Club Méditerranée

PRESS RELEASE
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Return to Operating Income: €17 million

Club Méditerranée's consolidated revenues amounted to €1,600 million in the fiscal year ended October 31, 2004, a like-for-like increase of 1.2% from the previous year (constant scope of consolidation and exchange rates).

Business varied by region:

- Revenues from the Americas were lifted both by the promising economic environment and by the fact that Club Med outperformed the American tourist market, reflecting the success of the campaign to revitalize sales over the past year. The region's issuing revenues were up 10% for the summer season, as well as for the full year.

- Business in Asia enjoyed an initial rebound, as the region's sharp upturn in demand drove revenue growth of 14% for the year (of which 23% in the summer).

- In Europe, demand was flat across the tourist industry, due to the combination of a lack of economic growth throughout the year, especially in the summer, and the unfavorable impact of the Olympic Games on tourism in Greece.

  Moreover, in France, revenues were impacted by the decline in sales by Thomas Cook, our traditional distribution partner. This was partly offset by the widening of distribution of Club Med products to other networks and by the sustained growth in online sales.

  Overall, revenues in Europe were down 3.3% for the year, of which a 6% decline during the summer.

A return to consolidated operating income in 2004, at €17 million, versus an operating loss of €6 million in 2003 and of €3 million in 2002. The improvement was led by higher margins in the villages business, reflecting the upmarket strategy, and by the first-time contribution to earnings from Jet tours and the other businesses.

- **The Americas region reported an operating loss of €6 million, versus a loss of €21 million in 2003 and of €41 million in 2002.** The decline in the number of American customers, which has been the major problem encountered since 2001, has now been turned around, with US customer revenues up 10%. On the other hand, the decrease in the number of European inbound customers weighed on the region's operating income, which would have been positive otherwise.

- **Operations in Asia have returned to profit,** with operating income of €6 million instead of a €5 million operating loss in 2003. The region still has room to increase revenues, primarily thanks to the upturn in Japanese demand and the outlook for increasing the number of Chinese customers. Operations in China have got off to a good start, with 4,000 new Chinese GMs just one year after the Shanghai office opened.

  Operating income in Europe amounted to €15 million, of which a €19 million profit in the winter and a €4 million loss over the summer. While the good winter season validated the effectiveness of the business model, the summer was disappointing due to the lackluster economy, the impact of the Olympic Games on the Greek villages (down €7 million from 2003) and the difficulties experienced by Thomas Cook, our traditional distributor.

- **Jet tours and the other businesses** made a positive contribution to operating income for the first time, with aggregate earnings of €2 million.
  <u>Jet tours</u> reported operating income of €3 million, versus €1 million in 2003, thanks to the ongoing recovery since 2001 and the success of the company's upmarket strategy.
  <u>Club Med Gym</u> returned to profit during the year, led by the turnaround plan successfully launched in 2003.
  <u>Club Med World</u> has stabilized its revenues for the first time since opening and reduced its loss by €1 million from 2003.

<u>**The net loss improved to €44 million**</u>, from €94 million in 2003. It includes exceptional expense of €18 million, reflecting €14 million in restructuring costs, compared with exceptional expense of €56 million last year.

<u>**The balance sheet was strengthened**</u> with the October 26 issue of Oceane convertible bonds. The issue was over-subscribed seven times, for a total of €150 million, thereby helping to refinance debt and lengthen its average maturity. Net debt was stable for the period, at €390 million, versus €389 million at October 31, 2003.

Financial Highlights

(in millions of euros)	*2003*	*2004*
Revenues	***1,609***	***1,600***
Operating (loss) income	***(6)***	***17***
Financial expense	*(45)*	*(38)*
Exceptional expense	*(56)*	*(18)*
Tax	*21*	*4*
Amortization of goodwill	*(8)*	*(8)*
Minority interests	*0*	*(1)*
Net loss	***(94)***	***(44)***
Free cash flow	*42*	*(19)*
At October 31		
Net debt	***(389)***	***(390)***

Switch to IFRS

Club Méditerranée will be required to publish IFRS financial statements as from the 2006 fiscal year, commencing November 1, 2005. To this end, the Company has already produced the opening IFRS balance sheet at November 1, 2004, based on the closing French GAAP balance sheet at October 30, 2004.

- **IFRS accounting policies and options**:

- Fixed assets: revaluation of all fixed assets in accordance with IFRS 1.
- Fixed assets: estimated useful life determined separately for each component of an asset, for depreciation purposes (70 different asset categories identified).
- Impairment testing: tangible assets (with each village considered as representing a cash generating unit) and intangible assets.
- Option not to apply IAS 32 and IAS 39 for the moment.

Main Impacts

(in € millions)

	Oct. 31, 04 reported	Main IFRS impacts	Oct. 31, 04 pro-forma IFRS
Tangible assets	761	325	1,086
- Land	*89*	*248*	*337*
- Buildings	*672*	*77*	*751*
Intangible and financial assets	272	(22)	250
Sub-total assets	1,033	303	1,336
Total assets	1,033	303	1,336

	Oct. 31, 04 reported	Main IFRS impacts	Oct. 31, 04 pro-forma IFRS
Shareholders eq. & min. interests	444	97	541
Provisions	68	6	74
Deferred taxes net	(49)	91	42
WCR	180	20	200
Net debt	390	89	479
Total liabilities	1,033	303	1,336

Impact of IFRS restatements on the statement of income (in €m)

Operating income	17	5	22
Net income	(44)	5	(39)

- **Main impacts of the changeover to IFRS**

The main balance sheet impact concerns the revaluation of tangible assets. Club Méditerranée has a tradition of discovering new tourist destinations, with the result that certain assets carried at historical cost in the French GAAP balance sheet – particularly land – are significantly undervalued.

Following the revaluations and the recognition of impairment losses on certain villages, all assets are carried in the balance sheet at fair value.

- Revaluation of all fixed assets: €303 million.
- Impact on shareholders' equity: €97 million.
- Impact on net debt: €(89) million.
- No impact on gearing.

The impact of the various changes of method on the income statement is a €5 million increase in both operating income and net income.

Strategy and Outlook

Club Med customers have embraced the new friendly, multicultural upmarket strategic positioning, with:

- **Higher attendance and occupancy ratios in the 3/4-Trident villages.** Attendance was up 2.4% for the year, including 5.1% during the summer, while occupancy gained nearly 3 points for the year.

- **A sharp improvement in customer satisfaction**, which rose to its highest level since 1997. The number of very satisfied GMs increased more than 20%.

- **A 15% improvement** over the year in the number of customers very satisfied with their value for money.

- **A percentage of GMs saying they'll return that exceeded 90% for the first time.**

Launched in Spring 2004, operational implementation of the strategy of repositioning the Club as upmarket, friendly and multicultural represents an ambitious corporate project aligning all our teams in meeting a shared objective: responding to the special expectations of potential Club Med customers, for whom brand reputation is the primary buy criterion, far ahead of price, which is rated only sixth in importance.

Implementation will be stepped up in 2005 with five major innovations in two critical areas:

Marketing/sales

Objectives have been clearly identified to re-recruit lapsed customers, to increase the frequency of repeat stays by occasional customers and to attract new customers. Resources allocated to meeting these goals in 2005 include:

- An ambitious advertising campaign scheduled for launch early in the year.
- A top-to-bottom revamping of the Trident catalogue, our primary image driver and recruiting tool.

Products

- Total All Inclusive packages, which include bar service and snacks in the basic price, will be launched in Europe as an option. This will make Club Med the first in the industry to offer all-inclusive packages around the world.
- Bar vouchers will be replaced by the Club Med Pass.
- A number of innovations targeting teens will be introduced, including The Ramp in Punta Cana in the first quarter and teen-specific activities in Djerba Méridiana, Almadies and Yasmina.
- Lastly, we will continue to invest in the villages, with €120-130 million invested directly and €45 million to be financed by real estate partners.

- Outlays in 2004 included Marrakech, El Gouna, Coral Beach, the Cherating renovation and the Chamonix 4-Trident upgrade. In 2005, we plan to renovate Val d'Isère, open Riad in Marrakech, finish renovating Turquoise in the Bahamas, enhance Kani in the Maldives with 20 new water bungalows, build a 4-Trident snow village in Peisey-Vallandry and re-build the Boucaniers village in Martinique.

This strategy has been validated by Accor's acquisition of a 28.9% interest in Club Méditerranée. Officially announced last October 19, this move will support our turnaround and speed the repositioning.

The alliance will also generate operating synergies in such areas as increasing business volumes, optimizing purchasing and sharing complementary knowledge and expertise across our organizations.

Update on bookings

As of December 4, bookings for the Winter 2005 season were up 3.6% from the year before. In the four preceding weeks, bookings were up 1.3%.

Commenting on the 2004 financial results, Henri Giscard d'Estaing, Chairman of the Executive Board, said:

"Club Méditerranée made a fresh start in 2004. For the first time in three years, we reported operating income, in a market environment that is still relatively unfavorable.
During the year, we also launched an exciting strategic project across the enterprise to invent and deploy our new strategic positioning, which is to offer upmarket, friendly, multicultural products that create new opportunities for people to 'be together.
Lastly, based on this new strategy and our new value-driven business model, Accor became our core shareholder last October. The arrival of this major industry player will support our turnaround and speed our strategic repositioning.
All this means that we can confirm our objective of returning to our highest operating margins, with operating income of around €100 million in 2006."

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