

# Letter to Shareholders



October 2009  
No 33



## Proposed demerger of the two businesses

Dear Shareholders,

Like every other company, Accor had a very difficult first half in 2009, due to the exceptionally weak economic environment.

The Hotels business, which is particularly sensitive to the economic cycle, was the hardest hit, especially in the Upscale, Midscale and US Economy segments. In the end, the businesses that demonstrated the greatest resilience were Economy Hotels outside the US – led by a good performance in France – and Prepaid Services. As you will see in the following pages, this situation impacted our first-half results, with a 44% decline in operating profit before tax and non-recurring items and a number of asset write-downs that caused us to report a net loss for the period. In this environment, we responded very quickly to defend and expand our market share by deploying an assertive, innovative marketing strategy, re-scaling our projects and, in turn, re-thinking our organizations to make them even more competitive.

Today's unprecedented economic situation is impelling us to act swiftly and forcefully. To attenuate the recession's impact, for example, we quickly introduced cost-cutting plans that are successfully reducing both our operating and support costs. By mid-year, half of the fo-

recast savings have already been achieved. At the same time, we are pursuing the growth dynamic launched early in the year in the Hotels business, with the goal of opening 30,000 rooms in 2009 while reducing expansion and renovation expenditure. This carefully controlled expansion, which will be financed in association with our partners, will be based primarily on low-capital-intensive structures, with more than 80% of the projects reflecting our increasing focus on management or franchise contracts. Based on our scenario for the second half of the year – which should see a 25% decline in interest income, a slight increase in Prepaid Services revenue and no improvement in the Hotels business – we're aiming for full-year operating profit before tax and non-recurring items of €400 million to €450 million.

Quite clearly, our success will be driven by the ability to act quickly without compromising our future growth. To achieve these goals, you can rely on our highly talented teams and solid financial position.

**"Today's unprecedented economic situation is impelling us to act swiftly and forcefully."**

For our two core businesses to remain competitive, their transformation process, which has been underway for the past three years, has to be stepped up. This faster transformation will also accentuate each one's unique characteristics, which raises the issue of demerging them into separate companies.

The Board of Directors has approved my proposal that a review should be conducted to study the potential benefits of a demerger which, if carried out, would enable each of the two new companies to increase its stock market value and complete its vitally important transformation process. In the Hotels business, we will pursue our commitment to market leadership in Europe by i) leveraging powerful brands, from Budget to Upscale, but with a focus on the Economy and Midscale segments; ii) using efficient distribution networks; and iii) shifting from an owner/operator business model to one based on acting as a hotel franchisor or manager on behalf of the owners.

In Prepaid Services, the transformation primarily entails transitioning from paper to electronic media and broadening the portfolio from a single product to a range of targeted solutions in a competitive landscape that is expanding to include world-class players.

To successfully execute these strategies, we will need to count on totally dedicated teams that are specialized in their core competencies. By marshalling the resources they need for profitable growth, each company will create value for shareholders.

Gilles C. Pélisson  
Chairman and Chief Executive Officer

G.C.P.

Revenue:  
**€3,410 million**  
 down 8.1%

Consolidated revenue for the first half of 2009 declined by 8.1% on a constant scope of consolidation and exchange rate basis (like-for-like). On a reported basis, revenue retreated 9.3% due to the strategic refocusing on Hotels and Prepaid Services (with the disposal of the Brazilian foodservices business) and the ongoing deployment of the asset-right strategy, which had a 4.5% negative impact on revenue for the period. In addition, the currency effect was a negative 1%. On the other hand, the expansion strategy added 4.3% to revenue growth for the period, with the full consolidation of Orbis in Poland contributing €104 million.

EBITDAR margin:  
**27.1%**  
 down 2.2 points

A key financial performance indicator corresponding to revenue less operating expense, EBITDAR decreased 15.1% like-for-like to €924 million in the first half. It represented 27.1% of interim revenue, versus 29.0% in first-half 2008, as the firm resistance of our two main businesses, Prepaid Services and Economy Hotels outside the US, helped to limit margin erosion to 1.9 points as reported and 2.2 points like-for-like. The like-for-like decline reflected a 0.4-point increase in Prepaid Services and a 2.3-point decrease in Economy Hotels outside the US. The Upscale and Midscale Hotels and the US Economy Hotels segments remained severely impacted, with margins narrowing by 4.1 points and 5.7 points, respectively. EBITDAR for the period reflected the cost savings already achieved in the first half, which amounted to €37 million in support costs (for an annual target of €80 million) and €72 million in operating costs (for an annual target that has been raised to €150 million from €120 million).

Business	First-half 2009 revenue	% change (like-for-like)	First-half 2009 EBITDAR margin
<b>Hotels</b>	<b>€2,534m€</b>	<b>-11.4%</b>	<b>27.6%</b>
Upscale and Midscale	€472m	-13.3%	23.6%
Economy	€781m	-7.3%	34.1%
US Economy	€281m	-12.8%	30.8%
<b>Prepaid Services</b>	<b>€465m</b>	<b>+5.7%</b>	<b>43.2%</b>

Operating profit before tax and non-recurring items:  
**€182 million** down -44.5%

Operating profit before tax and non-recurring items is stated after fixed asset holding costs (rental expense plus depreciation and interest) but includes the share of profit of associates. This item declined 44.5% like-for-like during the period.

Net loss, Group share:  
**€150 million**

Operating profit before non-recurring items, net of tax amounted to €114 million. The net result, Group share, which came to €150 million loss, was impacted by €194 million in asset impairment losses (of which €118 million on Motel 6 goodwill). Note, however, that these losses did not have any cash impact, as they merely reflected the decline in the assets' balance sheet value. In addition, the net loss included €53 million in restructuring costs, primarily related to Group reorganization programs.

EBITDAR (in € millions)



— Ebitdar Margin

## Free cash flow

Funds from operations after hotel renovation and maintenance expenditure declined to €198 million from €303 million in first-half 2008.

## Net debt

Net debt stood at €1,961 million at June 30, 2009, reflecting an inflow of €77 million from asset disposals and outflows of €193 million in expansion expenditure in the Hotels and Prepaid Services businesses and €201 million in the payment of a dividend. Net debt also included two non-recurring items: the acquisition of an additional 15% stake in Groupe Lucien Barrière for €269 million and the payment of €242 million to the French State in settlement of tax assessments on Compagnie Internationale des Wagons Lits.

## July business trends

### Prepaid Services

Revenue was up a slight 0.6% in July despite a 21.9% drop in interest income recognized in revenue<sup>1</sup>. Operating revenue, including commissions paid by corporate customers and service providers (primarily restaurant owners) was up 4.4% for the month.

### Hotels

The Hotels business saw improving trends in July, buoyed by the increase in the proportion of leisure travelers in the clientele mix during the summer. In Upscale and Midscale Hotels in Europe, July RevPAR<sup>2</sup> was down 12.7% like-for-like, compared with a 19.2% decline in the second quarter. In the Economy Hotels segment in Europe, July RevPAR was down 8.5% like-for-like, compared with a 9.7% decline in the second quarter. In the US Economy Hotels business, July RevPAR was down 15.2% for the month, versus a 15.7% decline in the second quarter.

<sup>1</sup>: Prepaid Services revenue includes interest income on invested cash.

<sup>2</sup>: Revenue Per Available Room, defined as occupancy times the average room rate.

<sup>3</sup>: ROCE corresponds to EBITDA expressed as a percentage of fixed assets at cost plus working capital.

## FOCUS

The main financial ratios attest to the **solidity of Accor's balance sheet** at June 30, 2009. Backed by the two bond issues totaling €1.2 billion carried out in the first half, **the Group had €1.8 billion in unused, confirmed lines of credit at June 30, 2009**. No significant amount of debt has to be repaid over the next three years.

**The ratio of funds from operations before non-recurring items to adjusted net debt** stood at 21.5% at June 30, 2009, compared with 24.2% at June 30, 2008 and 25.8% at December 31, 2008.

**Return on capital employed (ROCE<sup>3</sup>)** declined by 2.4 points during the first half, to 12.1% at period-end from 14.5% at June 30, 2008.

## Full-Year Earnings Objective

In the absence of any visibility in the economic environment, the target for operating profit before tax and non-recurring items has been set at between €400 million and €450 million, based on the following assumptions:

### In Prepaid Services

- A more than 25% decline in interest income in the second half, causing like-for-like revenue to show only a slight gain for the year.
- An operating margin of more than 40% for the year.

### In Hotels

- No major improvement in business expected in the second half.
- The plan to reduce operating costs in the owned/leased hotels will be stepped up to €150 million from €120 million.

### At the corporate level

- An €80-million reduction in support costs over the year.

**Full-year target for operating profit before tax and non-recurring items: between €400 million and €450 million**

## Hotels

In a severely depressed business environment, Hotels revenue fell 11.4% like-for-like in the first half. Our teams responded with marketing and sales initiatives, a number of which are presented below.



### Online bookings: 25% increase in sales volumes as of July 31

- Thanks to an efficient, effective web strategy, the percentage of hotel nights booked online rose by four points to 19% of the total. One example of a particularly attractive, high-profile online marketing drive was the Supersales campaigns recently organized to drive stronger sales in Europe and Asia.
- The growth in online bookings also reflects Accor's successful adjustment to new recession-driven consumer trends. Fully 75% of Internet visitors compare several booking sites before clicking through to booking. In addition, reservations are being made closer to the actual date of stay, with pre-booking declining from ten to seven days on average.

### Enhanced care for corporate customers

- Corporate customers, who tend to reduce the number of service providers and suppliers during a recession, are all the more interested in working with global multi-brand players like Accor, which can cover every segment, from Budget to Upscale.
- To give these customers the flexibility they want, we've introduced a dynamic pricing strategy that adjusts prices based on hotel occupancy rates.
- We are also increasing our market share among large networks such as American Express and Carlson WL, which are enabling us to access travel policy consultants in large corporations.

### Improved quantitative and qualitative performance

- Guest satisfaction rates at Accor hotels are extremely high, averaging around 90%. In first-half 2009, the percentage of guests pleased with their experience in a Novotel stood at 89% in France and even 95% in Asia.
- Our brands are also outperforming the competition. For example, in the 12 months to June 30, 2009, Ibis' RevPAR in France was 30.9% higher than that of its competitors.

### Successful first year for the AI Club loyalty program

- Just one year after its launch, the AI Club already has three million cardholders, half of them in Europe.
- Cardholders spend 16% more on average than non-member retail guests and account for a significant 10% of retail guest revenue.
- 94% of earned points have been burned in Group hotels.

## Prepaid Services

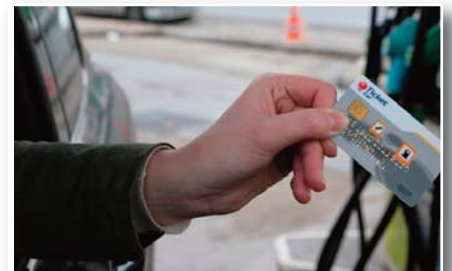
Revenue from the Prepaid Services business rose by 5.7% like-for-like in the first half, overcoming the adverse impact of sharply higher unemployment rates, which are affecting corporate customers, particularly in Europe, and lower interest rates, which are reducing interest income recognized in revenue. Among other factors, revenue growth reflected stepped-up marketing and sales initiatives, which drove the development of new products and the penetration of new markets.

### Development of new products and penetration of new markets

From the beginning, Accor Services has never stopped innovating to provide companies and public institutions with attractive, creative solutions to enhance individual wellbeing and organizational performance. As new lifestyles and needs emerge, Accor Services has responded with tailored products and services that make life easier. A few of them are described below.

#### Nouveaux produits

- A prepaid travel agency card has been introduced in the United Kingdom as an alternative to cash and travelers' checks.
- Reflecting the business' technological transformation, Europe's first meal service card (the electronic equivalent of Ticket Restaurant® meal vouchers) has been launched in Slovakia.
- In Germany, BP asked Accor Services to handle the March 2009 launch of its gift cards across a network of 8,000 service stations. So far, 70,000 cards have been sold.
- In Chile, the Ticket Car® expense management card was introduced in partnership with local oil company Petrobras. The card can be used to pay for fuel or repairs for corporate fleets. Three weeks after launch, non-electronic transactions declined from 40% to 7% of the total.



#### Recent government initiatives

To help the disadvantaged in this time of economic crisis, national governments have asked Accor Services to provide such practical solutions as:

- The CESU Social human services voucher in France, which is intended to support people most hurt by the recession. Accor already holds 23% of this market, estimated to be worth €300 million.
- Holiday vouchers introduced in Romania as part of a government stimulus program to promote tourism. They can be redeemed for package tours including a hotel night and an additional service, such as transportation or dinner.

#### Value-added services

- New Beneficio Club websites have been launched in Brazil and Mexico. The Club offers Ticket-brand users online advantages through a network of partners, including retailers, foodservice providers and travel agencies. It was designed in particular for companies with fewer than 50 employees that do not have a works council – a profile that matches 80% of Ticket Restaurant® customers.



## Cost-savings plan

As part of its response to the recession, Accor deployed a major cost-savings plan in early 2009, which included plans to reduce both operating costs in owned and leased hotels and support costs. Here is an update on the plan's progress.

### Reducing operating costs in owned or leased hotels

As of June 30, 2009, nearly half of this plan had already been completed, with savings of €72 million. The target has been revised upwards to €150 million from €120 million to ensure that the response rate holds steady at 35% in an environment of declining revenues.

### Tracking reductions in support costs

This plan is designed to reduce support costs by 15%, representing savings of €125 million (of which €80 million in 2009 and €45 million in 2010). As of June 30, 2009, €37 million had already been saved. To reach the target, Accor is adjusting its organization, notably by right-sizing teams to match scaled-back projects. This involves reviewing non-priority projects and canceling or postponing back-office projects and renovation work in certain brands. Information and distribution technology projects have also been pared back, along with image campaigns.

## Expansion: a growing pipeline

### Target of opening 30,000 new rooms in 2009

In keeping with its strategy of sustained expansion, primarily in Economy Hotels and low-capital-intensive ownership structures (more than 80% of the total), Accor has confirmed its target of opening 30,000 rooms in 2009.

As of June 30, 2009, 12,000 rooms had been opened, compared with 11,000 one year earlier.



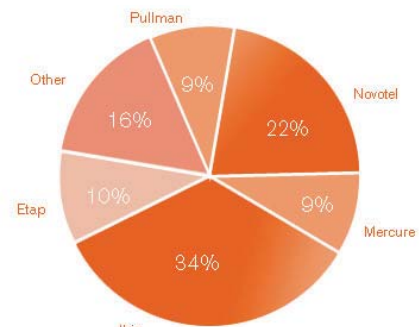
Mercure Brasilia Eixo - BRAZIL



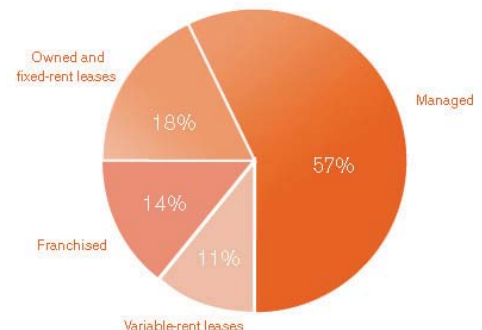
Ibis London Greenwich - UNITED KINGDOM

103,000 rooms in the pipeline as of June 30, 2009

Breakdown by brand and ownership structure



More than 50% in Economy and Budget hotels



More than 80% under low-capital-intensive ownership structures

## Reasons for considering a demerger of the Group's two core businesses

### Two businesses that are very different...

The transformation of our two core businesses underway for the past three years has highlighted **each one's unique characteristics, in two very different industries**. In Prepaid Services, we're completely revamping our approach to the business in response to the emergence of increasingly sophisticated technologies and a much more competitive marketplace. In Hotels, the challenge is to complete the transition to the new business model, with a focus on low capital-intensive operating structures. These developments have clearly shown the need for two independent organizations with dedicated management teams. That's why **we've initiated a review of the potential benefits of demerging the Hotels and Prepaid Services businesses into two self-managing companies**, each with its own strategy and resources for growth. Such a demerger would **create value by enhancing the net worth of each business, which would benefit all of our shareholders**. It would also enable the emergence of two global leaders, each in their respective industry, with critical mass, a strong and expanding international footprint and the ability to generate free cash flow.



### ...and fast changing

Originally based on a single product – the Ticket Restaurant® meal voucher – **the Prepaid Services business has shifted toward a multi-product offering** that includes the CESU voucher in France, the Childcare Voucher in the UK and gift vouchers. The emergence of an array of electronic media, in addition to paper vouchers, is requiring greater technological agility, while the competitive landscape has broadened to include more world-class players. **The Hotels business is also evolving at a faster pace**. In response to the growing segmentation of demand, the brand portfolio has been realigned and new distribution channels are being introduced to reach new targets. To drive its growth, the Hotels business is shifting from a model based primarily on owned/leased hotels to one with most hotels operated under management or franchise contracts.

## A demerger would speed the transformation of both businesses

A demerger would support and accelerate the transformation and development of our two core businesses. **Both of the new companies would be able to improve their performance management and optimize the allocation of strategically important financial resources**. In the same way, they would also be free to forge strategic alliances and partnerships, expand their operations and directly access the capital markets to finance their future growth. **This would make it easier to find partners** to finance the current hotel growth dynamic, which is focused on developing a majority of units under **less capital-intensive franchise and management arrangements** in the Economy and Midscale segments (while still covering the range from Budget to Upscale). In addition expansion will be concentrated in Europe and in a limited number of high-potential emerging markets. In Prepaid Services, transformation involves strengthening the business' global leadership in the B2B segment and its predominance in prepaid benefits in Europe and Latin America. **Prepaid Services could step up the shift to new technological media** (paper, cards, online, mobile phone) while developing high-value added services. It could also rapidly develop new growth drivers by launching new prepaid services in such areas as rewards and expense management and by using new merchant acceptance networks. In short, the two companies would have the resources needed to pursue profitable growth.

## Creating value for both companies and for shareholders

For shareholders, the demerger would create two "pure players" in their respective industries, Hotels and Prepaid Services. Moreover, by improving each business' visibility and growth prospects, **the merger would also increase shareholder value**.

For additional information, please call the Accor Retail Shareholders Relations at **0811 01 02 03** (France only) from 9:00 am to 6:00 pm CET, Monday through Friday except French holidays.

Email: [comfi@accor.com](mailto:comfi@accor.com)

Postal address:

Accor Retail Shareholders Relations  
Immeuble Odyssey - 110 avenue de France  
75210 - Paris Cedex 13

## Your questions about the proposed demerger

### How long will it take to complete the review and when would the demerger take place?

The final decision regarding a demerger of the two businesses will not be made until the review has been completed and the Board of Directors has issued an opinion on whether or not to carry it out. A six-month deadline has been set for determining the terms of the transaction. In any event, the project will be submitted to shareholders at an Extraordinary Meeting.

### Was the decision dictated by the Colony/Eurazeo concert group?

The decision was approved by the new Board of Directors, which has six independent directors among its 12 members and which is committed to strictly complying with the principles of sound corporate governance. The project also has the whole-hearted support of the Group's Co-Founders and the concert group has informed the Board that it would continue to support both new companies. The demerger would represent the beginning of two exciting new adventures with the creation of two global market leaders.

### How would the demerger affect the Accor share?

#### What would be the impact for shareholders?

According to the current scenario, after the demerger, shareholders would automatically receive one share for the Hotels business and one share for the Services business for every one Accor share held, with the combined value of the two new shares equal to that of the Accor share at the date of demerger. Thus, both companies would start with the same shareholder base before their shares began trading separately. The purpose of the demerger is, of course, to optimize the value of each business in its respective industry, as reflected in its share price.

### Why doesn't the market currently price Accor at its true value?

While the Hotels and Prepaid Services businesses have never enjoyed any real operating synergies, they do offer the advantage, in the current recession, of being complimentary in terms of both cash generation and business cycle (one being cyclical and the other defensive). But the fact that they have different cycles hinders investor understanding of each one's full value, regardless of the economic environment. Lastly, Accor is perceived as a hotel group with a less well-understood services business, which makes it harder to draw comparisons with its leading hotel competitors.

## Useful information

### Shareholder calendar

**October 15, 2009**

Third-quarter 2009 revenue

**January 19, 2010**

Fourth-quarter and full-year 2009 revenue

**February 24, 2010**

2009 earnings

### Registering your Accor shares

To register your Accor shares, contact our Registrar:

#### Société Générale

Département Titre Bourse - Comptes  
32, rue du Champ-de-Tir  
BP 81236 - 44 312 Nantes Cedex 3

Tel: **+33 (0)2 51 85 67 89**

(cost of a local call when phoning from France)

Fax: **+33 (0)2 51 85 57 01**

### How to join the Shareholders Club

If you own 50 Accor shares in bearer form or one registered share, you can join the Accor Shareholders Club on the

[www.accor.com](http://www.accor.com), Finance section.

You can learn more about the advantages of Club membership (information, meetings, loyalty card, special offers) and fill in the online application form in the "Espace Actionnaires" section (French language only).

#### Note:

Beginning in second-half 2009, all of our financial publications and news can also be downloaded from the "Finance" section of the website. Send us your e-mail address and you'll receive an alert whenever a publication you wish to receive is available on the site.