Summary

COB

The french version of this registration statement was filed with the « Commission des Opérations de Bourse» (the french Stock Exchange Commission) on May 7, 1999 under reference number R.99-168; it may not be used to support a Stock Exchange transaction unless it is accompanied by listing particulars bearing the official approval of the « Commission des Opérations de Bourse».

Management Report

Milestones

1967
opening of the first Novotel hotel in Lille, France, and creation of the company Novotel SIEH by Paul Dubrule and Gérard Pélisson

1974
opening of the first Ibis hotel
purchase of the Courtepaille restaurant chain

1975
purchase of the Mercure hotel chain

1980
purchase of the Sofitel hotel chain

1981
initial public offering of SIEH

1982
acquisition of full control of Jacques Borel International (service vouchers, public restaurants and institutional catering)

1983
creation of Accor

1985
creation of the Formule 1 budget hotel chain
purchase of de-luxe caterer Lenôtre

1990
acquisition of the Motel 6 chain in the US

1991
tender offer for Compagnie Internationale des Wagons-Lits et du Tourisme (hotels, travel agencies, car rental, restaurants, onboard train services)

1993
creation of AAPC in Asia, following the merger of Accor's activities in the region with Quality Pacific Corp.

1996
launch of "Carte Compliment" (payment and loyalty card)

1997
new corporate structure with Management and Supervisory Boards
Carlson Wagonlit Travel merger
launch of the "Accor 2000" Group project

1998
take-over offer for AAPC.

Management report regarding 1998 consolidated results presented by the Management Board to the Shareholders' Meeting

Accor is European leader and a major international Group in travel, tourism, and business services, through its four major activities: hotels, travel agencies, car rental and corporate services. The Group is also present in complementary activities, including restaurants, institutional catering, onboard train services and casinos.

Activity volume, including all financial flows managed by Accor, rose by 7.9% to € 16,201 million (FRF 106,270 million) in 1998, as compared to € 15,014 (FRF 98,485) in 1997. Activity volume comprises 50% of Carlson Wagonlit Travel and Europcar activity volume. Total 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, service voucher issuance volume, traffic handled by travel agencies, and revenues of institutional catering cafeterias operated under management contracts.

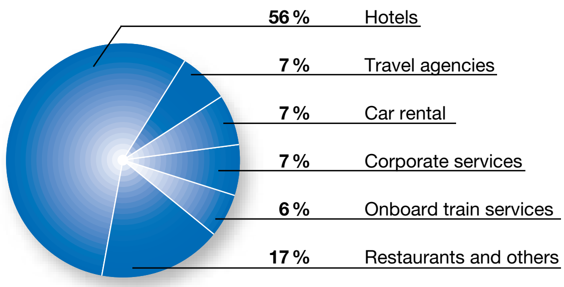
Activity volume

	1996	1997	1998	
in million	€	€	€	FRF
Business and leisure hotels	2,435	2,753	2,787	18,281
Economy hotels	585	633	703	4,615
Motel 6	537	630	656	4,302
Sub-total, hotels	**3,557**	**4,016**	**4,146**	**27,198**
Travel agencies *	**3,041**	**3,937**	**4,450**	**29,188**
Car rental *	**285**	**324**	**402**	**2,634**
Corporate services	**4,579**	**5,414**	**5,868**	**38,492**
Restaurants	906	809	712	4,673
Onboard train services	312	287	340	2,229
Casinos	-	57	129	848
Other activities	181	170	154	1,008
TOTAL	**12,861**	**15,014**	**16,201**	**106,270**

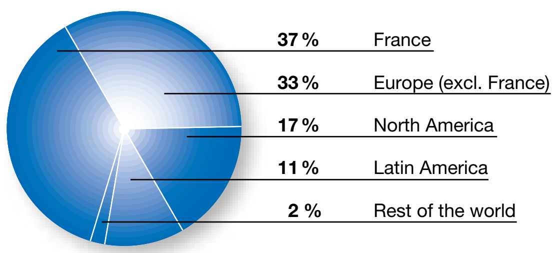
* 50%

Accor **consolidated sales** rose by 16.1% to € 5,623 million (FRF 36,881 million) in 1998, from € 4,843 million (FRF 31,780 million) in 1997.

1998 consolidated sales by activity



1998 consolidated sales by geographical area



Group activities and 1998 performances

Hotels

Over the years, Accor has built the world's leading hotel network, with 2,646 hotels and 291,770 rooms at 1998 year end. Accor is present in all segments of the hotel market, from economy and budget (Motel 6 in the US, Formule 1, Etap Hotel, Ibis) to business and leisure hotels (Mercure, Novotel and Sofitel), including resort hotels under the Coralia label, conference centers under the Atria label and Thalassa spa hotels. Accor's hotel network also encompasses hotel residences (Parthenon), primarily in Brazil.

Accor's hotel network is also well balanced across geographical regions.
In terms of rooms, 53% of the Group's hotel capacity is in Europe, 30% in North America, 9% in Asia-Pacific, 5% in Africa-Middle East, and 3% in Latin America.
Accor is the first european hotel group and the fifth in the world, in number of rooms, according to HTR magazine.

Breakdown of hotel portfolio by geographical area at December 31, 1998

	France		Europe (excl. France)		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	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**
Total (%)	41%	33%	17%	20%	30%	30%	3%	3%	4%	5%	5%	9%	100%	100%

Accor is the only worldwide hotel operator owning or managing 88% of its hotel portfolio: 949 hotels are fully owned, representing 33% of the total number of rooms, 871 hotels are leased (36%), 368 hotels are operated under management contracts (19%), and 458 hotels are franchised (12%).

Breakdown of the hotel portfolio by type of operation

	Owned		Leased		Management contracts		Franchises		Total	
	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
Sofitel	23	3,549	26	5,729	57	10,736	7	681	113	20,695
Novotel	94	13,492	92	13,165	97	17,814	34	4,082	317	48,553
Mercure	62	7,468	97	13,454	89	12,315	139	11,689	387	44,926
Ibis	156	16,021	80	11,709	44	6,034	172	12,166	452	45,930
Etap Hotel	51	4,025	87	6,183	7	509	34	2,630	179	13,347
Formule 1	269	19,313	28	2,294	6	527	9	570	312	22,704
Motel 6	286	31,074	438	50,258	3	215	55	3,379	782	84,926
Other	8	1,560	23	2,783	65	5,747	8	599	104	10,689
Total	**949**	**96,502**	**871**	**105,575**	**368**	**53,897**	**458**	**35,796**	**2,646**	**291,770**
Total (%)	36%	33%	33%	36%	14%	19%	17%	12%	100%	100%

In 1998, the Group's hotel recorded outstanding growth in terms of occupancy rate and revenue per available room (or RevPAR), reflecting the favorable environment in Europe and the US, as well as the positive impact of the Soccer World Cup in France.
Including newly opened and acquired hotels, consolidated sales for 1998 grew by 12.1% to € 3,174 million (FRF 20,817 million).

Year-on-year occupancy rates by hotel brand

in % - worldwide	1996	1997	1998
Sofitel	63.6	63.7	62.8
Novotel	63.3	65.1	64.3
Mercure	59.7	61.7	61.2
Ibis	67.8	70.7	71.2
Etap Hotel	68.1	70.8	74.0
Formule 1	69.5	70.9	73.2
Motel 6	65.4	64.6	64.5

Year-on-year RevPAR by market segment as of Dec. 31, 1998

	Occupancy rate		Average room rate	RevPar
	(in %)	(change in pts)	(change in %)	(change in %)
Business and leisure hotels (Europe)	65.5%	+ 1.5	+ 8.0%	+ 10.4%
Economy hotels (Europe)	73.2%	+ 2.3	+ 3.1%	+ 6.5%
Motel 6 *(in USD)*	64.5%	– 0.1	+ 6.3%	+ 6.2%

The evolution of RevPAR by market segment reflects the good performance of all geographical areas. With the exception of Germany, all European countries posted significant increases, boosted by both volume and room rates. In France, the RevPAR rose by 12.3%, an excellent performance partly due to the success of the Soccer World Cup.

Year-on-year change in RevPar as of Dec. 31, 1998

	Number of rooms	Occupancy rate		Average room rate	RevPar
(in local currency)	(subsidiaries or under management contracts)	(in %)	(change in points)	(change in %)	(change in %)
France	69,728	69.6%	+ 1.8	+ 9.4%	+ 12.3%
Germany	21,127	65.1%	+ 1.9	– 0.8%	+ 2.2%
United Kingdom	4,661	75.2%	+ 0.9	+ 6.0%	+ 7.3%
Belgium	4,314	70.0%	+ 4.2	+ 5.8%	+ 12.6%
The Netherlands	4,205	79.6%	+ 2.9	+ 9.4%	+ 13.5%
Italy	2,859	64.2%	+ 2.5	+ 4.9%	+ 9.2%
Hungary	2,705	63.8%	– 1.3	+ 20.7%	+ 18.3%
USA (excl. Motel 6)	3,044	68.9%	– 2.7	+ 10.0%	+ 5.9%

In Europe, the RevPAR **in business and leisure hotels** – Sofitel, Novotel, Mercure and the Coralia, Thalassa and Atria labels – increased by 10.4%, with an occupancy rate of 65.5%, up 1.5 point, and average room rate up 8%. Sales rose by 15.9% to € 1,829 million (FRF 11,995 million), of which 9.1% in volume, 7.2% from development and –0.4% from exchange rate impact. EBIT from business and leisure hotels rose 35.8% from 1997, to € 183 million (FRF 1,199 million).

The occupancy rate of **economy hotels** in Europe (Ibis, Etap Hotel and Formule 1) rose by 2.3 points to 73.2% and average room rates increased by 3.1%. Overall, RevPAR rose by 6.5%.

Economy hotels posted sales of € 691 million (FRF 4,534 million), a 10.6% increase, of which 6.1% in volume, 4.8% from development, and -0.3% from exchange rate impact. In 1998, EBIT from economy hotels rose by 20.3% to € 135 million (FRF 883 million).

In the US, the **Motel 6** occupancy rate remained virtually unchanged at 64.5%, whereas average room rate increased by 6.3%. This increase is largely due to the hotel renovation program, which was 76.5% completed at 1998 year end. Motel 6's RevPAR increased by 6.2% in 1998.

Motel 6's sales increased by 4.1% to € 654 million (FRF 4,288 million). This increase is due to a 4.2% rise in activities, 1.8% in development, and the positive impact of the dollar/franc exchange rate (1.1%). Closure of units led to a sales loss of 2.9%.

Motel 6's EBIT fell from € 162 million (FRF 1,061 million) in 1997 to € 145 million (FRF 953 million). This decrease results from sales and lease back of hotel real estate for a total of € 820 million (FRF 5,381 million) during the year. These sales were part of Accor's resource reallocation program. The disposals give rise to long-term leases, leading to rental expenses, partly offset by the decline in depreciation. As a result, EBIT decreased by € 22 million (FRF 142 million) in 1998, partly offset by savings in financial expenses. These asset sales had a positive impact on total income from operations of € 20 million (FRF 129 million).

Travel agencies

According to the realized traffic, the Group is the world's second largest operator of business travel agencies through its 50% interest in Carlson Wagonlit Travel. The joint-venture resulting from the merger of the French and American units was established on January 31, 1997, pursuant to the 1994 agreement. Carlson Wagonlit Travel advises large international groups as well as smaller companies on the definition and implementation of their travel policies, and manages their travel budgets in 140 countries.

Managed traffic for 50% of CWT rose to € 4,450 million (FRF 29,188 million), an increase of 13%.

1998 sales (net revenues) amounted to € 390 million (FRF 2,557 million). Excluding the impact of changes in accounting methods, sales rose by 10.5%.

1998 was a year of transition for Carlson Wagonlit Travel. Despite a substantial increase in traffic, which slowed down in the US in the second half, caps on commissions paid by airlines led to somewhat lower margins. This factor was compounded by the cost of international reorganization resulting from the merger of Carlson and Wagonlit Travel. EBIT fell by € 7 million (FRF 50 million) to € 9 million (FRF 58 million).

This disappointing performance, notably in North America, led to the appointment of a new management team. The new team is charged with aggressively reengineering the business to improve profitability in coming years.

Car rental

With a 50% interest in Europcar, alongside Volkswagen, Accor is the second largest European car rental company, according to the sale amount.

With a fleet of 115,000 vehicles and 2,400 agencies, Europcar is active in Europe, Africa and the Middle East.

In 1998, Europcar rented nearly 4.5 million vehicles.

In 1998, for the first time, the car rental activity was proportionally consolidated; in 1997, Europcar was accounted for by the equity method. This activity generated sales of € 402 million (FRF 2,634 million), up by 21.8% on a pro forma basis. This progress is due to the increase in activity and to the 1998 acquisitions of British Car Rental, generating sales of € 16 million (FRF 105 million) and Europcar's Norwegian franchisee Trade Car AS, with sales of € 5 million (FRF 33 million).

EBIT from car rental operations totaled € 35 million (FRF 231 million), from € 28 million in 1997.

Corporate services

Accor is the world leader in service vouchers, according to the issuance volume, with a 46% market share and over 10.5 million daily users in 28 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 service 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 cards in Mexico and Colombia, food-purchasing cards and fleet management cards in Brazil.

Accor issues service vouchers to its client companies at face value, plus a service fee. Client companies in turn distribute them to their employees at a price below face value. Ticket Restaurant are tax deductible for different amounts depending on the country and product (FRF 28 for Ticket Restaurant in France, for example). Users redeem vouchers at affiliated restaurants, stores, or organizations of their choice.

Participating organizations return 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. Service vouchers play important social and economic roles, both in industrialized and developing countries.

In 1998, issuance volume increased by 8.4% to € 5,868 million (FRF 38,492 million). Accor service vouchers were offered in Chile and Rumania for the first time.

Sales rose to € 365 million (FRF 2,395 million), a 10.2% increase. Most countries posted good results, notably France, reflecting the accelerated new product launches. In Brazil, sales on a constant structural and exchange basis were virtually unchanged during the year.

EBIT from corporate services rose to € 104 million (FRF 682 million) from € 98 million (FRF 644 million) in 1997, with particularly good results in Mexico, Czech Republic, Belgium, Italy and France.

Other activities

In **restaurants,** Accor owns de-luxe caterer Lenôtre and the Courtepaille chain of roadside steakhouses. Accor also manages institutional catering facilities in Brazil and Italy.

Sales from restaurant activities rose by 9.5% to € 676 million (FRF 4,432 million). The Soccer World Cup had a positive impact on Lenôtre sales which increased by 36% to € 86 million (FRF 565 million), while Courtepaille sales rose by 10.6% to € 72 million (FRF 471 million).

Sales of Spanish public restaurant activities, sold in July 1998, were only consolidated over six months, for a total of € 21 million (FRF 135 million). Sales institutional catering activities in Brazil and Italy amounted to € 475 million (FRF 3,119 million), up 11.9%.

EBIT from restaurant activities rose by 32.6% to € 29 million (FRF 187 million).

Under the Wagons-Lits name, Accor provides **onboard catering and sleeper car services** in Europe and Egypt.

In particular, Wagons-Lits provides onboard catering services aboard trains operated by France's SNCF. Reflecting the 1998 contract with SNCF, sales from onboard train services increased by 26.7% (3.5% on a constant structural and exchange rate basis) to € 343 million (FRF 2,256 million).

EBIT amounted to € 4 million (FRF 28 million), as against operating loss of € 1 million in 1997.

Following the increase to 65% in its interest in SPIC, a company Accor helped found, Accor Casinos now manages five establishments in France.

With the integration of the Cannes-Mandelieu casino, **Accor Casinos'** sales jumped to € 129 million (FRF 847 million), an increase of 127.8%. On a constant structural basis, sales would have increased by 9.5%.

EBIT rose from € 11 to € 19 million (FRF 72 to 127 million).

Personnel of managed activities

Number of employees at Dec. 31,	1996	1997	1998
Hotels	76,588	80,795	83,037
Travel agencies	6,545	7,226	8,224
Car rental	3,974	4,271	5,196
Corporate services	2,353	2,840	3,228
Restaurants	22,453	18,471	19,768
Onboard train services	7,007	6,830	6,128
Casinos	–	550	876
Others	5,458	*413	451
Total	**124,378**	**121,396**	**126,908**

* not comparable: headquarters staff is now spread over the various divisions.

1998 results analysis

In 1998, Accor sharply improved its operating performances and profitability, in line with forecasts made during the year.

Consolidated sales amounted to € 5,623 million (FRF 36,881 million), up 16.1% from € 4,843 million (FRF 31,780 million) in 1997.

This increase takes into account the integration of Europcar and the change in accounting methods in travel agency activities, effective January 1, 1998.

Using comparable accounting methods, Accor's 13.3% sales increase breaks down as follows:

- +8.0% from increased sales from existing activities,
- +9.4% from new business development,
- -4.0% from disposals of activities,
- -0.1% from currency impact.

Consolidated sales

	1996	1997	1998	
in millions	€	€	€	FRF
Business and leisure hotels	1,314	1,578	1,829	11,995
Economy hotels	581	625	691	4,534
Motel 6	534	628	654	4,288
Sub-total, hotels	**2,429**	**2,831**	**3,174**	**20,817**
Travel agencies	**621**	**621**	**390**	**2,557**
Car rental	**–**	**–**	**402**	**2,634**
Corporate services	**281**	**331**	**365**	**2,395**
Restaurants	565	617	676	4,433
Onboard train services	314	271	343	2,255
Casinos	–	57	129	847
Other	105	115	144	943
Total	**4,315**	**4,843**	**5,623**	**36,881**

Accor's **EBIT** rose by 22.7% to € 642 million (FRF 4,215 million) in 1998. The € 119 million increase from the 1997 level breaks down as follows:

- growth in existing activities: € 82 million (FRF 535 million)
- new business development: € 35 million (FRF 230 million)
- negative currency impact: - € 2 million (-FRF 13 million)
- impact of sale of hotel real estate: - € 27 million (-FRF 178 million)
- asset sales: - € 12 million (-FRF 76 million)
- proportional integration of 50% of Europcar as of January 1, 1998: € 35 million (FRF 231 million)
- other changes: € 8 million (FRF 51 million).

EBIT

in millions	1996 €	1997 €	1998 €	1998 FRF
Business and leisure hotels	80	135	183	1,200
Economy hotels	90	112	134	882
Motel 6	127	162	*145	953
Sub-total, hotels	**297**	**409**	**462**	**3,035**
Travel agencies	**24**	**16**	**9**	**58**
Car rental	**–**	**–**	**35**	**231**
Corporate services	**80**	**98**	**104**	**682**
Restaurants	1	21	28	187
Onboard train services	5	(1)	5	28
Casinos	–	11	19	127
Other activities and head offices	(14)	(31)	(20)	(133)
Total	**393**	**523**	**642**	**4,215**

* € 167 million (FRF 1,097 million) excluding hotel real estate sales.

Total income from operations (EBIT, net financial expense, and Group share in net income from associated companies) rose 32.9% to € 496 million (FRF 3,258 million).

in millions	1996 €	1997 €	1998 €	1998 FRF
EBIT	**393**	**523**	**642**	**4,215**
Net financial expense	(192)	(163)	(158)	(1,036)
Net income from associated companies, Group share	30	13	12	79
Total income from operations	**231**	**373**	**496**	**3,258**

Despite the integration of the financial expenses of Europcar (€ 27 million) and AAPC (€ 7 million), net financial expense remained relatively stable in 1998, totaling € 158 million (FRF 1,036 million), as compared to € 163 million (FRF 1,071 million) in 1997. Conversely, sales of hotel real estate led to savings of € 42 million (FRF 273 million).

Interest coverage stood at 6, from 5.07 in 1997.

Group share in income from associated equity companies totaled € 12 million (FRF 79 million), as compared to € 13 million in 1997.

It primarily encompasses SHCD (Société des Hôtels et Casinos de Deauville, 35% held) and TAHL (Tourism Asset Hotel Ltd, 37% held).

in millions	1996 €	1997 €	1998 €	1998 FRF
Total income from operations	**231**	**373**	**496**	**3,258**
Result from management of hotel portfolio	35	1	(15)	(103)
Current income	**266**	**374**	**481**	**3,155**
Result from management of other assets	43	11	21	135
Amortization of goodwill	(28)	(45)	(60)	(392)
Income taxes	(75)	(121)	(153)	(1,002)
Exceptional items, net of taxes	–	41	37	247
Minority interests	(45)	(30)	(29)	(192)
Net income, Group share	**161**	**230**	**297**	**1,951**

Current income includes total income from operations and **result from management of hotel portfolio,** comprising gains and losses on recurring sales of hotel properties.

Result from management of hotel portfolio was a loss of € 15 million (FRF 103 million). Capital gains on the sale of 39 hotel real estate in France, totaling € 20 million (FRF 128 million), were offset by provisions for the depreciation of assets, primarily Formule 1 and Etap Hotel hotels. In addition, lease renegotiations in Germany led to costs of € 8 million (FRF 48 million).

Current income amounted to € 481 million (FRF 3,155 million), a 28.5% increase. Current income after taxes represents 84% of net income, Group share, before amortization of goodwill, up from 80% in 1997, underscoring the improved quality of earnings.

Result from management of other assets, totaling € 21 million (FRF 135 million), includes € 130 million (FRF 851 million) in capital gains on the sale of 16,446,760 Compass shares in February 1998, partly offset by provisions for Year 2000 compliance (€ 39 million); reengineering of travel agency activities and provisions for terminated contracts in railway activities, totaling € 33 million (FRF 217 million), as well as employee profit-sharing for € 14 million (FRF 93 million), and miscellaneous provisions for € 32 million (FRF 207 million).

The increase in **amortization of goodwill** is mostly due to changes in the scope of consolidation (AAPC, integration of SNCF contract, Cannes-Mandelieu casino...). **Income taxes** amounted to € 153 million (FRF 1,002 million). The effective tax rate was 31.7%, as compared to 32.5% in 1997.

Exceptional items primarily include capital gains of € 19 million (FRF 123 million) from the sale of activities such as Hotelia; € 13 million (FRF 88 million) from Spanish restaurant activities; € 19 million (FRF 127 million) from the transfer of Brazilian restaurants. Conversely, an additional provision of € 14 million (FRF 91 million) was made against the last resource reallocation tranche at Motel 6.

After **minority interests** of € 29 million (FRF 192 million), **net income, Group share** totaled € 297 million (FRF 1,951 million), up 29.4% from 1997.

Earnings per share amounted to € 8.3 (FRF 54.3), an increase of 28.1% over the 1997 level, based on the weighted average number shares outstanding during the year 1998 (35,934,000 shares).

Return on capital employed (EBDIT as a percentage of gross value of fixed assets plus working capital requirements) rose one percentage point from 10.2% to 11.2% (before tax). ROCE breaks down as follows:

ROCE	1996	1997	1998
Hotels			
– Business and leisure	8.9%	11.4%	*11.5%
– Economy	12.0%	13.1%	14.2%
– Motel 6	8.3%	9.3%	9.7%
Carlson Wagonlit Travel	8.8%	7.7%	5.4%
Europcar**	–	–	15.4%
Corporate services	19.1%	21.2%	21.3%
Restaurants	8.0%	14.8%	15.8%
Onboard train services	5.4%	2.4%	4.9%
Casinos	–	16.3%	17.0%
Group total	**9.0%**	**10.2%**	**11.2%**

* 12.8% excl. Asia-Pacific, consolidated in 1998.

** accounted for by the equity method in 1997; 13.7% on a comparable basis.

Value creation

Accor clearly created value in 1998: € 214 million (FRF 1,406 million), up from € 141 million (FRF 923 million) in 1997, as its weighted average cost of capital (WACC) was 6.26% after tax (6.39% in 1997).

Financial flows

in millions	1996 €	1997 €	1998 €	1998 FRF
Consolidated cash flow	504	928	870	5,709
Consolidated cash flow from operations	405	601	696	4,567
Renovation capex	(260)	(316)	(357)	(2,345)
Free cash flow	**145**	**285**	**339**	**2,222**

Consolidated cash flow from operations rose by 15.8% to € 696 million (FRF 4,567 million). After capital expenditure on existing assets totaling € 357 million (FRF 2,345 million), versus € 316 million in 1997, free cash flow rose by 18.5% to € 339 million (FRF 2,222 million). As part of its resource reallocation strategy, the Group invested € 731 million (FRF 4,793 million) in the development of its businesses, and generated € 1,438 million (FRF 9,432 million) in proceeds from sales of assets:

Investment in business development in millions	€	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**

Disposals of assets in millions	€	FRF
Motel 6 hotel real estate	820	5,381
Compass	200	1,313
Other hotel real estate	114	736
Hotelia	82	540
Brazil restaurant activities	79	520
Spanish public restaurant activities	30	197
Other	113	745
Total	**1,438**	**9,432**

Accor's balance sheet structure continued to improve. With shareholders' equity of € 3,049 million (FRF 20,001 million) and net indebtedness of € 1,834 million (FRF 12,027 million) at 1998 year end, Accor's debt-to-equity ratio declined from 87% in 1997 to 60% in 1998.

Major events of 1998 and the first quarter of 1999

In 1998, Accor pursued the implementation of the three key strategic priorities identified in 1997:
- resource reallocation strategy;
- resumption of business development;
- "Accor 2000 – Succeeding Together" Group project.

As part of **its resource reallocation strategy,** Accor sold a number of assets in 1998, generating total proceeds of € 1,438 million (FRF 9,432 million) (see details above):

• In February 1998, Accor sold 32.9 million new **Compass shares,** representing 5% of the company's share capital. Following this transaction, Accor's interest in Compass was reduced to 4.7%.

• In March 1998, Accor sold 81% of its interest in Medotels, the company owning and operating the **Hotelia** senior citizen residences. The remaining 19% were sold in late 1998.

• **Sale of hotel properties** amounted to € 935 million (FRF 6,133 million), including € 820 million (FRF 5,381 million) from 261 Motel 6 properties in the US. As a result, the breakdown of Accor hotels by type of operations has changed: based on the number of rooms, fully owned hotels declined from 44% of the total in 1997 to 33% of the total at 1998 year end.

• In July 1998, Accor sold its Spanish public restaurant subsidiary, **General de Restaurantes SA,** which operates concession restaurants under the Medas brand along highways, in airports, railway terminals and shopping centers.

• As part of its strategic alliance with Compass in **institutional catering and food-services in Brazil,** Accor Brasil, a 50% Accor subsidiary, transferred all its activities in this field to a joint-venture equally owned with Compass.

In March 1999, **Accor issued 433,484 bonds** for a total of € 433.5 million. The three-year bonds, bearing interest at 1%, are exchangeable into Compass shares on the basis of 70.8215 Compass shares per Accor bond. Holders who have not exchanged their bonds for Compass shares will be reimbursed at par in cash at maturity.

Resumption of the Group's business development was underscored by the acceleration of internal growth in hotel activities, with the opening of 161 hotels around the world.

Following preliminary agreement in March 1998, the Dutch hotel chain **Postiljon** (10 units) joined the Group's Mercure hotel network in September 1998. Prior to this acquisition, Accor was present in The Netherlands through 35 hotels in all categories.

Also in September 1998, Accor acquired the Frederic Chopin Hotel in Warsaw, previously operated under Mercure franchise. This transaction marks an important step in the strengthening of the Group's presence in Poland. Expanded positioning in **Central Europe** is a major strategic priority for the Group.

All told, the Group invested € 400 million (FRF 2.6 billion) in the development of its hotel activities in 1998.

In the first quarter of 1999, Accor acquired **Frantour.** With this transaction, three activities joined the Group:
- 33 hotels (4,500 rooms), primarily located in Paris (including three large hotels with a total of 1,400 rooms) and other French cities;
- 86 travel agencies operating under the Frantour or Sud-Ouest Voyages names;
- 7 tour-operating companies based in France and other European countries.

Most of the hotels acquired from Frantour will adopt the Mercure brand and, in the case of hotels located in resort areas, the Coralia label.

In order to strengthen its presence in northern Europe, where the economy hotel segment is underrepresented, Accor has acquired in January 1999 the 22-unit Scandinavian chain **Good Morning Hotels,** with 17 hotels in Sweden and 5 in Finland. The acquired hotels, which will retain their present brand, will be affiliated with the Ibis network.

Following the June 1998 acquisition of the Cannes-Mandelieu La Napoule casino-hotel, in July **Accor Casinos** has agreed to acquire the Saint-Raphaël casino as well as 51% of the Sainte-Maxime casino, all located in southern France. Accor Casinos has begun work on the future Dax casino in 1998, while its tender for the construction of the Bordeaux casino, linked to the existing Sofitel hotel, was accepted by the local authorities. In early 1999, Accor Casinos was selected by the Maltese authorities to operate under concession the Dragonara casino, through an association with Air Malta and a group of local hotel operators.

Europcar acquired British Car Rental, thereby creating one of the largest car rental networks in the UK, with 22,000 car fleet in the country. Europcar also acquired its Norwegian franchisee, Trade Car AS.

As part of its **partnership strategy,** aimed at energizing the Group's sales efforts, Accor has launched in September 1998 in partnership with Air France, Crédit Lyonnais and American Express, a new co-branded payment card, Carte Corporate, specifically designed for businesses and business travelers.
In addition, in January 1999, Accor has established an international strategic alliance with Air France. The aim of this alliance is to create preferred marketing links between the two groups in order to gain market share and offer their clients additional benefits and services through simplification and optimization of product access.
In February 1999, following the acquisition of Frantour, the takeover by Wagons-Lits of all catering activities on the French SNCF railway network and the opening of Europcar agencies in French railway stations, Accor has signed an exclusive "Train + Hotel" commercial agreement with SNCF, the French railway operator.

Accor pursued in 1998 the implementation of its **"Accor 2000 – Succeeding Together"** Group project. This program has led to the development of a multibrand organization in hotel activities and the strengthening of Accor salesforces in France and abroad, with 18 international sales offices. Each corporate client now deals with a single multibrand salesperson.
As part of Accor's "technological leap forward", a total of 1,540 Group hotels came on-line during the year. Pilot sites have prepared the deployment, by the year 2000, of shared room inventory and hotel revenue management, as well as the reorganization of back offices through implementation of integrated management, technical maintenance and regional accounting centers.

1999 outlook and strategy

Activity through February 1999

RevPAR (revenue per available room) in the Group's European business and leisure hotels rose by 4.3% in the first two months of 1999, while RevPAR of the Group's European economy hotel segment rose by 6.1%. At Motel 6, RevPAR increased by 6.3%, in US dollar terms, during the period.
Travel agency traffic rose by 11.3% and car rental revenues by 19.9%. Corporate services issuance volume, outside of Brazil, increased by 6.7%. In Brazil, issuance volume declined by 45.8% in euro terms, but increased by 3.5% in Brazilian real terms.

Strategy and outlook

Through its **"Accor 2000 – Succeeding Together",** Accor's objective is to propose an extensive Group offering, through optimization of synergies across activities (hotels, travel agencies, car rental), development of partnerships (Air France, SNCF, American Express, Crédit Lyonnais, Danone, France Télécom, Cégétel...), loyalty programs and Internet access.
To fund its **development,** Accor has estimated resources of € 3 billion over three years, while meeting the Group's balance sheet ratio and profitability criteria.
In January 1999, 457 hotels are under construction or planned around the world.
The in-depth transformation of the travel agency business and the improvement of its profitability are underway.
Europcar aims to become the European leader in car rental while building an international network.
Corporate services (service vouchers) are developing new services to improve the productivity of businesses and the satisfaction of their employees, while preparing the switch from paper vouchers to electronic cards.
The Group is pursuing its ambitious development in casinos, with the planned opening of 7 new units in 1999.

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. 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 US.

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 optimizes 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 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 minimizing 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).

In conclusion, the Accor Group does not engage in speculative trading. Neither the Accor SA parent company nor its Group maintains open currency or interest rate positions with material risk exposure.

Accor's interest rate and currency risk management policy was developed to meet strict safety, liquidity, and profitability criteria. It is centralized by the Group's Finance Department.

Accor – Year 2000 Transition

The operations of a number of management processes in Accor's various activities rely on IT equipment and software which might be affected by the transition to the Year 2000 (Y2K compliance).
Since October 1998, Accor has conducted a systematic survey of all IT systems, under the responsibility of dedicated teams in each of the Group's units, country headquarters and operating divisions. Following this review, adapted action plans to achieve Y2K compliance have been developed and are being implemented by these teams.
These dedicated teams report to a Y2K steering committee, comprised of Group executives and managers, which meets on a monthly basis to assess progress in this area.
While a number of systems are shared by all Accor units in all activities, others are specific to certain units, activities or countries. Compliance of each of these systems and products is currently being tested and implemented, internally and with the assistance of the equipment's vendors, so as to achieve full compliance and terminate the testing phase by the end of the first half of 1999.
A special "Year 2000" section is included in all new contracts relative to the acquisition of assets, property management, or franchising agreements. Pursuant to this clause, Accor is cleared of all responsibility in this matter, and the owners of the assets involved are required to achieve full compliance of all their technical and IT systems.
As part of the "technological leap forward" program of Accor's hotel activities, implemented within the framework of the "Accor 2000 – Succeeding Together" Group project, all new IT systems developed to link the Group's hotels as well as all new hotel and travel agency reservation systems are fully Y2K compliant. Compliance of hotel management systems should be completed during the 1999 summer.
At Carlson Wagonlit Travel, where Y2K compliance is well underway, a decline in traffic in the first two months of 2000 cannot be ruled out, reflecting perceived customer risks of potential failure in the public services responsible for the safety of the travel industry.
At Europcar, implementation of Y2K compliance is underway and should be completed with the adaptation of certain elements of the reservation systems in the fourth quarter of 1999.
In corporate services, adaptation of certain production equipment used for issuance and redemption of vouchers proved necessary and is currently underway.
In other Group subsidiaries, work is also underway.
In 1998, provisions totaling € 39 million (FRF 258 million) were written in Accor's consolidated financial statements for Y2K compliance as well as transition to the euro.

Major shareholder

At December 31, 1998, known holder of over 5% of the Company's share capital was:

	Share capital	Voting rights
Caisse des Dépôts et Consignations group	5.5%	9.6%

Report of the Supervisory Board to the Combined Ordinary and Extraordinary Shareholders' Meetings

The Supervisory Board, meeting on March 30, 1999, reviewed the 1998 financial statements and the Management Board's report.
These statements, showing sustained progress, underscore the Group's ability to pursue its ambitious growth program while improving its profitability.
The Supervisory Board supports the strategic initiatives implemented by the Management Board and its Chairman, and congratulates Management on the quality of its achievements in 1998.
The Management Board proposed a net dividend of € 4 per share (or € 6 including "Avoir Fiscal" tax credit), an increase of 14% over the dividend for 1997.
The Supervisory Board approves this proposed dividend.
The Supervisory Board also asked the Shareholders' Meeting to renew the financial authorizations given to the Management Board that are nearing their expiry date, with regards to the issuance of bonds and securities giving immediate or deferred access to share capital.
In addition, the Management Board requested the authorization to issue shares reserved for employees participating in the Group Savings Plan, and to sell or purchase Accor shares in the open market.
The Supervisory Board asks the Shareholders' Meeting to grant without restriction all of these authorizations.

Management Board's report to the Combined Ordinary and Extraordinary Shareholders' Meetings

This report contains the text of the resolutions being submitted to the Meeting of the Shareholders for action, together with the reasons why they are being recommended.

Business items for the Ordinary Shareholders' Meeting

Approval of Financial Statements and Regulated Agreements

The **first resolution** calls on the Meeting to approve the 1998 financial statements submitted to it by the Management Board.

The **second resolution** relates to agreements governed by Article 143 of the French Business Corporations Act (Law of July 24, 1966), as authorized during 1998 by the Supervisory Board (non-management directors) and covered in the special report prepared by the Statutory Auditors.

Allocation of surplus

The Management Board recommends that the Meeting allocate the distributable income, which can be broken down as follows:

- 1998 annual surplus
  € 283,040,531.83 (FRF 1,856,624,181.35)
- plus retained earnings carried forward
  € 227,910,901.04 (FRF 1,494,997,509.11)
- total distributable income
  € 510,951,432.86 (FRF 3,351,621,690.46)

in the following manner:

- to dividend
  € 144,563,996.00 (FRF 948,277,651.24)
- to tax credit
  € 40,683,473.61 (FRF 266,866,093.00)
- retained earnings
  € 325,703,963.25 (FRF 2,136,477,946.22)

The allocation of surplus is covered by the **third resolution.**

Dividend

The recommended dividend shall be distributed to the 36,140,999 shares entitled to dividends as of January 1, 1998.

The amount of the dividend shall be € 4.00 (FRF 26.24), or € 6.00 (FRF 39.36) per share including a dividend tax credit, up 14% from the 1997 dividend. The dividend shall be paid on Monday, June 14, 1999.

The dividends distributed for the last three fiscal years were as follows:

	1995		1996		1997	
	FRF	€	FRF	€	FRF	€
Net dividend	20.00	3.05	20.00	3.05	23.00	3.51
Tax paid	10.00	1.52	10.00	1.52	11.50	1.75
Total earnings	30.00	4.57	30.00	4.57	34.50	5.26

Directors' attendance fees

The **fourth resolution** calls on the Meeting of the Shareholders to allocate the Supervisory Board € 250,800 (FRF 1,645,140) annually for directors' attendance fees. This allocation shall be renewed each year until such time as the Meeting resolves otherwise.

Reinstatement of Members of Supervisory Board

Pursuant to Article 16 of the Company by-laws, members of the Supervisory Board come up for reinstatement by rotation every two years. This year, the Meeting of the Shareholders is asked to reinstate CDC Participations, Mr. Renaud d'Elissagaray and Mr. Jean-Marie Fourier for a six-year term to expire with the Meeting held to consider the 2004 financial statements **(fifth, sixth and seventh resolutions).**

The Meeting is also called upon to officially take note that the terms of office of one Statutory Auditor and its Alternate (Cabinet Janny Marque & Associés and Mr. Jean Coutancier, respectively) were not renewed upon expiration at the last Ordinary Meeting of the Shareholders **(eighth resolution).**

Authorization to Management Board to issue bonds

The Ordinary Meeting of the Shareholders of June 16, 1995 authorized the Company to issue bonds for a period of five years, enabling Accor to float three issues:
- in December 1995, a FRF 1.5 billion (€ 228.7 million) bond issue with an interest rate of 7.40%,
- in July 1998, a FRF 800 million (€ 122 million) zero-coupon bond issue indexed to Accor stock, and
- recently, in March 1999, a € 433.48 million bond exchangeable for shares of Compass stock, with an interest rate of 1%.

The Meeting is asked to renew that authorization in advance for the five-year period provided by law, thereby enabling the Management Board to issue bonds in France or abroad up to a par value of € 2.5 billion or the equivalent in other currency, to meet the Company's financing needs and take advantage of opportunities presented by financial markets.
If approved, the debenture will be represented by bond certificates, subordinated perpetual bonds (TSDI), or bonds with warrants for the subscription of other straight bonds or bonds exchangeable for a variety of securities issued by others.
This authorization is covered by the **ninth resolution** recommended to the Meeting for vote, and shall invalidate and supersede the fourteenth resolution of the Ordinary Meeting of the Shareholders of June 7, 1995.

Authorization to Management Board to trade in Company stock

The Extraordinary Shareholders' Meeting of June 9, 1998 authorized the Management Board to trade Company stock on the Stock Exchange within the meaning of Articles 217-2 and seq. of the French Business Corporations Act, at a purchase price of up to FRF 2,000 and a selling price of no less than FRF 800.
Pursuant to that authorization, the Company bought stock on the Stock Exchange in 1998 to smooth out share price movement.
The Company bought 47,500 shares at an average price of FRF 1,370.93 per share, paying FRF 247,600.43 in commissions. The Company has not resold the shares, so on December 31, 1998 it held 47,500 shares of its own stock, each with a par value of FRF 100, for a total of FRF 65,119,175 comprising 0.13% of the capital stock on that date.
The Meeting is asked to renew the authorization granted to the Management Board to trade in Company stock under the new statutes and regulations governing such transactions, as described in the prospectus approved by the French Securities and Exchange Commission and issued by the Company. The goals of the stock redemption program are set forth in the prospectus and the **tenth resolution** submitted to the Meeting for vote.
The authorization shall remain in effect for eighteen months. The purchase price shall be no higher than € 305, and the selling price shall be no lower than € 125.
The Company limits the number of shares of stock that can be acquired under this authorization to 2,700,000, for a total amount of € 823,500,000. In its annual report to the Meeting of the Shareholders, the Management Board shall account for how it has utilized said authorization.

Business items for the Extraordinary Shareholders' Meeting

Authorization to Management Board to perform financial transactions

At its June 4, 1997 session, the Extraordinary Meeting of the Shareholders authorized the Management Board to issue a variety of securities conferring present or future rights to the Company's capital stock, by virtue of a blanket authorization under Article 180 (iii) of the French Business Corporations Act.

By law, authorizations may not be given for longer than twenty-six months. Since the authorizations granted to the Management Board are about to expire, the Management Board recommends that the Meeting of the Shareholders renew the blanket authorization granted by the Extraordinary Meeting of the Shareholders on June 4, 1997, under the terms set forth below.

Ratification of the resolutions submitted to the approval of the General Meeting of Shareholders will enable the Management Board to retain the power and flexibility needed to quickly marshal the financial resources required to fund Group development. The delegation authorizing the Management Board to issue securities, with preferential subscription rights for shareholders maintained or waived, will make possible all types of investment in France, abroad and/or in international markets at the appropriate time, depending on opportunities that arise in the financial markets and the interests of the Company and its shareholders.

The **eleventh resolution** authorizes the Management Board to issue securities conferring present and/or future rights to shares of stock issued or to be issued as part of a capital increase. The shareholders' pre-emptive right shall remain intact.

The financial transactions covered by this resolution shall include, without limitation:

- Issues of shares of common stock, with or without warrants attached;
- Issues of convertible bonds, bonds with warrants attached, and bonds exchangeable for or redeemable into shares;
- Issues of detached warrants through subscription or bonus issues;
- Issues of any other securities entitling the holder to stock through conversion, exchange, redemption, presentation of a warrant or any other means.

The par value of the capital stock may not be increased by more than € 150 million under this authorization. By law, that cap may be increased by the par value of additional shares issued to protect the rights of the holders of securities conferring rights to Company stock.

The par value of debt security issuable under the authorization granted to the Management Board, in the form of convertible bonds, bonds with warrants attached, and bonds exchangeable for or redeemable into shares, as described above, shall not exceed € 2 billion or the equivalent for issues in other currencies.

The authorization to the Management Board shall remain in effect for twenty-six months from the date the resolution is adopted by the Meeting, and shall invalidate and supersede the sixth resolution of the Extraordinary Meeting of the Shareholders of June 4, 1997. Prior authorization by the Supervisory Board shall be required for any issue proposed by the Management Board.

The **twelfth resolution** authorizes the Management Board to issue securities conferring present and/or future rights to shares of stock issued or to be issued as part of a capital increase without waiting for shareholders to exercise their pre-emptive right.

This resolution will give the Management Board the flexibility it wants, to respond quickly to any financial opportunity that presents itself. Given the mobility and diversity of financial markets in France and abroad, the Board may have to move quickly to place issues with investors interested in certain types of financial products. Accordingly, it has to be able to place these issues without waiting for shareholders to exercise their pre-emptive right.

If the Management Board exercises this authority, shareholders will have a priority subscription right, to be exercised within such time-limit and under such terms and conditions as the Management Board shall establish in accordance with standard market practice.

If approved, the securities issue will also be subject to strict rules establishing the price and other terms, as required by law. Furthermore, the Management Board and Statutory Auditors will each prepare supplemental reports, which shall be made available to the shareholders for inspection as provided by law.
The transactions covered by the twelfth resolution shall include, without limitation:
– Issues of shares of common stock, with or without warrants attached;
– Issues of convertible bonds, bonds with warrants attached, and bonds exchangeable for or redeemable into shares;
– Issues of detached warrants through subscription or bonus issues;
– Issues of any other securities entitling the holder to stock through conversion, exchange, redemption, presentation of a warrant or any other means;
– Issues of shares to be subscribed upon presentation of securities issued by any subsidiary in which the Company controls more than 50% of the capital stock, directly or through intermediaries;
– Shares issued for property, as payment for securities contributed to a stock-for-stock takeover bid under the terms of Article 193-1 of the French Business Corporations Act.

The par value of the capital stock may not be increased by more than € 100 million under this authorization. That cap shall include any increases of the Company's capital stock through shares issued for property, as payment for securities contributed to a stock-for-stock takeover bid.

The par value of debt security issuable under this authorization shall not exceed € 1 billion or the equivalent for issues in other currencies.

The authorization to the Management Board shall remain in effect for twenty-six months from the date the resolution is adopted by the Meeting, and shall invalidate and supersede the seventh resolution of the Extraordinary Meeting of the Shareholders of June 4, 1997. Prior authorization by the Supervisory Board shall be required for any issue proposed by the Management Board.

The **thirteenth resolution** authorizes the Management Board to increase the Company's capital stock by capitalization of retained earnings, profits, capital surplus or other funding subject to capitalization.
The Management Board may couple such a transaction with a capital increase for cash pursuant to the eleventh resolution. It may also issue bonus shares or increase the par value of outstanding shares.

The par value of the capital stock may not be increased by more than € 150 million under this authorization.
As above, the authorization to the Management Board, which shall be subject to approval by the Supervisory Board, shall remain in effect for twenty-six months and shall invalidate and supersede the eighth resolution of the Extraordinary Meeting of the Shareholders of June 4, 1997.

The **fourteenth resolution** limits the total par value of present or future capital increases by the Management Board pursuant to the eleventh, twelfth and thirteenth resolutions, for so long as the authorizations remain in effect, regardless of whether the shareholders hold pre-emptive subscription rights. The par value of the capital stock may not be increased by more than € 300 million under the aforesaid authorizations.
If necessary, that cap may be increased by the par value of additional shares issued to protect the rights of the holders of securities conferring rights to Company stock.

Note that the Management Board may also establish stock option plans under the terms of the fourth and fifth resolutions of the Combined Ordinary and Extraordinary Meetings of the Shareholders held January 7, 1997 for a period of five years from the date of said Meeting.

Authorization to Management Board for private share issue to employee members of an Accor Group Stock Ownership Plan

Promoting employee stock ownership has been a long-standing goal of Accor Company policy.

Unquestionably, 1998 was a banner year for the Accor Stock Ownership Plan, with 26% of those eligible in France electing to participate.

The Management Board proposes taking a new step forward in this process by asking the Meeting of the Shareholders to authorize capital increases restricted to employees enrolled in the Company's Stock Ownership Plan. This authorization is covered by the **fifteenth resolution,** and falls under Articles L 443-1 and seq. of the Labor Code concerning employee stock ownership, and Article 186-3 of the French Business Corporations Act. The Statutory Auditors will prepare a special report on this authorization.

The total number of shares issuable under this authorization over a period of five years from the date of authorization shall not exceed 2% of the capital stock.

The subscription price shall be no higher than the average price of the stock in the last twenty Stock Exchange sessions prior to the date of the Management Board's resolution setting the opening and closing dates for the subscription, or more than 20% lower than said average, as Article L 443-5 of the Labor Code provides.

The authorization shall empower the Management Board to set the other terms and conditions for subscription, the opening and closing dates, and the number of shares to be issued, as well as verify capital increases.

Authorization to Management Board to decrease capital stock by cancellation of shares

The Meeting of the Shareholders is asked to authorize the Management Board to cancel all or a portion of shares acquired pursuant to the tenth resolution, not to exceed 10% of the capital stock per twenty-four-month period, and to decrease the capital stock by a corresponding amount. This authorization to the Management Board, which shall be addressed by the Statutory Auditors in a special report, is covered by the **sixteenth resolution.**

Authorization to Management Board to use capital increase authorizations not restricted to named beneficial owners, in the event of a takeover bid

The **seventeenth resolution** authorizes the Management Board to make use of authorizations to issue new securities in its possession not restricted to named persons or entities, if necessary, at such times as the Company stock becomes the target of a takeover bid.

This authorization shall remain in effect until the Meeting of the Shareholders held to consider the 1999 financial statements.

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At its meeting of March 30, 1999, the Supervisory Board approved the text of the draft resolutions recommended to the Meeting of the Shareholders for action. Specifically, it approved the principle and terms of the various authorizations to be granted to the Management Board, as described in its report. The Supervisory Board recommends adoption of the draft resolutions submitted to the Meeting of the Shareholders for vote.

Consolidated financial statements

Auditors' Report

For the year ended December 31, 1998

In accordance with our appointment by the General Shareholders' Meeting, we hereby present our report on the accompanying Consolidated Financial Statements of Accor, for the year ended December 31, 1998.

We have audited the Consolidated Financial Statements in accordance with professional standards.

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

In our opinion, the Consolidated Financial Statements present adequately and fairly the financial position and net assets of the Group as at December 31, 1998 and the results of its operations for the year then ended.

We do not have any comments on the financial information provided in the Management Board's report.

Neuilly, March 31, 1999

Statutory Auditors

Barbier Frinault & Autres - Arthur Andersen
Christian Chochon

Deloitte Touche Tohmatsu - Audit
Alain Pons

Members of the Compagnie de Versailles

Independent Accountants

Deloitte Touche Tohmatsu

Consolidated income statement

in millions	Notes	1996 €	1997 €	1998 €	1998 FRF
Revenues		**4,251**	**4,781**	**5,554**	**36,433**
Other operating revenues		64	62	69	448
Consolidated revenues	3	**4,315**	**4,843**	**5,623**	**36 881**
Operating expenses		(3,402)	(3,733)	(4,272)	(28,016)
Gross operating profit		**913**	**1,110**	**1,351**	**8,865**
Rental expense	4	(229)	(283)	(402)	(2,639)
EBITDA		**684**	**827**	**949**	**6,226**
Depreciation and operating provision expense		(291)	(304)	(307)	(2,011)
EBIT	4	**393**	**523**	**642**	**4,215**
Net financial expense	5	(192)	(163)	(158)	(1,036)
Net income from associated equity companies, Group share	6	30	13	12	79
Total income from operations		**231**	**373**	**496**	**3,258**
Result from management of hotel portfolio	7	35	1	(15)	(103)
Current income before taxes		**266**	**374**	**481**	**3,155**
Result from management of other assets	8	43	11	21	135
Goodwill amortization		(28)	(45)	(60)	(392)
Income taxes	9	(75)	(121)	(153)	(1,002)
Exceptional items (net of taxes)	10	–	41	37	247
Minority interests		(45)	(30)	(29)	(192)
Consolidated net income, Group share		**161**	**230**	**297**	**1,951**
Average number of shares outstanding (in thousands)		**30,940**	**35,557**	**35,934**	**35,934**
Earnings per share (in €/in FRF)	11	**5.2**	**6.5**	**8.3**	**54.3**

Consolidated balance sheet

Assets (at December 31) in millions	Notes	1996 €	1997 €	1998 €	1998 FRF
Intangible fixed assets	12	**465**	**459**	**457**	**2,999**
Goodwill (net of amortization)	13	**824**	**1,188**	**1,247**	**8,177**
Property, plant and equipment net of accumulated depreciation	14	**3,889**	**4,115**	**3,458**	**22,684**
Long-term loans	15	197	214	243	1,591
Investments in associated equity companies	16	434	139	152	1,000
Other financial assets	17	328	418	333	2,187
Total financial assets		**959**	**771**	**728**	**4,778**
Total fixed assets	18	**6,137**	**6,533**	**5,890**	**38,638**
Inventories		53	176	114	745
Trade accounts receivables		856	992	1,070	7,020
Other receivables	19	376	445	499	3,272
Service vouchers reserve funds		170	199	205	1,343
Financial receivables related to vehicle buy-back	26	–	299	415	2,726
Receivables on short-term asset disposals	26	27	112	22	146
Short-term loans	26	75	101	58	380
Marketable securities	26	334	423	491	3,222
Cash and equivalents	26	320	317	445	2,921
Total current assets		**2,211**	**3,064**	**3,319**	**21,775**
Prepaid expenses		75	97	167	1,086
Deferred charges		28	31	48	316
Total prepaid expenses and deferred charges		**103**	**128**	**215**	**1,402**
Total assets		**8,451**	**9,725**	**9,424**	**61,815**

Liabilities and shareholders' equity

(at December 31) in millions	Notes	1996 €	1997 €	1998 €	1998 FRF
Share capital		505	547	551	3,614
Additional paid-in capital		1,424	1,538	1,560	10,230
Reserves (retained earnings)		444	460	516	3,383
Translation adjustments		(75)	69	(50)	(326)
Net income for the year		161	230	297	1,951
Total shareholders' equity	20	**2,459**	**2,844**	**2,874**	**18,852**
Minority interests	21	264	191	175	1,149
Total shareholders' equity and minority interests		**2,723**	**3,035**	**3,049**	**20,001**
Provisions	22	206	402	519	3,404
Repackaged Perpetual Subordinated Floating Rate Notes (TSDI)	23	468	437	402	2,638
Convertible bonds	24	307	307	307	2,015
Other long-term debt	26	1,945	2,062	1,176	7,715
Capital leases	26	172	189	205	1,347
Total long-term debt	25	**2,424**	**2,558**	**1,688**	**11,077**
Total non-current liabilities and shareholders' equity		**5,821**	**6,432**	**5,658**	**37,120**
Trade accounts payable		506	626	705	4,622
Other payables	19	620	705	790	5,185
Service vouchers in circulation		878	1,013	1,030	6,757
Short-term debt	26	343	711	867	5,689
Due to banks	26	195	186	308	2,018
Total current liabilities		**2,542**	**3,241**	**3,700**	**24,271**
Accrued liabilities		88	52	66	424
Total liabilities and shareholders' equity		**8,451**	**9,725**	**9,424**	**61,815**

Consolidated statement of sources and uses of funds

in millions	Notes	1996 €	1997 €	1998 €	1998 FRF
Consolidated net income, Group share		161	230	297	1,951
Minority interests		45	30	29	192
Depreciation, amortization and provision		319	349	367	2,403
Net income from associated equity companies, Group share, net of actual dividends received		(10)	3	(4)	(23)
Deferred taxes		(10)	12	28	184
Financial provisions and provisions on assets management		(1)	304	153	1,002
Consolidated cash flow		**504**	**928**	**870**	**5,709**
Net realized capital (gains)/ losses on asset sales		(110)	(314)	(208)	(1,364)
Non-operating losses/ (profit)		11	(13)	34	222
Consolidated cash flow from operations		**405**	**601**	**696**	**4,567**
Investments for renovation and maintenance		(260)	(316)	(357)	(2,345)
Free cash flow		**145**	**285**	**339**	**2,222**
New capital and technology expenditure		(257)	(715)	(731)	(4,793)
Proceeds from asset disposals		460	729	1,438	9,432
Decrease/ (increase) in working capital		106	71	(24)	(158)
Non-operating gains (losses)		(11)	13	(34)	(222)
Net sources/ (uses) from operations		**443**	**383**	**988**	**6,481**
Dividends		(147)	(156)	(210)	(1,374)
Capital increases		73	155	26	170
Currency translation adjustments on fixed assets and shareholders' equity		(91)	(161)	29	189
Changes in the scope of consolidation on provisions and minority interests		3	(82)	(27)	(180)
Net impact of proportional consolidation of Europcar	27	–	(105)	–	–
Decrease/ (increase) in net indebtedness	26	**281**	**34**	**806**	**5,286**
Net indebtedness (beginning of the period)		(2,955)	(2,674)	(2,640)	(17,313)
Net indebtedness (end of the period)		(2,674)	(2,640)	(1,834)	(12,027)
Decrease/ (increase) in net indebtedness	26	**281**	**34**	**806**	**5,286**

Changes in consolidated shareholders' equity (before minority interests)

in € millions	Number of shares outstanding	Share capital	Additional paid-in capital	Translation adjustments	Reserves (retained earnings)	Consolidated Shareholders' equity
At December 31, 1996	**33,117,634**	**505**	**1,424**	**(75)**	**605**	**2,459**
Capital increases:						
- Conversions of bonds	192	–	–	–	–	–
- Sphere SA merger	2,347,761	36	88	–	–	124
- Exercise of stock options	386,830	6	26	–	–	32
- Stock dividends	–	–	–	–	–	–
Dividend	–	–	–	–	(145)	(145)
Translation adjustments	–	–	–	144	–	144
Net income for 1997	–	–	–	–	230	230
At December 31, 1997	**35,852,417**	**547**	**1,538**	**69**	**690**	**2,844**
Capital increases:						
- Conversions of bonds	372	–	–	–	–	–
- Exercise of stock options	288,210	4	22	–	–	26
- Stock dividends	–	–	–	–	–	–
Dividend	–	–	–	–	(174)	(174)
Translation adjustments	–	–	–	(119)	–	(119)
Net income for 1998	–	–	–	–	297	297
At December 31, 1998	**36,140,999**	**551**	**1,560**	**(50)**	**813**	**2,874**

in FRF millions	Number of shares outstanding	Share capital	Additional paid-in capital	Translation adjustments	Reserves (retained earnings)	Consolidated Shareholders' equity
At December 31, 1996	**33,117,634**	**3,312**	**9,342**	**(492)**	**3,973**	**16,135**
Capital increases:						
- Conversions of bonds	192	–	–	–	–	–
- Sphere SA merger	2,347,761	235	577	–	–	812
- Exercise of stock options	386,830	39	169	–	–	208
- Stock dividends	–	–	–	–	–	–
Dividend	–	–	–	–	(956)	(956)
Translation adjustments	–	–	–	947	–	947
Net income for 1997	–	–	–	–	1,508	1,508
At December 31, 1997	**35,852,417**	**3,586**	**10,088**	**455**	**4,525**	**18,654**
Capital increases:						
- Conversions of bonds	372	–	–	–	–	–
- Exercise of stock options	288,210	28	142	–	–	170
- Stock dividends	–	–	–	–	–	–
Dividend	–	–	–	–	(1,142)	(1,142)
Translation adjustments	–	–	–	(781)	–	(781)
Net income for 1998	–	–	–	–	1,951	1,951
At December 31, 1998	**36,140,999**	**3,614**	**10,230**	**(326)**	**5,334**	**18,852**

The change in translation adjustments between 1996 and 1997, and between 1997 and 1998 primarily stems from the impact on the Group's North American assets - mainly the Motel 6 chain - of the higher or lower US dollar exchange rate relative to the French franc : (1996 : 5.2370, 1997 : 5.9881, 1998 : 5.6221).

Notes to the consolidated financial statements

note 1 Accounting principles

The Consolidated Financial Statements of the Accor Group are established in accordance with French regulations presently in force.
Due to the international nature of the Accor Group's activities, it adopts methods that are generally accepted internationally, whenever possible.
The financial statements of consolidated Group companies, prepared in accordance with the rules of the individual countries in which they operate, are restated to conform to Group principles prior to consolidation.

A. - Consolidation methods

The companies over which the Group directly or indirectly exercises exclusive controlling influence are fully consolidated.
Companies controlled and operated jointly by Accor and a limited number of partners are consolidated through proportional integration.
Companies over which the Group exercises a significant influence and in which it controls, directly or indirectly, between 20% and 50% of voting rights, are accounted for by the equity method.

B. - Goodwill

Within the first year following an acquisition, all assets and liabilities of an acquired business are reviewed and valued. Whenever possible, the difference between the purchase price and the fair value of the Group's share of the underlying net assets at the date of acquisition is posted to the corresponding balance sheet item.
The balance is recorded as goodwill in the consolidated balance sheet and is amortized on a straight-line basis according to the nature of the activities involved, within the maximum following limits :

• Hotels	40 years
• Onboard train services	40 years
• Corporate services	40 years
• Travel agencies	40 years
• Restaurants	20 years
• Casinos	20 years
• Car rental	20 years
• Other	10 years

C. - Translation of financial statements prepared in foreign currencies

Foreign-currency denominated balance sheet items are translated into French francs at year-end exchange rates. Income statement items are translated at average annual rates. The resulting difference is posted to shareholders' equity.
In the case of subsidiaries operating in exceptionally high-inflation countries, non-monetary balance sheet items and related income statement items are translated at historical rates prevailing on the date of the transaction, while monetary balance sheet items are translated at year-end rates.
Monetary income statement items are translated at average monthly historical rates. The resulting difference

is posted to the appropriate item of the income statement based on the integral adjustment method. The integral adjustment method used to present revenues and expenses provides maximum insight by allocating currency rate adjustments directly to the relevant income statement items. As a result, revenue and expense items are translated into French francs, using exchange rates close to the appropriate historical rates.

D. - Fixed assets

D.1. - Intangible fixed assets

Intangible fixed assets are recorded at cost.
Prior to initial consolidation, major intangible fixed assets are valued by outside appraisers on the basis of commonly accepted criteria which can be subsequently monitored.
When these assets may not be amortized, their value is periodically reviewed and losses in value, if any, are provisioned for.
Start-up costs are written off over a maximum period of five years. Only networks and brand names are not subject to amortization.

D.2. - Property, plant and equipment

Property, plant and equipment are valued at cost, including related financial charges.
Property, plant and equipment are depreciated on a straight-line basis over the following useful lives:

Formule 1 hotels / Motel 6 motels	40 years
Other hotels	60 years
Rail cars and other railway equipment	20 years
Other equipment	10 to 30 years
Fixtures and fittings	5 to 10 years
Rental cars	See Note 2.E.1

D.3. - Long-term leases, financial leases, sale and lease-back

Pursuant to French legislation in force, the Group accounts for its long-term leases according to International Accounting Standards as defined in Standard N° 17. Capital leases are distinguished from operating leases based on set criteria as defined in Standard N° 17 and in greater detail in US Accounting Standard SFAS 13.
Beyond the strict application of these quantifiable criteria, the Group systematically favors an economic analysis of risks and ownership benefits in the relationship between lessor and lessee. Consequently, it classifies leases as operating from the standpoint of the lessee only when related liabilities and commitments are substantially weighted towards the lessor.
Capital leases which substantially transfer the risks and rewards of ownership to the lessee are recognized in the balance sheet. The corresponding assets are included under fixed assets as properties and depreciated according to the Group's accounting principles and the corresponding obligation is listed separately as a liability in the balance sheet.
Operating leases are recognized as rental expenses of the period. Regardless of contractual payment terms, total rental expenses are annualized on a linear basis and expensed in equal annual installments over the life of the contract. Future rental charges are detailed in Note 4.2.
Sale and-leaseback transactions are recognized based on the classification of the underlying long-term leases:
– for capital leases, the capital gains or losses are deferred and amortized over the life of the contract, except when it shows an impairment of the underlying asset value which is immediately recognized;
– in the case of operating lease contracts, assuming sales prices and rents are confirmed to reflect market values by independent experts, capital gains or losses are immediately recognized.

D.4. - Investments in unconsolidated companies

Investments in unconsolidated companies are recorded at cost.

D.5. - Book value of fixed assets

Fixed assets are valued at cost. When cost exceeds the fair value of the asset, a provision is made to recognize the loss of value.
Fair value is based upon an evaluation of the asset's usefulness in enabling the company to achieve its strategic goals.
In particular, in the case of hotel properties, fair value is estimated on the basis of a multiple of average free cash flow over the duration of a hotel industry business cycle.
Depreciation, if any, is posted to income under result

from management of hotel portfolio (see Notes 1.L.4 and 7). In addition, in the case of unconsolidated investment securities, usefulness value is based, among other criteria, on the Company's share in revalued net worth and future profitability prospects.
Provisions for loss of value are written to reduce assets held for disposal to market value. As part of the Group's resource reallocation program implemented in 1997, these provisions are included under Exceptional Items.

E. - Special reserve funds

As a result of legal restrictions on the use of Ticket Restaurant operating funds in France, these are held in special escrow accounts.

F. - Marketable securities

Marketable securities are recorded at the lower of cost or market.

G. - Deferred charges

Deferred charges include :
• costs incurred prior to the opening of new hotels and restaurants, which are written off over three years in the case of hotels ;
• costs related to the acquisition of fixed assets, which are written off over a maximum of five years ;
• bond issuance costs, which are written off over the life of the issue ;
• costs related to the development of data processing systems, which are written off over the useful life of the systems.

H. - Provisions for pension and retirement benefits

The Group's local retirement, early retirement and severance payment programs are established in accordance with the regulations and usage prevailing in the countries in which it operates. In the case of fixed-premium policies, premiums are expensed as incurred. In the case of defined-benefit policies, provisions are based on actuarial calculations taking into account probable future liabilities in accordance with the regulations specific to each country.

I. - Translation of foreign currency-denominated transactions

For each Group entity, transactions denominated in a currency other than its own functional currency are translated into that currency at the exchange rate prevailing at the time of the transaction.
Corresponding assets and liabilities, with the exception of those covered by currency hedging transactions, converted into French francs, are translated at year-end rates. Exchange gains and losses resulting from year-end exchange rate conversions are posted to net financial income.
In the case of receivables and debts denominated in currencies of the Euro zone ("in" currencies), the Group has used the conversion rates set irrevocably on December 31, 1998 between the "in" currencies and the Euro, and effective since January 1, 1999. The corresponding foreign exchange gains and losses have been posted to "Net financial expense".

J. - Deferred taxes

Deferred tax credits or liabilities are based on the liability method, taking into account historical tax rates. The impact of changes in tax rates is posted to income for the corresponding year.
Deferred taxes are recorded on all timing differences.
Deferred tax assets on tax losses carried forward are recognized only if they are likely to be used within a reasonable time frame.

K. - Financial instruments

Financial instruments such as swaps and options contracts primarily used to manage interest rate and currency exposure are recorded as off-balance sheet commitments.
Income from hedging transactions is recognized using the same principle as that applied to the recognition of income or expense on the hedged asset or liability.

L. - Income statement and statement of sources and uses of funds

The presentation of the consolidated income statement and statement of sources and uses of funds is matching closely the key indicators used internally for managing its activities and assessing management performance.

L.1. - Consolidated revenues

Consolidated revenues include all revenues from sales of products and services by consolidated companies in the course of their normal activities. They encompass:

– for corporate services: commissions paid by client companies, and participating restaurants, royalties and revenues from technical assistance;

– for travel agencies: commissions on travel tickets, car rental and hotel accommodations, fees related to service contracts, and revenues from the sale of travel packages. This definition of revenues corresponds to the evolution underway in the travel agency business;

– for onboard train services: catering and lodging services charged to railway networks, as well as subsidies received and capital improvements performed by the Group;

– for Casinos: gross receipts from gaming activities (slot machines and traditional casino games).

L.2. - Other operating revenues

Other operating revenues comprise financial income on the management of available funds generated by corporate services activities.

Together, consolidated revenues and other operating revenues make up the consolidated sales.

L.3. - Total income from operations

The heading "Total Income from Operations" reflects results from operations and financing of the Group's activities. It combines EBIT, net financial expense, and the net income from associated equity companies, Group share.

L.4. - Result from management of hotel portfolio

Result from management of hotel portfolio encompasses realized capital gains and losses on the sale of hotel properties, as well as provisions on hotel properties. These items of a recurring nature in the ongoing management of hotel operations are not directly related to the management of the Company's operations.

L.5. - Current income before income taxes

Current income before income taxes is the sum of total income from operations and result from management of hotel portfolio (before amortization of goodwill).

L.6. - Result from management of other assets

Result from management of other assets encompasses realized capital gains and losses on the sale of other assets, excluding hotel portfolio, provisions, as well as non-operating losses and gains. These items are not directly related to the management of the company's operations.

L.7. - Exceptional items (net of taxes and of minority interests)

Exceptional items are essentially limited to extraordinary transactions - such as disposal of Group core activities - which are not part of the Group's current activities, and do not occur frequently.

L.8. - Statement of sources and uses of funds

The statement of sources and uses of funds was reorganized to match the key indicators used internally in the management of Accor's activities and to differentiate uses and sources of funds from operations on the one hand, and financing activities on the other.

Sources and uses of funds from operations include:

– consolidated cash flow from operations after changes in deferred taxes and before capital gains or losses on asset sales;

– capital improvements, which cover maintenance and renovation of existing operating assets held on January 1 of the reporting year and required by their ongoing operations;

– new capital investments, including fixed assets of newly consolidated subsidiaries and the constitution of new assets;

– capital gain or losses on asset sales;

– net change in working capital.

note 2 Changes in the scope of consolidation

A. - Reallocation of resources

Pursuant to information provided at the Shareholders' Meetings of January 7 and June 4, 1997, the Group has completed in the first half of 1997 an extensive strategic review of its activities and operating procedures. This review led to the identification of non-strategic assets, whose disposal has been partly initiated in the year 1997 and should be pursued in the short to medium term.
At December 31, 1997 and at December 31, 1998, the impact of the Group's resource reallocation program was as follows :

A.1. - Sale of part interest in Compass PLC

At December 31, 1996, the Accor Group held 68,300,201 shares of Compass Plc. These shares had been received in 1995 as partial remuneration of the sale of Eurest France and Eurest International to Compass Plc.
As part of Accor's resource reallocation strategy, the Group sold 36,500,000 Compass Plc shares in the first half of 1997, corresponding to 11.5% of Compass's share capital, at a price of GBP 7 per share, thereby realizing a net capital gain of € 202 million or FRF 1,323 million (see Note 10).
Following this transaction, the Group's interest in Compass Plc was reduced to 10%. Since January 1, 1997, Compass Plc is no longer accounted for by the equity method. Accor's remaining interest in Compass Plc has been transferred to investment in unconsolidated companies as of January 1, 1997, on the basis of their equity method valuation (after translation adjustments) (see Note 16).
In 1998, the Group sold 16,446,760 Compass shares (32,893,520 new shares), generating net proceeds of € 200 million (FRF 1,313 million), thereby realizing a net capital gain of € 130 million or FRF 851 million. After the end of 1998, the Group has issued bonds exchangeable into Compass shares. Holders of these bonds, with a par value of € 1,000 and a three-year maturity (to March 29, 2002), bearing interest at 1%, and for a total value of € 433 million (FRF 2,840 million), may convert their bonds into Compass shares or be reimbursed at par in cash at maturity. The number of Compass shares concerned by this issue is 30,700,000. The bond issue price represented a 28% premium over the equivalent Compass share price at the time of the issuance of the bonds (GBP 7.45 or € 11.03), taking into account a conversion ratio of 70.8215 Compass shares per Accor bond.

A.2. - Exceptional provision on assets held for disposal

As part of Accor's resource reallocation strategy, the Group has conducted a strategic review of all its activities in the first half of 1997, in order to identify assets likely to be sold in the near future.
Within its hotel activities, the review was conducted over the whole hotel portfolio and the situation of each fully owned property was reviewed on a unit-by-unit basis. The disposal value of the assets thus identified was estimated either on the basis of available bids or of a valuation taking into account a current multiple of projected free cash flow, corrected as needed to reflect the property's underlying real estate value (based on location and/or nature of the asset) .
This review resulted in the 1997 identification of a group of hotel properties held for disposal with a combined estimated selling value of € 1,372 million (FRF 9 billion), including € 1,067 million (FRF 7 billion) for which provisions have been established.
Provisions were written in the case of hotel assets and business units held for disposal, whose book value exceeds the estimated disposal value, resulting in a charge of € 207 million (FRF 1,356 million) included under exceptional items (see Note 10). Conversely, unrealized capital gains on assets held for disposal are taken into account only upon realization.
At December 31, 1997, as part of the resource reallocation program adopted in the first half of 1997, the Group completed the following disposals :
– 35 Motel 6 units for USD 130 million or € 118 million (FRF 773 million) ;
– 29 business and leisure hotels (13 Novotel and 16 Mercure units) for a total consideration of € 113 million (FRF 741 million) ;
– 5 Ibis hotels for € 29 million (FRF 188 million).
In 1998, Accor stepped up the pace of its hotel real estate property disposal program, with :
– sale of real estate component of 261 Motel 6 properties (30,339 rooms) for a gross value of USD 1,005 million, or € 853 million (FRF 5,594 million net value) ;

– in France, sale of 5 Novotel hotels (572 rooms), 3 Mercure hotels (709 rooms), 1 Sofitel (109 rooms) and 30 economy hotels (Ibis/Etap/Formule 1) for a value of € 114 million (FRF 751 million).

In addition, the Group has decided to expand the hotel property disposal plan of its resource reallocation program to an additional lot of 44 Motel 6 units, with an estimated value of USD 150 million or € 137 million (approximately FRF 900 million). The accounting treatment of this decision led the Group to reduce the valuation of these assets from usefulness value to fair market value. Consequently, a € 13.9 million (FRF 91 million) provision, included in exceptional items, was written at December 31, 1998 (see Note 10).

A.3. - Sale of HRC (public restaurants concession)
In September 1997, Charterhouse and Accor sold their joint public restaurant subsidiary, HRC, to Group Bercy Management. Accor realized a € 50 million (FRF 326 million) capital gain on the sale of its interest in HRC.

A.4. - Sale of Hotelia (Medotels)
In 1998, Accor sold the entire share capital of Medotels to the US group Holiday Retirement Inc. This transaction, based on an enterprise value of € 82 million (FRF 540 million) generated capital gains after taxes of € 18.8 million (FRF 123 million), posted under “Exceptional items” (see Note 10).

A.5. - Sale of Spanish public restaurant activities
In the second half of 1998, the Accor Group has sold all of the shares it owned in Geresa, a Spanish Public Restaurant company (roadside, airport concessions...). This transaction, based on an enterprise value of € 30 million (FRF 194 million) generated capital gains after taxes of € 13.4 million (FRF 88 million), posted under “Exceptional items” (see Note 10).

A.6. - Sale of 50% of Brazilian public restaurant and institutional catering activities
In December 1998, in order to establish a strategic alliance with Compass in Brazilian public restaurant and institutional catering activities, Accor Brazil, a 50%-owned Accor subsidiary, has transferred all of its Brazilian assets in these two activities to an equally owned joint-venture with Compass. Since December 1, 1998, these activities, jointly controlled by Accor Brazil and Compass, are consolidated through proportional integration in the Group’s balance sheet and income statement. This transaction generated a capital gain, Group share, of € 19.4 million (FRF 127 million), posted under “Exceptional items” (see Note 10). Taking into account the devaluation of the Brazilian real in January 1999 as well as the Group’s financial strategy, pursuant to which the capital gain on this sale should be distributed in the form of a dividend, a provision for exchange rate loss has been deducted from the above-mentioned capital gain, Group share.

A.7. - Sale of Accor’s interest in Club Méditerranée
In the second half of 1997, Accor sold part of its interest in Club Méditerranée for € 16 million (FRF 105 million) generating a loss of € 4.7 million (FRF 31 million) provided for in the first half of 1997 as part of the Group’s resource reallocation program.
During the first half of 1998, Accor sold the balance of its interest in Club Méditerranée. This disposal did not generate additional losses.

B. - Carlson Wagonlit Travel merger

In January 1997, Accor and Carlson Companies Inc. joined their respective interests in business travel agency networks. The combined entity, Carlson Wagonlit Travel, is jointly and equally held by the two groups. It is consolidated by Accor through proportional integration (50%) since January 1, 1997.
The creation of the Carlson Wagonlit Travel entity reflects the continuation of the two group’s travel agency activities. Consequently, the book value of this activity in Accor’s consolidated financial statements (€ 294 million or FRF 1,928 million) was used to establish the fair value of 50% of the assets transferred to the new entity by both groups.
This transaction generated goodwill of € 271 million (FRF 1,777 million). This goodwill will be amortized over twenty years, reflecting the current technological changes in this activity and the growing importance of systems with shorter life cycles.

C. - Sphere International/Accor merger

On June 4, 1997, the Extraordinary Shareholders' Meeting approved the merger of Sphere International (mother company of economy Hotels activity) and Accor SA, on the basis of one Accor share for seven Sphere shares. The merger resulted in the creation of 2,347,761 new Accor shares. As the accounting treatment of the assets transferred on the basis of their consolidated value would not be materially different from that deduced from their valuation on the basis of the net book value of the parent company, the latter value was retained to establish Accor's consolidated financial statements.
A capital increase of € 124 million (FRF 812 million) was therefore recorded.
Finally, a total of 934,664 Accor shares received by Compagnie Internationale des Wagons-Lits as part of this merger was recorded in the Accor balance sheet under marketable securities, reflecting the nature of the securities.

D. - AAPC Public Exchange Offer

On December 4, 1997, Accor launched a Public Exchange Offer for all outstanding shares of AAPC, a company listed on the Sydney Stock Exchange, in which the Group previously held a 25.89% interest accounted for by the equity method. The offering price (AUD 0.65 per share) valued the company at € 237 million (FRF 1,557 million). Upon expiration of the offer, on February 23, 1998, Accor held 99.5% of all outstanding shares of AAPC. Following a squeeze-out offer pursuant to Australian securities regulation launched subsequently, Accor held, directly or indirectly, 100% of AAPC, at the end of March 1998.
During 1997, Accor exercised a significant influence over the management of AAPC, thereby accounting for the company by the equity method on the basis of its ownership interest (25.89%) during the period. To reflect the takeover of AAPC by Accor at 1997 year end, completed in early 1998, AAPC's balance sheet was fully consolidated in Accor's consolidated financial statements at December 31, 1997.
The total acquisition cost of the 74.11% interest in AAPC purchased by Accor amounted to € 184 million (FRF 1,208 million). At December 31, 1997, Accor conducted a preliminary estimate of the fair value of the assets and liabilities acquired, net of assets and liabilities related to Accor's relationship with AAPC (particularly, rights to use the Accor hotel brand names and management contracts in the Asia-Pacific region, which had been sold to AAPC in 1993 and 1996, in exchange for cash and shares). On the basis of this estimate, total goodwill resulting from this transaction amounted to € 196 million (FRF 1,287 million).

At December 31, 1997, the impact of the full consolidation of AAPC's balance sheet on the Accor consolidated financial statements was as follows:

in millions, at December 31, 1997	€	FRF
Property, plant and equipment	42	274
Goodwill, net of amortization	196	1,287
Securities accounted for by the equity method and non-group securities	93	611
Other fixed assets	19	122
Change in securities accounted for by the equity method and AAPC bonds held by Accor	(103)	(673)
Change in fixed assets	**247**	**1,621**
Other assets	29	192
Change in total assets	**276**	**1,813**
Minority interets	9	59
Provisions	15	99
Translation adjustments	(6)	(37)
Net debt	258	1,692
Change in total liabilities and shareholders' equity	**276**	**1,813**
Acquisition debt	184	1,208
AAPC debt (after elimination of convertible bonds)	74	484
Change in net debt on Accor balance sheet	**258**	**1,692**

In 1998, Accor completed the estimation of the fair value of the acquired assets and liabilities, and allocated the goodwill generated thereby between the Asia and Pacific zones, in proportion to their expected profit contribution in coming years. At December 31, 1998, this operation generated final goodwill of € 172 million (FRF 1,131 million) on the Australian activities, amortized over 40 years, and total goodwill of € 77 million (FRF 508 million) on the Asian activities, amortized over 20 years.

E. Europcar

E.1. - Proportional consolidation of Europcar

In early 1998, following the approval of Europcar's 1997 financial statements, Accor has confirmed its intention of durably maintaining its interest in Europcar, a company jointly held with Volkswagen.

To reflect this strategic decision and provide an accurate representation of the Group's balance sheet at 1997 year end, Accor has consolidated the Europcar balance sheet on a proportional basis. Europcar's income statement has been accounted for by the equity method in 1997 (see Note 6), in line with the accounting method heretofore applied by the Group. Conversely, however, Europcar's income statement was consolidated by proportional integration in 1998.

At December 31, 1997, the impact of the 50% proportional consolidation of Europcar's balance sheet on the Accor consolidated financial statements was as follows :

in millions, at December 31, 1997	Notes	€	FRF
Brand		61	399
Other intangible fixed assets		36	239
Long-term vehicle fleet		44	285
Other fixed assets		22	147
Long-term fixed assets		**163**	**1,070**
Change in securities accounted for by the equity method		(70)	(463)
Total long-term assets		**93**	**607**
Short-term vehicle fleet		67	437
Financial receivables related to vehicle buy-back	27	299	1,964
Other assets		204	1,339
Total change in consolidated assets		**663**	**4,347**
Provisions for risks on brand		61	399
Provisions for risks and expenses		25	161
Long-term bank debt		8	57
Short-term bank debt		278	1,825
Fleet leasing debt		118	774
Total debt	27	**404**	**2,656**
Current liabilities		173	1,131
Total change in consolidated liabilities and shareholders' equity		**663**	**4,347**
Financial receivables related to vehicle buy-back	27	299	1,964
Total debt	27	404	2,656
Change in net debt on Accor balance sheet	27	**105**	**692**

The Europcar consolidated balance sheet is consolidated on a proportional basis, based on the Group's accounting principles, notably in terms of long-term leases, capital leases and sale-leaseback transactions (see Note 1.D.3). Europcar's lease financing contracts, primarily used to finance Europcar's vehicle fleet, were restated; the vehicles financed were included as assets in the balance sheet and a corresponding financial debt included as liabilities.

Europcar's vehicle fleet not subject to vehicle buy-back contracts provided by automobile makers is included on the balance sheet on the basis of the expected ownership period:
– vehicles subject to long-term rental contracts (long-term vehicle fleet) are considered fixed assets and depreciated over the life of the contracts;
– vehicles subject to short-term rental contracts (short-term vehicle fleet) are included under inventory and their utilization cost (acquisition cost, minus expected resale value) is spread on a straight-line basis over their expected ownership period.

Europcar's vehicle fleet subject to vehicle buy-back contracts, whereby automobile makers guarantee a short-term buy-back value, is considered held on the basis of standard short-term rental contracts. Consequently, the guaranteed buy-back value is posted under financial receivables related to vehicle buy-back. Payments made upon signing these contracts are considered prepaid rents and the amount exceeding the guaranteed buy-back value is spread over the corresponding vehicle holding period.

E.2. - Restatement of the usefulness value of Europcar

At the end of 1997, confirmation of the durable recovery of Europcar led Accor to restate the book value of the assets of this activity, and notably of the book value of the brand, whose initial value (€ 61 million or FRF 399 million) had been brought down to zero, through exceptional depreciation, in the Group's 1995 consolidated financial statements.
This review led the Group to consider a usefulness value of these assets well in excess of their book value. Consequently, the provision for depreciation (€ 61 million or FRF 399 million) was reversed in full and posted under exceptional items, at December 31, 1997 (see Note 10).

E.3. - Europcar abridged statement of income and balance sheet, at December 31,1998

To measure the impact of the proportional integration of Europcar in the consolidated financial statements of Accor, abridged financial statements of Europcar at December 31, 1998 are provided below:

1998 Income statement (100%)

in millions	€	FRF
Revenues	803	5,270
Gross operating profit	148	969
Rental expenses	(37)	(241)
Depreciation	(41)	(267)
EBIT	70	461
Net financial expense	(53)	(351)
Total income from operations	**17**	**110**

Balance sheet, as of December 31, 1998 (100%)

in millions	€	FRF
Long-term fixed assets (1)	400	2,626
Short-term vehicle fleet	98	644
Financial receivables	831	5,453
Other assets	602	3,950
Total assets	**1,931**	**12,673**
Total shareholders'equity	274	1,801
Provisions	48	318
Long-term and short-term debt	1,107	7,259
Current liabilities	502	3,295
Total liabilities and shareholders'equity	**1,931**	**12,673**

(1) Including the brand name Europcar in the amount of € 61 million (FRF 399 million).

note 3 Breakdown of consolidated sales by geographical area and by activity

in € millions	France	Europe (excl. France)	North America	Latin America	Other	1998	1997	1996
Hotels	**1,330**	**918**	**785**	**43**	**98**	**3,174**	**2,831**	**2,429**
Business and leisure	928	648	128	41	84	1,829	1,578	1,314
Economy	402	270	3	2	14	691	625	581
Motel 6	–	–	654	–	–	654	628	534
Corporate services	**42**	**101**	**7**	**211**	**4**	**365**	**331**	**281**
Car rental	**73**	**329**	**–**	**–**	**–**	**402**	**–**	**–**
Travel agencies	**52**	**163**	**148**	**15**	**12**	**390**	**621**	**621**
Institutional catering and public restaurants	157	170	–	347	2	676	617	565
Onboard train services	200	143	–	–	–	343	271	314
Casinos	129	–	–	–	–	129	57	–
Headquarters and other	74	56	–	14	–	144	115	105
1998 total	**2,057**	**1,880**	**940**	**630**	**116**	**5,623**	**–**	**–**
1997 total	**1,639**	**1,565**	**995**	**571**	**73**	**–**	**4,843**	**–**
1996 total	**1,513**	**1,638**	**608**	**467**	**89**	**–**	**–**	**4,315**

in FRF millions	France	Europe (excl. France)	North America	Latin America	Other	1998
Hotels	**8,722**	**6,022**	**5,141**	**284**	**648**	**20,817**
Business and leisure	6,084	4,253	837	268	553	11,995
Economy	2,638	1,769	16	16	95	4,534
Motel 6	–	–	4,288	–	–	4,288
Corporate services	**278**	**664**	**46**	**1,383**	**24**	**2,395**
Car rental	**479**	**2,155**	–	–	–	**2,634**
Travel agencies	**339**	**1,068**	**975**	**96**	**79**	**2,557**
Institutional catering and public restaurants	1,036	1,115	–	2,270	12	4,433
Onboard train services	1,318	937	–	–	–	2,255
Casinos	847	–	–	–	–	847
Headquarters and other	482	372	–	89	–	943
1998 total	**13,501**	**12,333**	**6,162**	**4,122**	**763**	**36,881**

In 1998, consolidated sales totaled € 5,623 million (FRF 36,881 million), as compared to € 4,843 million (FRF 31,780 million) at December 31, 1997. This represents an increase of € 780 million (FRF 5,101 million) or +16.05%.

This increase takes into account the proportional integration of Europcar since January 1, 1998. In addition, the recognition of revenues for the travel agency activities was changed in 1998 to reflect international practices in the travel agency industry as well as the evolution of the travel agency business (see Note 1.L.1.). The 1997 travel agencies consolidated revenue on a comparable basis to 1998 data is € 354 million (FRF 2,323 million).

Using comparable accounting methods, 1998 revenues increased by 13.3% over the 1997 level, including :
• + 8.0% from like-for-like growth;
• + 9.4% from business development;
• – 4.0% due to activity closure;
• – 0.1% from currency impact.

note 4 Breakdown of EBIT

4.1. - EBIT by activity and geographical area

in € millions	France	Europe (excl. France)	North America	Latin America	Other	Non allocated	1998	1997	1996
Hotels	**163**	**117**	**171**	**1**	**10**	**–**	**462**	**409**	**297**
Business and leisure	72	76	26	2	7	–	183	135	80
Economy	91	41	–	(1)	3	–	134	112	90
Motel 6	–	–	145	–	–	–	145	162	127
Corporate services	**15**	**39**	**(4)**	**54**	**–**	**–**	**104**	**98**	**80**
Car rental	**10**	**25**	**–**	**–**	**–**	**–**	**35**	**–**	**–**
Travel agencies	**3**	**6**	**(1)**	**2**	**(1)**	**–**	**9**	**16**	**24**
Institutional catering and public restaurants	11	7	–	10	–	–	28	21	1
Onboard train services	3	2	–	–	–	–	5	(1)	5
Casinos	19	–	–	–	–	–	19	11	–
Headquarters and other	–	–	–	–	–	(20)	(20)	(31)	(14)
1998 total	**224**	**196**	**166**	**67**	**9**	**(20)**	**642**	**–**	**–**
1997 total	**172**	**124**	**188**	**66**	**4**	**(31)**	**–**	**523**	**–**
1996 total	**121**	**105**	**139**	**39**	**2**	**(13)**	**–**	**–**	**393**

in FRF millions	France	Europe (excl. France)	North America	Latin America	Other	Non allocated	1998
Hotels	**1,069**	**768**	**1,126**	**8**	**64**	**–**	**3,035**
Business and leisure	475	496	172	12	45	–	1,200
Economy	594	272	1	(4)	19	–	882
Motel 6	–	–	953	–	–	–	*953*
Corporate services	**102**	**256**	**(29)**	**352**	**1**	**–**	**682**
Car rental	**65**	**166**	**–**	**–**	**–**	**–**	**231**
Travel agencies	**18**	**42**	**(8)**	**13**	**(7)**	**–**	**58**
Institutional catering and public restaurants	74	45	–	68	–	–	187
Onboard train services	18	10	–	–	–	–	28
Casinos	127	–	–	–	–	–	127
Headquarters and other	–	–	–	–	–	(133)	(133)
1998 total	**1,473**	**1,287**	**1,089**	**441**	**58**	**(133)**	**4,215**

4.2. - Operating rental expenses

EBIT is calculated after operating rental expenses of € 283 million (FRF 1,857 million) in 1997 and € 402 million (FRF 2,639 million) in 1998, respectively. The actual increase in rental expenses in 1998 reflects the impact of the sale and leaseback of hotel real estate properties in the first half of 1998, now rented under operating lease contracts (see Notes 7 and 2.A.2).
In line with international accounting principles (see Note 1.D.3), rental expenses are exclusively related to operating lease contracts. Regardless of contractual payment terms, total rental expenses are annualised on a linear basis over the life of the contract using benchmark rates (such as the INSEE French Construction Index). Some contracts were entered into for terms exceeding standard French nine-year commercial leases, notably to protect Accor against the lack of commercial property rights in certain countries.

Future undiscounted operating lease charges were as follows at December 31, 1998:

	Annual rent					
in € millions	1998	1999	2000	2001	2002	2003
Business and leisure	195	191	187	190	189	183
Economy	57	63	63	62	60	57
Motel 6	83	98	99	100	78	76
Other	67	44	24	21	19	17
Total	**402**	**396**	**373**	**373**	**346**	**333**
in FRF millions	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Business and leisure	1,283	1,255	1,227	1,248	1,244	1,200
Economy	371	410	412	405	392	376
Motel 6	545	643	647	655	510	501
Other	440	291	158	141	125	104
Total	**2,639**	**2,599**	**2,444**	**2,449**	**2,271**	**2,181**

Operating leases contracts relate to hotel real estate property and equipment operated by the Group. Some contracts include renewal clauses and/or options to purchase based on market conditions.

note 5 Net financial expense

in millions	1996 €	1997 €	1998 €	1998 FRF
Net interest income / expense	(189)	(168)	(150)	(986)
Other financial revenues and expenses	(3)	5	(8)	(50)
Net financial expense (*)	**(192)**	**(163)**	**(158)**	**(1,036)**

(*) Including, for 1998, 50% of Europcar's net financial expense for a total of € 27 million or FRF 174 million (see Note 2.E.3).

note 6 Income (loss) of associated equity companies, group share

in millions	1996 €	1997 €	1998 €	1998 FRF
Europcar (1)	(3)	7	–	–
AAPC (2)	4	(5)	-	–
TAHL	–	–	2	13
Société des Hôtels et Casinos de Deauville	3	3	5	36
Parc Astérix	1	3	–	–
Compass (3)	21	–	–	–
Other	4	5	5	30
Group share in income before tax	**30**	**13**	**12**	**79**

(1) See Note 2.E. (2) See Note 2.D. (3) See Note 2.A.1.

note 7 Result from management of hotel portfolio

in millions	1996 €	1997 €	1998 €	1998 FRF
Capital gains or losses on sale of assets	48	54	9	55
Provisions on hotel properties (see Note 1. D. 5)	(13)	(53)	(24)	(158)
Total	**35**	**1**	**(15)**	**(103)**

In 1996, result from management of hotel portfolio included capital gains on the sale of 19 Novotel hotels in France (2,844 rooms) for € 37 million (FRF 241 million) and 11 Sofitel hotels in France and in the US (3,455 rooms) for € 8.2 million (FRF 54 million). Provisions were related to loss of value of 6 hotels in France (€ 5.6 million or FRF 37 million), 10 hotels in Germany (€ 2.6 millions or FRF 17 million) and 6 Motel 6 units (€ 2.9 million or FRF 19 million).
In 1997, result from management of hotel portfolio included capital gains on the sale of 34 hotels in France (3,808 rooms) for € 54 million (FRF 352 million). Provisions were related to loss of value of 34 Mercure and Novotel hotels in Germany (€ 25 million or FRF 162 million), 5 business and leisure hotels in France (€ 13 million or FRF 85 million), and 2 business and leisure hotels in the US (€ 5.3 million or FRF 35 million) .

In 1998, result from management of hotel portfolio primarily encompasses the capital gain realized on the sale of 5 Novotel, 1 Sofitel and 3 Mercure hotels, as well as 30 economy hotels (all located in France and representing a combined total of 3,632 rooms), for a total of € 20 million (FRF 128 million), as well as lease renegotiation payments in Germany for € 7.6 million (FRF 49 million) . Provisions for loss of value related among other to 37 units in France, 3 units in the UK, 3 units in Germany and 1 unit in Brazil, for a total of € 21.2 million (FRF 139 million).

note 8 Result from management of other assets

	1996	1997	1998	
in millions	€	€	€	FRF
Capital gains or losses on sale of assets	62	45	139	910
Provisions	(8)	(20)	(84)	(553)
Non-operating gains (losses)	(11)	(14)	(34)	(222)
Total	**43**	**11**	**21**	**135**

In 1997, capital gains and losses on the management of other assets primarily encompassed € 30 million (FRF 200 million) related to a gain on a financial swap (see Note 30).
In 1998, Capital gains and losses from asset disposals primarily encompassed a € 130 million (FRF 851 million) non-taxable gain on the sale of 16.4 million Compass shares (see Note 2.A.1), and a € 8.1 million (FRF 53 million) gain from a financial swap (see Note 30).
In 1998, result from management of other assets includes costs related to the year 2000 transition and the Group's adaptation to the Euro for € 39.3 million (FRF 258 million), including € 34 million (FRF 223 million) corresponding to estimated costs not yet disbursed.
Provisions also include € 16 million (FRF 108 million) related to potential risks from loss of contracts in Europe in onboard train services.
In addition, non-operating gains and losses encompass costs related to the Accor 2000 hotel activity reengineering program for a total of € 4.6 million (FRF 30 million).

note 9 Income taxes

9.1. - Tax expenses of the fiscal year (excluding exceptional items)

	1996	1997	1998	
in millions	€	€	€	FRF
Current taxes and provisions	72	102	120	783
Deferred taxes	(10)	12	28	184
Group share in current and deferred taxes of associated equity companies	13	7	5	35
Total	**75**	**121**	**153**	**1,002**

9.2. - Effective Tax Rate

in millions	1996 €	1997 €	1998 €	1998 FRF
Current income before tax	266	374	481	3,155
Result of the management of other assets	43	11	21	135
Goodwill amortization	(28)	(45)	(60)	(392)
Income before tax	**281**	**340**	**442**	**2,898**
Goodwill amortization	28	45	60	392
Elimination of intra-Group capital gains	21	–	–	–
Asset depreciation	9	18	72	472
Other	17	7	9	59
Total of permanent differences (non-deductible expenses)	**75**	**70**	**141**	**923**
Income subject to lower tax rates or not subject to taxes(1)	**(112)**	**(19)**	**(176)**	**(1,154)**
Income taxable at current rates	**244**	**391**	**407**	**2,667**
Current tax rate in France	36.7%	41.7%	41.7%	41.7%
Theoretical income tax at current French tax rate	**(89)**	**(163)**	**(170)**	**(1,112)**
Impact of theoretical income tax of :				
• differences in tax rate in countries other than France	3	17	23	150
• unutilized tax losses for the year	(32)	(23)	(25)	(163)
• utilization of tax losses from prior years	27	29	17	111
• tax credit resulting from timing differences not recognized in prior years	–	29	10	68
• losses carried forward unrecognized in prior years(2)	23	12	10	65
• other	3	(13)	(8)	(53)
Total	**24**	**51**	**27**	**178**
Income tax at current tax rate	**(65)**	**(112)**	**(143)**	**(934)**
Income tax at lower rates	**(10)**	**(9)**	**(10)**	**(68)**
Total consolidated income tax	**(75)**	**(121)**	**(153)**	**(1,002)**
Apparent tax rate on net income before exceptional items and minority interests	**26.5%**	**35.7%**	**34.6%**	**34.6%**
Current income before tax	266	374	481	3,155
Total consolidated income tax	(75)	(121)	(153)	(1,002)
Group apparent tax rate on current income	**28.0%**	**32.5%**	**31.8%**	**31.8%**

(1) Primarily capital gains on asset sales.

(2) Tax losses carried forward result in deferred tax assets only when they are likely to be recovered within a reasonable time frame.

9.3. - Deferred tax assets and liabilities

	1996	1997	1998	
in millions	€	€	€	FRF
Deferred tax assets	105	124	110	723
Deferred tax liabilities	(112)	(105)	(118)	(774)
Net deferred taxes	**(7)**	**19**	**(8)**	**(51)**

note 10 Exceptional items (net of taxes and minority interests)

	1996	1997	1998	
in millions	€	€	€	FRF
Exceptional items	**–**	**41**	**37**	**247**

In 1997, as part of the resource reallocation program detailed in Note 2.A, exceptional items included capital gains of € 202 million (FRF 1,323 million) on the sale of Compass securities and € 50 million (FRF 326 million) on the balance of the Group's interest in HRC.
Separately, capital losses on sale of assets totaling € (6.3) million or FRF (41) million were realised on the sale of Club Méditerranée and Parc Astérix securities.
In addition, provisions for loss of value on assets held for disposal totaling € 207 million (FRF 1,356 million) were posted. Of this total, € 159 million (FRF 1,045 million) are related to hotel properties and most of the balance is related to onboard train services (see Note 2.A.2).
Exceptional items also include € 58 million (FRF 382 million) in other provisions, of which € 43 million (FRF 279 million) were related to reorganization and reengineering costs in various Group activities.
Finally, the review of Europcar's book value having demonstrated that the usefulness value of these assets far exceeded their net book value, the € 61 million (FRF 399 million) provision for loss of value relative to the Europcar brand was reversed in full (see Note 2.E.2.).
In 1998, exceptional items comprise:

- the capital gain on the sale of the Group's total interest in Medotels (Hotelia, hotels for senior citizens) for a total of € 18.8 million (FRF 123 million) (see Note 2.A.4) ;
- the capital gain on the sale of Spanish catering activities for € 13.4 million (FRF 88 million) (see Note 2.A.5) ;
- the € 19.4 million (FRF 127 million) capital gain on the transfer of Brazilian public restaurant and institutional catering activities to a 50/50 joint-venture with Compass Plc (see Note 2.A.6).

In addition, in the first half of 1998, the Group has decided to expand the hotel real estate property disposal plan of its resource reallocation program to an additional lot of 44 Motel units, for an estimated value of USD 150 million (approximately € 137 million or FRF 900 million). Consequently, a € 13.9 million (FRF 91 million) provision was posted at December 31, 1998 to reduce the valuation of these assets to their fair market value.

note 11 Breakdown of earnings per share

Number of shares in thousands	1996	1997	1998
Number of shares outstanding (beginning of the period)	28,916	33,117	35,852
Number of shares issued during the year	4,201	2,735	289
Number of shares outstanding (end of the period)	33,117	35,852	36,141
Weighted average number of shares outstanding	**30,940**	**35,557**	**35,934**
Group consolidated net income (in € millions)	161	230	297
Earnings per share (in €)	**5.2**	**6.5**	**8.3**
Group consolidated net income (in FRF millions)	1,058	1,508	1,951
Earnings per share (in FRF)	**34.2**	**42.4**	**54.3**

note 12 Intangible fixed assets

	1996	1997	1998	
in millions	€	€	€	FRF
Brand name, Motel 6 (1)	160	183	171	1,124
Market share, onboard train services	75	75	75	490
Networks and brand names, travel agencies	113	–	–	–
Brand name, Europcar (2)	–	61	61	399
Other networks and brand names	11	11	11	69
Business rights	77	68	63	413
Start-up costs	31	29	27	180
Other intangible fixed assets	70	116	142	932
Total (gross) (3)	**537**	**543**	**550**	**3,607**
Amortization	(72)	(84)	(93)	(608)
Total (net)	**465**	**459**	**457**	**2,999**

(1) Changes in the valuation of the Motel 6 brand is primarily due to fluctuations in the exchange rate at the closing date of the US Dollar against the French franc (1996 : 5.2370, 1997 : 5.9881, 1998 : 5.6221).

(2) See Note 2.E.2.

(3) Provision for risks are written in the case of intangible fixed assets held for disposal whenever their estimated market value is lower than book value.

note 13 Goodwill

in millions	1996 €	1997 €	1998 €	1998 FRF
Goodwill (gross)	983	1,391	1,481	9,711
Amortization	(159)	(203)	(234)	(1,534)
Total	**824**	**1,188**	**1,247**	**8,177**

in millions		1996 €	1997 €	1998 €	1998 FRF
Motel 6	(40 years)	273	323	298	1,953
Carlson Wagonlit Travel	(20 years)	118	257	257	1,683
Hotels, Australia / Pacific (AAPC)	(20 years)	4	200	176	1,158
Hotels, Asia (AAPC)	(40 years)	–	–	73	481
Economy hotels (Sphere)	(40 years)	54	59	74	485
Casinos (Accor Casinos and subsidiaries)	(20 years)	–	48	68	442
SHCD	(40 years)	33	32	31	206
Hotels, Hungary (Pannonia)	(40 years)	–	19	24	154
Lenôtre	(20 years)	21	20	18	120
Onboard train services	(6 years)	–	–	16	102
Apetik (Brazilian luncheon vouchers)	(40 years)	16	17	14	94
Embral (Brazilian institutional catering)	(20 years)	–	21	9	57
Compass Plc	(40 years)	123	–	–	–
Other (under € 15 million each)		182	192	189	1,242
Total net goodwill		**824**	**1,188**	**1,247**	**8,177**

Changes in net goodwill:

in millions	1997 €	1998 €	1998 FRF
Total net goodwill at beginning of period	**824**	**1,188**	**7,795**
Increase in gross value and impact of changes in the scope of consolidation:	**364**	**182**	**1,191**
• Hotels Asia / Australia	196	60	390
• Embral (Brazilian institutional catering)	21	–	–
• Accor Casinos (purchase of Mandelieu casino in 1998)	51	24	156
• Motel 6	26	–	–
• Pannonia (hotels, Hungary)	20	–	–
• Brazilian institutional catering (Atta / Sillius / Art)	–	16	109
• Onboard train services	–	19	128
• Europcar	–	14	89
• Brazilian luncheon vouchers	–	9	57
• Postiljon (hotels, The Netherlands)	–	7	47
• Other	50	33	215
• Impact of CIWLT/Carlson merger	143	–	–
Exclusions from the scope of consolidation:	**(123)**	**(28)**	**(187)**
• Compass	(123)	–	–
• Transfer of 50% of Brazil restaurant activities to Compass	–	(19)	(126)
• Hotelia	–	(4)	(27)
• Geresa	–	(5)	(34)
Translation adjustments	**34**	**(24)**	**(155)**
Amortization	**(45)**	**(60)**	**(392)**
Other changes	**(9)**	**(11)**	**(75)**
Total net goodwill at end of period	**1,188**	**1,247**	**8,177**

note 14 Property, plant and equipment

in millions	1996 €	1997 €	1998 €	1998 FRF
Land	720	761	410	2,691
Buildings	3,019	3,269	2,576	16,895
Fittings	592	640	702	4,607
Furniture and equipment	1,012	1,241	1,276	8,371
Construction in process	41	72	325	2,130
Total gross	**5,384**	**5,983**	**5,289**	34,694
Depreciation and amortization	(1,495)	(1,868)	(1,831)	(12,010)
Total net	**3,889**	**4,115**	**3,458**	22,684

At 1998 year end, property, plant and equipment held under capital leases totaled € 564 million or FRF 3,699 million (gross value), as against € 507 million (FRF 3,327 million) at 1997 year end.

note 15 Long-term loans

in millions	1996 €	1997 €	1998 €	1998 FRF
Hotels, US / Canada (1)	32	46	13	87
Hotels, UK (2)	25	28	–	–
Hotels, The Netherlands (3)	14	14	14	89
Sedri (Le Duff) (4)	22	24	13	83
Hotels, Asia / Pacific	–	19	33	217
Vaturi Group (5)	2	9	49	319
Cruise Lines	6	5	3	19
Other	96	69	118	777
Total	**197**	**214**	**243**	1,591

(1) The change reflects, on the one hand, partial repayment of the loan and, on the other hand, changes in the scope of consolidation related to the buy-out of companies previously unconsolidated.

(2) A loan was granted in 1994 to an unconsolidated company owning 3 Novotel hotels in the UK. This loan was reimbursed in January 1999 and as such is included under “short-term loans”.

(3) In 1995, the Group granted a € 14 million (FRF 89 million) short-term loan to a non-consolidated company holding 7 Novotel hotels in The Netherlands.

(4) In 1998, € 11.3 million (FRF 74 million) of this loan were reimbursed. The balance is due December 31, 1999.

(5) See Note 17.

note 16 Investments in companies accounted for by the equity method

in millions	1996 €	1997 €	1998 €	1998 FRF
Compass (1)	224	–	–	–
Europcar (2)	68	–	–	–
Accor Asia Pacific Corp (AAPC) (3)	54	–	–	–
Pannonia (4)	15	–	–	–
TAHL (Australia) (5)	–	56	53	349
Ambassador / Ambatel (hotels, Korea) (5)	–	6	8	53
Indotel (hotels, Vietnam) (5)	–	8	7	49
Mahindra (hotels, India) (5)	–	–	1	7
Other associated equity companies (Asia) (5)	–	9	11	76
Société des Hôtels et Casinos de Deauville	19	20	22	143
CNIT	12	13	13	86
Parc Astérix (6)	12	–	–	–
Quadro Rodas (hotels, Brazil)	4	3	2	14
Concession restaurants, France (HRC)	6	–	–	–
Other	20	24	35	223
Total	**434**	**139**	**152**	**1,000**

(1) Since January 1, 1997, Compass is no longer accounted for by the equity method (see Note 2.A.1).

(2) The Europcar group is accounted for through proportional consolidation starting December 31, 1997 (see Note 2.E).

(3) The AAPC group is accounted for through full consolidation starting December 31, 1997 (see Note 2.D).

(4) The Pannonia group is accounted for through full consolidation starting January 1, 1997.

(5) Following the full consolidation of AAPC's balance sheet at December 31, 1997, Accor uses the equity method to account for subsidiaries more than 20% held by AAPC. These include Tahl (owner and operator of Australian hotels managed by AAPC) and five other Asian holdings.

(6) In 1997, Accor sold 60% of its interest in Parc Astérix. The balance of its interest (250,365 shares or 7.36% of total share capital) was reclassified under investment in unconsolidated companies.

note 17 Other financial fixed assets

in millions	1996 €	1997 €	1998 €	1998 FRF
Investment in unconsolidated companies and convertible bonds	247	328	207	1,357
Deposits and securities (1)	113	130	178	1,167
Total (gross)	**360**	**458**	**385**	**2,524**
Provision for loss in value	(32)	(40)	(52)	(337)
Total (net)	**328**	**418**	**333**	**2,187**

(1) At December 31, 1998, deposit related to the Repackaged Perpetual Subordinated Floating Rate Notes (Titres Subordonnés à Durée Indéterminée, or TSDI) totaled € 112 million (FRF 736 million) and € 96 million (FRF 630 million) at December 31, 1997 (see Note 23).

At December 31, 1996, Accor held a 2.36% interest in Club Méditerranée, valued at € 28 million (FRF 182 million). The bulk of this interest was sold in 1997, generating a capital loss of € 4.7 million or FRF 31 million (see Note 2.A.7). At December 31, 1997, Accor held 100,190 Club Méditerranée shares, valued at € 7 million or FRF 46 million. During the first half of 1998, Accor has sold the full balance of its interest in Club Méditerranée. This transaction did not generate material capital gains.

At December 31, 1997, following the sale of 36,500,000 Compass shares during the year, the Accor Group held 31,800,201 Compass shares with a value of € 159 million (FRF 1,040 million), corresponding to their equity method valuation at January 1, 1997 (see Note 2.A.1). Following the sale of 16,446,760 Compass shares in February 1998, the Accor Group holds only 15,353,541 Compass shares (30,706,882 new shares) with a value of € 77 million (FRF 502 million), corresponding to their valuation at December 31, 1998.

At December 31, 1997, Accor held 477,888 bonds convertible into Crédicom (Vaturi Group) shares with a nominal value of BEF 5,000 each, bearing an interest rate of 6.5% and valued at € 61 million (FRF 397 million). In early 1998, the entire Crédicom convertible bond position (with coupons attached) was exchanged for interests of 5% and 2.28%, respectively, of the share capital of Financière Saresco and Saresco (duty-free sales/fragrance and cosmetics distribution), plus a € 42 million (FRF 273 million) loan to Immtel guaranteed by a hotel lease promise, and a cash payment of € 9.1 million (FRF 60 million). This transaction was conducted without capital gains (see Note 15).

note 18 Breakdown of fixed assets by activity

18.1 - Net fixed assets by activity

in € millions	Business and leisure hotels	Economy hotels	Motel 6	Corporate services	Travel agencies	Institutional catering / publ. rest.	Railway onboard services	Casinos	Car rental	Head-quarters and other	1998	1997	1996
Intangible assets	34	16	169	36	23	5	75	–	89	10	457	459	465
Goodwill	365	73	297	51	257	46	16	99	13	30	1,247	1,188	824
Property, plant and equipment	1,266	886	955	30	27	48	47	43	79	77	3,458	4,115	3,889
Sub-total	**1,665**	**975**	**1,421**	**117**	**307**	**99**	**138**	**142**	**181**	**117**	**5,162**	**5,762**	**5,178**
Long-term loans	99	13	1	–	–	2	–	–	–	128	243	214	197
Investment in associated equity companies	101	8	–	–	1	–	–	22	4	16	152	139	434
Other financial assets	64	5	12	5	3	1	1	2	10	230	333	418	328
1998 total	**1,929**	**1,001**	**1,434**	**122**	**311**	**102**	**139**	**166**	**195**	**491**	**5,890**	**–**	**–**
1997 total	**1,777**	**969**	**2,312**	**122**	**307**	**131**	**113**	**70**	**160**	**572**	**–**	**6,533**	**–**
1996 total	**1,506**	**934**	**2,137**	**127**	**293**	**97**	**117**	**2**	**68**	**856**	**–**	**–**	**6,137**

in FRF millions	Business and leisure hotels	Economy hotels	Motel 6	Corporate services	Travel agencies	Institutional catering / publ. rest.	Railway onboard services	Casinos	Car rental	Head-quarters and other	1998
Intangible assets	222	104	1,107	234	150	36	494	1	585	66	2,999
Goodwill	2,394	476	1,953	337	1,688	300	102	648	83	196	8,177
Property, plant and equipment	8,302	5,814	6,262	198	177	315	309	284	517	506	22,684
Sub-total	**10,918**	**6,394**	**9,322**	**769**	**2,015**	**651**	**905**	**933**	**1,185**	**768**	**33,860**
Long-term loans	651	84	4	1	2	12	–	–	–	837	1,591
Investment in associated equity companies	661	53	–	–	9	1	2	143	26	105	1,000
Other financial assets	419	32	77	33	20	5	9	14	66	1,512	2,187
1998 total	**12,649**	**6,563**	**9,403**	**803**	**2,046**	**669**	**916**	**1,090**	**1,277**	**3,222**	**38,638**

18.2. - Return On Capital Employed (ROCE)

Return On Capital Employed (ROCE) is a key management tool used internally by the Group to measure the performance of the various activities it controls. It is also a key indicator of the profitability of assets which are either non-consolidated or accounted for by the equity method.

It is calculated on the basis of aggregate amounts derived from the consolidated financial statements :

• return : for each activity, total of EBDIT and financial revenues (dividends and financial income) generated by unconsolidated assets, plus share in net income of associated equity companies;

• capital employed : for each activity, total value of fixed assets, based on their average gross value during the year, plus working capital requirements.

At December 31, 1998, ROCE was calculated on the basis of return (EBDIT plus revenues on financial assets), from January 1 to December 31, 1998, over the average of capital employed for the same period.

Return On Capital Employed before tax, by activity:

Activities	Dec. 31, 1996	Dec. 31, 1997	Dec. 31, 1998
Hotels			
Business and leisure (1)	8.9%	11.4%	11.5%
Economy	12.0%	13.1%	14.2%
Motel 6	8.3%	9.3%	9.7%
Corporate services	**19.1%**	**21.2%**	**21.3%**
Car rental (2)	**–**	**–**	**15.4%**
Travel agencies	**8.8%**	**7.7%**	**5.4%**
Institutional catering and public restaurants	8.0%	14.8%	15.8%
Onboard train services	5.4%	2.4%	4.9%
Casinos	–	16.3%	17.0%
Other and associated equity companies	3.9%	1.0%	2.0%
Total Group	**9.0%**	**10.2%**	**11.2%**

(1) The ROCE of the business and leisure hotel activities includes for the first time in 1998 the activities in Australia and Asia (AAPC), previously included under “Other activities and associated equity companies”. Excluding AAPC, ROCE of the business and leisure hotel activities would have been 12.8%, an improvement of 1.4 percentage points over the 1997 level.

(2) The ROCE of Europcar, calculated on the basis of the equity method accounting of this company, stood at 10.6% at December 31, 1997 under “Other activities and associated equity companies”. Based on proportional integration, the ROCE of Europcar would have been 13.7% in 1997, as compared to 15.4% in 1998.

note 19 Other receivables

in millions	1996 €	1997 €	1998 €	1998 FRF
Deferred tax credit	105	124	110	723
Other receivables (1)	271	321	389	2,549
Net other receivables	**376**	**445**	**499**	**3,272**
Deferred tax liability	112	105	118	774
Other payables (2)	508	600	672	4,411
Net other payables	**620**	**705**	**790**	**5,185**

(1) At December 31, 1998, it included :
- VAT receivables for € 100 million (FRF 658 million) ;
- tax receivables for € 63 million (FRF 413 million) ;
- personnel receivables for € 9.6 million (FRF 63 million).

(2) At December 31, 1998, it included :
- personnel and employee organization payables for € 249 million (FRF 1,632 million) ;
- tax payables for € 72 million (FRF 470 million) ;
- VAT payables for € 45 million (FRF 292 million) ;
- corporate tax payables for € 39 million (FRF 255 million).

note 20 Fully diluted share capital

A total of 36,140,999 Accor shares were outstanding at December 31, 1998. In addition to convertible bonds issued in 1991 (see Note 25), share warrants and stock option plans outstanding at December 31, 1998 and issued to Group employees included:

- 35,800 stock options, exercisable until December 1999 at FRF 490 per share ;
- 138,400 stock options, exercisable from August 1997 until August 2001 at FRF 617 per share ;
- 137,108 stock options, exercisable until October 2001 at FRF 434 per share ;
- 200,000 stock options, exercisable from January 1999 until January 2005, at FRF 507 per share ;
- 277,500 stock options, exercisable from January 2003 until January 2006, at FRF 1,065 per share.

note 21 Changes in minority interests

in millions	€	FRF
December 31, 1996	**264**	**1,733**
Net income for the period	30	197
Dividends paid to minority interests	(11)	(70)
Translation adjustments	10	64
Decrease in minority interests following the Sphere merger (1)	(102)	(667)
Decrease in minority interests following the acquisition of IBL shares	(46)	(305)
Initial full consolidation of the Pannonia group	47	311
Other changes	(1)	(8)
December 31, 1997	**191**	**1,255**
Net income for the period	29	192
Dividends paid to minority interests	(35)	(232)
Translation adjustments	(17)	(112)
Other changes	7	46
December 31, 1998	**175**	**1,149**

(1) See Note 2.C.

note 22 Provisions for risks

in millions	€	FRF
December 31, 1996	**206**	**1,348**
Impact of proportional consolidation of Europcar	25	161
Impact of full consolidation of AAPC	15	98
Impact of proportional consolidation of Carlson Wagonlit Travel	(6)	(39)
Other additions to scope of consolidation	11	74
Allocation to / (reversal of) current provisions	49	322
Allocation to / (reversal of) exceptional provisions	90	593
Translation adjustments	4	27
Other changes	8	51
December 31, 1997	**402**	**2,635**
Additions to scope of consolidation	(14)	(93)
Allocation to / (reversal of) current provisions	115	754
Translation adjustments	(10)	(62)
Other changes	26	170
December 31, 1998	**519**	**3,404**

At December 31, 1998, net provisions for risks comprise € 33 million (FRF 218 million) in provisions for retirement benefits and pension funds, € 25 million (FRF 167 million) in redemption premium on bonds issued by Accor in 1991 (see Note 24), provisions for self-insurance (€ 19 million or FRF 127 million), provisions for expenses related to reorganization and reengineering of the Group's various activities including costs related to Year 2000 compliance and the transition to the single European currency (Euro) for € 82 million (FRF 538 million), € 201 million (FRF 1,321 million) in provisions for identifiable commercial, tax and social risks in excess of € 0.76 million (FRF 5 million) each, and € 42 million (FRF 275 million) in provisions for miscellaneous risks and expenses less than € 0.76 million (FRF 5 million) each. In addition, provisions for risks include € 116 million (FRF 758 million) in provisions on asset realization premiums.

note 23 Repackaged Perpetual Subordinated Floating Rate Notes (TSDI)

In December 1990, Accor issued € 762 million (FRF 5 billion) in Repackaged Perpetual Subordinated Floating Rate Notes (Titres Subordonnés à Durée Indéterminée). Concurrently, Accor paid a third-party special-vehicle company the sum of € 170 million (FRF 1,118 million) in return for that company's agreement to repurchase the notes from their holders 15 years after their issuance, and to relinquish all rights to principal or interest on these notes from that time onwards.

The notes issue generated net proceeds of € 592 million (FRF 3,882 million), recorded as a liability as of the issue date.

Since the notes are subordinated, Accor may temporarily suspend semi-annual payments of interest and principal in the event of exceptional financial difficulties. In this case, accrued interest would be capitalized.

The notes carry a market-based variable interest rate for a 15-year period. The swap transaction enabling principal repayment to be fixed while leaving the after-tax interest rate variable (based on market rates) was the object of an € 112 million (FRF 736 million) investment (at December 31, 1998 – see Note 17) at a financial expense and partly as a repayment of capital, which will be fully paid off at the end of the 15-year period.

Taxes are spread over the life of the issue, in proportion to financial expense incurred.

The validity of the accounting treatment of this issue was confirmed by the French tax authorities in early 1993.

note 24 Convertible bonds

In May 1991, Accor issued € 307 million (FRF 2,015 million) in the form of 2,100,000 convertible bonds with par value of FRF 960 (€ 146.35) and annual yield of 6.75%, convertible into 1.15 Accor share each and redeemable with a premium of FRF 96 (€ 14.64) each in January 2000. The repayment premium is accounted for as a financial expense taken over the life of the issue.

note 25 Total long-term debt (excluding TSDI)

in millions	Actual interest rate Dec. 31, 1996 %	Dec. 31, 1996 €	Actual interest rate Dec. 31, 1997 %	Dec. 31, 1997 €	Actual interest rate Dec. 31, 1998 %	Dec. 31, 1998 €	Dec. 31, 1998 FRF
French franc	5.28	1,028	5.15	1,199	–	–	–
Belgian franc	5.20	66	5.83	61	–	–	–
Deutsche mark	4.55	84	5.42	51	–	–	–
Spanish peseta	7.32	4	NS	–	–	–	–
Dutch guilder	6.26	16	6.28	13	–	–	–
Portuguese escudo	N/A	–	5.37	9	–	–	–
Ecu	N/A	–	7.86	4	–	–	–
Euro	**5.24**	**1,198**	**5.21**	**1,337**	**5.21**	**1,097**	**7,197**
US dollar	5.98	979	6.10	860	6.21	312	2,046
Swiss franc	5.48	13	5.50	13	5.13	12	80
Pound sterling	8.34	7	7.92	27	–	–	–
Canadian dollar	4.34	12	4.45	19	5.48	17	110
Australian dollar	NS	–	5.53	74	8.38	1	7
Other currencies	N/A	3	N/A	3	N/A	7	46
Sub-total		**2,212**		**2,333**		**1,446**	**9,486**
Capital leases		172		189		205	1,347
Special reserve fund (Italy)		38		34		36	239
Deposits and guarantees		2		2		1	5
Total long-term debt		**2,424**		**2,558**		**1,688**	**11,077**

Data are given after interest rate and currency swaps.

in millions	1996 €	1997 €	1998 €	1998 FRF
Year N+2	165	128	146	957
Year N+3	174	307	101	660
Year N+4	259	150	321	2,108
Year N+5	98	352	46	303
Year N+6	306	98	42	277
Beyond	500	490	554	3,633
Convertible bonds	307	307	307	2,015
Short-term debt reclassified as long-term debt	615	726	171	1,124
Total long-term debt	**2,424**	**2,558**	**1,688**	**11,077**

As of December 31, 1998, Accor could draw on several unutilized confirmed credit lines with maturities of over one year, for a total of € 1,475 million (FRF 9,674 million), expiring between January 2000 and December 2003. Short-term financing (French and US Commercial Paper programs and spot loans), which the Group expects to renew, have been reclassified as long-term debt for a total of € 171 million (FRF 1,124 million), within the limit of available confirmed long-term credit lines used to back up these programs.

note 26 Net indebtedness

in millions	1996 €	1997 €	1998 €	1998 FRF
Repackaged Perpetual Subordinated Floating Rate Notes	468	437	402	2,638
Convertible bonds	307	307	307	2,015
Other long-term debt	1,945	2,062	1,176	7,715
Capital leases	172	189	205	1,347
Short-term financial debt	343	711	867	5,689
Due to banks	195	186	308	2,018
Total financial debt	**3,430**	**3,892**	**3,265**	**21,422**
Financial receivables related to Europcar (Note 2.E)	–	(299)	(415)	(2,726)
Short-term loans	(75)	(101)	(58)	(380)
Marketable securities	(334)	(423)	(491)	(3,222)
Cash and equivalents	(320)	(317)	(445)	(2,921)
Net financial debt	**2,701**	**2,752**	**1,856**	**12,173**
Receivables related to assets sales	(27)	(112)	(22)	**(146)**
Net indebtedness	**2,674**	**2,640**	**1,834**	**12,027**
Net indebtedness at beginning of the period	**2,955**	**2,674**	**2,640**	**17,313**
Changes in long-term debt	(366)	(177)	(898)	(5,892)
Changes in short-term net financial debt	(148)	(52)	9	59
Other structural and currency changes (1)	124	280	(7)	(43)
Change in receivables related to assets sales	109	(85)	90	590
Total changes for the period	**(281)**	**(34)**	**(806)**	**(5,286)**
Net indebtedness at end of the period	**2,674**	**2,640**	**1,834**	**12,027**

(1) Long-term debt.

Total debt - both short and long-term - is 47% fixed rate (5.92% on average at December 31, 1998) and 53% variable rate (4.68 % on average at December 31, 1998), with variable rates which can be fixed based on benchmark rates (Euribor) for periods of one to six months. The average rate of financial debt (excluding due to banks) is 5.27 %.

note 27 Impact of proportional consolidation of Europcar at December 31, 1997

in millions	€	FRF
Long-term bank debt	9	57
Short-term bank debt	278	1,825
Rental debt / Vehicle fleet financing	117	774
Financial debt	**404**	**2,656**
Financial receivables on vehicle buy-back	(299)	(1,964)
Total net debt	**105**	**692**

note 28 Payroll

Total payroll amounted to € 1,644 million (FRF 10,784 million) in 1997 and to € 1,909 million (FRF 12,520 million) in 1998.
Fees paid to Members of the Supervisory Board and to the Members of the Audit Committee and Compensation Committee amounted to € 0.971 million (FRF 6.370 million).

note 29 Litigation

No litigation or arbitration is susceptible of having, or having had in the recent past, a substantial effect on the financial situation of the Group.

note 30 Off-balance sheet commitments and contingencies as of December 31, 1998

• Guarantees on loans and overdrafts totaled € 3.5 million (FRF 22.9 million) at December 31, 1998.
• Accor and IFIL have amended their agreement of December 5, 1991 regarding their joint subsidiary Sifalberghi and concerning Accor's commitment to purchase from IFIL 25% of Sifalberghi. IFIL now benefits from the following commitments :
- if IFIL exercises its sale option prior to June 30, 1999, the purchase price will be based on the value of IFIL's interest at April 30, 1996, actualized using Italian money market rates, minus dividends consequently paid out ;
- if IFIL exercises its sale option between July 1, 1999 and December 31, 2002, the price will be fixed using a formula taking into account net book value, unrealized capital gains on the real estate portfolio, net of taxes, and goodwill.
This commitment was valued at € 16.8 million (FRF 110.3 million) at December 31, 1998.
• The minority shareholder in Accor Casinos has been granted by the Accor Group a put option, exercisable from November 1, 1997 through December 31, 2000, for its remaining 35% interest in Accor Casinos. The strike price of this put option is based on future profits (EBITDA multiple minus indebtedness). For confidentiality reasons, this commitment is not individually quantified, but is included under other commitments given.
• As part of a rental contract related to approximately 70 motels for a period of five years, the Group is committed – if it decides to exercise neither its option to renew the lease nor its option to purchase the motels, and if the landlord decides to sell the properties – to reimburse the landlord the difference between the selling price and the initial price of the properties.
This guarantee is limited to 80% of the difference between these prices, or a maximum of USD 340 million (€ 306 million or FRF 2,006 million).
• As part of a 10-year management contract relative to the Mercure Sydney Railway Square hotel, opened at the fourth quarter of 1998, Accor has granted the owner of the property a put option, exercisable after March 31, 2000, to acquire the hotel property for € 40 million (FRF 262 million). Construction costs borne by the owner will total approximately € 63 million (FRF 412 million).
• Other commitments given total € 166 million (FRF 1,091million) and include the commitment relative to Accor Casinos. No other individual commitment exceeds € 7.6 million (FRF 50 million).

note 31 Main subsidiaries and consolidated financial investments at December 31, 1998

France

☐	SOFITEL INT.	100.00%
☐	SIHN	100.00%
☐	PIH	100.00%
☐	MIH	100.00%
●	SERARE	99.99%
●	LENOTRE	99.81%
▲	S.E.A.V.T. (2)	49.74%
❖	Europcar Interent (2)	49.74%
✲	Accor Casino SA	65.00%
✲	SFPTH SA	99.47%
✲	DEVIMCO	99.96%
✲	RESINTER	99.88%
✲	S.H.C.D. (1)	34.90%
✲	Académie Accor	100.00%

Europe

	Austria	
☐	Accor GmbH	100.00%
	Belgium	
☐	Accor Hôtels Belgium	98.36%
☐	Pullman Belgium	100.00%
☐	Accoordination	99.11%
■	Accor T.R.B.	100.00%
▲	W.L. Tourisme (2)	49.74%
✲	CIWLT	99.47%
	Denmark	
▲	World Tourist (2)	49.74%
	Germany	
☐	Mercure Hôtels	100.00%
☐	Novotel DTCMBH	100.00%
☐	Eurorheinische (1)	49.74%
■	TR Menu Scheck	100.00%
	Greece	
☐	SH Athènes Centre (1)	41.82%
	Hungary	
☐	Pannonia	43.20%
	Italy	
☐	Sagar	99.47%
☐	Setac	99.47%
● ■	Gemeaz	94.64%
✲	Sifalberghi	72.62%
✲	Scapa Italia	97.00%
	The Netherlands	
☐	Novotel Nederland	100.00%
☐	Nhere BV	100.00%
☐	MMH	100.00%
☐	Postiljon	100.00%
	Portugal	
☐	Soltejo (2)	50.00%
■	ESA	94.30%
	Spain	
☐	Novotel Espagne	100.00%
▲	Viajes Ecuador (2)	49.74%
	Sweden	
■	Rikskuponger	99.86%
	Switzerland	
☐	Novotel International	100.00%
	United Kingdom	
☐	Novotel UK	100.00%
▲	WLT Travel UK (2)	49.74%
■	Luncheon Vouchers	99.98%

Latin America

	Argentina	
■	Servicios Ticket	83.99%
	Brazil	
☐	N.H.T.	70.90%
● ■ ●	T.S. do Brasil	49.97%
	Mexico	
▲	WLT Mexicana	69.63%
■	Accor Servicios Emp.	93.00%

North America

	Canada	
☐	Group Accor of Canada	99.97%
▲	Carlson Canada (2)	49.74%
	United States	
☐	Accor North America	100.00%
☐	IBL Ltd	99.94%
☐	Miotel	100.00%
▲	Carlson USA (2)	49.74%

Africa

	Ivory Coast	
☐	Société Abidjanaise	74.97%
	Senegal	
☐	SPHU	92.89%

Asia Pacific

☐	AAPC : Accor Asia Pacific Corp.	100.00%
☐	THAL (real estate comp., Australia)	36.80%

(1) Associated equity company
(2) Company consolidated through proportional integration

NB 1: Percentage indicates Group interest.
NB 2: A comprehensive list of consolidated subsidiaries and equity holdings is available to Company Shareholders upon request.

☐ Hotels	■ Corporate services	◆ Onboard train services
▲ Travel agencies	● Public restaurants and institutional catering	✲ Other services
❖ Car rental		

Parent Company

Draft resolutions for the Combined Ordinary and Extraordinary Shareholders'Meetings

BUSINESS ITEMS FOR THE ORDINARY SHAREHOLDERS' MEETING

Voting on these resolutions shall be conducted in accordance with the quorum and majority requirements for Ordinary Shareholders' Meeting.

First resolution

Approval of 1998 reports and financial statements

In consideration of the Management Board's report on operations, the recommendations of the Supervisory Board, the Statutory Auditors' report and the oral explanations provided, the Shareholders' Meeting hereby approves each and every section of the Management Board's report, together with the financial statements for the fiscal year ended December 31, 1998, as submitted.

The Meeting hereby approves the transactions reflected in such financial statements, along with the acts of management performed by the Management Board in the course of the aforesaid fiscal year.

Second resolution

Approval of regulated agreements

In consideration of the special report prepared by the Statutory Auditors on the agreements governed by Article 143 of the French Business Corporations Act (Law 66-537 of July 24, 1966), the Shareholders' Meeting hereby approves said agreements and the performance of previously approved agreements.

Third resolution

Allocation of 1998 annual surplus

On the recommendation of the Management Board, the Shareholders' Meeting hereby resolves to allocate the annual surplus for the 1998 fiscal year,

	€	FRF
in the amount of:	283,040,531.83	1,856,624,181.35
plus retained earnings carried forward of:	227,910,901.04	1,494,997,509.11
for a total distributable income of:	510,951,432.86	3,351,621,690.46
in the following manner:		
- To dividend	144,563,996.00	948,277,651.24
- To tax credit	40,683,473.61	266,866,093.00
- Retained earnings	325,703,963.25	2,136,477,946.22

The dividend distributed to the 36,140,999 shares entitled to dividends as of January 1, 1998 shall be € 4.00 (FRF 26.24) per share, plus a dividend tax credit of € 2.00 (FRF 13.12), for total earnings of € 6.00 (FRF 39.36) per share. The dividend shall be paid on Monday, June 14, 1999.

For the record, the Shareholders' Meeting hereby states that the dividends distributed for the previous three fiscal years were as follows :

	1995		1996		1997	
	FRF	€	FRF	€	FRF	€
Net dividend	20.00	3.05	20.00	3.05	23.00	3.51
Tax paid	10.00	1.52	10.00	1.52	11.50	1.75
Total earnings	30.00	4.57	30.00	4.57	34.50	5.26

Fourth resolution

Directors' attendance fees

The Shareholders' Meeting hereby resolves to grant the Supervisory Board € 250,800 (FRF 1,645,140) annually for Directors' attendance fees, until such time as the Meeting shall resolve otherwise.

Fifth resolution

Reinstatement of Supervisory Board Member CDC Participations

The Shareholders's Meeting hereby reinstates Supervisory Board Member CDC Participations for a six-year term to expire with the Meeting held to consider the 2004 financial statements.

Sixth resolution

Reinstatement of Supervisory Board Member Mr. Renaud d'Elissagaray

The Shareholders' Meeting hereby reinstates Supervisory Board Member Mr. Renaud d'Elissagaray for a six-year term to expire with the Meeting held to consider the 2004 financial statements.

Seventh resolution

Reinstatement of Supervisory Board Member Mr. Jean-Marie Fourier

The Shareholders' Meeting hereby reinstates Supervisory Board Member Mr. Jean-Marie Fourier for a six-year term to expire with the Meeting held to consider the 2004 financial statements.

Eighth resolution

Non-reinstatement of Statutory Auditor and Alternate

The Shareholders' Meeting hereby officially takes note that the terms of office of Statutory Auditor Cabinet Janny Marque & Associés and its Alternate, Mr. Jean Coutancier, were not renewed upon expiration at the last Ordinary Meeting.

Ninth resolution

Authorization to Management Board to issue bonds

The Shareholders' Meeting hereby authorizes the Management Board to issue, at its sole option, new subordinated or unsubordinated bonds in one or more issues within France or abroad, including but not limited to subordinated perpetual bonds (TSDI) with or without warrants attached for the subscription of other bonds or bonds exchangeable for a variety of securities issued by others, up to a par value of € 2.5 billion or the equivalent in other currency. Said bonds may be collateral mortgage bonds or otherwise secured, and the Management Board shall have complete discretion as to the size, form, timing, interest rate, terms of issue and amortization arrangements for the issue(s).

The Shareholders' Meeting hereby confers full authority on the Management Board, which may sub-delegate such authority to its Chairman as provided by law, to issue such bond or bonds. The Management Board shall have the broadest discretion to determine the specific features of the aforesaid bonds, which may have a variable interest rate and a fixed or variable redemption premium above par, said premium being in addition to the cap specified above.

For bond issues with warrants attached in euros, the amount charged to this authorization shall be the par value of the bonds issued by exercise of the rights conferred by the warrants.

For bond issues with warrants attached in foreign currency, the euro equivalent used shall be the euro equivalent, on the day of issue, of the par value of the bonds issued with warrants attached and the par value of the bonds issuable by exercise of the rights conferred by the warrants.

By law, this authorization shall remain in effect for five years from the date of this resolution.

This authorization shall invalidate and supersede the unelapsed portion of the authorization first given to the Management Board pursuant to the fourteenth resolution of the Ordinary Shareholders' Meeting held June 16, 1995, and transferred to the Management Board by the Combined Ordinary and Extraordinary Shareholders' Meetings of January 7, 1997.

Tenth resolution

Authorization to Management Board to trade in Company stock

In consideration of the report by the Management Board, having reviewed the prospectus approved by the French Securities and Exchange Commission, and in accordance with Article 217-2 of the French Corporations Act, the Shareholders' Meeting hereby authorizes the Management Board to instruct its agents to redeem Company stock.

Any instrument may be used to buy, sell or transfer Company stock on the market or over-the-counter. Such means shall include any derivative product traded on regulated or over-the-counter markets, including but not limited to the sale of options.

The purchase price shall be no higher than € 305, and the selling price shall be no lower than € 125.

For increases of capital by capitalization of retained earnings and issue of bonus shares, or for stock splits or reverse splits, the aforesaid prices shall be adjusted by a factor equal to the ratio of the number of shares comprising the capital stock before the transaction, to the number after the transaction.

Pursuant to new Article 179-1 of the Decree on Business Corporations of March 23,1967, the Meeting of the Shareholders hereby limits the number of shares of stock that can be acquired under this authorization to 2,700,000, for a total amount of € 823,500,000 based on a maximum purchase price per share of € 305, as authorized hereinabove.

Regardless of the terms involved, stock may be acquired for any of the following purposes, without limitation:

- optimize Company financial and asset management,
- smooth out share price movement of Company stock,
- grant stock options to Company and/or Group employees, directors and officers,
- allot shares of stock as part of an employee profit sharing program,
- cancel shares of stock up to the maximum number of new shares under Group stock option programs or capital increases restricted to employee members of an employee stock ownership plan,
- put up shares in payment or exchange, especially as part of deals to fuel growth by acquisition,
- allot shares in exercise of rights conferred by securities entitling the holder to outstanding Company stock through redemption, conversion, exchange, presentation of a warrant or any other means,
- enable one or more minority shareholders to divest itself of its holding,
- promote sale of cross participations.

Stock acquired in this manner may be held, sold or transferred. It may also be cancelled pursuant to the authorization granted by the sixteenth resolution.

This authorization shall remain in effect for up to eighteen months. It shall invalidate and supersede the previous authorization to the Management Board pursuant to the fifth resolution of the Extraordinary Shareholders' Meeting held June 9, 1998.

The Management Board shall have full authority, which may be sub-delegated, to act on this authorization.

BUSINESS ITEMS FOR THE EXTRAORDINARY SHAREHOLDERS' MEETING

Voting on these resolutions shall be conducted in accordance with the quorum and majority requirements for Extraordinary Shareholders' Meeting.

Eleventh resolution

Authorization to Management Board to issue securities conferring present and/or future rights to shares of stock issued or to be issued as part of a capital increase, without detriment to shareholders' pre-emptive right

In consideration of the Management Board's report and in accordance with Article 180 (iii), subparagraph 3, of the French Business Corporations Act, the Meeting of the Shareholders hereby:

1. Resolves to authorize the Management Board to issue shares of stock, warrants and generally any securities conferring present and/or future rights to shares of Company stock, through one or more issues within France or abroad of whatever size and at whatever time it sees fit.

2. Resolves that the par value of the capital stock may not be increased, immediately and/or at a future date, by more than € 150 million under this authorization.
By law, that cap may be increased by the par value of additional shares issued to protect the rights of the holders of securities conferring rights to Company stock.

3. Resolves, furthermore, that the par value of debt security conferring rights to shares and issuable under this authorization shall not exceed € 2 billion or the equivalent for issues in other currency.

4. Resolves that shareholders may exercise their pre-emptive right to subscribe to new securities, as provided by law. The Management Board is further authorized to grant shareholders the right to apply for excess securities in proportion to their subscription rights, to the extent there is demand.
If subscription on a pre-emptive basis and subscription of excess securities fail to absorb the entire issue, the Management Board may take any or all of the following steps, in whatever order it chooses:

• limit the issue to the subscribed amount, provided that said amount is at least three-quarters of the planned issue;
• allot all or a portion of the unsubscribed shares free of charge;
• offer all or a portion of the unsubscribed shares to the public.

5. Resolves that any issue of warrants to purchase Company stock may take place by (i) offer for subscription under the terms set forth above, or (ii) free allotment to the holders of existing shares of stock.

6. Takes note of and resolves that, as applicable, this authorization automatically entails a waiver on the part of shareholders, in favor of the bearers of securities conferring future rights to any Company stock issues, of said shareholders' pre-emptive right to subscribe for the shares to which said securities confer rights.

7. Resolves that the amount paid or payable into the Company for each share issued pursuant to this authorization shall be equal to at least 80% of the average opening price for the Company stock on the stock exchange for ten consecutive days during the twenty days prior to the start date for the securities issue described above, corrected as appropriate for the difference in dated dates. For issues of warrants for shares of Company stock, the amount paid into the Company for subscription of the warrants shall be included in the calculation.

8. Resolves that the Management Board shall have full authority, which it may sub-delegate to its Chairman as provided by law, to act on this authorization, including but not limited to setting the dates and procedural requirements for issues and the form and specific features of the new securities; determining the price and terms of issue, the issue size, the dated date (which may be backdated) for the new securities and the redemption terms, as applicable; suspending the exercise of allotment rights to Company stock attached to new securities for a period of up to three months, as applicable; laying down the rules to ensure that the rights of the holders of securities conferring future rights to Company stock are protected, as applicable and in accordance with statutes and regulations; offsetting any

applicable charges against the issuing premium(s), including but not limited to issue expenses; and generally taking whatever steps and entering into whatever agreements are necessary to successfully complete the issues and record the capital increase(s) resulting from any issue pursuant to this authorization, amending the Bylaws accordingly.
For bond issues, the Management Board shall have full authority to determine whether said bonds are to be subordinated or unsubordinated; set the interest rate, term, and the fixed or variable redemption price with or without premium; and establish the amortization arrangements based on market conditions and the terms under which said bonds confer rights to Company stock.

9. Resolves that this authorization shall invalidate any and all previous authorizations concerning present and/or future issues of Company stock without detriment to pre-emptive rights.

The authorization to the Management Board shall remain in effect for twenty-six months from the date of this Meeting. Pursuant to Article 15 of the Bylaws, prior approval by the Supervisory Board shall be required for the Management Board to act on this authorization.

Twelfth resolution

Authorization to Management Board to issue securities conferring present and/or future rights to shares of stock issued or to be issued as part of a capital increase, without waiting for shareholders to exercise their pre-emptive right

In consideration of the Management Board's report and the special report prepared by the Statutory Auditors, and in accordance with Article 180 (iii), subparagraph 3, of the French Business Corporations Act, the Shareholders' Meeting hereby:

1. Resolves to authorize the Management Board to issue shares of stock, warrants and generally any securities conferring present and/or future rights to shares of Company stock, through one or more public issues within France or abroad of whatever size and at whatever time it sees fit.

2. Resolves that the par value of the capital stock may not be increased, immediately and/or at a future date, by more than € 100 million under this authorization.

3. Resolves that such capital increase may be effectuated by exercise of an allotment right through conversion, exchange, redemption, presentation of a warrant or any other means involving securities issued by any subsidiary in which the Company controls more than 50% of the capital stock, directly or through intermediaries. That subsidiary's consent shall be required.

4. Resolves, furthermore, that the par value of debt security conferring rights to shares and issuable under this authorization shall not exceed € 1 billion or the equivalent for issues in other currency.

5. Resolves to eliminate the shareholders' pre-emptive right to the securities issued, with the understanding that the Management Board may grant the shareholders a priority subscription right to all or a portion of the issue, to be exercised within such time-limit and under such terms and conditions as the Management Board shall establish.
This priority subscription right shall not give rise to negotiable rights.

6. Resolves that, if subscriptions by shareholders and the public fail to absorb the entire issue, the Management Board may take any or all of the following steps, in whatever order it chooses:
• limit the issue to the subscribed amount, provided that said amount is at least three-quarters of the planned issue;
• allot all or a portion of the unsubscribed shares free of charge.

7. Takes note of and resolves that, as applicable, this authorization automatically entails a waiver on the part of shareholders, in favor of the bearers of securities conferring future rights to any Company stock issues, of said shareholders' pre-emptive right to subscribe for the shares to which said securities confer rights.

8. Resolves that, for shares issued for cash immediately or at a future date, the amount paid or payable into the Company for each share issued pursuant to this authorization shall be at least equal to the average opening price for the Company stock on the stock exchange for ten consecutive days during the twenty days prior to the start date for the securities issue described above, corrected as appropriate for the difference in dated dates. For issues of warrants for shares of Company stock, the amount paid into the Company for subscription of the warrants shall be included in the calculation.

9. Resolves that the Management Board may increase the capital stock through shares issued for property, as payment for securities contributed to a stock-for-stock takeover bid under the terms of Article 193-1 of the French Business Corporations Act, subject to the overall capital increase specified in item 2.

10. Resolves that the Management Board shall have full authority, which it may sub-delegate to its Chairman as provided by law, to act on this authorization, including but not limited to setting the dates and procedural requirements for issues and the form and specific features of the new securities; determining the price and terms of issue, the issue size, the dated date (which may be backdated) for the new securities and the redemption terms, as applicable; suspending the exercise of allotment rights to Company stock attached to new securities for a period of up to three months, as applicable; laying down the rules to ensure that the rights of the holders of securities conferring future rights to Company stock are protected, as applicable and in accordance with statutes and regulations; offsetting any applicable charges against the issuing premium(s), including but not limited to issue expenses; and generally taking whatever steps and entering into whatever agreements are necessary to successfully complete the issues and record the capital increase(s) resulting from any issue pursuant to this authorization, amending the by-laws accordingly.
For bond issues, the Management Board shall have full authority to determine whether said bonds are to be subordinated or unsubordinated; set the interest rate, term, and fixed or variable redemption price with or without premium; and establish the amortization arrangements based on market conditions and the terms under which said bonds confer rights to Company stock.

11. Resolves that this authorization shall invalidate any and all previous authorizations concerning present and/or future issues of Company stock without detriment to pre-emptive rights, with the exception of the authorization granted by the Meeting of the Shareholders of January 7, 1997 to issue the stock option plans provided for by Articles 208-1 through 208-19 of the French Business Corporations Act.

This authorization to the Management Board shall remain in effect for twenty-six months from the date of this Meeting. Pursuant to Article 15 of the Bylaws, prior approval by the Supervisory Board shall be required for the Management Board to act on this authorization.

Thirteenth resolution

Authorization to Management Board to increase the Company's capital stock by capitalization of retained earnings, profits, capital surplus or other funding subject to capitalization.

In consideration of the Management Board's report, the Shareholders' Meeting hereby:

1. Authorizes the Management Board to increase the Company's capital stock by capitalization of retained earnings, profits, capital surplus or other funding subject to capitalization, to such extent and at such time or times as it may see fit. The Management Board may couple such a transaction with a capital increase for cash pursuant to the eleventh resolution. It may also issue bonus shares and/or increase the par value of outstanding shares.

2. Resolves that the par value of the capital stock may not be increased by more than € 150 million under this authorization.

3. Resolves that the Management Board shall have full authority, which it may sub-delegate to its Chairman as

provided by law, to act on this authorization, including but not limited to:

• establishing all terms and conditions for the authorized transactions, including but not limited to determining the amount and type of retained earnings and capital surplus to be capitalized; specifying the number of new shares to be issued or the amount by which the par value of the outstanding shares comprising the capital stock is to be increased; setting the date from which dividends are to be calculated on the new shares (which may be backdated) or the effective date of the capital increase; and offsetting any applicable charges against the issuing premium(s), including but not limited to issue expenses;

• resolving, as exception to Article 194 of the French Business Corporations Act, that the rights constituting share fractions shall be non-negotiable, and that the respective shares of stock shall be sold and the proceeds from the sale allocated to the holders of the rights no later than 30 days after the date the whole number of allotted shares is posted to their account;

• taking whatever steps and entering into whatever agreements are necessary to successfully complete the planned transaction(s) and, generally, making whatever arrangements are necessary to finalize any capital increase(s) under this authorization, amending the Bylaws accordingly.

4. Resolves that this authorization shall invalidate any and all previous authorizations concerning increasing the capital stock by capitalization of retained earnings, profits, capital surplus or other funding subject to capitalization.

This authorization to the Management Board shall remain in effect for twenty-six months from the date of this Meeting. Pursuant to Article 15 of the Bylaws, prior approval by the Supervisory Board shall be required for the Management Board to act on this authorization.

Fourteenth resolution

Limit on the total par value of present or future capital increases

Having reviewed the report prepared by the Management Board, and as a consequence of the adoption of the eleventh, twelfth and thirteenth resolutions, the Shareholders' Meeting hereby resolves that the par value of the capital stock may not be increased by more than € 300 million under the authorizations pursuant to the aforesaid resolutions.
If necessary, that cap may be increased by the par value of additional shares issued to protect the rights of the holders of securities conferring rights to Company stock, as provided by law.

Fifteenth resolution

Authorization to Management Board for private share issue to employee members of an Accor Group stock ownership plan

Having reviewed the report prepared by the Management Board and the special report prepared by the Statutory Auditors, and in accordance with Articles L. 443-1 and seq. of the Labor Code concerning employee stock ownership, and Article 186-3 of the French Business Corporations Act, the Shareholders' Meeting hereby:

1. Authorizes the Management Board to increase the capital stock one or more times within five years of this Meeting through shares issued for cash, and restrict subscription of the entire issue to the employees of the Company and its French and foreign affiliates within the meaning of Article 208-4 of the French Business Corporations Act, who are enrolled in the Accor Group employee stock ownership plan.

2. Resolves that the total number of shares issuable under this authorization shall not exceed 2% of the capital stock on the date of the Management Board's resolution.

3. Resolves that the issue price of the new shares shall be no higher than the average opening price of the stock in the last twenty stock-exchange sessions prior to the date of the Management Board's resolution setting the opening date for the subscription, or lower than said average minus the maximum discount from par allowed by law on the date of the Management Board's resolution.

4. Takes note that these resolutions entail a waiver on the part of shareholders of their pre-emptive rights in favor of the employees to whom the capital increase is restricted.

5. Grants the Management Board full authority to:
• Determine which companies' employees shall be eligible for the offer for subscription;
• Determine whether subscriptions may be made directly or through a mutual fund, and set a deadline for employees to pay up their shares;
• Establish the terms and conditions for enrollment in the stock ownership plan, and develop or amend the member handbook;
• Set the opening and closing dates for subscription and the share issue price;
• Determine the number of new shares to be issued;
• Record the capital increases;
• Perform all transactions and procedural formalities directly or through representatives
• Amend the Company Bylaws accordingly and, generally, take whatever steps are necessary or beneficial, subject to current statutes and regulations.

Pursuant to Article 15 of the Bylaws, prior approval by the Supervisory Board shall be required for the Management Board to act on this authorization.

Sixteenth resolution

Authorization to Management Board to decrease capital stock by cancellation of shares

Having reviewed the report prepared by the Management Board and the special report prepared by the Statutory Auditors, the Shareholders' Meeting hereby authorizes the Management Board to:
• Cancel the shares acquired pursuant to the tenth resolution, not to exceed 10% of the capital stock per twenty-four-month period, and decrease the capital stock by a corresponding amount, charging the difference between the redemption price of the cancelled shares and their par value to the available capital surplus and retained earnings,
• Effectuate the capital decrease, settle any disputes, record the capital decrease(s) subsequent to the cancellations authorized by this resolution, amend the Company Bylaws accordingly and, generally, perform all necessary procedural formalities.

This authorization shall remain in effect for up to eighteen months. Pursuant to Article 15 of the Bylaws, prior approval by the Supervisory Board shall be required for the Management Board to act on this authorization.

Seventeenth resolution

Authorization to Management Board to use capital increase authorizations not restricted to named beneficial owners, in the event of a takeover bid

Having reviewed the report prepared by the Management Board, the Shareholders' Meeting expressly authorizes the Management Board to make use of the capital increase authorizations pursuant to the foregoing resolutions, as provided by law, if the Company stock becomes the target of a takeover bid, provided that such capital increases are not restricted to named beneficial owners. This authorization shall be effective from the date of this resolution until the Shareholders' Meeting called to consider the financial statements for the current fiscal year. Pursuant to Article 15 of the Bylaws, prior approval by the Supervisory Board shall be required for the Management Board to act on this authorization.

Eighteenth resolution

Authorization to complete procedural formalities

The Shareholders' Meeting hereby grants full authority to the bearer of an original, short-form certificate or copy of the minutes of this Meeting, to complete all necessary filings and procedural formalities.

General Information

Registered name

Accor

Registered office

2, rue de la Mare-Neuve - 91000 Evry - France

Legal status

Public limited company governed by Articles 118 to 150 of Companies Act of July 24, 1966.

Legislation

Public limited company incorporated under the legislation of the Republic of France.

Incorporation and expiration date

The company was incorporated April 22, 1960, for 99 years, expiring April 22, 2059, except extension or early dissolution.

Objects

(see Article 3 of the by-laws)

The Company was established to enter in the following activities for its own account, on behalf of third parties, or jointly with third parties:
• the ownership, financing, and management, directly, indirectly, or within specified mandates of restaurants, bars, hotels of all nature and categories and, more generally, any establishment related to restauration, lodging, tourism, leisure, and services;
• the economic, financial, and technical review of projects and, generally, all services related to the development, organization and management of above-mentioned establishments, including all actions related to their construction or consulting services thereupon;
• the review and provision of services aimed at facilitating the supply of meals to employees at corporations and other organizations;
• the creation of any new company and acquisition of interests operating in any business and by any means;
• all civilian, commercial, industrial, financial, securities, and real estate transactions related to the above and all similar or related activities in France and other countries.

Trade register identification

602 036 444 RCS Evry
Code APE : 553B.

Place where the legal documents regarding the Company may be consulted

The legal documents regarding the Company, including by-laws, balance sheets, statements of income, Management Board's report to the Shareholders' Meetings, Statutory Auditors' report, and inventories, may be consulted upon request at Tour Maine-Montparnasse - 33, avenue du Maine, 75755 Paris Cedex 15 - France.

Fiscal year

The company's fiscal year begins on January 1 and ends on December 31.

Statutory appropriation of profits

Profits available for distribution consist of net income for the year, minus net losses from prior years and transfers to reserves for the year, in accordance with French law, plus retained earnings from prior years.
Profits available for distribution are appropriated upon decision of the Annual General Shareholders' Meeting, which may also decide to deduct/allocate funds from/to reserves.

General Shareholders' Meetings

Participation to General Shareholders' Meetings

(see Article 21 of the by-laws)

General Shareholders' Meetings are called pursuant to regulation in force.

In accordance with Article 136 or the decree of March 23, 1967, the right to participate or be represented at the Meetings requires shareholders to register their shares with the Company five days prior to the Meeting or the deposit, within five days of the Meeting, of certificates of deposit issued by their bank, financial institution, or brokerage house holding the shares, at a location indicated on the invitation.

The Meetings are held at the Company's registered offices or any other location indicated on the invitations.

Proceedings of the Shareholders' Meetings

(see Article 22 of the by-laws)

All shareholders have the right to participate or be represented at the General Shareholders' Meetings, within the conditions set by law. They may vote by proxy in accordance with Article 161-1 of the law on commercial companies. Each share equals one vote, except when otherwise dictated by regulation in force.

Double voting rights are granted to fully-paid shares registered for at least two years by the same shareholder.

In the case of share capital increases by incorporation of reserves, profits, or paid-in surplus, bonus registered shares distributed to registered shareholders enjoying double voting rights are similarly granted double voting rights.

Registered shares transformed into bearer shares or sold to a different holder lose their double voting rights. However, transfer through inheritance, liquidation of marital assets or transfers to a spouse or direct parent do not result in the loss of rights or registered status.

The merger of the Company has no impact on double voting-rights, provided that the by-laws of the acquiring company allow for their exercise.

When shares are held in usufruct, voting rights are granted to the usufructuary in Ordinary and Extraordinary Shareholders' Meetings.

Meetings are chaired by the Chairman of the Supervisory Board, the Vice Chairman, or in their absence, a member of the Supervisory Board mandated by the Board. Otherwise, the Board elects its own Chairman.

The function of Scrutineer of the Meeting is fulfilled by the two shareholders present at the Meeting and representing the largest number of voting rights. The Bureau thus formed names a Secretary which does not need to be a shareholder.

A participant list is maintained pursuant to regulation in force.

Copies or extracts from the Meeting minutes are certified by the Chairman of the Supervisory Board, the Vice Chairman, or the Meeting Secretary.

The Ordinary and Extraordinary Shareholders' Meetings meeting quorum and majority requirements exercise the powers granted by law.

Statutory reporting thresholds

(see Article 9 of the by-laws)

Shareholders must inform the Company whenever their holding exceeds 2% of total share capital or falls below this limit.

Beyond the 2% limit, shareholders must inform the Company of any increase or decrease in their holding in increments corresponding to 1% of total share capital.

These requirements also apply to convertible securities as well as voting rights related to shares and convertible securities.

The information must be provided according to conditions set by law (see Article 356-4 of the law of July 24, 1966). The Company may exercise its legal right to identify shareholders and holders of convertible securities giving rise to voting rights at the Shareholders' Meetings.

Information on share capital

Capital

At December 31, 1998, the Company's share capital amounted to FRF 3,614,099,900, comprised of 36,140,999 shares of FRF 100 par value each, fully paid-up and all of the same category.
On February 12, 1999, the Management Board converted Accor share capital into euros. The Company's share capital amounts to € 542,114,985, comprised of 36,140,999 shares of € 15 par value each.
Shareholders may elect to hold their shares in registered or bearer form.
Shares are freely transferable within legal and regulatory limits.
The transfer of shares, regardless of price and modalities, is made by transfer of accounts pursuant to regulation in force.

Authorization to sell and purchase shares in the open market

The General Shareholders' Meeting of June 9, 1998 authorized the Management Board to buy or sell Accor shares in the open market for a period expiring at the following General Shareholders' Meeting, approving the 1998 financial statements.
The maximum purchase price may not exceed € 305 (FRF 2,000) and the minimum selling price may not be below € 122 (FRF 600) per share.
The maximum number of shares is at the most equal to the maximum fixed by the law, or 10%.
The company used this authorization in 1998 (see page 21).

Securities convertible into equity

Convertible bonds

In May 1991, Accor raised € 307 million (FRF 2,016 million) through a bond issue, comprising 2.1 million convertible bonds of € 146.35 (FRF 960) par value, bearing 6.75% interest and convertible on the basis of one Accor share per bond.
The conversion ratio was adjusted on December 1, 1996, the average share price in the 40 trading days preceding November 30, 1996 being under € 190.6 (FRF 1,250).
The conversion ratio is now 1.15 Accor shares per bond, and could lead to the creation of a maximum of 2,413,883 shares.
The bonds mature January 1, 2000, at a price of € 161 (FRF 1,056) per bond.

As of December 31, 1998, 2,099,029 such convertible bonds remain outstanding. The bonds trade on the Paris Stock Exchange (code 8519).

Share options reserved to Group employees

In January 1998, 280,000 new share options with a subscription price of € 162.36 (FRF 1,065) per share were attributed to Group employees and in January 1999, 120,000 share options with a subscription price of € 169.73 (FRF 1,113).
At December 31, 1998, 788,808 share options were outstanding.
Should all the 1991 bonds be converted and stock options exercised, the maximum number of new shares to be issued would total 3,202,691, and the total number of shares outstanding would amount to 39,343,690.
This would result in an increase in shareholders' equity of approximately € 392 million (FRF 2,574 million).

Changes in share capital

Accor’s share capital increased in 1998 by the creation of 288,582 shares due to the conversion of bonds issued in 1991 and to the exercice of share options.

	Capital increase in the past 5 years	Amount of changes in capital (in FRF)		Shares capital (in FRF)	Total number of shares
		Nominal	Premium		
1994	Conversion of 8 bonds issued in 1991	800	6,880	2,473,262,000	24,732,620
	Dividend payment in share form at a price of FRF 644 each	23,266,100	126,567,584	2,496,528,100	24,965,281
1995	Conversion of 30 US dollar-denominated bonds issued in 1984	117,800	41,385	2,496,645,900	24,966,459
	Exercise of share options at FRF 508 each	18,000	73,440	2,496,663,900	24,966,639
	Dividend payment in share form at a price of FRF 555 each	61,971,200	281,968,960	2,558,635,100	25,586,351
	CIWLT Public Exchange Offer	332,950,000	1,254,123,000	2,891,585,100	28,915,851
1996	Conversion of 51 bonds issued in 1991	5,400	40,940	2,891,590,500	28,915,905
	Exercise of share options at FRF 617 each	50,000	258,500	2,891,640,500	28,916,405
	Exercise of share options at FRF 508 each	3,965,100	16,177,608	2,895,605,600	28,956,056
	Exercise of share options at FRF 590 each	100,000	490,000	2,895,705,600	28,957,056
	Dividend payment in share form at a price of FRF 633 each	72,327,400	385,505,042	2,968,033,000	29,680,330
	Exchange of IBL shares	343,685,400	855,671,113	3,311,718,400	33,117,184
1997	Conversion of 557 bonds issued in 1991	64,200	471,799	3,311,782,600	33,117,826
	Exercise of share options at FRF 617 each	1,620,000	8,375,400	3,313,402 600	33,134,026
	Exercise of share options at FRF 508 each	25,763,000	105,113,040	3,339,165,600	33,391,656
	Exercise of share options at FRF 590 each	11,300,000	55,370,000	3,350,465,600	33,504,656
	Exchange of Sphere shares	234,776,100	484,898,267	3,585,241,700	35,852,417
1998	Conversion of 320 bonds issued in 1991	37,200	275,582	3,585,278,900	35,852,789
	Exercise of share options at FRF 490 each	1,716,000	6,692,400	3,586,994,900	35,869,949
	Exercise of share options at FRF 617 each	4,490,000	23,213,300	3,591,484,900	35,914,849
	Exercise of share options at FRF 1,065 each	250,000	2,412,500	3,591,734,900	35,917,349
	Exercise of share options at FRF 590 each	22,365,000	109,588,500	3,614,099,900	36,140,999

NB. There is no option to purchase. All the options are options to subscribe.

Breakdown of share capital and voting rights

Shareholders at March 31, 1999

	Number of shares	Number of voting rights	% of share capital	% of voting rights
Caisse des Dépôts et Consignations Group	1,990,295	3,797,326	5.5%	9.6%
Founders	1,251,628	1,788,042	3.5%	4.5%
Société Générale Group	670,274	670,474	1.8%	1.7%
Worms & Cie (IFIL Group)	475,528	951,056	1.3%	2.4%
BNP Group	245,516	491,032	0.7%	1.3%
Total Supervisory Board	**4,633,241**	**7,697,930**	**12.8%**	**19.5%**
Other shareholders	31,508,502	31,777,477	87.2%	80.5%
Total	**36,141,743**	**39,475,407**	**100.0%**	**100.0%**

Other shareholders

• According to a survey conducted on March 31, 1999 by Sicovam with intermediaries holding over 50,000 shares on behalf of their clients, there are approximately 84,000 Accor shareholders.

• To the knowledge of the company, no shareholder other than those listed above holds over 2% of Accor's share capital or voting rights.

• The number of shares directly or indirectly owned by members of management represents approximately 1% of share capital. Furthermore, they hold share options.

• There are no alliances of shareholders acting jointly.

Changes in shareholders

	1997(1)		1998(2)		1999(3)	
	% share capital	% voting rights	% share capital	% voting rights	% share capital	% voting rights
Caisse des Dépôts et Consignations Group	8.14 %	11.49 %	5.5 %	9.6 %	5.5 %	9.6 %
Société Générale Group	4.43 %	5.28 %	2.2 %	2.0 %	1.8 %	1.7 %
Compagnie Générale des Eaux Group	0.35 %	0.63 %	–	–	–	–
BNP Group	1.43 %	1.99 %	0.7 %	1.3 %	0.7 %	1.3 %
UAP Group (and Axa-UAP)	1.92 %	1.73 %	0.5 %	0.5 %	1.1 %	1.0 %
IFIL Group (and Worms & Cie)	1.44 %	1.30 %	1.3 %	2.4 %	1.3 %	2.4 %

(1) at February 27,1997 (2) at November 12, 1998 (3) at March 31, 1999.

Listed securities

The Accor shares trade on the Monthly Settlement Market of the Paris Stock Exchange (code 12040).

The 6.75% convertible bonds issued in 1991 trade on the Paris Stock Exchange (code 8519).

ADR (American Depositary Receipts) are traded on the New York OTC market (Code ACRFY, CUSIP 00435F 10 1).

The Accor exchangeable notes into Compass shares trade on the Luxembourg Stock Exchange (codes : Sicovam 49227, ISIN FR 0000 492274, Euroclear/ Cedelbank 009544844)

Shareholder services, including transfers and dividend payments are provided by:

Société Générale - 32, rue du Champ de Tir - BP 81236 - 44312 Nantes cédex 3 - France

Accor share and dividend

in €	Number of shares	Dividend paid to the year			Ex-dividend	Paid	Share price			Dividend yield based on share price at Dec. 31
		net	tax credit	gross			high	low	at Dec. 31	
1993	24,732,612	2.74	1.37	4.11	June 6, 94	July 12, 94	112.2	85.4	90.4	4.55%
1994	24,965,281	2.74	1.37	4.11	June 21, 95	July 26, 95	116.8	76.8	88.4	4.66%
1995	28,915,851	3.05	1.52	4.57	July 14, 96	July 19, 96	103.7	79.4	96.7	4.73%
1996	33,117,184	3.05	1.52	4.57	June 13, 97	June 13, 97	122.3	92.4	100.2	4.57%
1997	35,852,417	3.51	1.75	5.26	June 15, 98	June 15, 98	181.9	96.2	170.6	3.08%
1998 (1)	**36,140,999**	**4.00**	**2.00**	**6.00**	**June 14, 99**	**June 14, 99**	**272.1**	**137.4**	**184.5**	**3.25%**

(1) proposed

in FRF	Number of shares	Dividend paid to the year			Ex-dividend	Paid	Share price			Dividend yield based on share price at Dec. 31
		net	tax credit	gross			high	low	at Dec. 31	
1993	24,732,612	18.00	9.00	27.00	June 6, 94	July 12, 94	736	560	593	4.55%
1994	24,965,281	18.00	9.00	27.00	June 21, 95	July 26, 95	766	504	580	4.66%
1995	28,915,851	20.00	10.00	30.00	July 14, 96	July 19, 96	680	521	634	4.73%
1996	33,117,184	20.00	10.00	30.00	June 13, 97	June 13, 97	802	606	657	4.57%
1997	35,852,417	23.00	11.50	34.50	June 15, 98	June 15, 98	1,193	631	1,119	3.08%
1998 (1)	**36,140,999**	**26.24**	**13.12**	**39.36**	**June 14, 99**	**June 14, 99**	**1,785**	**901**	**1,210**	**3.25%**

(1) proposed

The Management Board proposes to pay a dividend per share of € 4 (FRF 26.24) net and of € 6 (FRF 39.36) including “Avoir fiscal” tax credit, to each of the 36,140,999 shares eligible for the 1998 dividend.

Dividend distributed over the past five years appear above.

No interim dividend has been paid in 1998. Dividend payment is done by Sicovam.

Dividend payments which have not been claimed within five years are subject to prescription as defined by law.

Share price and exchanged volumes

Share price

	Share price		Average price				Number of exchanged shares
			high		low		
	in €	in FRF	in €	in FRF	in €	in FRF	
1997							
October	168.0	1,102	178.8	1,173	141.8	930	4,331,883
November	163.7	1,074	172.9	1,134	153.7	1,008	1,890,202
December	171.7	1,126	181.9	1,193	162.4	1,065	2,901,736
1998							
January	172.9	1,134	187.2	1,228	160.1	1,050	2,539,388
February	195.1	1,280	216.5	1,420	181.4	1,190	1,999,091
March	219.4	1,439	242.4	1,590	202.6	1,329	2,417,005
April	240.6	1,578	256.0	1,679	224.0	1,469	2,536,072
May	251.9	1,652	263.0	1,725	242.9	1,593	2,690,583
June	257.2	1,687	267.6	1,755	244.8	1,606	3,226,472
July	254.3	1,668	272.1	1,785	237.5	1,558	2,922,689
August	227.6	1,493	244.5	1,604	202.8	1,330	3,562,857
September	197.3	1,294	225.3	1,478	165.0	1,082	3,896,125
October	161.4	1,059	181.0	1,187	137.4	901	5,269,197
November	184.3	1,209	203.1	1,332	164.6	1,080	3,320,790
December	176.8	1,160	190.3	1,248	160.7	1,054	3,097,731
1999							
January	186.8	1,225	208.8	1,370	172.0	1,128	3,372,362
February	211.5	1,387	229.0	1,502	184.5	1,210	4,759,231
March	226.3	1,484	240.8	1,580	227.0	1,489	4,395,261

NB. Average share prices in € for 1997 and 1998 were calculated on the basis of 1 € = 6.55957.

Convertible bonds 6.75% 1991

	Bond price		Average price				Number of exchanged bonds
			high		low		
	in €	in FRF	in €	in FRF	in €	in FRF	
1997							
October	207.8	1,363	209.5	1,374	201.7	1,323	187,335
November	210.7	1,382	212.5	1,394	206.0	1,351	99,578
December	223.8	1,468	224.9	1,475	218.8	1,435	63,132
1998							
January	218.3	1,432	219.7	1,441	215.6	1,414	154,489
February	238.4	1,564	240.1	1,575	234.6	1,539	77,398
March	257.5	1,689	259.9	1,705	251.2	1,648	85,990
April	278.0	1,824	285.0	1,869	266.0	1,745	35,252
May	289.0	1,896	294.0	1,929	281.0	1,843	12,476
June	297.0	1,948	307.0	2,014	288.0	1,889	84,151
July	297.0	1,948	313.0	2,053	280.0	1,837	65,094
August	268.0	1,758	292.0	1,915	248.0	1,627	63,755
September	240.0	1,574	261.0	1,712	215.0	1,410	153,940
October	228.0	1,496	243.0	1,594	207.0	1,358	68,930
November	245.0	1,607	256.0	1,679	234.0	1,535	24,321
December	238.0	1,561	256.0	1,679	218.0	1,430	10,185
1999							
January	241.0	1,581	256.0	1,679	228.0	1,496	15,820
February	258.0	1,692	268.0	1,758	245.0	1,607	34,672
March	267.0	1,751	277.0	1,817	260.0	1,705	136,802

NB. Average share prices in € for 1997 and 1998 were calculated on the basis of 1 € = 6.55957.

Management

Since January 7, 1997, in line with corporate governance principles, Accor is administered by a four-member Management Board responsible for Group management, and a Supervisory Board, responsible for overseeing Group management.

The Supervisory Board is comprised of twelve members, including seven representatives of major shareholders, and five independent members. Relationships between the Supervisory Board and Management Board are ruled through an internal charter. A Compensation Committee and an Audit Committee complete this organization.

Management Board

Jean-Marc Espalioux, Chairman and C.E.O.

Sven Boinet
Benjamin Cohen
John Du Monceau.

Secretary of the Management Board

Pierre Todorov.

Supervisory Board

Paul Dubrule, Gérard Pélisson, Co-Chairmen, Co-Founders of the Accor Group.

- Isabelle Bouillot, Deputy Chief Executive Officer of Caisse des Dépôts et Consignations; Isabelle Bouillot is a Director of Saint-Gobain and La Poste and a Member of the Supervisory Board of Caisse Centrale des Caisses d'Epargne.
- BNP, represented by Baudouin Prot, C.E.O. of BNP; Baudouin Prot is a Director of Rhône-Poulenc and Pechiney and a Member of the Supervisory Board of Pinault-Printemps-Redoute.
- CDC Participations, represented by Willy Stricker, Chairman and C.E.O. of CDC Participations; Willy Stricker is a Member of the Supervisory Board of Club Méditerranée and permanent representative of CDC Participations on the Board of Directors of Canal +.
- IFIL Finanziaria di Participazioni SpA, represented by Gabriele Galateri di Genola, Managing Director and C.E.O. of IFIL; Gabriele Galateri di Genola is a Member of the Supervisory Board of Worms & Cie, Director of Fiat (Italy) and Non-Executive Director of Arjo Wiggins Appleton plc (Great Britain).
- Société Générale, represented by Patrick Duverger, C.E.O. of Société Générale; Patrick Duverger is a Member of the Supervisory Board of Pinault-Printemps-Redoute and permanent representative of Société Générale on the Board of Directors of TF1.

Independent members

- Etienne Davignon, Chairman of Société Générale de Belgique; Etienne Davignon is a Director of Pechiney, of ICL (Great Britain), of BASF (Germany) and Member of the Supervisory Board of Suez-Lyonnaise des Eaux.
- Renaud d'Elissagaray, 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, Honorary C.E.O. of Thomson.
- Jérôme Seydoux, Chairman and C.E.O. of Pathé; Jérôme Seydoux is a Director of Chargeurs, Danone and BskyB Group (Great Britain).
- Maurice Simond, former Group Director of IBM Europe.

Secretary of the Supervisory Board

Pierre Todorov.

Board Committees

The Compensation Committee comprises four members: the Co-Chairmen of the Supervisory Board, Messrs. Paul Dubrule and Gérard Pélisson, and two independent members, Messrs. Étienne Davignon and Jérôme Seydoux.
The Compensation 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: the Co-Chairmen of the Supervisory Board, Messrs. Paul Dubrule and Gérard Pélisson, Mrs. Isabelle Bouillot, and two independent members, Messrs. Étienne Davignon and Renaud d'Élissagaray. The Audit Committee is responsible for overseeing the reliability and consistency of the accounting methods adopted to establish the Group's consolidated and parent company 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 and the Management Board member in charge of Finance, as well as the Company's Statutory Auditors. The Committee reports its findings to the Supervisory Board, bringing to the Board's attention any material information likely to require specific deliberation and review, so as to facilitate the conduct of the Board's oversight and control functions.

Specific guidelines have been issued regarding the relationships between the Management and Supervisory Boards, internal operating procedures of the Management Board, and relationships between the Management Board and Group subsidiaries and operating units.

Executive remuneration and Directors' fees

The remuneration of Accor's management team, comprising the Management Board Members, the heads of major Group functional departments and the heads of Group operating divisions, is tied to improvements in the Group's financial performance through variable elements based on precise qualitative and quantitative criteria.

For Management Board Members – whose remuneration is set by the Supervisory Board upon recommendation from the Compensation Committee –, the variable portion of the remuneration can amount to up to 80% of fixed remuneration. For other members of the management team, variable remuneration can reach 40% of fixed remuneration.

In 1998, the total remuneration paid to the four Management Board Members and the heads of major Group functional departments – Volker Büring, Director of Human Resources; Jacques Charbit, Director of Communications; Olivier Devys, Deputy Director of Human Resources; Thierry Gaches, General Controller; Christian Gary, Group Treasury Director; Jean-Paul Ribert, Legal Director; Eliane Rouyer, Director of Financial Communications; Pierre Todorov, Corporate Secretary – amounted to € 3,885,874 (FRF 25,489,660).

During the year, Supervisory Board members received remuneration totaling € 1,880,426 (FRF 12,334,790) including € 971,100 (FRF 6,370,000) in Directors' fees paid by various Group companies.

Stock option plans

Accor issues stock options to its executives and managers on a regular basis. In each year in which a stock option plan is launched, a specific group of beneficiaries is targeted: executives, top management, middle operating management.

Depending on the specific targeted group, the number of beneficiaries for each plan may vary from a few dozen to several hundred managers.

Stock options are not awarded systematically to a given category of managers, but reflect individual contribution, based on financial performance or personal achievement.

Since 1998, stock options have been issued for a period of eight years, and may not be exercised during the first five years of each plan. Options are issued at a 5% discount to the Accor share price at the time of the issue.

Whenever stock options are issued to Management Board Members, the number of options attributed to each member is set by the Supervisory Board upon recommendation from the Compensation Committee.

At December 31, 1998, interests in Group companies held by the Co-Chairmen of the Supervisory Board and members of the Board of Management did not exceed 10% of these companies' share capital, with the exception of:

- 83.33% of Michelet Défense (owner of one Sofitel hotel), of which Accor holds only 16.67%;
- 57.80% of Valbotel (owner of one Mercure hotel);
- 19.50% of Hôtels de Tradition.

Supervisory Board and Management Board Members also hold interests in hotel franchises affiliated with the Group.

Stock options granted to Group Employees and Executives

Board Meeting date	Total number of exercisable shares, including those granted to Management Board Members*	Number of beneficiaries, including Management Board Members*	Issuance date	Expiration date	Exercise price in €	Exercise price in FRF	Number of stock options exercised in 1998	Number of stock options exercised at Dec. 31, 1998, including exercised by Management Board Members
Stock option plans issued by Accor								
Oct. 19, 1993	350,000	390	Oct. 19, 1997	Oct. 19, 1997	89.9	590	223,650	337,650 (15,000)
Aug. 1, 1995	200,000	160	Aug. 1, 1997	Aug. 1, 2001	94.1	617	44,900	138,400
Jan. 7, 1997	200,000 (110,000)	25 (all)	Jan. 7, 1997	Jan. 7, 2005	77.3	507	0	0
Jan. 7, 1998	280,000 (79,000)	241 (all)	Jan. 7, 2003	Jan. 7, 2006	162.4	1,065	2,500	2,500
Jan. 6, 1999	120,000	640 (none)	Jan. 6, 1999	Jan. 6, 2007	169.73	1,114	0	0
Stock option plans taken over by Accor following the Sphere International merger								
Dec. 19, 1994	52,960 (4,800)	68	Dec. 19, 1994	Dec. 19, 1999	74.7	490	17,160	17,160 (4,800)
Oct. 31, 1996	137,108	83	Oct. 31, 1996	Oct. 31, 2001	66.2	434	0	0
Stock option plans issued by subsidiaries (Lenôtre)								
Dec. 29, 1994	4,700	8	Dec. 29, 1994	Jan. 15, 2000	170.7	1,120	0	0
Apr. 30, 1996	2,700	3	Apr. 30, 1996	Apr. 30, 2001	170.7	1,120	0	0
Oct. 25, 1996	600	1	Oct. 25, 1996	Oct. 25, 2001	170.7	1,120	0	0

* as of January 7, 1997

Employee profit-sharing plans

Mandatory profit-sharing is the object of a Group agreement between Accor and its French subsidiaries, on the one hand, and employee representatives, on the other. The special profit-sharing reserve amounted to:
€ 7.5 million (FRF 49 million) in 1998
€ 6.1 million (FRF 40 million) in 1997
€ 2.7 million (FRF 18 million) in 1996
€ 3.8 million (FRF 25 million) in 1995
€ 2.9 million (FRF 19 million) in 1994

Reflecting the Group's organization and remunerations strategy, a number of profit-sharing agreements are in force at the parent company as well as the subsidiaries or operating units, with specific quantitative formulas adapted to each situation.

Officer responsible for this report

Jean-Marc Espalioux
Chairman of the Management Board and C.E.O.

Statutory Auditors and Independent Accountants

Statutory Auditors

Barbier Frinault & Autres - Arthur Andersen
Christian Chochon
41, rue Ybry - 92576 Neuilly-sur-Seine - France
Appointed for six years by the June 16, 1995 Shareholders' Meeting
Date of first mandate: June 16, 1995

Deloitte, Touche, Tohmatsu - Audit
Alain Pons
185, avenue Charles de Gaulle - 92200 Neuilly-sur-Seine - France
Appointed for six years by the June 16, 1995 Shareholders' Meeting
Date of first mandate: June 16, 1995

Alternate Auditors

Olivier Azières
185, avenue Charles de Gaulle - 92200 Neuilly-sur-Seine - France
Appointed for five years by the June 4, 1996 Shareholders' Meeting

Christian Chiarasini
41, rue Ybry - 92576 Neuilly-sur-Seine - France
Appointed for five years by the June 4, 1996 Shareholders' Meeting

Independent Accountants

Deloitte Touche Tohmatsu
185, avenue Charles-de-Gaulle
92200 Neuilly-sur-Seine - France

Information contacts

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Member of the Management Board, in charge of Finance and Participations

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Shareholder Relations

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Accor strives to improve the quality of financial information provided to all its shareholders. Throughout the year, Accor organizes meeting with its shareholders: roadshows in Europe, North America and Asia, meetings with individual shareholders throughout France, etc.
Accor's investor relations personnel is available to answer and field questions on any topic related to the Group. Accor's corporate information materials have been improved in the past years. The Group's annual report is now presented in two volumes. The first volume contains the review of operations as well as summarized financial data, while the second volume, approved by the French securities authority (Commission des Opérations de Bourse) contains detailed financial information and is available upon request. Accor also issues two Letters to Shareholders each year.
In 1997, Accor opened a new corporate Internet site, "www.accor.com/finance", encompassing a detailed Financial Communications section for individual and institutional shareholders. Invitations to Shareholders' meeting are also available on the site.

This report has been published
by the Investor Relations Department
Eliane Rouyer, Director
Laurence Duc