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TWENTY

Financial and Legal Report

SFL

SOCIETE FONCIERE LYONNAISE

2016 FINANCIAL AND LEGAL REPORT

SOCIETE FONCIERE LYONNAISE

AUTORITÉ DES MARCHÉS FINANCIERS

The French version of this Registration Document was filed with the Autorité des Marchés Financiers (AMF) on 5 April 2017, in accordance with Article 212-13 of the AMF's General Regulations. It may be used for a financial transaction provided that it is accompanied by an Information Memorandum approved by the AMF. This document was prepared by the issuer and is the responsibility of the persons who signed it.

Contents

SFL 2016 Management Report

The financial statements were approved for publication by the Board of Directors on 10 February 2017.

Annual General Meeting of 28 April 2017
Management Report for the Year Ended 31 December 2016

To the shareholders,
We have called the Annual General Meeting in accordance with the Company's Articles of Association and the French Commercial Code to report to shareholders on Société Foncière Lyonnaise's operations and results for the year ended 31 December 2016 as well as its future outlook, and to submit for shareholder approval the financial statements of the Company and the Group and the other resolutions presented in this report.

The notice of meeting and all proxy documents required by law were sent or made available to shareholders within the applicable periods.

1. Business Review and Significant Events of the Year

1.1. Rental activity

In a growing but still selective rental market, SFL signed leases on some 34,000 sq.m. in 2016. Highlights of the year included:
– Completion of the #cloud.paris marketing programme, with the signature of a lease with Coty on nearly 3,000 sq.m. in March.
– Signature of a lease with Quartus on 2,600 sq.m. in the Cézanne Saint-Honoré complex.
– Marketing of 9,400 sq.m. in the Washington Plaza complex to various tenants.
– Marketing of 4,300 sq.m. in the 103 Grenelle complex to various tenants.
– Marketing of some 2,100 sq.m. in the fully renovated 9 Percier building.

The average nominal rent for these office leases stands at €631 per sq.m. and the effective rent at €548 per sq.m.

The physical occupancy rate for revenue-generating properties at 31 December 2016 was 97.0%, compared with 95.6% at the previous year end. Over the same period, the EPRA vacancy rate decreased to 3.1% from 5.1%.

Capital expenditure in 2016 amounted to €66 million and corresponded to the remaining work on major development projects that have now been completed, including the upgrading of the common areas in the Cézanne Saint-Honoré complex and renovation of the 9 Percier building acquired in June 2015.

1.2. Development operations

The development pipeline at 31 December 2016 concerned approximately 6% of the Group's portfolio and mainly consisted of the retail units in the Louvre Saint-Honoré complex for which the planning approval process is in its final stages.

1.3. Property purchases and sales in 2016 and since the beginning of 2017

In June 2016, SFL exercised its option to acquire the 131 Wagram building upon expiry of the finance lease.

No properties were sold in 2016.

On 13 January 2017, SFL entered into a €165-million deal to acquire SMA's historical headquarters building, a 21,000-sq.m. property located in the 15th *arrondissement* of Paris that the Company intends to redevelop. Contracts will be exchanged when SMA moves to its new headquarters in the fourth quarter of 2017.

1.4. Property portfolio value

The consolidated market value of the portfolio at 31 December 2016 was €5,736 million excluding transfer costs. The increase of 9.4% from €5,242 million at 31 December 2015 reflected the increasingly narrow yields that were a feature of the Paris property market during 2016 and the resilience of the portfolio's rental values.

The average value per square meter was €14,213 excluding transfer costs.

The average EPRA topped-up net investment yield (NIY) stood at 3.6% at 31 December 2016, compared with 3.8% at 31 December 2015.

All of the properties are located in Paris and the Paris region, with 79% situated in the Paris Central Business District.

Substantially all of the portfolio consists of prime office properties (81% of the total), retail units and a hotel (18%). Residential units represent just 1% of the total and are located in a mixed-use building primarily made over to retail space.

2. Results

2.1. Consolidated results

Consolidated profit for the year

- Rental income stood at €198.1 million in 2016 versus €168.8 million the year before, an increase of €29.3 million (up 17.4%):
– On a comparable portfolio basis, rental income rose by €10.8 million (up 7.1%), reflecting the lease on the In/Out building which came into effect on 1 September 2015 and various other new leases signed in 2015 and 2016, including at Washington Plaza.
– Rental income from properties that were undergoing renovation in the comparable period was €14.7 million higher, corresponding mainly to rent on the #cloud.paris building delivered in November 2015 and fully let.
– The acquisition of the 9 Percier building in June 2015 generated a €0.6-million increase in rental income in 2016.
– In addition, 2016 rental income was boosted by €3.2 million in lease termination penalties paid notably by a former tenant of the 103 Grenelle building.

This increase in rental income combined with a €3.7-million reduction in property expenses not recovered from tenants helped to drive a 25.4% increase in operating profit before disposal gains and losses and fair value adjustments to investment properties to €169.7 million in 2016 from €135.3 million in 2015.

The portfolio's appraisal value grew by 9.4% over the year on a comparable basis. The increase led to the recognition of positive fair value adjustments to investment properties of €438.0 million in 2016 (versus €513.7 million in 2015).

Net finance costs amounted to €48.1 million in 2016 versus €69.6 million the year before. Non-recurring finance costs represented just €2.1 million in 2016, compared with the previous year's €22.3 million which included bond retirement costs. Recurring finance costs were down by €1.3 million in 2016, due to a reduction in the average cost of debt which offset the effect of higher total borrowings.

After taking into account these key items, attributable net profit for the year came to €504.1 million versus €492.9 million in 2015. Excluding the impact of disposals, changes in the fair value of investment properties and financial instruments and the related tax effect, EPRA earnings rose by €35.1 million (up 53.3%) to €100.9 million in 2016 from €65.8 million in 2015.

Financing

Net debt at 31 December 2016 amounted to €1,931 million (compared with €1,841 million at 31 December 2015), representing a loan-to-value ratio of 31.7%. At that date, the average cost of debt after hedging was 1.9% (versus 2.4% a year earlier) and the average maturity was 4.4 years.

In May 2016, SFL obtained a new €150-million 5-year revolving credit facility from BNP Paribas.

At 31 December 2016, the Company also had €540 million in undrawn back-up lines of credit.

Net asset value

EPRA NNNAV stood at €3,082 million or €66.2 per share at 31 December 2016, an increase of 13.3% compared to €58.5 per share at 31 December 2015.

2.2. Parent company results

Parent company results and financial position

Parent company results for the year ended 31 December 2016 can be analysed as follows:

The Company reported revenue of €87.7 million in 2016 compared with €69.5 million in 2015, representing an increase of €18.2 million (up 26.2%). The increase in rental income and tenant penalties reflected the ending of the rent-free periods granted to certain new tenants of the Louvre Saint-Honoré, Edouard VII, 131 Wagram and #cloud.paris buildings.

The Company ended the year with operating profit of €3.0 million, representing a significant €8.7 million improvement compared to the previous year's loss.

Net financial expense amounted to €16.2 million in 2016, a decrease of €1.1 million from €17.3 million the previous year.

After taking into account the above items, the Company reported a loss before tax and other income and expense of €13.1 million in 2016, versus a €23.0 million loss in 2015.

Other income and expenses represented a net expense of €1.5 million compared to a net expense of €3.7 million in 2015.

Income tax expense for the year was €15.5 million, primarily reflecting the tax effect of exercising the purchase option under the 131 Wagram finance lease, including a €13.0 million exit tax effect.

The Company ended the year with a net loss of €30.3 million compared to a net loss of €26.7 million in 2015.

Total assets were virtually unchanged at 31 December 2016, at €2,601 million versus €2,593 million at the previous year-end (up 0.30%).

Five years' financial information for the parent company is provided in the appendix to this Management Report, as required by Article R.225-102 of the French Commercial Code (page 94).

INFORMATION ON TRADE PAYABLES (PROVIDED IN COMPLIANCE WITH ARTICLES L.441-6-1 AND D.441-4 OF THE FRENCH COMMERCIAL CODE)

At 31 December 2016	More than 60 days old	Less than 60 days old	Less than 30 days old	Not yet due	Net
Goods and services suppliers	50,483	199,927	114,456	0	364,866
Fixed asset suppliers	317,335	572,620	235,982	0	1,125,937
Retention monies	0	0	0	135,085	135,085
TOTAL	**367,818**	**777,547**	**350,438**	**135,085**	**1,625,888**

At 31 December 2015	More than 60 days old	Less than 60 days old	Less than 30 days old	Not yet due	Net
Goods and services suppliers	33,172	32,007	728,549	0	793,728
Fixed asset suppliers	492,461	252,940	1,822,055	0	2,567,455
Retention monies	0	0	0	259,746	259,746
TOTAL	**525,632**	**284,947**	**2,550,604**	**259,746**	**3,620,929**

Invoices more than 60 days old correspond to disputed invoices where payment has been withheld by the Company because the delivered goods or services were unsatisfactory.

Retention monies correspond to final payments for renovation work that are withheld until the problems listed on the snag list have been resolved. They are payable to the supplier when the problems have been resolved to the Company's satisfaction or automatically one year after delivery of the project unless the Company or the prime contractor has valid grounds for opposing their payment.

Appropriation of net profit

The Company reported a net loss for the year, after tax and provision charges, of €30,278,521.41.

We recommend:

- Appropriating the net loss for the year ended 31 December 2016 as follows:
  – €349,503 to retained earnings, which will be reduced from €349,503 to €0.
  – €29,929,018.41 to the share premium account, which will be reduced from €634,898,957.08 to €604,969,938.67.

- After noting the availability of distributable reserves, paying to shareholders a net dividend of €1.05 per share, representing a total payout of €48,855,422.70 based on the 46,528,974 shares outstanding at 31 December 2016. The dividend will be paid out of the share premium account, which will be reduced from €604,969,938.67 to €556,114,515.97.

In the case of any increase in the number of shares with rights to the 2016 dividend compared with the 46,528,974 shares outstanding at 31 December 2016, the total dividend will be adjusted accordingly by deducting the additional amount required from the share premium account, so that the total deduction corresponds to the actual dividends payable.

The shares will trade ex-dividend from 5 May 2017 and the dividend will be paid in cash from 9 May 2017. Dividends on SFL shares held by the Company on that date – which are stripped of dividend rights – will be credited to retained earnings, along with any dividends waived by shareholders.

Under French tax rules (Article 112-1 of the *Code Général des Impôts*), returns of capital and distributions from the share premium account are not taxed in the hands of shareholders provided that all profits and reserves other than the legal reserve have already been distributed. The recommended dividend qualifies as a return of capital under the above tax rules.

Non-deductible expenses

The SFL parent company financial statements do not include any expenses that cannot be deducted for tax purposes (disclosure made in accordance with Articles 223 *quater* and 223 *quinquies* of the French Tax Code).

The 2016 accounting documents provided for in Article L.2323-8 of the French Labour Code *(Code de Travail)* have duly been given to the Works Council.

Related party agreements

No related party agreements governed by Articles L.225-38 *et seq.* of the French Commercial Code were entered into in 2016.

2.3. Review of the Group's main subsidiaries

Consolidated companies	Registration no.	Percentage	
		Interest	Voting rights
Parent company			
SA Société Foncière Lyonnaise	552 040 982	–	–
Fully-consolidated companies:			
SA SEGPIM	326 226 032	100	100
SAS Locaparis	342 234 788	100	100
SAS Maud	444 310 247	100	100
SAS SB2	444 318 398	100	100
SAS SB3	444 318 547	100	100
SCI SB3	444 425 250	100	100
SCI Washington	432 513 299	66	66
SCI 103 Grenelle	440 960 276	100	100
SNC Condorcet Holding	808 013 890	100	100
SNC Condorcet Propco	537 505 414	100	100
SCI Paul Cézanne	438 339 327	100	100
SAS Parholding	404 961 351	50	50
SC Parchamps	410 233 498	50	50
SC Pargal	428 113 989	50	50
SC Parhaus	405 052 168	50	50

Shareholders' pacts give the Group exclusive control over four companies that are 50%-owned.

Accordingly, all subsidiaries are controlled exclusively and fully consolidated.
Société Foncière Lyonnaise is a fully consolidated subsidiary of Spanish company Inmobiliaria Colonial SA, which owned 58.55% of the capital at 31 December 2016.

The Group and all of its subsidiaries have their registered office at 42 rue Washington in the 8th *arrondissement* of Paris.

INFORMATION ABOUT SUBSIDIARIES AND AFFILIATES AT 31 DECEMBER 2016 (in €)

Company	Share capital	Reserves	% interest	Carrying amount of investment		Outstanding loans and advances granted by SFL	Outstanding guarantees granted by SFL	Last published net revenue	Last published profit/ (loss)	Dividends received during the year	Fair value adjustments to the investment during the year
				Cost	Net						
A - Investments with a gross value in excess of 1% of SFL's capital											
1. Subsidiaries (at least 50%-owned)											
SCI Paul Cézanne	56,934,400	114,057,173	100%	291,846,722	291,846,722	–	–	16,067,004	10,813,455	–	–
SCI 103 Grenelle	150	7,284,345	100%	1,168,570	1,168,570	163,757,036	–	9,873,986	4,440,028	–	–
SCI Washington	94,872,000	15,814,280	66%	79,788,878	79,788,878	111,396,172	–	21,377,460	10,885,097	–	–
2. Affiliates (10-50%-owned)											
SAS Parholding	15,000,000	6,496,835	50%	18,400,300	18,400,300	6,025,129	–	–	3,638,331	3,063,778	–
B - Aggregate information about investments not listed in A above:											
1. Subsidiaries (at least 50%-owned)											
	–	–	–	380,493	380,493	209,284,056	–	–	(233,708)	959,740	–
2. Affiliates (less than 50%-owned)											
	–	–	–	2,286,735	–	–	–	–	–	–	–

3. Corporate Governance

3.1. Members of the Board of Directors and the Management Committee as of 31 December 2016

The membership of the Board of Directors at 31 December 2016 and changes in membership during 2016 are presented in the Chairman's Report on corporate governance and internal control and risk management procedures (see Appendix 7.5).

The practices of the Board of Directors and the Committees of the Board are also described in detail in the Chairman's Report.

Members of the Management Committee as of 31 December 2016

Nicolas Reynaud, Chief Executive Officer

Dimitri Boulte, Managing Director, Chief Operating Officer

François Sebillotte, Chief Resources Officer, Secretary to the Board

Fabienne Boileau, Chief Financial Officer

François Derrian, Human Resources Director

Aude Grant, Deputy Managing Director – Asset Management and Investments

Pierre-Yves Bonnaud[1] Asset Management and Client Management Director

Eric Oudard, Technical and Development Director

Pierre-François Chiapponi, Leasing and Investments Director

(1) Joined SFL on 9 May 2016

Nicolas Reynaud, 55, joined SFL in 2006 as Chief Financial Officer/Deputy Managing Director and member of the Management Committee. He was appointed Managing Director in 2008. He began his career in 1984 with CAMCA before moving to Sophia, where he held various positions between 1988 and 2005, including Deputy Managing Director and Chief Financial Officer.
Nicolas Reynaud was appointed Chief Executive Officer by the Board of Directors on 27 January 2015 and gave up his position as Chief Financial Officer on the same day.

François Sebillotte, 61, has been Chief Resources Officer since 2001 and Secretary to the Board of Directors since 2011. He began his career in 1982 with law firm KPMG Fidal. From 1987 to 1992, he worked as Director of Legal Affairs for business guide publisher Éditions Liaisons, later serving as the head of Legal Affairs and a member of the Management Committee for investment fund Unigrains, until joining SFL. He holds a post-graduate private law degree and an Executive MBA from HEC business school, formerly CPA.

Dimitri Boulte, 39, joined SFL in 2011 as Deputy Managing Director and Chief Operating Officer with overall responsibility for investments, asset management, technical matters, business development and marketing.
He is a graduate of HEC business school and holds a CEMS Master of International Management degree from Bocconi University, Milan. He worked at Unibail-Rodamco for nine years in a variety of management positions, serving successively as Office Division Investment Manager (2004-2006) Office Division Development Manager (2006-2007) and Development Director for Large Urban Projects (2008-2011). He also played a role in creating and developing the Real Estate Chair at HEC where he was a lecturer.
Dimitri Boulte was appointed as Managing Director by SFL's Board of Directors on 27 January 2015. He is also Chief Operating Officer.

Fabienne Boileau, 49, has served as Chief Financial Officer since 27 January 2015. She was previously Management Control and Accounting Director. A graduate of ESC Reims business school and a qualified accountant, she joined SFL in 2005 after spending three years with KPMG Audit and holding various positions in the Budget Control department at Crédit Agricole SA.

François Derrian, 47, joined SFL in 2002 and is the Group's Human Resources Director. A graduate of Institut de Gestion Sociale with an "AES" degree (combining law, economics, management and social sciences), he joined SFL in 2002 after holding various human resources positions with Auchan and Pinault Printemps La Redoute (Pinault Distribution, FNAC).

Aude Grant, 35, joined the Group as Transactions and Business Strategy Director in 2014. A graduate of HEC business school, she began her career in the Transaction Services department of Deloitte. In 2006, she joined the Foncière des Régions group, where she successively held the positions of Analyst, Portfolio & Acquisitions Manager and Office Division Asset Management and Investments Director.

Pierre-Yves Bonnaud, 39, joined SFL as Asset Management and Client Management Director on 9 May 2016. A graduate of the ESTP Cachan engineering school and with a Master's degree from ESSEC Business School, he began his career with CBRE Investors as a financial analyst and asset manager, before joining Mercialys, a subsidiary of the Casino Group, in 2006. He moved to Immobilière Casino in 2011, where he served as Major Project Director then Property Acquisitions and Sales Director, before returning to Mercialys in 2014 as Asset Management and Enhancement Director.

Éric Oudard, 48, joined SFL's Management Committee as Technical and Development Director in 2014. He is a graduate of the Ponts et Chaussées engineering school and an affiliate member of the Chartered Institute of Building Services Engineers (CIBSE). Prior to joining SFL, he held positions with Accor, Casino Immobilier, Pierre et Vacances and Luminatis.

Pierre-François Chiapponi, 40, is the Group's Leasing and Investments Director. A graduate of École Supérieure des Professions Immobilières, he joined SFL in 2006 as Leasing Director after holding various business management and consulting positions with Jones Lang LaSalle and DTZ.

3.2. Directorships and other positions held by the Chief Executive Officer and the Managing Director as of 31 December 2016

The positions and directorships held by Nicolas Reynaud, Chief Executive Officer, and Dimitri Boulte, Managing Director, as of 31 December 2016 are presented below.

The positions and other directorships held as of 31 December 2016 by the Chairman and the other members of the Board are listed in the Chairman's Report on Corporate Governance and Internal Control in Appendix 7.5.

Nicolas Reynaud

– Chief Executive Officer
First appointment: Managing Director (2008)
Second appointment: Chief Executive Officer (2015)

Business address: 42 rue Washington, 75008 Paris (France)

Directorships and other positions held in 2016:

In France – SFL Group
– Chief Executive Officer
  • Société Foncière Lyonnaise (SA)
– Chairman and Chief Executive Officer
  • Segpim (SA)
– Chief Executive Officer
  • Parholding (SAS)

Other directorships and positions held in the past five years:

– Managing Director (until 27 January 2015)
– Chief Financial Officer (until 27 January 2015)

Dimitri Boulte

– Managing Director
– Chief Operating Officer
Business address: 42 rue Washington, 75008 Paris (France)

Directorships and other positions held in 2016:

In France – SFL Group:
– Chief Executive Officer
  • Locaparis (SAS)
– Director
  • Segpim (SA)

Other directorships and positions held in the past five years:

None

3.3. Proposed resolutions concerning the election or re-election of directors

After Jacques Calvet stepped down from the Board at the end of the Annual General Meeting of 26 April 2016 and Reig Capital Group Luxembourg resigned its directorship on 30 June 2016, as of the date of this report the Board of Directors has 14 members versus 16 as of 31 December 2015.

The terms of the following directors will expire at the Annual General Meeting called to approve the 2016 financial statements: Anne-Marie de Chalambert, Carmina Ganyet I Cirera, Carlos Krohmer, Luis Maluquer Trepat and Anthony Wyand.

Shareholders are invited to re-elect Anne-Marie de Chalambert and Anthony Wyand for a one-year term expiring at the close of the Annual Meeting to be called to approve the financial statements for the year ending 31 December 2017, and Carmina Ganyet I Cirera, Carlos Krohmer and Luis Maluquer Trepat for a three-year term expiring at the close of the Annual Meeting to be called to approve the financial statements for the year ending 31 December 2019.

In accordance with the Articles of Association, Anne-Marie de Chalambert and Anthony Wyand are proposed for re-election for one-year terms as they are both over 70 years of age, while the other directors are proposed for the standard three-year term.

Anne-Marie de Chalambert, Carmina Ganyet I Cirera, Carlos Krohmer, Luis Maluquer Trepat and Anthony Wyand have all confirmed that they wish to stand for re-election and that they are not disqualified from serving as directors.

Shareholders are also invited to elect Sylvia Desazars de Montgailhard as a new director for a three-year term expiring at the close of the Annual Meeting to be called to approve the financial statements for the year ending 31 December 2019. Biographical information about Sylvia Desazars de Montgailhard is provided on page 98 of the Chairman's Report (Appendix 7.5).

Mrs. Desazars de Montgailhard has confirmed that she wishes to stand for election and that she is not disqualified from serving as a director.

3.4. Proposed resolutions concerning the re-appointment of the Statutory Auditors

The appointments of Deloitte & Associés as Statutory Auditor and BEAS as substitute for Deloitte & Associés will expire at the close of the Annual General Meeting.

Shareholders are invited to renew the appointment of Deloitte & Associés as Statutory Auditor for a six-year period expiring at the close of the Annual Meeting to be called to approve the financial statements for the year ending 31 December 2022.

BEAS's re-appointment as substitute for Deloitte & Associés will not be proposed, provided that shareholders adopt the fourteenth extraordinary resolution of the Annual General Meeting of 28 April 2017, the purpose of which is to align Article 23 of the Articles of Association ("Statutory Auditors") with the new rules introduced in France's "Sapin II Act" (Act no. 2016-1691 dated 9 December 2016).

Article L.823-1 I paragraph 2 of the French Commercial Code, as amended by Article 140 of Act no. 2016-1691 dated 9 December 2016, states that it is no longer necessary to appoint a substitute Statutory Auditor except where the Statutory Auditor is an individual or a sole proprietorship.

As Deloitte & Associés is neither an individual nor a sole proprietorship, the Company no longer has any obligation to appoint a substitute.

3.5. Remuneration and benefits

3.5.1 Remuneration and benefits paid to the Chairman, the Chief Executive Officer and the Managing Director

This section presents the remuneration and benefits awarded for 2016 to the corporate officers, i.e., Juan José Brugera Clavero, Chairman of the Board of Directors, Nicolas Reynaud, Chief Executive Officer, and Dimitri Boulte, Managing Director.

The tables presented in section 3.5.1.4 below have been prepared in accordance with the Autorité des Marchés Financier's position paper/recommendation no. 2009-16 and the AFEP-MEDEF Corporate Governance Code for Listed Companies.

The components of the remuneration due or awarded to the Chairman, Chief Executive Officer and Managing Director for 2016 that will be submitted to an advisory vote at the Annual General Meeting in accordance with the AFEP-MEDEF Corporate Governance Code for Listed Companies are presented in section 3.5.1.5 below.

3.5.1.1 Remuneration and benefits due or awarded to Juan José Brugera Clavero, Chairman of the Board of Directors, for the year ended 31 December 2016

On 27 January 2015, on the recommendation of the Remuneration and Selection Committee, the Board decided to separate the positions of Chairman and Chief Executive Officer. Juan José Brugera Clavero, who had served as Chairman and Chief Executive Officer on a *pro tempore* basis since 23 July 2014, pending the appointment of a new Chief Executive Officer, continued to serve as Chairman of the Board of Directors. He was not paid any remuneration in his capacity as Chief Executive Officer between 23 July 2014 and 27 January 2015.

Fixed fee

Juan José Brugera Clavero is paid a fixed fee of €150,000 in his capacity as Chairman of the Board of Directors.

Directors' fees

Juan José Brugera Clavero also receives annual attendance fees of €36,000 as a director of the Company.

Performance shares

On 26 April 2016, Juan José Brugera Clavero was awarded 4,500 performance shares by the Board.

3.5.1.2 Remuneration and benefits due or awarded to Nicolas Reynaud, Chief Executive Officer, for the year ended 31 December 2016

Nicolas Reynaud was appointed as Chief Executive Officer by the Board of Directors on 27 January 2015.

His 2016 remuneration was decided by the Board of Directors on 12 February 2016.

Salary

Nicolas Reynaud's gross annual salary for 2016 amounted to €340,000.

Bonus

Nicolas Reynaud's 2016 bonus, paid in 2017, was calculated according to the method decided by the Board of Directors on 12 February 2016 and amounted to €405,089.

Performance shares

On 26 April 2016, Nicolas Reynaud was awarded 15,000 performance shares by the Board.

Compensation for loss of office

On 27 January 2015, the Board of Directors decided on the compensation for loss of office that would be payable to Nicolas Reynaud in certain circumstances.

Compensation for loss of office equal to two years' salary and bonus would be paid to Nicolas Reynaud if he were to be dismissed from his position as Chief Executive Officer as a result of a change of control or strategy (and for reasons other than gross or wilful misconduct), provided certain performance conditions were met.

The salary used for the calculation would be his annual salary at the time of separation.

Up to 31 December 2017, the bonus used for the calculation would correspond to the last annual bonus paid to him prior to his separation.
As from 1 January 2018, it would correspond to the average of the bonuses paid to him for his last three years as Chief Executive Officer.
The compensation amount would also depend on the growth in the previous year's EPRA earnings compared with average EPRA earnings for the two preceding years, as follows:

EPRA earnings vs. average for two preceding years	Compensation for loss of office
100% or more	100%
Between 90% and 100%	80%
Between 75% and 90%	50%
Less than 75%	0%

In effecting the comparison, account would be taken of changes in the property portfolio in the years concerned.

This commitment for the payment of compensation for loss of office was submitted to shareholders at the Annual General Meeting of 22 April 2015, in accordance with Articles L.225-38 and L.225-42-1 of the French Commercial Code.

Benefits in kind

Nicolas Reynaud has the use of a company car and is covered by private unemployment insurance (*Garantie Sociale des Chefs et Dirigeants d'Entreprise* – GSC).

3.5.1.3 Remuneration and benefits due or awarded to Dimitri Boulte, Managing Director, for the year ended 31 December 2016

Dimitri Boulte was appointed Managing Director by the Board of Directors on 27 January 2015. He does not receive any remuneration in his capacity as Managing Director, but is paid a salary and bonus under his employment contract with the Company, for his services as Chief Operating Officer. The amounts reported below therefore correspond to his remuneration as a salaried employee.

Salary

Dimitri Boulte receives a gross annual salary of €230,000.

Bonus

Dimitri Boulte's 2016 bonus, paid in 2017, was calculated according to the method decided by the Board of Directors on 12 February 2016 and amounted to €219,225.

Performance shares

On 26 April 2016, Dimitri Boulte was awarded 12,000 performance shares by the Board.

Benefits in kind

Dimitri Boulte has the use of a company car.

Termination benefit

Under his employment contract, Dimitri Boulte would be entitled to a termination benefit if he were to leave the Company following a change of control, equal to double the total gross remuneration due for the calendar year preceding the change of control.

3.5.1.4 Remuneration summaries

The following tables have been prepared in accordance with the Autorité des Marchés Financier's position paper/recommendation no. 2009-16 and the AFEP-MEDEF Corporate Governance Code for Listed Companies as revised in November 2016.

The amounts in the tables below are presented in euros.

TABLE 1 – SUMMARY OF REMUNERATION PAID AND STOCK OPTIONS AND PERFORMANCE SHARES GRANTED TO THE CHAIRMAN, THE CHIEF EXECUTIVE OFFICER AND THE MANAGING DIRECTOR

Juan José Brugera Clavero Chairman and Chief Executive Officer until 27 January 2015 Chairman of the Board of Directors as from 27 January 2015	2015	2016
Remuneration due for the year (see Table 2 for details)	186,000	186,000
Long-term incentive bonus	0	0
Fair value of stock options granted during the year	0	0
Fair value of performance shares awarded during the year(1) (see Table 6 for details)	76,663	88,159
Other deferred remuneration	0	0
Total	**262,663**	**274,159**

(1) 4,500 performance shares were awarded to Juan José Brugera Clavero at the Board Meeting of 17 June 2015 (2015 Plan) and 4,500 at the Board Meeting of 26 April 2016 (2016 Plan). The performance share vesting conditions and values are presented in section 3.5.4 below.

Nicolas Reynaud Managing Director until 27 January 2015 Chief Executive Officer as from 27 January 2015	2015	2016
Remuneration due for the year (see Table 2 for details)	745,325	785,599
Long-term incentive bonus	0	0
Fair value of stock options granted during the year	0	0
Fair value of performance shares awarded during the year(1) (see Table 6 for details)	191,657	293,865
Other deferred remuneration	0	0
Total	**936,982**	**1,079,464**

(1) 11,250 performance shares were awarded to Nicolas Reynaud at the Board Meeting of 17 June 2015 (2015 Plan) and 15,000 at the Board Meeting of 26 April 2016 (2016 Plan). The performance share vesting conditions and values are presented in section 3.5.4 below.

Dimitri Boulte Managing Director as from 27 January 2015	2015	2016
Remuneration due for the year(1) (see Table 2 for details)	425,451	482,012
Long-term incentive bonus	0	0
Fair value of stock options granted during the year	0	0
Fair value of performance shares awarded during the year(2) (see Table 6 for details)	153,326	235,092
Other deferred remuneration	0	0
Total	**578,777**	**717,104**

(1) Dimitri Boulte's remuneration presented above corresponds to the amounts paid to him under his employment contract as Chief Operating Officer. He is not paid any additional remuneration for serving as Managing Director since 27 January 2015.

(2) 9,000 performance shares were awarded to Dimitri Boulte at the Board Meeting of 17 June 2015 (2015 Plan) and 12,000 at the Board Meeting of 26 April 2016 (2016 Plan). The performance share vesting conditions and values are presented in section 3.5.4 below.

TABLE 2 – BREAKDOWN OF REMUNERATION PAID TO THE CHAIRMAN, THE CHIEF EXECUTIVE OFFICER AND THE MANAGING DIRECTOR

Juan José Brugera Clavero Chairman and Chief Executive Officer until 27 January 2015 Chairman of the Board of Directors as from 27 January 2015	2015		2016	
	Due	Paid	Due	Paid
Fixed fee(1)	150,000	150,000	150,000	150,000
Annual bonus	0	0	0	0
Long-term incentive bonus	0	0	0	0
Special bonus	0	0	0	0
Directors' fees(2)	36,000	36,000	36,000	36,000
Benefits in kind	0	0	0	0
Other	0	0	0	0
Total	**186,000**	**186,000**	**186,000**	**186,000**

(1) The above remuneration was paid to Juan José Brugera Clavero in his capacity as Chairman of the Board of Directors. He was not paid any remuneration for serving as Chief Executive Officer from 23 July 2014 until 27 January 2015.

(2) Directors' fees based on the annual amount of €36,000 allocated to the Chairman of the Board of Directors and/or of a Committee of the Board by decision of the Board of Directors on 9 December 2008.

Nicolas Reynaud Managing Director until 27 January 2015 Chief Executive Officer as from 27 January 2015	2015		2016	
	Due	Paid	Due	Paid
Salary(1)	304,431	304,431	340,000	340,000
Annual bonus(2)	344,129	344,129	405,089	405,089
Long-term incentive bonus	0	0	0	0
Special bonus	0	0	0	0
Directors' fees	0	0	0	0
Benefits in kind(3)	12,034	12,034	17,077	17,077
Other(4)	84,731	84,731	23,433	23,433
Total	**745,325**	**745,325**	**785,599**	**785,599**

(1) The salaries of Nicolas Reynaud and Dimitri Boulte are reviewed annually and may be increased depending on the Company's business and financial results for the previous year.

At its meeting on 12 February 2016, the Board of Directors decided to increase Nicolas Reynaud's salary to €340,000 for 2016 from €304,431 in 2015. The increase was decided based on the recommendation of the Remuneration and Selection Committee which met on the same day, after considering appropriate benchmarks and the growth in the Company's results, P&L indicators and balance sheet indicators.

(2) The method for calculating Nicolas Reynaud's bonus was decided by the Board of Directors on 3 March 2015 for the 2015 bonus and on 12 February 2016 for the 2016 bonus.

The performance criteria to be used to determine the 2015 bonuses of Nicolas Reynaud and Dimitri Boulte were decided by the Board of Directors at its meeting on 3 March 2015, based on the recommendation of the Remuneration and Selection Committee.

Their bonuses comprised a quantitative component and a qualitative component as follows:
- 50% of the bonus was based on the Company's performance in relation to two criteria: EPRA earnings and rental income (quantitative bonus), and
- 50% was based on their performance in relation to their personal objectives (qualitative bonus).

To determine the 2015 quantitative bonuses, the Board of Directors decided to set the following objectives for the two performance criteria:
- 2015 EPRA earnings target of €55.4 million
- 2015 rental income target of €159.3 million.

The average of the achievement rates for these two criteria was taken as the overall achievement rate used to determine the quantitative bonuses for 2015, applying the following correspondence table:

Actual performance as a % of the target	2015 quantitative bonus as a % of salary(*)	
	Chief Executive Officer	Managing Director
A. 122% and over	145%	116%
B. 100%	100%	80%
C. 70% and over	60%	48%
D. Less than 70%	0	0

(*) Before weighting for the portion of the total bonus represented by the quantitative bonus.

- Less than 70%: 0
- Between 70% and 100%: linear calculation between rates C and B
- 100%: rate B
- Between 100% and 122%: linear calculation between rates B and A
- Above 122%: rate A

The performance targets for the 2016 bonuses of the Chief Executive Officer and the Managing Director were approved by the Board of Directors on 12 February 2016 based on the recommendation of the Remuneration and Selection Committee.

As in 2015, their bonuses comprised a quantitative component and a qualitative component as follows:

- 50% of the bonus was based on the Company's performance in relation to two criteria: EPRA earnings and rental income (quantitative bonus), and
- 50% was based on their performance in relation to their personal objectives (qualitative bonus).

To determine the 2016 quantitative bonuses, the Board of Directors decided to set the following objectives for the two performance criteria:

- 2016 EPRA earnings target of €89.7 million
- 2016 rental income target of €190.9 million.

The average of the achievement rates for these two criteria was taken as the overall achievement rate used to determine the quantitative bonus for 2016, applying the above correspondence table, which remained unchanged.

However, the amount obtained by the above calculation was multiplied by a coefficient based on the following ratio:
Current year EPRA earnings/Prior year EPRA earnings
The coefficient was determined as shown in the following table:

Current year EPRA earnings/Prior year EPRA earnings	Coefficient
Less than 90%	90%
90% to 95%	90% to 100% (linear)
95% to 105%	100% (constant)
105% to 110%	100% to 110% (linear)
More than 110%	110%

The qualitative performance targets for 2015 and 2016 were clearly defined in advance. They are not disclosed for confidentiality reasons.

(3) Benefits in kind: company car and private unemployment insurance (*Garantie Sociale des Chefs et Dirigeants d'Entreprise* – GSC).

(4) Matching employer payments on voluntary contributions for 2015 and 2016 to the SFL Group Pension Savings Plan (PERCO), rights under the non-discretionary and discretionary profit-sharing plans for 2014 and 2015, paid in 2015 and 2016 respectively (profit shares payable in 2017 in respect of 2016 had not been determined as of the date this document was published), and settlement of vacation pay accruing to Nicolas Reynaud as of the date of termination of his employment contract on 27 January 2015.

Dimitri Boulte Managing Director as from 27 January 2015	2015		2016	
	Due	Paid	Due	Paid
Salary[(1)]	208,093	208,093	230,377	230,377
Annual bonus[(2)]	189,243	189,243	219,225	219,225
Long-term incentive bonus	0	0	0	0
Special bonus	0	0	0	0
Directors' fees	0	0	0	0
Benefits in kind[(3)]	5,817	5,817	6,317	6,317
Other[(4)]	22,298	22,298	26,093	26,093
Total	**425,451**	**425,451**	**482,012**	**482,012**

(1) The salaries of Nicolas Reynaud and Dimitri Boulte are reviewed annually and may be increased depending on the Company's business and financial results for the previous year.

At its meeting on 12 February 2016, the Board of Directors decided to increase Dimitri Boulte's salary to €230,377 for 2016 from €208,093 in 2015. The increase was decided based on the recommendation of the Remuneration and Selection Committee which met on the same day, after considering appropriate benchmarks and the growth in the Company's results, P&L indicators and balance sheet indicators.

(2) The bonus paid to Dimitri Boulte in his capacity as Chief Operating Officer is determined by the method applied to the bonuses of salaried Management Committee members, as decided by the Board of Directors on 3 March 2015 for the 2015 bonus and on 12 February 2016 for the 2016 bonus.

The criteria and method applied to determine the bonus are described in footnote (1) to the above table concerning Nicolas Reynaud.

(3) Company car.

(4) Matching employer payments on voluntary contributions for 2015 and 2016 to the SFL Group Pension Savings Plan (PERCO), rights under the non-discretionary and discretionary profit-sharing plans for 2014 and 2015, paid in 2015 and 2016 respectively (profit shares payable in 2017 in respect of 2016 had not been determined as of the date this document was published).

TABLE 4 – STOCK OPTIONS GRANTED DURING THE YEAR TO THE CHAIRMAN, THE CHIEF EXECUTIVE OFFICER AND THE MANAGING DIRECTOR BY SFL OR OTHER GROUP COMPANIES

Name	Plan no. and date	Type of stock options (purchase or subscription)	Fair value of stock options as calculated in the consolidated accounts	Number of stock options granted during the year	Exercise price (in €)	Exercise period
Juan José Brugera Clavero	No stock options were granted during the year					
Nicolas Reynaud	No stock options were granted during the year					
Dimitri Boulte	No stock options were granted during the year					

TABLE 5 – STOCK OPTIONS EXERCISED BY THE CHAIRMAN, THE CHIEF EXECUTIVE OFFICER AND THE MANAGING DIRECTOR DURING THE YEAR

Name	Plan no. and date	Number of stock options exercised during the year	Exercise price
Juan José Brugera Clavero	No stock options were exercised during the year		
Nicolas Reynaud	No stock options were exercised during the year		
Dimitri Boulte	No stock options were exercised during the year		

TABLE 6 – PERFORMANCE SHARE RIGHTS GRANTED DURING THE YEAR TO THE CHAIRMAN, THE CHIEF EXECUTIVE OFFICER AND THE MANAGING DIRECTOR BY SFL OR OTHER GROUP COMPANIES

Name	Plan no. and date	Number of performance share rights awarded during the year(1)	Fair value of performance share rights as calculated in the consolidated accounts(2)	Vesting date(3)	End of lock-up period(4)	Performance criteria(5)
Juan José Brugera Clavero	Plan 4 26 April 2016	4,500	88,159	26 April 2019	26 April 2021	(5)
Nicolas Reynaud	Plan 4 26 April 2016	15,000	293,865	26 April 2019	26 April 2021	(5)
Dimitri Boulte	Plan 4 26 April 2016	12,000	235,092	26 April 2019	26 April 2021	(5)
Directors	No performance share rights were awarded during the year					

(1) 31,500 performance share rights granted to the Chairman, the Chief Executive Officer and the Managing Director under the performance share plan approved by the Board of Directors on 26 April 2016 pursuant to an authorisation given by the General Meeting on 13 November 2015. The reported number corresponds for each grantee to the maximum number of shares that may vest under the plan approved by the Board of Directors on 26 April 2016, provided that they remain with the Group until the end of the vesting period and the performance conditions are met. Details of the performance conditions are provided in section 3.5.4 below and in Appendix 7.2.

(2) The fair value of the performance shares corresponds to the number of shares expected to vest multiplied by the fair value per share. The number of shares expected to vest corresponds to the target number of shares multiplied by the estimated vesting rate (70.83%). The fair value per share corresponds to the share price on the award date, adjusted for the discounted value of future dividends expected to be paid during the vesting period (€41.49 for performance share rights awarded under the plan dated 26 April 2016).

(3) Date when the performance shares will vest, provided that the grantee remains with the Group until that date and the performance conditions are met. The vesting date is timed to fall fifteen business days after the publication by the last of the Reference Companies to do so, of a press release announcing its results for the third financial year following the award date and not less than three years after the award date (i.e., 26 April 2019 at the earliest).

(4) Performance shares may not be sold or otherwise transferred for two years after the vesting date, with certain exceptions such as in the case of disability or death. In addition, in accordance with the recommendations contained in the AFEP-MEDEF Corporate Governance Code, after the end of the statutory two-year lock-up period, the Chairman, the Chief Executive Officer and the Managing Director are required to keep 40% of the shares for the remainder of their period of service with the Company, reduced to 20% once the value of the shares exceeds a certain percentage of their annual remuneration.

(5) The number of shares that vest depends on SFL's ranking in a group of six listed property companies including SFL (the "Reference Companies"). The ranking is established based on growth in each of the Reference Companies' consolidated adjusted net asset value (ANAV) per share over the vesting period. Details of the performance conditions are provided in section 3.5.4 below and in Appendix 7.2.

TABLE 7 – PERFORMANCE SHARES AWARDED TO THE CHAIRMAN, THE CHIEF EXECUTIVE OFFICER AND THE MANAGING DIRECTOR THAT BECAME AVAILABLE DURING THE YEAR

Name	Plan no. and date	Number of performance shares that became available during the year	Vesting conditions
Juan José Brugera Clavero	Plan 1 5 March 2013	3,750	N/A
Nicolas Reynaud	Plan 1 5 March 2013	4,369	N/A
Dimitri Boulte	Plan 1 5 March 2013	7,500	N/A

TABLE 11 – INFORMATION ABOUT EMPLOYMENT CONTRACTS, SUPPLEMENTARY PENSION SCHEMES, TERMINATION BENEFITS PAID OR PAYABLE AND NON-COMPETE INDEMNITIES PAID OR PAYABLE

Name	Employment contract		Supplementary pension benefits		Termination benefits paid or payable		Non-compete indemnity paid or payable	
	Yes	No	Yes	No	Yes	No	Yes	No
Juan José Brugera Clavero Chairman and Chief Executive Officer until 27 January 2015 Chairman of the Board of Directors as from 27 January 2015		X		X		X		X
Nicolas Reynaud Managing Director until 27 January 2015 Chief Executive Officer as from 27 January 2015		X		X	X(1)			X
Dimitri Boulte Managing Director as from 27 January 2015	X(2)			X	X(3)			X

(1) The terms and conditions governing the compensation for loss of office as Chief Executive Officer that would be payable to Nicolas Reynaud were decided by the Board of Directors at its meeting on 27 January 2015 (see section 3.5.1.2 above for details).

(2) In 2016, Dimitri Boulte had an employment contract covering his duties as Chief Operating Officer, a position he had held since 21 February 2011.
The position of Managing Director, to which he was appointed by the Board on 27 January 2015, is not covered by the AFEP-MEDEF Corporate Governance Code, according to which, in a company with a Board of Directors, the Chairman of the Board and/or the Chief Executive Officer should not have an employment contract with the company.

(3) In 2016, Dimitri Boulte would not have been entitled to any compensation for loss of office in the event that his appointment as Managing Director were to be terminated. However, under his employment contract, he would be entitled to a termination benefit if he were to leave the Company following a change of control. This benefit would be equal to double the total gross remuneration due for the calendar year preceding the change of control (see section 3.5.3 below for details).

3.5.1.5 Components of the remuneration due or awarded to Juan José Brugera Clavero, Nicolas Reynaud and Dimitri Boulte, for the year ended 31 December 2016.

In accordance with the AFEP-MEDEF Corporate Governance Code for Listed Companies as revised in November 2016, we recommend that shareholders issue a favourable advisory vote on the components of the remuneration due or awarded to the corporate officers for the year ended 31 December 2016.

Components of the remuneration due or awarded to Juan José Brugera Clavero, Chairman of the Board of Directors, for the year ended 31 December 2016

Components of remuneration for the year ended 31 December 2016	Amount or accounting value submitted to the advisory vote	Comment
Fixed fee	€150,000	The fixed fee for 2016 is unchanged from 2015
Annual bonus	N/A	Juan José Brugera Clavero is not entitled to any annual bonus.
Long-term incentive bonus	N/A	Juan José Brugera Clavero is not entitled to any long-term incentive bonus.
Special bonus	N/A	Juan José Brugera Clavero is not entitled to any special bonus.
Stock options, performance shares and other deferred remuneration	€88,159	Juan José Brugera Clavero was awarded 4,500 performance shares by the Board on 26 April 2016.
Directors' fees	€36,000	Juan José Brugera Clavero receives fixed attendance fees as a director of the Company.
Benefits in kind	N/A	Juan José Brugera Clavero is not entitled to any benefits in kind

Components of remuneration due or awarded for the year ended 31 December 2016 subject to an advisory vote by the Annual General Meeting under the procedure covering related party agreements and commitments	Amount submitted to the advisory vote	Presentation
Compensation for loss of office	N/A	Juan José Brugera Clavero would not be entitled to any compensation for loss of office.
Non-compete indemnity	N/A	Juan José Brugera Clavero would not be entitled to any non-compete indemnity.
Supplementary pension benefits	N/A	Juan José Brugera Clavero does not participate in any supplementary pension plan set up by the Group.

Components of the remuneration due or awarded to Nicolas Reynaud, Chief Executive Officer, for the year ended 31 December 2016

Components of remuneration due or awarded for the year ended 31 December 2016	Amount or accounting value submitted to the advisory vote	Comment
Salary	€340,000	Nicolas Reynaud's salary was increased by €35,569 in 2016 compared with 2015.
Annual bonus	€405,089	Nicolas Reynaud's target bonus is determined based on quantitative and qualitative criteria decided each year by the Board of Directors on the recommendation of the Remuneration and Selection Committee (see section 3.5.1.4 for details).
Long-term incentive bonus	N/A	Nicolas Reynaud is not entitled to any long-term incentive bonus.
Special bonus	N/A	Nicolas Reynaud is not entitled to any special bonus.
Stock options, performance shares and other deferred remuneration	€293,865	Nicolas Reynaud was awarded 15,000 performance shares by the Board on 26 April 2016.
Directors' fees	N/A	Nicolas Reynaud does not receive any directors' fees.
Benefits in kind	€17,077	Nicolas Reynaud has the use of a company car and is covered by private unemployment insurance (*Garantie Sociale des Chefs et Dirigeants d'Entreprise* – GSC).
Other	€23,433	Matching employer payments on voluntary contributions for 2016 to the SFL Group Pension Savings Plan (PERCO), rights under the non-discretionary and discretionary profit-sharing plans for 2015, paid in 2016 (profit shares payable in 2017 in respect of 2016 had not been determined as of the date this document was published).

Components of remuneration due or awarded for the year ended 31 December 2016 subject to an advisory vote by the Annual General Meeting under the procedure covering related party agreements and commitments	Amount submitted to the advisory vote	Presentation
Compensation for loss of office	Not applicable in 2016	Nicolas Reynaud would receive compensation for loss of office equal to two years' salary and bonus (based on his annual salary on the separation date) if he were to be dismissed from his position as Chief Executive Officer as a result of a change of control or strategy (and for reasons other than gross or wilful misconduct), provided certain performance conditions were met. This compensation for loss of office was approved by the Annual General Meeting of 22 April 2015.
Non-compete indemnity	N/A	Nicolas Reynaud would not be entitled to any non-compete indemnity.
Supplementary pension benefits	N/A	Nicolas Reynaud does not participate in any supplementary pension plan set up by the Group.

Components of the remuneration due or awarded to Dimitri Boulte, Managing Director, for the year ended 31 December 2016

Components of remuneration due or awarded for the year ended 31 December 2016	Amount or accounting value submitted to the advisory vote	Comment
Salary	€230,377	Dimitri Boulte's salary was increased by €22,284 in 2016 compared with 2015.
Annual bonus	€219,225	Dimitri Boulte's target bonus is determined based on quantitative and qualitative criteria decided each year by the Board of Directors on the recommendation of the Remuneration and Selection Committee (see section 3.5.1.4 for details).
Long-term incentive bonus	N/A	Dimitri Boulte is not entitled to any long-term incentive bonus.
Special bonus	N/A	Dimitri Boulte is not entitled to any special bonus.
Stock options, performance shares and other deferred remuneration	€235,092	Dimitri Boulte was awarded 12,000 performance shares by the Board on 26 April 2016.
Directors' fees	N/A	Dimitri Boulte does not receive any directors' fees.
Benefits in kind	€6,317	Dimitri Boulte has the use of a company car.
Other	€26,093	Matching employer payments on voluntary contributions for 2015 to the SFL Group Pension Savings Plan (PERCO), rights under the non-discretionary and discretionary profit-sharing plans for 2015, paid in 2016 (profit shares payable in 2017 in respect of 2016 had not been determined as of the date this document was published).

Components of remuneration due or awarded for the year ended 31 December 2016 subject to an advisory vote by the Annual General Meeting under the procedure covering related party agreements and commitments	Amount submitted to the advisory vote	Presentation
Termination benefit	Not applicable in 2016	Under his employment contract, Dimitri Boulte would be entitled to a termination benefit if he were to leave the Company following a change of control, equal to double the total gross remuneration due for the calendar year preceding the change of control.
Non-compete indemnity.	N/A	Dimitri Boulte would not be entitled to any non-compete indemnity.
Supplementary pension benefits	N/A	Dimitri Boulte does not participate in any supplementary pension plan set up by the Group.

3.5.1.6 Approval of the principles and criteria applied to determine, allocate and award the fixed, variable and special components of the remuneration and benefits of the Chairman of the Board of Directors, the Chief Executive Officer and the Managing Director

In accordance with Article L.225-37-2 of the French Commercial Code, the Board of Directors is submitting for approval at the Annual General Meeting the principles and criteria applied to determine, allocate and award the fixed, variable and special components of the 2017 remuneration and benefits of Juan José Brugera Clavero in his capacity as Chairman of the Board of Directors, Nicolas Reynaud in his capacity as Chief Executive Officer, and Dimitri Boulte (Managing Director) in his capacity as Chief Operating Officer, as described in the report in Appendix 7.6.

Payment of the variable and special components of their remuneration, as presented in said report, will depend on their remuneration being approved by the Annual General Meeting to be held in 2018 to approve the 2017 financial statements.

3.5.2 Remuneration paid or awarded to directors

The Annual General Meeting of 15 June 2009 voted to pay total directors' fees of €400,000 for 2009 and subsequent years, until a new amount is decided.

Since 1 January 2009, directors' fees have been allocated as follows:

– Voting or non-voting director: €18,000 per year
– Member of a Committee of the Board: €24,000 per year
- Chairman of the Board and/or of a Committee of the Board: €36,000 per year

Directors' fees are allocated on the above basis without taking into account each director's attendance rate.

At the Annual General Meeting of 28 April 2017, shareholders will be asked to increase the total directors' fees from €400,000 to €800,000 as from 2017.

TABLE 3 – DIRECTORS' FEES AND OTHER REMUNERATION PAID TO NON-EXECUTIVE DIRECTORS

Name	Amounts paid in 2015	Amounts paid in 2016
Ali Bin Jassim Al Thani[1]		
Directors' fees	2,416	18,000
Other remuneration	0	0
Angels Arderiu Ibars		
Directors' fees	18,000	18,000
Other remuneration	0	0
Jacques Calvet [2]		
Directors' fees	24,000	7,693
Other remuneration	0	0
Anne-Marie de Chalambert		
Directors' fees	24,000	24,000
Other remuneration	0	0
Chantal du Rivau		
Directors' fees	18,000	18,000
Other remuneration	0	0
Jean-Jacques Duchamp		
Directors' fees	24,000	24,000
Other remuneration	0	0
Carlos Fernandez-Lerga Garralda		
Directors' fees	36,000	36,000
Other remuneration	0	0
Carmina Ganyet I Cirera		
Directors' fees	24,000	24,000
Other remuneration	0	0
Carlos Krohmer		
Directors' fees	18,000	18,000
Other remuneration	0	0
Luis Maluquer Trepat		
Directors' fees	18,000	18,000
Other remuneration	0	0
Adnane Mousannif[1]		
Directors' fees	2,416	18,000
Other remuneration	0	0
Nuria Oferil Coll[1]		
Directors' fees	2,416	18,000
Other remuneration	0	0
Pere Viñolas Serra [3]		
Directors' fees	25,359	24,000
Other remuneration	0	0
Anthony Wyand [4]		
Directors' fees	34,641	36,000
Other remuneration	0	0
Reig Capital Group Luxembourg [5] represented by Maria REIG MOLES		
Directors' fees	18,000	9,000
Other remuneration	0	0
Total	**289,248**	**310,693**

(1) Director from 13 November 2015

(2) Director until 26 April 2016

(3) Chairman of the Remuneration and Selection Committee until 11 February 2015

(4) Chairman of the Remuneration and Selection Committee as from 11 February 2015

(5) Director until 30 June 2016

3.5.3 Remuneration and benefits in kind paid to senior management other than corporate officers

The following table presents the total gross remuneration for 2016 paid by SFL to the persons who were members of the Management Committee as of 31 December 2016 other than the Chief Executive Officer and the Managing Director:

	2016
2016 salaries	865,102
2016 bonuses(1)	397,195
Benefits in kind	23,733
Special bonuses	20,000
Non-discretionary/discretionary profit-sharing(2)	108,187
Matching payments to the Group Pension Savings Plan (PERCO)	17,190

(1) With the same 50/50 split between quantitative and qualitative targets as for the bonuses awarded to the Chief Executive Officer and the Managing Director, as decided by the Board of Directors on 12 February 2016.

(2) Rights under the non-discretionary and discretionary profit-sharing plans for 2015, paid in 2016 (profit shares payable in 2017 in respect of 2016 had not been determined as of the date this document was published).

Amendment to employment contracts concerning payment of a termination benefit in the event of a change of control of the Company

At its meeting on 9 February 2004, the Board of Directors decided to insert a change of control clause in the employment contracts of the members of the Company's Management Committee.

The clause, which was updated in 2006, provides for the payment of compensation in addition to the termination benefit due by law or under the collective bargaining agreement in the case of (i) dismissal or (ii) resignation as a result of a significant change in responsibilities following a material direct or indirect change in the reference shareholders of the Company or of its controlling shareholder. The amount of said compensation was set at double the individual's 2006 remuneration in euros.

On 4 April 2008, the Board approved a proposal to set the gross benefit payable under the change of control clause at double the executive's total remuneration for the calendar year preceding the significant direct or indirect change in the reference shareholders of the Company or of its controlling shareholder.

At the same meeting, the Board also approved a proposal to reduce the time limit for claiming compensation from two years to eighteen months, as from the next direct or indirect change in the ownership structure.

Note: Nicolas Reynaud resigned from his salaried position as Chief Financial Officer on 27 January 2015, following his appointment as Chief Executive Officer, and has not been covered by this change of control clause since that date.

3.5.4 Information about stock options and performance shares

TABLE 8 – SUMMARY OF STOCK OPTIONS GRANTED IN PREVIOUS YEARS

None

TABLE 9 – STOCK OPTIONS GRANTED TO AND EXERCISED IN 2016 BY THE TEN EMPLOYEES OTHER THAN CORPORATE OFFICERS WHO RECEIVED THE GREATEST NUMBER OF OPTIONS

None

TABLE 10 – SUMMARY OF PERFORMANCE SHARE RIGHTS GRANTED IN PREVIOUS YEARS

	Plan 1			Plan 2	Plan 3	Plan 4
Date of General Meeting		9 May 2011			22 April 2015	13 Nov. 2015
Grant date	16 February 2012	5 March 2013	4 March 2014	16 February 2012	17 June 2015	26 April 2016
Total performance share rights granted of which rights granted to	49,481	52,716	50,972	20,516	40,992	48,054
Corporate officers	34,331	37,462	37,462	20,516	24,750	31,500
• Juan José Brugera Clavero	3,750	3,750	3,750	–	4,500	4,500
• Bertrand Julien-Laferrière	21,843	21,843	21,843	20,516	–	–
• Nicolas Reynaud	4,369	4,369	4,369	–	11,250	15,000
• Dimitri Boulte	4,369	7,500	7,500	–	9,000	12,000
Vesting date	19 March 2015	7 April 2016	4 March 2017	4 April 2014	17 June 2018	26 April 2019
End of lock-up period	18 March 2017	6 April 2018	3 March 2019	3 April 2016	16 June 2020	25 April 2021
Performance criteria		(1)		(2)	(3)	(4)
Number of vested performance shares as of 31 December 2016	44,375	36,424	–	20,516	–	–
Cumulative number of performance share rights cancelled or forfeited	–	–	24,248	–	2,592	192
Number of performance share rights outstanding at 31 December 2016	–	–	26,724	–	38,400	47,862

(1) The performance criteria are described in "Plan 1 Rules" below.
(2) The performance criteria are described in "Plan 2 Rules" below.
(3) The performance criteria are described in "Plan 3 Rules" below.
(4) The performance criteria are described in "Plan 4 Rules" in Appendix 7.2.

Plan 1 Rules

Vesting date

Provided that the grantee has not left the Group and the performance targets are met (see below), the performance shares will vest ten business days after the publication by the last of the "Reference Companies" (see definition below) to do so, of a press release announcing its results for the third financial year following the award date (i.e., for this award, the year ended 31 December 2015).

Continuing presence within the Group

The performance shares will vest only if, at the end of a three-year period, the grantee is still an employee or officer of the Company or another Group entity, as applicable, unless the grantee's separation is due to certain events that are beyond his or her control.

Performance targets

The number of performance shares that vest will depend on SFL's ranking in a group of six listed property companies including SFL (the "Reference Companies"). The ranking will be established based on growth in each of the Reference Companies' consolidated adjusted net asset value (ANAV) per share over the vesting period, as calculated by adding back dividends paid in each year of said period.

Lock-up period

In accordance with the French Commercial Code, the performance shares may not be sold or otherwise transferred before the end of a period of two years as from the vesting date.

In addition, for performance shares granted to the Chairman, the Chief Executive Officer, the Managing Director and certain senior executives, after the end of this statutory two-year lock-up period, 40% of the shares must be kept for the remainder of their period of service with the Company or another Group entity, as applicable, reduced to 20% once the value of the shares exceeds a certain percentage of their annual remuneration.

Plan 2 Rules

Vesting date

Provided that the grantee has not left the Group and the performance targets are met (see below), the performance shares will vest 10 business days after the publication by the last of the Reference Companies (see definition below) to do so, of a press release announcing its results for the second financial year following the award date.

Continuing presence within the Group

The shares will vest provided that the grantee serves as a corporate officer of the Company for an uninterrupted period of two years from the grant date, unless the grantee's separation is due to certain events that are beyond his or her control.

Performance targets

The number of performance shares that vest will depend on SFL's ranking in a group of six listed property companies including SFL (the "Reference Companies"). The ranking will be established based on growth in each of the Reference Companies' consolidated adjusted net asset value (ANAV) per share over the vesting period, as calculated by adding back dividends paid in each year of said period.

Lock-up period

The performance shares may not be sold or otherwise transferred before the end of a period of two years as from the vesting date.

After the end of this statutory two-year lock-up period, 40% of the shares must be kept for as long as the grantee remains a corporate officer of the Company, reduced to 20% once the value of the shares exceeds a certain percentage of his or her annual remuneration.

Plan 3 Rules

Vesting date

Provided that the grantee has not left the Group and the performance targets are met (see below), the performance shares will vest 15 business days after the publication by the last of the Reference Companies (see definition below) to do so, of a press release announcing its results for the second financial year following the award date.

Continuing presence within the Group

The shares will vest provided that the grantee serves as a corporate officer of the Company for an uninterrupted period of two years from the grant date, unless the grantee's separation is due to certain events that are beyond his or her control.

Performance targets

The number of performance shares that vest will depend on SFL's ranking in a group of six listed property companies including SFL (the "Reference Companies"). The ranking will be established based on growth in each of the Reference Companies' consolidated adjusted net asset value (ANAV) per share over the vesting period, as calculated by adding back dividends paid in each year of said period.

Lock-up period

The performance shares may not be sold or otherwise transferred before the end of a period of two years as from the vesting date.

After the end of this statutory two-year lock-up period, 40% of the shares must be kept for as long as the grantee remains a corporate officer of the Company, reduced to 20% once the value of the shares exceeds a certain percentage of his or her annual remuneration.

Plan 4 Rules

Vesting date

Provided that the grantee has not left the Group and the performance targets are met (see below), the performance shares will vest 15 business days after the publication by the last of the Reference Companies (see definition below) to do so, of a press release announcing its results for the third financial year following the award date (i.e., for the 26 April 2016 award, the year ended 31 December 2018).

Continuing presence within the Group

The performance shares will vest only if, at the end of the three-year vesting period, the grantee is still an employee or corporate officer of the Company or another Group entity, unless the grantee's separation is due to certain events that are beyond his or her control.

Performance targets

The number of performance shares that vest will depend on SFL's ranking in a group of six listed property companies including SFL (the "Reference Companies"). The ranking will be established based on growth in each of the Reference Companies' consolidated adjusted net asset value (ANAV) per share over the vesting period, as calculated by adding back dividends paid in each year of said period.

Lock-up period

Under Plan 4, the performance shares may not be sold or otherwise transferred before the end of a period of two years as from the vesting date. In addition, for performance shares granted to the Chairman, the Chief Executive Officer, the Managing Director and certain senior executives, after the end of this statutory two-year lock-up period, 40% of the shares must be kept for the remainder of their period of service with the Company or another Group entity, as applicable, reduced to 20% once the value of the shares exceeds a certain percentage of their annual remuneration.

3.5.5 Employee share ownership as of 31 December 2016

As of 31 December 2016, employees held 15,815 SFL shares directly and 5,838 SFL shares indirectly through the corporate mutual fund, together representing 0.03% of the capital.

4. Outlook and Risk Management

4.1. Subsequent events

Significant events since 31 December 2016

On 13 January 2017, the Company entered into a €165-million deal to acquire SMA's historical headquarters building, a 21,000-sq.m. property located at 112-122 avenue Emile Zola in the 15th *arrondissement* of Paris. Contracts will be exchanged when SMA moves to its new headquarters in the fourth quarter of 2017, and the property will then be extensively restructured.

At the BREEAM Awards 2017 ceremony held in London on 7 March 2017, SFL received the Corporate Investment in Responsible Real Estate Award, which recognises companies' commitment to sustainable real estate and the achievement of performance targets by having their asset portfolios certified and rated environmentally.

4.2. Outlook

Forecast developments and outlook

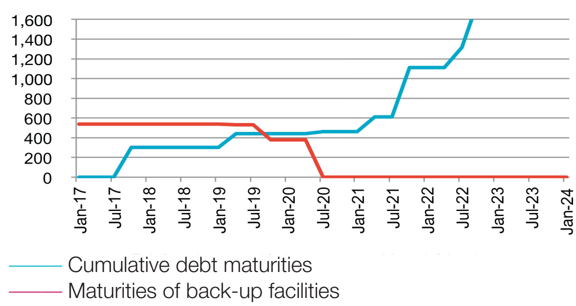
In a stalled economy where the leading indicators remain weak, the property markets may demonstrate a certain resilience, albeit with disparities depending on the quality of the assets. The growing flight to quality of both investors and clients confirms the validity of SFL's positioning in Paris's prime commercial property segment.

4.3. Risk factors

1 – Liquidity risk

Liquidity risk is covered by confirmed undrawn lines of credit. At 31 December 2016, SFL had access to confirmed undrawn lines of credit representing €540 million compared with €610 million at 31 December 2015. As shown in the graph below, the liquidity represented by these back-up facilities is sufficient to cover the Group's repayment obligations under its lines of credit up until October 2019.

SFL liquidity risk (in € millions)



We efficiently manage liquidity risk by leveraging our available credit lines, diversified debt structure and high quality assets.

The acceleration clauses contained in the facility agreements are presented in Note VI-1 to the consolidated financial statements (page 167).

See also in Note VI-1 to the consolidated financial statements (Short and long-term interest-bearing debt):

– Analysis of borrowings by maturity (page 167),

– Debt covenants and acceleration clauses (page 167).

2 – Counterparty risk

All financial instrument contracts are entered into with leading financial institutions. The contracts concern either interest rate hedges or the short-term investment of available cash in money market funds. It should be emphasised that these same banks finance a portion of the Group's debt. Counterparty risk is minimal because available cash is generally used to repay borrowings under the revolving lines of credit. The rental deposits obtained from tenants offer protection against the risk of rent default. The Company considers that its exposure to counterparty risk on operations is not material.

3 – Currency risk

SFL had no exposure to currency risks at 31 December 2016.

4 – Interest rate risk

Interest rate risks are prudently and actively managed using an information system that tracks changes in the financial markets and calculates the fair value of hedging instruments in real time, thereby allowing us to efficiently quantify and analyse the risks associated with interest rate fluctuations.

a) Objectives and strategy

Standard interest rate derivatives and fixed rate borrowings are used with the dual objective of reducing the sensitivity of borrowing costs to rising interest rates and minimising the cost of the derivatives. Steeper or flatter yield curves, market volatility, intrinsic interest rate levels and expected interest rate trends influence our choice of hedging instruments.

At 31 December 2016, 81% of debt was hedged against interest rate risks.

b) Risk assessment

The average spot cost of debt after hedging stood at 1.95% at 31 December 2016, versus 2.36% at 31 December 2015.

A 50-basis point rise in interest rates across the yield curve would have the effect of increasing the average cost of debt to 2.05%, driving up finance costs for 2016 by €1,951 thousand, representing 4.21% of annual financial expense. A 50-basis point decline in interest rates across the yield curve would lower the average cost of debt to 1.85%, and reduce finance costs by €1,951 thousand, representing 4.21% of annual financial expense.

The Group's net exposure to interest rate risks can be analysed as follows for the period between 31 December 2016 and 31 December 2020:

(in thousands of euros)	31 Dec. 2016	31 Dec. 2017	31 Dec. 2018	31 Dec. 2019	31 Dec. 2020
BECM revolving facility	140,000	140,000	140,000	–	–
Banco Sabadell loan	50,000	50,000	50,000	50,000	–
2015 BNP Paribas loan	20,000	20,000	20,000	20,000	–
2016 BNP Paribas loan	150,000	150,000	150,000	150,000	150,000
Current account advances	63,346	63,346	–	–	–
Total floating rate debt	**423,346**	**423,346**	**360,000**	**220,000**	**150,000**
Net unhedged position	**423,346**	**423,346**	**360,000**	**220,000**	**150,000**

See also Note VI-4 to the consolidated financial statements (Financial instruments), page 168.

5 – The Company is exposed to changes in the economic environment and the property market

The Company's performance depends on several factors, including:

– The level of rental income, which in turn depends on the financial condition of tenants. A steep drop in economic growth or consumer demand, or a spike in inflation or rental indices could affect the financial position of tenants who could then have difficulty paying their rent, potentially resulting in a fall in our rental income.

– The property cycle, which is also affected by the national and international economic and financial situation.
The property cycle can trigger a reversal of the rental and/or investment markets. Financial institutions were hit by the financial crisis of the last few years, and this had a knock-on effect on the main players in the property market.
Investment yields on prime real estate are continuing to decline due to investor appetite for this class of assets.
To measure and take into account the risk of a market downturn, tests have been performed to determine the sensitivity of portfolio values to a 25-bps decrease or increase in perpetuity growth rates and discount rates. The tests show that a combined increase or decrease in these two rates would have an impact of less than 7% on the overall value of our portfolio.

– The availability of bank financing.
The credit market is still nervous in the face of the current very slow recovery in the global economy. Some market players may have to scale back their activities because of the need to refinance borrowings falling due in the coming years, while the banks may be less inclined to finance higher risk projects.

6 – Asset valuation risks

As a direct result of property market trends, the Company is exposed to the risk of a fall in value of its assets that would directly affect consolidated profit and ANAV.

The information needed to evaluate this risk is provided in Note IV-4 to the consolidated financial statements (pages161 and 162).

7 – The Company operates in a highly competitive property investment market

The French property investment market has become even more competitive as interest rates fall across the yield curve. Investment yields continue to be affected by the shortage of prime properties and the inflow of capital into the market, but the spread between prime office yields and the 10-year OAT rate nevertheless remains at a record high.

In this environment, our main competitors are investors with considerable equity capital, such as insurers, SCPI and OCPI property funds and sovereign wealth funds, and other investors with fairly low levels of debt and gearing.

8 – Tenant risks

We derive most of our revenue from renting our property assets to tenants. Therefore, any delay or default in rental payments would have an unfavourable impact on operating profit. At 31 December 2016, our top ten tenants accounted for around 40% of total rental income and the top five for roughly 27%. The tenant base comprises companies operating in a wide variety of sectors such as financial services, real estate, consulting, insurance, fashion and luxury goods, and also includes law firms and international organisations.

All rents are subject to escalation clauses, with 18.4% adjusted based on the INSEE construction cost index, 69.2% on the ILAT office rent index and 12.4% on the ILC commercial property rent index.

Our ability to collect rent depends on tenants' solvency and liquidity position. Tenants may be unable to pay their rent on time or may default on their payments, or we may have to reduce the rent charged to certain tenants due to their financial position.

See Note V-3 to the consolidated financial statements (Trade and other receivables), page 164.

9 – Risks associated with the availability and cost of financing

SFL needs to borrow money to finance strategic investments and acquisitions.

However, it may prove difficult or even impossible to raise debt or equity capital on attractive terms. This situation may arise due to (i) changing conditions in the capital markets or the property market or (ii) any other change in the Company's business or financial position or the financial position of its majority shareholder that could affect how investors view SFL's credit quality.

Funds can be raised by selling assets, but this source of financing is subject to market risk. Fewer sales and troubled markets could lead to financial losses and the premature sale of assets could hinder implementation of our long-term strategy and result in lost opportunities. In addition, our ability to sell assets may be curtailed if the property market is not sufficiently liquid.

An inability to borrow money or raise financing due to unfavourable market conditions, a generally depressed economic environment or other factors specific to the Company could limit our ability to acquire new assets, finance property renovations and refurbishments and refinance existing debt.

The Company's financing needs could increase if acceleration clauses in existing loan agreements are triggered. Some loan agreements contain acceleration clauses that would be triggered if certain hard or soft covenants were breached, or if there was a change of control of the Company. A change of control is defined in our loan agreements as the loss by our current majority shareholder of its majority interest in SFL. Facilities subject to acceleration clauses represented a total of €360 million at 31 December 2016.

10 – Risks associated with the loss of key personnel

The departure of a member of the senior management team or any other manager could result in a loss of critical know-how and, in some cases, give competitors and tenants access to sensitive information. Our success depends, in part, on our ability to retain the members of the Management Committee and other key employees and continue to attract, motivate and retain highly qualified personnel. If key personnel are not retained, our business, financial position, results or future growth could be affected.

11 – Risks associated with subcontractors and other service providers

We use contractors and other service providers for major redevelopment projects and for the day-to-day maintenance of our properties. There is a limited number of construction companies with the capacity to carry out major renovation work or property development projects in Paris. We are therefore dependent on these firms for the timely completion of our projects. In addition, if a contractor involved in any such project were to go out of business or file for bankruptcy, or if the quality of its services were to decline, this could delay completion of the project and drive up costs. Unexpected delays in renovation or refurbishment work could extend the period during which properties are unavailable for rent, which could have an unfavourable impact on our business, financial position or results. Insolvency could also affect a contractor or service provider's ability to fulfil performance guarantees.

12 – Risks associated with the regulatory environment

As the owner of office buildings and properties designed for commercial use, in addition to the tax regulations associated with the SIIC tax regime, we must comply with a number of other regulations relating in particular to construction, public health, the environment, safety, commercial leases and administrative authorisations. Failure to comply with such regulations, and any changes thereto, including increasingly stringent environmental standards that make compliance more difficult and more expensive, could have an adverse effect on our results, profitability, growth or development prospects.

Complying with the applicable regulations and our own risk management policy could generate significant additional costs and have a negative impact on profitability. In certain circumstances, particularly in the case of environmental damage, a public health threat or reckless endangerment, we could be faced with a civil or even a criminal liability claim that would adversely affect our reputation.

In addition, like most property owners, we cannot guarantee that our tenants comply with all of the regulations applicable to them, particularly environmental, public health and safety regulations.

We are subject to environmental and public health regulations, and can be held liable for non-compliance with such regulations in our capacity as the current or former owner or the developer of the property in question. These regulations often hold the owner or developer liable regardless of whether they were aware of or responsible for the existence of hazardous or toxic substances. They may demand the reduction or elimination of material containing asbestos if a property is damaged, demolished, renovated, rebuilt or extended, and they also apply to the exposure to asbestos or its release to the atmosphere. Some of our properties contain or once contained materials containing asbestos.

The significant costs involved in identifying and eliminating hazardous or toxic substances could have a negative impact on our results, business or financial position. Non-compliance with the applicable environmental and public health regulations and changes to those regulations could lead to additional operating expenses and maintenance costs or hinder the development of our business, which could affect our results. In addition, if we cannot comply with regulations or prevent an environmental incident, our properties could lose their appeal and we could be subject to sanctions that could generate additional costs and damage our reputation. We may also need to pay legal expenses to defend ourselves against environmental claims or take measures to remedy newly identified environmental risks.

We have set up a risk management system guided by an environmental charter that describes the procedures for managing each identified environmental risk. Updated on a regular basis, tables monitoring the portfolio's exposure to such risks can be accessed on a dedicated server by all employees concerned.

To the best of the Company's knowledge, no claims or litigation are in progress or pending that would be likely to have a material impact on the business, assets and liabilities, financial position or results of the Company or the Group.

13 – Risks associated with government-related procedures

For most large-scale renovation projects, building and/or other permits have to be obtained from the relevant municipal authorities, sometimes including commercial property authorisations from the CDAC or improvement permits from local commissions overseeing compliance with health and safety regulations in buildings open to the public.

It can take considerable time to obtain these permits and the authorities may require significant changes to the project before the permit is granted.

Once the permits are obtained, there is still a risk that third parties will raise objections. This may further delay the project and, in some cases, it may be necessary to adjust the plans.

We endeavour to limit these risks by drawing on the expertise of architects, design and engineering firms, inspection and certification firms, firms specialised in obtaining retail permits and other professionals, and by systematically reviewing projects with the municipal authorities to obtain feedback before submission and before the start of redevelopment or renovation work.

14 – Risks of neighbour complaints

Most SFL properties are located in densely settled urban areas, where large redevelopment projects can generate noise or vibration disamenities.

Neighbour complaints can lead to significant compensation claims or even injunctions to stop work.

When demolition work or work on the fabric of a building is planned, we systematically arrange for a court-appointed expert to prepare a report on the condition of neighbouring properties and on existing disamenities before the work begins.

Contractors are required to take measures to limit disamenities, mainly by keeping public spaces clean and managing traffic, dust, noise and vibrations. Noise levels and other disamenities are also regularly monitored. In addition, contractors are required to meet the high or very high-performance criteria under France's HQE standards for maintaining "green" worksites with a minimal environmental footprint.

15 – Risks associated with the majority shareholder

As the holder of the majority of SFL's share capital and voting rights, Colonial has considerable influence over the Company and can control the decisions made by the Board of Directors, as well as the ordinary and extraordinary decisions of shareholders in General Meetings. This means that Colonial can decide issues that are important for SFL, such as the election of directors, the approval of the financial statements, the distribution of dividends and changes to the Company's share capital.

Although SFL is a controlled company as explained above, we do not believe that there is any risk of the majority shareholder misusing its powers, particularly in light of the presence on the Board of Directors representing significant minority shareholders and independent directors, and the separation of the positions of Chairman of the Board and Chief Executive Officer.

16 – Risks associated with the SIIC tax regime

16.1. Conditions of eligibility for the SIIC tax regime

On 29 September 2003, SFL elected to be taxed under the REIT-style SIIC tax regime, with retroactive effect from 1 January 2003. Under this regime, SFL is exempt from paying corporate income tax on the portion of its profit generated by:
– The rental of property, including properties acquired under finance leases or leased temporarily from the State, a national or regional government agency or a publicly controlled entity.
– Capital gains realised on the sale of properties, finance lease rights, shares in look-through partnerships or shares in subsidiaries that have elected to be taxed as SIICs.
– Dividends received from qualifying subsidiaries.

Eligibility for the regime depends on certain conditions being met and SIICs are also subject to certain minimum distribution obligations.

16.1.1 Conditions for eligibility

SFL's eligibility for the SIIC tax regime depends on its on-going compliance with all of the following conditions:
– The SIIC must be listed on a regulated market in France or a regulated market that complies with the requirements of Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments.
– It must have share capital of at least €15 million.
– Its main corporate purpose must be either to acquire or construct rental property or to take direct or indirect ownership interests in entities with an identical corporate purpose that are taxed as look-through partnerships or are subject to corporate income tax.
– No single shareholder or group of shareholders acting in concert may hold 60% or more of the share capital or voting rights of the SIIC, apart from certain exceptions expressly provided for by law, in particular when the shareholder or shareholders acting in concert that hold, directly or indirectly, more than 60% of the capital or voting rights are themselves SIICs.

16.1.2 Distribution obligations

The SIIC must distribute to shareholders:
– 95% of profits derived from the rental of property (including properties acquired under finance leases or leased temporarily from the State, a national or regional government agency or a publicly controlled entity) either directly or through companies governed by Article 8 of the French Tax Code, within one financial year.
– 60% of capital gains realised on (i) sales of property or finance lease rights either directly or through companies governed by Article 8 of the French Tax Code and (ii) sales of qualifying interests in property companies, within two financial years.
– 100% of the dividends received from subsidiaries that have elected to be taxed as an SIIC, within one financial year.
– 100% of the dividends received from other SIICs or from foreign REITs or from variable capital property investment companies ("SPPICAVs") that have been over 5%-owned for at least two years, within one financial year of the dividends being received.

16.2. Non-compliance with the conditions of eligibility for the SIIC tax regime

16.2.1 Non-compliance with conditions other than the 60% ownership ceiling

If any of these conditions were no longer fulfilled, the Company and its SIIC subsidiaries would lose their SIIC status. The main consequences of exiting the regime would be as follows:
– The Company and its subsidiaries would not benefit from the SIIC regime for the year during which the conditions were no longer fulfilled or for subsequent years. As a result, all of the profits generated during those years would be subject to corporate income tax.
– If the Company were to exit the SIIC regime within the first 10 years, any capital gains taxed at the reduced rate of 16.5% (or 19% as of 1 January 2009) on election for SIIC status (or when new assets became eligible for the SIIC regime) would be taxed at the full corporate income tax rate at the exit date, less the 16.5% or 19% tax paid when the election for SIIC status was made (or the assets became eligible for the SIIC regime).
– All capital gains realised after the Company exited the SIIC regime would be calculated by reference to the market value used to calculate the 16.5% exit tax paid when the Company elected for taxation as an SIIC (or the 19% tax for new assets that became eligible for the SIIC regime after 1 January 2009).
– All tax-exempt profits generated while the Company was an SIIC and not paid out in the form of dividends would have to be added back to the taxable profit of the Company and its subsidiaries when they exited the SIIC regime. All dividends subsequently paid out of after-tax profit would be eligible for the affiliation privilege, as would dividends paid out of profits taxed at the standard corporate income tax rate while the Company was an SIIC.
– The Company would be subject to an additional 25% tax on the portion of unrealised capital gains generated during the tax-exempt period. Specifically, this rate would apply to the amount of unrealised capital gains generated on tax-exempt property since the Company's election for SIIC status, reduced by one tenth for every calendar year in which the Company was taxed as an SIIC.
– Lastly, if a commitment had been given to retain for five years properties or shares in property companies acquired from an entity subject to corporate income tax (in accordance with Article 210E of the French Tax Code), the Company would be liable for a penalty equal to 25% of the purchase price of the properties or shares.

16.2.2 Non-compliance with the 60% ownership ceiling

If the 60% limit were to be exceeded, the Company's SIIC status would simply be suspended for the financial year concerned, provided that (i) the breach was the first to occur since the election for SIIC status, i.e., during the ten years following the Company's decision to be taxed as an SIIC or the subsequent 10-year period; and (ii) the situation was remedied before the financial year-end. As a consequence of this suspension, the Company would be subject to corporate tax at the standard rate on that year's profit, except that capital gains on sales of properties would be calculated by reference to the value used to calculate the exit tax paid when they became eligible for the SIIC regime, less depreciation previously deducted from tax-exempt earnings.

The suspension would be temporary, provided that the situation was remedied before the end of the financial year in which the breach occurred.

The Company and its subsidiaries could therefore recover tax-exempt status the following year. However, if the 60% limit were still exceeded at the end of that year, the SIIC status of the Company and its subsidiaries would be definitively revoked.

With the return to tax-exempt status, the amount of tax due in respect of unrealised gains on property normally eligible for SIIC tax exemption would be limited to those gains generated during the suspension period. They would be taxable at the reduced rate of 19%. Unrealised gains on taxable property would however not be immediately subject to tax.

If the limit were to be exceeded during the year due to a public tender offer or a transaction governed by the tax rules applicable to mergers, the rule would not be considered to have been breached provided that the shareholder's interest was brought back to below 60% by the deadline for reporting the SIIC's results for the year concerned.

If its SIIC status were definitively revoked after a suspension period, the Company would be liable for tax at the above-mentioned rates, plus the amount of tax that it would have paid had it returned to SIIC status, i.e., tax on unrealised capital gains generated during the suspension period on property normally eligible for SIIC tax exemption.

16.2.3 Non-compliance with distribution obligations

In the event of failure by the Company to comply with the distribution obligation for a given year, corporate income tax would be payable on the Company's total profit for the year concerned, at the standard rate.

If the Company were to comply with its distribution obligations for a given year but its tax-exempted profit were to be reassessed, only the undistributed portion of the reassessment would be subject to corporate income tax, after deducting any "excess" dividend already paid.

16.3. 20% withholding tax

If a corporate shareholder owns, directly or indirectly, at least 10% of the dividend rights and if the dividends received by that shareholder are exempt from tax or taxed in France or abroad at a rate that is more than two-thirds lower than the standard French corporate income tax rate, the Company must pay a 20% withholding tax on the dividends paid to the shareholder concerned out of profits generated by the SIIC activities.

The 20% withholding tax is due by the Company and not the shareholder. However, SFL's Articles of Association stipulate that the 20% withholding tax will be deducted from dividends paid to the shareholder concerned, to avoid the Company and the other shareholders having to bear the cost.

The stipulation in the Articles of Association transferring the burden of the 20% withholding tax to the shareholder at the origin of its payment may dissuade certain funds and other tax-exempt investors from acquiring a significant interest in the Company, and this in turn could adversely affect the share price.

16.4. 15% withholding tax on dividends paid to pooled investment vehicles

Since 17 August 2012, sums paid out of tax-exempt "SIIC" profits and distributed to French UCITS (OPCVM, OPCI or SICAF property funds) or comparable foreign pooled investment vehicles, are subject to 15% withholding tax. This withholding tax does not discharge the shareholder from the payment of personal or corporate income tax and cannot be recovered or set off against any other tax liability.

The withholding tax could dissuade these pooled investment vehicles from acquiring a stake in our Company, which could affect the share price.

16.5. Future changes to the SIIC regime

The SIIC eligibility criteria and the resulting tax exemption may change as a result of changes to the law or new interpretations by the tax authorities.

These could be dealt with in one or several instructions issued by the tax authorities, the content of which was not known as of the date when this report was drawn up.

Further changes in the SIIC regime could have a material adverse effect on the Company's business, financial position and results.

4.4. Insurance

The insurance programmes cover (i) the property portfolio and (ii) corporate risks.

4.4.1 Property insurance

This Group-level policy covers all fully-owned and co-owned property assets of the Company and its subsidiaries.

It covers accidental damage to the properties on an all-risks basis with a limited number of named exclusions, as well as all resulting expenses and losses.

For co-owned buildings that are managed by a third-party manager, the policy includes "manager failure" cover that kicks in when the cover taken out by the manager is inadequate or no cover has been purchased.

We take care to realign our insurance programmes whenever necessary due to changes in our own risks and those arising from our business environment.

The insurance strategy takes into account the estimated time required to rebuild and repair the properties after a major incident, considering their location, the complexity of the work that would be involved, the size of the site, unavoidable administrative time and any third party claims. Our properties are all located on prime sites and high quality insurance cover is essential.

The maximum insured value was kept at €300 million at 31 December 2016, including loss of rental income, for all properties in the portfolio.

In 2014, a large-scale project was undertaken to accurately estimate the rebuilding cost of the properties in the portfolio based on valuations prepared by a firm of consultants, Galtier. The project's results helped us to accurately determine the capacity to be sought in the insurance market and adjust our assessment of insurance needs.

Implementation of the resulting changes to the insurance programme was delayed by a major fire that occurred in the Édouard VII car park in 2014, but on the plus side, the fire provided valuable intelligence that was used to align our insurance cover with the specific needs that it brought to light

The 2014 exercise will be repeated in 2017, to reassess rebuilding costs, adjust insured values accordingly and adjust the programme's scope to reflect properties purchased and sold since 2014.

The policy also covers the cost of repairing damage to new work arising during renovations to the insured properties, up to a maximum of €7.5 million. The aim of this extension is to cover under a single contract both damage to the original property and damage to work that will become an integral part of the property once it is completed.

It is designed to ensure that we can fulfil our commitments in respect of work not covered by a comprehensive site insurance policy.

4.4.2 Corporate insurance

A) All-risks Office and IT

The All-risks Office and IT policy covers the furniture and equipment used at the Group's 42 rue Washington headquarters and the Square Édouard VII conference centre in the 9th *arrondissement* in Paris.
Consequential losses and expenses are also covered.

B) IT Risks

The IT Risks policy covers all the costs that would be incurred to restore lost data as well as any supplementary IT costs that would be incurred as a result of malicious damage – including computer viruses – or an alteration or loss of data due to error, an accident or a natural catastrophe.
Damage to computer hardware is covered by the All-risks Office and IT policy described above.

C) General Liability

All of the Group's companies and operations, including both property management and trading, are covered by a single liability policy.

The policy covers:
- Third-party liability during operations and works, capped at €20 million per claim (combined single limit), including €15 million for direct and consequential damage. The total includes accidental environmental damage cover of €1.5 million per claim, and "inexcusable fault" cover of €2.5 million per claim and up to €2.5 million per year. "Inexcusable fault" cover was extended to include the extension of damages resulting from the Constitutional Council's decision of 18 June 2010.
- Professional liability insurance for the Group, up to a maximum of €3 million per claim and per underwriting year (combined single limit), of which €1 million corresponds to professional liability insurance for the property management and trading activities carried out by Locaparis.

Liability cover for buildings undergoing major redevelopment includes the comprehensive site insurance policies purchased for each project, and cover for consequential losses incurred by third parties.

D) Directors' and Officers' Liability

This policy covers directors and officers, including *de facto* managers of the Company, against personal liability claims.

4.4.3 Construction insurance

The following insurance cover is purchased for all of our property redevelopment projects:
- Structural damage and developer insurance
- Contractors all-risks insurance
- Project sponsor liability insurance, which is in addition to the cover provided by the general liability policy described in point C) above.

4.5 Claims and litigation

No governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) may have or have had significant effects on the Company's financial position or profitability during the last 12 months.

See also Note II-3 to the consolidated financial statements (Tax Audits), page 157.

5. SFL and its shareholders

5.1. Information about the Company's capital

CHANGES IN CAPITAL OVER THE LAST FIVE YEARS (2012-2016)

Date	Description	Issues			New capital	
		Number of shares issued	Par value	Gross premium	Total number of shares	New capital
2012	None	–	–	–	46,528,974	€93,057,948
2013	None	–	–	–	46,528,974	€93,057,948
2014	None	–	–	–	46,528,974	€93,057,948
2015	None	–	–	–	46,528,974	€93,057,948
2016	None	–	–	–	46,528,974	€93,057,948

OWNERSHIP STRUCTURE AND VOTING RIGHTS AT 31 DECEMBER 2016

Main shareholders		Total shares	Total voting rights	% interest	% voting rights[c]
Inmobiliaria Colonial SA		27,240,603	27,240,603	58.55%	59.01%
DIC Holding LLC[a]		3,984,999	3,984,999	8.56%	8.63%
Qatar Holding LLC[a]		6,345,428	6,345,428	13.64%	13.74%
Sub-total DIC Holding and Qatar Holding (acting in concert)		*10,330,427*	*10,330,427*	*22.20%*	*22.37%*
Predica[b]	Groupe Crédit Agricole SA	5,992,878	5,992,878	12.88%	12.98%
Other subsidiaries (La Médicale/CA Life Greece/CAA/CACI/CALIE Lux/PACIFICA/SPIRICA)		141,304	141,304	0.30%	0.31%
Sub-total Crédit Agricole Group		*6,134,182*	*6,134,182*	*13.18%*	*13.29%*
Sub-total, main shareholders		**43,705,212**	**43,705,212**	**93.93%**	**94.67%**
Free float		2,461,382	2,461,382	5.29%	5.33%
Treasury shares		362,380	–	0.78%	–
Total		**46,528,974**	**46,166,594**	**100.00%**	**100.00%**

(a) DIC Holding LLC and Qatar Holding LLC are shareholders acting in concert (see 214C0691, pages 37 and 38).

(b) Life/health insurance subsidiaries of the Crédit Agricole Group.

(c) No shares carry double voting rights, all shares are in the same class and treasury shares are stripped of voting rights.
SFL's share capital at 31 December 2016 was €93,057,948.
To the best of the Company's knowledge, no other shareholder holds over 5% of the capital or voting rights and no agreement exists that could lead to a change of control of the Company.

CHANGES IN OWNERSHIP STRUCTURE AND VOTING RIGHTS

	2013[a]		2014[a]		2015[a]	
	% interest	% voting rights[b]	% interest	% voting rights[b]	% interest	% voting rights[b]
Inmobiliaria Colonial	53.14%	53.65%	53.14%	53.63%	53.14%	53.58%
Crédit Agricole Group, of which:	13.93%	14.06%	13.15%	13.27%	13.15%	13.26%
• *CA-CIB/Calyon*	*8.55%*	*8.63%*	*0%*	*0%*	*0%*	*0%*
• *Predica*	*5.09%*	*5.14%*	*12.85%*	*12.97%*	*12.85%*	*12.96%*
• *Other subsidiaries (Crédit Agricole Assurances and Dolcea Vie/Crédit Agricole Life Insurance Company/CALI Europe/CARE)*	–	–	*0.30%*	*0.30%*	*0.30%*	*0.30%*
Royal Bank of Scotland	7.49%	7.56%	–	–	–	–
Unibail Rodamco SE	7.25%	7.32%	–	–	–	–
Orion III European 3 SARL	6.39%	6.45%	–	–	–	–
DIC Holding LLC	–	–	8.55%	8.63%	8.56%	8.63%
Qatar Holding LLC	–	–	13.64%	13.76%	13.64%	13.75%
Reig Capital Group	4.38%	4.42%	4.38%	4.42%	4.38%	4.42%
Free float	6.48%	6.54%	6.22%	6.28%	6.32%	6.37%
Treasury stock	0.94%	–	0.92%	–	0.81%	–
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

(a) At 31 December of each year.

(b) No shares carry double voting rights, all shares are in the same class and treasury shares are stripped of voting rights.

To the best of the Company's knowledge, there were no other shareholders holding more than 5% of the capital or voting rights in any of the three years presented.

Changes in interests disclosed to the Company since 1 January 2017

None

Changes in interests disclosed to the Company in 2016

2016DD438591 – On 4 July 2016, Inmobiliaria Colonial ("Colonial") (Av. diagonal, 532 - 08008 Barcelona – Spain) disclosed that its interest in SFL had increased to above the statutory disclosure thresholds of 54% and 56% of the capital and voting rights. The disclosure thresholds were crossed on 28 June 2016 following Colonial's Annual General Meeting at which its shareholders approved the sale to Colonial by Reig Capital Group, for a mix of cash and shares, of 2,038,956 SFL shares representing approximately 4.4% of the Company's capital and voting rights[1].
Following this transaction, Colonial held 26,765,356 SFL shares, representing approximately 57.52% of the capital and voting rights.

(1) 1,019,478 shares were sold to Colonial for cash and the remaining shares were sold in exchange for 90,805,920 Colonial shares issued to Reig Capital Group.

Changes in interests disclosed to the Company in 2015

None

Changes in interests disclosed to the Company in 2014

214C0561

On 11 April 2014, Crédit Agricole SA (12 place des Etats-Unis, 92127 Montrouge) disclosed that on 7 April 2014 its indirect interest in SFL held through several controlled companies (Predica, Crédit Agricole Assurances, Dolcea Vie, Crédit Agricole Life Insurance Company, CALI Europe, CARE and Crédit Agricole Corporate & Investment Bank) had been reduced to less than 10% of the Company's capital and voting rights, and that at that date, it indirectly held 2,508,509 SFL shares representing 5.39% of the capital and voting rights, as follows:

	Shares and voting rights	% interest and voting rights
Predica	2,368,509	5.09
Crédit Agricole Assurances	103,961	0.22
Dolcea Vie	15,000	0.03
Credit Agricole Life Insurance Company	8,663	0.02
CALI Europe	7,426	0.02
CARE	4,950	0.01
Crédit Agricole Corporate & Investment Bank	–	–
Total Crédit Agricole SA	**2,508,509**	**5.39**

The shares were sold off-market.

At the same time, Crédit Agricole Corporate & Investment Bank disclosed that it had reduced its interest to below 5% of the capital and voting rights and no longer held any SFL shares.

214C0565

On 11 April 2014, DIC Holding LLC[1] (8th Floor, Q-Tel Tower, Diplomatic Area Street, West Bay, PO Box 23224, Doha, Qatar) disclosed that on 7 April 2014 it had increased its interest in SFL to over 5% of the Company's capital and voting rights and that at that date it held 3,978,554 SFL shares and voting rights, representing 8.55% of the capital and 8.64% of the voting rights[2].

The shares were purchased off-market.

(1) Controlled by The Amiri Diwan of the State of Qatar.

(2) Based on a total of 46,528,974 shares and 46,069,049 voting rights outstanding.

214C0571

On 14 April 2014, The Royal Bank of Scotland plc[1] (PO Box 31, 36 Saint Andrew Square, Edinburgh EH2 2YB, Scotland, United Kingdom) disclosed that on 11 April 2014 it had reduced its interest to below 5% of the capital and voting rights and no longer held any SFL shares.

The shares were sold off-market.

(1) Controlled by The Royal Bank of Scotland Group plc.

214C0594

1) On 17 April 2014, Crédit Agricole SA (12 place des Etats-Unis, 92127 Montrouge) disclosed that on 11 April 2014 its indirect interest in SFL held through several controlled companies (Predica, Crédit Agricole Assurances, Dolcea Vie, Crédit Agricole Life Insurance Company, CALI Europe and CARE) had been increased to more than 10% of the Company's capital and voting rights, and that at that date, it indirectly held 5,881,223 SFL shares representing 12.64% of the capital and voting rights[1], as follows:

	Shares and voting rights	% interest and voting rights
Predica	5,741,223	12.34
Crédit Agricole Assurances	103,961	0.22
Dolcea Vie	15,000	0.03
Credit Agricole Life Insurance Company	8,663	0.02
CALI Europe	7,426	0.02
CARE	4,950	0.01
Total Crédit Agricole SA	**5,881,223**	**12.64**

The shares were purchased off-market.
At the same time, Predica disclosed that it had also increased its interest to more than 10% of the Company's capital and voting rights.

2) Crédit Agricole SA's disclosure letter included the following statement of intent:
"In accordance with Article L.233-7 VII of the French Commercial Code and Article 223-17 of the Autorité des Marchés Financier's General Regulations, Crédit Agricole SA hereby declares that the objectives of Crédit Agricole Assurances and its subsidiaries, Predica SA, Dolcea Vie, Crédit Agricole Life Insurance Company, CALI Europe and CARE, concerning their interests in Société Foncière Lyonnaise for the coming months are as set out below.

Crédit Agricole Assurances and its subsidiaries declare that:
– The 3,372,714 SFL shares were purchased off-market by Predica SA in application of its investment strategy for inclusion in the company's general insurance portfolio.
– They are not acting in concert with any other investor.
– Predica may make further purchases of SFL shares, depending on the results of its analyses and its investment strategy.
– They have no plans to acquire a controlling interest in SFL.
– The shares were purchased on the basis of SFL's strategy.
– They have no plans to intervene in this strategy and do not intend to carry out any of the transactions referred to in Article 223-17 I-6 of the Autorité des Marchés Financier's General Regulations.
– They are not party to any of the agreements and/or instruments referred to in paragraphs 4 and 4 *bis* of Article L.233-9-I of the French Commercial Code concerning SFL.
– They have not signed and are not party to any agreement for the temporary sale of SFL shares and/or voting rights.
– They do not plan to ask for any seats on SFL's Board of Directors."

(1) Based on a total of 46,528,974 shares and voting rights outstanding, in accordance with paragraph 2 of Article 223-11 of the AMF's General Regulations.

214C0691

1) In a letter received by SFL on 30 April 2014, followed by a further letter received on 2 May 2014, Qatar Holding LLC[1] (8th Floor, Q-Tel Tower, Diplomatic Area Street, West Bay, PO Box 23224, Doha, Qatar) disclosed that it had crossed the following disclosure thresholds on 28 April 2014 as a result of off-market purchases of SFL shares:
– Its individual interest in SFL was increased to over 5% of the Company's capital and voting rights through off-market purchases, with 3,372,714 shares and voting rights held on the disclosure date, representing 7.25% of the Company's capital and voting rights[2].
– The interest held in concert with DIC Holding LLC[3] was increased to over 5%, 10% and 15% of the Company's capital and voting rights, with 7,351,268 shares and voting rights held in concert on the disclosure date, representing 15.80% of the Company's capital and voting rights[2], as follows:

	Shares and voting rights	% interest and voting rights
DIC Holding LLC	3,978,554	8.55
Qatar Holding LLC	3,372,714	7.25
Total shares and voting rights held in concert	**7,351,268**	**15.80**

At the same time, DIC Holding LLC's interest in SFL held in concert with Qatar Holding LLC rose to above 10% and 15% of the Company's capital and voting rights.

2) Qatar Holding LLC's disclosure letter included the following statement of intent:
Qatar Holding LLC and DIC Holding LLC hereby declare:
"In accordance with Article L.233-7 of the French Commercial Code, the following statement of intent is made for the next six months:
– The off-market purchase by Qatar Holding LLC from Unibail-Rodamco SE of 3,372,714 SFL shares was financed in full out of equity by Qatar Holding LLC.
– Qatar Holding LLC and DIC Holding LLC act in concert. There is no formal shareholders' pact between Qatar Holding LLC and DIC Holding LLC concerning their interests in SFL or stipulating that they will act in concert. Qatar Holding LLC and DIC Holding LLC do not act in concert with any other SFL shareholders.

– As of the date of this letter, Qatar Holding LLC and DIC Holding LLC together hold 7,351,268 SFL ordinary shares representing 15.80% of the Company's capital and voting rights.
– Qatar Holding LLC and DIC Holding LLC plan to make further purchases of SFL shares depending on the opportunities that arise. However, they do not intend to acquire control of the Company.
– Qatar Holding LLC and DIC Holding LLC intend to support the strategy implemented by SFL's management, while protecting their interests as minority shareholders of the Company.
– Qatar Holding LLC and DIC Holding LLC do not intend to carry out any of the transactions listed in Article 223-17-I-6 of the AMF's General Regulations.
– Qatar Holding LLC and DIC Holding LLC are not parties to any agreements and do not hold any of the financial instruments referred to in paragraphs 4 and 4 *bis* of Article L.233-9-I of the French Commercial Code.
– Qatar Holding LLC and DIC Holding LLC have not signed and are not party to any agreement for the temporary sale of SFL shares and/or voting rights.
– Qatar Holding LLC and DIC Holding LLC do not plan to ask for any seats on SFL's Board of Directors."

(1) Wholly-owned by The Qatar Investment Authority, controlled by the State of Qatar.

(2) Based on a total of 46,528,974 shares and voting rights outstanding.

(3) Wholly-owned by The Amiri Diwan of the State of Qatar, controlled by the State of Qatar.

214C0694

On 2 May 2014, Unibail-Rodamco SE (7 place du Chancelier Adenauer, 75016 Paris) disclosed that it had reduced its interest in SFL on 28 April 2014 to below 5% of the capital and voting rights through the sale of 3,372,714 SFL shares in an off-market transaction with settlement/delivery on 5 May 2014, and that it no longer held any SFL shares.

214C0723

In a letter received by SFL on 6 May 2014, followed by a further letter received on 7 May 2014, Orion III European III SARL (11-13 boulevard de la Foire, L-1528, Luxembourg, Grand-Duchy of Luxembourg) disclosed that on 2 May 2014, it had reduced its interest in SFL to below 5% of the Company's capital and voting rights, and that it no longer held any SFL shares.

The shares were sold off-market.

214C0781

1) In a letter received by SFL on 7 May 2014 followed in particular by a letter received on 13 May 2014, the concert group made up of DIC Holding LLC[1] and Qatar Holding LLC[2] (8th Floor, Q-Tel Tower, Diplomatic Area Street, West Bay, PO Box 23224, Doha, Qatar) disclosed that on 1 May 2014 they had increased their combined interest in SFL to over 20% of the Company's capital and voting rights and that at that date they held 10,323,982 SFL shares and voting rights, representing 22.19% of the capital and voting rights[3] as follows:

	Shares and voting rights	% interest and voting rights
Qatar Holding LLC	6,345,428	13.64
DIC Holding LLC	3,978,554	8.55
Total shares and voting rights held in concert	**10,323,982**	**22.19**

At the same time, Qatar Holding LLC disclosed that its individual interest in SFL had increased to above 10% of the Company's capital and voting rights.

The shares were purchased off-market.

2) The disclosure letters included the following statement of intent:
"In accordance with Article L.233-7 VII of the French Commercial Code, the following statement of intent is made for the next six months:
– The off-market purchase by Qatar Holding LLC of 2,972,714 SFL shares was financed in full out of equity by Qatar Holding LLC.
– Qatar Holding LLC and DIC Holding LLC declare that they are acting in concert – they are under common management and the persons responsible for making investment decisions for Qatar Holding LLC and DIC Holding LLC are therefore the same. There is no formal shareholders' pact between Qatar Holding LLC and DIC Holding LLC concerning their interests in SFL or stipulating that they will act in concert. Qatar Holding LLC and DIC Holding LLC do not act in concert with any other SFL shareholders.
– As of the date of this letter, Qatar Holding LLC and DIC Holding LLC together hold 10,323,982 SFL ordinary shares representing 22.19% of the Company's capital and voting rights.
– Qatar Holding LLC and DIC Holding LLC plan to make further purchases of SFL shares depending on the opportunities that arise. However, they do not intend to acquire control of the Company.
– Qatar Holding LLC and DIC Holding LLC intend to support the strategy implemented by SFL's management, while protecting their interests as minority shareholders of the Company. Qatar Holding LLC and DIC Holding LLC do not intend to carry out any of the transactions listed in Article 223-17-I-6 of the AMF's General Regulations.
– Qatar Holding LLC and DIC Holding LLC are not parties to any agreements and do not hold any of the financial instruments referred to in paragraphs 4 and 4 *bis* of Article L.233-9-I of the French Commercial Code.
– Qatar Holding LLC and DIC Holding LLC have not signed and are not party to any agreement for the temporary sale of SFL shares and/or voting rights.
– Qatar Holding LLC and DIC Holding LLC do not plan to ask for any seats on SFL's Board of Directors."

(1) Controlled by The Amiri Diwan of the State of Qatar. The Amiri Diwan is a government entity without any capital. DIC Holding LLC is an investment vehicle managed by The Qatar Investment Authority (QIA) and Qatar Holding LLC on behalf of The Amiri Diwan. The two senior executives of DIC Holding LLC are also senior executives of QIA.

(2) Controlled by QIA, the State of Qatar's sovereign wealth fund that does not have any share capital.

(3) Based on a total of 46,528,974 shares and voting rights outstanding, in accordance with paragraph 2 of Article 223-11 of the AMF's General Regulations.

5.2. Share equivalents

The Company has not issued any other securities with rights to a share in the capital.

5.3. Directors' interests

Directors as of 31 December 2016	Number of SFL shares held at 31 December 2016(1)
Juan José Brugera Clavero	7,525
Ali Bin Jassim Al Thani	25
Angels Arderiu Ibars	25
Anne-Marie de Chalambert	25
Chantal du Rivau	30
Jean-Jacques Duchamp	25
Carlos Fernandez-Lerga Garralda	50
Carmina Ganyet I Cirera	30
Carlos Krohmer	30
Luis Maluquer Trepat	400
Adnane Mousannif	1,500
Nuria Oferil Coll	25
Pere Viñolas Serra	5,325
Anthony Wyand	100
Total	**15,115**

(1) The Directors' Charter stipulates that each Director must disclose to SFL the shares held directly and indirectly, within the meaning of Article L.225-109 of the French Commercial Code. Article 17 of the Company's Articles of Association states that each Director is required to hold at least 25 shares.

5.4. Transactions in SFL shares

Stock options granted to and exercised by the Chairman, the Chief Executive Officer and the Managing Director in 2016

No stock options were granted to or exercised by the Chairman, the Chief Executive Officer or the Managing Director in 2016.

The last stock option plan expired on 12 March 2015, at the end of the options' eight-year life.

Performance share plans

On 26 April 2016, based on the recommendation of the Remuneration and Selection Committee, the Board of Directors decided to set up a performance share plan in line with the authorisation given by the General Meeting of 13 November 2015. A total of 48,054 performance share rights were granted to employees and corporate officers of the Company and related companies within the meaning of Article L.225-197-2 of the French Commercial Code.

The rules of the plan (Plan 4 dated 26 April 2016) are described in section 3.5.4 above.

Share buyback programme

The General Meeting of 26 April 2016 (sixteenth ordinary resolution) authorised a share buyback programme with the following objectives:

- To purchase shares for allocation to all or selected employees and corporate officers of the Company, and/or related companies and economic interest groupings in accordance with the terms and conditions provided for in the applicable laws, including in connection with (i) the non-discretionary profit-sharing scheme, (ii) any employee share purchase or share grant plan governed by Articles L.3332-1 *et seq*. of the French Labour Code or other legal provisions or (iii) any stock option plan or share grant plan for all or selected employees and corporate officers of the Company in accordance with Articles L.225-177 *et seq*. and L.225-197-1 *et seq*. of the French Commercial Code.
- To buy and sell shares under a liquidity contract with an investment firm that complied with a code of ethics recognised by the French securities regulator (Autorité des Marchés Financiers).
- To purchase shares for delivery on exercise of rights attached to securities exercisable, redeemable, convertible or exchangeable, upon presentation of a warrant or otherwise, immediately or at a future date, for shares of the Company and to cover the Company's obligations towards the holders of these securities.
- To buy shares for delivery at a future date in exchange or payment for shares of another company in connection with any external growth transactions.
- To cancel all or some of the shares bought back, in accordance with Article L.225-209 of the French Commercial Code, subject to adoption of the eleventh extraordinary resolution of this Meeting authorising the Board of Directors to reduce the capital.
- And, more generally, to carry out any transaction leading to an obligation to deliver shares that is permitted or that may be authorised by the applicable regulations.

The number of shares bought back in order to be held and subsequently delivered in payment or exchange for shares of another company in connection with a merger or demerger could not exceed 5% of the issued capital.

The maximum purchase price for these shares was set at €60 per share.

As of 31 December 2016, the Company held 362,380 shares in treasury, representing 0.78% of the capital.

These shares break down as follows based on the purpose for which they are held:

1. Shares purchased for allocation to SFL Group employees: 84,228.
2. Shares purchased under a liquidity contract with an investment firm: 29,520.
3. Shares held for delivery on exercise of rights attached to share equivalents: 225,349.
4. Shares purchased for delivery at a future date in exchange or payment for shares of another company in connection with any external growth transactions: 23,283.
5. Shares purchased for the purpose of being cancelled: 0.

The Board of Directors has decided to table a resolution at the 28 April 2017 Annual General Meeting authorising a further buyback programme. The maximum purchase price for these shares would be set at €60 (seventeenth ordinary resolution).

The programme would concern the buyback of shares representing up to 10% of the Company's capital at the date of the Meeting, as adjusted if applicable for the effect of any capital increases or reductions carried out after the Meeting.

Based on the issued capital at 31 December 2016, the authorisation would concern the buyback of up to 4,652,897 shares. This ceiling will be adjusted in the event of any changes in issued capital in the period up to the date of the Annual General Meeting or any capital increases or reductions carried out after the Meeting.

The aims of the programme would be:

- To purchase shares for allocation to all or selected employees and corporate officers of the Company, and/or related companies and economic interest groupings in accordance with the terms and conditions provided for in the applicable laws, including in connection with (i) the non-discretionary profit-sharing scheme, (ii) any employee share purchase or share grant plan governed by Articles L.3332-1 *et seq*. of the French Labour Code or other legal provisions or (iii) any stock option plan or share grant plan for all or selected employees and corporate officers of the Company in accordance with Articles L.225-177 *et seq*. and L.225-197-1 *et seq*. of the French Commercial Code.
- To buy and sell shares under a liquidity contract with an investment firm that complies with a code of ethics recognised by the French securities regulator (Autorité des Marchés Financiers).
- To purchase shares for delivery on exercise of rights attached to securities exercisable, redeemable, convertible or exchangeable, upon presentation of a warrant or otherwise, immediately or at a future date, for shares of the Company and to cover the Company's obligations towards the holders of these securities.
- To cancel all or some of the shares bought back, in accordance with Article L.225-209 of the French Commercial Code, subject to adoption of the eleventh extraordinary resolution of the Annual Meeting authorising the Board of Directors to reduce the capital.
- And, more generally, to carry out any transaction leading to an obligation to deliver shares that is permitted or that may be authorised by the applicable regulations.

When shares are bought back under a liquidity contract in accordance with the General Regulations of the Autorité des Marchés Financiers, the number of shares used to calculate the limit of 10% of the issued capital will correspond to the number of shares purchased minus the number of shares sold during the authorised period.

The number of shares bought back to be held and subsequently delivered in payment or exchange for shares of another company in connection with a merger or demerger would not exceed 5% of the issued capital, i.e., 2,326,448 shares.

The authorisation would be given for a period of eighteen months.

SUMMARY OF DISCLOSURES

Disclosure of treasury share transactions for the period from 1 January 2016 to 31 December 2016	
Percentage of capital held by the Company and/or its subsidiaries	0.78%
Number of shares cancelled in the last 24 months	0
Number of shares held	362,380
Carrying amount of the shares	€19,567,534.63
Market value of the shares (at 31 December 2016)	€17,738,501.00

	Cumulative transactions		Open positions on the publication date of programme details			
			Open buy positions		Open sell positions	
	Purchases	Sales/Transfers[1]	Purchased calls	Forward purchases	Written calls	Forward sales
Number of shares	115,871	94,532	–	–	–	–
Average maximum maturity	–	–	–	–	–	–
Average transaction price	€47.91	€47.00	–	–	–	–
Average exercise price	–	–	–	–	–	–
Amount	€5,551,399.52	€4,458,520.06	–	–	–	–

Transaction costs under the liquidity contract amounted to €26,800 in 2016.

(1) Not including the 36,424 vested performance shares awarded under Plan 1 dated 5 March 2013.

Transactions carried out by directors and officers or parties closely related to them in 2016

Disclosed by: Predica, corporate director related to Chantal du Rivau, director
Type of instrument: shares
Type of transaction: purchase
Transaction date: 4 October 2016
Disclosure date: 5 October 2016
Market: Euronext Paris
Unit price: €52.00
Number of shares: 8,126

Disclosed by: Inmobiliaria Colonial, corporate director related to Pere Viñolas Serra, director
Type of instrument: shares
Type of transaction: purchase
Transaction date: 4 August 2016
Disclosure date: 5 August 2016
Market: off-market transaction
Unit price: €50.00
Transaction amount: €11,881,200
Additional Information:
Inmobiliara Colonial signed an agreement concerning the sale (for cash and shares) to Inmobiliaria Colonial by Stichting Depositary APG Strategic Real Estate Pool of 475,247 SFL shares representing approximately 1% of the Company's capital, as follows:
- 237,624 SFL shares were sold by Stichting Depositary APG Strategic Real Estate Pool for cash at a price of €50 per share.
- 237,623 SFL shares were sold by Stichting Depositary APG Strategic Real Estate Pool in exchange for 2,116,508 Inmobiliaria Colonial shares bought back for this purpose.

Disclosed by: Inmobiliaria Colonial, corporate director related to Pere Viñolas Serra, director
Type of instrument: shares
Type of transaction: purchase
Transaction date: 29 June 2016
Disclosure date: 4 July 2016
Market: off-market transaction
Unit price: €50.00
Transaction amount: €50,973,900
Additional Information:
Inmobiliara Colonial signed an agreement concerning the sale (for cash and shares) to Inmobiliaria Colonial by Reig Capital Group of 2,038,956 SFL shares representing approximately 4.4% of the Company's capital and voting rights, as follows:
- 1,019,478 SFL shares were sold by Reig Capital Group for cash at a price of €50 per share.
- A further 1,019,478 SFL shares were sold by Reig Capital Group in exchange for 90,805,920 Inmobiliaria Colonial shares issued for this purpose.

Disclosed by: Predica, corporate director related to Chantal du Rivau, director
Type of instrument: shares
Type of transaction: purchase
Transaction date: 1 March 2016
Disclosure date: 2 March 2016
Market: Euronext Paris
Unit price: €43.5
Transaction amount: €696

Disclosed by: Predica, corporate director related to Chantal du Rivau, director
Type of instrument: shares
Type of transaction: purchase
Transaction date: 29 February 2016
Disclosure date: 2 March 2016
Market: Euronext Paris
Unit price: €43.4628
Transaction amount: €31,162.83

Disclosed by: Predica, corporate director related to Chantal du Rivau, director
Type of instrument: shares
Type of transaction: purchase
Transaction date: 26 February 2016
Disclosure date: 2 March 2016
Market: Euronext Paris
Unit price: €43.5
Transaction amount: €17,835

Disclosed by: Predica, corporate director related to Chantal du Rivau, director
Type of instrument: shares
Type of transaction: purchase
Transaction date: 25 February 2016
Disclosure date: 26 February 2016
Market: Euronext Paris
Unit price: €43.4872
Transaction amount: €2,043.9

Disclosed by: Predica, corporate director related to Chantal du Rivau, director
Type of instrument: shares
Type of transaction: purchase
Transaction date: 24 February 2016
Disclosure date: 25 February 2016
Market: Euronext Paris
Unit price: €43.0014
Transaction amount: €193,420.3

Disclosed by: Adnane Mousannif, director
Type of instrument: shares
Type of transaction: purchase
Market: Euronext Paris
Unit price: €43.38
Transaction amount: €71,360.50

5.5. Items that could affect a public offer for the Company's shares

The following information about items that could affect a public offer for the Company's shares is presented in accordance with Article L.225-100-3 of the French Commercial Code:

– Details about the Company's ownership structure and its known direct and indirect shareholders are provided in section 5.1, together with all related information.
– The Articles of Association do not impose any restrictions on the exercise of voting rights, except that in the event of failure to disclose any increase in a shareholder's interest to above one of the disclosure thresholds specified in the Articles of Association, the undisclosed shares may be stripped of voting rights at the request of one or several shareholders together holding at least 2% of the capital (Article 10 IV of the Articles of Association).
– The Articles of Association do not impose any restrictions on the transfer of shares.
– To the best of the Company's knowledge, there are no shareholders' pacts or other agreements in force between the shareholders (see section 5.5.4).
– The Company has not issued any securities comprising any special rights of control.
– The voting rights attached to SFL shares held by employees through the Actions SFL corporate mutual fund are exercised by a representative appointed by the fund's Supervisory Board to vote on its behalf (see section 5.5.1).
– The rules governing the election and removal from office of members of the Board of Directors result from French law and the Company's Articles of Association.
– The delegations of authority to the Board of Directors are described in the above section on the share buyback programme and in the financial authorisations table in Appendix 7.4.
– Amendments to the Articles of Association are made in accordance with the applicable laws and regulations.
– Contracts entered into by the Company that would be affected or terminated by a change of control are described in section 5.5.3.
– Agreements providing for the payment of compensation for loss of office to corporate officers are described in sections 3.5 and 5.5.2.

5.5.1 Corporate mutual fund

The Actions SFL corporate mutual fund has a Supervisory Board set up in accordance with Article L.214-40 of the French Monetary and Financial Code. As specified in the fund's rules, the Board comprises:
– three members representing employees and former employees, and
– three representatives of SFL.

It held one meeting in 2016, on 14 October, to review the fund's annual management report.

As of 31 December 2016, the fund held 5,838 SFL shares.

In accordance with Article L.214-40 of the Monetary and Financial Code, in the event of a public offer for SFL's shares, the fund's Supervisory Board would be required to hold a meeting in order to decide whether to tender these shares to the offer.

5.5.2 Employee compensation and severance schemes

As of 31 December 2016, two employees (including one person who is also an officer of the Company) are entitled to compensation if they resign or are dismissed as a result of a major change in the scope of their responsibilities following a significant direct or indirect change in the shareholder base of SFL or its controlling company.

The terms and conditions related to this compensation were approved by SFL's Board of Directors on 9 February 2004, 25 July 2006 and 4 April 2008.

In addition, all employees whose employment contracts are governed by the National Collective Bargaining Agreement for the Property Industry are covered by Addendum no. 6 to the Company-level agreement dated 1 July 1999 which provides for enhanced severance pay in the event of redundancy. In such a case, total severance pay would be calculated as follows, based on the employee's gross monthly salary at the date the employment contract was terminated:

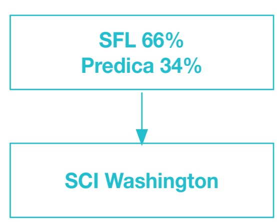
Length of service	Severance pay
1 to 2 years	4 months
2 to 4 years	5 months
5 to 6 years	6 months
7 to 10 years	7 months
11 to 14 years	8 months
15 to 18 years	9 months
19 to 21 years	10 months
22 years or more	10 months + half a month per year of service beyond 21 years

5.5.3 Partnerships

Partner	Joint venture	Main clauses
Predica[1]	SCI Washington (66%-owned by SFL)	In the case of a change of control (50%) of SFL or Predica the other partner has the option of: – agreeing to the change of control[2]; or – acquiring all the shares and shareholders' advances of the other partner; or – selling all its shares and shareholders' advances to the other partner, at a price corresponding to the market value of the underlying assets, to be determined jointly by the parties or by an independent expert.

(1) Life insurance subsidiary of Crédit Agricole Assurances.

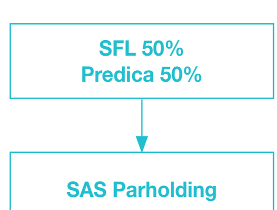
(2) Following the takeover of SFL by Grupo Inmocaral, through its subsidiary Inmobiliaria Colonial SA, the joint venture partners agreed to SFL's change of control, as provided for under the terms of the related shareholders' pact.



Partner	Joint venture	Main clauses
Predica[1]	Parholding SAS[2] (50%-owned by SFL)	In the case of a change of control (50%) of SFL or Predica the other partner has the option of: – agreeing to the change of control, or – acquiring all the shares and shareholders' advances of the other partner; or – selling all its shares and shareholders' advances to the other partner, at a price corresponding to the market value of the underlying assets, to be determined jointly by the parties or by an independent expert.

(1) Predica, the life insurance subsidiary of Crédit Agricole Assurances, became SFL's partner in Parholding on 6 October 2009 by acquiring the 50% stake previously held by Ile-de-France Investissements. The joint venture was approved by the European Commission on 25 September 2009.

(2) To enable SFL to fully consolidate Parholding (in accordance with IAS 27 – Consolidated and Separate Financial Statements that is applicable by SFL as a company listed on a regulated market according to IFRS 10) without increasing its interest in Parholding's capital, Parholding's governance was changed and the shareholders' pact was amended with effect from 31 December 2012, to give SFL and its representatives the power to control the company's strategic, financial and operating decisions by virtue of a contractual arrangement.



5.5.4 Shareholders' pacts

See paragraph 15 "Risks associated with the majority shareholder" on page 31.

There is no longer any shareholders' pact concerning SFL between the Company's principal shareholders or any shareholders' pact signed by SFL and concerning its interests in other companies.

5.6. Disclosure thresholds

Paragraph III of Article 10 of the Company's Articles of Association states that in addition to the obligations arising from legal disclosure thresholds, any individual or legal entity acting alone or in concert that holds – directly or indirectly within the meaning of Articles L.233-7 *et seq.* of the French Commercial Code – shares and/or securities carrying rights to shares representing at least 2% of the Company's capital or voting rights, is required to disclose to the Company by registered letter with return receipt requested, within five trading days of the additional interest being recorded, details of the number of shares and/or securities carrying rights to shares that are held and the number of voting rights attached thereto.

These disclosure formalities must be followed each time a shareholder's interest is raised to above or reduced to below the 2% threshold or any multiple thereof, including when the interest exceeds 5%.

In the case of failure to comply with these disclosure rules, at the request of one or several shareholders with combined holdings representing at least 2% of the Company's capital or voting rights, the undisclosed shares will be stripped of voting rights, in accordance with the conditions set down by law. Said request will be recorded in the minutes of the General Meeting and will entail the automatic application of the above-mentioned sanction.

5.7. Dividends paid in the last three years

In accordance with Article 243 *bis* of the French Tax Code, information on dividends paid in the last three years is provided below:

Year	Dividend per share	Portion of the dividend qualifying for the 40% tax allowance	Portion of the dividend not qualifying for the 40% tax allowance for shareholders resident in France	Portion of the dividend classified as a return of capital	Total dividend(1)
2013	€0.70(2)	–	€0.70	–	€32,570,281.80
	€1.40	–	€0.27	€1.13	€65,140,563.60
2014	€0.70(3)	–	–	€0.70	€32,570,281.80
	€1.40	–	€0.68	€0.72	€65,140,563.60
2015	€1.05(4)	–	–	€1.05	€48,855,422.70
	€1.05	–	–	€1.05	€48,855,422.70
2016	€1.05(5)	–	–	€1.05	€48,855,422.70

(1) Not including dividends not paid on shares held in treasury stock.

(2) Interim dividend paid on 23 October 2013 by decision of the Board of Directors on 7 October 2013.

(3) Special dividend of €0.70 per share decided by the General Meeting of 14 November 2014, paid out of the share premium account.

(4) Special dividend of €1.05 per share decided by the General Meeting of 13 November 2015, paid out of the share premium account.

(5) Special dividend of €1.05 per share decided by the General Meeting of 15 November 2016, paid out of the share premium account.

Dividend policy

The amount and manner of payment of future dividends will be decided each year according to the Company's earnings, cash position, financing terms, capital needs, overall business situation, the resources necessary to ensure the Company's development and any other factor that the Board of Directors considers relevant in preparing its recommendation to shareholders. The decision to pay a dividend, and the amount of such dividend, will also depend on the rights of holders of securities that may be issued in the future and any restrictions on dividend distributions that may exist as a result of existing lines of credit or any other debt. There can be no assurance that SFL will pay dividends in future years.

In any event, as a company taxed as an SIIC, SFL has certain distribution obligations. By virtue of Article 208 C of the French Tax Code, SFL is exempt from paying tax on (i) profits from its property rental activities, (ii) capital gains on property sales and sales of interests in look-through entities or subsidiaries that have elected for the SIIC regime, and (iii) dividends received from subsidiaries that have also elected for the SIIC tax regime. In exchange for this exemption, the Company must distribute (i) at least 95% of the exempted rental profits within 12 months of the close of the financial year in which the profits are earned, (ii) at least 60% of the exempted capital gains from the sale of properties or interests in look-through entities or subsidiaries that have elected for the SIIC tax regime, or the sale of finance-lease contracts, within 24 months of the close of the financial year during which the capital gains were generated and (iii) 100% of the dividends received from subsidiaries that have also elected for the SIIC tax regime within 12 months of the close of the financial year during which the dividends were received. The amounts to be distributed are determined separately by each company that has elected for the SIIC tax regime, based on its individual earnings.

At the Annual General Meeting held to approve the 2016 financial statements, the Board of Directors will recommend paying a dividend of €1.05 per share. In line with the dividend policy followed in recent years, this will be in addition to the special dividend of €1.05 per share paid out of the share premium account by decision of the General Meeting of 15 November 2016, representing a total 2016 dividend of €2.10 per share.

5.8. Share performance

SFL shares have been quoted in Compartment A of NYSE Euronext Paris since 21 February 2005. They were previously quoted on the Premier Marché of Euronext Paris as from 25 March 1998 and on the cash settlement market before that (ISIN: 0000033409).

		Price (€)		Trading volume	
		High	Low	Number of shares	Amount (in €m)
2016	January	44.30	42.00	60,220	2.260
	February	44.00	41.96	65,705	2.821
	March	50.57	43.50	103,491	4.985
	April	49.90	47.50	96,040	4.651
	May	52.00	48.50	36,733	1.819
	June	50.91	47.44	47,691	2.365
	July	51.00	49.00	47,121	2.354
	August	53.27	50.90	25,315	1.329
	September	53.10	51.62	55,508	2.894
	October	52.49	51.20	37,352	1.940
	November	52.00	48.00	49,496	2.473
	December	48.95	46.00	44,682	2.131
2017	January	48.90	47.21	27,565	1.329
	February	49.99	47.64	66,911	3.244

6. 2016 Corporate Social Responsibility (CSR) Report

Introduction

As we have regularly demonstrated, sustainability is inherent at SFL, which has been renovating and developing properties since it was founded in 1879. Today, as throughout our history, our major projects are helping to improve the quality of the urban environment. While we are proud of this achievement, there is obviously no question of restricting our CSR vision to sustainability. With our own environment changing constantly, our exploration of CSR issues now extends across a much wider field.
Our strategic focus on prime property incorporates an ambitious CSR commitment ranked at the very top of our concerns. For SFL, this is about much more than complying with disclosure rules or communicating an image.

Since 2014, our process has included the ability to measure progress toward ambitious targets in clearly defined, material areas. Each year, we deliver further gains, as seen in our 2016 annual Corporate Social Responsibility Report.

Presentation

Since 2011, SFL has been deploying a strategy to drive gains in the indicators that track its main corporate social responsibility issues, while also improving their clarity.

The 15 material issues, which are both important to stakeholders and critical to our profitability as a property company, inform all of our policies, from factoring CSR into investment decisions to creating an outstanding user experience, from managing our environmental impact to nurturing biodiversity.

They also play a natural role in the three components of the intangible value of our assets: the value a building creates for its users, its green value and its social responsibility value. The CSR component in our total value, as embodied in the high standards and quality we deliver in every aspect of our business, is a major driver of our social and economic performance.

These values are measured against international benchmarks and other indicators, as well as against the satisfaction and pride our tenants feel when working in our efficient, environmentally virtuous offices.

After identifying our CSR issues and prioritising them according to stakeholder expectations in 2014, we continued to improve our CSR and risk management systems in 2015. In 2016, the environmental reporting scope was considerably widened, thanks to a team effort between SFL, the building managers and tenants.

During the year, the 9 avenue Percier renovation project was completed, the MEX web-based operations management platform was deployed, and a service area, auditorium, foodservice area and lounge were created beneath the private street in the Cézanne Saint-Honoré complex.

Leveraging the momentum created by France's energy transition legislation and Grenelle II environmental legislation, we also tightened our management of greenhouse gas emissions through energy efficiency measures. In addition, the waste recycling initiatives launched during the year delivered good results.

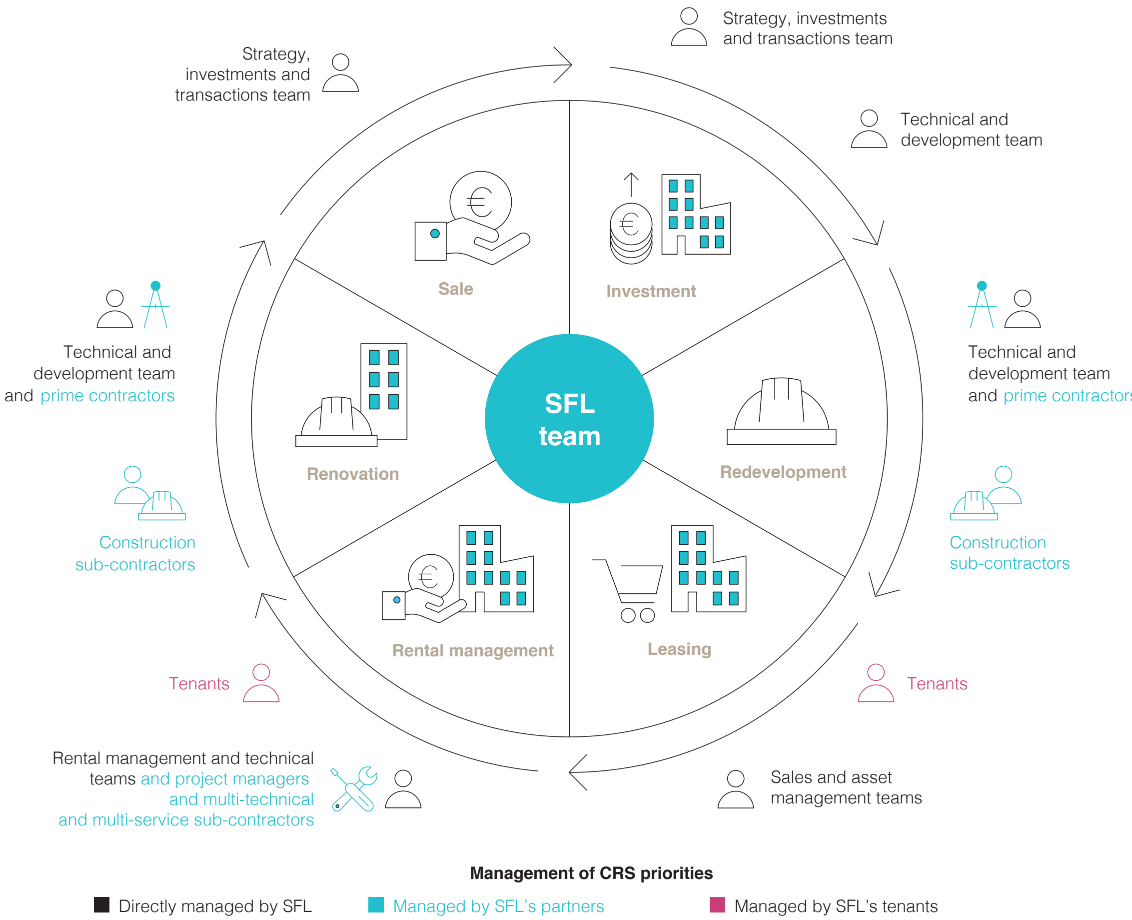
1. CSR Policies

1. 1. The SFL value chain and its CSR components

Mapping SFL's value chain enabled us to determine our CSR issues and the stakeholders who could have an impact on them.

The exercise also identified the six phases in the value chain running through a property asset's life cycle: investment, redevelopment, leasing, rental management, renovation and, if the opportunity is right, sale.

Not every building systematically transitions through each phase in sequence. For example, a property may be redeveloped after a long period of rental, and buildings are generally re-let rather than being sold after a renovation.



Key indicators for each phase of the value chain include:
– Renovation:
- Number of permits obtained in 2016: 12.
- Number of private area renovation projects delivered in 2016: 19.

– Rental management:
- Tenant satisfaction: 96% (tenant satisfaction survey).
- Energy use: 234 kWh/sq.m

– Investment:
- In 2014, 2015, 2016: 1 property acquired each year.

– Leasing:
- Occupancy rate (excluding units and properties undergoing renovation): **97%** at 31 December 2016.
- Leases signed in 2016: **34,000 sq.m**

– Redevelopment:
- Over the past 10 years, 8 properties out of 20 (38% of the total portfolio in sq.m) have been completely redeveloped.
- In the 12 other properties, the private areas have been renovated in a phased process.
- In six of the 12 properties, the common areas have been reorganised and refurbished.
- Three new redevelopment projects were in the planning phase at end-2016: Le Louvre des Antiquaires, Iéna and SFL's latest acquisition on avenue Émile Zola.

1. 2. The CSR expectations of our stakeholders

SFL's identified stakeholders have been classified into three categories based on the extent of their direct or indirect impact on our revenue and operations. Their main expectations have also been identified.

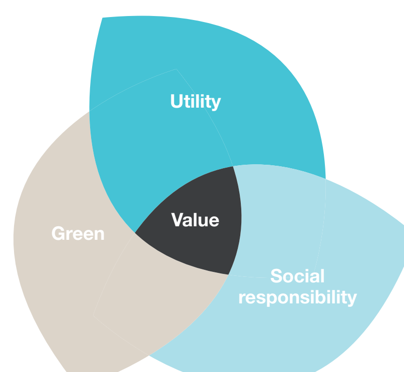
Phase	Main stakeholders	CSR priorities
Investment	SFL's strategy, investments and transactions team	• Location and access • Local urban footprint
	Technical and development team	• Managing environmental risks
Redevelopment	Technical and development team and prime contractors	• Amenities, layout and organisational efficiency • Certification • Factoring CSR into investment decisions (eco-design) • Carbon efficiency and biodiversity • Sustainable procurement
	Construction sub-contractors	• Local urban footprint • Health, safety and risk management
Leasing	Marketing and asset management teams	• Tenant relations and satisfaction • Governance and ethics
	Tenant	
Rental management	Rental management and technical teams, building managers and multi-technical/multi-service contractors	• Certification • Carbon efficiency and biodiversity • Sustainable building operation (energy, water and waste) • Sustainable procurement
	Tenants	• Sustainable building operation (energy, water and waste) • Certification
Renovation	*Same as for redevelopment*	
Sale	SFL's strategy, investments and transactions team	

1. 3. CSR issues and objectives

The materiality of our CSR issues has been assessed in accordance with (i) international standards, (ii) the best practices set out in the G4 Sustainability Reporting Guidelines issued by the Global Reporting Initiative, and (iii) the recommendations of the European Platform of Regulatory Authorities (EPRA). This process is described in more detail in Appendix 5.3. Performed in conjunction with the working groups set up to examine specific areas, the Management Committee and the Chief Executive Officer, this analysis led to the formulation of our CSR policies, objectives and action plans. In 2015, the CSR process was updated around three main themes covering the identified material issues:

– Utility value.
– Green value.
– Social responsibility value.

SFL'S CSR VALUES



Utility value	Green value	Social responsibility value
Tenant relations and satisfaction	Sustainable building operation	Attracting talent and developing skills
Location and access	Carbon efficiency	Health, safety and quality of working environment
Certification	Factoring CSR into capital expenditure projects	Diversity and equal opportunity
Amenities, layout and organisational efficiency	Biodiversity	Sustainable procurement and supplier relations
Safety and environmental risk management		Local urban footprint

■ 4 fundamental issues integral to SFL's core business ■ 5 major CSR issues ■ 5 CSR issues to be tracked

INDICATORS TRACKED BY SFL

	Objective 31 December 2017	2011	2015	2016	Degree achieved
Utility value of our properties					
Tenant relations and satisfaction					
% of satisfied or very satisfied tenants	> 80% always	82%	96%	96%	☺
% of space under green leases	100% always	N/A	69%	71%	😐
Location and access of our properties					
% of space located less than a ten-minute walk from an underground/tram station	100% always	100%	100%	100%	☺
Building certification					
% of buildings in use certified BREEAM In-Use (Part 1 and Part 2)	100% always	N/A	100%	100%	☺
% of BREEAM In-Use certifications with a Very Good or higher rating (Parts 1, 2 and 3 combined)	100% in 2017	N/A	97%	**100%**	☺
Redevelopment projects aimed at earning triple certification	100% always	N/A	100%	100%	☺
Green value of our properties					
Sustainable building operation (energy, water and waste)					
Energy use per sq.m of buildings managed by SFL (included in 2011 baseline, climate adjusted) in kWh/sq.m/year	238 in 2017	280	245	**234**	☺
Water use per sq.m of the property portfolio (buildings included in 2011 baseline) in cu.m./sq.m/year	0.54 in 2017	0.67	0.55	0.57	😐
Carbon efficiency of our properties					
Heat produced by oil-fired boilers (number of properties)	0/20	N/A	1/20	1/20	😐
Greenhouse gas emissions per sq.m of buildings managed by SFL (included in 2011 baseline, climate adjusted) in kg CO_2e/sq.m/year	21.8 in 2017	24.3	23.4	22.4	☺

1. 4. Recognition of SFL's performance

SFL ensures that its CSR reporting processes and performance are aligned with industry practices and recognised by appraisers. In particular, they comply with France's Grenelle II Act and follow the Global Reporting Initiative's G4 Sustainability Reporting Guidelines and the recommendations issued by the European Platform of Regulatory Authorities (EPRA). The Company also reports information to CSR rating agencies, either in response to requests (Vigeo Rating) or on an unsolicited basis (Global Real Estate Sustainability Benchmark – GRESB).
In 2016, representing the fourth time the Group had participated in the survey, the GRESB confirmed SFL's position among the top performers, ranking it number two in France.

At the BREEAM Awards 2017 ceremony held in London on 7 March 2017, SFL received an award in the "Corporate Investment in Responsible Real Estate" category.
The BREEAM award and GRESB ranking both recognise SFL's broad-based commitment to sustainably managing the portfolio.

G4 Sustainability Reporting Guidelines issued by the Global Reporting Initiative (GRI 4)

SFL applies the guidelines issued by the GRI (core option), with reporting updated since 2014 in line with the G4 version. The update mainly involved applying the materiality principle, identifying stakeholder expectations and defining a CSR policy.

European Public Real Estate Association (EPRA)

SFL also complies with the recommendations issued by EPRA for its CSR reporting. EPRA-format indicators are presented in the relevant sections of this report.

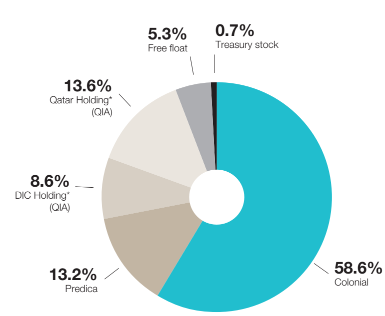
The Grenelle II Act

SFL complies with French legislation and applies the enabling decree for Article 225 of the Grenelle II Act.
Cross-reference tables between the guidelines and this report can be found in Appendix 5.4.
The requirements of France's new energy transition and green development legislation (LTECV Act) have also been taken into account in the Group's carbon reporting process.

2. Utility value of our properties

In recent years, tenants have observed an improvement in our properties' performance, reflected in their high utility value.
Our positioning in the prime segment of the property market has been a key factor in securing the long-term backing of our shareholders.
Our shareholders are both demanding and stable.

SFL'S OWNERSHIP STRUCTURE
at 31 December 2016 (46.5 million shares)



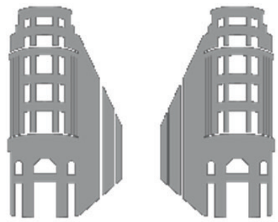
* acting in concert

Utility value is central to the strategy to increase the value of our portfolio. This intangible value was defined and measured in 2013 in a survey conducted jointly with the consultancy Quartier Libre, leading to the development of the following assessment model:

The potential increase in building users' value-added per sq.m was estimated based on a survey covering the various topics shown above (see fonciere-lyonnaise.com/en/publications/studies/2013). More than a third of the increase comes from improved well-being, which generates between €30 and €190/sq.m/year of value-added depending on the type of company.

The following examples illustrate the high level of tenant satisfaction based on the criteria listed in the above assessment model.

Cézanne Saint-Honoré

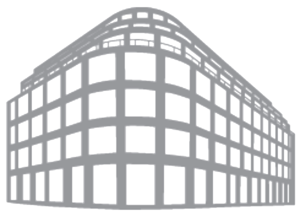


BREEAM In-Use Certification
Part 1 ★ ★ ★ ★ – Part 2 ★ ★ ★ ★
Floor plate: 800 to 1,500 sq.m contiguous open space
Garden/paved seating area/private outside space: 110 sq.m plus a tree-lined private street
Tenant satisfaction: 95% of tenants are satisfied
Accessibility: full wheelchair access
Vélib' public bicycle hire station: 220 metres
Autolib' public car hire station: 220 metres

103 Grenelle

BREEAM In-Use Certification
Part 1 ★ ★ ★ ★ – Part 2 ★ ★ ★ ★ ★
Floor plate: up to 1,600 sq.m. contiguous space
Garden/paved seating area/private outside space: Paved courtyard, architectural features preserved
Tenant satisfaction: 85% of tenants are satisfied
Accessibility: full wheelchair access
Vélib' public bicycle hire station: 400 metres
Autolib' public car hire station: 300 metres

#cloud.paris



BREEAM In-Use Certification
Part 1 ★ ★ ★ ★ ★
Floor plate: 800 to 3,000 sq.m contiguous open space
Garden/paved seating area/private outside space: 858 sq.m of planted areas plus two paved seating areas with disabled access, representing in total 2,500 sq.m.
Parking space: 250 bicycles, 112 motorcycles and 99 cars, including 5 spaces with electric car charging points.
Accessibility: full wheelchair access
Vélib' public bicycle hire station: 290 metres
Autolib' public car hire station: 40 metres

2. 1. Tenant relations and satisfaction

Tenant satisfaction

The 2016 ParisWorkPlace surveys and the 2015 satisfaction survey of our office users helped to improve our understanding of tenant expectations (http://www.parisworkplace.fr/ – http://www.fonciere-lyonnaise.com).
Tenant satisfaction and building performance indicators are tracked using the MEX web-based operations management platform developed with our partners.
MEX may ultimately be shared with tenants, providing an additional resource alongside the system already available to tenants in each building to manage service intervention requests.
Statistical data from the ParisWorkPlace surveys are enabling us to align our offering more closely with expectations and to validate our strategic focus on properties with a high utility value.

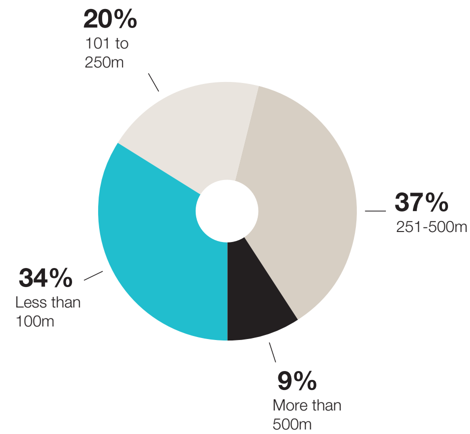
User guides

Every SFL building now has a user guide providing a wealth of information on their amenities, services and operation. Topics covered include building history, opening hours, accessibility (pedestrians, persons with reduced mobility, vehicles, public transport, etc.), site safety and security, utilities (energy, water and waste management, etc.) and food services.

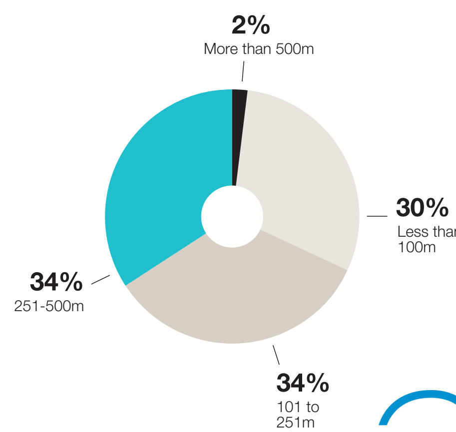
2. 2. Location of and access to our properties

Our building locations, which represent one of our major competitive advantages, are also widely acclaimed by users, followed by the quality of their spaces and their architecture.
The acquisition of properties such as the one on avenue Émile Zola in the south-west of Paris, reflects our forward-looking strategy to offer solutions to demanding clients interested in moving to emerging prime business districts. All of our assets are easily accessible by public and alternative transport.
They are all located less than a ten-minute walk from an underground station, and 80% of the properties (by value) are located in the prestigious Central Business District.

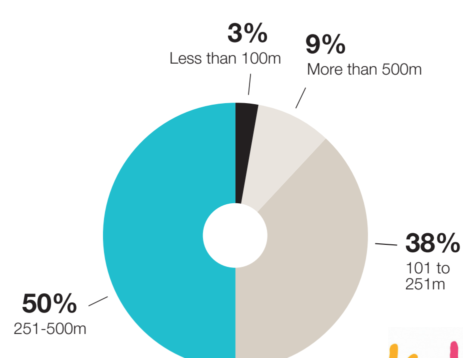
PROXIMITY TO PUBLIC TRANSPORT



PROXIMITY TO ALTERNATIVE TRANSPORT



% of the portfolio by surface area



% of the portfolio by surface area

The overriding importance of the employee commute among the criteria for a sustainable location is also reflected in the increasing use of personal transport with low environmental impact (for more information on the portfolio's carbon efficiency, see section 3.2).
In redeveloping its buildings, SFL proactively adds dedicated spaces for electric vehicles.
In the #cloud.paris building, there are more parking spaces reserved for bicycles and motorcycles than for cars.

2.3 Building certification

SFL initiated the certification process in 2012, based on the following standards:
– BREEAM Construction (Building Research Establishment Environmental Assessment Methodology).
– LEED (Leadership in Energy and Environmental Design).
– HQE.
– BBC-Effinergie Rénovation for empty buildings being redeveloped or renovated.
– BREEAM In-Use International (BIU) for buildings in use.

In-use certification

Global standards agency Building Research Establishment has awarded the highest levels of its BREEAM In-Use International certification to the entire SFL portfolio. All of the buildings have been certified in BIU Part 1 (asset) and BIU Part 2 (building management).

Of the total BIU Parts 1, 2 and 3 certifications:
– 53% have a Very Good rating,
– 41% have an Excellent rating, and
– 6% have an Outstanding rating.

100%
of the asset portfolio has been certified and rated Very Good, Excellent or Outstanding in Part 1 and Part 2.

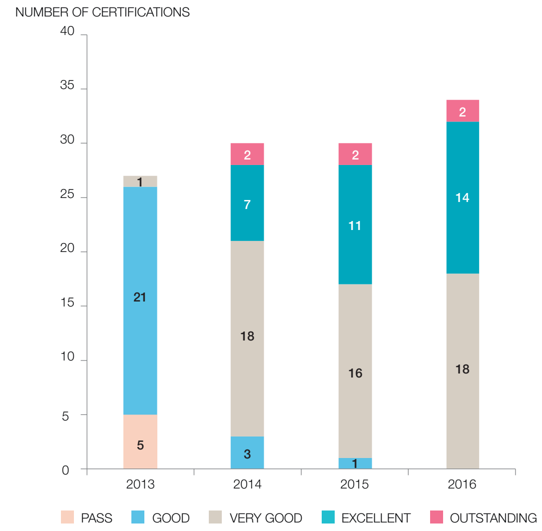
One building – 92 Champs-Élysées – was uprated in 2016 (from Very Good to **Excellent** for Part 1 – Asset Rating).

When their building management systems were rated for the first time, 92 Champs-Élysées and 6 Hanovre immediately earned a Part 2 rating of **Excellent**.

The #cloud.paris property earned the same rating as that obtained during the redevelopment process, i.e., a Part 1 – Asset rating of **Excellent**.

In all, BREEAM In-Use certification covers 19 in-use buildings (excluding the 9 Percier building which is undergoing renovation).

Total number of BIU certifications (Parts 1, 2 and 3)



BIU certifications by building may be found on the www.fonciere-lyonnaise.com website.

Certifications earned by buildings under construction or redevelopment

- #cloud.paris: the project in Paris's 2nd *arrondissement* delivered on 2 November 2015 has been certified HQE Exceptionnel, BREEAM Excellent and LEED Gold. It was also awarded the BBC-Effinergie Rénovation label and was certified in compliance with the City of Paris's Climate Plan (less than 80 kWh primary energy/sq.m/year).

- Louvre Saint-Honoré: we are actively seeking BREEAM Excellent certification for the project's retail space, which has not yet been leased or marketed. This only concerns the lower floors, since the upper levels are leased and occupied as offices. Louvre Saint-Honoré is considered as a development in-use, whose restrictions and impediments make it impractical to seek HQE and LEED certifications.

All of our major redevelopment projects have been triply certified BREEAM New Construction, LEED and HQE, as illustrated by the most recent one, #cloud.paris. It represents the complete transformation of a disparate group of buildings into a business centre perfectly aligned with contemporary and emerging office usage practices.

- Iéna certification objectives:
– HQE Rénovation 2015 Passport: Exceptional rating.
– BREEAM Europe Commercial Refurbishment 2015 – Excellent rating.
– LEED V4 Core and Shell – Gold rating.
– BBC Effinergie Rénovation label (given to buildings that use 40% less energy than a regulatory benchmark “RT”).
– RT2012 - 10%.

- 112 Émile Zola certification objectives:
– HQE Rénovation 2015 Passport: Exceptional rating.
– BREEAM Europe Commercial Refurbishment 2015 – Excellent rating.
– LEED V4 Core and Shell – Gold rating.
– BBC Effinergie Rénovation label (given to buildings that use 40% less energy than a regulatory benchmark).
– RT2012 - 10%.
– Biodivercity.

Certifications

Number of assets and % of portfolio (in sq.m) certified, by type and level of certification

					Number of assets	% of sq.m	Number of assets	% of sq.m
					2015		2016	
Scope	TOT-CERT	Properties in use	BREEAM In-Use	**Total**	**17**	**100%**	**19**	**100%**
				Good	1	6%	0	0%
				> Very good	16	94%	19	100%
				> Excellent	5	46.7%	6	46.6%
		Properties undergoing redevelopment	BREEAM NC		3	20.9%	3	20.6%
			LEED		2	18.6%	2	18.3%
			HQE		3	8.5%	3	8.3%
			At least one certification		**6**	**29.4%**	**6**	**29.0%**
		Scope	*Number of assets*		*17/17*		*19/19*	
			% of surface area (sq.m)		*100%*		*100%*	

2.4 Amenities, layout and organisational efficiency

a) Organisational efficiency and layout

SFL buildings offer maximum flexibility and highly efficient operations, which provide an effective buffer against the risk of obsolescence. Tenants appreciate the myriad of layout options, which allow them to create their own space, with total freedom to be as conventional or innovative as they like.

We take special care over the amenities, layout and organisational efficiency of our assets, in particular through regular renovations and upgrades.

Evolving tenant expectations are accurately integrated into each renovation programme, thanks to the project scheduling process led by our Design Committee (Project Scheduling and Outcomes Definition Committee).

SFL designs modular, free-flowing and adaptable office spaces, whose highly flexible floor plates can be fitted out in line with tenant specifications. The resulting tenant layouts, which may be partitioned or open plan, ensure that users enjoy the best possible quality of working environment.

Office space

Office floor plates are delivered open plan to tenants, who are free to arrange them as they like. Ideal depths range from 13 to 18 metres with double exposure, so as to maximise the amount of fixed office space receiving direct sunlight. Meeting rooms, cubicles and common spaces can be laid out in areas receiving direct of indirect sunlight.

Most of our buildings offer modern, contiguous 1,000 to 3,000 sq.m floor plates that are highly conducive to organisational efficiency.

Utility installations are sized so that meeting rooms can be positioned anywhere on the floor plate, including in direct sunlight areas. These rooms generally cover 10% to 15% of the total floor area. HVAC and lighting installations are generally sized to offer an occupancy ratio of 10 sq.m of gross leasing area (GLA) per person. The ratio for sanitary facilities is 12 sq.m of GLA/person.

The large majority of SFL buildings have raised access floors and a clear ceiling height of usually 2.70 metres.

b) Occupant well-being and operational efficiency

Innovative services and new office use practices

The SFL_le_studio working group has been examining responses to the challenge of using flat roofs and underground levels to further enhance the quality of working environment of our buildings' users.

The topics addressed by SFL_le_studio for flat roofs include:
- Maintaining urban biodiversity (vegetation, rooftop vegetable garden, etc.).
- Creation of a space for relaxation and events.
- Creation of renewable energy sources: solar or photovoltaic panels, urban wind turbines, etc.

The topics addressed by SFL_le_studio for underground levels concern:
- Creation of collaborative workspaces: meeting rooms, co-working spaces, business centre, for use by people based in the building or outside.

• Creation of foodservice areas, with diversified and innovative product offers.
• Creation of user services such as fitness centres, concierge services, music rooms, treatment and relaxation rooms.
• Underground cultivation of mushrooms, aromatic herbs and other plants that don't require much room and can supply the building's restaurant (virtuous cycle).

Certain uses that require natural light could be envisaged by installing glass roofs, light wells or patios. This would be consistent with the Paris City Authorities' new PLU urban planning scheme applicable since September 2016 which encourages excavation of underground levels.

Occupant well-being and operational efficiency

To initiate an objective process, in 2015 the head office and three buildings – 96 Iéna, 176 Charles de Gaulle and In/Out – were reviewed for their amenities and health-related aspects.

The exercise will be repeated in 2017 with the aim of assessing and improving occupants' well-being.

Accessibility for people with disabilities

SFL is committed to installing special equipment and facilities so that people with motor, hearing or visual impairments can safely get around in our buildings as independently as possible. These include ramps, handrails, flashing and audio sirens, specially adapted areas that can accommodate suitable workstations, and lifts with Braille call buttons.

A new analysis was performed by an independent expert in 2016, based on the requirements of the French Labour Code.

In 2015, reviews of the accessibility for persons with reduced mobility in the SFL buildings open to the public were performed as part of the French government's Ad'AP scheduled accessibility programme. Based on the findings, an action plan for the publicly accessible areas is now being prepared. In buildings governed by the French Labour Code, an action plan to improve accessibility with signage, tactile guidepaths and handrails is being deployed. The resulting systems will exceed mandated standards.

In 2016, all of the Ad'AP action plans (seven buildings) were approved.

Workshops have been organised to assess building use quality, initially focused on accessibility.

100%

of major SFL redevelopments and renovations completed since 2010 offer complete accessibility for wheelchair users.

Support services

After the successful trial of a physical corporate concierge service in the Washington Plaza building, SFL is studying the feasibility of introducing a similar service in the 103 Grenelle and R-1 Cézanne Saint-Honoré properties. In addition, the dedicated ServicesbySFL website offers personalised information for each of the buildings.

Connectivity: all redeveloped properties offer exceptional connectivity. Mobile phone access is available throughout the buildings, even in the least accessible areas, with maximum exposure to electromagnetic fields significantly below the limit set in European Directive 2013-35 dated 26 June 2013.

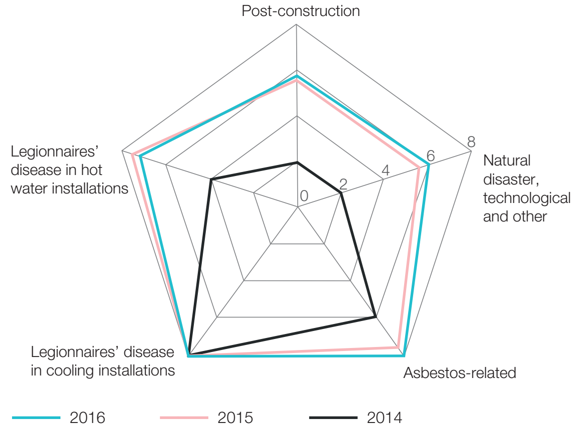
2.5 Managing health, safety and environmental risks in our properties

SFL manages occupant safety and environmental risks in line with the highest standards, well exceeding regulatory requirements. The primary risks tracked for each facility are as follows.

Buildings in use:
– Risks related to post-construction works.
– Natural disaster, technological and other risks covered by the regulatory risk prevention plan.
– Asbestos-related risks.
– Risks related to legionnaires' disease in the cooling installations.
– Risks related to legionnaires' disease in the hot water installations.

Redevelopments:
– Soil contamination surveys performed prior to redevelopment projects.
– Use of building products and materials rated A for VOC emissions in major redevelopment works.
– Environmental and health reference data (FDES) reviews for materials used in redevelopment works.

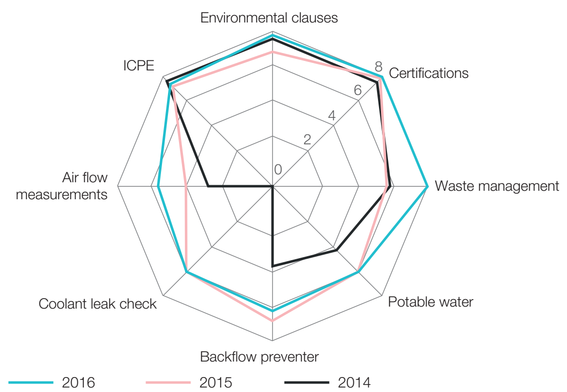
RISK DOCUMENTATION MANAGEMENT
2016 - 2015 - 2014



This diagram presents the average level across the entire portfolio.
0 – Document to be prepared
4 – Document to be updated or sent
6 – Document updated and sent (regulatory compliance)

Other environmental and health risks

ENVIRONMENTAL AND HEALTH RISK MONITORING
2016 — 2015 — 2014



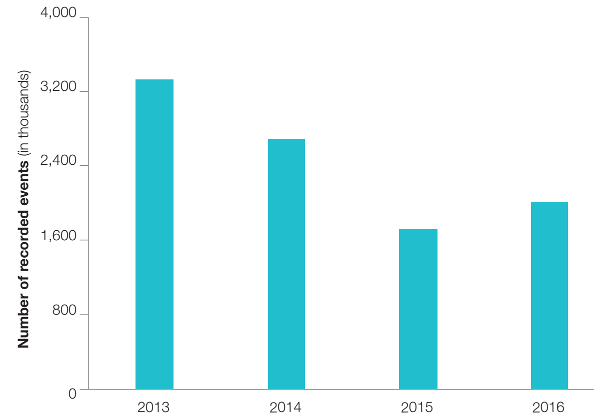
This diagram presents the average level across the entire portfolio.
0 – Document to be prepared
4 – Document to be updated or sent
6 – Document updated and sent (regulatory compliance)

Anticipating risks

Risks are managed via:

– The MEX web-based operations management platform developed in 2015, which covers all of the properties managed by SFL (11 of the 20 properties in the portfolio).
– An environmental charter and health and safety risk management guidelines.

No provisions for environmental or global warming risks were recorded during the year.



Since the regulatory compliance framework agreement was set up, there has been a marked reduction in the number of observations by the health and safety auditors.

The modest increase in 2016 was mainly due to the inclusion in the audit scope of the #cloud.paris and 9 Percier properties.

The MEX scorecard includes details of all regulatory audits.

3. Green value of our properties

Green value, which has major appeal for the young talents employed by our tenants, primarily stems from the improvement in four environmental performance indicators: energy use, water use, waste production and recycling, and CO_2 emissions. It also reflects biodiversity, to the extent possible in a dense, restricted cityscape, and the CSR content of capital expenditure projects. The energy and carbon indicators have been steadily improving.

Green value is assessed based on the buildings' occupation density, the quality of building services and the occupants' value added.

3.1 Sustainable building operation

3.1.1 Energy use

Final energy use by the properties owned and managed by SFL in 2016 represented some 60 GWh, of which around two-thirds concerned common areas and heating and air-conditioning delivered to private areas.

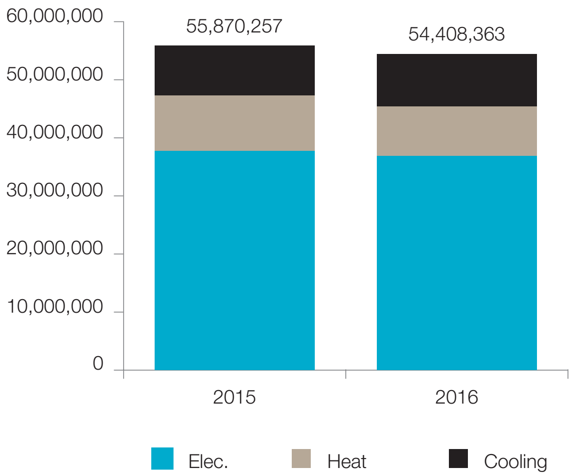
Based on a comparable portfolio between 2015 and 2016, total energy use (all sources combined) declined by 3%, representing a saving of more than 1.7 GWh.

ENERGY USE – REPORTED AND LIKE-FOR-LIKE

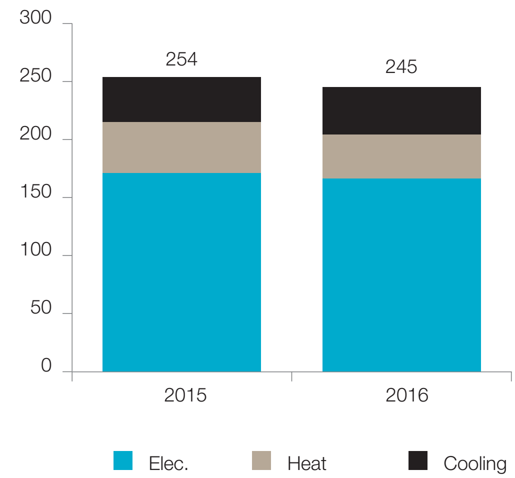
Energy use by type of energy in MWh of final energy and energy intensity in kWh/sq.m (not climate adjusted)

				Common areas and shared services		Private areas		Total		
				2015	2016	2015	2016	2015	2016	*% 15/16*
Reported	Electricity - Reported		Electricity	19,794	20,770	18,580	17,898	38,374	38,667	*0.8%*
	District H&C - Reported		Heating network	9,327	10,162	0	0	9,327	10,162	*9.0%*
			Cooling network	10,401	10,253	0	0	10,401	10,253	*- 1.4%*
	Fuel - Reported		Natural gas	0	0	0	0	0	0	*0.0%*
			Fuel oil	739	749	0	0	739	749	*1%*
	Total energy use in MWh			**40,261**	**41,934**	**18,580**	**17,898**	**58,841**	**59,832**	***1.7%***
	Energy intensity	Intensity	in kWh/sq.m					268	259	*- 3.1%*
	Scope	*Number of assets*						*11/11*	*12/12*	*N/A*
		% of surface area (sq.m)						*100%*	*100%*	*N/A*
Like-for-like	Electricity - LfL		Electricity	19,794	20,237	18,580	17,487	38,374	37,724	*- 1.7%*
	District H&C - LfL		Heating network	9,327	9,244	0	0	9,327	9,244	*- 0.9%*
			Cooling network	10,401	9,361	0	0	10,401	9,361	*- 10.0%*
	Fuel - LfL		Natural gas	0	0	0	0	0	0	*0.0%*
			Fuel oil	739	749	0	0	739	749	*1.4%*
	Total energy use in MWh			**40,261**	**39,592**	**18,580**	**17,487**	**58,841**	**57,078**	***- 3.0%***
	Energy intensity	Intensity	in kWh/sq.m					268	257	*- 4.1%*
	Scope	*Number of assets*						*11/11*		*N/A*
		% of surface area (sq.m)						*100%*		*N/A*

TOTAL ENERGY USE (ALL SOURCES COMBINED), CLIMATE ADJUSTED
(kWh) 2016 vs. 2015 like-for-like

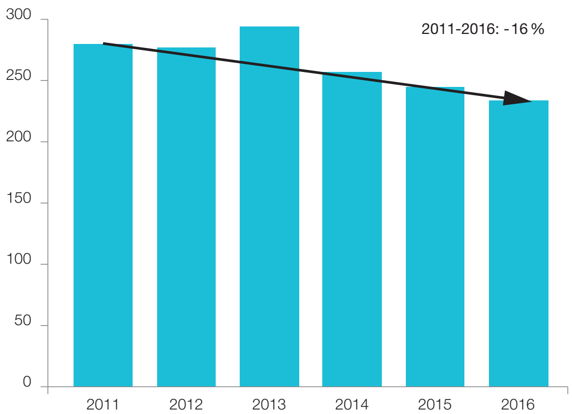


ENERGY INTENSITY, CLIMATE ADJUSTED
(kWh/occupied sq.m) 2016 vs. 2015 like-for-like

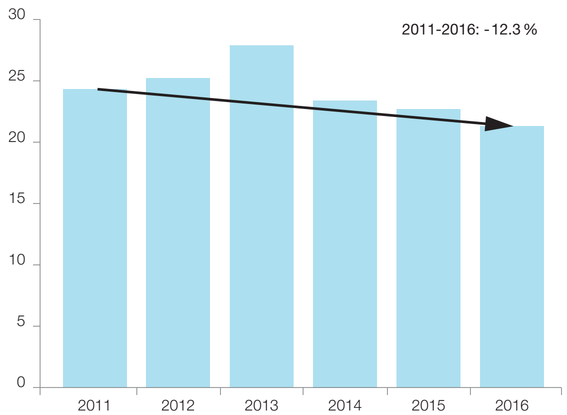


For the buildings whose baseline year is 2011, energy intensity has declined significantly since 2013 along with the intensity of carbon emissions.

ANNUAL CHANGE IN ENERGY INTENSITY
(kWh/occupied sq.m) for properties included in the 2011 baseline



ANNUAL CHANGE IN CARBON EMISSIONS INTENSITY
(kg/CO_2e/sq.m) for properties included in the 2011 baseline



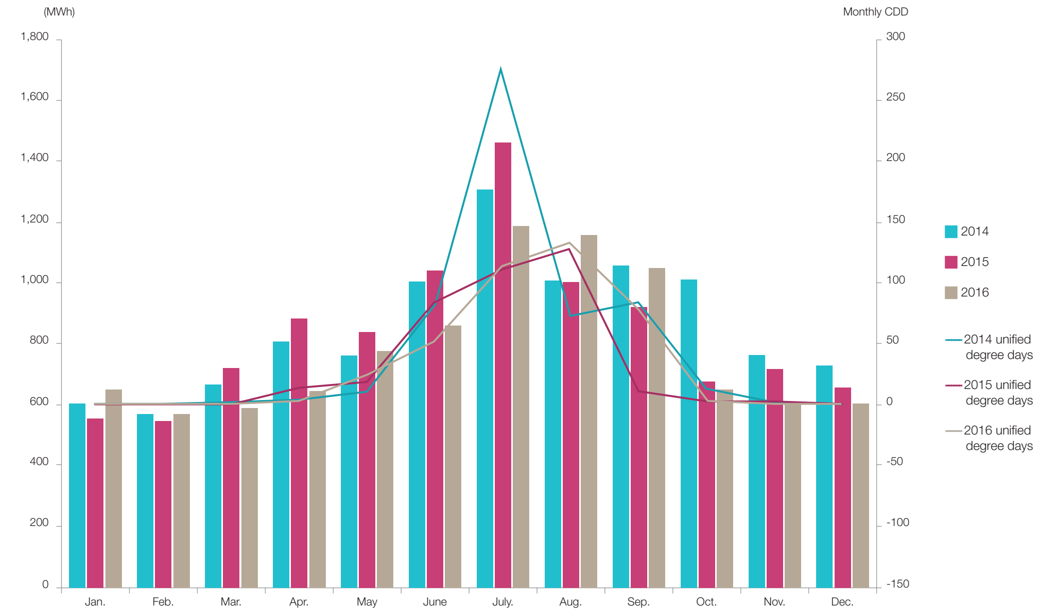
Target of 15% like-for-like reduction in kWh/sq.m between 2011 and 2017 exceeded in 2016.

Climate adjusted energy intensity for the eight buildings whose baseline year is 2011 was reduced from 245 kWh/sq.m in 2015 to 234 kWh/sq.m in 2016.

The target of 238 kWh/sq.m/year (a 15% like-for-like reduction in kWh/sq.m between 2011 and 2017) was therefore met a year early.

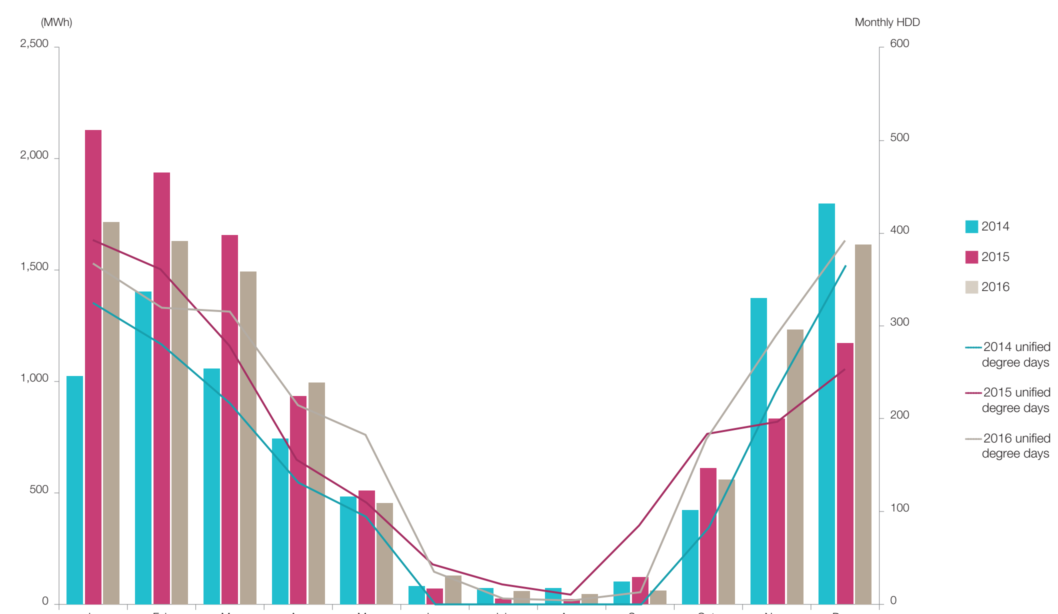
Energy use in these buildings is trending downwards, demonstrating the effectiveness of the energy efficiency initiatives undertaken since 2011.

DISTRICT COOLING SYSTEM USE (CLIMESPACE)



District cooling system use closely reflects weather conditions, demonstrating that air-conditioning systems are used properly. However, use levels are high in certain areas, particularly computer rooms.
The buildings concerned by the like-for-like comparisons of district cooling system use are: Édouard VII, Cézanne Saint-Honoré, Galerie des Champs-Élysées and 92 Champs-Élysées. The other buildings concerned by 2016 versus 2015 like-for-like comparisons are equipped with their own cooling units.

DISTRICT HEATING SYSTEM USE (CPCU)



As for cooling systems, heating use for all properties included in the 2016 versus 2015 like-for-like comparison closely reflects weather conditions.
The buildings concerned by the like-for-like comparisons of district heating system use are: 108-112 Wagram, Édouard VII, Louvre Saint-Honoré, 103 Grenelle, 96 Iéna, Cézanne Saint-Honoré, Galerie des Champs-Élysées and 92 Champs-Élysées.

Improvements in the energy performance of SFL properties

In 2015 and 2016, SFL focused on structuring its approach for the coming years.

This involved:
– Assessing the relevance and volume of reported data compared to their use (private use broken down between non-food retail, restaurants, showrooms, etc., offices, trading rooms, private or shared auditorium or conference centres).
– Organising and expanding energy use data collection processes (particularly electricity) in buildings where the contracts are not managed directly by SFL (private office areas of multi-tenant properties, single-tenant properties, intercompany staff restaurants, etc.).
– Developing a three-year energy performance improvement master plan for each building in order to structure the initiatives required to maximise and lock in the final result. The first master plans will be drawn up for 176 Charles de Gaulle, Washington Plaza and Cézanne Saint-Honoré.

We expect these plans to deliver a lasting improvement in energy use above and beyond the gains achieved to date.

Initiatives carried out in 2016

Initiatives carried out in 2016 in line with our values included the following:
– Galerie des Champs-Élysées: reactive power compensation equipment put back into service (end-2016).
– Diagnostics/Studies/HQE Studies.
– Asbestos removal (9 Percier, Louvre Saint-Honoré, 112 Wagram).
– Improvements to equipment serving the whole building, such as cooling units and air handling units (9 Percier, 131 Wagram).
– Plumbing improvements (water saving, etc.).
– Heat and sound insulation improvements (Washington Plaza, Cézanne Saint-Honoré, Édouard VII, 112 Wagram, 103 Grenelle).
– Air-conditioning, heating, building management system and lift upgrades.
– Improvements and safety compliance work (sprinkler systems, fire extinguishers, videosurveillance systems, access controls, fire safety systems, alarm systems, etc.).
– Projects to create green spaces.

Initiatives launched in 2016 that will be continued in 2017

We are continuing to undertake initiatives to reduce energy use as part of our renovation and redevelopment projects:
– 176 Charles de Gaulle (Neuilly-sur-Seine): replacement of oil-fired boilers with combined heating and cooling pumps, scheduled for completion in 2017 – Energy supply survey conducted in 2016.
– #cloud.paris: development of an enhanced strategy for the use of dual source cooling systems (CLIMESPACE district cooling system and on-site cooling units) undertaken in late 2016.
– Washington Plaza: plan to help prevent peak loads on the electricity network. Utilisation of power storage systems to optimise electricity costs and reduce peak rate use.

Each initiative is an opportunity to raise awareness of the related issues among SFL employees, building managers and facility managers, provide training and improve their skills in the areas concerned.

Initiatives planned for 2017

Following on from the sharp reduction in energy use ratios compared to the 2011 baselines, master plans are now being reviewed in a commitment to further improving energy performance in the years ahead, beyond the 2017 target met a year early in 2016. The plans will focus on the following areas:
– Revamping building management system (BMS) functional analyses.
– Optimising air handling unit (AHU) flow rates.
– Managing lighting in car parks and common areas.
– Breaking down energy use by destination.
– Raising occupant awareness.

These master plans, which will help to optimise capital expenditure and upgrade plans for existing assets, will integrate the initiatives already under way:
– Introduction of a contractual obligation for our building management partners to reduce their energy use.
– New regulatory energy audits of the buildings concerned in 2017.
– Certification progress plans.

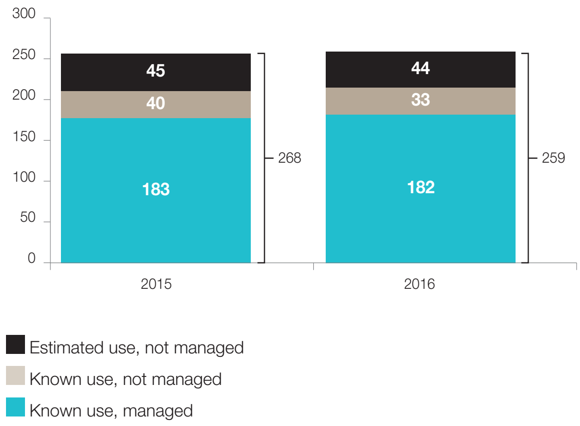
Better insight into overall energy performance thanks to improved data collection and closer stakeholder relations

Data collection methods are being upgraded by broadening the scope of both measurement (to determine energy use by destination in the head office) and reporting (by integrating new buildings, exchanging data with clients in single-tenant buildings and metering private-area power use in multi-tenant buildings).

To gain better insight into our portfolio's overall energy performance, we maintain close relations with tenants and include an environmental appendix in all of our leases ("green leases"). This approach has enabled us to collect a vast quantity of data in the last two years on energy use in our buildings' private areas.

As of end-2016, tenants representing **73%** of the surface area of buildings managed directly by SFL reported details of their actual energy use. This percentage has risen sharply over the last two years and we are aiming to further improve the coverage rate going forward.

KNOWN AND ESTIMATED ENERGY USE BROKEN DOWN BETWEEN MANAGED AND NON-MANAGED BUILDINGS
(in kWh/sq.m)



We are also working to obtain detailed information about energy use in buildings not managed directly by SFL (single-tenant buildings). In 2015 and 2016, we worked with tenants and third-party managers to set up appropriate reporting systems and as of end-2016, we had information about energy use for 48% of these buildings (based on sq.m).

Including buildings not directly managed by SFL (i.e., private use in single-tenant buildings not managed directly by SFL), total annual energy use for the entire portfolio is estimated at some 100 GWh.

In 2017, we plan to change our reporting method in order to also include energy use in the private areas of these buildings not managed directly by SFL.

This commitment to managing and reducing consumption is being supported by our partner building managers and multi-technical service providers, who are contractually obligated to issue regular activity reports.

3.1.2 Water use

The buildings owned and managed by SFL used some 140,000 cu.m of water in 2016, representing 20.2 litres per user per day.

On a comparable portfolio basis, water use rose by 1.3% in 2016 compared with the previous year. The increase was mainly due to major external wall cleaning operations, particularly at Édouard VII where water use was up by over 8,000 cu.m.

WATER USE – REPORTED AND LIKE-FOR-LIKE

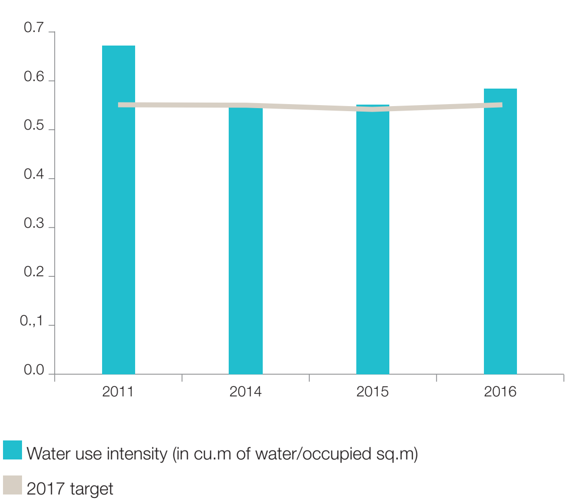
Water use and intensity, common and private areas combined, in cu.m, cu.m/sq.m and litres/user/day

				2015	2016	% 15/16
Reported	Water - Reported	Total water use in cu.m		135,056	135,404	0.3%
	Water - Intensity	Intensity	cu.m/sq.m/year	0.614	0.586	- 4.5%
			litres/user/day	19.7	19.4	- 1.6%
	Scope	*Number of assets*		*11/11*	*12/12*	*N/A*
		% of surface area (sq.m)		*100%*	*100%*	*N/A*
Like-for-like	Water - Lfl	Total water use in cu.m		135,056	131,036	- 3%
	Water - Intensity	Intensity	cu.m/sq.m/year	0.614	0.589	- 4.1%
			litres/user/day	19.7	20.0	- 2.6%
	Scope	*Number of assets*		*11/11*		*N/A*
		% of surface area (sq.m)		*100%*		*N/A*

For the eight buildings in the 2011 baseline scope of reporting, we have set a target of reducing water use by 20% by the end of 2017. In 2016, water use intensity stood at 0.584 cu.m/sq.m, representing a 13% decrease compared to the 2011 baseline for these buildings.

WATER USE INTENSITY

(in cu.m/sq.m)



Currently, four buildings have rainwater recovery systems: 92 Champs-Élysées, In/Out, Washington Plaza and #cloud.paris (2015). At Washington Plaza, over 800 cu.m of rainwater were recovered in 2016 versus 190 cu.m for the three months that the system was in operation in 2015.

SFL buildings are supplied exclusively by the city water system, which sources water from aquifers and rivers, makes it potable and then distributes it to the buildings' water supply connections.

All of our buildings are located in Paris or the Paris region and are not exposed to water stress risk as defined by the World Resources Institute.

3.1.3 Waste production and recycling

Tenant activities in the buildings owned and managed by SFL in 2016 generated 778 tonnes of waste.

Waste production per person and per year declined slightly, to 34 kg in 2016 from 34.5 kg the previous year.

Users in all of our buildings are offered a range of sorting solutions, primarily for paper, cardboard and plastic. We then ensure that the sorted waste is recycled or re-used, as appropriate, by the contractors responsible for its collection. In 2016, the recycling rate stood at over 63%.

WASTE MANAGEMENT

			2015				2016			
			NHIW	Paper, cardboard and plastic	Total	Recycled waste	NHIW	Paper, cardboard and plastic	Total	Recycled waste
Reported and like-for-like	Waste - Reported & Waste - LfL	in tonnes	470	301	771	301	508	270	778	493
		in %	61%	39%	100%	39%	65%	35%	100%	63%
	Scope	*Number of assets*	*7/11*				*8/12*			
		% of surface area (sq.m)	*87%*				*87%*			

The coverage rate of waste production reporting systems has improved significantly in the last two years, through the joint efforts of SFL and the contractors responsible for collecting and sorting the waste. All buildings managed by SFL for which private waste management contracts have been signed (excluding municipal waste collection services) are now included in the reporting scope. The sharp rise in the recycling rate in 2016 compared with the previous year was mainly due to improved reporting of information about the processing of non-hazardous industrial waste (NHIW).

Food waste

We are not responsible for managing foodservices in our buildings and are therefore unable to measure and analyse the causes of food waste (which may result from such issues as poorly planned menus, inefficient production or bad management of unsold food). As a user of intercompany restaurants, we will nevertheless seek assurance that in buildings with such a restaurant, Article 102 of France's Energy Transition Act is complied with and that steps are taken to prevent food waste.

3.2 Carbon efficiency of our properties

SFL has embraced the worldwide commitment to managing and reducing greenhouse gas emissions, in accordance with the COP21 agreement. Emissions from our assets are measured by carbon audits performed at the head office and our other buildings every two years, as well as by dedicated carbon audits of each redevelopment project. We performed a lifecycle analysis of a floor plate renovation project at 9 Percier, to assess the carbon impact of a smaller scale project and improve our insight into Scope 3 of the Bilan Carbone carbon audit.

Carbon emissions by the buildings managed by SFL represented 5,680 tCO_2e in 2016, reflecting energy use for the year.

Carbon emissions intensity declined on both a reported and a like-for-like basis. At 24.3 kg/CO_2e, the intensity level was down 2.5% like-for-like on 2015.

The portfolio is exposed to climate risk. Regulatory risks represent a growing burden, encouraging us to invest in reducing our properties' carbon footprint and avoid them becoming prematurely obsolete. We plan to conduct research in this area.

GREENHOUSE GAS (GHG) EMISSIONS – REPORTED AND LIKE-FOR-LIKE

GHG emissions from energy use in tCO_2e and GHG emissions intensity in kg/CO_2e/sq.m (not climate adjusted)

			Common areas and shared services		Private areas		Total		
			2015	2016	2015	2016	2015	2016	% 15/16
Reported	GHG - Direct - Reported	Scope 1	201	204	0	0	201	204	*1.4%*
	GHG - Indirect - Reported	Scope 2	3,087	3,307	0	0	3,087	3,307	*7.1%*
		Scope 3	664	702	1,524	1,468	2,187	2,170	*- 0.8%*
	Total GHG emissions in tCO_2e		**3,951**	**4,213**	**1,524**	**1,468**	**5,475**	**5,680**	***3.8%***
	GHG emissions	Intensity in kg/CO_2e/sq.m					24.9	24.6	*- 1.2%*
	Scope	*Number of assets*					*11/11*	*12/12*	*N/A*
		% of surface area (sq.m)					*100%*	*100%*	*N/A*
Like-for-like	GHG - Direct - Lfl	Scope 1	201	204	0	0	201	204	*1.4%*
	GHG - Indirect - Lfl	Scope 2	3,087	3,089	0	0	3,087	3,089	*0.1%*
		Scope 3	664	672	1,524	1,434	2,187	2,106	*- 3.7%*
	Total GHG emissions in tCO_2e		**3,951**	**3,964**	**1,524**	**1,434**	**5,475**	**5,398**	***- 1.4%***
	GHG emissions	Intensity in kg/CO_2e/sq.m					24.9	24.3	*- 2.5%*
	Scope	*Number of assets*					*11/11*		*N/A*
		% of surface area (sq.m)					*100%*		*N/A*

Emissions are being reduced primarily through action plans designed to improve energy efficiency. Removal of our last oil-fired boiler and work to suppress coolant leaks will also help us to meet our emissions target. The feasibility of connecting to district heating and cooling systems is systematically reviewed prior to any capital expenditure project.

The 2016 climate-adjusted carbon emissions intensity for the eight properties whose baseline year is 2011 was 21.3 $kgCO_2e$/sq.m/year, bringing us close to the 2017 target of 20.6 kg/CO_2e. Compared to the baseline, emissions intensity has been reduced by 12.3% versus the target of 15% for the period to 2017.

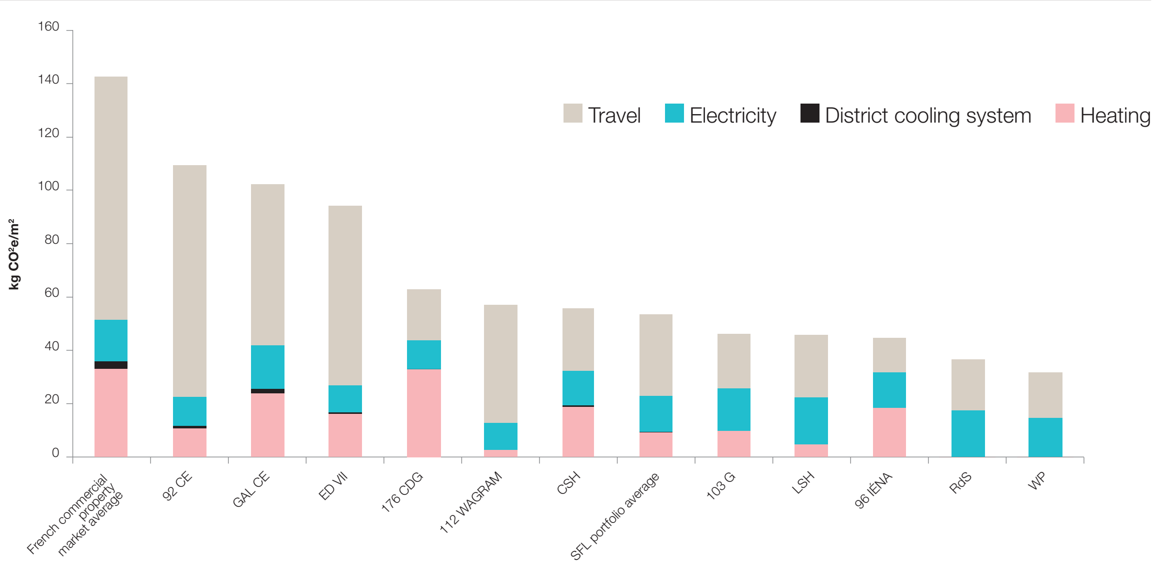
Since 2012, the carbon footprint of our buildings has been tracked based on their energy use and their occupants' work-related travel habits, as determined most recently by the 2015 tenant satisfaction survey.

As part of the process for reporting significant sources of greenhouse gas emissions in compliance with France's Grenelle II Act (Article 75), we have identified two Scope 3 sources – user travel and emissions caused by renovation work.

Concerning renovation work-related emissions, in 2016 we performed a lifecycle analysis of a floor plate renovation project at 9 Percier, to assess the impact of a smaller scale project. The results of the analysis are currently being examined.

The total is considerably less than the average total for the office sector in France.

GREENHOUSE GAS EMISSIONS IN 2016 (FROM ENERGY USE AND WORK-RELATED TRAVEL) in kg/CO_2e/sq.m



3.3 Factoring CSR into capital expenditure projects

Building sustainability and durability are key issues for SFL, as a long-term investor that generally holds its assets for more than ten years. Decisions to invest in redevelopment projects or acquisitions are therefore made with two objectives in mind – first, to attenuate the risks of obsolescence and second, to enhance the building's alignment with tenant needs. Sustainability is built into each capital project through our technical choices (materials, equipment, etc.), aesthetic choices (architectural choices in keeping with Paris's historical urban landscape, timeless design choices) and the services the building will offer (original foodservice options, expanded range of services in common areas as illustrated by the latest Cézanne Saint-Honoré project). These choices are continuously challenged and reweighed through opinion surveys such as ParisWorkPlace and the tenant satisfaction surveys conducted every two years.

Acquisitions

In view of the many urban-planning, demographic, environmental and administrative restrictions and impediments facing investors in Paris real estate, acquiring new assets in the centre of the capital and redeveloping them according to the latest market standards is a means of preserving the urban landscape and its utility value over the long term. This is once again our objective with the acquisition of the SMA BTP headquarters building on avenue Émile Zola that was built in the 1960s and will be fully renovated starting in late 2017.

Capital project decision support system

20%

of total capital expenditure committed to reducing our environmental impact.
And 14.4% of operating expenditure for site maintenance (diagnostics, miscellaneous studies).

SFL is committed to managing the CSR performance of its operating expenditure and its renovation, refurbishment and redevelopment capital expenditure by assessing the CSR aspects of each outlay. This process builds upon the sustainable procurement policy applied in every aspect of our business.

The size of heating, ventilation and air conditioning units depends on the building's location in relation to urban heat islands in the Paris region.

Our teams in the SFL_le_lab and SFL_le_studio workshops carefully track the latest technology trends and innovations to integrate emerging practices – such as using the fifth façade (roof) and innovative building materials – as far upstream as possible in our projects.

In 2016, the following initiatives were implemented:
- The "Virtuous Head Office" review of ways to improve head office conditions and impacts. Head office data can be found in sections 3.5. (Head office) and 4.2. (Health, safety and quality of working environment).
- The "CSR Breakfasts", short morning conferences open to all employees. Subjects covered in 2015 included eco-mobility, the circular economy and COP 21/22.
- Visit by operations teams to remarkable sites: Saint-Gobain's "Les Grands Voisins" lab.
- The first lifecycle analysis, on the 9 Percier project.
- Review of ways to enhance the utility value of underground levels and flat roofs.

Clean worksites

Waste materials are recovered and recycled on every SFL-managed worksite.

All of our major redevelopment, upgrade and renovation projects apply a clean worksite charter covering such areas as waste management, choice of materials, and noise, pollution and disamenity abatement.

The charter will be extended to other worksites in the future.

The circular economy

Contractors working on renovation and redevelopment projects are very actively encouraged to recycle waste materials.

For example, 87% of waste generated by cleaning work during the 9 Percier renovation project was recycled.

3.4 Biodiversity in our portfolio

SFL aims to protect and enhance biodiversity in its buildings and continues to contribute to France's Biodiversity Observatory for Corporate Parks and Gardens (OJEVE), which can use our properties to track the presence of wild pollinators.

By offering users the opportunity to reconnect with nature in quiet and peaceful gardens combining greenery and water features, biodiversity helps to increase our buildings' utility value.

Green space management contracts ban the use of pesticides.

In 2016, a plant and water-based landscape was recreated around the Le Vaisseau building in Issy-les-Moulineaux. The building's wide terraces extending out across the "moat" with views of the Seine river allow users to enjoy the beauty of a garden and the calming presence of water.

In the 9 Percier paved seating areas, the original art deco mosaics have been given a facelift and the fountain in the main patio has been restored. Our tenants have the use of these paved areas, which feature plants and trees and garden furniture.

Studies are in progress for the installation of beehives on the roofs of two more buildings, raising to four the number of buildings with hives – Condorcet, Washington Plaza, In/Out and Cézanne Saint-Honoré – and the transformation of interior courtyards into vegetated spaces at Cézanne Saint-Honoré and Édouard VII.

In 2016, the number of beehives on the roof of Washington Plaza was increased from one to three.

Landscaping is also a key component of the redevelopment projects currently in preparation (112 Émile Zola and Iéna).

Vegetated space

Paris: 7%
Western Crescent: 19%

These percentages correspond to horizontal and vertical green spaces as a proportion of the entire built-up plot of land on the sites of SFL's properties.

9,619sq.m

of total vegetated surface area.

3.5 Head office

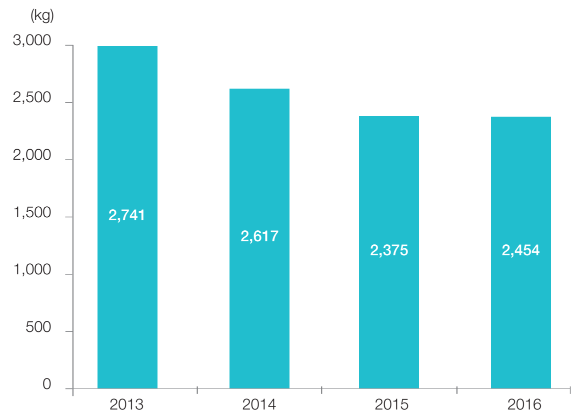
a. Energy and water use, greenhouse gas emissions due to private energy use, waste production and level of certification of SFL's Paris head office

				2015	2016
Reported	Energy	in MWh	Electricity	176.5	151.4
			District heating network	0	0
			District cooling network	0	0
			Natural gas	0	0
			Fuel	0	0
			Total energy use	176.5	151.4
		in kWh/sq.m	Intensity	75.2	64.5
	Greenhouse gas (GHG) emissions	in tCO_2e	Scope 1	0	0
			Scope 2	10.59	9.08
			Scope 3	3.88	3.33
			Total	14.48	12.41
		in $kg/CO_2e/sq.m$	Intensity	6.17	5.29
	Water	in cu.m	Total water use	nd	429.2
		in cu.m/sq.m	Intensity	nd	0.183
	Waste		in kg	2,375	2,454
			% recycled	nd	nd
	Certifications		BREEAM In-Use (in % of sq.m)	100%	100%

Greenhouse gas (GHG) emissions report prepared in compliance with Article 75 of France's Grenelle II Act

			GHG emissions						Avoided GHG emissions
Category of emissions	No.	Types of emissions	CO_2f (kg/CO_2e)	CO_2b (kg/CO_2e)	CH4 (kg/CO_2e)	N_2O (kg/CO_2e)	Other gases (kg/CO_2e)	Total (kg/CO_2e)	Total (tCO_2e)
Direct GHG emissions	1	Direct emissions from fixed combustion sources	0	0	0	0	0	0	
	2	Direct emissions from mobile combustion sources (combustion engines)	0	0	0	0	0	0	
	3	Direct emissions not from energy use	0	0	0	0	0	0	
	4	Fugitive direct emissions	0	0	0	0	0	0	
	5	Biomass emissions (wood and other organic matter)							
	Sub-total		**0**	**0**	**0**	**0**	**0**	**0**	
Indirect energy-related emissions	6	Indirect emissions related to electricity use	0	0	0	0	0	7,347	
	7	Indirect emissions related to the use of steam, heating or cooling systems	0	0	0	0	0	0	
	Sub-total		**0**	**0**	**0**	**0**	**0**	**7,347**	
Other indirect GHG emissions	8	Energy-related emissions not included in types 1 to 7	0	0	0	0	0	7,347	
	9	Purchases of products or services	0	0	0	0	0	401,649	
	10	Capitalised work	0	0	0	0	0	47,278	
	11	Waste	717	1,226	23	0.1	0	741	
	12	Upstream goods transportation	0	0	0	0	0	0	
	13	Business travel	10,447	0	178	0	0	10,626	
	14	Upstream leased assets	0	0	0	0	0	0	
	15	Capital expenditure							
	16	Transportation of visitors and clients	0	0	0	0	0	0	
	17	Downstream goods transportation	0	0	0	0	0	0	
	18	Use of sold products	0	0	0	0	0	0	
	19	End-of-life of sold products	0	0	0	0	0	0	
	20	Downstream franchising activities	0	0	0	0	0	0	
	21	Downstream leasing activities	0	0	0	0	0	0	
	22	Employee commuting	10,368	0	119	93.8	0	10,575	
	23	Other indirect emissions	0	0	0	0	0	0	
	Sub-total		**21,531**	**1,226**	**320**	**94**	**0**	**478,215**	
		Total	**21,531**	**1,226**	**320**	**94**	**0**	**485,561**	

HEAD OFFICE WASTE PRODUCTION



The increase in 2016 compared with 2015 reflects growth in employee numbers and a clear-out conducted during an internal reorganisation in the summer.

A total of 83 kg of printer consumables were recycled in 2016.

A survey of 72 employees concerning their daily commute revealed that:

- For around 52% of respondents, the daily commute takes less than 40 minutes.
- For 19%, the daily commute takes between 40 minutes and one hour, and for 28% more than one hour.

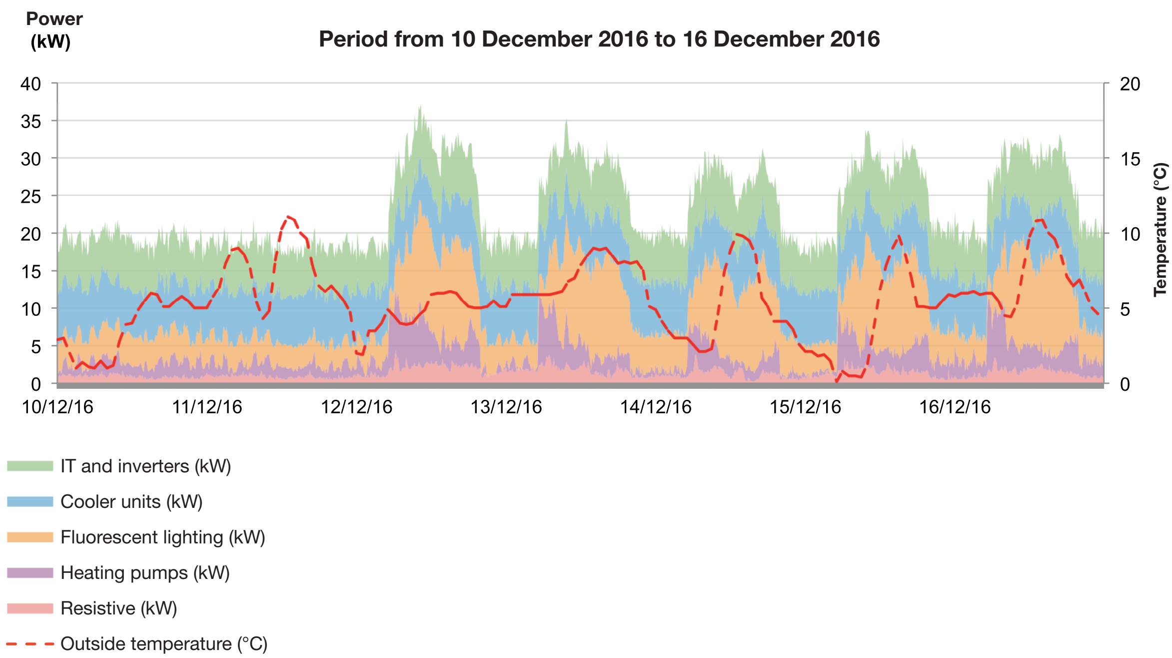
The average distance between their home and workplace is 19 km, representing total annual travel of some 2,700 km for all employees.

Individual carbon emissions range from 0 to 1,100 kg per year, for an annual total for all employees of 10,575 kg.

64 respondents are each responsible for less than 400 kg of carbon emissions per year (i.e., less than 1 kg of carbon per trip) including 43 responsible for less than 100 kg (i.e., less than 225g per trip).

Three-quarters of respondents use at least one form of public transport per trip.

b. Breakdown of electricity use by destination (SFL head office)



Thanks to the system set up in the summer of 2015, we can track private electricity use very closely (by 10 mm step) and the breakdown by main destinations. This means that we can more effectively target the measures to improve our head office's energy performance , either through technical improvements or through sessions to familiarise employees with best practices.

4. Social responsibility value

Corporate social responsibility is about a lot more than environmental issues. It also covers such employee relations issues as the quality of working environment, the quality of supplier relations, and the quality of employee appreciation and remuneration.

75

employees, of which more than 70% of managers as of 31 December 2016.

4.1 Attracting talent and developing employee skills

In view of SFL's size and the structure of its workforce, developing skills and being able to attract and retain talent is a key challenge.

• Collective agreements
French real estate industry collective agreement: covering 73 employees at 31 December 2016 (97%). Building caretakers, concierges and employees collective agreement: covering two employees at 31 December 2016 (3%).

Remuneration and benefits

To encourage our employees' professional growth and engagement, policies are in place to offer them fair, attractive and incentivising remuneration comprising, for each one, a base salary and a performance bonus. In 2016, the target bonus represented an average 15.5% of the base salary, excluding Management Committee members. Total remuneration for the year, comprising both the base salary and the bonus, averaged €62,295, again excluding Management Committee members.

• Increase in average salary
On a constant headcount basis, the average base salary rose by 2.86% in 2016 (2.63% for men and 2.99% for women).

In 2016, for the fifth year running, free shares were granted to employees, this time to 50 managers and corporate officers, or two-thirds of the workforce at year-end. During the year, 61 employees invested in the Group Pension Savings Plan (PERCO), in an average amount of €3,935, matched by an average Company contribution of €3,205 representing more than 80% of the initial investment.

Moreover, in a commitment to encouraging employees to save for retirement, during 2016 management improved the terms of the PERCO system as part of the annual negotiations completed in December 2015:

- A more favourable method has been adopted for calculating the matching contribution to employee investments.
- An additional fixed contribution is now granted, without the employee having to invest beforehand.

The first of these two measures had the effect of increasing the maximum annual matching contribution from €3,600 to €3,900 per recipient, explaining the 9% average growth in voluntary employee contributions to the PERCO between 2015 and 2016.

The second measure led to 67 employees receiving an individual Company contribution representing a flat €300.

All told, SFL's financial support for employees seeking to build or improve their retirement nest egg amounted to €215,620 in 2016.

Employees with at least three months service are entitled to profit-shares under non-discretionary and discretionary plans, which paid out a total of €826,680 in 2016, 20% more than in 2015.

In addition, remuneration policies cover a number of extra benefits, including a time savings account that converts unused leave entitlement into investments in the PERCO plan, service vouchers fully financed by the Company and the Works Council, and subsidised food services (meal vouchers and/or intercompany staff restaurants).

Lastly, 2016 saw the introduction and deployment of the first Personal Remuneration and Benefit Reviews for employees. The reviews meet several objectives: to inform employees as clearly as possible about the Company's various remuneration systems and also to present the value of their total package (salary, bonus, other remuneration and benefits). The first review exercise earned a 91% approval rating from employees and will be repeated each year.

Attracting and retaining talent

There was a significant amount of movement in the workforce during the past year. Ten employees left the company, including three at the end of their fixed-term contracts, two to take retirement and one who resigned.

At the same time, fourteen people were hired, ten under permanent contracts and four under fixed-term contracts (three of whom were still working for the Company at the year-end).

These offsetting changes meant that employee numbers remained relatively stable in 2016, with 75 employees at year-end versus 71 a year earlier. The average seniority of employees on the payroll at 31 December 2016 was ten years.

Training and skills development

As part of the ongoing digitisation of our human resources processes, another module was added to our HR management information system, for career reviews.

Going digital offers a wide range of benefits:
– Elimination of paper forms.
– Simpler interaction between managers and employees.
– Shorter processing times.
– Improved data traceability.

In the specific case of career reviews, the decision to use the internal collaborative portal to support the process fulfils two objectives:

- Promote discussions and exchanges of views on each employee's career prospects.

- Facilitate the sharing of career and training information between employees, their managers and the Human Resources Department.

In 2016, 69 employees took part in career reviews, which are scheduled to take place every two years.

The equivalent of 3.29% of total payroll was allocated to training programmes in 2016 as part of the drive to promote employee skills acquisition and/or development.

Nearly 1,680 hours of training were offered to 60 employees, representing an average of 28 hours per trainee. The courses were primarily focused on asset management, financial management, law, business management, office technology and languages.

In addition, a total of 337 hours of training in management and personal development skills were given during the year.

All managers participated in a specific training session in 2016 on psychosocial risk (PSR) prevention and ways of improving working environment quality (WEQ). Representing one of the three components of the PSR/WLQ action plan, the session was designed to give managers the keys to understanding professional identity issues and the tools for managing them effectively (such as discourse, authority, team project, management without psychosocial risks).

Twenty-three managers participated in the one-day session in 2016.

1,675.50

hours of training conducted in 2016.

83.67%

of employees trained in 2016 (number of employees trained as a % of the average number of employees for the year).

4.2 Health, safety and quality of working environment

As key factors in making SFL a great place to work, health, safety and well-being represent major issues not only for employees, but also for the entire corporate community. With this in mind, these criteria have been fully integrated into our human resources policies, independently of any legal obligations. All employees are represented in a Health, Safety and Working Conditions Committee.

Occupational health and safety

There were no workplace accidents in 2016 and consequently, the accident frequency rate and the severity rate were both zero for the year.

A single commuting accident was reported and no occupational diseases were observed during the year.

In 2016, our employee health and safety policies were actively pursued, with:

- Implementation of a new Workplace First Responder training programme, in which 14 employees participated, and installation of a workplace defibrillator.
- Organisation of a new series of fire prevention training sessions in coordination with APAVE, a risk management consultancy.

Quality of working environment

Initiated in 2015 with the support of a specialised consultancy and in collaboration with a working group made up of employees, employee representatives and our occupational physician, the programme to help prevent psychosocial risks (PSR) and improve the quality of working environment (QWE) led to the preparation of a report in 2016 that was presented to employee representatives and to all employees during various information and discussion meetings.

The report highlighted the benefits of developing a strong internal culture of management and communication within the organisation. In response to its findings, a three-point action plan has been drawn up and deployed:

- In October 2016, managers were given specific training in management techniques that avoid generating stress and psychosocial risks.
- In November 2016, a seminar was organised for all employees on the topics of communication and collaborative working.
- In December 2016, a working group was set up to consider ways of improving the quality of working environment.

The choice of these issues reflects the purpose of the exercise, which was to ensure compliance with the obligation to regularly assess workplace risks, while laying the foundations for a more satisfying quality of working environment.

We have chosen to track various indicators, particularly the short-term absence rate which is a valuable indicator of employee well-being and engagement.

0.82%

short-term absence rate (1 to 3 days).

4.3 Diversity and gender equality in the workplace

Diversity and gender equality in the workplace is a major issue for employee development and business growth.

That is why we have reaffirmed both our pledge to reject any and all forms of discrimination and our commitment to promoting equal opportunity and diversity in the workplace.

Gender equality

In line with the rest of our industry, SFL has a high proportion of women employees, who accounted for over 60% of the total workforce at 31 December 2016. With this in mind, in December 2016, we negotiated and signed a gender equality agreement.

The agreement comprises a certain number of measures backed by improvement targets and indicators in the following areas:

– Hiring and job opportunities.
– Promotion opportunities thanks to ongoing skills development.
– Gender-neutral remuneration.

In 2016, for example, eight of the 14 people hired during the year were women and 76.58% of women employees attended training courses, compared with 95.72% of the men (percentages based on the average number of employees in 2016).

As part of the statutory annual pay round in 2016, the opening of negotiations on the gender pay gap was duly minuted. At their conclusion, the parties noted that there was no form of gender discrimination and reaffirmed the need to apply the principle of equal pay when individual salary increases are awarded.

Seniors and young people

SFL also attaches particular importance to combating age-based discrimination.

The average age of employees is 43. At 31 December 2016, employees aged 45 and over represented half of the workforce and under-35s represented less than a quarter (23%).

People with disabilities

As part of our policy of supporting employment opportunities for people with disabilities, in 2016 we contributed a grant of €15,000 (excl. tax) to the operating budget of ADAPT, a not-for-profit organisation working in this area.

Given the stability of our workforce and low hiring volume, opportunities to hire employees with disabilities are limited and we therefore paid €6,919.20 into the AGEFIPH disabled employment fund in fulfilment of our statutory obligations in this area.

Internal agreements with employee representatives signed in 2016:

- Addendum 1 dated 20 May 2016 to the discretionary profit-sharing agreement.
- Addendum 8 dated 20 May 2016 to the non-discretionary profit-sharing agreement.
- Addendum 6 dated 20 May 2016 to the PEE Employee Share Ownership Plan.
- Addendum 6 dated 20 May 2016 to the PERCO Group Pension Savings Plan.
- Agreement dated 13 December 2016 on gender equality and working environment quality.

4.4 Sustainable procurement and supplier relations

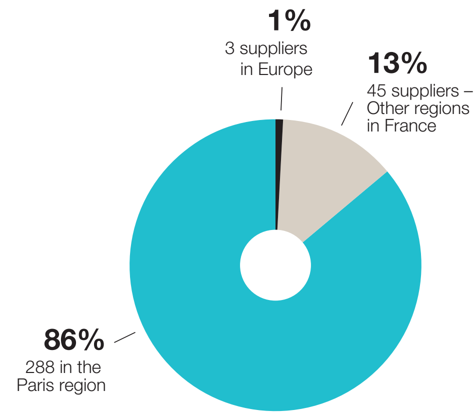
In recent years, SFL has paid particular attention to the sustainability of its procurement process.

Our procurement strategy reflects sustainability criteria by:
– Demonstrating best-in-class supplier management performance.
CSR principles are integrated into tender criteria and specifications for building managers and works contractors.
To lead this aspect, the environment and sustainable procurement unit set up in 2015 is tasked with implementing action plans to (i) manage our costs and environmental impacts more effectively, notably for projects carried out by the Technical and Development Department; and (ii) meet our CSR performance objectives through:
– Analyses of CSR drivers.
– Materials selection.
– Technical and environmental trend monitoring and R&D programmes (SFL_le_lab).
– CSR performance tracking.

Tenders and supplier management

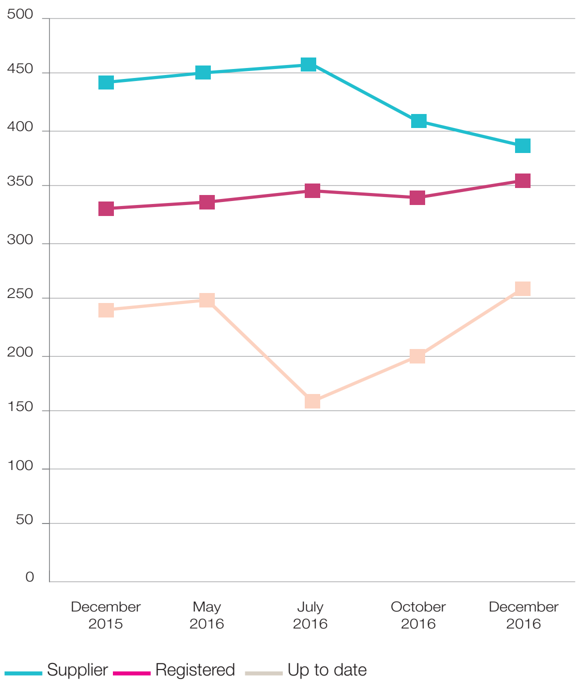
To avoid inappropriate use of sub-contractors, the subcontracting pyramid is limited to a maximum of two levels.
In addition, when commissioning work, priority is given to local companies and contractors.
For example, in 2016, 86% of our suppliers were based in the Greater Paris region.

SUPPLIER LOCATION – 2016



Supplier administrative processes are managed mainly via the “e-Attestation” compliance platform, which is used to track all of the suppliers with the selected APE business identifier codes that do more than €3,000 worth of business with the Group. This subject is described in more detail in the governance and ethics section.

2016 E-ATTESTATIONS

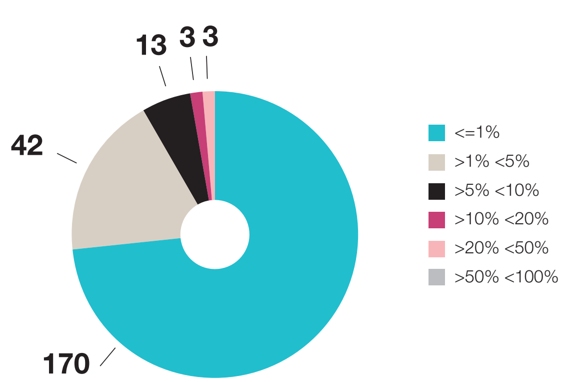


Last year's increase in the proportion of registered suppliers and suppliers up-to-date with their e-Attestations was directly attributable to the deployment of the compliance platform.

Supplier relations

Suppliers play an extensive role in our processes to drive continuous improvement and performance. Multi-technical maintenance providers, for example, have undertaken to embrace our CSR commitment. We also ensure that their sub-contractors participate in this process. In practice, maintenance providers submit technical recommendations that encourage responsible behaviour, notably in the following areas:
- Optimising energy and fluids use.
- Using eco-friendly cleaning products.
- Reducing the amount of packaging and waste.
- Enhancing the occupant experience.
- Increasing the scores for BREEAM In-Use certifications.

DEPENDENCE RATE
(number of SFL suppliers/contribution to suppliers' revenue)



97% of suppliers depend on SFL for less than 10% of their revenue.

Communicating with worksite personnel

Care is taken to create open communication channels with construction teams during redevelopment and renovation works to ensure that they are carried out safely and smoothly.

The worksite health and safety procedure includes:
- Environmental training/information (for triple certification sites).
- Access passes for workers.
- Risk prevention measures.
- On-site first responders.
- First-aid equipment.
- An incident archive system.

Contractors working on-site are given a handbook containing:
- Information on break schedules.
- Restrictions concerning the use of radios.
- Practical information about site organisation (sanitary facilities, access, opening hours, etc.).
- Instructions for personal protection equipment in compliance with the applicable regulations.

Designed for each worksite's exclusive use, the handbook is translated into the second language most spoken by site workers. In the same way, on-site information notices and signage are also translated into several languages. This ensures that workers can easily find their way around the sites and stay constantly informed.

4.5 The local urban footprint of our portfolio

SFL supports Fondation Palladio in its commitment to building the City of Tomorrow.

Set up in 2008 under the aegis of the Fondation de France, the Fondation Palladio is a unique initiative by France's real estate industry to address a major challenge of the 21st century, that of developing urban areas and building communities. Today, its members span all sectors and professions concerned by urban development in the broadest sense of the term. It provides a forum for political decision-makers responsible for urban development, academics, investors and developers to exchange ideas and invent the City of Tomorrow. The Foundation's institute conducts research to help urban planners see the broader picture, its "Pôle Avenir" (Division of Future Development) helps to ensure that engineers and other professionals with the necessary skills will be available in the future to enable urban planners to achieve their vision, and its "Pôle Recherche" (Division of Research) leads the research effort in shaping that vision. By comparing the perspectives of managers and experts, students and professionals, academics and people working in the field, each of the Foundation's initiatives helps to nurture a process of challenging preconceived ideas, embracing new ones and learning from one another.

In 2016, with SFL's support, the Palladio Foundation developed:
- For executives and decision-makers, the Institut Palladio des Hautes Études sur l'Immobilier et la Cité's 5th Annual Cycle of debates on the topic of "*The City of Tomorrow in the Age of Social Responsibility*", sponsored by Anne Hidalgo, the Mayor of Paris and Chair of the C40 Cities Climate Leadership Group. The Actes 2016, a detailed account of the proceedings, including the contributions of the 28 people who participated in the seminars, were published in November 2016, adding another volume to the Collection created in 2012. The 2017

cycle sponsored by Xavier Bertrand, President of the Hauts-de-France region, will address the question of *"What Position Will Work Occupy in the City of Tomorrow?"*. In addition to the activities of the Institute, the Foundation co-organised the 2016 SIMI professional real estate event's plenary conference on the revolution in urban and real estate models.

- For students, the Palladio Foundation's "Pôle Avenir" funded 16 scholarships representing a total grant of €135,000. The SIMI professional real estate event's Junior award was sponsored by the Foundation for the 9th year running and the "Training Zone" for the 6th time. The Foundation and its Division of Future Development also supported the 5th edition of the Forum des Métiers de l'Immobilier, a professional forum that attracted 45 exhibitors and 2,000 visitors. It was an opportunity for the Foundation to launch its first annual survey of real estate and urban development professions, the results of which will be published during the 2017 Forum. The "Rentrée Universitaire" event organised by the Foundation at the beginning of the academic year was attended by students from more than 30 universities and schools studying over 45 different subjects.
- For doctoral and post-doctoral students, the Palladio Foundation's Division of Research represents a valuable resource. In addition to Cahiers Palladio, which publishes collections of articles by doctoral students who have received Foundation scholarships, in 2016 the Division of Research organised the 5th Real Estate and Urban Development Research Symposium on *"The City-Dweller Eco-System"*. During the Symposium, eight doctoral students who received Foundation scholarships in 2016 presented the provisional results of their research to a panel of executives and decision-makers.

In 2016, SFL was particularly closely involved in:

- The Palladio Foundation's communication initiatives: helping to promote awareness of the Foundation's activities and distributing invitations to its events.
- The Palladio Institute: Eric Oudard, SFL's Chief CSR Officer, was a member of the *Collège d'auditeurs* in 2016 and spoke at the annual Symposium.

The CSR issue concerning our local urban footprint covers the ability to design and manage property assets that meet a city's social needs, such as modern architectural design and blending sites seamlessly into the urban environment. It also involves fostering good-neighbour relations by limiting any disamenities caused by redevelopment works.

Good-neighbour relations and communication during redevelopment works

SFL has deployed a stakeholder dialogue and governance system involving elected officials and local authorities during the project design phase and neighbouring communities during the works phase. Through quarterly meetings, dedicated email addresses, information boards and letters, public hearings and informal presentations, we work closely with stakeholders to build the most appropriate solutions for the maintenance and development of our assets.

For example, for the #cloud.paris project in the 2nd *arrondissement* of Paris and the In/Out project in Boulogne-Billancourt, we created an on-site showroom to present the project to neighbours, with the involvement of local authority representatives and stakeholders (architects and contractors). Large-scale architectural models were created, together with visual aids to present the projects and their integration in the urban landscape. Neighbours were given the opportunity to have their say and to make requests of the people involved in the project, before and during the works phase.

In each case, particular care is taken to limit any neighbourhood disamenities caused by redevelopment works. We endeavour to communicate as early as possible about the measures that will be taken to reduce these disamenities and the ultimate benefits of each redevelopment project. For the #cloud.paris project, with the agreement of the City of Paris and 2nd *arrondissement* authorities, we lobbied for the pedestrianisation of rue Menars, the street serving the buildings.

Community integration

As a member of the French property industry federation (FSIF), SFL participates in the meetings for France's Sustainable Building Plan.
For each project, interaction in the upstream phase helps to define the worksites with the lowest impact on the urban environment.

In 2016, we focused on breathing new life into the Edouard VII shopping street, in agreement with official French government heritage preservation architects (ABFs) and the Paris and 9th *arrondissement* authorities. Our work focused on enhancing the shop frontages and the site's general signage; improving the neighbourhood's accessibility and flow; and restoring the façades on Boulevard des Capucines and Rue Caumartin in order to draw attention to their outstanding ornamental features. This work will continue in 2017 with the transformation of interior courtyards into green spaces.

In addition, we are working to promote the local neighbourhood economy by listing on the ServicesbySFL dedicated web platform all the local shops and service outlets located around our properties that may be of interest to the buildings' users. The platform collects information from updated databases, making it easy for users to contact nearby restaurants, convenience stores, shoe-repair shops, dry cleaners, key cutters, car repair shops and other service providers.

Architectural design

SFL pays particular attention to the architectural quality of its assets. To help us meet some of the highest standards in this area, we tend to work in close cooperation with ABFs. Prior to any redevelopment project, in-depth historical reviews are performed to ensure that the buildings blend seamlessly into the high-quality urban environments in our host cities of Paris, Boulogne, Neuilly and Issy-les-Moulineaux.

We are a significant contributor to the regeneration of office stock, particularly in Paris, as evidenced by the dozen administrative permits (building permits, works notifications, advance works notifications, etc.) obtained in 2016 alone. We continuously endeavour to maintain and promote constant dialogue with the stakeholders involved in developing the Paris cityscape (City of Paris authorities, ABF architects and the *Pavillon de l'Arsenal* urban planning and architecture information and documentation centre).

After the delivery in 2015 of a benchmark office redevelopment project (#cloud.paris), operations carried out in 2016 were less spectacular but were no less valuable in terms of the way in which they used interior design and architecture to contribute to new office use practices. One example was the successful transformation of communal areas in the Cézanne Saint-Honoré building on rue Paul Cézanne. Our teams worked with Studio Puttman and Agent M to create a new Business Centre featuring an auditorium with 100 fully-connected seats, a lounge and a new-generation Mamie Cocotte© foodservice area.

SFL projects are recognised for their architectural and urban quality, which earned the #cloud.paris project the 2016 Mipim Award for the Best Office & Business Development.

SFL is a member of France's Architecture and Contracting Authority Association (AMO), which promotes constructive relations between architects and building owners. In all, our commitment to outstanding architectural design is helping to enhance the quality of urban life in our host cities and neighbourhoods.

4.6 Ethics and compliance

SFL employment contracts include a code of conduct which covers issues such as professional integrity, combating fraud, non-discrimination and compliance with tax rules. The Group also complies with the specific code of conduct for SIICs (real estate investment trusts) which covers topics such as the selection and rotation process used for the independent valuers that value the portfolio.

Employees may contact the Internal Control Department if they have any questions about professional ethics or conduct.

There were no corruption-related incidents or sanctions in 2016 and no political donations were made during the year, in accordance with French legislation.

Ethics in the SFL value chain

Measures are also in place to ensure that employees as well as suppliers uphold the Fundamental Conventions of the International Labour Organization (ILO) in the areas of:
- Freedom of association and collective bargaining.
- Eliminating discrimination in respect of employment and occupation.
- Eliminating forced and compulsory labour.
- Effectively abolishing child labour.

Other than in exceptional cases, every supplier, irrespective of the type of goods or services provided, is subject to a number of obligations under applicable labour legislation, particularly as regards clandestine labour and the employment of foreign workers.

Failure of any supplier to comply with these legal or regulatory obligations could expose SFL to the risk of legal and/or financial sanctions, a situation that has led to a review of our practices in this area.

French legislation prohibits clandestine labour and the employment of undocumented foreign workers.

As a disincentive, legal liability is assigned at two levels:
- The company that does not report an employee or employs an undocumented worker is subject to criminal, administrative and financial sanctions.

Co-contractors can also be held financially liable, i.e., any co-contractor which, when a contract for the provision of work or services is signed, does not verify that its supplier has made all the applicable declarations and is up to date with its social security contributions. This compliance has to be checked every six months throughout the term of the contract.

To avoid any risk of non-compliance and meet our obligations concerning supplier employee documentation, SFL:
- Uses a collaborative, web-based platform on which suppliers submit the necessary documentation.
- Includes a standard contractual clause in every contract worth more than €3,000 (excl. VAT).

The dedicated platform enables suppliers to submit, simply and free of charge, all of their employee and tax-related documentation as well as any required certificates and statements concerning their technical and financial capabilities. It manages all of the administrative documents, verifies that they are complete, and if necessary sends reminders to the suppliers concerned. This enables us to check compliance at any time, both of existing suppliers and potential new suppliers if they are included in the database.

In 2016, we pursued the supplier selection process based on their APE business code which provides an indicator of their potential exposure to the risk of employing undocumented workers.

Integrating CSR into corporate governance

- Annual review of environmental, social and governance (ESG) performance and CSR issue mapping exercise with the Board of Directors and Audit Committee (regulatory compliance).
- Sharing CSR practices with the primary shareholder.
- Integrating material CSR risks into the corporate risk map.

The most significant CSR risks are as follows:
- Risk of potential additional costs, e.g., to address obsolescence, energy efficiency, disputes with neighbouring communities, etc.
- Risk of criminal sanctions if suppliers are found to use undocumented workers.
- Risk of delays in obtaining permits or authorisations due to biodiversity issues, local urban impact, etc.
- Human resources risks, (inability to attract talent, skills obsolescence, etc.)
- Risk that our CSR performance will deteriorate if tenants do not embrace our CSR commitment.

The main identified opportunities are:
- Opportunity to attract and satisfy tenants (location, amenities, efficient planning of renovations, etc.).
- Opportunity to increase rental and asset values.
- Opportunity to foster innovative tenant relations ("green" leases, etc.).
- Opportunity to nurture the trust of shareholders, tenants, public authorities and investors.

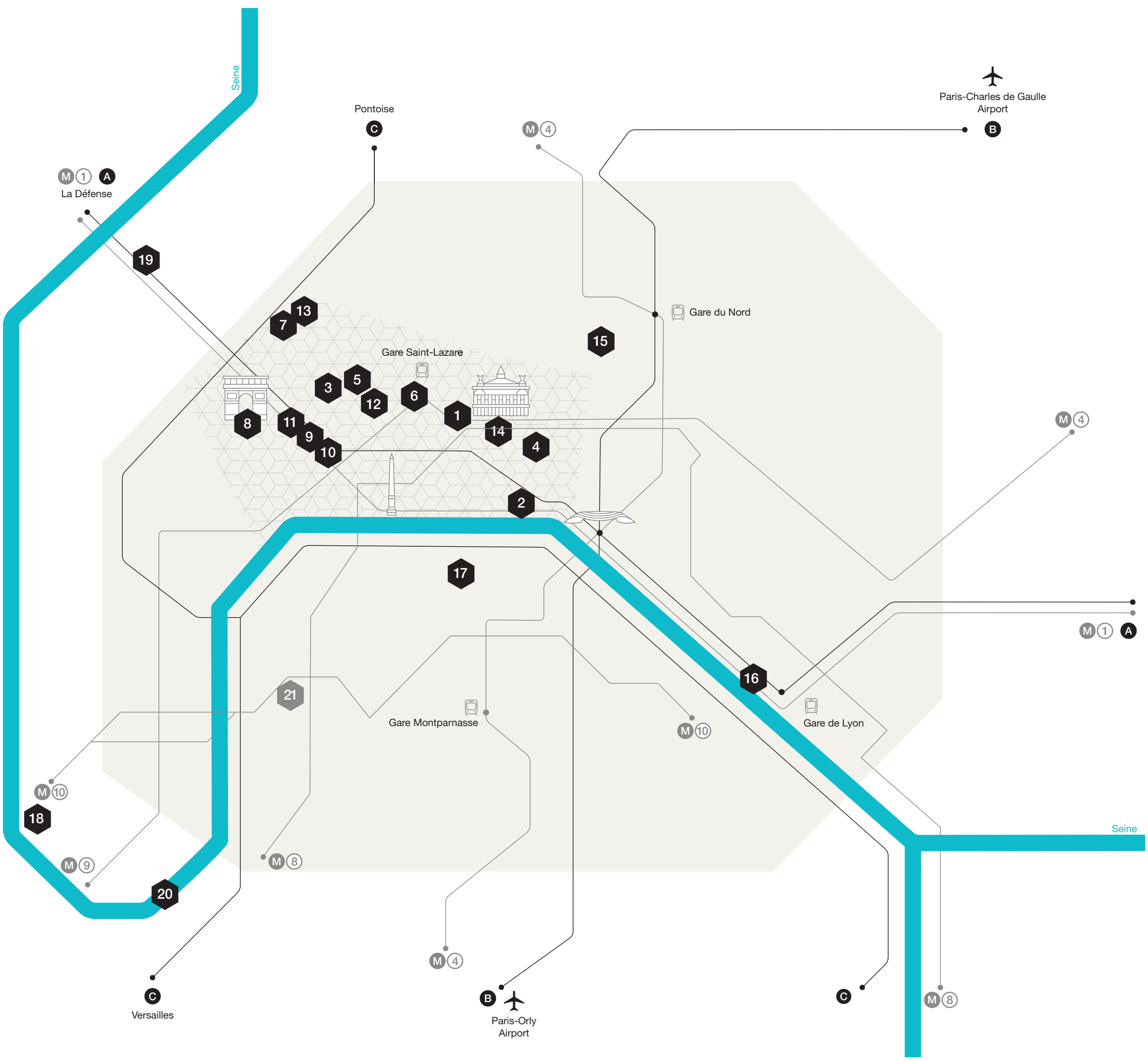
Governance

See Appendix 7.5 (Chairman's Report on Corporate Governance and Internal Control) on pages 96 *et seq*. of the Management Report, in which the following subjects are discussed:
- The roles and responsibilities, membership and independence of the Board of Directors and the Board of Directors' advisors.
- Compliance with the recommendations of the AFEP-MEDEF Corporate Governance Code and analysis of any weaknesses.
- Remuneration of executives and directors, notably the shareholders' say on pay vote.
- The internal control process and the Statutory Auditors' report on the financial statements.

5. Appendices

5.1 Presentation of the Property Portfolio

SFL is a property company that specialises in the prime commercial property market. In value terms, office properties make up 81% of the portfolio, retail units 18%, and residential units 1%. The aggregate revenue generated from the portfolio in 2016 was €198.1 million. The overall occupancy rate at 31 December 2016 (excluding properties undergoing redevelopment) was 97%.



CBD

- 1 Édouard VII
- 2 Louvre Saint-Honoré
- 3 Washington Plaza
- 4 #cloud.paris
- 5 Cézanne Saint-Honoré
- 6 Haussmann Saint-Augustin
- 7 131 Wagram
- 8 96 Iéna
- 9 90 Champs-Élysées
- 10 Galerie Champs-Élysées
- 11 92 Champs-Élysées
- 12 9 Percier
- 13 112 Wagram
- 14 6 Hanovre

Rest of Paris

- 15 Condorcet
- 16 Rives de Seine
- 17 103 Grenelle

Western Crescent

- 18 In/Out
- 19 176 Charles de Gaulle
- 20 Le Vaisseau

21 112 Émile Zola
(not included in 2016 scope)

OUR PORTFOLIO

	Total surface area (sq.m)*
Paris Central Business District	
Édouard VII	54,100
Louvre Saint-Honoré	47,700
Washington Plaza	47,000
#cloud.paris	35,000
Cézanne Saint-Honoré	29,000
Haussmann Saint-Augustin	13,400
131 Wagram	9,200
6 Hanovre	4,600
96 Iéna	8,900
90 Champs-Élysées	8,900
Galerie Champs-Élysées	8,700
92 Champs-Élysées	7,700
9 Percier	6,700
112 Wagram	6,000
Total	**286,900**
Rest of Paris	
Condorcet – Paris 9	24,900
Rives de Seine – Paris 12	22,700
103 Grenelle – Paris 7	18,900
Total	**66,500**
Western Crescent	
In/Out (Boulogne-Billancourt)	36,600
176 Charles de Gaulle (Neuilly-sur-Seine)	7,400
Le Vaisseau (Issy-les-Moulineaux)	6,300
Total	**50,300**

*Including infrastructure and excluding car parks.

Building addresses may be found on our website at www.fonciere-lyonnaise.com.

TYPES OF CLIENT

MEDIA AND DIGITAL
Finance, Asset management and Insurance
LAW FIRMS
FASHION HOUSES
Manufacturers
Consultancies
REAL ESTATE COMPANIES

5.2 Reporting scope and procedures

To report data on building energy use, water use and waste production, proprietary procedures have been developed to standardise the data collection process and define the contributors and the verification method.

These procedures also describe the applicable standards, notably Article 225 of France's Grenelle II Act of 12 July 2010, the Global Reporting Initiative (GRI G4) and CRESS supplement, and the EPRA's recommendations.

Lastly, they define the scope of reporting.

Reporting scope

SFL's portfolio comprises 20 buildings representing a total of 403,700 sq.m.

The reporting scope does not include single tenant buildings, buildings that have been vacated prior to redevelopment or that are currently being redeveloped, and residential units.

Buildings included in the 2016 reporting scope were as follows:

Baseline year 2011:

1. 176 Charles de Gaulle (Neuilly-sur-Seine)
2. 96 Iéna (Paris 16^{th} *arrondissement*)
3. Édouard VII (Paris 9^{th} *arrondissement*)
4. Washington Plaza (Paris 8^{th} *arrondissement*)
5. Rives de Seine (Paris 12^{th} *arrondissement*)
6. Louvre Saint-Honoré (Paris 1^{st} *arrondissement*)
7. 103 Grenelle (Paris 7^{th} *arrondissement*)
8. Cézanne Saint Honoré (Paris 8^{th} *arrondissement*)

Baseline year 2015: the above properties plus:

9. 112 Wagram (Paris 17^{th} *arrondissement*)
10. Galerie des Champs Elysées (Paris 8^{th} *arrondissement*)
11. 92 Champs-Élysées (Paris 8^{th} *arrondissement*)

Baseline year 2016: the above properties plus:

12. 90 Champs-Élysées (Paris 8^{th} *arrondissement*)

Changes in reporting scope

The number of buildings in the reporting scope may increase as a result of:
- Acquisitions.
- The delivery of redeveloped buildings that are at least 60% let and have been in use for at least one full year.

Standard surface area and occupancy rate

The standard measure used to calculate building energy intensity is the average useful surface area, expressed in square metres (sq.m).

The occupancy rate used to adjust indicators corresponds to the average occupancy rate for the reporting year.

Energy

Energy data is collected from the following sources and consolidated for each building:
- Meter readings.
- Property manager invoices (before tax and subscription fees).
- Data extracted from the property managers' databases via the client interface.

When an asset's total energy use is unknown, in particular for the private areas, it is estimated based on the energy typically used by the tenant's HVAC installations.

These estimates, which give a clearer picture of actual use and vary by building, are determined in partnership with an experienced energy analysis agency, based on the energy used in SFL's private areas and those of other occupants, depending on the building.

The comparison between the baseline year and the reporting year factors in climate variability using unified degree days (baseline 18°C), taken from www.meteociel.fr for these two years.

In analysing energy use, the baseline year is determined by the year the property was added to the scope of reporting.

Water use

Data is collected from the following sources:
• Meter readings.
• Consolidated invoices.
• Data extracted from the property managers' databases via the client interface.

Waste

Waste tonnage is determined based on reports provided by service providers and daily weighings of waste paper at the head office.

5.3 Identifying, prioritising and managing CSR issues

In 2016, our CSR priorities were identified and their materiality analysed using a process that consisted of:
– Mapping the SFL value chain and identifying the CSR issues at each stage.
– Analysing industry best practices and CSR expectations.
– Structuring the 15 identified priorities into four key areas.
– Precisely defining the CSR issues, including a description, drivers, risks and opportunities and existing initiatives. This situated them on the "business" axis of the CSR issues map, by reference to the seriousness and likelihood of occurrence of each issue's risks and opportunities.
– Identifying stakeholders and their expectations based on detailed documentation and operating staff feedback, to situate each expectation on the "stakeholder" axis of the CSR issues map.

These different stages are described in more detail below.

a. Structure of SFL's CSR issues in four key areas

Utility value of our properties for tenants

– Location and access: the daily commute and business travel by occupants of SFL buildings, in terms of distance travelled and means of transport (underground, bus, public bicycle and car hire stations, electric vehicle charge points and car sharing). This value proposition also covers the topic of the urban mix.
– Tenant relations and satisfaction: SFL's ability to meet tenant expectations and ensure their satisfaction. This value proposition also entails entering into medium-term agreements with tenants on CSR-related issues so that they can support us in driving our own CSR performance.
– Certification: earning certification for properties.
– Amenities, layout and organisational efficiency: creating utility value with popular amenities, efficient layouts and a safe, healthy working environment (natural light, quiet, indoor air quality, optimised use of space and traffic flows, disabled access, occupant services, etc.).

All of these factors have a direct effect on occupant well-being, while stimulating creativity and improving organisational efficiency for tenants.

Building a sustainable portfolio

– Sustainable building operation: optimising energy and water use and effectively managing waste generated from operations.
– Carbon efficiency: reducing emissions of greenhouse gases (GHGs) from properties by increasing energy efficiency, optimising the energy mix and minimising coolant leaks.
– Factoring CSR into capital expenditure projects: optimising the social and environmental impacts of capital expenditure committed during renovation and redevelopment projects with a view to enhancing the property's overall CSR performance throughout its life cycle.
– Biodiversity: avoiding excessive urbanisation and integrating biodiversity into SFL properties.
– Safety and environmental risk management: managing regulatory and physical risks that could affect the safety of occupants.

Attracting, motivating and retaining employees

– Employer appeal, skills development: attracting and retaining talent and developing capabilities. In response to fast changing legislation, standards and industry practices, we constantly develop the skills of our employees, so as to maintain their expertise, support their employability and strengthen their engagement and trust.
– Health, safety and quality of working environment: workplace health and safety policies and enhancing the quality of working environment.
– Diversity and equal opportunity: combating all forms of discrimination in accordance with the principles of human rights.

Governance, ethics and society

– Governance and ethics: upholding the principles of good corporate governance and business ethics by demonstrating our ability to deploy robust control systems to prevent any unfair or illegal business practices. This priority is very closely linked to governance and ethics risks.
– Sustainable procurement and supplier relations: integrating CSR criteria into procurement policies to ensure that the practices of our leading suppliers comply with our CSR policies. This issue also involves the fostering of stable supplier relationships and the application of fair payment terms.

– Local urban footprint: the ability to design and manage property assets that meet the city's social needs, such as modern architectural design and blending sites seamlessly into the urban environment. It also involves fostering good-neighbour relations by limiting any disamenities caused by redevelopment works.

During the materiality analysis, each CSR issue was defined in detail, along with its related risks and opportunities. This gave each one a score plotted on the "business" axis of the CSR issues map.

Stakeholders and their CSR expectations

SFL's identified stakeholders have been classified into three categories based on the extent of their direct or indirect impact on our revenue and operations.

Stakeholders with a major direct impact on our revenue and business

Stakeholders with a significant indirect impact on our revenue and business

Stakeholders with a moderate indirect impact on our revenue and business

	Stakeholder	Expectations	Dialogue method	Frequency
Major impact on revenue and operations	Tenants and occupants	Building accessibility Occupant well-being, motivation and organisational efficiency Property company's ethical conduct	Dialogue with the property manager (SFL contact) Satisfaction survey	Continuous Every two years
	Employees and employee representatives	Remuneration and benefits Training and career mobility opportunities Occupational health and safety Well-being and quality of working environment Employer's ethical conduct	Information and consultation processes with employee representatives	Monthly
	Shareholders and investors	Overall CSR performance	Board of Directors Investor roadshow Annual General Meeting	Monthly
Significant impact on revenue and operations	Partners (building managers, prime contractors, certification bodies)	Health and safety of service providers Property company's ethical conduct Compliance with contractual clauses Long-term relationships & local jobs	Technical specifications and dialogue with operations and asset management teams	Weekly
	Building contractors and project partners	Health and safety of service providers Property company's ethical conduct Compliance with contractual clauses Long-term relationships & local jobs	Technical specifications and dialogue with teams from the Technical and Development Department Meetings with project managers	Weekly
	Elected officials and local authorities	Health and safety Property company's ethical conduct Integration into the local urban development plan Integration into the architectural environment Urban mix & local jobs	Consultation with local elected officials during the project design phase (administrative permits)	As required
Moderate impact on revenue and operations	Other suppliers	Property company's ethical conduct Compliance with contractual clauses Long-term relationships	Contracts	As required
	Non-profit organisations and civil society	Occupant safety and health Property company's ethical conduct Compliance with the Grenelle II Act and the Sustainable Building Plan Urban mix & local jobs	Neighbourhood meetings	Quarterly
	CSR rating agencies	CSR transparency and performance CSR initiatives and action plans	Media and communication material (Management Report, CSR report, website etc.) Questionnaire responses	Annually

b. CSR issues map

Based on the findings of the materiality analysis, the following map classifies our CSR issues into three levels of materiality, as follows:

1. Ranking top in materiality are the five fundamental CSR issues integrated into our core business:

Location and access; tenant relations and satisfaction; certification; health and safety and environmental risk management; and governance and ethics. These issues form an intrinsic part of our strategic vision.

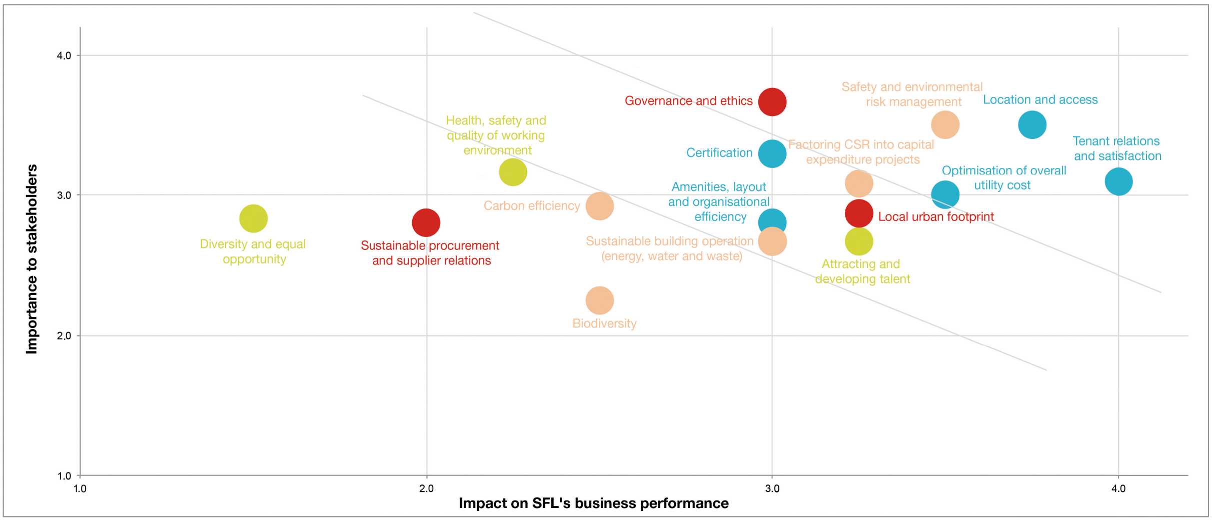
2. Ranking midway in materiality are five major CSR issues:

Amenities, layout and organisational efficiency; sustainable building operation; factoring CSR into investment decisions; local urban footprint; and attracting talent and developing skills. These issues contribute to our intangible value and resonate with emerging stakeholder expectations and new impacts on our business.

3. Ranked below the second materiality threshold are five CSR priorities to be tracked:

Carbon efficiency; biodiversity; health, safety and quality of working environment; diversity and equal opportunity; and sustainable procurement and supplier relations. These issues do not have as much of an impact on our short-term strategy, but they need to be tracked as their materiality could change over time.

The carbon efficiency issue is primarily addressed through energy performance initiatives.



- Utility value of our properties for tenants
- Building a sustainable portfolio
- Attracting, motivating and retaining employees
- Governance, ethics and society

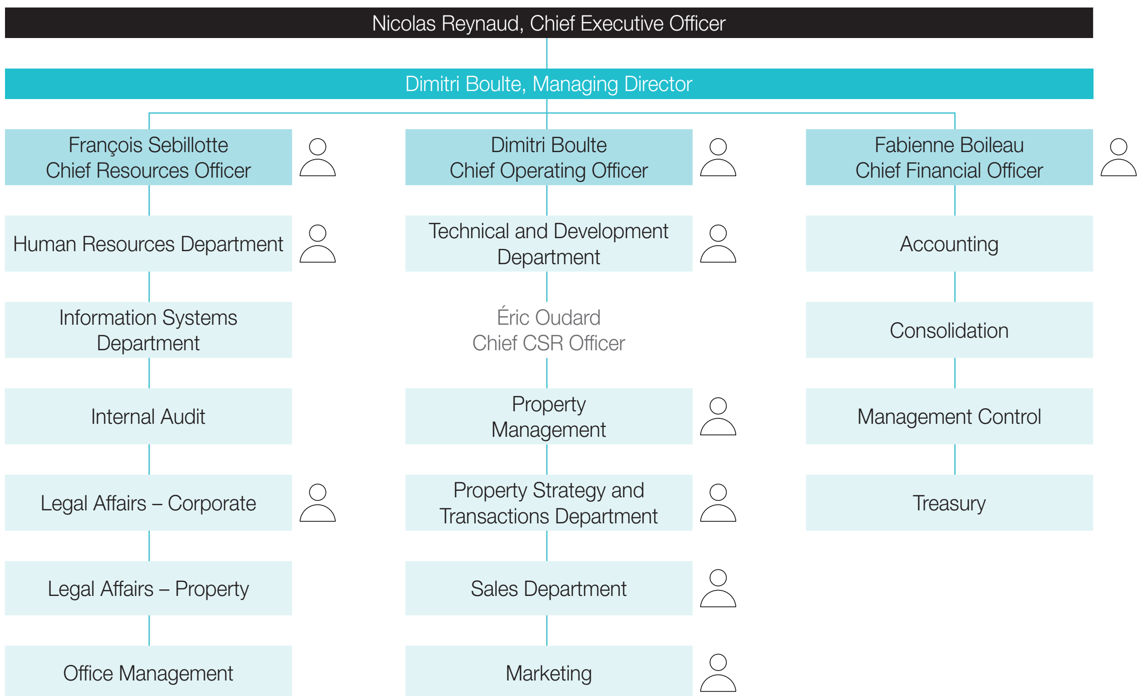
Our CSR issues can be combined in several different ways:
– Based on the three materiality levels (see graph).
– By key area (see section 5.3 a).

To organise this report in line with our strategy for improving our CSR performance as a prime property company, CSR issues are split into three topics:
– Utility value.
– Green value.
– Social responsibility value.

c. Managing the CSR process

SFL's organisation and the operating procedures of the Management Committee and Board of Directors are described in section 3 of the Registration Document.

CSR is integrated into our business operations on a cross-functional basis. The CSR Department is led by Eric Oudard, Technical and Development Director. The other corporate departments concerned by these issues contributed their input through CSR working groups, which enabled the preparation of this report.



Departments with members in the CSR working groups.

During the year, the CSR working groups met to work on the materiality of our CSR issues and policies, providing invaluable feedback from the front line. Their members also made a major contribution to this report, particularly the Sustainable Procurement and Environment Manager and the Risk Management Officer.

5.4 Cross-reference table for information required under the Grenelle II Act

	Article 225 of the Grenelle II Act – Disclosures required by the enabling decree of 24 April 2012	Page(s) in the 2016 Management Report
LABOUR AND EMPLOYMENT		
1° Labour and employment information		
	a) Employment	
1	Total workforce by gender, age group and geographic region	p 83
2	Hirings and terminations	p 83
3	Remuneration and changes in remuneration	p 67
	b) Organisation of work	
4	Organisation of working hours	p 83
5	Absenteeism	p 83
	c) Labour relations	
6	Organisation of social dialogue, particularly employee information, consultation and negotiation procedures	p 68, 75
7	Outcome of collective agreements	p 69, 70
	d) Health and safety	
8	Occupational health and safety conditions	p 68
9	Outcome of collective agreements signed with trade unions or employee representatives concerning occupational health and safety	p 69
10	Work-related accidents (notably their frequency and severity) and occupational diseases	p 83
	e) Training	
11	Training policies	p 67
12	Total number of training hours	p 68
	f) Equal opportunity	
13	Measures taken to promote gender equality	p 69
14	Measures taken to promote the hiring and retention of people with disabilities	p 69
15	Anti-discrimination policies	p 69
	g) Promotion of and compliance with the fundamental conventions of the International Labour Organization concerning:	
16	Freedom of association and collective bargaining	p 72
17	Elimination of discrimination in respect of employment and occupation	p 72
18	Elimination of forced and compulsory labour	p 72
19	Effectively abolishing child labour	p 72

ENVIRONMENT		
2° Environmental information		
	a) Environmental policy	
20	Organisation of the company to take environmental issues into account, and environmental assessment and certification programmes	p 53
21	Employee training and information on environmental protection	p 64
22	Total investments and expenditures to prevent environmental risks and pollution	p 56
23	Total provisions and guarantees for environmental risks, except where this information is likely to cause serious prejudice to the company in an ongoing dispute	p 56
	b) Pollution and waste management	
24	Measures to prevent, reduce and clean up environmentally harmful emissions and discharges into the air, water and soil	p 63
25	Measures to prevent, recycle and eliminate waste	p 62
26	Measures to mitigate noise pollution and all other types of pollution specific to an activity	p 71
	c) Sustainable use of resources	
27	Water use and water withdrawals in relation to local resources	p 61
28	Consumption of raw materials and measures to improve their efficient use	p 71
29	Energy use and measures to improve energy efficiency and use renewable energy sources	p 57, 60
30	Land use	p 61
	d) Contribution to combating global warming and adapting to its impact	
31	Greenhouse gas emissions	p 63
32	Measures to adapt to the impact of climate change	p 62
	e) Protection of biodiversity	
33	Measures taken to preserve or develop biodiversity	p 64
SOCIAL RESPONSIBILITY		
3° Information on social responsibility commitments to promote sustainable development		
	a) Regional, economic and social impact of the company's activities	
34	Impact on employment and regional development	p 69
35	Impact on local and neighbouring communities	p 71
	b) Relations with stakeholders, notably mainstreaming non-profit organisations, educational institutions, environmental organisations, consumer organisations and neighbouring communities	
36	Stakeholder dialogue	p 71
37	Partnership or philanthropic programmes	p 72
	c) Sub-contracting and suppliers	
38	Inclusion of social responsibility and environmental issues in purchasing policy	p 69
39	Importance of sub-contracting and integration of corporate social responsibility in relationships with suppliers and sub-contractors	p 69
	d) Fair business practices	
40	Measures to prevent corruption	p 72
41	Measures to preserve consumer health and safety	p 55
	e) Human rights	
42	Other measures taken to promote human rights	p 72

5.5 GRI G4 and EPRA indicators and cross-reference table for the GRI G4 standard

Disclosure	GRI G4	Source/Unit	Scope	2013	2014	2015	2016
ENVIRONMENT							
Energy							
Energy use within the organisation	EN3	Electricity in MWh	SFL head office	182	192	167	151
Energy use outside of the organisation	EN4	Fuel oil in MWh	Full scope	552	409	739	749
		Electricity in MWh		41,632	39,184	39,912	37,723
		District cooling and heating systems in MWh		20,956	18,438	19,728	18,605
Energy intensity	EN5 CRE1	kWh/sq.m/year		294	261	267	257
		kWh/user/year		2,023	1,841	1,934	1,835
Water							
Water withdrawn from municipal water supplies or other water utilities	EN8	cu.m	like-for-like	125,941	127,328	135,056	131,036
Total volume of water recycled and reused	EN10	cu.m	In/Out & WP (2015)	N/A	2,598	2,296	800**
Building water intensity	CRE2	cu.m/sq.m/year	like-for-like	0.6	0.6	0.6	0.6
		litres/occupant/day		18	18.4	19.7	19.2
Emissions							
Direct greenhouse gas (GHG) emissions (Scope 1) (based on energy used)	EN15	tCO_2e	like-for-like	182	135	239	243
Indirect greenhouse gas (GHG) emissions (Scope 2) (based on energy used)	EN16	tCO_2e		5,804	5,032	5,172	4,968
Other indirect greenhouse gas (GHG) emissions (Scope 3) (work-related journeys by building users)	EN17	tCO_2e		7,227	7,198	7,524	7,729
Greenhouse gas (GHG) emissions intensity from buildings	EN18 CRE3	$kg/CO_2e/sq.m/year$		27.9	23	23.95	23.4
		$kg/CO_2e/occupant/year$		192	164	189	184
Waste							
Total weight of waste by type	EN23	NHIW (tonnes)***	like-for-like	367	239	254	508
		Paper/board (tonnes)***		171	179	179	270

Like-for-like = the 11 buildings whose baseline year is 2011, 2012 or 2013 — see detailed list in Appendix 5.2.

** Washington Plaza only (data not available for In/Out).

*** Values for five properties in 2013/2014/2015 among the 11 "like-for-like" properties.
Values for eight properties in 2016 among the 11 "like-for-like" properties.

Disclosures		Scope	GRI G4	2013	2014	2015	2016
Organisational profile							
Percentage of total employees covered by collective bargaining agreements.		SFL Group	G4-11	100%	100%	100%	100%
Social – labour practices and decent work							
Employment							
Total number of employees and number of new hires	Total number of employees	SFL Group	LA1	74	74	71	75
	Permanent contracts			73	73	69	72
	Fixed-term contracts			1	1	2	3
	Men			30	29	25	29
	Women			44	45	46	46
	Managers			52	53	52	58
	Supervisors			11	11	12	10
	Administrative staff			11	10	7	7
	Under 45			34	33	32	37
	45 or older			40	41	39	38
	Paris			74	74	71	72
	Other			0	0	0	3
	New hires						
	Permanent contracts			6	4	7	10
	Fixed-term contracts			1	2	2	4
	Men			4	2	3	6
	Women			3	4	6	8
	Managers			6	5	9	12
	Supervisors			0	0	0	1
	Administrative staff			1	1	0	1
	Under 45			6	5	9	12
	45 or older			1	1	0	2
Number of terminations by reason	Personal			2	2	1	2
	Economic			0	0	0	0
Total payroll	€ '000s (gross)		LA3	7,115	7,097	6,112	6,299
Occupational health and safety							
Number of reported and recognised lost-time workplace accidents		SFL Group	LA6	1	1	1	0
Number of reported and recognised lost-time commuting accidents				6	0	1	1
Number of working days lost as a result of workplace accidents				7	1	2	1
Number of working days lost as a result of commuting accidents				25.95	0	0	0
Accident frequency rate				0.17	0	0	0
Accident severity rate				0	0	0	0
Number of reported and recognised occupational diseases							
Absenteeism (in number of working days)				846	978	982	716
Illness				173	216	90	209
Maternity leave				19	0	8	7
Leave to take care of sick children				18	33	28	24
Leave for family events				15	51	14	35
Training							
Total number of training hours (excluding hours accrued under the French statutory training entitlement)	in hours	SFL Group	LA9	840	1,280	1,368	1,676
Organisation of work							
Organisation of working hours							
Standard working hours		SFL Group		151.67	151.67	151.67	151.67
Employees who work standard hours				72	72	71	75
Full-time employees				64	64	64	71
Part-time employees				8	8	7	4
o/w Men				0	0	1	0
o/w Women				8	8	6	4

Cross-reference table for the GRI* G4 standard

		Page
GRI G4 General Standard Disclosures		
Strategy and Analysis		
G4-1	Provide a statement from the most senior decision-maker of the organisation (such as Chief Executive Officer, Chair, or equivalent senior executive) about the relevance of sustainability to the organisation and the organisation's strategy for addressing sustainabilitys	p 47
Organisational profile		
G4-3	Report the name of the organisation	p 47
G4-4	Report the primary brands, products, and services	p 7
G4-5	Report the location of the organisation's headquarters	p 10
G4-6	Report the number of countries in which the organisation operates, and names of countries in which either the organisation has significant operations or that are specifically relevant to the sustainability topics covered in the report	p 73
G4-7	Report the nature of ownership and legal form	p 10
G4-8	Report the markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries)	p 73
G4-9	Report the scale of the organisation, including: total number of employees; total number of operations; net sales (for private sector organisations) or net revenues (for public sector organisations); total capitalisation broken down in terms of debt and equity (for private sector organisations); and quantity of products or services provided	p 67, 73, 83
G4-10	a. Report the total number of employees by type of employment contract and gender b. Report the total number of permanent employees by employment type and gender c. Report the total workforce by employees and supervised workers and by gender d. Report the total workforce by region and gender e. Report whether a substantial portion of the organisation's work is performed by workers who are legally recognised as self-employed, or by individuals other than employees or supervised workers, including employees and supervised employees of contractors f. Report any significant variations in employment numbers (such as seasonal variations in employment in the tourism or agricultural industries)	p 83
G4-11	Report the percentage of total employees covered by collective bargaining agreements	p 67
G4-12	Describe the organisation's supply chain	p 48
G4-13	Report any significant changes during the reporting period regarding the organisation's size, structure, ownership, or its supply chain, including: changes in the location of, or changes in, operations, including facility openings, closings, and expansions; changes in the share capital structure and other capital formation, maintenance, and alteration operations (for private sector organisations); changes in the location of suppliers, the structure of the supply chain, or in relationships with suppliers, including selection and termination	p 7, 8, 30
G4-14	Report whether and how the precautionary approach or principle is addressed by the organisation	p 28 to 32
G4-15	List externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or which it endorses	p 72
G4-16	List memberships of associations (such as industry associations) and national or international advocacy organisations in which the organisation: holds a position on the governance body; participates in projects or committees; provides substantive funding beyond routine membership fees; views membership as strategic This refers primarily to memberships maintained at the organisational level	p 70, 71

*GRI: Global Reporting Initiative.

Identified material aspects and boundaries

G4-17	a. List all entities included in the organisation's consolidated financial statements or equivalent documents b. Report whether any entity included in the organisation's consolidated financial statements or equivalent documents is not covered by the report	p 10
G4-18	a. Explain the process for defining the report content and the Aspect Boundaries b. Explain how the organisation has implemented the Reporting Principles for Defining Report Content.	p 75
G4-19	List all the material Aspects identified in the process for defining report content	p 75
G4-20	For each material Aspect, report the Aspect Boundary within the organisation, as follows: Report whether the Aspect is material within the organisation / If the Aspect is not material for all entities within the organisation (as described in G4-17), select one of the following two approaches and report either: The list of entities or groups of entities included in G4-17 for which the Aspect is not material or / The list of entities or groups of entities included in G4-17 for which the Aspect is material / Report any specific limitation regarding the Aspect Boundary within the organisation	p 75
G4-21	For each material Aspect, report the Aspect Boundary outside the organisation, as follows: Report whether the Aspect is material outside of the organisation / If the Aspect is material outside of the organisation, identify the entities, groups of entities or elements for which the Aspect is material. In addition, describe the geographical location where the Aspect is material for the entities identified / Report any specific limitation regarding the Aspect Boundary outside the organisation	p 75
G4-22	Report the effect of any restatements of information provided in previous reports, and the reasons for such restatements	p 75
G4-23	Report significant changes from previous reporting periods in the Scope and Aspect Boundaries	p 75

Stakeholder engagement

G4-24	Provide a list of stakeholder groups involved with the organisation	p 49
G4-25	Report the basis for identification and selection of stakeholders with whom to engage	p 49
G4-26	Report the organisation's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process	p 49
G4-27	Report key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting. Report the stakeholder groups that raised each of the key topics and concerns	p 49

Report profile

G4-28	Reporting period (such as fiscal or calendar year) for information provided	p 7
G4-29	Date of most recent previous report (if any)	p 47
G4-30	Reporting cycle (such as annual, biennial)	p 47
G4-31	Provide the contact point for questions regarding the report or its contents	p 79
G4-32	a. Report the "in accordance" option the organisation has chosen b. Report the GRI Content Index for the chosen option c. Report the reference to the External Assurance Report, if the report has been externally assured. GRI recommends the use of external assurance but it is not a requirement to be "in accordance" with the Guidelines	p 50
G4-33	a. Report the organisation's policy and current practice with regard to seeking external assurance for the report b. If not included in the assurance report accompanying the sustainability report, report the scope and basis of any external assurance provided c. Report the relationship between the organisation and the assurance providers d. Report whether the highest governance body or senior executives are involved in seeking assurance for the organisation's sustainability report	p 50

Governance

G4-34	Report the governance structure of the organisation, including committees of the highest governance body. Identify any committees responsible for decision-making on economic, environmental and social impacts	p 79

Ethics and integrity

G4-56	Describe the organisation's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics	p 72

GRI G4 Specific Standard Disclosures

Economic

	Economic performance	
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G4-EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change	p 62

Environment

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G4-EN18	Greenhouse gas (GHG) emissions intensity	p 63, 82
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G4-EN23	Total weight of waste by type and disposal method	p 62, 82
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Social – labour practices and decent work

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CRE 8	TYPE AND NUMBER OF SUSTAINABILITY CERTIFICATION, RATING AND LABELLING SCHEMES FOR NEW CONSTRUCTION, MANAGEMENT, OCCUPATION AND REDEVELOPMENT	p 53

5.6 Report of one of the Statutory Auditors, appointed as independent third party, on the consolidated social, environmental and societal information published in the Management Report
Year ended 31 December 2016

This is a free translation into English of the Statutory Auditor's report issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the shareholders,

In our capacity as Statutory Auditor of Société Foncière Lyonnaise, and appointed as independent third party, for whom the certification request has been approved by the French National Accreditation Body (COFRAC) under the number 3-1048[1], we hereby present you with our report on the consolidated social, environmental and societal information prepared for the year ended 31 December 2016 (hereinafter the "CSR Information"), presented in the Management Report pursuant to Article L.225-102-1 of the French Commercial Code (*Code de commerce*).

Responsibility of the Company

The Board of Directors of Société Foncière Lyonnaise is responsible for preparing a Management Report including CSR Information in accordance with the provisions of Article R.225-105-1 of the French Commercial Code, prepared in accordance with the reporting protocols and guidelines used by Société Foncière Lyonnaise (hereinafter the "Reporting Guidelines"), which are available for consultation at the headquarters of the Company and for which a summary is presented in the Management Report.

Independence and quality control

Our independence is defined by regulatory texts, the profession's Code of Ethics as well as by the provisions set forth in Article L.822-11 of the French Commercial Code. Furthermore, we have set up a quality control system that includes the documented policies and procedures designed to ensure compliance with rules of ethics, professional auditing standards and the applicable legal texts and regulations.

Responsibility of the Statutory Auditor

Based on our work, our responsibility is:

– To attest that the required CSR Information is presented in the Management Report or, in the event of omission, is explained pursuant to the third paragraph of Article R.225-105 of the French Commercial Code (Statement of completeness of CSR Information).
– To express limited assurance on the fact that, taken as a whole, CSR Information is presented fairly, in all material aspects, in accordance with the adopted Reporting Guidelines (Formed opinion on the fair presentation of CSR Information).

Our work was carried out by a team of four people between February and March 2017. To assist us in conducting our work, we referred to our corporate social responsibility experts.

We conducted the following procedures in accordance with professional standards of the Compagnie nationale des commissaires aux comptes, with the order of 13 May 2013 determining the methodology according to which the independent third party entity conducts its assignment and, concerning the formed opinion on the fair presentation of CSR Information, with the international standard ISAE 3000[2].

1. Statement of completeness of CSR Information

Nature and scope of procedures

Based on interviews with management, we familiarised ourselves with the Group's sustainable development strategy, with regard to the social and environmental impacts of the Company's business and its societal commitments and, where appropriate, any resulting actions or programmes.

We compared the CSR Information presented in the Management Report with the list set forth in Article R.225-105-1 of the French Commercial Code.

In the event of omission of certain consolidated information, we verified that explanations were provided in accordance with the third paragraph of Article R.225-105 of the French Commercial Code.

We verified that the CSR Information covered the consolidated scope, i.e., the Company and its subsidiaries within the meaning of Article L.233-1 of the French Commercial Code and the companies that it controls within the meaning of Article L.233-3 of the French Commercial Code, subject to the limitations presented in the methodological note presented in the "Reporting scope and procedures" paragraph in part 6 of the Management Report.

Conclusion

Based on these procedures and considering the limitations mentioned above, we attest that the required CSR Information is presented in the Management Report.

2. Formed opinion on the fair presentation of CSR Information

Nature and scope of procedures

We conducted interviews with five people responsible for preparing the CSR Information in the departments in charge of the data collection process and, when appropriate, those responsible for internal control and risk management procedures, in order to:

– Assess the suitability of the Reporting Guidelines with respect to their relevance, completeness, reliability, neutrality and understandability, taking into consideration, when relevant, the sector's best practices
– Verify that a data collection, compilation, processing and control procedure has been implemented to ensure the completeness and consistency of the CSR Information and review the internal control and risk management procedures used to prepare the CSR Information.

We determined the nature and scope of the tests and controls according to the nature and significance of the CSR Information with regard to the Company's characteristics, the social and

(1) Whose scope may be found on www.cofrac.fr.

(2) ISAE 3000 – Assurance engagements other than audits or reviews of historical financial information.

environmental challenges of its activities, its sustainable development strategies and the sector's best practices.

Concerning the CSR Information that we have considered to be most important[3]:

– For the consolidating entity, we consulted the documentary sources and conducted interviews to corroborate the qualitative information (organisation, policies, actions), we performed analytical procedures on the quantitative information and verified, using sampling techniques, the calculations and the data consolidation, and we verified their consistency with the other information presented in the Management Report.
– For a representative sample of sites and entities[4] that we have selected according to their activity, their contribution to the consolidated indicators, their location and a risk analysis, we held interviews to verify the correct application of the procedures and performed substantive tests using sampling techniques, consisting in verifying the calculations made and reconciling the data with supporting evidence. The selected sample represented all of the employees and 30% of the surface area of buildings reporting the presented quantitative environmental information.

Regarding the other CSR information, we have assessed its consistency in relation to our understanding of the Group.

Lastly, we assessed the relevance of the explanations relating to, where necessary, the total or partial omission of certain information.

We believe that the sampling methods and sizes of the samples we have used in exercising our professional judgement enable us to express limited assurance; a higher level of assurance would have required more in-depth verifications. Due to the use of sampling techniques and the other limits inherent to the operations of any information and internal control system, the risk that a material anomaly be identified in the CSR Information cannot be totally eliminated.

Conclusion

Based on our work, we did not identify any material anomaly likely to call into question the fact that the CSR Information, taken as a whole, is presented fairly, in accordance with the Reporting Guidelines.

Neuilly-sur-Seine, 22 March 2017
French original signed by one of the Statutory Auditors

Deloitte & Associés

Christophe Postel-Vinay
Partner

Julien Rivals
Partner, Sustainable Services

(3) Please refer to Appendix 1.

(4) Please refer to Appendix 2.

Appendix 1: Selected CSR information

Important labour and employment data

- Total employees by type of contract (fixed-term/permanent), gender and age group
- Average age
- Average years of service
- New hires by type of contract, gender, category, and age group
- Number of employees who left the Group during the year by reason
- Number of terminations by reason
- Total number of training hours
- Number of reported and recognised lost-time occupational accidents
- Number of reported and recognised lost-time commuting accidents
- Accident frequency rate
- Accident severity rate

Important environmental data

- BREEAM and BREEAM In-Use certifications
- Capital expenditure committed to reducing environmental impact
- Waste produced
- Waste produced at head office
- Water use and water intensity, total portfolio
- Energy use by type and energy intensity
- Greenhouse gas emissions from energy use and travel, GHG intensity
- Horizontal and vertical green spaces as a proportion of the entire built-up plot of land, all properties
- Total vegetated surface area

Qualitative information reviewed at Group level

- Internal agreements with employee representatives signed during the year
- Measures taken to prevent psychosocial risks and improve quality of working environment
- Environmental strategy: CSR issues in the value chain, materiality matrix
- Measures taken to improve the portfolio's energy performance
- Suppliers – local outsourcing
- Sustainable procurement strategy – Supplier selection and management
- Good-neighbour relations and communication during redevelopment works
- Security and management of environmental and health risks across the portfolio

Appendix 2: Selected units

Assets subjected to detailed tests of important environmental data

- Louvre Saint-Honoré
- 176 Charles de Gaulle
- Rives de Seine

Units selected for a review of important labour and employment information

- SFL SA and Locaparis SAS

7. Appendices

Appendix 7.1 – Board of Directors' Special Report to the Annual General Meeting of 28 April 2017 on Stock Options (prepared in accordance with Article L.225-184 of the French Commercial Code)

In compliance with Article L.225-184 of the French Commercial Code, we hereby report to shareholders on stock options granted and exercised during the year ended 31 December 2016. The last stock option plan in effect during 2015 expired on 12 March 2015, at the end of the options' eight-year life.

1) No stock options were granted by SFL or any related companies during the year to the Chairman, the Chief Executive Officer or the Managing Director in respect of directorships or corporate functions held in SFL.

2) No stock options were granted during the year to the Chairman, the Chief Executive Officer or the Managing Director by any companies in which SFL has a controlling interest in respect of directorships or corporate functions held in those companies.

3) No options on shares in the companies mentioned in 1) and 2) above were exercised during the year by the Chairman, the Chief Executive Officer or the Managing Director.

4) No stock options were granted during the year by SFL or any related companies to any employees of the Company other than the Chairman, the Chief Executive Officer or the Managing Director.

5) No options on shares in the companies mentioned in 1) and 2) above were exercised during the year by any employees of the Company other than the Chairman, the Chief Executive Officer or the Managing Director.

The Board of Directors

Appendix 7.2 – Board of Directors' Special Report to the Annual General Meeting of 28 April 2017 on Performance Share Plans (prepared in accordance with Article L.225-197-4 of the French Commercial Code)

In compliance with Article L.225-197-4-1 of the French Commercial Code, we hereby present our 2016 report to shareholders on performance share plans for employees and executives who do not hold over 10% of the Company's capital.

At the meeting held on 3 March 2016, the Board of Directors decided on the terms and conditions of the performance share grants to be made during the year pursuant to the first extraordinary resolution of the General Meeting of 13 November 2015, based on the recommendation of the Remuneration and Selection Committee. On 26 April 2016, the Board of Directors decided to launch a performance share plan (Plan 4). It also decided on the number of shares to be granted and drew up the list of grantees.

1. Framework for the performance share plan

1.1 Authorisation given by the General Meeting of 13 November 2015 (first extraordinary resolution)

At the General Meeting of 13 November 2015, the Board of Directors was given a 38-month authorisation to set up a performance share plan governed by Articles L.225-197-1 *et seq*. of the French Commercial Code. The shares may be granted to selected employees or corporate officers (*mandataires sociaux*) of the Company or of related entities within the meaning of Article L.225-197-2 of the Code. The total number of shares granted may not exceed 1% of the number of SFL shares outstanding on the Meeting date and performance shares granted to corporate officers may not exceed 0.2%.

1.2 Adoption of the Plan rules by the Board of Directors on 3 March 2016

In line with the authorisation given by the General Meeting of 13 November 2015, the Performance Share Plan rules (Plan 4) were adopted by the Board of Directors at its meeting on 3 March 2016.

1.3 Performance share grants decided by the Board of Directors on 26 April 2016

On 26 April 2016 the Board of Directors decided to grant 48,054 performance share rights under Plan 4 to the Chairman, the Chief Executive Officer, the Managing Director and certain senior executives as a long-term incentive bonus, and to other employees of the Company or of related companies or groupings within the meaning of Article L.225-197-2 of the French Commercial Code.

• **Performance shares granted to the Chairman, the Chief Executive Officer and the Managing Director in 2016**

Of the total 48,054 rights, 31,500 were granted to corporate officers, including 15,000 to Nicolas Reynaud, Chief Executive Officer, 12,000 to Dimitri Boulte, Managing Director and 4,500 to Juan José Brugera Clavero, Chairman of the Board of Directors.

	Nicolas Reynaud	Dimitri Boulte	Juan José Brugera Clavero
Performance shares granted by the Company to corporate officers in 2016	Number: 15,000 shares Value*: €293,865	Number: 12,000 shares Value*: €235,092	Number: 4,500 shares Value*: €88,159

* The fair value of the performance shares corresponds to the number of shares expected to vest multiplied by the fair value per share. The number of shares expected to vest corresponds to the target number of shares multiplied by the estimated vesting rate (70.83%). The fair value per share corresponds to the share price on the grant date, adjusted for the discounted value of future dividends expected to be paid during the vesting period (€41.49 for performance share rights granted under the plan dated 26 April 2016).

In line with the recommendations in the AFEP-MEDEF Code, the Chairman, the Chief Executive Officer and the Managing Director have given an undertaking not to hedge the risk of a fall in value of the shares received under the performance share plan.

• **Performance shares granted to employee grantees in 2016**

Category of grantees	Number of grantees	Number of performance shares	Value of performance shares
Senior executives	6	12,750	249,786
Other managers	41	3,804	74,524

2. Characteristics of the 2016 performance share plan

2.1 Purpose of the performance share grants

The main purpose of Plan 4 was to set up a profit-related long-term incentive plan for the Chairman, Chief Executive Officer, Managing Director and certain senior executives that the Company is particularly interested in incentivising. The Plan's scope was extended to include certain other categories of employees of SFL and other Group companies in order to give them a stake in the Group's development.

2.2 Vesting period and conditions, performance targets

Vesting period

Provided that the grantee has not left the Group and the performance targets are met (see below), the performance shares granted by the Board of Directors on 26 April 2016 will vest 15 business days after the publication by the last of the "Reference Companies" (see definition below) to do so, of a press release announcing its results for the third financial year following the grant date (i.e., for Plan 4, the year ending 31 December 2018).

Continuing presence within the Group

The performance shares will vest only if, at the end of the three-year vesting period, the grantee is still an employee or corporate officer of the Company or another Group entity, as applicable, unless the grantee's separation is due to certain events that are beyond his or her control.

Performance targets

The number of performance shares that vest will depend on SFL's ranking in a group of six listed property companies including SFL (the "Reference Companies"). The ranking will be established based on growth in each of the Reference Companies' consolidated adjusted net asset value (ANAV) per share over the vesting period for the plan, as calculated by adding back dividends paid in each year of said period.

2.3 Lock-up period

In accordance with Article L.225-197-1 of the French Commercial Code, as applicable on the date when Plan 4 was adopted, the performance shares may not be sold or otherwise transferred before the end of a period of two years as from the vesting date. In addition, for performance shares granted to the Chairman, the Chief Executive Officer, the Managing Director and certain senior executives, after the end of this statutory two-year lock-up period, 40% of the shares must be kept for the remainder of their period of service with the Company or another Group entity, as applicable, reduced to 20% once the value of the shares exceeds a certain percentage of their annual remuneration.

3. Type of shares and rights attached to the shares

The shares will be subject to all the provisions of the law and the Company's Articles of Association and will carry rights from the date when they vest, including rights to all dividends paid and other distributions made after said date. Grantees will be required to comply with the lock-up obligation(s) referred to above.

4. Admission to trading

If the Board of Directors decides to issue new shares (rather than choosing the option of delivering existing shares) under Plan 4, an application will be made for the shares to be admitted to trading on NYSE Euronext Paris in compartment A.

The Board of Directors

Appendix 7.3 – Five-year financial summary (parent company, in €) (prepared in accordance with Article R.225-102 of the French Commercial Code)

	2012	2013	2014	2015	2016
Financial position at the year-end					
I. Capital at 31 December					
Share capital	93,057,948	93,057,948	93,057,948	93,057,948	93,057,948
Number of ordinary shares outstanding	46,528,974	46,528,974	46,528,974	46,528,974	46,528,974
Par value	2.00	2.00	2.00	2.00	2.00
Number of potential ordinary shares to be issued:					
– On conversion of convertible bonds	–	–	–	–	–
– On exercise of warrants	–	–	–	–	–
II. Results of operations					
Net revenue	94,646,561	79,595,681	70,878,041	69,540,212	87,735,720
Profit/(loss) before tax, depreciation, amortisation and provisions	(9,444,008)	84,937,737	72,162,520	6,448,213	32,971,796
Income tax expense/(benefit)	2,224,773	14,110,955	(55,730)	(15,000)	15,528,992
Net profit/(loss)	(41,971,858)	44,843,906	31,476,110	(26,718,556)	(30,278,521)
Ordinary dividends[(1)]	65,140,564	97,710,845	65,140,564	48,855,423	48,855,423
Special distributions[(1)]	32,570,282	–	32,570,282	48,855,423	48,855,423
III. Per share data					
Earnings/(loss) per share after tax, before depreciation, amortisation and provisions	(0.25)	1.52	1.55	0.14	0.37
Earnings/(loss) per share	(0.90)	0.96	0.68	(0.57)	(0.65)
Ordinary dividend per share	1.40	2.10	1.40	1.05	1.05
Special distribution per share	0.70	–	0.70	1.05	1.05
IV. Employee data					
Number of employees at year end	70	66	65	64	65
Of which building staff	*2*	*2*	*2*	*2*	*2*
Total payroll	7,111,629	7,728,387	7,665,940	9,018,126	8,226,252
Total benefits	3,201,255	3,213,249	3,239,556	3,247,869	3,319,907

(1) Not including dividends not paid on shares held in treasury stock.

Appendix 7.4 – Financial authorisations

In accordance with Article L.225-100 of the French Commercial Code, the table below provides a summary of the currently valid authorisations to increase the capital granted to the Board of Directors by shareholders pursuant to Articles L.225-129-1 and L.225-129-2 of said Code. The table also provides information on the use of these authorisations during 2016.

Date of AGM	Authorisation or delegation of competence	Used/unused in 2016	Duration of authorisation
22 April 2015	Delegation of competence to the Board of Directors to issue ordinary shares or securities with rights to ordinary shares, with pre-emptive subscription rights for existing shareholders.	Unused	26 months
22 April 2015	Delegation of competence to the Board of Directors to issue ordinary shares or securities with immediate or deferred rights to ordinary shares, without pre-emptive subscription rights for existing shareholders, through a public offer.	Unused	26 months
22 April 2015	Delegation of competence to the Board of Directors to issue ordinary shares or securities with immediate or deferred rights to ordinary shares, without pre-emptive subscription rights for existing shareholders, through a private placement governed by Article L.411-2-II of the French Monetary and Financial Code.	Unused	26 months
22 April 2015	Authorisation given to the Board of Directors for issues of ordinary shares or securities with rights to shares without pre-emptive subscription rights, through a public or private placement governed by Article L.411-2 II of the French Monetary and Financial Code, to set the issue price by the method decided by the shareholders in General Meeting.	Unused	26 months
22 April 2015	Authorisation given to the Board of Directors, for share issues with or without pre-emptive subscription rights, to increase the number of shares issued.	Unused	26 months
22 April 2015	Delegation of competence to the Board of Directors to issue ordinary shares or securities with rights to ordinary shares in connection with a public exchange offer made by the Company.	Unused	26 months
22 April 2015	Delegation of powers to the Board of Directors to issue ordinary shares or securities with rights to ordinary shares in payment for contributed shares or securities with rights to shares of another company, other than in connection with a public exchange offer made by the Company.	Unused	26 months
22 April 2015	Delegation of competence to the Board of Directors to increase the Company's capital by capitalising reserves, profits or share premiums.	Unused	26 months
22 April 2015	Delegation of competence to the Board of Directors to issue shares to employees who are members of an Employee Share Ownership Plan, without pre-emptive subscription rights for existing shareholders.	Unused	26 months
24 April 2014	Authorisation given to the Board of Directors to grant stock options to employees and corporate officers of SFL.	Unused	38 months
13 November 2015(1)	Authorisation given to the Board of Directors to grant performance shares to eligible employees and corporate officers of SFL and/or its subsidiaries, without pre-emptive subscription rights for existing shareholders.	Used	38 months

(1) Authorisation used by the Board of Directors on 26 April 2016 (see Appendix 7.2).

Appendix 7.5 - Chairman's Report on Corporate Governance and Internal Control (prepared in accordance with Article L.225-37 of the French Commercial Code)

In accordance with Article L.225-37 of the French Commercial Code, we present below our report on the membership of the Board of Directors and the situation with respect to the principle of gender balance on the Board of Directors, the practices of the Board of Directors and the Company's internal control and risk management procedures. It also describes the restrictions on senior management powers imposed by the Board of Directors.

This report covers the period from 1 January to 31 December 2016 and was prepared on the basis of work performed by the Internal Audit Department with the Audit Committee.

It was approved by the Audit Committee on 2 March 2017 and by the Board of Directors on 3 March 2017.

1. Corporate governance

1.1 Reference to the AFEP-MEDEF Corporate Governance Code

The Company refers to the AFEP-MEDEF Corporate Governance Code for listed companies, as revised in November 2016 ("the AFEP-MEDEF Code").

It may be downloaded from the AFEP website (www.afep.com).

The factors that could have an impact in the event of a public tender offer for the Company's shares are described in section 5.5 of the Management Report.

Since 2 July 2015, the Company has been rated BBB/A2 by Standard & Poor's, with a stable outlook.

The following table summarises the provisions of the AFEP-MEDEF Code with which the Company is not in full compliance.

Issue	AFEP-MEDEF recommendation	SFL's situation at 31 Dec. 2016	Rationale
Proportion of independent directors on the Board	At least one third of directors on the boards of controlled companies should be independent (Art. 8.3).	Two of the 14 directors are independent, representing 14%.	Board membership reflects the direct involvement of the majority shareholder and the minority shareholders in its deliberations. Of the 14 directors, eight were nominated on the recommendation of the Company's majority shareholder, Colonial, and four by the two main minority shareholders. At the upcoming General Meeting, shareholders will be asked to elect a third independent director.
Independence criteria applied to directors Period served on the Board	To be qualified as independent, a director should not have served on the Board for more than 12 years (Art. 8.5.6).	One director who has served on the Board for more than 12 years (Anthony Wyand) is considered by the Board as independent.	When reviewing the situation of Anthony Wyand, the Board considered that the fact that he had served on the Board for more than 12 years did not compromise his ability to freely exercise his judgement, due to the absence of any financial or business ties with the Company and his personal moral authority. The Board considers that professional experience and an objective perspective on the Company's business represent key criteria for determining a director's independence.
Proportion of independent directors on the Audit Committee	At least two-thirds of the audit committee members should be independent (Art. 15.1).	One of the three members is independent.	Membership of the Audit Committee reflects the composition of the Board, which comprises only two independent directors, and of the Remuneration and Selection Committee, which also has two independent members. If an additional independent member were to be appointed to the Audit Committee, it would be necessary to appoint at least one independent member to the Remuneration and Selection Committee as well. This is not considered desirable in view of the considerable work involved in preparing each Committee meeting. The Board is keeping the issue of the committees' membership under review, taking into account the Company's specific features.
Ownership of company shares by directors	A director should be a shareholder personally and hold a fairly significant number of shares in relation to the directors' fees; if he or she does not hold these shares when assuming office, he or she should use his or her directors' fees to acquire them (Art. 19).	Some directors only own 25 shares, representing the minimum number required by the Company's Articles of Association.	In view of the relatively limited fees paid to directors compared with those paid by comparable companies, the Board considers that it would not be appropriate to require them to hold a significant number of shares. In addition, apart from the independent directors, all Board members were put forward as candidates by significant shareholders of the Company.
Directors' fees	Directors' fees should comprise a significant variable portion that takes into account each director's attendance rate at board meetings and meetings of board committees (Art. 20.1).	A flat fee is awarded to each director without regard to his or her attendance rate.	Based on the recommendation made by the Remuneration and Selection Committee on 2 March 2017, the Board of Directors decided at its meeting on 3 March 2017 to present a resolution at the Annual General Meeting of 28 April 2017 increasing the total fees awarded to directors and imposing new conditions for their payment.
Evaluation of the Board of Directors	Once a year, the board debates its operation; the shareholders are informed each year in the annual report of the evaluation carried out (Art. 9.3).	In 2016, the Board pursued its consideration of the most appropriate method of evaluating its performance.	To launch the evaluation process, an anonymous questionnaire was sent to the directors in 2015 (the process is described in the Chairman's Report included in the appendix to the 2015 Management Report). The exercise will be repeated in 2017.

1.2. Members of the Board of Directors and senior management at 31 December 2016

The Board of Directors

Article 15 of the Articles of Association states that the Board of Directors shall have between three and 16 members.

As of 31 December 2016, the Board of Directors had 14 members, as follows:

– Eight members nominated on the recommendation of the majority shareholder, Colonial:
  • Juan José Brugera Clavero
  • Angels Arderiu Ibars
  • Carlos Fernandez-Lerga Garralda
  • Carmina Ganyet I Cirera
  • Carlos Krohmer
  • Luis Maluquer Trepat
  • Nuria Oferil Coll
  • Pere Viñolas Serra

– Two members nominated on the recommendation of Predica:
  • Chantal du Rivau
  • Jean-Jacques Duchamp

– Two members nominated on the recommendation of Qatar Holding and DIC Holding (acting in concert):
  • Sheikh Ali Bin Jassim Al Thani
  • Adnane Mousannif

– Two* independent directors:
  • Anne-Marie de Chalambert
  • Anthony Wyand

* The term as director of Jacques Calvet, independent director, expired at the close of the Annual General Meeting of 26 April 2016.

As of 31 December 2016, the Board of Directors had 14 members (versus 16 as of 31 December 2015). Jacques Calvet was not replaced when his term as director expired at the Annual General Meeting of 26 April 2016 and Reig Capital Group Luxembourg Sarl stepped down from the Board on 30 June 2016.

Five members of the Board are women. At 35.71%, the proportion of women on the Board as of 31 December 2016 was in line with French Act 2011-103 of 27 January 2011 concerning gender balance on corporate boards and gender equality in the workplace.

Directors are elected for three-year terms, except for candidates who are aged 70 or over on the date of their election or re-election, whose term is limited to one year. The number of directors over 70 may not represent more than one-third of the serving members of the Board.

At the Annual General Meeting of 22 April 2015, shareholders decided to amend Article 18 of the Articles of Association as follows (thirteenth extraordinary resolution): “The Chairman is required to step down at the close of the Annual General Meeting called to approve the financial statements for the year of his 75th birthday” (versus his 70th birthday previously).

Candidates proposed for election or re-election to the Board at the Annual General Meeting of 28 April 2017

At the Annual General Meeting, shareholders will be invited to elect a new director, Sylvia Desazars de Montgailhard, in order to raise the proportion of women on the Board to 40% (six out of 15) in line with French Act 2011-103 dated 27 January 2011 which requires this proportion to be met by the close of the Annual General Meeting held in 2017.

Sylvia Desazars de Montgailhard, 58, has dual French and Spanish nationality. A graduate of Ecole des Sciences Politiques de Paris (Sciences Po Paris), where she was a lecturer, as at Ecole Nationale d’Administration (ENA) from 1990 to 1991. She also worked as a lecturer at ESSEC business school between 2006 and 2009 and was Director of the ESSEC Foundation from 2012 to 2014. She gained experience of working in an international environment during her time in Singapore as Regional Director of the INSEAD graduate business school and as the ESSEC Group’s Deputy Director for International Relations. She is the founder of Sociedad de Estudios Hispano Franceses and has served on its Board since 2007.

During the same meeting, shareholders will also be asked to re-elect Anne-Marie de Chalambert and Anthony Wyand for a one-year term expiring at the close of the Annual General Meeting to be called to approve the financial statements for the year ending 31 December 2017.

In addition, they will be asked to re-elect Carmina Ganyet I Cirera, Carlos Krohmer and Luis Maluquer Trepat, as directors for a three-year term expiring at the close of the Annual General Meeting to be held to approve the 2019 financial statements.

The Board of Directors does not include any director representing employees, as the number of employees of the Company and its subsidiaries is below the thresholds set in Article L.225-27-1 of the French Commercial Code.

In accordance with Article L.2323-62 of the French Labour Code, two members of the Works Council attend meetings of the Board of Directors with a consultative vote.

1.3 Separation of the positions of Chairman and Chief Executive Officer

Since the Board meeting of 27 January 2015 at which the decision was made to separate the positions of Chairman and Chief Executive Officer, as recommended by the Remuneration and Selection Committee, Juan José Brugera Clavero has served as Chairman of the Board of Directors, Nicolas Reynaud as Chief Executive Officer and Dimitri Boulte as Managing Director.
Juan José Brugera Clavero’s appointment as Chairman was confirmed by the Board on 26 April 2016 for a further three years, following his re-election as director for a three-year term by the Annual General Meeting held the same day.
The Board has not assigned him any specific tasks other than the duties and responsibilities incumbent on a chairman of the board of directors under French law.

1.4 Independent directors

According to the AFEP-MEDEF Code, a director is independent when he or she has no relationship of any kind whatsoever with the corporation, its group or the management that may interfere with his or her freedom of judgement. Accordingly, an independent director is understood to be any non-executive director of the corporation or the group who has no particular bonds of interest (significant shareholder, employee, other) with them.

The AFEP-MEDEF Code lists the criteria to be applied to determine whether a director is independent and to prevent conflicts of interest between the director, on the one hand, and management, the company or the group on the other. In particular:

- not to be and not to have been during the course of the previous five years:
  - an employee or corporate officer of the corporation;
  - an employee, corporate officer of a company or a director of a company consolidated within the corporation;
  - an employee, corporate officer or a director of the company's parent company or a company consolidated within this parent;
- not to be a corporate officer of a company in which the corporation holds a directorship, directly or indirectly, or in which an employee appointed as such or a corporate officer of the corporation (currently in office or having held such office during the last five years) is a director;
- not to be a customer, supplier, commercial banker or investment banker:
  - that is material to the corporation or its group;
  - or for a significant part of whose business the corporation or its group accounts.

  The evaluation of the significant or non-significant relationship with the company or its group must be debated by the Board and the quantitative criteria that lead to the evaluation (continuity, economic dependence, exclusivity, etc.) must be explicitly stated in the annual report;
- not to be related by close family ties to a corporate officer;
- not to have been an auditor of the corporation within the previous five years;
- not to have been a director of the corporation for more than 12 years. Loss of the status of independent director occurs on the date at which this period of 12 years is reached.

The Board of Directors applies all of the above criteria except the one stipulating that the director should not have served on the board for more than 12 years in the case of Anthony Wyand.

The Board considers that professional experience and an objective perspective on the Company's business represent a key criteria for determining a director's independence. When reviewing the situation of Anthony Wyand, the Board considered that the fact that he had served on the Board for more than 12 years did not compromise his ability to freely exercise his judgement, due to the absence of any financial or business ties with the Company and his personal moral authority.

Based on the above criteria and the opinion of the Remuneration and Selection Committee, the Board of Directors considers that two directors qualify as independent:
– Anne-Marie de Chalambert
– Anthony Wyand.

Jacques Calvet was also an independent director until he stepped down from the Board at the end of his term, on 26 April 2016.

None of these directors have any business ties with the Company.

Table summarising the independent directors' compliance with the above independence criteria (AFEP-MEDEF Code, Art. 8.5)

Independence criteria	Compliance	
	Anne-Marie de Chalambert	Anthony Wyand
Not to be and not to have been during the course of the previous five years:		
an employee or corporate officer of the Company	X	X
an employee, corporate officer of a company or a director of a company consolidated within the Company	X	X
an employee, corporate officer of a company or a director of a company consolidated within the Company	X	X
Not to be a corporate officer of a company in which the Company holds a directorship, directly or indirectly, or in which an employee appointed as such or a corporate officer of the Company (currently in office or having held such office during the last five years) is a director	X	X
Not to be a customer, supplier, commercial banker or investment banker		
that is material to the Company or its Group	X	X
or for a significant part of whose business the Company or its Group accounts	X	X
Not to be related by close family ties to a corporate officer	X	X
Not to have been an auditor of the Company within the previous five years	X	X
Not to have been a director of the Company for more than twelve years. Loss of the status of independent director occurs on the date at which this period of twelve years is reached	X	(1)

(1) See the table on page 97 concerning the non-application to one of the independent directors of the criterion concerning time served on the Board.

At its meeting on 2 March 2017, the Remuneration and Selection Committee decided to recommend that Sylvia Desazars de Montgailhard be proposed for election to the Board, after concluding that she fulfilled the independence criteria listed in the AFEP-MEDEF Code.

During its meeting on 3 March 2017, the Board of Directors reviewed the Remuneration and Selection Committee's report and concurred with the Committee's conclusion that Sylvia Desazars de Montgailhard fulfilled the criteria for classification as an independent director.

1.5 Members of the Board of Directors, directorships and other positions held at 31 December 2016, experience and expertise, number of shares held

Juan José Brugera Clavero			
Position: – Chairman of the Board of Directors		Other positions held in the Company: – Chairman of the Executive and Strategy Committee	
Age	70	Business address:	Avenida Diagonal 532 08006 Barcelona Spain
Nationality	Spanish		
First elected	2004		
Re-elected	2008		
Current term expires	2019		
Number of SFL shares held	7,525		
Attendance rate at Board meetings	100%		
Attendance rate at Executive and Strategy Committee meetings	No meetings held in 2016		

Other directorships and positions held at 31 December 2016	Other directorships and positions held in the past five years
Spain: – Director and Chairman: • Inmobiliaria Colonial (SA) *(listed company)*	Member of the Remuneration and Selection Committee (SFL)

Sheikh Ali Bin Jassim Al Thani			
Position: – Director		Other positions held in the Company: –	
Age	57	Business address:	Ooredoo Tower Diplomatic Dist. St. West Bay Doha Qatar
Nationality	Qatari		
First elected	2015		
Current term expires	2018		
Number of SFL shares held	25		
Attendance rate at Board meetings	83%		

Other directorships and positions held at 31 December 2016	Other directorships and positions held in the past five years
France: – Chairman of the Board of Directors and director: • Eagle SPPICAV (SAS) – Chairman of the Board of Directors and Chief Executive Officer: • Elypont (SA) Outside France: – Chairman: • Qatar Abu Dhabi Investment Company (QADIC) – Vice Chairman: • United Arab Shipping Company (UASC), Dubai UAE • Housing Bank for Trade and Finance (HBTF) *(listed company)* – Director: • Inmobiliaria Colonial (SA) (*listed company*), Spain	–

Angels Arderiu Ibars			
Position: – Director		Other positions held in the Company: –	
Age	50	Business address:	Avenida Diagonal 532 08006 Barcelona Spain
Nationality	Spanish		
First elected	2014		
Current term expires	2018		
Number of SFL shares held	25		
Attendance rate at Board meetings	67%		

Other directorships and positions held at 31 December 2016	Other directorships and positions held in the past five years
Spain: – Chief Financial Officer • Inmobiliaria Colonial (SA) *(listed company)*	–

Anne-Marie de Chalambert			
Position: – Director		Other positions held in the Company: – Member of the Committee of Independent Directors – Member of the Remuneration and Selection Committee – Member of the Audit Committee (since 26 July 2016)	
Age	73	Business address:	42 rue Washington 75008 Paris France
Nationality	French		
First elected	2010		
Current term expires	2017		
Number of SFL shares held	25		
Attendance rate at Board meetings	50%		
Attendance rate at Remuneration and Selection Committee meetings	67%		
Attendance rate at Audit Committee meetings	0%		

Other directorships and positions held at 31 December 2016	Other directorships and positions held in the past five years
France: – Director: • Nexity (SA) *(listed company)* – Independent director • Mercialys (SA) *(listed company)* – Chairman: • AMCH (SASU) – Member of the Investment Committee: • Institut Pasteur	–

Jean-Jacques Duchamp			
Position: – Director		Other positions held in the Company: – Member of the Executive and Strategy Committee – Member of the Audit Committee	
Age	62	Business address:	16 Boulevard de Vaugirard 75015 Paris France
Nationality	French		
First elected	2004		
Current term expires	2019		
Number of SFL shares held	25		
Attendance rate at Board meetings	83%		
Attendance rate at Audit Committee meetings	67%		
Attendance rate at Executive and Strategy Committee meetings	No meetings held in 2016		

Other directorships and positions held at 31 December 2016	Other directorships and positions held in the past five years
France: – Director: • CPR – Asset Management (SA) • Pacifica (SA) • Spirica (SA) • Ramsay Générale de Santé (SA) *(listed company)* – Permanent representative of Predica, director: • Gecina (SA) *(listed company)* • Sanef (SA) – Deputy Managing Director: • Crédit Agricole Assurances (SA) Italy: – Director: • CA Vita (SA)	– Director: • BES Vida (Portugal) • Crédit Agricole Immobilier – Member of the Supervisory Board/director: • Korian-Medica – Permanent representative of Crédit Agricole Assurances, director: • Dolcea Vie

Chantal du Rivau			
Position: – Director		Other positions held in the Company: –	
Age	61	Business address:	16 Boulevard de Vaugirard 75015 Paris France
Nationality	French		
First elected	2014		
Current term expires	2019		
Number of SFL shares held	30		
Attendance rate at Board meetings	100%		

Other directorships and positions held at 31 December 2016	Other directorships and positions held in the past five years
France: – Chief Executive Officer: • B Immobilier (SA) • Iris Holding France (SAS) – Chairman of the Board of Directors and director: • OPCI Predica Bureaux* – Chairman of the Board of Directors: • OPCI Predica Habitation* • OPCI River Ouest* *(as from 21 April 2016)* – Director: • Alta Blue (SAS) • B2 Hotel Invest* • Camp Invest* • Iris Invest 2010* • OPCI CAA Kart* • Urbis Park (SA) • OPCI Massy Bureaux (SAS)* • OPCI Eco Campus* • GHD Opco Hôtel (SASU) – Permanent representative of IMEFA Quatre, director: • OPCI CAA Commerces 2* • OPCI Messidor* – Chairman: • CAA Kart 1 (SASU) • CAA Kart 2 (SASU) – Permanent representative of Predica, Member of the Supervisory Board: • Patrimoine & Commerce (SCA) *(listed company)* • Fonds de Logement Intermédiaire – Member of the Supervisory Board: • Unipierre Assurance** – Legal Manager: • Diapre Un (SARL)	• OPCI River Ouest *(until 17 April 2015)*

* French mutual fund primarily invested in real estate.

** French real estate investment trust.

Carlos Fernandez-Lerga Garralda			
Position: – Director		Other positions held in the Company: – Chairman of the Audit Committee	
Age	67	Business address:	Monte Esquinza, 14-7°D 28010 Madrid Spain
Nationality	Spanish		
First elected	2008		
Current term expires	2019		
Number of SFL shares held	50		
Attendance rate at Board meetings	100%		
Attendance rate at Audit Committee meetings	100%		

Other directorships and positions held at 31 December 2016	Other directorships and positions held in the past five years
Spain: – Director: • Inmobiliaria Colonial (SA) *(listed company)* • EUR – Consultores SL – Director and Chairman of the Board: • Iberdrola Ingenieria y Construcción (SA)	Spain: – Director: • Gamesa Corporación Tecnológica

Carmina Ganyet I Cirera			
Position: – Director		Other positions held in the Company: – Member of the Executive and Strategy Committee	
Age	48	Business address:	Avenida Diagonal 532 08006 Barcelona Spain
Nationality	Spanish		
First elected	2009		
Current term expires	2017		
Number of SFL shares held	30		
Attendance rate at Board meetings	100%		
Attendance rate at Executive and Strategy Committee meetings	No meetings held in 2016		

Other directorships and positions held at 31 December 2016	Other directorships and positions held in the past five years
Spain: – Chief Executive Officer – Corporate Division: • Inmobiliaria Colonial (SA) *(listed company)* – Member of the Board of Directors, Chairman of the Remuneration and Nominations Committee, Member of the Executive Committee: • ICF *(Catalan Finance Institute)* – Member of the Board of Directors and Member of the Audit Committee • Segur Caixa	–

Carlos Krohmer			
Position: – Director		Other positions held in the Company: –	
Age	45	Business address:	Avenida Diagonal 532 08006 Barcelona Spain
Nationality	German		
First elected	2014		
Current term expires	2017		
Number of SFL shares held	30		
Attendance rate at Board meetings	100%		

Other directorships and positions held at 31 December 2016	Other directorships and positions held in the past five years
Spain: – Executive Vice President, Corporate Development, Budget Control and Investor Relations: • Inmobiliaria Colonial (SA) *(listed company)*	–

Luis Maluquer Trepat			
Position: – Director		Other positions held in the Company: –	
Age	61	Business address:	Rambla de Catalunya 123 6ª Planta 08036 Barcelona Spain
Nationality	Spanish		
First elected	2010		
Current term expires	2017		
Number of SFL shares held	400		
Attendance rate at Board meetings	83%		

Other directorships and positions held at 31 December 2016	Other directorships and positions held in the past five years
Spain: – Director: • Inmobiliaria Colonial (SA) *(listed company)* • Maluquer Advocats (SCP) *(until 29 November 2016)* • Filux (SA) • Vitek (SA) • M&M Entertainment (SL) • Pineapple Tree (SL) • Praeverto (SLP) *(until 8 August 2016)* – Chairman: • Camara Argentina de Comercio en España	Spain: – Chairman of the Board of Directors: • Balaguer 98 de Inversiones, SICAV • Inver 99 SICAV – Director: • Aldesago • Fortunella

Adnane Mousannif			
Position: – Director		Other positions held in the Company: –	
Age	36	Business address:	Qtel Tower 5^{th} Floor 23224 Doha Qatar
Nationality	French and Moroccan		
First elected	2015		
Current term expires	2018		
Number of SFL shares held	1,500		
Attendance rate at Board meetings	83%		

Other directorships and positions held at 31 December 2016	Other directorships and positions held in the past five years
France: – Director: • Elypont (SA) • Eagle SPPICAV Spain: – Director: • Inmobiliaria Colonial (SA) *(listed company)*	–

Nuria Oferil Coll			
Position: – Director		Other positions held in the Company: –	
Age	42	Business address:	Avenida Diagonal 532 08006 Barcelona Spain
Nationality	Spanish		
First elected	2015		
Current term expires	2018		
Number of SFL shares held	25		
Attendance rate at Board meetings	83%		

Other directorships and positions held at 31 December 2016	Other directorships and positions held in the past five years
Spain: – Director, Legal Counsel responsible for compliance with standards: • Inmobiliaria Colonial (SA) *(listed company)*	–

Pere Viñolas Serra			
Position: – Director – Vice Chairman		Other positions held in the Company: – Member of the Remuneration and Selection Committee *(Chairman until 11 February 2015)* – Member of the Executive and Strategy Committee	
Age	54	Business address:	Avenida Diagonal 532 08006 Barcelona Spain
Nationality	Spanish		
First elected	2008		
Current term expires	2019		
Number of SFL shares held	5,325		
Attendance rate at Board meetings	100%		
Attendance rate at Remuneration and Selection Committee meetings	100%		
Attendance rate at Executive and Strategy Committee meetings	No meetings held in 2016		

Other directorships and positions held at 31 December 2016	Other directorships and positions held in the past five years
Spain: – Chief Executive Officer: • Inmobiliaria Colonial (SA) *(listed company)* – Director: • Electro-Stocks SL • Bluespace	– Director: • SIIC de Paris

Anthony Wyand			
Position: – Director		Other positions held in the Company: – Member of the Committee of Independent Directors – Chairman of the Remuneration and Selection Committee	
Age	73	Business address:	42 rue Washington 75008 Paris France
Nationality	British		
First elected	1995		
Current term expires	2017		
Number of SFL shares held	100		
Attendance rate at Board meetings	67%		
Attendance rate at Remuneration and Selection Committee meetings	100%		

Other directorships and positions held at 31 December 2016	Other directorships and positions held in the past five years
France: – Chairman of the Board of Directors: • Cybèle Asset Management (SA) *(from 6 April 2016)* Italy: – Director • Unicredito	France: – Director: • AVIVA France • AVIVA Participations • Société Générale

Experience and expertise represented on the Board of Directors at 31 December 2016

Juan José Brugera Clavero studied industrial engineering at the Terrassa EUITI engineering school and earned an MBA from the ESADE business school. He began his career in 1967 as a lecturer at the Terrassa and La Salle engineering schools, before joining Inter Grundig as an engineer in 1968 until 1970. He moved to Banco Atlantico in 1971, where he worked in sales and logistics until 1975. He also taught economics (1972-1975) and bank management (1975-1988) at the ESADE business school, and was appointed honorary Vice-Chairman of the school's Foundation in 1989 and Chairman in 1999, a position he held until 2005. From 1975 to 1987, he held various positions at Banco Sabadell. He joined Sindibank as Chief Executive Officer in 1987 and occupied the same position at Colonial from 1994 to 2006 and at Mutua Madrilena from 2006 to 2007, before serving as Chairman of Panrico from 2007 to 2010. He was also a director at SFL from 2004 to 2006. He has been Chairman of Colonial since 2008. He is also President of Ramon Llull University (Barcelona) and holds an honorary doctorate from the University of Rhode Island (United States).

Sheikh Ali Bin Jassom Al Thani was elected to the SFL Board at the General Meeting of 13 November 2015. He has spent over 30 years working for the Qatari government, primarily in the areas of commerce, finance and real estate. Since 1995, he has been Vice Chairman of the Housing Bank for Trade and Finance, a listed company and Jordan's second largest bank. He has also served as Vice Chairman of United Arab Shipping Company, based in Dubai (UAE) since 2003. Since 2012, he has been Chairman of Qatar Abu Dhabi Investment Company (QADIC), which specialises in investing in real estate and private equity.

Angels Arderiu Ibars holds a degree in business science from the University of Barcelona. She is a graduate of the ESADE business school in Spain, where she studied financial audit and earned a Master's degree in Finance. After spending the first nine years of her career with an audit firm, she joined Inmobiliaria Colonial in March 1999 as Chief Accountant, becoming Chief Financial Officer and member of the Management Committee in January 2009.

Anne-Marie de Chalambert is an independent director of SFL. She was Marketing Director of Valois (1970-80); founder, Chairman & Chief Executive Officer of VLGI, a subsidiary of Banque Lazard (1980-1996); Chairman & Chief Executive Officer of Generali Immobilier (1996-2004), where she shifted the focus of the Generali France portfolio from residential to office property located primarily in Paris and the Paris region; Chairman of Generali Real Estate Europe (2004-2008), where she consolidated Generali's various property management teams in Europe and invested in joint transactions; and Chairman of Generali Immobiliare (2009-2010). Since 2010, she has been acting as an advisor to Institut Pasteur. She is also a member of the Board of Directors of Nexity.

Jean-Jacques Duchamp began his career in 1979 as an engineer. After working on various hydraulic engineering projects, he joined the World Bank, where he was involved in arranging international project financing. He moved to Crédit Agricole as Inspector General in 1985, before becoming a member of the Bank's Finance Department in 1991. He was appointed Chief Financial Officer of Predica in 2001. He has been a member of Predica's Executive Committee since 2004.

Chantal du Rivau studied law before starting her career as a real estate investment manager, first at Groupe des Populaires d'Assurances (GPA) and then at the La France insurance company and Groupe Mornay (Klésia). In 1990, she joined Predica to deploy processes to manage the company's growing real estate portfolio. In 1998, she also took charge of Predica's operating real estate assets. In 2009, she joined Crédit Agricole Assurances to manage the real estate portfolio of all its subsidiaries. She is chairman of several OPCI real estate funds and director of various real estate investment vehicles.

Carlos Fernandez-Lerga Garralda is a lawyer specialised in civil and corporate law. He began his career as Advisor to the Spanish Minister and Secretary of State in charge of relations with the European Union (1978-1983) before joining Grupo Banco Hispano Americano as Chief Executive Officer of the bank's Asesoramiento Comunitario SA subsidiary. He is a member of the Board of Directors of Colonial and several other companies. A former professor at Madrid University, he has written several books on competition law and intellectual property law.

Carmina Ganyet I Cirera, a trained economist, started her career at Caixa de Catalunya and later joined Arthur Andersen as an auditor (1991-1995). She moved on to work for Caixa's industrial holding company (now Criteria) as head of Budget Control within the Finance, Insurance and Property Department, a position that led her to participate in the Inmobiliaria Colonial IPO process. In 2000, she was appointed Chief Financial Officer of Inmobiliaria Colonial, before becoming Corporate Managing Director in January 2009. She has been a member of the Board of the Circulo de Economia economic think tank and is a former professor at Ramon Llull University.

Carlos Krohmer is a graduate of the Mannheim Business School (Germany). He studied at the University of Barcelona (Spain) and the University of Swansea (Wales) under the Multiregional International Business Programme (MIBP) and also attended the IESE graduate school and Harvard Business School. He has been a member of the Colonial Management Committee since January 2009, as Director of Corporate Development, Budget Control and Investor Relations. Carlos Krohmer began his career with the Unilever Group in Hamburg, where he held a variety of management positions in the Budget Control and Finance departments. In 1999, he was appointed Head of Management Control at Unilever Bestfoods in Germany. In 2001, he joined the Corporate Development Department of CaixaHolding (now named Criteria CaixaHolding), a subsidiary of Grupo La Caixa, serving as Head of Real Estate Investments before becoming Senior Project Manager for Criteria's IPO. During the first half of 2008, he acted as advisor to Holret SA, CaixaHolding's French real estate subsidiary. He moved to Colonial in January 2009. Carlos Krohmer has lectured in corporate finance at the La Salle Business Engineering School and is a member of the EPRA (European Public Real Estate Association) Investor Relations Committee.

Luis Maluquer Trepat has degrees in law (Barcelona University) and international institutions (Geneva University). He is a lawyer and has been a partner of the Maluquer Advocats law firm since 1995. He headed BNP Paribas' external law firm from 1980 to 1992 and Caisse Nationale du Crédit Agricole's external law firm in Barcelona from 1992 to 1998. He has represented Spain on the Board of the European Society for Banking and Financial Law since 2000. He also lectures in taxation at the Barcelona Chamber of Commerce.

Adnane Mousannif was elected to the SFL Board at the General Meeting of 13 November 2015. As an executive with the Qatari government's sovereign wealth fund, Qatar Investment Authority (QIA), in recent years he has participated in most of QIA's real estate transactions in Europe and the Americas, including acquisition of the Canary Wharf Group in London and the Virgin Megastore building on the Champs-Elysées in Paris. He was also involved in QIA's acquisition of interests in the capital of SFL and of Inmobiliaria Colonial in Spain. Prior to joining QIA, he spent several years with Morgan Stanley Real Estate Investing in Europe, buying properties for their Opportunistic and Core funds. He holds a Master's degree in Entrepreneurship and Finance from ESCP Europe Business School and a diploma in civil engineering.

Nuria Oferil Coll was elected to the SFL Board at the General Meeting of 13 November 2015. After beginning her career in 1998 as an associate in the Roca Junyent law firm in Spain, within the private, civil, commercial and financial law department, she joined the Legal Department of Inmobiliaria Colonial in 2004. Since 2010, she has been Director, Legal Counsel responsible for compliance with standards, at Inmobiliaria Colonial. She is also Vice Secretary (non-director) of the Board of Directors. She has a law degree from Barcelona University and is a practising lawyer specialised in real estate and urban planning law. She has been a member of the Barcelona Bar Association since 1999.

Pere Viñolas Serra holds an MBA from ESADE – Barcelona University. He was Deputy Chief Executive Officer of the Barcelona Stock Exchange from 1990 to 1996, Chief Executive Officer of Filo, a listed property company, from 1997 to 2001 and Partner and Chief Operating Officer of the Riva y Garcia financial group from 2001 to 2008. Since 2008, he has been Chief Executive Officer of Inmobiliaria Colonial. From 1994 until 2000 he was Chairman of the Barcelona-based Catalonian Financial Analysts Institute and Chairman of the Urban Land Institute in Spain. He serves on the Board of Directors of several companies and is a professor in the Finance Department of ESADE.

Anthony Wyand is an honorary Chairman and independent director of SFL. He has held various positions during his career, including Executive Director of Commercial Union Plc (1987-1998), Deputy Chief Executive of CGU Plc (1998-2001) and Executive Director of Aviva Plc (2001-2003). He is currently a director of Unicredito (Italy) and Chairman of the Board of Directors of Cybele Asset Management.

1.6 Changes in the membership of the Board of Directors during 2016

Director	Elected	Re-elected	End of term	Comments
Jacques Calvet	-	-	Not re-elected at the 26 April 2016 Annual General Meeting and not replaced	-
Reig Capital Group Luxembourg SARL	-		Resigned 30 June 2016	-
Anne-Marie de Chalambert	-	Re-elected at the 26 April 2016 Annual General Meeting	-	Re-elected for a one-year term expiring at the Annual General Meeting to be called in 2017 to approve the 2016 financial statements
Chantal du Rivau	-	Re-elected at the 26 April 2016 Annual General Meeting	-	Re-elected for a three-year term expiring at the Annual General Meeting to be called in 2019 to approve the 2018 financial statements
Juan José Brugera Clavero, Chairman	-	Re-elected at the 26 April 2016 Annual General Meeting	-	Re-elected for a three-year term expiring at the Annual General Meeting to be called in 2019 to approve the 2018 financial statements
Jean-Jacques Duchamp	-	Re-elected at the 26 April 2016 Annual General Meeting	-	Re-elected for a three-year term expiring at the Annual General Meeting to be called in 2019 to approve the 2018 financial statements
Carlos Fernandez-Lerga Garralda	-	Re-elected at the 26 April 2016 Annual General Meeting	-	Re-elected for a three-year term expiring at the Annual General Meeting to be called in 2019 to approve the 2018 financial statements
Pere Viñolas Serra	-	Re-elected at the 26 April 2016 Annual General Meeting	-	Re-elected for a three-year term expiring at the Annual General Meeting to be called in 2019 to approve the 2018 financial statements
Anthony Wyand	-	Re-elected at the 26 April 2016 Annual General Meeting	-	Re-elected for a one-year term expiring at the Annual General Meeting to be called in 2017 to approve the 2016 financial statements

1.7 Board practices

1.7.1 Role of the Board of Directors

The Board of Directors has the powers and responsibilities vested in it by law.

In line with its commitment to transparency and to ensuring equitable treatment of all shareholders, particularly individual shareholders, in 1995 SFL introduced corporate governance guidelines whose purpose is to involve the Board more deeply in defining and overseeing strategies related to the Company's financial and operating performance.

In accordance with its internal rules, the Board's prior authorisation is required for all acquisitions, disposals and financial commitments in excess of €20 million.

At least twice a year, in February and July, the Chief Executive Officer informs the Board of the Company's financial position, cash position and commitments. This information is preceded by a presentation, with the participation of the external auditors, to the Audit Committee, which in turn reports to the Board on its own work.

Once a year, the Board approves the following year's budget and the five-year business plan as prepared by management.

1.7.2 Organisation and procedures of the Board of Directors

The Board's organisation and procedures are governed by the Company's Articles of Association and by the Board of Directors' internal rules, which include a director's charter.

Extracts from the Board of Directors' internal rules and ethical and corporate governance standards are presented in the Management Report (page 111).

The internal rules describe the Board's duties and practices, as well as the rights and obligations of individual directors.

1.7.3 Rights and obligations of directors and management of conflicts of interest

In addition to describing the directors' statutory rights and obligations, the director's charter included in the Board's internal rules also describes the directors' duties in such areas as trading in SFL shares, potential conflicts of interest, multiple directorships, regular attendance at Board meetings and confidentiality.

Each director and non-voting director, and each permanent representative of a corporate director, is required to hold at least 25 SFL shares registered in his or her name (in accordance with Article 17 of the Articles of Association). They are required to write to the Chairman of the Board of Directors providing full details of any and all purchases or sales of SFL shares.

In addition, they must notify the Chairman of any directorships and corporate functions held in other named companies during the year and whenever any change occurs.

Directors must act at all times in the Company's interest, attend General Meetings and treat all information received from the Board as strictly confidential.

The Board's internal rules require directors to notify the Board of any potential or actual conflicts of interests and to abstain from voting on the matters concerned.

1.7.4 Work of the Board of Directors in 2016

Article 19 of the Articles of Association stipulates that the Board of Directors shall meet as frequently as necessary in the Company's interests and at least four times a year.

At least five days before each regularly scheduled meeting, the directors are given a file on the agenda items that warrant prior analysis and consideration. Where applicable, the file includes the recommendation of the relevant Committee of the Board.

The Board of Directors met ten times in 2016, with an average attendance rate of 82.38%.

The issues covered during the meetings were as follows:

Agenda of the 12 February 2016 meeting

1. Approval of the minutes of the 13 November 2015 meeting
2. Approval of the 2015 financial statements – Portfolio valuation – ANAV – Audit Committee report – Statutory Auditors' report
3. Dividend
4. Other business
   – Report of the Remuneration and Selection Committee

Agenda of the 3 March 2016 meeting

1. Approval of the minutes of the 12 February 2016 meeting
2. Preparation of the Annual and Extraordinary General Meeting of 26 April 2016:
   - Notice of meeting and agenda
   - Approval of the resolutions to be tabled at the Meeting
   - Approval of the report of the Board of Directors
   - Approval of the Chairman's Report on Corporate Governance and Internal Control
3. Report of the Remuneration and Selection Committee
4. Other business

Agenda of the 26 April 2016 meeting

1. Approval of the minutes of the 3 March 2016 meeting
2. Confirmation of the appointment of the Chairman of the Board of Directors – Powers and remuneration
3. Forecasts and projections prepared in compliance with Article L.232-2 of the French Commercial Code
4. Bank financing
5. Long-term incentive (performance share) plan: formal record of the Board of Directors' decisions of 3 March 2016
6. Other business
   - Exercise of the purchase option under the finance lease on the 131 Wagram building
   - First-quarter 2016 business review

Agenda of the 26 July 2016 meeting

1. Approval of the minutes of the 26 April 2016 meeting
2. Approval of the 2016 interim financial statements and first-half business review – Portfolio valuation – ANAV – Audit Committee report – Statutory Auditors' review report
3. 2016-2020 Business Plan update
4. Other business
   • Appointment of a director to the Audit Committee
   • Resignation of a director (Reig Capital Group Luxembourg)

Agenda of the 30 September 2016 meeting

1. Approval of the minutes of the 26 July 2016 meeting
2. Preparation of the Ordinary General Meeting of 15 November 2016
   • Notice of meeting and agenda
   • Approval of the resolutions to be tabled at the Meeting
     – Payment of an interim dividend out of the share premium account
     – Election of a director
   • Approval of the report of the Board of Directors
3. Other business
   • Forecasts and projections

Agenda of the 15 November 2016 meeting

1. Approval of the minutes of the 30 September 2016 meeting
2. 2016 forecast, 2017-2021 Business Plan
3. Investment project
4. Authorisation to carry out a bond issue
5. Other business
   • Proposed 2017 meeting schedule

1.8 Restrictions on the powers of the Chief Executive Officer and Managing Director decided by the Board

The Chief Executive Officer and the Managing Director represent the Company in its dealings with third parties. In accordance with the law, they have the broadest powers to act in any and all circumstances in the Company's name within the limits of its corporate purpose, except for those powers expressly attributed by law to the shareholders and the Board of Directors. In accordance with Article L.225-35 of the Commercial Code and Article 21 of the Company's Articles of Association, the Board of Directors is required to authorise the issuance of all forms of guarantee.
In addition, an internal restriction applies to acquisitions, disposals and financial commitments, which must also be authorised in advance by the Board of Directors when they represent an amount in excess of €20 million.

1.9 Adoption of the SIIC Code of Conduct

Responding to concerns raised by the French securities regulator (AMF) about certain SIICs that are primarily run by outside managers in exchange for significant fees, the French industry federation (FSIF) stated that this was the standard operating procedure for REITs all over the world.

However, at the AMF's request, the FSIF prepared a code of conduct to ensure the transparency of information about fees paid by SIICs to related parties and outside service providers.

The FSIF's Board of Directors adopted the code on 2 July 2008 and asked its members to follow suit.

SFL's Board of Directors approved the adoption of the code at its meeting of 25 September 2008.

1.10 Corporate governance statements

To the best of the Company's knowledge:
– There are no family ties between the members of the Board of Directors and the Auditors.
– No member of the Board of Directors has been found guilty of fraud in at least the past five years.
– No member of the Board of Directors has been involved in a bankruptcy, sequestration or liquidation in at least the past five years.
– No member of the Board of Directors has been charged by the statutory or regulatory authorities in at least the past five years.
– There are no potential conflicts of interest between the members of the Board and their duties to the Company. The director's charter requires directors to disclose any conflicts of interest to the Board and to abstain from voting on related topics.
– No member of the Board of Directors has been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer in at least the past five years.
– In accordance with the Articles of Association, each director (acting in his or her own name or as a permanent representative of a legal entity) and each non-voting director must directly own at least 25 SFL shares in registered form. No other restrictions have been agreed by any member of the Company's administrative, management, or supervisory bodies or senior management concerning the disposal within a certain period of time of their SFL shares.
– There are no service contracts between members of the administrative, management or supervisory bodies and SFL or any of its subsidiaries providing for any contractual benefits.

1.11 Committees of the Board

1.11.1 Rules governing the membership and procedures of the Committees of the Board

The decision to create a Committee is made by the Board of Directors. Each Committee generally has three or four members who are appointed by the Board at its discretion, based on their skills and experience. They are not necessarily directors or shareholders of the Company.

The Committees only examine issues submitted to them by the Board of Directors or the Chairman, in the areas falling within their terms of reference as decided by the Board. They act exclusively in a consultative capacity; under no circumstances may they interfere in the management of the Company or act in any way that would indirectly reduce the powers of the Chief Executive Officer or the Managing Director. The Committees report to the Board of Directors.

Their members may be appointed for the duration of their term as director (where applicable) or for a shorter period.

They may be removed by the Board or stand down at any time, without any reason having to be given.

The members of the Committees have the same obligations of allegiance and confidentiality as the directors.

The Committees report to the Board on their work after each of their meetings.

1.11.2 — The Audit Committee

Members of the Audit Committee as of 31 December 2016:
Chairman: Carlos Fernandez-Lerga Garralda
Members: Anne-Marie de Chalambert (independent director)*
Jean-Jacques Duchamp

* Anne-Marie de Chalambert was appointed to the Audit Committee by the Board of Directors on 26 July 2016, to replace Jacques Calvet who stepped down as director on 26 April 2016.

The Audit Committee members' experience in the areas of finance and accounting is described on pages 101, 102, 104 and 108 of this report.

In accordance with French government order 2016-315 dated 17 March 2016 concerning the reform of the audit profession and the Board of Directors' internal rules, the role of the Audit Committee is to:
– Monitor the process for the preparation of financial information and make any necessary recommendations to guarantee the information's integrity.
– Make recommendations concerning the appointment or re-appointment of the external auditors.
– Review the financial statements to be presented to the Board.
– Assess the effectiveness of internal controls over procedures, risks and compliance with ethical standards.
– Monitor the effectiveness of internal audits of the procedures for the preparation and processing of accounting and financial information.
– Review the audit plans of the internal and external auditors.
– Verify the independence of the external auditors.
– Approve the provision of non-audit services by the external auditors.
– Report regularly to the Board of Directors on the results of the statutory audit of the financial statements, the ways in which the audit contributed to the integrity of reported financial information and the Committee's role in the process. The Committee is also required to notify the Board immediately of any audit-related problems.

A written report on the work of the Committee is included in the minutes of the Board meeting at which the report is presented.

The Committee's practices are assessed each year at the same time as the Board's self-assessment.

The Committee's work covers:
– A presentation by the external auditors of their main audit findings and of the accounting options used.
– A presentation by the Chief Financial Officer covering the Company's material off-balance sheet risks and commitments.
– The external auditor selection and re-appointment procedure.

Working methods:
– The Audit Committee meets to review the financial statements the day before the Board of Directors' review.
– The meeting files are sent to the Committee members seven days ahead of the meeting.
– The external auditors, Chief Financial Officer, Accounting Director and Cash Management Director make presentations to the Committee during the meeting and respond to members' questions.
– The heads of internal audit and risk management also present their reports and answer the Committee's questions.
– The Committee may be assisted by outside experts, if necessary or useful.

The Audit Committee met six times in 2016, with an average attendance rate of 77.78%.

The issues covered during the meetings were as follows:

Agenda of the 26 January 2016 meeting

1. Approval of the minutes of the 29 September 2015 meeting
2. Reports on the 2015 internal audits of the following processes:
   • Internal audit engagement no. 14: Capex management procedure
   • Internal audit engagement no. 15: Regulatory compliance – targeted review (engagement presented at the meeting of 29 September 2015)
   • Internal audit engagement no. 16: Marketing process
   • Internal audit engagement to review implementation of the auditors' recommendations (October 2015)
3. Approval of the 2016 internal audit programme
4. KPMG's report on the Cassiopae project

Agenda of the 11 February 2016 meeting

1. Approval of the minutes of the 26 January 2016 meeting
2. Approval of the financial statements for the year ended 31 December 2015
3. Other business

Agenda of the 2 March 2016 meeting

1. Approval of the minutes of the 11 February 2016 meeting
2. Report of the Chairman of the Board of Directors on corporate governance and internal audit

Agenda of the 25 July 2016 meeting

1. Approval of the minutes of the 2 March 2016 meeting
2. Review of the 2016 interim financial statements
3. Other business: Interim Risk Indicator Scorecard

Agenda of the 30 September 2016 meeting

1. Approval of the minutes of the 25 July 2016 meeting
2. Reports on the 2016 internal audits of the following processes:
   • Internal audit engagement no. 17: Rent invoicing process
   • Internal audit engagement no. 19: Bank reconciliations
   • Internal audit engagement no. 20: CSR process maturity assessment

Agenda of the 15 November 2016 meeting

1. Approval of the minutes of the 30 September 2016 meeting
2. Reports on the 2016 internal audits of the following processes:
   - Internal audit engagement no. 18: Review of property expenses rebilled to tenants
3. Areas to be covered by the 2017 internal audit programme

For more information about the Audit Committee's work in 2016, see section 2.3 below.

1.11.3 The Remuneration and Selection Committee

Members of the Remuneration and Selection Committee as of 31 December 2016:
Chairman: Anthony Wyand (independent director)
Members: Anne-Marie de Chalambert (independent director)
Pere Viñolas Serra

As recommended in the AFEP-MEDEF Corporate Governance Code, the majority of Remuneration and Selection Committee members are independent directors.

In accordance with the Board of Directors' internal rules, the role of the Remuneration and Selection Committee is to:
- Make recommendations to the Board concerning the remuneration of the Chairman, Chief Executive Officer and Managing Director, directors' fees, stock option or performance share plans and specific incentive bonus plans.
- Make recommendations to the Board concerning candidates for election to the Board and succession planning for corporate officers, particularly when a seat on the Board or a senior management position unexpectedly falls vacant or following an increase in the number of seats on the Board.

The Remuneration and Selection Committee met three times in 2016, with an attendance rate of 88.89%.

The issues covered during the meetings were as follows:

Agenda of the 12 February 2016 meeting

1. Approval of the minutes of the 12 November 2015 meeting
2. Payment of executives' bonuses for 2015
3. Executives' bonuses for 2016

Agenda of the 2 March 2016 meeting

1. Performance share plan

Agenda of the 3 November 2016 meeting

1. 2017 executive bonus formula
2. Preliminary review of executives' salaries
3. 2017 meeting schedule
4. Review of candidates for election to the Board (if applicable)

1.11.4 The Executive and Strategy Committee

Members of the Executive and Strategy Committee as of 31 December 2016:
Chairman: Juan José Brugera Clavero
Members: Jean-Jacques Duchamp
Carmina Ganyet I Cirera
Pere Viñolas Serra

In accordance with the Board of Directors' internal rules, the role of the Executive and Strategy Committee is to:
- Assist the Board and senior management in defining SFL's strategic vision to drive business growth in the best interests of the Company and all of its shareholders.
- Help the Board and senior management to efficiently fulfil their respective responsibilities, by acting as an interface for strategic issues and transactions.
- Review the Company's business plans and projections in order to assess the medium and long-term outlook.
- Review and make recommendations concerning planned transactions that require the Board's prior approval.
- Report to the Board on its activities.

It did not hold any meetings in 2016.

1.11.5 The Committee of Independent Directors

Members of the Committee of Independent Directors as of 31 December 2016:
- Anne-Marie de Chalambert
- Anthony Wyand

Jacques Calvet was a member of the Committee until 26 April 2016, when he stepped down from the Board of Directors.

The role of the Committee of Independent Directors is to make recommendations to the Board concerning any proposed transactions leading to a possible reorganisation of the Company's ownership structure.

It did not hold any meetings in 2016.

1.12 Remuneration and benefits paid to corporate officers and directors

The Group's remuneration policy is presented in section 3.5 of the Management Report, together with full details of the remuneration and benefits of the Chairman, the Chief Executive Officer and the Managing Director.

Concerning directors' remuneration, in 2016 the Board continued to apply the same rules for the allocation and payment of the directors' fees awarded by shareholders at the Annual General Meeting.

At the Annual General Meeting of 15 June 2009 (twelfth ordinary resolution), the aggregate amount of directors' fees to be distributed among the members of the Board of Directors for 2009 and subsequent years was set at €400,000.

Since 1 January 2009, these fees have been allocated as follows:

– Voting or non-voting director:	€18,000 per year
– Member of a Committee of the Board:	€24,000 per year
– Chairman of the Board and/or of a Committee of the Board:	€36,000 per year

At the Annual General Meeting of 28 April 2017, shareholders will be asked to increase the total directors' fees from €400,000 to €800,000.

The Company does not apply the recommendation in the AFEP-MEDEF Code that directors' fees should comprise a significant variable portion that takes into account each director's attendance rate at board meetings and meetings of board committees. SFL's Board considers that the decision not to apply this recommendation is justified by the fact that the directors' fees paid by the Company are relatively low compared with its peer group. However, possible changes in the amount of directors' fees and the principles governing their allocation were considered by the Remuneration and Selection Committee on 30 January 2017 and by the Board of Directors on 10 February 2017.

1.13 General Meetings (extracts from Articles 24, 25 and 29 of the Articles of Association)

Article 24

General Meetings are called in accordance with the applicable laws and regulations.

They are held at the Company's registered office or at the venue selected by the Board of Directors, as specified in the notice of meeting.

The Board of Directors sends or makes available to shareholders the documents required to enable them to make informed decisions about which way to vote on proposed resolutions and an informed judgement about the management of the Company's business.

Following communication of the above information, shareholders may submit written questions to the Board of Directors to be answered during the General Meeting. If several questions are submitted on the same subject, the Board may issue a single statement in reply to all the questions.

A written question is considered as having been answered when the reply is posted on the FAQs page of the Company's website.

Article 25

I – General Meetings may be attended by all holders of fully paid up shares that have been recorded in the shareholder's account prior to the date of the meeting as follows:

- Holders of bearer shares and holders of registered shares recorded in an account not kept by the Company may vote at General Meetings in person, by proxy or by post provided that their shares are recorded in an account kept by an accredited intermediary as of the record date.
- Holders of registered shares recorded in an account kept by the Company may vote at General Meetings in person, by proxy or by post provided that their shares are recorded as of the record date.

These formalities must be completed no later than midnight Paris time on the second business day preceding the date of the Meeting (the record date).

Shareholders, proxy holders and accredited intermediaries are entitled to attend General Meetings on presentation of proof of their identity and eligibility to attend. The Board of Directors may provide shareholders with personal admission cards for General Meetings and, if it thinks fit, require that they be shown prior to admittance.

II – Any shareholder may, on the basis stipulated in the applicable laws and regulations, vote by post, or give proxy to his or her spouse or civil partner or to another shareholder or to any other person or legal entity in order to be represented at General Meetings, by writing to the Company to request a postal voting/proxy form. Written requests for a postal voting/proxy form must be received at the Company's registered office at least six days before the Meeting.

If a shareholder gives proxy to a person other than his or her spouse or civil partner, the proxyholder must notify the shareholder of any situation that could give rise to a conflict of interest so that the shareholder can assess the risk of the proxyholder not voting in accordance with the shareholder's wishes.

If any such situation arises, the proxyholder must notify the shareholder without delay and the shareholder will then be required to formally confirm the proxy. Failing that, the proxy will not be valid and the proxyholder must notify the Company.

Any individuals or entities other than a shareholder's spouse or civil partner that actively solicit proxies (for example, a minority shareholder or an organisation set up to defend shareholders' interests) by offering, directly or indirectly and by any method, to represent one or several shareholders, must disclose their voting policy. Said individuals or entities may also disclose their voting intentions with regard to the resolutions tabled at the Meeting. In this case, they will be required to vote in accordance with their stated intentions for all undirected proxies given to them.

If a proxyholder fails to comply with any of the above obligations, the represented shareholder may ask the commercial court in the jurisdiction where the Company has its registered office to ban the proxyholder from acting in this capacity at all General Meetings of the Company for a period of up to three years. The Company may file a similar application but only if the proxyholder has breached the rules governing the active solicitation of proxies.

The postal voting/proxy form must be received by the Company at least three days before the Meeting date.

The procedure for returning these forms is specified by the Board of Directors in the notice of meeting.

Shareholders domiciled outside France may give proxy to an intermediary registered in accordance with the applicable legal conditions, provided the Company is informed of the proxy in writing at least five days before the date of the Meeting.

The Board of Directors may reduce or waive the time periods specified in this section II.

Article 29

Resolutions are adopted by the number of votes prescribed in the corresponding legislation in force on the date of the Meeting.

Shareholders are entitled to one vote per share.

The Company's shares (including any bonus shares that may be allocated in connection with a share issue paid up by capitalising reserves, profits or share premiums) do not qualify for double voting rights, as allowed under Article L.225-123-3 (final paragraph) of the French Commercial Code.

1.14 Financial risks linked to the effects of climate change – measures taken by the Company to reduce these risks through a low-carbon strategy

Information about the financial risks linked to the effects of climate change and the measures taken by the Company to reduce these risks through a low-carbon strategy applied across all business units is provided in the CSR report included in the appendix to the Management Report (pages 47 *et seq*.).

2. Internal control and risk management procedure

This report describes the procedures set up by the Company to prevent and control risks arising in the course of its business. It has been prepared in response to the Chairman's legal obligation to report to shareholders on the measures taken to guarantee (i) the reliability of accounting and financial information, (ii) compliance with all applicable laws and regulations and (iii) the security of reporting or management processes.

The Company applies all the recommendations and key processes contained in the AMF's reference framework for risk management and internal control dated 22 July 2010, and follows the guidance issued by French business organisations (MEDEF, AFEP and ANSA) and accounting authorities (CNCC).

The pillars of the internal control system are:
– A standard set of procedures
– Accountable operations, finance and audit teams
– Collective decision-making processes
– Segregation of duties between the authorisation of expenditure and the related payments.

Company organisation

The Company's internal organisation is built around three areas of expertise:
– *Operations*, encompassing the property, asset management, technical and marketing disciplines.
– *Finance,* including accounting, financing, budget control and investor relations.
– *Support/Resources,* spanning legal affairs, human resources, information systems, and internal control and audit.

This organisation is supported by clear definitions of individual roles and responsibilities and procedure reviews to clarify who does what and, in this way, more effectively manage risks.

Upgraded governance rules

In line with the recommendation of the Audit Committee, the Board of Directors decided to outsource the internal audit function to KPMG. This decision was made following a detailed consideration of internal audit issues with the Company's senior management and a comparative review of service proposals from four accounting firms with excellent references, who were all invited in to make presentations to the Audit Committee.

Internal audits covering specialist areas may be performed from time to time with the support of experts other than KPMG.

The internal audits are performed based on the annual audit programme drawn up by the Audit Committee with input from the Company's management. They are overseen by the Chief Resources Officer whose responsibilities include internal control and internal audit.

This report contains:
– A general presentation of the internal control system, the people and structures responsible for its implementation, and the process for preparing financial and accounting information for shareholders.
– A presentation of internal control procedures, with details of their scope of application and the risks covered, including the specific risks inherent in the Company's business, and the Chairman's assessment of their appropriateness and effectiveness.
– A description of the procedures carried out to prepare this report.

See also section 4.3 "Risk Factors" in the Management Report, pages 28 *et seq*.

2.1 General presentation of internal control

Managers have front-line responsibility for identifying risks and implementing appropriate control measures.

Senior management ensures that the necessary organisation is in place to permit effective control and oversees managers' activities in this area with support from the Chief Resources Officer who is responsible for internal control. Senior management reports to the Audit Committee on the supervision of internal control.

2.1.1 Overall organisation

Internal control procedures over business processes are communicated to all employees concerned and updated to reflect process changes.

It was not necessary to set up specific controls to obtain assurance concerning the quality of internal control within the various consolidated entities, because all of these entities apply the same procedures and the accounting teams responsible for producing their accounts rotate periodically. Procedure manuals were updated following implementation of a new information system.

To limit the risks of fraud, payables accounting and payment functions are strictly segregated. The Treasury Department is independent from the Accounting Department and reports directly to the Chief Financial Officer.

To improve the reliability and quality of accounting information, a separate Budget Control Department analyses management and cost accounting data and performs reconciliations between these data and the statutory accounts.

The quality of budget control data has been enhanced with the implementation of a new information system capable of producing a greater quantity of improved analyses compared with the previous system. Separate data are now produced for each property in the portfolio. These data are aggregated and reconciled to the statutory accounting data and consolidation packages produced by the entities concerned, providing a critical means of control.

SFL is fully consolidated in the consolidated financial statements of its main shareholder and is required to produce specific monthly reporting packages for this purpose. In addition to incorporating new and frequently complementary data processing and control practices, the monthly reporting process also helps management to monitor the business more closely thanks to the increased availability of data:

– Basic reporting schedules are prepared by cash generating unit, corresponding in the case of SFL to each individual building.
– The monthly reporting schedules are reconciled to the budget, allowing management to swiftly identify variances or any inconsistencies in processing the raw data.

2.1.2 Signing authority

Signing authority is granted only for payments, with dual signatures required in all cases. A strict segregation of duties is maintained between the authorisation of expenditure and the related payments.

The list of authorised signatories is checked periodically and updated to take account of organisational changes.

2.1.3 Information systems governance

The Information Systems Department is responsible for issuing data security standards.

These standards cover:

– System uptime rates
– Data classification
– Data backups and protection
– Incident management
– Protection against computer viruses and security breaches.

The current information system, which covers all business processes, was deployed in 2004 in accordance with the Company's IT master plan.

The system is now out of date and no longer meets SFL's strategic needs. As a result, in early 2012, the Company started to examine options for changing the system.

Following a competitive bidding process conducted that year, Cassiopae was selected to develop a new information system. The project's status is reviewed at each meeting of the Audit Committee. The Company's options were limited as there are very few software solutions available for the property management industry and just two leading specialists, Cassiopae and SOPRA.

Information system operating procedures remain unchanged.

Information systems management is outsourced to an external service provider, which provides assurance that databases are backed up at daily intervals and that the technical quality of backups is satisfactory. The outsourcing contract also includes a contingency plan, providing for the transfer of processing operations to IBM Global Service in the event of a major systems failure. All of these backup and contingency procedures have been reviewed by an external auditor to verify their effectiveness.

Operation of mission-critical property management applications is also outsourced under a facilities management contract which comprises all necessary safeguards to guarantee data security, including:

– A communications protocol describing data exchange methods and the documents used for communications between SFL and the external service provider.
– A facilities management procedure manual, describing the procedures to be followed for receiving, processing and tracking requests for application changes and upgrades, as well as for the acceptance of new developments and their transfer from development to operational status.
– Weekly activity reports comprising indicators to monitor the quality of information systems administration services.

The Information Systems Department, which is responsible for coordinating security procedures and data processes, supports the external auditors in their analysis of information systems risks and their audit of control processes and transaction traceability.

The auditors' recommendations concerning the preparation of written control procedures, notably for accounting applications, are implemented by the Company.

After the information systems project began falling behind schedule in the first quarter of 2014, the Company decided to suspend its deployment and call in KPMG which has an IT department specialised in the property management industry.

2.1.4 Internal code of ethics

All Group employees are required to comply with the SFL Code of Ethics, which applies in particular to dealings with third parties. All staff members have also been specifically notified of the rules concerning insider trading and the use of inside information. These rules have been published on the Company's intranet.

2.2 Internal control procedures

2.2.1 Procedures to identify and manage company-specific risks

Existence and valuation controls over the properties that constitute the bulk of the Group's assets are performed by independent valuers during their interim and annual portfolio valuations.

The Accounts Department pays particular attention to ensuring the completeness of accounting entries concerning renovation, repair and other work undertaken by Group companies.

To this end, a member of the accounting team has been given specific responsibility for managing works accounts for all companies, providing the Technical Department with a single point of contact and guaranteeing consistent treatment of all transactions. The internal audit programme includes a detailed review of the risk-mapping exercise conducted for all major property redevelopment projects planned by the Group. The map lists and measures the risks associated with each project, providing a decision-making aid for senior management and a basis for determining a risk monitoring methodology applicable during the redevelopment process.

To ensure that all liabilities have been identified and measured, checks are performed at several levels:

– Tenant risks are reviewed regularly by the property specialists in the Legal Department and second-tier controls are performed by an accounting manager on a centralised basis.
– The risk of legal disputes with the Company's partners is closely monitored, with technical guidance from the property specialists in the Legal Department.
– The Treasury Department participates actively in collecting information about off-balance sheet commitments related to hedging and debt instruments, as well as commitments to suppliers, and ensuring that the information is complete.

2.2.2. Identifiable risks

The Company's main identifiable risks concern:

– Loss of or damage to assets (managed through building maintenance, technical monitoring of refurbishment projects, property surveys, etc.).
– Breaches of environmental regulations.
– Rent defaults and failure to take into account the full impact of vacancy rates.
– Fraud.

The risks specific to the Company and the industry are described in detail on pages 29 *et seq*.

2.2.3 Insurance

The Group's insurance policies include both property cover and liability cover for SFL and its subsidiaries, based on the nature of their businesses and the underlying risks. Buildings are insured on an all-risks basis with named exclusions. The policies cover reconstruction or replacement cost as well as loss of revenue for 48 months for buildings in use, with an overall cap of €300 million. Losses incurred during repair and maintenance work not insured under a "contractors all risks" policy are also covered up to a maximum of €7.5 million.

2.2.4 Controls over the quality of accounting and financial information

As a company listed on Euronext Paris, SFL has to take a more rigorous, highly disciplined approach to preparing financial information.

With a very high capital-per-employee ratio, the Company uses the services of external experts to stay informed of technical developments in the areas of accounting, finance and tax. As well as providing regular technical updates, these experts also give formal advice on the choice of accounting options that have a material impact on the financial statements.

SFL participates in work groups set up by the industry federation and other organisations representing the property sector, providing an opportunity to exchange information about best practices and industry standards.

In July 2011, the Company joined Institut Français des Administrateurs, the French federation of company directors.

2.2.5 Book-keeping procedures

The accounts of all Group companies except for associates are kept on the same internal accounting system, which is integrated in the management information system. The consolidated financial statements are produced using consolidation software that represents a market standard, guaranteeing its reliability and maintainability.

All of the accounting teams are part of the Accounting and Budget Control Department, which in turn forms part of the Finance Department.

The corporate accountants each keep the accounts of one or several consolidated companies. They rotate between companies from time to time, to limit the risks arising from an excessive concentration of information in the hands of a single person and also to facilitate multi-tasking when the need arises. To strengthen this duplication of knowledge, the accountants are paired up and fill in for each other when required.

Each year, the corporate accountants are assigned specific objectives. Their performance in relation to these objectives is assessed at the end of the year, during their annual performance review, and determines the amount of their bonus.

As mentioned in the Corporate governance section, the Audit Committee of the Board of Directors meets twice a year to review with the external auditors the annual and interim financial statements and any significant transactions for the period. The Committee also meets with the external auditors to discuss the content of their work programmes and the observations and recommendations set out in the post-audit reports prepared after their audits of the interim and annual financial statements.

2.2.6 Procedure for the preparation of the consolidated financial statements

A full set of monthly consolidated accounts is produced for internal management purposes and for submission to the Company's majority shareholder. These full monthly accounts are not audited or published.

The procedures for the preparation of the monthly accounts were defined with the assistance of outside consultants, to ensure that reporting deadlines are met. All departments are concerned and controls are performed over the centralised data to ensure that the reported statutory and management accounting data have been prepared on a consistent basis.

The half-yearly and annual financial statements remain the basis for an extensive financial communication process and must be produced within a very short timeframe to comply with market standards. The publication dates are announced to the market in advance and must be met without fail.

2.2.7 Budget and business plan procedures

As well as carrying out account closing procedures, the Budget Control Department produces a rolling five-year business plan, the first year of which corresponds to the budget. The business plan is prepared by aggregating and checking the detailed information produced by all Group departments. For example, the property management departments provide revenue and expense forecasts for each individual building presented on a lease-by-lease basis.

The annual budget is broken down into monthly budgets.

The business plan includes:
– Five-year profit and loss account projections
– A condensed statement of financial position
– A quarterly analysis of changes in consolidated debt
– Key financial ratios such as EBITDA, EPRA earnings and loan-to-value.

The business plan is reviewed each year and approved by the Board of Directors at the year-end. It can be completely reworked or modified at the specific request of the Board.

The budget is updated twice during the year.

It plays an essential role as a roadmap for the business and also as a benchmark for measuring actual performance, based on the monthly reporting packages used for internal management purposes and submitted to the majority shareholder.

In conclusion, the Group's control procedures over the production of accounting and financial information, and its internal control procedures covering the preparation of the consolidated financial statements, are appropriate for the purpose of producing reliable accounting and financial information.

2.2.8 Controls over liquidity risks

SFL's liquidity management policy consists of maintaining long maturities of debt, in order to be in a position to efficiently roll over or replace borrowings without having to contend with market distortions which, while rare, nevertheless exist. In addition, confirmed undrawn lines of credit are maintained for amounts at least equal to the debt repayments due in the short-term, in order to cover liquidity risks.

2.2.9 Management of market risks

Market risks are managed on a conservative basis, without taking any speculative positions. With more than 80% of debt at 31 December 2016 at fixed rates of interest, the Company's exposure to interest rate risk is limited. If applicable, Company policy is to hedge interest rate risk on at least 70% of debt using swaps or caps.

2.2.10 Controls over counterparty risks

All financial transactions are carried out with leading financial institutions.

Cash reserves, which are limited due to the use of revolving credit facilities, are invested with high quality banks and are not exposed to the risk of any loss of capital.

2.2.11 Controls over property-related technical risks

The pÒurpose of controls over property-related technical risks is to prevent and contain environmental risks (asbestos, lead, legionella, etc.) associated with the properties in the portfolio and to ensure that all of these properties comply strictly with the applicable laws and regulations.

All of the risks have been identified and described in an environmental charter. Procedures have been drawn up covering all identified risks, including checks for asbestos and lead paint, legionella prevention measures, analyses of drinking water and safety checks on technical installations (electricity systems, lifts, safety equipment, gas pressure equipment, escalators, automatic doors and travelling units).

The procedures describe the action to be taken, the implementation timeline and the related controls. Employees responsible for these measures and controls receive specific training.

2.2.12 Purchases and competitive bids

Routine purchases are made from accredited suppliers at regularly negotiated prices. For other purchases, competitive bids are obtained from several companies or suppliers where appropriate.

A specific contract tendering procedure was set up in 2012.

2.3 Work of the Audit Committee in 2016 and comparison with best practices

As noted in the introduction, the Board of Directors has tasked the Audit Committee with strengthening the Company's corporate governance rules and diligently assessing internal control and risk management procedures.

The Chairman of the Audit Committee regularly updated the Board of Directors about the Committee's work in 2016.

2.3.1 Internal audits performed in 2016

In early 2016, the Audit Committee defined and approved the internal audit programme for the year based on the Company's risk map.

The programme provided for the audit of the following processes:

a. **Rent invoicing process:** review of the process and data input controls, from the original lease to the periodic rent invoices, including detailed testing of the most recent rent invoices for a sample of leases.

b. **Process for invoicing property expenses to tenants:** preparation of a building's expense budget, budget-to-actual comparisons, recording of expenses not included in the tenant rebilling process.

c. **Bank reconciliations:** review of reconciliation process, procedure and its application, control results.

d. **CSR process maturity assessment:** based on a review of existing CSR processes, assessment of the positioning of SFL's CSR strategy in relation to various business criteria and to the industry's CSR challenges. Back up the position assessment with examples of industry best practices.

After each audit, reports were prepared and submitted to the Audit Committee, which also made inquiries of the internal auditors and the Chief Resources Officer, who is the Head of Internal Audit. The Audit Committee was also informed of the status of action plans undertaken to implement the internal auditors' recommendations.

a) Rent invoicing process

Purpose of the audit

The purpose of this audit, which was performed between 25 April and 13 May 2016, was to:
– obtain assurance concerning the reliability of the current rent invoicing process by examining the various stages in the process and the related controls, in order to assess their relevance and operational effectiveness and recommend improvements;
– recalculate the second-quarter 2016 rent due by a sample of 20 tenants based on the lease terms and compare the amounts obtained to the corresponding invoices.

Risk

The issuance of rent invoices is a critical business process because the Company derives most of its revenue from the rental of property assets.

In a rental market that was still difficult and selective, SFL leased 85,000 sq.m. of space in 2015. The average nominal rent for these office leases was €551 per sq.m. and the effective rent was €437 per sq.m. The new leases drove a sharp rise in rental income to €168.8 million in 2015, representing €17.3 million more than in the previous year. On a comparable portfolio basis, the increase was 5.7%.

The risks associated with the rent invoicing process include under- or over-billing, tenant default leading to claims against the guarantee deposit, and incomplete documentation.

Current process

Since 2011, SFL has set out its procedures in macro-processes that structure the Company's operations, known as the Responsible, Accountable, Consulted and Informed (RACI) matrix.

The main stages in the rent invoicing process are as follows:
– Lease terms are negotiated with the Marketing and Property Management departments.
– Lease details are entered in the ESTIA system by the administrative assistant.
– The lease fact-sheet extracted from ESTIA is checked by the lease manager.
– Guarantee deposits and/or first demand guarantee documentation are obtained.
– The rent invoice is generated automatically by ESTIA and checked by the administrative assistant (application of rent escalation clause, rent-free period, etc.) prior to being sent to the tenant.

Conclusion

Based on the audit findings, the process's core strengths are as follows:
– The procedure is clear and explains in detail the various stages in the process, as well as the role of each participant.
– It provides for appropriate controls over the lease information entered in ESTIA and the invoice preparation process.
– The rent amount is calculated automatically by ESTIA.
– Reports are produced in ESTIA covering rent adjustments, invoices and direct debits, that are used to track the amount to be recorded on each tenant's invoice for the period.
– The Budget Control Department performs monthly rental income consistency tests, representing a second level of control.

The main recommended improvements concerned setting up:
– Greater automation of completeness checks of guarantee deposits/first demand guarantees received from tenants, especially when a new lease is signed or an addendum is signed, requiring the deposit or guarantee amount to be adjusted.
– A procedure to systematically evidence the controls performed by the lease manager when the lease fact-sheet is updated in ESTIA.
– A formal procedure to check that the indices on which escalation clauses are based are entered in ESTIA.
– Stronger controls over the lease terms entered in ESTIA, particularly the reference index to be used for first rent invoice.
– Completeness checks on the documentation available in the document management system (Opaline).

b) Process for invoicing property expenses to tenants

Purpose of the audit

The purpose of this audit, which was performed between 9 and 27 May 2016, was to:
– obtain assurance concerning the reliability of the process for invoicing property expenses to tenants by examining the various stages in the process and the related controls, in order to assess their relevance and operational effectiveness and recommend improvements;
– obtain assurance concerning the accuracy of the property expenses invoiced to a sample of 11 tenants.

Risk

Managing and invoicing property expenses to tenants represent critical business processes. In an environment where leases are becoming more complex and personalised, and where tenants pay increasingly close attention to the costs billed to them, the Company is exposed to a growing risk of errors and complaints.

Property expenses net of recoveries have been growing at the same rate as rental income, rising by €2.4 million in 2015 to €14.3 million.

The risks associated with the property expense re-invoicing process include the risk of expenses being poorly managed, the risk of incomplete legal documentation and under- and over-billing risk.

Current process

The main stages in the property expense re-invoicing process are as follows:
– The property expense budget for the year is prepared based on actual expenses for the prior year.
– Quarterly on-account invoices based on the property expense budget are generated automatically by ESTIA.
– Actual expenses incurred during the year are entered and managed in ESTIA.
– Expenses are allocated to tenants automatically using cost allocation keys entered in ESTIA.
– A final invoice (or credit note) is issued to tenants in the third quarter of the following year, for the difference between the cumulative on-account payments and their share of actual expenses.

Since 2011, SFL has set out its procedures in macro-processes that structure the Company's operations, known as the Responsible, Accountable, Consulted and Informed (RACI) matrix. Property expense budgets are prepared by the Asset Managers in the third quarter of the year based on actual expenses for the prior year. Each Asset Manager prepares the budget for the properties he or she manages and monitors budget/actual variances before the final invoice is issued to tenants in the third quarter of the following year.

Conclusion

Based on the audit findings, the core strengths of the process for invoicing property expenses to tenants are as follows:
– All leases include a standard clause concerning the recovery of property expenses.
– The data entered in ESTIA is consistent with the lease terms and is checked.
– Property expenses are processed automatically in ESTIA.

The main recommended improvements concerned setting up:
– Systematic tracking of property expenses that have been billed to tenants (and that tenants have not been billed for capex).
– Systematic reconciliations of property expense invoicing rates to the properties' occupancy rates.
– A programme to extract information from ESTIA about the percentage of each property leased by the various tenants to ensure that the correct percentages are used to allocate property expenses.
– A procedure providing for the systematic use of independent surveyors' États Descriptifs de Division (which describe the various areas in the building and the size of each area) to allocate expenses, in order to improve the allocation process's reliability.
– A formal procedure that defines more clearly the property expense budgeting phase and final invoice phase.

c) Bank reconciliations

Purpose of the audit

The purpose of this audit, which was carried out between 27 April and 13 May 2016, was to:
– obtain assurance concerning the reliability of the bank reconciliation process by examining the various stages in the process and the related controls, in order to assess their relevance and operational effectiveness and recommend improvements;
– obtain assurance concerning compliance with the procedure covering transactions that involve cash disbursements.

Risks

The bank reconciliation process addresses a financial risk that could have serious consequences for SFL. The risk of financial loss is also significant.

The incidence of CEO impersonation fraud has been growing in recent years.

In this environment, robust cash management processes are of critical importance.

The risks associated with the process include fraud risk (misappropriation of cash), accounting risk (failure to record accounting entries in the period concerned by the expenditure) and reputational risk.

Current process

– Bank reconciliations correspond to controls performed internally to ensure that the cash balances recorded in the accounts match the balances on the various bank accounts.
– Automatic and manual disbursements are carried out by various methods:
  • By bank transfer
  • By cheque (with or without an automatically-generated covering letter) entered manually or automatically in the system depending on the type
  • By direct debit
  • In cash
  • By corporate bank card
– Bank reconciliations are performed at fortnightly intervals based on account extracts from the dedicated module in SAGE.
– Reconciling items are cleared directly by the departments concerned and checks are performed the following month. Some 50% of entries are reconciled automatically.

Conclusion

Based on the audit findings, the core strengths of the bank reconciliation process are as follows:
– Effective segregation of tasks helps to limit the risk of fraud (the cash management unit is independent from other units and the persons responsible for making payments are not authorised to approve payments).
– Effective controls exist over bank balances and accounting reconciliations.
– Fortnightly tracking of cash receipts and disbursements provides an opportunity to clear reconciling items before the month-end close.
– Controls over cash disbursements are both relevant and effective.

The one recommended improvement concerned setting up:
– a formal procedure describing the tasks and best practices to be performed by the cash management unit in connection with bank reconciliations.

d) Corporate Social Responsibility (CSR) process maturity assessment

SFL ranks among the best in the industry in terms of its engagement and the maturity of its CSR processes (according to the Baromètre Novethic 2014 de l'Immobilier and GRESB Real Estate Assessment 2015)

Purpose of the audit

The purpose of the audit was to assess the maturity of SFL's CSR processes.

Risks

SFL must remain at the vanguard of CSR practices, in line with its vision and ambition as a leader of the prime property market. It also needs to retain its ability to fulfil the expectations of stakeholders and comply with future regulations in order to cover a certain number of risks, including:
– CSR compliance risk
– the risk of criminal and financial penalties in the event of any regulatory breaches
– reputational risk.

Conclusion

Based on the audit findings, the CSR processes' core strengths are as follows:

– CSR risks are taken into account in the process to increase the value of the assets in the portfolio (especially in the property management and environmental management processes).
– The Company has set up a risk management process that includes environmental risk mapping and a process to track the lifting of regulatory restrictions.
– An objective-driven approach has been adopted to address identified material risks.
– The approach is led by a CSR Committee made up of Management Committee members.
– The environmental performance of revenue-generating assets is managed using performance indicators.
– The approach brings SFL into line with best CSR practices (Grenelle II, GRI G4, EPRA, responses to CSR-rating agencies, Vigeo Rating & GRESB benchmarking, position compared to SFL's peer group).
– SFL is required to comply with Article 225 of France's Grenelle II Act and its enabling legislation concerning audits of the existence and fairness of the consolidated social, environmental and societal information (CSR information) provided in the Management Report. No material weaknesses were identified by the independent third party during its audit of the consolidated social, environmental and societal information for 2015.

The main recommended improvements were as follows:

– Implement corrective action to ensure compliance with the French Labour Code regulations concerning the documents to be obtained from contractors (to combat clandestine and undeclared labour).
– Gradually expand the scope of published environmental data in order to cover all assets in SFL's portfolio.
– Include in the Company's published information details of the indirect impact of construction and redevelopment work (energy use, raw materials use, waste production, workplace accidents, etc.).
– Prepare compliance with Article 173 of France's Energy Transition Act applicable in 2016.
– Examine the feasibility of introducing periodic checks of sub-contractors working on construction or redevelopment sites, representing a second level of control over compliance with legislation to combat clandestine and undeclared labour (in addition to obtaining the documents referred to above from contractors).
– Set up awareness-raising and continuous training plans for employees identified as being the most exposed to bribery risk.
– Implement action on the recommended improvements to correct deviations identified by the survey on managing psycho-social risks.
– Establish a system to monitor labour relations and the quality employees' working environment.
– When defining SFL's new objectives for the period beyond 2017, set/align timelines and objectives based on national and European objectives.
– Consider additional action that could be taken in the area of responsible purchasing (sustainable partnerships, customer-supplier and supplier-customer dependence risk management, sourcing from ESAT sheltered workshops, assessment of SFL's contribution to the local economy).
– Establish bilateral communication processes with stakeholders in order to identify their expectations and implement corrective action to remedy any identified shortcomings.

These recommended improvements correspond to best industry practice in terms of integrating corporate social responsibility considerations into the company's strategy and activities, in order to respond to stakeholders' expectations, comply with future regulations and, in this way, cover a certain number of risks such as:

– CSR compliance risk
– the risk of criminal and financial penalties in the event of any regulatory breaches
– reputational risk
– and preserve SFL's position at the vanguard of CSR practices, in line with its vision and ambition as a leader of the prime property market.

2.3.2 Risk monitoring

At its meeting on 24 July 2012, the Board of Directors asked the Audit Committee to work with management to create a "Risk Indicator Scorecard" based on existing indicators that could be used to monitor business risks.

The Audit Committee has a system for tracking implementation of the internal auditors' recommendations.

At its meeting on 14 November 2012, the Audit Committee agreed on a Scorecard comprising four indicators covering rent defaults/leases and six financial indicators.

The Audit Committee decided that the Risk Indicator Scorecard would be reviewed and updated every six months.

The updated Scorecard was reviewed by the Audit Committee during its meetings on 25 July 2016 (i.e., at the end of the first half of 2016) and 9 February 2017 (i.e., at the end of the second half of 2016).

2.3.3 The Audit Committee's role and best practices

Since the beginning of 2011, the Audit Committee has been looking in detail at:

- The governance rules applied by the Group's administrative, management and supervisory bodies, with the aim of matching the best practices of listed French companies.
- Investor relations and EPRA recommendations in this area.
- The Company's risk map and internal audit processes.

KPMG's assessment showed that the Audit Committee generally meets expectations in terms of its practices and the fulfilment of its role. In particular, KPMG obtained assurance concerning:

- Compliance with the rules governing the Audit Committee's membership and basic rules of procedure.
- The Committee's review of the annual and interim financial information.
- The Committee's analysis of internal control and risk management systems, particularly through its review of internal audit reports.
- The Committee's review of the external auditors' conclusions during the auditors' presentation of their annual and interim post-audit reports.
- Compliance with the main rules governing relations between the Audit Committee and the various members of the Company's management.
- The transmission, sufficiently in advance of each Committee meeting, of the documents issued by the Company such as financial communications and internal audit reports.

The Audit Committee's main practices consist of:
- Planning in advance the work to be performed and validating the issues to be discussed during Committee meetings.
- Performing detailed reviews of financial information and gaining an in-depth understanding of the internal control system.
- Drafting questions and comments on specific issues (requests for explanations of calculation assumptions and data consistency issues).
- Performing detailed reviews of the external auditors' work and following up on action to implement their recommendations concerning the internal control system.
- Regularly reporting on the status of the Committee's work to the Board of Directors, to permit the Board to assess this work.

KPMG recommended that these practices be pursued and strengthened.

The Company's system of internal control is designed to:
- Ensure that all acts of management, all transactions, and the behaviour of all Company employees comply with the general strategic guidelines established by the Board of Directors, the applicable laws and regulations, and SFL's corporate values, standards and internal rules.
- Ensure that all accounting, financial and management information reported to the Company's Board of Directors gives a true and fair view of the Company's business and position.
- Prevent and manage business risks, as well as the risk of accounting and other errors and fraud.

However, no system of controls can provide an absolute guarantee that all such risks have been completely eliminated.

The Chairman of the Board of Directors

Appendix 7.6

Report on the Company's policy concerning the remuneration of the Chairman of the Board of Directors, the Chief Executive Officer and the Managing Director

To the shareholders

This report describes the principles and criteria applied to determine, allocate and award the fixed, variable and special components of the remuneration and benefits of the Chairman of the Board of Directors, the Chief Executive Officer and the Managing Director.

It has been prepared in application of Article L.225-37-2 of the French Commercial Code created by Act 2016-1691 of 9 December 2016 (Decree 2017-340 dated 16 March 2017).

As explained in section 3.5.1.6 of the Management Report, the Board of Directors is submitting for approval at the Annual General Meeting the principles and criteria applied to determine, allocate and award the fixed, variable and special components of the 2017 remuneration and benefits of Juan José Brugera Clavero in his capacity as Chairman of the Board of Directors, Nicolas Reynaud in his capacity as Chief Executive Officer, and Dimitri Boulte (Managing Director) in his capacity as Chief Operating Officer, as described in this report.

In accordance with Article L.225-37-2, paragraph 2, of the French Commercial Code, payment of the variable and special components of their remuneration, as presented in this report, will depend on their remuneration being approved by the Annual General Meeting to be held in 2018 to approve the 2017 financial statements.

1. Principles and criteria applied to determine the remuneration of the Chairman of the Board of Directors

The principles and criteria applied to determine the components of the 2017 remuneration of the Chairman of the Board of Directors are described below. These principles and criteria were decided by the Board of Directors on the recommendation of the Remuneration and Selection Committee.

1.1 Fixed fee

The Chairman of the Board of Directors is paid a fixed fee, the amount of which is decided by the Board of Directors on the recommendation of the Remuneration and Selection Committee.

1.2 Directors' fees

The Chairman of the Board of Directors receives directors' fees allocated by the Board of Directors from the total fees awarded by the General Meeting of Shareholders.

1.3 Performance shares

In line with the authorisation given by the General Meeting of 13 November 2015, at its meeting on 26 April 2016 the Board of Directors decided to set up a new performance share plan (Plan 4).

The Chairman of the Board of Directors is eligible to participate in this plan.

Provided that he has not left the Group and the performance targets are met (see below), the performance shares will vest 15 business days after the publication by the last of the Reference Companies (see definition below) to do so, of a press release announcing its results for the third financial year following the award date (i.e., for the Plan 4 performance shares awarded on 26 April 2016, the year ended 31 December 2018).

Continuing presence within the Group

The performance shares will vest only if the Chairman of the Board of Directors is still a corporate officer of the Company or another Group entity, as applicable, at the end of the three-year vesting period, unless his loss of office is due to certain events that are beyond his control.

Performance targets

The number of performance shares that vest will depend on SFL's ranking in a group of six listed property companies including SFL (the "Reference Companies"). The ranking will be established based on growth in each of the Reference Companies' consolidated adjusted net asset value (ANAV) per share over the vesting period, as calculated by adding back dividends paid in each year of said period.

Lock-up period

In accordance with Plan 4 rules, the performance shares may not be sold or otherwise transferred before the end of a period of two years as from the vesting date. In addition, after the end of this statutory two-year lock-up period, the Chairman of the Board of Directors will be required to keep 40% of the shares for the remainder of his period of service with the Company or another Group entity, as applicable, reduced to 20% once the value of the shares exceeds a certain percentage of his annual remuneration.

2. Principles and criteria applied to determine the remuneration of the Chief Executive Officer

The principles and criteria applied to determine the components of the 2017 remuneration of the Chief Executive Officer are described below. These principles and criteria were decided by the Board of Directors on the recommendation of the Remuneration and Selection Committee.

2.1 Salary

The Chief Executive Officer is paid a salary, the amount of which is decided by the Board of Directors on the recommendation of the Remuneration and Selection Committee.

It is reviewed annually by the Remuneration and Selection Committee and the Board of Directors, and may be adjusted taking into account the Company's business and financial performance for the previous year.

2.2 Bonus

The Chief Executive Officer is entitled to a bonus, the amount of which is decided by the Board of Directors on the recommendation of the Remuneration and Selection Committee.

The bonus calculation formula is reviewed annually by the Remuneration and Selection Committee and the Board of Directors.

For the 2017 formula, the Remuneration and Selection Committee based its recommendation to the Board of Directors on a benchmarking survey performed by an independent firm of consultants in 2015 and on other analyses performed in prior periods.

The Chief Executive Officer's maximum total bonus for 2017 (based on 100% achievement of the performance targets) has been set at an amount equal to his annual salary, before the effect of the coefficient applied to calculate the quantitative bonus.

His total bonus comprises:
- a quantitative bonus for 50%, based on growth in the Group's EPRA earnings and rental income, and
- a qualitative bonus for 50%, based on individual objectives.

Quantitative bonus

To determine the quantitative bonus for a given year, the overall target achievement rate for the year concerned is calculated as the arithmetical average of the achievement rates for the EPRA earnings and rental income targets. This overall target achievement rate is used to determine the quantitative bonus, applying the following correspondence table:

Overall target achievement rate	Quantitative bonus as a % of salary* Chief Executive Officer
A. 122% and over	145%
B. 100%	100%
C. 70% and over	60%
D. Less than 70%	0

* Before weighting for the portion of the total bonus represented by the quantitative bonus.

The bonus calculated as explained above is adjusted by applying a coefficient corresponding to the following ratio:

Current year EPRA earnings/Prior year EPRA earnings

The coefficient is determined as shown below:

Current year EPRA earnings/Prior year EPRA earnings	Coefficient
Less than 90%	90%
90% to 95%	90% to 100% (linear)
95% to 105%	100% (constant)
105% to 110%	100% to 110% (linear)
More than 110%	110%

Qualitative bonus

The qualitative criteria are established in advance and clearly defined by the Board of Directors, on the recommendation of the Remuneration and Selection Committee. They are not disclosed for confidentiality reasons.

2.3 Performance shares

The Chief Executive Officer is eligible to participate in the latest performance share plan decided by the Board of Directors (Plan 4).

Provided that he has not left the Group and the performance targets are met, the performance shares will vest 15 business days after the publication by the last of the Reference Companies (see definition below) to do so, of a press release announcing its results for the third financial year following the award date (i.e., for the Plan 4 performance shares awarded on 26 April 2016, the year ended 31 December 2018).

Continuing presence within the Group

The performance shares will vest only if the Chief Executive Officer is still a corporate officer of the Company or another Group entity, as applicable, at the end of the three-year vesting period, unless his loss of office is due to certain events that are beyond his control.

Performance targets

The number of performance shares that vest will depend on SFL's ranking in a group of six listed property companies including SFL (the "Reference Companies"). The ranking will be established based on growth in each of the Reference Companies' consolidated adjusted net asset value (ANAV) per share over the vesting period, as calculated by adding back dividends paid in each year of said period.

Lock-up period

In accordance with Plan 4 rules, the performance shares may not be sold or otherwise transferred before the end of a period of two years as from the vesting date. In addition, after the end of this statutory two-year lock-up period, the Chief Executive Officer will be required to keep 40% of the shares for the remainder of his period of service with the Company or another Group entity, as applicable, reduced to 20% once the value of the shares exceeds a certain percentage of his annual remuneration.

2.4 Benefits in kind

The Chief Executive Officer has the use of a company car and is covered by private unemployment insurance (*Garantie Sociale des Chefs et Dirigeants d'Entreprise* or GSC).

2.5 Other benefits

The Chief Executive Officer is entitled to matching employer payments on his voluntary contributions to the SFL Group Pension Savings Plan (PERCO) and also participates in the Group's statutory and discretionary profit-sharing schemes.

2.6 Compensation for loss of office

Compensation for loss of office equal to two years' salary and bonus would be payable to the Chief Executive Officer in the event that his departure was (i) imposed, (ii) linked to a change in control or strategy and (iii) decided for reasons other than gross or wilful misconduct. It would be calculated based on:
- his annual salary applicable at the time of his loss of office, and
- until 31 December 2017, the last annual bonus paid to him prior to his loss of office and, from 1 January 2018, the average of his last three annual bonuses.

No special bonuses or other components of his remuneration package would be taken into account in the calculation.

The compensation amount would also depend on the growth in the previous year's EPRA earnings compared with the average increase for the two preceding years, as follows:

Prior-year EPRA vs average for the two preceding years	Compensation for loss of office
100% or more	100%
Between 90% and 100%	80%
Between 75% and 90%	50%
Less than 75%	0%

In effecting the comparison, changes in the property portfolio in the years concerned would be taken into account.

This compensation for loss of office was approved by the Annual General Meeting of 22 April 2015.

3. Principles and criteria applied to determine the remuneration of the Managing Director

The Managing Director does not receive any remuneration in his capacity as Managing Director.

He is paid a salary and bonus under his employment contract with the Company, for his services as Chief Operating Officer.

The principles and criteria applied to determine the components of the 2017 remuneration of the Managing Director in his capacity as Chief Operating Officer are described below. These principles and criteria were decided by the Board of Directors on the recommendation of the Remuneration and Selection Committee.

3.1 Salary

The Managing Director is paid a salary under his employment contract for his services as Chief Operating Officer. The amount of his salary is decided by the Board of Directors on the recommendation of the Remuneration and Selection Committee.

It is reviewed annually by the Remuneration and Selection Committee and the Board of Directors, and may be increased taking into account the Company's business and financial performance for the previous year.

3.2 Bonus

The Managing Director is paid a bonus under his employment contract for his services as Chief Operating Officer. The amount of his bonus is decided by the Board of Directors on the recommendation of the Remuneration and Selection Committee.

The bonus calculation formula is reviewed annually by the Remuneration and Selection Committee and the Board of Directors.

For the 2017 formula, the Remuneration and Selection Committee based its recommendation to the Board of Directors on a benchmarking survey performed by an independent firm of consultants in 2015 and on other analyses performed in prior periods.

The Managing Director's maximum total bonus for 2017 in his capacity as Chief Operating Officer (based on 100% achievement of the performance targets) has been set at an amount equal to 80% of his annual salary, before the effect of the coefficient applied to calculate the quantitative bonus.

His total bonus comprises:
- a quantitative bonus for 50%, based on growth in the Group's EPRA earnings and rental income, and
- a qualitative bonus for 50%, based on individual objectives.

Quantitative bonus

To determine the quantitative bonus for a given year, the overall target achievement rate for the year concerned is calculated as the arithmetical average of the achievement rates for the EPRA earnings and rental income targets. This overall target achievement rate is used to determine the quantitative bonus, applying the following correspondence table:

Overall target achievement rate	Quantitative bonus as a % of salary*
	Managing Director/Chief Operating Officer
A. 122% and over	116%
B. 100%	80%
C. 70% and over	48%
D. Less than 70%	0

* Before weighting for the portion of the total bonus represented by the quantitative bonus.

The bonus calculated as explained above is adjusted by applying a coefficient corresponding to the following ratio:

Current year EPRA earnings/Prior year EPRA earnings

The coefficient is determined as shown below:

Current year EPRA earnings/ Prior year EPRA earnings	Coefficient
Less than 90%	90%
90% to 95%	90% to 100% (linear)
95% to 105%	100% (constant)
105% to 110%	100% to 110% (linear)
More than 110%	110%

Qualitative bonus

The qualitative criteria are established in advance and clearly defined by the Board of Directors, on the recommendation of the Remuneration and Selection Committee. They are not disclosed for confidentiality reasons.

3.3 Performance shares

The Managing Director is eligible to participate in the latest performance share plan decided by the Board of Directors (Plan 4).

Provided that he has not left the Group and the performance targets are met, the performance shares will vest 15 business days after the publication by the last of the Reference Companies (see definition below) to do so, of a press release announcing its results for the third financial year following the award date (i.e., for the Plan 4 performance shares awarded on 26 April 2016, the year ended 31 December 2018).

Continuing presence within the Group

The performance shares will vest only if the Managing Director is still a corporate officer or employee of the Company or another Group entity, as applicable, at the end of the three-year vesting period, unless his loss of office or separation is due to certain events that are beyond his control.

Performance targets

The number of performance shares that vest will depend on SFL's ranking in a group of six listed property companies including SFL (the "Reference Companies"). The ranking will be established based on growth in each of the Reference Companies' consolidated adjusted net asset value (ANAV) per share over the vesting period, as calculated by adding back dividends paid in each year of said period.

Lock-up period

In accordance with Plan 4 rules, the performance shares may not be sold or otherwise transferred before the end of a period of two years as from the vesting date. In addition, after the end of this statutory two-year lock-up period, the Managing Director will be required to keep 40% of the shares for the remainder of his period of service with the Company or another Group entity, as applicable, reduced to 20% once the value of the shares exceeds a certain percentage of his annual remuneration.

3.4 Benefits in kind

The Managing Director has the use of a company car.

3.5 Other benefits

The Managing Director is entitled to matching employer payments on his voluntary contributions to the SFL Group Pension Savings Plan (PERCO) and also participates in the Group's statutory and discretionary profit-sharing schemes.

3.6 Termination benefit

Under his employment contract for his services as Chief Operating Officer, the Managing Director would be entitled to a termination benefit if he were to leave the Company following a change of control, equal to double the total gross remuneration due for the calendar year preceding the change of control.

Appendix 7.7

Agenda for the Annual General Meeting of 28 April 2017

Ordinary Meeting

- Approval of the Company financial statements for the year ended 31 December 2016.
- Approval of the consolidated financial statements for the year ended 31 December 2016.
- Appropriation of profit for the year ended 31 December 2016 and dividend.
- Election as a director of Sylvia Desazars de Montgailhard.
- Re-election as a director of Anne-Marie de Chalambert.
- Re-election as a director of Carmina Ganyet I Cirera.
- Re-election as a director of Carlos Krohmer.
- Re-election as a director of Luis Maluquer Trepat.
- Re-election as a director of Anthony Wyand.
- Re-appointment as Statutory Auditor of Deloitte & Associés.
- Resolution not to re-appoint and not to replace BEAS as substitute Auditor, subject to shareholder approval of the proposed amendment to Article 23 of the Articles of Association ("Statutory Auditors").
- Advisory vote on the components of the remuneration due or awarded to Juan José Brugera Clavero, Chairman of the Board of Directors, for the year ended 31 December 2016.

- Advisory vote on the components of the remuneration due or awarded to Nicolas Reynaud, Chief Executive Officer, for the year ended 31 December 2016.
- Advisory vote on the components of the remuneration due or awarded to Dimitri Boulte, Managing Director, for the year ended 31 December 2016.
- Approval of the principles and criteria applied to determine, allocate and award the fixed, variable and special components of the remuneration and benefits of the the Chairman of the Board of Directors, the Chief Executive Officer and the Managing Director.
- Determination of directors' fees.
- Authorisation to be given to the Board of Directors to carry out a share buyback programme governed by Article L.225-209 of the French Commercial Code, duration of the authorisation, purpose, terms, ceiling.
- Powers to carry out formalities.

Extraordinary Meeting

- Delegation of competence to the Board of Directors to issue ordinary shares or securities with immediate or deferred rights to ordinary shares, with pre-emptive subscription rights for existing shareholders, duration of the authorisation, maximum aggregate par value of resulting share issue(s), option to offer any shares or securities not taken up by existing shareholders for subscription by the public.
- Delegation of competence to the Board of Directors to issue ordinary shares or securities with immediate or deferred rights to ordinary shares, without pre-emptive subscription rights for existing shareholders, through a public offer, duration of the authorisation, maximum aggregate par value of resulting share issue(s), issue price.
- Delegation of competence to the Board of Directors to issue ordinary shares or securities with immediate or deferred rights to ordinary shares, without pre-emptive subscription rights for existing shareholders, through a private placement governed by Article L.411-2 II of the French Monetary and Financial Code, duration of the authorisation, maximum aggregate par value of resulting share issue(s), issue price, option to limit the amount of any issue or to freely allocate unsubscribed shares or securities.
- Authorisation to be given to the Board of Directors, for issues of ordinary shares or securities with rights to shares without pre-emptive subscription rights, through a public offer or a private placement governed by Article L.411-2 II of the French Monetary and Financial Code, to set the issue price by the method decided by the shareholders in General Meeting.
- Authorisation to be given to the Board of Directors, for share issues with or without pre-emptive subscription rights, to increase the number of shares offered.
- Delegation of competence to the Board of Directors to issue ordinary shares or securities with rights to ordinary shares in connection with a public exchange offer made by the Company, duration of the authorisation.
- Delegation of powers to the Board of Directors to issue ordinary shares or securities with rights to ordinary shares in payment for contributed shares or securities with rights to shares of another company, other than in connection with a public exchange offer made by the Company, duration of the authorisation.
- Blanket ceiling on financial authorisations.
- Delegation of competence to the Board of Directors to increase the Company's capital by capitalising reserves, profits or share premiums, duration of the authorisation, maximum aggregate amount of the capital increase(s), procedure for dealing with rights to fractions of shares.
- Delegation of competence to be given to the Board of Directors to issue shares to employees who are members of an Employee Share Ownership Plan, without pre-emptive subscription rights for existing shareholders, duration of the authorisation, maximum aggregate par value of the share issue(s), issue price.
- Authorisation to be given to the Board of Directors to reduce the share capital by cancelling shares held in treasury stock, duration of the authorisation, purposes, terms, ceiling.
- Authorisation to be given to the Board of Directors to grant stock options to employees and corporate officers, waiver of shareholders' pre-emptive subscription rights for the shares issued on exercise of the options, duration of the authorisation, ceiling, exercise price, maximum life of the options.
- Alignment of Article 5 of the Articles of Association ("Registered Office") with Article L.225-36 of the French Commercial Code, as amended by Act 2016-1691 dated 9 December 2016 on transparency, the fight against corruption and the modernisation of economic life.
- Alignment of Article 23 of the Articles of Association ("Statutory Auditors") with Article L.823-1 I-2, of the French Commercial Code, as amended by Act 2016-1691 dated 9 December 2016 on transparency, the fight against corruption and the modernisation of economic life.
- Delegation of authority to the Board of Directors to make the necessary changes to the Articles of Association to comply with new legislative and regulatory provisions, subject to the changes being ratified at the next Extraordinary General Meeting.
- Powers to carry out formalities.

Proposed resolutions

Ordinary resolutions

FIRST ORDINARY RESOLUTION (Approval of the Company financial statements for the year ended 31 December 2016)

The Annual General Meeting, having considered the Chairman's Report on Corporate Governance and Internal Control, the Board of Directors' Management Report and the Auditors' report on the Company financial statements, approves the Company financial statements for the year ended 31 December 2016 as presented, showing a net loss of €30,278,521.41, together with the transactions reflected in these financial statements or described in these reports.

SECOND ORDINARY RESOLUTION (Approval of the consolidated financial statements for the year ended 31 December 2016)

The Annual General Meeting, having considered the Board of Directors' management report included in the Group Management Report, and the Auditors' report on the consolidated financial statements, approves the consolidated financial statements for the year ended 31 December 2016 as presented, showing profit attributable to owners of the parent of €504,079 thousand, as well as the transactions reflected in these financial statements and described in these reports.

THIRD ORDINARY RESOLUTION (Appropriation of profit for the year ended 31 December 2016 and dividend)

The Annual General Meeting, having considered the Board of Directors' report and the Auditors' report on the Company financial statements:

1. Notes that, for the year ended 31 December 2016, the Company reported a loss of €30,278,521.41 after tax and provision charges.
2. Resolves, based on the recommendation of the Board of Directors:

- To set off the loss for the year ended 31 December 2016 against retained earnings to the extent possible, reducing retained earnings from €349,503 to €0.
- To set off the balance (€29,929,018.41) against the share premium account, which will be reduced from €634,898,957.08 to €604,969,938.67.
- After noting the availability of distributable reserves, to pay to shareholders a net dividend of €1.05 per share, representing a total payout of €48,855,422.70 based on the 46,528,974 shares outstanding at 31 December 2016. The dividend will be paid out of the share premium account, which will be reduced from €604,969,938.67 to €556,114,515.97.

In the case of any increase in the number of shares with rights to the 2016 dividend compared with the 46,528,974 shares outstanding at 31 December 2016, the total dividend will be adjusted accordingly by deducting the additional amount required from the share premium account, so that the total deduction corresponds to the actual dividends payable.

Dividends not payable on shares held in treasury stock on the dividend payment date and any dividends waived by shareholders will be credited to retained earnings. The total dividend will be adjusted accordingly.

SFL shares will trade ex-dividend from 5 May 2017.
The dividend will be paid as from 9 May 2017, in cash.

The Annual General Meeting gives the Board of Directors full powers, which may be delegated to the Chief Executive Officer or – with the Chief Executive Officer's agreement – to the Managing Director, to implement this resolution, place on record the actual amount of dividends distributed, the amount credited to retained earnings and the new balance of the share premium account.

The Annual General Meeting notes that the dividend of €1.05 per share qualifies in full as a return of capital governed by Article 112-1 of the French Tax Code.

It will not therefore be subject to the withholding tax (*prélèvement forfaitaire non libératoire*) provided for in Article 117 *quater* of the French Tax Code or the withholding tax (*retenue à la source*) provided for in Article 119 *bis* of the French Tax Code. In addition, it will not qualify for the tax allowance provided for in Article 158 3-2 of the French Tax Code.

In accordance with Article 243 *bis* of the French Tax Code, information on dividends paid in the last three years is provided below:

Year	Dividend per share	Portion of the dividend qualifying for the 40% tax allowance	Portion of the dividend not qualifying for the 40% tax allowance for shareholders resident in France	Portion of the dividend classified as a return of capital	Total dividend(1)
2013	€0.70(2)	–	€0.70	–	€32,570,281.80
	€1.40	–	€0.27	€1.13	€65,140,563.60
2014	€0.70(3)	–	–	€0.70	€32,570,281.80
	€1.40	–	€0.68	€0.72	€65,140,563.60
2015	€1.05(4)		–	€1.05	€48,855,422.70
	€1.05	–	–	€1.05	€48,855,422.70
2016	€1.05(5)	–	–	€1.05	€48,855,422.70

(1) Not including dividends not paid on shares held in treasury stock.

(2) Interim dividend paid on 23 October 2013 by decision of the Board of Directors on 7 October 2013.

(3) Special dividend of €0.70 per share paid out of the share premium account by decision of the General Meeting of 14 November 2014.

(4) Special dividend of €1.05 per share paid out of the share premium account by decision of the General Meeting of 13 November 2015.

(5) Special dividend of €1.05 per share paid out of the share premium account by decision of the General Meeting of 15 November 2016.

FOURTH ORDINARY RESOLUTION (Election as a director of Sylvia Desazars de Montgailhard)

The Annual General Meeting resolves to elect Sylvia Desazars de Montgailhard as a director for a three-year term expiring at the close of the Annual General Meeting to be held to approve the financial statements for the year ending 31 December 2019.

FIFTH ORDINARY RESOLUTION (Re-election as a director of Anne-Marie de Chalambert)

The Annual General Meeting, having noted that Anne-Marie de Chalambert's term of office as a director expires at the close of the Meeting, resolves to re-elect her for a one-year term expiring at the close of the Annual General Meeting to be held to approve the financial statements for the year ending 31 December 2017.

SIXTH ORDINARY RESOLUTION (Re-election as a director of Carmina Ganyet I Cirera)

The Annual General Meeting, having noted that Carmina Ganyet I Cirera's term of office as a director expires at the close of the Meeting, resolves to re-elect her for a three-year term expiring at the close of the Annual General Meeting to be held to approve the financial statements for the year ending 31 December 2019.

SEVENTH ORDINARY RESOLUTION (Re-election as a director of Carlos Krohmer)

The Annual General Meeting, having noted that Carlos Krohmer's term of office as a director expires at the close of the Meeting, resolves to re-elect him for a three-year term expiring at the close of the Annual General Meeting to be held to approve the financial statements for the year ending 31 December 2019.

EIGHTH ORDINARY RESOLUTION (Re-election as a director of Luis Maluquer Trepat)

The Annual General Meeting, having noted that Luis Maluquer Trepat's term of office as a director expires at the close of the Meeting, resolves to re-elect him for a three-year term expiring at the close of the Annual General Meeting to be held to approve the financial statements for the year ending 31 December 2019.

NINTH ORDINARY RESOLUTION (Re-election as a director of Anthony Wyand)

The Annual General Meeting, having noted that Anthony Wyand's term of office as a director expires at the close of the Meeting, resolves to re-elect him for a one-year term expiring at the close of the Annual General Meeting to be held to approve the financial statements for the year ending 31 December 2017.

TENTH ORDINARY RESOLUTION (Re-appointment as Statutory Auditor of Deloitte & Associés)

The Annual General Meeting, having noted that the appointment of Deloitte & Associés as Statutory Auditor expires at the close of the Meeting, resolves to re-appoint Deloitte & Associés as Statutory Auditor for a period of six years expiring at the close of the Annual General Meeting to be held to approve the financial statements for the year ending 31 December 2022.

ELEVENTH ORDINARY RESOLUTION (Resolution not to re-appoint and not to replace BEAS as substitute Auditor, subject to shareholder approval of the proposed amendment to Article 23 of the Articles of Association – "Statutory Auditors")

The Annual General Meeting, having noted that the appointment of BEAS as substitute Auditor expires at the close of the Meeting and that the Statutory Auditor, Deloitte & Associés, is not an individual or sole proprietorship, notes that BEAS's appointment has expired and resolves, subject to Article 23 of the Articles of Association – "Statutory Auditors" being amended as proposed in the fourteenth extraordinary resolution, not to appoint a new substitute Auditor, as allowed under Article L.823-1, paragraph 2, of the French Commercial Code.

TWELFTH ORDINARY RESOLUTION (Advisory vote on the components of the remuneration due or awarded to Juan José Brugera Clavero, Chairman of the Board of Directors)

The Annual General Meeting, consulted in application of the AFEP-MEDEF Corporate Governance Code for Listed Companies (paragraph 26), issues a favourable opinion on the components of the remuneration due or awarded to Juan José Brugera Clavero in his capacity as Chairman of the Board of Directors, as described in section 3.5.1.5 of the Management Report (including Appendix 7.5 – Chairman's Report on Corporate Governance and Internal Control and risk management procedures) presented by the Board of Directors for the year ended 31 December 2016.

THIRTEENTH ORDINARY RESOLUTION (Advisory vote on the components of the remuneration due or awarded to Nicolas Reynaud, Chief Executive Officer)

The Annual General Meeting, consulted in application of the AFEP-MEDEF Corporate Governance Code for Listed Companies (paragraph 26), issues a positive advisory vote on the components of the remuneration due or awarded to Nicolas Reynaud in his capacity as Chief Executive Officer, as described in section 3.5.1.5 of the Management Report (including Appendix 7.5 – Chairman's Report on Corporate Governance and Internal Control) presented by the Board of Directors for the year ended 31 December 2016.

FOURTEENTH ORDINARY RESOLUTION (Advisory vote on the components of the remuneration due or awarded to Dimitri Boulte, Managing Director)

The Annual General Meeting, consulted in application of the AFEP-MEDEF Corporate Governance Code for Listed Companies (paragraph 26), issues a positive advisory vote on the components of the remuneration due or awarded to Dimitri Boulte in respect of his services as Chief Operating Officer (Mr Boulte does not receive any remuneration in his capacity as Managing Director), as described in section 3.5.1.5 of the Management Report (including Appendix 7.5 – Chairman's Report on Corporate Governance and Internal Control) presented by the Board of Directors for the year ended 31 December 2016.

FIFTEENTH ORDINARY RESOLUTION (Approval of the principles and criteria applied to determine, allocate and award the fixed, variable and special components of the remuneration and benefits of the the Chairman of the Board of Directors, the Chief Executive Officer and the Managing Director)

The Annual General Meeting, having considered the Board of Directors' report prepared in application of Article L.225-37-2 of the French Commercial Code, approves the principles and criteria applied to determine, allocate and award the fixed, variable and special components of the remuneration and benefits of Juan José Brugera Clavero in his capacity as Chairman of the Board of Directors, Nicolas Reynaud in his capacity as Chief Executive Officer and Dimitri Boulte, Managing Director, under his employment contract for his services as Chief Operating Officer, as described in the Board's report.

SIXTEENTH ORDINARY RESOLUTION (Determination of directors' fees)

The Annual General Meeting resolves to increase the aggregate amount of directors' fees to be distributed among the members of the Board of Directors from €400,000 to €800,000.

The new amount will apply as from the current financial year until a new decision is made.

SEVENTEENTH ORDINARY RESOLUTION (Authorisation to be given to the Board of Directors to carry out a share buyback programme governed by Article L.225-209 of the French Commercial Code)

The Annual General Meeting, having considered the report of the Board of Directors, resolves:

1. To cancel with immediate effect the unused portion of the authorisation given in the sixteenth ordinary resolution of the General Meeting of 26 April 2016 to buy back the Company's shares.

2. To authorise the Board of Directors, in accordance with Articles L.225-209 *et seq.* of the French Commercial Code, to buy back, hold or transfer, in one or several transactions, shares representing up to 10% of the Company's issued capital as of the date of this Meeting, as adjusted if applicable to take into account any capital increases or reductions that may take place after this Meeting, subject to the following restriction:
- The shares may not be bought back at a price in excess of €60 per share, excluding transaction costs, as adjusted if appropriate for the effects of any corporate actions, including any bonus share issue paid up by capitalising reserves and/or any share split or reverse share split.
- Consequently, based on the number of shares outstanding at 31 December 2016, the total amount invested in the share buyback programme will represent a maximum of €279,173,820 corresponding to 4,652,897 ordinary shares. This maximum will be adjusted, if necessary, to reflect the number of shares outstanding at the date of this Meeting and the effects of any future corporate actions.

3. That this authorisation is given for a period of eighteen months from the date of this Meeting.

4. That the share buybacks carried out under this authorisation may not under any circumstances result in the Company holding, directly or indirectly, more than 10% of the shares making up its issued capital.

The shares may be bought back or transferred at any time, including while a public offer is in progress provided that said offer is for cash only, on the basis and subject to the restrictions – particularly in terms of volumes and price – specified in the laws and regulations applicable on the transaction date. The transactions may be carried out by any appropriate method, including on the market, through a multilateral trading facility, through a "systematic internaliser" (as defined by the Markets in Financial Instruments Directive) or over-the-counter, through block purchases or sales or otherwise, or through the use of options or other derivative financial instruments or warrants, or through the remittance of shares following the issue of securities carrying rights to shares or the loan or temporary transfer of securities on the basis approved by the securities regulator. The timing of such transactions will be decided by the Board of Directors or by any person duly authorised by the Board. The entire programme may be carried out through a block purchase.

The shares may be bought back for any purpose allowed by law. The objectives of the share buyback programme shall notably be as follows:
- To purchase shares for allocation to all or selected employees and corporate officers of the Company, and/or related companies and economic interest groupings in accordance with the terms and conditions provided for in the applicable laws, including in connection with (i) the non-discretionary profit-sharing scheme, (ii) any employee share purchase or share grant plan governed by Articles L.3332-1 *et seq.* of the French Labour Code or other legal provisions or (iii) any stock option plan or share grant plan for all or selected employees and officers of the Company in accordance with Articles L.225-177 *et seq.* and L.225-197-1 *et seq.* of the French Commercial Code.
- To buy and sell shares under a liquidity contract with an investment firm that complies with a code of ethics recognised by the French securities regulator (*Autorité des Marchés Financiers*, AMF).

- To purchase shares for delivery on exercise of rights attached to securities exercisable, redeemable, convertible or exchangeable, upon presentation of a warrant or otherwise, immediately or at a future date, for shares of the Company and to cover the Company's obligations towards the holders of these securities.
- To cancel all or some of the shares bought back, in accordance with Article L.225-209 of the French Commercial Code, subject to adoption of the eleventh extraordinary resolution of this Meeting authorising the Board of Directors to reduce the share capital.
- Generally, to carry out any transaction leading to an obligation to deliver shares that is permitted or that may be authorised by the applicable regulations.

When shares are bought back under a liquidity contract in accordance with the General Regulations of the AMF, the number of shares used to calculate the limit of 10% of the issued capital will correspond to the number of shares purchased minus the number of shares sold during the authorised period.

The number of shares bought back in order to be held and subsequently delivered in payment or exchange for shares of another company in connection with a merger, demerger or asset contribution may not exceed 5% of the issued capital as determined on the transaction date.

The Board of Directors shall report to shareholders at each Annual General Meeting on the transactions carried out under this resolution, in accordance with Article L.225-209 of the French Commercial Code.

5. That the Board of Directors shall have full powers, including the power of delegation, to implement this authorisation, clarify its terms if necessary, and decide the method of implementation in accordance with the law and this resolution. Specifically, the Board of Directors is authorised to place buy and sell orders, enter into any and all agreements for the keeping of registers of purchases and sales or other registers, draw up any and all information and other documents, allocate or re-allocate the bought back shares to any of the above purposes, carry out any and all filing and other formalities with the AMF and all other organisations, carry out any and all other formalities and generally do whatever is necessary.

EIGHTEENTH ORDINARY RESOLUTION (Powers to carry out formalities)

The Annual General Meeting gives full powers to the bearer of an extract or copy of the minutes of the Meeting to carry out all necessary formalities.

Extraordinary resolutions

FIRST EXTRAORDINARY RESOLUTION (Delegation of competence to the Board of Directors to issue ordinary shares or securities with immediate or deferred rights to ordinary shares, with pre-emptive subscription rights for existing shareholders)

The Extraordinary General Meeting, having considered the Board of Directors' report and the Auditors' special report and noted that the Company's issued capital is fully paid up, resolves, in accordance with Articles L.225-129 *et seq.* of the French Commercial Code, particularly Articles L.225-129-2, L.225-132 to L. 225-134 and L. 228-91 *et seq*.:

1. To cancel, with immediate effect, the unused portion of the delegation of competence given in the first extraordinary resolution of the General Meeting of 22 April 2015.

2. To grant the Board of Directors a 26-month delegation of competence, from the date of this Meeting, to decide the issue of ordinary shares and securities with immediate or deferred rights to ordinary shares, with pre-emptive subscription rights for existing shareholders, to be paid up in cash or by capitalising debt. The Board of Directors shall not use this delegation of competence to issue preference shares or securities with immediate or deferred rights to preference shares.

3. That the aggregate par value of ordinary shares issued under this delegation of competence, either directly or at a future date on exercise of the rights attached to securities with deferred rights to ordinary shares, shall not exceed €100,000,000, not including the par value of any ordinary shares to be issued to protect the rights of holders of securities with rights to ordinary shares pursuant to the law or the applicable contractual terms.

4. That the securities with rights to ordinary shares issued under this delegation of competence may consist of debt securities or securities associated with the issue of debt securities or securities allowing the issue of intermediate debt securities. They may be dated or undated, and subordinated or unsubordinated, and may be denominated in euros, in foreign currency or in any monetary unit determined by reference to a basket of currencies.

   The aggregate nominal value of said debt securities shall not exceed €2,000,000,000, or the equivalent in foreign currency or monetary units at the date the issue is decided. This ceiling does not include any redemption premiums that may be payable on the securities. This non-cumulative ceiling shall apply to all debt securities that may be issued under this resolution and the second, third, sixth and seventh extraordinary resolutions tabled at this Meeting, but is independent and separate from the ceiling on issues of debt securities that may be decided or authorised by the Board of Directors in application of Article L.228-40 of the French Commercial Code.

   The life of debt securities with rights to new ordinary shares of the Company shall not exceed fifty (50) years, although this authorisation may also be used to issue undated debt securities. It may be used to issue fixed and/or floating rate or zero coupon debt securities. The securities may be redeemable in advance at par or at a premium, or repayable in instalments. They may be bought back on the market or through a cash or exchange offer made by the Company.

5. That this delegation of competence automatically entails the waiver by shareholders of their pre-emptive right to subscribe for any ordinary shares issued on exercise of the rights attached to securities with rights to ordinary shares issued under this delegation of competence.

6. That shareholders shall have a pre-emptive right to subscribe for the ordinary shares or securities with rights to ordinary shares issued under to this resolution, pro rata to their existing shareholdings. The terms and conditions under which this pre-emptive right may be exercised will be set by the Board of Directors in accordance with the applicable laws. The Board of Directors may also give shareholders a pre-emptive right to subscribe for ordinary shares or securities with rights to ordinary shares not taken up by other shareholders; in this case, if the issue is oversubscribed this secondary pre-emptive right will also be exercisable pro rata to the existing shareholdings of the shareholders concerned. If the entire issue is not taken up by shareholders exercising their pre-emptive subscription rights as provided for above, the Board of Directors may take any or all of the following courses of action provided for in Article L.225-134 of the French Commercial Code, in the order of its choice: (i) limit the amount of the issue to the subscriptions received, provided that at least three-quarters of the issue is taken up; and/or (ii) freely allocate all or some of the unsubscribed shares or securities, and/or (iii) offer all or some of the unsubscribed shares or securities for subscription by the public, through a public placement in France and/or abroad and/or on the international market.

7. That the Board of Directors shall have full powers to use this delegation of competence and to:

- Determine the characteristics, amounts and terms of the issues and the securities, the category of securities to be issued and, based on the information given in its report, set the subscription price of the shares or other securities, which may or may not include a premium, the method of payment of the subscription price, the future or retroactive date from which the shares or securities have coupon rights and, in the case of securities with rights to ordinary shares, the terms on which the rights are exercisable for ordinary shares.
- Enter into any and all underwriting or other agreements necessary to the issues' success and issue the securities defined above, on one or several occasions on dates and for amounts to be decided by the Board, in France and/or abroad and/or on the international market, and if appropriate, decide to abandon any such issue; place the issues on record; amend the Articles of Association to reflect any resulting increase in capital; carry out any and all filing and other formalities; and obtain any and all authorisations that may be necessary to implement and complete the issues.
- Take any and all necessary measures to protect the rights of holders of rights or of securities with rights to ordinary shares in accordance with the applicable laws and regulations and with any contractual terms providing for adjustments to be made in any other cases.
- At the Board's sole discretion, charge the share issuance costs against the related premium and deduct from the premium the amount necessary to increase the legal reserve to one-tenth of the new capital after each issue.
- If applicable, have the ordinary shares, the securities with rights to ordinary shares, or the ordinary shares issued upon exercise of the rights attached to the securities with rights to ordinary shares, admitted to trading on a regulated market.

The Board may delegate its powers under this resolution to the Chief Executive Officer or – with the Chief Executive Officer's agreement – to the Managing Director(s), subject to the limits to be set by the Board.

SECOND EXTRAORDINARY RESOLUTION (Delegation of competence to the Board of Directors to issue ordinary shares or securities with immediate or deferred rights to ordinary shares, without pre-emptive subscription rights for existing shareholders, through a public offer)

The Extraordinary General Meeting, having considered the Board of Directors' report and the Auditors' special report and noted that the Company's issued capital is fully paid up, resolves, in accordance with Articles L.225-129 *et seq.* of the French Commercial Code, particularly Articles L.225-129-2, L.225-135 and L.225-136, and Articles L.228-91 *et seq.* of said Code:

1. To cancel, with immediate effect, the unused portion of the delegation of competence given in the second extraordinary resolution of the General Meeting of 22 April 2015.

2. To grant the Board of Directors a 26-month delegation of competence, from the date of this Meeting, to decide to issue ordinary shares and securities with immediate or deferred rights to ordinary shares, on one or several occasions, for the amounts and in the periods of its choice, in France or abroad by means of a public offer without pre-emptive subscription rights for existing shareholders, to be paid up in cash or by capitalising debt. The Board of Directors shall not use this delegation of competence to issue preference shares or securities with immediate or deferred rights to preference shares.

   Any public offers decided pursuant to this resolution may be linked – in a single issue or several simultaneous issues – to offers governed by Article L.411-2-II of the French Monetary and Financial Code.

3. That the aggregate par value of ordinary shares issued under this delegation of competence, either directly or at a future date on exercise of the rights attached to securities with deferred rights to ordinary shares, shall not exceed €100,000,000, not including the par value of any ordinary shares to be issued to protect the rights of holders of securities with rights to ordinary shares pursuant to the law or the applicable contractual terms.

4. That the securities with rights to ordinary shares issued under this delegation of competence may consist of debt securities or securities associated with the issue of debt securities or securities allowing the issue of intermediate debt securities. They may be dated or undated, and subordinated or unsubordinated, and may be denominated in euros, in foreign currency or in any monetary unit determined by reference to a basket of currencies.

   The aggregate nominal value of said debt securities shall not exceed €2,000,000,000, or the equivalent in foreign currency or monetary units at the date the issue is decided. This ceiling does not include any redemption premiums that may be payable on the securities. This non-cumulative ceiling shall apply to all debt securities that may be issued under this resolution and the first, third, sixth and seventh extraordinary resolutions tabled at this Meeting, but is independent and separate from the ceiling on issues of debt securities that may be decided or authorised by the Board of Directors in application of Article L.228-40 of the French Commercial Code.

5. That this delegation of competence automatically entails the waiver by shareholders of their pre-emptive right to subscribe for any ordinary shares issued on exercise of the rights attached to securities with rights to ordinary shares issued under this delegation of competence.

6. That shareholders shall not have a pre-emptive right to subscribe for the shares or securities with rights to shares issued under this resolution. However, the Board of Directors may grant shareholders a non-transferable priority subscription right, exercisable pro rata to their existing shareholdings. In addition, shareholders may be given a non-transferable priority right to subscribe for ordinary shares or securities with rights to ordinary shares not taken up by other shareholders; in this case, if the issue is oversubscribed this secondary pre-emptive right will also be exercisable pro rata to the existing shareholdings of the shareholders concerned. The terms and conditions under which these priority rights may be exercised will be set by the Board of Directors in accordance with the applicable laws. Ordinary shares and securities with rights to ordinary shares not taken up by shareholders exercising their priority right will be placed on the market in France and/or abroad and/or on the international market.

7. That if the issue is not taken up in full by investors and shareholders, the Board of Directors may take either or both of the following courses of action provided for in Article L.225-134 of the French Commercial Code, in the order of its choice:

- Limit the amount of the issue to the subscriptions received, provided that at least three-quarters of the planned issue is taken up, and/or
- Freely allocate all or some of the unsubscribed shares and/or securities with rights to shares.

8. That the amount received or to be received by the Company for each of the shares and securities with rights to shares issued or to be issued under this delegation of competence – in the case of equity warrant issues, after taking into account the warrants' issue price – shall be at least equal to the minimum price provided for in the laws and/or regulations in force on the issue date, whether or not the securities to be issued immediately or on a deferred basis are fungible with existing equity instruments.

9. That:

a) The issue price of ordinary shares shall be at least equal to the minimum amount provided for in the laws and regulations in force at the time of issue, adjusted as necessary to take into account differences in cum dividend dates.

b) The issue price of securities with deferred rights to ordinary shares will be set in such a way that the amount received immediately by the Company plus any amount to be received at a future date for each ordinary share issued as a result of the issue of these securities, is at least equal to the amount defined in a), adjusted as necessary to take into account differences in cum dividend dates.

10. That the Board of Directors shall have full powers to use this delegation of competence and to:

- Determine the characteristics, amounts and terms of the issues and the securities, the category of securities to be issued and, based on the information given in its report, set the subscription price of the shares or other securities, which may or may not include a premium, the method of payment of the subscription price, the future or retroactive date from which the shares or securities have coupon rights and, in the case of securities with rights to ordinary shares, the terms on which the rights are exercisable for ordinary shares.
- Enter into any and all underwriting or other agreements necessary to the issues' success and issue the securities defined above, on one or several occasions on dates and for amounts to be decided by the Board, in France and/or abroad and/or on the international market, and if appropriate, decide to abandon any such issue; place the issues on record; amend the Articles of Association to reflect any resulting increase in capital; carry out any and all filing and other formalities; and obtain any and all authorisations that may be necessary to implement and complete the issues.
- Take any and all necessary measures to protect the rights of holders of rights or of securities with rights to ordinary shares in accordance with the applicable laws and regulations and with any contractual terms providing for adjustments to be made in any other cases.
- At the Board's sole discretion, charge the share issuance costs against the related premium and deduct from the premium the amount necessary to increase the legal reserve to one-tenth of the new capital after each issue.
- If applicable, have the ordinary shares, the securities with rights to ordinary shares, or the ordinary shares issued upon exercise of the rights attached to the securities with rights to ordinary shares, admitted to trading on a regulated market.

The Board may delegate its powers under this resolution to the Chief Executive Officer or – with the Chief Executive Officer's agreement – to the Managing Director(s), subject to the limits to be set by the Board.

THIRD EXTRAORDINARY RESOLUTION (Delegation of competence to the Board of Directors to issue ordinary shares or securities with immediate or deferred rights to ordinary shares, without pre-emptive subscription rights for existing shareholders, through a private placement governed by Article L.411-2 II of the French Monetary and Financial Code)

The Extraordinary General Meeting, having considered the Board of Directors' report and the Auditors' special report and noted that the Company's issued capital is fully paid up, resolves, in accordance with Articles L.225-129 *et seq.* of the French Commercial Code, particularly Articles L.225-129-2, L.225-135 and L.225-136, and Articles L.228-91 *et seq.* of said Code, as well as Article L.411-2 II of the French Monetary and Financial Code:

1. To cancel, with immediate effect, the unused portion of the delegation of competence given in the third extraordinary resolution of the General Meeting of 22 April 2015.

2. To grant the Board of Directors a 26-month delegation of competence, from the date of this Meeting, to decide to issue, on one or several occasions, for the amounts and in the periods of its choice, in France or abroad by means of an offer governed by Article L.411-2 II of the French Monetary and Financial Code (i.e., an offer to (i) a third party portfolio manager or (ii) qualified investors or a restricted group of investors that are investing their own funds), ordinary shares and securities with immediate or deferred rights to ordinary shares, without pre-emptive subscription rights for existing shareholders, to be paid up in cash or by capitalising debt. The Board of Directors shall not use this delegation of competence to issue preference shares or securities with immediate or deferred rights to preference shares.

3. That the aggregate par value of ordinary shares issued under this delegation of competence, either directly or at a future date on exercise of the rights attached to securities with deferred rights to ordinary shares, shall not exceed €100,000,000, not including the par value of any ordinary shares to be issued to protect the rights of holders of securities with rights to ordinary shares pursuant to the law or the applicable contractual terms.

4. That the number of shares issued in any 12-month period shall not represent more than 20% of the Company's issued capital, said period being calculated from the date of each successive issue. The Board of Directors shall check that the 20% limit has not been reached during the 12 months preceding a planned issue, taking into account changes in the Company's issued capital affecting the denominator.

5. That the securities with rights to ordinary shares issued under this delegation of competence may consist of debt securities or securities associated with the issue of debt securities or securities allowing the issue of intermediate debt securities. They may be dated or undated, and subordinated or unsubordinated, and may be denominated in euros, in foreign currency or in any monetary unit determined by reference to a basket of currencies.

   The aggregate nominal value of said debt securities shall not exceed €2,000,000,000, or the equivalent in foreign currency or monetary units at the date the issue is decided. This ceiling does not include any redemption premiums that may be payable on the securities. This non-cumulative ceiling shall apply to all debt securities that may be issued under this resolution and the first, second, sixth and seventh extraordinary resolutions tabled at this Meeting, but is independent and separate from the ceiling on issues of debt securities that may be decided or authorised by the Board of Directors in application of Article L.228-40 of the French Commercial Code.

6. That this delegation of competence automatically entails the waiver by shareholders of their pre-emptive right to subscribe for any ordinary shares issued on exercise of the rights attached to securities with rights to ordinary shares issued under this delegation of competence.

7. That shareholders shall not have a pre-emptive right to subscribe for the ordinary shares or securities with rights to ordinary shares issued under this delegation of competence.

8. That if the issue is not taken up in full by investors and shareholders, the Board of Directors may take any or all of the following courses of action provided for in Article L.225-134 of the French Commercial Code, in the order of its choice:
- Limit the amount of the issue to the subscriptions received, provided that at least three-quarters of the planned issue is taken up, and/or
- Offer all or some of the unsubscribed shares to the public, on the French or a foreign market, and/or
- Freely allocate all or some of the unsubscribed securities.

9. That:
   a) The issue price of ordinary shares shall be at least equal to the minimum amount provided for in the laws and regulations in force at the time of issue, adjusted as necessary to take into account differences in cum dividend dates.

   b) The issue price of any securities with deferred rights to ordinary shares shall be set in such a way that the amount received immediately by the Company plus any amount to be received at a future date for each ordinary share issued as a result of the issue of these securities, is at least equal to the amount defined in a) above, adjusted as necessary to take into account differences in cum dividend dates.

10. That the Board of Directors shall have full powers to use this delegation of competence and to:
- Determine the characteristics, amounts and terms of the issues and the securities, the category of securities to be issued and, based on the information given in its report, set the subscription price of the shares or other securities, which may or may not include a premium, the method of payment of the subscription price, the future or retroactive date from which the shares or securities have coupon rights and, in the case of securities with rights to ordinary shares, the terms on which the rights are exercisable for ordinary shares.
- Enter into any and all underwriting or other agreements necessary to the issues' success and issue the securities defined above, on one or several occasions on dates and for amounts to be decided by the Board, in France and/or abroad and/or on the international market, and if appropriate, decide to abandon any such issue; place the issues on record; amend the Articles of Association to reflect any resulting increase in capital; carry out any and all filing and other formalities; and obtain any and all authorisations that may be necessary to implement and complete the issues.
- Take any and all necessary measures to protect the rights of holders of rights or of securities with rights to ordinary shares in accordance with the applicable laws and regulations and with any contractual terms providing for adjustments to be made in any other cases.

- At the Board's sole discretion, charge the share issuance costs against the related premium and deduct from the premium the amount necessary to increase the legal reserve to one-tenth of the new capital after each issue.
- If applicable, have the ordinary shares, the securities with rights to ordinary shares, or the ordinary shares issued upon exercise of the rights attached to the securities with rights to ordinary shares, admitted to trading on a regulated market.

The Board may delegate its powers under this resolution to the Chief Executive Officer or – with the Chief Executive Officer's agreement – to the Managing Director(s), subject to the limits to be set by the Board.

FOURTH EXTRAORDINARY RESOLUTION (Authorisation given to the Board of Directors, for issues of ordinary shares and securities with rights to shares, without pre-emptive subscription rights, through a public placement or an offer governed by Article L.411-2 II of the French Monetary and Financial Code, to set the issue price by the method decided by the shareholders in General Meeting)

The Extraordinary General Meeting, having considered the Board of Directors' report and the Auditors' special report, resolves, in accordance with Article L.225-136 of the French Commercial Code:

1. To cancel, with immediate effect, the unused portion of the delegation of competence given in the fourth extraordinary resolution of the General Meeting of 22 April 2015.
2. Give the Board of Directors a 26-month authorisation from the date of this Meeting, for each issue decided pursuant to the second and third extraordinary resolutions, provided that the number of shares issued in any given 12-month period does not exceed 10% of the Company's issued capital at the date of this Meeting, to set the issue price of the ordinary shares and/or securities with rights to ordinary shares issued through a public placement or an offer governed by Article L.411-2 II of the French Monetary and Financial Code on the basis stipulated below:
   a) Ordinary shares will be issued at a discount of no more than 10% to the weighted average SFL share price for the three trading sessions immediately preceding the pricing date.
   b) The issue price of debt securities with deferred rights to ordinary shares will be set in such a way that the amount received immediately by the Company plus any amount to be received at a future date for each ordinary share issued as a result of the issue of these securities, is at least equal to the amount defined in a), adjusted as necessary to take into account differences in cum dividend dates.

The aggregate par value of shares issued directly or indirectly under this authorisation will be deducted from the amount by which the capital may be increased under the second and third extraordinary resolutions.

The Board may delegate its powers under this resolution to the Chief Executive Officer or – with the Chief Executive Officer's agreement – to the Managing Director(s), subject to the limits to be set by the Board.

FIFTH EXTRAORDINARY RESOLUTION (Authorisation given to the Board of Directors, in the case of a share issue with or without pre-emptive subscription rights, to increase the number of shares offered)

The Extraordinary General Meeting, having considered the Board of Directors' report and the Auditors' special report, resolves, in accordance with Article L.225-135-1 of the French Commercial Code:

1. To cancel, with immediate effect, the unused portion of the authorisation given in the fifth extraordinary resolution of the General Meeting of 22 April 2015.
2. To give the Board of Directors a 26-month authorisation from the date of this Meeting to decide, for any issue carried out pursuant to the first, second and third extraordinary resolutions that is over-subscribed, to increase the number of securities to be issued in order to grant a greenshoe option in line with market practice, in accordance with the above Article L.225-135-1, provided that the ceiling specified in the related resolution is not exceeded.

The Board may delegate its powers under this resolution to the Chief Executive Officer or – with the Chief Executive Officer's agreement – to the Managing Director(s), subject to the limits to be set by the Board.

SIXTH EXTRAORDINARY RESOLUTION (Delegation of competence to the Board of Directors to issue ordinary shares or securities with rights to ordinary shares in connection with a public exchange offer made by the Company)

The Extraordinary General Meeting, having considered the Board of Directors' report and the Auditors' special report, resolves, in accordance with Articles L.225-129-2, L.225-148 and L.228-92 of the French Commercial Code:

1. To cancel, with immediate effect, the unused portion of the authorisation given in the sixth extraordinary resolution of the General Meeting of 22 April 2015.
2. To grant the Board of Directors a 26-month delegation of competence, from the date of this Meeting, to decide to use the second extraordinary resolution to issue – without pre-emptive subscription rights – ordinary shares or securities with immediate and/or deferred rights to ordinary shares in payment for shares tendered to a public exchange offer or an

alternative cash or exchange offer for the shares of another company traded on one of the regulated markets referred to in the above Article L.225-148 made by SFL in France or in another country under local rules.

The aggregate par value of ordinary shares issued under this delegation of competence, either directly or at a future date on exercise of the rights attached to securities with rights to ordinary shares, shall not exceed €100,000,000 and shall be deducted from the ceiling set in the second and third extraordinary resolutions. This ceiling does not include the par value of any ordinary shares to be issued to protect the rights of holders of securities with rights to ordinary shares pursuant to the law or the applicable contractual terms.

3. That the securities with rights to ordinary shares issued under this delegation of competence may consist of debt securities or securities associated with the issue of debt securities or securities allowing the issue of intermediate debt securities. They may be dated or undated, and subordinated or unsubordinated, and may be denominated in euros, in foreign currency or in any monetary unit determined by reference to a basket of currencies.

The aggregate nominal value of said debt securities shall not exceed €2,000,000,000, or the equivalent in foreign currency or monetary units at the date the issue is decided. This ceiling does not include any redemption premiums that may be payable on the securities. This non-cumulative ceiling shall apply to all debt securities that may be issued under this resolution and the first, second, third and seventh extraordinary resolutions tabled at this Meeting, but is independent and separate from the ceiling on issues of debt securities that may be decided or authorised by the Board of Directors in application of Article L.228-40 of the French Commercial Code.

4. That this delegation of competence automatically entails the waiver by shareholders of their pre-emptive right to subscribe for any ordinary shares issued on exercise of the rights attached to securities with rights to ordinary shares issued under this delegation of competence.

5. That the Board of Directors shall have full powers to carry out public exchange offers under this delegation of competence and to:

- Set the exchange ratio and any cash payment to be made if application of the exchange ratio results in rights to fractions of shares.
- Set the terms and conditions of issue and the characteristics of securities issued under this delegation of competence.
- Place on record the number of securities tendered to the offer.
- Determine the date and terms of issue, including the price and cum dividend date, of the new ordinary shares or, if applicable, the securities with immediate or deferred rights to ordinary shares.
- Take any and all necessary measures to protect the rights of holders of rights or of securities with rights to ordinary shares in accordance with the applicable laws and regulations.
- Record in a "share premium" account in equity, to which all shareholders shall have rights, the difference between the issue price of the new shares and their par value.
- Charge against said premium all costs and fees incurred in connection with the offer.
- If applicable, have the ordinary shares, the securities with rights to ordinary shares, or the ordinary shares issued upon exercise of the rights attached to the securities with rights to ordinary shares, admitted to trading on a regulated market.
- Generally, take any and all appropriate measures and enter into any and all agreements to complete the authorised transaction, place on record the resulting capital increase(s) and amend the Articles of Association to reflect the new capital.

The Board may delegate its powers under this resolution to the Chief Executive Officer or – with the Chief Executive Officer's agreement – to the Managing Director(s), subject to the limits to be set by the Board.

SEVENTH EXTRAORDINARY RESOLUTION (Delegation of powers to the Board of Directors to issue ordinary shares or securities with rights to ordinary shares in payment for contributed shares or securities with rights to shares of another company, other than in connection with a public exchange offer made by the Company)

The Extraordinary General Meeting, having considered the Board of Directors' report and the Auditors' special report, resolves, in accordance with Article L.225-147 of the French Commercial Code:

1. To cancel, with immediate effect, the unused portion of the authorisation given in the seventh extraordinary resolution of the General Meeting of 22 April 2015.

2. To grant to the Board of Directors a 26-month delegation of powers from the date of this Meeting to use the second extraordinary resolution to issue ordinary shares or securities with immediate and/or deferred rights to ordinary shares, based on the report of the expert appraiser(s) of capital contributions referred to in the first and second paragraphs of the above-mentioned Article L.225-147, in payment for shares or securities with rights to shares of another company that are contributed to the Company under a transaction not governed by Article L.225-148 of the French Commercial Code. To this end, the Extraordinary General Meeting resolves to waive, in favour of the contributing parties, the pre-emptive right of existing shareholders to subscribe for these ordinary shares or securities with rights to ordinary shares.

The aggregate par value of ordinary shares issued directly or on exercise of the rights attached to securities with rights to ordinary shares pursuant to this delegation of powers shall not exceed 10% of the Company's issued capital at the issue date.

3. That the securities with rights to ordinary shares issued under this delegation of powers may consist of debt securities or securities associated with the issue of debt securities or securities allowing the issue of intermediate debt securities. They may be dated or undated, and subordinated or unsubordinated, and may be denominated in euros, in foreign currency or in any monetary unit determined by reference to a basket of currencies.

   The aggregate nominal value of said debt securities shall not exceed €2,000,000,000, or the equivalent in foreign currency or monetary units at the date the issue is decided. This ceiling does not include any redemption premiums that may be payable on the securities. This non-cumulative ceiling shall apply to all debt securities that may be issued under this resolution and the first, second, third and sixth extraordinary resolutions tabled at this Meeting, but is independent and separate from the ceiling on issues of debt securities that may be decided or authorised by the Board of Directors in application of Article L.228-40 of the French Commercial Code.

4. That this delegation of powers automatically entails the waiver by shareholders of their pre-emptive right to subscribe for any ordinary shares issued on exercise of the rights attached to securities with rights to ordinary shares issued under this delegation of competence.

5. That the Board of Directors shall have full powers to use this delegation of powers and to:

- Approve the value attributed to the contributed shares or securities and to the benefits granted, based on the valuation report issued by the expert appraiser(s) of capital contributions referred to in the first and second paragraphs of the above-mentioned Article L.225-147.
- Determine the date and terms of issue, including the price and cum dividend date, of the new ordinary shares or, if applicable, the securities with immediate and/or deferred rights to ordinary shares.
- At the Board's sole discretion, charge the share issuance costs against the related premium and deduct from the premium the amount necessary to increase the legal reserve to one-tenth of the new capital after each issue.
- Take any and all necessary measures to protect the rights of holders of rights or of securities with rights to ordinary shares in accordance with the applicable laws and regulations and with any contractual terms providing for adjustments to be made in any other cases.
- If applicable, have the ordinary shares, the securities with rights to ordinary shares, or the ordinary shares issued upon exercise of the rights attached to the securities with rights to ordinary shares, admitted to trading on a regulated market.
- Place on record the capital increases carried out under this delegation of powers, amend the Articles of Association to reflect the new capital, carry out any and all filing and other formalities and obtain any and all authorisations that are necessary to effect the contributions.

The Board may delegate its powers under this resolution to the Chief Executive Officer or – with the Chief Executive Officer's agreement – to the Managing Director(s), subject to the limits to be set by the Board.

EIGHTH EXTRAORDINARY RESOLUTION (Blanket ceiling on financial authorisations)

The Extraordinary General Meeting, having considered the Board of Directors' report and the Auditors' special report, and having adopted the first, second, third, fourth, fifth, sixth and seventh extraordinary resolutions, resolves to set at €100,000,000 the maximum aggregate par value of ordinary shares that may be issued directly or on exercise of the rights attached to securities with rights to ordinary shares issued under the authorisations given in the first, second, third, fourth, fifth, sixth and seventh extraordinary resolutions. This ceiling shall not include the par value of ordinary shares to be issued to protect the rights of holders of securities with rights to ordinary shares.

NINTH EXTRAORDINARY RESOLUTION (Delegation of competence to the Board of Directors to increase the Company's capital by capitalising reserves, profits or share premiums)

The Extraordinary General Meeting, after considering the Board of Directors' report, resolves, in accordance with Articles L.225-129-2 and L.225-130 of the French Commercial Code and under the quorum and majority voting rules applicable to Ordinary General Meetings:

1. To cancel, with immediate effect, the unused portion of the authorisation given in the tenth extraordinary resolution of the General Meeting of 22 April 2015.

2. To grant a 26-month delegation of competence to the Board of Directors from the date of this Meeting, to increase the capital on one or several occasions, for amounts and in periods to be decided by the Board, to be paid up by capitalising reserves, profits, share premiums or any other capitalisable amounts and issuing bonus shares or raising the par value of existing shares or both.

3. To give full powers to the Board of Directors to decide that rights to fraction of shares shall be non-transferable and that the corresponding shares will be sold, with the proceeds from the sale allocated among the holders of rights to fractions of shares within the period specified in the applicable regulations.

4. That the aggregate amount by which the capital may be increased under this delegation of competence shall not exceed €25,000,000. This ceiling does not include the par value of any ordinary shares to be issued to protect the rights of holders of securities with rights to ordinary shares. In addition, it is independent and separate from the ceilings

on issues of ordinary shares – directly or on exercise of rights attached to securities with rights to ordinary shares – carried out under the first, second, third, fourth, fifth, sixth and seventh extraordinary resolutions.

5. That the Board of Directors shall have full powers to use this delegation of competence and to:

- Set the amounts to be capitalised and decide on the accounts from which the funds will be transferred.
- Set the number of ordinary shares to be issued and/or the amount by which the par value of existing shares will be increased.
- Decide the future or retroactive date from which the new shares will carry rights or the increase in par value will be effective.
- Decide that any rights to fraction of shares shall be non-transferable and that the corresponding shares will be sold, with the proceeds from the sale allocated among the holders of rights to fractions of shares within the period specified in the applicable regulations.
- Take any and all necessary measures to protect the rights of holders of rights or securities with rights to ordinary shares in accordance with the applicable laws and regulations and with any contractual terms providing for adjustments to be made in any other cases.
- If applicable, charge the share issuance costs against one or several reserve accounts and deduct from said account(s) the amount necessary to increase the legal reserve to one-tenth of the new capital after each issue.
- If applicable, have the new shares admitted to trading on a regulated market.
- Place on record the capital increases carried out under this delegation of competence, amend the Articles of Association to reflect the new capital, carry out any and all filing and other formalities and obtain any and all authorisations that are necessary to effect the capital increase.

The Board may delegate its powers under this resolution to the Chief Executive Officer or – with the Chief Executive Officer's agreement – to the Managing Director(s), subject to the limits to be set by the Board.

TENTH EXTRAORDINARY RESOLUTION (Delegation of competence to the Board of Directors to issue shares to employees who are members of a Employee Share Ownership Plan, without pre-emptive subscription rights)

The Extraordinary General Meeting, having considered the Board of Directors' report and the Auditors' special report, resolves, in accordance with Articles L.225-129-2, L.225-129-6, L.225-138 I and II and L.225-138-1 of the French Commercial Code and Articles L.3332-18 *et seq.* of the French Labour Code:

1. To cancel, with immediate effect, the unused portion of the delegation of competence given in the eleventh extraordinary resolution of the General Meeting of 22 April 2015.

2. To grant a 26-month delegation of competence to the Board of Directors, as from the date of this Meeting, to decide to increase the capital on one or several occasions, on dates and terms to be decided by the Board, by issuing ordinary shares or securities with rights to ordinary shares to employees and retired employees who are members of an SFL Group Employee Share Ownership Plan or by making grants of shares or securities with rights to shares paid up by capitalising reserves, profits or share premiums, within the limits set in the applicable laws and regulations.

3. That the aggregate par value of ordinary shares that may be issued under this delegation of competence – directly or on exercise of rights attached to securities with rights to ordinary shares – shall not exceed €500,000. This ceiling does not include the par value of any ordinary shares to be issued to protect the rights of holders of securities with rights to ordinary shares. In addition, it is independent and separate from the ceilings on issues of ordinary shares – directly or on exercise of rights attached to securities with rights to ordinary shares – carried out under the first, second, third, fourth, fifth, sixth and seventh extraordinary resolutions.
   If an issue is not taken up in full, the amount of the issue shall be reduced based on the number of shares or securities effectively subscribed.

4. To waive, in favour of Employee Share Ownership Plan members, the pre-emptive right of existing shareholders to subscribe for the ordinary shares or securities with rights to ordinary shares. In addition, this delegation of competence automatically entails the waiver by shareholders of their pre-emptive right to subscribe for any ordinary shares issued on exercise of the rights attached to securities with rights to ordinary shares issued under this delegation of competence.

5. That:

- The discount offered under the Employee Share Ownership Plan shall be set at 20% of the average of the opening prices quoted for SFL shares on Euronext Paris over the 20 trading days immediately preceding the date on which the opening date of the subscription period is decided, or 30% of said average if the Plan's lock-up period set in accordance with Article L.3332-25 of the French Labour Code is at least 10 years. The Board of Directors may reduce this discount, at its discretion, in the case of an offer to members of a Group Employee Share Ownership Plan of shares or securities on the international market and/or outside France, to comply with any local laws. It may also replace all or part of the discount with a grant of ordinary shares or securities with rights to ordinary shares on the basis stipulated below.
- The Board of Directors may make grants of ordinary shares or securities with rights to ordinary shares, provided that the aggregate amount of the benefit resulting from these grants and the discount referred to above, if any, does not exceed the benefit that the Employee Share Ownership Plan members would have received if the shares or securities had been offered to them at a discount of 20% or 30% if the Plan's lock-up period set in accordance with Article L.3332-26 of the French Labour Code is at least 10 years. In addition, the total benefit including the financial value of the ordinary shares

attributed without consideration, determined based on the subscription price, must not exceed the legal limits.

6. That the Board of Directors shall have full powers to use this delegation of competence and to:

- Decide the characteristics, amount and terms of each issue of ordinary shares or securities with rights to shares and each grant of shares or other securities.
- Decide that the shares or securities will be offered for subscription either directly or through a corporate mutual fund.
- Draw up, in accordance with the law, the list of companies or other entities whose employees and retired employees will be eligible to subscribe the ordinary shares or securities with rights to ordinary shares and, if applicable, to receive grants of ordinary shares or securities with rights to ordinary shares.
- Decide the nature and terms of the capital increase and the terms and conditions of the issue or share grant.
- Decide the conditions of eligibility in terms of period of service of employees and retired employees to subscribe the ordinary shares or securities with rights to ordinary shares or to receive grants of ordinary shares or securities with rights to ordinary shares.
- Set the terms and conditions of the issues of ordinary shares or securities with rights to ordinary shares to be carried out under this delegation of competence, including the cum dividend date and the method of payment of the subscription price.
- Decide the opening and closing dates of the subscription periods.
- Place on record the capital increases based on the aggregate par value of the ordinary shares subscribed.
- Decide, if applicable, the type of securities to be granted, as well as the terms and conditions of grant.
- Determine, if applicable, the amounts to be capitalised within the limit specified above, the accounts from which said amounts are to be transferred, and the cum dividend date of the ordinary shares issued without consideration.
- At the Board's sole discretion, charge the share issuance costs against the related premium and deduct from the premium the amount necessary to increase the legal reserve to one-tenth of the new capital after each issue.
- Take all necessary measures to implement the capital increases, carry out any and all related formalities, including listing formalities for the new shares, amend the Articles of Association to reflect the new capital and generally do whatever else is necessary.

The Board may delegate its powers under this resolution to the Chief Executive Officer or – with the Chief Executive Officer's agreement – to the Managing Director(s), subject to the limits to be set by the Board.

ELEVENTH EXTRAORDINARY RESOLUTION (Authorisation given to the Board of Directors to reduce the share capital by cancelling shares held in treasury stock)

The Extraordinary General Meeting, having considered the Board of Directors' report and the Auditors' special report, resolves, in accordance with Article L.225-209 of the French Commercial Code:

1. To authorise the Board of Directors to cancel, on one or several occasions, all or some of the shares held by the Company or that may be held in the future following utilisation of the various buyback authorisations given by the General Meeting to the Board of Directors, provided that the number of shares cancelled in any 24-month period does not exceed 10% of the total shares outstanding on the transaction date. Said 10% limit shall apply to an adjusted number of shares, if necessary to take into account any corporate actions carried out after this Meeting.

2. To authorise the Board of Directors to charge the difference between the cost of the cancelled shares and their par value to any available premium or reserve account.

3. To give full powers to the Board of Directors – directly or through a representative appointed in accordance with the applicable laws and regulations – to effect the capital reduction(s) resulting from the share cancellations authorised by this resolution, determine and place on record the final amount of the capital reduction(s), record the corresponding accounting entries, amend the Articles of Association to reflect the new capital and generally carry out any and all necessary formalities.

4. To set at 18 months from the date of this Meeting the period of validity of this authorisation, which cancels and replaces all previous authorisations with the same purpose.

TWELFTH EXTRAORDINARY RESOLUTION (Authorisation given to the Board of Directors to grant stock options to employees and corporate officers)

The Extraordinary General Meeting, having considered the Board of Directors' report and the Auditors' special report, resolves:

1. To cancel, with immediate effect, the unused portion of the authorisation given in the first extraordinary resolution of the General Meeting of 24 April 2014.

2. To authorise the Board of Directors, in accordance with Articles L.225-177 *et seq.* of the French Commercial Code, or any person to whom this authority may be delegated pursuant to the law, to grant stock options on one or several occasions on the basis set out below.

The options may be granted to all or selected employees or officers (within the meaning of Article L.225-185, paragraph 4, of the French Commercial Code) of the Company or of related companies or entities within the meaning of Article L.225-180 of the French Commercial Code.

This authorisation is given for a period of 38 months from the date of this Meeting.

Each option shall be exercisable for one new or existing ordinary share. The total number of options granted under this resolution shall not be exercisable for a number of ordinary shares representing, on the grant date, more than 3% of the Company's share capital as of the date of this Meeting and, within this limit, the number of options granted to corporate officers ("*mandataires sociaux*") shall not be exercisable for a number of ordinary shares representing more than 0.2% of the Company's share capital as of the date of this Meeting. Any shares to be issued to protect the rights of holders of securities carrying rights to shares will not be taken into account for the purpose of determining if these ceilings are met.

If the authorisation is used to grant options exercisable for existing shares, these shares will be purchased by the Company either pursuant to Article L.225-208 of the French Commercial Code or under the share buyback programme to be authorised in the seventeenth ordinary resolution of this Meeting pursuant to Article L.225-209 of the French Commercial Code or any past or future buyback programme.

The exercise price of stock options granted under this authorisation shall be set by the Board of Directors on the following basis:

- The option exercise price shall represent at least 95% of the average of the prices quoted for SFL shares on Euronext Paris over the 20 trading days immediately preceding the option grant date. No options may be granted in the 20 trading days that follow the dividend payment date or any capital increase.
- In addition, if the authorisation is used to grant options exercisable for existing shares, the option exercise price shall not represent less than 80% of the average price paid for the shares held by the Company under Article L.225-208 of the French Commercial Code or under the share buyback programme to be authorised in the seventeenth ordinary resolution of this Meeting pursuant to Article L.225-209 of the French Commercial Code or any past or future buyback programme.

The exercise price may not be adjusted during the life of the options, except in the case of any financial transactions or corporate actions for which the Company is required by law to take the necessary measures to protect option holders' interests. In any such case, the Board of Directors shall implement the necessary measures to take into account the effect of the corporate action(s), in accordance with the applicable regulations. In particular, the decision may be made to temporarily suspend the right to exercise the options following a corporate action that gives rise to an adjustment in accordance with Article 225-181-2 of the French Commercial Code or any other financial transaction where the Board considers that it is appropriate to suspend option exercise rights.

Stock options granted under this authorisation must be exercised within ten years of the grant date.

The Extraordinary General Meeting notes and resolves that this authorisation automatically entails the waiver by existing shareholders of their pre-emptive right to subscribe for any shares issued on exercise of the options.

The Extraordinary General Meeting gives full powers to the Board of Directors – which may delegate these powers any person to whom the powers may be delegated pursuant to the law and which may be assisted by a committee made up of persons of its choice - within the limits specified above, to:

- Set the performance conditions and any other conditions governing the granting and exercise of the options.
- Decide the dates of the option grants, on the basis and subject to the restrictions prescribed by law.
- Draw up the list of grantees and set the number of options to be granted to each grantee; decide the terms of grant and exercise of the options; specify the conditions governing the exercise of the options and, in particular, decide to limit, restrict or prohibit (a) the exercise of the options, or (b) the sale of the ordinary shares received on exercise of the options, during certain periods or following certain events, with said decision applying to (i) all or some of the options and (ii) all or some of the grantees.
- In the cases provided for by law, take the necessary measures to protect the interests of option holders on the basis provided for in Article L.228-99 of the French Commercial Code.
- Generally, enter into any and all agreements, draw up any and all documents, place on record the capital increases resulting from the exercise of options, amend the Articles of Association to reflect the new capital, carry out any and all reporting and other formalities with any and all organisations and do whatever else is necessary.

The Board of Directors shall report to shareholders at each Annual General Meeting on the transactions carried out under this resolution.

THIRTEENTH EXTRAORDINARY RESOLUTION
(Alignment of Article 5 of the Articles of Association – "Registered Office" with Article L.225-36 of the French Commercial Code, as amended by Act 2016-1691 dated 9 December 2016 on transparency, the fight against corruption and the modernisation of economic life)

The Extraordinary General Meeting, having considered the Board of Directors report, resolves to align Article 5 of the Articles of Association – "Registered Office" with Article L.225-36 of the French Commercial Code, as amended by Act 2016-1691 dated 9 December 2016 on transparency, the fight against corruption and the modernisation of economic life.

To this end, the second sentence of Article 5 of the Articles of Association is hereby amended to read as follows, with the rest of the Article unchanged:
"It may be transferred to any other location in France by decision of the Board of Directors, subject to this decision being ratified at the next Ordinary General Meeting".

FOURTEENTH EXTRAORDINARY RESOLUTION
(Alignment of Article 23 of the Articles of Association – "Statutory Auditors" with Article L.823-1 I-2, of the French Commercial Code, as amended by Act 2016-1691 dated 9 December 2016 on transparency, the fight against corruption and the modernisation of economic life)

The Extraordinary General Meeting, having considered the Board of Directors report, resolves to align Article 23 of the Articles of Association – "Statutory Auditors" with Article L.823-1 I-2 of the French Commercial Code, as amended by Act 2016-1691 dated 9 December 2016 on transparency, the fight against corruption and the modernisation of economic life. To this end, paragraph 3 of Article 23 of the Articles of Association is hereby amended to read as follows:

"When a Statutory Auditor appointed as provided for above is an individual or sole proprietorship, a substitute Auditor must be appointed to replace the Statutory Auditor if necessary in accordance with the applicable legislation."

The rest of Article 23 is unchanged.

FIFTEENTH EXTRAORDINARY RESOLUTION (Delegation of authority to the Board of Directors to make the necessary changes to the Articles of Association to comply with new legislative and regulatory provisions, subject to the changes being ratified at the next Extraordinary General Meeting)

The Extraordinary General Meeting, having considered the Board of Directors report, gives full powers to the Board of Directors to make the necessary changes to the Articles of Association to comply with new legislative and regulatory provisions, subject to the changes being ratified at the next Extraordinary General Meeting.

SIXTEENTH EXTRAORDINARY RESOLUTION (Powers to carry out formalities)

The Extraordinary General Meeting gives full powers to the bearer of an extract or copy of the minutes of the Meeting to carry out all necessary formalities.

Appendix 7.8

Report of the Board of Directors to the Extraordinary General Meeting

We invite shareholders to adopt the resolutions presented below, based on the quorum and majority voting rules applicable to extraordinary resolutions with the exception of the ninth resolution for which the quorum corresponds to one fifth of the shares making up the issued capital and a simple majority vote by the shareholders present and represented is required.

Shareholders are asked to grant delegations of competence to the Board to issue shares and securities with rights to ordinary shares, with or without pre-emptive subscription rights for existing shareholders, in order to enable the Company to swiftly take advantage of market opportunities. In light of the wide variety of financial instruments currently available and the rapidly changing market conditions, it is important for the Board to have the greatest possible flexibility in choosing the best type of issue.

The delegations of competence will give the Board ample scope to act in all circumstances in the best interests of the Company, by deciding to issue ordinary shares and securities with rights to ordinary shares in France or abroad.

They are being sought for a period of 26 months from the date of this Meeting, and would replace the unused portion of earlier delegations to the same effect.

Specifically, shareholders are invited to grant delegations of competence or powers to the Board of Directors to issue ordinary shares and/or securities with rights to ordinary shares, with or without pre-emptive subscription rights for existing shareholders, in order to enable the Board to take up opportunities – especially by cancelling shareholders' pre-emptive rights – to carry out public offers and private placements in France, abroad and/or on international markets, based on the interests of the Company and shareholders. Depending on the type of securities, the issues could be denominated in euros or in foreign currencies, or in any monetary unit determined by reference to a basket of currencies.

Shareholders will also be asked to adopt extraordinary resolutions giving the Board of Directors a certain number of delegations of competence and/or authorisations, for example to issue shares to employees who are members of an Employee Share Ownership Plan, to cancel treasury shares acquired under a buyback programme and to grant stock options.

We are also proposing certain amendments to the Articles of Association to reflect recent legislative and regulatory changes.

I. Delegations of competence to issue ordinary shares and securities with immediate or deferred rights to ordinary shares

In the first, second and third extraordinary resolutions, shareholders are asked to grant the Board of Directors a 26-month delegation of competence to issue, with or without pre-emptive subscription rights for existing shareholders, ordinary shares or securities with immediate or deferred rights to new ordinary shares, in accordance with Articles L.225-129 *et seq.* of the French Commercial Code, particularly Articles L.225-132, L.225-135, L.225-136 and L.228-92. The non-cumulative aggregate par value of ordinary shares issued under these three delegations of competence and those sought in the fourth to seventh extraordinary resolutions would not exceed €100 million.

The Board considers it would not be appropriate to use these delegations of competence to issue:
– Preference shares,
– Securities with immediate or deferred rights to preference shares.

Shareholders are therefore asked to specifically rule out preference share issues and issues of securities with immediate or deferred rights to preference shares.

I.1 Issues with pre-emptive subscription rights *(first extraordinary resolution)*

a) The first extraordinary resolution concerns a delegation of competence to issue ordinary shares and securities with immediate or deferred rights to ordinary shares, with pre-emptive subscription rights for existing shareholders.

   A decision to delegate competence to the Board to issue securities with deferred rights to ordinary shares, whatever the form of said rights, would automatically entail or could entail, depending on the case, the waiver by shareholders of their pre-emptive right to subscribe for the ordinary shares issued on exercise of the rights attached to the securities, (although shareholders would have a pre-emptive right to subscribe for the securities).

   The aggregate amount by which the capital could be increased during the 26-month period covered by the delegation of competence would be capped at €100 million.

   This ceiling does not take into account the effect on the amount of the capital increase of any adjustments that may be made to protect the rights of holders of rights attached to securities with rights to ordinary shares.

   The aggregate nominal value of dated or undated, subordinated or unsubordinated debt securities that may be issued under the first extraordinary resolution – including securities associated with the issue of debt securities or securities allowing the issue of intermediate debt securities – would not exceed €2 billion or the equivalent (on the date the issue is decided) in foreign currency or in a monetary unit determined by reference to a basket of currencies. This ceiling does not include any redemption premiums that may be payable on the securities.

   This ceiling applies to the cumulative amount of all debt securities that may be issued under the first, second, third, sixth and seventh extraordinary resolutions tabled at this Meeting, but is independent and separate from the ceiling on the issue of debt securities that may be decided or authorised by the Board of Directors in application of Article L.228-40 of the French Commercial Code.

   The life of debt securities with rights to ordinary shares would not exceed 50 years, although the delegation of competence could also be used to issue undated subordinated or unsubordinated notes. The authorisation could be used to issue fixed and/or floating rate or zero coupon debt securities, the securities could be redeemable in advance at par or at a premium, and they could also be repayable in instalments. In addition, the securities could be bought back on the market or through a cash or exchange offer made by the Company.

In accordance with Article L.228-97 of the French Commercial Code, the issue agreement could stipulate that the securities would be redeemable only after all of the Company's other creditors had been paid, including or excluding holders of participating securities; it could also stipulate a creditor ranking.

b) The issue price of debt securities with deferred rights to ordinary shares would be set in such a way that the amount received immediately by the Company plus any amount to be received at a future date for each ordinary share issued as a result of the issue of these securities, was at least equal to the amount defined in a), adjusted as necessary to take into account differences in cum dividend dates.

c) The terms and conditions under which shareholders' pre-emptive subscription rights may be exercised pro rata to their existing shareholding would be set by the Board of Directors in accordance with the applicable laws. The Board of Directors could also give shareholders a pre-emptive right to subscribe for ordinary shares or securities with rights to ordinary shares not taken up by other shareholders; in this case, if the issue was oversubscribed this secondary pre-emptive right would also be exercisable pro rata to the existing shareholdings of the shareholders concerned. If the entire issue was not taken up by shareholders exercising their pre-emptive subscription rights as provided for above, the Board of Directors could take any or all of the following courses of action provided for in Article L.225-134 of the French Commercial Code, in the order of its choice: (i) limit the amount of the issue to the subscriptions received, provided that at least three-quarters of the issue was taken up; or (ii) freely allocate all or some of the unsubscribed shares or securities, or (iii) offer all or some of the unsubscribed shares or securities for subscription by the public, through a public placement in France and/or, if appropriate, abroad and/or on the international market.

d) On this basis, the Board of Directors would have the broadest powers to carry out the above issues, on one or several occasions and on all markets, in the best interests of the Company and its shareholders, to place the issue(s) on record and to amend the Articles of Association to reflect the new capital, to charge the issue costs against the premiums on the issued shares and deduct any amounts from said premiums to raise the legal reserve to one-tenth of the new capital, and to carry out any and all filing and other formalities and obtain any and all authorisations that could be necessary to carry out and complete the issues.

The Board of Directors would decide the characteristics, terms and conditions of each issue, set the subscription price of the shares or other securities, which may or may not include a premium, the future or retroactive date from which the shares or securities have coupon rights and, in the case of securities with rights to ordinary shares, the terms on which the rights are exercisable for ordinary shares.

In accordance with the law, the Board of Directors could delegate the powers granted by shareholders under the first extraordinary resolution to the Chief Executive Officer or – with the Chief Executive Officer's agreement – to the Managing Director(s), subject to limits to be set by the Board.

I.2 Issues without pre-emptive subscription rights through a public offer *(second extraordinary resolution)*

a) In the interests of the Company and shareholders, the Board of Directors could in certain circumstances want to take up opportunities offered by the financial markets, by carrying out issues without existing shareholders having pre-emptive subscription rights. This is why, in the second extraordinary resolution, the Board is seeking a 26-month delegation of competence to issue ordinary shares or securities with rights to new ordinary shares without pre-emptive subscription rights for existing shareholders. The resolution includes a cap on the amount of the issues which would be subject to the same conditions as for issues under the first extraordinary resolution and the specific conditions specified in points b) and c) below.

   The ordinary shares or securities with immediate or deferred rights to ordinary shares would be issued through public offers.

   Any such public offers could be linked – in a single issue or several simultaneous issues – to private placements governed by Article L.411-2 II of the French Monetary and Financial

Code that may be decided pursuant to the third extraordinary resolution of this Meeting.
The aggregate nominal value of debt securities issued under the second extraordinary resolution would be capped at €2 billion; this amount would not be cumulative with the amount of issues authorised in the first extraordinary resolution and, as for that resolution, would not include any redemption premiums that may be decided.
This ceiling applies to the cumulative amount of all debt securities that may be issued under the first, second, third, sixth and seventh extraordinary resolutions tabled at this Meeting, but is independent and separate from the ceiling on the issue of debt securities that may be decided or authorised by the Board of Directors in application of Article L.228-40 of the French Commercial Code.

b) If shareholders grant this delegation of competence to the Board of Directors and, accordingly, waive their pre-emptive subscription rights, the issue price of any ordinary shares issued under the resolution would be at least equal to the minimum amount provided for in the laws and regulations in force at the time of issue, adjusted as necessary to take into account differences in cum dividend dates.
This amount would also be the reference price for determining the issue price of securities with deferred rights to ordinary shares: said issue price would be set in such a way that the amount received immediately by the Company plus the amount to be received at a future date for each ordinary share issued as a result of the issue of these securities, would be at least equal to the above amount, adjusted as necessary to take into account differences in cum dividend dates.
On this basis, the Board of Directors would set the issue price of the securities and, in the case of debt securities, the interest terms, in the best interests of the Company and shareholders taking into account all relevant parameters. These would include the type of securities issued, stock market trends and the market for SFL shares, any priority subscription right granted to existing shareholders, market interest rates (in the case of an issue of debt securities), the number of ordinary shares represented by the rights and, generally, all the characteristics of the issued securities.
In accordance with Article R.225-119 of the French Commercial Code (adopted in application of Article L.225-136 of said Code), the new ordinary shares would not be issued at a discount of more than 5% to the weighted average share price for the three trading sessions immediately preceding the pricing date.
However, if shareholders adopt the fourth extraordinary resolution of this Meeting, for ordinary share issues representing no more than 10% of the capital carried out in any 12-month period the Board may choose not to apply the legal pricing rules and to set the issue price by the method stipulated in the fourth extraordinary resolution (see paragraph I.4 below).

c) On this basis, the Board would have the broadest powers to issue ordinary shares and securities with rights to ordinary shares, on one or several occasions without pre-emptive subscription rights, and to set the terms and conditions of each issue as explained above in the section dealing with the first extraordinary resolution.
The securities would be placed in accordance with market practices on the issue date. The Board is nevertheless asking shareholders for an authorisation to grant shareholders a non-transferable priority subscription right – if circumstances permit – possibly including a priority right to subscribe for securities not taken up by other shareholders. The conditions of exercise of this right would be determined by the Board in accordance with the law.
If the issue is not taken up in full, including by shareholders, the Board of Directors could (i) limit the amount of the issue to the subscriptions received, provided that the legal conditions were fulfilled, or (ii) freely allocate all or some of the unsubscribed shares or securities with rights to shares.

d) Shareholders should note that under this delegation of competence the Board would be authorised to take all other necessary measures in connection with or as a result of the issues. These measures, which are described above in the section dealing with the first extraordinary resolution, include amending the Articles of Association to reflect the new capital.

e) In accordance with the law, the Board of Directors could delegate authority for deciding issues to be carried out under the second extraordinary resolution, on the same basis as for the first extraordinary resolution (see above).

I.3 Issues without pre-emptive subscription rights through a private placement *(third extraordinary resolution)*

a) In the interests of the Company and shareholders, the Board of Directors could in certain circumstances want to take up opportunities offered by the financial markets, by carrying out issues without existing shareholders having pre-emptive subscription rights.
This is why, in the third extraordinary resolution, the Board is seeking a 26-month delegation of competence to issue ordinary shares or securities with rights to new ordinary shares without pre-emptive subscription rights for existing shareholders. The resolution includes a cap on the amount of the issues which would be subject to the same conditions as for issues under the first extraordinary resolution and the specific conditions specified in points b) and c) below.
The ordinary shares or securities with immediate or deferred rights to ordinary shares would be issued through a private placement governed by Article L.411-2 II of the French Monetary and Financial Code and would be limited to the equivalent of 20% of the issued capital per 12-month period, as calculated from the date of each successive issue. The Board of Directors would check that the 20% limit had not been reached during the 12 months preceding a planned issue, taking into account changes in the Company's issued capital affecting the denominator.
The private placements governed by Article L.411-2 II of the French Monetary and Financial Code could be linked – in a single issue or several simultaneous issues – to public offers that could be decided pursuant to the second extraordinary resolution of this Meeting.

The aggregate nominal value of debt securities issued under the third extraordinary resolution would be capped at €2 billion; this amount would not be cumulative with the amount authorised in the first extraordinary resolution and, as for that resolution, would not include any redemption premiums that may be decided

This ceiling applies to the cumulative amount of all debt securities that may be issued under the first, second, third, sixth and seventh extraordinary resolutions tabled at this Meeting, but is independent and separate from the ceiling on the issue of debt securities that may be decided or authorised by the Board of Directors in application of Article L.228-40 of the French Commercial Code.

b) The issue price of ordinary shares would be at least equal to the minimum amount provided for in the laws and regulations in force at the time of issue, adjusted as necessary to take into account differences in cum dividend dates.

   This amount would also be the reference price for determining the issue price of securities with deferred rights to ordinary shares: said issue price would be set in such a way that the amount received immediately by the Company plus the amount to be received at a future date for each ordinary share issued as a result of the issue of these securities, would be at least equal to the above amount, adjusted as necessary to take into account differences in cum dividend dates.

   On these bases, the Board of Directors would set the issue price of the securities and, in the case of debt securities, the interest terms, in the best interests of the Company and shareholders taking into account all relevant parameters. These would include the type of securities issued, stock market trends and the market for SFL shares, any priority subscription right granted to existing shareholders, market interest rates (in the case of an issue of debt securities), the number of ordinary shares represented by the rights and, generally, all the characteristics of the issued securities.

   In accordance with Article R.225-119 of the French Commercial Code (adopted in application of Article L.225-136 of said Code), the new ordinary shares would not be issued at a discount of more than 5% to the weighted average share price for the three trading sessions immediately preceding the pricing date.

   However, if shareholders adopt the fourth extraordinary resolution of this Meeting, for ordinary share issues representing no more than 10% of the capital carried out in any 12-month period the Board could choose not to apply the legal pricing rules and to set the issue price by the method stipulated in the fourth extraordinary resolution (see paragraph I.4 below).

c) On this basis, the Board would have the broadest powers to issue ordinary shares and securities with rights to ordinary shares, on one or several occasions without pre-emptive subscription rights, and to set the terms and conditions of each issue as explained above in the section dealing with the first extraordinary resolution.

   The securities would be placed in accordance with market practices on the issue date. The Board is nevertheless asking shareholders for an authorisation to grant shareholders a non-transferable priority subscription right – if circumstances permit – possibly including a priority right to subscribe for securities not taken up by other shareholders. The conditions of exercise of this right would be determined by the Board in accordance with the law.

   If the issue was not taken up in full by investors and shareholders, the Board of Directors could (i) limit the amount of the issue to the subscriptions received, provided that the legal conditions were fulfilled, (ii) place the shares or securities with rights to shares on the market in France and/or abroad and/or on the international market, or (iii) freely allocate all or some of the unsubscribed shares or securities with rights to shares.

d) Shareholders should note that under this delegation of competence the Board would be authorised to take all other necessary measures in connection with or as a result of the issues. These measures, which are described above in the section dealing with the first extraordinary resolution, include amending the Articles of Association to reflect the new capital.

e) In accordance with the law, the Board of Directors could delegate authority for deciding issues to be carried out under the third extraordinary resolution, on the same basis as for the first extraordinary resolution (see above).

I.4 Issues without pre-emptive subscription rights: determination of the issue price by the Board of Directors by the method decided by shareholders *(fourth extraordinary resolution)*

In accordance with the alternative rules introduced in Article L.225-136 of the French Commercial Code, the Board of Directors is seeking a 26-month authorisation (i) to decide not to apply the pricing rules specified by law, as described above, and (ii) to set the price of ordinary shares and securities with rights to ordinary shares issued through a public offer or a private placement governed by Article 411-2 II of the French Financial and Monetary Code by the method described below. This exception would apply only to ordinary share issues representing no more than 10% of the capital (at the date of this Meeting) carried out in any 12-month period under the delegations of competence given in the second and third extraordinary resolutions. For these issues, the following pricing rules would apply:

i) Ordinary shares would be issued at a discount of no more than 10% to the weighted average SFL share price for the three trading sessions immediately preceding the pricing date.

ii) The issue price of debt securities with rights to ordinary shares would be set in such a way that the amount received immediately by the Company plus any amount to be received at a future date for each ordinary share issued as a result of the issue of these securities, was at least equal to the amount defined in i), adjusted as necessary to take into account differences in cum dividend dates.

   This authorisation would give the Board of Directors greater flexibility in pricing public placements of ordinary shares issued without pre-emptive subscription rights and thereby increase the chances of the issue being a success.

   The aggregate par value of shares issued directly or indirectly under this authorisation would be deducted from the amount

by which the capital could be increased under the second and third extraordinary resolutions.
The Board would be authorised to delegate its powers to the Chief Executive Officer or – with the Chief Executive Officer's agreement – to the Managing Director(s), subject to the limits to be set by the Board.
If and when the authorisation given in the fourth extraordinary resolution was used, the Board and the Auditors would report to shareholders on the final terms of the issue and on the estimated impact on the situation of existing shareholders.

I.5 Share issue with or without pre-emptive subscription rights: authorisation to be given to the Board to increase the number of shares to be issued *(fifth extraordinary resolution)*

In accordance with the rules introduced in Article L.225-135-1 of the French Commercial Code, in the fifth extraordinary resolution the Board of Directors is seeking an authorisation to decide, for all issues carried out pursuant to the first, second and third extraordinary resolutions, to increase the number of securities offered for subscription, on the basis allowed under Article L.225-135-1, provided that the ceiling specified in the related resolution is not exceeded.

This authorisation would enable the Board to offer additional shares on the same terms as for the original offer, by permitting the exercise of a greenshoe option in the event that an offer is over-subscribed.

In accordance with Article R.225-118 of the French Commercial Code, the Board of Directors would be authorised to decide, within thirty days of the close of the original subscription period for each issue decided pursuant to the first, second and third extraordinary resolutions, to increase the number of shares offered by up to 15% compared to the original offer, provided that this does not result in the ceiling set in the relevant resolution being exceeded.

The Board would be authorised to delegate its powers to the Chief Executive Officer or – with the Chief Executive Officer's agreement – to the Managing Director(s), subject to the limits to be set by the Board.

I.6 Issue of securities in connection with a public exchange offer made by the Company *(sixth extraordinary resolution)*

A delegation of competence is being sought in accordance with Article L.225-148 of the French Commercial Code to allow the Board to use the authorisation given in the second extraordinary resolution to issue ordinary shares and securities with rights to ordinary shares in payment for shares tendered to a public exchange offer by SFL for the shares of another company traded on a regulated market in a country that is a member of the European Economic Area or of the OECD.

The procedure allows shares to be exchanged without SFL being required to implement the procedures applicable to contributions of shares or other securities.

The rules described in the above section on the second extraordinary resolution would also apply to issues carried out under the sixth extraordinary resolution, except those concerning the issue price of ordinary shares or securities with rights to ordinary shares, and the priority subscription right for existing shareholders.

Existing shareholders would not have a pre-emptive right to subscribe for the new shares and shareholders are therefore asked to waive this right, on the same basis as under the second extraordinary resolution.

For each issue, the Board would be authorised to decide the type and characteristics of the ordinary shares or securities with rights to ordinary shares to be issued, the exchange ratio and the amount of any cash payment that would be due if application of the exchange ratio resulted in rights to fractions of shares. The amount of the capital increase would depend on the number of shares of the target tendered to the offer, taking into account the number of ordinary shares and securities with rights to ordinary shares issued and the exchange ratio.

The aggregate par value of ordinary shares issued under this delegation of competence, which is the subject of a special resolution, would be capped at €100 million. This amount represents the ceiling for cumulative share issues carried out under the first, second, third, fourth, fifth, sixth and seventh extraordinary resolutions tabled at this Meeting. It does not take into account the effect on the amount of the capital increase of any adjustments that may be made to protect the rights of holders of rights attached to securities with rights to ordinary shares.

The authorisation is being sought for a period of 26 months from the date of this Meeting.

I.7 Issues in payment for shares or securities with rights to shares contributed to SFL *(seventh extraordinary resolution)*

In accordance with the rules introduced in Article L.225-147 of the French Commercial Code, the seventh extraordinary resolution concerns a 26-month delegation of powers sought by the Board of Directors to issue ordinary shares and securities with rights to ordinary shares in payment for shares or securities with rights to shares contributed to the Company under transactions that are not governed by Article L.225-148 of the French Commercial Code. Issues under this authorisation would be capped at 10% of the Company's capital at the issue date.

Shareholders would be required to waive their pre-emptive right to subscribe for the new shares or securities, in favour of the holders of the contributed shares or securities.

In addition, if the delegation of powers was used to issue securities with rights to ordinary shares, shareholders would automatically be considered as having waived their pre-emptive right to subscribe for the shares issued on exercise of said rights.

Issues under this delegation of powers would be deducted from the amount available under the blanket ceiling set in the eighth extraordinary resolution for issues carried out under the first seven extraordinary resolutions.

If the seventh extraordinary resolution was used, the Board would be authorised to approve the value attributed to the contributed shares or securities and to the benefits granted, based on the valuation report issued by the expert appraiser of capital contributions, in the same way as if the transaction had been presented to shareholders for approval (paragraphs 1 and 2 of Article L.225-147 of the French Commercial Code), and to place on record the capital increases carried out under the resolution. The Board could also reduce the value attributed to the contributed shares or securities or the remuneration of any benefits granted, with the agreement of the parties making the contribution.

The Board would be given the necessary powers to act on this authorisation and to amend the Articles of Association to reflect the resulting capital increase(s).

The Board would be authorised to delegate its powers to the Chief Executive Officer or – with the Chief Executive Officer's agreement – to the Managing Director(s), subject to the limits to be set by the Board.

I.8 Blanket ceiling on financial authorisations *(eighth extraordinary resolution)*

Shareholders are asked to set at €100 million the aggregate par value of ordinary shares issued directly or indirectly under the authorisations sought in the first seven extraordinary resolutions. The par value of any ordinary shares to be issued in respect of adjustments made to protect the rights of holders of securities with rights to ordinary shares pursuant to the law or the applicable contractual terms would be in addition to this ceiling.

I.9 Capital increase to be paid up by capitalising reserves, profits or share premiums *(ninth extraordinary resolution)*

The ninth extraordinary resolution concerns a delegation of competence sought by the Board to increase the capital by capitalising reserves, profits or share premiums. This type of transaction, which does not necessarily lead to the issuance of new ordinary shares, is governed by specific legal provisions contained in Article L.225-130 of the French Commercial Code. The delegation of competence is subject to the quorum and majority voting rules applicable to Ordinary General Meetings, which is why a separate resolution is being tabled.

The 26-month delegation of competence will enable the Board of Directors to decide to increase the capital by up to €25 million through one or several transactions. This ceiling does not include the par value of any ordinary shares to be issued to protect the rights of holders of securities with rights to ordinary shares. In addition, it is independent and separate from the ceilings set in the first seven extraordinary resolutions.

The Board of Directors would have full powers to decide the items and amounts to be capitalised, as well as the method to be used to effect the capital increase (increase in the par value of shares and/or bonus share issue), to place on record each capital increase and amend the Articles of Association to reflect the new capital, and to make any and all adjustments required by law.

If the capital increase was carried out by issuing bonus shares, with future or retroactive dividend rights, the Board could decide that rights to fractions of shares would be non-transferable, and that the corresponding shares would be sold, in which case the sale proceeds would be allocated among holders of rights to fractions of shares within the period stipulated in the applicable regulations.

The Board would be authorised to delegate its powers to the Chief Executive Officer or – with the Chief Executive Officer's agreement – to the Managing Director(s), subject to the limits to be set by the Board.

II. Specific authorisations

II-1 Share issues to employees who are members of an SFL Employee Share Ownership plan *(tenth extraordinary resolution)*

Article L.225-129-6 of the French Commercial Code stipulates that when companies seek shareholder authorisation to issue shares for cash, they must also table a resolution authorising an employee share issue governed by Articles L.3332-18 *et seq.* of the French Labour Code.

The Board of Directors is therefore seeking a delegation of competence to issue ordinary shares or securities with rights to new ordinary shares to employees and retired employees who are members of a Employee Share Ownership Plan set up by the SFL Group, or to make grants of ordinary shares or securities with rights to new ordinary shares, to be paid up by capitalising reserves, profits, share premiums or other items. These issues would be governed by the employee share ownership provisions of the French Commercial Code (Articles L.225-129-6, L.225-138 I and II and L.225-138-1) and the French Labour Code (Articles L.3332-18 *et seq.*).

This delegation of competence is being sought for a period of 26 months. The aggregate par value of ordinary shares that could be issued under the authorisation – directly or on exercise of rights attached to securities with rights to ordinary shares – would be capped at €500,000. This ceiling does not include the par value of any ordinary shares to be issued to protect the rights of holders of securities with rights to ordinary shares. In addition, it is cumulative with the ceilings on issues of ordinary shares – directly or on exercise of rights attached to securities with rights to ordinary shares – carried out under the first seven extraordinary resolutions.

The shares would be offered at a discount of 20% or, if the lock-up period provided for in the plan in accordance with Article L.3332-25 of the French Labour Code was 10 years or more, 30% of the average of the opening prices quoted for SFL shares on Euronext Paris over the 20 trading days immediately preceding the date on which the opening date of the subscription period was decided. However, shareholders could decide to authorise the Board to reduce the discount in the case of an offer to members of a Group Employee Share Ownership Plan of shares or securities on the international market and/or outside France, to comply with any local laws.

The Board would also be authorised to replace all or part of the discount with a free grant of ordinary shares or securities with rights to ordinary shares. The terms of any such grant of ordinary shares or securities with rights to ordinary shares would have to comply with Article L.3332-26 of the French Labour Code.

If shareholders adopt this resolution, they would be required to waive their pre-emptive subscription rights to the ordinary shares or securities with rights to ordinary shares in favour of the employees and retired employees who are members of the Employee Share Ownership Plan. They would also be considered as having automatically waived their pre-emptive right to subscribe for shares to be issued to these employees and retired employees on exercise of the rights attached to securities with rights to ordinary shares.

The Board would be authorised to delegate its powers to the Chief Executive Officer or – with the Chief Executive Officer's agreement – to the Managing Director(s), subject to the limits to be set by the Board.

II.2 Authorisation to cancel SFL shares acquired under a buyback programme *(eleventh extraordinary resolution)*

In relation to the seventeenth ordinary resolution of this Meeting (share buyback programme) and in accordance with Article L.225-209 of the French Commercial Code, shareholders are asked to give the Board of Directors an 18-month authorisation to cancel all or some of the SFL shares bought back under the share buyback programme authorised in the seventeenth ordinary resolution or any other share buyback programme and therefore reduce the share capital.

According to the applicable legislation, the Company could only cancel shares representing up to 10% of issued capital in any 24-month period.

II.3 Authorisation to grant stock options to employees and corporate officers *(twelfth extraordinary resolution)*

The Board is seeking an authorisation – which could be delegated to any person to whom the powers may be delegated pursuant to the law – to grant stock options to all or selected employees and corporate officers of the Company or of related companies. Each option would be exercisable for one new or existing ordinary share.

This authorisation would enable the Board to reward grantees for their commitment to the Company, by enabling them to become shareholders and thus give them a stake in the Company's development.

If the authorisation was used to grant options on new shares, shareholders would be asked to waive, in favour of the option holders, their pre-emptive right to subscribe for the shares to be issued on exercise of the options.

If the authorisation was used to grant options on existing shares, these shares would be purchased by the Company either pursuant to Article L.225-208 of the French Commercial Code or under the share buyback programme to be authorised in the seventeenth ordinary resolution of this Meeting or any past or future buyback programme.

The option exercise price would represent at least 95% of the average of the prices quoted for SFL shares on Euronext Paris over the 20 trading days immediately preceding the option grant date. No options would be granted in the 20 trading days that followed the dividend payment date or any capital increase.

In addition, if the authorisation was used to grant options on existing shares, the option exercise price would not represent less than 80% of the average price paid for the shares held by the Company under Article L.225-208 of the French Commercial Code or under the share buyback programme to be authorised in the seventeenth ordinary resolution of this Meeting or any past or future buyback programme.

The exercise price would not be adjusted during the life of the options, except in the case of any financial transactions or corporate actions for which the Company was required by law to take the necessary measures to protect option holders' interests. In any such case, the Board of Directors would implement the necessary measures to take into account the effect of the corporate action(s), in accordance with the applicable regulations. In particular, the decision could be made to temporarily suspend the right to exercise the options following a corporate action that gave rise to an adjustment in accordance with Article 225-181-2 of the French Commercial Code or any other financial transaction where the Board considered that it was appropriate to suspend option exercise rights.

The authorisation is being sought for a period of 38 months from the date of this Meeting. The total number of options granted would not be exercisable for a number of ordinary shares representing, on the grant date, more than 3% of the Company's share capital as of the date of this Meeting and, within this limit, the number of options granted to corporate officers ("*mandataires sociaux*") would not be exercisable for a number of ordinary shares representing more than 0.2% of the Company's share capital as of the date of this Meeting. Any shares to be issued to protect the rights of holders of securities carrying rights to shares would not be taken into account for the purpose of determining if these ceilings were met.

Cancellation of authorisations and delegations of competence given at the Extraordinary Meetings of 24 April 2014, 22 April 2015 and 26 April 2016.

If the resolutions tabled at this Meeting are adopted by shareholders, the unused portions of the authorisations given to the Board of Directors by the Extraordinary General Meetings of 24 April 2014, 22 April 2015 and 26 April 2016 will be automatically cancelled.

III. Alignments and amendments of the Articles of Association

III-1 Amendment of Article 5 of the Articles of Association ("Registered Office") *(thirteenth extraordinary resolution)*

The first paragraph of Article L.225-36 of the French Commercial Code, as amended by Act 2016-1691 dated 9 December 2016 on transparency, the fight against corruption and the modernisation of economic life, states that: *"The transfer of the registered office to a new location in France may be decided by the Board of Directors, subject to this decision being ratified at the next Ordinary General Meeting."*

We therefore propose amending the second sentence of Article 5 of the Articles of Association ("Registered Office") to read as follows:
"It may be transferred to any other location in France by decision of the Board of Directors, subject to this decision being ratified at the next Ordinary General Meeting".

The rest of Article 5 is unchanged.

III-2 Amendment of Article 23 of the Articles of Association ("Statutory Auditors") *(fourteenth extraordinary resolution)*

The second paragraph of Article L.823-1 of the French Commercial Code has been amended by Act 2016-1691 dated 9 December 2016, which requires the appointment of a substitute Auditor only if the Statutory Auditor is an individual or sole proprietorship. We therefore propose amending the third paragraph of Article 23 of the Articles of Association ("Statutory Auditors") to read as follows:
"When a Statutory Auditor appointed as provided for above is an individual or sole proprietorship, a substitute Auditor must be appointed to replace the Statutory Auditor if necessary in accordance with the applicable legislation."

The rest of Article 23 is unchanged.

III-3 Delegation of authority to the Board of Directors to make the necessary changes to the Articles of Association to comply with new legislative and regulatory provisions, subject to ratification of the changes at the next Extraordinary General Meeting *(fifteenth extraordinary resolution)*

The second paragraph of Article L.225-36 of the French Commercial Code, as amended by Act 2016-1691 dated 9 December 2016 on transparency, the fight against corruption and the modernisation of economic life, states that: "*The shareholders in Extraordinary Meeting may delegate authority to the Board of Directors to make the necessary changes to the Articles of Association to comply with new legislative and regulatory provisions, subject to the changes being ratified at the next Extraordinary General Meeting."*

In application of the above article, we invite shareholders to adopt the fifteenth extraordinary resolution giving full powers to the Board of Director to align the Articles of Association with new legislative and regulatory provisions, subject to the changes being ratified at the next Extraordinary General Meeting.

The Board of Directors

Activities of the Company since 1 January 2017

The report of the Board of Directors to the Annual General Meeting includes information about the activities of the Company since the beginning of the current financial year.

Shareholders are invited to adopt the resolutions tabled at this Meeting, after considering the report of the Auditors drawn up in accordance with the applicable laws.

Appendix 7.9
Portfolio at 31 December 2016

Owned properties		Total surface area (sq.m.)	Offices (sq.m.)	Retail (sq.m.)	Hotels (sq.m.)
1st *arrondissement*	Louvre Saint-Honoré	47,674	28,521	6,662	
2nd *arrondissement*	#cloud.paris	35,004	27,482		
2nd *arrondissement*	6 Hanovre	4,607	3,325		
7th *arrondissement*	103 Grenelle	18,865	15,585	258	
8th *arrondissement*	Washington Plaza	46,992	39,663	417	
8th *arrondissement*	Haussmann Saint-Augustin	13,435	11,683	791	
8th *arrondissement*	Galerie des Champs-Elysées	8,662		4,599	
8th *arrondissement*	90 Champs-Élysées	8,860	7,912	932	
8th *arrondissement*	92 Champs-Élysées	7,691	4,110	3,088	
8th *arrondissement*	Cézanne Saint-Honoré	29,047	24,437	1,849	
8th *arrondissement*	9 Percier	6,689	5,945		
9th *arrondissement*	Condorcet	24,883	20,376		
9th *arrondissement*	Édouard VII	54,120	28,413	7,331	3,125
12th *arrondissement*	Rives de Seine	22,671	20,270		
16th *arrondissement*	96 Iéna	8,856	7,505		
17th *arrondissement*	112 Wagram	5,999	4,470	892	
17th *arrondissement*	131 Wagram*	9,186	7,100		
Neuilly-sur-Seine	176 Charles de Gaulle	7,381	5,749	389	
Issy-les-Moulineaux	Le Vaisseau	6,332	6,026		
Boulogne-Billancourt	IN/OUT	36,643	30,954		
Total		**403,598**	**299,527**	**27,207**	**3,125**

* On 14 June 2016, SFL exercised the purchase option under the finance lease on 131 Wagram.

Cinema/ theatres (sq.m.)	Residential (sq.m.)	Staff restaurant/ fitness centre (sq.m.)	Basements (sq.m.) (file rooms, stock rooms)	Common areas and other (sq.m.)	Parking spaces (number)
		2,134	1,895	8,462	236
		2,569	1,556	3,397	99
			1,246	36	
		1,052	247	1,724	100
		2,214	2,522	2,176	662
			961		104
			1,819	2,244	125
				17	
				493	
			1,257	1,504	128
			191	553	8
	1,562	1,301	1,644		50
8,019	4,509	1,077	1,646		523
		1,760	641		366
			421	930	264
			75	562	29
		449	1,104	532	124
			382	861	145
			306		124
		1,660	2,239	1,790	581
8,019	**6,071**	**14,216**	**20,151**	**25,282**	**3,668**

Consolidated Financial Statements for the Year Ended 31 December 2016

The consolidated financial statements were approved for publication by the Board of Directors on 10 February 2017.

A. Consolidated Statement of Financial Position

ASSETS

(in thousands of euros)	Notes Section E	31 Dec. 2016	31 Dec. 2015
Intangible assets	IV-1	1,487	2,512
Property and equipment	IV-2	22,286	22,200
Investment property	IV-4	5,604,526	5,098,496
Non-current financial assets	VI-6	699	696
Other non-current assets	V-4	108	301
Total non-current assets		**5,629,106**	**5,124,205**
Trade and other receivables	V-3	113,937	81,451
Other current assets	V-4	917	446
Cash and cash equivalents	VI-7	19,766	12,487
Total current assets		**134,620**	**94,384**
Total assets		**5,763,726**	**5,218,589**

EQUITY AND LIABILITIES

(in thousands of euros)	Notes Section E	31 Dec. 2016	31 Dec. 2015
Share capital		93,058	93,058
Reserves		2,526,008	2,127,433
Profit for the year		504,079	492,861
Equity attributable to owners of the parent		**3,123,145**	**2,713,352**
Non-controlling interests		370,631	317,735
Total non-controlling interests		**370,631**	**317,735**
Total equity	**VII-1**	**3,493,776**	**3,031,087**
Long-term borrowings and derivative instruments	VI-1	1,619,506	1,704,551
Long-term provisions	VIII-1	3,002	1,011
Deferred tax liabilities	X-3	161,860	186,991
Long-term liabilities	X-1	9,314	2,857
Other non-current liabilities	V-6	19,677	17,637
Total non-current liabilities		**1,813,359**	**1,913,047**
Trade and other payables	V-5	22,487	18,877
Short-term borrowings and other interest-bearing debt	VI-1	389,304	213,053
Short-term provisions	VIII-1	421	570
Other current liabilities	V-6	44,379	41,955
Total current liabilities		**456,591**	**274,455**
Total equity and liabilities		**5,763,726**	**5,218,589**

B. Consolidated Statement of Comprehensive Income

(in thousands of euros)	Notes Section E	2016	2015
Property rentals		198,137	168,794
Property expenses, net of recoveries		(10,542)	(14,266)
Net property rentals	**V-1**	**187,595**	**154,528**
Other income	V-2	2,852	2,370
Depreciation and amortisation expense	IV-3	(2,290)	(1,143)
Provision (expense)/reversals, net	VIII-2	737	(229)
Employee benefits expense	IX-1	(12,057)	(12,623)
Other expenses	V-7	(7,170)	(7,605)
Profit on disposal of other assets		–	14
Fair value adjustments on investment property	IV-4	438,040	513,654
Operating profit		**607,707**	**648,966**
Finance costs and other financial expenses	VI-3	(46,303)	(58,352)
Financial income	VI-3	307	6,231
Fair value adjustments on financial instruments	VI-4	(2,477)	(17,237)
Discounting adjustments to receivables and payables		370	(228)
Changes in provisions for financial assets, net		–	–
Profit before income tax		**559,604**	**579,380**
Income tax benefit/(expense)	X-2-3	3,304	(34,245)
Profit for the year		**562,908**	**545,135**
Attributable to owners of the parent		**504,079**	**492,861**
Attributable to non-controlling interests	VII-5	58,829	52,274
Earnings per share	VII-4	€10.92	€10.68
Other comprehensive income			
Actuarial gains and losses	VIII-1	217	151
Other items		–	130
Items that will not be reclassified to profit or loss		217	281
Valuation gains and losses on financial instruments (cash flow hedges)	VI-4	2,477	8,123
Deferred tax impact of valuation gains and losses on financial instruments	X-3	–	(840)
Items in the accounts of associates that may be reclassified subsequently to profit or loss		–	–
Items that may be reclassified subsequently to profit or loss		2,477	7,283
Other comprehensive income		**2,694**	**7,564**
Comprehensive income		**565,602**	**552,699**
Attributable to owners of the parent		**506,773**	**499,625**
Attributable to non-controlling interests		58,829	53,074

C. Consolidated Statement of Changes in Equity

(in thousands of euros)	Share capital	Share premium account	Revaluation reserve	Treasury shares	Cash flow hedges	Other reserves	Profit for the year	Equity attributable to owners of the parent	Equity attributable to non-controlling interests
Equity at 31 December 2014	**93,058**	**839,668**	**22,621**	**(18,517)**	**(3,097)**	**1,193,334**	**197,737**	**2,324,803**	**268,571**
Movements for the year									
Profit for the year	–	–	–	–	–	–	492,861	492,861	52,274
Other comprehensive income, net of tax	–	–	–	–	6,484	281	–	6,765	800
Comprehensive income	**–**	**–**	**–**	**–**	**6,484**	**281**	**492,861**	**499,626**	**53,074**
Appropriation of profit	–	31,875	–	–	–	165,862	(197,737)	–	–
Treasury share transactions	–	–	–	1,893	–	–	s–	1,893	–
Gains and losses on sales of treasury shares	–	–	–	(1,743)	–	–	–	(1,743)	–
Share-based payments	–	–	–	–	–	1,864	–	1,864	–
Dividends paid to owners of the parent	–	(113,091)	–	–	–	–	–	(113,091)	(3,910)
Equity at 31 December 2015	**93,058**	**758,452**	**22,621**	**(18,367)**	**3,387**	**1,361,341**	**492,861**	**2,713,352**	**317,735**
Movements for the year									
Profit for the year	–	–	–	–	–	–	504,079	504,079	58,829
Other comprehensive income, net of tax	–	–	–	–	2,477	217	–	2,694	–
Comprehensive income	**–**	**–**	**–**	**–**	**2,477**	**217**	**504,079**	**506,773**	**58,829**
Appropriation of profit	–	(26,202)	–	–	–	519,063	(492,861)	–	–
Treasury share transactions	–	–	–	377	–	–	–	377	–
Gains and losses on sales of treasury shares	–	–	–	(1,470)	–	–	–	(1,470)	–
Share-based payments	–	–	–	–	–	1,114	–	1,114	–
Dividends paid to owners of the parent	–	(97,350)	–	–	–	349	–	(97,001)	(5,933)
Other adjustments	–	–	–	–	(5,864)	5,864	–	–	–
Equity at 31 December 2016	**93,058**	**634,900**	**22,621**	**(19,460)**	**–**	**1,887,948**	**504,079**	**3,123,145**	**370,631**

D. Consolidated Statement of Cash Flows

(in thousands of euros)	Notes Section E	2016	2015
Cash flows from operating activities			
Profit for the period attributable to owners of the parent		504,079	492,861
Fair value adjustments on investment property	IV-4	(438,040)	(513,654)
Depreciation and amortisation expense (excluding impairment)	IV-3	2,290	1,143
Net additions to/(reversals of) provisions		2,059	178
Net (gains)/losses from disposals of assets, after tax		–	(14)
Discounting adjustments and valuation (gains)/losses on financial instruments		2,107	17,465
Deferral of rent-free periods and key money	V-1	(36,011)	(17,573)
Employee benefits	IX-3	1,114	1,864
Non-controlling interests in profit for the year	VII-5	58,829	52,274
Cash flow after finance costs and income tax		**96,427**	**34,544**
Finance costs	VI-3	45,996	52,121
Income tax (benefit)/expense	X-2-3	(3,304)	34,245
Cash flow before finance costs and income tax		**139,119**	**120,910**
Change in working capital		(190)	9,839
Interest paid		(47,782)	(54,347)
Interest received		16	183
Income tax paid		(7,390)	(10,522)
Net cash provided by operating activities		**83,773**	**66,063**
Cash flows from investing activities			
Acquisitions of and improvements to investment property	XII	(64,968)	(198,946)
Acquisitions of intangible assets and property and equipment	XII	(1,304)	(881)
Proceeds from disposals of investment property, intangible assets and property and equipment	XII	–	414
Other cash inflows and outflows		(4)	21
Net cash used by investing activities		**(66,276)**	**(199,392)**
Cash flows from financing activities			
Proceeds from the issue of ordinary shares		–	–
Purchases and sales of treasury shares, net		(1,093)	150
Dividends paid to owners of the parent	VII-3	(97,001)	(113,091)
Dividends paid to non-controlling interests		(5,933)	(2,380)
Proceeds from new borrowings		487,014	1,105,887
Repayments of borrowings		(456,015)	(844,410)
Other movements in financing items		–	(13,127)
Net cash provided/(used) by financing activities		**(73,028)**	**133,029**
Net change in cash and cash equivalents		**(55,531)**	**(300)**
Cash and cash equivalents at beginning of year		(9,570)	(9,270)
Cash and cash equivalents at end of year	XII	(65,101)	(9,570)
Net change in cash and cash equivalents		**(55,531)**	**(300)**

Cash and cash equivalents in the statement of cash flows are stated net of bank overdrafts.

E. Notes to the Consolidated Financial Statements

I - Accounting Policies

I - 1) Accounting standards

As required under European Commission regulation (EC) 16/06/2002 dated 19 July 2002, the consolidated financial statements have been prepared in accordance with the International Accounting Standards (IASs), International Financial Reporting Standards (IFRSs) and related interpretations (SICs and IFRICs) adopted by the European Union.

The following new standards and interpretations published by the IASB had not been adopted by the European Union or were not yet applicable and were not early adopted as of 31 December 2016:

- IFRS 15 – Revenue from Contracts with Customers. This introduces a common standard for recognising revenue from contracts with customers. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard is applicable for annual periods beginning on or after 1 January 2018. It is not expected to have a material impact on the consolidated financial statements, because 98% of the Group's revenue from contracts with customers falls within the scope of IAS 17 and not IFRS 15.
- IFRS 16 – Leases. In accordance with this standard, all leases must be recognised in the statement of financial position of the lessee. The standard is applicable for annual periods beginning on or after 1 January 2019, and will not have a material impact on the Group's financial statements.
- IFRS 9 – Financial Instruments. This standard overhauls the classification and measurement of financial assets and financial liabilities, impairment methodology and hedge accounting. The Group currently has no financial instruments for which hedge accounting is required.
- Disclosure Initiative – Amendments to IAS 7. The principle underpinning the amendments is that an entity should provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments are applicable for annual periods beginning on or after 1 January 2017.

The amendment to IAS 1 – Presentation of Items of Other Comprehensive Income, is applicable in the Group's financial statements from 1 January 2016. It is designed to improve the presentation and quality of information disclosed in the financial statements.

The following new standards and interpretations applicable from 1 January 2016 have no material impact on the Group's financial statements and have not been applied:

- Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation.
- Annual Improvements to IFRSs 2012–2014 Cycle (particularly IFRS 7 – Financial Instruments: Disclosures, and IAS 34 – Interim Financial Reporting).

I - 2) Accounting conventions

The consolidated financial statements are presented in thousands of euros. They include the financial statements of SFL and its subsidiaries. The financial statements of subsidiaries cover the same period as those of SFL and have been prepared according to the same accounting policies. Intragroup transactions are eliminated in consolidation.

Subsidiaries are consolidated from the date when control is acquired and are removed from the scope of consolidation when control is transferred outside the Group. When SFL ceases to exercise control over a subsidiary, the consolidated financial statements include the subsidiary's results for the period from the beginning of the year to the date when control is transferred.

Material companies in which the Group exercises control, pursuant to the terms of a shareholders' pact, through ownership of the majority of voting rights or otherwise, are fully consolidated.

The Group has chosen to measure investment property using the fair value model (see Note IV-4).

I - 3) Critical accounting estimates and judgements

The property portfolio is valued by independent experts using assumptions concerning future cash flows and interest rates that have a direct impact on their valuations. A reduction in the value assessed by these experts would lead to a decrease in the Group's earnings (see Note IV-4).

All of the Group's financial instruments are measured using standard market valuation models (see Note VI-4).

II - Significant Events of the Year

II - 1) Redevelopment and renovation programmes

Following delivery of #cloud.paris in November 2015 and Le Vaisseau in January 2016, properties undergoing development represented just 6% of the Group's investment property portfolio at 31 December 2016, around half of which concerned the redevelopment of the Louvre Saint-Honoré building's retail area. This redevelopment project was approved by the Board of Directors on 30 September 2016.

Apart from exercising its option to acquire 131 Wagram on expiry of the lease (see Financing section below), the Group did not make any other acquisitions or disposals during 2016.

II - 2) Financing

In May 2016, SFL redeemed the outstanding €155.8 million of the 4.625% bond issued in May 2011, thus reducing the average cost of its debt.
In the same month, it obtained a five-year €150-million credit facility from BNP Paribas, comprising a €100-million revolving credit facility and a €50-million term loan.

In addition, SFL exercised its option to buy the 131 Wagram property on 14 June 2016 at the contract price of €26 million upon expiry of the related finance lease. As from the date of exercise, the property has been eligible for SIIC tax exemption in exchange for a €13 million exit tax.

II - 3) Tax audits

In 2016, the Company resolved its dispute with the French tax authorities arising from a 2010-2012 tax audit, by accepting a €2 million reassessment of the tax base that had the effect of reducing its tax loss carry-forwards by the same amount.

No deferred tax asset had been recognised for the tax loss carry-forwards in question and the impact of accepting the reassessment – which concerned the allocation of expenses between SIIC activities and activities subject to corporate income tax – on the consolidated financial statements was therefore not material. There are currently no tax audits in progress.

II - 4) Appraisal value

Effective from 1 January 2016, sales of properties completed more than five years previously are subject to transfer taxes at an overall rate of 7.5% versus 6.2% (Paris) or 6.9% (outside Paris) in 2015. The impact of the increased rate had already been taken into account in the valuation of the Group's investment property portfolio in the consolidated financial statements for the year ended 31 December 2015 and consequently in its net asset value.

II - 5) Subsequent events

On 13 January 2017, the Company entered into a €165-million deal to acquire SMABTP's historical headquarters building, a 21,000-sq.m. property located at 112-122 avenue Émile Zola in the 15^{th} *arrondissement* of Paris. Contracts will be exchanged when SMABTP moves to its new headquarters in the fourth quarter of 2017.

III - Segment Information

The Group's properties are similar in nature and, although they are managed separately in the same manner, none are large enough to be treated as a separate reportable segment. They are grouped into geographical segments in accordance with IFRS 8.

Comprehensive income can be analysed as follows by geographical segment:

(in thousands of euros)	Paris Central Business District	Western Crescent	Other	Corporate	Total
Property rentals	152,604	15,957	29,576	–	198,137
Property expenses, net of recoveries	(8,752)	(177)	(1,613)	–	(10,542)
Net property rentals	**143,852**	**15,780**	**27,963**	**–**	**187,595**
Other income	2,069	64	507	212	2,852
Depreciation and amortisation expense	–	–	–	(2,290)	(2,290)
Provision (expense)/reversals, net	(207)	–	983	(39)	737
Employee benefits expense	–	–	–	(12,057)	(12,057)
Other expenses	–	–	–	(7,170)	(7,170)
Profit on disposal of other assets	–	–	–	–	–
Fair value adjustments to investment property	350,983	27,055	60,002	–	438,040
Operating profit	**496,697**	**42,899**	**89,455**	**(21,344)**	**607,707**
Finance costs and other financial expenses	–	–	–	(46,303)	(46,303)
Financial income	–	–	–	307	307
Fair value adjustments on financial instruments	–	–	–	(2,477)	(2,477)
Discounting adjustments to receivables and payables	–	–	–	370	370
Changes in provisions for financial assets, net	–	–	–	–	–
Profit before income tax	**496,697**	**42,899**	**89,455**	**(69,447)**	**559,604**
Income tax benefit/(expense)	11,568	–	–	(8,264)	3,304
Profit for the year	**508,265**	**42,899**	**89,455**	**(77,711)**	**562,908**
Attributable to owners of the parent	**442,927**	**42,899**	**89,455**	**(71,202)**	**504,079**
Attributable to non-controlling interests	65,338	–	–	(6,509)	58,829
Other comprehensive income					
Actuarial gains and losses	–	–	–	217	217
Other	–	–	–	–	–
Items that will not be reclassified to profit or loss	–	–	–	217	217
Valuation gains and losses on financial instruments (cash flow hedges)	–	–	–	2,477	2,477
Deferred tax impact of valuation gains and losses on financial instruments	–	–	–	–	–
Items that may be reclassified subsequently to profit or loss	–	–	–	2,477	2,477
Other comprehensive income	**–**	**–**	**–**	**2,694**	**2,694**
Comprehensive income	**508,265**	**42,899**	**89,455**	**(75,017)**	**565,602**
Attributable to owners of the parent	**442,927**	**42,899**	**89,455**	**(68,508)**	**506,773**
Attributable to non-controlling interests	65,338	–	–	(6,509)	58,829

(in thousands of euros)	Paris Central Business District	Western Crescent	Other	Corporate	Total
Segment assets	4,441,198	416,469	746,859	43,840	5,648,366
Unallocated assets	–	–	–	115,360	115,360
Total assets	**4,441,198**	**416,469**	**746,859**	**159,200**	**5,763,726**

Segment assets correspond mainly to the Group's property assets.

No segment analysis of liabilities is presented, as they correspond primarily to unsecured financing for general corporate purposes and unsecured bonds that are not allocated to any specific segment.

The Group's main geographical segments are as follows:

* **Paris Central Business District:** market comprising the Golden Triangle and the Financial District, spanning parts of the 1st, 2nd, 9th, 8th, 16th and 17th *arrondissements* of Paris. The segment extends from Porte Maillot, avenue de Malakoff and Trocadéro in the west to rue Montmartre and rue du Louvre in the east, and from Porte Champerret, avenue de Villiers and Saint Lazare railway station in the north to rue de Rivoli in the south.

* **Western Crescent:** located to the west of Paris on the other side of the main Paris ring-road, comprising notably Neuilly-sur-Seine, Boulogne-Billancourt, Issy-les-Moulineaux and Levallois-Perret.

* **Other:** corresponding to the rest of Paris, outside the Central Business District.

These geographic segments have been defined by the main Paris-based real estate professionals by combining neighbourhoods with similar economic features.

IV - Intangible Assets, Property and Equipment, and Investment Property

IV - 1) Intangible assets

Accounting policy

Intangible assets correspond mainly to purchased software and software development costs incurred in connection with the Group's systems upgrade, accounted for in accordance with IAS 38.
Intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses.

Intangible assets with a finite useful life are amortised on a straight-line basis over their useful life. Intangible assets with an indefinite useful life are not amortised but are tested for impairment annually (in accordance with IAS 36) or more frequently if there is an indication that they may be impaired.
Software development costs for the main projects are amortised over the software's expected period of use from the date it is put in production. Other software development costs are amortised over the year in which they are capitalised.

(in thousands of euros)	31 Dec. 2014	Increases	Decreases	Reclassifications	31 Dec. 2015
Cost					
Computer software	4,811	–	–	265	5,076
Other	1,507	604	–	(297)	1,814
Accumulated amortisation					
Computer software	(4,041)	(337)	–	–	(4,378)
Other	–	–	–	–	–
Carrying amount	**2,277**	**267**	**–**	**(32)**	**2,512**

(in thousands of euros)	31 Dec. 2015	Increases	Decreases	Reclassifications	31 Dec. 2016
Cost					
Computer software	5,076	–	–	1,306	6,382
Other	1,814	465	–	(1,371)	908
Accumulated amortisation					
Computer software	(4,378)	(1,425)	–	–	(5,803)
Other	–	–	–	–	–
Carrying amount	**2,512**	**(960)**	**–**	**(65)**	**1,487**

In 2016, amortisation of software development costs in respect of the Cassiopae project amounted to €1,044 thousand.

IV - 2) Property and equipment

Accounting policy

Property and equipment consist mainly of furniture, computer equipment and owner-occupied property.
Owner-occupied property is property held by the owner for use in the production or supply of goods or services or for administrative purposes. The only property in this category is the section of the Washington Plaza building used by the Group for administrative purposes.
Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses, in accordance with IAS 16. Depreciation is calculated by the straight-line method over the asset's estimated useful life. Each part of an item of property or equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Washington Plaza owner-occupied property:

Shell	105 to 118 years
Roof, windows, doors	8 to 24 years
Fixtures, fittings and installations	5 to 29 years

Other:

Fixtures and installations	2 to 20 years
Fittings and equipment	5 to 10 years
Computer and other equipment	2 to 5 years

The gain or loss arising from derecognition of an item of property or equipment, corresponding to the difference between the net disposal proceeds and the carrying amount of the item, is included in profit when the item is derecognised.

(in thousands of euros)	31 Dec. 2014	Increases	Decreases	Reclassifications	31 Dec. 2015
Cost					
Owner-occupied property	21,238	–	–	–	21,238
Other	4,498	275	(407)	436	4,802
Accumulated depreciation					
Owner-occupied property	(1,540)	(421)	–	–	(1,962)
Other	(1,500)	(384)	7	–	(1,878)
Carrying amount	**22,695**	**(530)**	**(400)**	**436**	**22,200**

(in thousands of euros)	31 Dec. 2015	Increases	Decreases	Reclassifications	31 Dec. 2016
Cost					
Owner-occupied property	21,238	–	–	–	21,238
Other	4,802	886	(47)	65	5,706
Accumulated amortisation					
Owner-occupied property	(1,962)	(418)	–	–	(2,380)
Other	(1,878)	(447)	47	–	(2,278)
Carrying amount	**22,200**	**21**	**–**	**65**	**22,286**

The appraisal value excluding transfer costs of owner-occupied property – corresponding to the Company's headquarters – was €38,800 thousand at 31 December 2016 and €36,153 thousand at 31 December 2015.

IV - 3) Depreciation and amortisation

(in thousands of euros)	2016	2015
Amortisation of intangible assets	(1,425)	(337)
Depreciation of property and equipment	(865)	(806)
Total	**(2,290)**	**(1,143)**

Amortisation of intangible assets relates to computer software, and depreciation of property and equipment concerns owner-occupied property (corresponding to the Group's headquarters) and miscellaneous equipment.

IV - 4) Investment property

Accounting policy

Investment property is property held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both.

SFL has chosen to measure investment property using the fair value model as provided for in IAS 40 (paragraph 30). Under this model, investment property is measured at fair value and gains or losses arising from changes in fair value are recognised in profit. Investment property is not depreciated.

The fair value of investment property is the amount at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction. The fair values of investment property carried in the Group's statement of financial position correspond to the prices obtained from independent valuations performed using the method described below.

Changes in fair value, which are recognised in the statement of comprehensive income under "Fair value adjustments on investment property", are calculated as follows:
Change in fair value = Market value at the period-end – Market value at the prior period-end – Work and other costs capitalised during the period.

The change in fair value is adjusted to exclude the effects of specific lease terms or provisions recognised under other asset captions and included in the fair value calculation, to avoid these effects being taken into account twice.

Valuation method

The Group's entire property portfolio was valued at 31 December 2016 by CBRE, Jones Lang LaSalle and BNP Paribas Real Estate.
The valuations were performed in accordance with the *Charte de l'Expertise en Evaluation Immobilière* (property valuation charter) included in the February 2000 report of France's securities regulator (COB, renamed AMF), and also complied with the standards issued by The European Group of Valuers' Associations (TEGoVA) as well as with Royal Institution of Chartered Surveyors (RICS) standards.
Independent experts are rotated in compliance with the SIIC code of ethics, which states:
"Regardless of the number of independent experts used by the SIIC, the following principles must be upheld:
- Appointments should be based on a selection process evaluating each candidate's independence, qualifications and competency to value property within the asset classes and geographical locations concerned.
- When a firm of valuers is used, the SIIC should ensure that the firm's internal valuation teams are rotated after a period of seven years.
- An independent valuer may serve for no more than two four-year terms for any given client, unless that valuer is a company in which case the above team rotation rule applies."

The Group's portfolio is appraised at half-yearly intervals by a group of three independent firms, each of which is responsible for valuing part of the total portfolio as follows (the percentages below are determined by reference to the total value of the properties, excluding transfer costs):

– CBRE:	34%
– Jones Lang LaSalle:	25%
– BNP Paribas Real Estate:	41%

The firms ensure that their internal teams are rotated as required. In addition, certain properties are assigned to different valuers each year to ensure a gradual rotation of assets among them.

The properties are valued primarily by the discounted cash flows method, which consists of discounting projected future cash flows. Assumptions concerning future revenue flows take into account passing rents, estimated market rents for the period beyond the lease expiry dates, any rent-free periods and rent step-ups, vacancy risk and projected changes in the construction cost index (ICC), office rent index (ILAT) and retail rent index (ILC). Each property is analysed in detail, according to the type of use and the surface area of each unit, lease by lease.
Based on information provided by the Group, the valuers noted that rents on certain units were above or below market rents for the period on similar properties. These differences were taken into account to value the properties according to their current occupancy, based on the duration of the underlying leases.
Vacant units were valued on the basis of assumed rents, excluding rent for the estimated marketing period, after deducting remaining renovation costs for the period until the units are re-let and any rent-free period expected to be granted. Expenditure assumptions cover non-recoverable costs – determined on a lease-by-lease basis – and projected capital expenditure to achieve the asset's highest and best use as defined by IFRS 13.
Net cash flows for the final year of the projection period are capitalised to calculate the terminal value, corresponding to the property's resale price at the end of the period.
The results obtained are then compared to market data and adjusted, if necessary, to obtain a market-consistent value. However, given that these appraisal values are essentially estimates that are sensitive to changes in rental values and discount rates, the proceeds from the sale of certain property assets may be different to their appraisal value, even if the sale takes place within a few months of the period-end.

The appraisal values are quoted both including transfer costs (calculated at a standard 7.5% rate for all properties subject to registration duty as of 1 January 2016 and 1.80% for properties subject to VAT) and excluding transfer costs and acquisition expenses.

Fair value measurement of investment property

IFRS 13 – Fair Value Measurement establishes a single definition of fair value and describes all the information concerning fair value to be disclosed in the notes to the financial statements.
Fair value measurement of a non-financial asset considers a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The valuation of investment property takes into account this definition of fair value.

In IFRS 13, fair value measurements are categorised into a three-level hierarchy. Level 3 concerns unobservable inputs for the asset or liability. An entity develops unobservable inputs using the best information available in the circumstances, which might include the entity's own data, taking into account all information about market participant assumptions that is reasonably available.

Due to the nature of the investment property market in France and the characteristics of the Group's investment property, the most meaningful inputs, particularly market rents, investment yields and/or discount rates, represent Level 3 inputs.

(in thousands of euros)	31 Dec. 2014	Increases	Gains from remeasurement at fair value	Decreases	Losses from remeasurement at fair value	Reclas-sifications	Changes in scope of consolidation	31 Dec. 2015
Investment property	4,392,767	192,465	513,658	–	(4)	(452)	62	5,098,496
Total	**4,392,767**	**192,465**	**513,658**	**–**	**(4)**	**(452)**	**62**	**5,098,496**

(in thousands of euros)	31 Dec. 2015	Increases	Gains from remeasurement at fair value	Decreases	Losses from remeasurement at fair value	31 Dec. 2016
Investment property	5,098,496	67,990	438,040	–	–	5,604,526
Total	**5,098,496**	**67,990**	**438,040**	**–**	**–**	**5,604,526**

Reconciliation of the appraisal value of investment property to their fair value in the statement of financial position:

(in thousands of euros)	31 Dec. 2016	31 Dec. 2015
Appraisal value of investment property, excluding transfer costs	5,736,416	5,242,406
Deduction of owner-occupied property (see Note IV-2)	(38,800)	(36,153)
Adjustments to reflect specific lease terms	(93,090)	(59,071)
Adjustment to take into account the increase in transfer costs effective 1 January 2016 (see Note II-4)	–	(48,686)
Fair value of investment property in the statement of financial position	**5,604,526**	**5,098,496**

The table below shows the fair value measurement inputs for each asset class:

Geographic area	Value excluding transfer costs 31 Dec. 2016 (in € millions, on a 100% basis)	Inputs	Range of values(1)	Weighted average(1)
Paris Central Business District	4,541	Market rent for offices	€525-€790	€654
		Exit yield	3.15%-4.25%	3.57%
		Discount rate	4.15%-5.65%	4.53%
Other Paris	751	Market rent for offices	€475-€680	€554
		Exit yield	3.75%-4.20%	3.97%
		Discount rate	4.60%-4.65%	4.63%
Western Crescent	444	Market rent for offices	€300-€467	€451
		Exit yield	4.40%-5.00%	4.44%
		Discount rate	5.10%-6.00%	5.41%
Total	**5,736**			

(1) Offices

A 25-bps increase in the exit yield combined with a 25-bps increase in the discount rate would have the effect of reducing the portfolio's appraisal value by €332,931 thousand, while a 25-bps decrease in the exit yield combined with a 25-bps decrease in the discount rate would have the effect of increasing the portfolio's appraisal value by €393,829 thousand.

V - Operating Activities

V - 1) Net property rentals

Accounting policy

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount can be measured reliably. The specific revenue recognition criteria applied by the Group are as follows:

Property rentals
Property rentals from investment property are recognised on a straight-line basis over the lease term. The transfer of economic benefits corresponds to the date stipulated in the contract, or to the tenant's entry date if stipulated in the contract.

Specific lease terms
Current leases include various specific terms concerning rent-free periods, step-up clauses, key money and eviction compensation. In compliance with IAS 17 and SIC 15, the effects of rent-free periods and step-up clauses are recognised over the non-cancellable lease term.
Key money received by the lessor is recognised in property rentals over the non-cancellable lease term.
Penalties paid by tenants for terminating their lease in advance of the expiry date are treated as revenue from the terminated lease and are recognised in revenue on the payment date.
Eviction compensation may be paid to secure the departure of a tenant, either to allow renovation work to be performed or so that the property can be re-let at a higher rent. In both cases this has the effect of increasing the asset's value and the compensation is therefore capitalised as part of the cost of the asset.

The Group's principal business is the rental of office and retail properties, which account for 97.7% of property rentals. Net property rentals take into account the net positive impact of recognising rent-free periods, rent step-ups and key money over the non-cancellable lease term. In 2016, this impact was €36,011 thousand.

(in thousands of euros)	2016	2015
Property rentals	**198,137**	**168,794**
Property operating expenses	(45,849)	(43,305)
Property expenses recovered from tenants	35,307	29,039
Property expenses, net of recoveries	**(10,542)**	**(14,266)**
Net property rentals	**187,595**	**154,528**

The significant increase in property rentals in 2016 primarily reflected delivery of the #cloud.paris building in November 2015 and completion of the marketing period for the In/Out complex in September 2015.

Future minimum lease payments receivable over the remaining term of non-cancellable operating leases break down as follows:

(in thousands of euros)	Total	Due within 1 year	Due in 1 to 5 years	Due beyond 5 years
Property rentals	**982,391**	**198,389**	**542,729**	**241,273**

V - 2) Other income

(in thousands of euros)	2016	2015
Own-work capitalised	155	999
Other income	2,697	1,371
Total	**2,852**	**2,370**

The caption "Other income" corresponds mainly to rental repairs and other work billed to tenants.

V - 3) Trade and other receivables

Accounting policy

Trade receivables are initially recognised at fair value and are subsequently measured using the cost model. Provisions for impairment are recognised on a case-by-case basis for the difference between the receivables' carrying amount and recoverable amount.

(in thousands of euros)	31 Dec. 2016			31 Dec. 2015
	Total	Due within 1 year	Due in more than 1 year	
Trade receivables	103,140	17,259	85,881	70,239
Provisions	(571)	–	(571)	(3,116)
Trade receivables	**102,569**	**17,259**	**85,310**	**67,123**
Prepayments to suppliers	41	41	–	14
Employee advances	51	51	–	52
Tax receivables (other than income tax)	8,369	8,369	–	11,565
Other operating receivables	2,738	2,738	–	2,628
Other receivables	169	169	–	69
Other receivables	**11,368**	**11,368**	–	**14,328**
Total	**113,937**	**28,627**	**85,310**	**81,451**

Trade receivables include €94,090 thousand (of which €12,978 thousand reported under current assets) corresponding to the impact of rent-free periods and other special lease terms that is deferred over the non-cancellable lease term in accordance with IFRS. Receivables do not bear interest.

Provisions for doubtful debts can be analysed as follows:

(in thousands of euros)	31 Dec. 2016	31 Dec. 2015
Increases in provisions	(129)	(124)
Reversals of provisions	2,731	73
Bad debt write-offs, net of recoveries	(33)	(35)
Total	**2,569**	**(86)**
Property rentals	198,137	168,794
Net losses as a % of property rentals	**-1.30%**	**0.05%**

V - 4) Other current and non-current assets

(in thousands of euros)	31 Dec. 2016	31 Dec. 2015
Deferred tax assets	108	145
Other receivables	–	156
Total other non-current assets	**108**	**301**
Income tax prepayments	141	146
Other prepayments	776	300
Total other current assets	**917**	**446**

Deferred tax assets are analysed in Note X-3.

V - 5) Trade and other payables

(in thousands of euros)	31 Dec. 2016	31 Dec. 2015
Trade payables	7,266	6,386
Amounts due within one year on asset acquisitions	15,221	12,491
Total	**22,487**	**18,877**

At 31 December 2016, amounts due within one year on asset acquisitions mainly concerned the Louvre Saint-Honoré and Washington Plaza properties.

V - 6) Other current and non-current liabilities

(in thousands of euros)	31 Dec. 2016	31 Dec. 2015
Deposits	19,677	17,637
Total other non-current liabilities	**19,677**	**17,637**
Deposits	1,733	2,652
Customer prepayments	17,996	19,424
Accrued employee benefits expense	5,127	4,776
Accrued taxes	13,971	6,891
Other liabilities	3,309	2,716
Accruals	2,243	5,496
Total other current liabilities	**44,379**	**41,955**

The caption "Other non-current liabilities" correspond mainly to guarantee deposits and bonds received from tenants.
Accrued employee benefits expense includes statutory and discretionary profit-sharing and bonus accruals.
Accrued taxes include the exit tax instalments due in 2017 and related to the Rives de Seine and 131 Wagram buildings, for a total of €6,159 thousand, and accrued income tax for €4,481 thousand.
The amounts reported under "Accruals" correspond to deferred revenue.

V - 7) Other expenses

(in thousands of euros)	2016	2015
Fees	(1,700)	(1,707)
Taxes other than on income	(1,498)	(1,365)
Other	(3,972)	(4,533)
Total	**(7,170)**	**(7,605)**

Fees paid to the Auditors in 2016 were as follows:

(in thousands of euros)	2016	2015	2016	2015
	PricewaterhouseCoopers		Deloitte & Associés	
Statutory and contractual audits	297	284	219	207
Other services	20	41	20	36
Total	**317**	**325**	**239**	**243**

VI - Financing Activities

VI - 1) Borrowings and other interest-bearing debt

Accounting policy

Loans and borrowings are initially recognised at cost, corresponding to the fair value of the consideration paid or received, net of directly attributable transaction costs.

Interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest method. Amortised cost takes into account all debt issuance costs and any difference between the initial amount and the amount at maturity. Finance costs are recalculated based on this amortised cost figure and the related effective interest rate.

Borrowing costs directly attributable to the acquisition, construction or production of property assets are capitalised as part of the cost of the asset.

(in thousands of euros)			31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
	Effective interest rate	Expiry date	Short-term portion		Long-term portion	
Bonds						
€500 million 4.625% bond issue, 2011-2016	4.625%	25 May 2016	–	160,151	–	–
€500 million 3.50% bond issue, 2012-2017	3.50%	28 Nov. 2017	301,680	978	–	300,700
€500 million 1.875% bond issue, 2014-2021	1.875%	26 Nov. 2021	925	922	500,000	500,000
€500 million 2.25% bond issue, 2015-2022	2.25%	16 Nov. 2022	1,418	1,414	500,000	500,000
Bank loans						
Banco Sabadell	Euribor + spread (end of drawdown period)	18 June 2020	3	–	50,000	–
BNP Paribas 2015	Euribor + spread (end of drawdown period)	7 July 2020	3	–	20,000	–
BNP Paribas 2016	Euribor + spread (end of drawdown period)	24 May 2021	222	–	150,000	–
BECM loan	Euribor + spread (end of drawdown period)	23 April 2019	96	119	140,000	140,000
Natixis – Deka – Deutsche Hypotheken loan	1.571%	16 July 2022	2,636	2,650	203,320	205,400
Finance leases						
131 Wagram	Euribor + spread (end of drawdown period)	14 June 2016	–	27,271	–	–
Bank overdrafts	Various		**84,867**	**22,057**	**–**	**–**
Current account advances (liabilities)	Various		**70**	**132**	**63,346**	**67,546**
Impact of deferred recognition of debt arranging fees			**(2,616)**	**(2,641)**	**(7,160)**	**(9,095)**
Total			**389,304**	**213,053**	**1,619,506**	**1,704,551**

The following table analyses borrowings by maturity:

(in thousands of euros)	31 Dec. 2016	Due within 1 year	Due in 1 to 5 years	Due beyond 5 years	31 Dec. 2015
Bonds	1,304,023	304,023	500,000	500,000	1,464,165
BECM loan	140,096	96	140,000	–	140,119
Banco Sabadell	50,003	3	50,000	–	–
BNP Paribas 2015	20,003	3	20,000	–	–
BNP Paribas 2016	150,222	222	150,000	–	–
Natixis – Deka – Deutsche Hypotheken loan	205,956	2,636	8,320	195,000	208,050
Finance leases	–	–	–	–	27,271
Current account advances (liabilities)	63,416	70	63,346	–	67,678
Deferred debt arranging fees	(9,776)	(2,616)	(6,612)	(548)	(11,736)
Bank overdrafts	84,867	84,867	–	–	22,057
Total	**2,008,810**	**389,304**	**925,054**	**694,452**	**1,917,604**

Current account advances correspond to Prédica's minority interest in SCI Washington and SAS Parholding.

Debt covenants and acceleration clauses in force at 31 December 2016 concerned the following lines of credit: BPCE, BECM, Banco Sabadell and BNP Paribas. They can be broken down as follows:

Applicable ratios	Actual ratios at 31 Dec. 2016	Actual ratios at 31 Dec. 2015	Main acceleration clauses
Loan-to-value (LTV) <= 50%	31.7%	33.4%	Loan default Termination of operations
Interest cover >= 2x	3.7	2.6	Bankruptcy proceedings
Secured LTV <= 20%	3.4%	4.3%	Breach of financial covenants
Unrestricted property portfolio value >= €2bn	€5.3bn	€4.6bn	Material adverse event

The Group was not in breach of any of its financial covenants at 31 December 2016.

VI - 2) Finance leases

Accounting policy

Finance leases – primarily for the acquisition of property assets – that transfer substantially all the risks and rewards incidental to ownership of the asset are recognised at the commencement of the lease term as assets and liabilities at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. It is recognised directly in finance costs.

Investment property acquired under finance leases is measured at fair value at each period-end.

At 31 December 2016, the Group no longer held any finance leases after exercising its option to acquire the 131 Wagram property in June.

VI - 3) Finance costs and other financial income and expenses

(in thousands of euros)	2016	2015
Interest on bonds and bank loans	(43,016)	(48,210)
Interest on lease liabilities	(231)	(639)
Interest on external current account advances	(322)	(568)
Hedging losses	–	(854)
Other financial expenses	(2,734)	(8,081)
Finance costs and other financial expenses	**(46,303)**	**(58,352)**
Interest income	3	109
Net gains on sales of short-term investments	–	14
Financial expense transfers	291	6,048
Other financial income	13	60
Financial income	**307**	**6,231**
Finance costs and other financial income and expenses, net	**(45,996)**	**(52,121)**

Other financial expenses include amortisation of deferred debt issuance costs, which declined by €4,730 thousand in 2016 due to the impact in 2015 of the renegotiation of several credit lines. Expense transfers in 2015 included finance costs capitalised during the redevelopment of the #cloud.paris building. This practice ceased when the building was delivered in November 2015, leading to a €5,757 thousand decrease in expense transfers for 2016.

VI - 4) Financial instruments

Accounting policy

The Group uses interest rate swaps and other derivative financial instruments to hedge the risk of changes in interest rates. These instruments are measured at fair value at each period-end.
Standard market valuation methods are used – corresponding to Level 2 inputs in the fair value hierarchy (see Note IV-4) – taking into account the risk of non-performance (particularly the Group's own credit risk), in line with IFRS 13.
For the purpose of applying hedge accounting, fair value hedges are defined as hedges of the exposure to changes in fair value of a recognised asset or liability and cash flow hedges are defined as hedges of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable transaction.

For fair value hedges qualifying for hedge accounting, gains and losses arising from remeasuring the hedging instruments at fair value are recognised in profit. Any gain or loss on the hedged item that is attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognised in profit. Adjustments to the carrying amount of a hedged interest-bearing financial instrument are amortised through profit over the instrument's remaining period to maturity.

For cash flow hedges of firm commitments that qualify for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in profit.
When a hedging relationship is discontinued, it no longer qualifies for hedge accounting and any subsequent changes in fair value of the hedging instrument are recognised directly in the statement of comprehensive income. The cumulative gains and losses on the instrument recorded in equity at that date are reclassified ("recycled") to the statement of comprehensive income over the remaining life of the hedged item.

For derivative instruments that do not qualify for hedge accounting, gains and losses from remeasurement at fair value are recognised in profit.

Fair value adjustments on financial instruments

(in thousands of euros)	2016	2015
Equalising payments on bond buy backs	–	(9,515)
Interest rate hedges	(2,477)	(7,722)
Total	**(2,477)**	**(17,237)**

Since the early unwinding of the Parholding swaps in July 2015, the Group no longer holds any interest rate hedges. Cumulative gains and losses recorded in equity on cash flow hedges (swaps) cancelled in the second half of 2012 and first half of 2013 were reclassified to the statement of comprehensive income (in net financial expense) for an amount of €2,477 thousand in 2016.

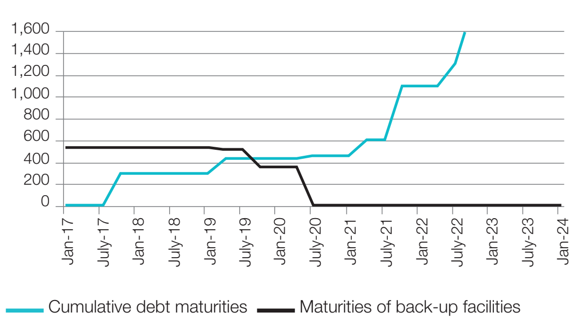
VI - 5) Financial risk management objectives and policy

The Group prudently manages its various financial risks.

1/ Liquidity risk

Liquidity risk is covered by confirmed undrawn lines of credit. At 31 December 2016, SFL had access to confirmed undrawn lines of credit representing €540 million compared with €610 million at 31 December 2015. As shown in the graph below, the liquidity represented by these back-up facilities is sufficient to cover the Group's repayment obligations under its lines of credit up until October 2019.

LIQUIDITY RISK



With its available credit lines, diversified debt structure and high quality assets, the Group manages its liquidity risk prudently and effectively.
The acceleration clauses contained in the facility agreements are presented in Note VI-1.

2/ Counterparty risk

All financial instrument contracts are entered into with leading financial institutions. The contracts concern either interest rate hedges or the short-term investment of available cash in money market funds. It should be emphasised that these same banks finance a portion of the Group's debt. Counterparty risk is minimal because available cash is generally used to repay borrowings under the revolving lines of credit. The rental deposits obtained from tenants offer protection against the risk of rent default. The Group considers that its exposure to counterparty risk on operations is not material.

3/ Market risk

The Group did not have any exposure to currency risk at 31 December 2016. Interest rate risks are prudently and actively managed using an information system that tracks changes in the financial markets and calculates the fair value of hedging instruments in real time, thereby allowing the Group to efficiently quantify and analyse the risks associated with interest rate fluctuations.

a/ Objectives and strategy

Standard interest rate derivatives and fixed rate borrowings are used with the dual objective of reducing the sensitivity of borrowing costs to rising interest rates and minimising the cost of the derivatives. Steeper or flatter yield curves, market volatility, intrinsic interest rate levels and expected interest rate trends influence the choice of hedging instruments.

b/ Risk assessment

The average spot cost of debt after hedging stood at 1.95% at 31 December 2016, versus 2.36% at 31 December 2015.
A 50-basis point rise in interest rates across the yield curve would have the effect of increasing the average cost of debt to 2.05%, driving up finance costs for 2016 by €1,951 thousand, representing 4.21% of annual financial expense. A 50-basis point decline in interest rates across the yield curve would lower the average cost of debt to 1.85%, and reduce finance costs by €1,951 thousand, representing 4.21% of annual financial expense.

c/ Interest rate risk

The following table provides an analysis by maturity of the notional amount of financial instruments exposed to interest rate risk at 31 December 2016.

(in thousands of euros)	Due within 1 year	Due in 1-2 years	Due in 2-3 years	Due in 3-4 years	Due in 4-5 years	Due beyond 5 years	Total
BECM loan	–	–	140,000	–	–	–	140,000
BANCO SABADELL loan	–	–	–	50,000	–	–	50,000
2015 BNP PARIBAS loan	–	–	–	20,000	–	–	20,000
2016 BNP PARIBAS loan	–	–	–	–	150,000	–	150,000
Current account advances	–	63,346	–	–	–	–	63,346
Total floating rate debt	**–**	**63,346**	**140,000**	**70,000**	**150,000**	**–**	**423,346**

The other financial instruments used by the Group are not listed in the above table because they do not bear interest and are therefore not exposed to any interest rate risk.

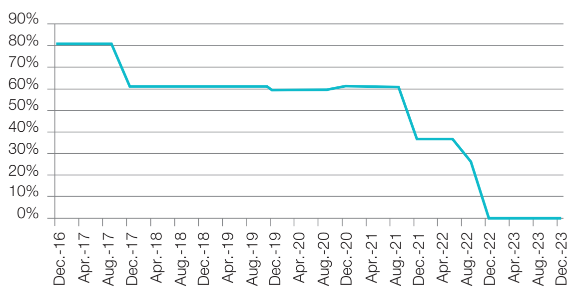
Net unhedged position

The Group's net exposure to interest rate risks can be analysed as follows for the period between 31 December 2016 and 31 December 2020:

(in thousands of euros)	31 Dec. 2016	31 Dec. 2017	31 Dec. 2018	31 Dec. 2019	31 Dec. 2020
BECM loan	140,000	140,000	140,000	–	–
BANCO SABADELL loan	50,000	50,000	50,000	50,000	–
2015 BNP PARIBAS loan	20,000	20,000	20,000	20,000	–
2016 BNP PARIBAS loan	150,000	150,000	150,000	150,000	150,000
Current account advances	63,346	63,346	–	–	–
Total floating rate debt	**423,346**	**423,346**	**360,000**	**220,000**	**150,000**
Net unhedged position	**423,346**	**423,346**	**360,000**	**220,000**	**150,000**

At 31 December 2016, 81% of debt was hedged against interest rate risks.

SFL DEBT HEDGING RATE 2016-2023



Fair value of bonds

The fair value of the Group's outstanding bond issues at 31 December 2016 was €1,371,985 thousand, as follows:

(in thousands of euros)	Nominal value	Maturity	31 Dec. 2016	31 Dec. 2015
May 2011 bonds	–	–	–	158,479
November 2012 bonds	300,700	November 2017	310,295	316,538
November 2014 bonds	500,000	November 2021	526,305	500,333
November 2015 bonds	500,000	November 2022	535,385	503,878
Total	**1,300,700**		**1,371,985**	**1,479,228**

VI - 6) Financial assets

Accounting policy

Non-current financial assets comprise investments in non-consolidated companies and deposits paid to third parties.

They are initially recognised at fair value, generally corresponding to their purchase price plus transaction costs.

(in thousands of euros)	31 Dec. 2015	Increases	Impairment losses recognised during the year	Decreases	Impairment losses reversed during the year	31 Dec. 2016
Investments in non-consolidated companies	1,071	–	–	–	–	1,071
Provisions for impairment	(1,071)	–	–	–	–	(1,071)
Investments in non-consolidated companies, net	–	–	–	–	–	–
Deposits	696	3	–	–	–	699
Total	**696**	**3**	**–**	**–**	**–**	**699**

Investments in non-consolidated companies concern the Vendôme Rome Group. This investment has been written down in full since 31 December 2010.

VI - 7) Cash and cash equivalents

Accounting policy

Cash and cash equivalents carried in the statement of financial position include cash at bank and on hand and short-term deposits with original maturities of less than three months. They are short-term, highly liquid investments that are readily convertible into a known amount of cash and are subject to an insignificant risk of changes in value.

Cash and cash equivalents in the statement of cash flows correspond to cash and cash equivalents less bank overdrafts. Cash equivalents are measured at fair value, in accordance with IAS 39.

(in thousands of euros)	31 Dec. 2016	31 Dec. 2015
Cash at bank and in hand	19,766	11,399
Short-term investments	–	1,088
Total	**19,766**	**12,487**

VII - Equity and Earnings Per Share

VII - 1) Equity

Equity is analysed in the consolidated statement of changes in equity included in the financial statements.
The Company's share capital amounts to €93,058 thousand, represented by 46,528,974 ordinary shares with a par value of €2.

VII - 2) Treasury shares

Accounting policy

Acquisitions, disposals and cancellations of treasury shares are recorded as a deduction from equity.

(in thousands of euros)	31 Dec. 2015	Increases	Decreases	31 Dec. 2016
Number of treasury shares	377,465	117,893	(132,978)	362,380
Average purchase/sale price, in euros	€60.08	€47.86	€45.26	€61.54
Total	**22,678**	**5,642**	**(6,019)**	**22,301**

VII - 3) Dividends

(in thousands of euros)	2016		2015	
	Paid	Per share	Paid	Per share
Prior year dividend paid in current year	48,506	€1.05	64,624	€1.40
Special dividend paid in current year	48,495	€1.05	48,467	€1.05
Total	**97,001**	**€2.10**	**113,091**	**€2.45**

VII - 4) Earnings per share

Basic earnings per share are calculated by dividing profit attributable to ordinary owners of the parent by the weighted average number of shares outstanding during the period, net of treasury shares held at the period-end.

(in thousands of euros)	2016	2015
Profit used to calculate basic earnings per share	504,079	492,861
Number of ordinary shares at 31 December	46,528,974	46,528,974
Number of treasury shares at 31 December	(362,380)	(377,465)
Number of ordinary shares at 31 December excluding treasury shares	46,166,594	46,151,509
Earnings per share	**€10.92**	**€10.68**
Weighted average number of ordinary shares	46,528,974	46,528,974
Number of treasury shares at 31 December	(362,380)	(377,465)
Weighted average number of ordinary shares excluding treasury shares	46,166,594	46,151,509
Basic earnings per weighted average share	**€10.92**	**€10.68**

There were no other transactions on ordinary shares or potential ordinary shares between the period-end and the date when these financial statements were drawn up.

VII - 5) Non-controlling interests in net profit

(in thousands of euros)	2016	2015
SCI Washington	**26,154**	**28,051**
Property rentals	*6,902*	*6,336*
Fair value adjustments on investment property	*19,318*	*22,348*
Net financial expense	*(215)*	*(375)*
Other	*149*	*(258)*
Parholding subgroup	**32,675**	**24,223**
Property rentals	*14,333*	*14,436*
Fair value adjustments on investment property	*19,674*	*28,094*
Net financial expense	*(1,909)*	*(4,385)*
Deferred tax	*4,306*	*(11,261)*
Current tax	*(2,995)*	*(1,963)*
Other	*(734)*	*(698)*
Total	**58,829**	**52,274**

VIII - Provisions

VIII - 1) Short- and long-term provisions

Accounting policy

A provision is recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are recorded in the financial statements if, and only if, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

Provisions for contingencies and charges are determined using Management estimates and assumptions based on information and circumstances existing at the time of the preparation of the financial statements, and therefore require the use of judgement. When the Group expects reimbursement of some or all of the expenditure required to settle a provision, the reimbursement is recognised as a separate asset when, and only when, it is virtually certain that it will be received. In the statement of comprehensive income, the provision expense is presented net of the amount recognised for the reimbursement.

(in thousands of euros)	31 Dec. 2015	Increases	Decreases	*o/w utilisations*	Actuarial gains and losses	31 Dec. 2016
Provisions for refurbishment work and tenant claims	–	2,070	–	–	–	2,070
Provisions for employee benefits	1,011	183	(45)	*(45)*	(217)	932
Long-term provisions	**1,011**	**2,253**	**(45)**	***(45)***	**(217)**	**3,002**
Provisions for refurbishment work and tenant claims	284	190	(118)	–	–	356
Provisions for employee benefits	286	–	(221)	*(77)*	–	65
Short-term provisions	**570**	**190**	**(339)**	***(77)***	**–**	**421**
Total	**1,581**	**2,443**	**(384)**	***(122)***	**(217)**	**3,423**

Provisions for employee benefits include provisions for length-of-service awards payable to employees on retirement and jubilees for €862 thousand. See Note IX-2 for more details.
Short- and long-term provisions covering benefits payable to members of senior management amounted to €12 thousand at 31 December 2016 and €14 thousand at 31 December 2015.

VIII - 2) Provision (expense)/reversals, net

(in thousands of euros)	2016	2015
Charges to provisions for impairment of current assets	(129)	(124)
Charges to provisions for operating contingencies and charges	(1,895)	(166)
Charges to provisions for other contingencies and charges	(113)	(239)
Total charges	**(2,137)**	**(529)**
Reversals of provisions for impairment of current assets	2,731	73
Reversals of provisions for other contingencies and charges	143	227
Total reversals	**2,874**	**300**
Total	**737**	**(229)**

In 2016, charges to provisions for operating contingencies and charges mainly concerned disputes with two former tenants.

IX - Remuneration and Other Employee Benefits

IX - 1) Employee benefits expense

The Group had 75 administrative staff and two building staff at 31 December 2016 compared with 71 administrative staff and two building staff at 31 December 2015.

The average number of administrative staff breaks down as follows:

	2016	2015
Officers	2	2
Managers	56	52
Supervisors	10	12
Administrative and technical staff	5	6
Total	**73**	**72**

Employee benefits expense breaks down as follows:

(in thousands of euros)	2016	2015
Wages and salaries	(6,572)	(6,211)
Payroll taxes	(3,581)	(3,520)
Other employee benefits	(1,114)	(2,058)
Statutory and discretionary profit-sharing	(790)	(834)
Total	**(12,057)**	**(12,623)**

IX - 2) Length-of-service awards payable to employees on retirement

Accounting policy

IAS 19R requires companies to recognise all of their employee benefit liabilities in the statement of financial position. Employee benefit plan costs are recognised over the vesting period. The main employee benefit plans concern length-of-service awards payable to employees on retirement.

Measurement method

Long-term employee benefits are recognised in the period in which the qualifying service is rendered by the employee. They are discounted at a rate defined in IAS 19. Short-term employee benefits are recognised in current liabilities and in expenses for the period.

They are calculated at six-monthly intervals based on actuarial assumptions. Actuarial gains and losses are included in “Other comprehensive income”. The benefit cost is determined based on employee service rendered up to the measurement date, assuming employees retire at their own initiative.

(in thousands of euros)	2016	2015
Projected benefit obligation at 1 January	**1,011**	**1,112**
Benefits paid during the year	(45)	–
Service cost	66	78
Interest cost	47	(28)
Actuarial gains and losses	(217)	(151)
Projected benefit obligation at 31 December	**862**	**1,011**

The projected benefit obligation is calculated at six-monthly intervals based on actuarial assumptions, including a discount rate of 1.31% (31 December 2015: 2.03%) and a 1.50%-rate of future salary increases (31 December 2015: 2.00%). Actuarial gains and losses are recognised in equity.

A 0.25-point reduction in the discount rate at 31 December 2016 would lead to a €17-thousand increase in the projected benefit obligation at that date.

The Group’s employee benefit plans are as follows:

– Length-of-service awards payable to employees on retirement: benefits payable under this plan are specified in a corporate agreement signed with employee representatives.

– Post-employment medical care: this plan concerns a closed group of retired SFL employees. Benefits consist of the payment by SFL of two-thirds of the contributions due to the insurance company responsible for reimbursing medical costs.

– Jubilees: the agreements in force within the Group provide for the payment of one month’s salary to administrative staff who complete 20, 30, 35 and 40 years of service with the SFL Group, and one month’s salary to building staff who complete 25 years of service.

Employees are not covered by any defined benefit pension plan and are not entitled to any other post-employment benefits. As the Group does not have any such defined benefit obligations, no sensitivity analyses are presented.

IX - 3) Share-based payments

Accounting policy

IFRS 2 requires all share-based payment transactions to be recognised in the statement of comprehensive income.

Measurement method

The total cost of each performance share plan is calculated at the grant date by multiplying the number of performance share rights that are expected to vest by the fair value per share.

The fair value of the performance shares is determined using the Capital Asset Pricing Model (CAPM), based on the share price on the grant date, adjusted for the discounted present value of future dividends payable during the vesting period. The number of shares expected to vest corresponds to the target number of allocated shares multiplied by the estimated vesting rate, taking into account each plan’s specific vesting conditions.

The total cost calculated as explained above is recognised on a straight-line basis over the vesting period. The estimated vesting rate and the resulting estimated total cost are adjusted at each period-end to take account of the latest estimate of the number of shares expected to vest.

Details of performance share plans at 31 December 2016

	Plan no. 1	Plan no. 3	Plan no. 4
Date of shareholder authorisation	9 May 2011	22 April 2015	13 Nov. 2015
Grant date (date of Board meeting)	4 March 2014	17 June 2015	26 April 2016
Initial target number of shares	33,981	27,328	32,036
Initial expected vesting rate	70.83%	70.83%	70.83%
Initial number of shares expected to vest	24,069	19,356	22,691
Fair value per share	€31.48	€36.08	€41.49
Rights cancelled/forfeited	(16,165)	(1,728)	(128)
Expected vesting rate at 31 December 2016	150.00%	100.00%	100.00%
Number of shares expected to vest at 31 December 2016	**26,723**	**25,600**	**31,908**

Main features of the plans

The plans' main features are as follows:

- The shares will vest only if the grantee is still employed by the Group on the vesting date.
- Performance target: the number of shares that vest depends on SFL's ranking among a group of six listed property companies based on growth in consolidated ANAV per share.
- The performance shares will vest 10 business days (plan no.1) or 15 business days (plans no.3 and no.4) after the publication, by the last of the Reference Companies to do so, of a press release announcing its results for the third financial year after the grant date.
- Lock-up period: the performance shares may not be sold or otherwise transferred before the end of a period of two years as from the vesting date.

Accounting treatment

The expected vesting rate is adjusted to reflect SFL's most probable ranking at the end of the vesting period. At 31 December 2016, the rates applied were 150% for the 2014 plan (probable ranking: no.1) and 100% for the 2015 and 2016 plans (probable ranking: no.3).

In 2016, a total of 36,424 performance shares vested under the 2013 Plan no.1.

The cost of performance share plans recognised in 2016 amounted to €1,114 thousand (excluding specific employer contributions).

IX - 4) Related party information

The remuneration paid to the members of the Board of Directors and Management Committee breaks down as follows:

(in thousands of euros)	2016	2015
Short-term benefits, excluding payroll taxes(1)	3,175	2,571
Payroll taxes on short-term benefits	1,150	938
Share-based payments(2)	701	1,390
Directors' fees	347	325
Total	**5,373**	**5,224**

(1) Gross salary and other remuneration, bonuses, statutory and discretionary profit-sharing, matching Company payments and termination benefits paid during the year.
(2) Cost recognised in the statement of comprehensive income for stock options and employee rights issues.

At 31 December 2016, related-party transactions comprise current account advances representing the share of the minority shareholder, Prédica, in SCI Washington and SAS Parholding (see Note VI-I).

X - Income Taxes

X - 1) Current and deferred tax liabilities

Accounting policy

Non-current liabilities with fixed maturities are discounted.

Measurement method

Where the effect of the time value of money is material, non-current liabilities are measured at the present value of the expenditure expected to be required to settle the obligation. The present value measurement is performed using a pre-tax discount rate that reflects current market assessments of the time value of money and any risks specific to the liability. Where discounting is used, the increase in the non-current liability due to the passage of time is recognised under "Finance costs".

Due	2018	2019	2020	Total
Amount payable	**3,166**	**3,104**	**3,044**	**9,314**

This item includes the long-term portion of the exit tax due as a result of the exercise, in June 2016, of the finance lease purchase option on the 131 Wagram property. The €13-million tax liability is payable in four annual instalments between 2017 and 2020 and has been discounted.

X - 2) Income tax expense

Accounting policy

The results of businesses subject to income tax are taxed at the standard rate. The Group entities that have elected to be taxed as an SIIC are not liable for income tax and the number of companies for which deferred taxes are recognised is therefore limited.

Current income tax expense for 2016 amounted to €21,790 thousand versus €4,406 thousand for 2015.

The increase was chiefly due to the recognition of a tax expense of €15,529 thousand following the exercise of the option to acquire the 131 Wagram property, of which €13,012 thousand pertaining to the exit tax and €2,517 thousand to standard rate income tax on non-deductible rents added back in full to taxable profit at the end of the lease term. These taxes were offset by the reversal of deferred tax liabilities in the amount of €16,519 thousand.

Income tax expense for the Parholding tax group stood at €5,990 thousand in 2016.

X - 3) Deferred taxes

Accounting policy

For businesses subject to income tax, deferred tax assets and liabilities are recognised by the liability method for all temporary differences between the book value of assets and liabilities and their tax basis.

The election for taxation as an SIIC led to the elimination of the tax bases of the SIICs' assets used to calculate deferred taxes. The only remaining deferred tax assets and liabilities concern partnerships that are not eligible for taxation as an SIIC and assets under finance leases arranged prior to 1 January 2005.

Deferred taxes recognised in the statement of comprehensive income, calculated at the tax rate applicable at the period-end, consist mainly of the following:

(in thousands of euros)	Statement of Financial Position 31 Dec. 2015	Equity	Statement of Comprehensive Income	Statement of Financial Position 31 Dec. 2016
Fair value adjustments on investment property	(164,686)	–	25,303	(139,383)
Adjustment of depreciation	(17,232)	–	(2,090)	(19,322)
Adjustment of property rentals	(3,696)	–	1,937	(1,759)
Capitalisation of interest expense and transaction costs	(521)	–	–	(521)
Other	(709)	–	(58)	(767)
Net	**(186,844)**	**–**	**25,092**	**(161,752)**
Of which: deferred tax assets	145	–	(37)	108
Of which: deferred tax liabilities	(186,991)	–	25,131	(161,860)

France's 2017 Finance Act provides for a phased reduction in the corporate income tax rate, from 33.33% to 28%. This phased reduction was taken into account for the calculation of deferred taxes at 31 December 2016, with a positive impact of €24,664 thousand.

XI - Off-Balance Sheet Commitments

XI - 1) Operations-related commitments

Guarantees

(in thousands of euros)	Total	Within 1 year	In 1 to 5 years	Beyond 5 years
Commitments given				
Property guarantees	293	293	–	–
Commitments received				
Guarantees received from tenants	51,055	5,763	7,798	37,494
Guarantees received from suppliers	65	65	–	–
Total commitments received	**51,120**	**5,828**	**7,798**	**37,494**

Contractual redevelopment and renovation obligations

At 31 December 2016, the Group's contractual commitments relating to investment property undergoing renovation totalled €10,548 thousand (€32,929 thousand at 31 December 2015), of which €8,877 thousand concerned the Louvre Saint-Honoré, Cézanne Saint-Honoré and Édouard VII properties.

XI - 2) Financing-related commitments

Standard mortgages

(in thousands of euros)					
Company		Pargal	Parchamps	Parhaus	
Expiry date		16 July 2023	16 July 2023	16 July 2023	Total
Registered by Deutsche Hypothekenbank	Principal	32,000	15,000	22,333	69,333
	Costs and incidentals	2,240	1,050	1,563	4,853
	Total	**34,240**	**16,050**	**23,896**	**74,186**
Registered by Natixis	Principal	32,000	15,000	22,333	69,333
	Costs and incidentals	2,240	1,050	1,563	4,853
	Total	**34,240**	**16,050**	**23,896**	**74,186**
Registered by Deka	Principal	32,000	15,000	22,333	69,333
	Costs and incidentals	2,240	1,050	1,563	4,853
	Total	**34,240**	**16,050**	**23,896**	**74,186**
Total		**102,720**	**48,150**	**71,688**	**222,558**

Undrawn confirmed lines of credit

(in thousands of euros)	Total	Within 1 year	In 1 to 5 years	Beyond 5 years
BPCE loan	150,000	-	150,000	-
2015 BNP PARIBAS loan	380,000	-	380,000	-
BECM loan	10,000	-	10,000	-
Total	**540,000**	**-**	**540,000**	**-**

XI - 3) Employee-related commitments

Two employees (including one person who is also an officer of the Company) are entitled to compensation if they resign or are dismissed as a result of a major change in the scope of their responsibilities following a significant direct or indirect change in the shareholder base of SFL or its controlling company.
An officer of the Company who is not an employee is entitled to compensation for loss of office in the event that he is dismissed from his position for reasons other than gross or wilful misconduct.

At 31 December 2016, total commitments for the payment of compensation amounted to €2,755 thousand.

The terms and conditions related to this compensation were approved by SFL's Board of Directors on 9 February 2004, 25 July 2006, 4 April 2008 and 27 January 2015.

No related provisions have been recorded in the financial statements.

XII - Note to the Statement of Cash Flows

(in thousands of euros)	2016	2015
Acquisitions of and improvements to investment property		
Purchase price	–	(63,900)
Transaction costs	–	(3,655)
Work	(64,968)	(131,391)
Total	**(64,968)**	**(198,946)**
Proceeds from disposals of investment property, intangible assets and property and equipment		
Sale price	–	414
Transaction costs	–	–
Capital gains tax	–	–
Total	**–**	**414**
Cash and cash equivalents at end of period		
Short-term investments	–	1,088
Cash at bank and in hand	19,766	11,399
Bank overdrafts	(84,867)	(22,057)
Total	**(65,101)**	**(9,570)**

The impact of deferring recognition of rent-free periods is included in “Cash flow” along with additions to and reversals of provisions for impairment of trade receivables.

XIII - Scope of Consolidation

Consolidated companies	Registration no.	Percentage	
		Interest	Voting rights
Parent company			
SA Société Foncière Lyonnaise	552 040 982	–	–
Fully-consolidated companies			
SA SEGPIM	326 226 032	100	100
SAS Locaparis	342 234 788	100	100
SAS Maud	444 310 247	100	100
SAS SB2	444 318 398	100	100
SAS SB3	444 318 547	100	100
SCI SB3	444 425 250	100	100
SCI Washington	432 513 299	66	66
SCI 103 Grenelle	440 960 276	100	100
SNC Condorcet Holding	808 013 890	100	100
SNC Condorcet Propco	537 505 414	100	100
SCI Paul Cézanne	438 339 327	100	100
SAS Parholding	404 961 351	50	50
SC Parchamps	410 233 498	50	50
SC Pargal	428 113 989	50	50
SC Parhaus	405 052 168	50	50

Shareholders’ pacts give the Group exclusive control over four companies that are 50%-owned.
Accordingly, all subsidiaries are controlled exclusively and fully consolidated.

Société Foncière Lyonnaise is a fully consolidated subsidiary of Spanish company Inmobiliaria Colonial SA, which owned 58.55% of the capital at 31 December 2016.
The Group and all of its subsidiaries have their registered office at 42 rue Washington in the 8th *arrondissement* of Paris.

Company Financial Statements for the Year Ended 31 December 2016

Balance Sheet

ASSETS

(in €)	Total	Depreciation, amortisation and provisions	31 Dec. 2016 Net	31 Dec. 2015 Net
NON-CURRENT ASSETS				
Intangible assets				
Start-up costs	–	–	–	–
Software	6,336,814	5,802,950	533,864	652,452
Lease premiums and goodwill(1)	–	–	–	52,217,467
Other	–	–	–	–
Intangible assets in progress	884,274	–	884,274	1,790,496
Property and equipment				
Land	722,551,472	1,094,242	721,457,230	641,284,954
Buildings	1,051,954,440	210,566,662	841,387,778	851,501,586
Other	4,885,202	2,129,154	2,756,048	2,302,022
Assets under construction	90,325,939	–	90,325,939	74,744,556
Prepayments to suppliers of property and equipment	–	–	–	–
Non-current financial assets(2)				
Shares in subsidiaries and affiliates	393,871,913	2,286,948	391,584,965	391,584,964
Advances to subsidiaries and affiliates	22,433,196	–	22,433,196	27,184,801
Other long-term investments	–	–	–	–
Loans	–	–	–	992,128
Other	678,965	–	678,965	702,952
Total I	**2,293,922,215**	**221,879,956**	**2,072,042,259**	**2,044,958,378**
CURRENT ASSETS				
Inventories and work in progress				
Receivables(3)				
Prepayments to suppliers	40,993	–	40,993	13,891
Rental receivables	7,250,340	194,946	7,055,394	3,754,571
Other	496,683,119	–	496,683,119	517,294,070
Current financial assets				
Treasury shares	19,567,535	2,832,601	16,734,934	16,003,075
Other marketable securities	–	–	–	1,088,019
Treasury instruments	–	–	–	–
Cash at bank and in hand	45,329	–	45,329	202,625
Prepaid expenses	185,552	–	185,552	189,581
Total II	**523,772,868**	**3,027,547**	**520,745,321**	**538,545,832**
Deferred charges (III)	**6,762,400**	**–**	**6,762,400**	**7,889,551**
Debt redemption premiums (IV)	**1,301,883**	**–**	**1,301,883**	**1,822,327**
Total assets (I + II + III + IV)	**2,825,759,366**	**224,907,503**	**2,600,851,863**	**2,593,216,088**
(1) Of which, lease premiums			*–*	*–*
(2) Of which, due within one year (gross)			*22,433,196*	*28,176,929*
(3) Of which, due beyond one year (gross)			*491,754,607*	*513,135,241*

EQUITY AND LIABILITIES

(in €)	31 Dec. 2016	31 Dec. 2015
EQUITY		
Share capital	93,057,948	93,057,948
Share premium account	634,898,957	758,450,719
Revaluation reserve	21,438,656	21,438,656
Other reserves:		
Legal reserve	9,305,795	9,305,795
Statutory reserve	–	–
Untaxed reserves	–	–
Other	–	–
Retained earnings	349,503	517,033
Interim dividend	–	–
Profit/(loss) for the year	(30,278,521)	(26,718,556)
Capital and reserves	728,772,337	856,051,595
Government grants	–	–
Untaxed provisions	19,393,269	17,047,872
Total I	**748,165,606**	**873,099,467**
Participating securities	–	–
Total Ia	–	–
Provisions for contingencies and charges	4,486,723	2,382,603
Total II	**4,486,723**	**2,382,603**
LIABILITIES(1)(2)		
Convertible bonds	–	–
Other bonds	1,304,022,830	1,464,164,764
Bank borrowings(3)	445,184,542	162,170,305
Other borrowings	52,305,204	53,837,111
Prepaid property rentals	4,113,989	7,207,586
Trade payables	7,431,402	6,434,327
Accrued taxes and payroll costs	23,823,021	10,526,667
Due to suppliers of property and equipment	7,762,829	9,363,523
Other liabilities	1,315,294	1,231,501
Treasury instruments	–	–
Deferred income	2,240,423	2,798,234
Total III	**1,848,199,534**	**1,717,734,018**
Total equity and liabilities (I + Ia + II + III)	**2,600,851,863**	**2,593,216,088**
(1) Of which, due beyond one year	*1,420,880,507*	*1,496,602,933*
(2) Of which, due within one year	*427,319,026*	*221,131,085*
(3) Of which, short-term bank loans and overdrafts	*84,860,295*	*22,051,305*

Profit and Loss Account

(in €)	2016	2015
OPERATING INCOME		
Property rentals	86,106,667	67,884,717
Service revenue	1,629,053	1,655,494
Total revenue	**87,735,720**	**69,540,211**
Own-work capitalised	255,627	205,094
Reversals of depreciation, amortisation and provisions	6,249,442	9,225,329
Other income	2,263,852	1,273,962
Expense transfers	24,829,242	21,947,934
Total I	**121,333,883**	**102,192,530**
OPERATING EXPENSES		
Other purchases and external charges	32,419,652	43,297,602
Taxes other than on income		
Payroll-based taxes	278,117	266,893
Other	11,039,705	10,015,887
Payroll costs		
Wages and salaries	8,226,252	9,018,126
Payroll taxes and other employee benefits expenses	3,319,907	3,247,869
Depreciation, amortisation and provision expense		
Depreciation and amortisation expense	48,453,212	39,180,110
Impairment losses on current assets	57,723	47,824
Provision expense	3,776,360	1,646,732
Other expenses	10,713,245	1,167,346
Total II	**118,284,173**	**107,888,389**
Operating profit(loss) (I - II)	**3,049,710**	**(5,695,859)**
FINANCIAL INCOME		
From investments in subsidiaries and affiliates	27,598,438	27,622,033
From other non-current financial assets	6,301	48,105
Other interest income	1,175,730	2,107,038
Reversals of provisions and impairment losses, and expense transfers	1,399,923	8,545,847
Net gains from sales of current financial assets	118	1,438
Total III	**30,180,510**	**38,324,461**
FINANCIAL EXPENSES		
Amortisation, impairment losses and other provision expense	520,444	928,802
Interest expense	45,855,794	54,663,706
Net losses from sales of current financial assets	115	–
Total IV	**46,376,353**	**55,592,508**
Net financial expense (III - IV)	**(16,195,843)**	**(17,268,047)**
Loss before tax and other income and expense (I - II + III - IV)	**(13,146,133)**	**(22,963,906)**
OTHER INCOME		
From revenue transactions	205,152	136,519
From capital transactions	720,389	10,500
Reversals of provisions and impairment losses, and expense transfers	1,576,769	1,481,881
Total V	**2,502,310**	**1,628,900**
OTHER EXPENSES		
From revenue transactions	1,616,295	1,911,738
From capital transactions	–	1,029
Amortisation, impairment losses and other provision expense	2,424,356	3,383,378
Total VI	**4,040,651**	**5,296,145**
Other income/(expense), net (V - VI)	**(1,538,341)**	**(3,667,245)**
Employee profit-sharing (IX)	65,055	102,405
Income tax benefit/(expense) (X)	15,528,992	(15,000)
Total income (I + III + V)	**154,016,703**	**142,145,891**
Total expenses (II + IV + VI + IX + X)	**184,295,224**	**168,864,447**
Profit/(loss) for the year	**(30,278,521)**	**(26,718,556)**

The financial statements have been prepared in accordance with French generally accepted accounting principles (GAAP).

I - Accounting Policies

The financial statements have been prepared on a going concern basis, in accordance with the principles of prudence and segregation of accounting periods.
The main accounting policies, which have been applied consistently from one year to the next, are as follows:

a) Intangible assets

Intangible assets recognised in the balance sheet mainly consist of software purchased or developed for the Company's ERP system.

b) Property and equipment

1 - Cost

The property portfolio was revalued in 2003, when the Company elected for SIIC status.

All expenses, including eviction compensation paid to tenants of properties scheduled for redevelopment, are considered as an integral part of the redevelopment cost and are therefore capitalised.

Capitalised redevelopment costs also include borrowing costs for the period until the property is put back on the rental market, calculated at the average month-end interest rate after hedging.

The cost of properties does not include transaction expenses (CRC 2004-06).

ANC standard no. 2015-06 dated 23 November 2015 introduced new accounting rules applicable to technical merger deficits as from 1 January 2016.
Under the new rules, the deficit is recognised on a case-by-case basis depending on the underlying assets to which it is allocated. This allocation is determined based on the information available at the beginning of the financial year and therefore reflects the original allocation determined for management accounting purposes.

2 - Depreciation

Each part of an item of property or equipment with a cost that is significant in relation to the total cost of the item is depreciated separately over its useful life. The depreciation method used reflects the pattern in which the asset's future economic benefits are expected to be consumed.

Properties held in the portfolio when the components approach was adopted were analysed by estimating the cost of rebuilding or replacing each part of the property, its degree of wear and tear and its useful life. These technical data were used to determine the proportion of each property's value represented by each component part. This ratio was then applied to the revaluations at 1 January 2005 that were used as deemed cost at that date.
The useful lives of the component parts of investment properties are as follows, except for certain specific cases which do not materially affect depreciation expense:

Shell	100 to 125 years
Roof, windows, doors	20 to 125 years
Fixtures and installations	10 to 50 years
Fittings and equipment	5 to 40 years

Depreciation is calculated by the straight-line method, based on:
– The useful lives of the component parts of the property. Each part of an item of property or equipment with a cost that is significant in relation to the total cost of the item is depreciated separately over its respective useful life.
– The cost of the asset less its residual value.

The residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. Accelerated depreciation is calculated for tax purposes on the residual value, in accordance with the tax instruction issued in 2005.
The properties' carrying amounts are compared with their market values at six-monthly intervals and an impairment loss is recognised if market value is less than the carrying amount. The valuation of the portfolio at 31 December 2016 was performed by independent experts CBRE, Jones Lang LaSalle and BNP Paribas Real Estate.

c) Non-current financial assets

Non-current financial assets are stated at cost, and a provision for impairment is recorded if fair value is less than this amount at the balance sheet date.
The fair value of shares in subsidiaries and affiliates takes into account the market value of the investee's property assets.

An additional provision is recorded when the Company has an obligation to cover losses in excess of the amount of its interest in the subsidiary or affiliate concerned.
The total provision is booked against the following items, in the order listed: shares in subsidiaries and affiliates, long-term receivables and current account advances, with any balance recognised in liabilities under provisions for contingencies.

d) Stock option and performance share plans

In accordance with CNC standard no. 2008-17 dated 4 December 2008 concerning the accounting treatment of stock option and performance share plans, SFL has bought back shares for allocation to these plans based on the probability of the options being exercised or the performance share rights vesting.

When it is probable that the options will be exercised or the performance share rights will vest, a provision is recorded for the difference between the buyback price of the allocated shares and the exercise price of the options or performance share rights.
Impairment of treasury shares not allocated to a stock option or performance share plan is calculated based on their fair value at the balance sheet date.

If the share price increases to above the exercise price for certain options or performance share rights, the provision for impairment of these shares is reversed and a provision for contingencies is recorded based on the exercise price of the options or performance share rights.

In accordance with Emerging Issues Task Force Opinion no.2002-D dated 18 December 2002 concerning the accounting treatment of a company's own shares originally classified as "Marketable securities" and subsequently allocated to performance share plans, the shares' carrying amount on the reclassification date is treated as their new cost and any impairment losses recorded prior to that date are therefore not reversed when the shares are reclassified. No further impairment losses are recorded on the shares as from the reclassification date.

For each performance share plan, the number of performance shares that are expected to vest corresponds to the target number of shares multiplied by the estimated vesting rate.

The probable outflow of resources is then recognised on a straight-line basis over the vesting period.

Details of the plans are presented in Note A-3.1).

e) Rental receivables

Rental receivables are measured at the lower of their nominal value and recoverable amount, determined on a case-by-case basis.
Files are transferred to the collection department when rentals are 30 days past due.

Except in specific cases, the following provision rates are applied according to the type of lease:
– Residential leases: 100%.
– Office and retail leases: 50% when the tenant is still occupying the premises, 100% when they have vacated the premises.

f) Current financial assets

Current financial assets are stated at the lower of cost and fair value. Fair value corresponds to the average market price for the last month of the period.

g) Expense transfers

Expense transfers correspond mainly to service charges billed to tenants, including various property taxes, and deferred borrowing costs.

h) Financial income and expense

Accrued interest payable or receivable under interest rate swaps is recognised in the balance sheet.
Net gains and losses on swaps contracted for hedging purposes are recognised in the profit and loss account on an accruals basis.

II - Significant Events of the Year

A – Significant events

Redevelopment projects

Following delivery of #cloud.paris in November 2015 and Le Vaisseau in January 2016, properties undergoing redevelopment represented just 4% of the Company's property investment portfolio at 31 December 2016, around half of which concerned the redevelopment of the Louvre Saint-Honoré building's retail area. This redevelopment project was approved by the Board of Directors on 30 September 2016.

On 14 June 2016, SFL exercised its option to buy the 131 Wagram property at the contract price of €26 million upon expiry of the related finance lease. As from the date of exercise, the property has been eligible for SIIC tax exemption in exchange for a €13 million exit tax.

Apart from exercising this option, the Company did not make any other acquisitions or disposals during 2016.

Financing

In May 2016, SFL redeemed the outstanding €156 million of 4.625% bonds issued in May 2011, thus reducing the average cost of its debt.

In the same month, it obtained a five-year €150-million credit facility from BNP Paribas, comprising a €100-million revolving credit facility and a €50-million term loan.

In addition, as explained above, SFL exercised its option to buy the 131 Wagram property upon expiry of the related finance lease. Following this transaction, no finance leases are currently in progress.

B – Tax audits

In 2016, the Company resolved its dispute with the French tax authorities arising from a 2010-2012 tax audit and concerning the allocation of expenses between SIIC activities and activities subject to corporate income tax, by accepting a €2 million reassessment of the tax base that had the effect of reducing its tax loss carry-forwards by the same amount. In addition, a €77 thousand refund of tax paid in 2012 was recorded during the year.

There are currently no tax audits in progress.

C - Subsequent events

On 13 January 2017, the Company entered into a €165-million deal to acquire SMABTP's historical headquarters building, a 21,000-sq.m. property located at 112-122 avenue Emile Zola in the 15th *arrondissement* of Paris. Contracts will be exchanged when SMABTP moves to its new headquarters in the fourth quarter of 2017.

III - Notes to the Financial Statements

A - Notes to the Balance Sheet

A-1) Non-current assets

A-1.1) Intangible assets

Intangible assets at cost (in €)	31 Dec. 2015	Additions	Disposals	Reclassifications	31 Dec. 2016
Software	5,030,895	–	–	1,305,919	6,336,814
Goodwill	52,217,467	–	–	(52,217,467)	–
Prepayments to suppliers of intangible assets	1,790,496	464,960	–	(1,371,182)	884,274
Total	**59,038,858**	**464,960**	**–**	**(52,282,730)**	**7,221,088**

Software includes both software licences and internally-developed software.

Goodwill corresponding to the technical deficits arising from mergers:
- with SA Dandy Nuances (owner of the Ozone building) on 20 November 2006.
- with SAS Iéna (owner of the Iéna building) on 30 June 2008.
was reclassified during the year as "Property and equipment" in application of ANC standard no. 2015-06 dated 23 November 2015.

Amortisation (in €)	31 Dec. 2015	Amortisation for the year	Amortisation written off on disposals and other	31 Dec. 2016
Software	4,378,443	1,424,507	–	5,802,950
Total	**4,378,443**	**1,424,507**	**–**	**5,802,950**

A-1.2) Property and equipment

Property and equipment at cost (in €)	31 Dec. 2015	Additions	Disposals	Reclas-sifications	31 Dec. 2016
Land	644,334,005	26,000,000	–	52,217,467	722,551,472
Buildings	521,466,549	–	1,199,040	7,451,663	527,719,172
Fixtures and fittings	504,547,145	–	1,578,123	21,266,246	524,235,268
Furniture and equipment	4,102,304	–	47,331	830,229	4,885,202
Assets under construction	74,744,556	50,987,311	–	(35,405,928)	90,325,939
Total	**1,749,194,559**	**76,987,311**	**2,824,494**	**46,359,677**	**1,869,717,053**

Additions to property and equipment generally correspond to costs accumulated in the "Assets under construction" account that are reclassified on delivery of the property to the appropriate depreciable asset accounts.

Additions in 2016 included:
– The 131 Wagram property recognised in property and equipment for €26,000 thousand following exercise of the finance lease purchase option.
– Reclassification of technical merger deficits on the Iéna and Ozone properties, for a total of €52,217 thousand.
In accordance with ANC standard no. 2015-06, the merger deficits were allocated to non-depreciable assets based on the information available as of 1 January 2016. Application of this principle led to the previous management accounting allocation being used and the reclassification therefore had no impact on the Company's loss for the year.

Depreciation (in €)	31 Dec. 2015	Depreciation for the year	Depreciation written off on disposals and other	Reclassifications	31 Dec. 2016
Land					
Buildings	37,218,484	10,989,929	1,199,040	(623,457)	46,385,916
Fixtures and fittings	137,293,624	33,764,841	1,578,123	(5,299,596)	164,180,746
Furniture and equipment	1,800,282	376,202	47,330	–	2,129,154
Total	**176,312,390**	**45,130,972**	**2,824,493**	**(5,923,053)**	**212,695,816**

Impairment (in €)	31 Dec. 2015	Increases	Decreases	31 Dec. 2016
Land	3,049,051	–	1,954,809	1,094,242
Buildings	–	–	–	–
Total	**3,049,051**	**–**	**1,954,809**	**1,094,242**

Following the valuations carried out at 31 December 2016, the impairment losses recorded on buildings were adjusted to take into account changes in the properties' appraisal values.

Impairment losses concern the following properties:

Impairment by building (in €)	31 Dec. 2015	Increases	Decreases	31 Dec. 2016
Le Vaisseau	3,030,300	–	1,943,923	1,086,377
Saint-Denis	18,751	–	10,886	7,865
Total	**3,049,051**	**–**	**1,954,809**	**1,094,242**

A-1.3) Non-current financial assets

Shares in subsidiaries and affiliates are presented below (list of subsidiaries and affiliates).

Non-current financial assets at cost (in €)	31 Dec. 2015	Additions	Disposals	31 Dec. 2016
Shares in subsidiaries and affiliates	393,871,913	–	–	393,871,913
Advances to subsidiaries and affiliates	27,184,801	22,433,196	27,184,801	22,433,196
Loans	992,128	–	992,128	–
Deposits	702,952	–	23,987	678,965
Total	**422,751,794**	**22,433,196**	**28,200,916**	**416,984,074**

Impairment (in €)	31 Dec. 2015	Increases	Decreases	31 Dec. 2016
Shares in subsidiaries and affiliates	2,286,948	–	–	2,286,948
Total	**2,286,948**	**–**	**–**	**2,286,948**

Impairments of non-current financial assets correspond mainly to the full write-down of the Company's investment in Vendôme-Rome.

Analysis by maturity at 31 December 2016 (in €)	Total	*o/w accrued interest*	Due within 1 year	Due in 1 to 5 years	Due beyond 5 years
Non-current financial assets					
Advances to subsidiaries and affiliates	22,433,196	*22,433,196*	22,433,196	–	–
Deposits	678,965	–	–	–	678,965

LIST OF SUBSIDIARIES AND AFFILIATES

Company	Share capital	Reserves	% interest	Carrying amount of investment: Cost	Carrying amount of investment: Net	Outstanding loans and advances	Out-standing guaran-tees	Last pub-lished net revenue	Last pub-lished profit/ (loss)	Dividends received during the year	Fair value adjust-ments to the in-vestment during the year
A - Investments with a gross value in excess of 1% of SFL's capital:											
1. Subsidiaries (at least 50%-owned)											
SCI Paul Cézanne	56,934,400	114,057,173	100.00%	291,846,722	291,846,722	–	–	16,067,004	10,813,455	–	–
SCI 103 Grenelle	150	7,284,345	100.00%	1,168,570	1,168,570	163,757,036	–	9,873,986	4,440,028	–	–
SCI Washington	94,872,000	15,814,280	66.00%	79,788,878	79,788,878	111,396,172	–	21,377,460	10,885,097	–	–
2. Affiliates (10-50%-owned)											
SAS Parholding	15,000,000	6,496,835	50.00%	18,400,300	18,400,300	6,025,129	–	–	3,638,331	3,063,778	–
B - Aggregate information about investments not listed in A above:											
1. Subsidiaries (at least 50%-owned)				380,493	380,493	209,284,056	–	–	(233,708)	959,740	–
2. Affiliates (less than 50%-owned)				2,286,735	–	–	–	–	–	–	–

A-2) Receivables

Analysis by maturity at 31 December 2016 (in €)	Total	*o/w accrued income*	Due within 1 year	Due in 1 to 5 years	Due beyond 5 years
Prepayments to suppliers	40,993		40,993	–	–
Trade receivables	7,250,340	*1,983,152*	7,250,340	–	–
Other					
• Employee advances	39,366		39,366	–	–
• Prepaid and recoverable taxes	3,353,606		3,353,606	–	–
• Current account advances	491,867,008	*112,401*	112,401	–	491,754,607
• Miscellaneous receivables	1,423,138		1,423,138	–	–
Prepaid expenses	185,552		185,552	–	–

Impairment (in €)	31 Dec. 2015	Increases	Decreases	31 Dec. 2016
Rental receivables	2,898,316	57,724	2,761,094	194,946
Total	**2,898,316**	**57,724**	**2,761,094**	**194,946**

A €2,702-thousand provision for impairment was reversed during the year, following a final enforceable ruling handed down on 18 November 2016 by the Paris Court of Appeal in SFL's favour in a dispute with a former tenant.

A-3) Current financial assets

A-3.1) Treasury shares

The total carrying amount of treasury shares held at 31 December 2016 came to €19,568 thousand compared with a market value of €17,397 thousand, reflecting the average share price of €48 for the month of December 2016 (versus €43.82 for December 2015).

Treasury shares	31 Dec. 2015	Additions[1]	Disposals	31 Dec. 2016
Number of shares	377,465	158,845	173,930	362,380
Average purchase/sale price (in €)	€53.45	€48.17	€47.49	€54.00
Total	**20,175,435**	**7,651,262**	**8,259,162**	**19,567,535**

(1) Including 40,952 shares allocated to performance share plans.

Provisions for impairment, as determined based on the purpose for which the treasury shares were being held, amounted to €2,833 thousand at 31 December 2016 as follows:

Treasury shares	Number of shares	Cost	Provisions	Net	Market value	Gross gain or loss
Shares allocated to share-based payment plans[1]						
2014 performance share plan	26,722	1,155,707	N/A[1]	1,155,707	–	–
2015 performance share plan	25,598	1,090,613	N/A[1]	1,090,613	–	–
2016 performance share plan	31,908	1,547,538	N/A[1]	1,547,538	–	–
Sub-total	**84,228**	**3,793,858**	**–**	**3,793,858**	**–**	**–**
Available treasury shares						
Shares held for future stock-for-stock acquisitions	225,349	13,605,249	2,786,289	10,818,960	10,818,960	–
Shares held for external growth transactions	23,283	704,866	–	704,866	1,117,812	412,946
Shares held under the liquidity contract	29,520	1,463,562	46,312	1,417,250	1,417,249	–
Sub-total	**278,152**	**15,773,677**	**2,832,601**	**12,941,076**	–	–
Total	**362,380**	**19,567,535**	**2,832,601**	**16,734,934**	**–**	**–**

(1) Treasury shares allocated to performance share plans concern SFL Group companies and are carried at cost.

Impairment (in €)	31 Dec. 2015	Increases	Decreases	Reclassifications	31 Dec. 2016
Treasury shares	4,172,360	–	1,108,737	(231,022)	2,832,601
Total	**4,172,360**	**–**	**1,108,737**	**(231,022)**	**2,832,601**

Changes in impairment over the year included a €1,109 thousand provision reversal through profit and the reclassification of €231 thousand following the allocation of shares to performance share plans at their net book value on the transfer date.

Performance share plans for Company employees are as follows:

Details of the performance share plans	Plan 1	Plan 3	Plan 4
Date of General Meeting	9 May 2011	22 April 2015	13 Nov. 2015
Grant date	4 March 2014	17 June 2015	26 April 2016
End of vesting period	31 Dec. 2016	31 Dec. 2017	31 Dec. 2018
Initial expected vesting rate	70.83%	70.83%	70.83%
Target number of shares	23,083	18,255	22,561
Value per share[1]	€37.50	€42.10	€48.50

(1) SFL share price on the grant date

Number of performance share rights expected to vest	Plan 1	Plan 3	Plan 4
Number of shares expected to vest at beginning of the year	17,731	25,572	–
Performance share rights granted during the year	8,838	–	31,852
Performance share rights cancelled during the year (departures/vesting conditions not met)	(56)	(28)	(28)
Expected vesting rate at 31 December 2016	150.00%	100.00%	100.00%
Number of shares expected to vest at the year-end	**26,513**	**25,544**	**31,824**

A-4) Deferred charges

Debt issuance costs (in €)	Amortisation period	Total	Accumulated amortisation at 1 Jan. 2016	Amortisation for the year	Accumulated amortisation at 31 Dec. 2016	Net
2011 bond issuance costs	5 years	2,876,717	2,802,018	74,699	2,876,717	–
2012 bond issuance costs	5 years	2,893,365	2,226,445	347,964	2,574,409	318,956
2014 bond issuance costs	7 years	2,465,480	381,464	352,212	733,676	1,731,804
2015 bond issuance costs	7 years	2,407,120	42,993	343,872	386,865	2,020,255
2014 BECM loan fees	5 years	1,050,000	367,500	210,000	577,500	472,500
2014 Natixis loan fees	5 years	900,000	210,000	180,000	390,000	510,000
2014 Natixis loan renegotiation fees	4 years	100,000	6,123	24,492	30,615	69,385
2015 Banco Sabadell loan fees	5 years	150,600	17,570	30,120	47,690	102,910
2015 BNP Paribas loan fees	5 years	1,222,088	122,208	244,416	366,624	855,464
2016 BNP Paribas loan fees	5 years	771,084	–	89,958	89,958	681,126
Total		**14,836,454**	**6,176,321**	**1,897,733**	**8,074,054**	**6,762,400**

Fees are amortised over the life of the loan at the same rate as repayments.

A-5) Debt redemption premiums

Redemption premiums (in €)	Amortisation period	Total	Amortisation for the year	Accumulated amortisation	Net
2011 bonds	5 years	1,985,000	51,544	1,985,000	–
2012 bonds	5 years	2,295,000	276,048	2,041,967	253,033
2014 bonds	7 years	615,000	87,852	183,025	431,975
2015 bonds	7 years	735,000	105,000	118,125	616,875
Total		**5,630,000**	**520,444**	**4,328,117**	**1,301,883**

Redemption premiums are amortised over the life of the loan at the same rate as repayments.

A-6) Equity

A-6.1) Changes in equity

A. Equity at 31 December 2015 before appropriation of the loss for the year	**873,099,467**
B. Appropriations decided at the Annual General Meeting	
Transfer to the legal reserve	–
C. Dividend paid during the year	
2015 dividend decided by the Annual General Meeting of 26 April 2016	(48,505,920)
Special distribution decided by the General Meeting of 15 November 2016	(48,494,816)
D. Other movements for the year	
Share issues	–
Reduction in the share premium account	–
Change in untaxed provisions	2,345,396
Loss for the year	(30,278,521)
E. Equity at 31 December 2016	**748,165,606**
F. Change in equity during the year	**(124,933,861)**

At 31 December 2016, the Company's share capital comprised 46,528,974 ordinary shares with a par value of €2. The number of voting rights at that date was 46,166,594.

Société Foncière Lyonnaise is a subsidiary of Spanish company Inmobiliaria Colonial SA, which owned 58.55% of the capital at 31 December 2016.

Untaxed provisions correspond exclusively to accelerated capital allowances, representing excess tax depreciation calculated on the residual value of certain properties.

Untaxed provisions (in €)	31 Dec. 2015	Increases	Decreases	31 Dec. 2016
Excess tax depreciation	17,047,872	2,424,357	78,960	19,393,269
Total	**17,047,872**	**2,424,357**	**78,960**	**19,393,269**

A-6.2) Dividends

Dividends	2016		2015	
	Paid	Per share	Paid	Per share
Prior year dividend paid in reporting year	48,505,920	€1.05	64,623,531	€1.40
Special dividend paid in reporting year	48,494,816	€1.05	48,467,648	€1.05
Total	**97,000,736**	**€2.10**	**113,091,179**	**€2.45**

A-6.3) Provisions for contingencies and charges

Provisions for contingencies and charges (in €)	31 Dec. 2015	Increases	Decreases	31 Dec. 2016
Provisions for property-related contingencies and tenant claims	283,570	2,260,000	117,570	2,426,000
Provisions for employee benefits	2,099,032	1,516,360	1,554,669	2,060,723
Total	**2,382,602**	**3,776,360**	**1,672,239**	**4,486,723**

Provisions for contingencies and charges are determined using Management estimates and assumptions based on information and circumstances existing at the time of the preparation of the financial statements, and Management's judgement.

Provisions for contingencies mainly concern disputes with two former tenants.

Provisions for employee benefits correspond for the most part to deferred performance share plan costs. Decreases in 2016 included the €1,416 thousand provision reversed upon delivery of shares granted under the 2013 Plan 1.

A-7) Liabilities

Liabilities at 31 December 2016 by maturity (in €)	Total	*o/w accrued expenses*	Due within 1 year	Due in 1 to 5 years	Due beyond 5 years
Bonds	1,304,022,830	*3,322,830*	304,022,830	500,000,000	500,000,000
Bank borrowings	445,184,542	*377,189*	85,184,542	360,000,000	–
Other borrowings					
• Tenant deposits	11,338,148	–	1,042,695	3,484,273	6,811,180
• Current account advances	40,967,056	*141,284*	141,284	–	40,825,772
Prepaid property rentals	4,113,989	–	4,113,989	–	–
Trade payables	7,431,402	*7,066,536*	7,431,402	–	–
Accrued payroll costs	4,834,113	*4,381,001*	4,834,113	–	–
Accrued taxes	18,988,908	–	9,229,625	9,759,283	–
Due to suppliers of property	7,762,829	*6,501,807*	7,762,829	–	–
Other liabilities	1,315,294	*533,788*	1,315,294	–	–
Deferred income	2,240,423	–	2,240,423	–	–
Total	**1,848,199,534**	***22,324,436***	**427,319,026**	**873,443,268**	**547,636,952**

Prepaid property rentals correspond to rent and property expenses for the first quarter of 2017 payable in advance.
Accrued payroll costs include discretionary profit-sharing and bonus accruals.
Accrued taxes include the exit tax instalments due in 2017 and related to the Rives de Seine and 131 Wagram buildings, for a total of €15,964 thousand.

Long and short-term debt (in €)	31 Dec. 2016	31 Dec. 2015	Year-on-year change
2011 bonds	–	160,151,013	(160,151,013)
2012 bonds	301,680,364	301,677,686	2,678
2014 bonds	500,924,658	500,922,131	2,527
2015 bonds	501,417,808	501,413,934	3,874
2014 BECM loan	140,095,679	140,119,000	(23,321)
2015 BNP Paribas loan	20,003,003	–	20,003,003
2016 BNP Paribas loan	150,222,231	–	150,222,231
Banco Sabadell loan	50,003,333	–	50,003,333
Bank overdrafts	84,860,296	22,051,305	62,808,990
Total	**1,749,207,372**	**1,626,335,069**	**122,872,303**

B - Notes to the Profit and Loss Account

B-1) Net revenue

(in €)	2016	2015
Property rentals and lease termination penalties	79,651,579	63,610,825
Property management fees	2,037,231	1,511,025
Key money	766,668	766,668
Other fees	1,325,920	1,048,227
Facility management revenues	2,325,269	947,972
Sub-total	**86,106,667**	**67,884,717**
Administration and accounting fees	141,200	140,000
Payments received for seconded employees	1,487,853	1,515,494
Sub-total	**1,629,053**	**1,655,494**
Total	**87,735,720**	**69,540,211**

The increase in rental income and tenant penalties reflected the ending of the rent-free periods granted to certain new tenants of the Louvre Saint-Honoré, Edouard VII, 131 Wagram and #cloud.paris buildings.

B-2) Payroll costs

(in €)	Administrative staff	Building staff	2016 total	2015 total
Wages and salaries				
Wages and salaries	8,128,963	97,289	8,226,252	9,018,126
Sub-total	**8,128,963**	**97,289**	**8,226,252**	**9,018,126**
Payroll taxes and other employee benefits expenses				
Social security taxes and disability/health insurance premiums	2,800,625	41,611	2,842,236	2,724,671
Other employee benefits expenses	480,844	(3,173)	477,671	523,198
Sub-total	**3,281,469**	**38,438**	**3,319,907**	**3,247,869**
Total	**11,410,432**	**135,727**	**11,546,159**	**12,265,995**

The remuneration awarded to senior management (including bonuses, benefits in kind, corporate savings plan rights, termination benefits, etc.) amounted to €2,820 thousand in 2016.

Directors' fees for the year awarded to the members of the Board of Directors represented a total of €346 thousand.

B-3) Number of employees at 31 December 2016

The Company had 65 administrative staff and 2 building staff at 31 December 2016 compared with 62 administrative staff and 2 building staff at 31 December 2015.

The average number of employees breaks down as follows:

(number)	2016	2015
Building caretakers	2	2
Administrative staff	4	4
Supervisors	7	9
Managers	50	45
Officers	2	2
Total	**65**	**62**

B-4) Fees paid to the Auditors

(in €)	Deloitte & Associés		PricewaterhouseCoopers Audit	
	2016	2015	2016	2015
Statutory and contractual audits	210,000	197,500	210,000	197,500
Other services	19,600	35,500	19,753	40,502
Total	**229,600**	**233,000**	**229,753**	**238,002**

B-5) Net financial expense

(in €)	2016	2015
Dividends from SAS Parholding	3,063,778	–
Dividends from SA Segpim	959,740	437,240
Revenue from SCI Paul Cézanne	10,813,435	10,891,001
Revenue from SNC Condorcet	–	5,823,035
Revenue from SCI Washington	7,184,164	5,572,505
Revenue from SCI 103 Grenelle	5,577,321	4,898,252
Sub-total	**27,598,438**	**27,622,033**
Interest income from the SCI Champvernier loan	6,301	48,105
Sub-total	**6,301**	**48,105**
Interest income from current account advances to subsidiaries	1,173,583	2,092,716
Other financial income	2,147	14,322
Sub-total	**1,175,730**	**2,107,038**
Capitalised interest expense	291,200	6,047,980
Reversals of impairment of current financial assets	1,108,723	2,497,867
Sub-total	**1,399,923**	**8,545,847**
Net gains from sales of current financial assets	118	1,438
Sub-total	**118**	**1,438**
Financial income	**30,180,510**	**38,324,461**
Change in provisions for bond redemption premiums	520,444	928,802
Sub-total	**520,444**	**928,802**
Interest expense on bonds and bank loans	36,484,599	40,668,483
Interest expense on current account advances from subsidiaries	312,795	553,213
Interest expense on bank overdrafts	194,320	175,598
Bank loan arranging fees	3,041,045	3,751,056
Cancellation of SNC Condorcet's 2015 profit (1)	5,823,035	–
Other financial expenses	–	9,515,356
Sub-total	**45,855,794**	**54,663,706**
Net losses from sales of current financial assets	115	–
Sub-total	**115**	**–**
Financial expenses	**46,376,353**	**55,592,508**
Net financial expense	**(16,195,843)**	**(17,268,047)**

(1) Correction of the recognition in financial income in 2015 of the profit of SNC Condorcet, a look-through entity, due to the 29 June 2016 decision of its partner to appropriate the profit to retained earnings.

B-6) Other income and expense

(in €)	2016	2015
Capital gains and losses on disposal of non-current assets, net	–	9,471
Fines and penalties	(124,268)	–
Capital gains and losses on sales of treasury shares, net	(1,395,371)	(1,660,882)
Prior period adjustments, net	108,496	(114,336)
Settlement of a dispute with a former tenant	720,389	–
Movements on untaxed provisions	(2,345,396)	(3,383,378)
Non-recurring reversals of provisions for contingencies	138,700	281,880
Insurance settlements	1,359,109	1,200,000
Total	**(1,538,341)**	**(3,667,245)**

B-7) Income tax expense

(in €)	2016	2015
Income tax at the standard rate	2,516,614	(15,000)
Exit tax payable upon exercise of the finance lease purchase option on 131 Wagram	13,012,378	–
Total	**15,528,992**	**(15,000)**

C- Related party transactions

(in €)	31 Dec. 2016	31 Dec. 2015
Balance Sheet		
Non-current financial assets	391,584,964	391,584,964
Advances to subsidiaries and affiliates	22,433,187	27,184,793
Other loans	361,108	386,755
Trade receivables	447,511	578,750
Other receivables	491,867,008	508,975,755
Other borrowings	147,179	147,179
Trade payables	2,716,613	2,520,109
Other liabilities	40,967,057	43,132,880
Profit and Loss Account		
Revenue	3,129,744	1,655,494
Other income	635,769	636,191
Expense transfers	288,860	246,974
Other purchases and external charges	1,694,526	1,637,863
Taxes other than on income	–	135,330
Property management fees	2,163,910	1,795,526
Dividend income from subsidiaries and affiliates	27,598,438	27,622,034
Interest expense on liabilities related to advances to subsidiaries and affiliates	5,823,035	–
Interest received on advances to subsidiaries and affiliates	1,002,072	1,774,185
Interest paid on liabilities related to advances to subsidiaries and affiliates	141,284	234,681

D - Finance Leases

At 31 December 2016, the Company no longer had any finance leases after exercising its option to acquire the 131 Wagram building.

E - Off-Balance Sheet Commitments

Guarantees and other commitments

Guarantees and other commitments (in €)	Total	Within 1 year	In 1 to 5 years	Beyond 5 years
Commitments given	*None*	–	–	–
Commitments received				
Guarantees received from tenants	34,015,605	4,356,547	3,485,127	26,173,931
Guarantees received from suppliers	57,420	57,420	–	–
2014 Natixis/BPCE loan	150,000,000	–	150,000,000	–
2015 BNP Paribas loan	380,000,000	–	380,000,000	–
2014 BECM loan	10,000,000	–	10,000,000	–

Hedging portfolio

The Company did not have any interest rate hedges at 31 December 2016.

Contractual redevelopment and renovation obligations

At 31 December 2016, the Company's contractual commitments related to redevelopment and renovation work totalled €8,675 thousand (€32,734 thousand at 31 December 2015) of which €7,865 thousand concerned the Louvre Saint-Honoré and Edouard VII properties.

Employee benefits

SFL has elected not to use the recommended method for recognising pension and other post-employment benefit obligations.

The amount of these obligations, for which no provision has been set aside, stood at €810 thousand at 31 December 2016. The benefit cost is determined based on employee service rendered up to the measurement date, assuming employees retire at their own initiative and that, consequently, the benefits are subject to payroll taxes.
The calculation parameters are determined on a historical basis. The projected benefit obligation is calculated annually based on actuarial assumptions, including a discount rate of 1.31% and a 1.5% rate of future salary increases.

Employee benefit plans are as follows:

– Length-of-service awards payable to employees on retirement: benefits payable under this plan are specified in a corporate agreement signed with employee representatives.

– Post-employment medical care: this plan concerns a closed group of retired SFL employees. Benefits consist of the payment by SFL of two-thirds of the contributions due to the insurance company responsible for reimbursing medical costs.

– Jubilees:
the agreements in force within the Company provide for the payment of one month's salary to:
- administrative staff who complete 20, 30, 35 and 40 years of service, and
- to building staff who complete 25 years of service.

Employees are not covered by any defined benefit pension plan and are not entitled to any other post-employment benefits. As SFL does not have any such defined benefit obligations, no sensitivity analyses are presented.

F - Consolidation

Société Foncière Lyonnaise is included in the consolidated financial statements of Inmobiliaria Colonial SA, a company governed by Spanish law and listed on the Madrid stock exchange (ISIN: ES0139140018).

Statutory Auditors' Reports year ended 31 December 2016

Statutory Auditors' report on the consolidated financial statements Year ended 31 December 2016

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. The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the consolidated financial statements and includes an explanatory paragraph discussing the Auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements. This report also includes information relating to the specific verification of information given in the Group's Management Report. 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,

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended 31 December 2016, on:

– the audit of the accompanying consolidated financial statements of Société Foncière Lyonnaise;
– the justification of our assessments;
– the specific verification required by law.

The consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

I. Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements for the year give a true and fair view of the assets, liabilities, financial position and results of the consolidated group of companies, in accordance with IFRSs as adopted by the European Union.

II. Justification of our assessments

In accordance with the requirements of Article L.823-9 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

As described in Notes I-3) and IV-4) to the consolidated financial statements, all of the Group's property assets have been valued by qualified independent valuers to estimate their fair value. Our work consisted of verifying the valuation methods used by the independent valuers and ensuring that fair value measurements of property assets were based on independent valuations and that the notes to the consolidated financial statements contain the appropriate disclosures.

These assessments were made in the context of our audit of the consolidated financial statements, taken as a whole, and therefore contributed to the formation of the unqualified opinion expressed in the first part of this report.

III. Specific verification

In accordance with the professional standards applicable in France, we also verified the information about the group presented in the Management Report.

We have no matters to report regarding the fair presentation of this information and its conformity with the consolidated financial statements.

Neuilly-sur-Seine, 22 March 2017
The Statutory Auditors

Deloitte & Associés	PricewaterhouseCoopers Audit
Christophe Postel-Vinay	Philippe Gueguen

Statutory Auditors' report on the Company financial statements Year ended 31 December 2016

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. The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the financial statements and includes an explanatory paragraph discussing the Auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the financial statements. This report also includes information relating to the specific verification of information given in the Management Report and in the documents addressed to shareholders. 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,

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended 31 December 2016, on:

– the audit of the accompanying financial statements of Société Foncière Lyonnaise;
– the justification of our assessments;
– the specific verifications and information required by law.

The financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

I. Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.

An audit also includes assessing the accounting principles used and the significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the Company's results for the period as well as of its financial position, assets and liabilities at the period-end, in accordance with the accounting rules and principles applicable in France.

Without qualifying our opinion expressed above, we draw your attention to Note I-b) on accounting policies for property and equipment, which explains the change in accounting policies related to the new accounting principles for technical deficits, as provided for in regulation no. 2015-06 of the French Accounting Standards Authority (*Autorité des normes comptables* – ANC).

II. Justification of our assessments

In accordance with the requirements of Article L.823-9 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

Note I-b) on accounting policies for property and equipment and Note I-c) on accounting policies for non-current financial assets explain the accounting policies relating to the depreciation of property and equipment, and impairment of shares in subsidiaries and affiliates. Our work consisted of verifying the valuation methods used and ensuring that the notes to the consolidated financial statements contain the appropriate disclosures.

These assessments were made in the context of our audit of the financial statements, taken as a whole, and therefore contributed to the formation of the unqualified opinion expressed in the first part of this report.

III. Specific verifications and information

In accordance with professional standards applicable in France, we also verified the information given in the financial statements.

We have no matters to report concerning the fair presentation of this information and its conformity with the Board of Directors' Management Report and with the documents addressed to shareholders regarding the Company's financial position and financial statements.

We have examined the information provided in accordance with Article L.225-102-1 of the French Commercial Code concerning compensation and benefits granted to corporate officers and any other commitments made in their favour, and verified its conformity with the information used to prepare the Company financial statements and, where necessary, with data collected by your Company from its controlling shareholders or subsidiaries. On this basis, we have no matters to report concerning the fair presentation of this information.

In accordance with the law, we obtained assurance that the necessary disclosures were made in the Management Report concerning acquisitions of controlling and other interests and the identity of shareholders and holders of voting rights.

Neuilly-sur-Seine, 22 March 2017
The Statutory Auditors

PricewaterhouseCoopers Audit
Philippe Gueguen

Deloitte & Associés
Christophe Postel-Vinay

Statutory Auditors' report, prepared in accordance with Article L.225-235 of the French Commercial Code, on the report prepared by the Chairman of the Board of Directors of Société Foncière Lyonnaise Year ended 31 December 2016

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

To the shareholders,

In our capacity as Statutory Auditors of Société Foncière Lyonnaise, and in accordance with Article L.225-235 of the French Commercial Code (*Code de commerce*), we hereby report to you on the report prepared by the Chairman of your Company in accordance with Article L.225-37 of the French Commercial Code for the year ended 31 December 2016.

It is the Chairman's responsibility to prepare, and submit to the Board of Directors for approval, a report describing the internal control and risk management procedures implemented by the Company and providing the other information required by Article L.225-37 of the French Commercial Code in particular relating to corporate governance.

It is our responsibility:
- to report to you our observations on the information contained in the Chairman's report on corporate governance and internal control; and
- to attest that the report sets out the other information required by Article L.225-37 of the French Commercial Code, it being specified that it is not our responsibility to assess the fairness of this information.

We conducted our work in accordance with the professional standards applicable in France.

Information concerning the internal control and risk management procedures relating to the preparation and processing of accounting and financial information

French professional standards require that we perform procedures to assess the fairness of the information contained in the Chairman's report on corporate governance and internal control. These procedures mainly consisted of:
- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of accounting and financial information underpinning the information given in the Chairman's report, and of the existing documentation;
- obtaining an understanding of the work performed to support the information given in the report and of the existing documentation;
- determining whether any material weaknesses in the internal control procedures relating to the preparation and processing of accounting and financial information that we may have identified during the course of our work are appropriately disclosed in the Chairman's report.

Based on our procedures, we have no matters to report concerning the information given on internal control and risk management procedures relating to the preparation and processing of accounting and financial information, as contained in the report of the Chairman of the Board of Directors prepared in accordance with Article L.225-37 of the French Commercial Code.

Other information

We attest that the Chairman's report sets out the other information required by Article L.225-37 of the French Commercial Code.

Neuilly-sur-Seine, 22 March 2017
The Statutory Auditors

PricewaterhouseCoopers Audit
Philippe Gueguen

Deloitte & Associés
Christophe Postel-Vinay

Statutory Auditors' special report on related party agreements and commitments (Annual General Meeting held to approve the 2016 financial statements)

This is a free translation into English of the Statutory Auditors' special report on related party agreements and commitments issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the shareholders,

In our capacity as Statutory Auditors of your Company, we hereby report to you on related party agreements and commitments.

We are required to report to shareholders, based on the information provided, about the main terms and conditions of the related party agreements and commitments that have been disclosed to us or that we identified during our audit, as well as the reasons given as to why they are beneficial for the Company, without commenting on their relevance or substance or identifying any undisclosed agreements or commitments. Under the provisions of Article R.225-31 of the French Commercial Code (*Code de commerce*), it is the responsibility of shareholders to determine whether the agreements and commitments are appropriate and should be approved.

We are also required to disclose the information provided for in Article R.225-31 of the French Commercial Code concerning the execution during 2016 of any related party agreements and commitments approved by shareholders in prior years.

We performed the procedures that we considered necessary in accordance with the professional guidelines of the French Institute of Statutory Auditors (CNCC). These procedures consisted of verifying that the information given to us agreed with the underlying documents.

- **Agreements and commitments subject to approval by shareholders**

- **Agreements and commitments authorised during 2016**

  We were not advised of any agreements or commitments authorised during the past year that would have to be submitted to the Annual General Meeting for approval in accordance with Article L.225-38 of the French Commercial Code.

- **Agreements and commitments from prior years that were not subject to approval by shareholders at a previous Annual General Meeting**

  We were informed of the following agreement and commitment authorised in 2015 and which were not subject to approval by shareholders at the Annual General Meeting called to approve the financial statements for the prior year.

Agreement and commitment entered into with Dimitri Boulte, Chief Operating Officer since 27 January 2015

– Authorised at the Board meeting of 27 January 2015.
– Nature and purpose of the agreement: continuation of the employment contract signed prior to the appointment of Dimitri Boulte, who, under this contract, is compensated in his capacity as an employee and is entitled to long-term incentive bonus plans and benefits in kind in his capacity as executive officer of the Company.
– Nature and purpose of the commitment: in his capacity as executive officer of the Company, Dimitri Boulte, under his employment contract signed prior to his appointment, would be entitled to a termination benefit if he were to leave the Company following a change of control, equal to double the total gross remuneration due for the calendar year preceding the change of control.

- **Agreements and commitments already approved by the Annual General Meeting**

Agreements and commitments approved in prior years

a) Agreements and commitments remaining in force in 2016

In accordance with Article R.225-30 of the French Commercial Code, we were informed of the following agreement authorised in prior years that remained in force in 2016.

- **Agreement with Predica**

– Authorised at the Board meeting of 15 November 2012 and amendment approved by shareholders at the Annual General Meeting of 18 April 2013.
– Persons concerned: Chantal du Rivau and Jean-Jacques Duchamp.
– Amendment to the partnership agreement with Parholding of 26 December 2012.
– This new partnership agreement signed with Predica on 26 December 2012 gives SFL and its representatives the power to control the strategic financial and operating decisions made within Parholding by virtue of a contractual arrangement.
– Given that Chantal du Rivau and Jean-Jacques Duchamp are directors, and that the Crédit Agricole Group, of which Predica is a member, holds over 10% of the voting rights in the Company, the new partnership agreement with Predica is governed by Articles L.225-38 *et seq.* of the French Commercial Code.

b) Agreements and commitments that were not applied in 2016

We were also informed that the following agreements – which were approved in a prior year by shareholders – were not applied in 2016.

Agreement with Nicolas Reynaud

– Authorised at the Board meeting of 27 January 2015 and approved by shareholders at the Annual General Meeting of 22 April 2015.
– Corporate officer concerned: Nicolas Reynaud, Chief Executive Officer since 27 January 2015.
– Payment of compensation for loss of office to Nicolas Reynaud in the event that he is dismissed from his position as Chief Executive Officer.

The agreement provides for the payment of compensation for loss of office to Nicolas Reynaud in the event that he is dismissed from his position as Chief Executive Officer as a result of a change in control or strategy and for reasons other than gross or wilful misconduct.

Said compensation would represent the equivalent of two years' fixed annual remuneration and bonuses, based on his latest fixed annual salary and, until 31 December 2017, the most recent bonus paid.

As from 1 January 2018, the variable component would be based on the average of the bonuses paid for the three years preceding his dismissal.

No exceptional bonuses or other components of his remuneration package other than those defined in the agreement would be taken into account in the calculation.

The compensation amount would also depend on the growth in the previous year's EPRA earnings compared with the average increase for the two preceding years, as follows:

EPRA earnings for the current year vs average for the two preceding years	Compensation for loss of office
100% or more	100%
Between 90% and 100%	80%
Between 75% and 90%	50%
Less than 75%	0%

In effecting the comparison, account would be taken of changes in the property portfolio in the years concerned.

Agreement with SCI Paul Cézanne

– Authorised at the Board meeting of 24 April 2014 and approved by shareholders at the Annual General Meeting of 22 April 2015.
– SCI Paul Cézanne is a wholly-owned subsidiary of Société Foncière Lyonnaise.
– On 17 March 2014, Société Générale agreed to stand surety for SCI Paul Cézanne with regard to Pitch Promotion (a French public limited company with capital of €30,026,550 and whose registered office is located at 6 rue de Penthièvre, 75008 Paris, listed on the Paris Companies Registry under number 422 989 715) for an amount of up to €248,220 regarding the payment due from SCI Paul Cézanne to Pitch Promotion under a contract to change the use of premises signed in Paris on 18 October 2013.
– SFL agreed to act as joint and several guarantor for its subsidiary, SCI Paul Cézanne, with regard to Société Générale up to the guaranteed principal amount of €248,220.

This guarantee expired, without being used, on 30 June 2016, i.e., the expiry date of Société Générale's guarantee for SCI Paul Cézanne.

In accordance with the law, we inform you that the Board of Directors did not conduct an annual review of the agreements and commitments entered into in prior years that remained in force during the year, as required by Article L.225-40-1 of the French Commercial Code.

Neuilly-sur-Seine, 22 March 2017
The Statutory Auditors

PricewaterhouseCoopers Audit
Philippe Gueguen

Deloitte & Associés
Christophe Postel-Vinay

Additional Information

1. Persons responsible for the Registration Document and the audit of the accounts

1.1 Statement by the person responsible for the Registration Document

Name and position

Nicolas Reynaud, Chief Executive Officer.

Statement

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

I further declare that, to the best of my knowledge, the financial statements have been prepared in accordance with the applicable accounting standards and give a true and fair view of the assets and liabilities, financial position and results of the Company and the entities included in the scope of consolidation, and the report of the Board of Directors on pages 4 *et seq.* presents fairly the changes in business, results and financial position of the Company and the entities included in the scope of consolidation, as well as a description of their principal risks and contingencies.

I obtained a statement from the Statutory Auditors at the end of their engagement affirming that they have read the whole of the Registration Document and examined the information about the financial position and the historical accounts contained therein.

Paris, 5 April 2017

Nicolas Reynaud
Chief Executive Officer

1.2 Persons responsible for the audit of the accounts

AUDITORS

	First appointed	Term renewed	Term expires*
Statutory Auditors			
Deloitte & Associés Member of the Compagnie Régionale des Commissaires aux Comptes de Versailles 185, avenue Charles de Gaulle, 92200 Neuilly-sur-Seine, France Represented by Christophe Postel-Vinay	21 April 2005	9 May 2011	2016
PricewaterhouseCoopers Audit Member of the Compagnie Régionale des Commissaires aux Comptes de Versailles 63, rue de Villiers, 92200 Neuilly-sur-Seine, France Represented by Philippe Guéguen	25 April 2003	18 April 2013	2018
Substitute Auditors			
BEAS Member of the Compagnie Régionale des Commissaires aux Comptes de Versailles 7/9, villa Houssay, 92200 Neuilly-sur-Seine, France	21 April 2005	9 May 2011	2016
Anik Chaumartin Member of the Compagnie Régionale des Commissaires aux Comptes de Versailles 63, rue de Villiers, 92200 Neuilly-sur-Seine, France	9 May 2007	18 April 2013	2018

*At the close of the Annual General Meeting to be called to approve the financial statements for the year indicated.

FEES PAID TO THE AUDITORS

(in €)	PricewaterhouseCoopers Audit						Deloitte & Associés					
	Amount (excl. VAT)			%			Amount (excl. VAT)			%		
	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014
Statutory and contractual audits												
Issuer	210,000	197,500	207,500	67%	61%	68%	210,000	197,500	207,500	88%	82%	84%
Fully consolidated subsidiaries	86,590	85,560	83,060	27%	26%	27%	8,600	8,500	–	4%	3%	–
Audit-related services												
Issuer	19,753	40,502	15,300	6%	13%	5%	19,600	35,500	39,131	8%	15%	16%
Fully consolidated subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–
Sub-total	**316,343**	**323,562**	**305,860**	**100%**	**100%**	**100%**	**238,200**	**241,500**	**246,631**	**100%**	**100%**	**100%**
Other services												
Legal and tax advice	–	–	–	–	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	–	–	–	–	–
Sub-total	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**316,343**	**323,562**	**305,860**	**100%**	**100%**	**100%**	**238,200**	**241,500**	**246,631**	**100%**	**100%**	**100%**

2. Additional legal information

Corporate name and registered office

– Corporate name: Société Foncière Lyonnaise
– Registered office: 42 rue Washington, 75008 Paris, France
– Phone: +33 (0)1 42 97 27 00

Legal form

Société anonyme (public limited company) governed by the French Commercial Code.

Governing Law

French law.

Date of incorporation and term

– Incorporated on: 9 October 1879.
– Term: 8 October 2064.

Corporate purpose (Article 3 of the Articles of Association)

The Company's purpose is to:
– Acquire, by way of purchase or absorption or under a 99-year lease or a shorter lease, any and all real property located in France, the French overseas territories or abroad, and to extend any such properties; conduct any industrial, rental or management activities and generally enhance the value of the properties.
– Sell or exchange such properties, for cash or for shares.
– Manage properties on behalf of third parties.
– Participate by any method in any and all existing or future companies or business ventures related to the corporate purpose, including by means of the formation of new companies, the sale of assets in exchange for shares, membership of a general partnership, subscription or purchase of shares or other rights.
– Conduct any and all transactions related directly or indirectly to the corporate purpose or which are likely to facilitate the fulfilment of said purpose.

Registration particulars

Paris Companies Registry: 552 040 982 – NAF Code: 6820 B.

Financial year

1 January to 31 December.

Market for the Company's shares

SFL shares are quoted on NYSE Euronext Paris, compartment A.
ISIN: FR0000033409
Reuters: FLYP PA
Bloomberg: FLY FP

3. Additional information about the Company's capital and share ownership

3.1 Excerpts from the Articles of Association concerning the Company's capital and share ownership

Changes in capital (Articles 6, 7 and 8 of the Articles of Association)

The Company's capital may be increased on one or more occasions by any method provided for by law.

The share capital is increased by the issue of ordinary shares or preference shares, or by raising the par value of existing shares. It may also be increased through the exercise of rights attached to securities with rights to shares, on the basis defined by law.

Shareholders in General Meeting may resolve to reduce the Company's capital either by reducing the par value of the shares or reducing the number of shares in issue.

Where shareholders in General Meeting resolve to reduce the Company's capital for any reason other than to absorb losses, the Board of Directors may be authorised to purchase a fixed number of shares to be subsequently cancelled in accordance with the applicable law.

Where a capital increase is carried out by issuing shares payable in cash, at least one quarter of the par value of such shares shall be paid up at the time of the issue, as well as the entire amount of any related premium. The Board of Directors shall decide upon the timing and amount(s) of the subsequent payment(s) of the balance due.

Amendments of shareholders' rights (Article 9 of the Articles of Association)

Where called but unpaid amounts on partially paid-up shares are not settled in accordance with the terms and conditions determined by the Board of Directors, said outstanding amounts shall accrue interest on a daily basis, calculated at the legal interest rate, without any requirement for an application to court.
In addition, in order to obtain any such called but unpaid amounts, the Company shall be entitled to sell the shares concerned and to take all appropriate action as provided for by law. In such a case the Company shall serve the defaulting shareholder with a formal notice to pay, by way of a registered letter with return receipt requested. If the amount due is not settled within thirty days of service of the said notice the unpaid shares shall be stripped of attendance and voting rights for shareholders' meetings as well as dividend rights and pre-emptive subscription rights for subsequent share issues. However, following the payment of all outstanding amounts due to the Company (corresponding to the principal amount plus interest and costs), the shareholder concerned may request the payment of any dividends that are not time-barred and will recover their rights to attend and vote at shareholders' meetings.

Identification of shareholders (Article 10 of the Articles of Association)

Fully paid-up shares may be held in registered or bearer form, at the option of the shareholder, in accordance with the law. They are recorded in a shareholder's account in accordance with the terms and conditions provided for in the applicable laws and regulations.

The Board of Directors is authorised to use all methods provided for under the applicable laws and regulations – including an application to the securities clearing house – to obtain identification details of holders of shares and other securities convertible, redeemable, exercisable or otherwise exchangeable for shares carrying voting rights at the Company's General Meetings, together with details of the number of securities held by each such person and of any restrictions affecting the securities.

Disclosure thresholds

Obligations relating to the applicable disclosure thresholds are described on page 44 of the Management Report.

Rights attached to shares (Articles 11, 12, 13 and 14 of the Articles of Association)

Shares are indivisible vis-à-vis the Company, meaning that one share confers only one right. This does not, however, apply to the right to receive information prior to General Meetings as such entitlement applies both to the bare owners (*nu-propriétaires*) and the beneficial owners (*usufruitiers*) of any jointly held shares.

If several persons own one share, they are required to elect one representative to act on behalf of that share. If no agreement can be reached on the appointment of such a representative, he or she shall be named by a Commercial Court judge in summary proceedings following an application by the first joint shareholder to take action.

Voting rights attached to the Company's shares shall be exercised by the beneficial owner in Ordinary General Meetings and by the bare owner in Extraordinary General Meetings. Voting rights attached to pledged shares are retained by the pledger.

In the event of a capital increase, any pre-emptive subscription or allocation rights attached to shares that have both legal and beneficial owners shall be exercised in accordance with the applicable law.

Shares are freely transferable, subject to the applicable legal and regulatory limits.

The Company's bearer shares may be traded on the stock market in accordance with the applicable laws. Shares may also be purchased or sold through off-market account transfers, subject to the conditions set down by the applicable laws and regulations.

All rights and obligations attached to shares are transferred with title thereto. Share ownership automatically requires shareholders to comply with the Company's Articles of Association and the decisions made by General Meetings.

The heirs or creditors of a shareholder may not under any circumstances apply for the Company's assets to be placed under seal or to be sold or divided, and may not interfere in any way whatsoever with the running of the Company. All rights of said persons are governed by the Company's applicable rules and regulations and decisions of General Meetings.

In accordance with Article 33 below, each share entitles its holder to a proportion of profits and net assets based on the proportion of capital represented by the share. All tax exemptions, as well as any tax payable by the Company, shall be applied to all of the Company's shares equally prior to any allocation or redemption, throughout the term of the Company or upon its liquidation, in order to ensure that all shares receive the same net amount.

Where a shareholder must own a specific number of shares to exercise a particular right relating to the exchange or allocation of shares, a reverse stock-split, a capital increase or reduction, a merger or other corporate action, shareholders owning fewer than the number of shares required to exercise the rights concerned will be personally responsible for obtaining said number, through share purchases or sales if necessary.

Appropriation of profits (Article 33 of the Articles of Association)

The profit or loss for the year represents the difference between total income and total expenses, including charges to and reversals from depreciation, amortisation and provisions, shown in the profit and loss account.

At least 5% of net profit for the year, less any losses brought forward from prior years, is transferred to the legal reserve, until such time as the legal reserve represents one tenth of the share capital.

Profit available for distribution consists of profit for the year, less any losses carried forward from prior years and any amounts transferred to the legal reserve as provided for above, plus retained profits carried forward from prior years.

Total profit available for distribution is appropriated as follows:
- to provident reserves or any other reserves, by decision of the Annual General Meeting;
- to dividends payable to shareholders.

Any unappropriated balance is carried forward to the next year.

3.2 Share capital

Share capital at 31 December 2016

As of 31 December 2016, the Company's issued share capital amounted to €93,057,948 divided into 46,528,974 ordinary shares with a par value of €2, all fully paid-up.

3.3 Ownership structure

SFL's ownership structure is described on page 35 of the Management Report.

As far as the Company is aware, no arrangements exist whose implementation may result in a change in control in the future.

3.4 Shareholders' pacts

See page 43 of the Management Report for a description of the shareholders' pacts in force in relation to the Company.

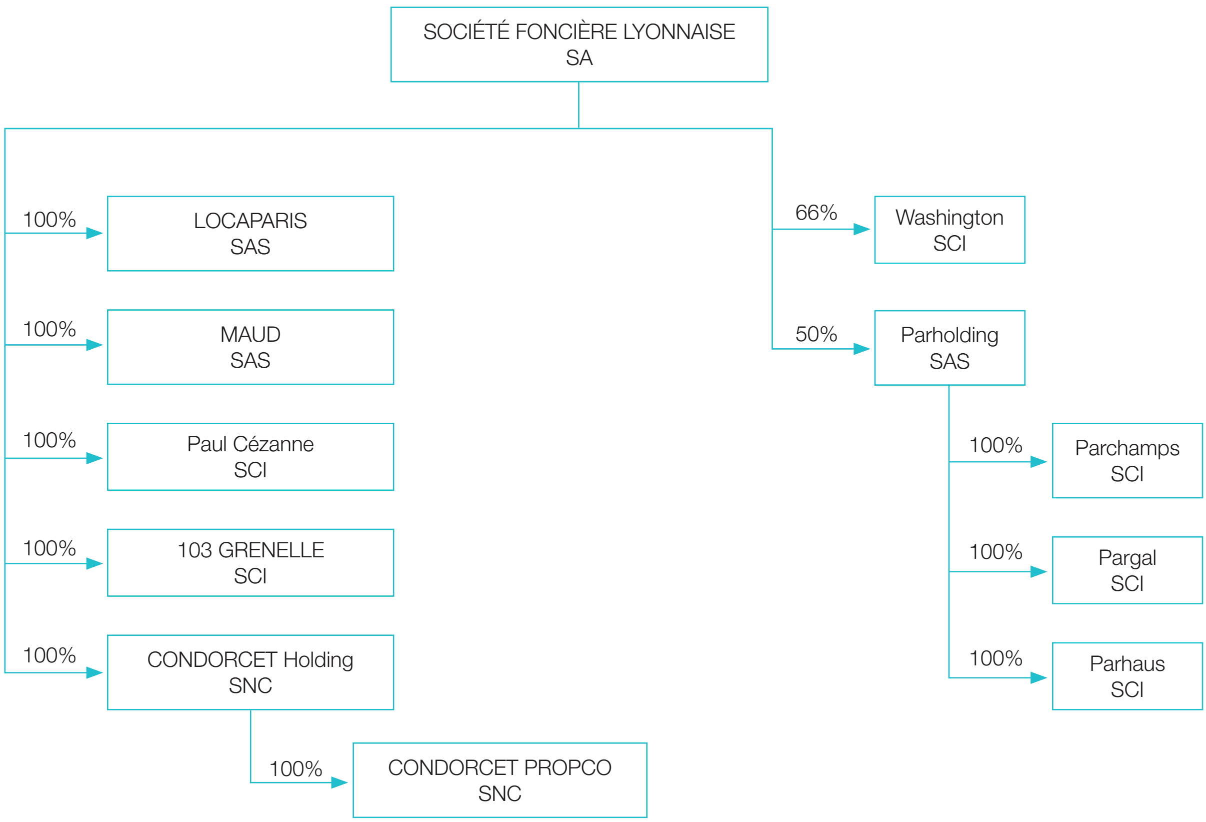
3.5 Corporate governance

In application of Article 21 of the Articles of Association, the functions of Chairman and Chief Executive Officer were separated on 27 January 2015.

The Chairman's report on corporate governance and internal control can be found on pages 86 *et seq.* of the Management Report.

4. Additional information about the Group's operations and organisational structure

4.1 Organisation chart



4.2 Material contracts

No company within the SFL Group is party to an agreement that would entail a material obligation or commitment for the Group, other than contracts entered into in the ordinary scope of business.

4.3 Dependence on patents or licences

Dependence

The SFL Group is not dependent on any patents or licences for the conduct of its business.

4.4 Third party information, statement by experts and declarations of interests

The firms mentioned below have declared themselves to be independent.
All 20 properties owned by SFL have been valued and visited by experts over the last three years.

Statement by experts

SFL's entire property portfolio was valued at 31 December 2016, part by CBRE Valuation, part by Jones Lang LaSalle Expertises and part by BNP Paribas Real Estate Valuation.

The valuations were performed in accordance with the *Charte de l'expertise en évaluation immobilière* (property valuation charter) included in the February 2000 report of France's securities regulator (COB, renamed AMF in 2004). They also complied with the standards issued by the European Group of Valuers' Associations (TEGoVA) and with Royal Institution of Chartered Surveyors (RICS) standards.

Method

The properties were valued primarily by the discounted cash flow method, which consists of discounting projected net future cash flows and the resale value of the property at the end of the projection period.

Each property is analysed in detail, based on the type of use and the surface area of each unit, lease by lease.

The valuers noted that, based on second half 2016 rent-rolls, rents on certain units were above or below observed market rents for the second half of 2016 on similar properties. These differences were taken into account to value the properties according to their current occupancy, based on the duration of the underlying leases.

Vacant units were valued on the basis of assumed rents, excluding rent for the estimated marketing period, after deducting remaining renovation costs and service charges for the period until the units are re-let.

The cost of scheduled renovation work – based on information supplied by the Group – was taken into account over the cash flow projection period.

The results of the valuation were checked by applying the capitalised net rental revenue method, and based on direct comparisons with the observed price per square metre of recent buy-to-let transactions involving occupied and vacant properties.

The appraisal values were determined including transfer costs (calculated at a standard 7.5% or 6.9% for all properties subject to registration duty) and also excluding transfer costs.

At the request of the Group, the valuation method used in December 2016 was the discounted cash flow method.

Each of the three firms provided an individual appraisal value and is not responsible for the valuations performed by the other two firms.

On the basis described above, the value of the portfolio, Group share, at 31 December 2016 is €5,111,399,853 excluding transfer costs and €5,419,728,672 including transfer costs. The value of the portfolio on a 100% basis is €5,736,415,772 excluding transfer costs and €6,091,624,186 including transfer costs.

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Historical financial information

Financial statements and Statutory Auditors' reports for 2016: see table above.

Pursuant to the AMF general regulations, the following information is incorporated by reference:

The consolidated financial statements for the year ended 31 December 2014, prepared in accordance with IFRS, and the related auditors' reports, as presented on pages 147 to 178 and 201 of the 2014 Registration Document filed with the AMF on 8 April 2015 under No. D.15-0302.

The consolidated financial statements for the year ended 31 December 2015, prepared in accordance with IFRS, and the related auditors' reports, as presented on pages 122 to 151 and 172 of the 2015 Registration Document filed with the AMF on 5 April 2016 under No. D.16-0282.

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Design and execution | W

SOCIETE FONCIERE LYONNAISE