



A French *société anonyme* (joint stock company) with share capital of €712,366,974  
82, rue Henri Farman – 92130 Issy-les-Moulineaux, France  
Nanterre Trade and Companies Registry no. 602 036 444

**INCREASE IN ACCOR SHARE CAPITAL THROUGH THE ISSUE OF ORDINARY ACCOR  
SHARES IN CONSIDERATION FOR THE CONTRIBUTION IN KIND OF SHARES IN  
FRHI HOLDINGS LIMITED**

**Appendix to the report of Accor's Board of Directors to the ordinary and extraordinary meeting  
of shareholders called on July 12, 2016**



In accordance with its General Regulation and in particular article 212-34, the French financial markets authority (*Autorité des marchés financiers* – AMF) registered the French version of this document under number E.16-058 on June 17, 2016. The French version of this document was prepared by the issuer and is binding on its signatories. In accordance with article L.621-8-1-I of the French Monetary and Financial Code (*Code monétaire et financier*), the registration number was assigned once the AMF had verified that the document was complete and clear and that the information it contained was consistent. It does not imply that the AMF approves the transactions or that it has verified the accounting and financial information set forth therein. It certifies that the information contained in this document is consistent with the regulatory requirements for the subsequent admission to trading on Euronext Paris of the shares which, subject to the approval of Accor's general meeting of shareholders, shall be issued as consideration for the contribution.

This document incorporates by reference the registration document of Accor S.A. ("**Accor**") filed with the AMF on March 24, 2016 under no. D.16-0205 (the "**Registration Document**").

This document (the "**Document**") is available free of charge at Accor's registered office (82, rue Henri Farman – 92130 Issy-les-Moulineaux, France) and on the websites of Accor ([www.accorhotels-group.com](http://www.accorhotels-group.com)) and the AMF ([www.amf-france.org](http://www.amf-france.org)).

The notice of Accor's general meeting of shareholders containing the draft resolutions to be put to shareholders' vote was published in the *Bulletin des Annonces Légales Obligatoires* (BALO) dated June 1, 2016.

This is a free translation into English of the document registered with the French financial markets authority under number E.16-058 on June 17, 2016 and is provided solely for the convenience of English speaking readers.

## **SUMMARY OF THE DOCUMENT**

Visa E.16-058 dated June 17, 2016

This summary should be read as an introduction to this Document. Any decisions to invest in the financial instruments that are the subject of the transaction described herein should be based on a comprehensive review of the Document. Where a claim relating to the information contained in the Document is brought before a court, the plaintiff investor may, depending on the national legislation of the EU Member States or parties to the European Economic Area Agreement, have to bear the costs of translating the Document before the legal proceedings are initiated. Civil liability attaches only to those persons who have presented the summary, including any translation, and have asked to be notified thereof within the meaning of article 212-41 of the AMF's General Regulation, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the Document or when the Document does not provide key information helping investors when considering whether to invest in said financial instruments.

1. SUMMARY OF THE MAIN TERMS AND CONDITIONS OF THE TRANSACTION	
<b>Presentation of the transaction</b>	<p>On December 9, 2015, Accor entered into an agreement with several entities of the Qatar Investment Authority ("<b>QIA</b>"), Kingdom Holding Company of Saudi Arabia ("<b>KHC</b>") and Ontario Municipal Employees Retirement System ("<b>OMERS</b>") groups to acquire FRHI Holdings Limited ("<b>FRHI</b>"), the parent company of the hotel group operating under the Fairmont, Raffles and Swissôtel brands.</p> <p>In connection with this transaction, Lodge Investment Company and Voyager Fund Enterprise I Ltd controlled by QIA (together, the "<b>QIA Entities</b>"), Kingdom Hotels (Europe) LLC controlled by KHC (the "<b>KHC Entity</b>") and FRH Investment Holdings Inc. controlled by OMERS (the "<b>OMERS Entity</b>") shall contribute a portion of their FRHI shares to Accor in exchange for the Accor shares they are to receive.</p> <p>At the same time as this contribution, the remainder of the shares comprising FRHI's share capital will be sold to Accor for US\$ 840 million, payable in cash.</p> <p>The QIA Entities, the KHC Entity and the OMERS Entity shall be known collectively as the "<b>Contributors</b>".</p>
<b>Purpose of the Contribution</b>	<p>This transaction will strategically enhance Accor's brand portfolio, and will provide it with a better-balanced business profile. The integration of Raffles, Fairmont and Swissôtel will broaden the AccorHotels group's geographic footprint and presence in the luxury segment, enabling it to optimize its luxury and upscale brands in order to adapt its offering to the expectations of an increasingly demanding clientele.</p>
<b>Terms and conditions of the Contribution</b>	<p>The Contributors will contribute 1,718,134 FRHI shares to Accor in accordance with the conditions set out in the contribution agreement entered into between the Contributors and Accor on June 6, 2016 (the "<b>Contribution</b>").</p> <p>The Contribution is governed by the standard legal provisions in France concerning contributed assets as provided for in article L.225-147 of the French Commercial Code (<i>Code de commerce</i>).</p> <p>The exchange ratio was set at 46,700,000 new Accor shares for 1,718,134 FRHI shares contributed.</p> <p>In consideration for the Contribution, Accor will therefore issue 46,700,000 new shares with a par value of €3 per share to the Contributors, breaking down as follows:</p> <ul style="list-style-type: none"> <li>- 29,505,060 new Accor shares issued to the QIA Entities;</li> <li>- 16,494,440 new Accor shares issued to the KHC Entity; and</li> <li>- 700,500 new Accor shares issued to the OMERS Entity.</li> </ul> <p>The increase in Accor's share capital will be for a par value of €140,100,000. The difference between the par value of the capital increase and the value of the Contribution, i.e., €1,672,800,310.24, will represent a share premium (<i>contribution d'apport</i>) of €1,532,700,310.24.</p>

	<p>An application will be made to list the new shares on compartment A of the Euronext Paris regulated market under ISIN code FR0000120404.</p> <p>The new shares issued by Accor in consideration for the Contribution will rank <i>pari passu</i> with existing Accor shares as from the Transaction Date and will be subject to all of the provisions set out in its bylaws. The shares will carry dividend and voting rights as from the date of their issuance, will rank <i>pari passu</i> with the existing shares comprising Accor's share capital, will carry the same rights and privileges and will be subject to all of the provisions set out in Accor's bylaws.</p>			
<b>Value of the Contribution and assessment of the exchange ratio</b>	<p>The exchange ratio set at 46,700,000 new Accor shares for 1,718,134 FRHI shares contributed is the result of negotiations between the parties and falls within the range of ratios obtained from the multi-criteria analysis carried out based on commonly used valuation approaches deemed appropriate for the planned transaction, taking into account the intrinsic characteristics of the hotel sector and of the AccorHotels and FRHI groups, including in particular:</p> <ul style="list-style-type: none"> <li>- an analysis of the historical Accor share price over a period of one month preceding the date on which the transaction was announced, as well as the performance of the share between the date of the announcement and up to April 8, 2016;</li> <li>- an analysis of the target prices drawn up by analysts tracking the Accor share;</li> <li>- an analysis of comparable transaction multiples;</li> <li>- the estimated value of Accor and FRHI (sum-of-the-parts) based on market comparable multiples;</li> <li>- the estimated value of Accor and FRHI resulting from the discounted future cash flows (DCF) method.</li> </ul>			
<b>Summary of information used in assessing the exchange ratio</b>	<p>Based on an overall valuation of €2.43 billion for FRHI, i.e., €1.67 billion in contributed shares, the exchange ratio is set by mutual agreement between the parties at 33.48 Accor shares for one class A FRHI share (one class C and one class D FRHI share are equal to one class A FRHI share).</p> <p>This ratio is in the middle of the range of the discounted cash flows (DCF) valuation, which is considered the main method for assessing the ratio. It is also within the range of ratios resulting from changes in the Accor share price before and after the transaction was announced and financial analysts' share price targets after the publication of the 2015 results.</p>			
		Implicit value per Accor share ex-2015 dividend <sup>(1)</sup> (€)	Implicit value per FRHI share (€)	Implicit exchange ratio
	<b>Main assessment method used</b>			
	Discounted available cash flows	37.2 – 52.9	1,256.9 – 1,517.3	31.44 – 34.58 <sup>(2)</sup>
	<b>Accor market share price reference</b>			
	Market share price since the	29.0 – 39.3	1,199.3	30.52 – 41.41 <sup>(5)</sup>

	announcement <sup>(3)</sup>			
	Target share price published by financial analysts	31.0 – 47.0	1,199.3	25.52 – 38.69 <sup>(5)</sup>
	Market share price – one-month period prior to announcement <sup>(4)</sup>	37.0 – 42.7	1,199.3	29.03 – 33.48 <sup>(5)</sup>
	<b>Other valuation references</b>			
	Sum-of-the-parts	37.6 – 47.6	1,080.0 – 1,279.9	27.35 – 27.72 <sup>(2)</sup>
	<p>(1) Based on the recommended 2015 dividend of €1.00 per Accor share put to the vote of the April 22, 2016 shareholders' meeting.</p> <p>(2) Implicit exchange ratio calculated using the same valuation method for FRHI and Accor.</p> <p>(3) From December 9, 2015 to April 8, 2016.</p> <p>(4) Based on the volume-weighted average share price over the one-month period preceding December 9, 2015.</p> <p>(5) Implicit exchange ratio calculated based on an enterprise value of €2.5 billion for FRHI.</p>			
<b>Findings of the independent appraisers of capital contributions</b>	<p><u>Regarding the value of the Contribution</u></p> <p>In their report on the value of the Contribution dated June 18, 2016, the independent appraisers concluded:</p> <p><i>"On the basis of our work and at the date of this report, we consider that the value of the shares contributed, set at €1,672,800,310.24, is not overstated and consequently, that it is at least equal to the amount of the capital increase of the company to which the shares will be contributed, plus the contribution premium."</i></p> <p><u>Regarding the consideration for the Contribution</u></p> <p>In their report on the consideration for the Contribution dated June 8, 2016, the independent appraisers concluded:</p> <p><i>"On the basis of our work and at the date of this report, we consider that the exchange ratio of 1,718,134 shares in FRHI Holdings Limited (including 1,071,610 class A shares, 323,262 class C shares and 323,262 class D shares – it being specified that one class C share plus one class D share is equivalent to one class A share) for 46,700,000 shares in Accor S.A, as agreed by the Parties, is fair."</i></p>			
<b>Conditions precedent</b>	<p>The Contribution is subject to several conditions precedent and will be carried out on the date on which the last condition precedent is met. These conditions include:</p> <ul style="list-style-type: none"> <li>- approval by Accor's ordinary meeting of the appointment of two directors recommended by the QIA Entities and of the director recommended by the KHC Entity;</li> <li>- approval by Accor's extraordinary meeting of the Contribution, the valuation and the arrangements regarding the consideration for the transaction;</li> <li>- approval by Accor's extraordinary meeting of the completion of Accor's capital increase following the Contribution and of the effective completion of the</li> </ul>			

	<p>Contribution, and placing this on record;</p> <ul style="list-style-type: none"> <li>- signature by the QIA Entities and the KHC Entity of a shareholders' agreement with Accor;</li> <li>- prior completion of certain restructuring measures within the FRHI group and repayment of loans contracted with FRHI's current shareholders;</li> <li>- signature of addenda to certain hotel management contracts entered into with the QIA Entities and the KHC Entity as owners of these hotels and of letters in which certain QIA, KHC and OMERS entities, as owners of the hotels, state that they agree to the transaction and to the change of control of FRHI and that they waive any rights in this regard;</li> <li>- the delivery by Accor of a copy of the order to irrevocably and unconditionally transfer to the Contributors their prorata portion of the total purchase price for the acquisition by Accor of the rest of the shares constituting the share capital of FRHI, as well as a statement from the sender bank confirming such irrevocable and unconditional payment orders have been validated by such bank and transferred to the SWIFT system.</li> </ul> <p>All conditions precedent will be met at the latest at the time Accor's shareholders vote to approve and place on record the effective completion of its capital increase following the Contribution and the effective completion of the Contribution.</p> <p>At the date of this Document, the following conditions precedent have already been met:</p> <ul style="list-style-type: none"> <li>- merger control decisions authorizing Accor's acquisition of FRHI in exchange for cash and Accor shares, handed down by the antitrust authorities in Canada, China, Germany, South Africa, Turkey, the Ukraine and the United States;</li> <li>- drafting of the independent appraisers' reports on their assessment of the value of the Contribution and the consideration for the Contribution, at the latest eight days before Accor's ordinary and extraordinary meeting asked to approve the Contribution;</li> <li>- recording by the AMF of a "Document E" relating to the Contribution as specified in Article 212-34 of its General Regulation, within the timeframe set in paragraph 2 of said Article;</li> <li>- approval by the AMF and Euronext of the listing on the Euronext Paris regulated market of the new Accor shares to be issued in consideration for the Contribution.</li> </ul>
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<b>Main risk factors regarding the Contribution</b>	<p>The main risk factors regarding the transaction are as follows:</p> <ul style="list-style-type: none"><li>- The completion of the Contribution will have a significant impact on Accor's ownership structure;</li><li>- The completion of the transaction could affect the Accor share price;</li><li>- The results of operations and financial position presented in Accor's pro forma financial statements may not reflect its future performance;</li><li>- Difficulties may arise as regards the operational integration.</li><li>- Certain FRHI management contracts could be affected by Accor's acquisition of FRHI;</li><li>- Certain FRHI development projects could be delayed;</li><li>- New claims and litigation may arise;</li><li>- Risks related to impairment of intangible assets.</li></ul>																														
<b>Accor ownership structure before and after the Contribution</b>	<p><u>Accor ownership structure at May 31, 2016</u></p> <table><tr><th>Shareholders</th><th>Number of shares</th><th>% capital</th><th>Number of voting rights</th><th>% voting rights</th></tr><tr><td>Jin Jiang<sup>(1)</sup></td><td>35,757,485</td><td>15.05%</td><td>35,757,485</td><td>13.15%</td></tr><tr><td>Colony /Eurazeo acting in concert<sup>(2)</sup></td><td>26,080,517</td><td>10.98%</td><td>51,556,576</td><td>18.96%</td></tr><tr><td>Founders/ Board members</td><td>5,107,513</td><td>2.15%</td><td>10,207,087</td><td>3.75%</td></tr><tr><td>Free float</td><td>170,611,838</td><td>71.82%</td><td>174,428,533</td><td>64.14%</td></tr><tr><td>Total</td><td>237,557,353</td><td>100.00%</td><td>271,949,681</td><td>100.00%</td></tr></table> <p>(1) Concert between Rubyrock Capital Co. Ltd, Golden Apple Capital Co. Ltd and Super Orange Capital Co. Ltd, controlled at the highest level by JinJiang International Holdings Co. Ltd.</p> <p>(2) Concert between ColDay A S.à.r.l. (Colony Capital LLC) and Legendre Holding 19 (controlled by Eurazeo).</p> <p>As of May 27, 2016, the companies controlled by JinJiang International Holdings and acting in concert have made a declaration of intent for the six next months (D&amp;I 216C1237 as of May 27, 2016). This declaration is published on the website of the French market authority<sup>1</sup>.</p>	Shareholders	Number of shares	% capital	Number of voting rights	% voting rights	Jin Jiang <sup>(1)</sup>	35,757,485	15.05%	35,757,485	13.15%	Colony /Eurazeo acting in concert <sup>(2)</sup>	26,080,517	10.98%	51,556,576	18.96%	Founders/ Board members	5,107,513	2.15%	10,207,087	3.75%	Free float	170,611,838	71.82%	174,428,533	64.14%	Total	237,557,353	100.00%	271,949,681	100.00%
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<sup>1</sup>[http://www.amf-france.org/Fiche-BDIF.html?isSearch=true&xtmc=-ACCOR&lastSearchPage=http%3A%2F%2Fwww.amf-france.org%2FmagnoliaPublic%2Famf%2FResultat-de-recherche-BDIF.html%3FDATE\\_OBSCOLESCENCE%3D%26DATE\\_PUBLICATION%3D%26BDIF\\_RAISON\\_SOCIALE%3DACCOR%26formId%3DBDIF%26DOC\\_TYPE%3DBDIF%26LANGUAGE%3Dfr%26valid\\_form](http://www.amf-france.org/Fiche-BDIF.html?isSearch=true&xtmc=-ACCOR&lastSearchPage=http%3A%2F%2Fwww.amf-france.org%2FmagnoliaPublic%2Famf%2FResultat-de-recherche-BDIF.html%3FDATE_OBSCOLESCENCE%3D%26DATE_PUBLICATION%3D%26BDIF_RAISON_SOCIALE%3DACCOR%26formId%3DBDIF%26DOC_TYPE%3DBDIF%26LANGUAGE%3Dfr%26valid_form)

<u>Accor ownership structure after the Contribution (pro forma at May 31, 2016)</u>				
Shareholders	Number of shares	% capital	Number of voting rights	% voting rights
Jin Jiang <sup>(1)</sup>	35,757,485	12.58%	35,757,485	11.22%
QIA Entities	29,505,060	10.38%	29,505,060	9.26%
Colony/Eurazeo acting in concert <sup>(2)</sup>	26,080,517	9.17%	51,556,576	16.18%
KHC Entity	16,494,440	5.80%	16,494,440	5.18%
Founders/ Board members	5,107,513	1.80%	10,207,087	3.20%
OMERS Entity	700,500	0.25%	700,500	0.22%
Free float	170,611,838	60.02%	174,428,533	54.74%
Total	284,257,353	100.00%	318,649,681	100.00%
<p>(1) Concert between Rubyrock Capital Co. Ltd, Golden Apple Capital Co. Ltd and Super Orange Capital Co. Ltd, controlled at the highest level by JinJiang International Holdings Co. Ltd.</p> <p>(2) Concert between ColDay A S.à.r.l. (Colony Capital LLC) and Legendre Holding 19 (controlled by Eurazeo).</p>				
2. SUMMARY OF THE MAIN CHARACTERISTICS OF THE COMPANY TO WHICH THE SHARES ARE TO BE CONTRIBUTED				
<b>General information about Accor</b>	Accor is a <i>société anonyme</i> (joint stock company) with a Board of Directors, registered with the Nanterre Trade and Companies Registry under no. 602 036 444. Its trade name is AccorHotels and its registered office is located at 82, rue Henri Farman – 92130 Issy-les-Moulineaux, France.			
<b>Information about Accor's business</b>	A description of Accor's business is presented in Chapter 1 of the Registration Document.			



3. SUMMARY OF THE MAIN CHARACTERISTICS OF THE COMPANY TO BE CONTRIBUTED							
General information about FRHI	FRHI is an exempted company limited by shares governed by the law of the Cayman Islands and is registered under number MC-237438. Its registered office is located at P.O. Box 309, Ugland House, South Church Street, Georges Town – KYI-1104 Grand Cayman, Cayman Islands.						
Information about FRHI's business	FRHI is the parent company of a hotel group that operates hotels and residences under the Fairmont, Raffles and Swissôtel brands. As of April 30, 2016, FRHI manages, owns, leases or franchises 115 hotels with over 43,000 rooms located in 34 countries; the group’s development pipeline of future properties consists of 61 hotels and 30 branded residences with over 18,000 rooms and 4,000 units respectively.  FRHI's portfolio of hotels employs around 45,000 people.						
4. SELECTED PRO FORMA FINANCIAL INFORMATION							
	The pro forma financial information was prepared based on the audited consolidated financial statements of the AccorHotels group at December 31, 2015 and the audited consolidated financial statements of FRHI at December 31, 2015, and must be read in conjunction with these consolidated financial statements.						
Unaudited pro forma consolidated statement of financial position at December 31, 2015							
	in millions of euros*	Accor Dec. 31, 2015	FRHI Dec. 31, 2015	FRHI restatements (1)	FRHI impact	Impact relating to the business combination (2)	Pro forma Dec. 31, 2015
	Goodwill	697	169	-	169	1,404	2,269
	Intangible assets	307	866	-	866	-	1,173
	Property, plant and equipment	3,024	224	-	224	-	3,248
	Investments in associates and other financial investments	654	174	(81)	93	-	747
	Other non-current assets	73	31	-	31	-	104
	Non-current assets	4,756	1,463	(81)	1,382	1,404	7,542
	Current assets	3,990	229	(69)	161	(769)	3,382
	Total assets	8,953	1,692	(149)	1,543	635	11,130
	Shareholders' equity	3,987	1,221	(95)	1,126	635	5,748
	Non-current liabilities	2,916	325	(47)	278	-	3,194
	Current liabilities	2,031	146	(8)	139	-	2,170
	Total liabilities and shareholders' equity	8,953	1,692	(149)	1,543	635	11,130
* Closing 2015 EUR/USD exchange rate: 0.9152.							
(1) The restatements reflect operations taking place prior to the acquisition (conditions precedent for the acquisition) or related to the change of control (specific contractual conditions) and include mainly: - investments in associates cleared via a distribution to shareholders for €33 million (impact on the "Investments in associates and other financial investments" and "Shareholders' equity" lines); - loans cleared via a distribution to shareholders for €48 million (impact on the "Investments in associates and other financial investments" and "Shareholders' equity" lines); - early payment of a discretionary profit-sharing plan for €35 million (impact on the "Current							

	<p>assets", "Non-current liabilities", "Current liabilities" and "Shareholders' equity" lines); - early payment of long-term debt for €33 million (impact on the "Current assets" and "Non-current liabilities" lines). The acquisition fees borne by FRHI in 2015 and 2016 are reflected in its net assets. FRHI's cash and cash equivalents included within "Current assets" amount to US\$ 9 million (€8 million) after completion of all of the above-described transactions.</p> <p>(2) The provisional goodwill of €1,404 million corresponds to the acquisition price from which we have deducted the net assets of FRHI. The acquisition price of €2,529 million comprises a cash payment of US\$ 840 million (€769 million on the current assets line) and a capital increase of €1,761 million estimated on the basis of the average Accor share price over the last 30 trading days at March 31, 2016 inclusive, i.e., €37.70. The provisional net assets acquired total €1,126 million. The €635 million recorded in shareholders' equity relates to the capital increase for €1,761 million and to the neutralization of FRHI's net assets acquired accounting for a decrease of €1,126 million in this caption.</p>						
<b>Unaudited pro forma consolidated income statement for the year ended December 31, 2015</b>	<b>in millions of euros*</b>	<b>Accor 2015</b>	<b>FRHI 2015</b>	<b>FRHI restatements (1)</b>	<b>FRHI impact</b>	<b>Impact relating to the business combination (3)</b>	<b>Pro forma 2015</b>
	Consolidated revenue	5,581	619	-	619	-	6,200
	EBITDA	986	134	(2)	132	-	1,118
	EBIT	665	102	(2)	100	-	765
	Operating profit before tax and non-recurring items	605	91	4	95	-	700
	Operating profit before tax	408	91	4	95	8	511
	Net profit	271	77	4	81	5	357
	Net profit, group share	244	71	4	75	5	324
	* Average 2015 EUR/USD exchange rate: 0.9008.						
<p>(1) The restatements reflect operations taking place prior to the acquisition (conditions precedent for the acquisition) or related to the change of control (specific contractual conditions) as described above. The acquisition fees borne by FRHI in 2015 were restated in the income statement in an amount of €3 million. The estimated amount of acquisition fees borne by FRHI in 2016 is €2 million.</p> <p>(3) The acquisition fees borne by Accor in 2015 were restated in the income statement in an amount of €8 million. The estimated amount of acquisition fees borne by FRHI in 2016 is €19 million. The estimated amount of total, non-recurring acquisition fees borne by Accor and FRHI in 2015 and 2016 is €32 million of which €3 million relating to the capital increase will be recorded in shareholders' equity.</p>							
<b>5. TIMEFRAME FOR THE TRANSACTION</b>							
December 9, 2015	Accor and the Contributors sign an agreement for the acquisition of FRHI and announce the operation.						
December 21, 2015	An order appoints the independent appraisers.						
June 1, 2016	The notice of meeting for the Accor shareholders' meeting is published in BALO.						
June 6, 2016	The contribution agreement is signed.						
June 8, 2016	Independent appraisers' report.						
July 12, 2016	Accor's ordinary and extraordinary general meeting of shareholders is called to						

	approve the Contribution.
July 13, 2016	The new Accor shares are admitted to trading on the Euronext Paris regulated market.

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## **1. PERSONS RESPONSIBLE FOR THE DOCUMENT**

### **1.1. ON BEHALF OF ACCOR**

#### **1.1.1. Person responsible for the Document**

Sébastien Bazin  
Chairman and Chief Executive Officer

#### **1.1.2. Statement by the person responsible for the Document**

*"I hereby declare that, having taken all reasonable care to ensure that such is the case, the information contained in this Document that relates to Accor is, to the best of my knowledge, in accordance with the facts and contains no omission likely to affect its import.*

*I obtained a statement from Accor's Statutory Auditors at the end of their engagement affirming that they have verified the information about Accor's financial position and financial statements provided in this Document, and have read all of the information relating to Accor contained in this Document. This letter does not include any observations.*

*Accor's Statutory Auditors issued reports on the historical financial information regarding Accor that are incorporated into this Document by reference. The audit reports relating to the consolidated financial statements of the AccorHotels group and the financial statements of Accor for the year ended December 31, 2015, as shown in sections 5.1 and 5.3, respectively, of the 2015 Registration Document, do not contain any observations.*

*The audit report on the consolidated financial statements of the AccorHotels group for the year ended December 31, 2014 included in section 5.1 of Accor's 2014 Registration Document contains the following observation: "Without qualifying our conclusion, we draw your attention to Note 2 to the consolidated financial statements describing the new standards and amendments to existing standards used by Accor from January 1, 2014 and particularly the impacts resulting from the application of IFRS 11 – Joint Arrangements.*

*Accor's Statutory Auditors have issued a report on the 2015 pro forma financial information relating to Accor included in this Document. The report, which contains no observations, is presented in section 4.3 of this Document."*

June 17, 2016,  
Sébastien Bazin, Chairman and Chief Executive Officer of Accor

### **1.1.3. Statutory Auditors**

#### **1.1.3.1. Principal Statutory Auditors**

Deloitte & Associés  
185, avenue Charles De Gaulle,  
92200 Neuilly-sur-Seine, France

Ernst & Young et Autres  
1-2, place des Saisons Paris la Défense 1  
92400 Courbevoie, France

#### **1.1.3.2. Alternate Statutory Auditors**

BEAS  
195, avenue Charles De Gaulle,  
92200 Neuilly-sur-Seine, France

Auditex  
1-2, place des Saisons Paris la Défense 1  
92400 Courbevoie, France

## **1.2. ON BEHALF OF FRHI, WHOSE SHARES ARE TO BE CONTRIBUTED**

### **1.2.1. Person responsible for the Document**

William R. Fatt  
Chairman and Chief Executive Officer

### **1.2.2. Statement by the person responsible for the Document**

*“I hereby declare that, having taken all reasonable care to ensure that such is the case, the information contained in the Chapter 5 of the Document regarding FRHI is, to the best of my knowledge, in accordance with the facts and contains no omission likely to affect its import.*

*I have obtained a consent letter from the independent auditors of FRHI by which they give their consent to the inclusion of the translation into French of their reports related to the historical financial information of FRHI which is attached as an annex to the Document and indicate that they have performed an overall reading of the information relating to FRHI included in the Document. Such letter does not contain any comments.”*

June 16, 2016,  
William R. Fatt, Chairman and Chief Executive Officer of FRHI

### **1.2.3. Statutory Auditors**

#### **1.2.3.1. Principal Statutory Auditors**

Ernst & Young LLP  
Ernst & Young LLP  
222 Bay Street, P.O. Box 251  
Toronto, ON M5K 1J7

#### **1.2.3.2. Alternate Statutory Auditors**

N/A



## **2. INFORMATION REGARDING THE TRANSACTION AND ITS CONSEQUENCES**

### **2.1. ECONOMIC ASPECTS OF THE CONTRIBUTION**

#### **2.1.1. Pre-existing ties between the companies concerned**

##### **2.1.1.1. Capital ties**

At the date of this Document, Accor does not hold either directly or indirectly any FRHI securities and there are no capital ties between (i) the AccorHotels group and (ii) the Contributors and the FRHI group.

##### **2.1.1.2. Other ties**

###### **a) Guarantees**

N/A

###### **b) Common management personnel**

N/A

###### **c) Common subsidiaries or subsidiaries depending on the same group**

N/A

###### **d) Technical or trade agreements**

N/A

#### **2.1.2. Purpose and objectives of the transaction**

##### **2.1.2.1. Interest of the transaction for Accor and its shareholders**

On December 9, 2015, Accor entered into an agreement with the Contributors to acquire FRHI, the parent company of the hotel group operating under the Fairmont, Raffles and Swissôtel brands.

After being informed and consulted, Accor's Central Works Council issued a favorable opinion on the transaction on November 24, 2015.

This transaction will strategically enhance Accor's brand portfolio, and will provide it with a better-balanced business profile. With the acquisition of FRHI, the luxury segment will represent 35% of the management fees of HotelServices, against less than 20% as of today. The integration of Raffles, Fairmont and Swissôtel will broaden AccorHotels' geographic footprint and presence in the luxury segment, enabling it to optimize its luxury and upscale brands in order to adapt its offering to the expectations of an increasingly demanding clientele.

With just over 500 luxury and upscale<sup>2</sup> establishments, and a development pipeline<sup>3</sup> of 200 hotels<sup>4</sup>, the AccorHotels group will take its place among the key global players in this segment and will be able to offer the most profitable management contracts and the best growth potential in many markets. FRHI teams will bolster the AccorHotels group's expertise in the luxury segment and provide the group with new objectives, through targeted, value-added expansion.

The transaction is expected to generate revenue and cost synergies thanks to the combination of brands, the maximization of hotel earnings, the increased efficiency of marketing, sales and distribution channel initiatives, and the optimization of support costs. In all, 55% of estimated synergies relate to optimized support costs, 30% to marketing and distribution cost savings and 15% to optimized hotel earnings.

As indicated at the time the transaction was announced, we estimate EBITDA synergies at €65 million on a full-year basis, with: 25% of EBITDA synergies to be unlocked in 2016, 75% in 2017 and 100% in 2018. These objectives are subject to operational integration difficulties that may arise, as mentioned in section 3.2 of this Document. The implementation costs relating to these synergies are estimated at €120 million.

Significant improvements will also be made in terms of customer data, thanks to the integration of a customer base including 3 million loyalty members, of which two-thirds are North Americans, and 20 million active customers. All other things being equal, and based on analysts' consensus regarding the Accor share prior to the announcement of the transaction and FRHI's business plan, the transaction is expected to have an accretive impact on earnings as of 2018. This accretive impact is dependent on the generation of the synergies described above.

#### **2.1.2.2. Interest of the transaction for the Contributors**

Upon completion of the transaction, the QIA Entities, the KHC Entity and the OMERS Entity will become Accor's shareholders with respective stakes of 10.38%, 5.80% and 0.25% in Accor's share capital. Their shareholding in Accor will allow them to benefit from, and have a stake in, the future development and expansion of the AccorHotels group following the acquisition of FRHI. Since Accor shares are admitted for trading on the Euronext regulated market in Paris, the liquidity of the shares to be received by the Contributors will be greater than the liquidity of those they are contributing.

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<sup>2</sup> Of which 387 hotels for the AccorHotels group and 115 hotels for the FRHI group.

<sup>3</sup> Hotels under development for which management agreements or franchise contracts have been signed. The list of these hotels for the FRHI group is provided in section 5.5 of this Document, under the heading "Hotel pipeline".

<sup>4</sup> Of which 153 hotels for the AccorHotels group and 47 hotels for the FRHI group.

## **2.2. LEGAL ASPECTS OF THE CONTRIBUTION**

### **2.2.1. General description of the transaction**

As part of the transaction, the Contributors will contribute a portion of their FRHI shares to Accor in exchange for the Accor shares they will receive. At the same time as this contribution, the remainder of the shares comprising FRHI's share capital will be sold to Accor for US\$ 840 million, payable in cash.

The Contribution therefore consists of a contribution of 1,718,134 FRHI shares by the Contributors to Accor, of which 1,071,610 class A FRHI shares, 323,262 class C FRHI shares and 323,262 class D FRHI shares. The characteristics of these shares are described in section 5.2.1 of this Document. It should be noted that one class C FRHI share plus one class D FRHI share is equal to one class A FRHI share.

#### *Representations and warranties*

In connection with the agreement entered into on December 9, 2015 to purchase FRHI, the Contributors have made the customary representations and warranties to Accor regarding their ability to complete the transaction and the existence and ownership of FRHI shares. They have also made certain representations and warranties with respect to legal, accounting, tax and labor law issues relating to the FRHI group.

Accor has made the customary representations to the Contributors for a listed company such as regarding its ability to complete the transactions, its incorporation, existence, public documents and financial ability to pay for a portion of FRHI shares in cash.

The Contributors and Accor have respectively undertaken to indemnify the other party for any damages or losses incurred as a result of misrepresentations or a failure of the defaulting party to comply with its obligations. The warranty granted by the Contributors and that granted by Accor are both capped at US\$ 150 million and are valid for 12 months. Both of these warranties may only be called if the total amount of any damages or losses incurred exceeds US\$ 25 million. Certain "fundamental" warranties such as the ability to complete the transaction or the ownership and existence of FRHI shares are valid for a period of three years and are not subject to any floor or cap.

#### *Termination indemnity*

The purchase agreement also provides for a total termination indemnity of US\$40 million payable to the Contributors if, before October 31, 2016, Accor's shareholders' meeting does not approve (i) the Contribution, its valuation and the arrangements regarding the consideration for the transaction, (ii) the completion of Accor's capital increase following the Contribution and the effective completion of the Contribution, and (iii) the appointment of two directors recommended by the QIA Entities and one director recommended by the KHC Entity, even though all of the other conditions precedent described in section 2.2.1.3 above have been met.

#### **2.2.1.1. Date of the draft contribution agreement**

The contribution agreement was signed on June 6, 2016.

#### **2.2.1.2. Closing date of the financial statements used in determining the value of the contributed assets**

For the purposes of the Contribution, the independent appraisers drew up their reports on the value of the Contribution and on the fairness of the Contribution's exchange ratio based on Accor's company financial statements and consolidated financial statements prepared under IFRS at December 31, 2015 and on FRHI's company financial statements and consolidated financial statements prepared under IFRS at December 31, 2015.

#### **2.2.1.3. Date of the Contribution**

The Contribution is subject to several conditions precedent and will be carried out on the date on which the last condition precedent is met (the "**Transaction Date**"). These conditions include:

##### ***Conditions falling within the scope of the decision-making powers of Accor shareholders***

- approval by Accor's ordinary meeting of the appointment of two directors recommended by the QIA Entities and one director recommended by the KHC Entity;
- approval by Accor's extraordinary meeting of the Contribution, its valuation and the consideration arrangements;
- approval by Accor's extraordinary meeting of the completion of Accor's capital increase following the Contribution and of the effective completion of the Contribution, and placing this on record;

##### ***Other conditions***

- drafting of the independent appraisers' reports on their assessment of the value of the Contribution and the consideration for the Contribution, at the latest eight days before Accor's ordinary and extraordinary meeting asked to approve the Contribution.

This condition has been met since the reports of the independent appraisers are included in Appendix 1 of this Document;

- recording by the AMF of a "Document E" relating to the Contribution as specified in Article 212-34 of its General Regulation, within the timeframe set in paragraph 2 of said Article.

This condition has been met since the Document was recorded on June 17, 2016, i.e., at least 15 days before the date of Accor's shareholders' meeting scheduled for July 12, 2016;

- merger control decisions authorizing Accor's acquisition of FRHI in exchange for cash and Accor shares, handed down by the antitrust authorities in Canada, China, Germany, South Africa, Turkey, the Ukraine and the United States;

This condition has been met since all of aforementioned antitrust authorities have cleared the transaction;

- approval by the AMF and Euronext of the listing on the Euronext Paris regulated market of the new Accor shares to be issued in consideration for the Contribution.

This condition has been met since the Document allowing the shares tendered in consideration for the Contribution to be listed has been recorded, pursuant to Article L. 412-1 of the French Monetary and Financial Code and applicable regulations;

- signature by the QIA Entities and the KHC Entity of a shareholders' agreement with Accor;
- prior completion of certain restructuring measures within the FRHI group and repayment of loans contracted with FRHI's current shareholders;
- signature of addenda to certain hotel management contracts entered into with the QIA Entities and the KHC Entity as owners of these hotels and of letters in which certain QIA, KHC and OMERS entities, as owners of the hotels, state that they agree to the transaction and to the change of control of FRHI and that they waive any rights in this regard;
- the delivery by Accor of a copy of the order to irrevocably and unconditionally transfer to the Contributors their prorata portion of the total purchase price for the acquisition by Accor of the rest of the shares constituting the share capital of FRHI, as well as a statement from the sender bank confirming such irrevocable and unconditional payment orders have been validated by such bank and transferred to the SWIFT system;
- reiteration of the representations and warranties made by the Contributors and FRHI to Accor and those made by Accor to the Contributors;
- the absence of any event with a material adverse impact on the business of FRHI or Accor;
- no loss of hotel management contracts not entered into with the Contributors' affiliates, since June 30, 2015, collectively representing an amount (in terms of management and incentive fees) of over US\$ 20 million.

All conditions precedent will be met at the latest at the time Accor's shareholders vote to approve and place on record the effective completion of its capital increase following the Contribution and the effective completion of the Contribution.

#### **2.2.1.4. Date of Accor's Board of Directors' meeting approving the transaction**

Accor's Board of Directors approved the Contribution and accordingly approved the signature of the contribution agreement at its meeting of May 19, 2016.

#### **2.2.1.5. Date on which the independent appraisers' reports are filed**

The independent appraisers' reports on the estimated value of the Contribution will be filed with the office of the clerk of the Paris Commercial Court at the latest eight days before the date of Accor's ordinary and extraordinary meeting of shareholders.

#### **2.2.1.6. Legal regime of the Contribution**

The Contribution is subject to the standard legal provisions in France concerning contributed assets as provided for in article L.225-147 of the French Commercial Code.

#### **2.2.1.7. Tax regime**

##### **a) Corporate income tax**

The Contribution is subject to the standard corporate income tax provisions applicable in France.

##### **b) Registration fees**

Pursuant to article 810 I of the French Tax Code (*Code général des impôts*), a fixed amount of €500 in registration fees is payable in respect of the Contribution.

### **2.2.2. Verification of the transaction**

#### **2.2.2.1. Dates of the general meeting of shareholders called to approve the transaction**

Accor's ordinary and extraordinary meeting of shareholders called to approve the Contribution is scheduled for July 12, 2016 on first call.

#### **2.2.2.2. Independent appraisers of capital contributions**

Mr. Didier Kling (28, avenue Hoche, 75008 Paris) and Mr. Jacques Potdevin (7, rue Galilée, 75016 Paris) were appointed as independent appraisers on Accor's application by Order of the President of the Paris Commercial Court on December 21, 2015.

No incompatibility was identified regarding the appointment of Mr. Didier Kling and Mr. Jacques Potdevin as independent appraisers.

The reports of the independent appraisers dated June 8, 2016 are included in Appendix 1 of this Document.

#### **2.2.2.3. Independent experts appointed by the Commercial Court**

N/A

#### **2.2.2.4. Special mandate given to the Statutory Auditors by the AMF**

No special mandate was given to the aforementioned independent appraisers by the AMF. However, in accordance with AMF recommendation no. 2011-11 of July 21, 2011, the

mandate of the independent appraisers was extended to include the consideration for the Contribution to allow the fairness of the share exchange ratio to be assessed.

### **2.2.3. Consideration for the contributed assets**

#### **2.2.3.1. Capital increase**

The consideration for the Contribution will consist of the issuance by Accor to the Contributors of 46,700,000 new Accor shares, each with a par value of €3.

As a result of the Contribution, the total par value of Accor's share capital increase will be €140,100,000. Accor's share capital will therefore be increased from €712,366,974 to €852,466,974, divided into 284,155,658 shares each with a par value of €3.

The difference between the par value of the capital increase and the value of the Contribution (i.e., €1,672,800,310.24) will represent a share premium of €1,532,700,310.24. This premium will be credited to additional paid-in capital in Accor's statement of financial position to which all new and existing Accor shareholders will have rights.

#### **2.2.3.2. Dividend eligibility date**

The new shares issued by Accor in consideration for the Contribution will carry dividend and voting rights as from the date of their issuance, will rank *pari passu* with the existing shares comprising Accor's share capital, will carry the same rights and privileges and will be subject to all of the provisions set out in Accor's bylaws.

#### **2.2.3.3. Tradability date – Listing date**

In accordance with article L.228-10 of the French Commercial Code, all new Accor shares will be tradable as from the second working day following the Transaction Date.

Accordingly, as from the Transaction Date, an application will be made for the shares to be listed on compartment A of the Euronext Paris regulated market, under the conditions to be set out in a Euronext Paris notice.

The new shares will trade under ISIN code FR0000120404.

## **2.3. ACCOUNTING FOR THE CONTRIBUTION**

### **2.3.1. Classification and value of the assets contributed and the liabilities assumed**

In accordance with CRC standard no. 2004-01 issued by the French accounting standards authority on May 4, 2004 (as amended), the Contribution is to be carried out between two independent parties and therefore based on the fair value of the shares contributed.

#### **2.3.1.1. Assets transferred**

The Contributors will contribute to Accor, in accordance with the conditions set out in the draft contribution agreement dated June 6, 2016, 1,718,134 FRHI shares representing 68% of FRHI's share capital, for a total amount of €1,672,800,310.24, as follows:

- the QIA Entities will contribute 881,280 class A FRHI shares to Accor for a total value of around €1,056,875,080.58;
- the KHC Entity will contribute 169,407 class A FRHI shares, 323,262 class C FRHI shares, and 323,262 class D FRHI shares to Accor, for a total value of around €590,833,320.94; and
- the OMERS Entity will contribute 20,923 class A FRHI shares to Accor for a total value of around €25,091,908.71.

#### **2.3.1.2. Liabilities transferred**

N/A

#### **2.3.2. Independent assessment of the value of the contribution**

The independent appraisers drew up reports on their assessment of the value of the Contribution and on the fairness of the consideration for the Contribution. These reports are included in Appendix 1 of this Document. The findings of these reports are presented below:

##### Regarding the value of the Contribution

*"On the basis of our work and at the date of this report, we consider that the value of the shares contributed, set at €1,672,800,310.24, is not overstated and consequently, that it is at least equal to the amount of the capital increase of the company to which the shares will be contributed, plus the contribution premium."*

##### Regarding the consideration for the Contribution

*"On the basis of our work and at the date of this report, we consider that the exchange ratio of 1,718,134 shares in FRHI Holdings Limited (including 1,071,610 class A shares, 323,262 class C shares and 323,262 class D shares – it being specified that one class C share plus one class D share is equivalent to one class A share) for 46,700,000 shares in Accor S.A, as agreed by the Parties, is fair."*

#### **2.3.3. Details of the calculation of the share premium**

The difference between the fair value of the Contribution, i.e., €1,672,800,310.24, and the amount of Accor's share capital increase, i.e., €140,100,000, represents the share premium and totals €1,532,700,310.24. This premium will be credited to additional paid-in capital in Accor's statement of financial position to which all new and existing Accor shareholders will have rights.



## **2.4. VALUE OF THE CONTRIBUTION**

### **2.4.1. Financial assumptions used in valuing the Contribution**

The Contribution concerns 1,718,134 FRHI shares (of which 1,071,610 class A shares, 323,262 class C shares, and 323,262 class D shares), representing around 68% of FRHI's total share capital. It should be noted that one class C FRHI share plus one class D FRHI share is equal to one class A FRHI share, as described in section 5.2.1 of this Document.

Based on an enterprise value for FRHI of €2.47 billion and a resulting equity value of €2.43 billion, the value of the Contribution has been set at €1,672,800,310.24.

The financial assumptions used in determining the value of FRHI are based on projections in FRHI's business plan as estimated by Accor (the "**FRHI Business Plan**") for the period 2016-2020. The FRHI Business Plan including the potential synergies shows annual average EBITDA growth of over 15% during the period.

Adjustments totaling around €40 million were made to calculate the enterprise value of FRHI on the basis of its equity value.

### **2.4.2. Description of the criteria used in determining the value of the Contribution**

#### **2.4.2.1. Valuation methods used**

FRHI was valued using a multi-criteria approach, which included the discounted available cash flows method, the sum-of-the-parts method and the comparable transaction multiples method.

##### **a) Discounted available cash flows**

FRHI's intrinsic value was estimated based on the present value of its future cash flows. This valuation approach is based on the notion that the value of an entity depends on its capacity to generate future cash flows.

The method therefore involves estimating these cash flows over the medium term and extrapolating them to infinity (using a terminal value). The cash flows are then discounted to present value. The future cash flows used in the valuation are based on projections taken from the FRHI Business Plan as estimated by Accor for the period 2016-2020. The cash flows are defined as "free" cash flows, i.e., after tax, changes in working capital and investment spending, but excluding financial income and expenses. Future cash flows therefore represent the cash flows available for remunerating invested capital (equity and financial debt). They allow the value of the assets at the reference date to be determined, from which the amount of net financial debt should be deducted along with other adjustments made by FRHI in order to obtain the equity value.

Terminal value is calculated based on a perpetuity growth assumption for operating cash flows generated in the final year of between 2.25% and 2.75%. The resulting EBITDA multiple after estimated synergies in the final year is between 12.6x and 15.1x.

The discount rate is the weighted average cost of capital. It is calculated using risk-free interest rates (yield on long-term government bonds) to which market risk premiums are applied that are adjusted to take into account the specific characteristics of the industry.

In this context, the range of discount rates used for FRHI's businesses is 7.5% including a risk-free rate corresponding to the yield on 10-year US Treasury bonds of 2.0%, a market risk premium of 6.6% and an average equity beta of around 1.10 calculated on the basis of a sample of comparable listed companies (Starwood, Marriott, Hilton, Hyatt, InterContinental, Belmond and Morgans).

To determine the present value of FRHI's future cash flows, several analyses were performed looking at sensitivity to the perpetuity growth rate and to the discount rate. The enterprise value of FRHI is within a range of €2.6 billion and €3.1 billion (*converted at a rate of US\$ 0.9037 to €1 – three-month average at April 8, 2016*). This value takes into account the potential synergies resulting from the combination with Accor.

#### **b) Sum-of-the-parts valuation based on market comparable multiples**

The sum-of-the-parts valuation involves valuing each of FRHI's businesses separately, i.e., the franchise and management business, the hotel owner-operator business, and the joint ventures in which FRHI holds an interest.

The method used to value the joint ventures is a "value-per-key" approach, where a specific price per room is applied for each hotel. The price per key was defined by reference to comparable transactions that were selected to correspond with the specific local characteristics of each hotel (market, segment). The average price per key comes out at around US\$ 300,000. The total value of joint ventures amounts to €0.3 billion.

The market comparables method was used to value FRHI's franchise and management business. This method involves multiplying an entity's estimated financial indicators by the market multiples observed for comparable companies in order to obtain the implicit value of the company being analyzed.

The sample of peers comprises listed hotel groups that generate the bulk of their business in upscale segments (Starwood, Marriott, Hilton, Hyatt, InterContinental, Belmond and Morgans).

For illustrative purposes, the market data at April 8, 2016 were as follows:

##### Market comparable multiples at April 8, 2016

Company	Market capitalization*	Enterprise value*	Enterprise value/EBITDA	
			2015e	2016e
Starwood	13,325	14,429	12.8x	13.1x
Hilton	21,603	31,241	12.7x	10.2x
Marriott	17,618	21,464	14.1x	11.3x
Hyatt	6,964	7,429	11.6x	9.5x

InterContinental	6,623	7,189	14.3x	13.0x
Belmond	942	1,316	13.0x	10.6x
Morgans	50	669	15.2x	15.0x
<b>Average</b>			<b>13.4x</b>	<b>11.8x</b>
<b>Minimum</b>			<b>11.6x</b>	<b>9.5x</b>
<b>Maximum</b>			<b>15.2x</b>	<b>15.0x</b>

*Sources: FactSet.*

*\* In millions of local currency units.*

The combination of FRHI's positioning in the upscale/luxury segment and the predominance of its franchise and management business means that no other companies are wholly comparable with FRHI. Thanks to this upscale/luxury positioning and predominant franchise and management business, the company has a stronger growth profile and cash flow generation capacity and less volatile earnings, thereby justifying the use of the upper tier of the range.

To estimate the value of the franchise and management business, a range of multiples of between 13.0x and 15.0x was therefore used. These were applied to 2016 estimated EBITDA for the franchise and management division, corresponding to the upper tier of the range of multiples presented above.

Similarly, to estimate the value of the synergies expected to result from the combination between Accor and FRHI, a range of 13.0x to 15.0x was also used. These multiples will be applied to long-term EBITDA synergies of around €60 million to €70 million after deducting implementation costs of €120 million.

FRHI also owns six hotels operated under lease and one hotel it operates and owns outright. Each of the hotels was valued separately, taking into account the specific local characteristics of each property. The total value of FRHI's hotel operator-owner business amounts to €0.2 billion.

### Overview of the sum-of-the-parts valuation

The range of FRHI values obtained under the sum-of-the-parts approach is between €2.2 billion and €2.6 billion.

#### **c) Comparable transaction multiples**

This valuation method involves applying the multiples observed in previous transactions to FRHI in order to determine its enterprise value.

A limited sample of six transactions was used involving the change of control of a hotel group with a predominant upscale focus.

The sample comprises the transactions shown below:

Target	Buyer	Year	Enterprise value/EBITDA
Starwood	Marriott	2015	13.9x*
Kimpton	IHG	2014	21.5x
Rosewood	New World Hosp.	2011	22.0x
Hilton	Blackstone	2007	15.2x
Fairmont Hotels	Colony Capital	2006	21.3x
<b>Average – excluding Four Seasons</b>			<b>18.8x</b>
<b>Median – excluding Four Seasons</b>			<b>21.3x</b>
Four Seasons	Kingdom Holding/Bill Gates	2007	42.0x

\* Multiple obtained for the hotel business (excluding Vistana) at the time of the announcement on November 16, 2015.

FRHI's enterprise value amounts to €2.61 billion based on the median EBITDA multiple of 21.3x applied to 2015 EBITDA as reported by FRHI (*converted at a rate of US\$ 0.9037 for €1 – three-month average at April 8, 2016*). Based on the average multiple observed of 18.8x, the enterprise value would be €2.30 billion. This valuation factors in a control premium, attributable partly to the synergies to be generated on account of the combination.

We ruled out the Four Seasons transaction from our sample because the multiple was too high. Nevertheless, Four Seasons is highly comparable with FRHI due to its upscale/luxury positioning, scale (at the time of the transaction, Four Seasons had around 75 hotels), the predominance of its franchise and management business and the long-term nature of its management contracts.

At the time of its acquisition, Four Seasons was listed on the Toronto stock market and detailed information regarding its results and growth prospects were therefore in the public domain.

#### **2.4.2.2. Valuation methods rejected**

##### **a) Net book asset value (NBV)**

This indicator was not used since it does not take into account the company's potential.

##### **b) Adjusted net asset value (NAV)**

The adjusted net asset value method is particularly useful in the case of diversified holding companies or companies holding various assets (particularly properties), whose historical value as reported in the statement of financial position may be significantly below the immediate realizable value. This method can also be useful in a liquidation approach, after factoring in liquidation costs. However, since Accor does not currently intend to sell FRHI's assets, other methods would seem more appropriate for valuing FRHI.

#### **2.4.3. Summary of the value obtained**

The overall enterprise value of FRHI is set at €2.47 billion\* and falls within the range of values obtained using a multi-criteria approach. The resulting equity value is therefore €2.43 billion, representing an implicit value of €1,199.3 per class A share.

<b>Summary of the values obtained</b>	<b>Enterprise value (in €bn)</b>	<b>Resulting value per share (€)</b>
Discounted available cash flows	2.59* – 3.12*	1,256.9 – 1,517.3
Sum-of-the-parts	2.24* – 2.64*	1,080.0 – 1,279.9
Comparable transaction multiples	2.30 – 2.61*	1,110.9 – 1,263.1

\* *Converted at the rate of US\$ 0.9037 for €1 – three-month average at April 8, 2016.*

## **2.5. CONSIDERATION FOR THE CONTRIBUTION**

### 2.5.1. Exchange ratio used to determine the consideration for the Contribution

The exchange ratio was set at 46,700,000 new Accor shares for 1,718,134 FRHI shares contributed, of which 1,071,610 class A FRHI shares, 323,262 class C FRHI shares and 323,262 class D FRHI shares, it being specified that one class C FRHI share plus one class D FRHI share are equal to one class A FRHI share, as described in section 5.2.1 of this Document.

Accordingly:

- the QIA Entities will receive 29,505,060 new Accor shares in exchange for their contribution of 881,280 class A FRHI shares;
- the KHC Entity will receive 16,494,440 new Accor shares in exchange for its contribution of 103,429 class A FRHI shares, 323,262 class C FRHI shares and 323,262 class D FRHI shares; and
- the OMERS Entity will receive 700,500 new Accor shares in exchange for its contribution of 20,923 class A FRHI shares.

### 2.5.2. Description of criteria used to assess the exchange ratio

#### 2.5.2.1. Valuation methods used

##### a) Valuation references

To assess the exchange ratio resulting from the consideration for the contribution, a multi-criteria valuation was performed using the discounted available cash flows method and an analysis of the sum-of-the-parts valuation of Accor (in particular the value of the HotelServices franchise and management business and of the HotelInvest hotel owner-operator business), stock market references and share price targets published by financial analysts.

These methods were deemed to be the most relevant since they reflect the intrinsic value of the company taking into account the nature of its operations, for example with hotels owned outright and hotels operated under leases forming an important part of the business.

##### b) Financial assumptions

The financial assumptions used in the short- and medium-term valuations are based on financial analysts' projections as detailed below:

<i>Millions of euros</i>	2016	2017	2018
Revenue	5,725	6,027	6,333
EBITDA	1,066	1,142	1,276
EBIT	741	815	944

*Arithmetic average of the projections of Citigroup, Credit Suisse, Natixis and Jefferies International published between February 18, 2016 and February 26, 2016 after the publication of the 2015 results.*

Some of these projections take into account FRHI's integration and were therefore restated to reflect FRHI's estimated contribution to earnings over the next three years.

Over the long term, a business plan was drawn up extrapolating Accor's results through to 2020 using the forecast data taken from the February 2016 market consensus estimates prepared by financial analysts tracking the Accor share. The panel of financial analysts tracking the company and presenting forward-looking information in their research include Citigroup, Credit Suisse, Natixis and Jefferies International (the "**Accor Business Plan**"), which were used in particular in view of the granularity of the forecasts by business. The figures resulting from the panel average are in line with the consensus of all ratings published in respect of the company. The Accor Business Plan factors in annual investment spending of around €450 million over the period and a normative level of around 5% of revenue for the terminal value.

The Accor Business Plan used in the valuation work does not take into account either FRHI's estimated contribution to earnings or the potential synergies resulting from the combination with FRHI.

Based on the consolidated financial statements at December 31, 2015, the adjustments made to calculate Accor's enterprise value based on its equity value represent €489 million and are shown below.

<i>Adjustments made to calculate enterprise value based on equity value (millions of euros)</i>	2015
Net debt/(cash) – excluding the hybrid bond issue	(194)
Hybrid bond issue	887
<b>Net debt/(cash) – including the hybrid bond issue</b>	<b>693</b>
Associates <sup>(1)</sup>	(518)
Minority interests	225
Provisions for pensions	89
<b>Other adjustments</b>	<b>(204)</b>
<b>Total adjustments</b>	<b>489</b>

*Source: 2015 consolidated financial statements*

<sup>(1)</sup> Based on the pro forma financial statements, investment of 10.8% in Huazhu on January 27, 2016.

### c) Discounted available cash flows

Cash flows were discounted based on the Accor Business Plan.

The discount rate is the weighted average cost of capital. It was calculated using risk-free interest rates (yield on long-term government bonds), to which market risk premiums were applied that were adjusted to take into account the specific characteristics of the industry. Based on the above, the range of discount rates used for Accor's businesses is 8.0%, including a market risk premium of 7.6% and an average equity beta of 0.88.

Terminal value is calculated based on a perpetuity growth assumption for operating cash flows generated in the final year of between 1.50% and 2.50%. The resulting EBITDA multiple in the final year is between 7.6x and 10.8x.

To determine the present value of Accor's future cash flows, several analyses were performed looking at sensitivity to the perpetuity growth rate and to the discount rate. The enterprise value of Accor falls within a range of €9.5 billion and €13.2 billion, i.e., an implicit value per share of between €38.2 and €53.9. This value does not take into account FRHI's future contribution to earnings or the potential synergies resulting from the combination with FRHI.

#### **d) Sum-of-the-parts valuation based on market comparable multiples**

The sum-of-the-parts valuation method consists of valuing each of Accor's businesses (e.g., HotelServices and HotelInvest) separately.

The method used to value HotelInvest was the gross asset value as published by Accor at December 31, 2015. Accor had HotelInvest's hotel assets valued by three independent experts, which each analyzed a third of the portfolio. The common valuation method chosen was EBITDA multiples, defined in accordance with each hotel's specific situation (market, segment, etc.). For lease contracts, the valuation also took into account such factors as the time remaining on the lease, the options for terminating the contract and the potential lease termination costs. Based on the above, the value of HotelInvest as determined by independent experts stood at €6.9 billion at December 31, 2015. For the purposes of the sum-of-the-parts method, a range of €6.2 billion (i.e., a discount of 10% compared to the independent valuations) to €6.9 billion was used.

The market comparables method was used to value HotelServices. This method involves multiplying a company's estimated financial indicators by the market multiples observed for comparable companies in order to obtain the implicit per-share value of the company in question.

The financial indicators used for the HotelServices division are taken from the February 2016 market consensus estimates drawn up by financial analysts tracking the Accor share and publishing forward-looking information for each division. The panel of financial analysts comprises Barclays, Morgan Stanley and Jefferies International.

The sample of comparable companies used includes major hotel groups with a global presence such as Starwood, Hilton, Marriott, Hyatt, InterContinental and Choice.

For illustrative purposes, market data at April 8, 2016 were as follows:

#### Market comparable multiples at April 8, 2016

Company	Market capitalization*	Enterprise value*	Enterprise value/EBITDA	
			2015e	2016e
Starwood	13,325	14,429	12.8x	13.1x
Hilton	21,603	31,241	12.7x	10.2x
Marriott	17,618	21,464	14.1x	11.3x



Hyatt	6,964	7,429	11.6x	9.5x
InterContinental	6,623	7,189	14.3x	13.0x
Choice	2,937	3,504	14.8x	13.8x
<b>Average</b>			<b>13.4x</b>	<b>11.8x</b>
<b>Minimum</b>			<b>11.6x</b>	<b>9.5x</b>
<b>Maximum</b>			<b>14.8x</b>	<b>13.8x</b>

*Sources: FactSet.*

*\* In millions of local currency units.*

In order to determine the value of the franchise and management business of the AccorHotels group, a range of multiples of between 9.5x and 13.8x were applied to 2016 estimated EBITDA for the HotelServices division.

The estimated value of the holding company's costs is the result of applying an EBITDA multiple resulting from the valuation of HotelServices and HotelInvest, i.e., a range of 9.3x to 11.6x.

#### Summary of the valuation

Summary of the valuation	Min 2016e	Max 2016e
<i>HotelServices EBITDA (€bn)</i>	0.4	
<i>Multiple applied</i>	9.5x	13.8x
<b>Implicit enterprise value of HotelServices (€bn)</b>	<b>4.0</b>	<b>5.8</b>
<b>Published enterprise value of HotelInvest (€bn)</b>	<b>6.2<sup>(1)</sup></b>	<b>6.9</b>
<b>Corporate costs (€bn)</b>	<b>(0.6)</b>	<b>(0.8)</b>
<b>Implicit enterprise value of Accor (€bn)</b>	<b>9.6</b>	<b>11.9</b>
<i>Net debt (incl. hybrid bond issue) – 2015 (€bn)</i>	(0.7)	(0.7)
<i>Other adjustments (€bn)</i>	0.2	0.2
<b>Equity value of Accor (€bn)</b>	<b>9.1</b>	<b>11.4</b>
<i>Number of shares outstanding (million)</i>	235	235
<b>Implicit value per Accor share (€)</b>	<b>38.6</b>	<b>48.6</b>

<sup>(1)</sup> The value of HotelInvest as published by Accor less a 10% discount.

The enterprise value of Accor using this method falls within a range of €9.6 billion to €11.9 billion, based on a range of EBITDA multiples, i.e., an implicit value per share of between €38.6 and €48.6.

#### e) Share price

The liquidity of the Accor share admitted to trading on the Euronext Paris market (compartment A) is boosted by a large free float. Consequently, the reference share price is the market value of the Accor share.

The tables below present the volume-weighted average share price over a period of one month preceding the date on which the transaction was announced, as well as the performance of the share from the announcement and up to April 8, 2016.

##### Share price

Period	Average volume-weighted share price (€)	Implicit enterprise value <sup>(1)</sup> (€bn)	Minimum share price (€)	Maximum share price (€)
<b>1 month preceding the announcement</b>	40.3	10.0	38.0	43.7
<b>From the announcement and up to April 8, 2016</b>	37.5	9.3	30.0	40.1

<sup>(1)</sup> Based on the company's net financial debt and other adjustments representing €489 million made to calculate enterprise value based on equity value, and based on 235,352,425 shares outstanding at December 31, 2015.

The Accor share price fluctuated between €38.0 and €43.7 per share over the one-month period preceding the date on which the transaction was announced, and between €30.0 and €40.1 after the date of the announcement and up to April 8, 2016.

#### f) Price targets published by financial analysts

The Accor share is regularly tracked by the research departments of financial institutions. The following tables show analysts' target prices at April 8, 2016.

##### Price targets prior to April 8, 2016

Analyst	Date	Recommendation	Price target (€)	Implicit enterprise value <sup>(1)</sup> (€bn)
Oddo & Cie	Apr. 6, 2016	Buy	43.0	10.6
Natixis	Apr. 6, 2016	Buy	48.0	11.8
Bryan Garnier	Apr. 6, 2016	Buy	48.0	11.8
Kepler Cheuvreux	Apr. 5, 2016	Buy	46.0	11.3
Raymond James	Mar. 22, 2016	Neutral	46.0	11.3
Goldman Sachs	Mar. 15, 2016	Buy	45.0	11.1

Credit Suisse	Mar. 15, 2016	Neutral	38.5	9.6
UBS	Mar. 10, 2016	Buy	45.0	11.1
Citi	Mar. 7, 2016	Neutral	40.5	10.0
CM - CIC	Mar. 1, 2016	Buy	39.0	9.7
Nomura	Feb. 29, 2016	Buy	38.2	9.5
Societe Generale	Feb. 26, 2016	Sell	41.5	10.3
Jefferies	Feb. 26, 2016	Neutral	46.0	11.3
Barclays	Feb. 23, 2016	Buy	32.0	8.0
Morgan Stanley	Feb. 19, 2016	Buy	48.0	11.8
Berenberg	Feb. 18, 2016	Buy	43.5	10.7
<b>Average</b>			<b>43.0</b>	<b>10.6</b>
<b>Minimum</b>			<b>32.0</b>	<b>8.0</b>
<b>Maximum</b>			<b>48.0</b>	<b>11.8</b>

<sup>(1)</sup> Based on the company's net financial debt and other adjustments representing €489 million made to calculate enterprise value based on equity value, and based on 235,352,425 shares outstanding at December 31, 2015.

Based on the target share prices of analysts after the publication of the 2015 results, Accor's enterprise value is between €8.0 billion and €11.8 billion, i.e., between €32.0 and €48.0 per share.

## 2.5.2.2. Valuation methods rejected

### a) Market comparables method

No company is wholly comparable with the AccorHotels group given the broad diversity of its businesses. This is due to Accor's unique positioning in all market segments, from luxury (Sofitel, Pullman, MGallery by Sofitel, Grand Mercure, The Sebel) and midscale (Novotel, Mercure, Mama Shelter, Adagio) to economy (ibis, ibis Styles, ibis budget, adagio access and hotelF1).

Accor also has two distinct ways of operating: as a hotel operator and brand franchisor ("**HotelServices**") and as an owner/investor ("**HotelInvest**"). Accor hotels are affiliated with the group via four main operating structures – franchise agreements, management contracts, leases and ownership. As part of the group's organization into the HotelInvest and HotelServices businesses, all of the owned and leased hotels are integrated into the HotelInvest portfolio. Hotels subject to a management contract are operated by HotelServices.

To our knowledge, no other companies have a comparable operating profile. Accordingly, we rejected the market comparables method of applying multiples observed for comparable companies to Accor's estimated financial indicators in order to determine its implicit value.

## **b) Comparable transactions method**

The transactions identified all include a specific control premium which is not appropriate for the context of the planned transaction, since Accor is not the target of a change of control.

## **c) Net book asset value (NBV)**

This indicator based on the historical value of assets and liabilities was not used. It was deemed not to be relevant given that it fails to take into account both the present value of the company's assets and liabilities and the company's future performance.

## **d) Adjusted net asset value (NAV)**

The adjusted net asset value method is particularly useful in the case of diversified holding companies or companies holding various assets (particularly properties), whose historical value as reported in the statement of financial position may be significantly below the immediate realizable value. This method can also be useful in a liquidation approach, after factoring in liquidation costs. However, Accor does not currently intend to sell the company's assets. Other methods were therefore considered to be more relevant in determining the value of Accor, given the liquidity of the Accor share and the fact that it is widely tracked by financial analysts.

### **2.5.2.3. Summary of the values obtained**

<b>Summary of the values obtained</b>	<b>Enterprise value (in €bn)</b>	<b>Implicit value per share (€)</b>	<b>Implicit value per Accor share ex-2015 dividend<sup>(1)</sup> (€)</b>
Discounted available cash flows	9.48 – 13.19	38.2 – 53.9	37.2 – 52.9
Sum-of-the-parts	9.58 – 11.93	38.6 – 48.6	37.6 – 47.6
Share price	7.54 – 10.77	30.0 – 43.7	29.0 – 42.7
Target share price	8.0 – 11.79	32.0 – 48.0	31.0 – 47.0

<sup>(1)</sup> Based on the recommended 2015 dividend of €1.00 per Accor share put to the vote of the April 22, 2016 shareholders' meeting.

### **2.5.3. Summary of information used in assessing the exchange ratio**

Based on an overall valuation of €2.43 billion for FRHI, i.e., €1.67 billion in contributed shares, the exchange ratio is set by mutual agreement between the parties at 33.48 Accor shares for one class A FRHI share (one class C and one class D FRHI share are equal to one class A FRHI share).

This ratio is in the middle of the range of the discounted cash flows (DCF) valuation, which is considered the main method for assessing the ratio. It is also within the range of ratios resulting from changes in the Accor share price before and after the transaction was announced and financial analysts' share price targets after the publication of the 2015 results.

	Implicit value per Accor share ex- 2015 dividend <sup>(1)</sup> (€)	Implicit value per FRHI share (€)	Implicit exchange ratio
<b>Main assessment method used</b>			
Discounted available cash flows	37.2 – 52.9	1,256.9 – 1,517.3	31.44 – 34.58 <sup>(2)</sup>
<b>Accor market share price reference</b>			
Market share price since the announcement <sup>(3)</sup>	29.0 – 39.3	1,199.3	30.52 – 41.41 <sup>(5)</sup>
Target share price published by financial analysts	31.0 – 47.0	1,199.3	25.52 – 38.69 <sup>(5)</sup>
Market share price – one-month period prior to announcement <sup>(4)</sup>	37.0 – 42.7	1,199.3	29.03 – 33.48 <sup>(5)</sup>
<b>Other valuation references</b>			
Sum-of-the-parts	37.6 – 47.6	1,080.0 – 1,279.9	27.35 – 27.72 <sup>(2)</sup>

(1) Based on the recommended 2015 dividend of €1.00 per Accor share put to the vote of the April 22, 2016 shareholders' meeting.

(2) Implicit exchange ratio calculated using the same valuation method for FRHI and Accor.

(3) From December 9, 2015 to April 8, 2016.

(4) Based on the volume-weighted average share price over the one-month period preceding December 9, 2015.

(5) Implicit exchange ratio calculated based on an enterprise value of €2.5 billion for FRHI.

## 2.6. CONSEQUENCES OF THE CONTRIBUTION

### 2.6.1. Consequences for Accor and its shareholders

#### 2.6.1.1. Table showing the impact of the transaction on Accor capital

	Number of shares	Share capital (€)	Premium (€)
<b>Situation prior to transaction<sup>(1)</sup></b>	237,455,658	712,366,974	1,079,888,171
<b>Impact of the total number of shares created</b>	46,700,000	140,100,000	1,532,700,310.24 <sup>(2)</sup>
<b>Situation after the transaction</b>	284,155,658	852,466,974	2,612,588,481.24

(1) Based on the number of shares issued by Accor at May 18, 2016.

(2) Before any deduction of expenses.

### 2.6.1.2. Accor ownership structure after the Contribution

The table below shows Accor's ownership structure before and after the Contribution:

	Before Contribution <sup>(1)</sup>				After Contribution <sup>(2)</sup>			
Shareholder	Number of shares	% capital	Number of voting rights	% voting rights	Number of shares	% capital	Number of voting rights	% voting rights
Jin Jiang <sup>(3)</sup>	35,757,485	15.05%	35,757,485	13.15%	35,757,485	12.58%	35,757,485	11.22%
Colony/Eurazeo acting in concert <sup>(4)</sup>	26,080,517	10.98%	51,556,576	18.96%	26,080,517	9.17%	51,556,576	16.18%
Founders/ Board members	5,107,513	2.15%	10,207,087	3.75%	5,107,513	1.80%	10,207,087	3.20%
QIA Entities	-	-	-	-	29,505,060	10.38%	29,505,060	9.26%
KHC Entity	-	-	-	-	16,494,440	5.80%	16,494,440	5.18%
OMERS Entity	-	-	-	-	700,500	0.25%	700,500	0.22%
Free float	170,611,838	71.82%	174,428,533	64.14%	170,611,838	60.02%	174,428,533	54.74%
Total	237,557,353	100.00%	271,949,681	100.00%	284,257,353	100.00%	318,649,681	100.00%

<sup>(1)</sup> Based on the number of shares issued by Accor and voting rights at March 31, 2016.

<sup>(2)</sup> Pro forma at March 31, 2016.

<sup>(3)</sup> Concert between Rubyrock Capital Co. Ltd, Golden Apple Capital Co. Ltd and Super Orange Capital Co. Ltd, controlled at the highest level by JinJiang International Holdings Co. Ltd.

<sup>(4)</sup> Concert between ColDay A S.à.r.l. (Colony Capital LLC) and Legendre Holding 19 (controlled by Eurazeo).

### 2.6.1.3. Planned change in the composition of the Board of Directors

In connection with the combination between Accor and FRHI, two shareholders' agreements are to be signed under similar terms and conditions between (i) Accor and the QIA Entities and (ii) Accor and the KHC Entity.

Pursuant to these agreements, shareholders at Accor's ordinary and extraordinary meeting called on July 12, 2016 will be asked to appoint two directors recommended by the QIA Entities and one director recommended by the KHC Entity. Other directors will also be appointed, particularly in order to comply with the recommendations of the AFEP/MEDEF corporate governance code for listed corporations in terms of independent directors and gender balance on the Board. At the end of the shareholders' meeting to be held on July 12, 2016, the composition of Accor's Board of Directors is therefore expected to comply with the AFEP/MEDEF code, with at least 50% of its members independent directors and 40% of its members women.

#### 2.6.1.4. Trends in market capitalization

The table below shows theoretical trends in Accor's market capitalization before and after the Contribution:

	<b>Before Contribution</b>	<b>After Contribution</b>
<b>Number of shares</b>	235,434,822	282,134,822
<b>Reference value (€)*</b>	35.9	35.9
<b>Capitalization (€k)</b>	8,459,946	10,138,031

\* Average Accor share price between December 9, 2015 (date the transaction was announced) and April 8, 2016.

#### 2.6.1.5. Impact of the Contribution on the calculation of earnings per share based on the last financial year

The table below shows the impact of the Contribution on Accor's net profit:

	<b>Before Contribution</b>	<b>After Contribution (pro forma)</b>
<b>Consolidated net profit for the year ended December 31, 2015 (€m)</b>	244	324
<b>Weighted average number of Accor shares outstanding in 2015</b>	234,387,017	281,087,017
<b>Earnings per share (€)</b>	0.88	1.02

#### 2.6.1.6. Planned new strategic focuses

Planned new strategic focuses are presented in section 2.1.2 of this Document.

#### 2.6.1.7. Short- and medium-term forecasts for the business, restructuring operations, results and dividend policy

Accor will publish EBIT guidance for 2016 when it publishes its first-half 2016 results. Subject to the completion of the Contribution, this EBIT guidance will factor in the contribution from the FRHI group.

Accor intends to carry out restructuring at the parent company of the FRHI group. FRHI, parent company of the group, directly owns a 100%-owned subsidiary based in Luxembourg, FRHI Hotels & Resorts S.à r.l. In turn, this subsidiary directly and indirectly holds all of the subsidiaries of the FRHI group. Following the acquisition of FRHI, the parent company of the FRHI group will be dissolved and liquidated to the benefit of Accor. Consequently, FRHI

Hotels & Resorts S.à r.l. will become the parent company of the FRHI group and will be directly 100%-owned by Accor.

Accor is not planning any major change in the type of business conducted by the AccorHotels and FRHI groups.

Accor is not planning any major change in the dividend policy adopted over the last few years.

## **2.6.2. Consequences for the Contributors**

Following the Contribution, the Contributors will together hold 46,700,000 Accor shares, representing 16.43% of its share capital, as follows:

- The QIA Entities will hold 29,505,060 Accor shares, or around 10.38% of its share capital;
- The KHC Entity will hold 16,494,440 Accor shares, or around 5.80% of its share capital; and
- The OMERS Entity will hold 700,500 Accor shares, or around 0.25% of its share capital.

As mentioned in section 2.6.1.3 of this Document, two shareholders' agreements are to be signed at the Transaction Date, under similar terms and conditions, between (i) Accor and the QIA Entities and (ii) Accor and the KHC Entity. These agreements will be for a term of 12 years.

Under the terms of the shareholders' agreements to be signed by the QIA Entities and the KHC Entity with Accor, the QIA Entities and the KHC Entity would undertake to hold all of their Accor shares received in consideration for the Contribution for a period of 12 months after the Transaction Date, and then to hold 50% of the Accor shares received in consideration for the Contribution until January 1, 2018, subject to the customary exceptions.

The QIA Entities and the KHC Entity would undertake not to hold respectively more than 57,556,980 and 32,176,520 Accor voting rights over a period of three years after the Transaction Date, representing around 18.1% and 10.1% of Accor voting rights<sup>5</sup>.

The QIA Entities and the KHC Entity would agree to grant to Accor a right of first refusal in the event they planned to transfer their Accor shares to certain identified competitors of the AccorHotels group.

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<sup>5</sup> Based on the number of Accor voting rights at May 31, 2016.



### **3. PRESENTATION OF THE COMPANY TO WHICH THE SHARES WILL BE CONTRIBUTED**

#### **3.1. GENERAL INFORMATION**

General information about Accor can be found in the Registration Document filed with the AMF on March 24, 2016 under no. D.16-0205, incorporated by reference into this Document. The Registration Document includes the parent company and consolidated financial statements of the AccorHotels group for the year ended December 31, 2015, as well as the corresponding Statutory Auditors' reports.

AccorHotels' consolidated financial statements for the years ended December 31, 2013 and December 31, 2014, as well as the corresponding Statutory Auditors' reports, are presented respectively in the Registration Document filed with the AMF on March 27, 2015 under no. D.15-0219 and in the Registration Document filed on March 28, 2014 under no. D.14-0235, and incorporated by reference into the Registration Document filed with the AMF on March 24, 2016.

The Registration Document is available free of charge at Accor's registered office (110, avenue de France – 75013 Paris, France) and on the websites of Accor ([www.accorhotels-group.com](http://www.accorhotels-group.com)) and the AMF ([www.amf-france.org](http://www.amf-france.org)).

#### **3.2. MAIN RISK FACTORS REGARDING THE TRANSACTION**

Risk factors relating to Accor are described in Chapter 3 of the Registration Document.

Accor and its advisers have conducted an audit of the FRHI group, focusing in particular on the legal, tax and employee-related aspects. The audit did not reveal any risks that would have a material impact on the transaction's completion or on the financial position, operations or results of the AccorHotels and FRHI groups, except for the main risk factors relating to the transaction described below:

##### ***The completion of the Contribution will have an impact on Accor's ownership structure***

Upon completion of the Contribution, the QIA Entities and the KHC Entity will respectively hold around 10.38% and 5.80% of Accor's share capital and 9.26% and 5.18% of its voting rights. The issue of 46,700,000 new shares will dilute the shareholding of Accor's existing shareholders. However, subject to any operational integration difficulties that may arise, earnings per share are expected to increase as of 2018 thanks in particular to the synergies generated. The impacts of the Contribution on the percentage of share capital and voting rights held by shareholders are described in section 3.4 of this Document.

##### ***The completion of the transaction could affect the Accor share price***

Given the significance of the capital increase, Accor's share price could be adversely affected by the transaction.

***The results of operations and financial position presented in Accor's pro forma financial statements may not reflect its future performance***

Accor's pro forma financial statements at December 31, 2015 were prepared to illustrate the impact of the transaction with retroactive effect from January 1, 2015. They are based on several assumptions and do not reflect the results that Accor would have obtained had the transaction effectively taken place on January 1, 2015. The trends reflected in the pro forma financial statements are not necessarily representative of Accor's future performance or results.

***Difficulties may arise as regards the operational integration***

Accor may encounter difficulties or delays in integrating FRHI's teams and in implementing the synergies related to the transaction, meaning that it may not meet the growth or profitability targets set in the expected timeframe.

Differences in culture and management style could also make the integration of FRHI teams within the AccorHotels group more difficult and lead to the departure of certain key FRHI employees along with a loss of expertise in managing the Fairmont, Raffles and Swissôtel establishments.

***Certain FRHI management contracts could be affected by Accor's acquisition of FRHI***

The transaction could, in certain conditions, result in the early termination of a limited number of franchise or management contracts if change-of-control clauses or certain exclusivity clauses were to be implemented.

***Certain FRHI development projects could be delayed***

Delays in opening FRHI hotels currently under development, or even certain projects being shelved, could affect the expected benefits of the acquisition.

***New claims and litigation may arise***

No material litigation or claims were identified as a result of the audits performed by Accor. However, the group could face new claims and litigation resulting from Accor's acquisition of FRHI and in particular concerning partners or suppliers of the AccorHotels group or FRHI.

***Risks related to impairment of intangible assets***

A significant amount of goodwill will be recognized as a result of the transaction. Provisional goodwill of €1.4 billion has therefore been estimated in the "pro forma financial information at December 31, 2015" (see note 2 in section 4.2.1). The final amount of goodwill will be determined by the difference between the fair value of the acquisition price and the fair value of the net assets at the acquisition date.

In accordance with IFRS, goodwill will be allocated to the various cash-generating units, which will be tested for impairment annually and whenever there is an indication of impairment. An unfavorable change in business forecasts for a substantial portion of the hotels managed by FRHI or the non-renewal of a significant number of management contracts could therefore result in an impairment loss being recorded against goodwill, which could have a significant impact on the financial statements of the AccorHotels group.

### 3.3. CORE INFORMATION

#### 3.3.1. Statement on net working capital

Accor certifies that, in its opinion, its consolidated net working capital is adequate in light of its obligations over the 12 months following the date on which this Document is filed and that, taking into account the completion of the acquisition, its consolidated net working capital is adequate in light of the new group created by the transaction over the 12 months following the date on which this Document is filed.

#### 3.3.2. Equity and net debt

In accordance with the recommendations of the European Securities and Markets Authority (ESMA – ESMA/2013/319, paragraph 127), the table below shows the equity and debt of the AccorHotels group at March 31, 2016:

<i>In thousands of euros</i>	
<b>1. EQUITY AND DEBT</b>	
<b>Current debt</b>	
Guaranteed	-
Secured	-
Unguaranteed/unsecured	141,003
<b>Total</b>	<b>141,003</b>
<b>Non-current debt (excluding the current portion of non-current debt)</b>	
Guaranteed	-
Secured	-
Unguaranteed/unsecured	2,805,483
<b>Total</b>	<b>2,805,483</b>
<b>Shareholders' equity, group share</b>	
Share capital	706,222
Issue and share premium	1,105,014
Legal reserve	69,551
Other reserves	1,818,571
<b>Total</b>	<b>3,699,358</b>
<b>2. NET FINANCIAL DEBT</b>	
A – Cash	152,686
B – Cash equivalents	-
C – Marketable securities	2,412,151
<b>D – Liquidity (A+B+C)</b>	<b>2,564,837</b>
<b>E – Current financial receivables</b>	<b>83,607</b>
F – Current bank debt	20,196
G – Current portion of non-current debt	18,330

H – Other current financial debt	102,477
<b>I – Current financial debt (F+G+H)</b>	<b>141,003</b>
<b>J – Net current financial debt (I-E-D)</b>	<b>2,507,441</b>
K – Non-current bank loans	93,220
L – Bonds issued	2,586,448
M – Other non-current financial debt	125,815
<b>N – Net non-current financial debt (K+L+M)</b>	<b>2,805,483</b>
<b>O – Net financial debt (J+N)</b>	<b>298,042</b>

Shareholders' equity excluding net profit, group share, stood at €3,518 million at December 31, 2015. Changes in this item are chiefly attributable to:

- appropriation of profit for the previous year, accounting for an increase of €244 million in this caption;
- revaluation of financial instruments through shareholders' equity, accounting for a decrease of €35 million;
- foreign exchange differences, accounting for a decrease of €22 million.

Minimum lease payment commitments amounted to €3,701 million at March 31, 2016 (including €3,432 million for hotel leases). Minimum lease payment commitments amounted to €3,797 million at December 31, 2015 (including €3,525 million for hotel leases).

### 3.3.3. Interests of natural persons and legal entities involved in the Contribution

This information is presented in section 2.1.2 of this Document.

### 3.3.4. Expenses related to the transaction

The expenses related to the Contribution are estimated at €3 million excluding VAT for Accor. They correspond in particular to legal fees, audit fees and appraisal fees.

## 3.4. DILUTION

### 3.4.1. Impact of the Contribution on the share of consolidated equity, group share, for the holder of one Accor share prior to the Contribution

Based on consolidated equity at December 31, 2015 and the weighted average number of Accor shares outstanding in 2015, equity per share before and after the Contribution is as follows:

	Share of consolidated equity, group share (€)
<b>Before Contribution</b>	15.0
<b>After Contribution</b>	18.8

**3.4.2. Impact of the Contribution on the interest of a shareholder holding 1% of Accor's share capital prior to the Contribution**

	<b>Shareholder interest (% of share capital)</b>
<b>Before Contribution*</b>	1%
<b>After Contribution</b>	0.84%

*\* Based on the number of shares comprising the share capital at May 31, 2016, i.e., 237,557,353 shares.*

**3.4.3. Impact of the Contribution on the interest of a shareholder holding 1% of Accor's voting rights prior to the Contribution**

	<b>Shareholder interest (% of voting rights)</b>
<b>Before Contribution*</b>	1%
<b>After Contribution</b>	0.85%

*\* Based on the number of voting rights at May 31, 2016, i.e., 271,949,681 voting rights.*

**3.5. OTHER INFORMATION**

ColDay A S.à r.l., managed by Colony Capital LLC, and Legendre Holding 19, controlled by Eurazeo, agreed to vote in favor of the Contribution for all of the voting rights that they will hold at Accor's ordinary and extraordinary meeting called to approve the Contribution. Accor is not aware of the intention of its other main shareholders.

## **4. PRO FORMA FINANCIAL INFORMATION**

### **4.1. BASIS OF PRESENTATION**

The consolidated pro forma financial information presented below is intended to show the impact of the FRHI acquisition on the consolidated statement of financial position of the AccorHotels group at December 31, 2015 and on its consolidated income statement for the year then ended, as if the acquisition had been carried out on December 31, 2015 and January 1, 2015, respectively.

Accor's acquisition of FRHI does not impact the main financial indicators of the AccorHotels group by more than 25%. Consolidated pro forma information is presented in line with European Regulation no. 809/2004 of April 29, 2004, as taken up in the ESMA recommendations and in recommendation no. 2013-08 issued by the AMF.

The consolidated pro forma financial information reflects a hypothetical situation, presented exclusively for illustrative purposes, and does not provide an indication of the results of operations or financial position of the combined group that would have been obtained for the year ended December 31, 2015 had the FRHI acquisition been completed at the beginning of said year.

Similarly, the pro forma financial information does not reflect the future results of operations or financial position of the AccorHotels-FRHI group, or any cost savings or synergies that may result from the acquisition. It does not include restructuring and/or integration costs that may be incurred following the acquisition.

The pro forma financial information was prepared based on the audited consolidated financial statements of the AccorHotels group at December 31, 2015 and the audited consolidated financial statements of FRHI at December 31, 2015, and must be read in conjunction with these consolidated financial statements. No transactions were carried out between Accor and FRHI prior to the acquisition. The pro forma adjustments are based on available information and on certain assumptions deemed reasonable by Accor management.

Accor and FRHI publish their consolidated financial statements under IFRS. The preparation of pro forma financial information did not give rise to any adjustments of accounting policies used to prepare the statement of financial position at December 31, 2015 or the income statement for the year then ended. No discrepancies have yet been identified, although an in-depth analysis performed after the acquisition could reveal differences in accounting policies not taken into account to prepare the pro forma financial information.

The difference between (i) the consideration transferred, measured in accordance with IFRS 3 – *Business Combinations* and (ii) the amount of the identifiable assets at the acquisition date less liabilities assumed, was reflected in full in goodwill and no initial fair value measurement of the identifiable assets acquired and liabilities and contingent liabilities assumed was made. The provisional goodwill will be revised based on the final fair value measurement of the assets acquired and liabilities and contingent liabilities assumed. An independent firm will be responsible for the final purchase price allocation after the acquisition has been finalized. To calculate the fair value of the assets acquired and the liabilities assumed, certain identifiable assets acquired should be accounted for, such as management contracts which have a limited life and will be amortized, or brands. The future

operating results of the AccorHotels-FRHI group could be affected by the related amortization charges.

The consideration transferred was measured (i) for the US\$ 840 million paid in cash at the exchange rate at December 31, 2015 and, (ii) in accordance with IFRS 3, for the 46.7 million Accor shares issued in favor of FRHI shareholders at the share price calculated as the average price over the last 30 trading days at March 31, 2016, i.e., €37.70.

An increase (decrease) of €10 in the share price would increase (decrease) acquisition goodwill by €467 million.

Since there is no material impact, no pro forma adjustment has been made to financial income or expense due to the cash payment.

Lastly, the pro forma financial information does not take into account the accounting consequences of the subscription in early 2016 of financial instruments to hedge the risk of adverse changes in the USD/EUR exchange rate on the aggregate cash amount payable of US\$ 840 million. This results from options for which the final outcome cannot be predicted at this stage.

The pro forma financial information is presented in millions of euros.

## 4.2. PRO FORMA FINANCIAL INFORMATION AT DECEMBER 31, 2015

### 4.2.1. Unaudited pro forma consolidated statement of financial position of the AccorHotels group at December 31, 2015

in millions of euros*	Accor Dec. 31, 2015	FRHI Dec. 31, 2015	FRHI restatements (1)	FRHI impact	Impact relating to the business combination (2)	Pro forma Dec. 31, 2015
Goodwill	697	169	-	169	1,404	2,269
Intangible assets	307	866	-	866	-	1,173
Property, plant and equipment	3,024	224	-	224	-	3,248
Investments in associates and other financial assets	654	174	(81)	93	-	747
Other non-current financial assets	73	31	-	31	-	104
<b>Non-current assets</b>	<b>4,756</b>	<b>1,463</b>	<b>(81)</b>	<b>1,382</b>	<b>1,404</b>	<b>7,542</b>
Current assets	3,990	229	(69)	161	(769)	3,382
<b>Total assets</b>	<b>8,953</b>	<b>1,692</b>	<b>(149)</b>	<b>1,543</b>	<b>635</b>	<b>11,130</b>
Shareholders' equity	3,987	1,221	(95)	1,126	635	5,748
Non-current liabilities	2,916	325	(47)	278	-	3,194
Current liabilities	2,031	146	(8)	139	-	2,170
<b>Total liabilities and equity</b>	<b>8,953</b>	<b>1,692</b>	<b>(149)</b>	<b>1,543</b>	<b>635</b>	<b>11,130</b>

\* Closing 2015 EUR/USD exchange rate: 0.9152.

- (1) The restatements reflect operations taking prior to the acquisition (conditions precedent for the acquisition) or related to the change of control (specific contractual conditions) and include mainly:

- investments in associates cleared via a distribution to shareholders for €33 million (impact on the "Investments in associates and other financial investments" and "Shareholders' equity" lines);
- loans cleared via a distribution to shareholders for €48 million (impact on the "Investments in associates and other financial investments" and "Shareholders' equity" lines);
- early payment of a discretionary profit-sharing plan for €35 million (impact on the "Current assets", "Non-current liabilities", "Current liabilities" and "Shareholders' equity" lines);
- early payment of long-term debt for €33 million (impact on the "Current assets" and "Non-current liabilities" lines);

The acquisition fees borne by FRHI in 2015 and 2016 are reflected in its net assets.

FRHI's cash and cash equivalents included within "Current assets" amount to US\$ 9 million (€8 million) after completion of all of the above-described transactions.

- (2) The provisional goodwill of €1,404 million corresponds to the acquisition price from which we have deducted the net assets of FRHI. The acquisition price of €2,529 million comprises a cash payment of US\$ 840 million (€769 million on the current assets line) and a capital increase of €1,761 million estimated on the basis of the average Accor share price over the last 30 trading days at March 31, 2016 inclusive, i.e., €37.70. The provisional net assets acquired total €1,126 million. The €635 million recorded in shareholders' equity relates to the capital increase for €1,761 million and the neutralization of FRHI's net assets acquired, accounting for a decrease of €1,126 million in this caption.

#### 4.2.2. Unaudited pro forma consolidated income statement of the AccorHotels group for the year ended December 31, 2015

in millions of euros*	Accor 2015	FRHI 2015	FRHI restatements (1)	FRHI impact	Impact relating to the business combination (2)	Pro forma 2015
Consolidated revenue	5,581	619	-	619	-	6,200
EBITDA	986	134	(2)	132	-	1,118
EBIT	665	102	(2)	100	-	765
Operating profit before tax and non-recurring items	605	91	4	95	-	700
Operating profit before tax	408	91	4	95	8	511
Net profit	271	77	4	81	5	357
Net profit, group share	244	71	4	75	5	324

\* Average 2015 EUR/USD exchange rate: 0.9008.

- (1) The restatements reflect operations taking place prior to the acquisition (conditions precedent for the acquisition) or related to the change of control (specific contractual conditions) as described above.

The acquisition fees borne by FRHI in 2015 were restated in the income statement in an amount of €3 million. The estimated amount of acquisition fees borne by FRHI in 2016 is €2 million.

- (2) The acquisition fees borne by Accor in 2015 were restated in the income statement in an amount of €8 million. The estimated amount of acquisition fees borne by FRHI in 2016 is €16 million.

The estimated amount of total, non-recurring acquisition fees borne by Accor and FRHI in 2015 and 2016 is €32 million of which €3 million relating to the capital increase will be recorded in shareholders' equity.

#### 4.3. STATUTORY AUDITORS' REPORT

The Statutory Auditors' report on the pro forma financial information is presented in Appendix 2.



## **5. PRESENTATION OF THE CONTRIBUTED COMPANY**

### **5.1. GENERAL INFORMATION**

#### **5.1.1. Name and registered office**

The name of the company of which the shares are being contributed for partial consideration is “FRHI Holdings Limited” (“**FRHI**”). Its registered office is located at P.O Box 309, Ugland House, South Church Street, George Town – KYI-1104 Grand Cayman, Cayman Islands.

#### **5.1.2. Date of incorporation and term**

FRHI was incorporated on February 22, 2010, for an unlimited duration.

#### **5.1.3. Legislation and legal form**

FRHI is an exempted company limited by shares incorporated under the laws of the Cayman Islands.

#### **5.1.4. Corporate purpose**

There are no statutory restrictions to the business activities for which FRHI has been established. FRHI is the Cayman Islands parent company of a hotel management group that operates hotels and residences under the Fairmont, Raffles and Swissôtel brands. It also indirectly invests in hotels as a means to secure management contracts.

#### **5.1.5. Company register number**

FRHI is registered with the Registry of Companies in and for the Cayman Islands under number MC-237438.

#### **5.1.6. Management**

##### **a) Names and functions**

##### ***Board of Directors***

At the date of this Document, the Board of FRHI is composed of eight directors. Four of them are appointed by the QIA Entities and three of them by the KHC Entity. FRHI's Chief Executive Officer (CEO) serves as the eighth director and Chairman of the Board.

There are three standing committees of the Board of Directors as follows:

- an Audit Committee (AC) comprising three members that oversees, on the Board's behalf, the integrity of the financial statements, the financial reporting process, the system of internal business controls and risk management as well as the independence, selection and work of the external auditors;
- a Strategy and Finance Committee (SFC) comprising four members that reviews the annual strategic plan, the business plan and special projects as the Board may direct;
- a Management Resource and Compensation Committee (MRCC) comprising three members that considers and makes recommendations to the Board concerning: the structure of senior management of FRHI, persons available to fill senior management

positions, the level and composition of compensation and the adoption of any compensation plans and the monitoring of benefits under these plans.

At the date of this Document, the Board is composed as follows:

Name	AC	SFC	MRCC	Appointed by
William R. Fatt (Chairman & CEO)		✓ (Chairman)		
Hamad Abdulla Al Mulla	✓	✓	✓ (Chairman)	QIA
HE Sheikh Nawaf bin Jassim Al Thani				QIA
Khalid Al-Rabban				QIA
Ashley Fernandes	✓	✓	✓	QIA
Charles Henry	✓ (Chairman)	✓	✓	KHC
Shadi Sanbar				KHC
Sarmad Zok				KHC

### ***Senior Managers***

William R. Fatt is the Chairman and CEO of FRHI. He is assisted by an Executive Committee of four additional senior executives, including Michael M. Glennie, Deputy CEO & Chief Operating Officer (COO).

### ***Management following the transaction***

As indicated in Section 2.6.1.7, the contributed company FRHI will be merged into Accor. The new parent company of the FRHI group will be FRHI Hotels & Resorts S.à.r.l. incorporated in Luxembourg. This entity will be 100% owned by Accor and a relevant management reflecting this new ownership will be put in place.

### **b) Remuneration and benefits of the members of FRHI's administrative and management bodies**

#### ***Board of Directors***

The Board members are not compensated by FRHI. Mr. Fatt as Chairman and CEO is compensated in his capacity only as an executive of FRHI.

### Senior Managers

The table below sets out the compensation of the Chairman and CEO and the COO for 2015.

(in USD)	William R. Fatt (Chairman & CEO)	Michael M. Glennie (COO)
2015 annual salary	996,371	764,909
Annual incentive award (AIP)*	1,594,194	1,223,854
Long term incentive award (SELTIP)**	3,205,000	2,403,750
Additional benefits***	47,312	202,040
<b>Total</b>	<b>5,842,877</b>	<b>4,594,553</b>

\* AIP (Annual Incentive Plan): The AIP provides a target cash award of 80% of base salary to the Chairman and CEO and the COO for the achievement of a specific level of EBITDA, as outlined in the annual strategic plan and approved by the Board. The target award can be doubled for the achievement of exceptional results.

\*\* SELTIP (Senior Executive Long Term Incentive Plan): The SELTIP provides a target cash award for the achievement of EBITDA and growth targets, the latter as measured by the net annual increase in FRHI's development pipeline. Each performance period is three years in length with a new performance period beginning annually. The target award for the Chairman and CEO is USD 5,000,000, and for the COO USD 3,750,000, the percentage obtained depending on the percentage of achievement as set out below.

% of achievement (average)	% of the target award obtained (Chairman and CEO: USD 5,000,000 / COO: USD 3,750,000)
0 – 87.5%	50%
87.5% – 100%	50% plus 4% for each 1% of additional achievement
> 100 %	100% plus 2% for each 1% of additional achievement

\*\*\* Additional benefits include such items as health insurance, company car or allowance and, in the case of Michael Glennie, housing and home leave airfare for part of 2015.

### 5.1.7. Auditors

Name	Address	Partner in charge	Appointment date	Date of latest mandate renewal
Ernst & Young LLP	Ernst & Young Tower 222 Bay Street, P.O. Box 251 Toronto, ON M5K 1J7	Mark Vrooman	Creation of FRHI	June 2015

### 5.1.8. Related-party agreements

Considering that FRHI is subject to the laws of the Cayman Islands, it is not subject to articles L. 225-38 *et seq.* of the French Commercial Code applicable as a Cayman Islands-domiciled company to related-parties agreements.

Certain hotel management agreements have been entered into by FRHI for the management of hotels belonging to the QIA or KHC groups. Those contracts have been entered into under similar terms to agreements entered into with third parties.

#### **5.1.9. Address where the documents and information relating to FRHI are available for consultation**

Not applicable. FRHI being a private company incorporated in accordance with and subject as such to the laws of the Cayman Islands, it has no obligation to enable third parties to consult the corporate documents relating to the company.

### **5.2. GENERAL INFORMATION CONCERNING THE SHARE CAPITAL**

#### **5.2.1. Amount of capital subscribed, number and classes of financial instruments making up the share capital along with the main characteristics of these instruments**

##### **a) Amount of capital subscribed, number and classes of securities comprising the share capital**

As of the date of this Document, the authorized share capital of FRHI amounts to USD 437.50 (nominal value) and the issued and outstanding capital amounts to USD 249.78 (nominal value).

The authorized capital consists of 3,000,000 A Shares, 650,000 C Shares, 650,000 D Shares and 75,000 E Shares, each with a par value of USD 0.0001 per share.

The issued capital consists of 1,557,916.117 A Shares, 469,961.055 C Shares and 469,961.055 D Shares, all of which have been fully paid up.

##### **b) Main characteristics of the different classes of shares**

###### ***A Shares***

The holder of an A Share has the right to receive notice of, attend and vote as a member of FRHI at any general meeting of FRHI or any separate meeting of A shareholders and receive dividends and distributions. An A Share shall be convertible into one C Share plus one D Share upon notice and approval.

###### ***C Shares***

The holder of a C Share has the right to receive notice of, attend and vote as a member of FRHI at any general meeting of FRHI or any separate meeting of C shareholders. A C Share gives the holder the right to receive dividends and distributions equal to 1% of the dividends and distributions paid on an A Share. A C Share together with a D Share shall be convertible into one A Share under certain conditions.

###### ***D Shares***

The holder of a D Share has the right to receive notice of and attend but not vote at a general meeting of FRHI. However, the holder of a D share must receive notice of and has the right to attend and vote at any separate class meeting. One D Share gives the right to receive dividends and distributions equal to 99% of the dividends and distributions paid on an A Share. A D Share together with a C Share shall be convertible into one A Share under certain conditions.

###### ***E Shares***

The holder of an E Share has the right to receive notice of and attend but not vote at a general meeting of FRHI. However, the holder of an E share must receive notice of and has the right to attend and vote at any separate class meeting. One E Share gives the right to receive

dividends and distributions up to a maximum of USD 515.52 per share. As of the date of this Document, there are no E Shares issued.

**c) Number of double voting rights and treasury shares**

Not applicable.

**d) Non fully-paid equity**

Not applicable.

**e) Changes in the share capital over the past five years<sup>6</sup>**

None.

**5.2.2. Characteristics of financial instruments providing access to capital**

Not applicable.

**5.2.3. Allocation of shares and voting rights in FRHI**

As of the date of this Document, the outstanding shares of FRHI are owned as follows:

Shareholder	A Shares	C Shares	D Shares	% of capital	% of voting rights
KHC Entity	246,386.205	469,961.055	469,961.055	35.32%	35.32%
QIA Entities <sup>7</sup>	1,281,112.055			63.18%	63.18%
OMERS Entity	30,417.857			1.50%	1.50%
<b>Total</b>	<b>1,557,916.117</b>	<b>469,961.055</b>	<b>469,961.055</b>	<b>100.00%</b>	<b>100.00%</b>

**5.3. INFORMATION ON FRHI'S BUSINESS**

**5.3.1. Presentation of the FRHI group and its main activities**

**a) Corporate profile**

FRHI is a global hotel operating company that manages, owns, leases or franchises 115 hotels and resorts with approximately 43,000 rooms in 34 countries; the group's development pipeline of future properties consists of 61 hotels and 30 branded residences with over 18,000 rooms and 4,000 units, respectively (see Section 5.5 for information on the pipeline).

FRHI's portfolio is focused on the luxury and upper upscale segments of the hospitality industry and features historical and iconic hotels operated under three brands: Raffles Hotels & Resorts, Fairmont Hotels & Resorts and Swissôtel Hotels & Resorts. In January 2016, FRHI furthermore announced the development of Neqta, a new mid-scale brand geared towards the Chinese market. As of April 30, 2016, Neqta operates one property over and above the 115 properties set out above.

Approximately 45,000 people are employed across FRHI's hotel portfolio.

<sup>6</sup> It being specified that transfers of shares among shareholders are not considered as changes.

<sup>7</sup> Lodge Investment Company and Voyager Fund Enterprise I Ltd hold, respectively, 469,961.055 and 811,151.000 Class A shares in FRHI. It is expected that they will transfer the new Accor shares that they will receive on the Transaction Date to Qatar Holding LLC, another fully-owned affiliate of QIA.

## **b) History of the group**

### ***Fairmont***

The Fairmont hotel portfolio was created through the successive merging of several hotel groups. It was originally operated as Canadian Pacific Hotels & Resorts (“**CPH**”), a subsidiary of Canadian Pacific Limited (“**CPL**”), one of Canada’s largest conglomerates that originated as a railway company. CPH’s hotel portfolio dates back to the late 1880s when William Cornelius Van Horne, then president of CPL, dreamed of building lavish rest stops alongside the new Canadian Pacific Railway. The first such hotel, the Banff Springs, opened in 1888. Over the next century, CPH expanded across Canada and by 1988, with the acquisition of seven hotels from Canadian National Railway, was the largest owner-operator in Canada, with 25 hotels stretching across the country. To facilitate a scalable international hotel operating company, in 1997 CPH created and sold its real-estate interests in 11 hotels to a publicly listed real-estate investment trust, Legacy Hotels REIT (“**Legacy**”), while retaining long-term hotel management agreements for the hotels. The following year, CPH acquired the Princess Hotels portfolio of luxury resorts in the United States, Mexico, Bermuda and Barbados. Also in 1998, CPH acquired Delta Hotels, a hotel management and franchise company in Canada, operating in the upscale segment.

In October 1999, CPH acquired Fairmont Hotels, a brand created in 1907, and combined its luxury hotel portfolio with the seven US-based Fairmont hotels to become the largest luxury hotel management company in North America, as measured by the number of rooms under management. In 2000, all of CPH’s luxury hotels were rebranded to Fairmont Hotels & Resorts.

In 2001, CPL completed a corporate reorganization which divided CPL into five new public companies: CPL, which retained a 100% interest in CPH, Canadian Pacific Railway Limited, CP Ships Limited, PanCanadian Energy Corporation and Fording Inc. CPL was subsequently renamed Fairmont Hotels & Resorts Inc. (“**FH&R**”) and was independently listed on the New York and Toronto stock exchanges.

Through a tender offer in 2006, FH&R was acquired by KHC and US investment fund Colony Capital LLC (“**Colony**”). This transaction took the company private and delisted it from the New York and Toronto stock exchanges.

### ***Raffles***

Raffles originated in 1887 with the opening of the famous Raffles Hotel in Singapore. Raffles International was formed in 1989, with an initial focus on the refurbishment of the Raffles Hotel. The company spent most of the following decade expanding the Raffles brand in Asia. In 1997, Raffles acquired its first European properties and, in 2000, it entered the American market. In 2001, Raffles acquired the Swissôtel brand. In October of 2005, Raffles International was acquired by Colony.

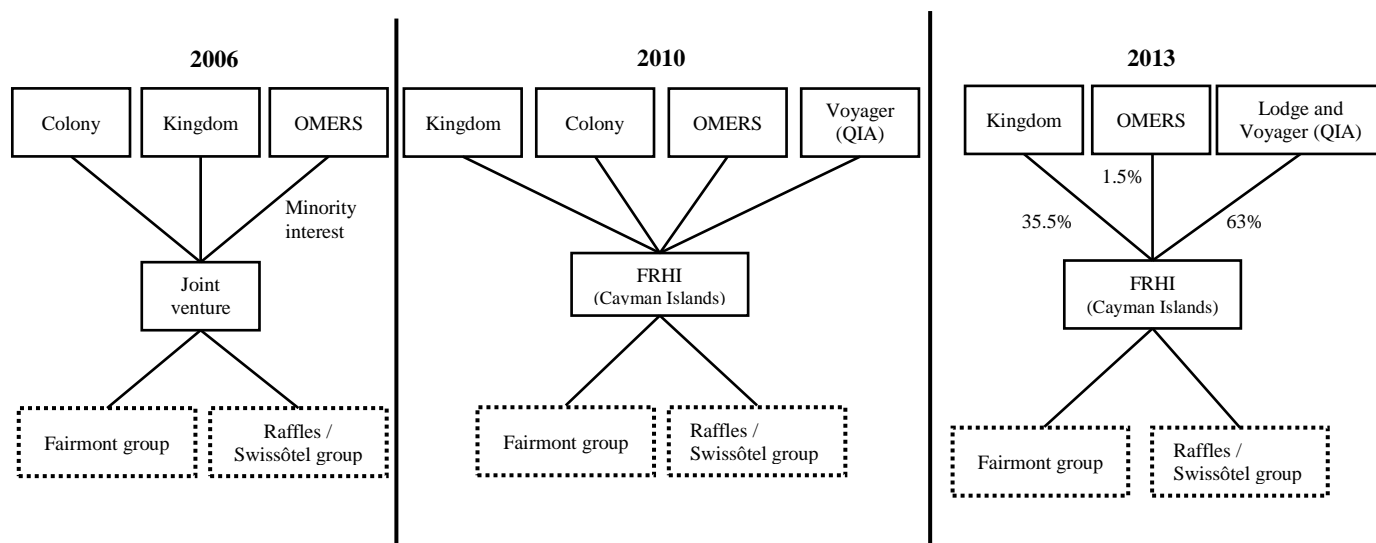
### ***Swissôtel***

The Swissôtel brand was founded in 1980 as a joint venture between the Swissair and Nestlé groups with initial hotels in Berne, Geneva, New York and Zurich. It was acquired by Raffles International in 2001.

### ***Combination of the three brands and creation of the FRHI group***

Following its acquisition in 2006 by a joint venture of KHC and Colony, the Canadian company FH&R was combined with Raffles International (owned by Colony) to form the FRHI group. The Canadian pension fund Ontario Municipal Employees Retirement System (OMERS) took a minority interest later that year.

In 2010, QIA acquired a 40% interest in FRHI through its subsidiary Voyager Fund Enterprise I Ltd. Three years later, Lodge Investment Company acquired Colony's interest in FRHI bringing QIA's aggregate interest to 63.12%, as illustrated in the chart below.



### c) Presentation of the three brands

#### *Fairmont Hotels & Resorts*



The Fairmont brand was founded in 1907 with the opening of the Fairmont San Francisco and had a portfolio of seven hotels when it was acquired by CPH in 1999. As of April 30, 2016, Fairmont operates 71 hotels with approximately 30,000 rooms in 22 countries.

With its mission of “turning moments into memories” for its guests, Fairmont Hotels & Resorts is a celebrated collection of luxury properties around the globe, including Shanghai's Fairmont Peace Hotel (Shanghai, China), Fairmont Banff Springs (Alberta, Canada), The Savoy (London, UK), The Plaza (New York, USA) and Fairmont Makkah Clock Royal Tower (Mecca, Saudi Arabia).

#### *Raffles Hotels & Resorts*



Raffles is known and respected as one of the world's leading heritage ultra-luxury hotel brands. As of April 30, 2016, it operates 12 hotels with over 2,000 rooms in 10 countries. Notable hotels include Raffles Hotel Singapore (Singapore), Raffles Istanbul (Turkey), Raffles Praslin Seychelles (Seychelles), Raffles Dubai (United Arab Emirates) and Le Royal Monceau, Raffles Paris (France). The hotels offer a mix of cultures and styles, each hotel in the Raffles family has its own individual personality, with its own story to tell.

#### *Swissôtel Hotels & Resorts*



Swissôtel Hotels & Resorts is an award-winning group of hotels that combine renowned Swiss hospitality with fresh, contemporary design to compete in the upper-upscale hotel segment. As of April 30, 2016, Swissôtel operates 32 hotels with approximately 12,000 rooms in 16 countries. Standout properties include Swissôtel The Bosphorus (Istanbul, Turkey), Swissôtel Krasnye Holmy (Moscow, Russia) and Swissôtel Tallinn (Tallinn, Estonia).

#### d) FRHI's positioning on the hotel market



- ❖ **Positioning:**  
Upscale
- ❖ **Market segments:**  
Business and leisure
- ❖ **Main competitors:**  
Westin, Hilton, Hyatt, Sheraton, Marriott



- ❖ **Positioning:**  
Between upscale and luxury
- ❖ **Market segments:**  
Business, leisure and group
- ❖ **Main competitors:**  
Ritz-Carlton, Shangri La, Waldorf Astoria, JW Marriott, InterContinental



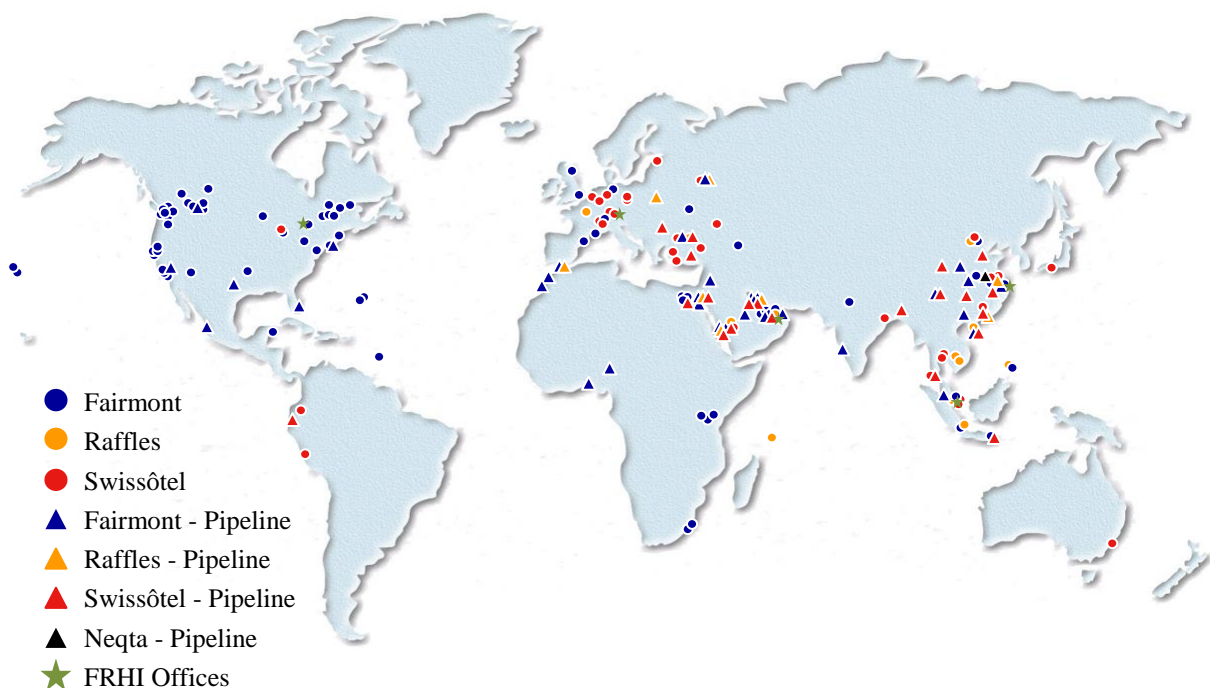
- ❖ **Positioning:**  
Luxury
- ❖ **Market segments:**  
Business and leisure
- ❖ **Main competitors:**  
Peninsula Hotels, Mandarin Oriental, Four Seasons, St. Regis



#### e) FRHI's geographical presence

FRHI's hotels are located in the world's major cities and resort destinations across 34 countries, with 42 properties in North America, two in South America, 26 in Europe, 19 in Africa/Middle East/India and 26 in Asia-Pacific as of April 30, 2016.

As reflected in the map below, Swissôtel and Raffles are very present in Asia-Pacific and in the Middle East while Fairmont is deeply rooted in North America for historic reasons, with more than 50% of its hotels located across Canada, the USA, Mexico and the Caribbean.





## **f) Presentation of FRHI's main activities**

### ***Hotel business***

FRHI's primary business is the management of hotels on behalf of third parties that own the hotel real estate. The hotel management agreements ("**HMA**s") entered into with the owners grant FRHI an exclusive authority regarding the day-to-day operation of the hotel in return for a fixed remuneration and variable fee subject to performance criteria. As of April 30, 2016, FRHI operates 104 third-party owned hotels with approximately 37,500 rooms; the average remaining term of the HMA's for those hotels is approximately 28 years.

FRHI also has franchise agreements for four hotels for which it receives royalty and license fees as well as fees for particular services (e.g. access to the group's reservation service), but the group does not manage the day-to-day operations of these properties.

In addition, the group leases six hotels aggregating approximately 3,500 rooms, it being specified that under lease contracts, premises are rented from the hotel owners and that leased hotels are fully consolidated by FRHI from an accounting standpoint (all operating income and expenses are recorded in the group's accounts).

As of April 30, 2016, FRHI also owns one hotel with approximately 593 rooms (the Fairmont Southampton in Bermuda) and holds minority ownership interests – ranging from 7% to 50% – in ten other hotels.

At the same date, FRHI operates one hotel with approximately 225 rooms including serviced apartments through Neqta, a new Chinese brand launched through a joint venture with a local partner, the Chinese Golden Land Group.

### ***Business model: an "asset-light" strategy***

Since its creation in 2006, the FRHI group has implemented a strategy of becoming an "asset-light" hotel management company, with minimal ownership of hotel real estate, to focus on the hotel management business. From 2006 to 2013, FRHI sold its equity real-estate interests in over 20 hotels for more than USD 3.5 billion and disposed of other non-core assets including the Delta Hotels business and its interest in Legacy.

The group deploys capital on an "asset-light" basis in order to grow its portfolio and may invest capital to secure a hotel management agreement. This investment may take the form of an equity interest directly in the hotel ownership entity, loans to the hotel ownership entity or direct payments of "key money" to the ownership entity or owner of the hotel.

### ***Internal organization***

FRHI's hotel management operations are organized around centralized teams with global responsibility and regional operations teams. The support teams develop corporate and operational strategies and provide services to the regional operations teams in the following areas: global sales & marketing, brands, revenue management, public relations, human resources, law & administration, finance, procurement, development, residential management, design & construction and technology.

The group's regional operations are organized geographically into two divisions: Americas and International. The International division is further divided into: Europe, Middle East, Africa and India, Asia-Pacific and China. FRHI has regional offices primarily in Toronto (Canada), Zurich (Switzerland), Dubai (UAE), Singapore and Shanghai (China).

### ***Residential business***

FRHI also operates – under each of the Fairmont, Raffles and Swissôtel brands – residences that guests or residents can rent or purchase.

Long-term rental residences consist of fully-equipped serviced residences adjacent to or embedded within hotels in the FRHI portfolio, designed for extended stays.

In addition, the group operates in the shared ownership market, offering fractional ownership interests in Fairmont branded properties. Fractional owners pre-purchase annual blocks (“fractions”), usually between three and six weeks, and have the flexibility to stay in the unit during their eligible weeks, exchange them for a stay at other properties participating in the program and/or rent them to the public through an FRHI-managed distribution channel.

FRHI also operates and maintains wholly-owned residences that are marketed and sold under the Fairmont, Raffles or Swissôtel brands by third-party developers to individual unit owners. FRHI typically benefits from a one-time brand license fee on these sales and may offer residential management services for a fee.

As of April 30, 2016, FRHI’s residential portfolio consists of 19 residential properties with approximately 1,800 units in ten countries with a pipeline of approximately 4,000 units.

### **g) Recent awards and recognition**

In 2015, FRHI received the prestigious J. D. Power President's Award which is presented periodically to recognize individuals or companies demonstrating dedication, commitment and sustained improvement in serving customers.

In J. D. Power's 40-year history, FRHI is only the 14th company to receive the award and the first hospitality company.

The three FRHI brands are also regular award winners. Examples of recent awards and recognition include:



*Raffles Istanbul: 2015 Travel + Leisure – 2015 It List: Best New Hotels / 2015 Condé Nast Traveler’s – 2015 Hot List*

*Raffles Singapore: 2016 Condé Nast Traveler – Gold List / 2016 International Traveller Magazine – top honors in the Best Luxury Hotel category*

*Le Royal Monceau, Raffles Paris: 2013 Atout France – awarded official “Palace Distinction”*



*Fairmont Grand Del Mar, Fairmont Pacific Rim, Fairmont Mara Safari Club, and an additional seven Fairmont Hotels: winners of the 2016 TripAdvisor Traveler’s Choice Awards*

*Fairmont Peace Hotel, Fairmont Chateau Lake Louise and Fairmont Chateau Whistler: 2016 Condé Nast Traveler – Gold List*



*Swissôtel Grand Shanghai: World Travel Awards 2011, 2012 and 2013 – China’s Leading Business Hotel*

*Swissôtel The Bosphorus, Istanbul: 2013 World Luxury Hotel Awards – Europe’s Best Luxury Hotel*

*Swissôtel Lima: 2016 Condé Nast Johansens Awards For Excellence – Best Urban Hotel / 2015 World Luxury Hotel Awards – top Luxury Business Hotel in Peru*

*Raffles Makati*: 2016 TripAdvisor Traveler's Choice Awards – ranked first in Luxury and Top regional hotels categories.

*Raffles Dubai*: 2014 Condé Nast Traveler – among the Top 100 Hotels in the World and Top 2 in the Middle East

5 Raffles Hotels and Resorts have been named in 2015's Condé Nast Readers Choice Awards

*Fairmont Washington, D.C.*: 2016 MetLife Energy – National award winner

*Fairmont Le Montreux Palace*: 2015 World Luxury Awards – top hotel in Switzerland in Luxury category

31 Fairmont properties received the AAA Four Diamond Rating, and three received the AAA Five Diamond Rating in 2016

*Swissôtel Dresden*: 2014 TripAdvisor's #1 Hotel in Germany

*Swissôtel Krasnye Holmy*: 2014 TripAdvisor's #1 Hotel in Russia

*Swissôtel Chicago*: 2016 AAA Four Diamond Rating

Seven Swissôtel properties were winners of the 2016 TripAdvisor Travelers' Choice Awards

## **h) Loyalty programs**

Each of the three FRHI brands has its own guest recognition program (Fairmont President's Club, Swissôtel Circle, Raffles Ambassadors) offering various advantages such as exclusive offers, dedicated services, complimentary nights or upgrades. As of the date of this Document, over three million members belong to the FRHI loyalty program.

### **5.3.2. Net revenue in the last three financial years for each geographical market (consolidated data)**

Net revenue per region (in millions of USD)	FY 2015	FY 2014	FY 2013
Americas*	254.0	247.6	242.7
Asia Oceania**	311.3	324.6	318.7
Middle East, Africa and India	47.3	42.0	35.6
Europe	74.1	81.1	84.0
Total	686.7	695.3	681.0

\* Americas includes all countries within North, Central and South America.

\*\* Asia Oceania includes Australia.

### **5.3.3. Changes in FRHI's workforce over the past three financial years**

	FY 2015	FY 2014	FY 2013
Number of employees working at the corporate level (at the exclusion of the hotel staff)	845	836	824

In addition, more than 44,000 people are employed across FRHI's hotel portfolio.

**5.3.4. Key data on the activity of subsidiaries or sub-subsidiaries that are material to the assets or income of FRHI or its group<sup>8</sup>**

<b>2015 data (in millions of USD)</b>	<b>Revenue</b>	<b>Assets</b>
Fairmont Hotels Inc.	64.2	265.0
Fairmont Hotels & Resorts (U.S.) Inc.	46.6	430.0
Raffles International Limited	11.7	168.9
Fairmont Dubai Holdings (Bermuda) Ltd.	7.5	17.4
Swissôtel Management GmbH	14.1	276.7
RC Hotels (Pte) Ltd. *	212.2	111.5
Swissôtel Osaka Nankai	69.8	33.0
Westend Properties Limited	81.4	161.7

\* FRHI holds a 75.9% interest in RC Hotels (Pte) Ltd.; however, amounts above are shown as if it had a 100% ownership interest.

**5.3.5. Indication of any disputes or non-recurring events that are likely to have, or have recently had, a material impact on the financial position of FRHI or its group and specific risk factors**

**a) Material disputes**

FRHI is faced with claims and litigation that are primarily in the ordinary course of its business. Claims are either provided for as a liability or reflected as contingent liabilities in the notes to the financial statements, as applicable and if required, depending on the actual liability, the legal position and the expectations of management.

**b) Specific risk factors related to the business of FRHI and its group**

Generally speaking, as a player in the hotel industry, FRHI is subject to similar risk factors as the AccorHotels group.

***Risks relating to global tourism***

FRHI's business is highly dependent on global travel; anything that affects travel generally or travel to a specific region or location that FRHI operates in (or derives business from) will affect the group's activities. Various global events including war, international conflicts, terrorism and contagious disease outbreaks, or the perceived threat of these events, may affect domestic and international travel.

***Risks related to hotel management agreements***

FRHI manages 104 hotels for various third-party hotel owners under the terms of each property's hotel management agreement (HMA). HMAs are entered into for a very long term that ranges between ten and 60 years depending on the region, but they can generally be

<sup>8</sup> In accordance with AMF Instruction 2005-11, a subsidiary is deemed of material importance when (i) its carrying value represents 10% of FRHI's net equity or when (ii) it accounts for at least 10% of the net income of FRHI or its group.

terminated by the non-defaulting party upon default in payment or failure to comply with the terms of the contract. Typically, FRHI's HMAs are subject to economic performance tests; failure to meet these tests, maintain standards established in the contract or to meet other terms and conditions of a contract could result in the loss or cancellation of an HMA prior to the expiration of its term, in accordance with their terms. Some HMAs can also be terminated if the owner sells the property to a new owner that does not want to retain the existing contract.

In addition, in some cases, FRHI has made a financial investment in connection with securing an HMA and that investment could be impaired if the contract were to be canceled or terminated.

Specific risks also arise if the lender or owner is in a bankruptcy proceeding. In many jurisdictions, in the event of bankruptcy or insolvency proceedings, an HMA may be subject to termination or may not be enforceable against a trustee in bankruptcy or other representative of the owner. In such circumstances, FRHI would generally have an unsecured claim for breach of contract against the owner of the property or the estate. In addition, several of FRHI's HMAs are governed by the laws of New York and recent New York State jurisprudence has recognized the power of an owner to terminate a management contract at any time subject to the payment of damages to compensate the loss suffered by the operator as a result of early termination of the agreement.

#### ***Risks related to real-estate investments***

FRHI owns one hotel, leases six hotels and has minority interests in several others (see Section 5.3.1 above). These interests are subject to the risks that generally relate to investments in real property: the investment returns available from equity investments in real estate depend on the income earned and capital appreciation. FRHI has also advanced loans or guaranteed the obligations of third parties in connection with entering into HMAs for certain hotels; weak operating income performance at these hotels could give rise to losses under these loans and guarantees. The group's income would also be adversely affected if its properties do not generate revenue sufficient to meet operating expenses, including lease payments, debt service and capital expenditures.

#### ***Risks related to currency fluctuations***

As of April 30, 2016, FRHI has hotel management and ownership operations in 34 countries. A significant increase in the value of a currency in the countries where the group operates can have an adverse effect on demand for lodging at FRHI's hotels in those countries. FRHI records financial results for the operations in each country in the local currency while reporting consolidated financial results in US dollars. As a result, FRHI's earnings and financial position are affected by foreign exchange rate fluctuations, specifically changes in the value of the US dollar, through translation risk and transaction risk (translation risk is the risk that financial statements for a particular period, or at a certain date, depend on the prevailing exchange rate of the local currencies against the US dollar whereas transaction risk is the risk that the exchange rate at which a transaction is initially recorded will be different from the rate at which it is settled).

#### ***Legal and regulatory risks***

FRHI is subject to numerous laws and regulations in every jurisdiction in which it operates, including those related to the preparation and sale of food and beverages, as well as health and liquor licensing laws.

The properties FRHI manages, owns and/or leases are also subject to laws and regulations governing relationships with employees such as those covering minimum wages, maximum

working hours, overtime, working conditions, hiring and terminating employees and work permits.

Furthermore, the success of FRHI's strategies to expand existing properties, acquire new properties or to open newly-constructed properties is contingent upon, among other things, receipt of the required licenses, permits and authorizations, including local land-use permits, building and zoning permits, health and safety permits and liquor licenses. Changes or concessions required by regulatory authorities could involve significant additional costs and delay or prevent completion of the construction or opening of a project or could result in the loss of an existing license. As a result of the geographic diversity of FRHI's businesses, these regulatory matters arise in a number of jurisdictions, many of which have distinctive regulatory regimes.

Moreover, in many jurisdictions, hotel premises and websites are required to meet various requirements related to access and use by disabled persons.

### ***Environmental risks***

As the current or previous owner or manager of a hotel, FRHI could be liable for the clean-up of contamination and other remedial actions under various laws, ordinances and regulations relating to environmental matters. These laws, ordinances and regulations often impose liability without regard to whether the owner or operator knew of, or was responsible for, the condition requiring the environmental response. If FRHI finds itself having to arrange for the disposal or treatment of hazardous or toxic substances, FRHI may be liable for the cost of removal or remediation of these substances at the disposal or treatment facility. In addition, the presence of contamination from hazardous or toxic substances, or the failure to remedy a contaminated property properly, may affect an owner's ability to sell or rent the property, to use the property for its intended purpose, or to use the property as collateral when borrowing. Environmental laws may require abatement or removal of certain asbestos-containing material in the event of damage, demolition or renovation. Laws and regulations change over time and FRHI may become subject to more stringent environmental laws and regulations and face broader environmental liability. FRHI is not aware of any potential material environmental liabilities as of the date hereof for which it would be responsible with respect to any of the hotel properties which FRHI currently or previously managed or owned, but such liabilities may exist and may be material.

### ***Risks related to the competitive landscape***

There is a great deal of competition in the lodging industry. In particular, FRHI is in competition with other operators of luxury and upscale hotels to attract guests. Competition for guests is based primarily on brand name recognition, convenience of location, quality of the property, room rates and the diversity and quality of food, services and amenities offered.

FRHI is also in competition with third-party internet services (online travel agents) used by guests to make hotel reservations. These online travel agents continue to use aggressive on-line marketing methods to attract guests which can divert guests to their websites, result in commissions owing or reduce revenue received, by FRHI hotels. Although this risk cannot be eliminated entirely, FRHI works to mitigate this risk through contracts with key online travel agents, by expanding its presence and use of online search-based advertising, and by providing benefits to members who are part of FRHI's loyalty program and for those who book through FRHI's websites.

FRHI also competes for employees, HMAs and acquisition opportunities with other luxury and upper-upscale hotel operators who may have substantially greater financial resources. This competition may have the effect of reducing the number of investment opportunities available to FRHI and increasing FRHI's cost to acquire HMAs or properties.

Demographic, political or other changes in one or more of FRHI's markets could adversely affect the convenience or desirability of FRHI properties.

***Risks related to employee relations***

There are many employees working in FRHI hotels worldwide. Relations with employees in various countries could deteriorate due to such issues as wage disputes or changes in local regulations. FRHI's operations rely heavily on employees – whether they are employed directly or only managed by FRHI – and on the employees' ability to provide high-quality personal service to guests. Any labor shortage due to competitive pressures or stoppage caused by disagreements with employees could adversely affect FRHI's ability to provide these services and could result in the temporary closure of a particular hotel, reduce occupancy and room revenue or potentially damage FRHI's reputation.

***Risks related to relations with business partners***

The financial situation of hotel owners and developers determines their ability to make the investments necessary to maintain or improve the hotel premises, which directly impacts guest preference for FRHI's properties. In addition, the construction and development of FRHI's pipeline partially depends on owners or developers. As of April 30, 2016, FRHI has secured 47 HMAs and 14 letters of intent in connection with hotels currently under construction or approved for development, but such HMAs are subject to numerous conditions including, in certain cases, the owner's or developer's ability to obtain adequate financing or regulatory approvals.

***Risks related to violations of anti-corruption laws***

FRHI operates in 34 countries around the world and is subject to anti-corruption laws and regulations, including restrictions imposed by the US Foreign Corrupt Practices Act (FCPA) and the Canadian Corruption of Foreign Public Officials Act (CFPOA). Anti-corruption laws generally prohibit companies and their intermediaries from making improper payments to government officials or any other person for the purpose of obtaining or retaining business. FRHI has policies and procedures in place to mitigate this risk.

***IT-related risks***

The daily management of FRHI's operations heavily depends on IT solutions; a disruption in the functioning of the global reservation system would notably have an adverse effect on the group's performance and results. FRHI is also exposed to costs and risks associated with protection of the integrity of guests' personal data. Several companies in the hospitality industry have been the victim of security breaches which were due to malware placed on point-of-sale locations. FRHI has taken steps to address this type of risk as well as other cybersecurity risks.

***Risks related to protection of the group's intellectual property***

FRHI's success relies on the recognition and reputation of the Swissôtel, Fairmont and Raffles brands; those assets are vital for FRHI. As a consequence, any failure to protect its trademarks and other intellectual property relating thereto could reduce the value of the group and harm its growth prospects. FRHI has registered trademarks in jurisdictions around the world, but this is not always sufficient to prevent third parties from copying them or using them improperly. In some countries, for example, it could be impossible to prevent third parties from using certain brand names that are the same as or similar to FRHI's. This could tarnish FRHI's image or even prevent the group from registering trademarks and opening hotels in such jurisdictions. Third parties might also challenge FRHI's rights to use intellectual property.

### **c) Risk management systems**

The Board of Directors has overall responsibility for the establishment and oversight of FRHI's risk management framework. The Executive Committee is responsible for developing and monitoring risk management policies. FRHI's risk management policies are established to identify and analyze the risks faced by the group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. The Audit Committee oversees how management monitors compliance with the group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by FRHI. The Audit Committee is assisted in its oversight role by Internal Audit.

## **5.4. FINANCIAL REVIEW**

### **5.4.1. Consolidated financial statements of FRHI for the years ended December 31, 2015 and December 31, 2014 and related Independent Auditors' reports**

The consolidated financial statements of FRHI have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and are presented in US dollars<sup>9</sup>.

The audited consolidated financial statements of FRHI for the years ended December 31, 2014 and December 31, 2015 and the related Independent Auditors' reports are attached in Appendix 3.

### **5.4.2. Significant excerpts from the notes to the financial statements necessary to properly assess the data contained in the income statement and balance sheet**

Refer to Appendix 3 for full consolidated financial statements and notes..

### **5.4.3. Table of subsidiaries and investments**

See Appendix 4.

## **5.5. RECENT TREND INFORMATION**

FRHI seeks to grow its portfolio of managed hotels to increase the prominence of its brands and grow its management fee revenue. Between 2013 and 2015, FRHI grew its portfolio from 109 to 115 hotels and resorts. In 2015, FRHI opened five new hotels and four residences, signed eight hotel management agreements and added ten residential projects to its pipeline. As at April 30, 2016, the total pipeline stands at 61 hotels with over 18,000 rooms and 30 residences with over 4,000 units.

In 2015, FRHI invested approximately USD 37.9 million to grow its portfolio and secure hotel management agreements, including USD 26.7 million to acquire a minority interest in and a hotel management agreement for Fairmont Grand Del Mar in San Diego, California, and USD 9.3 million of capital to fund renovations at the Claremont Hotel in Berkeley, California.

FRHI recently entered into a joint venture with the Chinese Golden Land Group to develop a new mid-market brand, Neqta, for the Chinese market. The first Neqta-branded hotel opened in Shanghai in January 2016.

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<sup>9</sup> The functional currency of FRHI is US dollars, as it is a company registered in the Cayman Islands with US dollar-denominated share capital.



### ***Hotel pipeline***

Of the 61 hotels in the development pipeline at April 30, 2016, the opening of the following 41 hotels with executed HMAs is expected between 2016 and 2020:

- ❖ Swissôtel Resort Patong Beach, Thailand (opened in June 2016)
- ❖ Fairmont Amman, Jordan
- ❖ Fairmont Riyadh Business Gate, Saudi Arabia
- ❖ Fairmont Fujairah, United Arab Emirates
- ❖ Fairmont Chengdu, China
- ❖ Fairmont Quasar, Istanbul, Turkey
- ❖ Fairmont Citystars Sharm el-Sheikh, Egypt
- ❖ Swissôtel Citystars Sharm el-Sheikh, Egypt
- ❖ Swissôtel Chengdu, China
- ❖ Raffles Europesjski Warsaw, Poland
- ❖ Fairmont Austin, USA
- ❖ Swissôtel Resort Bodrum Hill, Bodrum, Turkey
- ❖ Fairmont Marina Abu Dhabi, United Arab Emirates
- ❖ Fairmont Wuhan, China
- ❖ Fairmont Jeddah, Saudi Arabia
- ❖ Swissôtel Jeddah, Saudi Arabia
- ❖ Swissôtel Bali, Indonesia
- ❖ Swissôtel Guayaquil, Ecuador
- ❖ Swissôtel Sofia, Bulgaria
- ❖ Swissôtel Dubai, United Arab Emirates
- ❖ Swissôtel KozaPark Istanbul, Turkey
- ❖ Swissôtel Katameyah, Cairo, Egypt
- ❖ Fairmont Bahrain
- ❖ Fairmont Soma Bay, Egypt
- ❖ Fairmont Costa Canuva, Mexico
- ❖ Swissôtel Hangzhou, China
- ❖ Fairmont Lagos, Nigeria
- ❖ Swissôtel Dhaka, Bangladesh
- ❖ Raffles Jeddah, Saudi Arabia
- ❖ Raffles Shenzhen, China
- ❖ Fairmont Taghazout Bay, Morocco
- ❖ Raffles Citystars Sharm el-Sheikh, Egypt
- ❖ Fairmont Hangzhou, China
- ❖ Swissôtel Al Khobar, Saudi Arabia
- ❖ Fairmont Abuja, Nigeria
- ❖ Fairmont Nanning, China
- ❖ Fairmont Marina Rabat, Morocco

- ❖ Fairmont Zhengzhou, China
- ❖ Raffles Suzhou, China
- ❖ Fairmont Kuala Lumpur, Malaysia
- ❖ Fairmont Al Khobar, Saudi Arabia

These hotels are built or majority-owned by third parties. In accordance with its “asset-light” strategy, FRHI has entered into HMAs with the owners or developers of these hotels but does not own the real estate.

### ***Residential pipeline***

Of the 30 residential properties in the development pipeline, the opening of the following 27 committed residential projects is expected between 2016 and 2019:

- ❖ Fairmont Residences Chengdu, China - Hotel Tower
- ❖ Raffles Estates Seychelles
- ❖ Raffles Zorlu Istanbul, Turkey
- ❖ Fairmont Mayakoba, Mexico (Phase II)
- ❖ Swissôtel Residences Bodrum Hill, Turkey
- ❖ Fairmont Residences Sharm el-Sheikh, Egypt
- ❖ Fairmont Residences Istanbul, Turkey
- ❖ Fairmont Marina Residences, Abu Dhabi, UAE
- ❖ Swissôtel Sharm el-Sheikh, Egypt
- ❖ Fairmont Residences Jeddah, Saudi Arabia
- ❖ Fairmont Residences Soma Bay, Egypt
- ❖ Swissôtel Residences Koza Park, Turkey
- ❖ Swissôtel Residences Katameya, Egypt
- ❖ Swissôtel Living Katameya, Egypt
- ❖ Swissôtel Sofia, Bulgaria
- ❖ Fairmont Costa Canuva, Mexico
- ❖ Swissôtel Living Al Khobar, Saudi Arabia
- ❖ Swissôtel Living Dhaka, Bangladesh
- ❖ Swissôtel Living Hangzhou, China
- ❖ Fairmont Serviced Residences - Hangzhou, China
- ❖ Fairmont Residences Lagos, Nigeria
- ❖ Fairmont La Marina Rabat-Salé, Morocco
- ❖ Fairmont Abuja, Nigeria
- ❖ Raffles Sharm el-Sheikh, Egypt
- ❖ Raffles Residences Jeddah, Saudi Arabia
- ❖ Raffles Shenzhen, China
- ❖ Fairmont Taghazout Bay, Morocco

### ***Growth outlook***

FRHI is expecting high levels of growth to be driven by the opening of pipeline hotels and the impact from renovations across the FRHI portfolio. Residential development is also expected to generate more in-brand and residential management fees. Continuation of the strategy of investing available resources to secure HMAs (such as for the Grand Del Mar in San Diego, the Claremont in San Francisco, the Fairmont Rey Juan Carlos I in Barcelona and the Fairmont Sanur Beach in Bali) should accelerate growth and enhance awareness of the FRHI brands.

## **LIST OF APPENDICES**

- Appendix 1:** Independent appraisers' reports
- Appendix 2:** Statutory Auditors' report on the pro forma financial information
- Appendix 3:** Audited consolidated financial statements of FRHI for the years ended December 31, 2014 and December 31, 2015 and related Independent Auditors' reports
- Appendix 4:** Table of subsidiaries and investments of FRHI

## **APPENDIX 1**

### **Independent appraisers' reports**

Jacques Potdevin  
7 rue Galilée  
75116 Paris

Didier Kling  
28 avenue Hoche  
75008 Paris

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## **ACCOR SA**

A French *société anonyme* (joint stock company) with share capital of €712,366,974  
82, rue Henri Farman  
92130 Issy-les-Moulineaux  
Nanterre Trade and Companies Registry no. 602 036 444

*Report of the Independent Appraisers of Capital Contributions appointed  
by Order of the President of the Paris Commercial Court  
on December 21, 2015*

### **Independent Appraisers' Report on the Value of the Contributed Assets**

By Order of the President of the Paris Commercial Court on December 21, 2015

*This is a free translation into English of the Independent Appraisers' report issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional guidelines applicable in France.*

To the Shareholders,

In accordance with the terms of our appointment by Order of the President of the Paris Commercial Court on December 21, 2015 in connection with the contribution by:

- Lodge Investment Company and Voyager Fund Enterprise I Ltd, both controlled by Qatar Investment Authority (QIA)
- Kingdom Hotels (Europe) LLC, controlled by Kingdom Holding Company of Saudi Arabia (KHC)
- FRHI Investment Holdings Inc, controlled by Ontario Municipal Employees Retirement System (OMERS)

(the "Contributors")

to Accor SA of part of their respective interests in FRHI Holdings Limited ("FRHI"), we have prepared this report on the value of the shares (the "Contributed Assets"), in accordance with article L.225-147 of the French Commercial Code. As recommended in the *Autorité des Marchés Financiers'* position paper no.2011-11, we also performed an appraisal of the consideration for the Contributed Assets, which is presented in a separate report.

The terms of the Contribution are specified in the Contribution Agreement signed on June 6, 2016 by the representatives of the companies concerned.

Our responsibility is to inform shareholders of our conclusions about whether the value attributed to the Contributed Assets is overstated or not. We performed our procedures in accordance with the professional guidelines applicable in France to this type of engagement. Those guidelines require that we perform procedures to obtain assurance that the value attributed to the Contributed Assets is not overstated and is at least equal to the sum of the par value of the shares to be issued by Accor SA and the related premium.

The engagement was not incompatible with our other professional obligations and we were not prohibited or disqualified from accepting it.

The issuance of this report is the final stage in our engagement and we have no obligation to update our report to take into account any facts or circumstances arising after the date of its signature.

Shareholders are invited to read our observations and conclusions presented in the report below, which is organized as follows:

- 1. Presentation of the transaction and description of the Contributed Assets**
- 2. Procedures and appraisal of the value of the contributed assets**
- 3. Executive summary**

## **4. Conclusion**

### **1 PRESENTATION OF THE TRANSACTION**

The transaction results from the Contribution Agreement entered into between the Parties on June 6, 2016. It may be summarized as follows:

#### **1.1 Purpose and objectives of the transaction**

On December 9, 2015, Accor entered into an agreement with FRHI's shareholders to acquire the entire capital of FRHI, the parent company of the hotel group operating under the Fairmont, Raffles and Swissôtel brands.

Under the terms of this agreement, FRHI's shareholders:

- Kingdom Hotels (Europe) LLC, a limited liability company registered in Dubai (Dubai International Financial Centre) under no. 2142, whose registered office is at Dubai International Financial Centre, Precinct Building 3, P.O. Box 121223 Dubai, United Arab Emirates;
- Lodge Investment Company, a limited company registered in the Cayman Islands under no. 275668, whose registered office is at Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman, KY1-9005, Cayman Islands;
- Voyager Fund Enterprise I Ltd., a limited company registered in the Cayman Islands under no. 236791, whose registered office is at Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman, KY1-9005, Cayman Islands;
- FRH Investment Holdings Inc., a corporation registered in Ontario, Canada under no. 002115085, whose registered office is at 1 University Avenue, Suite 400, Toronto, Ontario, M5J2P1, Canada

will contribute part of their respective interests in FRHI to Accor in exchange for 46.7 million Accor shares. At the same time as this contribution, the remainder of the shares comprising FRHI's share capital will be sold to Accor for US\$ 840 million, payable in cash.

This transaction will enable Accor to strategically enhance its brand portfolio and achieve a more balanced business profile. The integration of Raffles, Fairmont and Swissôtel will broaden Accor's geographic footprint and presence in the luxury segment.

With just over 500 luxury and upscale establishments and a development pipeline of 200 hotels, Accor would take its place among the key global players in this segment and would be able to offer even more profitable management contracts and better growth potential in many markets.



FRHI's teams would bolster the Accor group's expertise in the luxury segment and provide the group with new objectives, through targeted, value-added expansion.

The transaction is expected to generate revenue and cost synergies thanks to the combination of brands, the maximization of hotel earnings, the increased efficiency of marketing, sales and distribution channel initiatives, and the optimization of support costs. Significant improvements could also be made in terms of customer data, thanks to the integration of a customer base that includes 3 million loyalty program members, of which two-third are North Americans travelers.

## **1.2 Participating companies**

### **1.2.1 FRHI Holdings Limited, the company whose shares are being contributed**

FRHI Holdings Limited is a limited company registered in the Cayman Islands under no. MC-237438. Its authorized capital comprises 3,000,000 Class A shares, 650,000 Class C shares, 650,000 Class D shares and 75,000 Class E shares, all with a par value of US\$ 0.0001.

As of the date of this report, its issued capital was made up of 1,557,916 Class A shares, 469,961 Class C shares and 469,961 Class D shares. One Class C share and one Class D share are together equivalent to one Class A share, such that, as of the date of this report, the issued capital comprised 2,027,877 Class A-equivalent shares.

FRHI's registered office is located at Maples Corporate Services, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

It is the parent company of a hotel group that does business under the Raffles, Fairmont and Swissôtel brands. Its corporate purpose is to conduct any and all hotel operations and any and all real estate, financial investment and holding company activities, in France and abroad.

### **1.2.2 Accor SA, the recipient of the contributed assets**

ACCOR SA is a French *société anonyme* (joint stock company) administered by a Board of Directors with share capital of €712,366,974, represented by 237,455,658 shares, each with a par value of €3. Accor SA shares are listed on the Euronext Paris stock exchange (ISIN: FR0000120404) and traded in the USA on the OTC market (symbol: ACRFY).

Its registered office is located at 82, rue Henri Farman, 92130 Issy-les-Moulineaux and it is registered with the Nanterre Trade and Companies registry under no. 602 036 444.

Accor SA's corporate purpose is to engage in the following activities, in France and other countries, on its own behalf, or on behalf of third parties, or jointly with third parties:

- the ownership, financing and management, directly, indirectly, or under specified mandates, of hotels, restaurants and bars of any nature or category and, more generally, any establishment related to accommodation, food, tourism, leisure, and services;
- the economic, financial, and technical review of projects and, generally, all services related to the development, organization and management of the above-mentioned establishments, including all actions related to their construction or the provision of any related consulting services;
- the review and provision of services intended to facilitate the supply of meals to employees in companies, institutions and other organizations;
- the creation of any new company and the acquisition of interests by any method in any company operating in any business;
- all non-trading, commercial, industrial and financial transactions, involving both securities and property, related to the purposes of the Company and all similar or related purposes.

### **1.2.3 Capital ties between the companies and common directors**

As of the date of signature of the Contribution Agreement, the recipient of the Contributed Assets had no shareholdings or shareholders in common with either the company whose shares are being contributed or the Contributors.

## **1.3 General description of the transaction**

The transaction process, which is described in detail in the Contribution Agreement signed on June 6, 2016, can be summarized as follows:

### ***Legal and tax regime***

The Contribution is governed by the standard legal provisions in France concerning contributed assets as described in article L.225-147 of the French Commercial Code and the related enabling legislation.

Provided that the conditions precedent are satisfied, the Contribution will be subject to the fixed registration duty provided for in article 810 of the French General Tax Code.

### ***Effective date and completion date***

The Contribution will be effective as of the date when the last of the conditions precedent is satisfied. In the event the Conditions Precedent have not been satisfied on October 31, 2016 at the latest, the Contributors or Accor will be entitled to abandon the proposed Contribution in accordance with the Share Purchase and Contribution Agreement, the terms of which are presented in the "Document E" relating to the Contribution and include the payment to the Contributors of a total termination indemnity of US\$ 40 million.

### ***Conditions precedent***

Completion of the Contribution is subject to the conditions precedent presented in the "Document E" relating to this transaction. They include:

- recording by the AMF of a "Document E" relating to the Contribution as specified in article 212-34 of its General Regulation, within the timeframe set in paragraph 2 of said article;
- approval by Accor's ordinary meeting of the appointment of two directors recommended by the QIA Entities and of the director recommended by the KHC Entity;
- approval by Accor's extraordinary meeting of the Contribution, its valuation and the consideration arrangements;
- approval by Accor's extraordinary meeting of the completion of Accor's capital increase following the Contribution and of the effective completion of the Contribution;
- signature by the QIA Entities and the KHC Entity of a shareholders' agreement with Accor;
- prior completion of certain restructuring measures within the FRHI group and repayment of loans contracted with FRHI's current shareholders;
- signature of amendments to certain hotel management contracts entered into with the QIA Entities and the KHC Entity as owners of these hotels and of letters in which certain QIA, KHC and OMERS entities, as owners of the hotels, state that they agree to the transaction and to the change of control of FRHI and that they waive any rights in this regard;
- the delivery by Accor of a copy of the order to irrevocably and unconditionally transfer to the Contributors their prorata portion of the total purchase price for the acquisition by Accor of the rest of the shares constituting the share capital of FRHI, as well as a statement from the sender bank confirming such irrevocable and unconditional payment orders have been validated by such bank and transferred to the SWIFT system.

All conditions precedent will be met at the latest at the time Accor's shareholders vote to approve and place on record the effective completion of its capital increase following the Contribution and the effective completion of the Contribution.

## 1.4 Description and valuation of the Contributed Assets

### 1.4.1 Description of the Contributed Assets

FRHI's shareholders will contribute 1,718,134 FRHI shares to Accor, including 1,071,610 Class A shares, 323,262 Class C shares and 323,262 Class D shares.

One Class C share plus one Class D share are together equivalent to one Class A share.

The Contribution Agreement entered into between the Parties on June 6, 2016 stipulates that the number and class of FRHI shares contributed to Accor by each shareholder will be as follows:

Class of shares	Kingdom Hotels (Europe) LLC	Lodge Investment Company	Voyager Fund Enterprise I Ltd	FRH Investment Holdings Inc
Class A	169,407	323,331	557,949	20,923
Class C	323,262			
Class D	323,262			

The contributed shares have been valued at their fair value agreed between the Parties, representing a total of €1,672,800,310.24 or €1,199.25 per contributed Class A share or per contributed Class C share plus Class D share.

This value was compared by the Parties to the values obtained using a multi-criteria approach.

### 1.4.2 Consideration for the contribution

Under the terms of the Contribution Agreement signed on June 6, 2016, Accor will issue 46,700,000 new shares with a par value of €3 each as consideration for the Contributed Assets, to be allocated to the Contributors in due proportion to their respective contributions.

The aggregate par value of the shares issued by Accor as consideration for the Contributed Assets will be €140,100,000.

The premium of €1,532,700,310.24 corresponding to the difference between the value of the Contributed Assets (€1,672,800,310.24) and the aggregate par value of the shares issued by Accor, will be credited to additional paid-in capital in the Company's statement of financial position to which all new and existing Accor shareholders will have rights.

The premium may be freely appropriated by decision of the general meeting of Accor shareholders.

Following completion of the Contribution, Accor's share capital will amount to €852,466,974, represented by 284,155,658 shares with a par value of €3 each, all fully paid and all in the same class.

The shares will carry dividend rights as from the date of their issuance, will rank *pari passu* with the existing shares comprising Accor's share capital, will carry the same rights and privileges and will be subject to all of the provisions set out in Accor's bylaws, with the exception of the rights to the 2015 dividend.

Our procedures on the consideration for the Contributed Assets are described in a separate report dated June 8, 2016.

## **2 PROCEDURES AND APPRAISAL OF THE CONTRIBUTED ASSETS**

### **2.1 Procedures performed by the Independent Appraiser of Capital Contributions**

Our engagement corresponded to one of the "other audit engagements" defined by law and provided for in the conceptual framework underpinning the professional guidelines applicable in France.

Its purpose was to provide assurance to Accor shareholders that the value attributed to the Contributed Assets is not overstated.

Consequently, we did not perform a full audit or a limited review of financial and accounting information, nor did we perform any procedures to validate the transaction's tax treatment. Our engagement did not consist of a due diligence investigation such as would be performed on behalf of a lender or buyer and did not include all of the procedures that would be required for that type of engagement. Our report cannot therefore be used in connection with any due diligence process.

Our opinion is expressed as of the date of this report, the issuance of which represents the final stage in our engagement. Our responsibility does not include reviewing any events that may occur between the date of our report and the shareholders' meetings called to approve the contributions of FRHI shares.

In accordance with the terms of our appointment, we performed the procedures that we considered necessary under the professional guidelines applicable in France to this type of engagement, in order to:

- verify the existence of and title to the Contributed Assets and assess the possible impact of any factors that could affect title thereto;
- assess the value attributed to the Contributed Assets in the Contribution Agreement;

- obtain assurance that the aggregate fair value of the Contributed Assets is at least equal to the value attributed to them in the Contribution Agreement;
- obtain assurance that no facts or events that might adversely affect the value attributed to the Contributed Assets arose or occurred in the period to the date of this report.

Our procedures included:

- interviewing the persons responsible for the transaction and their advisors, in order to understand the context and the financial, accounting, legal and tax environment in which the transaction is taking place;
- interviewing the members of Accor SA and FRHI management and reviewing the documents made available to the buyer in the transaction data room;
- reviewing the draft Contribution Agreement and its appendices;
- reviewing FRHI's consolidated financial statements for the six months ended June 30, 2015 and the year ended December 31, 2015, as well as the pro forma financial statements for the year ended December 31, 2015 which reflect the measures provided for in the Share Purchase and Contribution Agreement dated December 9, 2015;
- obtaining and reviewing the business plan prepared by FRHI management, as well as the revised business plan prepared by Accor which includes the effect of the expected synergies;
- reviewing the FRHI valuation report prepared by Accor and its advisors;
- reading the Canadian CPA's audit reports on the various financial statements of FRHI that we reviewed, which all include clean opinions;
- obtaining and reviewing the due diligence reports prepared by Accor's various advisors covering the legal, accounting and tax aspects of the transaction and employee-related risks;
- analyzing developments in the hospitality industry and the industry outlook, based on our databases and recent analyst research reports;
- assessing whether the criteria and methods used to value the FRHI shares were appropriate;
- implementing alternative methods and analyzing the sensitivity of the resulting values to changes in relevant parameters, in order to obtain assurance that the value attributed to the Contributed Assets by the Parties was not overstated;
- obtaining representation letters from the management of FRHI and Accor confirming *inter alia* the absence of any events or facts that could adversely affect the value attributed to the Contributed Assets.

The representations made and warranties given by the Contributors and FRHI to Accor must be reiterated and a statement issued to the effect that no events have occurred that would have a

material adverse effect on FRHI, no later than the date of the meeting of Accor shareholders called to approve and place on record the effective completion of its capital increase following the Contribution and the effective completion of the Contribution.

## **2.2 Appraisal of the Contributed Assets**

### **2.2.1 Background and choice of valuation method**

The transaction consists of the contribution of FRHI shares to Accor. It is the main component of a larger transaction involving the contribution and sale of all of the shares making up FRHI's issued capital.

It does not represent a common control transaction as defined in French accounting standards (ANC Rule 2014-03, section VII - Recognition and measurement of mergers and similar transactions) and the Parties have therefore agreed to value the shares at their fair value.

We have no comments on this choice of valuation basis which complies with the applicable accounting rules.

### **2.2.2 Appraisal of the Contributed Assets**

The 1,718,134 FRHI shares to be contributed to Accor have been valued at their fair value of €1,672,800,310.24, representing €1,199.25 per contributed Class A share or per contributed Class C share plus Class D share (with one Class C share and one Class D share being together equivalent to one Class A share).

Since all of the Contributed Assets are the same or equivalent, our procedures were limited to analyzing the aggregate value of the contribution.

The valuation methods are presented in detail in the "Document E" related to the transaction prepared by the Parties and submitted to the AMF, for approval, which is currently pending.

Our procedures on the valuation are described in our report on the consideration for the Contributed Assets dated June 8, 2016.

To assess the aggregate value attributed to the Contributed Assets, we used the results of the work performed during our engagement as independent appraisers of capital contributions as extended in accordance with the recommendation of the AMF to include an assessment of the fairness of the exchange ratio used to determine the consideration for the Contributed Assets.

In particular, we:

- ✓ reviewed the valuation approaches used by the Parties to determine the fair value attributed to the FRHI shares and obtained assurance that they did not result in said value being materially under- or overstated, and
- ✓ applied alternative or complementary methods which are described in detail, together with the results, in our report on the consideration for the Contributed Assets.

In substance, FRHI was valued by the Parties using a multi-criteria approach, which included the discounted cash flows method, the sum-of-the-parts method and the comparable transaction multiples method.

The discounted cash flows and sum-of-the-parts methods represent commonly applied methods that are appropriate in light of FRHI's business, size and financial position.

We noted, however, that very few transactions involving companies with similar characteristics to those of FRHI were carried out in the recent past. We therefore consider that this method is not particularly appropriate.

We also applied the comparable market multiples method, in addition to the methods used by the Parties.

We tested the sensitivity of the resulting values to changes in the discount rate and growth rate, using criteria that we considered appropriate. We have no particular comments arising from this analysis.

The valuations are based on projections which, by definition, are uncertain. Actual results may differ from these projections, in some cases to a significant extent. If the business targets set on the basis of these projections failed to be met, the aggregate value of the FRHI shares could be adversely affected.

We obtained assurance that the projections were based on substantiated evidence such as signed agreements and synergies to be unleashed during the projection period, and on recent research reports published by analysts covering the industry and the company that confirm the underlying assumptions and limit the uncertainty concerning the achievement of management's projections.

The expected synergies from the business combination were examined in detail – covering both the qualitative impact and the impact on revenues and earnings – by the operations teams based, in particular, on Accor's experience and industry research reports.



The results of our procedures support the value attributed to the Contributed Assets by the Parties, i.e., €1,199.25 per contributed Class A share or per contributed Class C share plus Class D share, which is within the range of values determined by the methods that we applied.

Method	Value per FRHI share (€)
Discounted cash flows method	1,190 – 1,567
Sum-of-the-parts method	1,310 – 1,375
Market comparables method	1,388 – 1,575
<i>Exchange rate used: US\$ 0.9034 = €1 (source: Bloomberg, three-month average at April 21, 2016)</i>	

### 3 EXECUTIVE SUMMARY

Based on our procedures, we consider that the aggregate value of €1,672,800,310.24 attributed to the Contributed Assets in the Contribution Agreement signed by the Parties on June 6, 2016 is consistent with the range values of FRHI Holdings Limited obtained by the methods described above.

The attention of shareholders is drawn to the following matters identified during the procedures described in this report and our report on the consideration for the Contributed Assets dated June 8, 2016:

- The valuations are based on projections in an area exposed to economic and political developments in each country where FRHI has hotel operations and in the tourism industry as a whole.
- We consider that the assumptions and projections are consistent with our analyses of developments in the hospitality industry and the industry outlook, based on our databases and recent analyst research reports.

These observations do not affect our appraisal but are an integral part thereof.

Consequently, we do not have any other observations concerning the aggregate value attributed to the Contributed Assets.

## 4 CONCLUSION

On the basis of our work and at the date of this report, we consider that the value of the shares contributed, set at **€1,672,800,310.24**, is not overstated and consequently, that it is at least equal to the amount of the capital increase of the company to which the shares will be contributed, plus the contribution premium.

Paris, June 8, 2016

The Independent Appraisers of Capital Contributions  
*(commissaires aux apports)*

Jacques Potdevin

Didier Kling

Statutory Auditors  
Members of the Compagnie Régionale de Paris

Jacques Potdevin  
7 rue Galilée  
75116 Paris

Didier Kling  
28 avenue Hoche  
75008 Paris

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## ACCOR SA

A French *société anonyme* (joint stock company) with share capital of €712,366,974  
82, rue Henri Farman  
92130 Issy-les-Moulineaux  
Nanterre Trade and Companies Registry no. 602 036 444

*Report of the Independent Appraisers of Capital Contributions appointed  
by Order of the President of the Paris Commercial Court  
on December 21, 2015*

### **Independent Appraisers' Report on the Consideration for the Contributed Assets**

*This is a free translation into English of the Independent Appraisers' report issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional guidelines applicable in France.*

To the Shareholders,

In accordance with the terms of our appointment by Order of the President of the Paris Commercial Court on December 21, 2015 in connection with the contribution by:

- Lodge Investment Company and Voyager Fund Enterprise I Ltd, both controlled by Qatar Investment Authority (QIA)
- Kingdom Hotels (Europe) LLC, controlled by Kingdom Holding Company of Saudi Arabia (KHC)
- FRHI Investment Holdings Inc, controlled by Ontario Municipal Employees Retirement System (OMERS)

(the "Contributors")

to Accor SA of part of their respective interests in FRHI Holdings Limited ("FRHI"), we have prepared this report on the consideration to be paid in exchange for the shares (the "Contributed Assets"), in accordance with recommendation 2011-11 dated July 21, 2011 of the *Autorité des Marchés Financiers*. We have issued a separate report on our appraisal of the value of the Contributed Assets.

The consideration for the Contributed Assets has been determined based on the exchange ratio specified in the Contribution Agreement signed on June 6, 2016 by the representatives of the companies concerned.

Our responsibility is to express an opinion on the fairness of this exchange ratio. We performed our procedures in accordance with the professional guidelines applicable in France to this type of engagement. Those guidelines require that we perform procedures to obtain assurance that the relative values attributed to the shares held by the participating companies are appropriate and to assess the exchange ratio in relation to said appropriate relative values.

The engagement was not incompatible with our other professional obligations and we were not prohibited or disqualified from accepting it.

The issuance of this report is the final stage in our engagement and we have no obligation to update our report to take into account any facts or circumstances arising after the date of its signature.

Shareholders are invited to read our observations and conclusions presented in the report below, which is organized as follows:

- 1. Presentation of the transaction**
- 2. Procedures to obtain assurance that the relative values attributed to the assets contributed by the participating companies are appropriate**

- 3. Assessment of the fairness of the proposed exchange ratio**
- 4. Conclusion**

# **1 PRESENTATION OF THE TRANSACTION**

The transaction results from the Contribution Agreement entered into between the Parties on June 6, 2016. It may be summarized as follows:

## **1.1 Purpose and objectives of the transaction**

On December 9, 2015, Accor entered into an agreement with the shareholders of FRHI to acquire the entire capital of FRHI, the parent company of the hotel group operating under the Fairmont, Raffles and Swissôtel brands.

Under the terms of this agreement, FRHI's shareholders:

- Kingdom Hotels (Europe) LLC, a limited liability company registered in Dubai (Dubai International Financial Centre) under no. 2142, whose registered office is at Dubai International Financial Centre, Precinct Building 3, P.O. Box 121223 Dubai, United Arab Emirates;
- Lodge Investment Company, a limited company registered in the Cayman Islands under no. 275668, whose registered office is at Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman, KY1-9005, Cayman Islands;
- Voyager Fund Enterprise I Ltd., a limited company registered in the Cayman Islands under no. 236791, whose registered office is at Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman, KY1-9005, Cayman Islands;
- FRH Investment Holdings Inc., a corporation registered in Ontario, Canada under no. 002115085, whose registered office is at 1 University Avenue, Suite 400, Toronto, Ontario, M5J2P1, Canada,

will contribute part of their respective interests in FRHI to Accor in exchange for 46.7 million Accor shares. At the same time as this contribution, the remainder of the shares comprising FRHI's share capital will be sold to Accor for US\$ 840 million, payable in cash.

This transaction will enable Accor (also referred to as "AccorHotels") to strategically enhance its brand portfolio and achieve a more balanced business profile. The integration of Raffles, Fairmont and Swissôtel will broaden Accor's geographic footprint and presence in the luxury segment.

With just over 500 luxury and upscale establishments and a development pipeline of 200 hotels, Accor would take its place among the key global players in this segment and would be able to offer even more profitable management contracts and better growth potential in many markets. FRHI's teams would bolster the Accor group's expertise in the luxury segment and provide it with new objectives, through targeted, value-added expansion.

The transaction is expected to generate revenue and cost synergies thanks to the combination of brands, the maximization of hotel earnings, the increased efficiency of marketing, sales and distribution channel initiatives, and the optimization of support costs. Significant improvements could also be made in terms of customer data, thanks to the integration of a

customer base that includes 3 million loyalty program members, of which two-third are North Americans travelers.

## **1.2 Participating companies**

### **1.2.1 FRHI Holdings Limited, the company whose shares are being contributed**

FRHI HOLDINGS LIMITED is a limited company registered in the Cayman Islands under no. MC-237438. Its authorized capital comprises 3,000,000 Class A shares, 650,000 Class C shares, 650,000 Class D shares and 75,000 Class E shares, all with a par value of US\$ 0.0001.

As of the date of this report, its issued capital was made up of 1,557,916 Class A shares, 469,961 Class C shares and 469,961 Class D shares. One Class C share and one Class D share are together equivalent to one Class A share, such that, as of the date of this report, the issued capital comprised 2,027,877 Class A-equivalent shares.

FRHI's registered office is located at Maples Corporate Services, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

It is the parent company of a hotel group that does business under the Raffles, Fairmont and Swissôtel brands. Its corporate purpose is to conduct any and all hotel operations and any and all real estate, financial investment and holding company activities, in France and abroad.

### **1.2.2 Accor SA, the recipient of the contributed assets**

ACCOR is a French *société anonyme* (joint stock company) administered by a Board of Directors with share capital of €712,366,974, represented by 237,455,658 shares, each with a par value of €3. Accor SA shares are listed on the Euronext Paris stock exchange (ISIN: FR0000120404) and traded in the USA on the OTC market (symbol: ACRFY).

Its registered office is located at 82, rue Henri Farman, 92130 Issy-les-Moulineaux and it is registered with the Nanterre Trade and Companies registry under no. 602 036 444.

Accor SA's corporate purpose is to engage in the following activities, in France and other countries, on its own behalf, or on behalf of third parties, or jointly with third parties:

- the ownership, financing and management, directly, indirectly, or under specified mandates, of hotels, restaurants and bars of any nature or category and, more generally, any establishment related to accommodation, food, tourism, leisure, and services;
- the economic, financial, and technical review of projects and, generally, all services related to the development, organization and management of the above-mentioned establishments, including all actions related to their construction or the provision of any related consulting services;
- the review and provision of services intended to facilitate the supply of meals to employees in companies, institutions and other organizations;

- the creation of any new company and the acquisition of interests by any method in any company operating in any business;
- all non-trading, commercial, industrial and financial transactions, involving both securities and property, related to the purposes of the company and all similar or related purposes in France and abroad.

### **1.2.3 Capital ties between the companies and common directors**

As of the date of signature of the Contribution Agreement, the recipient of the Contributed Assets had no shareholdings or shareholders in common with either the company whose shares are being contributed or the Contributors.

## **1.3 General description of the transaction**

The transaction process, which is described in detail in the Contribution Agreement signed on June 6, 2016, can be summarized as follows:

### ***Legal and tax regime***

The Contribution is governed by the standard legal provisions in France concerning contributed assets as described in article L.225-147 of the French Commercial Code and the related enabling legislation.

Provided that the conditions precedent are satisfied, the Contribution will be subject to the fixed registration duty provided for in article 810 of the French General Tax Code.

### ***Effective date and completion date***

The Contribution will be effective as of the date when the last of the conditions precedent is satisfied. In the event the Conditions Precedent have not been satisfied on October 31, 2016 at the latest, the Contributors or Accor will be entitled to abandon the proposed Contribution in accordance with the Share Purchase and Contribution Agreement, the terms of which are presented in the "Document E" relating to the Contribution and include the payment to the Contributors of a total termination indemnity of US\$40 million.

### ***Conditions precedent***

Completion of the Contribution is subject to the conditions precedent presented in the "Document E" relating to this transaction. They include:

- recording by the AMF of a "Document E" relating to the Contribution as specified in article 212-34 of its General Regulation, within the timeframe set in paragraph 2 of said article;
- approval by Accor's ordinary meeting of the appointment of two directors recommended by the QIA Entities and of the director recommended by the KHC Entity;
- approval by Accor's extraordinary meeting of the Contribution, its valuation and the consideration arrangements;
- approval by Accor's extraordinary meeting of the completion of Accor's capital increase following the Contribution and of the effective completion of the Contribution;



- signature by the QIA Entities and the KHC Entity of a shareholders' agreement with Accor;
- prior completion of certain restructuring measures within the FRHI group and repayment of loans contracted with FRHI's current shareholders;
- signature of amendments to certain hotel management contracts entered into with the QIA Entities and the KHC Entity as owners of these hotels and of letters in which certain QIA, KHC and OMERS entities, as owners of the hotels, state that they agree to the transaction and to the change of control of FRHI and that they waive any rights in this regard;
- the delivery by Accor of a copy of the order to irrevocably and unconditionally transfer to the Contributors their prorata portion of the total purchase price for the acquisition by Accor of the rest of the shares constituting the share capital of FRHI, as well as a statement from the sender bank confirming such irrevocable and unconditional payment orders have been validated by such bank and transferred to the SWIFT system.

All conditions precedent will be met at the latest at the time Accor's shareholders vote to approve and place on record the effective completion of its capital increase following the Contribution and the effective completion of the Contribution.

## 1.4 Description and valuation of the Contributed Assets

### 1.4.1 Description of the Contributed Assets

FRHI's shareholders will contribute 1,718,134 FRHI shares to Accor, including 1,071,610 Class A shares, 323,262 Class C shares and 323,262 Class D shares.

One Class C share plus one Class D share are together equivalent to one Class A share.

The Contribution Agreement entered into between the Parties on June 6, 2016 stipulates that the number and class of FRHI shares contributed to Accor by each shareholder will be as follows:

Class of shares	Kingdom Hotels (Europe) LLC	Lodge Investment Company	Voyager Fund Enterprise I Ltd	FRH Investment Holdings Inc
Class A	169,407	323,331	557,949	20,923
Class C	323,262			
Class D	323,262			

The contributed shares have been valued at their fair value agreed between the Parties, representing a total of €1,672,800,310.24 or €1,199.25 per contributed Class A share or per contributed Class C share plus Class D share.

This value was compared by the Parties to the values obtained using a multi-criteria approach.

### 1.4.2 Consideration for the Contribution

Under the terms of the Contribution Agreement signed on June 6, 2016, Accor will issue 46,700,000 new shares with a par value of €3 each as consideration for the Contributed Assets, to be allocated to the Contributors in due proportion to their respective contributions.

The aggregate par value of the shares issued by Accor as consideration for the Contributed Assets will be €140,100,000.

The premium of €1,532,700,310.24 corresponding to the difference between the value of the Contributed Assets (€1,672,800,310.24) and the aggregate par value of the shares issued by

Accor, will be credited to additional paid-in capital in the Company's statement of financial position to which all new and existing Accor shareholders will have rights.

The premium may be freely appropriated by decision of the general meeting of Accor shareholders.

Following completion of the Contribution, Accor's share capital will amount to €852,466,974, represented by 284,155,658 shares with a par value of €3 each, all fully paid and all in the same class.

The shares will carry dividend and voting rights as from the date of their issuance, will rank *pari passu* with the existing shares comprising Accor's share capital, will carry the same rights and privileges and will be subject to all of the provisions set out in Accor's bylaws, with the exception of rights to the 2015 dividend.

## **2 PROCEDURES TO OBTAIN ASSURANCE THAT THE RELATIVE VALUES ATTRIBUTED TO THE ASSETS CONTRIBUTED BY THE PARTICIPATING COMPANIES ARE APPROPRIATE**

### **2.1 Exchange ratio used by the Parties to the transaction**

Under the terms of the Contribution Agreement signed on June 6, 2016 and in accordance with the Share Purchase and Contribution Agreement entered into between the Parties on December 9, 2015, the number of FRHI shares to be contributed to Accor in exchange for 46,700,000 Accor shares to be issued to the Contributors was determined by the Parties based on the respective fair values of FRHI and Accor shares, as estimated using a multi-criteria approach.

The fair values of FRHI and Accor shares were compared using several approaches, which are presented in detail in the "Document E" prepared by the Parties for submission to the AMF:

As a first step, the following valuation methods were applied consistently to both companies:

- The principal method consisted in comparing the relative values of FRHI and Accor as determined by the discounted cash flows method;
- And a sum-of-the-parts valuation based on comparable market multiples.

The Accor share price was then compared to the value attributed by the Parties to the contributed FRHI shares.

The reference Accor share price used for this purpose corresponded to:

- the average Accor share price for the one-month period preceding the announcement of the transaction on December 9, 2015 and the period between this date and April 8, 2016;
- the price targets submitted by covering analysts following the announcement of Accor's 2015 results on February 18, 2016.

The table below shows the range of implicit exchange ratios based on these multi-criteria analyses:

	Implicit value per Accor share ex-2015 dividend <sup>(1)</sup> (€)	Implicit value per FRHI share (€)	Implicit exchange ratio
<b>Main assessment method used</b>			
Discounted available cash flows	37.2 – 52.9	1,256.9 – 1,517.3	31.44 – 34.58 <sup>(2)</sup>
<b>Accor market share price reference</b>			
Market share price since the announcement <sup>(3)</sup>	29.0 – 39.3	1,199.3	30.52 – 41.41 <sup>(5)</sup>
Target share price published by financial analysts	31.0 – 47.0	1,199.3	25.52 – 38.69 <sup>(5)</sup>
Market share price – one-month period prior to announcement <sup>(4)</sup>	37.0 – 42.7	1,199.3	29.03 – 33.48 <sup>(5)</sup>
<b>Other valuation references</b>			
Sum-of-the-parts	37.6 – 47.6	1,080.0 – 1,279.9	27.35 – 27.72 <sup>(2)</sup>

(1) Based on the recommended 2015 dividend of €1.00 per Accor share put to the vote of the April 22, 2016 shareholders' meeting.

(2) Implicit exchange ratio calculated using the same valuation method for FRHI and Accor.

(3) From December 9, 2015 to April 8, 2016.

(4) Based on the volume-weighted average share price over the one-month period preceding December 9, 2015.

(5) Implicit exchange ratio calculated based on an enterprise value of €2.5 billion for FRHI.

Within this range, the Parties agreed to apply an exchange ratio of 33.48 Accor shares for one FRHI Class A share or Class-A equivalent share (corresponding to one Class C share plus one Class D share).

## **2.2 Procedures performed in our capacity as independent appraisers**

Our engagement corresponded to one of the "other audit engagements" defined by law and provided for in the conceptual framework underpinning the professional guidelines applicable in France.

Its purpose was to inform the respective shareholders of Accor SA and FRHI Holdings Limited about the relative values used to determine the exchange ratio and assess the ratio's fairness.

Consequently, we did not perform a full audit or a limited review of financial and accounting information, nor did we perform any procedures to validate the transaction's tax treatment. Our engagement did not consist in a due diligence investigation such as would be performed on behalf of a lender or buyer and did not include all of the procedures that would be required for that type of engagement. Our report cannot therefore be used in connection with any due diligence process.

Our opinion is expressed as of the date of this report, the issuance of which represents the final stage in our engagement. Our responsibility does not include reviewing any events that may occur between the date of our report and the shareholders' meetings called to approve the contributions of FRHI shares.

In accordance with the terms of our appointment, we performed the procedures that we considered necessary under the professional guidelines applicable in France to this type of engagement.

These procedures included:

- examining the background to and aims of the transaction;
- interviewing the members of FRHI and Accor management responsible for the transaction, in order to understand the context and the financial, accounting, legal and tax environment in which the transaction is taking place;
- interviewing Accor's auditors and the advisors retained to perform the legal, tax and financial due diligence investigations;
- reviewing the draft Contribution Agreement and its appendices;
- obtaining assurance that Accor's separate and consolidated financial statements for the year ended December 31, 2015 had been audited and that the auditors had issued clean opinions thereon;

- obtaining assurance that the consolidated financial statements of FRHI for the year ended December 31, 2015, prepared in accordance with IFRS, had been audited by the Canadian CPA and that the CPA had issued a clean opinion thereon;
- reviewing FRHI's pro forma financial statements for the year ended December 31, 2015 that were the subject of a limited review by the auditors;
- reviewing the business plan prepared by FRHI's management and the revised business plan prepared by Accor and its advisors;
- analyzing the outlook in the hospitality industry, based on our databases and recent analyst research reports;
- assessing whether the criteria and methods used to value the shares of the participating companies were appropriate and had been properly applied;
- implementing alternative methods and analyzing the exchange ratio's sensitivity to the range of values obtained for the two companies' shares at the end of the valuation process;
- obtaining assurance that no facts or events that might adversely affect the relative values obtained during the valuation process had arisen or occurred in the period to the date of this report.

We obtained representation letters from the management of FRHI and Accor confirming the material information used for the purposes of our engagement and the absence of anything that could adversely affect the values determined for each of the companies.

The representations made and warranties given by the Contributors and FRHI to Accor must be reiterated and a statement issued to the effect that no events have occurred that would have a material adverse effect on FRHI, no later than the date of the meeting of Accor shareholders called to approve and place on record the effective completion of its capital increase following the Contribution and the effective completion of the Contribution.

### **2.3 Assessment of whether the relative values presented by the Parties are appropriate**

The comments arising from our assessment of the relative values attributed by the Parties to the participating companies' shares are as follows:

- the valuation methods used by the Parties, i.e., the discounted cash flows method backed up by the sum-of-the-parts (SOTP) method, to determine the fair value of the shares represent commonly applied methods that are appropriate in light of the companies' businesses, size and financial position;
- commonly applied stock market multiples were also used by the Parties. We used the results of applying stock market multiples to value the Accor shares only as an

additional source of insight, because this method could not be applied consistently to FRHI as it is not listed on the stock market;

- we also applied the comparable market multiples method, in addition to the methods used by the Parties to the transaction.

### **2.3.1 Rejected valuation criteria**

#### ***Net book asset value***

This approach consists of estimating the value of a company's shares based on its net book asset value per share.

Use of this criterion was rejected because the Accor group's assets (brands, customer relationships, hotel properties, goodwill, management and franchise contracts, etc.) are not all measured at fair value in the statement of financial position.

#### ***Adjusted net asset value***

This method is mainly used to value holding companies and companies set up to hold various real estate or other assets. It may also be used in a liquidation approach, after factoring in liquidation costs.

For these reasons, it is not an appropriate approach to valuing a company that operates a business directly with a long-term perspective.

#### ***Dividend discount model***

This approach consists of valuing shares based on projected future dividends discounted back to present value. It is generally used to value shares in mature companies which have a policy of paying regular dividends that are representative of their distribution capability.

Accor and FRHI both have a policy of paying regular dividends. However, this policy does not mean that they are mature companies which have exhausted their organic growth and acquisition options.

#### ***Comparable transactions method***

This approach consists of estimating a company's value by applying relevant multiples observed for a selection of transactions involving companies operating in the same business.

The Parties used this method to value FRHI's shares.

We noted, however, that very few transactions involving companies with similar characteristics to those of Accor and FRHI were carried out in the recent past. We therefore consider that this method is not particularly appropriate.

## 2.3.2 Comments and observations on the Accor valuation

### A. Parameters used for the various valuation approaches

The number of shares and the adjustments made to a company's enterprise value to calculate its equity value represent parameters that are common to all of the valuation methods used by the Parties.

#### *Number of shares*

Accor was valued based on a total of 237,182,594 shares, corresponding to (i) the 235,352,425 shares outstanding as of December 31, 2015, plus (ii) the 1,830,169 shares issuable upon exercise of the stock options that were exercisable as of December 31, 2015.

#### *Adjustments to enterprise value to calculate equity value*

Based on its financial statements at December 31, 2015, the Accor group's adjusted net debt at that date was €692 million and the other adjustments required to calculate equity value represented a positive €110 million (corresponding to the amount to be added to its enterprise value to arrive at equity value).

#### **Accor adjusted net debt**

	(€m)
Other long-term debt	(2,692)
Lease liabilities	(53)
Short-term debt	(91)
Bank overdrafts	(19)
Receivables from disposals of assets	44
Short-term loans	43
Cash and cash equivalents	2,963
<b>Net cash position/(Net debt)</b>	<b>195</b>
Subordinated debt	(887)
<b>Adjusted net debt</b>	<b>(692)</b>

#### **Other adjustments**

	(€m)
Provision for pensions after tax	(85)
Assets held for sale	189
Non-current financial assets	654
Stock options (exercise price)	49
Minority interests	(225)
Price to book value <sup>1</sup>	3.1
Adjusted minority interests	(698)
<b>Other adjustments</b>	<b>110</b>

<sup>1</sup> Ratio between the fair value of equity and its book value.



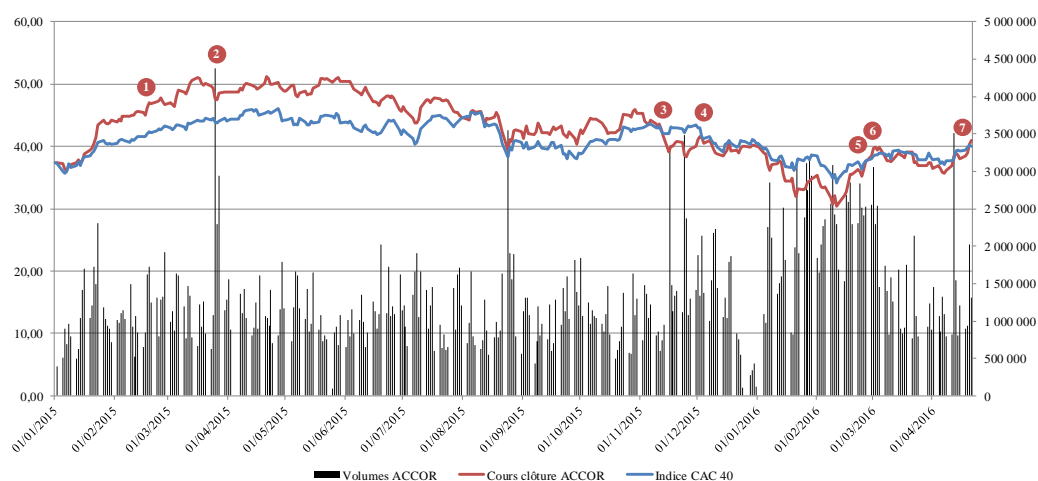
## B. Valuation criteria that could not be applied consistently to Accor and FRHI

The analyses described below were performed for information purposes only, because these valuation criteria cannot be applied consistently to both companies.

### *Stock market multiples (as of April 21, 2016<sup>2</sup>)*

Accor shares are actively traded on NYSE Euronext Paris, in compartment A. The graph below shows Accor's stock market performance since January 1, 2015, the volumes traded and the significant events that may have affected the share price during the period.

**Accor's stock market performance since January 1, 2015**  
(source: Bloomberg)



Footnote	Date	Event
1	Feb. 18, 2015	2014 results published
2	Mar. 25, 2015	Sale of 10% of Accor's capital by Eurazeo and Colony Capital announced
3	Nov. 13, 2015	Paris terror attacks
4	Dec. 1, 2015	43 hotels acquired for €281m
5	Feb. 18, 2016	2015 results published
6	Feb. 29, 2016	Chinese group Jin Jang's stake in Accor increased to over 5%
7	Apr. 20, 2016	Announcement by Jin Jang that it holds 14.97% of Accor's capital

<sup>2</sup> Date of our analyses, as (i) presented to the meeting of the Board of Directors of Accor on May 19, 2016 at which the transaction terms were approved and (ii) included in our draft reports on the consideration for the Contributed Assets and the value of the Contributed Assets submitted to the AMF.

April 21, 2016	Spot	1 month	3 months	6 months	Since Dec. 9, 2015*
Volume-weighted average share price (€)	40.98	37.58	36.36	37.27	36.19
High (€)		40.98	40.98	41.53	40.98
Low (€)		35.68	30.43	30.43	30.43

\* Date when the transaction was announced.

### ***Target prices submitted by covering analysts***

Accor is covered by a large number of analysts.

As of April 21, 2016, the average of the target prices submitted since the 2015 results were announced was €42.0 with a maximum target of €48.0 and a minimum of €32.0 (source: Bloomberg).<sup>3</sup>

## **C. Criteria used for the valuation**

### ***Discounted cash flows method***

The discounted cash flows method is appropriate for valuing Accor and determining relative values because it explicitly takes into account Accor's growth potential and projected profitability.

### **Business plan estimates**

Accor has prepared a business plan based on financial analysts' post-results announcement projections published between February 18 and February 26, 2016.

We also prepared our own business plan based on the projections published by the financial analysts whose predictions cover the years 2016 to 2018.<sup>4</sup> We determined whether these projections provided a vision of the Accor group on a standalone basis, i.e., without FRHI, or a pro forma basis, i.e., including FRHI. Pro forma projections were adjusted to exclude the analysts' estimate of FRHI's contribution.

These projections point to continued strong growth in AccorHotels' business, with revenues expected to rise by 5.1% in 2018. We therefore extended the projection period by three years to bring the annual revenue and EBIT margin growth rates closer to our long-term assumptions of 2.0% and 20% respectively.

We used Accor's own capital expenditure assumptions (€450 million) but applied different assumptions for the following:

<sup>3</sup> We used the target prices submitted since the publication of Accor's 2015 financial statements, i.e., since February 18, 2016.

<sup>4</sup> In all, our business plan was based on seven analysts' projections.

- we considered that during the extended projection period (2019-2021), depreciation expense would increase by one-tenth of the difference between capital expenditure and depreciation expense;
- for the terminal value calculation, we considered that capital expenditure would be 2.0% greater than depreciation expense, to finance projected long-term growth.<sup>5</sup>

#### Financial parameters

We estimated the discount rate applied to Accor (rounded to 8.0%) based on the following parameters:

- normalized discount rate equal to the sum of (i) the expected inflation rate reflected in our perpetuity growth assumptions (2.0%) and (ii) the historical average term premium<sup>6</sup> (1.4% – source: Credit Suisse Global Investment Returns Sourcebook);
- a market risk premium of 4.5% (global historical average risk premium<sup>7</sup> determined based on a sample of 23 countries – source: Credit Suisse Global Investment Returns Sourcebook);
- a debt-free beta of 1.00, calculated by reference to a sample of international hotel operators (Choice Hotels, Hilton Worldwide, Hyatt Hotels, InterContinental Hotels, Marriott International, Morgans Hotels);
- a debt-to-equity ratio of 7%, reflecting Accor's financial position;
- a pre-tax cost of debt of 4.125%, determined by reference to the interest rate on Accor's subordinated debt issues.

This approach was corroborated by the discount rate used by the financial analysts for Accor, which averages 8.0%.

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<sup>5</sup> AccorHotels' business plan is based on the assumption that capital expenditure will be offset in full by depreciation expense. However, in light of the capital-intensive nature of the business, we consider that it will be necessary for net capital expenditure to represent a positive amount.

<sup>6</sup> The term premium corresponds to the additional yield required by investors to lend over a period beyond the life of treasury bonds.

<sup>7</sup> A global average risk premium is used in order to take into account (i) the international nature of the Accor and FRHI businesses and (ii) the high level of financial market integration.

We also used:

- a perpetuity growth rate of 2.0%, reflecting our long-term inflation assumption as well as the breakdown of AccorHotels' business portfolio and its geographic positioning (its growth potential is weakened by the capital-intensive nature of HotelInvest's business and current business focus on Europe);
- an assumed tax rate of 29.5%, corresponding to the effective tax rate reflected in the 2015 financial statements.

The reference date for our valuation was January 1, 2016.

#### Value per Accor share

We tested the sensitivity of the values obtained to a 0.5-point increase or decrease in the discount rate and a 0.25-point increase or decrease in the perpetuity growth rate.

These tests gave a range of values from €36.2 to €47.1 around a central value of €41.0 (before dividends).

#### ***Sum-of-the-parts (SOTP) method***

The sum-of-the-parts (SOTP) method involves valuing each business separately using the most appropriate method(s) and reference(s) in each case.

AccorHotels has two businesses – HotelServices and HotelInvest – and it also incurs costs in its role as holding company. The businesses that are not particularly capital intensive, i.e., hotel services based on management and franchise contracts where the hotel property is owned by a third party, attract higher valuations for three reasons: (i) the flow-through ratio (conversion of EBITDA into free cash flow) is higher; (ii) their fixed costs, and therefore their level of risk measured in terms of cash flow variability, are lower, and (iii) they grow faster because they require less development expenditure.

We valued the HotelServices business using the average EBITDA multiple observed for InterContinental and Choice, which have the least capital-intensive model of all the companies in our sample.

The method used to value HotelInvest was the gross asset value as published by Accor at December 31, 2015. Accor had HotelInvest's hotel assets valued by three independent experts who based their valuation on EBIT multiples. The experts valued HotelInvest at €6.9 billion at December 31, 2015.

Accor's holding company costs were valued using the average multiple observed for HotelInvest and HotelServices.

The sum-of-the-parts method gave a range of values from €48.9 to €50.1 (before dividends).

### ***Market comparables method***

This approach consists of estimating a company's value by applying relevant multiples observed for a selection of transactions involving listed companies operating in the same business.

In this case:

Starting with the sample used by the Parties, we performed additional research in order to select the companies that we considered as the most comparable in terms of their size, growth outlook and real estate portfolio.

Based on these criteria, our sample comprised three companies – Hilton, Marriott and Hyatt.

We considered that the most relevant multiples were those based on EBITDA.

EBITDA is the most commonly used multiple in the hospitality sector, because it reflects the market value of real estate assets in the most capital-intensive organizations and cash flow generation in those that are the least capital-intensive.

We used 2017 and 2018 as the reference years, in light of our objective of calculating relative values for Accor and for FRHI, which is expected to enjoy rapid EBITDA growth.

The market comparables method gave a range of values from €42.7 to €43.7 (before dividends).

### **2.3.3 Comments and observations on the FRHI valuation**

#### **A. Parameters used for the various valuation approaches**

The number of shares and the adjustments made to a company's enterprise value to calculate its equity value represent parameters that are common to all of the valuation methods used by the Parties.

#### ***Number of shares***

FRHI's issued capital is made up of three classes of shares (A, C and D). One Class C share plus one Class D share are together equivalent to one Class A share.

The table below shows the breakdown of FRHI's capital, which comprises the equivalent of 2,027,877 Class A shares.

Class	A	Total C	D
Number	1,557,916	469,961	469,961
Class A-equivalent shares, %	100%	1%	99%
Class A-equivalent shares, number	1,557,916	4,700	465,261

#### *Adjustments to enterprise value to calculate equity value*

Based on the financial statements at December 31, 2015, FRHI's adjusted net debt amounts to US\$ 100 million. We used an amount that was different from that used by the participating companies because we:

- included "Other debt" in an amount of US\$ 36 million, corresponding mainly to liabilities under the Long-Term Incentive Program;
- estimated minority interests at US\$ 39 million, based on the application of a fair value multiple to equity.

#### *Other valuation components*

The real estate joint ventures were valued using a "value-per-key" approach. This method consists of determining a specific price per room based on a sample of comparable transactions for each hotel owned through a joint venture. Application of this method valued the joint ventures at US\$ 214 million before deducting the related financing.

FRHI's interest in Avendra was valued at US\$ 73 million, based on a multiple of Avendra's 2016 EBITDA.

### **B. Criteria used for the valuation**

FRHI's business model is different from that of AccorHotels in the following respects:

- FRHI's business is less capital intensive because it is conducted mainly through management and franchise contracts;
- FRHI's contracts are very long compared with the average for the hospitality industry;
- the company is positioned in the upscale segment and therefore targets customers who are less likely to be affected by economic cycles.

These characteristics have to be taken into account for the purpose of valuing FRHI because, all other things being equal, they contribute to higher cash flow generation, lower systematic risk and a lower discount rate, and higher growth potential.

### ***Discounted cash flows method***

#### Business plan excluding synergies

After analyzing the business plan prepared by FRHI's management for the divestment process, we decided to base our valuation on the business plan excluding synergies used by Accor.

The projections used by Accor are significantly less optimistic than those of FRHI's management.

#### Assumptions concerning synergies and tax savings

Our valuation took into account the projected synergies determined by Accor based on a detailed analysis of the impact on EBITDA and of the related restructuring costs, which we considered as being tax-deductible.

The financial analysts generally consider that business combinations in the hospitality industry will generate considerable synergistic benefits in the various areas covered by AccorHotels in its analysis.

We also included in our valuation FRHI's tax loss carryforwards that would be available to AccorHotels. In practice, we considered that FRHI's tax loss carryforwards at December 31, 2014 (most recent known amount) would be used over a ten-year period as from January 1, 2017.

#### Financial parameters

For the valuation of FRHI, we used a discount rate of 7.5%, which was 0.5 points lower than the rate used for Accor.

We did not apply a separate approach to FRHI, because there are no comparable listed companies with a beta that reflects all of the features of FRHI's business model<sup>8</sup> (see above).

Instead, we applied a 0.5-point reduction to the specific rate obtained for Accor, to take into account the fact that the risks associated with FRHI's business model are lower (the customer base is less sensitive to economic cycles, fixed costs are lower).

Given the objective of determining the two companies' relative values, we consider that the use of a growth rate of 2.5%, which is 0.5 points higher than that applied to Accor, appropriately reflects FRHI's less capital-intensive business model and its positioning in faster-growing markets (United States, Asia).

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<sup>8</sup> Industry-level beta calculations are often considered more reliable than company-level calculations due to the impact of statistical noise. For this reason, it is difficult to consider that differences between the respective betas of two companies operating in the same industry but with slightly different business models can be measured accurately (Fama, E.F., French, K.R., Industry Cost of Equity, Journal of Financial Economics, 1997, vol. 43 pp. 153-193).

Dollar amounts were converted into euros at an exchange rate of €1 = US\$ 1.1069 (source: Bloomberg, three-month average at April 21, 2016).

#### Value per FRHI share

We tested the sensitivity of the values obtained to a 0.5-point increase or decrease in the discount rate and a 0.25-point increase or decrease in the perpetuity growth rate.

These tests gave a range of values from €1,190 to €1,567 around a central value of €1,350.

#### ***Sum-of-the-parts (SOTP) method***

In the case of FRHI, we valued the hotel services business (management and franchise contracts) separately from the hotel owner-operator business.

Different multiples were used depending on the amount of capital tied up in the business.

The hotel services business, which requires only limited capital, was valued using the average EBITDA multiple observed for InterContinental and Choice. The hotel owner-operator business, which requires significant amounts of capital, was valued using the average EBITDA multiple observed for Hilton, Marriott and Hyatt.

This approach gave a range of values from €1,310 to €1,375.

#### ***Market comparables method***

We applied this method using the companies in our sample with the least capital-intensive business models: InterContinental and Choice. We applied a 20% premium to the multiples to take into account both (i) the unusually long contracts signed by FRHI and (ii) its more upscale positioning compared to the companies in our sample.

This approach gave a range of values from €1,388 to €1,575.



### **3 ASSESSMENT OF THE FAIRNESS OF THE PROPOSED EXCHANGE RATIO**

#### **3.1 EXCHANGE RATIO PROPOSED BY THE PARTIES**

Based on their analysis (see section 2.1), the Parties jointly agreed to set the overall exchange ratio at 1,718,134<sup>9</sup> FRHI shares for 46,700,000 Accor shares, representing a ratio of 33.48 Accor shares for one FRHI Class A share<sup>10</sup>, which is consistent with the range of observed ratios.

#### **3.2 PROCEDURES PERFORMED IN OUR CAPACITY AS INDEPENDENT APPRAISERS OF THE CAPITAL CONTRIBUTIONS**

We performed the procedures that we considered necessary under the professional guidelines applicable in France to this type of engagement to assess the fairness of the proposed exchange ratio and resulting consideration.

Our assessment was based on the procedures to obtain assurance that the relative values attributed to the FRHI and Accor shares are appropriate (see description in section 2.3).

We analyzed the proposed exchange ratio in relation to the relative values determined using a multi-criteria approach and considered to be appropriate.

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<sup>9</sup> 1,071,610 FRHI Class A shares, 323,262 FRHI Class C shares and 323,262 FRHI Class D shares (together, one Class C share plus one Class D share are equivalent to one Class A share).

<sup>10</sup> One Class C share plus one Class D share is equivalent to one Class A share.

### 3.3 ASSESSMENT OF THE FAIRNESS OF THE PROPOSED EXCHANGE RATIO

The results of our procedures (see section 2.3) (i) on the exchange ratio determined by the Parties and (ii) to extend the valuation approaches in connection with our tests of the exchange ratio's sensitivity to different valuation methods applied consistently to both Accor and FRHI, led to the following exchange ratios:

Method	Value per Accor share (ex-dividend <sup>(1)</sup> - €)	Value per FRHI share (€)	Exchange ratio
Discounted cash flows method	35.2 – 46.1	1,190 – 1,567	<b>33.81 – 33.99</b>
Sum-of-the-parts method	47.9 – 49.1	1,310 – 1,375	<b>27.35 – 28.00</b>
Market comparables method	41.7 – 42.7	1,388 – 1,575	<b>33.29 – 36.89</b>

*(1) 2015 dividend of €1 per Accor share approved by the shareholders' meeting of April 22, 2016.*

The results of our procedures support the exchange ratio used by the Parties of 33.48 Accor shares for one FRHI Class A share or Class A-equivalent share (i.e., one Class C share plus one Class D share), which is within the range of observed ratios and in line with that obtained by the discounted cash flows method.

## 4 CONCLUSION

On the basis of our work and at the date of this report, we consider that the exchange ratio of 1,718,134 shares in FRHI HOLDINGS LIMITED (including 1,071,610 Class A shares, 323,262 Class C shares and 323,262 Class D shares – it being specified that one Class C share plus one Class D share is equivalent to one Class A share) for 46,700,000 shares in Accor SA, as agreed by the Parties, is fair.

Paris – June 8, 2016

The Independent Appraisers of Capital Contributions (*commissaires aux apports*)

Jacques Potdevin

Didier Kling

Statutory Auditors  
Members of the Compagnie Régionale de Paris

## **APPENDIX 2**

### **Statutory Auditors' report on the pro forma financial information**

**ERNST & YOUNG et Autres**

**DELOITTE & ASSOCIES**

**ACCOR**

**Statutory Auditors' report on pro forma financial information for the year ended  
December 31, 2015**

**ERNST & YOUNG et Autres**  
Tour First  
TSA 14444  
92037 Paris, La Défense Cedex, France

Commissaire aux Comptes  
Membre de la compagnie  
régionale de Versailles

**DELOITTE & ASSOCIES**  
185, avenue Charles De Gaulle  
92524 Neuilly-sur-Seine, France

Commissaire aux Comptes  
Membre de la compagnie  
régionale de Versailles

## ACCOR

### **Statutory Auditors' report on pro forma financial information for the year ended December 31, 2015**

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

To the Chairman and Chief Executive Officer,

In our capacity as Statutory Auditors and in accordance with AMF instruction 2005-11 and European Commission Regulation (EC) 809/2004, we have prepared this report on the pro forma financial information of Accor for the year ended December 31, 2015, which is included in section 4 of the information document drawn up in relation to the increase in Accor's share capital through the issue of ordinary Accor shares in consideration for the contribution in kind of shares in FRHI Holdings Limited ("FRHI"), ("Document E").

The pro forma financial information is intended solely to show the impact that the acquisition of FRHI Holdings Limited shares by Accor would have had on the consolidated statement of financial position of Accor at December 31, 2015 and on its consolidated income statement for the year then ended, if the acquisition had been carried out on December 31, 2015 and January 1, 2015, respectively. By definition, the pro forma financial information reflects a hypothetical situation and is not necessarily representative of the financial position or performance that would have been reported if the acquisition had taken place before the planned date.

The pro forma financial information has been prepared under your responsibility in accordance with the provisions of AMF instruction 2005-11, European Commission Regulation (EC) 809/2004 and ESMA recommendations on pro forma financial information.

Pursuant to Annex II, item 7 of European Commission Regulation (EC) 809/2004 and on the basis of our work, our role is to express an opinion on the appropriateness of the pro forma information.

We performed the procedures that we deemed necessary in accordance with professional standards applicable in France to such engagements. These procedures consisted mainly of obtaining assurance that the basis used to compile the pro forma financial information was consistent with the source documents as described in the notes to the pro forma financial information, reviewing the evidence supporting the pro forma adjustments and making enquiries of Accor management to obtain the information and explanations that we considered necessary. They did not include auditing or reviewing the underlying financial information used to prepare the pro forma financial information.

In our opinion:

- the pro forma financial information has been properly compiled on the basis stated;
- that basis is consistent with the accounting policies of the issuer.

This report has been issued solely for the purposes of recording Document E with the French financial markets authority (*Autorité des marchés financiers* – AMF) and, where appropriate, for the admission to trading on a regulated market and/or the public offering of Accor shares in France and other EU member states where a prospectus, which includes Document E as approved by the AMF, would be published. It may not be used for any other purpose.

Paris-La Défense and Neuilly-sur-Seine, June 8, 2016

The Statutory Auditors

ERNST & YOUNG et Autres

DELOITTE & ASSOCIES

*French original signed by*  
Jacques Pierres

*French original signed by*  
David Dupont-Noel

## **APPENDIX 3**

**Audited consolidated financial statements of FRHI and related auditors' reports**



Consolidated Financial Statements

FRHI Holdings Limited

December 31, 2015

# INDEPENDENT AUDITORS' REPORT

To the Shareholders of  
FRHI Holdings Limited

We have audited the accompanying consolidated financial statements of FRHI Holdings Limited, which comprise the consolidated statement of financial position as at December 31, 2015, and the consolidated statements of profit (loss), comprehensive income (loss), changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of FRHI Holdings Limited as at December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Toronto, Canada  
March 9, 2016

Chartered Professional Accountants  
Licensed Public Accountants

# CONSOLIDATED STATEMENT OF PROFIT (LOSS)

[in millions of US dollars]

Year ended December 31

	Notes	2015 \$	2014 \$
Revenue			
Hotel ownership operations		408.4	431.1
Management operations		152.3	140.8
Other revenues from managed properties		126.0	123.4
		<u>686.7</u>	<u>695.3</u>
Expenses			
Hotel ownership operations expenses	7	(345.0)	(377.3)
General and administrative	7	(94.2)	(101.6)
Other expenses from managed properties	7	(126.0)	(123.4)
Depreciation and amortization		(35.0)	(34.7)
Other operating income and expenses	8	26.7	(78.8)
Share of loss from equity investments	6	(13.4)	(2.6)
Gain on sales of investments, hotel assets and other		0.1	0.2
Operating profit (loss)		<u>99.9</u>	<u>(22.9)</u>
Financial income	9	8.8	10.2
Financial expense	9	(7.4)	(6.4)
Profit (loss) before tax		<u>101.3</u>	<u>(19.1)</u>
Income tax expense	10	(15.3)	(13.6)
Profit (loss)		<u>86.0</u>	<u>(32.7)</u>
Attributed to:			
Equity holders of the parent		78.9	(33.9)
Non-controlling interests		7.1	1.2
		<u>86.0</u>	<u>(32.7)</u>

*See accompanying notes*

**CONSOLIDATED STATEMENT OF  
COMPREHENSIVE INCOME (LOSS)**  
[in millions of US dollars]

Year ended December 31

	Notes	2015 \$	2014 \$
Profit (loss)		86.0	(32.7)
Other comprehensive income (loss)			
Exchange differences on translation of foreign operations		(67.7)	(83.2)
Actuarial gains and losses on defined benefit plans	20	(0.8)	3.9
Income tax effect		0.3	0.3
		(0.5)	4.2
Other comprehensive loss, net of tax		(68.2)	(79.0)
Total comprehensive income (loss), net of tax		17.8	(111.7)
Attributed to:			
Equity holders of the parent		11.5	(112.4)
Non-controlling interests		6.3	0.7
		17.8	(111.7)

*See accompanying notes*

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

[in millions of US dollars]

As at December 31

	Notes	2015 \$	2014 \$
<b>ASSETS</b>			
Non-current assets			
Intangible assets	11	945.8	983.2
Goodwill	11	184.3	190.3
Property and equipment	12	244.5	256.7
Investments in associates and joint ventures	6	105.9	76.8
Other financial assets	13	84.1	201.4
Retirement benefit and other assets	14	26.3	30.7
Deferred tax assets	10	7.2	5.6
		<u>1,598.1</u>	<u>1,744.7</u>
Current assets			
Inventories		5.6	6.2
Prepayments		8.9	10.1
Income tax receivable		3.0	1.2
Trade and other receivables	15	133.1	102.5
Other financial assets	13	3.3	6.0
Cash and cash equivalents		<u>84.4</u>	<u>69.5</u>
		<u>238.3</u>	<u>195.5</u>
Assets held for sale	6	12.4	—
Total assets		<u>1,848.8</u>	<u>1,940.2</u>
<b>LIABILITIES AND EQUITY</b>			
Non-current liabilities			
Long-term debt	16	36.3	38.1
Other financial liabilities	17	21.6	90.1
Provisions	18	1.4	1.7
Retirement benefit and other liabilities	19	37.5	49.1
Deferred tax liabilities	10	<u>258.2</u>	<u>267.1</u>
		<u>355.0</u>	<u>446.1</u>
Current liabilities			
Other financial liabilities	17	14.5	33.4
Trade and other payables	21	132.0	124.3
Provisions	18	0.6	2.3
Income tax payable		<u>12.8</u>	<u>18.0</u>
		<u>159.9</u>	<u>178.0</u>
Total liabilities		<u>514.9</u>	<u>624.1</u>
Equity			
Share capital	22	1,411.6	1,411.6
Currency translation reserve		(105.3)	(38.4)
Retained earnings (deficit)		<u>9.7</u>	<u>(68.7)</u>
Equity attributable to FRHI Holdings Limited		<u>1,316.0</u>	<u>1,304.5</u>
Non-controlling interests		<u>17.9</u>	<u>11.6</u>
Total equity		<u>1,333.9</u>	<u>1,316.1</u>
Total liabilities and equity		<u>1,848.8</u>	<u>1,940.2</u>

*Commitments, contingencies and guarantees (note 25)**See accompanying notes*

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

[in millions of US dollars]

Year ended December 31

	Share capital \$	Currency translation reserve \$	Retained earnings (deficit) \$	Total \$	Non- controlling interests \$	Total equity \$
As at December 31, 2013	1,427.2	44.3	(39.0)	1,432.5	10.9	1,443.4
Profit (loss) for the year	—	—	(33.9)	(33.9)	1.2	(32.7)
Other comprehensive income (loss)	—	(82.7)	4.2	(78.5)	(0.5)	(79.0)
Total comprehensive income (loss)	—	(82.7)	(29.7)	(112.4)	0.7	(111.7)
Dividend declared	(15.6)	—	—	(15.6)	—	(15.6)
As at December 31, 2014	1,411.6	(38.4)	(68.7)	1,304.5	11.6	1,316.1
Profit for the year	—	—	78.9	78.9	7.1	86.0
Other comprehensive loss	—	(66.9)	(0.5)	(67.4)	(0.8)	(68.2)
Total comprehensive income (loss)	—	(66.9)	78.4	11.5	6.3	17.8
As at December 31, 2015	1,411.6	(105.3)	9.7	1,316.0	17.9	1,333.9

See accompanying notes

## CONSOLIDATED STATEMENT OF CASH FLOWS

[in millions of US dollars]

Year ended December 31

	Notes	2015 \$	2014 \$
<b>OPERATING ACTIVITIES</b>			
Profit (loss) before tax		101.3	(19.1)
Adjustments for			
Depreciation of property and equipment		19.2	19.8
Amortization of intangible and other assets		15.8	14.9
Share of loss from equity accounted investments		13.4	2.6
Distributions earned from investments		(5.7)	(5.6)
Gain on sales of investments and hotel assets		(0.1)	(0.2)
Financial income		(8.8)	(10.2)
Financial expense		7.4	6.4
Impairment charges		2.5	4.5
Non-cash settlement		(12.8)	—
Obligation in connection with acquired hotel interest		—	70.2
Movement in pensions and provisions		(5.3)	(6.6)
Write-off of deferred financing fees		—	0.3
Other		(6.6)	6.6
		<u>120.3</u>	<u>83.6</u>
Changes in non-cash working capital	28	<u>(23.4)</u>	<u>(18.1)</u>
		96.9	65.5
Cash received in distributions from investments		11.9	12.9
Interest paid		(3.6)	(3.4)
Income tax paid		<u>(13.9)</u>	<u>(7.4)</u>
		<u>91.3</u>	<u>67.6</u>
<b>INVESTING ACTIVITIES</b>			
Additions to property and equipment		(14.9)	(38.6)
Investments in partnerships and corporations		(21.7)	(23.1)
Issuance of loans receivable		(3.1)	(45.0)
Collection of notes receivable		3.0	3.0
Collection of loans receivable		2.1	1.0
Acquisitions of intangible assets		<u>(23.3)</u>	<u>(6.6)</u>
		<u>(57.9)</u>	<u>(109.3)</u>
<b>FINANCING ACTIVITIES</b>			
Issuance of long-term debt		185.7	309.0
Repayment of long-term debt		(186.3)	(268.6)
Dividends paid		(15.6)	—
Financing charges		—	(4.3)
		<u>(16.2)</u>	<u>36.1</u>
Effect of foreign exchange rate			
changes on cash and cash equivalents		<u>(2.3)</u>	<u>(4.5)</u>
Net increase (decrease) in cash and cash equivalents		14.9	(10.1)
Cash and cash equivalents, beginning of year		69.5	79.6
Cash and cash equivalents, end of year		<u>84.4</u>	<u>69.5</u>

*See accompanying notes*

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015

[in millions of US dollars]

### 1. CORPORATE INFORMATION

FRHI Holdings Limited ["FRHI" or the "Company"] is incorporated in the Cayman Islands. The registered office of FRHI is P.O. Box 309, Ugland House, South Church Street, George Town, KY1-1104 Grand Cayman, Cayman Islands.

FRHI, through its predecessor companies, has operated and owned hotels and resorts for more than 120 years and currently manages and franchises properties, principally under the Fairmont, Raffles and Swissôtel brands. As at December 31, 2015, FRHI managed or franchised 115 luxury and first-class hotels and resorts and 17 residential properties in major city centres and key resort destinations throughout the world and had hotel ownership or leasehold interests in 21 properties.

The outstanding shares of the Company are owned by subsidiaries of the Qatar Investment Authority ["QIA"], Kingdom Holdings Company ["Kingdom"] and FRH Investments Holdings Inc. [a subsidiary of OMERS Administration Corporation]. QIA, Kingdom and FRH Investment Holdings Inc. own 63.18%, 35.32% and 1.5% of the outstanding shares of the Company, respectively.

On December 9, 2015, QIA, Kingdom and FRH Investment Holdings Inc. entered into a Share Purchase and Contribution Agreement to sell all their existing shares in FRHI to Accor S.A., a leading global hospitality company, in exchange for cash and common shares of Accor S.A. for aggregate proceeds of approximately \$3 billion. The transaction is expected to close in the second quarter of 2016.

### 2. BASIS OF PREPARATION

#### Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ["IFRS"] as issued by the International Accounting Standards Board ["IASB"].

The consolidated financial statements of the Company for the year ended December 31, 2015 were authorized for issue in accordance with a resolution of the Board of Directors on March 9, 2016.

#### Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for derivative financial instruments that have been measured at fair value.



## Functional and presentation currency

The consolidated financial statements of the Company are presented in US dollars. The functional currency of the parent is US dollars, as it is a non-trading holding company located in the Cayman Islands that has US dollar denominated share capital.

Amounts are stated in and recorded in millions of US dollars except where otherwise indicated.

## Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2015. Subsidiaries are all entities over which the Company is exposed, or has rights, to variable returns from its involvement in the entity and has the ability to affect those returns through its power to direct the relevant activities of the entity. The Company obtains and exercises control through more than half of the voting rights for all its subsidiaries.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Company using consistent accounting policies.

All inter-company balances, income and expenses, unrealized gains and losses resulting from inter-company transactions and dividends are eliminated in full.

A change in ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Company loses control over a subsidiary, it:

- [i] Derecognizes the assets [including goodwill] and liabilities of the subsidiary
- [ii] Derecognizes the carrying amount of any non-controlling interest
- [iii] Derecognizes the cumulative translation differences recorded in equity
- [iv] Recognizes the fair value of the consideration received
- [v] Recognizes the fair value of any investment retained
- [vi] Recognizes any surplus or deficit in profit or loss
- [vii] Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings (deficit), as appropriate.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Company's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in equity since the date of the combination.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements unless otherwise indicated.

#### Business combinations

Business combinations are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the fair value [at the date of exchange] of assets given, liabilities incurred or assumed and equity instruments issued by the Company in exchange for control of the acquiree. Transaction costs, other than those associated with the issuance of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred. The acquiree's identifiable assets and liabilities are recognized at their fair value at the acquisition date.

The Company elects on a transaction-by-transaction basis whether to measure a non-controlling interest at its fair value or at its proportionate share of the recognized amount of the identifiable net assets at the acquisition date.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination and the amount recognized for any non-controlling interest over the Company's interest in the net fair value of the identifiable assets acquired and liabilities assumed. When the excess is negative, the difference is recognized immediately in profit or loss.

#### Investments in associates and joint ventures

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating decisions. Joint ventures are joint arrangements over whose activities the Company has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions and rights to the net assets of the joint venture.

Investments in associates and joint ventures are accounted for using the equity method [equity accounted investees]. Where necessary, amounts reported in the financial statements of associates and joint ventures are adjusted to ensure consistency with the accounting policies of the Company. Under the equity method, the Company's investment is initially recognized at cost and subsequently adjusted for the Company's share of post-acquisition profits and losses. Goodwill identified on acquisition is included in the carrying amount of the Company's investment and is not amortized or individually tested for impairment. When the Company's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil and the recognition of further losses is discontinued except to the extent that the Company has an obligation to fund shortfalls, or has made payments on behalf of the investee.

Gains on transactions between the Company and its equity accounted investees are eliminated to the extent of the Company's interest in these entities and losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The Company determines at each reporting date whether there is any objective evidence that the investment in an associate or joint venture is impaired. If the investment is impaired, the Company calculates the amount of the impairment as the difference between the recoverable amount of the investment and its carrying value.

Upon loss of joint control over a joint venture or loss of significant influence over an associate, the Company measures any remaining investment at its fair value. Proceeds from disposal, in addition to any difference between the carrying amount and fair value of the remaining investment, is recognized in profit or loss.

## Foreign currency translation

### Transactions and balances

The financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates [the "functional currency"]. Transactions in foreign currencies are translated into the functional currency at the exchange rates in effect at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the exchange rate in effect at the reporting date. Exchange differences are recognized in profit or loss except for exchange differences arising from a monetary item receivable from or payable to a foreign subsidiary, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign subsidiary. These exchange differences are recognized in other comprehensive income or loss until the disposal of the net investment, at which time they are reclassified to profit or loss.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are retranslated using the exchange rates at the date when the fair value is determined. The recognition of exchange differences arising from non-monetary items measured at fair value is linked to the recognition of gains or losses of the non-monetary item itself. If the non-monetary item gain or loss is recognized in profit or loss, any exchange difference on that non-monetary item is also recognized in profit or loss. If the non-monetary item gain or loss is recognized in other comprehensive income or loss, any exchange difference on that non-monetary item is also recognized in other comprehensive income or loss.

### Foreign operations

The assets, including goodwill, and liabilities of foreign subsidiaries of the Company where the functional currency is other than the US dollar are translated into US dollars using the exchange rate in effect at the reporting date, while revenue and expenses are translated using average exchange rates in effect for the reporting period. Exchange differences arising from translation of such accounts are deferred and included as other comprehensive income or loss in the currency translation reserve. On disposal of a foreign subsidiary, the cumulative translation differences recognized in the currency translation reserve are reclassified to profit or loss and recognized as part of the gain or loss on disposal.

## Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, net of all discounts, rebates and sales taxes.

The composition of the Company's revenue is as follows:

### Management fees

Management fees are earned from hotels and residential properties managed by the Company under long-term contracts with the hotel and residential property owners. Management fees comprise a base fee, which is a percentage of the hotel's revenues, and incentive fees, which are generally based on the hotel's profitability. Revenue is recognized when earned and realized or realizable under the terms of the management contract.

### License fees

License fees are received in connection with the license of the Company's brand names, usually under long-term contracts with the hotel owner. The Company charges license fees as a percentage of room revenue. Revenue is recognized when earned and realized or realizable under the terms of the management contract.

### Other revenues from managed properties

Other revenues relate to reimbursements from hotel owners for direct and indirect costs incurred by the Company in managing a property. These reimbursed expenditures relate primarily to marketing and reservation services performed by the Company under the terms of its hotel management contracts. Other revenue is recognized when earned and realized or realizable under the terms of the management contract.

### Owned and leased hotel revenues

Hotel ownership operations revenue is generated primarily from room occupancy and food and beverage services. Revenue from hotel operations is recognized when services are provided and food and beverages are sold.

### Interest income

For all financial assets measured at amortized cost and interest-bearing financial assets classified as available-for-sale, interest income is recorded using the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in financial income.

#### Distributions from available-for-sale equity securities

Revenue is recognized when the Company's right to receive payment is established. Distributions from available-for-sale equity securities are recognized in profit or loss as other operating income.

#### Taxes

##### Current income tax

Current income tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the various taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Income taxes are normally recognized in profit or loss. However, when the underlying transaction is recognized in equity, the related income tax is also recorded in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

##### Deferred tax

Deferred tax is recognized on temporary differences between the tax bases of assets and liabilities and their carrying amounts using the liability method. However, deferred tax is not provided on the initial recognition of goodwill or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

Deferred tax assets are recognized for all deductible temporary differences and carryforwards of unused tax credits and unused tax losses to the extent it is probable that future taxable profits will allow the asset to be recovered.

Deferred tax on temporary differences associated with shares in subsidiaries and joint ventures is recognized only to the extent it is probable they will reverse in the foreseeable future, and in the case of a deferred tax liability, reversal of these temporary differences cannot be controlled by the Company.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled based on tax rates and tax laws that have been enacted or substantively enacted by the reporting date.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or loss or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or loss or equity, respectively.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right to offset exists and if they relate to the same taxable entity and the same taxation authority.

### Non-current assets held for sale

The Company classifies a non-current asset or a disposal group [other than discontinued operations] as held for sale when it is available for immediate sale in its present condition, its sale is highly probable and will close within 12 months, management is committed to a plan to sell the asset [or disposal group] and an active program to locate a buyer and complete the plan has been initiated. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Once classified as held for sale, non-current assets are no longer depreciated or amortized.

Upon disposal, the Company recognizes sales proceeds and any related gain or loss on completion of the sales process. In determining whether the gain or loss should be recognized, the Company considers whether it:

- [i] Has a continuing managerial involvement to the degree associated with asset ownership;
- [ii] Has transferred the significant risks and rewards associated with asset ownership; and
- [iii] Can reliably measure and expects to receive the proceeds.

### Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation and any accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset and borrowing costs for long-term construction projects where the recognition criteria have been met. If the costs of certain components of an item of property and equipment are significant in relation to the total cost of the item, they are accounted for and depreciated separately.

Assets under construction, including costs related to new facilities, and betterments and replacements during a major renovation are measured at cost less any accumulated impairment losses. The assets are depreciated from the date they are put in service. Maintenance, repairs and minor renewals and replacements are expensed as incurred.

An item of property and equipment and any significant part is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized within profit or loss.

Land is not depreciated. All other property and equipment are depreciated to their residual value on a straight-line basis over their estimated useful lives as follows:

Buildings	40 to 60 years
Buildings on leased land and leasehold improvements	Over the lesser of the economic life and the lease term, including renewal options
Furniture, fixtures and equipment	2 to 25 years

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, where appropriate.

## Leases

At the inception of an arrangement, the Company determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the Company has the right to control the use of the underlying asset.

Leases are classified as either operating or finance, based on the substance of the transaction at inception of the lease.

The Company has entered into leases in which a significant portion of the risks and rewards of ownership are retained by the lessor. These leases are classified as operating leases. Lease payments under operating leases [net of any incentives received from the lessor] are recognized as an expense on a straight-line basis over the lease term.

## Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that the Company incurs in connection with the borrowing of funds.

## Goodwill

Goodwill arises on the acquisition of subsidiaries and is recorded at cost, being the excess of the cost of acquisition over the fair value at the date of acquisition of the Company's share of identifiable assets and liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired.

## Intangible assets

### Brand names

Brand names recognized at the time of a business acquisition, are initially recognized at amounts determined by independent valuations performed using relevant criteria for the business concerned that can be applied for the subsequent measurement of the assets. Identifiable brands are measured based on multiple criteria, taking into account both brand equity and their contribution to profit. Following initial recognition, brand names are measured at cost less any accumulated impairment losses. Brand names are considered to have an indefinite useful life, because there is no foreseeable limit to the period in which they can be used and are, therefore not amortized. Brand names are tested for impairment annually. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable.

#### Management contracts

Management contracts acquired in a business combination or together with investment interests in companies are recorded at values that represent the estimated present value of net cash flows that, on acquisition, are expected to be received over the estimated term of the contracts. Amounts paid to hotel owners to secure management contracts are recorded at cost.

Management contracts are amortized on a straight-line basis over the fixed, non-cancellable terms and certain renewal periods of the underlying contracts, which range up to 50 years.

Management reviews the amortization method and useful life estimates for these intangible assets annually.

#### Software

Acquired software licenses and software developed in-house are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. Software development costs incurred during the development phase are capitalized as internally generated assets if the Company can demonstrate all of the following:

- [i] Its intention to complete the intangible asset and the availability of adequate technical, financial and other resources for this purpose.
- [ii] How the intangible asset will generate probable future economic benefits.
- [iii] Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Capitalized software is amortized over its estimated useful life on a straight-line basis, which can range from three to five years.

#### Financial instruments

##### Financial assets

The Company classifies its financial assets into one of the following categories: loans and receivables, available-for-sale financial assets, or financial assets at fair value through profit or loss. Management determines the classification of financial assets on initial recognition.

##### Loans, notes and trade receivables

Loans, notes and trade receivables are initially recognized at fair value and are subsequently measured at amortized cost at each reporting date less any impairment losses. If there is an objective indication of impairment, the amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows [excluding future expected credit losses that have not yet been incurred]. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

An impairment loss reduces the carrying amount of the loans and notes and is recognized in profit or loss as other operating income and expenses. Interest income [recorded as financial income in the consolidated statement of profit or loss] continues to be accrued on the reduced carrying amount and is



accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. An impairment loss may be reversed if the recoverable amount increases in a subsequent period.

The carrying amount of trade receivables is reduced through the use of an allowance account and movements in the provision are recognized in profit or loss as general and administrative expenses. An impairment loss may be reversed if the recoverable amount increases in a subsequent period. When a previously provided trade receivable is uncollectible, it is written off against the provision.

#### Available-for-sale financial assets

Available-for-sale financial assets are measured at fair value, if reliably measurable, with changes in fair value recognized in equity. Available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any impairment. The impairment loss corresponds to the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss may not be reversed in subsequent periods.

#### Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include derivative financial instruments, such as swaps, options and forward contracts, entered into by the Company that are not designated as hedging instruments in hedge relationships. Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value. Changes in fair value of interest rate derivatives such as swaps are recognized as financial income or expense. Changes in fair value of foreign exchange rate derivatives, such as forward contracts, are recognized as other operating income and expenses.

Derivative financial instruments are classified as current or non-current based on an assessment of the timing of the underlying contracted cash flows. When the Company holds a derivative as an economic hedge [and does not apply hedge accounting] for a period beyond 12 months after the reporting date, the derivative is classified as non-current [or separated into current and non-current portions] consistent with the classification of the underlying item.

#### Derecognition

A financial asset is derecognized when the contractual rights to receive cash flows from the asset have expired or when the Company transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Company could be required to pay.

## Financial liabilities

Management determines the classification of financial liabilities on initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

### Trade and other payables

Trade and other payables are non-interest bearing and are stated at their nominal value.

### Long-term debt

Long-term debt is initially recognized at the fair value of the consideration received, less directly attributable transaction costs and is subsequently measured at amortized cost. Finance charges, including the transaction costs and any discount or premium on issue, are charged to profit or loss using the effective interest rate method over the term of the underlying long-term debt.

Long-term debt is classified as non-current when the repayment date is more than 12 months from the reporting date or where it is drawn on a facility with more than 12 months to expiry.

### Long-term incentive plans

Long-term incentive plans ["LTIP"] are initially recognized at fair value. The LTIP liability is classified as non-current when payment will be made more than 12 months from the year end date.

### Derecognition

A financial liability is derecognized when the obligation under the liability expires, is discharged or is cancelled.

## Loyalty program liabilities

The Company's guest loyalty programs enable members to receive awards such as complimentary room nights based on their membership status. All awards expire one year from issuance. The future redemption liability is calculated based on the expected number of certificates to be redeemed multiplied by the estimated cost per certificate. The number of certificates includes an estimate of the "breakage" for certificates that will not be redeemed based on historical levels.

The Company also has travel agent and corporate booker loyalty programs that enable members to earn points, based on qualified bookings and redeem points at a later date for free accommodation, gift cards and other merchandise. The future redemption liability is calculated by multiplying the number of points expected to be redeemed by the redemption cost per point. The number of points includes an estimate of the "breakage" for points that will not be redeemed based on historical levels.

## Inventories

Inventories comprise operating supplies at the Company's owned and leased hotels, including food and beverage, and are valued at the lower of cost and net realizable value.

## Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ["CGU"] to which the asset belongs.

Goodwill and intangible assets with indefinite useful lives, or that are not yet available for use, are tested for impairment at least annually.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset [or CGU] is estimated to be less than its carrying amount, the carrying amount of the asset [or CGU] is reduced to its recoverable amount.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an assessment is made at each reporting date of whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's [or CGU's] recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount or exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Impairment losses and any subsequent reversals are recognized in profit or loss.

## Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand, and short-term investments with an original maturity of three months or less.

In the consolidated statement of cash flows, cash and cash equivalents are shown net of short-term overdrafts.

## Provisions

Provisions are recognized when the Company has a present obligation [legal or constructive] as a result of a past event, it is probable that a payment will be made to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

## Pensions and other post-employment benefits

### Defined contribution plans

Under defined contribution plans, the Company pays fixed contributions into a separate fund and has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay benefits. Contributions under these plans are recognized immediately as an expense.

### Defined benefit plans

Plans that do not meet the definition of a defined contribution plan are defined benefit plans. Plan assets are measured at fair value. Plan liabilities are measured on an actuarial basis using the projected unit credit method. This approach reflects an actuarially calculated net present value of the future benefit entitlement for services already rendered using a discount rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the plan liabilities.

The difference between the value of plan assets and liabilities at the year-end date is the amount of surplus or deficit recorded in the consolidated statement of financial position as an asset or liability. Any surplus is recognized only when it represents the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. Actuarial gains and losses arising from changes in actuarial assumptions and experience adjustments are recognized immediately in other comprehensive income or loss.

## Cash dividends to equity holders of the parent

The Company recognizes a liability for cash or non-cash dividends to equity holders of the parent when the dividend is authorized and no longer at the discretion of the Company. As per the corporate laws in the Cayman Islands, a dividend is authorized when it is approved by the shareholders. A corresponding amount is recognized directly in equity.

#### 4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses, and the information disclosed in the notes to the consolidated financial statements. Estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions and conditions.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The estimates and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements are discussed below.

##### Trade and other receivables

The allowance for doubtful accounts involves significant management judgment in assessing the ultimate collectibility of trade and other receivables. In making its assessment, management considers historical experience, the economic environment, the age of receivable balances and specific customer information.

##### Impairment of loan and notes receivable

Management individually assesses loans and notes receivable for impairment. This involves significant judgment in assessing collectibility and the determination of the future cash flow projections at the property.

##### Goodwill and other identifiable intangible assets arising out of business combinations

Goodwill and other identifiable intangible assets, such as brand names and management contracts, arising out of business combinations are accounted for under the acquisition method of accounting. This method involves the allocation of the cost of an acquisition to the underlying net assets acquired based on their respective estimated fair values. As part of this allocation process, the Company must identify and attribute values and estimated lives to the intangible assets acquired. These determinations involve significant estimates and assumptions regarding cash flow projections, economic risk and weighted cost of capital. These estimates and assumptions determine the amount allocated to other identifiable intangible assets and goodwill, as well as the amortization period for identifiable intangible assets with finite lives. If future events or results differ adversely from these estimates and assumptions, the Company could record increased amortization or impairment charges in the future.

## Impairment of goodwill and brand names

The Company determines whether goodwill and brand names are impaired on an annual basis or more frequently if there are indicators of impairment. The determination of the recoverable amount of a CGU to which goodwill is allocated involves the use of estimates by management. The outcome predicted by these estimates is influenced, for example, by the successful integration of acquired entities, volatility of capital markets and foreign exchange rate fluctuations. The recoverable amount is the higher of the CGU's fair value less costs to sell and its value in use. The Company generally uses discounted cash flow based methods to determine these values. These discounted cash flow calculations use projections that are based on the financial forecasts approved by management. Cash flow projections take into account past experience and represent management's best estimate about future developments. Key assumptions on which management has based its determination of fair value less costs to sell include estimated growth rates, discount rates, royalty rates and tax rates. These estimates, including the methodology used, can have an impact on the respective values and ultimately the amount of any goodwill impairment.

## Taxes

The Company computes an income tax provision in each of the jurisdictions in which it operates. However, actual amounts of income tax expense only become final upon filing and acceptance of the tax return by the relevant authorities, which occur subsequent to the issuance of the financial statements. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible taxation authority. Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income.

Additionally, estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions before they expire against future taxable income. The assessment is based on existing tax laws and estimates of future taxable income. To the extent estimates differ from the final tax return, earnings would be affected in a subsequent period.

## Uncertain tax positions

The Company is subject to taxation in numerous jurisdictions. There are many transactions and calculations during the course of business for which the ultimate tax determination is uncertain. The Company maintains provisions for uncertain tax positions that it believes appropriately reflect its risk. The Company measures a recognized tax position at the largest amount of benefit that is more-likely-than-not to be realized upon ultimate settlement with the taxation authority. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date, liabilities in excess of the Company's provisions could result from audits by, or litigation with, the relevant taxation authorities. Where the final outcome of these tax related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

## Pension and other post-employment benefit plans

The cost of defined benefit pension plans and other post-employment benefits is determined using actuarial valuations. An actuarial valuation involves making various assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to changing market and economic conditions, the underlying key assumptions may differ from actual developments and may lead to significant changes in pension and other post-employment benefit obligations. All assumptions are reviewed at each reporting date.

## Provisions

Provisions are recognized when the Company has a present obligation [legal or constructive] as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

## 5. STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards and interpretations issued but not yet effective up to the date of issuance of the Company's consolidated financial statements are listed below. This listing includes those that the Company reasonably expects could have an impact on disclosures, financial position, or performance when applied at a future date. The Company intends to adopt these standards when they become effective.

### *IFRS 9, Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9, *Financial Instruments*, that replaces IAS 39, *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. The Company plans to adopt the new standard on the required effective date and is currently assessing the impact that this standard will have on its financial results.

### *IFRS 15, Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company plans to adopt the new standard on the required effective date and is currently assessing the impact that this standard will have on its financial results.

#### IFRS 16, *Leases*

In January 2016, the IASB issued IFRS 16, *Leases*. The new standard requires that for most leases, lessees must initially recognize a lease liability for the obligation to make lease payments and a corresponding right-of-use asset for the right to use the underlying asset for the lease term. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. This standard will be effective for annual periods beginning after January 1, 2019, with early adoption permitted so long as IFRS 15 has been adopted. The Company is currently assessing the impact this new standard will have on its consolidated financial statements.

#### Amendments to IFRS 11, *Joint Arrangements: Accounting for Acquisitions of Interests*

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have a material impact on the Company.

#### Amendments to IAS 1, *Disclosure Initiative*

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the statement(s) of profit or loss and other comprehensive income or loss and the statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to financial statements; and
- That the share of other comprehensive income or loss of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have a material impact on the Company.



## 6. INTERESTS IN ASSOCIATES AND JOINT VENTURES

The Company holds nine investments [2014 – eight] that are accounted for as associates and six interests in joint ventures [2014 – five] that are accounted for as equity accounted investees.

	2015 \$	2014 \$
Investments in joint ventures	61.8	20.0
Investments in associates	44.1	56.8
Investments in associates and joint ventures	105.9	76.8
Loss from joint ventures	(12.1)	(3.7)
Income (loss) from associates	(1.3)	1.1
Share of loss from equity investments	(13.4)	(2.6)

### [a] Interests in Joint Ventures

#### The Savoy, A Fairmont Managed Hotel [“The Savoy”]

In October 2014, the Company acquired certain interests in The Savoy through a newly-formed subsidiary [“Savoy Joint Venture”]. Concurrently, 50% of the interest in the Savoy Joint Venture was sold to a subsidiary of QIA. The Savoy Joint Venture purchased a 50% equity interest in The Savoy, as well as an interest in loans receivable from the property, for total proceeds of \$83.4 [£51.7 million], which was funded primarily by loans from its shareholders.

In order to facilitate the transaction, the capital structure of the hotel was renegotiated prior to the acquisition, resulting in an elevation in priority of an outstanding long-term advance and a capital expenditure loan due to the Company [the “Operator Loans”]. In order to compensate existing shareholders for the decrease in priority of their interests resulting from the change in capital structure, the Company entered into an agreement to turn over any proceeds received for the Operator Loans that would have been paid to other shareholders under the pre-transaction capital structure. The obligation was recognized at fair value at the transaction date, and was included in other financial liabilities in the consolidated statement of financial position [note 17]. The resulting non-cash charge of \$70.2 was recognized in other operating income and expenses in 2014. The fair value was estimated using projected cash flows at the property.

In June 2015, The Savoy underwent an additional phase of capital restructuring. As part of the transaction, the outstanding Operator Loans were split into two tranches. The first tranche of £25.2 million was retained by the Company and became interest-free. The second tranche of £41.5 million was sold to the Savoy Joint Venture for a nominal amount and subsequently released in exchange for share capital in The Savoy. The net impact of restructuring the Operators loans was a loss of \$73.0, offset by a gain of \$72.3 on the release of the obligation in connection with the hotel interests acquired in 2014. The net non-cash charge of \$0.7 was recognized in other operating income and expenses. The loan from the Company to the Savoy Joint Venture used to acquire the interest in The Savoy in 2014 of \$43.3 [£25.6 million plus accrued interest of £2.3 million] was released and capitalized to the Company's investment. An additional loan of \$1.5 [£0.9 million], issued to fund professional fees relating to the formation of the Savoy Joint Venture and the acquisition of certain interests in The Savoy, was capitalized to the Company's investment in 2015. Details of the Operator Loans are included in notes 13 and 23.

Included in share of loss from equity investments is a loss of \$7.2 [2014 – loss of \$1.2] relating to FRHI's 50% ownership interest in the Savoy Joint Venture.

GLF Hotel Management Holding Pte Ltd.

In April 2015, FRHI invested \$0.5 for a 50% interest in a joint venture with a partner to operate and manage a collection of mid-market hotels under a distinctive Chinese brand known as Neqta.

The Claremont Hotel & Spa [“Claremont”]

In March 2014, the Company contributed \$22.1 to a newly-formed joint venture, in which it holds a 50% ownership interest, in order to acquire the assets and liabilities of Claremont. The purchase price of Claremont was \$86.0 [less working capital adjustments of \$1.0] and was funded through partner contributions of \$44.2 and a long-term loan of \$47.3. The Company signed a long-term management contract in connection with the acquisition. In 2015, additional equity contributions of \$9.2 were made to fund renovations at the property.

Swissôtel Dresden

Included in the share of loss from equity investments is a loss of \$0.8 [2014 – loss of \$0.3] relating to FRHI's 50% ownership interest in Swissôtel Dresden. The Company is obligated under the joint venture agreement to fund up to \$3.5 in capital contributions and has continued to record its share of the entity's losses, resulting in a liability of \$1.8 [2014 – \$1.1] included in trade and other payables in the consolidated statement of financial position.

Fairmont Heritage Place Ghirardelli Square [“Ghirardelli”]

The Company has a 54% interest [2014 – 54%] in an entity holding Ghirardelli. The Company has determined that its ownership interest does not constitute control and is accounting for its investment in Ghirardelli as a joint venture due to the decision-making rights held by all members.

[b] Investments in associates

The Company accounts for certain of its investments as associates where there is less than 20% ownership interest, due to significant influence through hotel management contracts. As at December 31, 2015, the Company's share of its associates' contingent liabilities was not significant.

Fairmont Sonoma Mission Inn & Spa

In December 2015, FRHI signed a Membership Interest Purchase Agreement with the majority owner of the Fairmont Sonoma Mission Inn & Spa to sell its 25% interest in the property for \$20.5. Accordingly, FRHI has reclassified its investment as held for sale and recorded the investment at the lower of fair value less costs to sell and book value [being its book value of \$12.4]. FRHI will continue to manage the property under a long-term management contract. The sale closed on February 12, 2016 and there were no significant changes to the purchase price.

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### Fairmont Grand Del Mar

In April 2015, FRHI invested \$11.1 in exchange for a 12% ownership interest in an entity holding the assets and operations of the Grand Del Mar Resort located in San Diego, California. In connection with this transaction, FRHI also invested \$15.0 in key money to obtain a long-term management contract to manage the property.

### Fairmont Mayakoba

In 2014, the Company's ownership interest in the Fairmont Mayakoba was diluted, resulting in a gain of \$0.3. Additionally, the Company was required to contribute \$0.6 based on an amended shareholders' agreement. The increased investment value was offset by the recognition of cumulative unrecognized losses. Subsequently, the Company discontinued recognition of its share of losses of the Fairmont Mayakoba as it had satisfied all funding requirements under the shareholders' agreement. As at December 31, 2015, the cumulative unrecognized share of losses of this associate was \$1.0 [2014 – \$0.5].

## 7. BREAKDOWN OF OTHER ITEMS FROM FUNCTION TO NATURE

Within hotel ownership operations expenses, general and administrative and other expenses from managed properties, the Company incurred the following:

	Hotel ownership operations expenses		General and administrative and other expenses from managed properties	
	2015	2014	2015	2014
	\$	\$	\$	\$
Employee compensation and benefits	(136.9)	(147.8)	(135.5)	(129.7)
Rent	(71.4)	(78.0)	(7.2)	(8.0)
Cost of inventories recognized as an expense	(42.3)	(48.4)	—	—
Net foreign exchange gains	—	0.4	15.3	12.9
Other	(94.4)	(103.5)	(92.8)	(100.2)
	(345.0)	(377.3)	(220.2)	(225.0)

Employee compensation and benefits comprise the following:

	2015	2014
	\$	\$
Wages and salaries	(207.0)	(215.3)
Pension and other post-employment benefits		
Defined benefit plans	(1.6)	(1.3)
Defined contribution plans	(2.1)	(2.3)
Other post-employment benefits expense	(0.2)	(0.2)
Other benefits expense	(61.5)	(58.4)
Total employee benefits expense	(272.4)	(277.5)

## 8. OTHER OPERATING INCOME AND EXPENSES

	2015	2014
	\$	\$
Remediation settlements [note 18]	21.3	—
Distributions from available-for-sale equity securities	5.7	5.6
Settlement of hotel management agreement	0.9	0.2
Remediation contingency release [note 18]	0.8	—
Other	5.4	0.6
Total other operating income	34.1	6.4
Impairment charges and other write-offs	(1.8)	(4.5)
Net impact of The Savoy capital restructuring	(0.7)	—
Obligation in connection with acquired hotel interest	—	(70.2)
Performance obligation payments	—	(6.7)
Reorganization and other related costs	—	(2.0)
Loss on extinguishment of debt	—	(0.3)
Other	(4.9)	(1.5)
Total other operating expenses	(7.4)	(85.2)
Total net other operating income and expenses	26.7	(78.8)

## 9. FINANCE COSTS

### Financial income

	2015	2014
	\$	\$
Interest income on loans receivable	2.8	7.9
Other interest income	6.0	2.3
Total financial income	8.8	10.2

### Financial expense

	2015	2014
	\$	\$
Interest on long-term debt	(1.1)	(0.8)
Amortization of deferred financing costs	(1.4)	(1.5)
Loss on financial assets and liabilities at fair value through profit or loss, net	—	(0.2)
Other finance costs	(4.9)	(3.9)
Total financial expense	(7.4)	(6.4)

## 10. INCOME TAXES

Income tax recovery (expense) comprises the following:

	2015 \$	2014 \$
Current income tax:		
Current income tax charge	(21.7)	(18.0)
Adjustment of current tax for prior year items	5.9	(5.4)
Benefit of previously unrecognized tax loss or asset	2.4	5.8
	<u>(13.4)</u>	<u>(17.6)</u>
Deferred income tax:		
Relating to origination and reversal of temporary differences	11.4	20.6
Deferred tax expense arising from write down of deferred tax assets	(6.9)	(18.1)
Deferred tax expense arising from the changes in the applicable tax rate	1.8	—
Adjustments of deferred tax of previous year	(8.2)	1.5
	<u>(1.9)</u>	<u>4.0</u>
Income tax expense	<u>(15.3)</u>	<u>(13.6)</u>

The Company's effective income tax expense reconciled to the statutory tax rate is as follows:

	2015 \$	2014 \$
Provision at Cayman Islands statutory tax rate	—	—
Non-deductible expenses (non-taxable income) and foreign tax rate differentials	(15.3)	5.9
Withholding taxes	(5.4)	(3.0)
Losses and other tax attributes not benefited	(6.9)	(18.1)
Impact of change in US state tax allocation	1.8	—
Other, including tax reassessments and provisions	(2.3)	(4.2)
Tax assets not previously recognized	12.8	5.8
Income tax expense	<u>(15.3)</u>	<u>(13.6)</u>

## Temporary differences

Deferred tax assets and deferred tax liabilities comprise the following:

	2015 \$	2014 \$
Deferred tax assets		
Tax loss carryforwards	12.6	16.0
Deferred compensation and other	20.9	24.7
Total deferred tax assets	33.5	40.7
Deferred tax liabilities		
Depreciable property and equipment and intangible assets	250.0	266.5
Investments	3.8	3.4
Series B debenture	26.3	28.2
Deferred compensation and other	4.4	4.1
Total deferred tax liabilities	284.5	302.2
Net deferred tax liabilities	251.0	261.5

Deferred tax balances are reflected in the consolidated statement of financial position as follows:

	2015 \$	2014 \$
Deferred tax assets	7.2	5.6
Deferred tax liabilities	258.2	267.1
Net deferred tax liabilities	251.0	261.5

The following is a reconciliation of net deferred tax liabilities:

	2015 \$	2014 \$
At January 1	261.5	282.4
Tax expense (recovery) during the year recognized in profit (loss)	1.9	(4.0)
Tax loss during the year recognized in other comprehensive income (loss)	(0.3)	(0.3)
Other, including cumulative translation adjustment	(12.1)	(16.6)
At December 31	251.0	261.5

The Company has recorded deferred tax assets of \$33.5 [2014 – \$40.7] pertaining to loss carryforwards and other deductible temporary differences based on management's best estimate of available and future taxable profits that the Company expects to achieve from reviewing its financial projections and potential transactions in the future.

The aggregate amount of deductible temporary differences associated with the Company's investments in subsidiaries, associates and joint ventures for which deferred taxes have not been recognized as at December 31, 2015 is \$208.2 [2014 – \$223.9].

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As at December 31, 2015, the Company had the following income tax net capital and non-capital loss carryforwards available to reduce future taxable income and capital gains:

	Amount	Deferred tax assets	Valuation allowance	Net deferred tax assets
	\$	\$	\$	\$
Canada	58.1	15.3	(4.7)	10.6
United States	2.3	0.4	—	0.4
Other	530.7	78.5	(76.9)	1.6
Total tax loss carryforwards	591.1	94.2	(81.6)	12.6

The Company has non-capital losses expiring in the following years:

	\$
2016	14.5
2017	8.9
2018	23.7
2019	4.0
Thereafter	538.6
	589.7

The Company has deferred tax assets other than income tax loss carryforwards in the amount of \$28.8, of which \$7.9 has not been recognized in the consolidated financial statements.

The Company reviews and assesses the status of open tax examinations, tax disputes, tax litigations and its historical tax positions filings for the potential for adverse outcomes to determine the adequacy of the provision for income and other taxes. The Company believes that it has adequately provided for any tax adjustments that are more likely than not to occur as a result of ongoing tax examinations, tax disputes, tax litigation and historical tax position filings.

## 11. GOODWILL AND INTANGIBLE ASSETS

	Indefinite life		Management contracts	Software	Total
	Goodwill	Brand names			
	\$	\$	\$	\$	\$
Cost					
At January 1, 2014	204.7	753.5	353.3	26.2	1,337.7
Additions	—	—	2.0	4.6	6.6
Disposals and write-offs	—	—	(3.8)	(5.7)	(9.5)
Foreign currency translation and other adjustments	(14.4)	(36.7)	(17.2)	(2.1)	(70.4)
At December 31, 2014	190.3	716.8	334.3	23.0	1,264.4
Additions	—	—	24.0	7.4	31.4
Disposals and write-offs	—	—	(1.7)	—	(1.7)
Foreign currency translation and other adjustments	(6.0)	(36.0)	(18.5)	(3.2)	(63.7)
At December 31, 2015	184.3	680.8	338.1	27.2	1,230.4
Accumulated amortization					
At January 1, 2014	—	—	(77.4)	(12.7)	(90.1)
Amortization	—	—	(10.2)	(4.4)	(14.6)
Disposals and write-offs	—	—	2.4	5.7	8.1
Foreign currency translation and other adjustments	—	—	4.5	1.2	5.7
At December 31, 2014	—	—	(80.7)	(10.2)	(90.9)
Amortization	—	—	(10.6)	(5.0)	(15.6)
Foreign currency translation and other adjustments	—	—	4.4	1.8	6.2
At December 31, 2015	—	—	(86.9)	(13.4)	(100.3)
Net book value:					
At December 31, 2015	184.3	680.8	251.2	13.8	1,130.1
At December 31, 2014	190.3	716.8	253.6	12.8	1,173.5

Included in additions to management contracts in 2015 is \$6.8 pertaining to a forgivable loan that was effectively extinguished for management contracts and other non-cash additions of \$1.3.



## Goodwill

Goodwill has been allocated to the group of brand management operations CGUs and has been tested for impairment at the group CGU level. The recoverable amount of the CGUs was determined on a fair value less costs to sell basis. As discussed in note 1, the shareholders of the Company have agreed to sell their existing shares in FRHI to Accor S.A. The transaction is valued at approximately \$3 billion. Given the availability of market-based data as an indicator of fair value, the Company used the \$3 billion transaction value as the recoverable amount of the existing net equity value of FRHI, adjusted for items not related to the group of brand management operations CGUs, and due to the significant excess, no goodwill impairment was required at December 31, 2015.

## Brand names

Brand names have been allocated to the individual brand management operations CGUs and are tested for impairment at the brand operating level. In 2014, the recoverable amount of each brand was determined using a relief from royalty calculation. The calculation used pre-tax revenue forecasts derived from the most recent forecasts approved by management and covered a four-year period. The estimated recoverable amount of each CGU exceeded its carrying value and as a result, no impairment of the brand names was required at December 31, 2014.

The relief from royalty calculation for brand names is most sensitive to the royalty rate, discount rate and growth rate assumptions used to extrapolate cash flows beyond the four-year forecast period and the factors that would impact these assumptions remained consistent in 2015 as compared to the prior year. In addition, actual results in 2015 exceeded the prior year estimates. In the 2014 testing, a pre-tax royalty rate of 2.25% to 2.50% and an after-tax discount rate of 12.5% to 14.3% were used to determine discounted projected cash flows. The discount rate was based on the Company's weighted average cost of capital, adjusted to reflect risks specific to the cash flows associated with the Company's brand management operations CGUs. For each CGU, the terminal value of future revenues was calculated based on a perpetual growth rate of 3%, which does not exceed the average long-term growth rate for the relevant markets. For 2015, given the factors described above with the sale of the Company, the significant excess of the purchase price over the net assets of the Company and the stated intention of the purchaser to operate all three brands, no impairment of the brand names was required at December 31, 2015.

## 12. PROPERTY AND EQUIPMENT

	Land and land improvements \$	Buildings and leasehold improvements \$	Furniture, fixtures and equipment \$	Other \$	Total \$
Cost					
At January 1, 2014	83.1	126.9	109.7	54.4	374.1
Additions	—	6.4	9.5	22.7	38.6
Disposals	—	(1.2)	(8.8)	—	(10.0)
Transfers in (out)	—	36.4	13.4	(49.8)	—
Foreign currency translation and other adjustments	—	(3.8)	(2.5)	(3.2)	(9.5)
At December 31, 2014	83.1	164.7	121.3	24.1	393.2
Additions	—	4.2	5.7	5.0	14.9
Disposals	—	(30.5)	(20.5)	(0.1)	(51.1)
Transfers in (out)	—	2.9	2.3	(5.2)	—
Foreign currency translation and other adjustments	—	(6.8)	(6.9)	(3.7)	(17.4)
At December 31, 2015	83.1	134.5	101.9	20.1	339.6
Accumulated depreciation					
At January 1, 2014	—	(60.2)	(60.5)	(9.8)	(130.5)
Depreciation	—	(6.5)	(11.9)	(1.4)	(19.8)
Disposals	—	1.2	8.7	—	9.9
Foreign currency translation and other adjustments	—	3.1	—	0.8	3.9
At December 31, 2014	—	(62.4)	(63.7)	(10.4)	(136.5)
Depreciation	—	(6.5)	(11.5)	(1.2)	(19.2)
Disposals	—	30.5	20.5	0.1	51.1
Foreign currency translation and other adjustments	—	3.4	4.5	1.6	9.5
At December 31, 2015	—	(35.0)	(50.2)	(9.9)	(95.1)
Net book value:					
At December 31, 2015	83.1	99.5	51.7	10.2	244.5
At December 31, 2014	83.1	102.3	57.6	13.7	256.7

As at December 31, 2015, contractual commitments with third parties, such as contractors and equipment providers, totalled approximately \$9.8 [2014 – \$22.4].

As at December 31, 2015, “Other” includes approximately \$0.3 [2014 – \$0.7] of construction in progress relating to ongoing renovations at certain owned hotels.

## 13. OTHER FINANCIAL ASSETS

	2015 \$	2014 \$
Current		
Loans and receivables		
Loans receivable	2.4	2.4
Notes receivable	—	2.9
Interest receivable and other	0.9	0.7
Total current other financial assets	3.3	6.0
Non-current		
Loans and receivables		
Loans receivable	57.8	176.4
Deposits	2.9	2.9
Long-term receivable	1.3	—
Total loans and receivables	62.0	179.3
Available-for-sale equity securities		
Unquoted equity shares	22.1	22.1
Total non-current other financial assets	84.1	201.4

Loans receivable relate to loans provided to owners of hotels and joint ventures where the Company has a management contract. The Company evaluates these loans for impairment and as at December 31, 2015 believes these loans are fully collectible.

## Non-current

Included in non-current loans receivable is \$53.9 [2014 – \$165.6] of loans receivable from related parties. Refer to note 23 for further details.

In May 2015, a forgivable loan of \$6.8 was effectively extinguished in exchange for hotel management contracts provided by the loan holder.

## Available-for-sale equity securities

Available-for-sale equity securities consist of investments in unlisted shares of a hospitality procurement company and a hotel and residential property. These investments are measured at cost, as fair value cannot be measured reliably. The Company evaluates available-for-sale equity securities for impairment and as at December 31, 2015 believes these investments have no indicators of impairment and are therefore not impaired. The Company currently has no plans to dispose of these investments. Distributions from available-for-sale equity securities of \$5.7 [2014 – \$5.6] was reported in profit or loss as other operating income and expense.

# 14. RETIREMENT BENEFIT AND OTHER ASSETS

	2015	2014
	\$	\$
Retirement benefit assets [note 20]	16.1	17.4
Non-qualified deferred compensation plan asset	4.5	4.5
Deferred development charges	0.7	0.7
Other assets	5.0	8.1
	<u>26.3</u>	<u>30.7</u>

# 15. TRADE AND OTHER RECEIVABLES

	2015	2014
	\$	\$
Trade receivables	97.7	91.9
Other receivables	35.4	10.6
	<u>133.1</u>	<u>102.5</u>

Trade and other receivables are designated as loans and receivables and are held at amortized cost. Trade receivables are non-interest bearing and are generally on payment terms of 30 days. The fair value of trade and other receivables approximates their carrying value.

The aging of trade and other receivables at the end of the reporting period is as follows:

	2015			2014		
	Gross	Provision	Net	Gross	Provision	Net
	\$	\$	\$	\$	\$	\$
Not past due	72.7	—	72.7	48.2	—	48.2
Past due 1-30 days	8.9	—	8.9	10.6	—	10.6
Past due 31-90 days	10.6	—	10.6	12.5	—	12.5
Past due more than 90 days	47.5	6.6	40.9	37.2	6.0	31.2
	<u>139.7</u>	<u>6.6</u>	<u>133.1</u>	<u>108.5</u>	<u>6.0</u>	<u>102.5</u>

The movement in the provision for impairment of trade and other receivables during the year is as follows:

	2015	2014
	\$	\$
At January 1	6.0	3.8
Provided	5.3	4.3
Written off	(3.3)	(1.8)
Written back	(1.4)	—
Other adjustments	—	(0.3)
At December 31	<u>6.6</u>	<u>6.0</u>

## 16. LONG-TERM DEBT

	2015	2014
	\$	\$
Credit facility	39.1	42.7
Deferred debt issuance costs on credit facility	(2.8)	(4.6)
Total long-term debt	36.3	38.1

The credit facility is denominated in the following currencies:

	2015	2014
US dollars	2.0	1.0
Canadian dollars	—	2.2
Euros	37.1	39.5
	39.1	42.7

Long-term debt includes borrowings under the Company's credit facility. The facility is used for general business purposes. The availability of the credit facility is subject to the Company being in compliance with covenants with respect to debt levels and interest coverage. The Company was in compliance with these covenants as at December 31, 2015. There were no breaches or defaults during the year. The outstanding balance of debt, all in revolving loans, is considered long-term.

The credit facility was refinanced in January 2014 to increase its capacity, extend the maturity date, convert all borrowings to revolving loans, and remove a pledge of assets as security for borrowings. Unamortized deferred debt issuance costs of \$0.3 were written off in other operating income and expense and additional transaction costs of \$4.3 were capitalized. The unamortized deferred debt issuance costs on the credit facility are being amortized over the remaining term of the facility.

The weighted average interest rate for the year ended December 31, 2015 was 1.6% [2014 – 1.8%]. The interest rate is floating and is calculated based on the bankers' acceptance, LIBOR, EURIBOR, CDOR, or SGD-SOR rate plus a spread.

As at December 31, 2015, the Company had outstanding letters of credit under the credit facility of \$35.3 and other letters of credit of \$6.2 [2014 – \$38.9].

A change in control constitutes an Event of Default under the terms of the credit facility. Once an Event of Default has occurred, the administrative agent for the facility may, and at the request of lenders holding fifty percent or more of total commitments shall, terminate all commitments under the facility and declare all loans and liabilities outstanding under the facility due and payable.

## 17. OTHER FINANCIAL LIABILITIES

	2015 \$	2014 \$
Current		
LTIP	14.0	17.4
Dividend payable	—	15.6
Interest payable	0.5	0.4
Total current other financial liabilities	14.5	33.4
Non-current		
LTIP	21.6	20.2
Obligation in connection with acquired hotel interest	—	69.8
Financial instruments at fair value through profit or loss		
Derivatives not designated as hedging instruments	—	0.1
Total non-current other financial liabilities	21.6	90.1

## 18. PROVISIONS

	2015			2014		
	Current \$	Non-current \$	Total \$	Current \$	Non-current \$	Total \$
Claims, litigation and other contingencies	—	1.2	1.2	0.1	1.5	1.6
Restructuring	—	—	—	0.3	—	0.3
Remediation contingency	0.6	—	0.6	1.9	—	1.9
Other	—	0.2	0.2	—	0.2	0.2
	0.6	1.4	2.0	2.3	1.7	4.0

Movements in provisions are as follows:

	Claims, litigation and other contingencies \$	Restructuring \$	Remediation contingency \$	Other \$	Total \$
At January 1, 2015	1.6	0.3	1.9	0.2	4.0
Usage	(0.1)	(0.3)	(0.5)	—	(0.9)
Reversals	—	—	(0.8)	—	(0.8)
Translation adjustments	(0.3)	—	—	—	(0.3)
At December 31, 2015	1.2	—	0.6	0.2	2.0
Non-current	1.2	—	—	0.2	1.4
Current	—	—	0.6	—	0.6
	1.2	—	0.6	0.2	2.0

## Claims, litigation and other contingencies

The Company is involved in a number of legal and other disputes including notification of possible claims. The Company has established provisions after taking into account the facts of each case. Payouts are expected over a period of up to 20 years.

## Remediation contingency

A provision for expected remediation costs was recorded in 2012 as a result of moisture issues at a leased property. A portion of the provision was released in 2015 due to a change in forecasted costs for the remediation. The outstanding provision as at December 31, 2015 represents management's best estimate of cash costs expected to be incurred that are not deemed capitalizable. The remaining provision is expected to be fully utilized in 2016. The Company reached settlement agreements with its insurance provider and the hotel owner in 2015 in connection with the remediation, resulting in total settlement gains of \$21.3, included in other operating income and expenses.

## Other

Other includes obligations associated with certain office leases which require that leased assets must be restored to their original condition at the date of inception of the lease. The associated cash outflows are expected to occur at the end of the lease terms, which are long-term in nature.

## 19. RETIREMENT BENEFIT AND OTHER LIABILITIES

	2015	2014
	\$	\$
Retirement benefit obligations [note 20]	21.2	27.7
Workers' compensation obligation	7.7	10.1
Non-qualified deferred compensation plan liability	5.7	6.1
Other liabilities	2.9	5.2
Total retirement benefit and other liabilities	37.5	49.1

## 20. PENSIONS AND OTHER POST-EMPLOYMENT BENEFIT PLANS

The Company has defined benefit pension plans in Canada [funded and unfunded], the United States [unfunded] and the United Kingdom [funded]. The Company also has other post-employment plans in Canada, being primarily life insurance and health care coverage. All defined benefit plans are closed to new entrants, with new members eligible to participate in defined contribution arrangements. Contributions to defined benefit plans are made to separately administered funds and are made in accordance with actuarial recommendations and in compliance with regulatory requirements. Benefit payments from defined benefit plans are based principally on years of service and compensation rates near retirement. Benefit payments from United Kingdom and Canadian registered plans are adjusted for inflation.

The United Kingdom defined benefit plan is governed by a Board of Trustees, which includes senior management of the Company, which works with the Company to set the funding principles of the plan. The funding objectives of the plan are set by the Board of Trustees. Canadian defined benefit plans are

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governed by a committee comprising senior management of the Company. The committee is responsible for the administration of plan assets and for the definition of the plans' investment strategies. The portfolio of the funded plans consists of equities, bonds and pooled funds.

The Company is subject to restrictions on any surplus in Canadian plans under Canadian pension law. The following tables summarize the components of the net benefit expense recognized in the consolidated statement of profit (loss) and the funded status and amounts recognized in the consolidated statement of financial position:

	Pension		Other		Total	
	2015	2014	2015	2014	2015	2014
	\$	\$	\$	\$	\$	\$
Current service cost	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)
Interest on defined benefit obligations	(0.1)	(0.5)	(0.1)	(0.1)	(0.2)	(0.6)
Settlement loss	(0.9)	(0.3)	—	—	(0.9)	(0.3)
Administration costs incurred	(0.5)	(0.4)	—	—	(0.5)	(0.4)
Net benefit expense	(1.6)	(1.3)	(0.2)	(0.2)	(1.8)	(1.5)

Regulatory approval for the wind-up of one of the Company's defined benefit plans was received in 2010. The Company fully funded and settled all obligations relating to members of this plan in 2015. The net impact of this settlement has been presented as a settlement loss in the net benefit expense in 2015.

Certain members of the United Kingdom pension plan were given the option in 2014 to elect to use the cash equivalent transfer value of their pension benefits to purchase a more suitable annuity with a third-party insurer. The net impact of the settlement for these plan members has been presented as a settlement loss in the net benefit expense in 2014.



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The funded status recognized in the consolidated statement of financial position is as follows:

At December 31, 2015

	Pension \$	Other \$	Total \$
Retirement benefit assets			
Fair value of plan assets	137.9	—	137.9
Defined benefit obligations	(115.7)	—	(115.7)
Plans in surplus	22.2	—	22.2
Asset restriction	(6.1)	—	(6.1)
Total retirement benefit assets	16.1	—	16.1
Retirement benefit obligations			
Defined benefit obligations	(18.3)	(2.9)	(21.2)
Plans in deficit	(18.3)	(2.9)	(21.2)
Total retirement benefit obligations	(18.3)	(2.9)	(21.2)

At December 31, 2014

	Pension \$	Other \$	Total \$
Retirement benefit assets			
Fair value of plan assets	154.7	—	154.7
Defined benefit obligations	(132.8)	—	(132.8)
Plans in surplus	21.9	—	21.9
Asset restriction	(4.5)	—	(4.5)
Total retirement benefit assets	17.4	—	17.4
Retirement benefit obligations			
Fair value of plan assets	17.2	—	17.2
Defined benefit obligations	(40.4)	(3.3)	(43.7)
Plans in deficit	(23.2)	(3.3)	(26.5)
Liability due to minimum funding requirements	(1.2)	—	(1.2)
Total retirement benefit obligations	(24.4)	(3.3)	(27.7)

As at December 31, 2015, the Company had issued letters of credit of \$16.6 [2014 – \$18.6] representing financial guarantees on certain of the above unfunded pension liabilities.

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Changes in the present value of the defined benefit obligation are as follows:

	Pension \$	Other \$	Total \$
Defined benefit obligations at January 1, 2014	179.0	3.1	182.1
Service cost	0.1	0.1	0.2
Interest cost	7.5	0.1	7.6
Actuarial gain arising from experience on the plan's liabilities	(0.4)	—	(0.4)
Actuarial loss arising from changes in demographic assumptions	1.0	—	1.0
Actuarial gain arising from changes in financial assumptions	14.4	0.4	14.8
Benefits paid	(10.7)	(0.1)	(10.8)
Partial plan settlements	(6.0)	—	(6.0)
Foreign exchange rate changes and other adjustments	(11.7)	(0.3)	(12.0)
Defined benefit obligations at December 31, 2014	173.2	3.3	176.5
Service cost	0.1	0.1	0.2
Interest cost	5.3	0.1	5.4
Actuarial gain arising from experience on the plan's liabilities	(0.3)	—	(0.3)
Actuarial gain arising from changes in financial assumptions	(1.8)	—	(1.8)
Benefits paid	(8.8)	(0.1)	(8.9)
Plan settlement	(16.8)	—	(16.8)
Foreign exchange rate changes and other adjustments	(16.9)	(0.5)	(17.4)
Defined benefit obligations at December 31, 2015	134.0	2.9	136.9

Changes in the fair value of plan assets are as follows:

	Defined benefit pension plans \$
Fair value of plan assets at January 1, 2014	170.7
Interest income on plan assets	7.3
Return on plan assets less than discount rate	18.9
Employer contributions	5.1
Benefits paid	(10.7)
Administrative costs paid from plan assets	(0.4)
Transfer to defined contribution plan	(1.1)
Partial plan settlement	(6.3)
Foreign exchange rate changes	(11.6)
Fair value of plan assets at December 31, 2014	171.9
Interest income on plan assets	5.4
Return on plan assets greater than discount rate	(1.6)
Employer contributions	6.2
Benefits paid	(8.8)
Administrative costs paid from plan assets	(0.5)
Transfer to defined contribution plan	(1.0)
Plan settlement	(17.7)
Foreign exchange rate changes and other adjustments	(16.0)
Fair value of plan assets at December 31, 2015	137.9

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Changes in the irrecoverable surplus are as follows:

	Defined benefit pension plans \$
Irrecoverable surplus at January 1, 2014	6.4
Interest on irrecoverable surplus	0.3
Change in the irrecoverable surplus during the period	(0.4)
Foreign exchange rate changes	(0.6)
Irrecoverable surplus at December 31, 2014	5.7
Interest on irrecoverable surplus	0.2
Change in the irrecoverable surplus during the period	1.3
Foreign exchange rate changes	(1.1)
Irrecoverable surplus at December 31, 2015	6.1

Plan assets consist of investments quoted in active markets. The major categories of plan assets and their fair value are as follows:

	Defined benefit pension plans	
	2015	2014
	\$	\$
Equity securities	34.2	32.7
Debt securities	99.0	124.0
Cash and cash equivalents	2.9	9.5
Other	1.8	5.7
Total	137.9	171.9

Other assets represent units of an investment fund, consisting of a mixture of bonds, derivatives and growth funds. The Company's investment strategy is to maximize return at an appropriate level of risk in order to minimize its long-term cash contributions and pension expenses.

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The principal weighted average assumptions used in determining pension and other post-employment benefits for the Company's plans are shown below:

	2015 %	2014 %
Discount rate		
Pension	3.7	3.6
Other	3.9	3.9
Rate of compensation increase		
Pension	3.8	3.7
Other	N/A	N/A
	2015 Years	2014 Years
Duration of defined benefit obligation		
Pension	15	14
Other	17	18

The value of plan assets is sensitive to market conditions. Changes in assumptions used for determining retirement benefit costs and obligations may have a material impact on the consolidated statement of profit (loss) and the consolidated statement of financial position. The main assumptions are the discount rate and expected mortality of plan participants. The following table provides an estimate of the potential impact of this variable on the pension plans:

	Increase (decrease) in defined benefit obligations		
	Pension	Other	Total
	\$	\$	\$
Discount rate			
0.05% increase	(7.6)	(0.2)	(7.8)
0.05% decrease	8.3	0.2	8.5
Mortality			
0.05% weaker mortality	4.5	—	4.5

The sensitivity analyses above have been determined based on a method that extrapolates the impact on the net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

### Funding requirements

Employer contributions in 2015 were \$6.2 [2014 – \$5.1] in respect of defined benefit pensions and \$0.1 [2014 – \$0.1] in respect of other benefit plans.

The Company expects to contribute approximately \$4.0 in respect of defined benefit pension plans and \$0.1 in respect of other benefit plans in the next fiscal year based on management's best estimate.

FRHI also has defined contribution pension plans. The Company's net expense for such plans, which equals the Company's required contribution, was \$2.1 in 2015 [2014 – \$2.3].

## 21. TRADE AND OTHER PAYABLES

	2015	2014
	\$	\$
Trade payables	18.9	19.0
Rental and other deposits	13.8	15.4
Employee-related accruals	36.4	24.4
Other taxes payable	13.9	14.9
Deferred revenue	24.4	29.0
Other accruals	24.6	21.6
	132.0	124.3

Trade payables are non-interest bearing and are normally settled on 30 to 60-day terms.

Included in trade and other payables is a future redemption liability associated with guest loyalty programs of \$2.4 and travel agent and corporate Booker loyalty programs of \$4.2. A ten percent reduction in the estimate of "breakage" would have increased the estimated December 31, 2015 guest loyalty liability by \$1.0. A ten percent reduction in the estimate of "breakage" would have a nominal impact on the travel agent and corporate Booker loyalty liability for December 31, 2015.

## 22. ISSUED CAPITAL AND RESERVES

## Equity capital

The Company's articles of association authorize the issuance of 3,000,000 Class A shares, 650,000 Class C shares, 650,000 Class D shares and 75,000 Class E shares, each with par value of \$0.0001 per share.

Class C shares are equivalent to 1% of Class A shares and Class D shares are equivalent to 99% of Class A shares. The holder of a Class C share has the right to receive dividends and distributions equal to 1% of the dividends and distributions paid on a Class A share. The holder of a Class D share has the right to receive dividends and distributions equal to 99% of the dividends and distributions on a Class A share.

The following table outlines common shares issued and fully paid:

	Number of shares outstanding				Total \$
	Class A – voting	Class C – voting	Class D – non-voting	Total shares	
At December 31, 2015 and 2014	1,557,916	469,961	469,961	2,497,838	1,411.6

At December 31, 2015 and 2014, total share equivalents outstanding were 2,027,877 shares.

## Currency translation reserve

The reserve records the movement in exchange differences arising from the translation of the financial statements of foreign operations and the retranslation of monetary items receivable or payable to a foreign subsidiary, considered to form part of the net investment in the foreign subsidiary. At the date of transition to IFRS [January 1, 2010], the Company reset its cumulative translation differences to nil under IFRS 1.

## 23. RELATED PARTY DISCLOSURES

The following table provides a summary of transactions that have been entered into with related parties:

	2015 \$	2014 \$
Associates		
Revenue from related parties	19.8	18.5
Amounts owed by related parties	4.7	2.4
Joint ventures		
Revenue from related parties	5.0	4.8
Amounts owed by related parties	1.6	0.9
Other related parties		
Revenue from related parties	25.3	27.6
Amounts owed by related parties	6.2	7.4

The following table provides a summary of loans owed by related parties:

	2015 \$	2014 \$
Other related parties		
Loans owed by Kingdom and affiliated entities	14.6	14.2
Loans owed by QIA and affiliated entities	9.0	10.0
Loans owed by joint ventures	1.9	43.9
Loans owed by entities affiliated with joint ventures, Kingdom, and QIA	28.4	97.5

## Associates

The Company has interests in the following associates:

	2015 %	2014 %
Swissôtel Lima	26.4	26.4
Fairmont Le Manoir Richelieu	25.2	25.2
Fairmont Tremblant	25.2	25.2
Fairmont Mayakoba	10.2	10.2
Fairmont Dubai	14.6	14.6
Swissôtel Quito	11.8	11.8
Swissôtel Istanbul	7.3	7.3
Fairmont Sonoma Mission Inn & Spa	25.0	25.0
Fairmont Grand del Mar	12.0	—

The Company's investment in the Fairmont Sonoma Mission Inn & Spa has been classified as Held for Sale as at December 31, 2015.

The Company accounts for certain of its investments in associates using the equity method where there is less than 20% ownership interest, due to significant influence through contractual arrangements.

## Joint ventures in which the Company is a venturer

The Company has a 50% interest in an entity holding the operations of the Swissôtel Dresden, in entities holding the operations and assets of Claremont and an entity that holds 50% of the equity interests in The Savoy Hotel. The Company has a 54% interest in an entity that has an interest in a limited liability company that holds 14% of the assets of the Fairmont Heritage Place, Ghirardelli Square.

The Company has a 50% interest in an entity holding the management contract for the Fairmont Peace Hotel and in an entity established to operate and manage a collection of mid-market hotels under a distinctive Chinese brand.

## Terms and conditions of transactions with related parties

Outstanding trade accounts receivable and payable balances at year end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any trade related party receivables or payables. The Company has not recorded an impairment relating to amounts owed by related parties for the year ended December 31, 2015 [2014 – nil].

## Commitments with related parties

As at December 31, 2015, the Company had \$1.7 [2014 – \$1.8] of outstanding commitments to related parties.

## Loans to related parties

[a] In connection with obtaining The Savoy management contract in 2005, the Company loaned \$26.8 [£16.8 million] to the hotel owners [including an affiliate of Kingdom] as a long-term advance, due in 2015 and bearing interest at 7.75%. In 2008, the Company funded an additional \$15.9 [£10.0 million] as a capital expenditure loan, which bore interest at LIBOR at the time of issuance plus 2.25%. In 2010, the final funding of \$7.5 [£5.0 million] on the capital expenditure loan was made to the hotel owners with an interest rate of 15.0%. In 2013 the owners of The Savoy completed a refinancing of the property. In connection with the refinancing, the Operator Loans maturity dates were extended from 2015 to 2018 and interest was increased to 15% from January 19, 2015 to maturity. In 2014, as a result of the change in the capital structure at the property, the maturity dates on the Operator Loans were extended from 2018 to 2019, with an option to extend to 2020.

In 2015, The Savoy underwent a further financial restructuring in order to simplify the capital structure. The Operator Loans retained by the Company are interest-free and have been discounted using prevailing market rates. As at December 31, 2015, the total outstanding long-term advance and capital expenditure loan was \$28.4. The loan will accrete up to its face value of \$37.3 [£25.2 million] by 2018.

[b] In connection with obtaining the Raffles Praslin management contract in 2008, the Company loaned \$11.0 to the hotel owner [an affiliate of Kingdom] as a long-term advance, due in March 2018 and bearing interest at LIBOR plus 1%. Interest compounds annually and is payable on the fifth anniversary of the loan and upon maturity. As at December 31, 2015, the outstanding loan including accrued interest was \$11.7 [2014 – \$11.6].

[c] In 2011, the Company advanced a loan of \$10.3 [EURO 8.0 million] to the owner of Le Royal Monceau, Raffles Paris [a subsidiary of QIA] to finance the operation of the hotel. The loan is due in November 2021 and bears interest at the 12-month EURIBOR. Interest and principal are payable annually, if certain gross operating profit thresholds are exceeded for the hotel. If the thresholds are not exceeded, the accrued interest will be added to the principal amount of the loan. As at December 31, 2015, the outstanding loan including accrued interest was \$9.0 [2014 – \$10.0].

[d] In a prior year, the Company advanced a \$5.0 interest-free loan to a group of hotels partially owned by Kingdom through a partnership. At the time of issuance, the loan was discounted using prevailing market rates. In 2011, \$0.7 of the loan was repaid. As at December 31, 2015, the outstanding long-term advance was \$2.9 [2014 – \$2.6]. The loan will accrete up to its face value of \$4.3 by 2020.

[e] In 2012, the Company granted a loan facility of up to \$4.0 [EURO 2.9 million] to the Dresden joint venture. Amounts can be drawn and repaid until the expiry of the hotel operating lease in 2022. Interest accrues at 4% above the base rate published by the European Central Bank annually and is due with the repayment of the loan. As at December 31, 2015, the outstanding loan including accrued interest was \$1.9 [2014 – \$1.8].



[f] In 2014, the Company loaned \$41.2 [£25.6 million] to the Savoy Joint Venture to acquire the interests in The Savoy. The Company loaned an additional \$1.5 [£0.9 million] in 2014 to fund professional fees relating to the acquisition which was later capitalized to the investment in the Savoy Joint Venture. In 2015, the Company released the Savoy Joint Venture of their \$43.3 [£27.9 million] obligation [representing the principal plus accrued interest on the loan used to fund the acquisition] and capitalized these amounts to the investment. As at December 31, 2015, the total outstanding loans including accrued interest was nil [December 31, 2014 – \$42.2].

## Transactions with key management personnel

	2015 \$	2014 \$
Short-term employee compensation and benefits	9.3	4.4
Long-term employee compensation and benefits	10.3	14.3
Total compensation for key management personnel	19.6	18.7

The amounts disclosed in the table are the amounts recognized as an expense during the reporting period related to key management personnel. Key management personnel are those who have authority and responsibility for planning, directing and controlling the activities of the entity.

## 24. OPERATING LEASES

The Company leases certain buildings and equipment under operating leases and leases out certain of its food and beverage outlets and shop spaces within owned and leased hotels. These leases have various terms and generally contain renewal options and escalation clauses. In addition to minimum rental payments, some leases may require the payment of additional rents based on varying percentages of revenue. No material restrictions or guarantees exist in the Company's lease obligations.

The Company incurred rent expense under operating leases of \$78.6 in 2015 [2014 – \$86.0], which consisted of minimum lease payments of \$56.0 [2014 – \$62.1] and contingent rent of \$22.6 [2014 – \$23.9]. Sublease income of \$1.4 [2014 – \$1.3] has not been netted against this rent expense.

Future minimum rent payable under non-cancellable operating leases is as follows:

	\$
Within one year	49.2
After one year but not more than five years	64.8
More than five years	45.5
	159.5

As at December 31, 2015, the total future minimum sublease payments expected to be received under non-cancellable subleases was \$1.3 [2014 – \$1.5].

## 25. COMMITMENTS, CONTINGENCIES AND GUARANTEES

### Commitments

The Company has entered into agreements to provide long-term loans to certain hotel owners. In addition, the Company has agreed to contribute funds to certain hotel owners to secure management contracts. The following has been committed and is expected to be funded subsequent to December 31, 2015:

	2016	2017	2018	Thereafter	Total
	\$	\$	\$	\$	\$
Funds committed					
Long-term loans	18.8	—	—	3.0	21.8
Management contracts	1.2	1.0	1.0	2.5	5.7
	20.0	1.0	1.0	5.5	27.5

### Contingencies

From time to time, the Company is subject to legal proceedings, the ultimate outcome of each being subject to many uncertainties inherent in litigation. It is the view of management that, other than to the extent that liabilities have been recorded in the consolidated financial statements, such legal proceedings are not expected to result in a material financial loss to the Company.

### Guarantees

#### Performance obligations under management contracts

In the ordinary course of business, the Company enters into hotel management contracts that may obligate the Company to compensate the hotel owner, to the extent the hotel's operations do not achieve certain performance levels, or be at risk for termination. The Company's exposure under these arrangements is partially mitigated as many of the performance tests are partially tied to the results of a competitive set of hotels and most have exclusions for force majeure events. The Company has a process to monitor and assess these obligations and records the amounts it believes will be due to hotel owners.

### Indemnifications

#### Business dispositions

In the sale of all or a part of a business, the Company may agree to indemnify against claims related to the period the business was owned by the Company in the areas of tax and environmental matters. The Company is not able to make a reasonable estimate of the maximum amount it could be required to pay counterparties, as the terms of such indemnification agreements are subject to certain actions that are under the control of the acquirer and the amount of the indemnification is not limited. No amount has been recorded in the consolidated financial statements with respect to these indemnification agreements.

#### Directors and officers

The Company has entered into indemnification agreements with its current and former directors and officers to indemnify them, to the extent permitted by law, against any and all charges, costs, expenses, amounts paid in settlement and damages incurred by the directors and officers as a result of any lawsuit or any other judicial, administrative or investigative proceeding in which the directors and officers are sued as a result of their service. These indemnification claims are subject to any statutory or other legal limitation period. The Company is not able to make a reasonable estimate of the maximum amount it could be required to pay counterparties under these indemnifications as the triggering events are not predictable. The Company has purchased directors' and officers' liability insurance. No amount has been recorded in the consolidated financial statements with respect to these indemnification agreements.

#### Other

In the normal course of operations, the Company may provide indemnifications, other than those listed above, to counterparties that would require the Company to compensate them for costs incurred as a result of changes in laws and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparties as a consequence of a transaction. The terms of these indemnification agreements will vary based on the contracts. The nature of the indemnification agreements prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. No amount has been recorded in the consolidated financial statements with respect to these indemnification agreements.

## 26. FINANCIAL INSTRUMENTS

The following table presents the carrying amounts of each category of financial assets and financial liabilities:

	Note	2015 \$	2014 \$
Financial assets			
Available-for-sale equity securities	13	22.1	22.1
Loans and receivables			
Trade and other receivables	15	133.1	102.5
Loans, notes and interest receivable – current	13	3.3	6.0
Loans, notes and other receivable – non-current	13	59.1	176.4
Deposits	13	2.9	2.9
Cash and cash equivalents		84.4	69.5
Total		304.9	379.4
Financial liabilities			
Measured at cost or amortized cost			
Trade and other payables	21	132.0	124.3
Interest payable	17	0.5	0.4
Dividend payable		—	15.6
Long-term debt	16	36.3	38.1
Obligation in connection with interest in hotel	6	—	69.8
LTIP – current	17	14.0	17.4
LTIP – non-current	17	21.6	20.2
Measured at fair value			
Interest rate swaps	17	—	0.1
Total		204.4	285.9

### Fair values

The fair values of cash and cash equivalents, trade and other receivables, current loans, notes and interest receivable and trade and other payables approximate their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of available-for-sale equity securities is not reliably measurable.

The fair value of deposits and the LTIP approximates their carrying amounts based on prevailing market rates and terms to maturity.

The fair value of long-term debt approximates its carrying value, because the stated interest rate on the debt is consistent with current market rates.

There were no interest rate swaps outstanding as at December 31, 2015 [2014 – \$0.1].

The fair value of non-current loans and notes receivable is estimated based on the most favourable rates currently available to the Company for receivables with similar terms and conditions to those receivables

in place at the reporting date. The following table compares the carrying amount and fair value of the Company's loans and notes receivable:

	Carrying amount		Fair value	
	2015	2014	2015	2014
	\$	\$	\$	\$
Loans and notes receivable – non-current	59.1	176.4	59.2	180.5

## 27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Executive Committee is responsible for developing and monitoring the Company's risk management policies and reports regularly to the Board of Directors on its activities.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

The Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Audit Committee is assisted in its oversight role by Internal Audit.

All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision. It is the Company's policy that no trading in derivatives for speculative purposes shall be undertaken.

### Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to currency risk on its operating activities, where revenue or expense is denominated in a currency other than the respective functional currencies of the Company's entities, being primarily the US dollar, the Canadian dollar, the EURO, the Swiss Franc and the Singapore dollar. Where the amounts to be paid and received in a specific currency are expected to largely offset one another, no hedging activity is undertaken. Where significant foreign currency exposures are not expected to be offset by other currency transactions, forward exchange contracts are considered. There were no forward exchange contracts in place as at December 31, 2015 and 2014.

The Company is also exposed to currency risk for its investments in foreign subsidiaries. The translation exposure of foreign subsidiaries is not hedged as those currency positions are considered to be long-term in nature. The effects of currency fluctuations on the translation of net asset amounts into US dollars are reflected in the Company's consolidated equity position.

## Foreign currency sensitivity

The following table shows the impact that a reasonably possible change in foreign currency exchange rates would have on profit before tax as at December 31, 2015, as a result of changes in fair values of financial instruments, with all other variables held constant. The percentage movement applied to each currency is based on the average movement of foreign exchange rates in the previous annual year. The Company's exposure to foreign currency changes for all other currencies is not material.

	Change in rate	Effect on profit before tax \$
At December 31, 2015		
CAD relative to USD	+16.0%	(14.2)
EURO relative to USD	+10.0%	(5.2)
USD relative to CAD	+19.0%	(4.4)
CAD relative to EUR	+7.0%	4.0
GBP relative to CAD	+14.0%	2.1

A weakening of the above currencies as at December 31, 2015 would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

## Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's interest rate exposure is primarily related to its long-term debt obligations issued at floating interest rates. The Company enters into interest rate cap, swap and collar contracts to manage interest rate risk as required. The fair values of these financial instruments are included in the consolidated statement of financial position.

As at December 31, 2015, the Company held no interest rate swaps or contracts to cap interest [2014 – swaps with notional amounts totalling \$121.5].

## Interest rate sensitivity

The Company is not exposed to significant interest rate risk as at December 31, 2015 given the magnitude of the outstanding long-term debt balance. A reasonable change in interest rates would have a nominal effect on the net annual interest charge.

## Credit risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises primarily from the Company's cash and cash equivalents, derivative financial instruments, trade and other receivables and loans receivable.

The credit risk for cash and cash equivalents and derivative financial instruments is minimized by dealing with high-quality financial institutions that have a high quality external credit rating.

Trade and other receivables due from customers of the Company's owned or leased properties comprise a large number of credit card customers in diverse geographical areas. Risk on trade and other receivables due from hotel owners is mitigated by having payment terms of 30 days, which allows the Company to actively monitor the amounts owed and identify credit risk in a timely manner. The value of the management contracts obtained from the hotel owner as well as any credit history established with the Company are factors in the decision to extend a loan to a hotel owner.

The Company reviews the recoverable amount of its trade and other receivables and loans and notes receivable at the end of each reporting period to ensure that adequate impairment losses are made for amounts determined to be unrecoverable. Other than the allowance for doubtful accounts, no allowances for credit losses on financial assets were required as at December 31, 2015.

In respect of trade and other receivables and loans receivable, significant credit risk is mitigated as amounts are due from unrelated hotel owners in various geographical areas. The maximum exposure to credit risk of financial assets is equal to the carrying amount of these instruments as illustrated in note 26. The Company generally does not hold collateral or guarantees as security for its financial assets.

The Company's maximum exposure for financial guarantees is outlined in note 25.

There were no indications as at December 31, 2015 that defaults in payment obligations will occur for trade and other receivables and loans receivable that are not impaired or past due.

## Liquidity risk

Liquidity risk results from the Company's potential inability to meet its financial obligations, such as for the settlement of its financial debt or for ongoing cash requirements from operating activities. The Company manages liquidity risk by maintaining an adequate credit facility and by continuously monitoring short and long-term cash flow forecasts.

The following table presents the details of undrawn credit facilities that the Company has at its disposal to reduce liquidity risk under the credit facility in place as at December 31, 2015 and 2014:

Facilities provided by banks	2015			2014		
	Utilized	Unutilized	Total	Utilized	Unutilized	Total
	\$	\$	\$	\$	\$	\$
Committed	74.4	525.6	600.0	81.6	518.4	600.0

Utilized facilities are calculated based on actual drawings and may not agree to the carrying value of loans held at amortized cost.

## FRHI Holdings Limited 2015 Consolidated Financial Statements

The following tables summarize the maturity profile of the Company's financial liabilities based on contractual undiscounted payments:

	Less than 1 year \$	Between 1 and 3 years \$	More than 3 years \$	Total \$
At December 31, 2015				
Long-term debt	—	36.3	—	36.3
Trade and other payables	132.0	—	—	132.0
Other financial liabilities	14.5	21.6	—	36.1
	146.5	57.9	—	204.4
At December 31, 2014				
Long-term debt	—	—	38.1	38.1
Trade and other payables	124.3	—	—	124.3
Other financial liabilities	33.4	20.3	69.8	123.5
	157.7	20.3	107.9	285.9

### Capital management

The Company manages its capital to ensure that it will be able to continue as a going concern and provide an adequate return to shareholders. The primary focus of the Company is to service debt and maintain compliance with debt covenants. The Company's overall strategy remains unchanged from 2014.

The Company is not subject to any externally imposed capital requirements.

The following table presents the Company's managed capital:

	2015 \$	2014 \$
Credit facility draws	39.1	42.7
Less: cash and cash equivalents	(84.4)	(69.5)
Net cash	(45.3)	(26.8)
Share capital	1,411.6	1,411.6
Equity	(95.6)	(107.1)
Total capital	1,316.0	1,304.5
	1,270.7	1,277.7



## 28. SUPPLEMENTAL CASH FLOW DISCLOSURE

Changes in non-cash working capital items related to operations consist of the following:

	2015 \$	2014 \$
Decrease (increase) in current assets		
Trade and other receivables	(43.9)	(20.7)
Prepayments	0.2	(3.6)
Inventories	0.6	(0.4)
Increase (decrease) in current liabilities		
Trade and other payables	29.5	8.6
Income taxes payable	(9.8)	(2.0)
Net change in non-cash working capital balances related to operations	(23.4)	(18.1)

## 29. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from the statements previously presented to conform to the presentation of the 2015 consolidated financial statements.

Consolidated Financial Statements

FRHI Holdings Limited

December 31, 2014

# INDEPENDENT AUDITORS' REPORT

To the Shareholders of  
FRHI Holdings Limited

We have audited the accompanying consolidated financial statements of FRHI Holdings Limited, which comprise the consolidated statement of financial position as at December 31, 2014, and the consolidated statements of profit (loss), comprehensive income (loss), changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of FRHI Holdings Limited as at December 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Toronto, Canada  
March 11, 2015

# CONSOLIDATED STATEMENT OF PROFIT (LOSS)

[in millions of US dollars]

Year ended December 31

	Notes	2014 \$	2013 \$
Revenue			
Hotel ownership operations		423.4	429.9
Management operations		140.8	126.0
Other revenues from managed properties		123.4	117.5
		<u>687.6</u>	<u>673.4</u>
Expenses			
Hotel ownership operations expenses	8	(369.6)	(385.4)
General and administrative	8	(101.6)	(127.0)
Other expenses from managed properties	8	(123.4)	(117.5)
Depreciation and amortization		(34.7)	(34.3)
Other operating income and expenses	9	(78.8)	20.2
Share of loss from equity investments	6, 7	(2.6)	(0.8)
Gain on sales of investments, hotel assets and other	10	0.2	8.9
Operating profit (loss)		<u>(22.9)</u>	<u>37.5</u>
Financial income	11	10.2	8.8
Financial expense	11	(6.4)	(13.4)
Profit (loss) before tax		<u>(19.1)</u>	<u>32.9</u>
Income tax expense	12	(13.6)	(41.3)
Loss		<u>(32.7)</u>	<u>(8.4)</u>
Attributed to:			
Equity holders of the parent		(33.9)	(8.8)
Non-controlling interests		1.2	0.4
		<u>(32.7)</u>	<u>(8.4)</u>

*See accompanying notes*

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

[in millions of US dollars]

Year ended December 31

	Notes	2014 \$	2013 \$
Loss		(32.7)	(8.4)
Other comprehensive income (loss)			
Exchange differences on translation of foreign operations	13	(83.2)	(4.3)
Actuarial gains and losses on defined benefit plans	23	3.9	(4.0)
Income tax effect		0.3	(0.5)
		4.2	(4.5)
Other comprehensive loss, net of tax		(79.0)	(8.8)
Total comprehensive loss, net of tax		(111.7)	(17.2)
Attributed to:			
Equity holders of the parent		(112.4)	(17.2)
Non-controlling interests		0.7	—
		(111.7)	(17.2)

See accompanying notes

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

[in millions of US dollars]

As at December 31

	Notes	2014 \$	2013 \$
<b>ASSETS</b>			
Non-current assets			
Intangible assets	14	983.2	1,042.9
Goodwill	14	190.3	204.7
Property and equipment	15	256.7	243.6
Investments in associates and joint ventures	6, 7	76.8	68.8
Other financial assets	16	201.4	161.8
Retirement benefit and other assets	17, 23	30.7	26.6
Deferred tax assets	12	5.6	3.5
		<u>1,744.7</u>	<u>1,751.9</u>
Current assets			
Inventories		6.2	6.4
Prepayments		10.1	9.3
Income tax receivable	12	1.2	5.9
Trade and other receivables	18	102.5	96.8
Other financial assets	16	6.0	4.0
Cash and cash equivalents		69.5	79.6
		<u>195.5</u>	<u>202.0</u>
Total assets		<u>1,940.2</u>	<u>1,953.9</u>
<b>LIABILITIES AND EQUITY</b>			
Non-current liabilities			
Long-term debt	19	38.1	1.4
Other financial liabilities	20	90.1	17.8
Provisions	21	1.7	2.4
Retirement benefit and other liabilities	22, 23	49.1	53.6
Deferred tax liabilities	12	267.1	285.9
		<u>446.1</u>	<u>361.1</u>
Current liabilities			
Other financial liabilities	20	33.4	8.7
Trade and other payables	24	124.3	125.7
Provisions	21	2.3	6.1
Income tax payable	12	18.0	8.9
		<u>178.0</u>	<u>149.4</u>
Total liabilities		<u>624.1</u>	<u>510.5</u>
Equity			
Share capital	25	1,411.6	1,427.2
Currency translation reserve		(38.4)	44.3
Deficit		(68.7)	(39.0)
Equity attributable to FRHI Holdings Limited		<u>1,304.5</u>	<u>1,432.5</u>
Non-controlling interests		11.6	10.9
Total equity		<u>1,316.1</u>	<u>1,443.4</u>
Total liabilities and equity		<u>1,940.2</u>	<u>1,953.9</u>

*See accompanying notes*

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

[in millions of US dollars]

Year ended December 31

	Note	Share capital \$	Currency translation reserve \$	Deficit \$	Total \$	Non- controlling interests \$	Total equity \$
As at December 31, 2012		1,427.2	48.2	(25.7)	1,449.7	10.9	1,460.6
Profit (loss) for the year		—	—	(8.8)	(8.8)	0.4	(8.4)
Other comprehensive loss		—	(3.9)	(4.5)	(8.4)	(0.4)	(8.8)
Total comprehensive loss		—	(3.9)	(13.3)	(17.2)	—	(17.2)
As at December 31, 2013		1,427.2	44.3	(39.0)	1,432.5	10.9	1,443.4
Profit (loss) for the year		—	—	(33.9)	(33.9)	1.2	(32.7)
Other comprehensive income (loss)		—	(82.7)	4.2	(78.5)	(0.5)	(79.0)
Total comprehensive income (loss)		—	(82.7)	(29.7)	(112.4)	0.7	(111.7)
Dividend declared	25	(15.6)	—	—	(15.6)	—	(15.6)
As at December 31, 2014		1,411.6	(38.4)	(68.7)	1,304.5	11.6	1,316.1

*See accompanying notes*

## CONSOLIDATED STATEMENT OF CASH FLOWS

[in millions of US dollars]

Year ended December 31

	Notes	2014 \$	2013 \$
<b>OPERATING ACTIVITIES</b>			
Profit (loss) before tax		(19.1)	32.9
Adjustments for			
Depreciation of property and equipment		19.8	19.6
Amortization of intangible and other assets		14.9	14.7
Share of loss from equity accounted investments		2.6	0.8
Distributions earned from investments		(5.6)	(5.8)
Gain on sales of investments and hotel assets		(0.2)	(8.9)
Financial income		(10.2)	(8.8)
Financial expense		6.4	13.4
Impairment charges		4.5	18.3
Obligation in connection with acquired hotel interest		70.2	—
Gain on settlement of HMA Delivery Agreement		—	(38.5)
Share-based compensation		—	(2.6)
Movement in pensions and provisions		(6.6)	(5.2)
Write-off of deferred financing fees		0.3	—
Other		6.6	12.8
		83.6	42.7
Changes in non-cash working capital	31	(18.1)	8.6
		65.5	51.3
Cash received in distributions from investments		12.9	12.2
Interest paid		(3.4)	(9.7)
Income tax paid		(7.4)	(12.5)
		67.6	41.3
<b>INVESTING ACTIVITIES</b>			
Additions to property and equipment		(38.6)	(44.1)
Investments in partnerships and corporations		(23.1)	(12.8)
Sales of investments and hotel assets		—	134.3
Issuance of loans receivable		(45.0)	(0.7)
Collection of notes receivable		3.0	10.8
Collection of loans receivable		1.0	1.2
Acquisitions of intangible assets		(6.6)	(8.0)
		(109.3)	80.7
<b>FINANCING ACTIVITIES</b>			
Issuance of long-term debt		309.0	202.5
Repayment of long-term debt		(268.6)	(598.6)
Settlement of HMA Delivery Agreement		—	269.0
Financing charges		(4.3)	—
		36.1	(127.1)
Effect of foreign exchange rate			
changes on cash and cash equivalents		(4.5)	(1.5)
Net decrease in cash and cash equivalents		(10.1)	(6.6)
Cash and cash equivalents, beginning of year		79.6	86.2
Cash and cash equivalents, end of year		69.5	79.6

*See accompanying notes*



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014

(in millions of US dollars, except per share information)

### 1. CORPORATE INFORMATION

FRHI Holdings Limited ["FRHI" or the "Company"] is incorporated in the Cayman Islands. The registered office of FRHI is P.O. Box 309, Ugland House, South Church Street, George Town, KY1-1104 Grand Cayman, Cayman Islands.

FRHI, through its predecessor companies, has operated and owned hotels and resorts for more than 120 years and currently manages and franchises properties, principally under the Fairmont, Raffles and Swissôtel brands. As at December 31, 2014, FRHI managed or franchised 110 luxury and first-class hotels and resorts in major city centres and key resort destinations throughout the world and had hotel ownership or leasehold interests in 20 properties.

The outstanding shares of the Company are owned by Kingdom Holdings Company ["Kingdom"], subsidiaries of the Qatar Investment Authority ["QIA"] and FRH Investments Holdings Inc. [a subsidiary of OMERS Administration Corporation]. Further information is provided in note 26.

### 2. BASIS OF PREPARATION

#### Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ["IFRS"] as issued by the International Accounting Standards Board ["IASB"].

The consolidated financial statements of the Company for the year ended December 31, 2014 were authorized for issue in accordance with a resolution of the Board of Directors on March 11, 2015.

#### Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for derivative financial instruments that have been measured at fair value.

#### Functional and presentation currency

The consolidated financial statements of the Company are presented in US dollars. The functional currency of the parent is US dollars, as it is a non-trading holding company located in the Cayman Islands that has US dollar denominated share capital.

Amounts are stated in and recorded in millions of US dollars except per share information and where otherwise indicated.

## Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2014. Subsidiaries are all entities over which the Company is exposed, or has rights, to variable returns from its involvement in the entity and has the ability to affect those returns through its power to direct the relevant activities of the entity. The Company obtains and exercises control through more than half of the voting rights for all its subsidiaries.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Company using consistent accounting policies.

All inter-company balances, income and expenses, unrealized gains and losses resulting from inter-company transactions and dividends are eliminated in full.

A change in ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Company loses control over a subsidiary, it:

- [i] Derecognizes the assets [including goodwill] and liabilities of the subsidiary
- [ii] Derecognizes the carrying amount of any non-controlling interest
- [iii] Derecognizes the cumulative translation differences recorded in equity
- [iv] Recognizes the fair value of the consideration received
- [v] Recognizes the fair value of any investment retained
- [vi] Recognizes any surplus or deficit in profit or loss
- [vii] Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings (deficit), as appropriate.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Company's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in equity since the date of the combination.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements unless otherwise indicated.

### Business combinations

Business combinations are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the fair value [at the date of exchange] of assets given, liabilities incurred or assumed and equity instruments issued by the Company in exchange for control of the acquiree. Transaction costs, other than those associated with the issuance of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred. The acquiree's identifiable assets and liabilities are recognized at their fair value at the acquisition date. The Company elects on a transaction-by-transaction basis whether to measure a non-controlling interest at its fair value or at its proportionate share of the recognized amount of the identifiable net assets at the acquisition date.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination and the amount recognized for any non-controlling interest over the Company's interest in the net fair value of the identifiable assets acquired and liabilities assumed. When the excess is negative, the difference is recognized immediately in profit or loss.

## Investments in associates and joint ventures

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating decisions. Joint ventures are joint arrangements over whose activities the Company has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions and rights to the net assets of the joint venture.

Investments in associates and joint ventures are accounted for using the equity method [equity accounted investees]. Where necessary, amounts reported in the financial statements of associates and joint ventures are adjusted to ensure consistency with the accounting policies of the Company. Under the equity method, the Company's investment is initially recognized at cost and subsequently adjusted for the Company's share of post-acquisition profits and losses. Goodwill identified on acquisition is included in the carrying amount of the Company's investment and is not amortized or individually tested for impairment. When the Company's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil and the recognition of further losses is discontinued except to the extent that the Company has an obligation to fund shortfalls or has made payments on behalf of the investee.

Gains on transactions between the Company and its equity accounted investees are eliminated to the extent of the Company's interest in these entities and losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The Company determines at each reporting date whether there is any objective evidence that the investment in an associate or joint venture is impaired. If the investment is impaired, the Company calculates the amount of the impairment as the difference between the recoverable amount of the investment and its carrying value.

Upon loss of joint control over a joint venture or loss of significant influence over an associate, the Company measures any remaining investment at its fair value. Proceeds from disposal, in addition to any difference between the carrying amount and fair value of the remaining investment, is recognized in profit or loss.

## Foreign currency translation

### Transactions and balances

The financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates [the "functional currency"]. Transactions in foreign currencies are translated into the functional currency at the exchange rates in effect at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the exchange rate in effect at the reporting date. Exchange differences are recognized in profit or loss except for exchange differences arising from a monetary item receivable from or payable to

a foreign subsidiary, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign subsidiary. These exchange differences are recognized in other comprehensive income or loss until the disposal of the net investment, at which time they are reclassified to profit or loss.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are retranslated using the exchange rates at the date when the fair value is determined. The recognition of exchange differences arising from non-monetary items measured at fair value is linked to the recognition of gains or losses of the non-monetary item itself. If the non-monetary item gain or loss is recognized in profit or loss, any exchange difference on that non-monetary item is also recognized in profit or loss. If the non-monetary item gain or loss is recognized in other comprehensive income or loss, any exchange difference on that non-monetary item is also recognized in other comprehensive income or loss.

#### Foreign operations

The assets, including goodwill, and liabilities of foreign subsidiaries of the Company where the functional currency is other than the US dollar are translated into US dollars using the exchange rate in effect at the reporting date, while revenue and expenses are translated using average exchange rates in effect for the reporting period. Exchange differences arising from translation of such accounts are deferred and included as other comprehensive income or loss in the currency translation reserve. On disposal of a foreign subsidiary, the cumulative translation differences recognized in the currency translation reserve are reclassified to profit or loss and recognized as part of the gain or loss on disposal.

#### Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, net of all discounts, rebates and sales taxes.

The composition of the Company's revenue is as follows:

##### Management fees

Management fees are earned from hotels and residential properties managed by the Company under long-term contracts with the hotel and residential property owners. Management fees comprise a base fee, which is a percentage of the hotel's revenues, and incentive fees, which are generally based on the hotel's profitability. Revenue is recognized when earned and realized or realizable under the terms of the management contract.

##### License fees

License fees are received in connection with the license of the Company's brand names, usually under long-term contracts with the hotel owner. The Company charges license fees as a percentage of room revenue. Revenue is recognized when earned and realized or realizable under the terms of the management contract.

#### Other revenues from managed properties

Other revenues relate to reimbursements from hotel owners for direct and indirect costs incurred by the Company in managing a property. These reimbursed expenditures relate primarily to marketing and reservation services performed by the Company under the terms of its hotel management contracts. Other revenue is recognized when earned and realized or realizable under the terms of the management contract.

#### Owned and leased hotel revenues

Hotel ownership operations revenue is generated primarily from room occupancy and food and beverage services. Revenue from hotel operations is recognized when services are provided and food and beverages are sold.

#### Interest income

For all financial assets measured at amortized cost and interest-bearing financial assets classified as available-for-sale, interest income is recorded using the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in financial income.

#### Distributions from available-for-sale equity securities

Revenue is recognized when the Company's right to receive payment is established. Distributions from available-for-sale equity securities are recognized in profit or loss as other operating income.

#### Taxes

##### Current income tax

Current income tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the various taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Income taxes are normally recognized in profit or loss. However, when the underlying transaction is recognized in equity, the related income tax is also recorded in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

##### Deferred tax

Deferred tax is recognized on temporary differences between the tax bases of assets and liabilities and their carrying amounts using the liability method. However, deferred tax is not provided on the initial recognition of goodwill or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

Deferred tax assets are recognized for all deductible temporary differences and carryforwards of unused tax credits and unused tax losses to the extent it is probable that future taxable profits will allow the asset to be recovered.

Deferred tax on temporary differences associated with shares in subsidiaries and joint ventures is recognized only to the extent it is probable they will reverse in the foreseeable future, and in the case of a deferred tax liability, reversal of these temporary differences cannot be controlled by the Company.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled based on tax rates and tax laws that have been enacted or substantively enacted by the reporting date.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or loss or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or loss or equity, respectively.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right to offset exists and if they relate to the same taxable entity and the same taxation authority.

#### Sales tax

Revenues, expenses and assets are recognized net of the amount of sales tax, except:

- [i] Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable.
- [ii] Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statement of financial position.

#### Non-current assets held for sale

The Company classifies a non-current asset or a disposal group [other than discontinued operations] as held for sale when it is available for immediate sale in its present condition, its sale is highly probable and will close within 12 months, management is committed to a plan to sell the asset [or disposal group] and an active program to locate a buyer and complete the plan has been initiated. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Once classified as held for sale, non-current assets are no longer depreciated or amortized.

Upon disposal, the Company recognizes sales proceeds and any related gain or loss on completion of the sales process. In determining whether the gain or loss should be recognized, the Company considers whether it:

- [i] Has a continuing managerial involvement to the degree associated with asset ownership;
- [ii] Has transferred the significant risks and rewards associated with asset ownership; and
- [iii] Can reliably measure and expects to receive the proceeds.

## Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation and any accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset and borrowing costs for long-term construction projects where the recognition criteria have been met. If the costs of certain components of an item of property and equipment are significant in relation to the total cost of the item, they are accounted for and depreciated separately.

Assets under construction, including costs related to new facilities, and betterments and replacements during a major renovation are measured at cost less any accumulated impairment losses. The assets are depreciated from the date they are put in service.

Maintenance, repairs and minor renewals and replacements are expensed as incurred.

An item of property and equipment and any significant part is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized within profit or loss.

Land is not depreciated. All other property and equipment are depreciated to their residual value on a straight-line basis over their estimated useful lives as follows:

Buildings	40 to 60 years
Buildings on leased land and leasehold improvements	Over the lesser of the economic life and the lease term, including renewal options
Furniture, fixtures and equipment	2 to 25 years

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, where appropriate.

## Leases

At the inception of an arrangement, the Company determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfillment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the Company has the right to control the use of the underlying asset.

Leases are classified as either operating or finance, based on the substance of the transaction at inception of the lease.

The Company has entered into leases in which a significant portion of the risks and rewards of ownership are retained by the lessor. These leases are classified as operating leases. Lease payments under operating leases [net of any incentives received from the lessor] are recognized as an expense on a straight-line basis over the lease term.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that the Company incurs in connection with the borrowing of funds.

### Goodwill

Goodwill arises on the acquisition of subsidiaries and is recorded at cost, being the excess of the cost of acquisition over the fair value at the date of acquisition of the Company's share of identifiable assets and liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired.

### Intangible assets

#### Brand names

Brand names recognized at the time of a business acquisition are initially recognized at amounts determined by independent valuations performed using relevant criteria for the business concerned that can be applied for the subsequent measurement of the assets. Identifiable brands are measured based on multiple criteria, taking into account both brand equity and their contribution to profit. Following initial recognition, brand names are measured at cost less any accumulated impairment losses. Brand names are considered to have an indefinite useful life, because there is no foreseeable limit to the period in which they can be used and are therefore not amortized. Brand names are tested for impairment annually. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable.

#### Management contracts

Management contracts acquired in a business combination or together with investment interests in companies are recorded at values that represent the estimated present value of net cash flows that, on acquisition, are expected to be received over the estimated term of the contracts. Amounts paid to hotel owners to secure management contracts are recorded at cost.

Management contracts are amortized on a straight-line basis over the fixed, non-cancellable terms and certain renewal periods of the underlying contracts, which range up to 50 years.

Management reviews the amortization method and useful life estimates for these intangible assets annually.

#### Software



Acquired software licenses and software developed in-house are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. Software development costs incurred during the development phase are capitalized as internally generated assets if the Company can demonstrate all of the following:

- [i] Its intention to complete the intangible asset and the availability of adequate technical, financial and other resources for this purpose.
- [ii] How the intangible asset will generate probable future economic benefits.
- [iii] Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Capitalized software is amortized over its estimated useful life on a straight-line basis, which can range from three to five years.

## Financial instruments

### Financial assets

The Company classifies its financial assets into one of the following categories: loans and receivables, available-for-sale financial assets, or financial assets at fair value through profit or loss. Management determines the classification of financial assets on initial recognition.

#### Loans, notes and trade receivables

Loans, notes and trade receivables are initially recognized at fair value and are subsequently measured at amortized cost at each reporting date less any impairment losses. If there is an objective indication of impairment, the amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows [excluding future expected credit losses that have not yet been incurred]. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

An impairment loss reduces the carrying amount of the loans and notes and is recognized in profit or loss as other operating income and expenses. Interest income [recorded as finance income in the statement of profit or loss] continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. An impairment loss may be reversed if the recoverable amount increases in a subsequent period.

The carrying amount of trade receivables is reduced through the use of an allowance account and movements in the provision are recognized in profit or loss as general and administrative expenses. An impairment loss may be reversed if the recoverable amount increases in a subsequent period. When a previously provided trade receivable is uncollectable, it is written off against the provision.

#### Available-for-sale financial assets

Available-for-sale financial assets are measured at fair value, if reliably measurable, with changes in fair value recognized in equity. Available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any impairment. The impairment loss corresponds to the difference between the asset's carrying amount and

the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss may not be reversed in subsequent periods.

#### Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include derivative financial instruments, such as swaps, options and forward contracts, entered into by the Company that are not designated as hedging instruments in hedge relationships. Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value. Changes in fair value of interest rate derivatives such as swaps are recognized as financial income or expense. Changes in fair value of foreign exchange rate derivatives, such as forward contracts, are recognized as other operating income and expenses.

Derivative financial instruments are classified as current or non-current based on an assessment of the timing of the underlying contracted cash flows. When the Company holds a derivative as an economic hedge [and does not apply hedge accounting] for a period beyond 12 months after the reporting date, the derivative is classified as non-current [or separated into current and non-current portions] consistent with the classification of the underlying item.

#### Derecognition

A financial asset is derecognized when the contractual rights to receive cash flows from the asset have expired or when the Company transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Company could be required to pay.

#### Financial liabilities

Management determines the classification of financial liabilities on initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

#### Trade and other payables

Trade and other payables are non-interest bearing and are stated at their nominal value.

#### Long-term debt

Long-term debt is initially recognized at the fair value of the consideration received less directly attributable transaction costs and is subsequently measured at amortized cost. Finance charges, including the transaction costs and any discount or premium on issue, are charged to profit or loss using the effective interest rate method over the term of the underlying long-term debt.

Long-term debt is classified as non-current when the repayment date is more than 12 months from the reporting date or where it is drawn on a facility with more than 12 months to expiry.

#### Long-term incentive plans

Long-term incentive plans ["LTIP"] are initially recognized at fair value. The LTIP liability is classified as non-current when payment will be made more than 12 months from the year-end date.

#### Derecognition

A financial liability is derecognized when the obligation under the liability expires, is discharged or is cancelled.

#### Inventories

Inventories comprise operating supplies at the Company's owned and leased hotels, including food and beverage, and are valued at the lower of cost and net realizable value.

#### Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ["CGU"] to which the asset belongs.

Goodwill and intangible assets with indefinite useful lives or that are not yet available for use are tested for impairment at least annually.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset [or CGU] is estimated to be less than its carrying amount, the carrying amount of the asset [or CGU] is reduced to its recoverable amount.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an assessment is made at each reporting date of whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's [or CGU's] recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount or exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Impairment losses and any subsequent reversals are recognized in profit or loss.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand, and short-term investments with an original maturity of three months or less.

In the consolidated statement of cash flows, cash and cash equivalents are shown net of short term overdrafts.

## Provisions

Provisions are recognized when the Company has a present obligation [legal or constructive] as a result of a past event, it is probable that a payment will be made to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

## Pensions and other post-employment benefits

### Defined contribution plans

Under defined contribution plans, the Company pays fixed contributions into a separate fund and has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay benefits. Contributions under these plans are recognized immediately as an expense.

### Defined benefit plans

Plans that do not meet the definition of a defined contribution plan are defined benefit plans. Plan assets are measured at fair value. Plan liabilities are measured on an actuarial basis using the projected unit credit method. This approach reflects an actuarially calculated net present value of the future benefit entitlement for services already rendered using a discount rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the plan liabilities.

The difference between the value of plan assets and liabilities at the year-end date is the amount of surplus or deficit recorded in the consolidated statement of financial position as an asset or liability. Any surplus is recognized only when it represents the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. Actuarial gains and losses arising from changes in actuarial assumptions and experience adjustments are recognized immediately in other comprehensive income or loss.

## Cash Dividends to Equity Holders of the Parent

The Company recognizes a liability for cash or non-cash dividends to equity holders of the parent when the dividend is authorized and no longer at the discretion of the Company. As per the corporate laws in Cayman, a dividend is authorized when it is approved by the shareholders. A corresponding amount is recognized directly in equity.

## 4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses, and the information disclosed in the notes to the consolidated financial statements. Estimates are based on historical experience, current and future

economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions and conditions.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The estimates and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements are discussed below.

### Trade and other receivables

The allowance for doubtful accounts involves significant management judgment in assessing the ultimate collectability of trade and other receivables. In making its assessment, management considers historical experience, the economic environment, the age of receivable balances and specific customer information.

### Impairment of loan and notes receivable

Management individually assesses loans and notes receivable for impairment. This involves significant judgment in assessing collectability and the determination of the future cash flow projections at the property.

### Goodwill and other identifiable intangible assets arising out of business combinations

Goodwill and other identifiable intangible assets, such as brand names and management contracts, arising out of business combinations are accounted for under the acquisition method of accounting. This method involves the allocation of the cost of an acquisition to the underlying net assets acquired based on their respective estimated fair values. As part of this allocation process, the Company must identify and attribute values and estimated lives to the intangible assets acquired. These determinations involve significant estimates and assumptions regarding cash flow projections, economic risk and weighted cost of capital. These estimates and assumptions determine the amount allocated to other identifiable intangible assets and goodwill, as well as the amortization period for identifiable intangible assets with finite lives. If future events or results differ adversely from these estimates and assumptions, the Company could record increased amortization or impairment charges in the future.

### Impairment of goodwill and brand names

The Company determines whether goodwill and brand names are impaired on an annual basis or more frequently if there are indicators of impairment. The determination of the recoverable amount of a CGU to which goodwill is allocated involves the use of estimates by management. The outcome predicted by these estimates is influenced, for example, by the successful integration of acquired entities, volatility of capital markets and foreign exchange rate fluctuations. The recoverable amount is the higher of the CGU's fair value less costs to sell and its value in use. The Company generally uses discounted cash flow based methods to determine these values. These discounted cash flow calculations use projections that are based on the financial forecasts approved by management. Cash flow projections take into account past experience and represent management's best estimate about future developments. Key assumptions on which management has based its determination of fair value less costs to sell include estimated growth

rates, discount rates, royalty rates and tax rates. These estimates, including the methodology used, can have an impact on the respective values and ultimately the amount of any goodwill impairment.

## Taxes

The Company computes an income tax provision in each of the jurisdictions in which it operates. However, actual amounts of income tax expense only become final upon filing and acceptance of the tax return by the relevant authorities, which occur subsequent to the issuance of the financial statements. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible taxation authority. Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income.

Additionally, estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions before they expire against future taxable income. The assessment is based on existing tax laws and estimates of future taxable income. To the extent estimates differ from the final tax return, earnings would be affected in a subsequent period.

## Uncertain tax positions

The Company is subject to taxation in numerous jurisdictions. There are many transactions and calculations during the course of business for which the ultimate tax determination is uncertain. The Company maintains provisions for uncertain tax positions that it believes appropriately reflect its risk. The Company measures a recognized tax position at the largest amount of benefit that is more-likely-than-not [determined by cumulative probability] of being realized upon ultimate settlement with the taxation authority. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date, liabilities in excess of the Company's provisions could result from audits by, or litigation with, the relevant taxation authorities. Where the final outcome of these tax related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

## Pension and other post-employment benefit plans

The cost of defined benefit pension plans and other post-employment benefits is determined using actuarial valuations. An actuarial valuation involves making various assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to changing market and economic conditions, the underlying key assumptions may differ from actual developments and may lead to significant changes in pension and other post-employment benefit obligations. All assumptions are reviewed at each reporting date.

## Provisions

Provisions are recognized when the Company has a present obligation [legal or constructive] as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

## 5. STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards and interpretations issued but not yet effective up to the date of issuance of the Company's consolidated financial statements are listed below. This listing includes those that the Company reasonably expects could have an impact on disclosures, financial position, or performance when applied at a future date. The Company intends to adopt these standards when they become effective.

### *IFRS 9 Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The Company is currently assessing the impact that this standard will have on its financial results.

### *IFRS 15 Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Company is currently assessing the impact that this standard will have on its financial results.

## 6. INTERESTS IN JOINT VENTURES

The Company holds five interests in joint ventures [2013 – three] that are accounted for as equity accounted investees. FRHI's share of profit from continuing operations and total comprehensive income for the year ended December 31, 2014 was a loss of \$3.7 [2013 – profit of \$0.2]. The carrying amount of FRHI's interest in joint ventures included in investments in associates and joint ventures in the consolidated statement of financial position is \$20.0 [2014 – \$0.4].

### *The Savoy, A Fairmont Managed Hotel [“The Savoy”]*

In October 2014, the Company acquired certain interests in The Savoy through a newly-formed subsidiary [“Savoy Joint Venture”]. Concurrently, 50% of the interest in the Savoy Joint Venture was sold to a subsidiary of QIA. The Savoy Joint Venture purchased a 50% equity interest in The Savoy, as well as an interest in loans receivable from the property, for total proceeds of \$83.4 [£51.7 million], which was funded primarily by loans from its shareholders [note 26].

Included in 2014 is a loss of \$1.2 relating to FRHI's 50% ownership interest in the Savoy Joint Venture. Losses relate to professional fees incurred in connection with the acquisition, for which the Company has an obligation to fund. The Company has recorded its share of those losses resulting in a negative balance of \$0.7 [2013 - nil] included in trade and other payables in the consolidated statement of financial position.

In order to facilitate the transaction, the capital structure of the hotel was renegotiated prior to the acquisition, resulting in an elevation in priority of an outstanding long term advance and a capital expenditure loan due to the Company [the "Operator Loans"]. In order to compensate existing shareholders for the decrease in priority of their interests resulting from the change in capital structure, the Company entered into an agreement to turn over any proceeds received for the Operator Loans that would have been paid to other shareholders under the pre-transaction capital structure. The obligation was recognized at fair value at the transaction date, and is included in other financial liabilities in the consolidated statement of financial position [note 20]. The resulting non-cash charge of \$70.2 is recognized in other operating income and expenses. The fair value was estimated using projected cash flows at the property. Details of the Operator Loans are included in note 26.



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### The Claremont Hotel & Spa ["Claremont"]

In March 2014, the Company contributed \$22.1 to a newly-formed joint venture, in which it holds a 50% ownership interest, in order to acquire the assets and liabilities of Claremont. The purchase price of Claremont was \$86.0 [less working capital adjustments of \$1.0] and was funded through partner contributions of \$44.2 and a long-term loan of \$47.3. Contributions in excess of the purchase price and transaction costs were made in order to fund expected renovations at the property. The fair values of the identifiable assets and liabilities of Claremont as at the date of acquisition were as follows:

Assets	\$
Intangible assets	12.6
Property and equipment	82.6
Inventories	0.4
Prepayments	0.6
Trade and other receivables	1.4
	<u>97.6</u>
Liabilities	
Other financial liabilities	7.8
Retirement benefit and other liabilities	1.4
Trade and other payables	3.4
	<u>12.6</u>
Total identifiable net assets at fair value	85.0
Goodwill arising on acquisition	—
Purchase consideration transferred	85.0

The Company signed a hotel management agreement in connection with the acquisition.

### Swissôtel Dresden

Included in the share of loss from equity investments is a loss of \$0.3 [2013 – loss of \$0.3] relating to FRHI's 50% ownership interest in Swissôtel Dresden. The Company is obligated under the joint venture agreement to fund up to \$3.5 in capital contributions and has continued to record its share of the entity's losses, resulting in a negative balance of \$1.1 [2013 - \$1.0] included in trade and other payables in the consolidated statement of financial position.

### Fairmont Heritage Place Ghirardelli Square ["Ghirardelli"]

The Company has a 54% interest [2013 – 54%] in an entity holding Ghirardelli. The Company has determined that its ownership interest does not constitute control and is accounting for its investment in Ghirardelli as a joint venture due to the decision-making rights held by all members.

## 7. INVESTMENTS IN ASSOCIATES

The Company holds ten investments [2013 - ten] that are accounted for as associates. The Company's share of profit and total comprehensive income from these associates for the year ended December 31, 2014 was \$1.1 [2013 – loss of \$1.0]. The carrying amount of FRHI's investment in associates as at December 31, 2014 was \$56.8 [2013 - \$68.4]. The Company accounts for certain of its investments as associates where there is less than 20% ownership interest, due to significant influence through hotel management agreements ["HMA"]. As at December 31, 2014, the Company's share of its associates' contingent liabilities was not significant.

### Fairmont St Andrews

In 2013, an impairment of \$16.6 was recorded against the investment in a subsidiary holding the Fairmont St. Andrews, given an anticipated sale of the property. In August 2014, the property was sold. An additional impairment equal to the remaining value of the investment of \$2.9 was recorded given no proceeds were received from the sale.

### Fairmont Mayakoba

In 2014, the Company's ownership interest in the Fairmont Mayakoba was diluted, resulting in a gain of \$0.3. Additionally, the Company was required to contribute \$0.6 based on an amended shareholders' agreement. The increased investment value was offset by the recognition of cumulative unrecognized losses. Subsequently, the Company discontinued recognition of its share of losses of the Fairmont Mayakoba as it had satisfied all funding requirements under the shareholders' agreement. As at December 31, 2014, the cumulative unrecognized share of losses of this associate was \$0.5 [2013 - \$0.5].

## 8. BREAKDOWN OF OTHER ITEMS FROM FUNCTION TO NATURE

Within hotel ownership operations expenses, general and administrative and other expenses from managed properties, the Company incurred the following:

	Hotel ownership operations expenses		General and administrative and other expenses from managed properties	
	2014	2013	2014	2013
	\$	\$	\$	\$
Employee benefits	(140.1)	(146.4)	(129.7)	(128.9)
Rent	(78.0)	(73.8)	(8.0)	(8.1)
Cost of inventories recognized as an expense	(48.4)	(49.7)	—	—
Net foreign exchange difference	0.4	—	12.9	(11.1)
Other	(103.5)	(115.5)	(100.2)	(96.4)
	(369.6)	(385.4)	(225.0)	(244.5)

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Employee benefits comprise the following:

	2014	2013
	\$	\$
Wages and salaries	(207.6)	(228.1)
Pension and other post-employment benefits		
Defined benefit plans	(1.3)	(0.9)
Defined contribution plans	(2.3)	(2.9)
Other post-employment benefits expense	(0.2)	(0.3)
Other benefits expense	(58.4)	(45.7)
Share-based payments recovery	—	2.6
Total employee benefits expense	(269.8)	(275.3)

## 9. OTHER OPERATING INCOME AND EXPENSES

	2014	2013
	\$	\$
Distributions from available-for-sale equity securities	5.6	5.8
Settlement of hotel management agreement	0.2	2.6
Gain on settlement of HMA Delivery Agreement [note 14]	—	38.5
Other	0.6	3.4
Total other operating income	6.4	50.3
Obligation in connection with acquired hotel interest	(70.2)	—
Performance obligation payments	(6.7)	—
Impairment charges and other write-offs	(4.5)	(19.1)
Reorganization and other related costs [note 21]	(2.0)	(7.8)
Loss on extinguishment of debt	(0.3)	—
Remediation contingency [note 21]	—	(1.7)
Other	(1.5)	(1.5)
Total other operating expenses	(85.2)	(30.1)
Total net other operating income and expenses	(78.8)	20.2

Included in reorganization and other related costs above is \$0.7 [2013 – \$1.1] of recruitment and relocation costs incurred in connection with the global reorganization.

In 2014, \$6.7 was paid in relation to performance obligations on certain management contracts.

## 10. GAIN ON SALES OF INVESTMENTS, HOTEL ASSETS AND OTHER

	2014	2013
	\$	\$
Gain on disposal of owned hotels	—	8.9
Gain on dilution of investment in associates	0.3	—
Loss on disposal of property and equipment	(0.1)	—
Total gain on sales of investments, hotel assets and other	0.2	8.9

## Sales of owned hotels

- [a] In March 2013, the Company sold the Fairmont Hotel Vier Jahreszeiten for net cash proceeds of \$44.8. A gain on sale of \$5.8 was recorded, including a gain of \$5.4 reclassified from the currency translation reserve. The Company continues to manage the property under a long-term management contract.
- [b] In July 2013, the Company sold the assets of the Fairmont Sonoma Mission Inn & Spa for net cash proceeds of \$89.5. A gain on sale of \$3.1 was recorded including a net gain on a new long-term management contract. In connection with the sale, the Company contributed \$12.8 to the newly formed entity that acquired the property in exchange for a 25% equity interest.

## 11. FINANCE COSTS

### Financial income

	2014 \$	2013 \$
Interest income on loans receivable	7.9	8.1
Other interest income	2.3	0.7
Total financial income	10.2	8.8

### Financial expense

	2014 \$	2013 \$
Interest on long-term debt	(0.8)	(6.6)
Amortization of deferred financing costs	(1.5)	(3.4)
Loss on financial assets and liabilities at fair value through profit or loss, net	(0.2)	(0.3)
Other finance costs	(3.9)	(3.1)
Total financial expense	(6.4)	(13.4)

## 12. INCOME TAXES

Income tax recovery (expense) comprises the following:

	2014 \$	2013 \$
Current income tax:		
Current income tax charge	(18.0)	(11.0)
Adjustment of current tax for prior year items	(5.4)	(1.9)
Benefit of previously unrecognized tax loss or asset	5.8	0.2
	<u>(17.6)</u>	<u>(12.7)</u>
Deferred income tax:		
Relating to origination and reversal of temporary differences	20.6	(8.8)
Deferred tax expense arising from write down of deferred tax assets	(18.1)	(8.7)
Deferred tax expense arising from the changes in the applicable tax rate	—	0.1
Adjustments of deferred tax of previous year	1.5	(11.2)
	<u>4.0</u>	<u>(28.6)</u>
Income tax expense	<u>(13.6)</u>	<u>(41.3)</u>

The Company's effective income tax expense reconciled to the statutory tax rate is as follows:

	2014 \$	2013 \$
Provision at Cayman Islands statutory tax rate	—	—
Non-deductible expenses (non-taxable income) and foreign tax rate differentials	5.9	(16.9)
Withholding taxes	(3.0)	(3.6)
Losses and other tax attributes not benefited	(18.1)	(8.7)
Impact of change in US state tax allocation	—	(0.1)
Impact of change in tax rate	—	0.2
Other, including tax reassessments and provisions	(4.2)	(12.4)
Other tax assets not previously recognized	5.8	0.2
Income tax expense	<u>(13.6)</u>	<u>(41.3)</u>

## Temporary differences

Deferred tax assets and deferred tax liabilities comprise the following:

	2014 \$	2013 \$
Deferred tax assets		
Tax loss carryforwards	16.0	5.8
Deferred compensation and other	24.7	25.6
Total deferred tax assets	40.7	31.4
Deferred tax liabilities		
Depreciable property and equipment and intangible assets	266.5	277.6
Investments	3.4	3.9
Series B debenture	28.2	27.6
Deferred compensation and other	4.1	4.7
Total deferred tax liabilities	302.2	313.8
Net deferred tax liabilities	261.5	282.4

Deferred tax balances are reflected in the consolidated statement of financial position as follows:

	2014 \$	2013 \$
Deferred tax assets	5.6	3.5
Deferred tax liabilities	267.1	285.9
Net deferred tax liabilities	261.5	282.4

The following is a reconciliation of net deferred tax liabilities:

	2014 \$	2013 \$
At January 1	282.4	258.0
Tax expense (recovery) during the year recognized in profit (loss)	(4.0)	28.6
Tax recovery during the year recognized in other comprehensive income (loss)	(0.3)	0.5
Other, including cumulative translation adjustment	(16.6)	(4.7)
At December 31	261.5	282.4

The Company has recorded deferred tax assets of \$40.7 [2013 - \$31.4] pertaining to loss carryforwards and other deductible temporary differences based on management's best estimate of available and future taxable profits that the Company expects to achieve from reviewing its financial projections and potential transactions in the future.

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The aggregate amount of temporary differences associated with the Company's investments in subsidiaries, associates and joint ventures for which deferred tax liabilities have not been recognized as at December 31, 2014 is \$223.9 [2013 - \$115.1].

As at December 31, 2014, the Company had the following income tax net capital and non-capital loss carryforwards available to reduce future taxable income and capital gains:

	Amount	Deferred tax assets	Valuation allowance	Net deferred tax assets
	\$	\$	\$	\$
Canada	32.4	8.7	(4.4)	4.3
United States	7.5	0.1	—	0.1
Other	586.9	88.0	(83.2)	4.8
Total tax loss carryforwards	626.8	96.8	(87.6)	9.2

The Company has non-capital losses expiring in the following years:

	\$
2015	15.5
2016	15.6
2017	9.6
2018	25.7
Thereafter	558.3
	624.7

The Company has deferred tax assets other than income tax loss carryforwards in the amount of \$35.2, of which \$10.5 has not been recognized in the consolidated financial statements.

The Company reviews and assesses the status of open tax examinations, tax disputes, tax litigations and its historical tax positions filings for the potential for adverse outcomes to determine the adequacy of the provision for income and other taxes. The company believes that it has adequately provided for any tax adjustments that are more likely than not to occur as a result of ongoing tax examinations, tax disputes, tax litigation and historical tax position filings.

### 13. COMPONENTS OF OTHER COMPREHENSIVE LOSS

Exchange differences on translation of foreign operations:

	2014	2013
	\$	\$
Loss arising during the year	(83.2)	(9.7)
Less adjustments for gains included in profit	—	5.4
	(83.2)	(4.3)

## 14. GOODWILL AND INTANGIBLE ASSETS

	Indefinite Life		Finite Life			
	Goodwill	Brand names	Management contracts	Software	HMA Delivery Agreement	Total
	\$	\$	\$	\$	\$	\$
Cost						
At January 1, 2013	204.9	767.1	354.5	21.5	228.5	1,576.5
Additions	—	—	1.7	6.3	—	8.0
Disposals and write-offs	—	—	(1.7)	—	—	(1.7)
Contract settlement	—	—	—	—	(230.5)	(230.5)
Foreign currency translation and other adjustments	(0.2)	(13.6)	(1.2)	(1.6)	2.0	(14.6)
At December 31, 2013	204.7	753.5	353.3	26.2	—	1,337.7
Additions	—	—	2.0	4.6	—	6.6
Disposals and write-offs	—	—	(3.8)	(5.7)	—	(9.5)
Foreign currency translation and other adjustments	(14.4)	(36.7)	(17.2)	(2.1)	—	(70.4)
At December 31, 2014	190.3	716.8	334.3	23.0	—	1,264.4
Accumulated amortization						
At January 1, 2013	—	—	(68.9)	(9.3)	—	(78.2)
Amortization	—	—	(10.2)	(4.2)	—	(14.4)
Foreign currency translation and other adjustments	—	—	1.7	0.8	—	2.5
At December 31, 2013	—	—	(77.4)	(12.7)	—	(90.1)
Amortization	—	—	(10.2)	(4.4)	—	(14.6)
Disposals and write-offs	—	—	2.4	5.7	—	8.1
Foreign currency translation and other adjustments	—	—	4.5	1.2	—	5.7
At December 31, 2014	—	—	(80.7)	(10.2)	—	(90.9)
Net book value:						
At December 31, 2014	190.3	716.8	253.6	12.8	—	1,173.5
At December 31, 2013	204.7	753.5	275.9	13.5	—	1,247.6



The Company performed its annual impairment test for goodwill and brand names in 2014, in accordance with its policy described in note 3. The valuation techniques, key assumptions and sensitivities applied in the impairment tests are described below.

Goodwill has been allocated to the group of brand management operations CGUs and has been tested for impairment at the group CGU level. The recoverable amount of the CGUs was determined on a fair value less costs to sell basis. The calculation used after-tax cash flow projections from financial forecasts approved by management covering a four-year period. The estimated recoverable amount of the CGUs exceeded their carrying value. As a result, no goodwill impairment was required as at December 31, 2014 or December 31, 2013.

The calculation of the recoverable amount for goodwill is most sensitive to the discount rate and growth rate assumptions used to extrapolate cash flows beyond the four-year forecast period. An after-tax discount rate of 11.3% [2013 – 12.2%] was used to discount the projected cash flows based on the Company's weighted average cost of capital, adjusted to reflect risks specific to the brand management operations CGUs. The terminal value of future cash flows was calculated based on a perpetual growth rate of 5% [2013 - 5%], which does not exceed the average long-term growth rate for the relevant markets.

### Brand names

Brand names have been allocated to the individual brand management operations CGUs and have been tested for impairment at the brand operating level. The recoverable amount of each brand was determined using a relief from royalty calculation. The calculation used pre-tax revenue forecasts derived from the most recent forecasts approved by management and covered a four-year period. The estimated recoverable amount of each CGU exceeded its carrying value. As a result, no impairment of the brand names was required as at December 31, 2014 or December 31, 2013.

The relief from royalty calculation for brand names is most sensitive to the royalty rate, discount rate and growth rate assumptions used to extrapolate cash flows beyond the four-year forecast period. A pre-tax royalty rate of 2.25% to 2.50% [2013 - 2.25% to 2.50%] and an after-tax discount rate of 12.5% to 14.3% [2013 – 13.6% to 15.6%] were used to determine discounted projected cash flows. The discount rate was based on the Company's weighted average cost of capital, adjusted to reflect risks specific to the cash flows associated with the Company's brand management operations CGUs. For each CGU, the terminal value of future revenues was calculated based on a perpetual growth rate of 3% [2013 - 3%], which does not exceed the average long-term growth rate for the relevant markets.

### HMA Delivery Agreement

A Hotel Management Delivery Agreement ["HMA Delivery Agreement"] was signed with subsidiaries of QIA on April 1, 2010. The agreement required a subsidiary of QIA to contribute HMAs that meet the standards of FRHI's brands over a five-year term. The HMA Delivery Agreement was settled in 2013 for cash proceeds of \$269.0. No HMAs were signed under the HMA Delivery Agreement prior to settlement. A gain of \$38.5 was recorded in 2013 other operating income and expenses.

# 15. PROPERTY AND EQUIPMENT

	Land and land improvements \$	Buildings and leasehold improvements \$	Furniture, fixtures and equipment \$	Other \$	Total \$
Cost					
At January 1, 2013	100.3	196.2	104.8	36.1	437.4
Additions	—	6.2	13.7	24.2	44.1
Disposals	—	(0.4)	(0.2)	(0.7)	(1.3)
Disposal of a business	(17.3)	(72.1)	(5.0)	(0.3)	(94.7)
Foreign currency translation and other adjustments	0.1	(3.0)	(3.6)	(4.9)	(11.4)
At December 31, 2013	83.1	126.9	109.7	54.4	374.1
Additions	—	6.4	9.5	22.7	38.6
Disposals	—	(1.2)	(8.8)	—	(10.0)
Transfers in (out)	—	36.4	13.4	(49.8)	—
Foreign currency translation and other adjustments	—	(3.8)	(2.5)	(3.2)	(9.5)
At December 31, 2014	83.1	164.7	121.3	24.1	393.2
Accumulated depreciation					
At January 1, 2013	—	(58.2)	(53.4)	(9.1)	(120.7)
Depreciation	—	(6.9)	(11.3)	(1.4)	(19.6)
Disposals	—	0.2	0.2	—	0.4
Disposal of a business	—	2.0	0.3	—	2.3
Foreign currency translation and other adjustments	—	2.7	3.7	0.7	7.1
At December 31, 2013	—	(60.2)	(60.5)	(9.8)	(130.5)
Depreciation	—	(6.5)	(11.9)	(1.4)	(19.8)
Disposals	—	1.2	8.7	—	9.9
Foreign currency translation and other adjustments	—	3.1	—	0.8	3.9
At December 31, 2014	—	(62.4)	(63.7)	(10.4)	(136.5)
Net book value:					
At December 31, 2014	83.1	102.3	57.6	13.7	256.7
At December 31, 2013	83.1	66.7	49.2	44.6	243.6

As at December 31, 2014, contractual commitments with third parties, such as contractors and equipment providers, totaled approximately \$22.4 [2013 - \$45.7].

As at December 31, 2014, "Other" includes approximately \$0.7 [2013 - \$29.3] of construction in progress relating to ongoing renovations at certain owned hotels.

## 16. OTHER FINANCIAL ASSETS

	2014 \$	2013 \$
Current		
Loans and receivables		
Loans receivable	2.4	0.9
Notes receivable	2.9	2.9
Interest receivable and other	0.7	0.2
Total current other financial assets	6.0	4.0
Non-current		
Loans and receivables		
Loans receivable	176.4	133.5
Notes receivable	—	2.8
Deposits	2.9	3.4
Total loans and receivables	179.3	139.7
Available-for-sale equity securities		
Unquoted equity shares	22.1	22.1
Total non-current other financial assets	201.4	161.8

Loans receivable relate to loans provided to owners of hotels and joint ventures where the Company has a management contract. The Company evaluates these loans for impairment and as at December 31, 2014 believes these loans are fully collectible.

## Non-current

Included in non-current loans receivable is \$165.6 [2013 - \$121.6] of loans receivable from related parties. Refer to note 26 for further details.

A loan receivable of \$6.8 may be extinguished in exchange for a hotel management contract from the loan holder prior to December 2017.

## Available-for-sale equity securities

Available-for-sale equity securities consist of investments in unlisted shares of a hospitality procurement company and a hotel and residential property. These investments are measured at cost, as fair value cannot be measured reliably. The Company evaluates available-for-sale equity securities for impairment and as at December 31, 2014 believes these investments are not impaired. The Company currently has no plans to dispose of these investments. Distributions from available-for-sale equity securities of \$5.6 [2013 - \$5.8] is reported in profit or loss as other operating income and expense.

## 17. RETIREMENT BENEFIT AND OTHER ASSETS

	2014	2013
	\$	\$
Retirement benefit assets [note 23]	17.4	10.2
Non-qualified deferred compensation plan asset	4.5	5.5
Deferred development charges	0.7	1.0
Other assets	8.1	9.9
	<u>30.7</u>	<u>26.6</u>

## 18. TRADE AND OTHER RECEIVABLES

	2014	2013
	\$	\$
Trade receivables	91.9	92.9
Other receivables	10.6	3.9
	<u>102.5</u>	<u>96.8</u>

Trade and other receivables are designated as loans and receivables and are held at amortized cost. Trade receivables are non-interest bearing and are generally on payment terms of 30 days. The fair value of trade and other receivables approximates their carrying value.

The aging of trade and other receivables at the end of the reporting period is as follows:

	2014			2013		
	Gross	Provision	Net	Gross	Provision	Net
	\$	\$	\$	\$	\$	\$
Not past due	48.2	—	48.2	49.6	—	49.6
Past due 1-30 days	10.6	—	10.6	9.7	—	9.7
Past due 31-90 days	12.5	—	12.5	10.1	—	10.1
Past due more than 90 days	37.2	6.0	31.2	31.2	3.8	27.4
	<u>108.5</u>	<u>6.0</u>	<u>102.5</u>	<u>100.6</u>	<u>3.8</u>	<u>96.8</u>

The movement in the provision for impairment of trade and other receivables during the year is as follows:

	2014	2013
	\$	\$
At January 1	3.8	3.7
Provided	4.3	3.0
Written off	(1.8)	(2.0)
Written back	—	(0.5)
Other adjustments	(0.3)	(0.4)
At December 31	<u>6.0</u>	<u>3.8</u>

## 19. LONG-TERM DEBT

	2014	2013
	\$	\$
Credit facility	42.7	4.0
Deferred debt issuance costs on credit facility	(4.6)	(2.6)
Total long-term debt	38.1	1.4

The credit facility is denominated in the following currencies:

	2014	2013
US dollars	1.0	4.0
Canadian dollars	2.2	—
Euros	39.5	—
	42.7	4.0

Long-term debt includes borrowings under the Company's credit facility. The facility is used for general business purposes. The availability of the credit facility is subject to the Company being in compliance with covenants with respect to debt levels and interest coverage. The Company was in compliance with these covenants as at December 31, 2014. There were no breaches or defaults during the year. The outstanding balance of debt, all in revolving loans, is considered long term.

The credit facility was refinanced in January 2014 to increase its capacity, extend the maturity date, convert all borrowings to revolving loans, and remove a pledge of assets as security for borrowings. Unamortized deferred debt issuance costs of \$0.3 related to a lender who left the facility were written off in other operating income and expense and additional transaction costs of \$4.3 were capitalized. The unamortized deferred debt issuance costs on credit facility are being amortized over the remaining term of the facility.

The weighted average interest rate for the year ended December 31, 2014 was 1.8% [2013 - 4.75%]. The interest rate is floating and is calculated based on the bankers' acceptance, LIBOR, EURIBOR, CDOR, or SGD-SOR rate plus a spread.

As at December 31, 2014, the Company had outstanding letters of credit of \$38.9 [2013 - \$45.4].

## 20. OTHER FINANCIAL LIABILITIES

	2014 \$	2013 \$
Current		
LTIP	17.4	8.5
Dividend payable [note 25]	15.6	—
Interest payable	0.4	0.2
Total current other financial liabilities	33.4	8.7
Non-current		
LTIP	20.2	17.6
Obligation in connection with acquired hotel interest	69.8	—
Financial instruments at fair value through profit or loss		
Derivatives not designated as hedging instruments	0.1	0.2
Total non-current other financial liabilities	90.1	17.8

## 21. PROVISIONS

	2014			2013		
	Current \$	Non-current \$	Total \$	Current \$	Non-current \$	Total \$
Claims, litigation and other contingencies	0.1	1.5	1.6	0.3	1.5	1.8
Restructuring	0.3	—	0.3	2.4	0.7	3.1
Remediation contingency	1.9	—	1.9	3.4	—	3.4
Other	—	0.2	0.2	—	0.2	0.2
	2.3	1.7	4.0	6.1	2.4	8.5

Movements in provisions are as follows:

	Claims, litigation and other contingencies \$	Restructuring \$	Remediation contingency \$	Other \$	Total \$
At January 1, 2014	1.8	3.1	3.4	0.2	8.5
Additions	—	1.9	—	—	1.9
Usage	(0.2)	(4.1)	(1.4)	—	(5.7)
Reversals	—	(0.6)	—	—	(0.6)
Translation adjustments	—	—	(0.1)	—	(0.1)
At December 31, 2014	1.6	0.3	1.9	0.2	4.0
Non-current	1.5	—	—	0.2	1.7
Current	0.1	0.3	1.9	—	2.3
	1.6	0.3	1.9	0.2	4.0

## Claims, litigation and other contingencies

The Company is involved in a number of legal and other disputes including notification of possible claims. The Company has established provisions after taking into account the facts of each case. Payouts are expected over a period of up to 20 years.

## Restructuring

The Company underwent a global reorganization in 2013, from a brand based structure to a regionalized model resulting in employee terminations and relocations. The reorganization plan was announced and implemented in 2013. In 2014, the Company changed its global sales strategy resulting in further employee terminations. The outstanding provision as at December 31, 2014 represents management's best estimate of termination, outplacement and repatriation costs. Payouts are expected to be completed in 2015.

## Remediation contingency

A provision for expected remediation costs was recorded in 2012 as a result of moisture issues at a leased property. An additional provision was recorded in 2013 resulting from a change in the nature of these costs. The outstanding provision as at December 31, 2014 represents management's best estimate of cash costs expected to be incurred that are not deemed capitalizable. The remediation is expected to be completed in 2015.

## Other

Other includes obligations associated with certain office leases which require that leased assets must be restored to their original condition at the date of inception of the lease. The associated cash outflows are expected to occur at the end of the lease terms, which are long-term in nature.

## 22. RETIREMENT BENEFIT AND OTHER LIABILITIES

	2014	2013
	\$	\$
Retirement benefit obligations [note 23]	27.7	28.0
Workers' compensation obligation	10.1	11.3
Non-qualified deferred compensation plan liability	6.1	6.7
Other liabilities	5.2	7.6
Total retirement benefit and other liabilities	49.1	53.6

## 23. PENSIONS AND OTHER POST-EMPLOYMENT BENEFIT PLANS

The Company has defined benefit pension plans in Canada [funded and unfunded], the United States [unfunded] and the United Kingdom [funded]. The Company also has other post-employment plans in Canada, being primarily life insurance and health care coverage. All defined benefit plans are closed to new entrants, with new members eligible to participate in defined contribution arrangements. Contributions to defined benefit plans are made to separately administered funds and are made in accordance with actuarial recommendations and in compliance with regulatory requirements. Benefit payments from defined benefit plans are based principally on years of service and compensation rates near retirement. Benefit payments from United Kingdom and Canadian registered plans are adjusted for inflation.

The United Kingdom defined benefit plan is governed by a Board of Trustees, which includes senior management of the Company that works with the Company to set the funding principles of the plan. The funding objectives of the plan are set by the Board of Trustees. Canadian defined benefit plans are governed by a committee comprising senior management of the Company. The committee is responsible for the administration of plan assets and for the definition of the plans' investment strategies. Regulatory approval for the wind-up of one of the Company's defined benefit plans was received in 2010 and all remaining obligations for this plan will be settled once the deficit is fully funded, which is required to be completed no later than June 30, 2015. The investment strategy for this plan is a mix of bonds and pooled funds. The portfolio of the remaining funded plans consists of equities, bonds and pooled funds.

The Company is subject to restrictions on any surplus in Canadian plans under Canadian pension law. The following tables summarize the components of the net benefit expense recognized in the consolidated statement of profit (loss) and the funded status and amounts recognized in the consolidated statement of financial position:

	Pension		Other		Total	
	2014	2013	2014	2013	2014	2013
	\$	\$	\$	\$	\$	\$
Current service cost	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)
Interest on defined benefit obligations	(0.5)	(0.3)	(0.1)	(0.2)	(0.6)	(0.5)
Settlement loss	(0.3)	—	—	—	(0.3)	—
Administration costs incurred	(0.4)	(0.5)	—	—	(0.4)	(0.5)
Net benefit expense	(1.3)	(0.9)	(0.2)	(0.3)	(1.5)	(1.2)

Certain members of the United Kingdom pension plan were given the option in 2014 to elect to use the cash equivalent transfer value of their pension benefits to purchase a more suitable annuity with a third-party insurer. The net impact of the settlement for these plan members has been presented as a settlement loss in the net benefit expense.



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The funded status recognized in the consolidated statement of financial position is as follows:

At December 31, 2014

	Pension \$	Other \$	Total \$
Retirement benefit assets			
Fair value of plan assets	154.7	—	154.7
Defined benefit obligations	(132.8)	—	(132.8)
Plans in surplus	21.9	—	21.9
Asset restriction	(4.5)	—	(4.5)
Total retirement benefit assets	17.4	—	17.4
Retirement benefit obligations			
Fair value of plan assets	17.2	—	17.2
Defined benefit obligations	(40.4)	(3.3)	(43.7)
Plans in deficit	(23.2)	(3.3)	(26.5)
Liability due to minimum funding requirements	(1.2)	—	(1.2)
Total retirement benefit obligations	(24.4)	(3.3)	(27.7)

At December 31, 2013

	Pension \$	Other \$	Total \$
Retirement benefit assets			
Fair value of plan assets	152.7	—	152.7
Defined benefit obligations	(136.7)	—	(136.7)
Plans in surplus	16.0	—	16.0
Asset restriction	(5.8)	—	(5.8)
Total retirement benefit assets	10.2	—	10.2
Retirement benefit obligations			
Fair value of plan assets	18.0	—	18.0
Defined benefit obligations	(42.3)	(3.1)	(45.4)
Plans in deficit	(24.3)	(3.1)	(27.4)
Liability due to minimum funding requirements	(0.6)	—	(0.6)
Total retirement benefit obligations	(24.9)	(3.1)	(28.0)

As at December 31, 2014, the Company had issued letters of credit of \$18.6 [2013 - \$22.1] representing financial guarantees on certain of the above unfunded pension liabilities.

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Changes in the present value of the defined benefit obligation are as follows:

	Pension \$	Other \$	Total \$
Defined benefit obligations at January 1, 2013	188.7	3.9	192.6
Service cost	0.1	0.1	0.2
Interest cost	7.2	0.2	7.4
Actuarial gain arising from experience on the plan's liabilities	(0.6)	(0.4)	(1.0)
Actuarial loss arising from changes in demographic assumptions	2.9	—	2.9
Actuarial gain arising from changes in financial assumptions	(2.5)	(0.4)	(2.9)
Benefits paid	(11.6)	(0.1)	(11.7)
Foreign exchange rate changes & other adjustments	(5.2)	(0.2)	(5.4)
Defined benefit obligations at December 31, 2013	179.0	3.1	182.1
Service cost	0.1	0.1	0.2
Interest cost	7.5	0.1	7.6
Actuarial gain arising from experience on the plan's liabilities	(0.4)	—	(0.4)
Actuarial loss arising from changes in demographic assumptions	1.0	—	1.0
Actuarial gain arising from changes in financial assumptions	14.4	0.4	14.8
Benefits paid	(10.7)	(0.1)	(10.8)
Partial plan settlements	(6.0)	—	(6.0)
Foreign exchange rate changes & and other adjustments	(11.7)	(0.3)	(12.0)
Defined benefit obligations at December 31, 2014	173.2	3.3	176.5

Changes in the fair value of plan assets are as follows:

	Defined benefit pension plans \$
Fair value of plan assets at January 1, 2013	180.3
Interest income on plan assets	7.1
Return on plan assets less than discount rate	(3.7)
Employer contributions	5.1
Benefits paid	(11.6)
Administrative costs paid from plan assets	(0.5)
Transfer to defined contribution plan	(1.5)
Foreign exchange rate changes	(4.5)
Fair value of plan assets at December 31, 2013	170.7
Interest income on plan assets	7.3
Return on plan assets greater than discount rate	18.9
Employer contributions	5.1
Benefits paid	(10.7)
Administrative costs paid from plan assets	(0.4)
Transfer to defined contribution plan	(1.1)
Partial plan settlement	(6.3)
Foreign exchange rate changes & other adjustments	(11.6)
Fair value of plan assets at December 31, 2014	171.9

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Changes in the irrecoverable surplus are as follows:

	Defined benefit pension plans \$
Irrecoverable surplus at January 1, 2013	5.3
Interest on irrecoverable surplus	0.2
Change in the irrecoverable surplus during the period	1.3
Foreign exchange rate changes	(0.4)
Irrecoverable surplus at December 31, 2013	6.4
Interest on irrecoverable surplus	0.3
Change in the irrecoverable surplus during the period	(0.4)
Foreign exchange rate changes	(0.6)
Irrecoverable surplus at December 31, 2014	5.7

Plan assets consist of investments quoted in active markets. The major categories of plan assets and their fair value are as follows:

	Defined benefit pension plans	
	2014 \$	2013 \$
Equity securities	32.7	41.8
Debt securities	124.0	117.2
Cash and cash equivalents	9.5	8.1
Other	5.7	3.6
Total	171.9	170.7

Other assets represent units of an investment fund, consisting of a mixture of bonds, derivatives and growth funds. The Company's investment strategy is to maximize return at an appropriate level of risk in order to minimize its long-term cash contributions and pension expenses.

The principal weighted average assumptions used in determining pension and other post-employment benefits for the Company's plans are shown below:

	2014 %	2013 %
Discount rate		
Pension	3.6	3.9
Other	3.9	3.9
Rate of compensation increase		
Pension	3.7	3.6
Other	N/A	N/A
	2014 Years	2013 Years
Duration of defined benefit obligation		
Pension	14	14
Other	18	17

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The value of plan assets is sensitive to market conditions. Changes in assumptions used for determining retirement benefit costs and obligations may have a material impact on the consolidated statement of profit (loss) and the consolidated statement of financial position. The main assumptions are the discount rate and expected mortality of plan participants. The following table provides an estimate of the potential impact of this variable on the pension plans:

	Increase (decrease) in defined benefit obligations		
	Pension	Other	Total
	\$	\$	\$
Discount rate			
0.05% increase	(10.8)	(0.2)	(11.0)
0.05% decrease	11.9	0.3	12.2
Mortality			
0.05% weaker mortality	5.2	—	5.2

The sensitivity analyses above have been determined based on a method that extrapolates the impact on the net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

### Funding requirements

Employer contributions in 2014 were \$5.1 [2013 - \$5.1] in respect of defined benefit pensions and \$0.1 [2013 - \$0.1] in respect of other benefit plans.

The Company expects to contribute approximately \$5.6 in respect of defined benefit pension plans and \$0.1 in respect of other benefit plans in the next fiscal year based on management's best estimate.

In previous years, a defined benefit plan relating to former employees and retirees of the Company and predecessor companies that were spun off in 2001 were not included in the above tables. The plan was merged with a funded Canadian defined benefit plan in 2014. The transfer of the fair value of the plan assets of \$1.0 [2013 - \$1.0] and projected benefit obligation of \$1.0 [2013 - \$1.0] have been included in foreign exchange rate changes and other adjustments in the above tables.

FRHI also has defined contribution pension plans. The Company's net expense for such plans, which equals the Company's required contribution, was \$2.3 in 2014 [2013 - \$2.9].

## 24. TRADE AND OTHER PAYABLES

	2014	2013
	\$	\$
Trade payables	19.0	26.7
Rental and other deposits	15.4	12.3
Employee-related accruals	24.4	30.1
Other taxes payable	14.9	9.4
Deferred revenue	29.0	28.1
Other accruals	21.6	19.1
	124.3	125.7

Trade payables are non-interest bearing and are normally settled on 30 to 60-day terms.

## 25. ISSUED CAPITAL AND RESERVES

### Equity capital

The Company's articles of incorporation authorize the issuance of 3,000,000 Class A shares, 650,000 Class C shares, 650,000 Class D shares and 75,000 Class E shares, each with a par value of \$0.0001 per share.

Class C shares are equivalent to 1% of Class A shares and Class D shares are equivalent to 99% of Class A shares. The holder of a Class C share has the right to receive dividends and distributions equal to 1% of the dividends and distributions paid on a Class A share. The holder of a Class D share has the right to receive dividends and distributions equal to 99% of the dividends and distributions on a Class A share.

The following table outlines common shares issued and fully paid:

	Number of shares outstanding			Total shares	Total \$
	Class A - voting	Class C - voting	Class D - non-voting		
At December 31, 2013	1,557,916	469,961	469,961	2,497,838	1,427.2
Dividend declared	—	—	—	—	(15.6)
At December 31, 2014	1,557,916	469,961	469,961	2,497,838	1,411.6

At December 31, 2014 and 2013, total share equivalents outstanding were 2,027,877 shares.

### Dividend declared

On December 8, 2014, subject to certain conditions, the Company declared a dividend of \$15.6 to the equity holders of the Company to be paid out of the share premium account in share capital. The dividend per share is \$7.69 per Class A share, \$0.08 per Class C share and \$7.61 per Class D share. The dividend payable is included in current financial liabilities at December 31, 2014.

### Currency translation reserve

The reserve records the movement in exchange differences arising from the translation of the financial statements of foreign operations and the retranslation of monetary items receivable or payable to a foreign subsidiary, considered to form part of the net investment in the foreign subsidiary. At the date of transition to IFRS [January 1, 2010], the Company reset its cumulative translation differences to nil under IFRS 1.

## 26. RELATED PARTY DISCLOSURES

Fairmont Raffles Holdings International, a Cayman Islands company, was incorporated on May 11, 2006. On May 11, 2006, Kingdom Holdings Company ["Kingdom"] and Colony Capital ["Colony"], through companies under their control, purchased 95% of the outstanding shares of Fairmont Hotels & Resorts Inc. ["FHR"], a publicly traded company, and contributed this interest to Fairmont Raffles Holdings International. Concurrently, Kingdom contributed its existing 5% of FHR shares and Colony contributed its interests in the Raffles and Swissôtel companies to Fairmont Raffles Holdings International. On October 16, 2006, FRH Investments Holdings Inc. purchased 2.5% of the outstanding shares of Fairmont

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Raffles Holdings International and concurrently 2.5% of the shares were repurchased from Kingdom and Colony.

On February 22, 2010, FRHI was incorporated in the Cayman Islands. On April 1, 2010, all of the issued and outstanding shares of Fairmont Raffles Holdings International were transferred by Kingdom, Colony and FRH Investment Holdings to FRHI in exchange for shares in FRHI. FRHI then issued 811,151 Class A shares to a subsidiary of QIA. On November 1, 2010, Fairmont Raffles Holdings International was merged with FRHI.

On March 8, 2013, Colony entered into a Share Purchase Agreement to sell its existing shares in FRHI to a subsidiary of QIA. The transaction was closed on June 17, 2013.

The following table provides a summary of transactions that have been entered into with related parties:

	2014 \$	2013 \$
Associates		
Revenue from related parties	18.5	20.1
Amounts owed by related parties	2.4	5.5
Amounts owed to related parties	—	0.1
Joint ventures		
Revenue from related parties	4.8	2.4
Amounts owed by related parties	0.9	0.6
Other related parties		
Revenue from related parties	27.6	26.3
Amounts owed by related parties	7.4	10.5
Amounts owed to related parties	—	0.6

The following table provides a summary of loans owed by related parties:

	2014 \$	2013 \$
Other related parties		
Loans owed by Kingdom and affiliated entities	14.2	109.1
Loans owed by QIA and affiliated entities	10.0	11.3
Loans owed by joint ventures	43.9	1.4
Loans owed by entities affiliated with joint ventures, Kingdom, and QIA	97.5	—

### Entities with control over the Company

QIA subsidiaries and Kingdom own 63.18% and 35.32% of the outstanding shares of the Company, respectively [2013 – 63.18%, 35.32%].

In 2013, the HMA Delivery Agreement was settled for cash proceeds of \$269.0.

## Associates

The Company has interests in the following associates:

	2014 %	2013 %
Swissôtel Lima	26.4	29.5
Fairmont Le Manoir Richelieu	25.0	25.0
Fairmont Tremblant	19.9	19.9
Fairmont Mayakoba	10.2	13.0
Fairmont Dubai	14.6	14.6
Swissôtel Quito	11.8	11.8
Swissôtel Istanbul	7.3	7.3
Fairmont St. Andrews Holding Company [inactive]	12.5	12.5
Fairmont St. Andrews Limited Liability Partnership [inactive]	31.3	31.3
Fairmont Sonoma Mission Inn & Spa	25.0	25.0

The Company accounts for certain of its investments in associates using the equity method where there is less than 20% ownership interest, due to significant influence through contractual arrangements.

## Joint ventures in which the Company is a venturer

The Company has a 50% interest in an entity holding the management contract for the Fairmont Peace Hotel, in an entity holding the operations of the Swissôtel Dresden and in an entity holding the operations of Claremont. The Company has a 54% interest in an entity that has an interest in a limited liability company that holds the assets of the Fairmont Heritage Place, Ghirardelli Square. The Company has a 50% interest in an entity holding loan receivables and equity interests in Savoy.

## Terms and conditions of transactions with related parties

Outstanding trade accounts receivable and payable balances at year end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any trade related party receivables or payables. The Company has not recorded an impairment relating to amounts owed by related parties for the year ended December 31, 2014 [2013 - \$0.8].

## Commitments with related parties

As at December 31, 2014, the Company had \$1.8 [2013 - \$2.6] of outstanding commitments to related parties.

## Loans to related parties

- [a] In connection with obtaining The Savoy management contract in 2005, the Company loaned \$26.8 [£16.8 million] to the hotel owners [including an affiliate of Kingdom] as a long-term advance, due in 2015 and bearing interest at 7.75%. In 2008, the Company funded an additional \$15.9 [£10.0 million] as a capital expenditure loan, which bears interest at LIBOR at the time of issuance plus 2.25%. In 2010, the final funding of \$7.5 [£5.0 million] on the capital expenditure loan was made to the hotel owners with an interest rate of 15.0%. In 2013 the owners of The Savoy completed a refinancing of

the property. In connection with the refinancing, the Operator Loans maturity dates were extended from 2015 to 2018 and interest was increased to 15% from January 19, 2015 to maturity. In 2014, as a result of the change in the capital structure at the property, the maturity dates on the Operator Loans were extended from 2018 to 2019, with an option to extend to 2020. At December 31, 2014, the total outstanding long-term advance and capital expenditure loan including accrued interest is \$97.5 [2013 - \$95.3].

- [b] In connection with obtaining the Raffles Praslin management contract in 2008, the Company loaned \$11.0 to the hotel owner [an affiliate of Kingdom] as a long-term advance, due in March 2018 and bearing interest at LIBOR plus 1%. Interest compounds annually and is payable on the fifth anniversary of the loan and upon maturity. As at December 31, 2014, the outstanding loan including accrued interest was \$11.6 [2013 - \$11.4].
- [c] In 2011, the Company advanced a loan of \$10.3 [EURO 8.0 million] to the owner of Le Royal Monceau, Raffles Paris [a subsidiary of QIA] to finance the operation of the hotel. The loan is due in November 2021 and bears interest at the 12-month EURIBOR. Interest and principal are payable annually, if certain gross operating profit thresholds are exceeded for the hotel. If the thresholds are not exceeded, the accrued interest will be added to the principal amount of the loan. As at December 31, 2014, the outstanding loan including accrued interest was \$10.0 [2013 - \$11.3].
- [d] In a prior year, the Company advanced a \$5.0 interest-free loan to a group of hotels partially owned by Kingdom through a partnership. At the time of issuance, the loan was discounted using prevailing market rates. In 2011, \$0.7 of the loan was repaid. As at December 31, 2014, the outstanding long-term advance was \$2.6 [2013 - \$2.4]. The loan will accrete up to its face value of \$4.3 by 2020.
- [e] In 2012, the Company granted a loan facility of up to \$4.0 [EURO 2.9 million] to the Dresden joint venture. Amounts can be drawn and repaid until the expiry of the hotel operating lease in 2022. Interest accrues at 4% above the base rate published by the European Central Bank annually and is due with the repayment of the loan. As at December 31, 2014, the outstanding loan including accrued interest was \$1.8 [2013 - \$1.4].
- [f] In 2014, the Company loaned \$41.2 [£25.6 million] to the Savoy Joint Venture to acquire the interests in The Savoy. The loan is due in November 2018 and bears an interest yield of 14.5%. The Company loaned an additional \$1.5 [£0.9 million] to fund professional fees relating to the acquisition. As at December 31, 2014, the total outstanding loans including accrued interest was \$42.2, which is included in non-current loans receivable.

### Transactions with key management personnel

	2014	2013
	\$	\$
Short-term employee compensation and benefits	4.4	5.1
Long-term employee compensation and benefits	14.3	14.0
Total compensation for key management personnel	18.7	19.1

The amounts disclosed in the table are the amounts recognized as an expense during the reporting period related to key management personnel. Key management personnel are those who have authority and responsibility for planning, directing and controlling the activities of the entity.



## 27. OPERATING LEASES

The Company leases certain buildings and equipment under operating leases and leases out certain of its food and beverage outlets and shop spaces within owned and leased hotels. These leases have various terms and generally contain renewal options and escalation clauses. In addition to minimum rental payments, some leases may require the payment of additional rents based on varying percentages of revenue. No material restrictions or guarantees exist in the Company's lease obligations.

The Company incurred rent expense under operating leases of \$86.0 in 2014 [2013 - \$81.9], which consisted of minimum lease payments of \$62.1 [2013 - \$58.5] and contingent rent of \$23.9 [2013 - \$23.4]. Sublease income of \$1.3 [2013 - \$1.2] has not been netted against this rent expense.

Future minimum rent payable under non-cancellable operating leases is as follows:

	\$
Within one year	58.8
After one year but not more than five years	118.3
More than five years	80.3
	<u>257.4</u>

As at December 31, 2014, the total future minimum sublease payments expected to be received under non-cancellable subleases was \$1.5 [2013 - \$0.8].

## 28. COMMITMENTS, CONTINGENCIES AND GUARANTEES

### Commitments

The Company has entered into agreements to provide long-term loans to certain hotel owners. In addition the Company has agreed to contribute funds to certain hotel owners to secure management contracts. The following has been committed and is expected to be funded subsequent to December 31, 2014:

	2015 \$	2016 \$	2017 \$	2018 \$	Thereafter \$	Total \$
Funds committed						
Long-term loans	14.6	8.5	—	—	3.0	26.1
Management contracts	1.0	7.0	1.0	0.5	2.0	11.5
	<u>15.6</u>	<u>15.5</u>	<u>1.0</u>	<u>0.5</u>	<u>5.0</u>	<u>37.6</u>

### Contingencies

From time to time, the Company is subject to legal proceedings, the ultimate outcome of each being subject to many uncertainties inherent in litigation. It is the view of management that, other than to the extent that liabilities have been recorded in the consolidated financial statements, such legal proceedings are not expected to result in a material financial loss to the Company.

## Guarantees

### Performance obligations under management contracts

In the ordinary course of business, the Company enters into hotel management contracts that may obligate the Company to compensate the hotel owner, to the extent the hotel's operations do not achieve certain performance levels, or be at risk for termination. The Company's exposure under these arrangements is partially mitigated as many of the performance tests are partially tied to the results of a competitive set of hotels and most have exclusions for force majeure events. The Company has a process to monitor and assess these obligations and records the amounts it believes will be due to hotel owners.

## Indemnifications

### Business dispositions

In the sale of all or a part of a business, the Company may agree to indemnify against claims related to the period the business was owned by the Company in the areas of tax and environmental matters. The Company is not able to make a reasonable estimate of the maximum amount it could be required to pay counterparties, as the terms of such indemnification agreements are subject to certain actions that are under the control of the acquirer and the amount of the indemnification is not limited. No amount has been recorded in the consolidated financial statements with respect to these indemnification agreements.

### Directors and officers

The Company has entered into indemnification agreements with its current and former directors and officers to indemnify them, to the extent permitted by law, against any and all charges, costs, expenses, amounts paid in settlement and damages incurred by the directors and officers as a result of any lawsuit or any other judicial, administrative or investigative proceeding in which the directors and officers are sued as a result of their service. These indemnification claims are subject to any statutory or other legal limitation period. The Company is not able to make a reasonable estimate of the maximum amount it could be required to pay counterparties under these indemnifications as the triggering events are not predictable. The Company has purchased directors' and officers' liability insurance. No amount has been recorded in the consolidated financial statements with respect to these indemnification agreements.

### Other

In the normal course of operations, the Company may provide indemnifications, other than those listed above, to counterparties that would require the Company to compensate them for costs incurred as a result of changes in laws and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparties as a consequence of a transaction. The terms of these indemnification agreements will vary based on the contracts. The nature of the indemnification agreements prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. No amount has been recorded in the consolidated financial statements with respect to these indemnification agreements.

## 29. FINANCIAL INSTRUMENTS

The following table presents the carrying amounts of each category of financial assets and financial liabilities:

	Note	2014 \$	2013 \$
Financial assets			
Available-for-sale equity securities	16	22.1	22.1
Loans and receivables			
Trade and other receivables	18	102.5	96.8
Loans, notes and interest receivable – current	16	6.0	4.0
Loans and notes receivable – non-current	16	176.4	136.3
Deposits	16	2.9	3.4
Cash and cash equivalents		69.5	79.6
Total		379.4	342.2
Financial liabilities			
Measured at cost or amortized cost			
Trade and other payables	24	124.3	125.7
Interest payable	20	0.4	0.2
Dividend payable	20	15.6	—
Long-term debt	19	38.1	1.4
Obligation in connection with interest in hotel	6	69.8	—
LTIP – current	20	17.4	8.5
LTIP – non-current	20	20.2	17.6
Measured at fair value			
Interest rate swaps	20	0.1	0.2
Total		285.9	153.6

### Fair values

The fair values of cash and cash equivalents, trade and other receivables, current loans, notes and interest receivable and trade and other payables approximate their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of available-for-sale equity securities is not reliably measurable.

The fair value of deposits and the LTIP approximates their carrying amounts based on prevailing market rates and terms to maturity.

The fair value of long-term debt approximates its carrying value, because the stated interest rate on the debt is consistent with current market rates.

The fair market value of the interest rate swaps was \$0.1 as at December 31, 2014 [2013 - nominal]. There were no interest rate caps outstanding as at December 31, 2014 [2013 - \$0.2]. Notional amounts are provided in note 30.

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The fair value of non-current loans and notes receivable is estimated based on the most favourable rates currently available to the Company for receivables with similar terms and conditions to those receivables in place at the reporting date. The following table compares the carrying amount and fair value of the Company's loans and notes receivable:

	Carrying amount		Fair value	
	2014	2013	2014	2013
	\$	\$	\$	\$
Loans and notes receivable – non-current	176.4	136.3	180.5	142.4

### Fair value of financial instruments measured at fair value

The fair value of the interest rate caps and swaps are estimated by discounting expected future cash flows using current market interest rates applicable to the contract and yield curves over the remaining term of the instrument.

### Fair value hierarchy

The following table provides an analysis of financial instruments that are measured at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

Level 1: quoted [unadjusted] prices in active markets for identical assets or liabilities.

Level 2: inputs other than quoted market prices that are observable for the asset or liability, either directly [i.e. as prices] or indirectly [i.e. derived from prices].

Level 3: inputs for the asset or liability that are not based on observable market data [i.e. unobservable inputs].

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Liabilities				
Interest rate swaps	—	0.1	—	0.1

There were no transfers between Level 1, Level 2 and Level 3 fair value measurements during the year.

## 30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Executive Committee is responsible for developing and monitoring the Company's risk management policies and reports regularly to the Board of Directors on its activities.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

The Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Audit Committee is assisted in its oversight role by Internal Audit.

All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision. It is the Company's policy that no trading in derivatives for speculative purposes shall be undertaken.

### Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to currency risk on its operating activities, where revenue or expense is denominated in a currency other than the respective functional currencies of the Company's entities, being primarily the US dollar, the Canadian dollar, the EURO, the Swiss Franc and the Singapore dollar. Where the amounts to be paid and received in a specific currency are expected to largely offset one another, no hedging activity is undertaken. Where significant foreign currency exposures are not expected to be offset by other currency transactions, forward exchange contracts are considered. There were no forward exchange contracts in place as at December 31, 2014 and 2013.

The Company is also exposed to currency risk for its investments in foreign subsidiaries. The translation exposure of foreign subsidiaries is not hedged as those currency positions are considered to be long-term in nature. The effects of currency fluctuations on the translation of net asset amounts into US dollars are reflected in the Company's consolidated equity position.

### Foreign currency sensitivity

The following table shows the impact that a reasonably possible change in foreign currency exchange rates would have on profit before tax as at December 31, 2014, as a result of changes in fair values of financial instruments, with all other variables held constant. The percentage movement applied to each currency is based on the average movement of foreign exchange rates in the previous annual year. The Company's exposure to foreign currency changes for all other currencies is not material.

	Change in rate	Effect on profit before tax \$
At December 31, 2014		
GBP relative to EUR	+7.0%	9.7
EURO relative to USD	+12.0%	(6.1)
USD relative to CAD	+9.0%	(2.7)
CAD relative to EUR	+4.0%	(0.9)
USD relative to CHF	+11.0%	(0.8)
CAD relative to USD	+8.0%	(0.8)
SGD relative to EUR	+9.0%	(0.8)

A weakening of the above currencies as at December 31, 2014 would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's interest rate exposure is primarily related to its long-term debt obligations issued at floating interest rates. Under its credit facility, the Company is required to hedge 50% of its interest rate exposure. The Company enters into interest rate cap, swap and collar contracts to manage interest rate risk. The fair values of these financial instruments are included in the consolidated statement of financial position.

As at December 31, 2014, the Company held three interest rate swaps expiring in August 2015, with notional amounts totaling \$121.5 [2013 - \$123.4]. As at December 31, 2014, the Company held no contracts to cap interest [2013 – notional amounts of \$101.8].

### Interest rate sensitivity

The Company is not exposed to significant interest rate risk as at December 31, 2014 given the magnitude of the outstanding long-term debt balance. A reasonable change in interest rates would have a nominal effect on the net annual interest charge.

### Credit risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises primarily from the Company's cash and cash equivalents, derivative financial instruments, trade and other receivables and loans receivable.

The credit risk for cash and cash equivalents and derivative financial instruments is minimized by dealing with high-quality financial institutions that have a high quality external credit rating.

Trade and other receivables due from customers of the Company's owned or leased properties comprise a large number of credit card customers in diverse geographical areas. Risk on trade and other receivables due from hotel owners is mitigated by having payment terms of 30 days, which allows the Company to actively monitor the amounts owed and identify credit risk in a timely manner. The value of the management contracts obtained from the hotel owner as well as any credit history established with the Company are factors in the decision to extend a loan to a hotel owner.

The Company reviews the recoverable amount of its trade and other receivables and loans and notes receivable at the end of each reporting period to ensure that adequate impairment losses are made for amounts determined to be unrecoverable. Other than the allowance for doubtful accounts, no allowances for credit losses on financial assets were required as at December 31, 2014.

In respect of trade and other receivables and loans receivable, significant credit risk is mitigated as amounts are due from unrelated hotel owners in various geographical areas. The maximum exposure to credit risk of financial assets is equal to the carrying amount of these instruments as illustrated in note 29. The Company generally does not hold collateral or guarantees as security for its financial assets.

The Company's maximum exposure for financial guarantees is outlined in note 28.

There were no indications as at December 31, 2014 that defaults in payment obligations will occur for trade and other receivables and loans receivable that are not impaired or past due.

## Liquidity risk

Liquidity risk results from the Company's potential inability to meet its financial obligations, such as for the settlement of its financial debt or for ongoing cash requirements from operating activities. The Company manages liquidity risk by maintaining an adequate credit facility and by continuously monitoring short and long-term cash flow forecasts.

The following table presents the details of undrawn credit facilities that the Company has at its disposal to reduce liquidity risk under the credit facility in place as at December 31, 2014 and 2013:

Facilities provided by banks	2014			2013		
	Utilized	Unutilized	Total	Utilized	Unutilized	Total
	\$	\$	\$	\$	\$	\$
Committed	81.6	518.4	600.0	49.4	300.6	350.0

Utilized facilities are calculated based on actual drawings and may not agree to the carrying value of loans held at amortized cost.

The following tables summarize the maturity profile of the Company's financial liabilities based on contractual undiscounted payments:

	Less than 1 year	Between 1 and 3 years	More than 3 years	Total
	\$	\$	\$	\$
At December 31, 2014				
Long-term debt	—	—	38.1	38.1
Trade and other payables	124.3	—	—	124.3
Other financial liabilities	33.4	20.3	69.8	123.5
	157.7	20.3	107.9	285.9
At December 31, 2013				
Long-term debt	—	1.4	—	1.4
Trade and other payables	125.7	—	—	125.7
Other financial liabilities	8.7	17.8	—	26.5
	134.4	19.2	—	153.6

## Capital management

The Company manages its capital to ensure that it will be able to continue as a going concern and provide an adequate return to shareholders. The primary focus of the Company is to service debt and maintain compliance with debt covenants. The Company's overall strategy remains unchanged from 2013.

The Company is not subject to any externally imposed capital requirements.

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The following table presents the Company's capital structure:

	2014	2013
	\$	\$
Long-term debt	38.1	1.4
Less: cash and cash equivalents	(69.5)	(79.6)
Net cash	(31.4)	(78.2)
Share capital	1,411.6	1,427.2
Equity	(107.1)	5.3
Total capital	1,304.5	1,432.5
Net cash and total capital	1,273.1	1,354.3

### 31. SUPPLEMENTAL CASH FLOW DISCLOSURE

Changes in non-cash working capital items related to operations consist of the following:

	2014	2013
	\$	\$
Decrease (increase) in current assets		
Trade and other receivables	(20.7)	(14.1)
Prepayments	(3.6)	2.7
Inventories	(0.4)	(0.6)
(Decrease) increase in current liabilities		
Trade and other payables	8.6	23.6
Income taxes payable	(2.0)	(3.0)
Net change in non-cash working capital balances related to operations	(18.1)	8.6

### 32. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from the statements previously presented to conform to the presentation of the 2014 consolidated financial statements.



## APPENDIX 4

**Table of subsidiaries and investments of FRHI as of December 31, 2015<sup>1</sup>**

<b>SUBSIDIARIES AND INVESTMENTS (held 50% or more by FRHI, either directly or indirectly)</b>			
<b>Name</b>	<b>Legal form</b>	<b>Country</b>	<b>Ownership interest (%)</b>
3493814 Canada Inc.	Corporation	Canada	100
3985784 Canada Inc.	Corporation	Canada	100
4229452 Canada Inc.	Corporation	Canada	100
6081541 Canada Inc.	Corporation	Canada	100
Administradora de Vacaciones FHP, S.A. de C.V.	<i>Sociedad Anónima de Capital Variable</i> (limited company with variable capital)	Mexico	100
Canadian Pacific Express & Transport Ltd.	Corporation	Canada	100
Canadian Pacific Hotels International B.V.	<i>Besloten Vennootschap</i> (limited company)	Netherlands	100
Canadian Pacific Hotels Management Corporation	Corporation	Canada	100
Canadian Pacific International Freight Services Ltd.	Corporation	Canada	100
Canadian Pacific Transport (Quebec) Ltd.	Corporation	Canada	100
Canmore Laundry Facility Operations Limited	Corporation	Canada	100
Copley Plaza Hotel Operating Company	Corporation	United States	100
CP Hotels (Bermuda) Ltd.	Corporation	Bermuda	100
CP Hotels (Scottsdale 1) Inc.	Corporation	United States	100
CP Hotels (Scottsdale 2) Inc.	Corporation	United States	100
Fairmont Aviation Services Inc.	Corporation	Canada	100
Fairmont Dubai Holdings (Bermuda) Ltd.	Corporation	Bermuda	100
Fairmont Hotel Management (Shanghai) Co., Ltd	Corporation	China	100
Fairmont Hotel Management Company	Corporation	United States	100
Fairmont Hotel Management L.P.	Limited Partnership	United States	100

<sup>1</sup> Excluding entities that have commenced liquidation or that will no longer be a subsidiary or investment of the FRHI group at the Transaction Date.

Fairmont Hotels & Resorts (Maryland) LLC	Limited Liability Company	United States	100
Fairmont Hotels & Resorts (U.S.) Inc.	Corporation	United States	100
Fairmont Hotels (Bermuda) Limited	Corporation	Bermuda	100
Fairmont Hotels (Singapore) Pte. Ltd.	Corporation	Singapore	100
Fairmont Hotels Inc./Hôtels Fairmont Inc.	Corporation	Canada	100
Fairmont MY (Barbados) Inc.	Corporation	Barbados	100
Fairmont Spas Inc.	Corporation	Canada	100
FHI Finance (U.S.) Inc.	Corporation	United States	100
FHIS Hotel Investments (Canada) Inc.	Corporation	Canada	100
FHIW Hotel Investments (Canada) Inc.	Corporation	Canada	100
FHMK, S.A. de C.V.	<i>Sociedad Anónima de Capital Variable</i> (limited company with variable capital)	Mexico	100
FHP (BC) Strata Management Ltd.	Corporation	Canada	100
FHP (Canada) Management Company Inc.	Corporation	Canada	100
FHP Cocoa Management Company LLC	Limited Liability Company	United States	100
FHP Management Company LLC	Limited Liability Company	United States	100
FHP SP (U.S.) Management Company, LLC	Limited Liability Company	United States	100
FHP SP Limited Partnership	Limited Partnership	Canada	100
FHP Telluride Management Company LLC	Limited Liability Company	United States	100
FHR (ML) Operating Company LLC	Limited Liability Company	United States	100
FHR (NYC) LLC	Limited Liability Company	United States	100
FHR (St. Lucia) Inc.	Corporation	St. Lucia	100
FHR Austin Hotel Management Company LLC	Limited Liability Company	United States	100
FHR Banff Operations Corporation	Corporation	Canada	100
FHR Claremont Hotel Management Company LLC	Limited Liability Company	United States	100
FHR Cocoa LLC	Limited Liability Company	United States	100

FHR Dallas Hotel Management Company LLC	Limited Liability Company	United States	100
FHR GDM Hotel Management Company LLC	Limited Liability Company	United States	100
FHR Gulf Management FZ-LLC	Free Zone Limited Liability Company	United Arab Emirates	100
FHR Hotels & Resorts (India) Private Limited	Private Limited Company	India	100
FHR Jasper Operations Corporation	Corporation	Canada	100
FHR Lake Louise Operations Corporation	Corporation	Canada	100
FHR LCF Operations Corporation	Corporation	Canada	100
FHR México Management Company, S.A. de C.V.	<i>Sociedad Anónima de Capital Variable</i> (limited company with variable capital)	Mexico	100
FHR Petite Nation Operations Corporation	Corporation	Canada	100
FHR Properties Inc.	Corporation	Canada	100
FHR QEH Operations Corporation	Corporation	Canada	100
FHR RYH Operations Corporation	Corporation	Canada	100
FHR San Francisco Operations LLC	Limited Liability Company	United States	100
FHR Seattle Operations LLC	Limited Liability Company	United States	100
FHR VA Operations Corporation	Corporation	Canada	100
FHR Washington DC Operations LLC	Limited Liability Company	United States	100
FHR Whistler Operations Corporation	Corporation	Canada	100
FRH (Bermuda) Ltd.	Corporation	Bermuda	100
FRHI Finance (Alberta) II ULC	Unlimited Liability Company	Canada	100
FRHI Finance (US) II LLC	Limited Liability Company	United States	100
FRHI Holdings (Sing) Pte. Ltd.	Private Limited Company	Singapore	100
FRHI Hotels & Resorts (Canada) Inc.	Corporation	Canada	100
FRHI Hotels & Resorts (Singapore) Pte. Ltd.	Private Limited Company	Singapore	100
FRHI Hotels & Resorts (Switzerland) GmbH	<i>Gesellschaft mit beschränkter Haftung</i> (limited liability company)	Switzerland	100

FRHI Hotels & Resorts (UK) Limited	Corporation	United Kingdom	100
FRHI Hotels & Resorts (US) Inc.	Corporation	United States	100
FRHI Hotels & Resorts S.à r.l.	<i>Société à responsabilité limitée</i> (limited liability company)	Luxembourg	100
FRHI Real Estate Holding (Canada) Inc.	Corporation	Canada	100
FRHI Real Estate Holding (US) Inc.	Corporation	United States	100
FRHI Rental Management (Philippines), Inc.	Corporation	Philippines	100
FRS Hotel Group (Hong Kong) Limited	Corporation	Hong Kong	100
FRS Hotel Group (Shanghai) Co., Ltd.	Corporation	China	100
FRS Hotel Group (Switzerland) GmbH	<i>Gesellschaft mit beschränkter Haftung</i> (limited liability company)	Switzerland	100
Heritage Benefits Company LLC	Limited Liability Company	United States	100
Kea Lani LLC	Limited Liability Company	United States	100
Manoir Richelieu Ltd.	Corporation	Canada	100
OÜ Swissôtel Estonia	Private limited company	Estonia	100
Princess Hotels International Limited	Corporation	Bermuda	100
PT, FRS Hotels Indonesia	<i>Perseroan Terbatas</i> (limited liability company)	Indonesia	100
Raffles Hotel Management (Beijing) Co Ltd	Corporation	China	100
Raffles Hotels & Resorts Management (Malaysia) Sdn. Bhd.	<i>Sendirian Berhad</i> (private limited corporation)	Malaysia	100
Raffles Hotels & Resorts SARL	<i>Société à responsabilité limitée</i> (limited liability company)	Morocco	100
Raffles International (Maldives) Pvt. Ltd.	Private Limited Company	Maldives	100
Raffles International (Russia) Pte. Ltd.	Private Limited Company	Singapore	100
Raffles International Hotels & Resorts (Thailand) Co., Ltd.	Corporation	Thailand	100
Raffles International Limited	Corporation	Singapore	100
Resorts International (1997) Pte Ltd	Private Limited Company	Singapore	100

Schlosshotel Dresden Verwaltungs GmbH	<i>Gesellschaft mit beschränkter Haftung</i> (limited liability company)	Germany	100
Scottsdale Princess Partnership	Partnership	United States	100
Sodereal Holding Germany GmbH	<i>Gesellschaft mit beschränkter Haftung</i> (limited liability company)	Germany	100
Sonoma Mission Inn Management Company, LLC	Limited Liability Company	United States	100
Sonoma Resort Holdings II, LLC	Limited Liability Company	United States	100
Swissôtel (Russia) GmbH	<i>Gesellschaft mit beschränkter Haftung</i> (limited liability company)	Switzerland	100
Swissôtel Berlin GmbH	<i>Gesellschaft mit beschränkter Haftung</i> (limited liability company)	Germany	100
Swissôtel Bremen GmbH	<i>Gesellschaft mit beschränkter Haftung</i> (limited liability company)	Germany	100
Swissôtel Corporation (Japan) Pte. Ltd.	Private Limited Company	Singapore	100
Swissôtel Employment Services LLC	Limited Liability Company	United States	100
Swissôtel Holding AG	<i>Aktiengesellschaft</i> (limited corporation)	Switzerland	100
Swissôtel International (Australasia) Pty Limited	Proprietary Limited Company	Australia	100
Swissôtel Japan KK	<i>Kabushiki kaisha</i> (stock company)	Japan	100
Swissôtel Management (Singapore) Pte. Ltd.	Private Limited Company	Singapore	100
Swissôtel Management (USA) LLC	Limited Liability Company	United States	100
Swissôtel Management GmbH	<i>Gesellschaft mit beschränkter Haftung</i> (limited liability company)	Switzerland	100
Swissôtel Management LLC	Limited Liability Company	United States	100
Swissôtel Osaka Nankai K.K.	<i>Kabushiki kaisha</i> (stock company)	Japan	100
The Battery Wharf Hotel Management Company LLC	Limited Liability Company	United States	100
The Chicago Hotel Management Services Company LLC	Limited Liability Company	United States	100
The Newport Beach Hotel Management Company LLC	Limited Liability Company	United States	100
Westend Properties Limited	Corporation	Bermuda	100

RC Hotels (Pte) Ltd.	Private Limited Company	Singapore	75.9
Cocoa PRC II LLC	Limited Liability Company	United States	54
Claremont Hotel Properties GP, LLC	Limited Liability Company	United States	50
Claremont Hotel Properties Limited Partnership	Limited Partnership	United States	50
GLF Hotel Management Holding Pte. Ltd.	Private Limited Company	Singapore	50
GLF Hotel Management (Shanghai) Co., Ltd.	Corporation	China	50
Schlosshotel Dresden GmbH & Co. KG	Limited partnership, with general partner being a <i>Gesellschaft mit beschränkter Haftung</i> (limited liability company)	Germany	50
Shanghai Jin Jiang Fairmont Hotel Management Company Limited	Corporation	China	50