



Letter to Shareholders

On March 30, Accor's Supervisory Board approved for the Group's 1998 financial statements. As Co-Chairmen of the Supervisory Board – and Accor shareholders – we are pleased with the performance achieved by the Group in 1998, notably its net income, just short of FRF 2 billion, and its solid financial health, which will enable the Group to aggressively pursue its development in coming years. Reflecting this performance, the Supervisory Board fully supports the strategy implemented by Accor's Management Board. We have wholeheartedly congratulated Jean-Marc Espalioux, the other members of the Management Board, and all of the Group's associates for the achievements of 1998 and the action programs they intend to implement in the future.

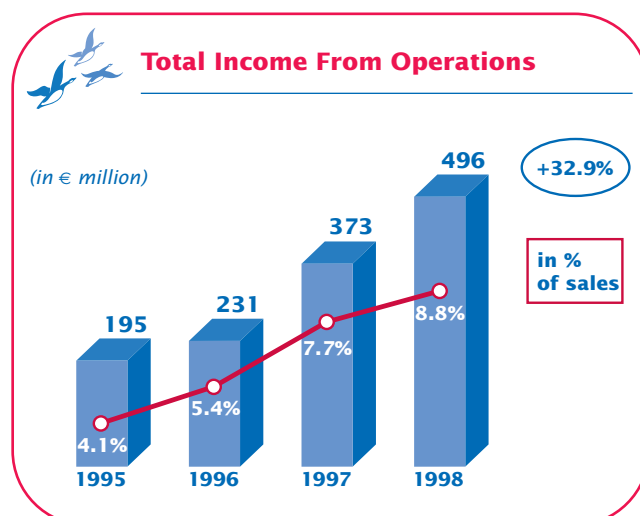
**Paul Dubrule and
G rard P lissou,**
Co-Chairmen of the
Supervisory Board

1998 Consolidated Results

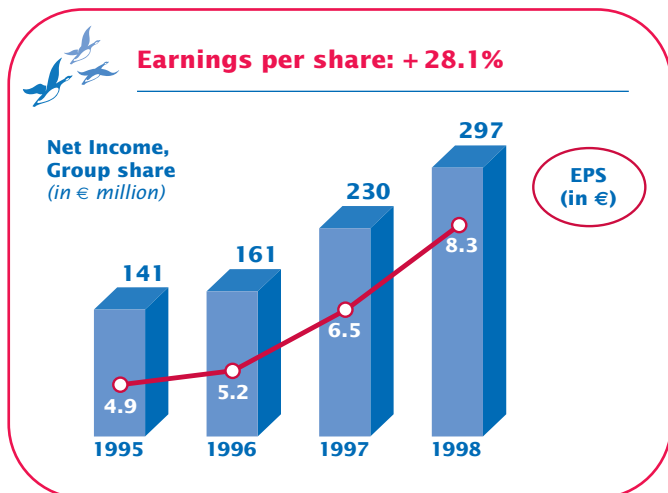
- ▶ Accor's **consolidated sales** for 1998 amounted to € 5,623 million (FRF 36,881 million), **up 16.1%** over the 1997 level (€ 4,843 million or FRF 31,780 million). On a comparable basis, sales rose by 13.3%, of which:
 - + **8.0%** due to growth of **existing activities**
 - + **9.4%** due to new **business development**
 - 4.0% due to activity disposals
 - 0.1% due to unfavorable currency impact.

Accor strengthened its leadership position in Europe, which accounted for 70% of sales, while France represented 37% of the total.

- ▶ **EBIT rose by 22.7%** over the 1997 level to € 642 million (FRF 4,215 million).
- ▶ **Total Income From Operations jumped by 32.9%**, to € 496 million (FRF 3,258 million).



► Following growth of over 40% in 1997, **net income, Group share**, rose by **nearly 30%** in 1998 to € 297 million (FRF 1,951 million). Earnings per share rose by 28.1% to € 8.30 (FRF 54.30).



► The **dividend** per share proposed to the Annual General Meeting of May 27, 1999 will amount to € 4 (FRF 26.24), or € 6 (FRF 39.36) including “Avoir fiscal” tax credit. This represents an increase of 14% over the 1997 dividend, itself 15% higher than in the prior year. Accor’s payout ratio thereby amounts to 48%.

► **Cash flow from operations** amounted to € 696 million (FRF 4,567 million), an increase of nearly 16%. Following renovation investments of € 357 million (FRF 2,345 million), representing 6.4% of sales, **free cash flow** rose by 18.5% to € 339 million (FRF 2,222 million).

► The Group’s **investments in new business development** more than doubled in two years. In 1998, a total of € 731 million (FRF 4,793 million) were invested by Accor in its future.

1998 investments in millions of	€	FRF
Business and leisure hotels	290	1,902
Economy hotels	110	734
Technological leap forward	51	334
Europcar	50	327
Accor Casinos	50	329
Onboard train services	42	275
Brazil	39	257
Other	99	635
TOTAL	731	4,793

► **Assets worth** € 1,438 million (FRF 9,432 million) were sold during the year, chiefly encompassing hotel

real estate (which Accor continues to operate under leasing contracts) and Compass shares.

► Accor’s **net indebtedness** was reduced by € 806 million (FRF 5,286 million) to € 1,834 million (FRF 12,027 million). With shareholders’ equity of € 3,049 million (FRF 20,001 million), the Group’s **debt-to-equity ratio** has been reduced from 87% at 1997 year end to 60% at 1998 year end.

	1997	1998
Sales	+ 12.3%	+ 16.1%
GOP margin (Gross Op. Profit as a % of sales)	22.9%	24.0%
Total Income From Operations, before taxes (as a % of sales)	7.7%	8.8%
ROCE (EBITDA as a % of gross value of assets)	10.2%	11.2%
Debt to equity ratio	87%	60%
EPS	+ 25%	+ 28.1%
Value creation (EVA)	€ 141 M	€ 214 M

Activity through March 1999

► **Accor consolidated sales** for the 1999 first quarter posted € 1,288 million (FRF 8,446 million), an increase of 4.2% on a published basis compared to the end of March 1998.

This increase breaks down as follows:

- **growth of existing activities**
(on a constant perimeter and currency basis): **+ 7.4%**
- **business development:** **+ 7.0%**
- discontinued activities: **- 4.7%**
(restaurants in Spain and Brazil)
- currency fluctuations: **- 5.5%**
(mainly Brazilian real and US dollar).

► As of March 31, 1999, **Hotel sales** increased by 12.9%, excluding the 2.6% negative impact of currency fluctuations.

▶ **Travel agency** sales increased by 13% excluding 4.8% negative currency impact; sales in North America grew by +18.4% and +10.1% in Europe.

▶ **Car rental** sales increased by 16.5% excluding a 1% negative impact of currency fluctuations.

▶ **Corporate services** sales increased by 14.8% excluding currency fluctuations of -22%, mainly due to the Brazilian real devaluation.

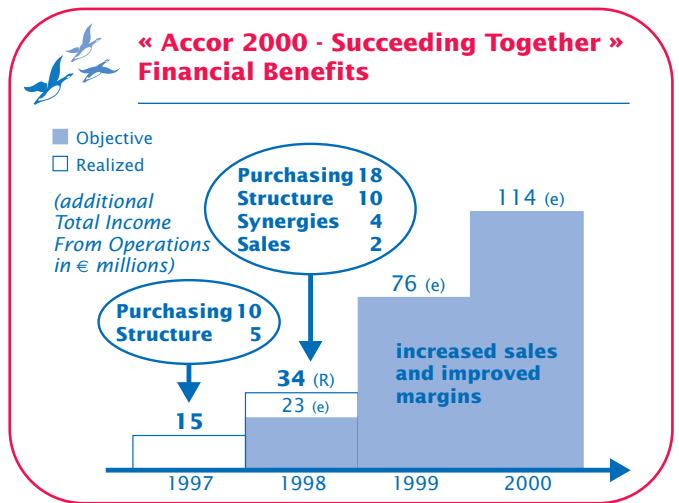
Strategic initiatives

▶ In 1998, Accor pursued the implementation of its “**Accor 2000 – Succeeding Together**” Group project. Jean-Marc Espalioux, Chairman of the Management Board and C.E.O., noted that the objectives of this Group project were “to reinforce the Group’s cohesion in terms of marketing, technology and human resources; to create a profitable growth dynamic; to improve competitiveness and leadership; and to accelerate the growth of all our businesses thanks to regained financial room for manoeuvre”.

▶ In 1997 and 1998, pursuant to “Accor 2000”, a multi-brand organization was established in hotel activities, global support services and international salesforces were strengthened, and 1,540 hotels were brought on line thanks to the installation of new IT systems. Pilot sites are preparing the full-scale deployment of a new hotel reservation systems by the end of the year 2000.

▶ Accor’s objective is to propose a **global product and service offering**, and reinforce the prominence of the “**Accor galaxy**” by:

- optimizing synergies across its activities in tourism, travel and corporate services;
- developing partnership, so as to expand the portfolio of products and services the Group offers – for example with airlines Air France and Air Liberté, with SNCF in railways, with France Télécom and Cegetel in telecommunications;
- offering attractive, customized loyalty programs: *Carte Corporate* for businesses, in partnership with Air France, American Express and Crédit Lyonnais; *Carte Compliment* for individuals;
- showcasing the range of Accor products on the Internet.



▶ Launched in 1997, the Accor 2000 project boosted total income from operations by € 15 million (FRF 100 million) in its very first year. “In 1998, the program created additional total income from operations of € 34 million (FRF 220 million), thanks to our joint purchasing strategy, the optimization of our organization, the reorganization of our salesforces, and the initial benefits of synergies across Group brands and activities”, noted Benjamin Cohen, Member of the Management Board in charge of Finance. Incremental total income from operations is expected to reach € 76 million (FRF 500 million) and € 114 million (FRF 750 million) in 1999 and 2000, respectively.

▶ **Growth**, ensuring future profitability, is the Group’s key strategic priority in all its activities. With strengthened financial resources, Accor will be able to invest **approximately € 3 billion** in its expansion over the next three years, while meeting its balance sheet and profitability criteria.



▶ In **hotel activities**, a total of 457 hotels were planned or under construction around the world in early 1999. Accor is strengthening its leadership position in Europe. The Group is also expanding its presence in the fastest-growing emerging markets, through hotel management contracts and flexible financial formulas. In the US, the Group is reinforcing its strong base in budget hotels and stepping up the pace of Sofitel's expansion.

The Group also wishes to strengthen the positioning and ambitions of its **leisure** hotel activities, while becoming one of the leading European operators of **casinos**.

▶ The transformation of the **business travel agency activity** is underway, and its profitability is improving. Travel agencies, which used to be exclusively remunerated through commissions paid by airlines, now provide value-added services which are paid directly by corporate customers.

▶ **Europcar** aims to reclaim the European number one position in car rental and build a worldwide network, with greater support from its two shareholders, Accor and Volkswagen, and expanded synergies with Accor hotels and Carlson Wagonlit Travel travel agencies.

▶ **Corporate services** are developing new services to improve the productivity of their corporate clients and the working environment of their employees, while preparing the gradual introduction of electronic cards to replace paper vouchers. Initial tests are being carried out in Brazil and France.

Recent developments

▶ Acquisition of **Frantour**: in the first quarter of 1999, Accor acquired from SNCF, the French railway operator, 33 Frantour hotels, 86 travel agencies and seven tour-operating companies in Europe.

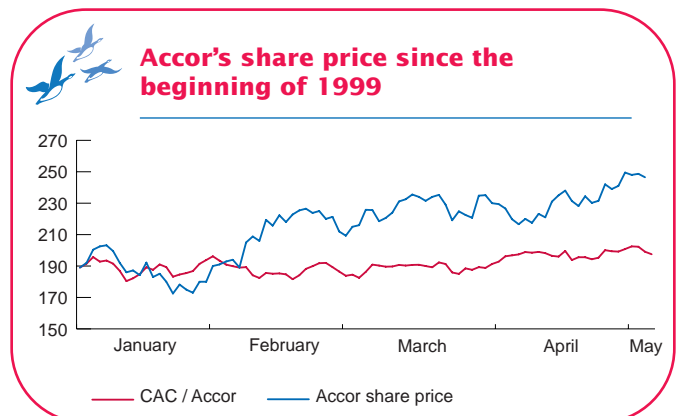
▶ Acquisition of **Good Morning Hotels**, a Scandinavian group of 22 hotels, including 21 in Sweden and 5 in Finland.

▶ **Marketing partnerships**: following the October 1998 launch of *Carte Corporate*, Accor and **Air France** have joined forces to offer their clients an expanded loyalty programs, as well as the interconnection of their reservation network and Internet sites.

Following the award to Wagons-Lits of the contract for catering on board trains, the opening of Europcar outlets in train stations and the recent acquisition of Frantour, Accor and **SNCF** have joined forces to give new momentum to the "Train + Hotel" formula and strengthen their respective loyalty programs.

▶ **Casinos**: Accor has been granted the concession, for a ten-year period, of the Dragonara Casino in Malta, in association with Air Malta and a group of local hotel operators; Accor also signed an agreement to purchase Bénodet and Perros-Guirec casinos in France.

The Accor share



The Accor share has risen by 31% since the beginning of 1999 (through May 6, 1999), while the CAC 40 Paris Stock Exchange index rose by 4.5%.

Group news, financial and shareholder information can be accessed on Accor's website
www.accor.com/finance

