



# Letter to Shareholders

## 1999 first half results

- ▶ Accelerated growth
- ▶ Total income from operations up 12.5%
- ▶ Net current income, Group share, up 26.7%

(in € millions)	June 1998	June 1999	% change
Consolidated sales	2,733	2,854	+4.4%
Gross operating product	626	683	+9.2%
as a % of sales	22.9%	23.9%	+1 pt
<b>Total income from operations</b>	<b>213</b>	<b>239</b>	<b>+12.5%</b>
<b>Net current income, Group share*</b>	<b>112</b>	<b>142</b>	<b>+26.7%</b>
Net income, Group share	159	155	-2.7%
ROCE	10.6%	11.2%	+0.6 pt

\*Excluding capital gains on sale of non-hotel assets.

(Interim results, details on p. 2/3)

## Development of hotel activities: targets exceeded in 1999

- ▶ In the first eight months of 1999, **563 new hotels** were added to the Accor network. The Group strengthened its position as the world's leading hotel operator, while leaping from **fifth to third place** regardless of mode of management with a total of **3,170 hotels and 348,515 rooms**.
- ▶ **The Group's organic growth picked up speed**, with the opening of 132 new hotels (13,825 rooms). In addition, Accor completed a number of **acquisitions** under favorable terms, mainly in Europe, including Good Morning Hotels (22 hotels, 1,877 rooms in Sweden and Finland), the Frantour Group in France (31 hotels, 4,217 rooms, as well as travel agencies and tour operators),

Vivendi's hotel division under the Demeure and Libertel brands (48 hotels, 3,124 rooms, mainly located in Paris) and six hotels in Denmark, a new country for the Group.

- ▶ With the acquisition of **Red Roof Inns** in the US in July (see details on p. 3), Accor considerably strengthened its unique position in the global economy lodging sector, now accounting for 60% of its hotel portfolio. Targeting a new clientele, durable growth in the economy lodging sector will be fueled in Europe and emerging markets by the increasing affordability of air transportation, higher disposable income and globalization, as is already the case in North America. Economy lodging offers rapid and high returns (ROCE of at least 15%), due to limited construction costs and low labor requirements.

- ▶ **As of the end of August, 418 new hotel projects** (52,000 rooms) were underway, of which about 100 should be completed by year end. Half of these projects are in Europe. At the same time, Accor is pursuing its growth in **emerging markets**, particularly in China and Latin America, with well-adapted financial formulas.

## Development of complementary activities of hotels

- ▶ **In tourism**, Accor has expanded its network through the integration of the **Frantour** and **Couleurs Locales** (Tunisia) tour operators, as well as the Frantour travel agencies. Alongside Frantour, specializing in short stays in France and Europe, **Accor Tour** becomes a generalist. It has doubled its activity volume in the past two years. The development of leisure hotels continues with 32 new hotels in 1999, under the **Coralia** label.
- ▶ Since the beginning of 1999, five new **casinos** have joined Accor: four in France and one in Malta. In partnership with Casinos Austria, Accor is in talks to

take over the casino and Sofitel hotel of Cairns, Australia. In total, **Accor Casinos** should operate 12 gaming facilities by year end (versus five at year end 1998) and generate revenues of € 185 million.

▶ **Carlson Wagonlit Travel** pursued its adaptation to new marketing and technological facts, especially through large call centers and specialized information systems.

▶ **Europcar** realized a noted entry into the Chinese market and the establishment of a franchise in Mexico. Partnerships became richer – notably with Air France and Lufthansa in loyalty programs, and with France’s SNCF to open branches in railway stations. Europcar’s commitment to the environment (electric-powered cars, “green” tariffs, etc.) remains a key feature.

### New products and countries for service vouchers

▶ **Accor Corporate Services** (ACS) continues to diversify and expand across the globe. Since March 1999, “Ticket Restaurant” is present in Romania and is already used by 45,000 people daily. ACS has also acquired 55% of Lunch Co., the service voucher leader in Poland. Among the new products launched in 1999 are “School Card,” a meal system offered to students in Sweden, “Asylum Seekers,” for refugees in Germany, and “Top Premium,” a gift certificate in India. Finally, one million “food” magnetic cards should replace paper vouchers in Brazil in 2000!

### “Accor 2000 – Succeeding Together”: competitive edge on a global scale

*The Accor 2000 initiatives completed or underway will fully benefit the Group in 2000.*

▶ **Productivity** improves thanks to purchasing optimization and commercial synergies, notably between travel agencies and hotels.

▶ **Technological improvements** pick up speed with 1,850 hotels linked to the Accortel telecommunications network, supported by a broad training effort.

▶ **Accor’s sales and development forces** now represent a unique competitive capability on a global scale.

*Second phase of the Accor 2000 Group plan, 2000 through 2002.*

▶ The deployment of a **new global reservations system**, currently tested, will enable on-line access to GDS, travel agencies, tour operators, Accor’s partners (Air France,

SNCF, etc.) and large clients, as well as real-time updating of available rooms throughout the network, immediate reservation from one hotel to another. And effective revenue management (optimization of the occupancy rates and average room rates) by hotel and by metropolitan area will be implemented.

▶ On the **Internet**, the new sites of Accor and its brands will be operational starting in the first quarter of 2000. They will be interconnected to the new reservation system.

▶ Finally a new management tool, combining central and local data, is being implemented in order to **integrate management** of financial and physical flows throughout the network.

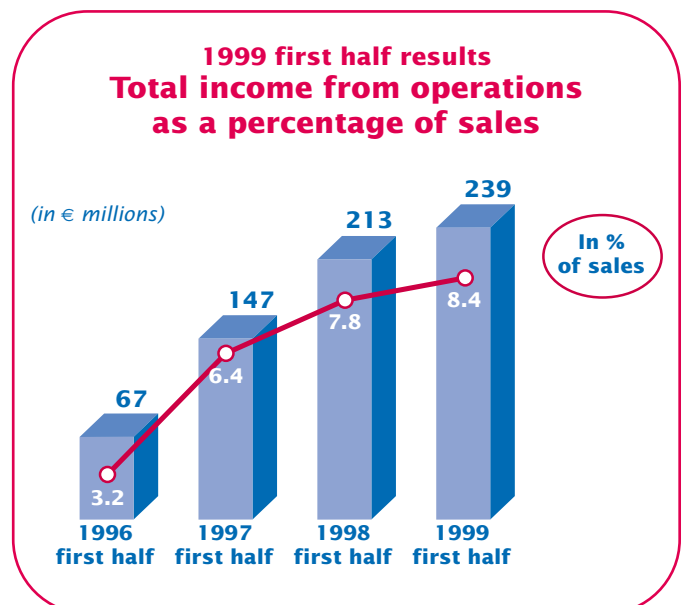
▶ All of these projects will extend Accor’s **visibility**, a priority for future development, partnerships, loyalty programs and Internet sales.

### 1999 interim results

▶ **Consolidated sales** grew by 4.4% over the first half 1998 level. On a comparable structural and currency basis, consolidated sales increased by 12.7%.

▶ Productivity gains resulted in a one percentage point increase in **operating margin** (GOP as a percentage of sales).

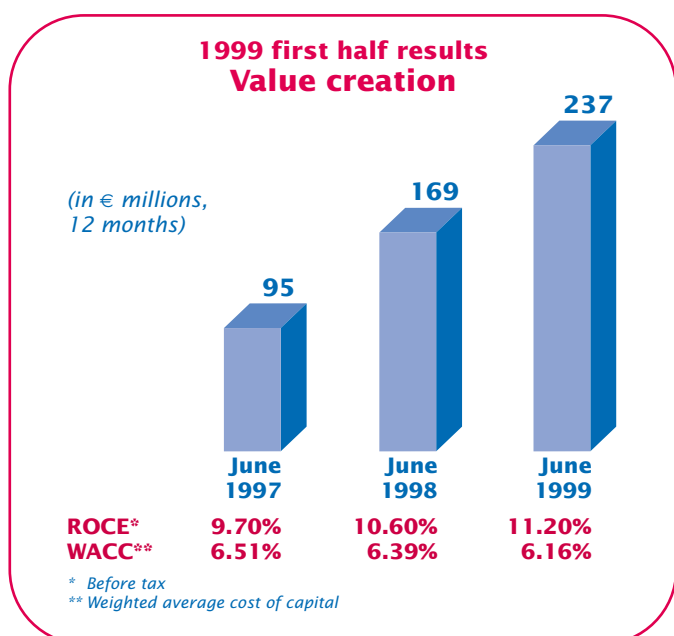
▶ **Total income from operations** rose by 12.5%, with pre-tax margin (total income from operations as a percentage of sales) increasing from 7.8% in the first half of 1998 to 8.4% in the first half of 1999.



► **Net current income, Group share**, excluding capital gains on management of non-hotel assets, net of taxes and minority interests, jumped by 27%, while **net income, Group share**, was virtually unchanged, reflecting lower capital gains on the sale of Compass shares.

► Reflecting the sharp increase in development investments, the Group's **net debt-to-equity ratio** stood at 78% and should reach 95% by year end.

► Return on capital employed (**ROCE**) rose by 60 basis points to 11.2% compared to first half of 1998. With a 6.16% weighted average cost of capital (WACC), **Accor created value** of € 237 million in the first half of the year.



## Activity through August 1999

► In **hotels**, revenue per available room (RevPar) rose by 2% in European business and leisure hotels (+5% excluding impact of Soccer World Cup in the first half of 1998) and by 6.7% in the European economy segment. In the US, RevPar at Red Roofs Inns and Motel 6 rose by 1.7% and 6.3% respectively.

► **Service voucher** issuance volume rose by 10.8% outside of Brazil. In Brazil, issuance volume increased by 2% in local currency terms.

► **Carlson Wagonlit Travel** traffic grew by 8.2%.

► **Europcar** revenues jumped by 17.8% in the first eight months of 1999.

## 1999 outlook

► For full year 1999, Accor's outlook is as follows:

- Consolidated sales: **up 8%** to € 6 billion.
- Total income from operations: **up 15%** to € 570 million.
- Net income, Group share: **up approximately 10%** to € 325/€ 330 million.

Growth of Accor's hotel portfolio will continue with **650 to 700 additional hotels by 1999 year end**.

## Accor key ratios

	June 1998	June 1999
<b>Consolidated sales</b>	+16.3%	+4.4%
<b>GOP margin</b> (Gross Operating Profit as a % of sales)	22.9%	23.9%
<b>Total income from operations, before taxes</b> (as a % of sales)	7.8%	8.4%
<b>ROCE</b> (EBITDA as a % of gross value of assets)	10.6%	11.2%
<b>Debt-to-equity ratio</b>	60%	78%
<b>Value creation</b> (EVA)	€M 169	€M 237

## Accor in the news

► On July 16, 1999, Accor launched a **tender offer for the US economy lodging chain, Red Roof Inns**, at the price of \$ 22.75 a share. Following expiration of the offer on August 12, 1999, Accor held over 99% of Red Roof Inns share capital. Total enterprise value mounted to \$ 1,115 million, or 7.35 times Red Roof Inns' 1999 estimated EBITDA. Two-thirds of the transaction's financing is denominated in US dollars. The acquisition of Red Roof Inns led to the creation a new entity within Accor, "Accor Economy Lodging", which combines all of the Group's economy lodging activities in the US. Accor Economy Lodging encompasses a portfolio of 1,112 hotels and over 122,000 rooms in 48 states, with a 10% share of the US economy lodging market. Red Roof Inns' integration within this entity was completed in record time. Red Roof Inns benefits from a particularly efficient reservation system.

► As part of the early September partnership agreement between **Accor and the French Olympic Committee**,

Accor and its brands will put their know-how at the disposal of the Olympic Games organization, notably of the 350 to 400 athletes who will represent France in Sydney. The French delegation will stay at **Accor hotels** and be catered by **Lenôtre**. The 2000 Olympics will take place in Australia, where Accor is the number one hotel operator with a network of 62 units, and is currently building the **Olympic hotel complex** at Homebush Bay in Sydney, comprising a Novotel and an Ibis hotel. Accor is therefore present on the actual site of the Games, within walking distance of the main track-and-fields stadium.

► In August, the Group signed a **partnership agreement with Beijing Tourism Group, the Chinese hotel and tourism operator**. This organization manages, on behalf of the state, a number of travel and tourism hotels, restaurants and other services. The first illustration of this partnership was the signing of the letter of intent for the management by Accor of the Beijing Novotel Peace Hotel in early 2000.

► Present in **Poland** for the past 25 years, Accor seeks to create a network of 80 hotels, totaling 10% of total actual supply. All brands will be represented, notably Ibis and Etap Hotel. Currently, the Group operates eight units in Poland (five Novotel, two Mercure and one Ibis).

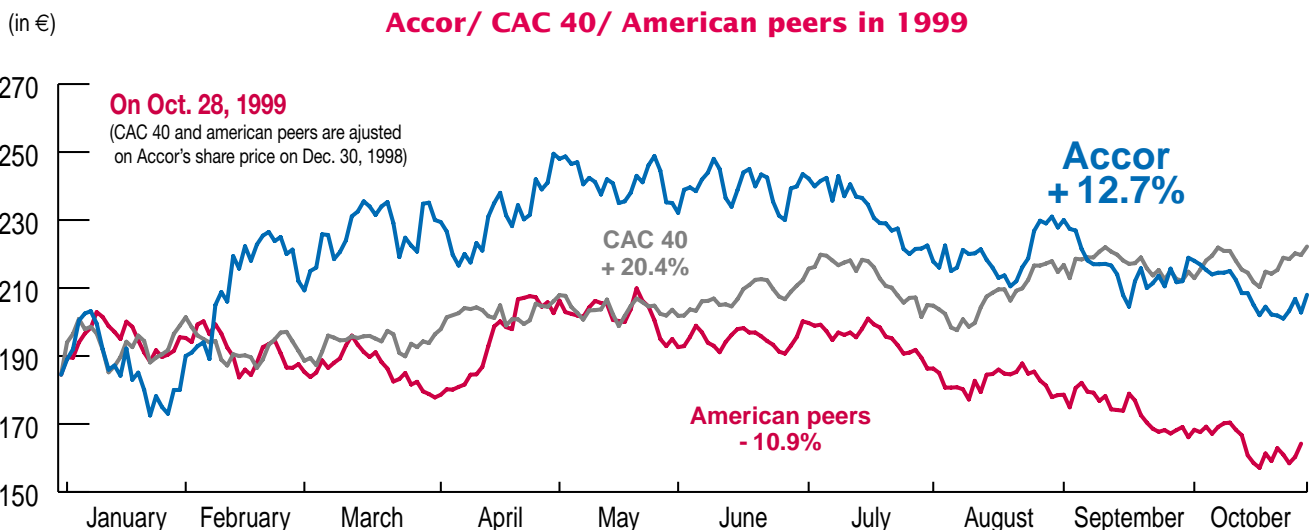
Accor shareholders are invited to participate in an **Extraordinary General Meeting** to be held **on December 15, 1999\* at the Sofitel Paris Porte de Sèvres at 3:00 pm (local time)** to approve the modification of the par value of Accor shares and the proposed acquisition of companies operating hotels under Accor franchises. To participate in the Extraordinary General Meeting, shareholders must request from their bank or financial intermediary that their shares be immobilized, and forward their certificates of immobilization to:

**Société Générale**

32, rue du Champ-de-Tir - BP 81236  
44312 Nantes Cedex 3 - France  
with the request for entrance pass.

\* second call

## Evolution of the Accor share



All information for the shareholders are on the website [www.accor.com/finance](http://www.accor.com/finance).

