Accor's strategic vision

Accor has refocused on its core hotel business and in September 2011 it unveiled several major changes to its brands, operating strategy and financial objectives. The group is now a pure-player in hotels and boasts a unique and universal business model as an owner, operator and franchisor of budget to luxury hotels on all five continents.

The new Accor strategy is based on four pillars:

- **A powerful marketing approach**, with a revitalization of the Economy Hotels activity and the Accor brand.
- **Unique operational expertise** derived from Accor's skills and capabilities in its three strategically aligned businesses – hotel owner, operator and franchisor – in all segments and all regions.
- A **value-creating asset management strategy** that improves the Group's business performance, optimizes its balance sheet and support growth.
- **A development strategy** that aims to consolidate the Group's current leadership in Europe and Latin America and position it among the leaders in Asia-Pacific, especially China.

Accor's brands enter a new era of conquest

With a brand portfolio that ranges from luxury to budget hotels, Accor is currently the only hotel group **active in all the market's segments**. This wide range of products means it can meet the demand for segmentation from customers and owners seeking a "multi-brand and multi-segment" offer.

The group's strategy is intended to assert **the strength of its brands** a little more in order to cater for the new expectations of consumers eager for status-enhancing brands with distinctive DNA. The bolstered brands will also enable Accor to convince and attract more franchisees, which are vital for its expansion. In addition, it will improve communication with intermediaries tipped to play a determining role in commercializing the brands and which have an unquestionably growing influence over customers.

Whether it is **Novotel**, the upper-midscale market benchmark, or **Mercure**, which enjoys strong customer and franchisee allegiance, or **Pullman**, which focuses on the upscale business market where everything is accelerating, or **MGallery**, the collection of remarkable upscale hotels with distinctive personalities and identities, each of the group's brands faces its own challenges and is entering a new era of conquest. They will follow the example set by **Sofitel**, which has been repositioned in the luxury segment very successfully over the last few years and which will continue to expand its network by combining French-style elegance with know-how and refinement on all five continents.

A large part of the group's strategy reflects its desire to bolster and modernize its brands, starting with the revitalization of its **economy hotels** worldwide.

Evolving modes of consumption and the questioning of some conventions initially prompted Accor to review its offer in this segment.
Its economy strategy comprises two lines of action: **new brand architecture** and **the ambitious dynamization of products and services**. From **2012**, the group will therefore organize the brands in a more coherent, clear and attractive way, capitalizing on **ibis**, a strong brand with high levels of worldwide notoriety. All seasons will become **ibis Styles** and Etap Hotel will become **ibis Budget**. At end June 2011, this new ibis "family" represented **1,570 hotels**.

The implementation of this new segmentation, which will be complete by early 2013, aims to:

- increase market share through higher brand notoriety and better customer satisfaction levels,
- optimize the RevPAR index,
- safeguard the expansion plan.

This project will represent an estimated investment of €150 million, with a return on capital employed of around 20%.

A new economy brand architecture from 2012

The group is also expanding the role of the **Accor** corporate brand. With **Accorhotels.com**, the group's direct sales website and A|Club renamed **Le Club Accorhotels**, the group transposes a shared visual identity, with Accor thus playing the role of a commercial brand for cross-disciplinary products and services. With its new tagline: "**Open New Frontiers in Hospitality**", Accor's ambition is to become the most competitive and attractive **relationship brand** for its clients, partners and employees alike.

A unique distribution network core to operational strategy

The status of a hotel operator covering all segments from economy to luxury provides Accor with a considerable advantage that the Group plans to consolidate.

This advantage is apparent in **distribution**, an area in which **Accor is on the leading edge of innovation worldwide** thanks to the only **fully Web-based central booking system, total connectivity** with online distributors and a very **strong presence in mobile applications**. Today, nearly **60% of room revenue for all Group hotels is generated by these central distribution channels**. The loyalty program, renamed **Le Club Accorhotels**, now has more than 7 million members, of whom 6 million outside France.

Accor's **operational excellence** will increasingly be made available to **franchised and managed** hotel partners. The Group's status as the world's leading hotel operator represents a **key asset for** its **franchising** operations. It enables Accor to forge true partnering relationships with franchisees by offering them unique services and support tools. These assets are spearheading an **ambitious strategy to develop the franchised hotel network**, especially in Europe.

A value-creating asset management strategy

In 2005, Accor embarked on a far-reaching asset management program aimed at reducing the capital intensity of the hotel portfolio as well as cash flow volatility. The program unlocks the value of its property assets and structurally improves margins. The asset management strategy represents an additional lever for development.

Half of the program to dispose of 450 hotels in the 2010-2013 period has already been completed. Early in the year, Accor also announced it was accelerating its initial program to **reduce adjusted**

net debt by €1.2 billion in 2011-2012. The success of recent sale-and-management-back transactions involving the Pullman Paris Bercy and the Sofitel Arc de Triomphe illustrates the progress made in implementing the program.

Accor is today announcing **a new plan for the 2013-2015 period. It will involve 175 hotels and reduce adjusted net debt by €1.0 billion**.

An ambitious development strategy

The development strategy is built on two key axes: **Strengthening the Group's leadership in Europe and developing operations quickly in emerging markets.**

Europe remains a high potential area of growth for Accor. The Group will leverage its leadership to pursue an assertive development strategy, especially in economy hotels, a segment in which the penetration rate of hotel chains is still low in many countries. Repositioning the hotel brands around ibis will provide additional benefits.

In emerging markets, Accor is committed to strengthening its presence, particularly in high potential countries like Brazil, India and China. By 2015, **the Group targets to quadruple the** size of its network in China.

To speed its development, the Group will leverage:

- **Brands that are more flexible and more closely tailored** to local specificities.
- **Selective investment** in high-margin projects involving prime locations, mainly in the economy segment in Europe.
- **Accelerated** development through **franchising** in the midscale and economy segments.
- **External growth opportunities** via partnerships or acquisitions, to consolidate the Group's leadership in the most attractive markets, with a focus on targets operated under asset-light structures.

Accor plans to open **35,000 rooms in 2011**, then **40,000 a year in 2012 and 2013**, with acquisitions accounting for approximately 5,000 rooms a year. More than 80% of this development plan will be carried out through management contracts and franchise agreements.

40.000 new rooms per year unil 2012

A financial strategy designed to optimize the business model

All of these factors are intended to optimize the Accor business model, which aims to deliver a sustainable improvement in cash flow generation by increasing margins and return on capital employed.

The **P&L Performance** system already shows that the contribution margin generated by management and franchise operations exceeds 50% and that sales & marketing operations are close to breakeven, in line with objectives.

Accor is also expanding the analysis of its business model. The Group will **now report EBIT margins separately for hotels that are owned or leased under fixed or variable leases** and has set the following medium-term margin objectives:

- 12% to 15% for owned hotels vs. 9% in 2010.
- 6% to 8% for hotels leased under fixed leases vs. a negative 2% in 2010.
- 8% to 10% for hotels leased under variable leases vs. 6% in 2010.

The Group has also set **the following medium-term financial targets**:

- A 2 to 4-point improvement in EBIT margin.
- Sustainable positive free cash flow before disposals.
- An increase in ROCE thanks to a less capital-intensive business model.

As a result, **cash flow will be used to finance maintenance and renovation of the existing network**, focusing in particular on the brands and distribution channels, and **development expenditure**. In addition, the Group will hold firm to its dividend policy, based on a high 50% payout ratio. This should give the Group **the necessary financial flexibility to take up strategic growth opportunities** while also generating a healthy return for shareholders. The aims of the growth strategy are to consolidate and extend Accor's leadership in Europe, as well as to acquire or lock-in significant positions in fast-growing countries based on an asset-light model with 80% of hotel properties taken off the balance sheet by 2015.

By leveraging its unique assets and pursuing an ambitious development strategy, Accor is entering into a new era of growth and value creation for its shareholders.