



# Interim Management Report

## For the Six Months Ended June 30, 2007

The Group reported strong earnings growth in the first six months of 2007, with sustained demand in the Services business and the upturn in the hotel cycle in Europe leading to improved margins.

Highlights of the period reflected the ongoing strategic refocusing on the two core businesses, Services and Hotels, and the Group's commitment to actively managing hotel properties while continuing to grow the business.

### First-half 2007 operating highlights

#### Divestment of non-strategic businesses

##### *Sale of Go Voyages*

In February 2007, Accor announced the sale of Go Voyages, which was qualified as a non-strategic asset. The business was sold to Financière Agache Investissement (Groupe Arnault) for €280 million, netting a capital gain of some €204 million. Go Voyages was fully consolidated until April 30, 2007. To continue leveraging the synergies developed over the past four years between Accor and Go Voyages, a three-year partnership agreement has been signed, with a renewal option, giving Accor the status of preferred hospitality services provider to Go Voyages customers. In 2006, Go Voyages contributed €118 million to Accor's consolidated revenue and €13 million to consolidated EBITDA.

#### Property disposals

##### *Sale and management-back of New York and Philadelphia Sofitels*

In January, two Sofitel hotels in New York and Philadelphia, totaling 704 rooms, were sold for \$255 million to a joint venture between GEM Realty Capital, Inc., Whitehall Real Estate Fund and Accor. Formed in March 2006, the joint venture already owns six Sofitel units, located in Chicago, Los Angeles, Miami, Minneapolis, San Francisco and Washington, D.C. Accor has retained a 25% minority interest in the joint venture and is managing the hotels under the Sofitel brand under a 25-year contract. The transaction was part of the Group's asset management strategy in the upscale segment, which is designed to increase the return on capital employed and reduce earnings volatility through sale and management-back arrangements and minority stakes in the companies that own the properties. The transaction had an €81.5-million impact on net debt.

### *Sale of 29 hotel properties in the UK*

As part of the Group's real estate management strategy, a memorandum of understanding was signed in February for the sale of 29 hotel properties (representing 4,925 Ibis and Novotel rooms) in the United Kingdom to Land Securities Group PLC for €693 million. Accor is continuing to operate the hotels under 12-year leases at variable rents based on an average 21% of annual revenue with no guaranteed minimum. The leases are renewable six times, for a total of 84 years. Insurance and structural maintenance costs are at the owner's expense. In addition, Land Securities will finance a €51 million renovation program. Financially, the transaction has enabled Accor to reduce its adjusted net debt (adjusted for the 8% discounting of minimum lease payments) by €531 million, of which €162 million has been added to the Group's cash reserves.

### *Sale of 86 hotel properties in Germany and the Netherlands*

In March, a memorandum of understanding was signed with Moor Park Real Estate for the sale of 67 hotels in Germany and 19 in the Netherlands, representing 11,137 Novotel, Mercure, Ibis and Etap Hôtel rooms. Under the terms of the €740-million transaction, the owner will also finance a €59-million renovation program. Accor is continuing to operate the hotels under 12-year leases at variable rents based on an average 18% of annual revenue with no guaranteed minimum. The leases are renewable six times, for a total of 84 years. Insurance, property taxes and structural maintenance costs are at the owner's expense. The transaction has enabled Accor to reduce its adjusted net debt by €531 million, of which €177 million has been added to the Group's cash reserves.

## **External growth in Services and development in Hotels**

### *Acquisition of Autocupón's gasoline cards business*

In January, Accor Services acquired the gasoline cards operations of Autocupón, Mexico's second largest issuer, for €8.5 million. Since it was founded in 1994, Autocupón, a subsidiary of Mexico's Pegaso Group, has developed a gasoline card offering for trucking companies. The company currently has a portfolio of more than 500 customers and 535 affiliated service stations. Its 2007 revenues are expected to be in the region of €2 million. The new clientele has expanded Accor Services Mexico's customer portfolio, which is comprised mainly of companies that operate van fleets using Accor Services' Ticket Car® vouchers to manage all of their vehicle-related business expenses.

### *Acquisition of Kadéos*

In March, Accor Services announced the €211-million acquisition of Kadéos, the PPR Group's gift card and voucher business. This acquisition positions Accor Services as the leader in France's gift card and voucher market. Total market issuance volume is expected to come to around €2 billion in 2007, with revenues increasing by 10% to 15% a year in the corporate and works council segment and by 20% to 25% in the retail segment. Kadéos designs and markets eight gift cards and nine gift vouchers for businesses and consumers. These single- and multi-banner products can be used in over 82 chains, including FNAC, La Redoute, Conforama and other prestigious PPR banners. The cards and vouchers are sold in more than 6,500 outlets and are accepted by nearly 1,000 stores and e-commerce sites in France. The company reported 2006 issuance volume of €336 million in Europe. Accor Services already issues five gift vouchers for businesses under the Ticket Compliments® brand, which are distributed in a network of more than 300 chains, totaling some 30,000 stores. Ticket Compliments' 2006 issuance volume amounted to €349 million in Europe. Financially, the acquisition, which is based on a multiple of 15 times forecast 2007 EBITDA, will have a positive impact on operating profit before tax in 2007. In first-half 2007, goodwill arising on the transaction was recognized in the amount of €204 million.

### *Acquisition of 51 Dorint Hotels in Germany*

In January, the Group acquired control of 51 upscale and midscale hotels that were part of Dorint's network of 92 hotels in Germany. Accor previously owned a 34% stake in Dorint AG, which was split in two as part of a restructuring plan.

- Accor acquired a controlling interest in one of the companies, which operates 51 hotels, by underwriting a €52 million share issue. The portfolio comprises eight hotels that were previously operated under the Dorint

Sofitel brand, 17 under the Dorint Novotel brand and 26 under the Mercure brand. They have been rebranded as, respectively, Sofitel, Novotel and Mercure units. During the first half of 2007, Accor subscribed to a second €71 million capital increase and acquired substantially all the minority interests in the company for €92 million, raising its interest to 98%. Financially, the transaction has enabled the Group to gain control of 51 hotels, which generate around €300 million in revenue. After taking into account the rent reductions granted by the lessors, the objective is for the hotels to contribute roughly €16 million to 2007 EBITDA and €10 million to operating profit before tax. By comparison, Accor's share of Dorint AG's 2006 loss, determined by the equity method, was €7 million.

- Ebertz & Partner has acquired all outstanding shares of the other company, which operates 41 Dorint hotels.

A €31-million provision was recorded in the 2006 financial statements to reflect the impact of the transaction. In the first half of 2007, the entity controlled by Accor was fully consolidated.

#### *Development of a European network of apartment hotels with Pierre & Vacances*

In February, Pierre & Vacances and Accor announced the creation of a partnership to develop a network of 22 upscale and midscale apartment hotels in Europe, representing a total of 3,100 apartments. The joint venture aims to become the European leader in the apartment hotel market, with the creation of a new brand. Five years from now, the network is expected to comprise 50 hotels (6,500 apartments), with the joint venture managing some €180 million in business volume.

#### *Mercure steps up development in United Kingdom*

In March, a contract was signed with Moorfield Real Estate for the management of 23 Mercure hotels in the United Kingdom, representing 2,236 rooms. The 20-year contract is renewable once for a period of ten years. The 23 new hotels are well located in the country's main regions and will leverage the brand's skills and know-how in the non-standardized midscale hotel segment. They have enabled the chain to step up its development and expand its market coverage in the United Kingdom. Combined 2006 revenue for the hotels was approximately £84 million.

## Interim consolidated results

<i>(in € millions)</i>	H1 2006	H1 2007	% change (reported)	% change (like-for-like) <sup>(2)</sup>
Revenue	3,690	4,015	+8.8%	+6.1%
EBITDAR <sup>(1)</sup>	969	1,095	+13.0%	+10.2%
Operating profit before tax and non-recurring items	282	379	+34.4%	+31.5%
Net profit, Group share	241	596	+147.6%	-

(1) Earnings before interest, taxes, depreciation, amortization and rental expense.

(2) At constant scope of consolidation and exchange rates.

**Revenue** rose by 8.8% to €4,015 million in the first six months of 2007. At constant scope of consolidation and exchange rates, the like-for-like increase was 6.1%, reflecting the ongoing favorable environment in the Services and Hotels businesses.

Revenue from the Services business increased by 14.6% on a reported basis and by 12.0% like-for-like, in line with the Group's medium-term organic growth target of 8% to 16% a year between 2006 and 2010. Like-for-like growth was 13.5% in Europe and 8.6% in Latin America.

In the Hotels business, first-half 2007 revenue grew by 8.6% and by 5.2% like-for-like, confirming the fourth-quarter 2006 upturn in the European hotel cycle. In Upscale and Midscale Hotels, revenue was up 12.9%, including like-for-like growth of 6.0%, while in non-US Economy Hotels, revenue growth stood at 7.7% on a reported basis and 5.8% like-for-like. In the US Economy Hotel segment, revenue ended the first half up 1.9% like-for-like, but down 6.2% as reported due to the dollar's weakness against the euro.

The expansion strategy accounted for 7.5% of revenue growth for the period, while disposals carried out as part of the Group's ongoing asset management strategy in the Hotels business reduced revenue by 3.6%.

The currency effect was a negative 1.3% in the first half of 2007.

**EBITDAR** (earnings before interest, taxes, depreciation, amortization and rental expense) represents a key financial performance indicator.

In first-half 2007, EBITDAR amounted to €1,095 million, up 13.0% or €126 million compared with the year-earlier period.

The increase broke down as follows:

- Like-for-like growth:	€98 million
- Business development:	€68 million
- Currency effect:	€(18) million
- Disposals:	€(22) million

The combined impact of Accor's new hospitality business model, the upturn in the European hotel cycle and sustained business activities in the Services led to a 1.0-point like-for-like improvement in EBITDAR margin, to 27.3% of consolidated revenue from 26.3% in first-half 2006.

In the **Services** business, EBITDAR margin stood at 41.9%, up 1.3 points on a reported basis and 2.4 points like-for-like. The flow-through rate, corresponding to the like-for-like change in EBITDAR expressed as a percentage of the like-for-like change in revenue, came to 62.4%. The sharp increase in profitability reflected a like-for-like improvement in EBITDAR margin of 1.5 points in Europe and 5.6 points in Latin America, led by a 5.2-point increase in Brazil thanks to the cost-saving transition from paper to plastic. Excluding Brazil, the flow-through rate for the Services business stood at 52%.

In **Upscale and Midscale Hotels**, EBITDAR margin widened by a like-for-like 0.7 points to 27.1%, with a flow-through rate of 38.1%. In France, the upturn in the European hotel cycle led to a 3.6-point increase in the occupancy rate and a 4.2% rise in the average room rate, with a flow-through rate of 51.5%. In the rest of Europe, the occupancy rate rose by 0.8 points and the average room rate was 5.7% higher, contributing to a flow-through rate of 58%.

EBITDAR margin in **Economy Hotels** outside the United States came to 34.7%, up 1.5 points like-for-like. The flow-through rate stood at 61.5%. In France, the occupancy rate dipped by 0.1 points while the average room rate grew by 3.8%. The flow-through rate came to 84%. In the rest of Europe, the improvement in the hotel cycle led to a 1.5-point increase in the occupancy rate and a 4.0% rise in the average room rate, with a flow-through rate of 66.7%.

EBITDAR margin in **US Economy Hotels** improved by a like-for-like 1.6 points to 38.3%. Motel 6's EBITDAR margin was flat at 38.0%.

**Operating profit before tax and non-recurring items**, corresponding to EBITDAR less rental expense, depreciation, amortization and provisions expense and net financial expense plus the Group's share of the profits of associates, represents the result of operations after the cost of financing Group businesses and before tax.

In the first half of 2007, it surged 34.4% to €379 million, with a like-for-like increase of 31.5%.

Rental expense totaled €463 million, compared with €413 million in the year-earlier period, up a reported 12.2% and a like-for-like 3.0%. Depreciation, amortization and provision expense decreased by 2.5% to €215 million. Net financial expense amounted to €46 million, versus €56 million in first-half 2006. In all, fixed asset holding costs (rental expense, depreciation, amortization and provision expense, and net financial expense) declined to 18.0% of revenue from 18.7% in first-half 2006, thereby contributing to the growth in operating profit before tax and non-recurring items. The share of profit of associates amounted to €8 million in the first six months of 2007 versus €2 million in the prior-year period.

Restructuring costs, primarily corresponding to the cost of various reorganization measures, fell to €5 million from €17 million.

Impairment losses for the period amounted to €184 million, corresponding mainly to a €149 million impairment charge recognized on Red Roofs Inns goodwill following the announcement of the planned disposal of this hotel chain.

Gains and losses on the management of hotel properties totaled a net €323 million compared with €119 million in first-half 2006. The first-half 2007 figure mainly reflects capital gains on property disposals,

including the sale and variable lease-back of 29 hotels in the United Kingdom for €180 million (transaction with Land Securities) and 86 hotels in Germany and the Netherlands for €131 million (transaction with Moor Park Real Estate), as well as the sale and management-back of two Sofitel hotels in the United States for €13 million.

Gains and losses on the management of other assets totaled a net €210 million, including a €204 million capital gain on the disposal of Go Voyages.

Income tax expense amounted to €114 million, versus €92 million in first-half 2006. The effective tax rate (expressed as a percentage of operating profit before tax) was 31.7% versus 29.9%.

After minority interests of €13 million, **net profit, Group share** came to €596 million, up 147.6% from €241 million in the prior-year period.

As a result, **earnings per share** rose to €2.66 from €1.06 in first-half 2006, based on the weighted average 224,093 thousand shares outstanding during the period.

### **Cash flows**

<i>(in € millions)</i>	<b>H1 2006</b>	<b>H1 2007</b>
<b>Funds from operations before non-recurring items</b>	<b>462</b>	<b>515</b>
Renovation and maintenance expenditure	(198)	(207)
<b>Free cash flow</b>	<b>264</b>	<b>308</b>
Expansion expenditure	(164)	(676)
Expenditure on assets held for sale	(82)	(31)
Proceeds from disposals of assets	892	953
Dividends paid	(267)	(678)
Capital reduction	(250)	(398)
Change in working capital requirement	(205)	(30)
Other	(16)	93
<b>Decrease/(increase) in net debt</b>	<b>172</b>	<b>(459)</b>

Funds from operations before non-recurring items increased 11.5% to €515 million in first-half 2007.

Renovation and maintenance expenditure came to €207 million, representing 5.2% of revenue.

Expansion capex totaled €676 million, versus €164 million in the year-earlier period. As part of the Group's external growth strategy, a total of €229 million was invested in the Services business during the period, mainly corresponding to the acquisition of Kadéos, the PPR Group's gift card and voucher business, for €211 million. In line with the expansion plan, €435 million was invested in the Hotels business in first-half 2007, of which €355 million in Europe and €64 million in the Asia Pacific region.

The strategic refocusing on our two core business, Services and Hotels, resulted in the disposal of €393 million worth of non-strategic assets during the period, including Go Voyages for €280 million. The strategy of actively managing the hotel property portfolio led to property disposals representing €560 million. This amount primarily reflects the sale and management-back of two Sofitel units and a Mercure unit in the United States for €88 million, the sale and variable lease-back of 116 hotels in the United Kingdom, Germany and

the Netherlands for a total of €358 million, the sale and franchise-back of 18 hotels for €20 million and the outright sale of 18 hotels for €94 million. In all, proceeds from asset disposals totaled €953 million in first-half 2007.

Dividends paid during the period amounted to €678 million compared to €267 million in first-half 2006, including a special dividend of €1.50 per share, representing a total of €336 million.

Equity decreased by €398 million in first-half 2007, primarily due to transactions under the share buyback program approved by shareholders at the Annual Meeting of May 14, 2007. The amount of the program was set at €700 million. During the period, €492 million was spent to buy back a total of 7,352,565 shares at an average price of €66.90. As of June 30, 2007, the shares were in the process of being canceled and Accor's capital at that date was therefore reduced by 492 million. The cancellations will be effective from a legal standpoint in the second half of the year. The €700 million share buyback was completed at the end of August.

In April 2007, the equity notes held by Colony Capital were redeemed for Accor shares at Colony Capital's request. In July 2007, Colony Capital converted its convertible bonds into shares.

The €175-million improvement in working capital requirement reflects the impact of Administrative Court ruling ordering the French State to refund of €192 million in *précompte* withholding tax.

### **Financial ratios**

The main financial ratios attest to the solidity of Accor's balance sheet at June 30, 2007.

Net debt amounted to €928 million at June 30, 2007, up €459 million from December 31, 2006. Gearing stood at 25% at the period-end, compared with 31% at June 30, 2006 and 11% at December 31, 2006.

The ratio of funds from operations before non-recurring items to adjusted net debt is calculated according to a method used by the main rating agencies, with net debt adjusted for the 8% discounting of future minimum lease payments. The ratio improved by 1.4 points over the six-month period to 23.6% from 22.2% at December 31, 2006. At June 30, 2006, it stood at 18.5%.

Return on capital employed (ROCE), corresponding to EBITDA expressed as a percentage of fixed assets at cost plus working capital, rose sharply to 12.8% from 11.0% in first-half 2006, reflecting improved profitability at Group level.

### **Full-year earnings objective**

Over the full year, the Group is aiming to report Operating Profit Before Tax and Non Recurring Items of around €870 million to €890 million (excluding the financial impact of the new share buyback program). This target reflects the Group's confidence that activity levels will remain good in the second half, takes into account marketing expenses related to the launch of the new hotel brands and the disposal of Go Voyages (deconsolidated in April 2007), Red Roof Inns (deconsolidated in September 2007) and the Italian Institutional Catering business (deconsolidated in October 2007).

### **Main risks and uncertainties**

The main risks and uncertainties that may affect the Group in the last six months of the year are presented in the 2006 Registration Document under "Risk Factors".

## **Main related-party transactions**

The main related-party transactions are presented in detail in Note 46 to the interim consolidated financial statements.

## **Subsequent events**

### *Disposal of Red Roof Inns*

Based on the results of the strategic review undertaken in 2006, in April 2007 Accor announced the sale of Red Roof Inns to a consortium comprised of Global Special Situations Group and Westbridge Hospitality Fund, L.P. for \$1.32 billion. Following rebranding of 9 Red Roof Inns as Motel 6 units prior to the sale, the transaction concerned 326 hotels (35,238 rooms), located mainly on the East Coast and in the Midwest of the United States. The transaction price represented 11.2 times 2006 EBITDAR. Financially, it should enable Accor to reduce its adjusted net debt by €830 million (\$1.08 billion), of which €470 million (\$610 million) will be added to the Group's cash reserves. Red Roof Inns will be fully consolidated by the Group until the transaction completion date, scheduled for September 2007. In 2006, Red Roof Inns contributed €281 million to Accor's consolidated revenue and €52 million to consolidated EBITDA. The sale will allow Accor to focus on the Motel 6 brand, a leader in the US Economy Hotels segment. The Motel 6 chain includes 928 motels located across North America, mainly on the West Coast of the United States. It leads the market in California with 181 units. Motel 6 is a famous, uniquely positioned chain created in the United States more than 30 years ago with a commitment to offering "the lowest price of any national brand".

### *Accor consolidates its presence in Portugal*

In July, Accor committed €69 million to buying out the Amorim Group's 50% stake in the joint venture the two companies created in 1997 to develop and operate hotels in Portugal. At the same time, Accor is selling the 131-room Sofitel Thalassa Vilalara to Amorim for €25 million. The two transactions will have a slightly positive impact on 2007 profit before tax. Once they have been completed, Accor will be the sole owner of its hotel operations in Portugal, with a portfolio of 29 hotels (18 Ibis, 6 Mercure, 4 Novotel and 1 Sofitel, representing a total of 3,093 rooms) representing 2006 revenue of €49 million (excluding the Sofitel Thalassa Vilalara). Currently Portugal's leading hotel operator, Accor wants to strengthen its position in this fragmented market. The development plan, which calls for the opening of nine new hotels by 2010, should enable the Group to take advantage of the upturn in the hotel cycle in Europe.

### *Accor refinances debt with €2 billion syndicated line of credit*

As part of its debt refinancing process, in July Accor obtained a €2 billion syndicated line of credit from a group of leading banks to replace the €2 billion syndicated credit facility signed in October 2004 that was scheduled to expire in 2009. The five-year facility, which is renewable for two one-year periods, was arranged on significantly improved financial terms and conditions, without any acceleration clauses linked to financial ratios. The transaction will lengthen the average maturity of Accor's financing and thereby enhance its financial flexibility.

### *Sale of the Italian managed institutional catering business*

In August, Accor announced the sale of its non-strategic Italian managed institutional catering business to Barclay's Private Equity for €135 million. In 2006, the business contributed €312 million to consolidated revenue and €14 million to consolidated EBITDA. The Italian managed institutional catering business will be consolidated by the Group until the transaction completion date, scheduled for October 2007.

### *New share buyback program*

Considering the currently weak financial markets, the share issue from the conversion of Colony bonds last July and the confidence of the Group in its ability to successfully implement its strategic plan, Accor has decided to implement a new €500-million share buyback program. This plan follows the €500-million program completed in 2006 and the €700-million program completed at the end of August 2007.



## Statement by the Person Responsible for the 2007 Half-Year Financial Report

I hereby declare that, to the best of my knowledge, the consolidated financial statements have been prepared under generally accepted accounting principles and give a true and fair view of the assets, liabilities, financial position and results of all the companies within the consolidation taken as a whole and that the interim management report includes a fair review of the material events that occurred in the first six months of the financial year and their impact on the interim accounts, a description of the principal risks and uncertainties for the remaining six months of the year and the main related-party transactions.

Paris, August 28, 2007

Gilles C. Pélisson  
Director and Chief Executive Officer



# Auditors' Report on the 2007 Half-year Financial Information

Period as from January 1, 2007 to June 30, 2007

*This is a free translation into English of the statutory auditor's review report issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

To the Shareholders,

In our capacity of statutory auditors and in accordance with the requirements of article L. 232-7 of the French Commercial Law (the Code de Commerce), we hereby report to you on:

- the review of the accompanying half-year consolidated financial statements of Accor, for the period January 1 to June 30, 2007,
- the verification of information contained in the half-year management report.

These half-year consolidated financial statements are the responsibility of the Board of Directors. Our role is to express a conclusion on these financial statements based on our review.

We conducted our review in accordance with professional standards applicable in France. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying half-year consolidated financial statements do not give a true and fair view of the assets and liabilities and of the financial position of the Group as at June 30, 2007 and of the results of its operations for the period then ended in accordance with IFRSs as adopted by the EU.

In accordance with professional standards applicable in France, we have also verified the information given in the interim half-year financial report commenting the half-year consolidated financial statements subject to our review.

We have no matters to report as to its fair presentation and consistency with the half-year consolidated financial statements.

Neuilly-sur-Seine, August 28<sup>th</sup>, 2007

The statutory auditors  
*French original signed by*

DELOITTE & ASSOCIES

ERNST & YOUNG et Autres

David Dupont-Noel

Bruno Bizet

