CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

Unless stated otherwise, the amounts presented are in millions of euros, rounded to the nearest million. In general, the amounts presented in the consolidated financial statements and related notes are rounded to the nearest unit. This may result in a non-material difference between the sum of the rounded amounts and the reported total. All ratios and variances are calculated using the underlying amounts rather than the rounded amounts.

Consolidated income statement

(€ in million)	Notes	1st semester 2017 (*)	1st semester 2018
Revenue	4	**1,363**	**1,459**
Operating expense	4	(1,055)	(1,168)
EBITDA	4	**308**	**291**
Depreciation, amortization and provision expense		(72)	(72)
EBIT	4	**236**	**220**
Share of net profit of associates and joint-ventures	5	13	20
EBIT including profit of associates and joint-ventures		**250**	**240**
Other income and expenses	6	(57)	(249)
Operating profit		**193**	**(10)**
Net financial expense	9	(39)	(33)
Income tax	10	37	(23)
Profit from continuing operations		**191**	**(66)**
Profit from discontinued operations	3	(86)	2,272
Net profit of the year		**105**	**2,206**
• Group		**87**	**2,179**
from continuing operations		175	(94)
from discontinued operations		(88)	2,274
• Minority interests		**18**	**27**
from continuing operations		15	29
from discontinued operations		3	(1)
Basic earnings per share (in euros)			
Earnings per share from continuing operations		**0.48**	**(0.45)**
Earnings per share from discontinued operations		**(0.31)**	**7.82**
Basic earnings per share		**0.18**	**7.37**
Diluted earnings per share (in euros)			
Diluted earnings per share from continuing operations		**0.48**	**(0.45)**
Diluted earnings per share from discontinued operations		**(0.31)**	**7.81**
Diluted earnings per share	11	**0.17**	**7.36**

(*) Restated amounts in application of IFRS 15 (see Note 13)

Consolidated statement of comprehensive income

(€ in million)	Notes	1st semester 2017 (*)	1st semester 2018
Net profit of the year		**105**	**2,206**
Currency translation adjustments	11	(239)	9
Effective portion of gains and losses on cash flow hedges	11	(0)	(9)
Changes in the fair value of available-for-sale financial assets	11	5	-
Currency translation adjustments from discontinued operations	11	(34)	19
Items that may be reclassified subsequently to profit or loss		**(268)**	**18**
Changes in the fair value of non-consolidated investments	11	-	(3)
Actuarial gains and losses on defined benefit plans	11	(0)	-
Actuarial gains and losses from discontinued operations	11	-	(1)
Items that will not be reclassified to profit or loss		**(0)**	**(4)**
Other comprehensive income, net of tax		**(268)**	**14**
Total comprehensive income of the period		**(163)**	**2,221**
• Group share		(183)	2,204
• Minority interests		20	17

(*) Restated amounts in application of IFRS 15 (see Note 13)

Consolidated statement of financial position

Assets

(€ in million)	Notes	Dec. 2017 (*)	June 2018
Goodwill	7	**1,500**	**1,971**
Other intangible assets	7	**2,156**	**2,400**
Property, plant and equipment	7	**662**	**727**
Investments in associates and joint-ventures	5	672	2,240
Other non-current financial assets	9	157	149
Non-current financial assets		**830**	**2,389**
Deferred tax assets		140	199
Contract assets	13	174	188
Other non-current assets		12	12
Non-current assets		**5,474**	**7,888**
Inventories		8	13
Trade receivables	4	403	566
Other current assets	4	255	329
Current financial assets	9	53	52
Cash and cash equivalents	9	1,063	3,930
Current assets		**1,782**	**4,890**
Assets classified as held for sale	2	4,824	20
TOTAL ASSETS		**12,080**	**12,798**

(*) Restated amounts in application of IFRS 15 (see Note 13)

Equity and Liabilities

(€ in million)	Notes	Dec. 2017 (*)	June 2018
Share capital	11	870	872
Additional paid-in capital and reserves	11	3,244	3,344
Net profit of the year		441	2,179
Ordinary shareholders' equity		**4,555**	**6,394**
Perpetual subordinated bonds	11	887	887
Shareholders' equity - Group share		**5,442**	**7,281**
Minority interests	11	341	244
Shareholders' equity	11	**5,783**	**7,525**
Long-term financial debt	9	2,768	2,451
Deferred tax liabilities		416	466
Non-current contract liabilities	13	22	24
Non-current provisions	8	103	103
Non-current liabilities		**3,309**	**3,044**
Trade payables		398	443
Current liabilities	4	530	722
Current provisions	8	106	323
Current contract liabilities	13	185	190
Short-term financial debt	9	237	546
Current liabilities		**1,456**	**2,223**
Liabilities associated with assets classified as held for sale	2	1,532	6
TOTAL EQUITY AND LIABILITIES		**12,080**	**12,798**

(*) Restated amounts in application of IFRS 15 (see Note 13)

Consolidated statement of cash flows

	(€ in million)	Notes	1st semester 2017 (*)	1st semester 2018
+	EBITDA	4	308	291
+	Cost of net debt	9	(45)	(29)
+	Income tax paid		(23)	(35)
-	Non cash revenue and expense included in EBITDA		9	3
-	Reversal of provisions included in net financial expense and non-recurring taxes		4	2
+	Dividends received from associates and joint-ventures		5	4
+	Impact of discontinued operations	3	199	129
=	**Funds from operations excluding non-recurring items**		**458**	**366**
+	Decrease (increase) in operating working capital	4	(85)	17
+	Impact of discontinued operations	3	132	(66)
+	Decrease (increase) in contract assets and liabilities		12	(4)
=	**Net cash from operating activities**		**517**	**313**
+	Cash received (paid) on non-recurring items (incl. restructuring costs and non-recurring taxes)		(74)	(99)
+	Impact of discontinued operations		(28)	(14)
=	**Net cash from operating activities including non-recurring items (A)**		**415**	**199**
-	Renovation and maintenance expenditure	7	(43)	(35)
-	Development expenditure	7	(268)	(1,050)
+	Proceeds from disposals of assets		10	4,395
+	Impact of discontinued operations	3	(563)	(210)
=	**Net cash from investing activities (B)**		**(864)**	**3,099**
+	Proceeds from issue of shares		14	15
-	Dividends paid		(162)	(317)
-	Interests paid on perpetual subordinated bonds		(37)	(37)
-	Repayment of long-term debt		(1)	(170)
+	New long term debt		609	175
=	**Increase (decrease) in long-term debt**		**608**	**5**
+	Increase (decrease) in short-term debt		(353)	(11)
+	Impact of discontinued operations	3	(2)	(228)
=	**Net cash used in financing activities (C)**		**55**	**(573)**
+	Effect of changes in exchange rates (D)		(39)	10
+	Effect of changes in exchange rates on discontinued operations (D)	3	30	23
=	**Net change in cash and cash equivalents (E) = (A) + (B) + (C) + (D)**		**(403)**	**2,759**
-	Cash and cash equivalents at beginning of period		1,133	1,048
-	Effect of changes in fair value of cash and cash equivalents		-	(9)
-	Net change in cash and cash equivalents for discontinued operations		(18)	125
+	Cash and cash equivalents at end of period		711	3,924
=	**Net change in cash and cash equivalents**		**(403)**	**2,759**

(*) Restated amounts in application of IFRS 15 (see Note 13)

Consolidated changes in equity

(€ in million)	Number of shares	Share capital	Additional paid-in capital	Currency translation reserve	Retained earnings	Equity Group share	Minority interests	Total Equity
Balance at December 31, 2016	284,767,670	**854**	**2,823**	**108**	**1,873**	**5,658**	**267**	**5,925**
Restatements IFRS 15 (*)		-	-	-	(47)	(47)	(0)	(47)
Restated Balance at January 1, 2017	284,767,670	**854**	**2,823**	**108**	**1,826**	**5,611**	**267**	**5,878**
Capital increase	518,920	1	9	-	(0)	10	(14)	(3)
Dividends paid	3,975,968	12	(173)	-	9	(152)	(14)	(166)
Share-based payments		-	-	-	5	5	-	5
Perpetual subordinated bonds		-	-	-	(37)	(37)	-	(37)
Effects of scope changes		-	-	0	(19)	(19)	(16)	(35)
Transactions with shareholders	4,494,888	**13**	**(164)**	**0**	**(42)**	**(193)**	**(44)**	**(236)**
Net profit of the year		-	-	-	87	87	18	105
Other comprehensive income		-	-	(275)	5	(270)	2	(268)
Total comprehensive income		**-**	**-**	**(275)**	**92**	**(183)**	**20**	**(163)**
Balance at June 30, 2017	**289,262,558**	**868**	**2,659**	**(166)**	**1,875**	**5,236**	**244**	**5,479**

(€ in million)	Number of shares	Share capital	Additional paid-in capital	Currency translation reserve	Retained earnings	Equity Group share	Minority interests	Total Equity
Balance at December 31, 2017	290,122,153	**870**	**2,684**	**(372)**	**2,302**	**5,485**	**341**	**5,826**
Restatements IFRS 15 (*)		-	-	(1)	(42)	(43)	(0)	(43)
Restated Balance at December 31, 2017	290,122,153	**870**	**2,684**	**(372)**	**2,260**	**5,442**	**341**	**5,783**
Restatements IFRS 9 (*)		-	-	-	(13)	(13)	-	(13)
Restated Balance at January 1, 2018	290,122,153	**870**	**2,684**	**(372)**	**2,247**	**5,429**	**341**	**5,770**
Capital increase	759,498	2	13	-	(1)	14	1	15
Dividends paid	-	-	-	-	(305)	(305)	(14)	(320)
Share-based payments		-	-	-	9	9	-	9
Perpetual subordinated bonds		-	-	-	(37)	(37)	-	(37)
Effects of scope changes		-	-	1	(32)	(32)	(100)	(132)
Transactions with shareholders	759,498	**2**	**13**	**1**	**(368)**	**(352)**	**(114)**	**(466)**
Net profit of the year		-	-	-	2,179	2,179	27	2,206
Other comprehensive income		-	-	39	(14)	25	(11)	14
Total comprehensive income		**-**	**-**	**39**	**2,165**	**2,204**	**17**	**2,221**
Balance at June 30, 2018	**290,881,651**	**872**	**2,697**	**(333)**	**4,045**	**7,281**	**244**	**7,525**

(*) Restated amounts in application of new accounting methods (see Note 13)

Notes to the condensed consolidated financial statements

Note 1. Basis of preparation

The condensed consolidated interim financial statements of AccorHotels Group for the six months ended June 30, 2018 were authorized for issue by the Board of Directors on July 25, 2018.

1.1. Accounting framework

The condensed consolidated financial statements have been prepared in accordance with Accounting Standard IAS 34 *Interim financial reporting*. They do not contain all the information and disclosures required in the annual financial statements. Accordingly, they should be read in conjunction with the Group's consolidated financial statements for the year ended December 31, 2017.

The accounting policies adopted are consistent with those of the 2017 financial year, except for the adoption of new standards effective at January, 1 2018, as detailed in Note 1.2, and following specific measurement principles applied for the interim financial reporting:

- Income Tax Expense: the income tax expense (current and deferred) is calculated by applying, on the one hand, the estimated annual average tax rate for the current fiscal year for each entity or tax group to profit before tax and non-recurring items of the period and, on the other hand, the current tax rate of each country to the non-recurring items of the period.
- Employee benefits: the post-employment and other long-term employee benefit obligation is calculated by projecting the December 31, 2017 obligation over a six-month period, taking into account any benefits paid and any changes to plan assets. The actuarial assumptions used in the calculation of the employee benefit obligations are updated in the event of significant change over the period.

The business carried out by the Group during the six months ended June 30, 2018 is not materially seasonal.

1.2 Evolution of accounting framework

1.2.1 New standards adopted by the Group

The Group applied the new standards, amendments or interpretations, which are mandatorily effective for financial years beginning on or after January 1, 2018.

IFRS 15 *Revenue from contracts with customers*

On May 28th, 2014, the IASB issued a new standard on revenue recognition that supersedes the former IFRS guidance (IAS 18 and IAS 11 standards, along with related interpretations). It was endorsed by the European Union on October 29, 2016. This new standard introduces a single revenue recognition model applicable to all types of customer contracts, regardless of the entity's business. This model, which follows five key steps, is based on the principle that revenue is recognized when control of goods or services is transferred to a customer, which may be overtime or at a point in time.

The Group adopted IFRS 15 using the full retrospective method of adoption. Thus, the cumulative effect of applying this standard was recognized as an adjustment to opening consolidated retained earnings at January 1, 2017 with restatement of 2017 financial information presented as a comparative. The Group applied the practical expedient proposed by the standard allowing not to restate the completed contracts at January 1, 2018. The effect of applying IFRS 15 on the consolidated financial statements at June 30, 2017 and December 31, 2017 is presented in Note 13. The disaggregated revenue information required by IFRS 15 is presented in Note 4.1 on segment reporting.

IFRS 9 *Financial instruments*

This new standard was published by the IASB on July 24, 2014 and endorsed by the European Union on November 29, 2016. It introduces new principles for classification and measurement of financial instruments (phase 1), impairment for credit risk on financial assets (phase 2) and hedge accounting (phase 3).

The Group applied the provisions related to phases 1 and 2 retrospectively. Thus, the cumulative transition effect was recognized as an adjustment to opening consolidated retained earnings at January 1, 2018, without restatement of the comparative period, as permitted by the transitional provisions of the standard. The specific provisions related to hedge accounting are applied prospectively starting from January 1, 2018. The first application impact of IFRS 9 is not material for the Group and is presented in Note 13.

Besides, the Group applied following texts that had no significant impact on the consolidated financial statements:

- Amendment to IFRS 2 *Share-based payments* which clarifies the principles relating to the measurement of cash-settled share-based payments, the accounting for plan modifications that change its classification and the net settlement features associated with withholding tax.
- IFRIC 22 interpretation *Foreign Currency Transactions and Advance Consideration* which provides clarifications on exchange rate to retain when accounting for foreign currency transactions that include advance payments.

1.2.2 Future standards, amendments and interpretations

The Group has not early adopted any standard, amendment or interpretation applicable to financial years starting after June 30, 2018, regardless of whether they were adopted by the European Union.

The main text in force within the European Union that will affect the future consolidated financial statements is IFRS 16, which was subject to a dedicated project.

IFRS 16 *Leases*

On January 13, 2016, the IASB issued IFRS 16, the new standard on leases, which will supersede IAS 17, along with the associated interpretations. This new standard removes the distinction between operating and finance leases, resulting for lessees in almost all leases being brought onto the balance sheet. The standard requires recognition of:

- an asset reflecting the right to use the leased item ; and
- a liability representing the obligation to pay rentals.

Exemptions apply to short-term and low-value leases.

The impacts assessment of applying this new standard is still ongoing. The Group launched a data collection to identify lease contracts and their main provisions. Expected impacts are limited to the restatement of leases on headquarters and hotel properties, which were not contributed to AccorInvest and lease contracts held by entities acquired over the period.

At June 30, 2018, the Group has non-cancellable operating lease commitments of €808 million (undiscounted amount). The Group has not yet determined to what extent these commitments should result in the recognition of an asset and a liability for future payments. In addition to the effect on the statement of financial position, the income statement and cash-flows statement will be affected as follows:

- Operating lease expenses (excluding variable leases based on use or performance of the underlying asset) will be replaced by a depreciation and interest expense;
- Operating lease payments (excluding variable leases based on use or performance of the underlying asset) will be replaced by repayment of principal and interests.

The Group has not yet decided on its transition method.

Note 2. Group Structure

2.1 Changes in the scope of consolidation

2.1.1 Acquisitions over the period

Acquisition of Mantra Group

On May 31, 2018, AccorHotels acquired all of the issued capital and voting rights of Mantra Group Ltd, one of Australia's largest hotel and resort marketers and operators. Mantra operates 127 properties (hotels, resorts and serviced apartments) across Australia, New Zealand, Indonesia and Hawaii under three key brands: Mantra, Peppers and BreakFree. AccorHotels and Mantra's combined geographic footprint, together with enhanced distribution and systems, would form a favorable base from which AccorHotels can expand further in the Asia Pacific region.

The transaction was approved by the supervisory authorities, notably the Australian Competition and Consumer Commission (ACCC), the Federal Court and the Foreign Investment Review Board, as well as by Mantra Group shareholders on May 23, 2018.

The acquisition price paid to Mantra shareholders amounted to AU$1.1 billion fully-paid in cash (€736 million) based on a price per share of AU$3.8, after payment of a special dividend of AU$0.16 prior to the closing. At year-end 2017, the Group purchased financial instruments to hedge the risk of unfavorable change in Euro/Australian dollar exchange rate on the acquisition price between signing and closing date. The change in fair value of these instruments, representing a €7 million loss deferred in other comprehensive income until closing, was included in the value of shares, then reducing the acquisition price of Mantra Group to €729 million.

The provisional goodwill amounts to AU$827 million (€536 million). The purchase price allocation will be completed within the 12-month period following the acquisition date.

Acquisition of Gekko

On January 9, 2018, AccorHotels acquired 89.2% of the share capital and voting rights of Gekko, a major player in the business travel hotel reservation segment. Thanks to its expertise and cutting-edge technology, Gekko offers search and reservation solutions via an interface connected to more than 500,000 hotels worldwide. Gekko serves more than 300 corporate customers and 14,000 travel agencies. This transaction is in line with the strategy aimed at strengthening AccorHotels' leadership across the entire customer experience by enhancing the range of services offered to business travelers, the Group's key customer segment.

The acquisition price amounts to €96 million and related provisional goodwill to €90 million.

The founders have retained a share of 11% in Gekko's capital. They benefit from two put options on their shares based on post-acquisition performances, exercisable in 2019 and 2022. These options represent for the Group a liability on non-controlling interests, which has been recognized as debt in the consolidated statement of financial position at June 30, 2018 for its estimated amount of €23 million.

Other acquisitions

On January 25, 2018, AccorHotels concluded a strategic partnership with SNCF Group to continue the development of the Orient Express brand within the luxury hospitality sector globally. The Group acquired a stake in the share capital (50% plus 1 share) of Orient Express, owner of the brand previously fully-owned by SNCF. The historic trains will remain the physical property of the state-owned rail group, and will be operated by Orient Express for private journeys and events. This partnership will also allow to strengthen AccorHotels' leadership in the luxury segment, by developing a new collection of prestigious hotels under the Orient Express banner. In accordance with IFRS 10, this transaction allows AccorHotels to take control over Orient Express. The governance rules implemented allow the Group to unilaterally direct its relevant activities.

On April 6, 2018, AccorHotels acquired ResDiary, a leading platform for restaurant reservation and table management. Established in Glasgow in 2004, the company provides venues with a high-end table management solution, using technology that optimizes their food and beverage revenues and helps control operational costs. Notably well established in the Asia Pacific region and in the UK, the platform has a footprint in 60 countries.

On June 5, 2018, AccorHotels acquired the SaaS platform Adoria that enables the catering industry to optimize supply management. Founded in France in 2003, Adoria offers centralized solutions for managing tendering, procurement, logistics and production.

The provisional goodwill recognized on these three acquisitions amounts to €63 million, based on a total acquisition price of €70 million.

2.1.2 Equity investments over period

On May 31, 2018, AccorHotels acquired 50% of Mantis Group, the South Africa-based hospitality and travel conglomerate. The Mantis network features 28 five-star properties and lodges, privately owned or under management contracts, plus a global network of branded hotels and residences. The Mantis Group also owns and operates a number of luxury houseboats and a lodge under the Zambezi Queen Collection. This strategic partnership will strengthen AccorHotels' leadership position in Africa.

Through its representation by half of the members on the Board of Directors, AccorHotels exercises joint control with other partners over the Mantis Group. The investment was recorded under the equity method in the Group's consolidated financial statements for a cost of €13 million. Besides, AccorHotels benefits from a call option to acquire additional interest up to 20% in three years. Mantis Group has a put option on all its shares, exercisable during three months after the exercise of the call option by AccorHotels.

2.1.3 Disposals over the period

The main transaction that occurred over the period relates to the disposal of AccorInvest subsidiary, whose financial impacts are presented in the dedicated Note 3.

2.2 Assets or disposal groups held for sale

At June 30, 2018, assets and liabilities held for sale were as follows:

		Dec. 2017		June 2018	
(€ in million)	Note	Assets	Liabilities	Assets	Liabilities
AccorInvest	3	4,769	1,526	-	-
Others		56	7	20	6
Total		**4,824**	**1,532**	**20**	**6**

AccorInvest net assets, which were classified as assets held for sale at 2017 year-end, have been derecognized since May 31, 2018 after the loss of control over the entity (see Note 3). The net profit and cash flows attributable to AccorInvest until this date are presented separately in the consolidated income statement and statement of cash flows as discontinued operations.

Note 3. Disposal of AccorInvest subsidiary

3.1 Financial impacts on Group's accounts

On May 31, 2018, AccorHotels completed the disposal of 57.8% of the share capital of AccorInvest, its subsidiary formed on June 30, 2017 following legal restructuring operations to hold most of the Group's hotel assets (owned and operated under lease contracts). The separation procedures as well as the perimeter of the contributed business were presented in Note 3 of the 2017 consolidated financial statements, integrated in the Group's Registration Document. This disposal represents for the Group the achievement of the transformation process of its business model.

Since the project was launched in 2016, AccorHotels initiated negotiations with long-term potential investors. They resulted in the signing of agreements on February 27, 2018 with a group of investors composed of the Public Investment Fund (PIF) and GIC sovereign funds, Institutional Investors, namely Colony NorthStar, Credit Agricole Assurances and Amundi, and other private investors.

According to AMF's position-recommendation on major asset disposals, the project was submitted to the consultative vote of Accor SA's shareholders during the Annual General Meeting held on April 20, 2018. Following a favourable vote, and after obtaining antitrust and regulatory approvals, the disposal of 57.8% of AccorInvest was completed on May 31, 2018. The Group retains a 42.2% residual interest in the entity.

In accordance with IFRS 10 principles, this transaction leads to a loss of control of AccorInvest, insofar as the rights held by the Group (voting rights at Shareholders' Meetings and contractual rights resulting from the agreements governing future relationships between the parties) will not give it the power to unilaterally direct its relevant activities, i.e. operation of hotels and strategic management of hotel portfolio. Accordingly, the assets and liabilities of AccorInvest, which were classified as assets held for sale in consolidated financial statements at year-end 2017 in accordance with IFRS 5, were derecognized on completion date. Starting from June 1, 2018, the retained residual interest held by AccorHotels is recorded under the equity method in the consolidated financial statements, as a result of the significant influence exercised by the Group.

The transaction resulted for AccorHotels in a gross cash contribution of €4.6 billion, including the €2.1 billion proceeds for the sale of the 57.8% controlling stake, based on an enterprise value of €6.3 billion, and the cash repayment by AccorInvest of a €2.5 billion shareholders' loan.

The gain on disposal amounts to €2.4 billion, and is computed as the difference between:

- The total proceeds on disposal of €3.7 billion, including the proceeds from the sale of the 57.8% controlling stake (€2.1 billion), the fair value of the 42.2% investment retained (€1.5 billion) and the carrying amount of non-controlling interests (€0.1 billion); and

- The carrying amount of AccorInvest net assets, as recognized in the Group's financial statements on completion date (€1.3 billion after repayment of the shareholders' loan).

In the interim condensed consolidated financial statements, the net profit from discontinued operations includes the gain realized on AccorInvest disposal, after any directly-related transactions costs, as well as AccorInvest's net result until the loss of control.

3.2 Financial information of AccorInvest

The contribution of AccorInvest to the consolidated net profit and cash flows until the loss of control is as follows:

Income statement of AccorInvest

(€ in million)	1st semester 2017 (*)	1st semester 2018 (**)
Revenue	**1,963**	**1,517**
Operating expenses	(1,431)	(1,131)
EBITDAR	**532**	**386**
Rental expense	(314)	(235)
EBITDA	**218**	**151**
Depreciation, amortization and provision expense	0	0
EBIT	**218**	**151**
Other income and expenses	(50)	(22)
Income taxes	(253)	(39)
Net Profit	**(85)**	**90**

(*) Amounts restated in application of IFRS 5 in order to reflect the changes in AccorInvest perimeter
(**) Five-month activity in 2018

Amortization and depreciation of non-current assets have been ceased in accordance with IFRS 5 principles. In 2017, the tax impacts of the legal restructuring carried out in connection with the separation of AcccorInvest impacted the net profit for €205 million.

Cash flows attributable to AccorInvest

(€ in million)	1st semester 2017 (*)	1st semester 2018 (**)
Funds from operations excluding non-recurring transactions	199	129
Decrease (increase) in operating working capital	132	(66)
Cash received (paid) on non-recurring items	(28)	(14)
Cash flows from operating activities	**303**	**49**
Renovation and maintenance expenditure	(90)	(114)
Development expenditure	(296)	(102)
Proceeds from disposals of assets	(177)	5
Cash flows used in investing activities	**(563)**	**(210)**
Cash flows used in financing activities	**(2)**	**(228)**
Effect of changes in exchange rates	30	23
Net cash flows	**(232)**	**(366)**

(*) Amounts restated in application of IFRS 5 in order to reflect the changes in AccorInvest perimeter
(**) Five-month activity in 2018

Note 4. Operating items

4.1 Segment reporting

As a result of its business model transformation, AccorHotels has redefined its internal reporting in order to reflect the Group's refocusing on its core business as a hotel operator, the diversification of its activities' portfolio as well as the resulting new organizational structure. The effects on the Group's margin ratios of applying IFRS 15 were also considered, as the Group is now required to report as revenue the reimbursements of costs incurred on behalf of hotel owners (see details in Note 13).

The Group is still organized around three strategic businesses, whose outlines have evolved.

HotelServices

This operating segment, which corresponds to AccorHotels' core business as a hotel manager and franchisor, is now split in two businesses:

- « **Management & Franchise** »: Hotel management and franchise business based the collection of fsees, as well as revenue generated by purchasing;
- « **Services to owners** »: Activity gathering all the services for which the Group spends the remuneration received from hotel owners: sales, marketing and distribution, loyalty program, shared services as well as rebilling of costs incurred on behalf of hotel owners.

Until 2017 year-end, the performance of HotelServices was monitored by geographic regions. This geographic follow-up is now performed at Management & Franchise's business level. Besides, the regional breakdown has been adjusted to reflect the Group's new operational organization. France and Switzerland have been merged into the Europe region. The Worldwide Structures, which corresponded to support entities, whose flows were not specific to a single region, has been removed, leading to reallocate related revenues and expenses to the regions.

Thus, the Management & Franchise business is organized around the 5 following operating regions:

- Europe (including France and Switzerland)
- Middle East & Africa
- Asia-Pacific
- North America, Central America & the Caribbean
- South America

Hotel assets & others

This operating segment is the Group's hotel owner-operator, comprising the Group's owned and leased hotels. It corresponds to hotels operations in Central Europe and certain hotels, mainly in Brazil, that are operated under lease contracts with variable rent based on a percentage of EBITDAR. Its business model aims to improve the return on assets and optimize the impact on the statement of financial position. It spans all asset portfolio management activities, hotel design, construction, refurbishment and maintenance activities.

This segment now includes three activities conducted in Asia-Pacific, previously reported in HotelServices: AccorPlus (rewards cards program), Accor Vacation Club (timeshare business) and Strata (room distribution and management of hotels common areas), as well as the AccorLocal project launched in 2017, previously presented in the New Businesses segment.

New Businesses

This operating segment corresponds to new businesses developed by the Group, mainly through external growth operations:

- **Digital services,** activity operated by Fastbooking, and more recently by Availpro, which consists in offering digital solutions to independent hotel operators that will drive growth in their direct sales.

- **Private luxury home rentals,** comprising onefinestay, Travel Keys and Squarebreak, with over 10,000 addresses worldwide.

- **Digital sales,** created through the acquisition of VeryChic, which offers exclusive private sales with luxury and high-end partners.

- **Concierge services,** with the integration of John Paul, which in parallel has taken over the Accor Customer Care Service.

In accordance with IFRS 8, comparative segment information presented at June 30, 2017 has been restated in order to reflect the Group's new reporting.

4.1.1 Reporting by strategic business

The Group's performance by strategic business is as follows:

(€ in million)	1st semester 2017 (*)	1st semester 2018	Variation (%) Actual	Variation (%) L/L (1)
HotelServices	1,213	1,205	(0.6)%	+6.8%
• of which Management & Franchise	427	433	+1.4%	+6.8%
• of which Services to owners	788	773	(1.9)%	+6.7%
Hotel Assets & others	365	389	+6.5%	+8.6%
New Businesses	43	70	+61.5%	+7.1%
Corporate & Intercos	(258)	(205)	+20.4%	(1.4)%
Revenue	**1,363**	**1,459**	**+7.0%**	**+8.0%**
HotelServices	311	312	+0.5%	+6.7%
• of which Management & Franchise	303	307	+1.4%	+7.4%
• of which Services to owners	8	6	(31.6)%	N/A
Hotel Assets & others	53	54	+2.6%	+7.0%
New Businesses	(14)	(15)	(11.0)%	(53.7)%
Corporate & Intercos	(41)	(60)	(44.3)%	(9.2)%
EBITDA	**308**	**291**	**(5.5)%**	**+4.2%**
HotelServices	278	279	+0.4%	+6.8%
• of which Management & Franchise	292	298	+2.1%	+8.0%
• of which Services to owners	(14)	(19)	(35.7)%	N/A
Hotel Assets & others	28	28	(0.2)%	+12.8%
New Businesses	(17)	(21)	(20.2)%	(46.2)%
Corporate & Intercos	(52)	(66)	(28.6)%	(16.1)%
EBIT	**236**	**220**	**(7.0)%**	**+2.6%**

(*) Restated amounts in application of IFRS 15
(1) L/L: Like-for-like change

Financial information for HotelServices includes the flows realized with AccorInvest subsidiary prior to its disposal. The elimination of these flows is presented on the line « Corporate & Intercos».

Revenue realized in France amounted to €143 million in the first half of 2018 (€167 million in the first half of 2017).

4.1.2 Detailed information for Management & Franchise

A. Management & Franchise revenue

(€ in million)	1st semester 2017 (*)	1st semester 2018	Variation (%) Actual	L/L (1)
Europe	218	223	+2.3%	+4.2%
Middle East & Africa	41	38	(8.3)%	(0.2)%
Asia Pacific	93	94	+1.3%	+10.0%
North America, Central America & Caribbean	56	58	+3.3%	+15.9%
South America	19	19	(0.2)%	+9.0%
Total	**427**	**433**	**+1.4%**	**+6.8%**

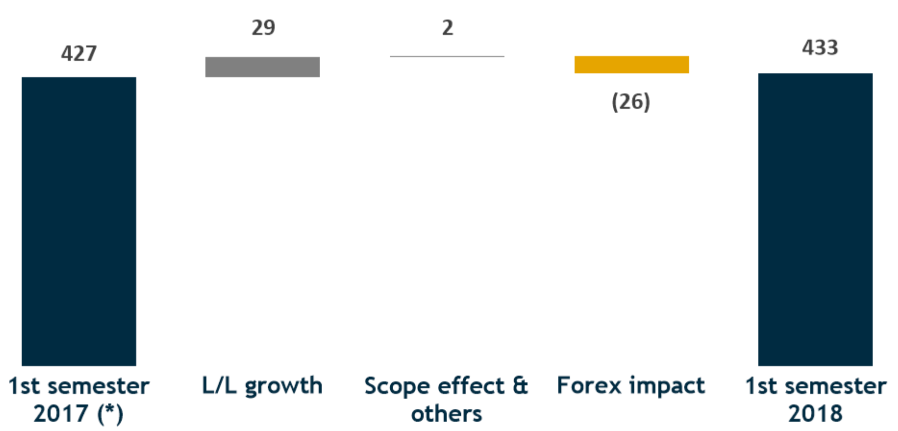
(*) Restated amounts in application of IFRS 15

(1) L/L: Like-for-like change

Fees invoiced to AccorInvest amounted to €174 million in the first half of 2018 (€182 million in the first half of 2017). In the Group consolidated financial statements, these fees are eliminated until the loss of control of the entity, in accordance with consolidation principles.

Over the period, the change in Management & Franchise revenue breakdowns as follows:

Change in revenue (€m)



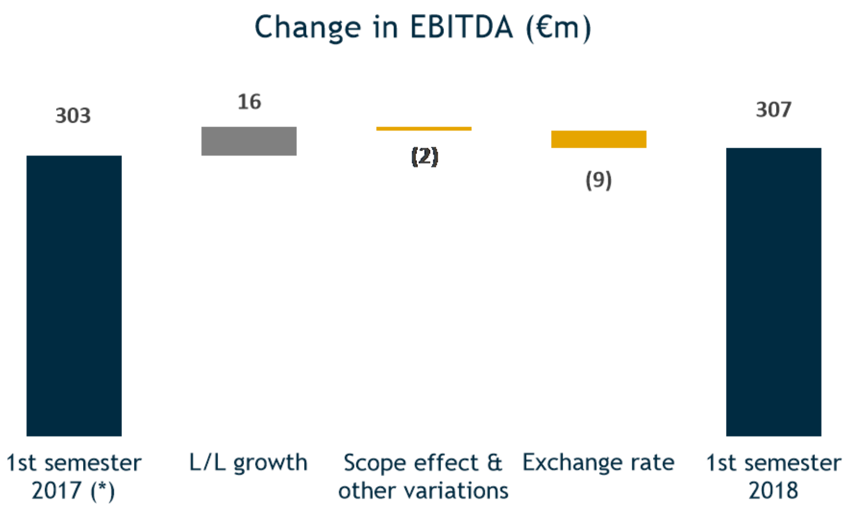
(*) Restated amounts in application of IFRS 15

B. Management & Franchise EBITDA

(€ in million)	1st semester 2017 (*)	1st semester 2018	Variation (%) Actual	L/L (1)
Europe	175	179	+2.3%	+5.5%
Middle East & Africa	27	28	+2.5%	+12.7%
Asia Pacific	59	57	(2.5)%	+6.4%
North America, Central America & Caribbean	35	35	+0.0%	+12.6%
South America	7	7	+8.2%	+9.9%
Total	**303**	**307**	**+1.4%**	**+7.4%**

(*) Restated amounts in application of IFRS 15
(1) L/L: Like-for-like change

Over the period, the change in Management & Franchise EBITDA breakdowns as follows:



(*) Restated amounts in application of IFRS 15

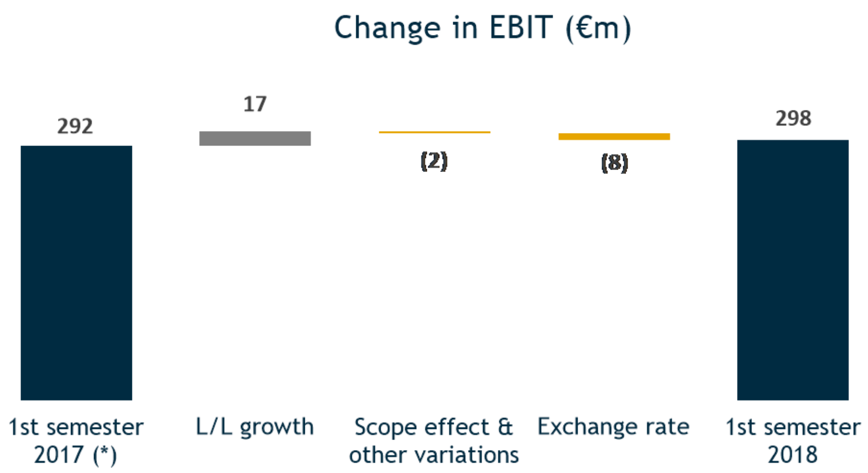
C. Management & Franchise EBIT

(€ in million)	1st semester 2017 (*)	1st semester 2018	Variation (%) Real	L/L (1)
Europe	173	178	+3.1%	+6.2%
Middle East and Africa	25	26	+1.9%	+11.9%
Asia Pacific	57	57	(1.4)%	+7.5%
North America, Central America & Caribbean	31	31	+2.9%	+15.9%
South America	7	7	(1.3)%	(1.2)%
Total	**292**	**298**	**+2.1%**	**+8.0%**

(*) Restated amounts in application of IFRS 15

(1) L/L: Like-for-like change

Over the period, the change in Management & Franchise EBIT breakdowns as follows:



(*) Restated amounts in application of IFRS 15

4.2 Operating expenses

(€ in million)	**1st semester 2017 (*)**	**1st semester 2018**
Cost of goods sold	(32)	(34)
Employee benefits expenses	(834)	(822)
Rents	(53)	(58)
Energy, maintenance and repairs	(27)	(30)
Taxes, insurance and co-owned properties charges	(25)	(26)
Other operating expense	(82)	(198)
Total	**(1,054)**	**(1,168)**

(*) Restated amounts in application of IFRS 15

Rental expense relates to the Group headquarters and hotel assets operated under lease contracts.

Other operating expenses consist mainly of marketing, advertising, promotional, selling and information systems costs.

4.3 Employee benefit expenses

Over the first semester 2018, employee benefits expenses include €9 million related to share-base payments.

On June 26, 2018, the Group granted 632,462 performance shares to employees, subject to a three-year vesting period. At this date, the fair value of the performance share was €35.24, corresponding to the share price of €41.90 less the discounted present value of dividends not received during the vesting period and the effect of external conditions.

The shares will vest provided that the grantee remains with the Group until the end of the three-year vesting period, and the following three performance conditions are fulfilled over the years 2018 to 2020:

- Internal conditions (80% weighting): EBIT margin compared to the budget and free cash flows excluding disposal proceeds (net cash from operating activities, less net cash used in/from investments activities, adjusted for changes in operating working capital),
- External condition (20% weighting): change in AccorHotels' Total Shareholder Return (TSR) compared with that of other international hotel groups and the CAC 40 index. The estimated probability of this performance condition being fulfilled was taken into account to determine the fair value of the performance shares on the grant date.

The total fair value of this plan amounts to €22 million and is being recognized on a straight-line basis over the vesting period under employee benefits expenses with a corresponding adjustment to equity. The cost recorded in respect of this plan is almost nil over the first semester 2018.

4.4 Working capital

The working capital can be analyzed as follows:

(€ in million)	Dec. 2017 (*)	Variation	June 2018
Inventories	8	5	13
Trade receivables	403	163	566
Other current assets	255	74	329
Current assets	**666**	**242**	**908**
Trade payables	398	45	443
Other current liabilities	530	192	722
Current liabilities	**927**	**237**	**1,164**
Working capital	**262**	**(5)**	**256**

(*) Restated amounts in application of IFRS 15

Note 5. Associates and joint-ventures

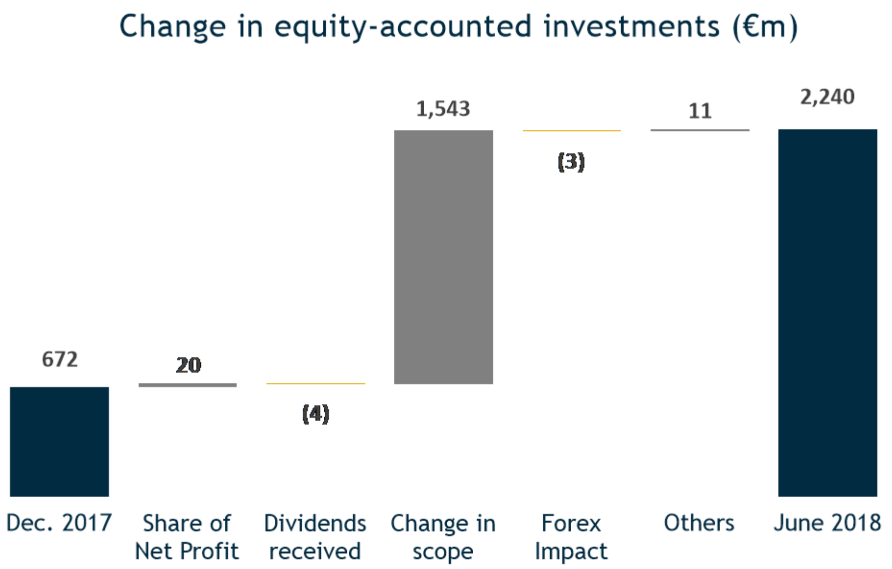
5.1 Share in net results of associates and joint-ventures

The main contributions of associates and joint-ventures are analyzed as follows:

(€ in million)	1st semester 2017 (*)	1st semester 2018
AccorInvest (**)	-	11
China Lodging Group	3	10
Others	7	(1)
Associates	**10**	**20**
Joint ventures	**2**	**0**
Share in net results of equity-accounted investments	**13**	**20**

(*) Restated amounts in application of IFRS 15
(**) Corresponding to one month of activity

5.2 Investments in associates and joint-ventures



The increase in investments over the period mainly corresponds to the integration of the residual share in AccorInvest under equity method for €1.5 billion (see Note 3). It also includes the investment in Mantis Group and the additional stake of 13.4% in Mama Shelter, taking the Group's interest to 49.9% (€24 million in total).

Note 6. Non-current operating items

(€ in million)	1st semester 2017 (*)	1st semester 2018
Impairment losses	(0)	(246)
Restructuring expenses	(8)	(12)
Gains and losses on management of hotel properties	(6)	32
Other non-recurring income and expenses	(42)	(23)
Other income and expenses	**(57)**	**(249)**

(*) Restated amounts in application of IFRS 15

Over the first semester 2018, other income and expenses mainly include:

- Impairment losses on New Businesses for €(246) million (see Note 7.3);
- Restructuring costs for €(12) million mainly related to restructuring plans in France;
- A gain related to the disposal of Sofitel Budapest Chain Bridge for €33 million; and
- Directly-related costs on acquisitions and internal projects, notably €(18) million deal costs on Mantra Group and Mövenpick acquisitions and integration costs of FRHI Group.

Note 7. Intangible and tangible assets

7.1 Goodwill

Changes in the carrying amount of goodwill over the period were as follows:

(€ in million)	Dec. 2017	Changes in scope	Translation adjustment & others	June 2018
Europe	280	-	8	288
Mediterranean, Middle East & Africa	164	-	4	169
Asia Pacific	455	536	(11)	980
North/Central America & Caribbean	249	-	7	256
South America	60	-	-	60
Worldwide Structures	(0)	-	0	(0)
HotelServices	**1,209**	**536**	**8**	**1,753**
HotelAssets & others	**82**	**20**	**2**	**103**
New Businesses	**273**	**133**	**0**	**406**
Gross value	**1,564**	**689**	**10**	**2,262**
Impairment losses	**(63)**	**-**	**(227)**	**(290)**
Net book value	**1,500**	**689**	**(218)**	**1,971**

The changes in scope over the period mainly relate to preliminary goodwill recognized as part of the acquisitions of Mantra Group (€536 million) and Gekko (€90 million) (see Note 2.1). In addition, the goodwill related to New Businesses has been impaired by €(228) million (see Note 7.3).

7.2 Intangible and tangible assets

Changes in the carrying amount of intangible and tangible assets in the first half of 2018 were as follows:

(€ in million)	**Dec. 2017 (*)**	**Increase**	**Disposals**	**Translation adjustment & others**	**June 2018**
Gross value	2,487	423	(18)	0	2,892
Accumulated amortization and depreciation	(330)	(162)	(8)	9	(492)
Intangible assets net book value	**2,156**	**261**	**(26)**	**9**	**2,400**
Gross value	1,408	215	(20)	(75)	1,528
Accumulated amortization and depreciation	(746)	(110)	17	38	(800)
Tangible assets net book value	**662**	**105**	**(3)**	**(37)**	**727**

(*) Restated amounts in application of IFRS 15

The increase in net book value is mainly explained by the recognition of the assets of Mantra Group acquired over the period (€371 million). Moreover, intangible assets related to New Businesses have been depreciated for €(18) million.

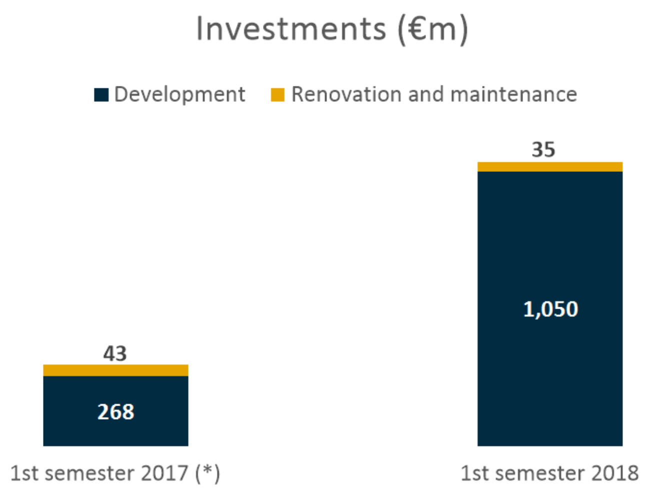
7.3 Impairment test

The Group carried out a review of goodwill and other non-current assets at June 30, 2018 in order to determine whether there was any evidence of impairment, as defined in the notes to the 2017 consolidated financial statements. Evidences of impairment were identified on Cash-Generating Units (CGUs) related to New Businesses, due to an increased competition combined with a slowdown trend on the markets and a declining profitability.

The Group estimated the recoverable amount of these CGUs based on the cash-flow projections used for budget preparation and the weighted average cost of capital, as determined at acquisition date of the entities involved. As a result, the Group recognized impairment losses for €(246) million (see Note 6). These losses were first allocated to corresponding goodwill (see aforementioned Notes 7.1 and 7.2).

No evidence of impairment was identified for other Group activities.

7.4 Capital expenditures over the period



(*) Restated amounts in application of IFRS 15

Over the first half of 2018, the main development expenditures relate to the acquisitions of the period (mainly Mantra, Gekko, ResDiary) representing a total cash out of €976 million (amount paid net of cash acquired) as well as investments recorded under the equity method for €24 million (stake acquisition in Mantis and additional interest in Mama Shelter).

Note 8. Provisions

Changes in provisions over the first half of 2018 can be analyzed as follows:

			Reversal				
(€ in million)	Dec. 2017	Increases	Utilizations	Unused provisions	Translation adjustment	Change in scope and reclassifi-cation	June 2018
Pensions and other benefits	91	6	(5)	(0)	(1)	0	90
Litigation and others	67	244	(3)	(12)	(2)	3	296
Tax litigation	14	0	(2)	-	(0)	0	12
Restructuring	38	11	(18)	(4)	(0)	(0)	27
Total	**210**	**260**	**(28)**	**(16)**	**(3)**	**3**	**426**
• Including non-current	103	6	(5)	(0)	(1)	0	103
• Including current	106	254	(23)	(16)	(2)	3	323

At June 30, 2018, provisions amounted to €426 million, increasing by €216 million compared to December 31, 2017, due notably to the allowance of €225 million set up to cover the future risks associated with the guarantees provided on AccorInvest disposal (see Note 3).

Changes in restructuring provisions are primarily explained by:

- A €18 million reversal related to restructuring costs in France and headquarters as well as integration costs related to FRHI Hotels & Resorts Group ; and
- A €11 million allowance covering restructuring plans in France.

Note 9. Financing and financial instruments

9.1 Net financial expense

The net financial expense is analyzed as follows:

(€ in million)	1st semester 2017 (*)	1st semester 2018
Bonds interests	(43)	(30)
Other interests income and expenses	(1)	1
Cost of net debt	(45)	(29)
Other financial income and expenses	6	(4)
Net financial expense	**(39)**	**(33)**

(*) Restated amounts in application of IFRS 15

The €6 million positive impact is mainly attributable to:

- A €13m decrease in bonds interests resulting from reimbursement of two bonds in June and November 2017;
- A €(11) million negative fair value adjustment related to an interest rate derivative set up in order to secure a potential lease financing the real estate investment of the Group's headquarters.

9.2 Group net debt

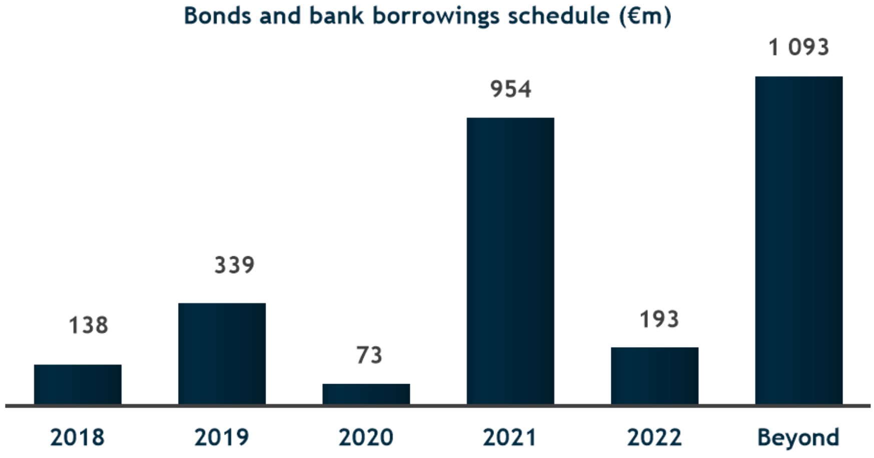
9.2.1 Breakdown of net debt

			Other changes				
(€ in million)	**Dec. 2017**	**Cash flows**	Scope effects	Translation adjustments	Fair value	Others	**June 2018**
Bonds	2,748	7	-	(8)	-	13	2,760
Bank borrowings	30	2	-	(2)	-	-	30
Other financial debts	202	(22)	(0)	(5)	-	8	183
Derivative financial instruments	24	-	-	(0)	(0)	(1)	23
Gross financial debt	**3,005**	**(13)**	**(0)**	**(15)**	**(0)**	**20**	**2,997**
Cash and cash equivalents	1,063	2,812	67	(12)	-	-	3,930
Other current financial assets	30	(7)	(0)	(0)	-	5	28
Derivative financial instruments	24	-	-	-	(9)	9	24
Financial assets	**1,117**	**2,805**	**67**	**(12)**	**(9)**	**15**	**3,982**
Net debt/(cash)	**1,888**	**(2,818)**	**(67)**	**(2)**	**9**	**5**	**(985)**

At June 30, 2018 the Group has a net cash position of €1 billion, primarily as a result of AccorInvest disposal cash proceeds. In this context, the Group invested in bank deposits (€1.7 billion) and short term bonds funds (€2 billion), which meet the criteria for presentation as cash equivalents.

9.2.2 Analysis of gross financial debt

Bonds and bank borrowings by maturity



Bonds and bank borrowings by currency

	Before hedging			After hedging		
(€ in million)	Amount	Interest rate	% of total debt	Amount	Interest rate	% of total debt
Euro	2,525	2%	90%	1,467	2%	53%
Australian dollar	-	-	-	868	1%	31%
Swiss franc	129	2%	5%	129	2%	5%
Pound sterling	-	-	-	122	1%	4%
Polish zloty	114	3%	4%	114	3%	4%
Japanese yen	-	-	-	33	0%	1%
UAE dirham	-	-	-	28	0%	1%
Mauritian rupee	21	8%	1%	21	8%	1%
US dollar	-	-	-	7	2%	0%
Bonds and bank borrowings	**2,790**	**+2%**	**+100%**	**2,790**	**+2%**	**+100%**

Note 10. Income tax

(€ in million)	1st semester 2017 (*)	1st semester 2018
Current tax	(5)	(46)
Deferred tax	42	23
Income tax	**37**	**(23)**

(*) Restated amounts in application of IFRS 15

Over the first semester 2018, the Group has a €(23) million income tax expense compared to an income of €37 million over the prior period. This income was driven by one-off items, notably deferred tax benefits recognized for €56 million in the frame of AccorInvest separation and a tax relief of €37 million.

Note 11. Equity

11.1. Share capital

11.1.1 Shareholders

In March 2018, Eurazeo sold its whole stake in Accor SA whereas China Lodging Group (Huazhu) realized various acquisitions of stake during the semester leading to hold 4.50% of the Company's capital and 4.05% of the voting rights.

11.1.2 Changes in share capital

Changes in the number of outstanding shares during the first semester 2018 are as follows:

In number of shares	2018
Number of issued shares at January 1, 2018	**290,122,153**
Performance shares vested	83,550
Shares issued on exercise of stock options	675,948
Number of issued shares at June 30, 2018	**290,881,651**

11.1.3 Distribution of dividends

On May 15, 2018, the Group paid a dividend of 1.05 euro per share for 2017 financial year results in the form a cash payment of €305 million.

11.1.4 Treasury shares

On February 27, 2018, AccorHotels announced its intention to implement over a two-year period a share buyback program up to €1,350 billion, representing 10% of the Group's share capital based on market capitalization at this date. At June 30, 2018, no operation was realized in that respect.

11.1.5 Reserves

Items recognized directly in shareholders' equity Group share are as follows:

(€ in million)	**Dec. 2017 (*)**	Change	**June 2018**
Currency translation reserve	(372)	39	(333)
Changes in fair value of financial Instruments	8	(34)	(26)
• of which non-consolidated investments	-	*(26)*	*(26)*
• of which available for sales shares	*(1)*	*1*	*-*
• of which derivative instruments	*9*	*(9)*	*(0)*
Reserve for actuarial gains/losses	(76)	(1)	(78)
Share based payments	219	9	228
Retained earnings and others	2,109	1,813	3,922
Total Group share	**1,887**	**1,825**	**3,712**

(*) Restated amounts in application of IFRS 15

Over the period, the €39 million exchange gain on translating foreign operations is mainly driven by the rise in the US Dollar (€47 million) and Argentina Peso (€30 million), partly offset by a depreciation of the Australian Dollar (€(26) million).

11.2 Minority interests

Minority interests are as follows:

€ in million	**Dec. 2017**	Change	**June 2018**
Orbis Group	215	5	221
Others minority interests	125	(102)	24
TOTAL	341	(96)	**244**

The change over the period is mainly explained by the derecognition of AccorInvest's minority interests, which represented €106 million, as a result of the disposal of the subsidiary.

Note 12. Unrecognized items and related parties

12.1 Commitments

12.1.1 Commitments given

At June 30, 2018, commitments given by the Group amount to €1,850 million. They are mainly composed of lease commitments related to headquarters and hotels assets for €808 million (representing an increase by €439 million compared to December 31, 2017 following the acquisition of Mantra) and development projects commitments for €846 million. Main development projects are the followings:

- **Acquisition project of Mövenpick Hotels & Resorts**

On April 30, 2018, AccorHotels announced that it has signed an agreement with Mövenpick Holding and Kingdom Holding to acquire Mövenpick Hotels & Resorts, for a cash amount of CHF560 million (€482 million).

Founded in 1973 in Switzerland, Mövenpick Hotels & Resorts has high-end expertise in the main hotel-related services. The Group operates in 27 countries with 84 hotels (more than 20,000 rooms) and has a particularly strong presence in Europe and the Middle East. It also plans to open 42 additional hotels by 2021, representing almost 11,000 rooms. This acquisition will allow AccorHotels to consolidate its leadership in the European market and further accelerate its growth in emerging markets, in particular in Middle East, Africa and Asia-Pacific.

- **Strategic partnership with sbe Entertainment Group**

On June 29, 218, AccorHotels announced the signature of a letter of intent and entered into exclusive negotiations with sbe Entertainment Group to acquire a 50% stake in sbe. The latter is a leading lifestyle hospitality company that develops, manages and operates award-winning global properties and brands. Its portfolio includes branded luxury residences and serviced apartments, wellness and spa platforms and dining & entertainment experiences.

AccorHotels' investment will amount to US$319 million, of which US$125 million for the acquisition of 50% of sbe's common equity, held in part by Cain International, and US$194 million in a new preferred debt instrument that will be used to redeem all existing preferred units, also held in part by Cain International.

- **Agreement with Algeciras to buy Chilean group Atton Hoteles**

On May 14, 2018, AccorHotels and Chilean group Algeciras announced that they signed an agreement with the shareholders of Atton Hoteles in order to acquire the company. As per the agreement, AccorHotels will acquire 100% of the management company that operates 11 Atton hotels across Chile, Peru, Colombia and Florida, USA. Besides, the Group will acquire a 20% interest in the property company that owns these assets, the remaining 80% being bought by sAlgeciras. The total cash consideration for these operations will be US$105 million. AccorHotels will have a put option to sell its 20% in the property company to Algeciras after five years.

Atton Hoteles was founded in Chile in 2000. The hotels cater to the business travelers on the midscale and upscale segment. It has three hotels under development. This transaction will allow AccorHotels to further consolidate its footprint in Latin America, while strengthening its presence in fast growth markets such as Chile & Peru.

The above transactions are subject to regulatory approvals. They should be completed during the second half of 2018.

12.1.2 Commitments received

At June 30, 2018, the Group did not receive any material commitment.

12.2 Litigations, contingent assets and liabilities

In the normal course of business, the Group may be exposed to claims, litigation and legal proceedings. All known outstanding claims, litigation and legal proceedings involving AccorHotels or any Group company were reviewed at the period-end and all necessary provisions were set aside to cover the estimated risks. To the best of management's knowledge, there are no contingent liabilities that could have a material adverse effect on the Group's financial position or business.

12.3 Subsequent Events

New banking credit facility of €1.2 billion

On July 2, 2018, AccorHotels announced the signing of an agreement with a consortium of 15 banks for a new €1.2 billion revolving credit facility, which margin will be notably dependent on the Group's performance in terms of Environment, Social and Governance. This new 5-year facility has two one-year extension options to be exercised in 2019 and 2020. It replaces the undrawn €1.8 billion facility signed in June 2014, which had been reduced to €1.2 billion following the completion of AccorInvest disposal. This facility will reinforce AccorHotels liquidity and increase the average maturity of its financial resources.

Creation of an investment fund dedicated to hospitality in Sub-Saharan African countries

On July 23, 2018, Katara Hospitality, a leading global hotel owner, developer and operator based in Qatar, and AccorHotels announced the creation of an investment fund with a targeted capacity of over US$1 billion dedicated to hospitality in various Sub-Saharan African countries. The fund will amount to up to US$500 million in equity, of which Katara Hospitality and AccorHotels will contribute respectively up to US$350 million and US$150 million over the next 5-7 years, with additional financing capacity reached through leverage and co-investments. It will target new hotels building projects and conversions of existing hotels through acquisitions, in a region which offers robust growth opportunities. With this initiative, Katara Hospitality and AccorHotels aim at creating the number one sustainable hospitality fund dedicated to Africa long-term development, operating in compliance with UN sustainable development goals.

This investment will be accounted for by the equity method in AccorHotels Group's consolidated financial statements.

Offer from Colony NorthStar to acquire an additional tranche in AccorInvest

On July 25, 2018, AccorHotels received a binding offer from Colony NorthStar to acquire an additional tranche of 7% of AccorInvest's share capital, for €250 million. After completion of this transaction, which is subject to AccorInvest Board of Directors' approval, AccorHotels will retain a 35.2% stake in AccorInvest's share capital.

12.4 Related parties

During the first half of 2018, no new related party agreement was signed.

Note 13. Adoption of IFRS 15 and IFRS 9 standards

This note presents the impact of the adoption of IFRS 15 *Revenue from contracts with customers* and IFRS 9 *Financial instruments* new standards on the Group's consolidated financial statements, and also discloses the new accounting policies that have been applied since January 1, 2018, where they are different to those applied in prior periods.

13.1 Impacts on financial statements

As a result of the adoption of these new standards, prior year financial statements had to be restated. The Group has adopted IFRS 15 using the full retrospective method. Thus, the first adoption impact was recorded in Group's consolidated retained earnings at January 1, 2017, with restatement of the comparative period. IFRS 9 principles on classification, measurement and impairment of financial instruments have been applied retrospectively, but without restating comparative information, in accordance with the transitional provisions in the standard. The first adoption impact is therefore recorded in the consolidated retained earnings at January 1, 2018.

13.1.1 Restated income statement

(€ in million)	1st semester 2017 Reported	IFRS 15 impact	1st semester 2017 Restated
Revenue	**922**	442	**1,363**
Operating expense	(619)	(436)	(1,055)
EBITDA	**303**	6	**308**
Depreciation, amortization and provision expense	(77)	5	(72)
EBIT	**226**	11	**236**
Share of profit of associates after tax	13	-	13
Operating profit before tax & non-recurring items	**239**	11	**250**
Non-recurring income and expense	(58)	2	(57)
Operating Profit before tax	**181**	**12**	**193**
Net financial expense	(40)	1	(39)
Income tax expense	39	(3)	37
Profit from continuing operations	**181**	**10**	**191**
Net profit or Loss from discontinued operations	(86)	-	(86)
Net Profit or Loss	**95**	**10**	**105**

13.1.2 Restated opening statement of financial position

	Jan 1. 2017			Dec. 31 2017			Jan 1. 2018	
(€ in million)	actual	IFRS 15	restated	actual	IFRS 15	restated	IFRS 9	restated
Intangible assets	3,897	(78)	3,819	3,802	(146)	3,656	-	3,656
Property, plant & equipments	562	-	562	662	-	662	-	662
Non-current financial assets	844	-	844	830	-	830	(3)	827
Contracts assets	-	100	100	-	174	174	-	174
Deferred tax assets & others	242	24	266	136	16	152	4	156
Non-current assets	**5,545**	**46**	**5,591**	**5,430**	**43**	**5,474**	**1**	**5,474**
Current assets	634	(33)	602	705	(39)	666	-	666
Current financial assets	1,226	-	1,226	1,116	(0)	1,116	0	1,117
Current assets	**1,861**	**(33)**	**1,828**	**1,822**	**(39)**	**1,782**	**0**	**1,782**
Assets held for sale	4,457	-	4,457	4,824	-	4,824	-	4,824
Total Assets	**11,864**	**13**	**11,877**	**12,076**	**4**	**12,080**	**1**	**12,081**
Shareholders' Equity & min. interests	**5,925**	**(47)**	**5,878**	**5,826**	**(43)**	**5,783**	**(13)**	**5,770**
Long term Debt	2,176	-	2,175	2,768	-	2,768	14	2,781
Non-current provisions	133	-	133	103	-	103	-	103
Non-current contract liabilities	-	22	22	-	22	22	-	22
Deferred tax liabilities	599	-	599	416	-	416	-	416
Non-current liabilities	**2,907**	**22**	**2,929**	**3,287**	**22**	**3,309**	**14**	**3,322**
Current liabilities	971	(138)	833	1,087	(160)	928	-	928
Current provisions	151	-	151	106	-	106	-	106
Current contract liabilities	-	176	176	-	185	185	-	185
Short-term Debt & Bank overdraft	733	-	733	237	-	237	-	237
Current liabilities	**1,855**	**38**	**1,893**	**1,431**	**25**	**1,456**	**-**	**1,456**
Liabilities with assets held for sale	1,177	-	1,177	1,532	-	1,532	-	1,532
Total Liabilities & Equity	**11,864**	**13**	**11,877**	**12,076**	**4**	**12,080**	**1**	**12,081**

13.2 Adoption of IFRS 15

13.2.1 Main impacts of first adoption

The impact of applying IFRS 15 on the Group's consolidated retained earnings is as follows:

(€ in million)		Jan. 1, 2017	Jan. 1, 2018
Consolidated reserves before restatement		**1,981**	**1,930**
Hotel costs reimbursements	(a)	-	-
Loyalty program	(b)	(43)	(47)
Entrance fees	(c)	(16)	(16)
Payments to hotel owners	(d)	9	14
Other restatements		3	6
Restated consolidated reserves		**1,934**	**1,887**

(a) Reimbursement of costs incurred on behalf of hotel owners

AccorHotels' management contracts may require the Group to incur hotel operating costs on behalf of the properties' owners. These costs are generally reinvoiced to the owners without any mark-up. They mainly correspond to the cost of hotel staff who are employed by AccorHotels to comply with local regulations or as a result of specific negotiations with the owners. The Group considered so far that it acted as the owners' agent because it was not exposed to the significant risks and rewards associated with the rendering of the services based on the criteria outlined under prior standard. The reinvoiced amounts were therefore presented as a deduction from the related costs, and only the margin (if any) was recognized in revenue.

Under IFRS 15, the Group considers that it acts as the principal because it controls the services, which are not distinct from the overall performance delivered under management contracts, before transferring them to the hotels' owners. The reinvoiced costs are therefore reported under revenue in the consolidated income statement, leading to an equivalent increase in the reported amount of operating expenses. For the six month ended June 2017, this change of presentation leads to the recognition of additional revenues for €457 million. This reclassification has no impact on either Group's operating profit or net profit.

(b) Loyalty program

The Group analyzes the loyalty program as giving rise to a single performance obligation. The promised service consists of managing the program on behalf of the Group's hotels and ensuring that program members will receive a benefit in exchange for their award credits. Under IFRS 15, this performance obligation is considered as being satisfied in full when the award credits are redeemed or expire. Accordingly, loyalty program fees are now deferred for an amount that reflects the stand-alone selling price of the future benefit to the member and recognized as revenue in line with the award credits redemption or expiry. This change in policy leads to an increase in the deferred revenue liability by €59 million at January 1, 2017, with a corresponding negative adjustment to retained earnings of €(43) million after tax effect. The loyalty program liability is now presented in the new « Contract liabilities » caption, as defined under IFRS 15.

The Group considers that it acts as an agent for hotel owners to the extent that it does not control the services rendered to the members on redemption, since such services can be performed by third parties. Therefore, loyalty revenue is from now on presented net of the cost of reimbursing the hotel that is providing the night stay. For the six month ended June 2017, the adoption of IFRS 15 leads to a reduction in consolidated revenues for €(22) million. The impact on operating profit due to change in timing of revenue recognition is not material.

(c) Entrance fees

When a contract is signed, AccorHotels sometimes invoices an entrance fee to hotel owners in exchange for the access to the Group's network. Under prior standard, these non-refundable initial payments were recognized in revenue in the period in which they were billed. Under IFRS 15, these payments do not transfer any additional service to the customer, which is distinct from the promise to render services under the management contract. Therefore, they are analyzed as an advance payment for future services, to be recognized on a straight-line basis over the contract term. This change in policy led to the recognition of a €22 million deferred revenue liability presented within « Contract liabilities » at January 1, 2017 and a corresponding negative restatement to retained earnings for €(16) million after tax effect. This restatement had no material impact on either Group's revenue or operating profit over the period presented.

(d) Payments to hotel owners

In the course of its business, the Group may make payments to hotel owners, either upfront in the form of key money (to secure the signing of the contract) or during the contract period based on actual performance. Under prior standard, key moneys were capitalized as intangible assets and amortized over the life of related contracts. Payments made based on performance conditions were expensed when definitely due to the customer.

Under IFRS 15, these payments are treated as consideration payable to a customer and therefore recognized as a deduction to revenue over the contract term, except for loans granted to owners on arm's length terms. Amounts depending on the occurrence of uncertain future events are estimated and recognized for the minimum amount considered as highly probable.

This change in policy led to a positive restatement of the Group's consolidated retained earnings for €9 million at January 1, 2017. It had no material impact on either Group's revenue or operating profit over the period presented. The difference between the right to rebate granted to the owners and revenue reductions recognized in the income statement leads to the recognition of a « Contract Asset », as defined by the new standard, for €100 million in the restated consolidated financial statement of position at January 1, 2017. It mainly includes the reclassification of key moneys previously capitalized as intangible assets.

13.2.2 New accounting principles and methods

The Group revised its accounting policies following the adoption of IFRS 15.

Revenue corresponds to the value of goods and services sold by the Group in the ordinary course of business. The Group recognises revenue when it transfers the control of the promised goods and services to the customer, which may be overtime or at a point in time. Revenue is recognized in an amount that reflects the consideration to which the Group is expected to be entitled in exchange for transferring promised goods or services.

The Group applies the guidance provided in IFRS 15 to determine whether it acts as the principal or an agent in its contractual hotel management relationships. It is considered as acting as the principal if it controls the promised service before that service is transferred to a customer. In such a case, revenues and related expenses are reported separately in the income statement. Otherwise, the Group is considered as acting as an agent and only the remuneration corresponding to the agency fee is recognized in revenue.

Fees billed to franchised hotels and hotels under management contracts

- Trademark royalty fees received from hotel owners under licenses for the use of the Group's brands. These fees are generally based on the hotel's room revenue.
- Management fees received from the owners of hotels managed by the Group. These fees are generally based on hotel's revenue. In some cases, they also include an incentive fee subject to performance criteria.
- Other fees for support services provided to managed and franchised hotels for marketing, distribution, IT and other services…

The Group applies the IFRS 15 guidance for recognition of revenue related to licences of intellectual property with sales-based royalties, which allows to account for trademark royalty fees when the hotel's room revenue is recognized.

Other fees relate to services representing distinct performance obligations which are generally satisfied over time, when the hotel owners simultaneously receive and consume the benefits provided. The Group elects the practical expedient to recognize revenue based on amounts invoiced to the customer, when this method of measuring progress best depicts the performance provided. Invoicing is based on contractual prices, which represent the stand-alone selling prices of specified promised goods or services. Variable considerations depending on the occurrence of uncertain future events are estimated using the most likely amount method, based on all reasonably available information, and are, if need be, capped at the minimum amount considered as highly probable. At each reporting period, the Group revises its estimates of variable considerations and assesses whether a constraint should apply.

Loyalty program

AccorHotels manages the loyalty program on behalf of the Group's hotels. This service is considered as a single distinct performance obligation, which is satisfied in full when the award credits are redeemed for a stay by members or expire. Loyalty program fees invoiced to hotel owners are deferred in an amount that reflects the stand-alone selling price of the future benefit to the member. They are recognized as revenue when the reward points are redeemed or expire.

The Group acts as an agent for hotel owners to the extent that it does not control the services rendered to members upon redemption. Accordingly, revenue is recognized net of the cost of reimbursing the hotel that is providing the service.

Hotel revenues

It corresponds to all the revenues received from guests by owned and leased hotels. The services rendered (including room rentals, food and beverage sales and other ancillary services) are distinct performance obligations, for which prices invoiced to the guests are representative of their stand-alone selling prices. These obligations are fulfilled over time when they relate to room rentals, that is over the stay within the hotel, and at a point in time for other goods or services, when they have been delivered or rendered.

Contract assets and liabilities

The IFRS 15 introduced a new class of assets and liabilities in the financial statement of position:

- <u>Contract assets</u> represent a right for the Group to receive consideration in exchange for goods or services already transferred to a customer, when that right is conditioned on something other than the passage of time. They also include revenue reductions granted in advance to customers when the corresponding services have not been transferred yet (key moneys mainly).

- <u>Contract liabilities</u> represent the Group's obligation to transfer goods or services for which the customer has already paid a consideration, or when the amount is due from the customer. They mainly correspond to deferred revenues related to the loyalty program and entrance fees invoiced at contract's inception.

13.3 Adoption of IFRS 9

13.3.1 Main impacts of first adoption

Phase 1 - Classification and measurement of financial instruments

Financial instruments previously classified as Available-for-sale financial assets

The Group assessed the main features of its financial assets, and which business model applies to these assets, in order to classify them into the appropriate IFRS 9 categories. The main first time adoption impact consists in the removal of the « Available-for-sale » category. Under the prior standard, these financial assets were measured at fair value, with changes in fair value deferred in other comprehensive income, and subsequently reclassified to income statement on disposal. The measurement of financial assets, which are concerned is modified as follows:

- Investments in non-consolidated companies: the Group elected to account for these financial assets at fair value through other comprehensive income, with no subsequent recycling in the income statement, in accordance with the option permitted by IFRS 9. They form part of a long-term investment strategy, and are not intended to be sold at short or medium term. These financial assets are no longer subject to an impairment assessment.

- Units in mutual funds (SICAV, FCP): these instruments are not eligible to the option for fair value through other comprehensive income measurement; they are now measured at fair value through profit or loss, in accordance with IFRS 9 provisions.

The impact first time adoption of this phase is not material on the Group's consolidated financial statements.

Treatment of financial debt restructurings

Based on IFRS 9 provisions, which were completed by the IFRS Interpretations Committee (IFRIC) statement in late 2017, which clarified the accounting treatment for a modification of financial liabilities that does not result in the liabilities being derecognized, the Group retrospectively restated the 2015 "liability management" transaction. This transaction was analyzed as a modification of financial liabilities, without derecognition, under IAS 39 principles, considering the original debt was not substantially modified. Accordingly, the financial debt was maintained in the financial statement of position. The impact of renegotiation, corresponding to the difference between the original and modified cash flows was amortized over the remaining life of the modified liability by re-calculating the effective interest rate.

Under IFRS 9, this difference is now treated as having been recognized immediately in the income statement on modification date. Given the net restructuring cost generated, the restatement of this operation led to a €14m increase in the Group's financial debt at January 1, 2018, and a negative restatement to retained earnings for €(10) million after tax effect. This mechanically generates a future gain in interest expenses for about €2 million per year until 2023.

Phase 2 - Impairment of financial assets

IFRS 9 standard introduces a new impairment model which consists in recognizing impairment losses on financial assets based on expected credit losses. The Group assessed the risk of non-collectability of its main financial assets (trade receivables and loans) throughout its whole geographical scope, taking into account the country risk and the probability of counterpart default. Following this analysis, and based on the nature of its activities and customers, the Group concluded that the impact of adopting this new model was not significant on consolidated financial statements at transition date.

Phase 3 - Hedge accounting

The new standard's provisions do not question the eligibility of the hedging relationships already prevailing at January 1, 2018. They have no material impact on consolidated financial statements over the period.

13.3.2 New accounting principles and methods

The adoption of IFRS 9 resulted in the following changes in the Group's accounting policies.

Financial instruments are classified under the categories defined by IFRS 9. The classification of financial assets is based on the nature of their contractual cash-flows as well as the Group's business model for managing the assets.

- Assets at amortized cost – These are financial assets held to collect contractual cash-flows that consist solely of payments of principal and interests at specified dates. They are initially measured at fair value, and subsequently measured at amortized cost using the effective interest method.
  This category mainly includes cash, trade receivables, time deposits and loans to non-consolidated entities.

- Assets at fair value through other comprehensive income – These are equity instruments not held for trading, for which the Group had irrevocably elected at initial recognition, and on a line-by-line basis, to present changes in fair value in other comprehensive income. This category mainly comprises investments in non-consolidated companies, initially recorded at cost, and subsequently measured at fair value, with no recycling of gains or losses to income statement upon disposal. Only dividends received are recorded in financial result.
  The cash flow hedge derivative instruments are also classified in this category.

- Assets at fair value through profit or loss – These include equity instruments, for which the Group had not, when applicable, elected the option of fair value through other comprehensive income as well as all other financial assets qualified as debt instruments that are not included in either of the above categories (in particular, when they do not have a fixed maturity or determinable cash flows).
  This category mainly includes units in mutual funds (SICAV, FCP) as well as derivatives instruments not eligible for hedge accounting.

The other accounting policies relating to financial instruments, and described in consolidated financial statements at December 31, 2017 remain unchanged.