**Bellon SA**

**Statutory Auditors' report on the consolidated financial statements**

**For the year ended August 31, 2018**

**PricewaterhouseCoopers Audit**
63, rue de Villiers
92208 Neuilly-sur-Seine Cedex, France

**KPMG Audit**
*Department of KPMG SA*
Tour Eqho – 2, Avenue Gambetta
92066 Paris-La Défense Cedex, France

## Statutory Auditors' report on the consolidated financial statements

**For the year ended August 31, 2018**

**Bellon SA**
17, place de la Résistance
92130 Issy-les-Moulineaux, France

*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 includes information specifically required by European regulations or French law. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

To the Shareholders,

### OPINION

In compliance with the engagement entrusted to us by your Shareholders' Meeting, we have audited the accompanying consolidated financial statements of Bellon SA for the year ended August 31, 2018.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group at August 31, 2018 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

### BASIS FOR OPINION

#### *Audit framework*

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under these standards are further described in the "Responsibilities of the Statutory Auditors relating to the audit of the consolidated financial statements" section of our report.

### *Independence*

We conducted our audit engagement in compliance with the independence rules applicable to us, for the period from September 1, 2017 to the date of our report, and, in particular, we did not provide any non-audit services prohibited by the French Code of Ethics (*code de déontologie*) for Statutory Auditors.

## JUSTIFICATION OF ASSESSMENTS

In accordance with the requirements of articles L.823-9 and R.823-7 of the French Commercial Code (*code de commerce*) relating to the justification of our assessments, we bring to your attention the following matters that, in our professional judgment, were the most significant in our audit of the consolidated financial statements:

- The Company has tested goodwill and intangible assets with an indefinite useful life for impairment, and has assessed whether assets with a finite useful life present an indication of impairment, in accordance with the methods set out in notes 2.8 and 4.9 to the consolidated financial statements. We have reviewed the methods used for the aforementioned tests, as well as the methodology applied to assess value in use based on the present value of future cash flows after tax. We have also reviewed the documentation prepared for this purpose and the consistency of the data used, particularly the assumptions used to prepare the business plans, and have verified that note 4.9 to the consolidated financial statements provides appropriate disclosures.
- The provisions for pension and other post-employment benefits as described in notes 2.17 and 4.16 to the consolidated financial statements have chiefly been assessed by independent actuaries. We have reviewed the data and assumptions used by these actuaries as well as their conclusions, and have verified that note 4.16 provides appropriate disclosures.

The aforementioned items are based on estimates and underlying assumptions which are uncertain by nature. As stated in note 2.2 to the consolidated financial statements, actual results may differ materially from such estimates in different conditions.

These matters were addressed as part of our audit of the consolidated financial statements as a whole, and therefore contributed to the opinion we formed as expressed above. We do not provide a separate opinion on specific items of the consolidated financial statements.

## SPECIFIC VERIFICATIONS

As required by legal and regulatory texts and in accordance with professional standards applicable in France, we have also verified the information pertaining to the Group presented in the Executive Board's management report.

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

We attest that the information pertaining to the Group provided in the management report comprises the consolidated non-financial information statement required under article L.225-102-1 of the French Commercial Code. However, in accordance with article L.823-10 of the French Commercial Code, we have not verified the fair presentation and consistency with the consolidated financial statements of the information given in that statement, which will be the subject of a report by an independent third party.

As required by law, we inform you that the Chairman of the Executive Board has not appointed an independent third party responsible for the verification of the statement required under article L.225-102-1 of the French Commercial Code.

## RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for preparing consolidated financial statements giving a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and for implementing the internal control procedures it deems necessary for the preparation of consolidated financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern, and using the going concern basis of accounting, unless it expects to liquidate the Company or to cease operations.

The consolidated financial statements were approved by the Executive Board.

## RESPONSIBILITIES OF THE STATUTORY AUDITORS RELATING TO THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free of material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions taken by users on the basis of these consolidated financial statements.

As specified in article L.823-10-1 of the French Commercial Code, our audit does not include assurance on the viability or quality of the Company's management.

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditors exercise professional judgment throughout the audit.

They also:

- identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error, design and perform audit procedures in response to those risks, and obtain audit evidence considered to be sufficient and appropriate to provide a basis for their opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of the internal control procedures relevant to the audit 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 internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management and the related disclosures in the notes to the consolidated financial statements;
- assess the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of the audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the Statutory Auditors conclude that a material uncertainty exists, they are required to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or are inadequate, to issue a qualified opinion or a disclaimer of opinion;
- evaluate the overall presentation of the consolidated financial statements and assess whether these statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The Statutory Auditors are responsible for the management, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed thereon.

Neuilly-sur-Seine and Paris-La Défense, February 5, 2019

The Statutory Auditors

PricewaterhouseCoopers Audit

Agnès Hussherr

KPMG Audit
*Department of KPMG SA*

Hervé Chopin

# CONSOLIDATED FINANCIAL STATEMENTS AS OF AUGUST 31, 2018

## 1 Consolidated income statement

| (in millions of euro) | NOTES | FISCAL 2018 | FISCAL 2017[1] |
|---|---|---|---|
| **Revenues** | **3** | **20,407** | **20,698** |
| Cost of sales | 4.1 | (17,320) | (17,450) |
| **Gross profit** | | **3,087** | **3,248** |
| Administrative and Sales Department costs | 4.1 | (1,969) | (1,985) |
| Share of profit of companies consolidated by the equity method that directly contribute to the Group's business | 3 and 4.8 | 4 | 5 |
| **Underlying operating profit [1]** | **3** | **1,122** | **1,268** |
| Other operating income | 4.1 | 10 | 24 |
| Other operating expenses[2] | 4.1 | (141) | (176) |
| **Operating profit** | | **991** | **1,116** |
| Financial income | 4.2 | 43 | 35 |
| Financial expense | 4.2 | (146) | (155) |
| Share of profit of other companies consolidated by the equity method | 4.8 | 2 | 4 |
| **Profit for the period before tax** | | **890** | **1,000** |
| Income tax expense | 4.3 | (245) | (343) |
| **Profit for the period** | | **646** | **725** |
| Of which: | | | |
| Attributable to non-controlling interests | | 417 | 486 |
| **PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT** | | **229** | **239** |

(1) After reclassifications based on the new consolidated income statement presentation (see note 2.22.1).
(2) Including 137 million euro in costs recorded in Fiscal 2017 in connection with the Adaptation and Simplification program. The total amount reported as "Other operating expenses" in the new presentation includes 51 million euro previously reported under "Cost of sales", 65 million euro previously reported under "Administrative and Sales Department costs", and 20 million euro reported under "Other operating expenses" in the old presentation.

# 2 Consolidated statement of comprehensive income

| (in millions of euro) | NOTES | FISCAL 2018 | FISCAL 2017 |
|---|---|---|---|
| **PROFIT FOR THE PERIOD** | | **646** | **725** |
| **Components of other comprehensive income that may be reclassified subsequently to profit or loss** | | | |
| Change in fair value of available-for-sale financial assets | 4.10.2 et 4.13 | | |
| Change in fair value of Cash Flow Hedge instruments | 4.15 et 4.13 | | |
| Change in fair value of Cash Flow Hedge instruments reclassified to profit or loss | 4.15 et 4.13 | | |
| Currency translation adjustment | | (245) | (260) |
| Currency translation adjustment reclassified to profit or loss | | | (3) |
| Tax on components of other comprehensive income that may be reclassified subsequently to profit or loss | 4.13 | | |
| Share of other components of comprehensive income (loss) of companies consolidated by the equity method, net of tax | 4.13 et 4.8 | (1) | (3) |
| **Components of other comprehensive income that will not be reclassified subsequently to profit or loss** | | | |
| Remeasurement of defined benefit plan obligation | 4.16.1 et 4.13 | 79 | 72 |
| Tax on components of other comprehensive income that will not be reclassified subsequently to profit or loss | 4.13 | (13) | (21) |
| **TOTAL OTHER COMPREHENSIVE INCOME (LOSS), AFTER TAX** | | **(180)** | **(215)** |
| **COMPREHENSIVE INCOME** | | **466** | **510** |
| Of which: | | | |
| Attributable to equity holders of the parent | | 161 | 164 |
| Attributable to non-controlling interests | | 305 | 346 |

# 3 Consolidated statement of financial position

## Assets

| (in millions of euro) | NOTES | AUGUST 31, 2018 | AUGUST 31, 2017 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 4.4 | 619 | 590 |
| Goodwill | 4.5 | 5,869 | 5,514 |
| Other intangible assets | 4.6 | 704 | 511 |
| Client investments | 4.7 | 558 | 547 |
| Companies consolidated by the equity method | 4.8 | 83 | 89 |
| Financial assets | 4.10 | 158 | 130 |
| Derivative financial instrument assets | 4.15 | 3 | 4 |
| Other non-current assets | 4.11 | 18 | 17 |
| Deferred tax assets | 4.19 | 105 | 187 |
| **TOTAL NON-CURRENT ASSETS** | | **8,117** | **7,589** |
| CURRENT ASSETS | | | |
| Financial assets | 4.10 | 36 | 32 |
| Derivative financial instrument assets | 4.15 | 15 | 7 |
| Inventories | | 280 | 257 |
| Income tax receivable | 4.11 | 176 | 185 |
| Trade and other receivables | 4.11 | 4,121 | 4,050 |
| Restricted cash and financial assets related to the Benefits and Rewards Services activity | 4.10 | 1,042 | 909 |
| Cash and cash equivalents | 4.12 | 1,673 | 2,110 |
| **TOTAL CURRENT ASSETS** | | **7,343** | **7,550** |
| **TOTAL ASSETS** | | **15,460** | **15,139** |

## Shareholders' equity and liabilities

| (in millions of euro) | NOTES | AUGUST 31, 2018 | AUGUST 31, 2017 |
|---|---|---|---|
| SHAREHOLDERS' EQUITY | | | |
| Share capital | | 0 | 0 |
| Additional paid-in capital | | 285 | 285 |
| Reserves and retained earnings | | 642 | 642 |
| **EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT** | | **927** | **927** |
| **NON-CONTROLLING INTERESTS** | | **2,042** | **2,255** |
| **TOTAL SHAREHOLDERS' EQUITY** | | **2,969** | **3,182** |
| NON-CURRENT LIABILITIES | | | |
| Borrowings | 4.14 | 3,972 | 3,470 |
| Derivative financial instrument liabilities | 4.15 | 7 | 13 |
| Employee benefits | 4.16 | 391 | 464 |
| Other non-current liabilities | 4.18 | 190 | 181 |
| Provisions | 4.17 | 88 | 93 |
| Deferred tax liabilities | 4.19 | 126 | 137 |
| **TOTAL NON-CURRENT LIABILITIES** | | **4,774** | **4,358** |
| CURRENT LIABILITIES | | | |
| Bank overdrafts | 4.12 | 28 | 38 |
| Borrowings | 4.14 | 514 | 676 |
| Derivative financial instrument liabilities | 4.15 | 1 | 1 |
| Income tax payable | | 98 | 104 |
| Provisions | 4.17 | 73 | 61 |
| Trade and other payables | 4.18 | 4,223 | 3,955 |
| Vouchers payable | | 2,780 | 2,764 |
| **TOTAL CURRENT LIABILITIES** | | **7,717** | **7,599** |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | | **15,460** | **15,139** |

# 4 Consolidated cash flow statement

| (in millions of euro) | NOTES | FISCAL 2018 | FISCAL 2017 |
|---|---|---|---|
| OPERATING ACTIVITIES | | | |
| **Operating profit of consolidated companies** | | **988** | **1 179** |
| **Elimination of non-cash and non-operating items** | | | |
| Depreciation, amortization and impairment of intangible assets and property, plant and equipment | | 317 | 281 |
| Provisions | | (15) | (31) |
| Disposal (gains) losses and other non-cash items | | 20 | (3) |
| Dividends received from companies consolidated by the equity method | | 19 | 11 |
| Interest paid | | (133) | (138) |
| Interest received | | 49 | 22 |
| Income tax paid | | (128) | (271) |
| **Operating cash flow** | | **1,117** | **1,050** |
| **Change in working capital from operating activities** | | **(7)** | **(15)** |
| Change in inventories | | (6) | (13) |
| Change in trade and other receivables | | (160) | (196) |
| Change in trade and other payables | | 193 | 179 |
| Change in vouchers payable | | 194 | 149 |
| Change in financial assets related to the Benefits and Rewards Services activity | | (228) | (134) |
| **NET CASH PROVIDED BY OPERATING ACTIVITIES** | | **1,110** | **1,035** |
| INVESTING ACTIVITIES | | | |
| Acquisitions of property, plant and equipment and intangible assets | | (329) | (309) |
| Disposals of property, plant and equipment and intangible assets | | 31 | 19 |
| Change in client investments | 4.7 | 11 | (16) |
| Change in financial assets and share of companies consolidated by the equity method | | (40) | (38) |
| Acquisitions of subsidiaries | | (683) | (257) |
| Disposals of subsidiaries | | 11 | (11) |
| **NET CASH USED IN INVESTING ACTIVITIES** | | **(1,000)** | **(612)** |
| FINANCING ACTIVITIES | | | |
| Dividends paid to parent company shareholders | 4.13 | (13) | (11) |
| Dividends paid to non-controlling shareholders of consolidated companies | | (254) | (220) |
| Purchases of treasury shares | 4.13 | 1 | - |
| Sales of treasury shares | | 1 | 1 |
| Increase in share capital | | (487) | (339) |
| Change in non-controlling interests | | 25 | 24 |
| Proceeds from borrowings (excluding leasing) | 4.14 | 710 | 1 118 |
| Repayment of borrowings | 4.14 | (388) | (147) |
| **NET CASH PROVIDED BY/(USED IN) FINANCING ACTIVITIES** | | **(405)** | **426** |
| **CHANGE IN NET CASH AND CASH EQUIVALENTS** | | **(295)** | **849** |
| Net effect of exchange rates and other effects on cash | | (132) | (139) |
| Net cash and cash equivalents, beginning of period | | 2,072 | 1,362 |
| **NET CASH AND CASH EQUIVALENTS, END OF PERIOD** | **4.12** | **1,645** | **2,072** |

# 5 Consolidated statement of changes in shareholders' equity

| (in millions of euro) | SHARES OUTSTANDING | SHARE CAPITAL | ADDITIONAL PAID-IN CAPITAL | TREASURY SHARES | RESERVES AND COMPREHENSIVE INCOME | CURRENCY TRANSLATION ADJUSTMENT | TOTAL SHAREHOLDERS' EQUITY | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT | NON-CONTROLLING INTERESTS | TOTAL |
| **Notes** | | | | | | | | | |
| **Shareholders' equity as of August 31, 2016** | **25,710** | | **397** | **(135)** | **769** | **(166)** | **865** | **2,332** | **3,197** |
| Profit for the period | | | | | 239 | | 239 | 486 | 725 |
| Other comprehensive income (loss), net of tax | | | | | 17 | (92) | (75) | (140) | (215) |
| **Comprehensive income** | | | | | **256** | **(92)** | **164** | **346** | **510** |
| Dividends paid | | | | | (9) | | (9) | (235) | (244) |
| Capital reduction by cancelling treasury shares | (1,455) | | (112) | 112 | | | | | |
| Share-based payment (net of income tax) | | | | | 15 | | 15 | 28 | 43 |
| Change in ownership interest without any change of control | | | | | (105) | | (105) | (213) | (318) |
| Other[(1)] | | | | | (3) | | (3) | (3) | (6) |
| **Shareholders' equity as of August 31, 2017** | **24,255** | | **285** | **(23)** | **923** | **(258)** | **927** | **2,255** | **3 182** |
| Profit for the period | | | | | 229 | | 229 | 417 | 646 |
| Other comprehensive income (loss), net of tax | | | | | 24 | (92) | (68) | (112) | (180) |
| **Comprehensive income** | | | | | **253** | **(92)** | **161** | **305** | **466** |
| Dividends paid | | | | | (16) | | (16) | (253) | (269) |
| Capital reduction by cancelling treasury shares | | | (130) | 130 | | | | | |
| Share-based payment (net of income tax) | | | | | 16 | | 16 | 27 | 43 |
| Change in ownership interest without any change of control | | | | | (157) | | (157) | (287) | (444) |
| Other[(1)] | | | | | (4) | | (4) | (6) | (9) |
| **SHAREHOLDERS' EQUITY AS OF AUGUST 31, 2018** | **24,255** | | **155** | **107** | **1,015** | **(350)** | **927** | **2,042** | **2,969** |

(1) Including the effects of hyperinflation and the recognition of put options written over non-controlling interests other than in connection with business combinations.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Bellon S.A is a *société anonyme* (a form of limited liability company) domiciled in France, with its headquarters located in Issy-les-Moulineaux since May 23rd, 2016.

For the purpose of this document, “Bellon” refers to Bellon SA, “the Group” refers to Bellon SA together with the Sodexo group, and “Sodexo” or “the Sodexo Group” refers to Sodexo SA and its consolidated subsidiaries.

Bellon SA’s consolidated financial statements were finalized by its Executive Board and submitted to its Supervisory Board on January 15, 2019. They will be submitted to the Annual Shareholders’ Meeting on May 29, 2019.

# 1. SIGNIFICANT EVENTS

The Sodexo Group expanded its Sports & Leisure offer by acquiring Centerplate, Inc., which has operations in the United States, the United Kingdom, Spain and Canada. In addition, The Good Eating Company in the United Kingdom was acquired in the Corporate Services segment and Morris Corporation in Australia in the Energy & Resources segment. Strategic initiatives during the fiscal year included acquisition of control of FoodChéri in France, while the Sodexo Group’s expertise and technical offer were strengthened with the acquisition of Singapore-based Kim Yew.

Details of these business combinations’ impact on the consolidated financial statements as of August 31, 2018 are provided in note 4.22.

On 29 March 2018, the Sodexo Group made a full refund of US $147 million loan from March 2011 from U.S. investors and signed on June 27, 2018, a new US $400 million loan from US investors due June 2023.
On May 22, 2018, the Group Sodexo carried out a new bond issue comprising 300 million euro worth of bonds redeemable in May 2025.

At the close of the Annual Shareholders’ Meeting on January 23, 2018, Denis Machuel succeeded Michel Landel and officially took up the position of Chief Executive Officer of Sodexo.

# 2. ACCOUNTING POLICIES

## 2.1 Basis of preparation of the financial statements

### 2.1.1 Basis of preparation of financial information for Fiscal 2018

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and approved by the European Union as of the period end in order to be in compliance with the framework applied by the Sodexo group, which is required to comply with European Regulation 1606/2002 of July 19, 2002. A comprehensive list of the accounting standards adopted by the European Union is available for consultation on the European Commission website at http://ec.europa.eu/internal_market/accounting/ias/index_en.htm. Bellon S.A. prepares financial statements as of and for the same year-end as its subsidiary Sodexo.

Information for the comparative year presented has been prepared using the same principles.

The numbers shown in the tables were prepared in thousands of euros and are presented in millions of euros unless otherwise indicated.

The IFRS application dates as approved by the European Union have been the same as those for the IFRS standards published by the IASB for the Company’s past three fiscal years. Consequently, any differences between the two sets of standards arising out of delays in approval by the European Union had no impact on the Group’s consolidated financial statements.

### 2.1.2 New accounting standards and interpretations required to be applied

The new standards, interpretations and amendments whose application was mandatory for the Group effective for the fiscal year beginning September 1, 2017 had no material impact on the Group’s consolidated financial statements.

### 2.1.3 Accounting standards and interpretations issued but not yet applicable

The Group has not elected to early adopt any standards, interpretations or amendments not required to be applied in Fiscal 2018.

The Group has not applied any IFRSs that had not yet been approved by the European Union as of August 31, 2018.

It is currently analyzing the impacts of applying IFRS 16, “Leases”, IFRS 9, “Financial Instruments” and IFRS 15, “Revenue from Contracts with Customers”.

- IFRS 16 - Leases, applicable to the Group as from the fiscal year opening on September 1st, 2019

IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. All leases will now have to be on-balance sheet, with the recognition of the present value of the fixed lease payments over the expected lease term and a corresponding right-of-use asset. Short-term leases and leases of low-value assets are exempt from this requirement.

During Fiscal 2018, the Group continued its work on collecting data relating to the leases in place in its various business segments and regions.

The Group estimates that the amount of the liability it will need to recognize in the consolidated statement of financial position could be close to 1 billion euro not discounted and excluding concessions, for which the impact of IFRS 16 is still being analyzed.

## IFRS 9 – Financial instruments, applicable to the Group as from the fiscal year opening on September 1st, 2018.

IFRS 9 – which deals with the recognition and measurement of financial instruments – was developed in three phases:

- Phase I, "Classification and measurement of financial assets and liabilities". The main impact that the Group expects this phase to have on its consolidated financial statements concerns available-for-sale financial assets (investments in equity instruments), for which changes in fair value now have to be recognized in full either in profit or loss or in other comprehensive income, depending on which classification the Group opts for on first-time application of IFRS 9. The Group has not yet decided which accounting treatment to apply for each of its investments in equity instruments. For the Bellon SA shares held by Sofinsod (a wholly-owned Sodexo Group subsidiary), which are currently measured at historical cost, an external valuation being currently performed in order to determine the fair value of this non-controlling interest in view of its specific nature;
- Phase II, "Impairment treatment". IFRS 9 replaces the existing incurred loss model with an expected credit loss model. The work launched in Fiscal 2017 to put in place a provision matrix within the Group is still in progress, but so far no significant changes in the recognition of provisions seem likely;
- Phase III, "Hedge accounting". The impact of this phase will not be significant as the Group rarely uses hedge accounting.

## IFRS 15 – Revenue from operative activities from customer contracts, applicable to the Group as from the fiscal year opening on September 1st, 2018.

The impact analysis for IFRS 15 has now been completed and the Group expects its effect on the consolidated financial statements to be minimal. This is because the client investments defined in note 2.9 below were already amortized by way of a deduction from revenues over the life of the contracts concerned, which is the method required under IFRS 15.

For On-site Services, we estimate that the total impact on revenue will not exceed 20 base points in absolute value.

Two main impacts have been identified:

- In certain situations, mainly upon clients requirement, the Group sometimes pays fees or rents for the use of space and equipment made available to us on sites that enable us to deliver our services. In accordance with the principles of IFRS 15, we have decided that these fees should be recognized as a deduction from the corresponding revenues.
- We have reassessed the accounting treatment we apply for the instances where, based on the new concepts defined in IFRS 15, revenue should be recognized on a gross or a net basis. Consequently, we believe that the revenues on certain contracts will now need to be recognized on a gross basis in accordance with the new standard.

No significant impact has been identified for the Benefits and Rewards Services activity.

## 2.2 Use of estimates

The preparation of financial statements requires Group and subsidiary management to make estimates and assumptions which affect the amounts reported for assets, liabilities and contingent liabilities as of the date of preparation of the financial statements, and for revenues and expenses for the period.

These estimates and valuations are updated continuously based on past experience and on various other factors considered reasonable in view of current circumstances, and are the basis for the assessments of the carrying amount of assets and liabilities.

Actual results may differ substantially from these estimates if assumptions or circumstances change.

Significant items subject to such estimates and assumptions include the following:

- impairment of current and non-current assets (notes 4.09 to 4.11);
- fair value of derivative financial instruments (note 4.15);
- provisions and litigation (notes 4.17 and 4.27);
- valuation of post-employment defined benefit plan assets and liabilities (note 4.16);
- recognition of deferred tax assets (note 4.19);
- share-based payment (note 4.21);
- valuation of goodwill and intangible assets acquired as part of a business combination, as well as their estimated useful lives (note 4.22).

## 2.3 Principles and methods of consolidation

### 2.3.1 Intragroup transactions

Intragroup transactions and balances, and unrealized losses and gains between Group companies, are eliminated. Unrealized losses are eliminated in the same way as unrealized gains, unless they represent an impairment loss.

### 2.3.2 Consolidation methods

A subsidiary is an entity directly or indirectly controlled by Bellon SA. The Group controls a subsidiary when it is exposed, or has rights to obtain variable benefits from its involvement with the subsidiary and has the ability to influence those benefits through its power over the subsidiary. In determining whether control exists, voting rights granted by equity instruments are taken into account only when they give the Group substantive rights. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control is obtained to the date on which control ceases to be exercised.

Associates are companies in which Bellon SA directly or indirectly exercises significant influence over financial and operating policy without exercising exclusive or joint control. Joint ventures are joint arrangements in which Bellon SA directly or indirectly exercises joint control and has rights to the net assets of the arrangement. Associates and joint ventures are consolidated by the equity method. The Group has a number of equity interests in project companies established in connection with Public-Private Partnership (PPP) contracts. These contracts enable governments to call upon the private sector for the design, construction, financing and management of public infrastructure (hospitals, schools, barracks, prisons), with detailed performance criteria. An analysis is performed for each of these equity interests, in order to determine whether they qualify as associates or joint ventures.

The Group only makes equity and subordinated debt investments in such projects when it acts as a service provider to the project company.

Further information on the main entities consolidated as of August 31, 2018 is provided in note 6.

### 2.3.3 Foreign currency translation

The exchange rates used are derived from rates quoted on the Paris stock exchange and other major international financial markets.

#### 2.3.3.1 FOREIGN CURRENCY TRANSACTIONS

Monetary assets and liabilities denominated in foreign currencies at the period end are translated using the closing rate. The resulting translation differences are reported in financial income or expense.

Non-monetary foreign-currency assets and liabilities reported at historical cost are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities reported at fair value are translated using the exchange rate at the date when the fair value was determined.

Transactions for the period are translated at the exchange rate at the transaction date.

Translation differences on monetary items that are in substance part of a net investment in a foreign operation consolidated by Sodexo are reported in other comprehensive income until the disposal or liquidation of the investment.

#### 2.3.3.2 FINANCIAL STATEMENTS DENOMINATED IN FOREIGN CURRENCIES

**Countries with stable currencies**

The separate financial statements of each consolidated entity are presented on the basis of the primary economic environment (functional currency) in which the entity operates.

For consolidation purposes, all foreign-currency assets and liabilities of consolidated entities are translated into the reporting currency of the Group (the euro) at the closing exchange rate, and all income statement items are translated at the average exchange rate for the period. The resulting translation differences are recognized in other comprehensive income under "Currency translation adjustment".

**Countries with hyperinflationary economies**

For these countries, the difference between profit or loss for the period translated at the average rate and profit or loss for the period translated at the closing rate is recognized in financial income or expense.

Since July 1, 2018, Argentina has been classified as a country with a hyperinflationary economy. However, the impacts of hyperinflation in that country were not material at Group level during fiscal year 2018.

**Subsidiaries operating in Venezuela**

At the end of calendar 2009, Venezuela joined the list of countries considered hyperinflationary according to the criteria in IAS 29. Consequently, with effect from the fiscal year ended August 31, 2010, for the preparation of the consolidated financial statements the Group applied the specific accounting requirements of this standard to the transactions of its subsidiaries operating in Venezuela that use the local currency as their functional currency.

Effective from Fiscal 2010, the Group decided to no longer use the official exchange rate published by the Venezuelan government, and instead to use the exchange rate corresponding to its best estimate of the exchange rate at which cash from its operations in Venezuela could be repatriated. In February 2015, the Venezuelan government announced that it was setting up a new foreign exchange platform called SIMADI (Marginal Currency Exchange System), and in March 2016 another new platform was put in place, called DICOM. In mid-July 2015, the Group decided to transition to these new platforms and started trading on DICOM in Fiscal 2017. As of August 31, 2018 and August 31, 2017, the Group's best estimate of the exchange rate at which it could repatriate cash from its operations in Venezuela corresponded to the closing exchange rate quoted on DICOM. The exchange rate used for the fiscal year ended August 31, 2017 was therefore 1 US dollar = 3,250 bolivars (1 euro = 3,843 bolivars), and for the fiscal year ended August 31, 2018 it was 1 US dollar = 6,112,000 bolivars (1 euro = 7,121,091 bolivars).

## 2.4 Business combinations and goodwill

The purchase method is used to account for acquisitions of subsidiaries by the Group. Fair value of the consideration corresponds to the fair value of assets acquired, equity instruments issued by the purchaser and liabilities assumed as of the date of the acquisition. Costs directly related to the acquisition are expensed as incurred in the income statement.

On initial consolidation of a subsidiary or equity interest, the Group measures all identifiable elements acquired at fair value at the acquisition date, in the currency of the acquired entity.

Changes to the measurement of identifiable assets and liabilities resulting from specialist valuations or additional analysis may be recognized as adjustments to goodwill if they are identified within one year of the date of acquisition and result from facts and circumstances existing at the acquisition date. Once this one-year period has elapsed, the effect of any adjustments is recognized directly in the income statement (unless it is the correction of an error), including recognition of deferred tax assets which are recognized in the income statement as a tax benefit if recognized more than one year after the acquisition date. Goodwill arising on the acquisition of associates and joint ventures is included in the value of the equity method investment.

Goodwill is not amortized, but is subject to impairment tests immediately if there are indicators of impairment, and at least once per year. Impairment test procedures are described in note 2.8. Goodwill impairment losses recognized in the income statement are irreversible.

### 2.4.1 Goodwill

Any residual difference between the fair value of the consideration transferred (for example the amount paid), increased by the amount of the non-controlling interest in the acquired company (measured either at fair value or its share in the fair value of the identifiable net assets acquired) and the fair value as of the date of acquisition of the assets acquired and liabilities assumed, is recognized as goodwill in the statement of financial position.

The Group measures non-controlling interests on a case-by-case basis for each business combination either at fair value or based on their percentage interest in the fair value of identifiable net assets acquired.

### 2.4.2 Bargain purchases

When the fair value of the assets acquired and the liabilities assumed as of the acquisition date is greater than acquisition cost, increased by the amount of any non-controlling interest, the excess – representing negative goodwill – is immediately recognized in the income statement in the period of acquisition, after reviewing the procedures for the identification and measurement of the different components included in the calculation.

### 2.4.3 Transactions in non-controlling interests

Changes in non-controlling interests, in the absence of either assumption or loss of control, are recognized in shareholders' equity. In particular, when additional shares in an entity already controlled by the Group are acquired, the difference between the acquisition cost of the shares and the share of net assets acquired is recognized in equity attributable to equity holders of the parent. The consolidated value of the assets and liabilities of the subsidiary (including goodwill) remains unchanged.

### 2.4.4 Purchase price adjustments and/or earn-outs

Purchase price adjustments and/or earn-outs related to business combinations are recognized at their fair value as of the date of acquisition even if they are considered to be not probable. After the date of acquisition, changes in estimates of the fair value of price adjustments lead to an adjustment to goodwill only if they occur within the time allowed (a maximum of one year as of the date of acquisition) and if they result from facts and circumstances that existed at the acquisition date. In all other cases, the change is recognized in profit or loss except when the consideration transferred consists of an equity instrument.

### 2.4.5 Step acquisitions

In a step acquisition, the fair value of the Group's previous interest in the acquired entity is measured at the date that control is obtained and is recognized in profit or loss. In determining the amount of goodwill recognized, the fair value of the consideration transferred (for example the price paid) is increased by the fair value of the interest previously held by the Group.

## 2.5 Intangible assets

Separately acquired intangible assets are initially measured at cost. Intangible assets acquired in connection with a business combination and which can be reliably measured, are controlled by the Group and are separable or arise from a legal or contractual right, are recognized at fair value separately from goodwill. Subsequent to initial recognition, intangible assets are measured at cost less accumulated amortization and impairment losses.

Intangible assets other than certain trademarks having an indefinite useful life are considered to have finite useful lives, and are amortized by the straight-line method over their expected useful lives:

| | |
|---|---|
| Integrated management software | 3-7 years |
| Other software | 3-5 years |
| Patents and licenses | 2-10 years |
| Client relationships | 3-20 years |
| Other intangible assets | 3-20 years |

Acquired trademarks with a finite useful life are generally amortized over a period of less than ten years. Trademarks that the Group considers as having an indefinite useful life (notably based on criteria relating to their durability and name recognition) are not amortized.

In view of the legal characteristics of French commercial leases, lease rights are considered as having an indefinite useful life and are not amortized.

The cost of licenses and software recognized in the statement of financial position comprises the costs incurred in acquiring the software and bringing it into use, and is amortized over the estimated useful life of the asset.

Subsequent expenditures on intangible assets are capitalized only if they increase the expected future economic benefits associated with the asset to which they relate. Other expenditures are expensed as incurred.

## 2.6 Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses, except for land, which is measured at cost less accumulated impairment losses. Cost includes expenditures directly incurred to acquire the asset, and in some cases may also include estimated unavoidable future dismantling, removal and site remediation costs.

Subsequent expenditures are included in the carrying amount of the asset, or recognized as a separate component, if it is probable that the future economic benefits of the expenditures will flow to the Group and the cost can be measured reliably. All other repair and maintenance costs are recognized as expenses during the period in which they are incurred, except costs incurred to improve productivity or extend the useful life of an asset, which are capitalized.

Items of property, plant and equipment are depreciated over their expected useful lives using the component-based approach, taking account of their residual value. The straight-line method of depreciation is regarded as the method that most closely reflects the expected pattern of consumption of the future economic benefits embodied in items of property, plant and equipment.

The useful lives generally used by the Group are:

| | |
|---|---|
| Buildings | 20-30 years |
| General fixtures and fittings | 3-10 years |
| Plant and machinery | 3-8 years |
| Motor vehicles | 4 years |
| Boats and pontoons (depending on the component) | 5-15 years |

The residual values and useful lives of items of property, plant and equipment are reviewed and, if necessary, adjusted at each period end.

The carrying amounts of items of property, plant and equipment are tested for impairment if there is an indication that an item may be subject to impairment.

## 2.7 Leases

Finance leases, under which substantially all the risks and rewards incidental to ownership of an asset are transferred to the Group, are accounted for as follows:

- at inception of the lease term, the leased asset is recognized as an asset at the lower of fair value or the present value of the minimum lease payments;
- the corresponding liability is recognized in borrowings;
- lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining balance of the liability.

An asset held under a finance lease is depreciated over its estimated useful life, or if there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, over the shorter of the lease term and its useful life.

Leases under which the lessor retains substantially all the risks and rewards incidental to ownership of the asset are treated as operating leases. Payments made under operating leases are expensed as an operating item on a straight-line basis over the term of the lease.

# 2.8 Impairment of assets

## 2.8.1 Impairment of assets with finite useful lives

Property, plant and equipment and intangible assets with finite useful lives are tested for impairment if there is any indication of impairment. Impairment losses are recognized in the income statement, and may be reversed subsequently.

## 2.8.2 Impairment of assets with indefinite useful lives

Goodwill and other intangible assets considered to have an indefinite useful life (such as certain trademarks) are tested for impairment whenever there is an indication of impairment, and at least annually, in the last quarter of the fiscal year. The results of the impairment tests are then confirmed using data as of August 31.

### 2.8.2.1 CASH GENERATING UNITS

Assets that do not generate cash inflows that are largely independent of those from other assets, and hence cannot be tested for impairment individually, are grouped together in Cash Generating Units (CGUs).

Impairment tests are performed at the level of the CGU or group of CGUs corresponding to the lowest level at which goodwill is monitored by the Group.

Since Fiscal 2017, goodwill for the has been analyzed based on the following operating segments in the Group's organizational structure (see note 3):

- On-site Services activity:
  - Business & Administrations, which includes Corporate Services, Energy & Resources, Government & Agencies, Sports & Leisure and other non-segmented activities,
  - Health Care, combined with Seniors,
  - Education, comprising Schools and Universities;

- The Benefits and Rewards Services activity corresponds to a single CGU.

Goodwill is not tested for impairment at a higher level than the operating segments before aggregation for segment reporting.

The assets allocated to each CGU or group of CGUs comprise:

- goodwill, which is allocated when the CGU or group of CGUs is likely to benefit from the business combination;
- other intangible assets, property, plant and equipment, client investments and net working capital.

### 2.8.2.2 INDICATIONS OF IMPAIRMENT

The main indicators that a CGU may be impaired are a significant decrease in the CGU's revenues and underlying operating profit or material changes in market trends.

### 2.8.2.3 METHODS USED TO DETERMINE THE RECOVERABLE AMOUNT

An impairment loss is recognized in the income statement when the carrying amount of an asset or CGU is greater than its recoverable amount.

Recoverable amount is the greater of:

- fair value less costs of disposal, i.e., the amount obtainable from the sale of an asset (net of selling costs) in an orderly transaction between market participants at the measurement date; and
- value in use, which is the present value of the future cash flows expected to be derived from continuing use and ultimate disposal of the asset or CGU.

The value in use of a CGU or group of CGUs is estimated using after-tax cash flow projections based on business plans and a terminal value calculated by extrapolating data for the final year of the business plan. Business plans generally cover one to five years. These plans have been drawn up for each operating segment resulting from the Group's new organizational structure as described in note 3.

Management both at Group and subsidiary levels prepares underlying profit forecasts on the basis of past performance and expected market trends.

The growth rate used beyond the initial period of the business plans reflects the growth rate of the operating segment concerned, taking into account the geographic regions in which the operating segment conducts business.

Expected future cash flows are discounted at the weighted average cost of capital calculated for the Group. For certain CGUs or groups of CGUs a premium is added to the weighted average cost of capital in order to reflect the greater risk factors affecting certain countries in which the operating segment concerned conducts business.

The growth and discount rates used for impairment tests during the period are provided in note 4.09.

### 2.8.2.4 RECOGNITION OF IMPAIRMENT LOSSES

An impairment loss recognized with respect to a CGU is allocated initially to reducing the carrying amount of any goodwill allocated to that CGU, and then to reducing the carrying amount of the other assets of the CGU in proportion to the carrying amount of each asset.

### 2.8.3 Reversal of impairment losses

Impairment losses recognized with respect to goodwill cannot be reversed.

Impairment losses recognized with respect to any other asset may only be reversed if there is an indication that the impairment loss is lower or no longer exists. The amount reversed is based on the new estimates of the recoverable amount.

The increased carrying amount of an asset resulting from the reversal of an impairment loss cannot exceed the carrying amount that would have been determined for that asset had no impairment loss been recognized.

## 2.9 Client investments

Some client contracts provide for a financial contribution by the Group. For example, the Group may participate in financing the purchase of equipment or fixtures on the client site that are necessary to fulfill service obligations, or it may make a financial contribution that will be recovered over the life of the contract. These assets are generally amortized over a period of less than 10 years, but may be amortized over a longer period depending on the contract duration. The amortization is recognized as a reduction to revenues over the life of the contract.

In the cash flow statement, changes in the value of these investments are presented as a component of investing cash flows.

## 2.10 Inventories

Inventories are measured at the lower of cost or net realizable value. Cost is determined by the FIFO (First In First Out) method.

## 2.11 Trade and other receivables

Trade and other receivables are initially recognized at fair value, and are subsequently measured at amortized cost less impairment losses recognized in the income statement.

Impairment is recognized when there is objective evidence of the Group's inability to recover the full amount due under the initial contract terms. The impairment recognized represents the difference between the carrying amount of the asset and the discounted future cash flow, estimated using the initial effective interest rate. The resulting impairment loss is recognized in the income statement.

## 2.12 Financial instruments

Financial assets and liabilities are recognized in the statement of financial position on the transaction date, which is the date when the Group becomes a party to the contractual provisions of the instrument.

The fair values of financial assets and derivative instruments are generally determined on the basis of quoted market prices or of valuations carried out by the depositary bank.

### 2.12.1 Financial assets

Financial assets are measured and recognized in three main categories:

- **Available-for-sale financial assets** include equity investments in non-consolidated entities, marketable securities with maturities greater than three months, and restricted cash. They are measured at fair value, with changes in fair value recognized in other comprehensive income. When an available-for-sale financial asset is sold or impaired, the cumulative fair value adjustment recognized in other comprehensive income is transferred to the income statement. For securities listed on an active market, fair value is considered to equal market value. If no active market exists, fair value is generally determined based on appropriate financial criteria for the specific security. If the fair value of an available-for-sale financial asset cannot be reliably measured, it is recognized at cost;
- **Loans and receivables** include financial and security deposits, and loans to non-consolidated entities. These financial assets are recognized in the statement of financial position at fair value and subsequently at amortized cost, which is equivalent to acquisition cost as no significant transaction costs are incurred in acquiring such assets. They are tested for impairment if there is an indication that they may be impaired, and an impairment loss is recognized if the carrying amount of the asset is greater than its estimated recoverable amount;
- **Financial assets at fair value through profit or loss** include other financial assets held for trading and acquired for the purpose of resale in the near term. Subsequent changes in the fair value of these assets are recognized in financial income or expense in the income statement.

### 2.12.2 Derivative financial instruments

The Group's policy is to finance the majority of acquisition costs insofar as possible in the currency of the acquired entity, generally at fixed rates of interest.

Derivative financial instruments are initially recognized at fair value in the statement of financial position. Subsequent changes in the fair value of derivative instruments are recognized in the income statement, except in the case of instruments that qualify as cash flow hedges.

For cash flow hedges, the necessary documentation is prepared at inception and updated at each period end.

Gains or losses arising on the effective portion of the hedge are recognized in other comprehensive income, and are not recognized in the income statement until the underlying asset or liability is realized. Gains or losses arising on the ineffective portion of the hedge are recognized in the income statement.

The fair value of these derivative instruments is generally determined based on valuations provided by the bank counter-parties.

### 2.12.3 Commitments to purchase non-controlling interests

As required by IAS 32, the Group recognizes commitments to purchase non-controlling interests as a liability within borrowings in the consolidated statement of financial position. Commitments to purchase non-controlling interests given in connection with business combinations are recognized as follows:

- the liability arising from the commitment is recognized in other borrowings at the present value of the purchase commitment;
- the corresponding non-controlling interests are cancelled;
- additional goodwill is recognized for the balance.

### 2.12.4 Bank borrowings and bond issues

All borrowings, including bank credit facilities and overdrafts, are initially recognized at the fair value of the amount received less directly attributable transaction costs.

Subsequent to initial recognition, borrowings are measured at amortized cost using the effective interest method. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of a financial liability to the net carrying amount of that liability. The calculation includes the effects of transaction costs, and of differences between the issue proceeds (net of transaction costs) and reimbursement value.

## 2.13 Cash and cash equivalents

Cash and cash equivalents comprise current bank account balances, cash on hand and short-term cash investments in money-market instruments which either have an initial maturity of less than three months at the moment of purchase or may be withdrawn at any time at a known cash value with no material risk of loss in value.

## 2.14 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying non-current asset are included in the cost of that asset. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying non-current asset are recognized as an expense using the effective interest method.

## 2.15 Sodexo treasury shares

Bellon SA shares held by Bellon SA itself and/or by other Group companies are shown as a reduction in consolidated shareholders' equity at their acquisition cost.

Gains and losses on acquisitions and disposals of treasury shares are recognized directly in consolidated shareholders' equity and do not affect profit or loss for the period.

## 2.16 Provisions

A provision is recognized if the Group has a legal or constructive obligation at the period end and it is probable that settlement of the obligation will require an outflow of resources and the amount of the liability can be reliably measured.

Provisions primarily cover commercial, employee-related and tax-related risks and litigation (other than those related to income tax) arising in the course of operating activities, and are measured using assumptions that take account of the most likely outcomes.

Where the effect of the time value of money is material, the amount of the provision is determined by discounting the expected future cash flows at a pre-tax discount rate that reflects current market assessments of the time value of money and any risks specific to the liability.

A provision for onerous contracts is established where the unavoidable costs of meeting the obligations under a contract exceed the economic benefits expected to be received under it.

## 2.17 Employee benefits

### 2.17.1 Short-term benefits

Group employees receive short-term benefits such as vacation pay, sick pay, bonuses and other benefits (other than termination benefits), whose payment is expected within 12 months of the related service period.

These benefits are reported as current liabilities.

### 2.17.2 Post-employment benefits

The Group measures and recognizes post-employment benefits as follows:

- contributions to defined-contribution plans are recognized as an expense; and
- defined benefit plans are measured using actuarial valuations.

The Group uses the projected unit credit method as the actuarial method for measuring its post-employment benefit obligations, on the basis of the national or company-wide collective agreements effective within each entity.

Factors used in calculating the obligation include length of service, life expectancy, salary inflation, staff turnover, and macro-economic assumptions specific to countries in which the Group operates (such as inflation rate and discount rate).

Remeasurement of the net obligation under defined benefit plans, including actuarial gains and losses, differences between the return on plan assets and the corresponding interest income recognized in the income statement, and any changes in the effect of the asset ceiling, is recognized in other comprehensive income and have no impact on profit for the period.

Plan amendments and the establishment of new defined benefit plans result in past service costs that are recognized immediately in the income statement.

The accounting treatment applied to defined benefit plans is as follows:

- the obligation, net of plan assets, is recognized as a non-current liability in the consolidated statement of financial position if the obligation exceeds the plan assets;
- if the value of plan assets exceeds the obligation under the plan, the net amount is recognized as a non-current asset. Plan surpluses are recognized as assets only if they represent future economic benefits that will be available to the Group. Where the calculation of the net obligation results in an asset for the Group, the amount recognized for this asset may not exceed the present value of all future refunds and reductions in future contributions under the plan;
- the expense recognized in the income statement comprises:
- current service cost, past service cost, if any, and the effect of plan settlements, all of which are recorded in operating income,
- the interest expense (income) on the net defined benefit obligation (asset), calculated by multiplying the obligation (asset) by the discount rate used to measure the defined benefit obligation at the beginning of the period.

The Group contributes to multiemployer plans, primarily in the United States. These plans are accounted for as defined contribution plans, as the information provided by the plan administrators is insufficient for them to be accounted for as defined benefit plans (see note 4.16.1.3).

### 2.17.3 Other long-term employee benefits

Other long-term employee benefits are measured in accordance with IAS 19. The expected cost of such benefits is recognized as a non-current liability over the employee's period of service. Actuarial gains and losses and past service costs arising from plan amendments and the establishment of new plans are recognized immediately in the income statement.

## 2.18 Vouchers payable

Vouchers payable are recognized as a current liability at fair value, which is the face value of vouchers in circulation or returned to Sodexo but not yet reimbursed to affiliates.

## 2.19 Share-based payment

Some Group employees receive compensation in the form of Sodexo SA share-based payments, for which payment is made in equity instruments.

The services compensated by these plans are recognized as an expense, with the offset recognized in shareholders' equity, over the vesting period. The amount of expense recognized in each period is determined by reference to the fair value of the equity instruments granted, as of the grant date.

Each year, the Group reassesses the number of potentially exercisable stock options that are expected to vest as well as the number of shares that is likely to be delivered to beneficiaries of free shares based on the applicable vesting conditions. The impact of any change in estimates is recognized in the income statement, with the offset recognized in shareholders' equity.

The features of the Group's share-based payment plans are described in note 4.21.

## 2.20 Deferred taxes

Deferred taxes are recognized on temporary differences between the carrying amount of an asset or liability and its tax base, using the tax rate that is expected to apply in the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that are enacted or substantially enacted at the period end.

Deferred taxes are not recognized on the following items:

- initial recognition of goodwill;
- initial recognition of an asset in a transaction that is not a business combination and that affects neither accounting profit nor taxable profit; and
- temporary differences on investments in subsidiaries that are not expected to reverse in the foreseeable future.

Taxes on items recognized directly in shareholders' equity or in other comprehensive income are recognized in shareholders' equity or in other comprehensive income, respectively, and not in the income statement.

Residual deferred tax assets on temporary differences and tax loss carry-forwards (after offset of deferred tax liabilities) are only recognized if their recovery is considered probable.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to set off current tax assets and liabilities and the deferred taxes relate to the same taxable entity and tax authority.

## 2.21 Trade and other payables

Trade and other payables are measured at fair value on initial recognition, and subsequently at amortized cost.

## 2.22 Income statement

### 2.22.1 Income statement by function

The Group presents its income statement by function.

Operating profit comprises the following components:

- gross profit;
- administrative and Sales Department costs; and
- other operating income and expenses.

In order to better focus the Group's financial communication on recurring operating profit and to simplify benchmarking with competitors, the consolidated income statement has changed as from Fiscal 2018 to include a new indicator, "Underlying operating profit", which corresponds to operating profit before "Other operating income" and "Other operating expenses".

Other operating income and expenses include the following:

- gains and losses arising from changes in the scope of consolidation;
- gains and losses arising from changes in post-employment benefit obligations;
- restructuring and rationalization costs;
- M&A costs;
- amortization and impairment of client relationships and trademarks;
- goodwill impairment;
- impairment of non-current assets and other unusual or non-recurring items representing material amounts.

Underlying operating profit also comprises the Group's share of profit of companies consolidated by the equity method that directly contribute to the Group's business.

Underlying operating profit has replaced operating profit in the segment information, as it is now the main indicator reviewed regularly by the Executive Committee, which is the Group's main operating decision-maker.

The income statement and segment information for Fiscal 2017 have been restated based on the new presentation.

In the new presentation of the income statement, the costs of the 18-month Adaptation and Simplification program launched in Fiscal 2016, aimed at further adapting on-site operating costs, simplifying organizational structures and procedures and increasing international pooling of resources, have been reclassified under "Other operating expenses".

### 2.22.2 Revenues

Revenues reported by the Group relate to the sale of services in connection with the ordinary activities of fully consolidated companies as follows:

- On-site Services: revenues include all revenues stipulated in the contract, considering whether the Group acts as principal (the vast majority of cases) or agent;
- Benefits and Rewards Services: revenues include mainly commissions received from clients and affiliates, financial income from the investment of cash generated by the activity, and profits from vouchers and cards not reimbursed.

Revenues are measured at the fair value of the consideration received or to be received, net of discounts and rebates as well as Value Added Tax (VAT) and other taxes. Revenues are recognized when it is probable that future economic benefits will flow to the Group and these benefits can be measured reliably. No income is recognized if there is significant uncertainty about recoverability of the costs incurred or to be incurred in meeting the service obligation.

Foodservices and other On-site Services revenues are recognized when the service is rendered.

Commissions received from clients in the Benefits and Rewards Services activity are recognized when the vouchers are issued and sent to the client or the cards are credited. Commissions received from affiliates are recognized when the vouchers are reimbursed or the cards are used. Profits from unreimbursed vouchers and cards are recognized based on their expiration date and the deadline for presentation for reimbursement by the affiliate.

### 2.22.3 Discount Allowances

As part of its food or other material supply contracts with manufacturers and distributors, the Group can earn discounts, rebates, or credits related to the purchases made under those contracts. Vendor Discount Allowances (VDA) are earned by the volume of materials purchased under the contract, by the periodic purchase volumes exceeding certain contractually-defined thresholds, or as fixed amounts in exchange for certain commitments such as vendor exclusivity arrangements. The Group retains VDAs to the extent consistent with its client contracts and applicable law. Our accounting policy for VDAs is as follows:

• VDAs earned on purchases made through Sodexo-managed food or facilities services contracts are recognized as a reduction to Cost of Sales;

• VDAs earned on purchases made through procurement management services contracts are recognized as Revenues.

VDAs are typically recognized in the period the purchases are made based on the volume of materials purchased in the period and the contractual VDA rate. VDAs earned based on purchase volumes reaching contractually-defined thresholds are recognized in proportion with the purchases made as soon as the Group considers it probable that the thresholds will be reached. If the Group does not consider it probable that its purchase volumes will reach the contractually-defined thresholds, any VDAs earned are recognized if and when the thresholds are reached. Fixed-amount VDAs are recognized immediately unless certain conditions need to be met in order for them to be earned or if there is a clear link between the amount promised and the future purchase volumes. In such cases, fixed-amount VDAs are recognized over the period of the related commitment.

VDAs are typically recognized in the period the purchases are made based on the volume of materials purchased in the period and the contractual VDA rate. VDAs earned based on achieving contractually-defined thresholds are recognized at the end of the contractual measurement period if our purchase volumes exceed the defined thresholds. Fixed-amount VDAs are recognized on a straight-line basis over the period of the related commitment.

### 2.22.4 Income tax expense

In connection with the introduction of the *contribution économique territoriale* (CET – local economic contribution) under the 2010 Finance Bill in France, which applies to French subsidiaries, Sodexo has elected to recognize in income tax expense the portion of the CET related to the *cotisation sur la valeur ajoutée des entreprises* (tax on corporate value added).

Tax credits that do not affect taxable profit and are always refunded by the French government if they have not been deducted from corporate income tax (including the Competitiveness and Employment Tax Credit (CICE) introduced in France under the third amended 2012 Finance Bill) are recognized as subsidies and therefore deducted from the expenses to which they relate.

## 2.23 Cash flow statement

The cash flow statement analyzes changes in net cash and cash equivalents, defined as cash and cash equivalents less current bank overdrafts and credit bank balances payable on demand that form an integral component of treasury management.

# 3. OPERATING SEGMENTS

The segment information presented below has been prepared based on internal management data as monitored by the Group Executive Committee, which is Sodexo's chief operating decision-maker: On-site Services and Benefits and Rewards Services.

For On-site Services, since the beginning of Fiscal 2017, the Group has monitored this activity based on global client segments rather than geographies to reflect the gradual reorganization of the Group since September 2015. The Group has progressively adapted the way it conducts its On-site Services business, building an organization by global client segment to better support clients wherever they are, both locally and internationally, and by global function to ensure optimized and standardized processes in all service offerings and functional activities. These global client segments meet the definition of operating segments in IFRS 8.

As explained in note 2.22.1, since Fiscal 2018, the Group has introduced a new indicator, "Underlying operating profit", which is monitored by segment along with revenues, replacing operating profit. Consequently, Sodexo's operating segments and groups of operating segments are now as follows:

- On-site Services:
  - Business & Administrations, which includes Corporate Services, Energy & Resources, Government & Agencies, Sports & Leisure and other non-segmented activities,
  - Health Care, combined with Seniors,
  - Education, comprising Schools and Universities;
- Benefits and Rewards Services.

The operating segments that have been aggregated carry out similar operations – both in terms of type of services rendered and the processes and methods used to deliver the services – and have similar economic characteristics (notably in terms of the margins they generate).

Segment assets and liabilities are not presented as they are not included in the chief operating decision-maker's measurement of segment performance.

No single Group client or contract accounts for more than 2% of consolidated revenues.

## 3.1 By business segment

| FISCAL 2018 (in millions of euro) | ON-SITE SERVICES | BUSINESS & ADMINISTRATIONS | HEALTH CARE AND SENIORS | EDUCATION | BENEFITS AND REWARDS SERVICES | ELIMINATIONS AND CORPORATE EXPENSES | GROUP TOTAL |
|---|---|---|---|---|---|---|---|
| Revenues (third-party) | **19,561** | 10,938 | 4,768 | 3,855 | **846** | | 20,407 |
| Inter-segment sales (Group) | | | | | **4** | (4) | |
| **TOTAL** | **19,561** | **10,938** | **4,768** | **3,855** | **850** | **(4)** | **20,407** |
| Underlying operating profit(1) | **986** | 458 | 306 | 222 | **262** | (126) | 1,122 |

(1) This is a new consolidated income statement indicator (see note 2.22.1) that includes the Group's share of profit of companies consolidated by the equity method that directly contribute to the Group's business but excludes other operating income and expenses.

| FISCAL 2017 (in millions of euro) | ON-SITE SERVICES | BUSINESS & ADMINISTRATIONS | HEALTH CARE AND SENIORS | EDUCATION | BENEFITS AND REWARDS SERVICES | ELIMINATIONS AND CORPORATE EXPENSES | GROUP TOTAL |
|---|---|---|---|---|---|---|---|
| Revenues (third-party) | **19,797** | 10,551 | 5,007 | 4,239 | **901** | | 20,698 |
| Inter-segment sales (Group) | | | | | **4** | (4) | |
| **TOTAL** | **19,797** | **10,551** | **5,007** | **4,239** | **905** | **(4)** | **20,698** |
| Underlying operating profit(1) | **1,122** | 509 | 332 | 281 | **307** | (245) | 1,184 |

(1) This is a new consolidated income statement indicator (see note 2.22.1) that includes the Group's share of profit of companies consolidated by the equity method that directly contribute to the Group's business but excludes other operating income and expenses.

## 3.2 By significant country

The Group's operations are spread across 72 countries, including two that each represent over 10% of consolidated revenues: France (the Group's home country) and the United States. Revenues and non-current assets in these countries are as follows:

| AUGUST 31, 2018 (in millions of euro) | FRANCE | UNITED STATES | OTHER | TOTAL |
|---|---|---|---|---|
| Revenues (third-party) | 2,721 | 8,243 | 9,443 | 20,407 |
| Non-current assets(1) | 1,290 | 3,827 | 2,635 | 7,752 |

(1) Property, plant and equipment, goodwill, other intangible assets, and client investments.

| AUGUST 31, 2017 (in millions of euro) | FRANCE | UNITED STATES | OTHER | TOTAL |
|---|---|---|---|---|
| Revenues (third-party) | 2,680 | 8,675 | 9,343 | 20,698 |
| Non-current assets(1) | 1,287 | 3,244 | 2,631 | 7,162 |

(1) Property, plant and equipment, goodwill, other intangible assets, and client investments.

## 3.3 By type of service

Revenues by type of service are as follows:

| (in millions of euro) | FISCAL 2018 | FISCAL 2017 |
|---|---|---|
| Foodservices | 13,172 | 13,632 |
| Facilities management services | 6,389 | 6,165 |
| **TOTAL ON-SITE SERVICES REVENUES** | **19,561** | **19,797** |
| Benefits and Rewards Services | 850 | 905 |
| Eliminations | (4) | (4) |
| **TOTAL CONSOLIDATED REVENUES** | **20,407** | **20,698** |

# 4. NOTES TO THE FINANCIAL STATEMENTS AS OF AUGUST 31, 2018

## 4.1 Operating expenses by nature and other operating income and expenses

### 4.1.1 Operating expenses by nature

| (in millions of euro) | FISCAL 2018 | FISCAL 2017[3] |
|---|---|---|
| Depreciation, amortization and impairment losses | (326) | (280) |
| Employee costs | | |
| • Wages and salaries | (7,618) | (7,705) |
| • Other employee costs[1] | (2,285) | (2,320) |
| Purchases of consumables and change in inventory | (5,445) | (5,751) |
| Other operating expenses[2] | (3,745) | (3,463) |
| **TOTAL** | **(19,419)** | **(19,519)** |

(1) Primarily payroll taxes, but also including costs associated with defined benefit plans (note 4.16), defined contribution plans (note 4.16) and free shares (note 4.21).
(2) Other operating expenses mainly include operating lease expenses (343 million euro for Fiscal 2018 and 317 million euro for Fiscal 2017), professional fees, other purchases of consumables, sub-contracting costs and travel expenses.
(3) Including 137 million euro in expenses recorded in Fiscal 2017 in connection with the Adaptation and Simplification program.

### 4.1.2 Other operating income and expenses

| (in millions of euro) | FISCAL 2018 | FISCAL 2017 |
|---|---|---|
| Gains related to perimeter changes | 3 | 21 |
| Gains on changes of post-employment benefits | | 3 |
| Other | 7 | |
| **Total other operating income** | **10** | **24** |
| Restructuring and rationalization costs[1] | (42) | (137) |
| Acquisition-related costs | (15) | (6) |
| Losses related to perimeter changes | (18) | |
| Losses on changes of post-employment benefits | | (2) |
| Amortization and impairment of client relationships and trademarks | (52) | (31) |
| Other | (14) | |
| **Total other operating expenses** | **(141)** | **(176)** |

(1) For Fiscal 2017, this item corresponds to the costs incurred for the Adaptation and Simplification program.

## 4.2 Financial income and expense

| (in millions of euro) | FISCAL 2018 | FISCAL 2017 |
|---|---|---|
| Gross borrowing cost[1] | (125) | (112) |
| Interest income from short-term bank deposits and equivalent | 31 | 15 |
| **NET BORROWING COST** | **(94)** | **(97)** |
| Interest income from loans and receivables at amortized cost | 3 | 3 |
| Other financial income[2] | 9 | 5 |
| Other financial expense[3] | (11) | (29) |
| Net foreign exchange gains/(losses) | (2) | 6 |
| Net interest cost on net defined benefit plan obligation | (7) | (7) |
| Monetary adjustment for hyperinflation | - | (4) |
| Change in fair value of derivative financial instruments not qualified for hedge accounting | - | (3) |
| Other[4] | (1) | 6 |
| **NET FINANCIAL EXPENSE** | **(103)** | **(120)** |
| **Of which financial income** | **43** | **35** |
| **Of which financial expense** | **(146)** | **(155)** |

(1) Gross borrowing cost represents interest expense on financial liabilities at amortized cost and interest expense on hedging instruments.
(2) Including, in Fiscal 2018, 8 million euro in late payment interest received in relation to a refund of dividend tax and other taxes.
(3) Including, in Fiscal 2017, 11 million euro related to the early redemption of 108 million US dollars' worth of a US private placement.
(4) Including, in Fiscal 2017, a gain from the sale of a non-controlling interest in PFIs in the United Kingdom.

# 4.3 Income tax expense

## 4.3.1 Income tax rate reconciliation

| (in millions of euro) | FISCAL 2018 | FISCAL 2017 |
|---|---|---|
| Profit for the period before tax | 891 | 1,068 |
| Share of profit of companies consolidated by the equity method | (6) | (9) |
| **Accounting profit before tax** | **885** | **1,059** |
| Tax rate applicable to Sodexo SA | 34,43% | 34,43 % |
| **Theoretical income tax expense** | **(305)** | **(365)** |
| Effect of jurisdictional tax rate differences | 77 | 32 |
| Reimbursement of additional tax on dividends paid | 44 | (11) |
| Permanently non-deductible expenses or non-taxable income | (7) | 45 |
| Other tax repayments/(charges), net | (13) | 3 |
| Tax loss carry-forwards used or recognized during the period but not recognized as a deferred tax asset in prior periods | 5 | 12 |
| Tax loss carry-forwards arising during the period or prior years but not recognized as a deferred tax asset | (40) | (45) |
| **Actual income tax expense** | **(239)** | **(329)** |
| Withholding taxes | (6) | (14) |
| **TOTAL INCOME TAX EXPENSE** | **(245)** | **(343)** |

## 4.3.2 Components of income tax expense

| (in millions of euro) | FISCAL 2018 | FISCAL 2017 |
|---|---|---|
| Current income taxes | (217) | (327) |
| Adjustments to current income tax payable in respect of prior periods | (1) | 2 |
| Provision for tax exposures | (1) | 4 |
| Utilization of tax credits, tax losses and temporary difference carry-forwards | 59 | 47 |
| **CURRENT INCOME TAXES** | **(160)** | **(274)** |
| Deferred taxes on temporary differences arising or reversing during the period | (55) | (48) |
| Deferred taxes on changes in tax rates or liability for taxes at new rates | (21) | 3 |
| Utilization of tax credits, tax losses and tax loss carry-forwards | (4) | (10) |
| **DEFERRED INCOME TAXES** | **(80)** | **(55)** |
| **ACTUAL INCOME TAX EXPENSE** | **(239)** | **(329)** |

The effective tax rate, calculated on the basis of profit for the period before tax and excluding the share of profit of companies consolidated by the equity method, decreased from 32.4% for Fiscal 2017 to 27.6% for Fiscal 2018. The decline was mainly due to the reimbursement of the tax on dividends in France, for 44 million euro, and to the effects of the tax reform in the United States.

## 4.4 Property, plant and equipment

### 4.4.1 Analysis of property, plant and equipment

The tables below include assets held under finance leases.

| (in millions of euro) | LAND AND BUILDINGS | PLANT AND EQUIPMENT | CONSTRUCTION IN PROGRESS AND OTHER | TOTAL |
|---|---|---|---|---|
| **Carrying amount – August 31, 2016** | **71** | **471** | **62** | **604** |
| Increases during the fiscal year | 1 | 170 | 52 | 223 |
| Decreases during the fiscal year | | (16) | (2) | (18) |
| Newly consolidated companies | | 5 | | 5 |
| Newly deconsolidated companies | (1) | (4) | | (5) |
| Impairment losses recognized in profit or loss | | (2) | | (2) |
| Depreciation expense | (9) | (169) | (17) | (195) |
| Currency translation adjustment | (1) | (12) | (2) | (15) |
| Other | (4) | 17 | (20) | (7) |
| **Carrying amount – August 31, 2017** | **57** | **460** | **73** | **590** |
| Increases during the fiscal year | 6 | 175 | 44 | 225 |
| Decreases during the fiscal year | (1) | (14) | (4) | (19) |
| Newly consolidated companies | 2 | 40 | 7 | 49 |
| Newly deconsolidated companies | (3) | (1) | | (4) |
| Depreciation expense | (3) | (179) | (18) | (199) |
| Currency translation adjustment | (1) | (17) | | (18) |
| Other | (10) | 28 | (23) | (5) |
| **Carrying amount – August 31, 2018** | **47** | **492** | **80** | **619** |

| (in millions of euro) | AUGUST 31, 2018 | AUGUST 31, 2017 |
|---|---|---|
| Cost | 1,935 | 1,856 |
| Accumulated depreciation and impairment | (1,316) | (1,266) |
| **Carrying amount** | **619** | **590** |

No item of property, plant and equipment is pledged as collateral for a liability.

Depreciation and impairment losses are reported under either cost of sales or Administrative and Sales Department costs.

### 4.4.2 Analysis of assets held under finance leases

These leases relate mainly to kitchens and kitchen equipment.

| CARRYING AMOUNT (in millions of euro) | BUILDINGS | PLANT AND EQUIPMENT | CONSTRUCTION IN PROGRESS AND OTHER | TOTAL |
|---|---|---|---|---|
| August 31, 2016 | 5 | 9 | | **14** |
| August 31, 2017 | 4 | 9 | | **13** |
| August 31, 2018 | 2 | 8 | | **10** |

| (in millions of euro) | AUGUST 31, 2018 | AUGUST 31, 2017 |
|---|---|---|
| Cost | 32 | 38 |
| Accumulated depreciation and impairment | (22) | (25) |
| **Carrying amount** | **10** | **13** |

Maturities of payments under finance leases are provided in note 4.14.5.

## 4.5 Goodwill

Changes in goodwill were as follows during the fiscal year:

| (in millions of euro) | AUGUST 31, 2017 | INCREASES DURING THE PERIOD | DECREASES DURING THE PERIOD | CURRENCY TRANSLATION ADJUSTMENT | AUGUST 31, 2018 |
|---|---|---|---|---|---|
| Corporate Services | 1,022 | 4 | | (25) | 1,001 |
| Government & Agencies | 357 | | | 2 | 359 |
| Sports & Leisure | 64 | 353 | | (2) | 415 |
| Energy & Resources | 302 | 35 | (1) | (16) | 320 |
| Other non-segmented activities | 303 | 39 | | (17) | 325 |
| **Business & Administrations** | **2,048** | **431** | **(1)** | **(58)** | **2,420** |
| Health Care | 992 | | | 6 | 998 |
| Seniors | 416 | 5 | | 3 | 424 |
| **Health Care & Seniors** | **1,408** | **5** | | **9** | **1,422** |
| Schools | 339 | 12 | | 1 | 352 |
| Universities | 842 | | | 13 | 855 |
| **Education** | **1,181** | **12** | | **14** | **1,207** |
| **On-site Services** | **4,637** | **448** | **(1)** | **(35)** | **5,049** |
| **Benefits and Rewards Services** | **671** | **14** | | **(70)** | **615** |
| **Sodexo** | **206** | | | | **206** |
| **TOTAL** | **5,514** | **462** | **(1)** | **(105)** | **5,870** |

Increases in goodwill recognized in Fiscal 2018 primarily relate to (i) the acquisitions of The Good Eating Company (United Kingdom) in the Corporate Services activity, Morris Corporation (Australia) in the Energy & Resources activity, Centerplate Inc. (United States) in the Sports & Leisure activity, Gym4less (Spain) in the Benefit and Rewards activity, Kim Yew (Singapore) in the Education activity, and the acquisition of a controlling interest in FoodChéri (France).

The goodwill amounts for the above acquisitions are provisional except for Morris Corporation and Kim Yew for which the purchase price allocation processes have been completed.

| (in millions of euro) | AUGUST 31, 2016 | INCREASES DURING THE PERIOD | DECREASES DURING THE PERIOD | CURRENCY TRANSLATION ADJUSTMENT | AUGUST 31, 2017 |
|---|---|---|---|---|---|
| Corporate Services | 1,060 | 1 | (1) | (39) | 1,022 |
| Government & Agencies | 377 | | | (20) | 357 |
| Sports & Leisure | 65 | 2 | | (2) | 64 |
| Energy & Resources | 293 | 21 | | (12) | 302 |
| Other non-segmented activities | 243 | 68 | (1) | (7) | 303 |
| **Business & Administrations** | **2,038** | **92** | **(2)** | **(80)** | **2,048** |
| Health Care | 1,047 | | | (55) | 992 |
| Seniors | 411 | 23 | | (18) | 416 |
| **Health Care and Seniors** | **1,458** | **23** | | **(73)** | **1,408** |
| Schools | 354 | | (1) | (14) | 339 |
| Universities | 895 | | | (53) | 842 |
| **Education** | **1,249** | | **(1)** | **(67)** | **1,181** |
| **On-site Services** | **4,745** | **115** | **(3)** | **(220)** | **4,637** |
| **Benefits and Rewards Services** | **583** | **109** | **(2)** | **(19)** | **671** |
| **Sodexo** | **206** | | | | **206** |
| **TOTAL** | **5,534** | **224** | **(5)** | **(239)** | **5,514** |

Increases in goodwill recognized in Fiscal 2017 primarily related to (i) the acquisitions by the Benefits and Rewards Services activity of Inspirus LLC (United States), Xpenditure (Belgium) and iAlbatros (Poland) and the On-site Services activity's acquisitions of PSL Ltd. and Prestige Nursing Ltd in the United Kingdom and a controlling interest in Doyon (Alaska). Decreases in goodwill recognized during the fiscal year arose from deconsolidations, notably resulting from the sale of Vivabox USA and the divestment of controlling interests in subsidiaries in Angola, Gabon and Saudi Arabia.

## 4.6 Other intangible assets

The tables below show movements in other intangible assets during Fiscal 2017 and Fiscal 2018.

| (in millions of euro) | LICENSES AND SOFTWARE | CLIENT RELATIONSHIPS, TRADEMARKS AND OTHER | TOTAL |
|---|---|---|---|
| **Carrying amount - August 31, 2016** | **161** | **306** | **467** |
| Increases during the fiscal year | 57 | 21 | 78 |
| Decreases during the fiscal year | (2) | (3) | (5) |
| Newly consolidated companies | 10 | 55 | 65 |
| Amortization expense | (48) | (38) | (86) |
| Impairment losses recognized in profit or loss | | 3 | 3 |
| Currency translation adjustment | (5) | (11) | (16) |
| Other | 2 | 3 | 5 |
| **Carrying amount – August 31, 2017** | **175** | **336[1]** | **511** |
| Increases during the fiscal year | 82 | 29 | 111 |
| Decreases during the fiscal year | (10) | (2) | (12) |
| Newly consolidated companies | 5 | 219 | 224 |
| Amortization expense | (50) | (49) | (99) |
| Impairment losses recognized in profit or loss | (1) | (18) | (20) |
| Currency translation adjustment | (3) | (11) | (14) |
| Other | 3 | | 3 |
| **Carrying amount – August 31, 2018** | **201** | **503[1]** | **704** |

(1) Including trademarks and lease rights with an indefinite useful life for 86 million euro as of August 31, 2018 (50 million euro as of August 31, 2017).

| (in millions of euro) | AUGUST 31, 2018 | AUGUST 31, 2017 |
|---|---|---|
| Cost | 1,424 | 1,154 |
| Accumulated amortization and impairment | (720) | (643) |
| **CARRYING AMOUNT** | **704** | **511** |

Amortization and impairment losses are reported under either cost of sales or Administrative and Sales Department costs, except for amortization and impairment of client relationships and trademarks, which are recognized in “Other operating expenses”.

## 4.7 Client investments

| (in millions of euro) | FISCAL 2018 | FISCAL 2017 |
|---|---|---|
| **Carrying amount – September 1** | **547** | **562** |
| Increases during the fiscal year | 83 | 111 |
| Decreases during the fiscal year | (94) | (95) |
| Newly consolidated companies[1] | 18 | |
| Currency translation adjustment | 5 | (31) |
| **CARRYING AMOUNT AS OF AUGUST 31** | **558** | **547** |

(1) Corresponds solely to Centerplate’s client investments in the United States and Canada.

## 4.8 Companies consolidated by the equity method

When the Group is legally or constructively obligated to make payments on behalf of companies consolidated by the equity method, a provision is made under liabilities in the consolidated statement of financial position for its share in the negative shareholders' equity of the said companies (see note 4.17). Changes in the Group's share of the net assets of companies consolidated by the equity method in Fiscal 2017 and Fiscal 2018 are shown below:

| (in millions of euro) | FISCAL 2018 | FISCAL 2017 |
|---|---|---|
| **AS OF SEPTEMBER 1** | **82** | **88** |
| Positive amounts | 89 | 95 |
| Negative amounts | (7) | (7) |
| Share of profit for the period | 6 | 9 |
| Other comprehensive income (loss)(1) | (1) | (3) |
| Dividend paid for the period | (19) | (11) |
| Changes in scope of consolidation | | 2 |
| Currency translation adjustment | | (3) |
| Other movements | 9 | |
| **AS OF AUGUST 31** | **77** | **82** |
| **Positive amounts** | **83** | **89** |
| **Negative amounts** | **(6)** | **(7)** |

(1) Corresponding to changes in fair value of derivatives used for hedging purposes, net of tax (note 4.15).

## 4.9 Impairment of assets

Accumulated impairment losses against property, plant and equipment and intangible assets (including goodwill) amounted to 38 million euro as of August 31, 2018 (15 million euro as of August 31, 2017), taking into account a net charge of 18 million euro in Fiscal 2018 (versus a net reversal of 1 million euro in Fiscal 2017).

Assets with indefinite useful lives were tested for impairment as of August 31, 2018 using the methods described in note 2.8.2.

The main assumptions used were as follows (and any impairment losses were recognized in other operating expenses):

| | FISCAL 2018 | | FISCAL 2017 | |
|---|---|---|---|---|
| | DISCOUNT RATE (1) | LONG-TERM GROWTH RATE (2) | DISCOUNT RATE (1) | LONG-TERM GROWTH RATE (2) |
| Corporate Services | 7.3% | 2.4% | 8.0% | 2.3% |
| Energy & Resources | 7.6% | 3.0% | 8.3% | 2.9% |
| Government & Agencies | 6.9% | 2.2% | 7.6% | 2.1% |
| Sports & Leisure | 6.8% | 2.3% | 7.6% | 1.9% |
| Health Care | 6.9% | 2.4% | 7.5% | 2.1% |
| Seniors | 6.8% | 2.0% | 7.5% | 1.9% |
| Schools | 6.9% | 2.2% | 7.5% | 1.9% |
| Universities | 6.7% | 2.5% | 7.3% | 2.0% |
| Other non-segmented activities | 7.1% | 2.2% | 7.9% | 2.1% |
| Benefits and Rewards Services | 8.2% | 3.2% | 9.1% | 3.7% |

(1) The discount rate defined by the Group has been increased for certain operating segments in order to incorporate more significant risk factors affecting certain countries in which the operating segment concerned conducts business.
(2) The long-term growth rate serves to calculate the terminal value based on data in management's business plans.

The discount rates used by segment were set based on the weighted average of the discount rates for each geographic region, taking into account the relative weighting of each segment in the Group's overall revenues figure:

| | DISCOUNT RATE | |
|---|---|---|
| | FISCAL 2018 | FISCAL 2017 |
| Continental Europe | 7.0% | 7.7% |
| North America | 6.7% | 7.3% |
| United Kingdom and Ireland | 6.8% | 7.5% |
| Latin America | 8.7% | 9.8% |
| Rest of the world (excluding Latin America) | 7.4% | 8.2% |

**SENSITIVITY ANALYSIS**

The Group has analyzed the sensitivity of goodwill impairment test results to different long-term growth rates and discount rates.

- The results of this sensitivity analysis indicated no probable scenario where a change in the discount rate or long-term growth rate would result in the recoverable amount of a CGU or group of CGUs becoming less than its carrying amount. In fact, the results of the impairment testing demonstrate that even an increase of 200 basis points in the discount rate or a reduction of 200 basis points in the long-term growth rate would not result in an impairment of the assets tested for any of the CGUs or groups of CGUs tested.
- The Group also performed a sensitivity analysis on the operational assumptions used in order to determine whether a 5% decrease in projected net cash flows over the time period of the business plans prepared by management and in terminal value would result in the recognition of an impairment loss in the Group's consolidated financial statements as of August 31, 2018. The results of this analysis did not indicate any risk of impairment for any of the CGUs or groups of CGUs.

In addition, the Group is particularly attentive to economic trends in the Sport & Leisure segment, which accounted for approximately 7% of consolidated revenue in Fiscal 2018. Indeed, some of the assets are sensitive to the tourism level, which can be highly impacted by events out of the control of the Group, particularly in France, United Kingdom and United States. This has been taken into account in the business plans prepared by the management, but actual results may nonetheless differ from business plan estimates if assumptions or conditions change.

## 4.10 Financial assets

### 4.10.1 Current and non-current financial assets

| (in millions of euro) | AUGUST 31, 2018 | | AUGUST 31, 2017 | |
|---|---|---|---|---|
| | CURRENT | NON-CURRENT | CURRENT | NON-CURRENT |
| **Available-for-sale financial assets** | | | | |
| ***Investments in non-consolidated companies*** | | | | |
| Cost | | 65 | | 61 |
| Impairment | | (6) | | (6) |
| **Carrying amount** | | **59** | | **55** |
| ***Financial assets related to the Benefits and Rewards Services activity, including restricted cash*** | | | | |
| Cost | 1,042 | | 909 | |
| Impairment | | | | |
| **Carrying amount** | **1,042** | | **909** | |
| **Loans and receivables** | | | | |
| ***Receivables from investees*** | | | | |
| Cost | | 18 | | 18 |
| Impairment | | | | |
| **Carrying amount** | | **18** | | **18** |
| ***Loans and deposits*** | | | | |
| Cost | 36 | 101 | 34 | 76 |
| Impairment | | (20) | (2) | (19) |
| **Carrying amount** | **36** | **81** | **32** | **57** |
| **TOTAL FINANCIAL ASSETS** | **1,078** | **158** | **941** | **130** |
| Cost | 1,078 | 184 | 943 | 155 |
| Impairment | | (26) | (2) | (25) |
| **Carrying amount** | **1,078** | **158** | **941** | **130** |

### RESTRICTED CASH AND FINANCIAL ASSETS RELATED TO THE BENEFITS AND REWARDS SERVICES ACTIVITY

Restricted cash of 615 million euro included in "Financial assets related to the Benefits and Rewards Services activity" primarily in funds set aside to comply with regulations governing the issuance of service vouchers in France (278 million euro), Romania (141 million euro), China (53 million euro) and India (41 million euro). The funds remain the property of the Group but are subject to restrictions on their use. They may not be used for any purpose other than to reimburse affiliates and must be kept separate from the Sodexo Group's unrestricted cash. Restricted cash is invested in interest-bearing instruments.

Restricted cash and financial assets related to the Benefits and Rewards Services activity breaks down as follows by currency:

| (in millions of euro) | AUGUST 31, 2018 | AUGUST 31, 2017 |
|---|---|---|
| Euro | 400 | 386 |
| US dollar (USD) | 8 | 6 |
| Brazilian real (BRL) | 323 | 275 |
| Other currencies | 311 | 242 |
| **TOTAL** | **1,042** | **909** |

## 4.10.2 Changes in current and non-current financial assets

| (Carrying amount in millions of euro) | AUGUST 31, 2017 | INCREASE/(DECREASE) DURING THE PERIOD | IMPAIRMENT | CHANGES IN SCOPE OF CONSOLIDATION | CHANGE IN FAIR VALUE | CURRENCY TRANSLATION ADJUSTMENT AND OTHER | AUGUST 31, 2018 |
|---|---|---|---|---|---|---|---|
| Available-for-sale financial assets | 964 | 230 | | (1) | | (92) | 1,101 |
| Loans and receivables | 107 | 25 | | 10 | | (7) | 135 |
| **TOTAL** | **1,071** | **255** | | **9** | | **(99)** | **1,236** |

| (Carrying amount in millions of euro) | AUGUST 31, 2016 | INCREASE/(DECREASE) DURING THE PERIOD | IMPAIRMENT | CHANGES IN SCOPE OF CONSOLIDATION | CHANGE IN FAIR VALUE | CURRENCY TRANSLATION ADJUSTMENT AND OTHER | AUGUST 31, 2017 |
|---|---|---|---|---|---|---|---|
| Available-for-sale financial assets | 811 | 177 | | | | (24) | 964 |
| Loans and receivables | 124 | (12) | (1) | 1 | | (5) | 107 |
| **TOTAL** | **935** | **165** | **(1)** | **1** | | **(29)** | **1,071** |

# 4.11 Income tax, trade and other receivables

| (in millions of euro) | AUGUST 31, 2018 | | | AUGUST 31, 2017 | | |
|---|---|---|---|---|---|---|
| | GROSS AMOUNT | IMPAIRMENT | CARRYING AMOUNT | GROSS AMOUNT | IMPAIRMENT | CARRYING AMOUNT |
| **Other non-current assets** | **18** | | **18** | **17** | | **17** |
| **Income tax receivable[(1)]** | **176** | | **176** | **185** | | **185** |
| Advances to suppliers | 9 | | 9 | 7 | | 7 |
| Trade receivables | 3,614 | (109) | 3,505 | 3,596 | (110) | 3,486 |
| Other operating receivables | 412 | (18) | 393 | 362 | (6) | 356 |
| Prepaid expenses | 203 | | 203 | 182 | | 182 |
| Non-operating receivables | 8 | | 8 | 19 | | 19 |
| **TOTAL TRADE AND OTHER RECEIVABLES[(1)]** | **4,247** | **(126)** | **4,121** | **4,166** | **(116)** | **4,050** |

(1) After deducting sold receivables, notably 46 million euro worth of CICE tax credits that have been derecognized (71 million euro in Fiscal 2017) as their sale involved the transfer of substantially all of the risks and rewards related to ownership of the receivables.

The maturities of trade receivables as of August 31, 2018 and August 31, 2017 respectively were as follows:

| BREAKDOWN OF TRADE RECEIVABLES DUE AS OF AUGUST 31 2018: | AUGUST 31, 2018 | | AUGUST 31, 2017 | |
|---|---|---|---|---|
| | GROSS AMOUNT | IMPAIRMENT | GROSS AMOUNT | IMPAIRMENT |
| Less than 3 months past due | 406 | (10) | 422 | (9) |
| More than 3 months and less than 6 months past due | 68 | (7) | 56 | (5) |
| More than 6 months and less than 12 months past due | 110 | (13) | 116 | (14) |
| More than 12 months past due | 88 | (70) | 92 | (69) |
| **TOTAL TRADE RECEIVABLES DUE AS OF AUGUST 31, 2018** | **672** | **(100)** | **686** | **(97)** |
| **TOTAL TRADE RECEIVABLES NOT YET DUE AS OF AUGUST 31, 2018** | **2,941** | **(9)** | **2,910** | **(13)** |
| **TOTAL TRADE RECEIVABLES AS OF AUGUST 31, 2018** | **3,614** | **(109)** | **3,596** | **(110)** |

During the fiscal years presented, the Group was not affected by any significant change resulting from client bankruptcies. In addition, given the geographic dispersion of the Group's activities and the wide range of client industries, there is no material concentration of risks in individual receivables due but not written down.

## 4.12 Cash and cash equivalents

| (in millions of euro) | AUGUST 31, 2018 | AUGUST 31, 2017 |
|---|---|---|
| Marketable securities | 365 | 420 |
| Cash[(1)] | 1,308 | 1,690 |
| **Total cash and cash equivalents** | **1,673** | **2,110** |
| Bank overdrafts | (28) | (38) |
| **TOTAL** | **1,645** | **2,072** |

(1) Including 7 million euro allocated to the liquidity contract signed with an investment services provider, which complies with the Code of conduct drawn up by the French financial markets association (*Association française des marchés financiers* – AMAFI) and approved by the French securities regulator (*Autorité des marchés financiers* – AMF), for the purpose of improving the liquidity of Sodexo shares and the regularity of the quotations.

Marketable securities comprised:

| (in millions of euro) | AUGUST 31, 2018 | AUGUST 31, 2017 |
|---|---|---|
| Short-term notes | 199 | 244 |
| Term deposits | 138 | 139 |
| Mutual funds and other | 29 | 37 |
| **Total marketable securities** | **365** | **420** |

Cash and cash equivalents break down as follows by currency:

| (in millions of euro) | AUGUST 31, 2018 | AUGUST 31, 2017 |
|---|---|---|
| Euro | (36) | 173 |
| US dollar (USD) | 493 | 642 |
| Brazilian real (BRL) | 242 | 301 |
| Pound sterling (GBP) | 280 | 385 |
| Canadian dollar | 106 | 71 |
| Other currencies | 560 | 500 |
| **Cash and cash equivalents net of bank overdrafts** | **1,645** | **2,072** |

More than 73% of the Group's cash and cash equivalents, restricted cash and financial assets related to the Benefits and Rewards Services activity, is held with A1- or A2-rated financial institutions. No significant amount of cash or cash equivalents was subject to any restrictions as of August 31, 2018.

## 4.13 Statement of changes in shareholders' equity

Items recognized directly in Other Comprehensive Income (OCI) (Group share) are shown below:

| (in millions of euro) | FISCAL 2018 | | | FISCAL 2017 | | |
|---|---|---|---|---|---|---|
| | INCREASE/ (DECREASE) DURING THE YEAR, PRE-TAX | INCOME TAX (EXPENSE)/ BENEFIT | INCREASE/ (DECREASE) DURING THE YEAR, NET OF TAX | INCREASE/ (DECREASE) DURING THE YEAR, PRE-TAX | INCOME TAX (EXPENSE)/ BENEFIT | INCREASE/ (DECREASE) DURING THE YEAR, NET OF TAX |
| Available-for-sale financial assets | | | | | | |
| Cash flow hedges | (1) | | (1) | (1) | | (1) |
| Remeasurements of net defined benefit obligation | 30 | (5) | 25 | 25 | (7) | 18 |
| Currency translation adjustment | (92) | | (92) | (92) | | (92) |
| **TOTAL OTHER COMPREHENSIVE INCOME (LOSS) (GROUP SHARE)** | **(63)** | **(5)** | **(68)** | **(68)** | **(7)** | **(75)** |

## 4.14 Borrowings

Changes in borrowings during Fiscal 2018 and Fiscal 2017 were as follows:

| (in millions of euro) | AUGUST 31, 2017 | INCREASES | REPAYMENTS | DISCOUNTING EFFECTS AND OTHER | CURRENCY TRANSLATION ADJUSTMENT | CHANGES IN SCOPE OF CONSOLIDATION | AUGUST 31, 2018 |
|---|---|---|---|---|---|---|---|
| Bond issues | 1,889 | 298 | 0 | 4 | 0 | 0 | 2,191 |
| Bank borrowings | 2,219 | 409 | (384) | 0 | 11 | 1 | 2,256 |
| Finance lease obligations | 11 | 2 | (4) | 0 | 0 | 0 | 9 |
| Other borrowings | 27 | 3 | (2) | (2) | 1 | 3 | 30 |
| **TOTAL** | **4,146** | **712** | **(390)** | **2** | **12** | **4** | **4,486** |
| Net fair value of derivative financial instruments | 3 | | 2 | (7) | (8) | 0 | (10) |
| **TOTAL INCLUDING DERIVATIVE FINANCIAL INSTRUMENTS** | **4,149** | **712** | **(388)** | **(5)** | **4** | **4** | **4,476** |

| (in millions of euro) | AUGUST 31, 2016 | INCREASES | REPAYMENTS | DISCOUNTING EFFECTS AND OTHER | CURRENCY TRANSLATION ADJUSTMENT | CHANGES IN SCOPE OF CONSOLIDATION | AUGUST 31, 2017 |
|---|---|---|---|---|---|---|---|
| Bond issues | 1,106 | 780 | | 3 | | | 1,889 |
| Bank borrowings | 2,106 | 331 | (131) | (2) | (86) | 1 | 2,219 |
| Finance lease obligations | 11 | 2 | (2) | | | | 11 |
| Other borrowings | 13 | 7 | (16) | 10 | (1) | 14 | 27 |
| **TOTAL EXCLUDING DERIVATIVE FINANCIAL INSTRUMENTS** | **3,236** | **1,120** | **(149)** | **11** | **(87)** | **15** | **4,146** |
| Net fair value of derivative financial instruments | (5) | | 2 | 4 | (8) | | 3 |
| **TOTAL INCLUDING DERIVATIVE FINANCIAL INSTRUMENTS** | **3,241** | **1,120** | **(147)** | **15** | **(95)** | **15** | **4,149** |

## 4.14.1 Borrowings by currency

| (in millions of euro) | AUGUST 31, 2018 | | AUGUST 31, 2017 | |
|---|---|---|---|---|
| | CURRENT | NON-CURRENT | CURRENT | NON-CURRENT |
| **Bond issues** | | | | |
| Euro | 15 | 2,176 | 13 | 1,876 |
| **TOTAL** | **15** | **2,176** | **13** | **1,876** |
| **Bank borrowings(1)** | | | | |
| U.S. dollar | 173 | 1,401 | 254 | 1,188 |
| Euro | 312 | 370 | 403 | 374 |
| **TOTAL** | **485** | **1,771** | **657** | **1,562** |
| **Finance lease obligations** | | | | |
| Euro | 3 | 4 | 3 | 6 |
| Other currencies | 1 | 1 | 1 | 1 |
| **TOTAL** | **4** | **5** | **4** | **7** |
| **Other borrowings(2)** | | | | |
| Euro | | 8 | 1 | 5 |
| Other currencies | 9 | 13 | 1 | 20 |
| **TOTAL** | **9** | **21** | **2** | **25** |
| **TOTAL EXCLUDING DERIVATIVE FINANCIAL INSTRUMENTS** | **513** | **3,973** | **676** | **3,470** |
| Net fair value of derivative financial instruments(3) | (14) | 7 | (6) | 9 |
| **TOTAL INCLUDING DERIVATIVE FINANCIAL INSTRUMENTS** | **499** | **3,977** | **670** | **3,479** |

(1) Including the proceeds of the private bond placements made by the Sodexo Group with US private investors described in note 4.14.3.6 and the commercial paper issued by Sodexo SA described in note 4.14.3.7.
(2) Including 18 million euro as of August 31, 2018 and 17 million euro as of August 31, 2017 corresponding to liabilities recognized in connection with put options written over non-controlling interests in certain subsidiaries.
(3) Described in note 4.15.

For borrowings other than bond issues, amortized cost is equivalent to historical cost (nominal amount) insofar as no significant transaction costs are incurred.

## 4.14.2 Bond issues

On June 24, 2014, Sodexo SA completed a bond issue structured in two tranches:

- a 600 million euro tranche redeemable at par on January 24, 2022 and bearing interest at an annual rate of 1.75%, with interest payable annually on January 24;
- a 500 million euro tranche redeemable at par on June 24, 2026 and bearing interest at an annual rate of 2.50%, with interest payable annually on June 24.

Accrued interest on these bonds amounted to 9 million euro as of August 31, 2018.

On October 14, 2016 Sodexo SA carried out a bond issue comprising 600 million euro worth of bonds redeemable in April 2027 and bearing interest at an annual rate of 0.75%, with interest payable annually on April 14. On August 1, 2017, the Company topped up this issue with an additional 200 million euro worth of bonds.

Accrued interest on these bonds amounted to 2 million euro as of August 31, 2018.

On May 22, 2018, Sodexo SA carried out a new bond issue comprising 300 million euro worth of bonds redeemable in May 2025 and bearing interest at an annual rate of 1.125%, with interest payable annually on May 22.

Accrued interest on this bond amounted to 1 million euro as of August 31, 2018.

None of the above-described bonds are subject to financial covenants.

## 4.14.3 Other borrowings from financial institutions

### 4.14.3.1 EQUITY LINKED SWAP WITH NATIXIS (2015)

On July 10, 2015, Bellon SA signed an Equity Linked Swap agreement (forward sale of Sodexo shares with a swap exchanging changes in interest rates for changes in Sodexo share prices) with Natixis for an amount of 200 million euro with a maturity date of July 15, 2020. This synthetic debt carries floating rate interest. In July 2015 an interest rate swap was put in place bringing the interest rate to 2.385% for the term of the loan.

### 4.14.3.2 EQUITY LINKED SWAP WITH CACIB (2015)

On June 19, 2015, Bellon SA signed an Equity Linked Swap agreement (forward sale of Sodexo shares with a swap exchanging changes in interest rates for changes in Sodexo share prices) with CACIB for an amount of 150 million euro with a maturity date of June 21, 2019. This synthetic debt carries floating rate interest. In July 2015 an interest rate swap was put in place for the period from August 4, 2016 to June 21, 2019 bringing the interest rate to 1.51% during this period.

#### 4.14.3.3 EQUITY LINKED SWAP WITH SOCIETE GENERALE (2015)

On July 10, 2015, Bellon SA signed an Equity Linked Swap agreement (forward sale of Sodexo shares with a swap exchanging changes in interest rates for changes in Sodexo share prices) with Société Générale for an amount of 150 million euro with a start date of September 10, 2015 and a maturity date of July 15, 2018. This synthetic debt carries floating rate interest. An interest rate swap was put in place bringing the interest rate to 1.203% for the term of the loan.

#### 4.14.3.4 LOANS FOR 165 MILLION U.S. DOLLARS AND 40 MILLION OF EUROS

On June 26, 2012, Bellon SA borrowed 165 million U.S. dollars in a U.S. Private Placement transaction with U.S. investors (U.S.P.P.). This financing was made at a U.S. dollar interest rate of 5.20% and matures in full in February 2022 with amortization of the principal starting in February 2016.

A currency swap was arranged with three banks (CACIB, Natixis and Société Générale) as follows:

- A tranche of 82.5 million U.S. dollars with CACIB at a rate of 4.93%;
- A tranche of 49.5 million U.S. dollars with Natixis at a rate of 4.985%;
- A tranche of 33 million U.S. dollars with Société Générale at a rate of 5.00%.

On June 26, 2012, Bellon SA borrowed 40 million euros in a US Private Placement transaction with U.S. investors (U.S.P.P.). This financing was made at a euro interest rate of 5.525% and matures in full in February 2022 with amortization of the principal starting in February 2016.

The July 2015 ELS with Natixis, the June 2015 ELS with CACIB, and the July 2015 ELS with Société Générale, as well as the U.S.P.P. financings and the currency swap arrangements all contain terms that are customary for loans of this nature made to a holding company. These conditions mainly include the following:

- Bellon SA's holding in Sodexo must not be less than 33.33% of the share capital and voting rights
- no individual or group of individuals acting in concert (within the meaning of Article L.233-10 of the French Commercial Code) other than the reference shareholder shall own, directly or indirectly, more than 50% of the capital or voting rights of Bellon SA
- the ratio of revalued assets to revalued net financial debt must be greater than 2.5 as of August 31 and December 31 each year
- the ratio of dividends to net financial expense must be greater than 1.1 each year
- total net borrowings must be lower than 1.1 billion euro at any point in time
- Sodexo's rating must not be lower than BBB-

As of August 31, 2017, Bellon SA was in compliance with its covenants.

#### 4.14.3.5 JULY 2011 MULTICURRENCY CONFIRMED CREDIT FACILITY

On July 18, 2011, the Sodexo Group contracted a multicurrency credit facility for a maximum of 600 million euro plus 800 million US dollars, with an original maturity date of July 18, 2016. In June 2017, this facility – whose maximum amount has totaled 531 million euro plus 709 million U.S. dollars since July 2015 – was extended until July 2022.

Amounts drawn on this facility carry floating interest indexed on the LIBOR and EURIBOR rates. This credit facility is not subject to any covenants.

No amounts had been drawn down on the facility as of either August 31, 2018 or August 31, 2017.

#### 4.14.3.6 BILATERAL CONFIRMED CREDIT FACILITY

On December 20, 2017, the Group obtained two 150 million euro bilateral confirmed credit facility, one expiring in December 2018 and the other in December 2019.

On March 5, 2018, the Group obtained a third 150 million euro bilateral confirmed credit facility expiring in March 2019.

No amounts had been drawn down on any of these facilities as of August 31, 2018.

On July 5, 2018, Bellon SA obtained a 65 million euro bilateral confirmed credit facility expiring in July 2020.

No amounts had been drawn down on any of these facilities as of August 31, 2018.

#### 4.14.3.7 US PRIVATE PLACEMENTS

During Fiscal 2018, the Sodexo Group redeemed the full outstanding balance of the first tranche of its March 29, 2011 US private placement (147 million U.S. dollars).

On June 27, 2018, the Sodexo Group carried out a new U.S. private placement amounting to 400 million US dollars.

The features of the Group's outstanding private placements as of August 31, 2018 are as follows:

| DATE OF THE PLACEMENT | PRINCIPAL OUTSTANDING (in millions of US dollars) | FIXED INTEREST RATE | MATURITY |
|---|---|---|---|
| March 29, 2011 | 133 | 4.85% | March 2021 |
| | 74 | 4.95% | March 2023 |
| **TOTAL** | **207**(1) | | |
| March 4, 2014 | 150 | 2.71% | March 2019 |
| | 150 | 3.44% | March 2021 |
| | 525 | 3.99% | March 2024 |
| | 175 | 4.14% | March 2026 |
| | 100 | 4.34% | March 2029 |
| **TOTAL** | **1,100** | | |
| June 27, 2018 | 400 | 3.70% | June 2023 |
| **TOTAL** | **400** | | |
| **TOTAL** | **1,707** | | |

(1) After deducting 147 million U.S. dollars redeemed on March 29, 2018.

These borrowings are subject to two financial covenants calculated by reference to the Sodexo Group's consolidated financial statements:

- net debt (excluding restricted cash) must not exceed 3.5 times EBITDA (operating profit plus amortization and depreciation) for the past 12 months;
- net assets adjusted for cumulative foreign exchange gains or losses since August 31, 2007 must not be less than 1.3 billion euro.

If the covenants are not respected, the lenders may, with a qualified majority, require early reimbursement of these borrowings.

The Group was in compliance with these covenants as of August 31, 2018, February 28, 2018 and August 31, 2017.

#### 4.14.3.8 COMMERCIAL PAPER

On January 22, 2018, Sodexo Finance set up a commercial paper program representing a maximum of 1.4 billion euro, guaranteed by Sodexo SA, in addition to Sodexo SA's existing program.

As of August 31, 2018, 240 million euro of the commercial paper programs set up by Sodexo SA and Sodexo Finance had been used, compared with 331 million euro as of August 31, 2017 (100 million U.S. dollars plus 246 million euro).

During the exercise, Bellon SA set up a commercial paper program representing a maximum of 65 million euro

### 4.14.4 Interest rates

In order to comply with the Group's financing policy, substantially all borrowings are long term and at fixed interest rates.

As of August 31, 2018, 93% of the Group's borrowings were at fixed rate. The average rate of interest as of the same date was 2.5%. As of August 31, 2017, 91% of the Group's borrowings were at fixed rate. The average rate of interest as of the same date was 2.4%.

The bond issues and borrowings from financial institutions described above include customary early redemption clauses. These clauses include cross-default and change-in-control clauses which apply to all of the borrowings.

### 4.14.5 Maturity of borrowings

| AUGUST 31, 2018<br>CARRYING AMOUNTS | LESS THAN 3 MONTHS | MORE THAN 3 MONTHS AND LESS THAN 6 MONTHS | MORE THAN 6 MONTHS AND LESS THAN 1 YEAR | 1 TO 5 YEARS | MORE THAN 5 YEARS | TOTAL |
|---|---|---|---|---|---|---|
| Bond issues | | 7 | 8 | 599 | 1,577 | 2,191 |
| Bank borrowings | 332 | 24 | 278 | 936 | 686 | 2,256 |
| Finance lease obligations | 1 | 1 | 2 | 5 | | 9 |
| Other borrowings | 2 | 6 | 1 | 21 | | 30 |
| **TOTAL** | **335** | **38** | **289** | **1,551** | **2,263** | **4,486** |

Excluding the impact of derivative financial instruments described in note 4.15.
For borrowings expressed in a foreign currency, amounts are translated at the year-end closing rate.
Maturities include interest accrued as of the period end.
Credit facility renewal rights are taken into account in determining maturities.

| AUGUST 31, 2018<br>UNDISCOUNTED CONTRACTUAL MATURITIES, INCLUDING PAYMENT OF FUTURE INTEREST NOT YET DUE | LESS THAN 3 MONTHS | MORE THAN 3 MONTHS AND LESS THAN 6 MONTHS | MORE THAN 6 MONTHS AND LESS THAN 1 YEAR | 1 TO 5 YEARS | MORE THAN 5 YEARS | TOTAL |
|---|---|---|---|---|---|---|
| Bond issues | | 11 | 24 | 721 | 1,640 | 2,396 |
| Bank borrowings | 331 | 35 | 311 | 1,130 | 731 | 2,538 |
| Finance lease obligations | 1 | 1 | 2 | 8 | 1 | 13 |
| Other borrowings | 2 | 6 | 1 | 22 | | 31 |
| Impact of derivative financial instruments excluding those related to PPP companies | 2 | 1 | 4 | 7 | | 14 |
| **TOTAL** | **336** | **54** | **342** | **1,888** | **2,372** | **4,992** |

| AUGUST 31, 2017<br>CARRYING AMOUNTS | LESS THAN 3 MONTHS | MORE THAN 3 MONTHS AND LESS THAN 6 MONTHS | MORE THAN 6 MONTHS AND LESS THAN 1 YEAR | 1 TO 5 YEARS | MORE THAN 5 YEARS | TOTAL |
|---|---|---|---|---|---|---|
| Bond issues | | 6 | 7 | 598 | 1,278 | 1,889 |
| Bank borrowings | 436 | 26 | 195 | 825 | 737 | 2,219 |
| Finance lease obligations | 1 | 1 | 2 | 7 | | 11 |
| Other borrowings | | | 2 | 25 | | 27 |
| **TOTAL** | **437** | **33** | **206** | **1,455** | **2,015** | **4,146** |

Excluding the impact of derivative financial instruments described in note 4.15.
For borrowings expressed in a foreign currency, amounts are translated at the year-end closing rate.
Maturities include interest accrued as of the period end.
Credit facility renewal rights are taken into account in determining maturities.

| AUGUST 31, 2017<br>UNDISCOUNTED CONTRACTUAL MATURITIES, INCLUDING PAYMENT OF FUTURE INTEREST NOT YET DUE | LESS THAN 3 MONTHS | MORE THAN 3 MONTHS AND LESS THAN 6 MONTHS | MORE THAN 6 MONTHS AND LESS THAN 1 YEAR | 1 TO 5 YEARS | MORE THAN 5 YEARS | TOTAL |
|---|---|---|---|---|---|---|
| Bond issues | | 10 | 21 | 714 | 1,358 | 2,103 |
| Bank borrowings | 436 (1) | 30 | 220 | 989 | 811 | 2,486 |
| Finance lease obligations | 1 | 1 | 2 | 8 | | 12 |
| Other borrowings | | | 2 | 27 | | 29 |
| Impact of derivative financial instruments excluding those related to PPP companies | 3 | 1 | 3 | 9 | | 16 |
| **TOTAL** | **440** | **42** | **248** | **1,747** | **2,169** | **4,646** |

(1) *Including 80 million euro of the 2015 ELS with Société Générale redeemed in advance in September 2017 (described in note 4.28 Subsequent events)*

## 4.15 Derivative financial instruments

The fair values of Sodexo's derivative financial instruments are as follows:

| DERIVATIVE FINANCIAL INSTRUMENTS (in millions of euro) | IFRS CLASSIFICATION | AUGUST 31, 2018 | AUGUST 31, 2017 |
|---|---|---|---|
| **Currency instruments** | | **9** | **3** |
| Assets | *Trading* | 11 | 6 |
| Liabilities | *Trading* | (2) | (3) |
| **Interest rate instruments[1]** | | **(6)** | **(10)** |
| ***Assets*** | *Trading* | | |
| ***Liabilities*** | *Trading* | **(6)** | (10) |
| **Cross-currency swaps[2]** | | **7** | **4** |
| *Assets* | *Cash flow hedge* | 8 | 5 |
| *Liabilities* | *Cash flow hedge* | (1) | (1) |
| **Net derivative financial instruments** | | **10** | **(3)** |

(1) Relates to an interest rate swap intended to fix the interest rate on synthetic debt resulting from the equity linked swaps described in note 4.14.3.
(2) Corresponds to a euro-BRL cross-currency swap with a notional value of 85 million BRL as of August 31, 2018 for which accrued interest of 1 million euro was recognized as a liability as of August 31, 2018.

The face values and fair values of currency instruments and cross-currency swaps are as follows by maturity:

| (in millions of euro) | AUGUST 31, 2018 | | | | AUGUST 31, 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | LESS THAN 1 YEAR | 1 TO 5 YEARS | MORE THAN 5 YEARS | TOTAL | LESS THAN 1 YEAR | 1 TO 5 YEARS | MORE THAN 5 YEARS | TOTAL |
| **Currency lender positions** | **39** | **62** | | **101** | **44** | **87** | | **131** |
| *Czech crown/Euro* | | | | | *6* | | | *6* |
| *Polish zloty/Euro* | *15* | | | *15* | *14* | | | *14* |
| *Mexican peso/Euro* | *5* | | | *5* | *6* | *6* | | *12* |
| *US Dollar/Euro* | *19* | 62 | | *81* | *18* | *81* | | *99* |
| **Currency borrower positions** | **(88)** | **(31)** | | **(119)** | **(36)** | **(81)** | **(6)** | **(123)** |
| *Pound sterling/Euro* | *(3)* | *(6)* | | *(9)* | *(3)* | *(14)* | *(4)* | *(21)* |
| *Brazilian real/Euro* | *(18)* | | | *(18)* | *(23)* | *(23)* | | *(46)* |
| *Mexican peso/Euro* | *(5)* | | | *(5)* | *(7)* | *(6)* | | *(13)* |
| *Swedish krona/Euro* | *(10)* | *(6)* | | *(16)* | | *(18)* | | *(18)* |
| *Other* | *(52)* | *(19)* | | *(71)* | *(3)* | *(20)* | *(2)* | *(25)* |
| **TOTAL** | **(49)** | **31** | | **(18)** | **8** | **6** | **(6)** | **8** |
| **Fair value** | **14** | **1** | | **15** | **6** | **1** | | **7** |

The "face value" represents the nominal value of currency hedging instruments, including amounts related to forward agreements. Foreign currency amounts are translated at year-end closing rates.

## 4.16 Long-term employee benefits

| (in millions of euro) | AUGUST 31, 2018 | AUGUST 31, 2017 |
|---|---|---|
| Net defined benefit plan assets[1] | (3) | (3) |
| Net defined benefit plan obligation | 239 | 318 |
| Other long-term employee benefits | 152 | 146 |
| **Employee benefits** | **388** | **461** |

(1) Included in "Other non-current assets" in the consolidated statement of financial position.

### 4.16.1 Post-employment benefits

#### 4.16.1.1 DEFINED CONTRIBUTION PLANS

Under a defined contribution plan, periodic contributions are made to an external entity that is responsible for the administrative and financial management of the plan. Under such a plan, the employer is relieved of any future obligation (the external entity is responsible for paying benefits to employees as they become due and the employer is not required to make additional payments related to prior or current years if the entity does not have sufficient funds).

Contributions to defined contribution plans – which were recognized in operating expenses – were 404 million euro for Fiscal 2018, compared with 448 million euro for Fiscal 2017.

Contributions made by the Group are expensed in the period to which they relate.

#### 4.16.1.2 DEFINED BENEFIT PLANS

The characteristics of the Group's principal defined benefit plans are described below:

- in France, the obligation primarily represents lump-sum benefits payable on retirement if the employee is still with the Company at retirement age. These obligations are covered by specific provisions in the consolidated statement of financial position;
- in the United Kingdom, the obligation relates to a complementary retirement plan funded by externally held assets, and calculated on the basis of:
- for managers working in the private sector, a percentage of final base salary,
- for managers working on public sector contracts, benefits comparable to those offered in the public sector,
- this plan was closed to new employees effective July 1, 2003 and the level of contributions was increased in order to cover the shortfall in the fund.

The United Kingdom plan is regularly evaluated by the plan's actuary in compliance with UK law. A formal actuarial valuation by the plan's actuary is required to be conducted every three years, and any shortfall identified at that time must be addressed through mutual agreement between the plan's Trustee and Sodexo UK. Following a consultation process with the members of the pension plan carried out with a view to freezing benefit accruals for certain members, an agreement was signed in October 2012 between the plan's Trustee and Sodexo UK whereby from November 1, 2012 the plan would remain open only to employees who transferred to Sodexo UK from the public sector, as Sodexo UK has a legal obligation to pay them certain benefits. As part of the 12-year plan to address the funding shortfall, Sodexo UK also agreed to pay annual contributions of (i) 10 million pounds sterling per year over the five years from January 1, 2013 and (ii) 7.5 million pounds sterling per year over the following seven years. Lastly, in October 2012, Sodexo SA issued a parent company guarantee to the Trustee in order to cover Sodexo UK's obligations in connection with the plan. This guarantee is for up to 100 million pounds sterling for a duration of 12 years. On completion of the most recent valuation of the fund in July 2016, Sodexo UK and the Trustee agreed to keep unchanged the amount of contributions and the terms and conditions of the parent company guarantee as set in October 2012.

In Continental Europe other than France, the main defined benefit plans are as follows:

- in the Netherlands, certain employees are entitled to complementary retirement or early retirement benefits.

  In Fiscal 2017 Sodexo negotiated an agreement to convert its pension plans in the Netherlands from defined benefit to defined contribution plans as from January 1, 2016. The entitlements accumulated up until that date under the plans in their previous defined benefit form have been frozen and the plans are still accounted for as defined benefit plans in view of the related indexation commitments given by Sodexo. These plans are fully funded;
- in Italy, there is a legal obligation to pay a lump-sum retirement benefit ("TFR").

Changes in the present value of the defined benefit plan obligation and the fair value of plan assets are shown below:

| (in millions of euro) | FISCAL 2018 | | | FISCAL 2017 | | |
|---|---|---|---|---|---|---|
| | BENEFIT OBLIGATION | PLAN ASSETS | NET BENEFIT OBLIGATION | BENEFIT OBLIGATION | PLAN ASSETS | NET BENEFIT OBLIGATION |
| **AS OF SEPTEMBER, 1** | **1,295** | **(980)** | **315** | **1,440** | **(1,034)** | **406** |
| Expense/(income) recognized in the income statement | 46 | (23) | 23 | 43 | (18) | 25 |
| *Current service cost* | *17* | | *17* | *22* | | *22* |
| *Past service cost* | *(1)* | | *(1)* | *(4)* | | *(4)* |
| *Effect of settlements* | | | | | | |
| *Interest cost/(income)* | *30* | *(23)* | *7* | *25* | *(18)* | *7* |
| Remeasurement losses/(gains) | (88) | 9 | (79) | (106) | 34 | (72) |
| *Actuarial losses/(gains) arising from changes in demographic assumptions* | *(4)* | | *(4)* | *(16)* | | *(16)* |
| *Actuarial losses/(gains) arising from changes in financial assumptions* | *(81)* | *9* | *(72)* | *(81)* | *34* | *(47)* |
| *Experience adjustments* | *(3)* | | *(3)* | *(9)* | | *(9)* |
| Currency translation adjustment | 22 | (19) | 3 | (76) | 62 | (14) |
| Contributions made by plan members | | | | 1 | (1) | |
| Employer contributions | | (26) | (26) | | (20) | (20) |
| Benefits paid from plan assets | (55) | 55 | | (52) | 52 | |
| Benefits paid other than from plan assets | | | | (10) | | (10) |
| Changes in scope of consolidation and other(1) | (18) | 17 | (1) | 55 | (55) | |
| **AS OF AUGUST, 31** | **1,203** | **(967)** | **236** | **1,295** | **(980)** | **315** |
| Of which: | | | | | | |
| Partially funded plans | 1,076 | (967) | 109 | 1,160 | (980) | 180 |
| Unfunded plans | 127 | | 127 | 135 | | 135 |

(1) Including a benefit obligation decrease amounting to 18 million euro in fiscal 2018, and assets for the same amount, linked to the retirement benefit obligations in six UK companies for which the client (public sector) contractually bears all the deficit of the plan.

The amounts recorded in the income statement for defined benefit plans totaled 23 million euro in Fiscal 2018 (25 million euro in Fiscal 2017) and break down as follows:

- net expense of 7 million euro in Fiscal 2018 (net expense of 8 million euro in Fiscal 2017) in cost of sales;
- net expense of 9 million euro in Fiscal 2018 (net expense of 10 million euro in Fiscal 2017) in Administrative and Sales Department costs;
- net expense of 7 million euro in financial expenses (see note 4.2).

Defined benefit plan assets comprise:

| (in millions of euro) | AUGUST 31, 2018 | AUGUST 31, 2017 |
|---|---|---|
| Equities | 158 | 145 |
| Bonds | 14 | 14 |
| Real estate | 39 | 68 |
| Cash | 17 | 15 |
| Investment funds | 353 | 304 |
| Insurance and other | 386 | 434 |
| **TOTAL** | **967** | **980** |

Recognized net actuarial gains arising from changes in financial assumptions amounted to 79 million euro, of which 72 million euro in the United Kingdom and 4 million euro in the United States. In the United Kingdom, these gains were mainly due to the updated discount rate.

The following assumptions were used for actuarial valuations for the principal countries as of August 31, 2018 and 2017:

| AUGUST 31, 2018 | FRANCE | NETHERLANDS | UNITED KINGDOM(4) | ITALY |
|---|---|---|---|---|
| Discount rate(1) | 0.75% - 1% | 1.25% - 2% | 2.5% - 2.8% | 1% |
| Salary long-term inflation rate(2) | 2.75% | 2% | 3.5% - 3.6% | N/A |
| General long-term inflation rate | 1.75% | 1.75% | 2% - 3%(3) | 1.75% |
| Net liability (in millions of euro) | 85 | 9 | 65 | 21 |
| Average term of the plans (in years) | 11 | 19 | 22 | 8 |

(1) Discount rates in each country have been adapted to reflect the term of the plans. For the euro zone and United Kingdom, the Group uses discount rates based on yield curves for high quality corporate bonds drawn up by an external actuary.
(2) The salary inflation rate disclosed includes general inflation.
(3) Retail price index (RPI): 2%; consumer price index (CPI): 3% for Fiscal 2018.
(4) Excluding 36 million euro in retirement benefit obligations in the 6 UK companies (offset by an asset in the same amount).

| AUGUST 31, 2017 | FRANCE | NETHERLANDS | UNITED KINGDOM(4) | ITALY |
|---|---|---|---|---|
| Discount rate(1) | 0.75% -1.75% | 2% | 2.5% | 0.75% |
| Salary long-term inflation rate(2) | 2.25% - 2.75% | 1.75% | 3.6% | N/A |
| General long-term inflation rate | 1.75% | 1.75% | 2.1% - 3.1%(3) | 1.75% |
| Net liability (in millions of euro) | 83 | 10 | 136 | 23 |
| Average term of the plans (in years) | 10 | 20 | 21 | 8 |

(1) Discount rates in each country have been adapted to reflect the term of the plans. For the euro zone and United Kingdom, the Group uses discount rates based on yield curves for high quality corporate bonds drawn up by an external actuary.
(2) The salary inflation rate disclosed includes general inflation.
(3) Retail Price Index (RPI): 3.1%; Consumer Price Index (CPI): 2.1% for Fiscal 2017.
(4) Excluding 53 million euro in retirement benefit obligations in the 6 UK companies (offset by an asset in the same amount).

With respect to the assumptions provided in the above table, for Fiscal 2018, and excluding the 36 million euro retirement benefit obligations in the 6 UK companies (offset by an asset in the same amount), a reduction of 1% in the discount rate would increase the gross obligation to 1,413 million euro (compared with 1,166 million euro based on the assumptions used as of August 31, 2018), while a rise of 0.5% in the general long-term inflation rate would increase the gross obligation to 1,258 million euro.

Based on estimates derived from reasonable assumptions, Sodexo will pay 14 million euro into defined benefit plans in Fiscal 2019.

#### 4.16.1.3 MULTIEMPLOYER PLANS

In the USA, as of August 31, 2018, the Company contributed to 47 multiemployer defined benefit pension plans under the terms of collective-bargaining agreements ("CBA") that cover its union-represented employees. The risks of participating in these multiemployer plans are different than those of single-employer plans in the following respects:

- assets contributed to the multiemployer plan by the Company are used to provide benefits to all beneficiaries of the plan, including beneficiaries of other participating employers;
- if a multiemployer plan is considered to be in "critical" status as defined by the US Pension Protection Act of 2006, the plan will be required to adopt a rehabilitation plan which may require the Company to increase its required contributions to the plan;
- if a participating employer ceases to contribute to the plan, the unfunded obligations of the plan may have to be borne by the Company and the other remaining participating employers; and
- if the Company ceases to participate in a multiemployer plan, entirely or partially in excess of a threshold, or if substantially all of the participating employers of a given plan cease to participate, the Company may be required to pay that plan an amount based on the value of unfunded vested benefits of the plan and the Company's pro-rata share of total plan contributions, referred to as withdrawal liability.

The Company does not have the ability to account for these multiemployer plans as defined benefit plans because it does not have timely access to information about plan assets, plan obligations, actuarial gains and losses, service costs, and interest costs. As such, the multiemployer plans are accounted for as defined contribution plans.

The Company contributed 13 million euro for US multiemployer defined benefit plans in 2018. Of the contributions made by the Company, 53% and 2% were made to plans considered to be in “critical” status or “endangered” status, respectively, as defined by the U.S. Pension Protection Act of 2006 and per each plan’s most-recent notice of plan funding status. Plans are generally considered to be in “critical” status when they are funded at less than 65%, among other factors, and are considered to be “endangered” when they are funded at 65% or more, but at less than 80%, among other factors.

### 4.16.2 Other employee benefits

Other employee benefits, in the amount of 152 million euro as of August 31, 2018 (149 million euro as of August 31, 2017), mainly comprise a liability related to a deferred compensation program in the United States and obligations relating to long-service awards.

The total expense recognized with respect to these benefits in Fiscal 2018 was 12 million euro (8 million euro in Fiscal 2017), of which 2 million euro (unchanged from Fiscal 2017) related to a deferred compensation program in the United States and was reported in financial expenses.

## 4.17 Provisions

| (in millions of euro) | AUGUST 31, 2017 | INCREASES/CHARGES | REVERSALS WITH UTILIZATION | REVERSALS WITHOUT UTILIZATION | CURRENCY TRANSLATION ADJUSTMENT AND OTHER | CHANGES IN SCOPE OF CONSOLIDATION | AUGUST 31, 2018 |
|---|---|---|---|---|---|---|---|
| Tax and social security exposures | 34 | 4 | (1) | | (3) | | 34 |
| Employee claims and litigation | 63 | 17 | (20) | (8) | (6) | 1 | 47 |
| Contract termination and loss- making contracts | 7 | 8 | (6) | (1) | | 10 | 18 |
| Reorganization costs | 13 | 1 | (8) | (1) | | | 5 |
| Client/supplier claims and litigation | 13 | 8 | (4) | (3) | | 21 | 35 |
| Negative net assets of associates* | 7 | | | | (1) | | 6 |
| Other provisions | 17 | 4 | (3) | (2) | (1) | 1 | 16 |
| **TOTAL PROVISIONS** | **154** | **42** | **(42)** | **(15)** | **(11)** | **33** | **161** |

* Investments in companies consolidated by the equity method that have negative net assets (see note 4.8).

| (in millions of euro) | AUGUST 31, 2016 | INCREASES/CHARGES | REVERSALS WITH UTILIZATION | REVERSALS WITHOUT UTILIZATION | CURRENCY TRANSLATION ADJUSTMENT AND OTHER | CHANGES IN SCOPE OF CONSOLIDATION | AUGUST 31, 2017 |
|---|---|---|---|---|---|---|---|
| Tax and social security exposures | 51 | 3 | (4) | (15) | (1) | | 34 |
| Employee claims and litigation | 60 | 32 | (19) | (9) | (1) | | 63 |
| Contract termination and loss-making contracts | 7 | 1 | (2) | | | 1 | 7 |
| Reorganization costs | 29 | 11 | (23) | (4) | | | 13 |
| Client/supplier claims and litigation | 22 | 4 | (2) | (16) | 5 | | 13 |
| Negative net assets of associates* | 7 | | | | | | 7 |
| Other provisions | 18 | 8 | | (4) | (2) | (3) | 17 |
| **TOTAL PROVISIONS** | **194** | **59** | **(50)** | **(48)** | **1** | **(2)** | **154** |

* Investments in companies consolidated by the equity method that have negative net assets (see note 4.8).

Provisions for exposures and litigation are determined on a case-by-case basis and rely on management's best estimate of the outflows deemed likely to satisfy legal or implicit obligations to which the Group is exposed as of the end of the fiscal year.

Current and non-current provisions are as follows:

| (in millions of euro) | AUGUST 31, 2018 | | AUGUST 31, 2017 | |
|---|---|---|---|---|
| | CURRENT | NON-CURRENT | CURRENT | NON-CURRENT |
| Tax and social security exposures | 6 | 28 | 4 | 30 |
| Employee claims and litigation | 26 | 21 | 32 | 31 |
| Contract termination and loss-making contracts | 8 | 10 | 3 | 4 |
| Reorganization costs | 3 | 2 | 9 | 4 |
| Client/supplier claims and litigation | 28 | 7 | 12 | 1 |
| Negative net assets of associates* | | 6 | | 7 |
| Other provisions | 2 | 14 | 1 | 16 |
| **TOTAL PROVISIONS** | **73** | **88** | **61** | **93** |

* Investments in companies consolidated by the equity method that have negative net assets (see note 4.8).

## 4.18 Trade and other payables

| (in millions of euro) | AUGUST 31, 2018 | AUGUST 31, 2017 |
|---|---|---|
| Operating payables | 163 | 153 |
| Non-operating payables | 27 | 28 |
| **TOTAL OTHER NON-CURRENT LIABILITIES** | **190** | **181** |
| Advances from clients | 341 | 282 |
| Trade payables | 2,226 | 2,112 |
| Employee-related liabilities | 1,101 | 1,106 |
| Tax liabilities | 285 | 257 |
| Other operating payables | 114 | 81 |
| Deferred revenues | 120 | 97 |
| Non-operating payables | 37 | 19 |
| **TOTAL TRADE AND OTHER CURRENT PAYABLES** | **4,224** | **3,954** |
| **TOTAL TRADE AND OTHER PAYABLES** | **4,414** | **4,135** |

Employee-related liabilities mainly include short-term employee benefits.

The Sodexo Group has set up several reverse factoring programs in its main operating countries, which give its suppliers the opportunity of being paid in advance. In practice these programs involve sales of trade receivables to a factor, organized by Sodexo.

Relations between the parties concerned are governed by two totally separate contracts:

- the Sodexo Group signs a master agreement with the factor, pursuant to which it undertakes to pay on the scheduled due dates the invoices sold by its suppliers to the factor (which have been approved in advance). Each supplier is free to choose whether or not to sell each of its invoices;
- The Sodexo Group's suppliers can, if they wish, sign a master agreement with the factor enabling them to sell their invoices before their scheduled due date, under conditions that take into consideration the Sodexo Group's credit risk.

As of August 31, 2018, the total amount of receivables sold by Sodexo's suppliers under these reverse factoring programs was 370 million euro.

Trade payables that have been financed through a reverse factoring program as of the fiscal year-end are still classified as trade payables and included in the total trade payables figure.

| MATURITIES OF TRADE AND OTHER PAYABLES | CARRYING AMOUNT | UNDISCOUNTED CONTRACTUAL VALUE |
|---|---|---|
| Less than 3 months | 3,043 | 3,041 |
| More than 3 months and less than 6 months | 291 | 291 |
| More than 6 months and less than 12 months | 848 | 848 |
| More than 1 year and less than 5 years | 166 | 175 |
| More than 5 years | 66 | 79 |
| **TOTAL TRADE AND OTHER PAYABLES** | **4,414** | **4,434** |

## 4.19 Deferred taxes

Movements in deferred taxes were as follows in Fiscal 2018:

| (in millions of euro) | AUGUST 31, 2017 | DEFERRED TAX BENEFIT/(EXPENSE) | DEFERRED TAX RECOGNIZED IN OTHER COMPREHENSIVE INCOME | CURRENCY TRANSLATION ADJUSTMENT AND OTHER | AUGUST 31, 2018 |
|---|---|---|---|---|---|
| • Employee-related liabilities | 268 | (117) | (12) | 17 | 156 |
| • Fair value of financial instruments | 1 | | | 14 | 15 |
| • Intangible assets | (70) | 21 | | (2) | (51) |
| • Other temporary differences | (218) | 20 | | (14) | (212) |
| • Tax loss carry-forwards | 69 | (4) | | 6 | 71 |
| **TOTAL** | **50** | **(80)** | **(12)** | **21** | **(21)** |
| **Of which deferred tax assets** | **187** | | | | **105** |
| **Of which deferred tax liabilities** | **(137)** | | | | **(126)** |

Movements in deferred taxes were as follows in Fiscal 2017:

| (in millions of euro) | AUGUST 31, 2016 | DEFERRED TAX BENEFIT/(EXPENSE) | DEFERRED TAX RECOGNIZED IN OTHER COMPREHENSIVE INCOME | CURRENCY TRANSLATION ADJUSTMENT AND OTHER | AUGUST 31, 2017 |
|---|---|---|---|---|---|
| • Employee-related liabilities | 318 | (9) | (21) | (20) | 268 |
| • Fair value of financial instruments | (22) | 18 | | 5 | 1 |
| • Intangible assets | (66) | 1 | | (5) | (70) |
| • Other temporary differences | (179) | (50) | | 11 | (218) |
| • Tax loss carry-forwards | 87 | (15) | | (3) | 69 |
| **TOTAL** | **138** | **(55)** | **(21)** | **(12)** | **50** |
| **Of which deferred tax assets** | **287** | | | | **187** |
| **Of which deferred tax liabilities** | **(149)** | | | | **(137)** |

Deferred tax assets arising on tax loss carry-forwards and not recognized because their recovery is not considered probable totaled 268 million euro as of August 31, 2018 (258 million euro as of August 31, 2017), including 9 million euro generated by subsidiaries prior to their acquisition (6 million euro as of August 31, 2017).

Temporary differences on employee-related liabilities relate primarily to post-employment benefits.

Other temporary differences mainly include deferred taxes recognized on the tax-deductible portion of the amortization that is recognized on goodwill in certain countries, which amounted to 225 million euro as of August 31, 2018 (229 million euro as of August 31, 2017).

## 4.20 Financial instruments

The table below presents the categories of financial instruments, their carrying amount and their fair value, by item in the consolidated statement of financial position.

The levels used for the classification of financial instruments are as follows:

- Level 1: Instruments traded on an active market;
- Level 2: Instruments measured through inputs other than quoted prices included within Level 1 and that are observable;
- Level 3: Instruments whose fair value is determined using valuation techniques based on unobservable inputs.

| FINANCIAL ASSETS (in millions of euro) | CATEGORY | NOTE | AUGUST 31, 2018 | | FAIR VALUE LEVEL | | | |
|---|---|---|---|---|---|---|---|---|
| | | | CARRYING AMOUNT | FAIR VALUE | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
| Marketable securities | Financial assets at fair value through profit or loss | 4.12 | 365 | 365 | 29 | 336 | | 365 |
| Restricted cash and financial assets related to the Benefits and Rewards Services activity | Available-for-sale financial assets | 4.10 | 1,042 | 1,042 | 294 | 748 | | 1,042 |
| Trade and other receivables | Loans and receivables at amortized cost | 4.11 | 4,121 | 4,121 | | | | |
| Other financial assets | Available-for-sale financial assets | 4.10 | 59 | 59 | | | | |
| | Loans and receivables at amortized cost | 4.10 | 135 | 135 | | | | |
| Derivative financial instrument assets | | 4.15 | 18 | 18 | | 18 | | 18 |

| FINANCIAL LIABILITIES (in millions of euro) | CATEGORY | NOTE | AUGUST 31, 2018 | | FAIR VALUE LEVEL | | | |
|---|---|---|---|---|---|---|---|---|
| | | | CARRYING AMOUNT | FAIR VALUE | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
| Bond issues(1) | Financial liabilities at amortized cost | 4.14 | 2,191 | 2,266 | 2,266 | | | 2,266 |
| Bank borrowings | Financial liabilities at amortized cost | 4.14 | 2,256 | 2,297 | 240 | 2,057 | | 2,297 |
| Other borrowings | Financial liabilities at amortized cost | 4.14 | 39 | 39 | | | | |
| Bank overdrafts | Financial liabilities at amortized cost | 4.12 | 28 | 28 | | | | |
| Trade and other payables | Financial liabilities at amortized cost | 4.18 | 4,224 | 4,224 | | | | |
| Vouchers payable | Financial liabilities at amortized cost | | 2,780 | 2,780 | | | | |
| Derivative financial instrument liabilities | | 4.15 | 8 | 8 | | 8 | | 8 |

(1) Fair value is calculated on the basis of listed bond prices as of August 31, 2018.

| FINANCIAL ASSETS (in millions of euro) | CATEGORY | NOTE | AUGUST 31, 2017 | | FAIR VALUE LEVEL | | | |
|---|---|---|---|---|---|---|---|---|
| | | | CARRYING AMOUNT | FAIR VALUE | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
| Marketable securities | Financial assets at fair value through profit or loss | 4.12 | 420 | 420 | 37 | 383 | | 420 |
| Restricted cash and financial assets related to the Benefits and Rewards Services activity | Available-for-sale financial assets | 4.10 | 909 | 909 | 233 | 676 | | 909 |
| Trade and other receivables | Loans and receivables at amortized cost | 4.11 | 4,050 | 4,050 | | | | |
| Other financial assets | Available-for-sale financial assets | 4.10 | 55 | 55 | | | | |
| | Loans and receivables at amortized cost | 4.10 | 107 | 107 | | | | |
| Derivative financial instrument assets | | 4.15 | 11 | 11 | | 11 | | 11 |

| FINANCIAL LIABILITIES (in millions of euro) | CATEGORY | NOTE | AUGUST 31, 2017 | | FAIR VALUE LEVEL | | | |
|---|---|---|---|---|---|---|---|---|
| | | | CARRYING AMOUNT | FAIR VALUE | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
| Bond issues[1] | Financial liabilities at amortized cost | 4.14 | 1,889 | 1,990 | 1,990 | | | 1,990 |
| Bank borrowings | Financial liabilities at amortized cost | 4.14 | 2,219 | 2,260 | 331 | 1,928 | 1 | 2,260 |
| Other borrowings | Financial liabilities at amortized cost | 4.14 | 38 | 38 | | | | |
| Bank overdrafts | Financial liabilities at amortized cost | 4.12 | 38 | 38 | | | | |
| Trade and other payables | Financial liabilities at amortized cost | 4.18 | 3,955 | 3,955 | | | | |
| Vouchers payable | Financial liabilities at amortized cost | | 2,764 | 2,764 | | | | |
| Derivative financial instrument liabilities | | 4.15 | 14 | 14 | | 14 | | 14 |

(1) Fair value is calculated on the basis of listed bond prices as of August 31, 2017.

There were no transfers between the various fair value hierarchy levels between Fiscal 2017 and Fiscal 2018.

## 4.21 Share-based payment

### 4.21.1 Stock option plans

#### PRINCIPAL FEATURES OF SODEXO STOCK OPTION PLANS

Rules governing stock option plans are as follows:

- the option exercise price has no discount;
- contractual life of options: 6-7 years.

#### ESTIMATION OF FAIR VALUE AT DATE OF GRANT

The fair value of options granted and settled by delivery of equity instruments is estimated at the date of grant using a binomial model, which takes into consideration the terms and conditions of grant and assumptions about exercise behavior.

As the exercise of the options is subject to a continued presence condition within the Group representing a maximum of four years as from the grant date, no expense was recorded in either Fiscal 2018 or 2017 in the consolidated financial statements for stock options granted up until December 2011.

#### MOVEMENTS DURING FISCAL 2018 AND FISCAL 2017

The table below provides the quantity, weighted average exercise price (WAP) and movements of stock options during Fiscal 2018 and Fiscal 2017:

| | FISCAL 2018 | | FISCAL 2017 | |
|---|---|---|---|---|
| | NUMBER | WAP (in euro) | NUMBER | WAP (in euro) |
| **Outstanding at the beginning of the period** | **529,443** | **50.39** | **1,016,931** | **48.43** |
| Forfeited during the period | (11,075) | 51.06 | (7,755) | 48.00 |
| Exercised during the period | (479,733)[1] | 50.27 | (479,733)[2] | 46.28 |
| **Outstanding at the end of the period** | **45,765** | **51.40** | **529,443** | **50.39** |
| **Exercisable at the end of the period** | **45,765** | **51.40** | **529,443** | **50.39** |

(1) The weighted average share price at the exercise date of options exercised in Fiscal 2018 was 101.43 euro.
(2) The weighted average share price at the exercise date of options exercised in Fiscal 2017 was 106.93 euro.

The weighted average residual life of options outstanding as of August 31, 2018 was 0.3 of a year (August 31, 2017: 0.8 years).

The exercise prices and exercise periods for options outstanding as of August 31, 2018 are provided in the table below:

| Date of grant | START DATE OF EXERCISE PERIOD | EXPIRATION DATE OF EXERCISE PERIOD | EXERCISE PRICE | NUMBER OF OPTIONS OUTSTANDING AS OF AUGUST 31, 2018 |
|---|---|---|---|---|
| December 2011 | December 2012 | December 2018 | 51.40 euro | 45,765 |
| **TOTAL** | | | | **45,765** |

### 4.21.2 Free share plans

#### PRINCIPLE FEATURES OF SODEXO FREE SHARE PLANS

Rules governing free Sodexo share plans are as follows:

- Free shares vest only if the beneficiary is still working for the Sodexo Group on the vesting date; in addition, some free share grants are subject to a performance condition;
- For the free shares awarded in 2013, 2014 and 2015, for beneficiaries who are French tax residents the vesting period is two years for shares not subject to any performance condition and three years for performance shares, provided in both cases that the beneficiary is still working for the Sodexo Group on the vesting date. For non-French tax residents, the vesting period is four years. Free shares awarded to French tax residents are also subject to a two-year lock-up period as from the vesting date;
- For the free shares awarded in 2016, 2017 and 2018, the vesting period for all beneficiaries is four years, with no subsequent lock-up period. In addition, beneficiaries must still be working for the Sodexo Group on the vesting date in order for the shares to vest;
- The proportion of shares subject to a performance condition ranges from 0% to 80% (depending on the total number of shares awarded), except for the shares granted to the Sodexo Group Chief Executive Officer which consist solely of performance shares.

The performance conditions other than those related to stock market performance ("non-market performance conditions") were as follows:

- For the free shares awarded up to and including 2015, the non-market performance condition is based on annual growth in Group net income over a three-year period;
- For the free shares awarded since 2016, the non-market performance condition is based on annual growth in consolidated underlying operating profit of the Sodexo Group (before exceptional items and excluding currency effects) over a four-year period. For the 2018 plan, a portion of the shares is also subject to the achievement of Corporate Responsibility objectives.

Since the 2015 plan, a portion of the free shares awarded has also been subject to a stock market performance condition as follows:

- For the 2015 plan, a portion of the shares awarded to members of the Group Executive Committee is subject to a Total Shareholder Return (TSR) target. TSR is a measure of the performance of a company's shares over time. It combines share price appreciation and dividends paid to show the total return to the shareholder. For the free shares awarded in 2015, the TSR must have increased by at least 20% between August 31, 2014 and the Annual Shareholders' Meeting called to approve the Fiscal 2018 financial statements, in January 2018;
- For the 2016 and 2017 plans, a portion of the shares awarded to the members of the Group Executive Committee and to beneficiaries of more than 1,000 shares under the 2017 plan, are subject to a TSR performance condition. For the shares subject to this condition to vest, Sodexo's TSR must be positive and outperform the CAC 40 GR (Gross Total Return) index, published by Euronext, between (i) January 27, 2016 and the date of the Annual Shareholders' Meeting called to approve the Fiscal 2019 financial statements for the 2016 plan, and (ii) January 25, 2017 and the date of the Annual Shareholders' Meeting called to approve the Fiscal 2020 financial statements for the 2017 plan;
- For the 2018 plan, a portion of the shares awarded to the members of the Group Executive Committee and to beneficiaries of more than 250 shares, Sodexo's TSR will be compared to that of two peer groups. The first peer group is made up of 12 companies selected based on their size, the similarity of their operations to those of Sodexo and the fact that they all operate in the outsourcing and shared services industry. The second peer group comprises CAC 40 companies. In both cases, the number of shares that will vest will depend on Sodexo's ranking within the peer group, with no shares vesting if Sodexo's ranking is below the third quartile. The starting share price used will be the average of the share prices quoted over the thirty (30) calendar days preceding the plan grant date. The end share price used to measure the overall stock market performance will be the average of the share prices quoted over the thirty (30) calendar days preceding the performance assessment date (March 27, 2022).

#### ESTIMATED FAIR VALUE AT DATE OF GRANT

The fair value of free shares is estimated at the date of grant based on the Sodexo share price at that date after deductions for dividends on the shares that will not be paid to beneficiaries during the vesting period and, where applicable, a lock-up discount. The lock-up discount is determined based on the cost for the employee of a two-step strategy consisting of selling the shares forward for delivery at the end of the lock-up period and purchasing the same number of shares for immediate delivery, with the purchase financed by a loan, taking into account market inputs.

The fair value of free shares subject to a performance condition based on Total Shareholder Return is estimated using a binomial model that takes into account the vesting conditions.

#### MOVEMENTS IN FISCAL 2018 AND FISCAL 2017

The table below shows movements in Sodexo free shares in Fiscal 2018 and Fiscal 2017:

| | FISCAL 2018 | FISCAL 2017 |
|---|---|---|
| **Outstanding at the beginning of the period** | **2,801,195** | **2,787,243** |
| Granted during the period | 931,880 | 906,845 |
| Forfeited during the period | (145,391) | (168,841) |
| Delivered during the period | (583,325) | (724,052) |
| **Outstanding at the end of the period** | **3,025,219** | **2,801,195** |

The weighted average fair value of the Sodexo free shares granted in Fiscal 2018 was 66.61 euro for shares granted in Fiscal 2018 (92.56 euro for shares granted in Fiscal 2017).

The table below shows the grant dates of free shares outstanding as of August 31, 2018, the assumptions used to estimate their fair value at the grant date and the number of free shares outstanding at the period end:

| DATE OF GRANT | | VESTING PERIOD (in years) | LOCK-UP PERIOD (in years) | EXPECTED DIVIDEND YIELD (%) | RISK-FREE INTEREST RATE (%) | LOAN INTEREST RATE (%) | VOLATILITY[(1)] (in %) | NUMBER OF SHARES OUTSTANDING AS OF AUGUST 31, 2017 |
|---|---|---|---|---|---|---|---|---|
| April 25, 2013 | International | 4 | N/A | 2.5% | 0.6% | 6% | | 0 |
| March 11, 2014 | International | 4 | N/A | 2.5% | 0.8% | 5.8% | | 0 |
| April 27, 2015 | France | 3 | 2 | 2.5% | 0.1% | 5.2% | 21% | 0 |
| April 27, 2015 | International | 4 | N/A | 2.5% | 0.2% | 5.2% | 21% | 475,020 |
| December 1, 2015 | France | 2 | 2 | 2.5% | 0% | 4.3% | | 0 |
| December 1, 2015 | France | 3 | 2 | 2.5% | 0% | 4.3% | 22.5% | 3,025 |
| December 1, 2015 | International | 4 | N/A | 2.5% | 0% | 4.3% | 22.5% | 3,350 |
| April 27, 2016 | N/A | 4 | N/A | 2.5% | 0% | N/A | 22% | 758,605 |
| September 30, 2016 | N/A | 4 | N/A | 2.5% | 0% | N/A | 22% | 11,600 |
| November 30, 2016 | N/A | 4 | N/A | 2.5% | 0% | N/A | 22% | 10,000 |
| April 20, 2017 | N/A | 4 | N/A | 2.4% | 0% | N/A | 18.1% | 839,249 |
| September 14, 2017 | N/A | 4 | N/A | 2.4% | 0% | N/A | 18.1% | 14,000 |
| April 27, 2018 | N/A | 4 | N/A | 2.7% | 0% | N/A | 21.3% | 910,370 |
| **TOTAL** | | | | | | | | **3,025,219** |

(1) Applicable for the portion of the free share grants subject to the TSR performance condition. Volatility is determined by reference to the share's historical weighted average volatility over five years and the implicit volatility expected by the market.

### 4.21.3 Expense recognized during the fiscal year

The expense recognized in the Fiscal 2018 income statement for free shares was 44 million euro (43 million euro in Fiscal 2017).

## 4.22 Business combinations

The main acquisitions carried out by the Group during the period are set out in note 4.5, "Goodwill". A summarized amount of assets acquired and liabilities assumed at the acquisition dates, measured on a provisional basis as of August 31, 2018, is provided in the table below:

| (in millions of euro) | AUGUST 31, 2018 | *Of which Centerplate* |
|---|---|---|
| Intangible assets[(1)] | 224 | *236* |
| Property, plant and equipment | 49 | *44* |
| Other non-current assets (including client investments) | 27 | *27* |
| Trade receivables | 43 | *33* |
| Other current assets | 47 | *43* |
| Cash and cash equivalents | 26 | *11* |
| Borrowings | (2) | |
| Other non-current liabilities | (34) | *(33)* |
| Net deferred tax liabilities | 9 | *5* |
| Other current liabilities | (130) | *(109)* |
| **TOTAL IDENTIFIABLE NET ASSETS** | **259** | ***257*** |
| Goodwill | 462 | *352* |
| Commitments written over non- controlling interests | (2) | |
| Impact of acquisitions of control of companies consolidated by the equity method | | |
| **CONSIDERATION TRANSFERRED** | **(719)** | ***(609)*** |
| Cash acquired | 26 | *11* |
| Change in liabilities related to acquisitions of subsidiaries | 10 | |
| **IMPACT ON THE CASH FLOW STATEMENT** | **(683)** | ***(598)*** |

(1) Including negative adjustments during the 12-month measurement period for acquisitions that took place in Fiscal 2017.

Companies acquired during Fiscal 2018 contributed 654 million euro to consolidated revenues and 35 million euro to consolidated underlying operating profit following their consolidation. The acquisition of Centerplate, which was the main business combination in Fiscal 2018, was completed on December 26, 2017. If Centerplate had been consolidated as from September 1, 2017 it would have contributed 294 million euro to consolidated revenues and 12 million euro to consolidated underlying operating profit for Fiscal 2018.

Significant entities acquired during the fiscal year are disclosed in Chapter 6 (N).

Intangible assets mainly include customer relationships and trademarks. The amortization periods for these intangible assets have been set by Management at a maximum of 20 years based on the estimated attrition rate for the contracts concerned and the probable useful lives of the trademarks. Goodwill corresponds to the positive difference between the acquisition price and the total fair value of the identifiable net assets.

## 4.23 Commitments and contingencies

### 4.23.1 Sureties

As of August 31, 2018, the following guaranties were made in connection with financing arrangements:

- 4,543,183 Sodexo shares were pledged to Natixis,
- 2,717,392 Sodexo shares were pledged to CACIB
- 1,902,658 Sodexo shares were pledged to the US investors in connection with the USD notes
- 533,266 Sodexo shares were pledged to the US investors in connection with the euro notes

As such, a total of 9,696,499 of the 62,250,485 Sodexo shares held by Bellon SA were pledged.

Commitments arising from surety arrangements (pledges, charges secured against plant and equipment, and real estate mortgages) contracted by Sodexo SA and its subsidiaries in connection with operating activities during Fiscal 2018 are not material.

### 4.23.2 Operating lease commitments

Outstanding commitments arising in respect of operating leases are as follows:

| (in millions of euro) | AUGUST 31, 2018 | AUGUST 31, 2017 |
|---|---|---|
| Less than 1 year | 144 | 112 |
| 1 to 5 years | 377 | 232 |
| More than 5 years | 141 | 65 |
| **TOTAL** | **663** | **409** |

These commitments arise under contracts worldwide, the terms of which are negotiated locally. They relate primarily to:

- equipment on sites, office equipment and vehicles for 109 million euro (111 million euro as of August 31, 2017);
- the rent for office premises of 331 million euro (289 million euro as of August 31, 2017), related mainly to the Sodexo Group's corporate headquarters in Issy-les-Moulineaux (28 million euro), the offices of Sodexo France (46 million euro) and Sodexo, Inc. (56 million euro);
- minimum concession fee payments for sites in France and the United States (213 million euro).

### 4.23.3 Other commitments given

| (in millions of euro) | AUGUST 31, 2018 | | | | AUGUST 31, 2017 |
|---|---|---|---|---|---|
| | LESS THAN 1 YEAR | 1 TO 5 YEARS | MORE THAN 5 YEARS | TOTAL | TOTAL |
| Financial guarantees to third parties | 1 | 1 | | 2 | 1 |
| Site management commitments | 1 | 1 | | 2 | 3 |
| Performance bonds given to clients | 45 | 22 | 116 | 183 | 179 |
| Other commitments | 7 | 15 | 112 | 134 | 148 |
| **TOTAL** | **54** | **39** | **228** | **321** | **331** |

Financial guarantees to third parties mainly comprise bank subordinated debt commitments under Public-Private Partnership (PPP) contracts (see note 2.3.2) totaling 1 million euro.

The performance bonds given to clients relate to around twenty sub-contracting contracts where the Group considers that it may be exposed to indemnity payments if it is unable to fulfill the service obligation. These bonds are subject to regular review by the management of the business unit and a provision is recorded as soon as payment under a bond becomes probable. For all other contracts with a performance bond, the Group considers that it can deploy the additional resources needed to avoid paying compensation under the bond.

The Group also has performance obligations to clients, but regards these as having the essential features of a performance guarantee rather than an insurance contract designed to compensate the client in the event of non-fulfillment of the service obligation (compensation is generally due only where Sodexo is unable to provide alternative or additional resources to fulfill the obligation to the client).

In practice, given its size and geographical reach, the Sodexo Group considers itself capable of providing the additional resources needed to avoid paying compensation to clients protected by such clauses.

At this time, no provision has been recorded in the consolidated statement of financial position with respect to these guarantees.

The "Other commitments" line mainly includes the 12-year guarantee given by Sodexo SA in October 2012 to the Trustee of the UK pension plan (i.e., until October 2024) for a maximum of 100 million pounds sterling in order to cover Sodexo UK's obligations in connection with the plan.

## 4.24 Related parties

Other transactions with related companies comprise loans advanced, commercial transactions, and off balance sheet commitments involving associates and non-consolidated companies.

| (in millions of euro) | AUGUST 31, 2018 | | | AUGUST 31, 2017 |
|---|---|---|---|---|
| | GROSS | IMPAIRMENT | CARRYING AMOUNT | CARRYING AMOUNT |
| Loans | 44 | | 44 | 77 |

| OFF-BALANCE SHEET COMMITMENTS | AUGUST 31, 2018 | AUGUST 31, 2017 |
|---|---|---|
| Financial guarantees to third parties | 2 | 1 |
| Performance bonds given to clients | 183 | 179 |

| TRANSACTIONS | FISCAL 2018 | FISCAL 2017 |
|---|---|---|
| Revenues | 228 | 401 |
| Operating expenses | | (2) |
| Financial income and expense, net | 2 | 3 |

## 4.25 Compensation, loans, post-employment benefits and other employee benefits granted to members of the Executive Supervisory boards of Bellon SA

The compensation, loans, post-employment benefits and other benefits granted to Board members, the Executive Committee, and the Group Chief Executive Officer of Sodexo in office as of August 31, 2018 and August 31, 2017 respectively for Fiscal 2018 and Fiscal 2017 comprise the following:

| (in euro) | Fiscal 2018 | Fiscal 2017 |
|---|---|---|
| Compensation paid by Bellon S.A. to members of its Executive and Supervisory Boards | 999,000 | 999,000 |
| Directors' fees paid by Bellon S.A. to members of its Executive and Supervisory Boards | 210,000 | 210,000 |
| Directors' fees paid by Sodexo to members of its Board of Directors who are also members of Bellon S.A.'s Executive and Supervisory Boards | 220,600 | 179,100 |
| Compensation and benefits paid by Sodexo subsidiaries to members of Sodexo's Board of Directors who are also members of Bellon S.A.'s Executive and Supervisory Boards | 851,583 | 751,569 |
| **TOTAL** | **2,281,183** | **2,139,669** |

These benefits include directors' fees, and all forms of compensation and benefits paid (or earned during the period for offices held) by Bellon SA, Sodexo SA and/or other Sodexo Group companies.

## 4.26 Group employees

The following table shows the breakdown of Group employees:

| | AUGUST 31, 2018 | AUGUST 31, 2017 |
|---|---|---|
| **TOTAL HEADCOUNT** | **460,672**(1) | **427,277** |

(1) Including Centerplate's 27,696 employees.

## 4.27 Disputes and litigation

- The company is in dispute with the Brazilian tax authorities regarding the tax deductibility of the amortization of goodwill recognized on the purchase of VR in March 2008. For the record, in Fiscal year 2017, Sodexo Pass Do Brasil received a tax reassessment notice from the Brazilian tax authorities for fiscal years 2010, 2011 and 2012 relating to the deductibility for tax purposes of the amortization of goodwill recognized on the purchase of VR in March 2008. The reassessment amounted to 102 million euro (breaking down as 30 million euro in principal and 72 million euro in penalties and late payment interest).

  Sodexo Pass Do Brasil is firmly disputing this reassessment, which the Brazilian tax authorities originally envisaged during a previous tax audit covering fiscal years 2008 and 2009 but then abandoned. The company considers that the goodwill amortization was valid, both in terms of its underlying reasons and the way it has been recorded. Therefore, the company considers that there is a strong probability of winning the dispute with the tax authorities, and this has been confirmed by its tax advisors. Consequently, no provision was recorded for this dispute in the consolidated statement of financial position as of August 31, 2017.

  This dispute was presented on August 14, 2018 for a judgment of the competent administrative court. The court ruled in favor of Sodexo Pass do Brasil as it considered that the goodwill and corresponding amortization were legitimately recognized on the acquisition of VR. The judgment therefore confirms that Sodexo Pass do Brasil acquired a full business structure when it purchased VR.

  This judgment can be reversed on appeal. The group believes, however, that the risk of change in this judgement is low.

  In addition, the tax savings generated by this tax depreciation were offset in the consolidated accounts of the group by a deferred tax expense of the same amount for each of the financial periods concerned, in accordance with the IFRS rules. The balance of the related deferred tax liability amounts to EUR 65 million at the end of the financial year.

- On October 9, 2015, Octoplus lodged a complaint with France’s Competition Authority concerning the practices of several French meal voucher issuers, including Sodexo Pass France SA, and asked the authority to issue an interim order.

  After hearing arguments from the parties concerned, on October 6, 2016 the Competition Authority rejected the request for an interim order but decided that the investigation into the complaint should be pursued. The investigations are still in progress and in the absence of any estimate of the related risk at this stage in the procedure, no provision was booked at August 31, 2018.

- In Brazil, a difference of interpretation opposes Sodexo and its main competitors to the Tax Administration on the deductibility of PIS / COFIN on certain purchases that are made at a zero rate. Proceedings are pending before the Superior Courts and, based on the opinion of our counsel, the Group considers that its chances of success in these proceedings are good and therefore did not consider necessary at this stage to provision for appropriations deducted to date.

- To the best of the Company’s knowledge, there have been no governmental, judicial or arbitral proceedings (including any such proceedings which are pending or threatened of which Sodexo is aware) which may have, or have had in the past 12 months, material effects on Sodexo and/or the Sodexo Group’s financial position or profitability.

  The Sodexo Group is also involved in litigation arising from its ordinary activities. The Sodexo Group does not believe that liabilities relating to such litigation will in aggregate be material to its activities or to its consolidated financial position

## 4.28 Subsequent events

On September 13, 2018, the Board of Directors decided to grant up to 34,100 shares to certain Group employees. The shares granted under this plan will only vest if the beneficiaries are still working for the Group on the vesting date, and some of the share grants are subject to a performance condition.

Since the beginning of fiscal year 2018-2019, the group has completed two acquisitions:

- Crèches de France in early September 2018. This acquisition allows Sodexo to continue its development in the personal care services sector.
- Novae restauration, to strengthen the position of Sodexo in Switzerland. Novae Restauration is a key player in the high-end catering services in French-speaking Switzerland, with 700 employees serving a network of more than 80 prestigious customer sites. Novae Catering and Sodexo Switzerland have customer portfolios and complementary offers: Novae's premium catering services range complements Sodexo's position as a service provider of facilities management on the German-speaking Swiss market. There is a strong potential for synergies in terms of additional on-site sales and inter-regional development.

On October 26, 2018, a judgment was rendered by the High Court of Justice of London in a case concerning the pension plan of another company, on the subject of the equalization of Guaranteed Minimum Pensions ("GMP equalization") between women and men. This judgment clarifies the applicable statutory provisions and confirms the obligation for trustees of the United Kingdom pension plans to eliminate inequalities in the minimum guaranteed pensions of participants in these plans. This decision could affect many companies with defined benefit pension plans in the UK, including the Sodexo Group. This could have the effect of increasing the obligation under the Group's pension plans in the United Kingdom. The impacts, which will be recognized if necessary in the first half of the 2018-2019 financial year, are currently being evaluated.

# 5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICY

## 5.1 Exposure to foreign exchange and interest rate risk

The Group policies are designed to prevent speculative positions. Furthermore, under these policies:

- substantially all borrowings must be at fixed rates of interest, or converted to fixed-rate using hedging instruments;
- in the context of financing policy, foreign exchange risk on loans to subsidiaries and external financing in a foreign currency must be hedged;
- the maturity of hedging instruments must not exceed the maturity of the borrowings they hedge.

### 5.1.1 Analysis of sensitivity to interest rates

As of August 31, 018 and August 31, 2017, a 0.5% increase or decrease in interest rates would have had no material impact on profit before tax or on shareholders' equity as substantially all liabilities at those dates were at a fixed rate of interest.

### 5.1.2 Analysis of sensitivity to foreign exchange rates and exchange rate exposures on principal currencies

Because the Sodexo Group has operations in 72 countries, all components of the financial statements are influenced by foreign currency translation effects, and in particular by fluctuations in the US dollar. However, exchange rate fluctuations do not generate any operational risk, because each of the Group's subsidiaries invoices its revenues and incurs its expenses in the same currency.

The Group uses derivative instruments to manage the Group's risk exposure resulting from the volatility of exchange rates.

**SENSITIVITY TO EXCHANGE RATES**

| IMPACT OF A 10% APPRECIATION OF THE EXCHANGE RATE OF THE FOLLOWING CURRENCIES AGAINST THE EURO (in millions of euro) | AUGUST 31, 2018 | | | | AUGUST 31, 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | IMPACT ON REVENUES | IMPACT ON OPERATING PROFIT | IMPACT ON PROFIT BEFORE TAX | IMPACT ON SHAREHOLDERS' EQUITY | IMPACT ON REVENUES | IMPACT ON OPERATING PROFIT | IMPACT ON PROFIT BEFORE TAX | IMPACT ON SHAREHOLDERS' EQUITY |
| US dollar (USD) | 828 | 55 | 40 | 237 | 871 | 61 | 42 | 220 |
| Brazilian real (BRL) | 104 | 21 | 19 | 77 | 110 | 24 | 20 | 82 |
| Pound sterling (GBP) | 178 | 10 | 14 | 83 | 172 | 6 | 10 | 72 |

## 5.2 Exposure to liquidity risk

The nature of the Group's bank borrowings and bond issues as of August 31, 2018 is described in detail in note 4.14.

As of August 31, 2018, more than 91% of the Group's consolidated borrowings was raised on capital markets and bank financing covered less than 9% of the Group's financing needs (13% as of August 31, 2017). The maturity dates of the main borrowings range between Fiscal 2018 and Fiscal 2029.

## 5.3 Exposure to counterparty risk

Exposure to counterparty risk is limited to the carrying amount of financial assets.

Group policy is to manage and spread counterparty risk. For derivative financial instruments, each transaction with a bank is required to be based on a master contract modeled on the standard contract issued by the French Bankers' Association (AFB) or the International Swaps and Derivatives Association (ISDA).

Counterparty risk relating to customer accounts receivable is immaterial. Due to the Group's geographic and segment spread, there is no concentration of risk on past due individual receivables for which no provision has been recorded. Moreover, the Group has not observed any significant change in impacts relating to customer default during the year.

The main counterparty risk is bank-related. The Group has limited its exposure to counterparty risk by diversifying its investments and limiting the concentration of risk held by each of its counterparties. Transactions are conducted with highly creditworthy counterparties taking into consideration country risk. The Group has instituted a regular reporting of the risk spread between counterparties and of their quality.

To reduce this risk further, in Fiscal 2011 the Sodexo Group implemented an international cash pooling mechanism between its main subsidiaries (with a netting facility), reducing the amount of liquidity held by third parties by concentrating it in the financial holding companies of the Sodexo Group.

The maximum counterparty represents approximately 14% (11% as of August 31, 2017) of the Group's operating cash (including restricted cash and financial assets related to the Benefits and Rewards Services activity) and is with a banking group whose rating is A-1.

## 5.4 Policy for managing the Company's capital structure

The Sodexo Group takes a long-term view in managing its capital structure, with the objective of ensuring the Sodexo Group's liquidity, optimizing its financial structure and allowing shareholders to benefit from its strong cash flow generation.

Contributing to decisions made may be objectives for earnings per share or estimated future cash flows, or for balancing various components of the consolidated statement of financial position in order to meet the net debt criteria defined by Group management and communicated to the marketplace, notably a net debt to equity ratio of less than 75%. The net debt to equity ratio corresponds to net debt as a proportion of total shareholders' equity (including minority interests), with net debt defined as the difference between gross borrowings and total cash, and total cash defined as cash and cash equivalents plus restricted cash and financial assets related to the Benefits and Rewards Services activity less bank overdrafts.

# 6. SCOPE OF CONSOLIDATION

Bellon SA holds 42.22% of the capital of Sodexo SA, a French *société anonyme* headquartered in Issy-les-Moulineaux, France, and 57.23% of voting rights.

Taking into consideration Sodexo SA's treasury shares and the shares held in Bellon SA by the Sodexo group, Bellon SA's interest in Sodexo SA is 34.7%. Summarized financial information for Sodexo is as follows *(in millions of euro based on the financial statements prepared in accordance with IFRS – this information is presented at 100%):*

| *(in millions of euro)* | **2016-2018** | **2016-2017** |
|---|---|---|
| Revenues | 20,407 | 20,698 |
| Operating profit(1) | 997 | 1,189 |
| Profit for the year | 665 | 745 |
| Comprehensive income | 485 | 530 |

*(1) Including share of profit of companies consolidated by the equity method that directly contribute to the Group's business*

| *(in millions of euro)* | **August 31, 2018** | **August 31, 2017** |
|---|---|---|
| Non-current assets | 7,944 | 7,416 |
| Current assets | 7,336 | 7,458 |
| **TOTAL ASSETS** | **15,280** | **14,874** |
| Total shareholders' equity | 3,328 | 3,570 |
| Non-current liabilities | 4,330 | 3,885 |
| Current liabilities | 7,622 | 7,419 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **15,280** | **14,874** |

The total amount of dividends paid by Sodexo SA during the fiscal year was 411 million euro, taking into account treasury shares, a dividend of 2.75 euro per share and, as applicable, a dividend premium of 0.275 euro per share.

The main companies consolidated by Sodexo as of August 31, 2018 and presented in the table below together represent over 80% of consolidated revenues, operating profit, profit for the period attributable to equity holders of the parent, and shareholders' equity. The other entities individually represent less than 0.8% of each of these items.

The first column shows the percentage interest held by the Group, and the second column the percentage of voting rights held by the Group. Percentage interests and percentages of voting rights are only shown if less than 97%.

Companies newly consolidated during the year are indicated by the letter "N".

| | | **% INTEREST** | **% VOTING RIGHTS** | **PRINCIPAL ACTIVITY** | **COUNTRY** |
|---|---|---|---|---|---|
| **France** | | | | | |
| | Sodexo SA | | | Holding | France |
| | Sodexo Entreprises (consolidated) | | | On-site | France |
| | Sodexo Santé Médico Social | | | On-site | France |
| | Société Française de Restauration et Services (consolidated) | | | On-site | France |
| | Segsmhi (Le Lido) | | | On-site | France |
| | Sogeres | | | On-site | France |
| | Lenôtre SA (consolidated) | | | On-site | France |
| | Sodexo Pass France SA | | | Benefits and Rewards | France |
| | Crèche Attitude (consolidated) | | | On-site | France |
| N | Foodchéri | 86% | 95% | On-site | France |
| | Sodexo En France | | | On-site | France |
| | Sodexo Energie et Maintenance | | | On-site | France |
| | Sodexo Pass International SAS | | | Holding | France |
| | Sofinsod SAS | | | Holding | France |
| | Etin SAS | | | Holding | France |
| **Americas** | | | | | |
| | Sodexo do Brasil Comercial SA (consolidated) | | | On-site | Brazil |

| | | | | | |
|---|---|---|---|---|---|
| | Sodexo Pass do Brasil Serviços E Comércio SA | | | Benefits and Rewards | Brazil |
| | Sodexo Facilities Services Ltda | | | On-site | Brazil |
| | Sodexo SAS | | | On-site | Colombia |
| | Sodexo Canada Ltd (consolidated) | | | On-site | Canada |
| N | Centerplate Canada | | | On-site | Canada |
| | Sodexo Chile SA (consolidated) | | | On-site | Chile |
| | Sodexo Soluciones de Motivacion Chile SA | | | Benefits and Rewards | Chile |
| | Sodexo, Inc. (consolidated) | | | On-site | United States |
| N | Centerplate Ultimate Holdings, Corp. | | | On-site | United States |
| | Sodexo Remote Sites Partnership | | | On-site | United States |
| | Sodexo Remote Sites USA Inc. | | | On-site | United States |
| | Sodexo Holdings Inc. | | | On-site | United States |
| | CK Franchising Inc. | | | On-site | United States |
| | Sodexo Concierge Services LLC | | | On-site | United States |
| | Circle Company Associates, LLC | | | On-site | United States |
| | Denali Universal Services LLC | | | On-site | United States |
| | Inspirus LLC | | | Benefits and Rewards | United States |
| | Sodexo Global Services, LLC | | | Holding | United States |
| | Sodexo Peru SAC | | | On-site | Peru |
| **Europe** | | | | | |
| | Sodexo Services GmbH (consolidated) | | | On-site | Germany |
| | Sodexo Beteiligungs BV & Co. KG | | | On-site | Germany |
| | GA-tec Gebäude und Anlagentechnik GmbH | | | On-site | Germany |
| | Sodexo Services Solutions Austria GmbH | | | On-site | Austria |
| | Sodexo Belgium SA (consolidated) | | | On-site | Belgium |
| | Imagor SA | | | Benefits and Rewards | Belgium |
| | Sodexo Pass Belgium SA (consolidated) | | | Benefits and Rewards | Belgium |
| | Compagnie Financière Aurore International | | | Holding | Belgium |
| | Xpenditure NV | | | Benefits and Rewards | Belgium |
| | Sodexo Iberia SA (consolidated) | | | On-site | Spain |
| N | Centerplate ISG Espana SL | 60% | 60% | On-site | Spain |
| | Sodexo Oy | | | On-site | Finland |
| | Sodexo Italia SpA (consolidated) | | | On-site | Italy |
| | Sodexo Nederland BV (consolidated) | | | On-site | Netherlands |
| | Sodexo Pass Česka Republika AS | | | Benefits and Rewards | Czech Republic |
| N | Centerplate UK Ltd | | | On-site | United Kingdom |
| | Sodexo Ltd (consolidated) | | | On-site | United Kingdom |
| | Sodexo Global Services UK Ltd | | | Holding | United Kingdom |
| | Sodexo Motivation Solutions UK Ltd | | | Benefits and Rewards | United Kingdom |
| | Sodexo Ventures UK Limited | | | Holding | United Kingdom |
| N | Sodexo Finances USD Ltd | | | Holding | United Kingdom |
| | Sodexo Holdings Ltd | | | On-site | United Kingdom |
| | Purchasing Systems Ltd | | | On-site | United Kingdom |
| | Sodexo Remote Sites Holdings Ltd | | | On-site | United Kingdom |
| | Sodexo Management Services Ltd | | | On-site | United Kingdom |
| | Sodexo Finance Designated Activity Company | | | Holding | Ireland |
| | Elder Home Care Ltd | | | Personal Home Services | Ireland |
| | Sodexo Pass Romania Srl | | | Benefits and Rewards | Romania |
| | Sodexo AB | | | On-site | Sweden |
| **Asia, Pacific, Middle East, Africa** | | | | | |
| | Sodexo Australia Pty Ltd (consolidated) | | | On-site | Australia |
| | Sodexo Remote Sites Australia Pty Ltd | | | On-site | Australia |
| | Sodexo Food Solutions India Private Ltd | | | On-site | India |
| | Sodexo Shanghaï Management Services | | | On-site | China |
| | Sodexo Management Company Ltd Shanghaï | | | On-site | China |
| | Sodexo Services Asia | | | Holding | Singapore |
| | Teyseer Services Company LLC | 49% | 49% | On-site | Qatar |
| | Kelvin Catering Services (Emirates) LLC | 49% | 49% | On-site | United Arab Emirates |

# 7. AUDITORS' FEES

| (in millions of euro excluding VAT) | PRICEWATERHOUSECOOPERS | | KPMG | |
|---|---|---|---|---|
| | **Fiscal 2018** | Fiscal 2017 | **Fiscal 2018** | Fiscal 2017 |
| **Audit of individual company financial statements and consolidated financial statements** | | | | |
| Bellon SA | 0.1 | 0.1 | 0,1 | 0,1 |
| Consolidated subsidiaries | 4.9 | 5.5 | 4,1 | 3,9 |
| **TOTAL AUDIT SERVICES** | **5.0** | **5.6** | **4,2** | **4,0** |
| **Other services** | | | | |
| Bellon SA | | | | |
| Consolidated subsidiaries | 0.6 | 0.9 | 0,2 | 0,4 |
| **TOTAL OTHER SERVICES** | **0.6** | **0.9** | **0,2** | **0,4** |
| **TOTAL FEES** | **5.6** | **6.5** | **4,4** | **4,4** |