



# LETTER TO SHAREHOLDERS



**“Our first-half results confirm the effectiveness of our business model.”**

First-half 2002 was shaped by an exceptional

and challenging business environment, which is continuing. The aftereffects of 9/11 persisted, although their impact has lessened, and the economic slowdown in Europe was more pronounced than expected, especially in Germany. The situation in the United States stabilized, but the clear-cut turnaround hoped for in the first-quarter was slow to materialize and consumer confidence was weak on both sides of the Atlantic. In addition, South American currencies have been very volatile. Moreover, our first-half 2001 results — the basis for comparison — were excellent, to the extent that we forecasted a 15% rise in earnings per share for full-year 2001.

Consequently, our first-half 2002 results were down from the prior-year period, but on the whole they were better than those reported in the first six months of 2000. And they are significantly better than our main international competitors, thus confirming the effectiveness of our business model and the keen responsiveness of our teams. I would like to congratulate them for their outstanding efforts and their ability to make adjustments on the front line.

We remain confident and will pursue our long-term strategy, which will drive strong growth in earnings once the economy improves. In the meantime, we expect profit before tax to end the year at €700 million and earnings per share at €2.20. The 2002 dividend should be maintained (€1.05 in 2001), ensuring a substantial yield at a current Accor share price.

Jean-Marc Espalioux,  
Chairman of the Management Board  
and CEO

## 2002 INTERIM RESULTS

### Resilient in a Difficult Environment

Our 2002 interim results were in line with forecasts, with the Group's margins holding firm despite a challenging global economic environment.

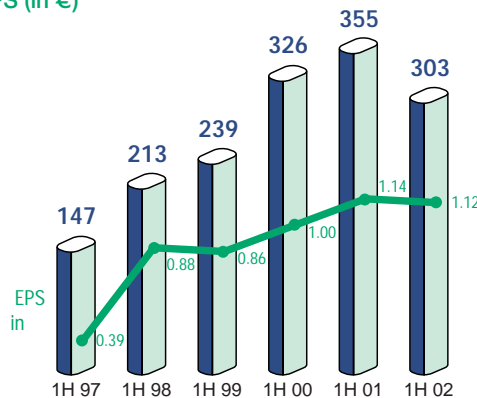
*“In terms of profit before tax and earnings per share, we outperformed most of our global competitors, which was already the case in 2001,”* says Benjamin Cohen, member of the Management Board and CFO, in charge of the Tourism and Leisure division.

*“Our earnings per share are very close to first-half 2001 and higher than full-year 2000.”*

#### Profit before tax

(in € millions)

+ EPS (in €)



► **Sales** declined by 0.4% to **€3,585 million** during the period, with development growth of 3.7% nearly offsetting a negative currency effect (-1.4%) and the impact of asset disposals (-2.1%).  
At constant scope of consolidation, sales were down 0.6%.

Sales  
**€3,585 million**  
Down 0.4%

EBITDAR  
**€933 million**  
Down 2.8%

EBITDAR margin  
**26%**

Net income  
(Group share)  
**€221 million**  
Down 1.3%

EPS  
**€1.12**  
Down 1.7%

Cash flow  
from operations  
**€465 million**  
Down 7.7%

ROCE  
**10.8%**

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FOCUS ON Sofitel

## Flexible response to the short term

► The effects of the economic slowdown, in particular on Business and Leisure hotels, is limited to a small number of hotels in major international destinations, so the recovery will exercise immediate leverage.

► The volatility of South American currencies and the impact of the large-scale devaluations of the Argentine peso, the Venezuelan bolivar and the Brazilian real on Services results was partially offset in profit before tax by gains on currency hedges.

► The 18.7% reduction in total investments in the first half demonstrated our ability to control expenses and the flexibility of our resource reallocation strategy.

► Economy hotels in the United States substantially reduced costs in a number of areas.

► The program for restructuring travel agencies in the United States has revitalized margins in the business.

► **Earnings before interest, tax, depreciation, amortization and rental expense (EBITDAR)** declined by €27 million, or 2.8%, to €933 million. *“However, EBITDAR margin was practically stable at 26%, compared to 26.7% in first-half 2001 and 25.7% in the first six months of 2000. Substantial cost savings in US Economy hotels and in travel agencies partially offset the effects of the slowdown.”*

## Resilient Group margins

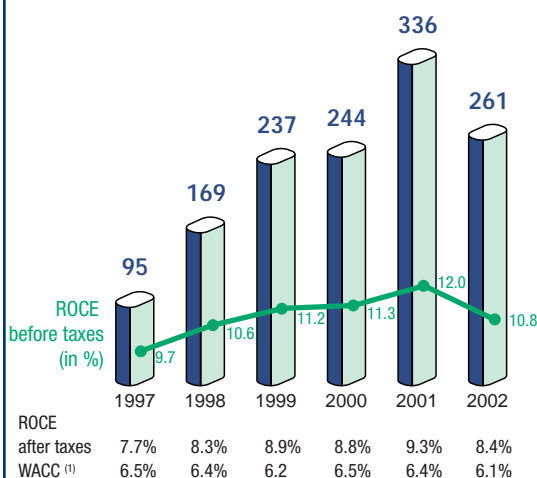
► After rental expense, amortization, interest and income from companies accounted for by the equity method, **profit before tax amounted to €303 million**, slightly less than in first-half 2000. Rental expense and amortization increased, reflecting the Group’s development and investments for renovation and maintenance, while interest expense declined due to lower interest rates and to income from currency hedges in Latin America. Margin before tax, at 8.4% versus 9.9% at June 30, 2001, was on a par with first-half 1999. *“Pre-tax margin is temporarily lower, in particular because of the openings of a large number of Sofitel hotels in recent months and the impact of South American currencies on our Services business.”*

► After capital gains on asset disposals (mainly hotel assets and the sale of a 50% stake in Accor Casinos to Colony Capital) and taxes, which are always higher in the first half, **net income (Group share) totaled €221 million**, compared with €224 million in first-half 2001. **Earnings per share came to €1.12**, nearly the same as first-half 2001.

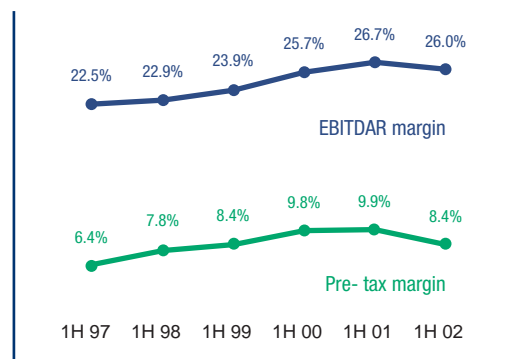
► **Cash flow from operations amounted to €465 million** at June 30, 2002, compared with €504 million for the year-earlier period. This represented 13% of consolidated sales, which is still very high.

## Value creation (EVA)

(in € millions, 12 months at June 30)



(1) Weighted average cost of capital



## Carefully managed investments

► Investments for renovation and maintenance were reduced to €159 million, without impacting product quality. This resulted in **free cash flow of €306 million**, slightly higher than in first-half 2001. As forecast, new capital expenditure, at €407 million, were also lower than in the prior-year period. Total investments for the half declined by 18.7% without adversely affecting the Group’s expansion.

► The principal management ratios were in line with targets. **Gearing (net debt-to-equity) came to 80%** at June 30, versus 66% at year-end 2001 and 76.7% at June 30, 2001. *“Because of the seasonal nature of the business, that ratio will decline by the end of the year.”* **EBITDAR covered interest expense 5.3 times**, versus 5.4 at year-end 2001 and 5.2 at June 30, 2001.

► **Return on capital employed (ROCE)** stood at **10.8%** at June 30, compared with 12% at the end of the year-earlier period. The 1.2 point decline was due to lower sales (-0.8 point) and the fact that a number of hotels are under construction (-0.4 point). Given that the weighted average cost of capital declined because of low interest rates, **value creation totaled €261 million** in the first half, compared with €336 million in first-half 2001 and €244 million in first-half 2000.

## Paul Dubrulle and Gérard Pélisson,

Co-Chairmen and Co-Founders of Accor  
(from right to left)



and the members of the Supervisory Board noted *“the strong resilience of Accor’s financial results in the current environment.”*

The two Co-Chairmen also emphasized that *“Accor again outperformed its main global competitors.”*

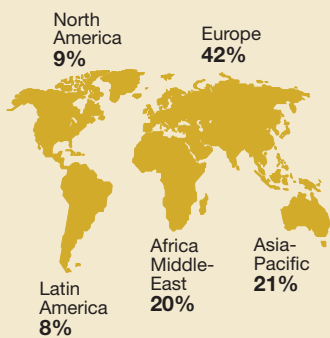


**SOFITEL**  
ACCOR HOTELS & RESORTS

**160** hotels (end 2002)  
**32,203** rooms  
in **53** countries

## Geographic breakdown

(number of rooms)



**20,000**

Sofitel employees worldwide  
(out of a total of 147,000  
Accor employees).

# FOCUS ON: SOFITEL

## Our prestige hotel brand



Sofitel St-James London

Since 1995, the number of Sofitel hotels has increased from 100 to 160, with 11 new establishments already opened or scheduled to open in 2002. The chain's development represents a strategic priority for Accor and today, Sofitel hotels can be found in major business centers and holiday destinations around the world, in prestigious neighborhoods—near the White House in Washington and St. James's Park in London—and even on a private island a ten-minute boat ride from St. Mark's Square in Venice. Sofitel is now

recognized as a benchmark in the upscale international hotel segment, alongside Intercontinental, Hilton, Le Méridien, Sheraton, Hyatt, Marriott and Westin. The brand serves as a flagship, both for our corporate image and for the professionalism of our teams around the world.

### A privileged place in the Accor portfolio

The first Sofitel hotel opened in Strasbourg in 1964. The chain joined Accor (then known as Novotel SIEH) in 1975, before acquiring hotels in Africa and Polynesia from French airline UTA in 1979. In 1992, Sofitel merged with the Pullman hotels, following Accor's purchase of Compagnie des Wagons-Lits, Pullman's parent company. The Demeure Hotel chain joined the network in 2000.

### Each Sofitel hotel is unique

Today, each Sofitel hotel has its own unique, authentic personality and serves as an ambassador for the French way of life, thereby setting the chain apart from its British and American competitors.

Among the chain's outstanding features are the original artworks, elaborate floral decoration, library, flavorful cuisine served in a modern setting, and hospitality products from Roger & Gallet, Hermès and Lenôtre. The hotels are also equipped throughout with state-of-the-art technologies, notably in the modular conference rooms, auditoriums, and "board meeting" salons, which can be adapted for all kinds of events, from conventional meetings to high-level sessions and international congresses.

A Sofitel hotel may occupy a contemporary building, an elegant dwelling or a legendary palace. But whether the project involves building, renovating or decorating, Sofitel uses only the best experts in the business, including world-famous architects, highly talented interior decorators and, in the kitchen, always an award-winning chef.



Sofitel Lafayette Square Washington DC

The brand new Sofitel Chicago Water Tower was designed by architect Jean-Paul Viguier and decorated by Pierre-Yves Rochon, who has also worked in Sofitel hotels in Paris, London, New York and Washington. Fashion designer Jean-Charles de Castelbajac created the uniforms for the hotel's hospitality staff, who are thoroughly trained in the art of being ever-present yet very discreet.



Sofitel Chicago Water Tower

## Prestige destinations

Sofitel's development strategy focuses on prestigious destinations around the world. Today, for example, the chain's hotels can be found in such major cities as Paris, London, Frankfurt, Brussels, Rome, Athens, Madrid, Lisbon,



Sofitel Marrakech

Luxembourg, Vienna, Geneva, Zurich, New York, Chicago, Los Angeles, Miami, Montreal, Buenos Aires, Rio de Janeiro, Bogota, Lima, Shanghai, Saigon, Seoul, Bangkok, Tokyo, and Melbourne. Sofitel hotels are also located in Marrakech, Egypt, Polynesia, the French West Indies or Mauritius. In addition, there is a chain of Sofitel Thalassa seawater spas. Sofitel hotels can be found in center cities, near airports or in ideal holiday destinations.

## A tailored investment strategy

As for all our hotel brands, Sofitel's development program is in line with our business model, which uses a variety of tailored financing solutions. The percentage of Sofitel hotels operated under management contracts is higher than the Group average (49% versus 19%) and only 13% are owned (versus 23% on average). Accor's global identity and healthy balance sheet, which enabled us to work with financial partners for recent openings, will be strengthened by the chain's expansion. In this way, it will help support the development of other Accor brands in major destinations.

## All the benefits of the Accor network

Sofitel benefits from the logistics systems of the Accor network, especially in terms of marketing. 43% of Sofitel clients book through the Group's distribution systems (global sales network, loyalty programs, websites, call centers, and global distribution systems), 44% through travel agencies, and only 13% directly with the hotel. These figures are fully in line with the chain's high percentage of international customers (roughly 60%).

## A purpose-designed loyalty program

The Accor loyalty program has been adapted to integrate Sofitel's specific features. Offered free of charge, the Sofitel Privileged Guest card entitles guests to special hospitality services and a double room for the price of a single. The Sofitel Exclusive Guest card, priced at €230, offers discounts of 20% during the week and of up to 50% on weekends, as well as a wide range of other services. Holders of both cards receive Compliments Points which can be redeemed for free overnights in the Accor hotel network.

Information and hotel bookings by telephone, in France, at 0 825 88 55 55 (€0.15 a minute) or via [www.sofitel.com](http://www.sofitel.com) and [www.accorhotels.com](http://www.accorhotels.com).



Sofitel Silom Bangkok

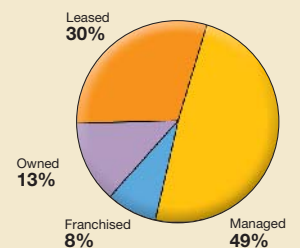
Sofitel Venezia in Isola



## Sofitel 2001 key figures

- ▶ Occupancy rate: **60%**
- ▶ Average room rate: **€127**
- ▶ Sales: **€594 million**

## Sofitel investment strategy



## Sofitel as a % of Accor

- ▶ **4%** of all hotels
- ▶ **7%** of all rooms
- ▶ **16%** of hotel business volume (sales in hotels owned, leased or managed)
- ▶ **12%** of hotel sales

## The integrated network of Accor hotels

### Increase in online reservations

(as a % of sales volume in July 2002)

- ▶ 2.5% in Business and Leisure hotels
- ▶ 5% in Economy hotels in Europe
- ▶ 7% in Economy hotels in the US

A room is booked every six seconds!

### Deployment of yield management programs

(as a % of sales in Sofitel, Novotel, Mercure and Ibis hotels by year-end 2003)

- ▶ 80% in the Paris area
- ▶ 60% in France
- ▶ 33% worldwide

## Effective management of our hotel development

- ▶ 140 new hotels (18,500 rooms) in the first eight months of 2002, of which 56% under management or franchise contracts
- ▶ Investments focused on Europe (51%) and in the mid-range and economy segments (80%)

## Profitable growth in Services

- ▶ Average annual increase in profit before tax (1996-2001): 18%
- ▶ High ROCE: 26.8% at June 30, 2002
- ▶ Not capital intensive: 6.6% of consolidated capital employed.

## Our ratings

- ▶ **Standard & Poors**  
Long-term: BBB/stable  
Short-term: A-2
  - ▶ **Fitch Ratings**  
Long-term: BBB+/stable  
Short-term: F2
- Both confirmed ratings in October 2002.

# FUNDAMENTALS OF OUR LONG-TERM STRATEGY: Accor's strengths

Our long-term strategy has proven its validity in recent years, generating strong, steady earnings growth in a favorable environment, and demonstrating resilience in more challenging times. This strategy is based on a balanced business portfolio, aligned networks, well-known brands, an appropriate financial strategy and an assertive development program. Below, members of the Management Board discuss Accor's strengths.

The integrated network of Accor hotels enables us to optimize revenues, through efficient systems that support our sales and marketing initiatives. Installation of the new centralized reservation system will be completed by the end of the year, enabling us to deploy our yield management programs more broadly by the end of

2003. By mining and analyzing data from the network, we've optimized occupancy rates and average room rates for hotels in the two to five-star categories in a given location. Posting our worldwide offer on the Web has also produced results, with a spectacular increase in the number of online reservations since the beginning of the year, as you can see in our figures for July (see box).



Jean-Marc Espalioux  
Chairman of  
the Management Board  
and CEO

We are continuing to develop our hotel network.

Despite our scaled-back Investments, 140 new hotels (with a total of 18,500 rooms) had opened by August 31 this year. Europe remains the priority region for development, but we have also made a significant breakthrough in Asia, which has accounted for 22% of openings. Development has been structured somewhat differently this year, with 56% of the new properties operated under management or franchise contracts. Of the 44% of new units that we own or lease, 63% are in Europe and most are in the mid-range and economy segments, which are less vulnerable to economic cycles and enjoy a brighter profitability outlook.



Sven Boinet  
Member of  
the Management Board  
in charge of Hotels

Our financial fundamentals remain solid in the current environment. In October, Standard & Poors and Fitch Ratings confirmed the ratings they had issued for Accor before the recession. Our financial ratios are still in line with targets, and we are effectively managing the structure and cost of our debt. After last April's successful €570-million issue of five-year, 1% "OCEANE" bonds (bonds convertible and/or exchangeable into new or existing shares), the average interest rate on our debt at June 30 was 3.85%. This supports our strategy of reallocating resources.



Benjamin Cohen  
Member of  
the Management Board  
and CFO, in charge  
of the Tourism  
and Leisure division

Services are making an increasingly large contribution to our earnings. In spite of the economic crisis in Latin America, the business is continuing to grow profitably at constant scope of consolidation and exchange rates. Targeted acquisitions will give us the skills needed to develop new products. While new corporate services, notably in the area of human resources management, will drive future growth, our flagship Ticket Restaurant vouchers will remain the cornerstone of the Services business for many years to come.



John Du Monceau  
Member of  
the Management Board  
in charge of Services,  
Human Resources and  
Sustainable Development

## Stock performance

"Accor: THE defensive hotel stock" was the lead article in a July issue of French business weekly *La Vie Financière*. Since the beginning of the year, the share has outperformed both the CAC 40 index and its major international competitors.

▶ Accor share at September 27, 2002  
**€31.34**  
Down 23%

High for the year  
**€49.00**  
Low for the year  
**€28.80**

▶ Market capitalisation  
**€6.2 billion**  
(Ranks 30th among CAC 40 stocks)

▶ No. of shares outstanding  
**199,207,650**

▶ Yield  
**5%**

▶ PER  
**14.2**

▶ CAC 40 index at Sept. 27, 2002  
**Down 36%**

▶ US competitors (Cendant, Hilton Corp, Marriott International, Starwood)  
**Down 32%**

▶ European competitors (Hilton Group, NH Hoteles, Six Continents, Sol Melia)  
**Down 21%**

(Source Jacques Chahine Finance)

## GROUP NEWS

### Strategic partnership between Accor and Natexis Banques Populaires, and launch of an innovative employee savings product

Accor and Natexis Banques Populaires have created a joint venture, called Servepar, to develop employee savings products. Servepar is the first employee savings plan management company to be approved by the French stock market authority ("Commission des Opérations de Bourse") since the passage of the Fabius law, which facilitates access to employee savings products for small and mid-sized businesses. In October, Servepar introduced TESORUS, an innovative product for companies with fewer than 100 employees that combines ease of management for the company and flexibility for employees. Companies that want to offer a corporate savings plan may subscribe to a Tesorus contract with Servepar. In cooperation with Tesorus consultants and within the limits defined by the law, the client company determines the amount of the employer contribution and the amount that each employee must invest to get it. Employees then receive a booklet of 12 Tesorus vouchers, similar to Accor service vouchers, which they may invest as they see fit during the calendar year. They may choose among four investment vehicles managed by Servepar: money market funds, stocks, bonds, or a combination of stocks and bonds. A fifth guaranteed investment option is currently under study.

### Casinos: Ongoing development

Last June, Accor Casinos, which is equally owned by Accor and Colony Capital, acquired the Grand Casino in Le Touquet. The casino, located near the Palais des Congrès, operates gaming tables, 151 slot machines, a restaurant and conference rooms. Accor Casinos will develop a program of entertainment, and cultural, artistic and tourist activities. In a separate development, France's Ministry of the Interior authorized Accor Casinos to open the Casino de Carnac in Brittany, located opposite a seawater spa that includes a Novotel and an Ibis hotel. The company now manages 18 casinos and is preparing to open six new ones in France and in other countries.

### Services: Acquisition of Australia's Davidson Trahaire

In July, Accor acquired Davidson Trahaire, Australia's leading corporate psychology and human resources consulting firm. With 14 years of experience, Davidson Trahaire serves 450 of Australia's largest corporations and public

institutions with a range of human resources support services, including employee assistance programs, trauma debriefing and counseling, skills assessment, and training for management. The acquisition is in line with Accor's strategic commitment to developing its corporate services and employee assistance business.

### Customer loyalty: Introduction of the Compliments-Mouvango card

As part of its "Compliments from Accor Hotels" loyalty program, the Group is introducing a new, no-fee card that can be used in France in more than 800 Accor hotels and in any Accor Travel agency. It is also accepted in over 4,000 Total stations services, more than 400 Europcar agencies and 140 Courtepaille restaurants. The card entitles bearers to Compliments Points, which can be converted into Compliments Checks that are accepted as payment for some or all expenses in more than 2,000 Accor hotels worldwide and, in France, in Accor Travel agencies, Courtepaille restaurants and Europcar agencies.

Get information on our website  
[www.accorhotels.com/compliments-mouvango](http://www.accorhotels.com/compliments-mouvango)  
(french version only).

### 2002 Annual Meeting

On May 7, a total of 2,832 Accor shareholders (31% of all shareholders) voted at the Annual Meeting. Of these, 1,806 were individual shareholders. All of the submitted resolutions were approved. More information is available at [www.accor.com](http://www.accor.com), in the Financial Communications section (click on Financial Documents).

## Shareholder calendar


- **November 5:** Release of third-quarter sales (after the close of trading in Paris).
- **February 4, 2003:** Release of 2002 sales (after the close of trading in Paris).
- **March 5, 2003:** Release of 2002 financial results.



Letter to Shareholders is edited by Department of Financial Communication of the Accor Group

Tour Maine Montparnasse, 33, avenue du Maine,  
75755 Paris cedex 15 - France - Tel. +33 (0) 1 45 38 86 00  
E-mail: [comfi@accor.fr](mailto:comfi@accor.fr) - Internet: [www.accor.com](http://www.accor.com)

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