such transfer would be unlawful under the laws of any applicable jurisdiction or contrary to any official declaration, order, directive or regulation in any applicable jurisdiction ("**rules**"), the Issuer will be deemed to have elected to pay the Cash Value of the relevant Shares and will, to the fullest extent permitted by such laws or rules, redeem the relevant Notes not later than the tenth Business Day following the relevant Decision Date by paying a amount equal to the Cash Value of the relevant Shares (and any amount due under Condition 4(e)).

(e) Noteholders' Right to Dividends, etc.

Subject as provided herein, the Shares to be delivered on exercise of an Exchange Right shall not entitle the relevant Noteholder to receive any dividends or other income or distributions or rights thereon or in respect thereof declared, made, paid or granted by reference to a record date prior to the relevant Notification Date. Subject as provided herein, such Shares shall rank for dividends and other income and distributions and rights thereon or in respect thereof declared, paid, made or granted by reference to a record date falling on or after such Notification Date.

If the record date for the payment of any dividend or other income or distribution or rights on or in respect of such Shares falls on or after such Notification Date but before the relevant Settlement Date, with the effect that such Noteholder is not entitled to such dividend or other income or distribution or rights, the Issuer will (unless it is able to confer on or deliver to such Noteholder an entitlement to receive such dividend or other income or distribution or rights):

(i) (in the case of dividends or other income or distributions or rights to be paid in cash) pay, or procure the payment to, the exchanging Noteholder, in lieu of such dividend or other income or distribution rights, an amount in the currency in which the same is payable (the "**Equivalent Amount**") equal to the same, to which the exchanging Noteholder, would have been entitled had it been a holder of record of such Shares on that record date. The Issuer will procure that such payment is made by the Agents to the exchanging Noteholder at the same time as payment is made of the dividend or other income or distribution or rights or on the relevant Settlement Date, if later. The Equivalent Amount shall be paid by means of a cheque in the currency in which payment of the dividend or other income or distribution or rights is made, drawn on a bank in a principal financial centre of such currency and sent to the address specified in the relevant Exchange Notice; and

(ii) (in the case of dividends or other income or distributions or rights satisfied or made otherwise than in cash) deliver, or procure the delivery to, the exchanging Noteholder as soon as practicable after the receipt by the Issuer of such dividend or other income or distribution rights. If, at any time when the delivery of any such

dividend or other income or distribution or rights is required, the Issuer has made an election under Condition 4(a)(ii) on the exercise of the relevant Exchange Rights or if delivery would be unlawful under the laws of any applicable jurisdiction or contrary to any rules (as defined in Condition 4(d)), the Issuer will procure payment to the relevant Noteholder of an amount in the currency of, and equal to the current market value of such dividend or other income or distribution rights as determined by the Calculation Agent. In such event, payment shall be made as contemplated in Condition 4(e)(i) above.

(f) Voting Rights in respect of the Shares

In respect of Shares delivered to Noteholders following the exercise of Exchange Rights, Noteholders shall not be entitled to exercise the voting rights attaching to such Shares prior to the Decision Date. During the period from the Decision Date to actual delivery of the Shares, the Issuer shall procure that such voting rights shall be exercised in accordance with any instructions in writing received by the Fiscal Agent not later than the third London Business Day preceding the final date for receipt by, or on behalf of the Company, of forms of proxy as provided at the relevant time in the Company's Articles of Association.

5 Underlying Shares

(a) Adjustments

In the event of an adjustment, the Noteholders will be notified of the adjustment and the new Exchange Ratio in accordance with Condition 12. Such adjustment will be effected by the Calculation Agent in accordance with the following provisions and the provisions of the Agency Agreement so as to preserve the economic equivalent of the Issuer's obligations under the Notes having regard to the value of the Shares which would have been obtained upon exchange of the Notes before the occurrence of any of the events referred to below and the value of the Shares which, but for the adjustment, would be obtained upon exchange after the occurrence of such event. Such adjustment will be effected by the Calculation Agent on the basis of the last previously determined Exchange Ratio calculated in accordance with the rounding provisions set out in Condition 4(a)(i) and the provisions of the Agency Agreement on the occurrence of any of the following events:

(i) any alteration to the nominal value of the Shares as a result of consolidation, reclassification or subdivision;

(ii) the issue by the Company of any Shares credited as fully paid to the holders of Shares (the "**Shareholders**") by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve), other than Shares paid up out of profits or reserves (including as aforesaid) and issued instead of the whole or part of a cash dividend which the Shareholders concerned would or could otherwise have received but only to the extent that the Market Value (as defined in the Agency Agreement) of such Shares does not exceed the amount of the cash dividend (or the relevant part thereof) and, to the extent that there is such an excess, an adjustment relating to the excess will be made;

(iii) the payment or making of any Capital Distribution (as defined below) to the Shareholders (except where the Exchange Ratio falls to be adjusted under Condition 5(a)(ii));

(iv) the issue by the Company of Shares to Shareholders as a class (as defined in the Agency Agreement) by way of rights (as defined in the Agency Agreement), or the grant by the Company to Shareholders as a class by way of rights options, warrants or other rights to subscribe for or purchase any Shares, in each case at a price per Share which is less than the Current Market Price per Share on the Trading Day last preceding the date of the announcement of the terms of such issue or grant;

(v) the issue by the Company of any securities (other than Shares or options, warrants or other rights to subscribe for or purchase any Shares) to Shareholders as a class by way of rights or the grant by the Company to Shareholders as a class by way

of rights of options, warrants or other rights to subscribe for or purchase any securities (other than Shares or options, warrants or other rights to subscribe for or purchase any Shares;

(vi) the issue by the Company (otherwise than as mentioned in Condition 5(a)(iv)) wholly for cash of any Shares (other than Shares issued on the exercise of any rights of conversion into, or exchange or subscription for, Shares), or grant by the Company (otherwise than as mentioned in Condition 5(a)(iv)) wholly for cash of options, warrants or other rights to subscribe for or purchase any Shares, in each case at a price per Share which is less than the Current Market Price per Share on the Trading Day last preceding the date of announcement of the terms of such issue or grant;

(vii) the issue wholly for cash (otherwise than as mentioned in Condition 5(a)(iv), (v) or (vi)) by the Company or any Subsidiary (as defined in the Agency Agreement) of the Company or (at the direction or request of or pursuant to any arrangements with the Company or any Subsidiary of the Company) by any other company, person or entity of any securities (other than the Notes (excluding for this purpose any further Notes issued pursuant to Condition 14)) which by their terms carry rights of conversion into, or exchange or subscription for, Shares issued or to be issued by the Company (or the grant of any such rights in respect of existing securities so issued) or securities which by their terms might be redesignated as Shares where the consideration per Share receivable upon conversion, exchange, subscription or redesignation is less than the Current Market Price per Share on the Trading Day last preceding the date of announcement of the terms of issue of such securities (or the terms of such grant);

(viii) the modification of the rights of conversion, exchange or subscription attaching to any such securities as are mentioned in Condition 5(a)(vii) (other than in accordance with the terms (including terms as to adjustment) applicable to such securities) so that following such modification the consideration per Share receivable is less than the Current Market Price per Share on the Trading Day last preceding the date of announcement of the proposals for such modification; or

(ix) the offer by or on behalf of the Company or any of its Subsidiaries or (at the direction or request of or pursuant to any arrangements with the Company or any of its Subsidiaries) any other company, person or entity of any securities in connection with which offer Shareholders as a class are entitled to participate in arrangements whereby such securities may be acquired by them (except where the Exchange Ratio falls to be adjusted under Condition 5(a)(iv) or (v)).

If the Issuer, with the prior written consent of the Calculation Agent, determines that an adjustment should be made to the Exchange Ratio as a result of one or more events or circumstances not referred to in this Condition 5(a) even if the relevant event or circumstance is specifically excluded from the operation of Conditions 5(a)(i) to (ix), the Issuer shall, at its own expense, request the Calculation Agent, acting in conjunction with an Expert, to determine what adjustment (if any) to the Exchange Ratio is fair and reasonable and the date on which it should take effect. Upon such determination, such adjustment (if any) shall be made and shall take effect in accordance with such determination, provided that an adjustment shall only be made pursuant to this paragraph if the Calculation Agent and such Expert are so requested in writing to make such a determination not more than 21 days after the occurrence to the relevant event or circumstance. The Calculation Agent is not obliged to monitor whether any adjustment should be made under this Condition and shall assume that, until a determination is made by the Issuer to the contrary and its approval sought, no such adjustment should be made.

If the Notification Date (or the Final Date in the case of Condition 5(b)(ii) or the date of the notice by the Representatives in the case of Condition 9, as the case may be) in relation to any Note (the "**Exchange Ratio Determination Date**") shall be on or after a date with effect from which an adjustment to the Exchange Ratio takes retroactive effect pursuant to any of the provisions set out above and the Agency Agreement and the relevant Exchange Ratio Determination Date falls on a date when the relevant adjustment has not yet been reflected in the then current Exchange Ratio, the Issuer will procure that the relevant provisions of this Condition 5(a) shall be applied to the Exchange Ratio then in effect as of the relevant Exchange Ratio Determination Date and in such event references in these

Conditions to any Exchange Ratio Determination Date shall be deemed to refer to the date upon which such retroactive adjustment becomes effective (disregarding the fact that it becomes effective retroactively).

Where (1) the circumstances giving rise to any adjustment pursuant to this Condition 5(a) have already resulted or will result in an adjustment to the Exchange Ratio, or (2) the circumstances giving rise to any adjustment arise by virtue of any other circumstances which have already given or will give rise to an adjustment to the Exchange Ratio, or (3) more than one event which gives or may give rise to an adjustment occurs within such a short period of time that in the opinion of the Calculation Agent the foregoing provisions would need to be implemented subject to modification in order to give the intended result, such modification shall be made by the Calculation Agent to the operation of the provisions of this Condition 5(a) as may be advised by an Expert to be in its opinion appropriate to give the intended result.

As used in these Conditions:

“**Capital Distribution**” means:

(a) any distribution of assets *in specie* charged or provided (or to be provided) for in the accounts for any financial period (whenever paid or made and however described) but excluding a distribution of assets *in specie* in lieu of, and to a value not exceeding, a cash dividend or distribution which would not have constituted a Capital Distribution under (b) below (and for these purposes a distribution of assets *in specie* includes without limitation an issue of shares or other securities credited as fully or partly paid up (other than Shares credited as fully paid) by way of capitalisation of reserves); and

(b) any cash dividend or distribution of any kind charged or provided (or to be provided) for in the accounts for any financial period (whenever paid or made and however described) except to the extent that it does not, when taken together with any other cash dividend or distribution or any distribution of assets *in specie* previously made or paid in respect of all periods ending after 30 September 1998, exceed an amount equal to the lower of (i) the aggregate of the consolidated cumulative net profits on ordinary activities less the aggregate of any consolidated net losses on ordinary activities (after taxation) attributable to the members of the Company for all periods ending after 30 September 1998 as shown in the audited consolidated accounts of the Company for such periods (provided that such consolidated cumulative net profits shall exclude any amount arising as a result of any reduction of share capital, share premium account or capital redemption reserve but, subject thereto, shall include any profit transferred from any reserve), and (ii) the aggregate of (1) five per cent. of the Closing Price of the Shares on the Trading Day immediately preceding the date on which such dividend or distribution or distribution of assets *in specie* is announced and (2) the total amount per Share of all dividends or distributions or distributions of assets *in specie* (the “**Previous Year’s Distribution**”) charged or provided for in the accounts of the financial period immediately preceding the financial period in question, with such adjustments being made where such financial periods are of different durations as are in the opinion of an independent auditing firm in London of international repute, selected by the Calculation Agent, appropriate in the circumstances. In computing such rates the value of distributions *in specie* shall be taken into account and such adjustments as are in the opinion of such auditing firm appropriate in the circumstances shall be made.

A purchase or redemption of share capital by the Company shall not constitute a Capital Distribution or be taken into account in determining whether any other dividend or distribution shall constitute a Capital Distribution unless in the case of purchases of Shares by the Company, the weighted average price (before expenses) on any one day in respect of such purchases exceeds by more than 5 per cent. the opening middle market price quoted for the Shares on the London Stock Exchange as derived from the Daily Official List of the London Stock Exchange as derived from the Daily Official List of the London Stock Exchange at the opening of business either (1) on that date, or (2) where an announcement has been made of the intention to purchase Shares at some future date at a specified price, on the Trading Day immediately preceding the date of such announcement and, if in the

case of either (1) or (2), the relevant day is not a Trading Day, the immediately preceding Trading Day, in which case such purchase shall be deemed to constitute a Capital Distribution in the amount of the aggregate price paid (before expenses) in respect of such Shares purchased by the Company.

“**Current Market Price**” means, in respect of a Share at a particular date, the average of the bid and offer quotations published in the Daily Official List of the London Stock Exchange for one Share for the five consecutive Trading Days ending on the Trading Day immediately preceding such date; provided that if at any time during the such five day period the Shares shall have been quoted ex-dividend and during some other part of that period the Shares shall have been quoted cum-dividend then:

(a) if the Shares to be delivered do not rank for the dividend in question, the quotations on the dates on which the Shares shall have been quoted cum-dividend shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the amount of that dividend per Share (excluding any associated tax credit);

(b) if the Shares to be delivered do rank for the dividend in question, the quotations on the dates on which the Shares shall have been quoted ex-dividend shall for the purpose of this definition be deemed to be the amount thereof increased by such similar amount, and provided further that if the Shares on each of the said five Trading Days have been quoted cum-dividend in respect of a dividend which has been declared or announced but the Shares to be delivered do not rank for that dividend the quotations on each of such dates shall for the purposes of this definition be deemed to be the amount thereof reduced by an amount equal to the amount of that dividend per Share (excluding any associated tax credit).

(b) General Offers

In the event of an Offer (as defined below) for any Shares, it will be the responsibility of any Noteholder wishing to participate in the Offer to exercise its Exchange Rights on a timely basis in order to tender in the Offer the Shares for which its Notes are exchangeable. Until the relevant Notification Date, the Issuer shall have absolute discretion to accept such Offer (and as to any alternative consideration) or reject such Offer, provided that (1) the Issuer will procure that no such Offer will be accepted (a) prior to its Specified Date (as defined below) and (b) unless the value of the consideration offered for the Shares pursuant to the Offer (the “**Offer Consideration**”) is equal to or greater than the value of the Shares; and (2) subject as provided in proviso (1) above, where the terms of the Offer are such that the Issuer may decide whether to accept the Offer Consideration in the form of cash or securities, the Issuer shall accept the type of Offer Consideration which has the highest value. The value of such Shares and the value of any Offer Consideration will be determined by an Expert.

If the Issuer accepts such Offer (or if the Shares are subject to compulsory acquisition) then, with effect from the Final Date (as defined below), the Notes may be exchanged in the same manner as before the acceptance of such Offer subject to, and in accordance with, the following provisions:

(i) If the Offer Consideration consists exclusively (disregarding for this purpose fractional entitlements in cash) of equity securities listed on a North American or European Union stock exchange (the “**Substitute Shares**”), on the basis of an Exchange Ratio adjusted by the Calculation Agent by multiplying the Exchange Ratio in effect before such event by the exchange ratio of Shares for Substitute Shares (expressed as a fraction the numerator of which is the number of Substitute Shares and the denominator of which is the number of Shares). In such event, if, in the opinion of the Calculation Agent, the Conditions would, following the replacement of the Shares by the Substitute Shares, need to be applied subject to modifications of a formal, minor or technical nature in order to give the originally intended result, such modifications to the Conditions as may be advised by an Expert to be in its opinion appropriate to give the originally intended result may be made by the Calculation Agent without the consent of the Noteholders provided that, in the Calculation Agent’s opinion, such modifications are not prejudicial to the interests of the Noteholders.

(ii) If the Offer Consideration does not consist exclusively (disregarding for this purpose fractional entitlements in cash) of Substitute Shares, the Issuer shall be obliged, upon exercise of Exchange Rights, to redeem the Notes presented for exchange in such circumstances by payment of the higher of (x) the principal amount of the Notes together with accrued interest thereon and (y) the Cash Value of such Notes (with the substitution in the definition of “Cash Value” of references to the Final Date for the references therein to the Notification Date), plus an amount equal to any amount payable by the Issuer under Condition 4(e).

The Issuer will not accept any Offer in respect of any Shares which would be deliverable to those Noteholders who have exercised Exchange Rights in respect of Notes for which the Notification Date falls prior to the Specified Date.

The Issuer shall at all times be entitled, in relation to any Shares, to vote on, exercise its rights in respect of, or otherwise participate in, any scheme of arrangement, reorganisation, amalgamation, merger, demerger or reconstruction of any company or companies (whether or not involving liquidation or dissolution) (“Scheme”), as it thinks fit.

The Exchange Rights shall be suspended from the Specified Date until the acceptance of the relevant Offer is withdrawn, or the relevant Offer lapses, or if the relevant Offer becomes or is declared unconditional in all respects, the Final Date. Notice of any such suspension will be given to the Noteholders in accordance with Condition 12.

In these Conditions:

“Final Date” means, in relation to any Offer, the date upon which the Offer Consideration is made available to the Shareholders.

“Offer” means an offer to acquire any Shares, whether expressed as a legal offer, an invitation to treat or in any other way, in circumstances where such offer is available to all Shareholders, all such Shareholders other than any Shareholder who is, or in connected with, or is or is deemed to be acting in concert with, the person making such offer or to whom, by reason of the laws of any territory or requirements of any recognised regulatory body or any stock exchange in any territory, it is determined not to make such offer.

“Specified Date” means, in relation to any Offer, the final date for acceptance of such Offer which, if such Offer is, prior to such final date, extended, shall be the final date for acceptance of the extended offer.

(c) Issuer’s Continuing Entitlement to Shares

With effect from 10 May 1999 and for so long as any Note is outstanding the Issuer will, subject only to the provisions of Condition 5(b) relating to Offers, procure, to the fullest extent permitted by law, that it or one of its wholly-owned subsidiaries is either (i) the legal and beneficial owner (free and clear of any charges, liens, encumbrances or any pre-emptive or other rights limiting their transferability) of, or (ii) entitled to purchase or acquire, pursuant to an option, warrant or other equivalent arrangement, such number of Shares as would enable the Exchange Rights relating to Notes of an aggregate principal amount not less than the then aggregate outstanding principal amount of Notes to be satisfied in full at the then current Exchange Ratio.

6 Redemption and Purchase

The Notes may not be redeemed other than in accordance with Condition 4, this Condition 6, and Condition 9.

(a) Redemption at Maturity

Unless previously redeemed (including upon an exchange) or purchased and cancelled, the Notes will be redeemed in cash at their principal amount on 29 March 2002.

(b) Purchases

The Issuer or any of its subsidiaries may, in accordance with all applicable laws and regulations, at any time purchase Notes in the open market or otherwise at any price.

(c) Cancellation

All Notes which are redeemed (including upon an exchange) or purchased by the Issuer will be cancelled and accordingly may not be reissued or resold.

7 Payments

(a) Method of Payment

Payments of principal, interest and other amounts in respect of the Notes will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred). Such payments shall be made for the benefit of the Noteholders to the Account Holders (including depository banks for Cedelbank and Euroclear).

None of the Issuer or the Agents shall be liable to any Noteholder or other person for any commissions, costs, losses or expenses in relation to or resulting from the credit or transfer of euro or any currency conversion or rounding effected in connection with such payment made in euro.

Payments of principal, interest and other amounts on the Notes will, in all cases, be made subject to any applicable fiscal or other laws and regulations in the place of payment. No commission or expenses shall be charged to the Noteholders in respect of such payments.

(b) Payments on Business Days

If any due date for payment of principal, interest or any other amount in respect of any Note is not a business day, then the Noteholder shall not be entitled to payment of the amount due until the next following day which is a business day and the Noteholder shall not be entitled to any interest or other sums in respect of such postponed payment. In this Condition 7(b) "**business day**" means a day on which the Trans-European Automated Real-Time Gross-Settlement Express Transfer System (TARGET) is operating.

(c) Fiscal Agent, Calculation Agent, Exchange Agents and Paying Agents

The names of the initial Agents and their specified offices are set out below.

The Issuer reserves the right at any time to vary or terminate the appointment of the Fiscal Agent, the Calculation Agent, or any Exchange Agent or Paying Agent and/or appoint additional or other Exchange Agents or Paying Agents or approve any change in the office through which any such Agent acts, provided that there will at all times be (i) a Fiscal Agent, a Calculation Agent, a Principal Exchange Agent and a Principal Paying Agent having a specified office in a European city and (ii) so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, an Exchange Agent and a Paying Agent having a specified office in Luxembourg (which may be the Principal Exchange Agent or the Principal Paying Agent). Any termination or appointment shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not more than 45 nor less than 30 calendar days' notice thereof shall have been given to the Noteholders by the Issuer in accordance with Condition 12.

The Calculation Agent shall act as an independent expert and not as an agent for the Issuer or the Noteholders and all its calculations and determinations pursuant to these Conditions shall (save in the case of manifest error) be final and binding on the Issuer, the Noteholders and the other Agents.

8 Tax Status

Payments in respect of the Notes will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**taxes**") imposed or levied by, or on behalf of, the Republic of France or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes is required by law.

The Notes, being denominated in euro, are deemed to be issued outside France for the purpose of Article 131 *quater* of the *Code Général des Impôts* (French General Tax Code). Accordingly, interest and other revenues in respect of the Notes benefit at present from the exemption from deduction of tax at source provided by Article 131 *quater* of the *Code Général des Impôts*. As a result, such payments do not give the right to any tax credit from any French source.

9 Events of Default and Illegality

(a) Events of Default

If any of the following events (each an “Event of Default”) shall have occurred and be continuing:

(i) default in any payment when due of interest on any of the Notes, if such default shall not have been remedied within 5 business days (as defined in Condition 7(b)) thereafter; or

(ii) default in the performance of, or compliance with, any other obligation of the Issuer under the Notes other than as referred to in Condition 9(i), if such default shall not have been remedied within 30 calendar days after receipt by the Fiscal Agent of written notice of such default given by the Representatives (as defined in Condition 11); or

(iii) the Issuer makes any proposal for a general moratorium in relation to its debts; or applies for the appointment of a *mandataire ad hoc* or a conciliator (*conciliateur*) in each case in the context of solvency concerns; or enters into an amicable settlement (*accord amiable*) with its creditors pursuant to articles 35 to 38 of the law no. 84-148 of 1 March 1984; or a judgement is issued for the judicial liquidation (*liquidation judiciaire*) or for the transfer of the whole of the business (*cession totale de l'entreprise*) of the Issuer; or, to the extent permitted by applicable law, if the Issuer is subject to any other insolvency or bankruptcy proceedings; or if the Issuer makes any conveyance, assignment or other arrangement for the benefit of, or enters into a composition with, all or a substantial number of its creditors with a view to a restructuring or rescheduling of its indebtedness; or if the Issuer is wound up or dissolved except with the prior approval of the *Masse* for the purposes of an amalgamation, reorganisation, consolidation or merger which is implemented; or

(iv) any other present or future indebtedness of the Issuer for or in respect of borrowed money becomes due and payable (*exigible*) prior to its stated maturity by reason of the occurrence of a default, event of default or other similar condition or event (however described) with equivalent effect (together, “default”), provided that the aggregate amount of the relevant indebtedness equals or exceeds €100,000,000 or its equivalent (as determined by the Calculation Agent on the basis of the middle spot rate for the relevant currency against the euro as quoted by any leading bank at the relevant time), unless such default is contested in good faith by the Issuer before a competent court or by other appropriate proceedings provided that the claim alleging the occurrence of such default is withdrawn, dismissed or stayed within 90 calendar days from the date on which the relevant indebtedness was first alleged to have become due and payable; or

(v) all or any substantial part of the property, assets or revenues of the Issuer shall be attached or shall become subject at any time to any order of court or the enforcement of any security interests (*sûretés réelles*) and such attachment or order shall remain in effect and not be discharged for, or the steps taken to enforce any such security interests shall not be withdrawn or stayed within, 30 calendar days; or

(b) Illegality

if it is or will become unlawful (whether or not due to the failure to obtain, or the revocation, expiry or withdrawal of, any authorisation referred to in Condition 10) for the Issuer to perform or comply with any material obligation under the Notes, including, but not limited to, the delivery of Shares or their Cash Value (“Illegality”), and such Illegality shall not have been avoided or remedied within 30 calendar days after the date of default in the performance of the relevant obligation by reason of such Illegality; *provided*, however, that if (i) the relevant Illegality affects the Issuer’s

obligation, upon exercise of Exchange Rights, either to deliver Shares or to pay their Cash Value (but not both) and (ii) no other material obligation of the Issuer under the Notes is affected by such (or any other) Illegality, it shall be deemed that an event pursuant to this Condition 9(b) has not occurred);

then the Representatives may, by notice in writing to the Issuer and the Fiscal Agent given on behalf of the Noteholders before all continuing Events of Default or, as the case may be, the continuing Illegality shall have been remedied, cause the Notes to become immediately due and payable whereupon they shall become immediately due and payable without further formality at a price equal to the higher of (x) the principal amount of the Notes together with any accrued interest thereon and (y) the Cash Value of the Notes (with the substitution in the definitions of "**Settlement Price**" and "**Cash Value**" of references to the date of such notice for the references therein to the Notification Date), plus an amount equal to any amount which would have been payable by the Issuer under Condition 4(e) if the date of such notice had been the relevant Notification Date. Notice of the fact that the Notes have become due and payable pursuant to Condition 9 shall be given by the Issuer, failing whom the Representatives, to the Noteholder in accordance with Condition 12 not later than the second Business Day following the date of the Representatives' notice to the Fiscal Agent.

10 Issuer Authorisations

If at any time an authorisation becomes necessary to permit the Issuer to (i) pay the principal of, or interest on, the Notes or (ii) effect the exchange of the Notes for Shares in accordance with the Conditions as a result of any change in the official application of, or any amendment to, the laws or regulations of France or (with respect to sub-clause (ii) only) the United Kingdom (or any other relevant jurisdiction in the case of Substitute Shares), the Issuer shall immediately apply for the necessary authorisations and forthwith provide copies of such application to the Fiscal Agent. The Issuer shall provide copies of such authorisations to the Fiscal Agent within a reasonable period after they are obtained.

11 Representation of the Noteholders

The Noteholders will be grouped automatically for the defence of their respective common interests in a *masse* (hereinafter referred to as the "**Masse**").

The *Masse* will be governed by the provisions of the law no. 66-537 of 24 July 1966 (as modified or re-enacted from time to time) with the exception of Article 295 and 306 (the "**Law**") and by the decree no. 67-236 of 23 March 1967, as amended, with the exception of articles 218, 222 and 224, as amended by the conditions set out below, provided that notices calling a general meeting of the Noteholders (a "**General Meeting**") and the resolutions passed at any General Meeting and any other decision to be published pursuant to French legal and regulatory provisions will be published only as provided under Condition 12 below:

(a) Legal Personality

The *Masse* will be a separate legal entity, by virtue of Article 293 of the Law acting in part through two representatives (the "**Representatives**") and in part through a General Meeting.

The *Masse* alone, to the exclusion of all individual Noteholders, shall exercise the common rights, actions and benefits which now or in the future may accrue with respect to the Notes.

(b) Representatives

The office of Representative may be conferred on a person of any nationality. However, the following persons may not be chosen as Representatives:

- (i) the Issuer and the Company;

(ii) any entity holding (directly or indirectly) at least 10 per cent. of the share capital of the Issuer or the Company or at least 10 per cent. of the share capital of which is held by the Issuer or the Company;

(iii) any entity guaranteeing all or part of any obligations of the Issue or the Company;

(iv) any member of the Supervisory Board (*Conseil de Surveillance*) or of the Management Board (*Directoire*) of the Issuer, the Statutory Auditors of the Issuer, any member of the Board of Directors of the Company, or any employee, managing director or director (or their respective ascendants, descendants and spouses) of the entities referred to in (i), (ii) and (iii) above; and

(v) persons who have been prohibited from practising as a banker or who have been deprived of the right to direct, administer or manage an enterprise in any capacity whatsoever.

The initial Representatives shall be:

Philippe Rideau	Hélène Combe-Guillemet
5, rue César Franck	68, rue Bonaparte
75015 Paris	75006 Paris

In the event of death, retirement or revocation of one or both Representatives, a replacement will be elected by a General Meeting.

The Issuer shall pay to each Representative an amount of FF2,000/€305 per year.

All interested parties will at all times have the right to obtain the names and the addresses of the Representatives at the head office of the Issuer and at the offices of any of the Paying Agents.

(c) Powers of the Representatives

The Representatives shall, in the absence of any decision to the contrary of the General Meeting of Noteholders, have the power to take all acts of management to defend the common interests of the Noteholders.

All legal proceedings against the Noteholders or initiated by them must be brought against the Representatives or by them, and any legal proceedings which shall not be brought in accordance with this provision shall not be legally valid.

The Representatives may not interfere in the management of the affairs of the Issuer.

(d) General Meetings

General Meetings may be held at any time, on convocation either by the Issuer or the Representatives. One or more Noteholders, holding together at least one-thirtieth of outstanding Notes may address to the Issuer and the Representatives a demand for convocation of the General Meeting; if such General Meeting has not been convened within two months from such demand, such Noteholders may commission one of themselves to petition the competent court in Paris to appoint an agent (*mandataire*) who will call the meeting.

Notice of the date, hour, place, agenda and quorum requirements of any General Meeting will be published as provided in Condition 12 not less than 15 days prior to the date of the General Meeting.

Each Noteholder has the right to participate in General Meetings in person or by proxy. Each Note carries the right to one vote.

(e) Powers of General Meetings

A General Meeting is empowered to deliberate on the fixing of the remuneration of the Representatives and on their dismissal and replacement, and also may act with respect to any other matter that relates to the common rights, actions and benefits which now or in

the future may accrue with respect to the Notes, including authorising the Representatives to act at law as plaintiff or defendant.

A General Meeting may further deliberate on any proposal relating to the modification of these Conditions, including:

- (i) any proposal, whether for arbitration or settlement, relating to rights in controversy or which were the subject of judicial decisions; and
- (ii) any proposal relating to the issue of securities carrying a right of preference compared to the rights of Noteholders);

it being specified, however, that a General Meeting may not increase amounts payable by the Noteholders, nor establish any unequal treatment between the Noteholders, nor decide to convert the Notes into shares of the Issuer or any other entity.

General Meetings may deliberate validly on first convocation only if Noteholders present or represented hold at least one-quarter of the principal amount of the Notes then outstanding. On second convocation, no quorum shall be required. Decisions at meetings shall be taken by a simple majority of votes cast by the Noteholders attending such meeting or represented thereat.

(f) Information to the Noteholders

Each Noteholder or representative thereof will have the right, during the 15 day period preceding the holding of each General Meeting, to consult or make a copy of the text of the resolutions which will be proposed and of the reports which will be presented at the meeting, which will be available for inspection at the principal office of the Issuer, at the offices of the Paying Agents and at any other place specified in the notice of meeting.

(g) Expenses

The Issuer will pay all reasonable expenses incurred in the operation of the *Masse*, including expenses relating to the calling and holding of meetings and the expenses which arise by virtue of the remuneration of the Representatives, and more generally all administrative expenses resolved upon by a General Meeting of the Noteholders, it being expressly stipulated that no expenses may be imputed against interest payable on the Notes.

(h) Notice of Decisions

Decisions of the meetings shall be published in accordance with the provisions set out in Condition 12 not more than 90 days from the date thereof.

12 Notices

Any notice to the Noteholders shall be validly given if it is published (i) so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, in a leading daily newspaper having general circulation in Luxembourg (which is expected to be the "*Luxemburger Wort*") (ii) in a leading daily newspaper having general circulation in London (which is expected to be "*The Financial Times*") and (iii) in a leading daily newspaper having general circulation in France (which is expected to be "*La Tribune*"). Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which such publication is made.

13 Prescription

Claims against the Issuer for the payment of principal and interest in respect of the Notes shall become prescribed 10 years (in the case of principal) and five years (in the case of interest) from the due date for payment thereof.

14 Further Issues

The Issuer may from time to time without the consent of the Noteholders issue further Notes to be assimilated (*assimilables*) with the Notes as regards their financial service, provided that such further Notes and the Notes shall carry rights identical in all respects (or in all respects except for the first payment of interest thereon) and that the terms of such further Notes shall provide for such assimilation. In the event of such assimilation, the Noteholders and the holders of any assimilated Notes will, for the defence of their common interests, be grouped in a single *Masse* having legal personality.

15 Information

For so long as any Notes are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act (as defined in Condition 4(b)), the Issuer will, during any period in which it is neither subject to Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934 nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner, in each case upon the request of such holder, beneficial owner or prospective purchaser, the information required to be provided by Rule 144A(d)(4) under the Securities Act.

16 Governing Law and Jurisdiction

The Notes and the Agency Agreement are governed by the laws of the Republic of France.

For the benefit of the Noteholders, the Issuer submits to jurisdiction of the competent courts in Paris. This submission shall not limit the right of any Noteholder to take proceedings in any other court of competent jurisdiction.

FISCAL AGENT, PRINCIPAL PAYING AND EXCHANGE AGENT AND CALCULATION AGENT

Paribas Luxembourg
10A, boulevard Royal
L-2093 Luxembourg

PAYING AGENTS AND EXCHANGE AGENTS

Paribas Luxembourg
10A, boulevard Royal
L-2093 Luxembourg

Paribas
3, rue d’Antin
75002 Paris

TAXATION

Introduction

The statements herein regarding taxation are based on the laws in force as of the date of this Offering Circular and are subject to any changes in law occurring after such date, which changes could be made on a retrospective basis. The following summaries do not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of Notes and does not purport to deal with the tax consequences applicable to all categories of investor, some of which (such as dealers in securities or commodities) may be subject to special rules. The following summaries do not consider the tax consequences of holding Exchange Property (as defined herein) other than Shares. Prospective purchasers of Notes are advised to consult their own tax advisers concerning the overall tax consequences of their ownership of Notes.

EU Withholding Tax Proposals

In May 1998, the European Commission presented to the Council of Ministers of the European Union a proposal to oblige Member States to adopt either a "withholding tax system" or an "information reporting system" in relation to interest, discounts and premiums. It is unclear whether this proposal will be adopted, and if it is adopted, whether it will be adopted in its current form. The "withholding tax system" would require a paying agent established in a Member State to withhold tax at a minimum rate of 20 per cent. from any interest, discount or premium paid to an individual resident in another Member State unless such an individual presents a certificate obtained from the tax authorities of the Member State in which he is resident confirming that those authorities are aware of the payment due to that individual. The "information reporting system" would require a Member State to supply, to other Member States, details of any payment of interest, discount or premium made by paying agents within its jurisdiction to an individual resident in another Member State. For these purposes, the term "paying agent" is widely defined and includes an agent who collects interest, discounts or premiums on behalf of an individual beneficially entitled thereto. If this proposal is adopted, it will not apply to payments of interest, discounts and premiums made before 1 January 2001.

France

Taxation of the Notes

The Notes being issued outside the Republic of France, payment of interest and other revenues in respect of the Notes to non-French residents will benefit under present law from the exemption from deduction of tax at source provided by article 131 *quater* of the *Code Général des Impôts* (French General Tax Code). Accordingly, such payments do not give right to any tax credit from any French source.

Taxation upon Exchange of the Notes into Shares

Capital gains realised on the sale, exchange or redemption of the Notes by a Noteholder that is not a resident of France for tax purposes and does not hold the Notes in connection with the conduct of a business in France generally will not be subject to French income or withholding tax.

United Kingdom

The comments below are of a general nature based on current United Kingdom ("UK") law and practice. They do not necessarily apply where the income is deemed for tax purposes to be the income of any other person. They relate only to the position of persons who are the absolute beneficial owners of their Notes or, as the case may be, Shares, and may not apply to certain classes of persons such as dealers.

Any Noteholders who are in doubt as to their tax position should consult their professional advisers.

The Notes

Interest on the Notes — Withholding Tax.

Payments of interest on the Notes (“Interest”) will be subject to withholding or deduction for or on account of UK income tax where the payment is made by or through a person who is in the UK unless one of certain exceptions applies, including the following:

- (i) the Notes are held in a “recognised clearing system” and certain other requirements are met (Euroclear and Cedelbank are “recognised clearing systems” for this purpose); or
- (ii) the person who is the beneficial owner of the Notes and the related Interest is not resident in the UK; or
- (iii) the person beneficially entitled to the Interest is eligible under specified provisions for relief from UK tax in respect of the Interest; or
- (iv) the Interest falls to be treated as the income of, or of the government of, a sovereign power or of an international organisation.

For exceptions (ii) to (iv) to be available, a declaration has to be provided to the paying agent (or the Inland Revenue has to issue a notice). However the paying agent is always required to withhold if the Inland Revenue issues a direction to that effect.

Where a UK person acts as a collecting agent, i.e. either:

- (i) acts as custodian of the Notes and receives Interest or directs that Interest be paid to another person, or consents to such payment; or
- (ii) collects or secures payment of, or receives Interest for a Noteholder (except by means of clearing a cheque or arranging for the clearing of a cheque),

the collecting agent will be required to withhold on account of UK income tax at the lower rate, currently 20 per cent., unless any one of certain exceptions applies. These exceptions are the same as those that apply in the case of a UK paying agent, including the declaration or notice requirements, save that:

- (i) the notice or declaration must be given to the collecting agent;
- (ii) and in the case of (i) above certain additional requirements may apply.

The collecting agent is required to withhold if the Inland Revenue issues a direction to that effect, having reason to believe that no exception applies or that the depositary or collecting agent has failed to comply with certain requirements.

Taxation of Interest and Other Profits Gains and Losses in relation to the Notes.

(i) UK Corporates

For Noteholders within the charge to United Kingdom corporation tax, all returns on the Notes, including interest and fluctuations in value (whether income or capital in nature), will be taxed and relieved as income broadly in accordance with their statutory accounting treatment. Fluctuations in value relating to foreign exchange gains and losses in respect of the Notes will be taxed or relieved by reference to the UK corporate Noteholder’s accounting treatment of the Note.

The Notes will be qualifying corporate bonds in the hands of noteholders within the charge to UK corporation tax and so no chargeable gain nor allowable loss will arise on any disposal of the Notes.

(ii) Individual and Trustees

(a) Interest

Noteholders who are either individuals or trustees and are resident for tax purposes in the United Kingdom or who carry on a trade in the United Kingdom through a branch or agency to which the Notes are attributable will generally be liable to United Kingdom tax on the amount of any interest received in respect of the Notes.

(b) Transfer (including redemption)

The Notes will be "Relevant Discounted Securities". Any profit or loss made by an individual or trustee resident for tax purposes in the United Kingdom on the transfer (including redemption) of the Notes will be taxed or relieved as income. In calculating any gain or loss on disposal of a Note, sterling values are compared at acquisition and transfer. Accordingly, a taxable profit can arise even where the foreign currency amount received on a disposal is less than or the same as the amount paid for the Notes.

An exchange of the Notes will be deemed to constitute a redemption of the Notes for a payment equal to the market value of the Shares into which the Note is exchanged, and consequently may give rise to a profit or allowable loss taxable as income.

The Notes will be qualifying corporate bonds for the purposes of United Kingdom capital gains tax. No chargeable gains or allowable losses will arise on a disposal of the Notes.

Dividends on Shares of Compass Group

The Finance Act 1998 contains provisions which abolish ACT for dividends paid on or after 6 April 1999. Compass Group will not have to account for ACT on any dividends it pays on or after that date. The rules for foreign income dividends will also be abolished from the same date.

Dividends paid by Compass Group on or after 6 April 1999 will continue to carry a tax credit but at a reduced rate of 10 per cent of the gross dividend. UK resident individual shareholders who are not liable to income tax in respect of the gross dividend will not be entitled to payment of any tax credit. In the case of UK resident individual shareholders liable to income tax at only the lower or basic rate, the tax credit will satisfy in full such shareholders' liability to income tax on the dividend. UK resident individual shareholders liable to income tax at the higher rate will be subject to income tax on the gross dividend at 32.5 per cent., but will be able to set the tax credit off against part of this liability.

Other categories of UK shareholders currently entitled to reclaim a tax credit in respect of dividends paid before 6 April 1999 will no longer be able to do so in respect of dividends paid on or after that date.

UK resident corporate shareholders will generally not be subject to corporation tax in respect of dividends paid by Compass Group on or after 6 April 1999.

The right of a shareholder who is not resident in the UK for tax purposes to claim any part of the tax credit will depend upon the existence and terms of any double taxation convention between the UK and the country in which he is resident. A shareholder who is not resident in the UK (for tax purposes) should consult his own tax adviser concerning his tax liabilities on dividends received, his entitlement to reclaim any part of the tax credit and, if he is so entitled, the procedure for doing so. A shareholder resident outside the UK may also be subject to foreign taxation on dividend income under local law.

UK Stamp Duty and Stamp Duty Reserve Tax on Exchange of Notes for Shares in Compass Group

Stamp duty at the rate of 50p per £100 (or part thereof) of the actual consideration paid is payable on an instrument transferring Compass Group shares on exercise of the Exchange Right pertaining to Notes. A charge to Stamp Duty Reserve Tax ("SDRT") will also arise, on the agreement to transfer Compass Group shares, at the rate of 0.5 per cent. of the consideration paid, although the liability will be cancelled and any SDRT already paid will be repaid, generally with interest, provided that the instrument transferring the Compass Group shares is executed and duly stamped within 6 years of the date on which the liability to SDRT arises.

Pursuant to Condition 4(c) of the Terms and Conditions of the Notes, the Issuer has agreed to pay or procure payment of UK stamp duty and SDRT which arises on exercise of the Exchange Rights attached to the Notes.

United States of America

The following is a summary of the material U.S. federal income tax consequences of the acquisition, ownership and disposition of Notes or Shares by a U.S. Holder (as defined below). This summary deals only with initial purchasers of Notes at the issue price that are U.S. Holders and that will hold Notes or Shares as capital assets. The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Notes or Shares by particular investors, and does not address state, local, foreign or other tax laws. In particular, this summary does not address tax considerations applicable to investors that own (directly or indirectly) 10 per cent. or more of the voting stock of the Issuer or Compass Group, nor does this summary discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as banks, insurance companies, investors liable for the alternative minimum tax, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers in securities or currencies, investors that will hold the Notes or Shares as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes or investors whose functional currency is not the U.S. dollar).

As used herein, the term "U.S. Holder" means a beneficial owner of Notes or Shares that is (i) a citizen or resident of the United States for U.S. federal income tax purposes, (ii) a corporation created or organised under the laws of the United States or any State thereof, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source, (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (v) a partnership to the extent that an interest therein is owned by a person which is described in clause (i), (ii), (iii) or (iv) of this paragraph, and in each case is not a resident of the UK for purposes of the United Kingdom-U.S. Income Tax Treaty (the "UK-U.S. Treaty"). An "Eligible U.S. Holder" is a U.S. Holder that is a beneficial owner of Shares and of any cash dividends payable with respect thereto and that (i) is an individual or a corporation resident in the United States for purposes of the UK-U.S. Treaty (and, in the case of a corporation, is not also resident in the UK for purposes of the UK-U.S. Treaty) (ii) is not a corporation which, alone or together with one or more associated corporations, controls, directly or indirectly, 10 per cent., or more of the voting stock of Compass Group, (iii) does not carry on business in the UK through a permanent establishment in the UK or perform independent personal services in the UK from a fixed base in the UK with which the holding in respect of which the dividends are paid is, in either case, effectively connected, (iv) under certain circumstances, is not a U.S. corporation, 25 per cent. or more of the capital of which is owned, directly or indirectly, by persons that are not individuals resident in, and are not nationals of, the United States, (v) under certain circumstances, is not a person that owns 10 per cent. or more of the Shares in respect of which the dividends are made and (vi) under certain circumstances, is not exempt from federal income tax on dividend income in the United States.

Accor has not determined whether Compass Group is a passive foreign investment company ("PFIC") for U.S. federal income tax purposes. If Compass Group were a PFIC in any year, special, possibly materially adverse, consequences would result for U.S. Holders of Notes or Shares. See "Passive Foreign Investment Company Considerations", below.

The summary is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended (the "Code"), its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, as well as on the UK-U.S. Treaty as currently in effect and subject to change at any time, perhaps with retroactive effect.

THE SUMMARY OF FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR

OWN TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE NOTES AND SHARES, INCLUDING THEIR ELIGIBILITY FOR THE BENEFITS OF THE UK-U.S. TREATY, THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

Notes

Original Issue Discount — General.

The Notes will be treated as contingent-payment debt instruments that are subject to Treasury regulations governing these debt instruments (the "contingent-payment regulations"). Under the contingent-payment regulations, the accrual of interest income on a Note will be determined under a "noncontingent Note" method, pursuant to which, in essence, a Holder will include original issue discount ("OID") on a Note in income as ordinary interest income at a yield to maturity that reflects the rate at which the Issuer would issue a comparable fixed-rate noncontingent instrument (the "comparable yield"). Any differences between actual payments received by the Holder on the Notes in a taxable year and the projected amount of those payments will be accounted for as additional interest income (in the case of a positive difference) or as an offset to interest income in respect of the Note (in the case of a negative difference), for the taxable year in which the actual payment is made. As a result, the Holder will be required to include the OID accruing on the Note in income each year, whether or not the cash payments on the Note are sufficient to pay any resulting tax.

The Issuer has determined that the comparable yield for the Notes is 3.7675 per cent., and the corresponding schedule of payments consists of annual payments of €10 starting on 29 March 2000 and ending on 29 March 2002 and a final payment of €1086.20 for each €1,000 of principal amount. The comparable yield and projected payment schedule are fixed as of the issue date of the Notes for the entire term of the Notes and generally are binding on U.S. holders. THE COMPARABLE YIELD AND THE PROJECTED PAYMENT SCHEDULE ARE HEREIN PROVIDED SOLELY FOR THE PURPOSE OF THE DETERMINATION OF U.S. HOLDERS' OID FOR U.S. FEDERAL INCOME TAX PURPOSES. THEY DO NOT CONSTITUTE A REPRESENTATION REGARDING THE ACTUAL AMOUNTS THAT WILL BE PAID WITH RESPECT TO THE NOTES.

A U.S. Holder will generally be required to accrue OID as interest income on the Notes at a rate equal to the comparable yield. This accrual will cause U.S. Holders to include in income increasingly greater amounts of OID over the life of the Notes. The amount of OID includible in income by a U.S. Holder of a Note is the sum of the daily portions of OID with respect to the Note for each day during the taxable year or portion of the taxable year on which the U.S. Holder holds the Note ("accrued OID"). The daily portion is determined by allocating to each day in any "accrual period" a pro rata portion of the OID allocable to that accrual period. Accrual periods with respect to a Note may be of any length selected by the U.S. Holder and may vary in length over the term of the Note as long as (i) no accrual period is longer than one year; and (ii) each scheduled payment of interest or principal on the Note occurs on either the final or first day of an accrual period. The amount of OID allocable to an accrual period equals the product of the Note's adjusted issue price at the beginning of the accrual period and the Note's comparable yield (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period). The "adjusted issue price" of a Note at the beginning of any accrual period is the issue price of the Note increased by the amount of accrued OID for each prior accrual period.

No additional income will be recognised upon the receipt of payments of stated interest in amounts equal to the annual payments shown on the projected payment schedules, except for exchange gain or loss that may be recognised under the rules described below.

No regulations have been issued providing guidance as to how a U.S. Holder of a Bond should translate OID accrued in euro to U.S. dollars. Until regulations are issued, the proper U.S. federal income tax treatment of these Notes will be unclear. One approach that would be consistent with existing rules for non-contingent foreign currency debt instruments would be to accrue OID in euro, and to translate the accrued OID into U.S. dollars using one of two methods described below. Under the first method, the amount of income accrued would be based on the

average exchange rate in effect during the accrual period (or, in the case of an accrual period that spans two taxable years of a U.S. Holder, the part of the period within the taxable year).

Under the second method, the U.S. Holder would elect to determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period (or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the taxable year). Any such election would likely apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and would be irrevocable without the consent of the Internal Revenue Service (the "IRS").

Upon receipt of stated interest with respect to a Note, the U.S. Holder would recognise ordinary income or loss measured by the difference between the exchange rate used to accrue interest income pursuant to one of the two above methods and the exchange rate in effect on the date of receipt, regardless of whether the payment was in fact converted into U.S. dollars. Upon the sale or retirement of a Note, a U.S. Holder would recognise exchange gain or loss, which will be ordinary gain or loss measured by the difference between the amount of OID accrued in excess of stated interest (translated into U.S. Dollars at the exchange rate on the date of receipt) and the amount of this OID that was previously accrued in U.S. dollars. The U.S. Holder's basis in the Note would be adjusted by the amount of this exchange gain or loss, and any additional gain or loss on the sale or retirement would be taken into account as described below under "Purchase, Sale and Retirement of the Notes".

There can be no assurance that regulations, when issued, will follow this approach, and other approaches might be considered reasonable pending the issuance of regulations. Prospective purchasers should consult their tax advisors as to the accrual of OID on the Notes.

Purchase, Sale and Retirement of the Notes.

A U.S. Holder's tax basis in a Note will generally be its U.S. dollar cost (as defined below), increased by the amount of any OID included in the U.S. Holder's income with respect to the Note, and reduced by the amount of any payments made with respect to the Note. The U.S. dollar cost of a Note purchased with euro will generally be the U.S. dollar value of the purchase price on the date of purchase or, in the case of Notes traded on an established securities market, as defined in the applicable Treasury Regulations, that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the purchase. A U.S. Holder will generally recognise gain or loss on the sale or retirement of a Note equal to the difference between the amount realised on the sale or retirement and the tax basis of the Note. The amount realised on a sale or retirement for an amount in euro will be the U.S. dollar value of this amount on the date of sale or retirement or, in the case of Notes traded on an established securities market, as defined in the applicable Treasury Regulations, sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the sale. Such an election by an accrual basis U.S. Holder must be applied consistently from year to year and cannot be revoked without the consent of the IRS. Gain from the sale or retirement of a Note will be ordinary income. Any loss will be an ordinary loss to the extent that the U.S. Holder's total interest inclusions to the date of sale or retirement exceed the total net negative adjustments that the U.S. Holder took into account as ordinary loss, and any further loss will be a capital loss. Gain or loss realised by a U.S. Holder on the sale or retirement of a Note generally will be U.S. source.

See "Passive Foreign Investment Company Considerations" below for a discussion of more adverse rules that may apply to a sale or retirement of Notes if Compass Group is or becomes a PFIC for U.S. federal income tax purposes.

Exchange of Amounts in Other than U.S. Dollar.

Payments in euro received as interest on a Note or on the sale or retirement of a Note will have a tax basis equal to their U.S. dollar value at the time the interest is received or at the time of the sale or retirement. Euro that is purchased will generally have a tax basis equal to the U.S. dollar value of the euro on the date of purchase. Any gain or loss recognised on a sale or other

disposition of euro (including its use to purchase Notes or upon exchange for U.S. dollars) will be ordinary income or loss.

A U.S. Holder's exchange of Notes into Shares will generally be treated as a sale or exchange of the Notes. A U.S. Holder will generally recognise gain or loss on the exchange of a Note equal to the difference between the fair market value of the Shares and other consideration received on exchange of the Note and the tax basis of the Bond. See "Notes-Purchase, Sale and Retirement of the Notes".

Shares

Dividends.

Subject to the PFIC rules discussed below, dividends paid on the Shares out of current or accumulated earnings and profits of Compass Group (as determined for U.S. federal income tax purposes) will generally be taxable to a U.S. Holder as foreign source dividend income, and will not be eligible for the dividends received deduction allowed to corporations. Distributions in excess of current and accumulated earnings and profits will be treated as a return of capital to the extent of the U.S. Holder's basis in the Shares and thereafter as a capital gain. An Eligible U.S. Holder must also include in foreign-source U.S. taxable income an amount equal to the tax credit to which it would be entitled if it were a UK resident (the "Tax Credit Amount"). See "Taxation — United Kingdom — Dividends on Shares of Compass Group", above.

Dividends paid in GBP will be included in income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day the dividends are received by the U.S. Holder, regardless of whether the amount in GBP is converted into U.S. dollars. If dividends received in GBP are converted into U.S. dollars on the day they are received, the U.S. Holder generally will not be required to recognise foreign currency gain or loss in respect of the dividend income.

As discussed under "Taxation — United Kingdom — Dividends on Shares of Compass Group", above, under UK Law and the UK-U.S. Treaty, payments of dividends on the Shares to UK taxpayers carry an associated Tax Credit Amount. For U.S. federal income tax purposes, dividend payments to Eligible U.S. Holders will be deemed to include an amount equal to the Tax Credit Amount, subject to a deemed withholding tax. Therefore, Eligible U.S. Holders will be treated as having received an amount equal to the Tax Credit Amount and as having paid over the deemed withheld taxes to the UK Inland Revenue Service. As a result of this rule, the amount of dividend income included in gross income for U.S. federal income tax purposes by an Eligible U.S. Holder with respect to a payment of dividends may be greater than the amount of cash actually received (or receivable) by the Eligible U.S. Holder from Compass Group with respect to the dividend payment. Subject to certain limitations, an Eligible U.S. Holder will generally be entitled to a credit against its U.S. federal income tax liability for UK taxes deemed withheld by Compass Group. Amounts creditable against U.S. tax may be deducted, instead of credited, at the election of the Eligible U.S. Holder.

For purposes of the foreign tax credit limitation, foreign source income is classified into one of several "baskets", and the credit for foreign taxes on income in any basket is limited to U.S. federal income tax allocable to that income. Dividends paid on the Shares generally will constitute foreign source income in the "passive income" basket or, in the case of certain holders, the "financial services income" basket. In certain circumstances, recently enacted legislation and other guidance issued by the United States Treasury may deny a U.S. Holder foreign tax credits (and instead may allow deductions) for foreign taxes imposed or deemed imposed on a dividend if the U.S. Holder (i) has not held the Shares for at least 16 days in the 30 day period beginning 15 days before the ex-dividend date, during which time it is not protected from loss, (ii) is obligated to make payments related to the dividends, or (iii) holds the Shares in arrangements in which the U.S. Holder's expected economic profit, after non-U.S. taxes, is insubstantial. Prospective purchasers should consult their tax advisers concerning the foreign tax credit implications of the payment of these Non U.S Withholding Taxes and the effect of this legislation and other guidance.

Sale or Other Disposition.

Subject to the PFIC rules discussed below, upon a sale or other disposition of Shares, a U.S. Holder generally will recognise capital gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the amount realised on the sale or other disposition and the U.S. Holder's adjusted tax basis in the Shares. A U.S. Holder's basis in a Share will generally be the fair market value of the Share upon the exchange. This capital gain or loss will be long-term capital gain or loss if the U.S. Holder's holding period in the Shares exceeds one year. Any gain or loss will generally be U.S. source, except that losses will be treated as foreign source to the extent that the U.S. Holder received dividends that were includible in the financial services basket during the 24-month period prior to the sale. This 24-month period may be extended to cover periods in which the U.S. Holder's risk of loss is hedged.

See "Passive Foreign Investment Company Considerations" below for a discussion of more adverse rules that will apply to a sale or other disposition of Shares if Compass Group is or becomes a PFIC for U.S. Federal income tax purposes.

Passive Foreign Investment Company Considerations.

A foreign corporation will be a PFIC in any taxable year in which, after taking into account the income and assets of the corporation and certain subsidiaries pursuant to the applicable "look-through rules", either (i) at least 75 per cent. of its gross income is "passive income" or (ii) at least 50 per cent. of the average value of its assets is attributable to assets which produce passive income or are held for the production of passive income. The Issuer has made no determination whether Compass Group is a PFIC. Because the PFIC status of Compass Group must be determined annually based on its particular circumstances at the time, it is possible that Compass Group may be a PFIC in any year. If Compass Group were to be treated as a PFIC, U.S. Holders of Shares would be required (i) to pay a special U.S. addition to tax on certain distributions and gains on sale and (ii) to pay tax on any gain from the sale of Shares at ordinary income (rather than capital gain) rates in addition to paying the special addition to tax on this gain. Prospective purchasers should consult their tax advisors to determine whether Compass Group is a PFIC, as well as the adverse consequences that would result if Compass Group is a PFIC.

Because of their exchange feature, the Notes are treated in the same manner as Shares under the PFIC rules, and therefore a U.S. Holder of Notes during any year in which Compass Group is a PFIC will be subject to similar rules. For PFIC purposes, the holding period of Shares acquired upon the conversion of the Notes includes the holding period of the Notes.

Backup Withholding and Information Reporting.

Payments of principal, interest and accrued OID, if any, on, and the proceeds of sale or other disposition (including exchange) of, Notes, as well as dividends and other proceeds with respect to Shares, by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding at a rate of 31 per cent. will apply to these payments, other than dividends paid before 1 January 2000, and to accruals of OID, if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of foreign or other exempt status or fails to report all interest and dividends required to be shown on its federal income tax returns. Certain U.S. Holders (including, among others, corporations) are not subject to backup withholding. U.S. Holders should consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining such an exemption.

Recently issued regulations require U.S. Holders investing more than US\$100,000 in Compass Group to report this investment to the U.S. Internal Revenue Service. These regulations apply to investments made in a fiscal year of the U.S. Holder beginning after 5 February 1999.

SUBSCRIPTION AND SALE

Underwriting Arrangements

Deutsche Bank AG London and J.P. Morgan Securities Ltd. (the "Joint Lead Managers") have, pursuant to a Subscription Agreement dated 24 March 1999 (the "Subscription Agreement"), severally agreed with the Issuer, subject to the satisfaction of certain conditions, (i) in the case of Notes sold outside the United States to non-U.S. persons in reliance on Regulation S, to subscribe and pay for the Notes and (ii) in the case of Notes sold within the United States in reliance on Rule 144A, to purchase through their respective U.S. broker-dealer affiliates and pay for the Notes, in each case at a price equal to 100 per cent. of the principal amount of the Notes, less (i) a selling concession of 1.50 per cent., (ii) a management commission of 0.5 per cent. and (iii) an underwriting commission of 0.5 per cent., in each case of the principal amount of the Notes. In addition, the Issuer will pay certain costs incurred by it, the Joint Lead Managers and the Financial Advisor in connection with the issue of the Notes.

The Joint Lead Managers are entitled to terminate the Subscription Agreement in certain limited circumstances prior to the issue of the Notes. The Issuer has agreed to indemnify the Joint Lead Managers against certain liabilities in connection with the offer and sale of the Notes.

General Restrictions

Each of the Joint Lead Managers has agreed to observe all applicable laws and regulations in each jurisdiction in or from which it may acquire, offer, sell or deliver Notes or have in its possession or distribute this Offering Circular or any other offering material relating to the Notes. No action has been taken by the Issuer or either Joint Lead Manager that would, or is intended to, permit a public offer of the Notes or possession or distribution of the Offering Circular or any other offering material relating to the Notes in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Joint Lead Manager has agreed that it will not, directly or indirectly, offer, sell or deliver any Notes or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

France

Each of the Joint Lead Managers and the Issuer has represented and agreed that, in connection with their initial distribution, (i) it has not offered or sold and will not offer or sell, directly or indirectly, any Notes to the public in the Republic of France, and (ii) offers and sales of Notes in the Republic of France will be made in accordance with Article 6 of the Ordinance n°67-833 dated 28 September 1967, as amended and in Decree n°98-880 dated 1 October 1998 relating to offers to a limited number of investors and/or qualified investors. In addition, each of the Joint Lead Managers and the Issuer has represented and agreed that it has not distributed or caused to be distributed and will not distribute or cause to be distributed in the Republic of France, the Offering Circular or any other offering material relating to the Notes other than to investors to whom offers and sales of Notes in the Republic of France may be made as described above.

United States

The Notes and the Shares to be delivered upon exchange of the Notes have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Each Joint Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the closing date (the "Distribution Compliance Period"), within the United States or to, or for the account

or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes (other than a sale pursuant to Rule 144A) during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

The Notes are being offered and sold outside of the United States to non-U.S. persons in reliance on Regulation S. The Subscription Agreement provides that the Joint Lead Managers may, through their respective U.S. broker-dealer affiliates, arrange for the offer and resale of Notes within the United States only to qualified institutional buyers in reliance on Rule 144A.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

United Kingdom

Each of the Joint Lead Managers has represented and agreed that:

(i) it has not offered or sold and, prior to the date six months after the date of issue of the Notes, will not offer or sell, any Notes to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;

(ii) it has complied and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom; and

(iii) it has only issued or passed on, and will only issue and pass on, in the United Kingdom any document received by it in connection with the issue of the Notes to a person who is a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 or is a person to whom such document may otherwise lawfully be issued or passed on.

TRANSFER RESTRICTIONS

Each purchaser of Notes within the United States pursuant to Rule 144A, by accepting delivery of this Offering Circular, will be deemed to have represented, agreed and acknowledged that:

(i) It is (a) a qualified institutional buyer with the meaning of Rule 144A ("QIB"), (b) acquiring such Notes for its own account or for the account of a QIB and (c) aware that, and each beneficial owner of such Notes has been advised that, the sale of such Notes to it is being made in reliance on Rule 144A.

(ii) It understands that such Notes and the Shares to be delivered upon exchange of the Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (c) pursuant to an exemption from registration under the Security Act provided by Rule 144 thereunder (if available), in each case in accordance with applicable securities laws of any State of the United States.

(iii) It understands that to exercise its right to exchange the Notes, it must make the representations, warranties and undertakings, including with respect to certain restrictions on transfer which apply to the Shares received upon exchange, contained in the Exchange Notice described under "Terms and Conditions of the Notes — Exchange of the Notes into Shares".

(iv) The Issuer, the Joint Lead Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. If it is acquiring any Notes for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Each purchaser of Notes outside the United States pursuant to Regulation S and each subsequent purchaser of such Notes in resales prior to the expiration of the Distribution Compliance Period, by accepting delivery of this Offering Circular and the Notes, will be deemed to have represented, agreed and acknowledged that:

(i) It is, or at the time Notes are purchased will be, the beneficial owner of such Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate.

(ii) It understands that such Notes, and the Shares to be delivered upon exchange of the Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the Distribution Compliance Period, it will not offer, sell, pledge or otherwise transfer such Notes except (a) in accordance with the Rule 144A under the Securities Act to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or the account of a QIB or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities law of any State of the United States.

(iii) It understands that to exercise its right to exchange the Notes, it must make the representations, warranties and undertakings, including with respect to certain restrictions on transfer which apply to the Shares received upon exchange, contained in the Exchange Notice described under "Terms and Conditions of the Notes — Exchange of the Notes into Shares".

(iv) The Issuer, the Joint Lead Managers and their respective affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Each Noteholder who wishes to exercise its Exchange Rights must duly complete and sign an Exercise Notice, in which it will represent, acknowledge and agree, on its behalf or on behalf of each person for whose benefit the Shares are to be delivered upon the exchange of Notes, that either:

(A) It is, or the person who has an interest in the Notes to be exchanged for Shares pursuant to the Exchange Notice is a QIB and:

(i) It understand(s) that the exchange of Notes into Shares is being made in the United States only through a private placement which is exempt from registration under the Securities Act to holders of Notes that are QIBs, and that it or such person is, acquiring the Shares for its own account or for the account of another QIB and not with a view to distribution of the Shares.

(ii) It understands that it or such person may be required to own the Shares indefinitely and that it or such person has the financial ability to bear the economic risk of an investment in the Shares and is able to withstand the loss of its entire investment in the Shares. It or such person has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of an investment in the Shares and has determined that the Shares are a suitable investment for it, both in the nature and the number of Shares being acquired.

(iii) It or such person has received such information concerning the Issuer and the exchange and the Shares and has been given the opportunity to ask such questions of, and receive answers from, representatives of the Issuer as it deems sufficient to make an informed investment decision with respect to the exchange and the Shares. It or such person acknowledges that no person has been authorised to make any representation concerning the Issuer or the exchange and the Shares other than as contained in information provided to it by the Issuer and, if made, any such representation must not be relied upon as having been authorised by the Issuer or the Joint Lead Managers or any person acting on any of their behalf.

(iv) It or such person understands that such Shares have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A (if available) to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), in each case in accordance with any applicable securities laws of any State of the United States.

(v) It acknowledges that the Issuer, the Joint Lead Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. If it is acquiring any Shares for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account; and

(vi) It understands that such Shares (to the extent they are in certificated form), unless otherwise determined by the Issuer, will bear a legend substantially to the following effect:

THIS SHARE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT (IF AVAILABLE) TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144

THEREUNDER (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144A OR BY RULE 144 UNDER THE SECURITIES ACT FOR REALES OF THIS SHARE.

OR

(B) It is not a U.S. Person and is located outside the United States (within the meaning of Regulation S) and is acquiring the Shares to be delivered upon exchange of the Notes in an offshore transaction (as defined in Regulation S) in accordance with Rule 903 or 904 of Regulation S.

GENERAL INFORMATION

Corporate Authorisations

The issue of the Notes was authorised by a resolution of the Management Board (*Directoire*) adopted on 24 February 1999 pursuant to a resolution of the Supervisory Board of Accor adopted on 7 January 1997 and two resolutions of the *Assemblée Générale Ordinaire* of the shareholders of Accor adopted on 16 June 1995 and 7 January 1997, respectively.

Listing of the Notes

Application has been made for the Notes to be listed on the Luxembourg Stock Exchange with effect from the date of their issue.

In connection with the application to list the Notes on the Luxembourg Stock Exchange, copies of the constitutive ordinance of Accor and a legal notice relating to the issue of the Notes (*“Notice Légale”*) will be deposited prior to listing with the *Greffier en Chef du Tribunal d'Arrondissement de et à Luxembourg*, where such documents may be inspected and copies obtained upon request so long as any of the Notes are outstanding.

Clearing of the Notes

The Notes have been accepted for clearance through Sicovam, Euroclear and Cedelbank under the following reference numbers:

ISIN	FR0000492274
Sicovam	49227
Euroclear and Cedelbank Common Code	009544844

Euroclear and Cedelbank have made arrangements to receive Notes through Sicovam.

No Material Adverse Change

As of the date of this Offering Circular and except as disclosed in this Offering Circular, there has been no change (nor any development or event involving a prospective change) which is materially adverse to the condition (financial or other), prospects, results of operations or general affairs of Accor since 31 December 1997.

Litigation

Except as disclosed in this Offering Circular, neither Accor, nor any of its consolidated subsidiaries are involved in any litigation, arbitration or administrative proceedings relating to amounts which, individually or in the aggregates, are material in the context of the issue of the Notes and, to the best of the knowledge of Accor, there are no such litigation, arbitration or administrative proceedings pending or threatened.

Compass Group Information

The information contained in this Offering Circular with respect to Compass Group, the CG Group and the Shares is, or consists of extracts from or summaries of, publicly available information contained in the following documents:

- 1 The 1998, 1997 and 1996 Annual Reports and accounts of Compass Group.
- 2 The Memorandum of Association and Articles of Association of Compass Group.
- 3 The official Internet site of Compass Group as at 23 March 1999, the Internet address of which is as follows: www.compass-group.com.
- 4 The Offering Circular dated 11 July 1997 issued by Compass Group in relation to the issue of its 5.75 per cent. Convertible Bonds due 2007.

Copies of the 1998 Annual Report of Compass Group may be obtained, and copies of the other documents set out above (other than item 3) will be available for inspection, at the

specified office of the Fiscal Agent during usual business hours on any weekday (Saturdays and public holidays in the relevant city excepted) from the date of this Offering Circular until 7 April 1999.

Compass Group furnishes certain information to the U.S. Securities and Exchange Commission (the "Commission") pursuant to Rule 12g3-2(b) under the Exchange Act. Such information can be inspected or copied at the public reference facilities maintained by the Commission at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Commission's Regional Offices at 7 World Trade Center, Suite 1300, New York, New York 10048 and Citicorp Center, 500 West Madison, Suite 1400, Chicago, Illinois 60661. Copies of such material can also be obtained upon written request addressed to the Commission, Public Reference Section, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates.

Accor Information

The Issuer has agreed that, for so long as any Notes are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer will, during any period in which it is neither subject to Section 13 or 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner upon the request of such holder, beneficial owner or prospective purchaser, the information required to be provided by Rule 144A(d)(4) under the Securities Act.

Auditors

Barbier Frinault & Autres and Deloitte Touche Tohmatsu-Audit, the statutory auditors of Accor, have audited, and rendered unqualified reports on, the consolidated financial statements of Accor at, and for the three years ended, 31 December 1997. They have also given and have not withdrawn their written consent to the issue of this Offering Circular with the inclusion of their audit report on the consolidated financial statements of Accor at, and for the year ended, 31 December 1997 and their limited review report on Accor's summary interim statement of income for the six months ended 30 June 1998 in the form and context in which they are included. At the date of this Offering Circular, Accor has not published any audited financial statements for the year ended 31 December 1998.

Financial Advisor

Accor has appointed BT Alex. Brown International, a division of Bankers Trust International PLC, as its financial advisor in connection with the offering of the Notes.

Legal Advisors

Legal opinions relating to the validity of the Notes under French law will be given by Jean-Paul Ribert *Directeur Juridique Groupe* of Accor, Stibbe Simont Monahan Duhot & Giroux, legal advisers to Accor and Linklaters & Paines, legal advisers to the Joint Lead Managers.

Enforcement of Foreign Judgments and Service of Process

Accor is a *société anonyme*, a form of limited company, organised under the laws of France. All of the directors and executive officers of Accor are non-residents of the United States, and a substantial portion of the assets of Accor and such persons are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon Accor or such persons, or to enforce against any of them judgements of courts of the United States predicated upon any civil liability provisions of the federal securities laws of the United States.

Actions for enforcement of foreign judgements rendered against the persons referred to in the preceding paragraph would require any such persons of French nationality to waive their right under Article 15 of the French Civil Code to be sued only in France. Accor believes that no

such persons have waived such right with respect to actions predicated solely upon U.S. federal securities laws. French courts may not have the requisite jurisdiction to grant remedies sought in an original action brought in France predicated solely upon the U.S. federal securities laws. In addition, actions in the United States under the U.S. federal securities laws could be affected under certain circumstances by the French law of 26 July 1968, which may preclude or restrict the obtaining of evidence in France or from French persons in connection with such actions.

Documents Available

A copy of the Agency Agreement and copies of the annual reports and financial statements of Accor for the financial year ended 31 December 1997 and of Compass Group for the 52 week period ended 30 September 1998 and any future annual reports and financial statements of Accor and Compass Group will, for so long as the Notes are listed on the Luxembourg Stock Exchange, be available free of charge during usual business hours on any weekday (except Saturdays and public holidays) at the specified offices of the Paying and Exchange Agent in Luxembourg. Accor and Compass Group each publish consolidated annual and semi-annual financial statements and, in the case of Accor, non-consolidated annual financial statements which will be delivered to, and copies may be obtained free of charge from, the specified offices of the Paying and Exchange Agent in Luxembourg. Neither the Issuer nor Compass Group publish non-consolidated interim financial statements. All such interim statements are unaudited.

INCORPORATION BY REFERENCE

The audited non-consolidated accounts of Accor for the year ended 31 December 1997 are incorporated by reference in this Offering Circular. Copies of those accounts are available free of charge at the specified office of each of the Paying Agents as described in "General Information" above.

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**LIMITED REVIEW REPORT OF THE STATUTORY AUDITORS ON THE UNAUDITED
CONSOLIDATED SUMMARY STATEMENT OF INCOME OF ACCOR
FOR THE SIX MONTHS ENDED 30 JUNE 1998
(Free translation)**

We have reviewed the consolidated statement of income of Accor for the six-month period ended 30 June 1998, and the related Directors' report, in accordance with French professional standards.

A review is limited primarily to inquiries of company management and analytical review procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that would require a comment on the accompanying consolidated statement of income and the related Directors' report describing the activity of the company, its future prospects and significant events of the last six months.

Neuilly-sur-Seine, 6 October 1998
Statutory Auditors

Barbier Frinault & Autres
Christian Chochon

Deloitte Touche Tohmatsu — Audit
Alain Pons

Independent Accountants
Deloitte Touche Tohmatsu

**REPORT OF THE STATUTORY AUDITORS ON THE FINANCIAL STATEMENTS OF ACCOR AT,
AND FOR THE YEAR ENDED, 31 DECEMBER 1997**

In accordance with our appointment by the General Shareholders' meeting, we hereby present our report on the accompanying Financial Statements of Accor, for the year ended 31 December 1997 and on the specific review provided for by the law.

1 — Opinion on the Annual Financial Statements

We have audited the Financial Statements in accordance with professional standards. These standards require to proceed so as to gain reasonable assurance that the Company Financial Statements do not include any material error. The audit surveys various elements, corresponding to the information presented in the Financial Statements. It also looks at the accounting principles and the valuations used in the preparation of the Financial Statements. We believe these controls provide an adequate basis for the opinion presented below.

In our opinion, the Financial Statements present adequately and fairly the financial position and assets of the Company as at 31 December 1997 and the results of its operations for the year then ended.

2 — Specific Review

We have also carried out a specific review provided by law in accordance with professional standards. We do not have any comments on the fairness of the financial information provided in the Management Board's report and the documents sent to shareholders on the financial position and the annual accounts or on its conformity with the Financial Statements.

In accordance with the law, we have ensured that the information relating to shareholdings and to the identity of shareholders or holders of voting rights were provided to you in the management report.

Neuilly sur Seine and Paris, 7 April 1998

Statutory Auditors

Barbier Frinault & Autres

Christian Chochon

Deloitte Touche Tohmatsu — Audit

Alain Pons

J.M.A

Pierre Marque

**SUMMARY STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 1997 WITH
COMPARATIVE FIGURES FOR THE YEARS ENDED 31 DECEMBER 1995 AND 1996**

	1995	1996	1997
	(in FF millions)		
Operating revenues	1,772	1,919	2,586
Operating expenses	(1,477)	(1,589)	(2,251)
Allowance for depreciation and operating provision	(273)	(221)	(231)
Operating profit	22	109	104
Revenues from direct investment	1,795	3,073	3,087
Other revenues	423	224	434
Financial expenses	(1,630)	(1,378)	(1,234)
Allowance and adjustment for provisions	(381)	(891)	(885)
Net financial revenue	207	1,028	1,402
Exceptional items	654	289	157
Corporate taxes	85	232	138
Profit	968	1,658	1,801

**SUMMARY BALANCE SHEET AT 31 DECEMBER 1997 WITH COMPARATIVE FIGURES AT
31 DECEMBER 1995 AND 1996**

	1995	1996	1997
	(in FF millions)		
ASSETS			
Intangible fixed assets	315	322	329
Property, plant and equipment net of accumulated depreciation	838	597	545
Investments	25,641	29,056	31,123
Receivables	3,288	2,826	3,171
Reserve fund	1,078	1,118	1,202
Cash and equivalents	61	23	120
Total assets	<u>31,221</u>	<u>33,942</u>	<u>36,490</u>
LIABILITIES			
Share capital	2,891	3,312	3,585
Additional paid-in capital and reserves	8,238	9,735	11,184
Net income for the year	968	1,658	1,801
Other own capital(1)	3,372	3,310	3,262
Provisions	253	434	596
Convertible bonds(2)	2,152	2,152	2,151
Short-term and long-term debt	11,645	11,656	12,013
Other debt	426	452	598
Service vouchers in circulation	1,276	1,233	1,300
Total liabilities	<u>31,221</u>	<u>33,942</u>	<u>36,490</u>

(1) Including accrued interests for 1995 (FF3.2 million), 1996 (FF2.2 million) and 1997 (FF1.4 million) payable on 27 June of the following year.

(2) 2,099,349 bonds of FF960 each, plus accrued interests payable on 2 January of the following year.

When justified by the economic situation, a provision will be made in respect of shareholders, up to the level of the assets held, in the event that their future profitability is no longer guaranteed.

List of the 73 subsidiaries consolidated with Accor for tax purposes: Devimco, Seorim, SH Colmar Centre, SPIF, Resinter, Euro-To, Telematex, SIHN, Press Club, SFPIE, Sodetis, Société de Transports Internes, MIH, Sofitel International, PIH, Thalamer, SH Porte de Sèvres, Le Saint-Aulde, Serare, SIET, SHPC, SH Bordeaux Meriadeck, Porticcio, Lenôtre, Accor Afrique, Genomer, SJHC, Sahara, Marcq Hotel, Sofitel Management International, Marquise de Presles, Sibac, SNPE, SOR, SAR, Courcelles, IBL, Société d'Exploitation Hôtelière Paris Orly, Société d'Exploitation Hôtelière Paris Roissy, Société d'Exploitation Hôtelière de Tourraine, Société Nantaise d'Exploitation Hôtelière, Société Marseillaise d'exploitation Hôtelière, Société Lilloise d'exploitation Hôtelière, Société Toulousaine d'Exploitation Hôtelière, Société d'Exploitation Hôtelière de Mame la Vallée, Société d'Exploitation Hôtelière Paris-La Villette, Société Rémoise d'Exploitation Hôtelière, Société d'Exploitation Hôtelière Paris-Versailles, Société d'Exploitation Hôtelière Nice-Côte d'azur, Société Angoulemoise d'Hôtellerie, Société Hôtelière du Loir-et-Cher, Société Hôtelière de Charente Maritime, Société Hôtelière des Autoroutes, Franche-Comté Hôtels, Etap'Hotels, Société de Développement des Hôtels Economiques, Société Commerciale des Hôtels Economiques, Société Angoumoise des Hôtels Economiques, Corotel, Société Val Druel, Société Hôtelière Poitou-Charente F1, SPIM, SMO, SIP, SISHE, Hotexco, Grand Hôtel du Globe, Société Comtoise Hôtel Brochet, SEPHI, Société d'Exploitation Hôtelière Paris-Bastille, Société Lyonnaise d'Exploitation Hôtellère, Société d'Exploitation Hôtelière Ponts Couverts, Société d'Exploitation Blaise-Pascal.

**REPORT OF THE AUDITORS ON THE CONSOLIDATED FINANCIAL STATEMENTS OF
COMPASS GROUP AT, AND FOR THE PERIOD ENDED, 28 SEPTEMBER 1997**

We have audited the financial statements on pages 38 to 62 which have been prepared under the accounting policies set out on page 45 and the detailed information policies set out on page 45 and the detailed information disclosed in respect of any directors' remuneration, share options and long term incentive schemes set out in the Report of the Remuneration Committee to Shareholders on pages 31 to 36.

Respective responsibilities of directors and auditors

As described above the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion based on our audit on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 28 September 1997 and of the profit of the Group for the 52 week period that ended and have been properly prepared in accordance with the Company Act 1985.

Deloitte & Touche
Chartered Accountants and registered Auditors
Hill House
1 Little New Street
London EC4A 3TR
9 December 1997