TWENTY 17

Financial and Legal Report

SOCIETE FONCIERE LYONNAISE

2017 FINANCIAL AND LEGAL REPORT

SOCIETE FONCIERE LYONNAISE

AUTORITÉ
DES MARCHÉS FINANCIERS

AMF

The French version of this Registration Document was filed with the Autorité des Marchés Financiers (AMF) on 29 March 2018, 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 2017 Management Report

The financial statements were approved for publication by the Board of Directors on 9 February 2018.

Annual General Meeting of 20 April 2018
Management Report for the Year Ended 31 December 2017

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 2017 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 rental market, shaped by the lowest vacancy rate in the Paris region since 2007, stronger corporate demand and a shortage of available high quality properties, especially in Paris itself, SFL signed a large number of leases in 2017, representing a total surface area of some 21,000 sq.m.
Highlights of the year included:
– Leasing the entire 2,900 sq.m of vacant space in the 103 Grenelle property to two tenants, Edouard Denis Développement and Calvin Klein.
– Leasing 3,500 sq.m of offices in the Cézanne Saint-Honoré complex to LEK Consulting and KBL Richelieu.
– Leasing 2,800 sq.m in the Washington Plaza complex to various tenants.
– Leasing a 3,400 sq.m unit in the 92 Champs-Elysées building to WeWork.
– Leasing retail space in Galerie des Champs-Elysées for the new concept store opened by l'Occitane and Pierre Hermé in December 2017.

Nominal office rents for leases signed in 2017 averaged €733 per sq.m with effective rents averaging €629 per sq.m, illustrating SFL's ability to leverage the quality and scarcity of its products to keep rents high while maintaining a disciplined approach to rental incentives.

The physical occupancy rate for revenue-generating properties at 31 December 2017 was 96.4%, compared with 97.0% at the previous year-end. At 3.1%, the EPRA vacancy rate was stable over the year, further illustrating the highly attractive SFL portfolio and the Group's ability to maintain full occupancy of its properties.

1.2. Development operations

Capital expenditure for 2017 amounted to €32.8 million and mainly concerned the renovation of vacated floors in existing buildings and building redevelopment projects. The development pipeline at 31 December 2017 concerned around 13% of the Group's portfolio and consisted mainly of three flagship projects that will be rolled out over the next four years, as follows:
– The core of the Louvre Saint-Honoré complex, representing some 15,000 sq.m of retail space.
– The office complex on avenue Emile Zola acquired in 2017, which will be completely remodelled to become a major business centre in the heart of the 15th *arrondissement* of Paris.
– The 9,000 sq.m building at 96 avenue d'Iéna, which will be extensively renovated to offer superior amenities.

1.3. Property purchases and sales during the year

In January 2017, SFL entered into a €165 million (excluding transfer costs) deal to acquire SMA's historical head office building, a 21,000 sq.m property located at 112-122 avenue Emile Zola in the 15th *arrondissement* of Paris. SFL acquired title to the property in November 2017 when SMA moved out. The building stands on a 6,300-sq.m plot featuring a tree-filled garden. It dates back to 1966 and will be completely remodelled.

On 29 September 2017, the In/Out building located at 46 Quai Alphonse le Gallo in Boulogne-Billancourt was sold to Primonial REIM. The 35,000 sq.m building was completely remodelled in a project launched in 2011. Since 2015, it has been leased in full to the Organisation for Economic Co-operation and Development (OECD) under a lease expiring in 2027. The net sale price was €445 million.

1.4. Property portfolio value

The consolidated market value of the portfolio at 31 December 2017 was €6,229 million, excluding transfer costs, versus €5,736 million at 31 December 2016, representing an increase of 8.6% as reported and 12.6% on a like-for-like basis. This further increase in appraisal values primarily reflects the upward pressure of narrower investment market yields for prime properties and the Group's improved lease terms.

The average EPRA topped-up net investment yield (NIY) stood at 3.2% at 31 December 2017, compared with 3.6% at 31 December 2016.

Substantially all of the portfolio consists of prime office properties (78% of the total), retail units and a hotel (21%). 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

2.1.1 Consolidated profit for the year

Rental income amounted to €195.8 million in 2017, down by a modest €2.4 million or 1.2% from the €198.1 million reported in 2016.

– On a like-for-like basis (excluding all changes in the portfolio affecting year-on-year comparisons), rental income was €6.2 million higher, a 3.6% increase that was attributable to new leases signed in 2016 and 2017, mainly for the Cézanne Saint-Honoré, 9 Percier and 103 Grenelle properties.
– Changes in assets under redevelopment between the two periods had a €2.6 million negative impact on rental income, with several floors of offices in the Cézanne Saint-Honoré complex and other properties taken off the market for extensive renovation after their tenants moved out.
– The sale of the In/Out building on 29 September 2017 led to a €3.3 million decrease in rental income compared with 2016.
– Lastly, lease termination penalties received from tenants added a net €0.5 million to rental income in 2017 compared with €3.2 million in 2016.

Operating profit before disposal gains and losses and fair value adjustments to investment properties amounted to €164.1 million in 2017 versus €169.7 million in 2016.

The portfolio's appraisal value grew by 12.6% over the year on a comparable basis. The increase led to the recognition of positive fair value adjustments to investment properties of €635.1 million in 2017 (versus €438.0 million in 2016). Profit for the year was also boosted by the €80.3 million gain realised on the sale of the In/Out building.

Net finance costs continued to fall sharply, amounting to €40.7 million in 2017 compared with €48.1 million in 2016. Recurring finance costs were down by €4.7 million in 2017, reflecting SFL's lower average refinancing costs and the reduction in its total debt.

After taking into account these key items, the Group reported attributable net profit for the year of €685.3 million versus €504.1 million in 2016. Excluding the impact of disposals, changes in fair value of investment properties and financial instruments and the related tax effect, EPRA earnings amounted to €102.4 million in 2017 versus €100.9 million the year before (an increase of 1.5%).

2.1.2. Financing

Net debt at 31 December 2017 amounted to €1,631 million (compared with €1,931 million at 31 December 2016), representing a loan-to-value ratio of 24.6%. At 31 December 2017, the average cost of debt after hedging was 1.7% and the average maturity was 4.5 years.
In 2017, the remaining €301 million worth of November 2012 bonds was redeemed and two new 6- and 7-year revolving bank lines of credit totalling €250 million were obtained for general corporate purposes.

At 31 December 2017, SFL had €760 million in undrawn back-up lines of credit that are available to finance investment opportunities and cover the Group's liquidity risk.

In October 2017, Standard & Poor's upgraded SFL's rating to BBB+ with a stable outlook.

2.1.3. Triple net asset value

EPRA NNNAV stood at €3,729 million or €80.1 per share at 31 December 2017, an increase of 21.0% compared to €66.2 per share at 31 December 2016.

2.2. Parent company results

2.2.1. Parent company results and financial position

Parent company results for the year ended 31 December 2017 can be analysed as follows:

The Company reported revenue of €101.4 million in 2017 compared with €87.7 million in 2016, representing an increase of €13.7 million (up 15.6%). The increase in rental income and tenant penalties reflected the end of the rent-free periods granted to certain new tenants of the #cloud.paris, Edouard VII and 131 Wagram buildings.

Operating expenses contracted by €9.8 million, reflecting the impact on year-on-year comparisons of the rental incentives granted to tenants in 2016.

Operating profit increased sharply to €24.4 million in 2017.

Net financial expense fell by €14.6 million to €1.6 million in 2017 from €16.2 million the previous year. The improvement was attributable to the Company's lower financing costs and increased income from investments in subsidiaries and affiliates (mainly SNC Condorcet).

After taking into account the above items, the Company reported a profit before tax and other income and expense of €22.7 million in 2017, versus a €13.1 million loss in 2016.

Including the gain on the disposal of the In/Out property in September 2017, other income and expense represented net income of €251.9 million versus net expense of €1.5 million in 2016. The disposal gain also led to a sharp increase in employee profit-sharing for the year.

Income tax was slightly positive in 2017, whereas in 2016 this item represented an expense of €15.5 million due mainly to the tax effect of exercising the purchase option under the 131 Wagram finance lease,

The Company ended the year with net profit of €272.4 million compared to a net loss of €30.3 million in 2016.

Total assets at 31 December 2017 amounted to €2,522 million versus €2,601 million at the previous year-end, a decrease of 3.0%.

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 82).

DISCLOSURES CONCERNING SUPPLIER AND CUSTOMER PAYMENT TERMS PROVIDED IN ACCORDANCE WITH ARTICLE D.441-4 OF THE FRENCH COMMERCIAL CODE

Outstanding supplier and customer invoices due as at 31 December 2017 (table prepared in application of Article D.441-4 of the French Commercial Code)

	Outstanding ***supplier invoices*** due as at 31 December 2017						Outstanding ***customer invoices*** due as at 31 December 2017					
	0 days (indicative)	Up to 30 days past due	31 to 60 days past due	61 to 90 days past due	More than 90 days past due	Total (at least 1 day past due)	0 days (indicative)	Up to 30 days past due	31 to 60 days past due	61 to 90 days past due	More than 90 days past due	Total (at least 1 day past due)
(A) Period past due												
Number of invoices concerned	122	–	–	–	–	68	26	–	–	–	–	134
Total amount past due, including VAT	1,060,926	154,110	562,809	9,709	389,151	1,115,779	4,108,032	36,097	90,850	362,948	125,649	615,544
% of total purchases (including VAT) for the year	1.81%	0.26%	0.96%	0.02%	0.66%	1.90%	–	–	–	–	–	–
% of total sales (including VAT) for the year	–	–	–	–	–	–	3.16%	0.03%	0.07%	0.28%	0.10%	0.47%
(B) Invoices excluded from (A) that have been disputed by SFL or the customer or have not been recorded in the accounts												
Number of invoices excluded	–	–	–	–	–	–	0	0	0	6	100	106
Total amount excluded, including VAT	–	–	–	–	–	–	0	0	0	43,186	824,268	867,454
(C) Reference payment terms (contractual or statutory – Article L.441-6 or Article L.443-1 of the French Commercial Code)												
Payment terms used to calculate the number of days past due	Statutory terms						Contractual terms					

2.2.2. Appropriation of net profit

The Company reported net profit for the year, after tax and provision charges, of €272,390,385.35.

Profit available for distribution, including retained earnings brought forward from the prior year, is as follows:

Net profit for the year ended 31 December 2017	€272,390,385.35
Retained earnings brought forward from the prior year	€343,032.90
Profit available for distribution	€272,733,418.25

We recommend:

- After noting the existence of profit available for distribution, paying to shareholders a dividend per share of €2.30, representing a total payout of €107,016,640.20 based on the 46,528,974 shares outstanding at 31 December 2017.

- Deducting the recommended dividend from the following accounts:
  - €343,032.90 from retained earnings, after which this account will have a nil balance;
  - €106,673,607.30 from net profit for the year.

The shares will trade ex-dividend from 30 April 2018 and the dividend will be paid in cash from 3 May 2018.

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.

If approved, the total dividend of €2.30 per share (based on 46,528,974 shares) will be paid out of profits that are exempt from corporate income tax under the tax rules applicable to French real estate investment trusts ("SIICs"). Consequently, for personal income tax purposes, the total dividend will qualify as securities revenue as defined in Article 158-3.1 of the French Tax Code. In accordance with Article 158-3.3 *bis* of the Code, shareholders will not be entitled to the 40% tax relief provided for in Article 158-3.1 of the Code.

The dividend will be subject to the flat tax (*prélèvement forfaitaire non libératoire*) provided for in Article 117 *quater* of the French Tax Code and the withholding tax (*retenue à la source*) provided for in Article 119 *bis* of the Code, as follows:

In the case of individual shareholders who are resident in France for tax purposes and whose SFL shares are not held in a "PEA" personal equity plan, the dividend will be subject to a flat tax of 12.8% in accordance with Article 117 *quater* of the French Tax Code.

In the case of non-resident shareholders, the dividend will be subject to withholding tax at the rate of 12.8% (residents of a European Union member state, Iceland, Norway or Liechtenstein), 15% (dividends invested in a French OPCVM, OPCI, SICAF or other equivalent French or foreign investment fund), 75% (dividends paid outside France in "uncooperative" countries or jurisdictions within the meaning of Article 238A of the Code) or 30% (residents of other countries) (Articles 119 *bis* and 187 of the Code)

However, a lower withholding tax rate may apply to residents of countries that have signed a double tax treaty with France. Shareholders resident in such countries will be required to provide a certificate of residence to benefit from the treaty rate.

If a corporate shareholder were to own, directly or indirectly, at least 10% of the dividend rights and if the dividends received by that shareholder were exempt from French corporate income tax or an equivalent foreign tax, SFL would have to pay a 20% flat tax on the dividends paid to the shareholder concerned out of profits generated by its SIIC activities. To avoid the 20% tax, the non-resident shareholder would have to provide a certificate stating that the dividends paid out of the "SIIC" profits would be subject to an amount of foreign tax that is no more than two-thirds less than the corporate income tax that would have been paid in France if the profits had not qualified for the "SIIC" regime.

2.2.3. Non-deductible expenses

The 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 2017 accounting documents and information on the Company's business, earnings and financial position provided for in Article L.2323-13 of the French Labour Code (*Code de Travail)* have duly been given to the Works Council.

2.2.4. Related party agreements

No related party agreements governed by Articles L.225-38 *et seq.* of the French Commercial Code were entered into in 2017.

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
SAS Société Immobilière Victoria(1)	602 039 364	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

(1) Consolidated for the first time in 2017.

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

Accordingly, all subsidiaries are controlled exclusively and fully consolidated.

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

INFORMATION ABOUT SUBSIDIARIES AND AFFILIATES AT 31 DECEMBER 2017 (in €)

Subsidiaries and affiliates	Share capital	Reserves and retained earnings before profit appropriation	% interest	Carrying amount of investment		Outstanding loans and advances granted by SFL	Guarantees provided by SFL	Last published net revenue	Last published profit/(loss)	Dividends received during the year	Observations
				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	110,473,677	100%	291,846,722	291,846,722	–	–	13,403,858	7,062,319	–	–
SCI 103 GRENELLE	150	6,567,050	100%	1,168,570	1,168,570	162,318,630	–	7,952,171	3,359,735	–	–
SCI WASHINGTON	94,872,000	14,658,474	66%	79,788,878	79,788,878	108,085,714	–	20,006,445	9,318,524	–	–
SAS SOCIÉTÉ IMMOBILIÈRE VICTORIA*	243,856	90,972,957	100%	86,761,320	86,761,320	–	–	–	0	–	–
2. Affiliates (10-50%-owned)											
SAS PARHOLDING	15,000,000	10,372,730	50%	18,400,300	18,400,300	15,809	–	–	7,505,293	1,814,699	–
B - Aggregate information about investments not listed in A above:											
Subsidiaries (at least 50%-owned)				380,493	380,493	201,320,214	–	–	12,270,199	692,992	–
Affiliates (less than 50%-owned)				–	–	–	–	–	–	–	–

* The entire capital of Société Immobilière Victoria was acquired by SFL on 30 November 2017.

3. Subsequent events and outlook

3.1. Subsequent events

Significant events since 31 December 2017
None.

3.2. Outlook

Forecast developments and outlook

In a more buoyant environment illustrated by improving economic indicators, the property market has retained all of its appeal for investors, with centrally located prime properties in especially strong demand. This focus on quality on the part of investors and clients alike confirms the validity of SFL's positioning in Paris's prime commercial property segment.

4. Risk factors

4.1. Liquidity risk

Liquidity risk is covered by confirmed undrawn lines of credit. At 31 December 2017, SFL had access to confirmed undrawn lines of credit representing €760 million, compared with €540 million at 31 December 2016. The liquidity represented by these back-up facilities is sufficient to cover the Group's repayment obligations regarding its lines of credit up until July 2020.

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

See also in Note VI-1 to the consolidated financial statements (Short and long-term interest-bearing debt):
– Analysis of borrowings by maturity (page 149);
– Debt covenants and acceleration clauses (page 149).

4.2. 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. 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.

4.3. Currency risk

SFL had no exposure to currency risks at 31 December 2017.

4.4. 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 2017, 87% of debt was hedged against interest rate risks.

b) Risk assessment

The average spot cost of debt stood at 1.69% at 31 December 2017, versus 1.95% at 31 December 2016.

A 50-basis point rise in interest rates across the yield curve in 2017 would have had the effect of increasing the average cost of debt to 1.78%, driving up finance costs by €1,552 thousand, or 3.62%. A 50-basis point decline in interest rates across the yield curve would have lowered the average cost of debt to 1.59%, and reduced finance costs by €1,576 thousand, or 3.68%.

Concerning hedging instruments, a 50-basis point increase in interest rates would have the effect of increasing the fair value of hedging instruments by €3,581 thousand at 31 December 2017, while a 50-basis point decrease would reduce their fair value by €3,170 thousand.

The Group's net exposure to interest rate risks can be analysed as follows for the period between 31 December 2017 and 31 December 2021:

(in thousands of euros)	31 Dec. 2017	31 Dec. 2018	31 Dec. 2019	31 Dec. 2020	31 Dec. 2021
BECM loan	150,000	150,000	–	–	–
Banco Sabadell loan	10,000	10,000	10,000	–	–
Cadif loan	175,000	175,000	175,000	175,000	175,000
2016 BNP Paribas loan	75,000	75,000	75,000	75,000	–
Current account advances	55,646	55,646	–	–	–
Total floating rate debt	**465,646**	**465,646**	**260,000**	**250,000**	**175,000**
CA-CIB 0.23% swap	100,000	100,000	100,000	100,000	100,000
CADIF 0.25% cap	100,000	100,000	100,000	100,000	100,000
Net unhedged position	**265,646**	**265,646**	**60,000**	**50,000**	**(25,000)**

See also Note VI-3 to the consolidated financial statements (Financial instruments), page 150.

4.5. 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 may trigger a reversal of the rental and/or investment markets.
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 our 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 9% on the overall value of our portfolio.

– The availability of bank financing.
The outlook in the credit market remains positive, reflecting growing confidence in the prospect of a global economic recovery. However, a faster-than-expected increase in interest rates could destabilize the financial markets and drive up borrowing costs. In the worst case scenario of a new financial crisis, it could even prove difficult to access bank financing. The ECB's decision to wind down its quantitative easing programme could also be a source of tension.

4.6. 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 (page 143).

4.7. The Company operates in a highly competitive property investment market

The French property investment market became even more competitive as interest rates fell across the yield curve in 2017. Investment yields continued to be affected by the shortage of prime properties and the inflow of capital into the market, with prime yields stabilising at around 3% (228 bps spread versus the OAT rate).

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.

4.8. 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 2017, our top ten tenants accounted for around 38% of total rental income and the top five for roughly 24%. 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 17.6% adjusted based on the INSEE construction cost index, 68.5% on the ILAT office rent index and 13.9% 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 146.

4.9. 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 affects how investors view SFL's credit quality.

Funds can be raised by selling assets, but this source of financing is also subject to market risk. Asset sales carried out when prices are depressed and there is a shortage of potential buyers, or before their full reversionary potential has been achieved, would result in missed opportunities.

An inability to borrow or raise financing due to unfavourable market conditions, a generally depressed economic environment or other factors specific to the Company, could limit its ability to acquire new assets, finance the renovation of properties 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. Details of these covenants are provided in Note VI-1 to the consolidated financial statements.

4.10. 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.

4.11. 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.

4.12. 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 buildings 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.

4.13. 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.

4.14. 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.

4.15. 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.

4.16. Risks associated with the SIIC tax regime

4.16.1. 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, the Company is exempt from paying corporate income tax on the portion of its profit corresponding to:
– 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.

i) Conditions for eligibility

SFL's eligibility for the SIIC tax regime depends on its ongoing 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.

ii) 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.

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

i) 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% 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 a 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 if it sold them within the five-year period.

ii) 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 10 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.

iii) 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.

4.16.3. 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.

4.16.4. 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.

4.16.5. 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.

4.17. Financial risks linked to the effects of climate change – measures taken by the Company to reduce these risks through a low-carbon strategy (Article L.225-100-1, paragraph 4, of the French Commercial Code)

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 presented on page 33 *et seq*.

4.18. 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.

5. Insurance

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

5.1. Property insurance programme

(Property damage 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.

Until 31 December 2016, the maximum insured value was kept at €300 million per claim 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.

In 2017, the results were used to adjust the insurance base, which now corresponds to the assets' rebuilding cost plus the value of lost rental income.

In addition, the maximum insured value was raised to €350 million to reflect the Company's very specific needs.

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.

5.2. 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 headquarters at 42 rue Washington and the Square Édouard VII conference centre in the 9th *arrondissement*.

Consequential losses and expenses are also covered, as well as the additional operating or other costs that would have to be incurred to enable the Company to continue operating its business following events in which insured items are damaged.

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 a loss of data due to error, an accident or a natural disaster.

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 sudden and accidental pollution cover of €1.5 million per claim, and "inexcusable fault" cover of €2.5 million per insurance year.This latter cover has been extended to include losses resulting from the Constitutional Council's decision of 18 June 2010 (concerning workplace accidents that are due to an "inexcusable fault" by the employer).
– 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.

5.3. 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.

6. Internal Control and Risk Management Procedures Implemented by the Company for the Preparation and Processing of Accounting and Financial Information (Article L.225-100-1.5 of the French Commercial Code)

This report describes the procedures set up by the Company to prevent and control risks arising in the course of its business, including 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, internal control and audit. In 2017, the legal affairs function was transformed into a fully fledged Legal Department.

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 executive 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 according to 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.
- An overview of the Audit Committee's work in 2017 and a comparison with best practices.

The Board of Directors' self-assessment exercise is discussed in the Corporate Governance Report presented in the appendix (page 100 *et seq.*).

See also section 4 "Risk Factors" in the management report, pages 12 *et seq*.

6.1. General presentation of internal control

Managers have front-line responsibility for identifying risks and implementing appropriate control measures.

Executive 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. Executive management reports to the Audit Committee on the supervision of internal control.

6.1.1 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.

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.

Management and cost accounting data are produced separately 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.

6.1.2. Delegations of 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.

6.1.3. 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.

Having observed that it was out of date and that the publisher, Estia, was no longer developing any upgrades, we started to examine options for changing the system. Following a competitive bidding process, Cassiopae was selected to develop a new information system. The project's status was reviewed at each meeting of the Audit Committee. Our options were limited as there are very few software solutions available for the property management industry.

Estia was acquired by Cassiopae which in turn was acquired in 2016 by Sopra Steria, a software company operating on an international scale. Sopra Steria offers us the guarantee that we will be able to continue using the current Estia system. We are therefore working on a project to upgrade this system and have stopped working on the Cassiopae solution for the time being.

Operation of mission-critical property management applications is outsourced under a facility 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.

6.1.4. 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.

6.2. Internal control procedures

6.2.1 Procedures for identifying and managing business-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.

Procedures are performed at several levels to ensure that internal control objectives of completeness and valuation are met for liabilities:
- Tenant risks, which are managed by the Receivables Accounting unit, are reviewed regularly by the Legal Department and are also subject to second-tier controls.
- The risk of legal disputes with the Company's partners is closely monitored, with technical guidance from 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.

6.2.2. Identifiable risks

The Company's main identifiable risks concern:
- Loss 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 12 *et seq*.

6.2.3. 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 rebuilding or replacement cost as well as loss of rental income for 48 months for buildings in use, with an overall cap of €350 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.

Details of the Group's various insurance policies are provided on pages 18 *et seq.*

6.2.4. 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, we use 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.

We participate 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.

6.2.5. Book-keeping procedures

The accounts of all Group companies are kept on the same internal accounting system, which is integrated in the management information system.

The Accounting Department, which is part of the Finance Department, is organised around three units, Payables Accounting, Receivables Accounting and Corporate. It monitors regulatory changes and their application by the Group, based on the advice of external advisors, where appropriate.

The corporate accountants each keep the accounts of one or several consolidated companies. Their work is overseen by their respective managers who also replace corporate accountants if necessary.

6.2.6. Procedure for the preparation of the consolidated financial statements

The consolidated financial statements are produced using consolidation software that represents a market standard, guaranteeing its reliability and maintainability. The consolidated financial statements are prepared in accordance with the IFRSs adopted by the European Union.

A full set of monthly consolidated accounts is produced and submitted to the Company's majority shareholder. 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. These full monthly accounts are not audited or published.

The half-yearly and annual financial statements represent 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 adhered to.

The Audit Committee meets twice a year to review with the external auditors the financial statements and any significant transactions for the period. The Committee also reviews the external auditors' work programme and holds meetings with them to discuss the post-audit reports prepared after their audits of the interim and annual financial statements, setting out their observations and recommendations.

6.2.7. Budget and business plan procedures

The Budget Control Department produces a rolling five-year business plan, the first year of which corresponds to the budget. It collects, aggregates and consolidates the data reported by each operating unit, and analyses the consolidated data prior to its submission to management.

Revenue, expense and capex projections are presented separately for each building, and rental income projections are analysed on a lease-by-lease basis.

The business plan includes:
- Five-year profit and loss account projections.
- Projected changes in consolidated debt.
- Key financial ratios such as EBITDA, EPRA earnings, loan-to-value (LTV) and NAV.

The budget and the business plan are submitted to the Board of Directors for approval.

As well as playing an essential role as a roadmap for the business, they provide a basis for checking and analysing the monthly consolidated financial statements in order to improve the reliability of the accounting and financial information submitted to the majority shareholder and released to the market.

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 in line with the needs of a top-tier listed company.

6.2.8. Controls over liquidity risks

Our 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.

6.2.9. 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 2017 at fixed rates of interest, the Company's exposure to interest rate risk is limited. If applicable, our policy is to hedge interest rate risk on at least 70% of debt using swaps or caps.

6.2.10. Management of 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.

6.2.11. Controls over property-related technical risks

The purpose 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.

6.2.12. Purchases and contract tendering

Routine purchases are made from approved suppliers at regularly negotiated prices. For other purchases, competitive bids are obtained from several companies or suppliers where appropriate.

The purchasing procedure set up in 2012 will be updated in 2018.

6.3. Overview of the Audit Committee's work in 2017 and comparison with best practices

6.3.1 The Audit Committee's role and best practices

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.

These practices will be pursed 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 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 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 2017.

The European Audit Directive and the European Regulation concerning the audit of public interest entities ("PIEs"), which are effective as from the first financial year beginning on or after 17 June 2016 (except where a transition period applies), have led to some significant changes.

Audit Committees are now required to:
– Make recommendations to the Board on the financial reporting process to ensure its integrity.
– Monitor the effectiveness of internal audits of the procedures for the preparation and processing of accounting and financial information.
– Monitor the audit of the financial statements by the auditors. To assist the Committee in this task, the auditors are required to submit to the Committee a report explaining the results of their audit, at the same time as their report setting out their audit opinion or earlier.
– Approve the provision of non-audit services ("NAS") by the auditors.
– Adopt the necessary measures for the application of auditor independence rules.
– Make recommendations to the Board of Directors concerning the appointment or re-appointment of the auditors.
– Authorise in advance the provision of permitted NAS, after obtaining assurance that:
  • the services concerned do not threaten the auditors' independence, and
  • the fees for permitted NAS do not exceed 70% of the average fees paid in the last three financial years for the audit of the consolidated financial statements of the PIE and, if applicable the entity that controls or is controlled by the PIE.
– The 70% cap will apply for the first time to NAS provided during the financial year beginning on 1 January 2020 for companies that have a 31 December year-end.

The auditors are required to submit to the Audit Committee their audit plan, a description of material weaknesses in internal control over the preparation and processing of accounting and financial information, details of any changes to be made to the financial statements and details of any irregularities or misstatements identified during the audit.

The auditors are also required to submit to the Audit Committee the audit report provided for in Article L.813-16 of the French Commercial Code, the annual declaration of independence and details of their fees and the services provided.

6.3.2. Internal audits performed in 2017

At its meeting on 12 January 2017, the Audit Committee defined and approved the internal audit programme for the year based on the Company's risk map.

The 2017 programme covered the following:
i) Risk map: updating of the risk map prepared in 2012, definition of around 15 risk families and sub-families.
ii) Calls for tenders: audit of the internal tendering and supplier selection process – identification of the related risks and controls, assessment of the controls' effectiveness – review of delegations of authority.
iii) Capex: review of the process for re-invoicing capex to tenants, selection and identification of capex that was re-invoiced/not re-invoiced, verification that the capex concerned could/could not be re-invoiced under the terms of the lease.
iv) Internal audits proposed by the Audit Committee or launched in response to developments affecting the Company.
v) Review of action taken in response to the internal auditors' recommendations and the follow-up performed in 2015.

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.

i) Risk mapping process

Issues

The risk map that serves as the basis for all internal audit work was prepared in 2012. Although it identifies a number of risks that clearly have a bearing on the Company's business, the Audit Committee nevertheless considered it necessary to reassess the identified risks and update the map with the aim of:
– prioritising the Company's main risk exposures;
– identifying new potential risks that are emerging as the business and technological environments evolve.

Tax risk and insurance risk were identified as in particular need of reassessment. These two risks were excluded from the map, mainly because they were considered as minimal in terms of their critical nature if not their frequency. However, the revised view is that they should be included in the map because their substance is the same as that of the Company's business

After discussing the various issues, the Audit Committee decided to add three sub-families of financial risks, concerning "Credit rating risk", "Tax risk" and "Insurance risk".

The risk map has also been reorganised around a smaller number of risk families, taking great care to identify appropriate sub-families. We have also sought to instil a strong risk culture within the organisation, so that employees take ownership of the risks inherent in their area of responsibility.

In 2018, a specific initiative will be implemented with the assistance of KPMG's internal control specialists, covering training in audit techniques and techniques to ensure that managers take ownership of the risks associated with their activities.

Risk mapping is a dynamic process and will be reviewed periodically by the Audit Committee.

Conclusion

The new risk map will be used to organise internal audit plans as from 2018.

ii) Contract tendering process

Purpose

The purpose of the audit was:
– To obtain assurance concerning the reliability of the contract tendering process by examining the various key stages in the process and the related controls, in order to assess their relevance and operational effectiveness and recommend improvements.
– Based on a sample of suppliers spread between four departments (Leasing/Investments, Asset Management/Client Management, Major Project Development and Technical/Development), to obtain assurance concerning the application of existing procedures. A total of 24 suppliers were selected for ten buildings. The selected services represented costs ranging from €56 thousand to €2,195 thousand.

Risk

The audit of capex processes carried out in 2015 showed that our contract tendering rules were not entirely appropriate. In particular, the threshold for launching the competitive bidding process is too low and the process covers too many different types of services.

Conclusion

The core strengths of the supplier selection process are as follows:
– Appropriate reviews of a building's use and the status of restructuring or renovation projects performed regularly by the Asset Review Committee or the Project Review Committee.
– Good knowledge of the market and potential suppliers among operations staff and department managers.

The identified areas for improvement concern:
– Raising the threshold for launching the competitive bidding process (the current threshold is very low compared to the average contract amounts, which stand at €50,000 for work contracts and €15,000 for service contracts).
– Excluding certain professions for which a competitive bidding process is neither justified nor of any benefit (for example, under the current procedure, contracts for architect and legal services must be put out to tender).

– Systematically preparing a formal, signed exception report when the decision is made not to issue a call for tenders, particularly in urgent situations.

iii) Capex re-invoicing process

Purpose

France's "Pinel Act" has put an end to the right of lessors to freely re-invoice the cost of work to tenants.

The Act introduces a number of binding rules that limit contractual freedoms based on the following principles:
– Increased information and transparency obligations for lessors, in order to improve tenants' visibility of their lease costs and enable them to verify that the re-invoiced work has effectively been performed and the amounts re-invoiced to them are not overstated.
– Strict interpretation of contractual stipulations by the courts, with lessees having the benefit of doubt.

Our capex re-invoicing processes need to be revised based on the new legislation, particularly the process for issuing final invoices following reconciliations of actual recoverable expenses and capex to the amounts invoiced to date. We want to use the Pinel Act as an opportunity, by revising the three-year budget every year (as already provided for in our leases), in order to re-invoice to tenants their share of capex along with the other expenses recoverable from them. In all cases, we must be able to provide evidence to tenants of the work performed and their share of the related cost.

Our internal processes need to clearly identify and properly manage the many difficulties associated with these new obligations.

Issues

– Information for tenants on the work performed over the past three years.
– Communication to tenants of three-year capex budgets (corresponding to a legal obligation).
– Information for tenants on the new process for invoicing tenant expense budget contributions.
– Incorporation of budgets in Estia with a view to automating the re-invoicing process.
– Inclusion of budgeted capex in the budget contribution invoices.
– Case-by-case decision about re-invoicing during the cut-off period (departing tenants, new tenants).

Conclusion and outlook

In response to the recommendations made by KPMG, in 2017 we launched a project to overhaul capex re-invoicing procedures. A progress review will be carried out in 2018, followed by an internal audit in 2019 to assess the quality of the procedure and ensure that it is properly applied.

At the present stage, KPMG considers that the processes identified as needing to be revised are coherent, the various departments concerned are participating actively in the related projects, the risks to be addressed have been clearly identified and realistic completion dates have been set.

iv) Follow-up of the internal auditors' recommendations

The internal audits performed by KPMG since March 2012 have given rise to a total of 93 recommendations, of which:
– 67 recommendations have been implemented, representing 72% of the total.
– 22 recommendations are in the process of being implemented, representing 24% of the total, and are the subject of internal action plans. These recommendations concern in particular internal audits of the capex management process and the process for invoicing property expenses to tenants.
– 4 recommendations concerning risks that are considered as minimal in terms of their critical nature and are still outstanding. These represent 4% of all the points noted by KPMG during their internal audits.

7. SFL and its Shareholders

7.1. Information about the Company's capital

7.1.1. Changes in capital over the last five years (2013-2017)

Date	Description	Issues			New capital	
		Number of shares issued	Par value	Gross premium	Total number of shares	New capital
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
2017	None	–	–	–	46,528,974	€93,057,948

7.1.2. Ownership structure and voting rights at 31 December 2017

Main shareholders	Total shares	Total voting rights	% interest	% voting rights[1]
INMOBILIARIA COLONIAL SA	27,245,303	27,245,303	58.56%	58.94%
DIC HOLDING LLC[a]	3,984,999	3,984,999	8.56%	8.62%
QATAR HOLDING LLC[a]	6,345,428	6,345,428	13.64%	13.73%
Sub-total DIC HOLDING AND QATAR HOLDING (acting in concert)	*10,330,427*	*10,330,427*	*22.20%*	*22.35%*
PREDICA[b]	5,992,878	5,992,878	12.88%	12.97%
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	**43,709,912**	**43,709,912**	**93.94%**	**94.58%**
Free float	2,511,927	2,511,927	5.40%	5.42%
Treasury shares	307,135	–	0.66%	–
Total	**46,528,974**	**46,221,839**	**100.00%**	**100.00%**

(a) DIC HOLDING LLC and QATAR HOLDING LLC are shareholders acting in concert.

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

(1) 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 amounts to €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.

7.1.3. Changes in ownership structure and voting rights

	2014(a)		2015(a)		2016(a)	
Main shareholders	% interest	% voting rights(b)	% interest	% voting rights(b)	% interest	% voting rights(b)
INMOBILIARIA COLONIAL	53.14%	53.63%	53.14%	53.58%	58.55%	59.01%
Crédit Agricole Group, of which:	13.15%	13.27%	13.15%	13.26%	13.18%	13.29%
• *CA-CIB/CALYON*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
• *PREDICA*	*12.85%*	*12.97%*	*12.85%*	*12.96%*	*12.88%*	*12.98%*
• *Other subsidiaries*	*0.30%*	*0.30%*	*0.30%*	*0.30%*	*0.30%*	*0.31%*
DIC HOLDING LLC	8.55%	8.63%	*8.56%*	*8.63%*	*8.56%*	*8.63%*
QATAR HOLDING LLC	13.64%	13.76%	*13.64%*	*13.75%*	*13.64%*	*13.74%*
Sub-total DIC HOLDING and QATAR Holding (acting in concert)	22.19%	22.39%	*22.20%*	*22.37%*	*22.20%*	*22.37%*
REIG CAPITAL GROUP	4.38%	4.42%	4.38%	4.42%	0%	0%
Free float	6.22%	6.28%	6.32%	6.37%	5.29%	5.33%
Treasury shares	0.92%	–	0.81%	–	0.78%	–
Total	**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.

Disclosure thresholds

Changes in interests disclosed to the Company since 1 January 2018

None

Changes in interests disclosed to the Company in 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

7.2. Share equivalents

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

7.3. Directors' interests

Directors as of 31 December 2017	Number of SFL shares held at 31 December 2017(1)
Juan José BRUGERA CLAVERO	11,275
Angels ARDERIU IBARS	25
Ali BIN JASSIM AL THANI	25
Anne-Marie de CHALAMBERT	25
Sylvia DESAZARS de MONTGAILHARD	50
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	**18,915**

(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.

7.4. Transactions carried out by the Chairman, the Chief Executive Officer, the Managing Director or parties closely related to them during 2017

Disclosed by: Nicolas Reynaud, Chief Executive Officer
Type of instrument: shares
Type of transaction: acquisition of free shares under the Company's performance share plan
Transaction date: 12 April 2017
AMF notification received: 13 April 2017
Market: Euronext Paris
Unit price: €0.00
Number of shares: 4,368

Disclosed by: Dimitri Boulte, Managing Director
Type of instrument: shares
Type of transaction: acquisition of free shares under the Company's performance share plan
Transaction date: 12 April 2017
AMF notification received: 13 April 2017
Market: Euronext Paris
Unit price: €0.00
Number of shares: 7,500

Disclosed by: Juan José Brugera Clavero, Chairman of the Board of Directors
Type of instrument: shares
Type of transaction: acquisition of free shares under the Company's performance share plan
Transaction date: 12 April 2017
AMF notification received: 13 April 2017
Market: Euronext Paris
Unit price: €0.00
Number of shares: 3,750

Disclosed by: François Sebillotte, Chief Resources Officer
Type of instrument: shares
Type of transaction: acquisition of free shares under the Company's performance share plan
Transaction date: 12 April 2017
AMF notification received: 13 April 2017
Market: Euronext Paris
Unit price: €0.00
Number of shares: 2,913

Disclosed by: Inmobiliaria Colonial, corporate director related to Pere Viñolas Serra, director
Type of instrument: shares
Type of transaction: purchase
Transaction date: 2 June 2017
AMF notification received: 6 June 2017
Market: Euronext Paris
Unit price: €56.00
Number of shares: 4,700

Disclosed by: François Sebillotte, Chief Resources Officer
Type of instrument: shares
Type of transaction: sale
Transaction dates: between 31 August and 7 September 2017
AMF notifications received: between 4 and 7 September 2017
Market: Euronext Paris
Unit prices: €55.99 / €55.9165 / €55.9944 / €56.0291 / €56.0188 / €56.0485
Number of shares: 500

7.5. Employee share ownership as of 31 December 2017

As of 31 December 2017, employees held 43,763 SFL shares directly and 5,838 SFL shares indirectly through the corporate mutual fund, together representing 0.094% of the capital.
The total includes the shares held by Dimitri Boulte, Managing Director, who has an employment contract with the Company.

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 2017, on 4 October, to review the fund's annual management report.

In accordance with Article L.214-40 of the French 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 the shares held in the fund to the offer.

7.6. Transactions in SFL shares carried out by the Company

7.6.1. 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 2017. The last stock option plan expired on 12 March 2015, at the end of the options' eight-year life (see Appendix 12.1, page 80).

7.6.2. Performance share plans

On 3 March 2017, based on the recommendation of the Remuneration and Selection Committee which met on 2 March 2017, the Board of Directors decided to use the authorisation given by the General Meeting of 13 November 2015 to award a total of 50,064 performance share rights 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 Appendix 12.2 (page 80 *et seq*.).

7.6.3. Share buyback programme

The Annual General Meeting of 28 April 2017 (seventeenth ordinary resolution) authorised a share buyback programme with the following objectives:
– To purchase shares for allocation to all or selected employees and 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.
– And, more generally, to carry out any transaction leading to an obligation to deliver shares that is permitted or that may be permitted in the future 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, demerger or asset contribution may not exceed 5% of the issued capital as determined on the transaction date.

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

As of 31 December 2017, the Company held 307,135 shares in treasury, representing 0.66% of the capital.

These shares were purchased for the following purposes:
1. For allocation to SFL Group employees: 101,611.
2. For purchase and sale transactions under a liquidity contract with an investment firm: 1,000.
3. 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: 181,241.
4. 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. For the purpose of being cancelled: 0.

The Board of Directors has decided to present a resolution at the Annual General Meeting of 20 April 2018, authorising the Company to implement a share buyback programme based on a maximum price of €90 per share (fourteenth 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 2017, 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 programme's main objectives will be the same as those set by the Annual General Meeting of 28 April 2017, as follows:
– To purchase shares for allocation to all or selected employees and 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 first 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 permitted in the future by the applicable regulations.

If 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.

7.6.4. Summary of disclosures: Disclosure of treasury share transactions for the period from 1 January 2017 to 31 December 2017

Percentage of capital held by the Company and/or its subsidiaries	0.66%
Number of shares cancelled in the last 24 months:	0
Number of shares held	307,135
Carrying amount of the shares	€16,889,368.42
Market value of the shares (at 31 December 2017)	€16,772,642.35

	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	74,446	102,966	–	–	–	–
Average maximum maturity	–	–	–	–	–	–
Average transaction price	€53.98	€53.00	–	–	–	–
Average exercise price	–	–	–	–	–	–
Amount	€4,018,680.10	€5,456,832.12	–	–	–	–

Transaction costs under the liquidity contract amounted to €26,800 in 2017.

(1) Not including the 26,725 vested performance shares awarded under Plan no. 1 dated 4 March 2014.

7.7. 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.

The disclosures received are presented in section 7.1.3 "Changes in ownership structure and voting rights", page 26.

7.8. Dividends paid in the last three years

7.8.1. 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 SFL 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 2017 financial statements, the Board of Directors will recommend paying a dividend of €2.30 per share.

7.8.2. Dividend payments

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]
2014	€0.70[2]	–	–	€0.70	€32,570,281.80
	€1.40	–	€0.68	€0.72	€65,140,563.60
2015	€1.05[3]	–	–	€1.05	€48,855,422.70
	€1.05	–	–	€1.05	€48,855,422.70
2016	€1.05[4]	–	–	€1.05	€48,855,422.70
	€1.05	–	–	€1.05	€48,855,422.70

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

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

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

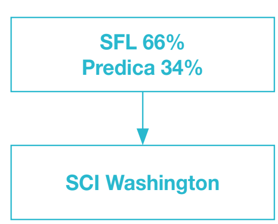
(4) Special dividend of €1.05 per share decided by the General Meeting of 15 November 2016, paid out of the share premium account.

8. 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.

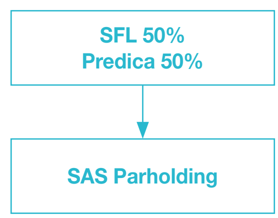
(2) Following the takeover of SFL by Grupo Inmocaral, through its subsidiary Inmobiliaria Colonial SA, the joint venture partners agreed to SFL's change of control, as provided for under the terms of the related shareholders' pact.



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) Prédica, the life insurance subsidiary of Crédit Agricole Assurances, took up an equity interest 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.



9. Shareholders' pacts

See section 4.15 "Risks associated with the majority shareholder" on page 15.

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.

10. Share performance

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

Period		Price (€)		Trading volume	
		High	Low	Number of shares	Amount (in €m)
2017	January	48.90	47.21	27,565	1.329
	February	49.99	47.64	66,911	3.244
	March	48.70	47.25	56,078	2.690
	April	48.80	47.58	42,830	2,074
	May	53.39	48.14	130,692	6.499
	June	57.90	52.50	51,972	2.907
	July	56.50	53.75	27,024	1.504
	August	56.70	54.00	24,641	1.373
	September	56.30	55.08	46,733	2.609
	October	56.09	54.42	50,781	2.810
	November	56.00	54.42	36,712	2.023
	December	55.50	53.50	88,668	4.816
2018	January	61.80	54.40	60,143	3.490
	February	63.40	57.40	112,000	6.725

11. 2017 Corporate Social Responsibility (CSR) Report

Introduction

France's oldest property company, founded in 1879, SFL has also acted as a developer-contractor to build, maintain and transform its real estate assets over the course of its long history.

As a constantly engaged participant in the major projects that have transformed the urban landscape and economy of Paris, SFL has consistently foreseen and embraced the sweeping changes that have kept the city vibrant and modern.

Currently the leader in the prime Parisian office segment, SFL is enhancing its vision by integrating the world's latest sustainable urban development standards, as well as the expectations of its increasingly demanding, responsible tenants, in line with international agreements on climate and social responsibility issues.

In deploying our prime property strategy, our social responsibility policies rank at the very top of our concerns.

They are informed by some 20 CSR issues that have been deemed material to our stakeholders and critical to our profitability as a property company. Based on their materiality and how well they are managed, these issues have been organised into three components of the intangible value of our assets: utility value, green value and social value.

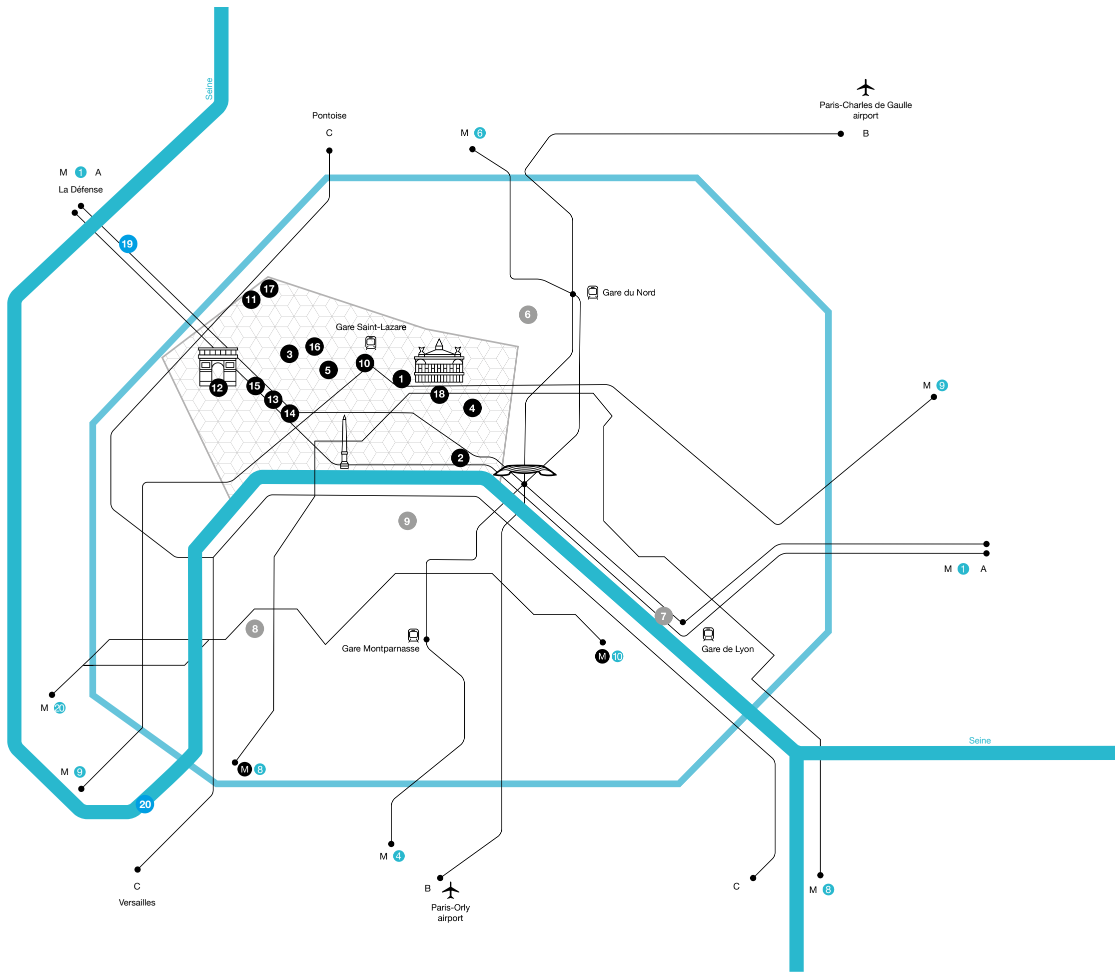
After improving our reporting tools and risk management systems, the scope of data reporting was further expanded in 2017. Moreover, the reporting process was automated in part of the scope during the year, illustrating the convergence of digital technology and real estate business processes.

The year also saw the acquisition of the 112 Zola building and the sale of the In/Out complex in Boulogne.

Leveraging the momentum created by France's new Energy Transition for Green Growth (LTECV) Act and the latest version of the Grenelle II environmental legislation, programmes were pursued in 2017 to further reduce our greenhouse gas (GHG) emissions, in particular by improving building energy efficiency.

The SFL property portfolio

SFL is a property company specialised in prime commercial real estate with a strong focus on offices, which account for 78% of its asset portfolio value. Retail units account for a further 21% and residential units for 1%. In all, the portfolio generated aggregate rental income of €195.8 million in 2017. The physical occupancy rate of portfolio assets stood at 96.4% at 31 December 2017.



1 Édouard VII
2 Louvre Saint-Honoré
3 Washington Plaza
4 #cloud.paris
5 Cézanne Saint-Honoré
6 Condorcet
7 Rives de Seine
8 112 Zola
9 103 Grenelle
10 Haussmann Saint-Augustin
11 131 Wagram
12 96 Iéna
13 90 Champs-Élysées
14 Galerie Champs-Élysées
15 92 Champs-Élysées
16 9 Percier
17 112 Wagram
18 6 Hanovre
19 176 Charles de Gaulle
20 Le Vaisseau

THE SFL PORTFOLIO

	Paris	Total surface area (sq.m)(1)
1	Édouard VII	54,100
2	Louvre Saint-Honoré	47,700
3	Washington Plaza	47,000
4	#cloud.paris	35,000
5	Cézanne Saint-Honoré	29,000
6	Condorcet – Paris 9	24,900
7	Rives de Seine – Paris 12	22,700
8	112 Zola – Paris 15	21,000*
9	103 Grenelle – Paris 7	18,900
10	Haussmann Saint-Augustin	13,400
11	131 Wagram	9,200
12	96 Iéna	8,900
13	90 Champs-Élysées	8,900
14	Galerie Champs-Élysées	8,700
15	92 Champs-Élysées	7,700
16	9 Percier	6,700
17	112 Wagram	6,000
18	6 Hanovre	4,600
	TOTAL	**374,400**

	Western Crescent	Total surface area (sq.m)(1)
19	176 Charles de Gaulle *Neuilly-sur-Seine*	7,400
20	Le Vaisseau *Issy-les-Moulineaux*	6,300
	TOTAL	**13,700**

● Paris Central Business District
● Rest of Paris
● Western Crescent

(1) Including infrastructure and excluding car parks.

* Planned surface area: 24,000 sq.m.

Head office

As part of its environmental performance management process, SFL pursued the initiatives undertaken to reduce its impact in this area.

The amount of waste produced declined somewhat in 2017, to just under the levels observed in 2015. That was a year of more normal operations, as opposed to 2016, when some of the offices were refurbished. The measures taken to more effectively track paper use and therefore waste production continued to have a positive impact.

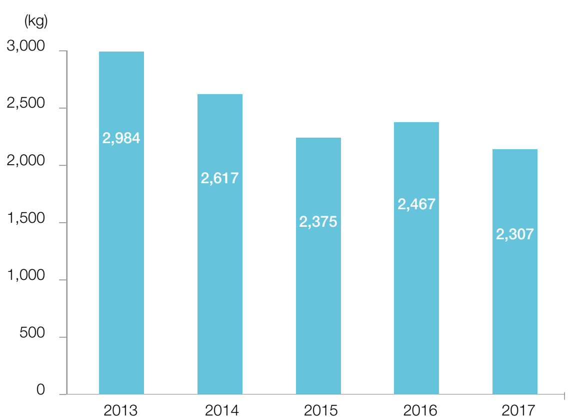
The amount of power used in the private office areas of the SFL head office has steadily declined since 2014. The sustained tracking of electricity consumption by type of use has helped to significantly improve building energy intensity.

A 2016 survey of 72 SFL employees concerning their daily commute revealed that around half of SFL employees take less than 40 minutes to get to work.

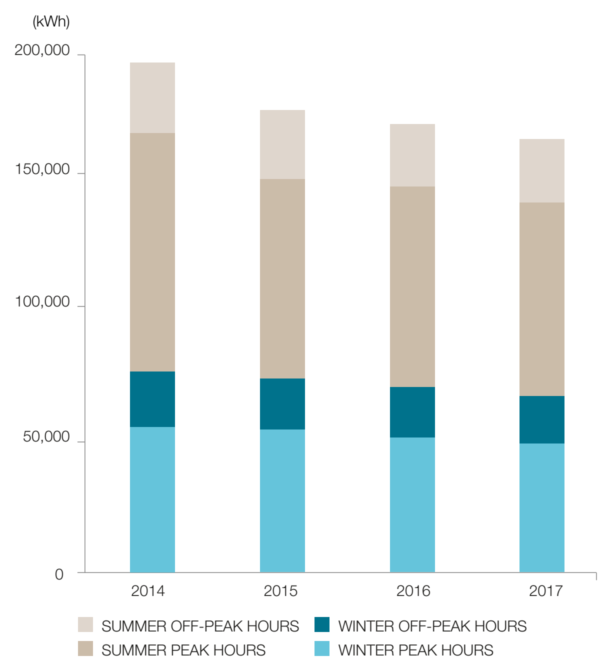
The 2017 ParisWorkPlace survey showed that users of French Tech offices in the greater Paris area take 37 minutes, as opposed to 48 minutes for the average commuter.

The average commute was around 19 kilometres each way. Every year, the average employee travelled a total of nearly 2,700 kilometres.

HEAD OFFICE WASTE PRODUCTION (PAPER)



HEAD OFFICE POWER USE

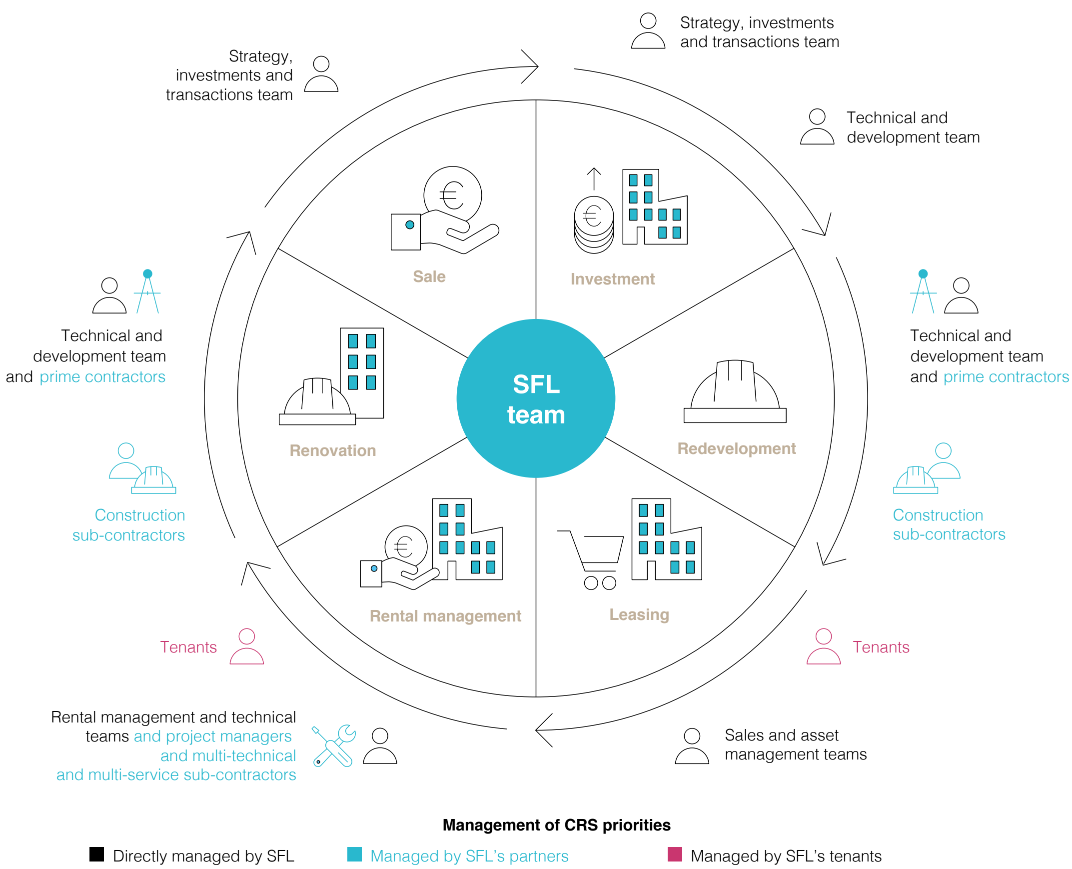


1. CSR policies

1.1 The value chain of SFL and its stakeholders

Mapping SFL's value chain helped 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.



Key indicators for each phase of the value chain include:

– Renovation:
- Number of urban planning permits obtained in 2017: 12 permits.
- Number of private area renovation projects delivered in 2017: 15 projects delivered.
- Number of common area renovation projects delivered in 2017: 17 projects delivered.

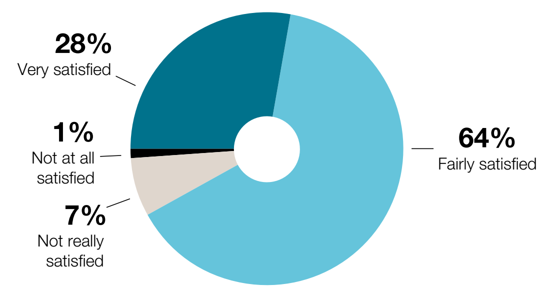
– Rental management:
- Tenant satisfaction: 92% (2017 tenant satisfaction survey).

– Investment/Divestment
- In 2017: one acquisition (112 Zola).
- In 2017: one divestment (In/Out).

– Leasing:
- In 2017: 21,000 sq.m.

– Redevelopment:
- Two new redevelopment projects were in the planning phase at end-2017: Le Louvre Saint-Honoré and the latest acquisition, 112 Zola.
- One redevelopment project (96 Iéna) obtained its building permit.

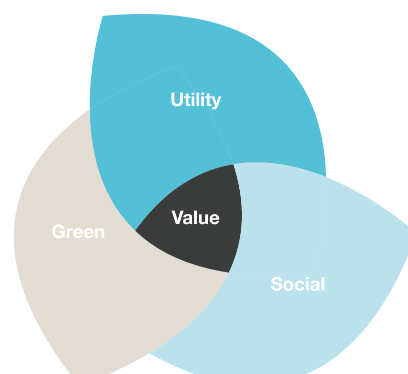
OVERALL SATISFACTION SCORE



1.2 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 5.2. Performed jointly with the working groups set up to examine specific issues, the Management Committee and the Chief Executive Officer, this materiality assessment helped to shape our CSR policies, objectives and action plans. In 2017, these issues and their materiality levels were updated by the CSR Committee, as indicated in the following table.

SFL'S CSR VALUES



Utility value	Green value	Social value
Tenant relations and satisfaction	Sustainable building operation	Business ethics and governance
Location and access	Carbon efficiency	Attracting talent and developing skills
Certification	Sustainable capital expenditure	Employee health, safety and QWE*
Convenience and amenities	Biodiversity	Diversity and equal opportunity
Health, safety and environmental risk management	Sustainable procurement and supplier relations	Corporate sponsorship and philanthropy
Community integration		

■ 6 fundamental issues integral to SFL's core business ■ 6 major CSR issues ■ 4 CSR issues to be tracked

* Quality of Working Environment.

In 2017, the measurable targets initially set and tracked over the 2014-2017 period were reviewed and extended to include nine additional targets. All of the CSR targets for the 2017-2020 period are presented in the following table.

	Target until 31 Dec. 2017	2016	2017	2020 target	Degree achieved
Utility value of our properties					
Tenant relations and satisfaction					
% of satisfied or very satisfied tenants	> 80% continuous	96%	92%	> 80% continuous	☺
% of space under new green leases	100% continuous	100%	100%	100% continuous	☺
% of leases comprising an environmental appendix (offices > 1,000 sq.m)		71%	79%	100%	
Property location and access					
% of space located less than a ten-minute walk from an underground/tram station	100% continuous	100%	100%	100%	☺
% of PRM-accessible[1] redevelopment projects (excluding PABs[2])		100%	100%	100% continuous	☺
% of wheelchair-accessible properties		80%	80%	100%	
Building certification					
% of buildings in use certified BREEAM In-Use (Part 1 and 2)	100% continuous	100%	100%	100% continuous	☺
% of BREEAM In-Use certifications with a Very Good or higher level (Part 1 and 2)	100%	100%	100%	90% continuous	☺
% of redevelopment projects aimed at earning triple certification (replacing a certification with the BiodiverCity or smart-building label)	100% continuous	100%	100%	100% continuous	☺
Health, safety and environmental risk management					
% satisfactory risk management		N/A	N/A	90%	
% of SFL assets (excluding assets under outsourced management) operated with the MEX web-based operations management platform		100%	100%	80%	☺
Green value of our properties					
Sustainable building operation (energy, water and waste)					
Energy use per sq.m of buildings managed by SFL (eight buildings included in 2011 baseline, climate adjusted) in kWh/sq.m/year	238 in 2017 (down 15%)	234	234	224 (down 20%)	☺
Water use per sq.m of the property portfolio (eight buildings included in 2011 baseline) in m^3/sq.m/year	0.54 in 2017	0.57	0.54	0.54	☺
Carbon efficiency of our properties	**0 oil-fired boilers/20**	**1/20**	**1/20[3]**	**0/20**	😐
Greenhouse gas emissions per sq.m of buildings managed by SFL (eight buildings included in 2011 baseline, climate adjusted) in kg CO_2e/sq.m/year	21.8 in 2017	21.3	19.3	[4]	☺
% of energy used from renewable sources (incl. green electricity) 2017 scope of reporting	N/A	N/A	N/A	30%	
Sustainable capital expenditure					
% of new redevelopments using BIM[5] software		N/A	N/A	100%	
Set maximum energy use, carbon emissions and water use targets for new acquisition redevelopment projects, in line with corporate targets. 20% under RT2012 energy efficiency standards, Effinergie		N/A	N/A	100%	
Biodiversity in our properties **Sq.m of green space per sq.m of built-up land on the sites concerned**	**1%**	**N/A**	**9%**	**11%**	☺
Social value of our properties					
Attracting talent and developing employee skills					
% of payroll spent on training	Continuous	N/A	N/A	2.5%	
Employee survey to measure the quality of working environment	N/A	1	N/A	Every two years	

(1) Persons with reduced mobility.
(2) Public access building.
(3) The last oil-fired boiler will be completely dismantled by the end of April 2018.
(4) A new method is being prepared to assess the carbon footprint of SFL buildings over the 2018-2020 period. The targets for this period will be set during 2018 in order to better take into account changes in energy suppliers' emissions factors and the buildings' intrinsic and operational performance (choice of energy, future performance improvement measures).
(5) Building Image Modelling.

The targets for this period will be set during 2018 in order to better take into account changes in energy suppliers' emissions factors and the buildings' intrinsic and operational performance (choice of energy, future performance improvement measures).

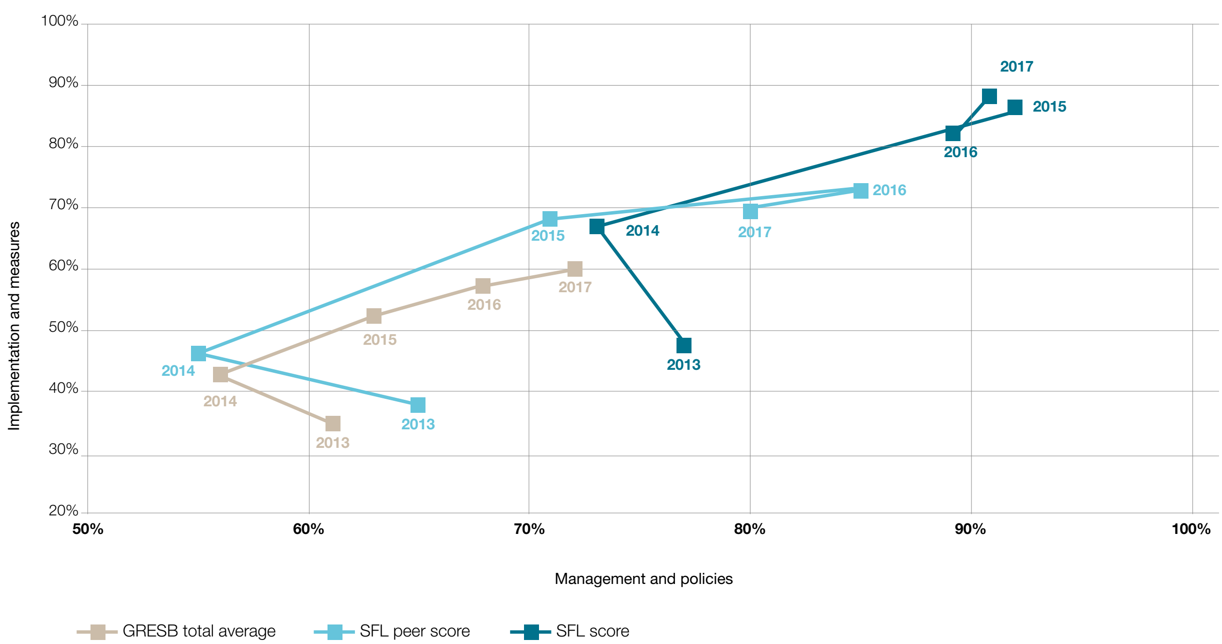
1.3 Recognition of SFL's performance

SFL ensures that its CSR reporting processes and performance are aligned with industry practices and recognised by appraisers. The Company also reports information to CSR rating agencies, either in response to requests or on an unsolicited basis (Global Real Estate Sustainability Benchmark – GRESB).

In 2017, representing the fifth time the Group had been included in the GRESB benchmark, SFL was ranked 33rd among the 823 companies worldwide covered by the survey, versus 132nd out of 543 companies in 2013.

The GRESB confirmed SFL's position among the top "Green Star" performers, ranking it number three in Europe.

CHANGES IN SFL'S SCORE VERSUS PEERS



The BREEAM award and GRESB ranking both recognise SFL's broad-based commitment to sustainably managing the portfolio and there is even a dedicated ceremony for BREEAM award winners.

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.

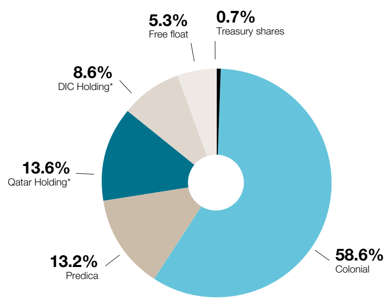
The Grenelle II Act

SFL complies with French legislation and applies the enabling decree for Article 225 of the Grenelle II Act.
The requirements of France's new Energy Transition for Green Growth (LTECV) Act have also been taken into account in the Group's carbon reporting process since 2016.
Cross-reference tables between the guidelines and this report can be found in Appendix 5.3.

2. Utility value of our properties

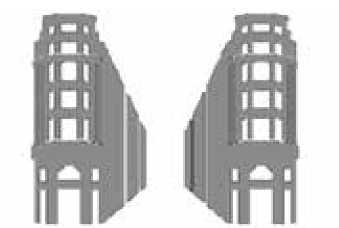
In recent years, tenants have observed an improvement in our properties' performance, reflected in their high utility value. Our positioning in the prime segment of the property market has been a key factor in securing the long-term backing of our shareholders. Our shareholders are both demanding and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

SFL'S OWNERSHIP STRUCTURE AT 31 DECEMBER 2017 (46.5 MILLION SHARES)



The following examples illustrate the high level of SFL tenant satisfaction:

Cézanne Saint-Honoré

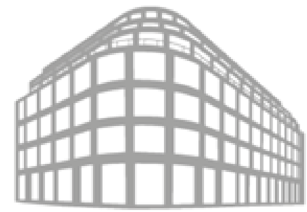


BREEAM In-Use Certification
Part 1 ★ ★ ★ ★ ★ – Part 2 ★ ★ ★ ★ ★
Floor plate: 800 to 1,500 sq.m contiguous open space
Garden/paved seating area/green walls/private outside space: 190 sq.m plus a tree-lined private street
Tenant satisfaction: 81% of tenants are satisfied
Accessibility: full wheelchair access
Vélib' public bike hire station: 220-metre walk
Autolib' public car hire station: 220-metre walk

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: 100% of tenants are satisfied
Accessibility: full wheelchair access
Vélib' public bike hire station: 400-metre walk
Autolib' public car hire station: 300-metre walk

#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.
Tenant satisfaction: 100% of tenants are satisfied
Parking space: spaces for 100 bikes, 100 motorbikes and 99 cars.
Accessibility: full wheelchair access
Vélib' public bike hire station: 290-metre walk
Autolib' public car hire station: 40-metre walk

2.1 Tenant relations and satisfaction

Tenant satisfaction

The 2017 ParisWorkPlace survey and the 2017 satisfaction survey of our office users helped to improve our understanding of tenant expectations (http://www.parisworkplace.fr/ – http://www.fonciere-lyonnaise.com, in French only).
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 survey 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 Property location and access

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.

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 a 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 bikes and motorbikes than for cars. The 96 Iéna redevelopment project includes the creation of 112 spaces for bikes on the ground floor.

2.3 Building certification

	Results			Target		
	2015	2016	2017	2017	Degree achieved	2020
% of buildings in use certified BREEAM In-Use	100%	100%	100%	100% always	☺	100% always
% of BREEAM In-Use certifications with a Very Good or higher level (Part 1 and 2)	97%	100%	100%	100%	☺	> 90% always
Redevelopment projects aimed at earning triple certification	100%	100%	100%	100% always	☺	100% always

Since 2012, we have sought very high level environmental certification of the properties in our portfolio and of our redevelopment projects. The certification programme is based on the following leading industry standards:

– Buildings in use:
• BREEAM[1] In-Use International.

– Empty buildings being redeveloped or renovated:
• BREEAM New Construction.
• LEED[2].
• HQE[3].
• BBC Effinergie Rénovation label.

100%

of buildings in use are certified to the BREEAM In-Use standard and rated Very Good or higher.

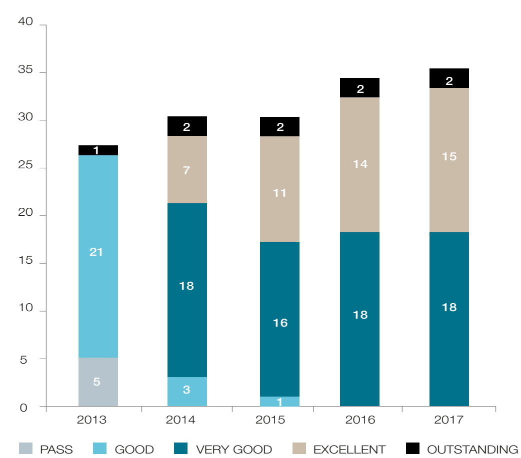
In 2012, SFL became one of Europe's leading property companies by obtaining BREEAM In-Use certification for all the properties in the portfolio.

As of end-2017, 19 buildings representing 367,100 sq.m of total surface area were certified.

Our objective is for each successive audit to result in a rating upgrade. For all certifications (Part 1, 2 and/or 3), we have earned a rating of Very Good or higher since 2016. In 2017, the Cézanne Saint-Honoré building's Part 1 and 2 certifications were uprated from Very Good to Excellent.

Of the total certifications (Part 1, 2 and 3) earned as of end-2017:
– 51% have a Very Good rating;
– 43% have an Excellent rating; and
– 6% have an Outstanding rating.

Number of BREEAM In-Use certifications (Part 1, 2 and/or 3) by level



Note: in the case of buildings for which the certification audit was still in progress at the year end, the published rating is that obtained after the last audit.

The unique scale of the certification exercise and the high ratings earned by the properties were recognised by the BREEAM and GRESB in 2016 and 2017.

In 2017, SFL was one of five nominees for the GRESB-BREEAM Award for Responsible Investment in the Large Portfolios (over €1 billion) category.

Our major redevelopment projects in empty buildings have all earned triple BREEAM New Construction, LEED and HQE certification.

The most recent project, #cloud.paris, is a prime example. The project consisted of completely reconfiguring a disparate group of buildings to create a business centre perfectly aligned with contemporary and emerging office use practices.

(1) BREEAM: Building Research Establishment Environmental Assessment Methodology.
(2) LEED: Leadership in Energy and Environmental Design.
(3) HQE: High Environmental Quality.

The property, located in the 2nd *arrondissement* of Paris, has earned the following certifications:
– BREEAM New Construction, Excellent.
– HQE, Exceptional.
– LEED, Gold.
– BBC Effinergie Rénovation label.
– Certificate of Compliance with the Paris City Climate Plan (less than 80 kWh primary energy/sq.m/year).

The certification targets for our three major redevelopment projects in progress also reflect our commitment to creating properties that meet very high environmental quality standards.

These targets are as follows:

• 96 Iéna
– 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 Zola
– 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%.

• Louvre Saint-Honoré
– BREEAM Europe Commercial Refurbishment 2015 – Excellent rating.
– LEED and HQE not applicable because the properties are developments in-use.

NUMBER OF ASSETS AND % OF PORTFOLIO (IN SQ.M) CERTIFIED, BY TYPE AND LEVEL OF CERTIFICATION
EPRA code: CERT-TOT

			2016		2017	
			Number of assets	% of sq.m	Number of assets	% of sq.m
Properties in use	BREEAM In-Use	Total	19	100%	19	100%
		≥ Very Good	19	100%	19	100%
		≥ Excellent	6	47%	7	53%
Properties undergoing redevelopment	BREEAM New Construction		3	21%	2	12%
	LEED		2	18%	1	9%
	HQE		5	27%	5	21%
	At least one certification		6	29%	6	23%
Scope	*Number of assets*		*19/19*		*19/19*	
	Coverage rate (in sq.m)		*100%*		*100%*	

2.4 Amenities, layout and organisational efficiency

Commitment: offer high quality space and amenities, in line with tenant expectations.

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 a very high quality 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 or 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.

Our 2017 ParisWorkPlace survey of a representative sample of office users in the Greater Paris region found that in the French Tech sector (a leading driver of office demand in the region), 86% of companies choose an open plan layout versus just 44% for all sectors combined (75% for the SFL head office).

Utility installations are sized so that meeting rooms can be positioned anywhere on the floor plate, including in areas exposed to direct sunlight. 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 12 sq.m of gross leasing area (GLA) per 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

Redevelopment projects include solutions developed by SFL_le_studio to enhance the practical and environmental value of flat roofs, such as those used in the 112 Zola redevelopment project:

- Maintaining urban biodiversity through green walls and other vegetation, rooftop vegetable gardens, etc.
- Creating a space for relaxation and events.
- Using renewable energy sources: solar or photovoltaic panels, urban wind turbines, etc.

Scheduled expenditure on buildings in use includes solutions developed by SFL_le_studio to enhance the value of underground levels. These include:

- Creating collaborative workspaces: meeting rooms, co-working spaces, business centre, for use by people based in the building or outside.
- Creating foodservice areas, with diversified and innovative product offers.
- Creating user amenities such as fitness centres, concierge services, treatment and relaxation rooms.

For example, a fitness centre and a herbal tea room have been created in 103 Grenelle, and the Washington Plaza complex now boasts a wellness zone and a lounge-café.

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

Our ParisWorkPlace survey showed that a growing number of French Tech employees appreciate having a dedicated workplace rest area or relaxation area (66% and 50% respectively versus 41% and 30% respectively for all sectors combined). For 82% of them, the office is a place to socialise, a percentage that falls to 43% when employees from other sectors are included.

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, a similar service was included in the 103 Grenelle and Cézanne Saint-Honoré properties. In addition, the dedicated Services by SFL website offers personalised information for each of the buildings.

Connectivity: all redeveloped properties offer exceptional connectivity. Mobile phone access is available throughout each building, 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.

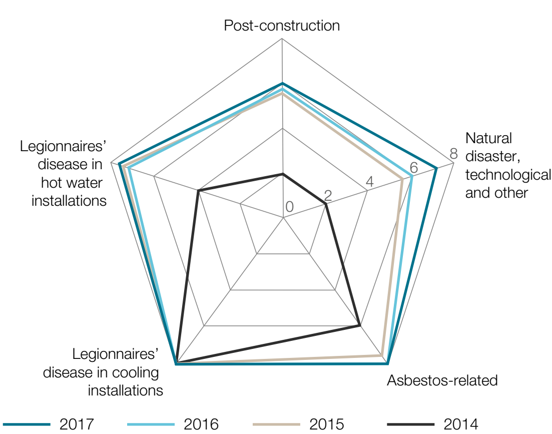
2.5 Health, safety and environmental risk management

SFL manages occupant safety and environmental risks in line with the highest standards, well exceeding regulatory requirements. The primary risks tracked and audited at 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.

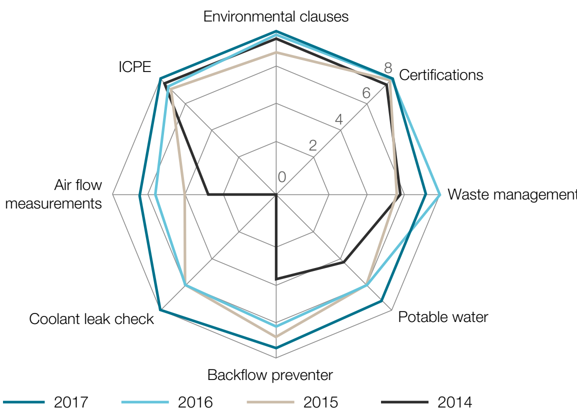
RISK DOCUMENTATION MANAGEMENT
2014 - 2015 - 2016 - 2017



This diagram presents the average level across the entire portfolio.
0 – Document to be prepared
4 – Document to be updated or sent
8 – Document updated and sent

Other environmental and health risks

ENVIRONMENTAL AND HEALTH RISK MONITORING 2014 - 2015 - 2016 - 2017



This diagram presents the average level across the entire portfolio.
0 – Document to be prepared
4 – Document to be updated or sent
8 – Document updated and sent

Anticipating risks

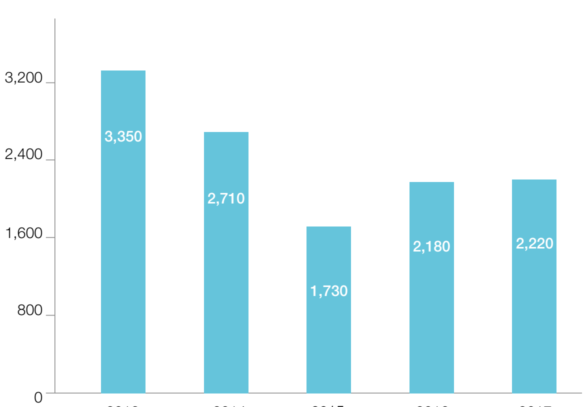
Risks are managed via:
– The MEX web-based operations management platform developed in 2015, which covers all of the properties managed by SFL (12 of the 20 properties in the portfolio).
– An environmental charter and health and safety risk management guidelines.

No provisions for environmental or climate change 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. In 2017, they were on a par with 2016.

The MEX scorecard includes details of all regulatory audits.

NUMBER OF OBSERVATIONS (IN THOUSANDS)



2.6 Community integration

Assess the local impact

For each operation, we perform a detailed audit and engage in discussions with all stakeholders as early as possible in order to clearly define the programme objectives and related benefits.

A stakeholder dialogue and governance system is deployed, 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, in connection with the redevelopment of the 112 Zola complex in the 15th *arrondissement* and with the participation of local council members, we organised question and answer sessions about the project during community meetings attended by the *arrondissement*'s mayor and created an information website. This process enables everyone living or working in the neighbourhood to express their opinion and put their questions to the teams involved in the operation, especially during the design phase and execution/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.

Each operation's environmental footprint (energy use, amenities, natural light, vegetation, access) is assessed during the engineering studies phase.

Seamlessly integrating in the cityscape

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 projects that have the least impact on the urban environment.

In 2017, we obtained a permit to plant trees and greenery in the Édouard VII courtyards and shopping street. Work on this project is due to start in 2018. We also applied for various administrative permits, concerning renovation of the 96 Iéna building and reconfiguration and redevelopment of the former SMA headquarters building at 114 avenue Émile Zola in the 15th *arrondissement*.

In parallel with these initiatives, we are continuing to promote the local neighbourhood economy by listing on the Services by SFL dedicated web platform all the local shops and service outlets located around our properties that may be of interest to the buildings' users. We are also launching local papers for our buildings' users, starting with "42", the paper for users of the Washington Plaza complex located at 42 rue Washington, with a print-run of 2,000 copies.

SFL is a constantly engaged participant in the major projects that have transformed the urban landscape and economy of Paris. In 2017, with the help of a prominent academic, Simon Texier, we published a book recounting the Company's history since 1879 and its relationship with the city. *"Du Paris haussmannien à la ville connectée"* (Paris: from Haussmann to the connected city) describes SFL's contribution to the capital's urban landscape and economy since the Company's creation.

Using space more efficiently

SFL pays particular attention to the utility value of its assets. We work closely with the architects employed by the State to protect the country's architectural heritage (*Architectes des Bâtiments de France* – ABF), with the aim of redeveloping old buildings to the highest possible standards while preserving their architectural value. Prior to launching redevelopment projects, we routinely perform in-depth historical reviews to ensure that the buildings blend seamlessly into the high-quality urban environments in our host cities of Paris, Neuilly and Issy-les-Moulineaux. 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).

In line with our renewed architectural ambition, we work with highly respected architects (Dominique Perrault for 96 Iéna), as well as architects representing the new generation (Yrieix Martineau for 112 Zola) and designers (Jouin/Manku for 112 Zola). We are also interested in coming up with new ways to use available space. Our latest redevelopment projects promote new uses of infrastructure to reduce the place taken up by cars and car parks (for example, through the creation of a business centre in the Cézanne-Saint Honoré complex, installation of sports equipment in 103 Grenelle, creation of dedicated bike parking areas in #cloud.paris and Washington Plaza, conversion into a garden of the interior courtyard at 96 Iéna). Each project also includes a review of the opportunities to create a planted roof terrace by relocating rooftop technical installations, as has been done on the top floor of the Cézanne Saint-Honoré complex.

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.

3. Green value of our properties

Sustainable occupancy of our properties through efficient energy and water use, measures to combat climate change, capital expenditure projects that promote biodiversity and address CSR issues. These are some of the main factors that enhance the value of our assets.

The green value of our properties is an important argument in our discussions with stakeholders, especially the young talents employed by our tenants. It is assessed based on the buildings' occupation density, the quality of building amenities and the value added for occupants.

To maximise green value, we set ambitious targets for reducing energy and water use and greenhouse gas emissions by 2017 compared to the 2011 baseline. These targets were comfortably exceeded, with energy use intensity reduced by over 16% and carbon intensity by more than 20% over the six-year period on a comparable portfolio basis. Building on this success, we have set new targets for 2020.

	Results			Target		
	2015	2016	2017	2017	Degree achieved	2020
Energy intensity in kWh/sq.m (comparable portfolio, climate adjusted, 2011 baseline)	-12.4% (245 kWh/sq.m)	-16.3% (234 kWh/sq.m)	-16.3% (234 kWh/sq.m)	-15% (238 kWh/sq.m)	☺	-20% (224 kWh/sq.m)
Water intensity in m^3/sq.m/year (comparable portfolio, 2011 baseline)	-15% (0.57 m^3/sq.m)	-15% (0.57 m^3/sq.m)	-20% (0.54 m^3/sq.m)	-20% (0.54 m^3/sq.m)	☺	-20% 0.54 m^3/sq.m
Carbon intensity in kg CO_2e/sq.m/year (comparable portfolio, climate adjusted, 2011 baseline)	-11.5% 22.7 kg CO_2e/sq.m/year	-17% 21.3 kg CO_2e/sq.m/year	-25% 19.3 kg CO_2e/sq.m/year	-15% 21.8 kg CO_2e/sq.m/year	☺	*

* A new method is being prepared to assess the carbon footprint of SFL buildings over the 2018-2020 period.

The objectives for this period will be set during 2018 in order to better take into account changes in energy suppliers' emissions factors and the buildings' intrinsic and operational performance (choice of energy, future performance improvement measures).

3.1 Sustainable building operation

3.1.1 Energy efficiency

Final energy use by the properties owned and managed by SFL in 2017 represented some 72 GWh, of which 47 GWh concerned common areas and heating and air-conditioning delivered to private areas.

Electricity accounted for over two-thirds of final energy while fossil fuel use was marginal, accounting for less than 0.8% of the total.

Based on a comparable portfolio between 2015 and 2017, total energy use (all sources combined) declined by 2.4%, representing a saving of more than 1.4 GWh.

Energy use in common areas and for HVAC systems fell steadily between 2015 and 2017 on a comparable portfolio basis, with a reduction of 2.9% in 2017 alone.

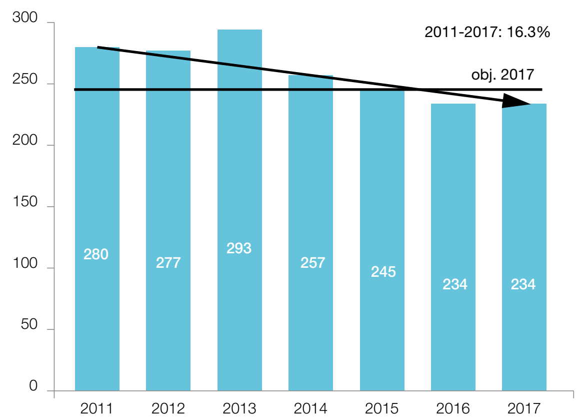
Due to a prolonged spell of very cold weather in the Paris region at the start of 2017, energy use for heating networks rose by 8.4% on a comparable portfolio basis, while energy use for other purposes declined year on year.

ENERGY USE BY TYPE OF ENERGY IN MWH OF FINAL ENERGY, ABSOLUTE AND LIKE-FOR-LIKE, AND ENERGY INTENSITY IN KWH/SQ.M (not climate adjusted)
EPRA code: Elec-Abs, DH&C-Abs, Fuels-Abs, Elec-LfL, DH&C-LfL, Fuels-LfL, Energy-Int

			Common areas and shared services			Private areas			Total					EPRA code
			2015	2016	2017	2015	2016	2017	2015	2016	2017	*% 16/17*	*% 15/17*	
Absolute	Electricity		19,778	20,751	23,943	18,596	17,916	24,896	38,374	38,667	48,840			*Elec-Abs*
	Heating networks		9,327	10,162	12,659	0	0	0	9,327	10,162	12,659			*DH&C-Abs*
	Cooling networks		10,401	10,555	10,197	0	0	0	10,401	10,555	10,197			
	Natural gas		0	0	0	0	0	0	0	0	0			*Fuels-Abs*
	Fuel oil		739	749	571	0	0	0	739	749	571			
	Total energy use in MWh		**40,245**	**42,217**	**47,371**	**18,596**	**17,916**	**24,896**	**58,841**	**60,134**	**72,267**			
	Intensity in kWh/sq.m								**267.6**	**260.5**	**256.1**	***-1.7%***	***-4.3%***	*Energy-Int*
	Coverage rate	*Number of assets*							*11/11*	*12/12*	*15/15*			
		% of surface area (sq.m)							*100%*	*100%*	*100%*			
Like-for-like	Electricity		19,778	20,218	19,267	18,596	17,505	18,206	38,374	37,724	37,474	*-0.7%*	*-2.3%*	*Electricity-LfL*
	Heating networks		9,327	9,244	10,019	0	0	0	9,327	9,244	10,019	*8.4%*	*7.4%*	*DH&C-LfL*
	Cooling networks		10,401	9,663	9,343	0	0	0	10,401	9,663	9,343	*3.3%*	*-10.2%*	
	Natural gas		0	0	0	0	0	0	0	0	0	*0.0%*	*0.0%*	*Fuels-LfL*
	Fuel oil		739	749	571	0	0	0	739	749	571	*-23.8%*	*-22.7%*	
	Total energy use in MWh		**40,245**	**39,875**	**39,201**	**18,596**	**17,505**	**18,206**	**58,841**	**57,380**	**57,407**	***0.0%***	***-2.4%***	
	Intensity in kWh/sq.m								**267.6**	**258.0**	**256.3**	***-0.7%***	***-4.2%***	*Energy-Int*
	Coverage rate	*Number of assets*								*11/11*				
		% of surface area (sq.m)								*100%*				

ANNUAL DECREASE IN ENERGY USE INTENSITY BETWEEN 2011 AND 2017 ON A LIKE-FOR-LIKE PORTFOLIO BASIS

(in kWh/sq.m, adjusted for occupancy rates and climate)



Energy use intensity in kWh/sq.m fell by a significant 16.3% between 2011 and 2017 on a comparable portfolio basis. This was comfortably in excess of our 15% target for the period.

Climate-adjusted energy use fell for all eight properties owned since 2011 that constitute the comparable portfolio. This systematic reduction attests to the effectiveness of the measures taken by our team to optimise energy use.

Improving the energy performance of SFL properties

We have several levers for improving our portfolio's energy efficiency. The first step, however, is to better understand each building's energy use profile and specific features. We have developed a structured approach to acquiring this understanding, based notably on the following:

- Automatic transmission of information about energy bills. A computer application has been developed to automatically transmit information about energy bills. The purpose of the application is to facilitate the consolidation process and leave more time for the collection and analysis of data at lower metering levels.
- Analysis of energy data in relation to its use. Critical review of the volume and relevance of reported data in relation to its use (private use broken down between non-food retail, restaurants, showrooms, offices, trading rooms, auditoriums, private or shared conference centres).
- Measurement of overall energy performance, including energy use in private areas.

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"). The work undertaken in recent years has enabled us to collect a vast quantity of data on private energy use 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.).

- As of end-2017, tenants representing 52% of the surface area of multi-tenant buildings managed directly by SFL reported details of their actual energy use. This percentage has increased sharply over the last two years.
- We are also endeavouring to obtain detailed information about energy use in buildings not managed directly by SFL (single-tenant buildings). Since 2015, we have been working with tenants and outside managers to set up appropriate reporting systems and as of end-2017, we had information about energy use for 71% 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 90 GWh (excluding In/Out and Le Vaisseau, which is currently empty).

– Development of Energy Performance Improvement Master Plans

Energy use per sq.m has declined significantly since 2011. We are currently planning to introduce Energy Performance Improvement Master Plans in order to drive further reductions, with the development of a pilot plan for the Washington Plaza site. These master plans should help to optimise our capital expenditure and asset modernisation plans.

– Requirement for partner building managers to seek out ways to reduce energy use

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 describing their efforts in this area.

Thanks to this approach, our more detailed understanding of each building's sources of energy use and the involvement of stakeholders, we are equipped to go further in improving our portfolio's energy efficiency.

The following initiatives have been carried out:

Initiatives carried out in 2017

We are continuing to undertake initiatives to reduce energy use through our renovation and redevelopment projects:

- 176 Charles de Gaulle – Neuilly-sur-Seine: replacement of oil-fired boilers with condensing gas boilers carried out in 2017/2018.
- #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.

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 2018

Following on from the sharp reduction in energy use ratios between 2011 and 2016, we are now planning to introduce Energy Performance Improvement Master Plans 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.
– Setting up a multi-site agreement with the urban cooling system operator.

3.1.2 Managing water use

The buildings owned and managed by SFL used some 150,000 m^3 of water in 2017, representing less than 20 litres per user per day.

On a comparable portfolio basis, water use was down 1.6% in 2017 and 5.7% over the past two years, reflecting improved management of exceptional events such as works or leaks.

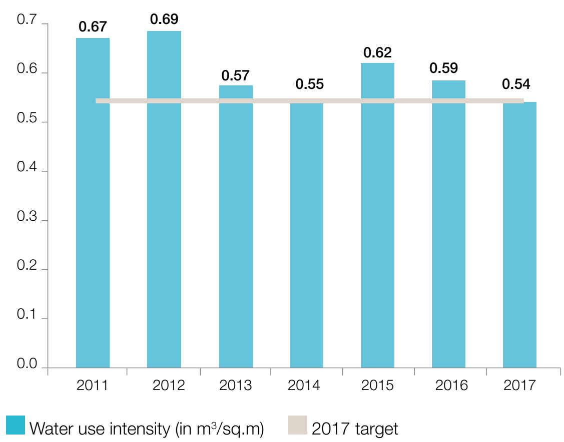
WATER USE AND WATER INTENSITY (COMMON AND PRIVATE AREAS COMBINED)

in m^3, m^3/sq.m, and litres/user/day, absolute and like-for-like

EPRA code: Water-Abs, Water-LfL, Water-Int

			2015	2016	2017	% 16/17	% 15/17	EPRA code
Absolute	**Total water use in m^3**		135,496	135,404	152,770			*Water-Abs*
	Intensity	in m^3/sq.m	0.616	0.586	0.541	*-7.7%*	*-12.2%*	*Water-Int*
		in litres/user/day	19.7	19.3	19.2	*-0.5%*	*-2.7%*	
	Coverage rate	Number of assets	11/11	12/12	15/15			
		% of surface area (sq.m)	100%	100%	100%			
Like-for-like	**Total water use in m^3**		135,496	131,036	129,002	*-1.6%*	*-4.8%*	*Water-LfL*
	Intensity	in m^3/sq.m	0.616	0.589	0.576	*-2.2%*	*-6.5%*	*Water-Int*
		in litres/user/day	19.7	19.1	18.9	*-1.2%*	*-4.4%*	
	Coverage rate	Number of assets		11/11				
		% of surface area (sq.m)		100%				

ANNUAL REDUCTION IN WATER USE INTENSITY BETWEEN 2011 AND 2017, ON A LIKE-FOR-LIKE PORTFOLIO BASIS
(in m³/sq.m, adjusted for occupancy)



We set an ambitious target of reducing water use intensity by 20% in 2017 compared to the 2011 baseline, on a comparable portfolio basis (2011 scope – eight buildings).
This target was met.

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.

We are endeavouring to improve rainwater recovery at our various sites, when this is technically feasible and the costs do not outweigh the benefits. Currently, three buildings have rainwater recovery systems: 92 Champs-Élysées, Washington Plaza and, since its redevelopment in 2015, #cloud.paris. At Washington Plaza, some 1,340 m³ of rainwater were recovered in 2017 versus 800 m³ in 2016 and 190 m³ for the three months that the system was in operation in 2015.

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 sorting and recycling

Tenant activities in the buildings owned and managed by SFL in 2017 generated 951 tonnes of waste.

Waste production per person and per year declined slightly, to 32 kg in 2017 from 34 kg the previous year.

Users in all of our buildings are offered a range of sorting solutions, primarily for paper and cardboard.
We then ensure that the sorted waste is recycled or re-used, as appropriate, by the contractors responsible for its collection. In 2017, the recycling rate stood at 42%.

WASTE MANAGEMENT IN TONNES AND % BY TYPE OF DISPOSAL METHOD, ABSOLUTE AND LIKE-FOR-LIKE
EPRA code: Waste-Abs and Waste-LfL

			2016				2017				
			NHIW	Paper, cardboard	Total	Recycled waste and waste incinerated with energy recovery	NHIW	Paper, cardboard	Total	Recycled waste and waste incinerated with energy recovery	EPRA code
Absolute	Waste	in tonnes	508	270	778	493	673	278	951	404	Waste-Abs
		in %	65%	35%	100%	63%	71%	29%	100%	42%	
	Coverage rate	*Number of assets*			*8/12*				*9/15*		
		% of surface area (sq.m)			*87%*				*82%*		
Like-for-like	Waste	in tonnes	508	270	778	493	593	228	821	354	Waste-LfL
		in %	65%	35%	100%	63%	72%	28%	100%	43%	
	Coverage rate	*Number of assets*			*8/12*				*8/12*		
		% of surface area (sq.m)			*87%*				*81%*		

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.

However, in the absence of data on the processing method for non-hazardous waste, we have assumed that it is sent to landfill, which is the least favourable solution. This is the main reason for the low rate of recycling and incineration with energy recovery for 2017.

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 staff restaurants, we will nevertheless seek assurance that in buildings with such a restaurant, Article 102 of France's Energy Transition for Green Growth 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. Our ambitious objectives are fully aligned with the international commitments given at the Paris climate conference and the trajectory to keep global warming below 2°C.

On a comparable portfolio basis, carbon intensity due to energy use has been falling sharply in recent years. We intend to expand our strategy in this area by extending carbon footprint measurements to include emissions from visitor travel and from our redevelopment sites.

We have also performed a detailed analysis of our buildings' resilience and ability to adapt to climate change, in order to anticipate a possible increase in the incidence of exceptional weather events.

Reducing Scope 1 & 2 greenhouse gas emissions

Carbon emissions by the buildings managed by SFL represented 6,449 tCO_2e in 2017, reflecting energy use for the year. The increase was mainly due to the inclusion of three buildings following their redevelopment. On a comparable portfolio basis, CO_2 emissions were slightly higher year on year mainly due to increased energy use by heating networks (which also emit greater quantities of CO_2).

Carbon emissions intensity declined on a like-for-like basis (i.e., for the eight buildings included in the 2011 scope) to 19.3 kg CO_2e/sq.m/year from 21.3 kg CO_2e/sq.m/year.

GREENHOUSE GAS EMISSIONS FROM ENERGY USE

in tCO_2e, absolute and like-for-like, and greenhouse gas emissions intensity in kg CO_2e/sq.m (not climate adjusted)
EPRA code: GHG-Dir-Abs, GHG-Indir-Abs, GHG-Int

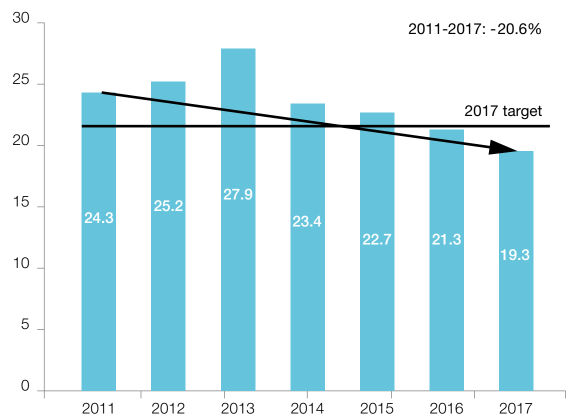
		Common areas and shared services			Private areas			Total					EPRA code
		2015	2016	2017	2015	2016	2017	2015	2016	2017	% 16/17	% 15/17	
Absolute	Scope 1	201	204	155	0	0	0	201	204	155			*GHG-Dir-Abs*
	Scope 2	2,911	3,024	3,929	0	0	0	2,911	3,024	3,929			*GHG-Indir-Abs*
	Scope 3	609	628	753	1,309	1,159	1,611	1,918	1,787	2,364			
	Total GHG emissions in tCO_2e	**3,721**	**3,855**	**4,838**	**1,309**	**1,159**	**1,611**	**5,030**	**5,015**	**6,449**			*GHG-Int*
	Intensity	in kg CO_2e/sq.m						22.9	21.7	22.9	*5.2%*	*0.1%*	
	Coverage rate	Number of assets						11/11	12/12	15/15			
		% of surface area (sq.m)						100%	100%	100%			
Like-for-like	Scope 1	201	204	155	0	0	0	201	204	155	*-23.8%*	*-22.7%*	*GHG-Dir-LfL*
	Scope 2	2,911	2,813	3,132	0	0	0	2,911	2,813	3,132	*11.3%*	*7.6%*	*GHG-Indirect-LfL*
	Scope 3	609	599	609	1,309	1,133	1,178	1,918	1,732	1,787	*3.2%*	*-6.8%*	
	Total GHG emissions in tCO_2e	**3,721**	**3,616**	**3,897**	**1,309**	**1,133**	**1,178**	**5,030**	**4,749**	**5,075**	6.9%	0.9%	
	Intensity	in kg CO_2e/sq.m						22.9	21.4	22.7	*6.1%*	*-1.0%*	GHG-Int
	Coverage rate	Number of assets						11/11					
		% of surface area (sq.m)						100%					

Carbon emissions intensity down 22% since 2011

Carbon emissions intensity in kg CO_2e/sq.m (adjusted for occupancy) was down by 22% in 2017 compared to the 2011 baseline on a comparable portfolio basis.

The sharp fall was due to several factors, including improved energy management, the transition to low-carbon energy and an improvement in suppliers' emissions factors.

ANNUAL REDUCTION IN CARBON EMISSIONS INTENSITY BETWEEN 2011 AND 2017, ON A LIKE-FOR-LIKE PORTFOLIO BASIS
(in kg CO_2e/sq.m, adjusted for occupancy and climate)



The biggest reduction in greenhouse gas emissions from energy use will be achieved by using low carbon energy. In this regard, the last oil-fired boiler will be removed in 2018, after which none of the properties in the portfolio will have direct combustion energy sources. The feasibility of connecting to district heating and cooling systems is systematically reviewed prior to any capital expenditure project. Lastly, we are also endeavouring to increase the proportion of energy from renewable sources supplied under our electricity contracts. Since 1 January 2018, the proportion stands at 30%.

Measuring and managing the carbon footprint on an expanded basis

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 for the office sector in France.

Making properties more climate resistant

The portfolio is exposed to climate risk. These risks were analysed in response to a recommendation by the ADEME (an agency responsible for implementing government policies in the areas of the environment and energy management) to comply with regulatory requirements, prepare for the properties' technical obsolescence and, in this way, guarantee the quality of the occupant experience.

3.3 Sustainable capital expenditure

As a long-term investor in real estate and a corporate citizen, SFL uses its capital expenditure strategy to improve the quality of its properties and also to guarantee their durability. This strategy extends the properties' useful lives and guarantees their alignment not only with tenant needs but also with the urban fabric, as well as with the long-term outlook in terms of accessibility, energy use, etc.

The starting point for our sustainable capital expenditure strategy consists of investing in properties with excellent fundamentals that can be adapted to the needs of different types of users and different working practices that are likely to change over time. We work with each new team of prime contractors, design engineers and designers to invent buildings that will stand the test of time.

Acquisitions

The choice of properties to be added to the portfolio is viewed from different angles, with the overriding aim of assessing their long-term viability. We examine the properties' intrinsic qualities, their integration in the urban fabric, their ability to keep pace with changing tenant needs (convertibility to partitioned offices/open plan, limited structural obstacles, etc.), their proximity to public transport, etc. For each proposed acquisition, projections are prepared concerning future improvements to their environmental performance, with financial objectives for the investment backed up by short, medium and long-term environmental certification objectives (new construction, renovation or in-use, as applicable).

Managing the CSR aspects of capital expenditure projects

We are committed to managing the CSR performance of operating expenditure and 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.

25%

of total capital expenditure has a sustainable development dimension and contributes to reducing our environmental impact.

37%

of our operating and maintenance expenditure contributes directly to improving our CSR performance.

A technical and innovation watch is organised by SFL_le_lab and SFL_le_studio in order to embrace the most innovative practices as early as possible. In 2017, study topics mainly concerned the creation of planted roof terraces, solutions to enhance the value of underground levels and the creation of models using 3-D BIM software.

Promoting the circular economy at worksites

Waste materials are recovered and recycled on every SFL-managed worksite. Contractors working on renovation and redevelopment projects are very actively encouraged to recycle waste materials and the recycling/re-use rate is more than 80% in some cases.

We also deploy a site charter at all redevelopment, modernisation and renovation worksites, covering waste management processes, the choice of materials, disamenity tracking and pollution limitation.

3.4 Biodiversity in our portfolio

SFL aims to protect and enhance biodiversity in its buildings. By offering users the opportunity to reconnect with nature in quiet and peaceful gardens combining greenery and water features that attract insect and bird life, biodiversity helps to increase our buildings' utility value.

Green walls and roof gardens are among the preferred ways of developing this approach. Landscaping is also a key component of the redevelopment projects currently in preparation (112 Zola and Iéna).

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, trees and garden furniture.

We are also planning to plant trees and greenery in the interior courtyards of the Cézanne Saint-Honoré and Édouard VII properties.

As of end-2017, green walls and other planted areas represented some 8,500 sq.m or over 9% of the portfolio's total footprint, including close to 1,700 sq.m at Washington Plaza and 1,300 sq.m at 176 Charles de Gaulle.

We plan to increase planted areas to 11% of the portfolio's footprint by the end of 2020.

Planted areas will also provide protected habitats for animal species used to living in an urban environment.

We systematically apply the Paris city authorities' biodiversity recommendations (by providing nesting areas for birds, insect hotels, etc.) and plan to conduct an audit of our properties with France's bird protection league (LPO).

Lastly, our green space operating contracts include a "zero pesticides" approach to ensure that these areas do not generate any health risk.

Sustainable procurement and supplier relations

We pay particular attention to applying sustainable and responsible procurement processes and to maintaining sustainable and responsible relations with service and goods suppliers.

Our strategy in this area is led by the Environment and Sustainable Procurement Manager. It includes measuring the total cost of purchases and aims to manage environmental impacts throughout the value chain.

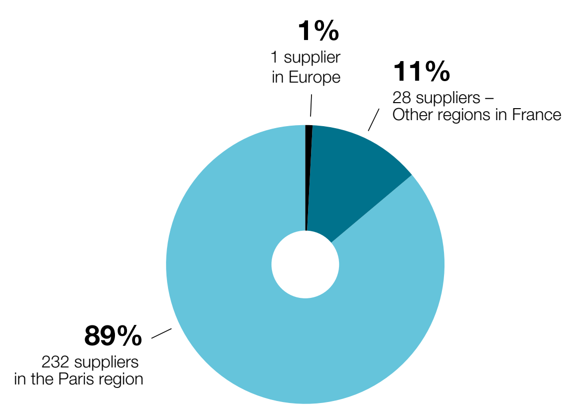
Key aspects of the strategy include:
– Integrating CSR criteria in the supplier selection process.
– Updating operator and contractor specifications to include CSR performance indicators.
– Demonstrating best-in-class supplier management performance.
– Analysing opportunities for improvement.
– CSR performance tracking.
– Monitoring technical and environmental developments.

Best-in-class supplier selection and monitoring processes

Strict rules apply to the selection and approval of suppliers. To avoid inappropriate use of sub-contractors, the sub-contracting pyramid is limited to a maximum of two levels.

Special attention is also paid to suppliers' country of origin, with priority given to local companies and contractors. For example, in 2017, 86% of our suppliers were based in the Greater Paris region.

SUPPLIER LOCATION – 2017



Involving service and goods suppliers in a process of continuous improvement

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.

For redevelopment projects, enhanced communication channels have been deployed to ensure that the work is carried out safely and smoothly. Health and safety procedures include:
– Environmental training and information.
– The use of badges to identify employees of SFL and its contractors.
– Risk prevention measures.
– On-site presence of first-aiders and first-aid equipment.
– An incident archiving system.

Specific handbooks are distributed to contractors, containing:
– Information on staggered breaks.
– 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.

These documents are translated into the second most commonly used language on the site in order to ensure a high level of understanding. In the same way, on-site information notices and signage are also translated into several languages.

4. Social 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 employee recognition and remuneration.

The Group had 73 employees as of 31 December 2017, of which more than 70% were managers.

4.1 Business ethics and governance

SFL's employment contracts include a code of ethics covering such issues as professional integrity, combating fraud, non-discrimination and legal and regulatory compliance. The Group also complies with the specific code of ethics for SIICs (real estate investment trusts) which covers topics such as the selection and rotation of the independent valuers retained to value the portfolio.

Employees may contact the Internal Control Department if they have any questions about professional ethics or conduct. No cases of bribery came to light in 2017 and the Group was not subject to any disciplinary measures. No political donations were made, in accordance with French legislation which bans such practices.

Ethics in the SFL value chain

SFL upholds the Fundamental Conventions of the International Labour Organization (ILO) and ensures that suppliers do the same. The conventions cover:
– 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 fails to 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 the other contractor has made all the applicable declarations and is up to date with its social security contributions. Compliance checks have to be performed 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 capabilities and financial condition. 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 2017, 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 Group's main shareholder.
– Integrating material CSR risks into the corporate risk map.

The most significant CSR risks are as follows:
– Risk of potential additional costs (to address such issues as obsolescence, energy efficiency, disputes with neighbouring communities).
– 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 12.4 (Board of Directors' Corporate Governance Report), on pages 83 *et seq.* of the Management Report and section 6.3 of the Management Report (pages 22 *et seq.*), in which the following issues are discussed:
– The roles and responsibilities, membership and independence of the Board of Directors and the Committees of the Board.
– Compliance with the recommendations of the AFEP-MEDEF Corporate Governance Code and explanation of any instances of non-compliance ("comply or explain" principle).
– 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.

4.2 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.

That's why we aim to spend the equivalent of over 2% of the total payroll on training each year.

– Collective agreements
French real estate industry collective agreement: covering 71 employees at 31 December 2017 (97%). Building caretakers, concierges and employees collective agreement: covering two employees at 31 December 2017 (3%).

A total of 71 employees work at the Group's head office at 42 rue Washington in Paris and two employees are based in the building at 176, avenue Charles de Gaulle in Neuilly.

Remuneration and benefits

To encourage our employees' professional growth and engagement, policies are in place to offer them fair, attractive and incentivising remuneration.

Direct remuneration

Each employee is paid a salary and a variable performance-based bonus. The 2017 target bonus represented on average 15.3% of the employee's salary (excluding Management Committee members).

Total remuneration for the year (salary and bonus) averaged €62,610, again excluding Management Committee members.

On a constant headcount basis, the average salary rose by 2.77% in 2017 (1.91% for men and 3.24% for women).

Indirect remuneration

A total of €840,720 was paid out to employees in 2017 (€826,680 in 2016) under discretionary and non-discretionary profit-sharing plans, representing the equivalent of over 12% of payroll for the year.

Negotiations concerning employee savings undertaken in 2017 led to the signature of two agreements with employee representatives:
– An agreement renewing the discretionary profit-sharing plan for three years (2017, 2018 and 2019).
– An agreement allowing employees to monetise the rights accumulated in their Time Savings Account ("CET") and invest the amount in the PEE Employee Share Ownership Plan.

During the year, 58 employees chose to make voluntary contributions to the PERCO pension savings plan, entitling them to a matching contribution by SFL representing an average of €3,170.

In line with our commitment to helping employees save for their retirement, we also continued the practice adopted in 2016 of making a flat payment into the PERCO on behalf of each employee without any initial contribution on their part.

In 2017, €400 was paid into the PERCO on behalf of each of the Group's 76 employees.

All told, SFL's financial support for employees seeking to save for their retirement amounted to €214,252 in 2017.

Lastly, under an agreement signed with employee representatives in December 2017, the maximum matching payment in respect of employees' voluntary contributions to the PERCO has been raised from €3,900 to €4,500.

In 2017, for the sixth year running, free shares were granted to employees, this time to 56 managers and corporate officers representing three-quarters of the workforce at year-end.

Remuneration policies also 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).

All of these various benefits are presented in the Personal Remuneration and Benefit Review prepared for each employee since 2016.

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).

In 2017, we continued to digitize our human resources processes, deploying a digital salary adjustment module, replacing paper pay slips with electronic versions and giving all employees free access to a digital safe.

Attracting and retaining talent

Six new employees were hired during the year, four under permanent contracts and two under fixed-term contracts. Employee numbers remained relatively stable in 2017, with 73 employees at year-end versus 75 a year earlier.

Of the nine employees who left during the year, six negotiated their departure, two left at the end of their fixed-term contract (one of which ended on 31 December 2017) and one resigned.

Based on the average number of employees in 2017 (74.5) and the number of employees under permanent contracts who were hired or left during the year, the turnover rate was 7.38%, calculated using the following formula: (number of employees who left during the period + number of employees hired during the period)/2 divided by the average number of employees for the period.

The average seniority of employees on the payroll at 31 December 2017 was 11 years.

Training and skills development

The equivalent of 3.60% of total payroll was allocated to training programmes in 2017 as part of the drive to promote employee skills acquisition and/or development.

Nearly 1,870 hours of training were offered to 69 employees, representing an average of 27 hours per trainee. The courses were primarily focused on asset management, financial management, law, business management, office technology, languages, security and safety.

In addition, a total of 115 hours of training in management and personal development skills were given during the year.

1,870 **hours**
of training conducted in 2017.

96%

of employees trained in 2017 (number of employees trained as a % of the average number of employees for the year).

4.3 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.

100%

of employees are represented by a Health, Safety and Working Conditions Committee.

Occupational health and safety

As was the case in 2015 and 2016, there were no workplace accidents in 2017 and consequently, the accident frequency rate and severity rate were both zero for the year. As was the case in 2016, a single commuting accident was reported in 2017 and no occupational diseases were observed during the year.

In 2017, our employee health and safety policies were actively pursued, with:
- Participation of seven employees in the Workplace First Responder training programme.
- Organisation of a new series of fire prevention training sessions in coordination with APAVE, a risk management consultancy.
- Renewal of authorisations for qualified employees to work on electrical installations and equipment.

Quality of working environment

Initiated in 2015, the programme to help prevent psychosocial risks (PSR) and improve the quality of working environment (QWE) led to the preparation in 2016 of an action plan with the following outcomes:
- Managers and supervisors were given specific training in management techniques that avoid generating stress and psychosocial risks.
- A seminar was organised for all employees on the topics of communication and collaborative working.
- A QWE working group was set up to consider ways of improving the quality of working environment.

Made up of employees from the various departments within the Company, the group met three times in 2017 with several aims:
- Define what constitutes a good quality of working environment at SFL and identify QWE strategies.
- Suggest ways to improve the quality of working environment and select the best proposals based on their feasibility and the level of support from members of the group.
- Prepare an executive summary of proposals to be included in a QWE agreement.

The group's work led to the signature, in December 2017, of a QWE agreement between the Company and employee representatives, comprising the following main initiatives:
– Deployment of a specific induction process for new hires.
– Organisation of periodic meetings of all employees to inform them about significant events in the life of the Company.
– Initiatives to improve employees' comfort and well-being, for example by adding new amenities and equipment at the Company's head office, introducing rules governing the use of digital devices, and conducting surveys to assess the atmosphere in the workplace.

The choice of these initiatives 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 better quality of working environment. To this end, we have chosen to track and report various indicators, especially the short-term absence rate which is a valuable indicator of employee well-being and engagement.

In 2017, short-term absences (less than four days, excluding authorised leave) represented 182 days.

0.98%

short-term absence rate (one to three days).

4.4 Diversity and equal opportunity

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

That's why we have reaffirmed our pledge to reject any and all forms of discrimination and our action to promote equal opportunity and diversity in the workplace.

In 2017, we undertook a certain number of initiatives to:
– Fulfil the commitments given in the gender equality agreement between the Company and employee representatives.
– Lock in our financial support for the disabled, which includes the grant made to the ADAPT non-profit organisation and our practice of buying goods and services from companies specialised in employing people with disabilities.

Gender equality

In December 2017, a new gender equality agreement was signed, comprising 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 2017, for example, four of the six people hired during the year were women and 97% of women employees attended training courses, compared with 91% of the men (percentages based on the average number of employees in 2017).

As part of the statutory annual pay round in 2017, 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. As of 31 December 2017, employees aged 45 or older represented half of the workforce and under-35s represented less than a quarter (22%).

People with disabilities

As part of our policy of supporting employment opportunities for people with disabilities, in 2017 we made a grant of €15,000 (excl. VAT) to the operating budget of ADAPT, a non-profit organisation working in this area, together with an amount of €3,240 set off against the apprenticeship tax due by the Company.

We also paid €4,740 (excl. VAT) for services provided by Les Papillons de Jour, a communication agency staffed by people with disabilities.

Given the stability of our workforce and low hiring volume, opportunities to hire employees with disabilities are limited and we therefore paid in 2017 €10,444 into the AGEFIPH disabled employment fund in fulfilment of our statutory obligations in this area.

Work/life balance

Two work/life balance agreements were signed with employee representatives in December 2017:
– An agreement relaxing the conditions for accumulating unused rights to paid leave in a Time Savings Account and for using the rights, to enable employees to transfer unused rest days to the account when their holidays are deferred for personal and family reasons.
– An agreement regulating professional use of digital devices and limiting employees' exposure to the risks of information overload, hyperconnectivity, and poor work/life balance.

Organisation of working hours

As of 31 December 2017, SFL had 71 full-time employees and two part-time employees both of whom are women.

Internal agreements with employee representatives signed in 2017:

– Discretionary Profit-Sharing Agreement dated 14 June 2017.
– Time Savings Account Agreement dated 28 June 2017.
– Addendum 7 dated 28 June 2017 to the PEE Employee Share Ownership Plan.
– Agreement dated 7 December 2017 on Remunerations, Working Hours and the Sharing of the Value-Added created by the Company.
– Agreement dated 7 December 2017 on Gender Equality and Quality of Working Environment.
– Addendum 7 dated 7 December 2017 to the PERCO Pension Savings Plan.
– Agreement dated 7 December 2017on the Right to Disconnect.
– Addendum 1 dated 7 December 2017 to the Agreement on the Preservation of the SFL Business and Employee Unit ("UES", corresponding to the level at which certain employee benefit plans are organised).

4.5 Corporate sponsorship and philanthropy

Fondation Palladio: building the City of Tomorrow.

For several years, SFL has been a funding partner of the Fondation Palladio, which brings together real estate industry stakeholders engaged in discussions about the construction of future cities and their living environments.

Initiatives supported in 2017 included:
– The Institut Palladio des Hautes Études' 6th Annual Cycle of debates, on the topic of "Real Estate and the City".
– The creation of tools for students by the Palladio "Pôle Avenir" future development division.

ADAPT, helping people with disabilities to take up their rightful place in society and find work.

We have been supporting ADAPT for many years as part of our policy of promoting employment opportunities for people with disabilities.

For example, we contribute to the European Disability Employment Week organised by ADAPT since 1997, which took place last year from 13 to 19 November. This annual event aims to raise awareness among companies and the public about the lack of work opportunities for people with disabilities.

Pavillon de l'Arsenal, the Paris architecture and urban planning centre

We regularly support Pavillon de l'Arsenal, the architecture and urban planning information, documentation and exhibition centre for the Paris metropolitan area.

Pavillon de l'Arsenal is a non-profit organisation, set up to promote information and knowledge among specialists and the general public about the capital and the surrounding area's architectural heritage and urban landscape and to help promote the city's architectural landmarks.

We are naturally motivated to contribute to these objectives which represent a perfect fit with our deep roots in the development of the capital's urban landscape at the end of the 19th century and our current positioning as a pure player in Paris real estate.

City of Paris Authorities: Nuit Blanche

SFL supports the Paris City Authorities' "Staying Up All Night" event, organised for the 16th time in 2017, which offers the public free access to an array of artistic events in the capital, for one night only.

In this way, we contribute to promoting Paris's cultural outreach, sometimes by organising events in our own properties, while supporting the creative arts and making them accessible to everyone, whatever their budget.

5. Appendices

5.1 Reporting scope and procedures

To report data on building energy use, water use and waste production, SFL has developed proprietary procedures 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 surface area of 388,100 square metres.

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 2017 reporting scope were as follows:

Baseline year 2011:
1. 176 Charles de Gaulle (Neuilly-sur-Seine)
2. 96 Iéna (Paris 16th *arrondissement*)
3. Édouard VII (Paris 9th *arrondissement*)
4. Washington Plaza (Paris 8th *arrondissement*)
5. Rives de Seine (Paris 12th *arrondissement*)
6. Louvre Saint-Honoré (Paris 1st *arrondissement*)
7. 103 Grenelle (Paris 7th *arrondissement*)
8. Cézanne Saint-Honoré (Paris 8th *arrondissement*)

Baseline year 2015: the above properties plus:
9. 112 Wagram (Paris 17th *arrondissement*)
10. Galerie des Champs Elysées (Paris 8th *arrondissement*)
11. 92 Champs-Élysées (Paris 8th *arrondissement*)

Baseline year 2016: the above properties plus:
12. 90 Champs-Élysées (Paris 8th *arrondissement*)

Baseline year 2017: the above properties plus:
13. 9 Percier (Paris 8th *arrondissement*)
14. #cloud.paris (Paris 2nd *arrondissement*)
15. 131 Wagram (Paris 17th *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 utility 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 invoice data.
– 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.

5.2 Identifying, prioritising and managing CSR issues

In 2017, 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 (proximity of underground station, bus stop, public bike and car hire stations, electric vehicle charging stations, and car sharing drop-off points). 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.

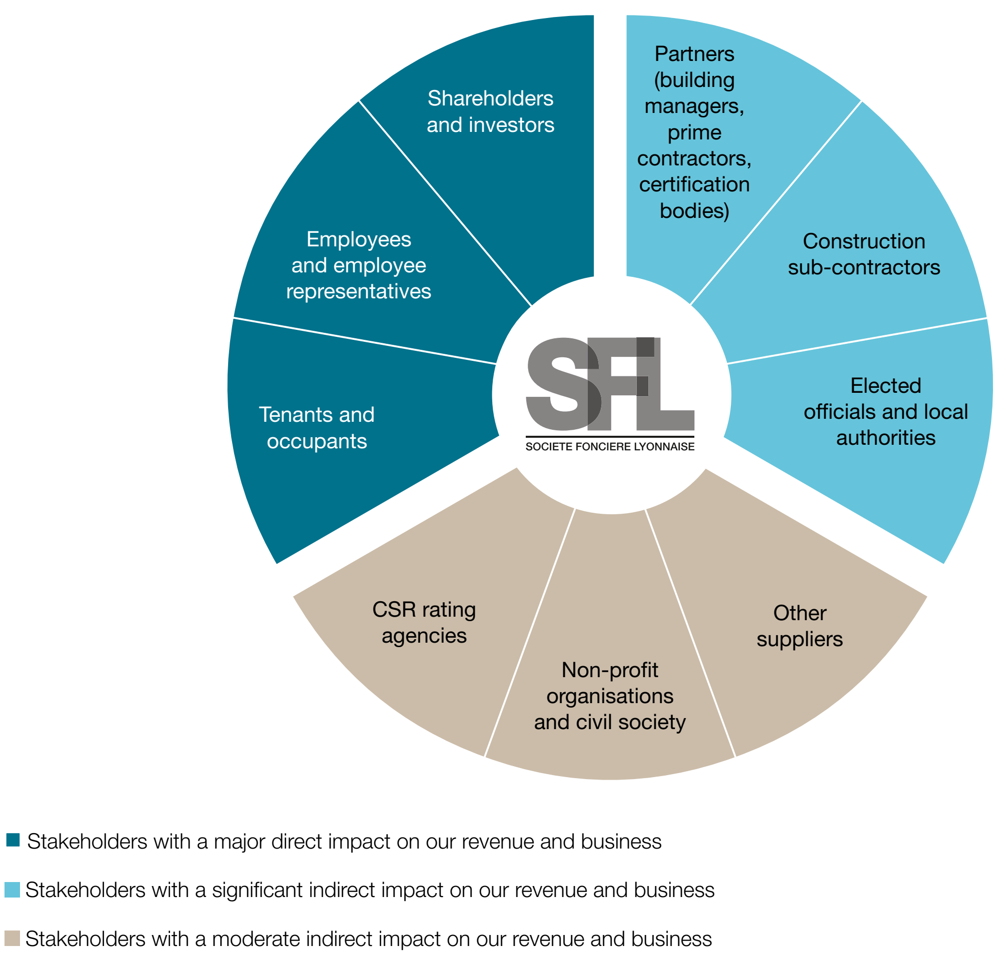
Governance, ethics and society

- 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.



	Stakeholder	Expectations	Dialogue method	Frequency
Major impact on revenue and operations	Tenants and occupants	Building accessibility Occupants' 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 internal mobility 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)	Service providers' health and safety procedures 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	Service providers' health and safety procedures 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 structuring phase (administrative permits)	As required
Moderate impact on revenue and operations	Other suppliers	Property company's ethics Compliance with contractual clauses Long-term relationships	Contracts	As required
	Non-profit organisations and civil society	Health and safety of occupants Compliance with the Grenelle II Act and France's Sustainable Building Plan Urban mix & local jobs	Neighbourhood meetings	Quarterly
	CSR rating agencies	CSR transparency and performance CSR initiatives and action plans	Communication media and materials (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:

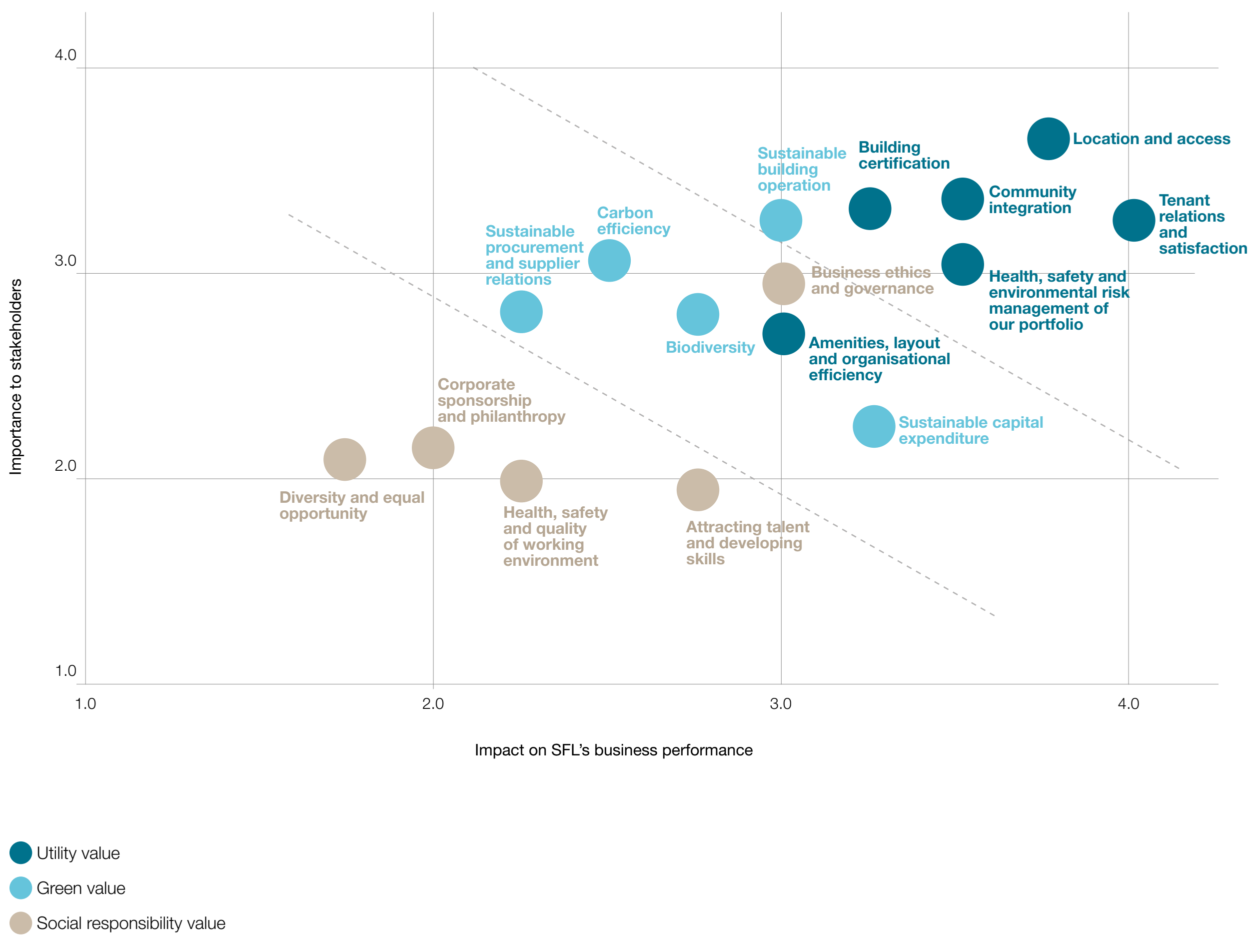
1. Ranking top in materiality are the five fundamental CSR issues integrated into our core business:
Location and access; tenant relations and satisfaction; certification; health and safety and environmental risk management; and governance and ethics. These issues form an intrinsic part of our strategic 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 issues 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.



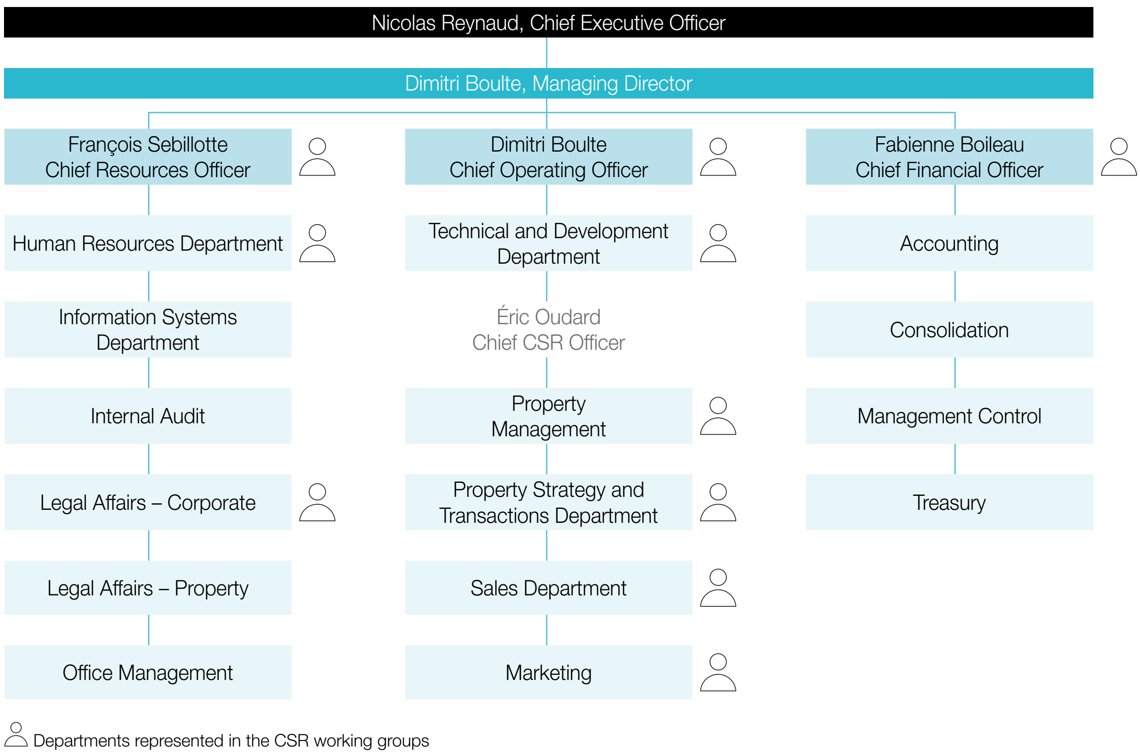
Our CSR issues can be combined in several different ways:
– Based on the three materiality levels (see graph).
– By key area (see section 5.3a).

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 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.



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.

5.3 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 2017 Management Report
LABOUR AND EMPLOYMENT		
1° Labour and employment information		
	a) Employment	
1	Total workforce by gender, age group and geographic region	p 55
2	Hirings and terminations	p 56
3	Remuneration and changes in remuneration	p 55
	b) Organisation of work	
4	Organisation of working hours	p 57
5	Absenteeism	p 57
	c) Labour relations	
6	Organisation of social dialogue, particularly employee information, consultation and negotiation procedures	p 61
7	Outcome of collective agreements	p 58
	d) Health and safety	
8	Occupational health and safety conditions	p 56
9	Outcome of collective agreements signed with trade unions or employee representatives concerning occupational health and safety	p 58
10	Work-related accidents (notably their frequency and severity) and occupational diseases	p 67
	e) Training	
11	Training policies	p 56
12	Total number of training hours	p 56
	f) Equal opportunity	
13	Measures taken to promote gender equality	p 57
14	Measures taken to promote the hiring and retention of people with disabilities	p 57
15	Anti-discrimination policies	p 57
	g) Promotion of and compliance with the fundamental conventions of the International Labour Organization concerning:	
16	Freedom of association and collective bargaining	p 54
17	Elimination of discrimination in respect of employment and occupation	p 54
18	Elimination of forced and compulsory labour	p 54
19	Effectively abolishing child labour	p 54

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 42
21	Employee training and information on environmental protection	p 49
22	Total investments and expenditures to prevent environmental risks and pollution	p 45
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 45
	b) Pollution and waste management	
24	Measures to prevent, reduce and clean up environmentally harmful emissions and discharges in the air, water and soil	p 51
25	Measures to prevent, recycle and eliminate waste	p 50
26	Measures to mitigate noise pollution and all other types of pollution specific to an activity	p 53
	c) Sustainable use of resources	
27	Water use and water withdrawals in relation to local resources	p 49
28	Consumption of raw materials and measures to improve their efficient use	p 45
29	Energy use and measures to improve energy efficiency and use renewable energy sources	p 47, 48
30	Land use	p 50
	d) Contribution to combating global warming and adapting to its impact	
31	Greenhouse gas emissions	p 51
32	Measures to adapt to the impact of climate change	p 52
	e) Protection of biodiversity	
33	Measures taken to preserve or develop biodiversity	p 53
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 53
35	Impact on local and neighbouring communities	p 45
	b) Relations with stakeholders, notably mainstreaming non-profit organisations, educational institutions, environmental organisations, consumer organisations and neighbouring communities	
36	Stakeholder dialogue	p 58
37	Partnership or philanthropic programmes	p 58
	c) Sub-contracting and suppliers	
38	Inclusion of social responsibility and environmental issues in purchasing policy	p 53
39	Importance of sub-contracting and integration of corporate social responsibility in relationships with suppliers and sub-contractors	p 53
	d) Fair business practices	
40	Measures to prevent corruption	p 54
41	Measures to preserve consumer health and safety	p 44, 45
	e) Human rights	
42	Other measures taken to promote human rights	p 54

5.4 GRI* G4 indicators and cross-reference table for the GRI* G4 standard

Disclosure	GRI G4	Source/Unit	Scope	2015	2016	2017
ENVIRONMENT						
Energy						
Energy use within the organisation	EN3	Electricity in MWh	SFL head office	167	165	162
Energy use outside of the organisation	EN4	Fuel oil in MWh	like-for-like	739	749	571
		Electricity in MWh		39,912	37,723	37,473
		District cooling and heating systems in MWh		19,728	18,605	19,362
Energy intensity	EN5 CRE1	kWh/sq.m/year		267	257	256
		kWh/user/year		1,934	1,835	1,846
Water						
Water withdrawn from municipal water supplies or other water utilities	EN8	m^3	like-for-like	135,496	131,036	129,022
Total volume of water recycled and reused	EN10	m^3	Washington Plaza (only)	190**	800	1,340
Building water intensity	CRE2	m^3/sq.m/year	like-for-like	0.62	0.59	0.58
		litres/occupant/day		19.7	19.1	18.9
Emissions						
Direct greenhouse gas (GHG) emissions (Scope 1) (from energy use)	EN15	tCO_2e	like-for-like	201	204	155
Indirect greenhouse gas (GHG) emissions (Scope 2) (from energy use)	EN16	tCO_2e		2,912	2,813	3,132
Other indirect greenhouse gas (GHG) emissions (Scope 3) (excluding user travel)	EN17	tCO_2e		1,918	1,732	1,787
Greenhouse gas (GHG) emissions intensity from buildings	EN18 CRE3	kg/CO_2e/sq.m/year		22.9	21.4	22.7
		kg/CO_2e/occupant/year		180	167	182
Waste						
Total weight of waste by type	EN23	NHIW (tonnes)***	like-for-like	470	508	673
		Paper/cardboard (tonnes)***		301	270	278

Like-for-like = the 11 buildings whose baseline year is 2011, 2012 or 2013 - see detailed list in Appendix 5.1.

* GRI: Global Reporting Initiative.

** Washington Plaza only: 3 months' recovery in 2015

*** Values for 5 assets in 2015
Values for 8 assets in 2016
Values for 9 assets in 2017

Disclosures		2014	2015	2016	2017
Organisational profile					
Percentage of total employees covered by collective bargaining agreements.		100%	100%	100%	100%
Employment					
Total workforce by gender, age group and geographic region	Total number of employees	74	71	75	73
	Permanent contracts	73	69	72	69
	Fixed-term contracts	1	2	3	4
	Men	29	25	29	27
	Women	45	46	46	46
	Managers	53	52	58	56
	Supervisors	11	12	10	11
	Administrative staff	10	7	7	6
	Under 45	33	32	37	37
	45 or older	41	39	38	36
	Paris	74	71	72	73
	Other	0	0	3	0
New hires	Permanent contracts	4	7	10	4
	Fixed-term contracts	2	2	4	2
	Men	2	3	6	2
	Women	4	6	8	4
	Managers	5	9	12	5
	Supervisors	0	0	1	
	Administrative staff	1	0	1	1
	Under 45	5	9	12	6
	45 or older	1	0	2	0
Number of terminations by reason	Personal	2	1	2	0
	Economic	0	0	0	0
Remuneration and changes in remuneration	Total payroll	7,097,161	6,111,982	6,299,296	6,661,171
Organisation of work					
Organisation of working hours					
Standard working hours		151.67	151.67	151.67	151.67
Employees who work standard hours		72	71	75	73
Full-time employees		64	64	71	71
Part-time employees		8	7	4	2
o/w Men		0	1	0	0
o/w Women		8	6	4	2
Absenteeism (number of working days)					
Illness		978	982	716	452
Maternity leave		216	90	209	52
Occupational and commuting accidents		0	8	7	0
Leave to take care of sick children		33	28	24	20
Leave for family events		51	14	35	20
c) Labour relations					
Collective agreements		5	9	12	6

Disclosures	2014	2015	2016	2017
Health and safety				
Collective agreements signed with trade unions or employee representatives concerning occupational health and safety				
Work-related accidents (notably their frequency and severity) and occupational diseases				
Number of reported work-related accidents	1	1	0	0
Number of reported commuting accidents	0	1	1	1
Number of recognised work-related/commuting accidents	1	2	1	1
Accident frequency rate	0	0	0	0
Accident severity rate	0	0	0	0
Number of occupational diseases	0	0	0	0
Total number of training hours	1,280	1,370	1,676	1,870

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 sustainability	p 33
Organisational profile		
G4-3	Report the name of the organisation	p 33
G4-4	Report the primary brands, products, and services	p 7
G4-5	Report the location of the organisation's headquarters	p 11
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 34
G4-7	Report the nature of ownership and legal form	p 11
G4-8	Report the markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries)	p 34, 35
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 34, 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 67
G4-11	Report the percentage of total employees covered by collective bargaining agreements	p 67
G4-12	Describe the organisation's supply chain	p 37
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, 14
G4-14	Report whether and how the precautionary approach or principle is addressed by the organisation	p 12 to 17
G4-15	List externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or which it endorses	p 58
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 58

* 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 11
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 38
G4-19	List all the material Aspects identified in the process for defining report content	p 38
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 38
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 38
G4-22	Report the effect of any restatements of information provided in previous reports, and the reasons for such restatements	p 38
G4-23	Report significant changes from previous reporting periods in the Scope and Aspect Boundaries	p 38

Stakeholder engagement

G4-24	Provide a list of stakeholder groups involved with the organisation	p 38, 41, 45, 53, 60
G4-25	Report the basis for identification and selection of stakeholders with whom to engage	p 38
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 38
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 38

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 33
G4-30	Reporting cycle (such as annual, biennial)	p 33
G4-31	Provide the contact point for questions regarding the report or its contents	p 63
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 76
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 76

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 63

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 54, 60

GRI G4 Specific Standard Disclosures

Economic		
	Economic performance	
G4-EC1	Direct economic value generated and distributed	p 82
G4-EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change	p 51
Environment		
	Energy	
G4-EN3	Energy consumption within the organisation	p 66
G4-EN5	Energy intensity	p 66
G4-EN6	Reduction of energy consumption	p 48
CRE1	BUILDING ENERGY INTENSITY	p 47, 48, 66, 73
	Water	
G4-EN8	Total water withdrawal by source	p 50, 73
G4-EN10	Percentage and total volume of water recycled and reused	p 50
CRE2	BUILDING WATER INTENSITY	p 50, 73
	Emissions	
G4-EN15	Direct greenhouse gas (GHG) emissions (Scope 1)	p 51, 66
G4-EN16	Energy indirect greenhouse gas (GHG) emissions (Scope 2)	p 51, 66
G4-EN17	Other indirect greenhouse gas (GHG) emissions (Scope 3)	p 51, 66
G4-EN18	Greenhouse gas (GHG) emissions intensity	p 51, 66
G4-EN19	Reduction of greenhouse gas (GHG) emissions	p 51, 52
G4-EN20	Emissions of ozone-depleting substances (ODS)	p 51, 52
CRE 3	GREENHOUSE GAS EMISSIONS INTENSITY FROM BUILDINGS	p 45
	Effluents and waste	
G4-EN23	Total weight of waste by type and disposal method	p 50, 66
G4-EN26	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the organisation's discharges of water and run-off	p 53
Social – labour practices and decent work		
	Employment	
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	p 67
	Occupational health and safety	
G4-LA5	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes	p 56
G4-LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender	p 68
G4-LA8	Health and safety topics covered in formal agreements with trade unions	p 56, 57
	Training and education	
G4-LA9	Average hours of training per year per employee by gender, and by employee category	p 56, 68
G4-LA10	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	p 56
G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	p 56
	Diversity and equal opportunity	
G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	p 56
	Supplier assessment for labour practices	
G4-LA14	Percentage of new suppliers that were screened using labour practices criteria	p 53
G4-LA15	Significant actual and potential negative impacts for labour practices in the supply chain and actions taken	p 37

Social – Human rights		
	Freedom of association and collective bargaining	
G4-HR4	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights	p 54
	Child labour	
G4-HR5	Operations and suppliers identified as having significant risk for incidents of child labour, and measures taken to contribute to the effective abolition of child labour	p 54
	Forced or compulsory labour	
G4-HR6	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of all forms of forced or compulsory labour	p 54
	Assessment	
G4-HR9	Total number and percentage of operations that have been subject to human rights reviews or impact assessments.	p 54
Social – Society		
	Anti-corruption	
G4-SO4	Communication and training on anti-corruption policies and procedures	p 54
G4-SO5	Confirmed incidents of corruption and actions taken	p 54
	Supplier assessment for impacts on society	
G4-SO9	Percentage of new suppliers that were screened using criteria for impacts on society	p 53
Social – Product responsibility		
	Customer health and safety	
G4-PR1	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement	p 44
	Product and service labelling	
G4-PR3	Type of product and service information required by the organisation’s procedures for product and service information and labelling, and percentage of significant product and service categories subject to such information requirements	p 42, 60
G4-PR5	Results of surveys measuring customer satisfaction	p 38
CRE 8	TYPE AND NUMBER OF SUSTAINABILITY CERTIFICATION, RATING AND LABELLING SCHEMES FOR NEW CONSTRUCTION, MANAGEMENT, OCCUPATION AND REDEVELOPMENT	p 42

5.5 EPRA indicators

Buildings in operation

Topic	Indicator	EPRA code	Unit	2015	2016	2017	Change, 17vs15	Coverage rate
Certifications								
	Number of assets BREEAM In-Use-certified assets	Cert-Tot	Number of assets	19	19	19		100%
	% of portfolio certified by value	Cert-Tot	% of portfolio	100%	100%	100%		100%
Energy								
	Total electricity use	Elec-Abs	MWh	19,778	20,751	23,943		100%
	Total electricity use – like-for-like	Elec-LfL	MWh	19,778	20,218	19,267	-2.6%	100%
	Total energy use, district heating and cooling networks	DH&C-Abs	MWh	19,728	20,717	22,856		100%
	Total energy use, district heating and cooling networks – like-for-like	DH&C-LfL	MWh	19,728	18,907	19,362	-1.9%	100%
	Total fuel use	Fuels-Abs	MWh	739	749	571		100%
	Total fuel use – like-for-like	Fuels-LfL	MWh	739	749	571	-22.7%	100%
	Energy use intensity	Energy-Int	kWh/sq.m	268	260	256	-4.3%	100%
	Energy use intensity – like-for-like	Energy-Int	kWh/sq.m	268	258	256	-4.2%	100%
Greenhouse gas emissions								
	Total direct greenhouse gas (GHG) emissions (Scope 1)	GHG-Dir-Abs	tCO_2e	201	204	155	-22.9%	100%
	Total indirect greenhouse gas (GHG) emissions (Scope 2)	GHG-Indir-Abs	tCO_2e	2,912	3,025	3,929	29.9%	100%
	Carbon intensity	GHG-Int	kg CO_2e/sq.m	22.9	21.7	22.9	-0.1%	100%
	Carbon intensity – like-for-like	GHG-Int	kg CO_2e/sq.m	22.9	21.4	22.7	-1.0%	100%
Water								
	Total water use	Water-Abs	m^3	135,496	135,404	152,770		100%
	Total water use – like-for-like	Water-LfL	m^3	135,496	131,036	129,022	-5.7%	100%
	Water use intensity	Water-Int	m^3/sq.m	0.62	0.59	0.54	-12.2%	100%
	Water use intensity – like-for-like	Water-Int	m^3/sq.m	0.62	0.59	0.58	-6.5%	100%
Waste								
	Total waste produced, by disposal method – full scope	Waste-Abs	tonnes	771	778	951	23.3%	82%
			% recycled	-	35%	29%		
			% re-used	-	0%	0%	-	
			% composted	-	0%	0%	-	
			% incinerated without energy recovery	-	16%	16%	0%	
			incinerated with energy recovery	0	0%	13%		
			% sent to landfill		49%	42%		
	Total waste produced, by disposal method – like-for-like	Waste-LfL	tonnes	771	778	821	6.5%	81%
			% recycled		35%	28%		
			% re-used		0%	0%		
			% composted		0%	0%		
			% incinerated without energy recovery		16%	9%		
			% incinerated with energy recovery	0	0%	15%	0%	
			% sent to landfill		49%	48%		

Head office occupied by SFL

Topic	Indicator	EPRA code	Unit	2015	2016	2017	Change, 17vs15
Certifications							
	% of headquarters certified	Cert-Tot	% of headquarters	100%	100%	100%	0.0%
Energy							
	Total electricity use	Elec-Abs	MWh	173	168	162	-6.1%
	Total electricity use – like-for-like	Elec-LfL	MWh	173	168	162	-6.1%
	Total energy use, district heating and cooling networks	DH&C-Abs	MWh	0	0	0	N/A
	Total energy use, district heating and cooling networks – like-for-like	DH&C-LfL	MWh	0	0	0	N/A
	Total fuel use	Fuels-Abs	MWh	0	0	0	N/A
	Total fuel use – like-for-like	Fuels-LfL	MWh	0	0	0	N/A
	Energy use intensity	Energy-Int	kWh/sq.m	86.5	84	81	-6.3%
	Energy use intensity – like-for-like		kWh/sq.m	86.5	84	81	-6.3%
Greenhouse gas emissions							
	Total direct greenhouse gas (GHG) emissions (Scope 1)	GHG-Dir-Abs	tCO_2e				
	Total indirect greenhouse gas (GHG) emissions (Scope 2)	GHG-Indir-Abs	tCO_2e	12.18	10.87	10.48	-13.9%
	Carbon intensity	GHG-Int	kg CO_2e/sq.m	6.09	5.43	5.24	-13.9%
Water							
	Total water use	Water-Abs	m^3	N/A	429.2	414.9	N/A
	Total water use – like-for-like	Water-LfL	m^3	N/A	429.2	414.9	N/A
	Water use intensity	Water-Int	m^3/sq.m		0.214	0.202	N/A
	Water use intensity – like-for-like		m^3/sq.m		0.214	0.202	N/A
Waste							
	Total waste produced, by disposal method	Waste-Abs Waste-LfL	tonnes	2,375	2.54	2.31	-2.74%
			% recycled	100%	100%	100%	
			% re-used	0%	0%	0%	
			% composted	0%	0%	0%	
			% incinerated	0%	0%	0%	
			% disposed of by another method	0%	0%	0%	
			% sent to landfill	0%	0%	0%	

Coverage rate: 100%

Details concerning the method used

1. Boundaries: the data entered in the above tables are based on the principle of operational control. Energy use data only concern energy use in common areas and by shared heating and air conditioning systems managed by SFL. Greenhouse gas emissions are calculated based on this use and water use data corresponds to water use directly managed by SFL for which the data are obtained by SFL.
2. Segmental analysis: SFL's buildings in use consist of office buildings located exclusively in Paris and the Paris region. The segmental analysis proposed by EPRA is therefore not applicable.
3. Normalisation: the square metres used to calculate intensities by surface area correspond to the buildings' usable surface area because, for the properties included in the reporting scope, SFL provides heating and air-conditioning for the entire building.
4. Estimates: the data in the EPRA tables are calculated based on actual, invoiced use.
5. Coverage rate: for each EPRA performance indicator, the coverage rate is calculated as a percentage of the total surface area.
6. Verification: the reported data are verified by an independent third party with a moderate level of assurance. The independent third party's full opinion is available on pages 76 and 77.
7. Headquarters: The information about offices occupied by SFL is reported in a separate table, as recommended by EPRA.
8. Narrative on performance: period-on-period changes are reported for each indicator on pages 46 to 52.

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 2017

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 2017 (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"), summarised in the Management Report and available on request from the headquarters of the Company.

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).

It is however, on occasion, not our responsibility to comment on compliance with other applicable legal provisions.

Our work was carried out by a team of five people between February and March 2018 and took around two weeks. To assist us in conducting our work, we referred to our corporate social responsibility experts.

Our work described below was performed in accordance with the professional auditing standards applicable in France and the decree of 13 May 2013 determining the conditions in which the independent third party performs its engagement and, for the reasoned opinion on fairness, with 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.

(1) Whose scope may be found on www.cofrac.fr.

(2) ISAE 3000 – *Assurance engagements other than audits or reviews of historical financial information.*

2. Formed opinion on the fair presentation of CSR Information

Nature and scope of procedures

– We conducted interviews with six 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 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 33% of the surface area of buildings reporting the presented quantitative environmental information.

For the remaining consolidated CSR Information, we assessed its consistency based on our understanding of the Company.

Lastly, we assessed the relevance of the explanations relating to, where necessary, the total or partial omission of certain information.

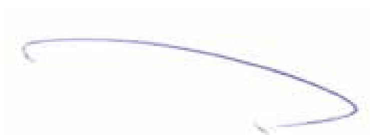
We believe that the sampling methods and sizes of the samples we have used in exercising our professional judgement enable us to express limited assurance; a higher level of assurance would have required more in-depth verifications. Due to the use of sampling techniques and the other limits inherent 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

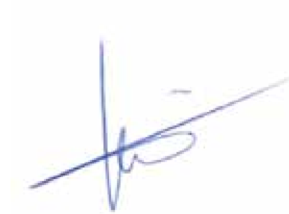
Based on our work, we did not identify any material anomaly likely to call into question the fact that the CSR Information, taken as a whole, is presented fairly, in accordance with the Reporting Guidelines.

Neuilly-sur-Seine, 16 March 2018
French original signed by one of the Statutory Auditors
Deloitte & Associés

Laure Silvestre-Siaz
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

- Number of employees by gender and type of employment contract (permanent/fixed term)
- Average age
- Number of new hires during the year by gender and type of employment contract (permanent/fixed term)
- Number of separations during the year by reason
- Total number of training hours
- Number of commuting accidents
- Accident frequency rate
- Accident severity rate

Important environmental data

- BREEAM and BREEAM In-Use certifications
- Amount of capital and operating expenditure committed to reducing environmental impact
- Total weight of waste produced (in tonnes)
- Water use and water intensity, total portfolio (in cu.m, cu.m/sq.m occupied and litres/user/day)
- Energy use by type of energy in MWh of final energy and energy intensity in kWh/sq.m (not climate adjusted)
- Greenhouse gas emissions from energy use in tCO_2e, and greenhouse gas emissions intensity in kg CO_2e/sq.m (not climate adjusted) EPRA code
- Total planted surface area (in sq.m)
- Horizontal and vertical green spaces as a proportion of the entire built-up plot of land, all properties

Qualitative information reviewed at Group level

- Automatic transmission of information about energy bills and analysis of energy use by destination
- Gender equality agreement
- Measures taken to prevent psychosocial risks and improve quality of working environment
- Local footprint and dialogue with stakeholders during the project structuring phase
- Sustainable procurement strategy – Supplier selection and management
- Security and management of environmental and health risks across the portfolio

Appendix 2: Selected units

Assets subjected to detailed tests of important environmental data

- Édouard VII (Paris 9th *arrondissement*)
- 131 Wagram (Paris 17th *arrondissement*)
- #cloud.paris (Paris 2nd *arrondissement*)
- 112 Wagram (Paris 17th *arrondissement*) (waste only)

Units selected for a review of important labour and employment information

SFL SA and Locaparis SAS

12. Appendices

Appendix 12.1 – Board of Directors' Special Report to the Annual General Meeting of 20 April 2018 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 2017. The last stock option plan 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 2017 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 in 2017 by SFL or any related companies to any employees of the Company other than 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 Chief Executive Officer or the Managing Director.

The Board of Directors

Appendix 12.2 – Board of Directors' Special Report to the Annual General Meeting of 20 April 2018 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 of the French Commercial Code, we hereby present our 2017 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 26 April 2016, the Board of Directors adopted the rules of the Company's fourth performance share plan (Plan 4 Rules), to be launched pursuant to the first extraordinary resolution of the General Meeting of 13 November 2015. These Plan 4 Rules are applicable to all performance share awards decided by the Board of Directors pursuant to said resolution.

On 3 March 2017, based on the recommendation of the Remuneration and Selection Committee which met on 2 March, the Board of Directors decided to use the authorisation given in the first extraordinary resolution of the General Meeting of 13 November 2015 to set up a new performance share plan (Plan 4). During the meeting, the Board also decided the number of performance shares to be awarded and drew up the list of recipients.

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 26 April 2016

In line with the authorisation given by the General Meeting of 13 November 2015, the Performance Share Plan (Plan 4) rules were adopted by the Board of Directors at its meeting on 26 April 2016.

1.3 Performance share grants decided by the Board of Directors on 3 March 2017

On 3 March 2017 the Board of Directors decided to grant 50,064 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 2017

Of the total 50,064 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 2017	Number: 15,000 shares Value*: €301,821	Number: 12,000 shares Value*: €241,457	Number: 4,500 shares Value*: €90,546

* The 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 (€42.82 for performance shares granted on 3 March 2017) 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.

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 employees in 2017

Category of recipients	Number of grantees	Number of performance shares	Value of performance shares
Senior executives	7	14,550	292,766
Other managers	46	4,014	80,767

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 Euronext Paris in compartment A.

The Board of Directors

Appendix 12.3 – Five-year financial summary (parent company, in €)
(prepared in accordance with Article R.225-102 of the French Commercial Code)

	2013	2014	2015	2016	2017
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	79,595,681	70,878,041	69,540,212	87,735,720	101,421,937
Profit before tax, depreciation, amortisation and provisions	84,937,737	72,162,520	6,448,213	32,971,796	317,127,680
Income tax expense/(benefit)	14,110,955	(55,730)	(15,000)	15,528,992	(48,294)
Net profit/(loss)	44,843,906	31,476,110	(26,718,556)	(30,278,521)	272,390,385
Ordinary dividends[(1)]	97,710,845	65,140,564	48,855,423	48,855,423	107,016,640
Special distributions[(1)]	–	32,570,282	48,855,423	48,855,423	–
III. Per share data					
Earnings per share after tax, before depreciation, amortisation and provisions	1.52	1.55	0.14	0.37	6.82
Earnings/(loss) per share	0.96	0.68	(0.57)	(0.65)	5.85
Ordinary dividend per share	2.10	1.40	1.05	1.05	2.30
Special distribution per share	–	0.70	1.05	1.05	–
IV. Employee data					
Average number of employees	66	65	64	65	65
Of which building staff	*2*	*2*	*2*	*2*	*2*
Total payroll	7,728,387	7,665,940	9,018,126	8,226,252	8,812,127
Total benefits	3,213,249	3,239,556	3,247,869	3,319,907	3,874,699

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

Appendix 12.4 – Board of Directors' Corporate Governance Report

(prepared in accordance with Article L.225-37, paragraph 6, of the French Commercial Code)

In compliance with Article L.225-37, paragraph 6, of the French Commercial Code, we hereby present our report on the composition and procedures of the Board of Directors and its Committees, the changes that took place in 2017, gender balance on the Board of Directors and the Board's practices. It also describes the restrictions on executive management's powers decided by the Board of Directors. In addition, it provides details of (i) the total remuneration and benefits paid to the Chairman of the Board of Directors, the Chief Executive Officer and the Managing Director in 2017 and (ii) the fixed, variable and special components of the remuneration and benefits awarded to the Chairman of the Board of Directors and the Chief Executive Officer.

This report covers the period from 1 January to 31 December 2017. It was approved by the Board of Directors on 2 March 2018.

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).

On 30 October 2017, Standard & Poor's announced that it was upgrading SFL's long-term credit rating to BBB+ (from BBB previously), 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. 2017	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)	Three of the 15 directors are independent, representing 20%.	Board membership reflects the direct involvement of the majority shareholder and the minority shareholders in its deliberations. Of the 15 directors, eight were nominated on the recommendation of the Company's majority shareholder, Colonial, and four by the two main minority shareholders. The proportion of independent directors was increased from 14% to 20% at the Annual General Meeting of 28 April 2017, when a third independent director was elected to the Board.
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 four Audit Committee members is independent	Membership of the Audit Committee reflects the composition of the Board, which comprises only three independent directors, and of the Remuneration and Selection Committee, which 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 in relation to the directors' fees	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.	Apart from the independent directors, all Board members were put forward as candidates by significant shareholders of the Company. For this reason, the Board considers that it would not be appropriate to require them to hold a significant number of shares.

2. Executive management and the Management Committee as of 31 December 2017

2.1 Executive management organisation – separation of the positions of Chairman of the Board of Directors 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.

2.2 Directorships and other positions held by the Chief Executive Officer and the Managing Director as of 31 December 2017

The positions and directorships held as of 31 December 2017 by Nicolas Reynaud, Chief Executive Officer, and Dimitri Boulte, Managing Director, are presented below.

The positions and directorships held as of 31 December 2017 by the Chairman of the Board of Directors and the other directors are presented in section 3.6 below.

- **Nicolas Reynaud**
  Chief Executive Officer
  First appointment: Managing Director in 2008
  Second appointment: Chief Executive Officer in 2015
  Business address: 42 rue Washington,
  75008 Paris (France)
  Directorships and other positions held in 2017:
  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 (SFL):
  – Managing Director Société Foncière Lyonnaise
  (until 27 January 2015)
  – Chief Financial Officer Société Foncière Lyonnaise
  (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 2017:
  In France – SFL Group
  – Chief Executive Officer LOCAPARIS (SAS)
  – Director SEGPIM (SA)
  Other directorships and positions held in the past five years:
  – None

2.3 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 French Commercial Code, the Board of Directors' prior approval must be obtained for the issuance of all forms of guarantee.

In addition, an internal restriction – specified in the Board of Directors' internal rules – 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.

2.4 Members of the Management Committee as of 31 December 2017

The members of the Management Committee as of 31 December 2017 were as follows:

- 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
- Pierre-Yves Bonnaud, Asset Management and Client Management Director
- Pierre-François Chiapponi, Leasing and Investments Director
- François Derrian, Human Resources Director
- Aude Grant, Deputy Managing Director – Asset Management and Investments
- Éric Oudard, Technical and Development Director

Nicolas Reynaud (56), Chief Executive Officer
Nicolas Reynaud 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 as SFL's 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 (62), Chief Resources Officer, Secretary to the Board
François Sebillotte began his career in 1982 with law firm KPMG Fidal. In 1987 he joined business guide publisher Éditions Liaisons as Director of Legal Affairs. In 1992, he moved to investment fund Unigrains, where he served as Director of Legal Affairs and member of the Management Committee, until joining SFL. He holds a post-graduate private law degree and an Executive MBA from HEC business school, formerly CPA. François Sebillotte has served as SFL's Chief Resources Officer since 2001 and Secretary to the Board since 2011.

Dimitri Boulte (40), Managing Director, Chief Operating Officer
Dimitri Boulte joined SFL in 2011 as Deputy Managing Director and Chief Operating Officer with overall responsibility for operations (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. He was appointed as SFL's Managing Director by the Board of Directors on 27 January 2015.

Fabienne Boileau (50), Chief Financial Officer
Fabienne Boileau is 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. Prior to her appointment as SFL's Chief Financial Officer on 27 January 2015, she held the position of Management Control and Budget Manager.

François Derrian (48), Human Resources Director
François Derrian is 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 (36), Deputy Managing Director – Asset Management and Investments
After graduating from HEC business school, Aude Grant 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. She joined SFL in 2014 as Transactions and Business Strategy Director and was appointed Deputy Managing Director in 2016.

Pierre-Yves Bonnaud (40), Asset Management and Client Management Director
Pierre-Yves Bonnaud is a graduate of the ESTP Cachan engineering school and holds 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. Pierre-Yves Bonnaud joined SFL as Asset Management and Client Management Director in 2016.

Éric Oudard (49), Technical and Development Director
Éric Oudard 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. He joined SFL's Management Committee as Technical and Development Director in 2014.

Pierre-François Chiapponi (41), Leasing and Investments Director
A graduate of École Supérieure des Professions Immobilières, Pierre-François Chiapponi joined SFL in 2006 as Leasing Manager after holding various business management and consulting positions with Jones Lang LaSalle and DTZ. He was appointed Leasing and Investments Director in 2016.

3. The Board of Directors

3.1 Members of the Board of Directors as of 31 December 2017

Article 15 of the Articles of Association states that the Board of Directors shall have between three and 16 members.

As of 31 December 2017, the Board had 15 members (versus 14 as of 31 December 2016), following the election of Sylvia Desazars de Montgailhard as a director at the Annual General Meeting of 28 April 2017.

The Board of Directors breaks down as follows:
- Eight directors 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 directors nominated on the recommendation of Predica:
  - Jean-Jacques Duchamp
  - Chantal du Rivau
- Two directors nominated on the recommendation of Qatar Holding LLC and DIC Holding LLC (acting in concert):
  - Sheikh Ali Bin Jassim Al Thani
  - Adnane Mousannif
- Three independent directors:
  - Anne-Marie de Chalambert
  - Sylvia Desazars de Montgailhard
  - Anthony Wyand.

Of the 15 members of the Board of Directors, six are women. At 40%, the proportion of women on the Board as of 31 December 2017 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.

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.

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 the French Labour Code, two members of the Works Council attend meetings of the Board of Directors with a consultative vote.

3.2 Changes in the membership of the Board of Directors during 2017

Director	Elected	Re-elected	End of term	Comments
Sylvia Desazars de Montgailhard	Elected at the 28 April 2017 Annual General Meeting	–	–	Elected for a three-year term expiring at the Annual General Meeting to be called in 2020 to approve the 2019 financial statements.
Anne-Marie de Chalambert	–	Re-elected at the 28 April 2017 Annual General Meeting	–	Re-elected for a one-year term expiring at the Annual General Meeting to be called in 2018 to approve the 2017 financial statements.
Carmina Ganyet I Cirera	–	Re-elected at the 28 April 2017 Annual General Meeting	–	Re-elected for a thee-year term expiring at the Annual General Meeting to be called in 2020 to approve the 2019 financial statements.
Carlos Krohmer	–	Re-elected at the 28 April 2017 Annual General Meeting	–	Re-elected for a three-year term expiring at the Annual General Meeting to be called in 2020 to approve the 2019 financial statements.
Luis Maluquer Trepat	–	Re-elected at the 28 April 2017 Annual General Meeting	–	Re-elected for a three-year term expiring at the Annual General Meeting to be called in 2020 to approve the 2019 financial statements.
Anthony Wyand	–	Re-elected at the 28 April 2017 Annual General Meeting	–	Re-elected for a one-year term expiring at the Annual General Meeting to be called in 2018 to approve the 2017 financial statements.

3.3 Candidates proposed for election or re-election to the Board at the Annual General Meeting of 20 April 2018

The terms of the following directors will expire at the Annual General Meeting called to approve the 2017 financial statements: Anne-Marie de Chalambert, Angels Arderiu Ibars, Nuria Oferil Coll, Sheikh Ali Bin Jassim Al Thani, Adnane Mousannif and Anthony Wyand.

Shareholders are invited to re-elect Anne-Marie de Chalambert and Anthony Wyand for one-year terms expiring at the close of the Annual Meeting to be called to approve the financial statements for the year ending 31 December 2018, and Angels Arderiu Ibars, Nuria Oferil Coll, Ali Bin Jassim Al Thani and Adnane Mousannif for three-year terms expiring at the close of the Annual Meeting to be called to approve the financial statements for the year ending 31 December 2020.

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 standard three-year terms.

Anne-Marie de Chalambert, Angels Arderiu Ibars, Nuria Oferil Coll, Ali Bin Jassim Al Thani, Adnane Mousannif and Anthony Wyand have all confirmed that they wish to stand for re-election and that they are not disqualified from serving as directors.

Resolutions re-electing these directors will be put to the vote at the Annual General Meeting on 20 April 2018.

3.4 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 by the Remuneration and Selection Committee and the Board of Directors 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 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 three directors qualify as independent:

- Anne-Marie de Chalambert
- Sylvia Desazars de Montgailhard*
- Anthony Wyand.

* Sylvia Desazars de Montgailhard was elected to the SFL Board at the Annual General Meeting of 28 April 2017.

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.

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	Sylvia Desazars de Montgailhard	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 corporation	X	X	X
– an employee, corporate officer of a company or a director of a company consolidated within the Company	X	X	X
– an employee, corporate officer or a director of the company's parent company or a company consolidated within this parent	X	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	X
Not to be a customer, supplier, commercial banker or investment banker			
– that is material to the corporation or its group	X	X	X
– or for a significant part of whose business the Company or its Group accounts	X	X	X
Not to be related by close family ties to a corporate officer	X	X	X
Not to have been an auditor of the Company within the previous five years	X	X	X
Not to have been a director of the Company for more than twelve years. The status of independent director is lost on the twelfth anniversary of the director's original election to the Board.	X	X	(1)

(1) See the table on page 84 and the above paragraph concerning the non-application to one of the independent directors of the criterion concerning time served on the Board.

3.5 Experience and expertise represented on the Board of Directors at 31 December 2017

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 (1987-1994) and served in the same position at Colonial from 1994 to 2006 and at Mutua Madrilena from 2006 to 2007. He was also a director of SFL from 2004 to 2006 and Chairman of Panrico from 2007 to 2010. He has been Chairman of Inmobiliaria 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 Jassim 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. He is also a director of Inmobiliaria Colonial (Spain) and Qatar General Insurance & Reinsurance Co (Qatar), a member of the Supervisory Board of Hapag-Lloyd AG and Chairman of Qatar Navigation QSP.

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 (1970-1980); founder, Chair & Chief Executive Officer of VLGI, a subsidiary of Banque Lazard (1980-1996); Chair & 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; Chair of Generali Real Estate Europe (2004-2008), where she consolidated Generali's various property management teams in Europe and invested in joint transactions; and Chair of Generali Immobiliare (2009-2010). She served on the Board of Directors of Nexity from 2010 to 2016. Since 2010, she has been acting as an advisor to Institut Pasteur. She is also a member of the Board of Directors of Mercialys.

Sylvia Desazars de Montgailhard has many years' experience working in the higher education and research sectors in France, Spain, the United States and Asia. After graduating from the Sciences-Po Paris research university, qualifying to become a lecturer (*Agrégation*) in Spanish and earning a doctorate from Sorbonne-Paris IV University, she held lectureships at Toulouse University, Sciences-Po and the ESSEC business school, also serving as the ESSEC Foundation's Chief Executive. While based in Singapore, she participated actively in three real estate projects in the education sector: construction of the Singapore Lycée Français, in her role as Cultural and Scientific Advisor at the French Embassy (1996-1997), construction of the INSEAD business school's campus, in her role as Regional Director of INSEAD (1998-1999) and construction of the ESSEC campus (inaugurated in 2015), in her role as the school's Development Director. She is a director of Koiki, a social entrepreneurship organisation (Spain) and of Sociedad de Estudios Hispano Franceses (Spain), an advisory firm.

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 has been a lawyer and partner of the Maluquer Advocats law firm since 1995, serving as a Managing Partner until November 2016. He headed BNP Paribas' external law firm in Barcelona 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 is currently a director of Inmobiliaria Colonial.

Adnane Mousannif is 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 the 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. He is currently a director of Inmobiliaria Colonial.

Nuria Oferil Coll began her career in 1998 as an associate in the Roca Junyent law firm in Spain, within the private, civil, commercial and financial law department. In 2004, she joined the Legal Department of Inmobiliaria Colonial. 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 throughout 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.

3.6 Members of the Board of Directors, directorships and other positions held at 31 December 2017, 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	71	Business address:	Avenida Diagonal 532 (08006) Barcelona Spain
Nationality	Spanish		
First elected	2004		
Re-elected	2008		
Current term:			
– re-elected at the Annual General Meeting of	26 April 2016		
– term	3 years		
– term expires	2019		
Number of SFL shares held	11,275		
Attendance rate at Board meetings	100%		
Attendance rate at Executive and Strategy Committee meetings	No meetings held in 2017		

Other directorships and positions held at 31 December 2017	Other directorships and positions held in the past five years
Spain: • INMOBILIARIA COLONIAL (SA) (listed company) – Director and Chairman of the Board – Chairman of the Executive Committee	Member of the Remuneration and Selection Committee (SFL)

Sheikh Ali Bin Jassim Al Thani

Position: – Director		Other positions held in the Company: –	
Age	58	Business address:	Ooredoo Tower Diplomatic Dist. St. West Bay Doha Qatar
Nationality	Qatari		
First elected	2015		
Current term:			
– elected at the General Meeting of	13 November 2015		
– term	3 years		
– term expires	2018		
Number of SFL shares held	25		
Attendance rate at Board meetings	86%		

Other directorships and positions held at 31 December 2017	Other directorships and positions held in the past five years
France: – Chairman of the Board of Directors and Director: • EAGLE SPPICAV (SAS) • 52 Capital (SA) – Chairman of the Board of Directors and Chief Executive Officer: • ELYPONT (SA) – Chairman of the Board of Directors: • DIAMOND SPPICAV (SAS) Outside France: – Chairman of the Board of Directors: • QATAR NAVIGATION QPSC (Qatar) – Member of the Supervisory Board: • HAPAG-LLOYD AG – Director: • INMOBILIARIA COLONIAL SA (listed company) (Spain) • QATAR GENERAL INSURANCE & REINSURANCE CO (Qatar)	Vice Chairman of Housing Bank of Trade and Finance (HBTF) (listed company) (Jordan)

Angels Arderiu Ibars			
Position: – Director		Other positions held in the Company: –	
Age	51	Business address:	Avenida Diagonal 532 08006 Barcelona Spain
Nationality	Spanish		
First elected	2014		
Current term:			
– re-elected at the Annual General Meeting of	22 April 2015		
– term	3 years		
– term expires	2018		
Number of SFL shares held	25		
Attendance rate at Board meetings	86%		

Other directorships and positions held at 31 December 2017	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	
Age	74	Business address:	42 rue Washington 75008 Paris France
Nationality	French		
First elected	2010		
Current term:			
– re-elected at the Annual General Meeting of	28 April 2017		
– term	1 year		
– term expires	2018		
Number of SFL shares held	25		
Attendance rate at Board meetings	86%		
Attendance rate at Remuneration and Selection Committee meetings	100%		
Attendance rate at Audit Committee meetings	100%		

Other directorships and positions held at 31 December 2017	Other directorships and positions held in the past five years
France: – Director: • MERCIALYS (SA) (listed company) – Chairman: • AMCH (SASU) – Member of the Investment Committee: • INSTITUT PASTEUR	France: – Director: • Nexity (SA) (listed company) – Independent director

Sylvia Desazars de Montgailhard			
Position: – Director		Other positions held in the Company: – Member of the Committee of Independent Directors (since 28 April 2017)	
Age	59	Business address:	42 rue Washington 75008 Paris France
Nationality	French and Spanish		
First elected	2017		
Current term:			
– elected at the Annual General Meeting of	28 April 2017		
– term	3 years		
– term expires	2020		
Number of SFL shares held	50		
Attendance rate at Board meetings	100%		

Other directorships and positions held at 31 December 2017	Other directorships and positions held in the past five years
Spain: – Director: • KOIKI (SL) • SOGEDAD DE ESTUDIOS HISPANO FRANCESES (SL)	–

Jean-Jacques Duchamp			
Position: – Director		Other positions held in the Company: – Member of the Executive and Strategy Committee – Member of the Audit Committee	
Age	63	Business address:	16 Boulevard de Vaugirard 75015 Paris France
Nationality	French		
First elected	2004		
Current term:			
– re-elected at the Annual General Meeting of	26 April 2016		
– term	3 years		
– term expires	2019		
Number of SFL shares held	25		
Attendance rate at Board meetings	100%		
Attendance rate at Audit Committee meetings	86%		
Attendance rate at Executive and Strategy Committee meetings	No meetings held in 2017		

Other directorships and positions held at 31 December 2017	Other directorships and positions held in the past five years
France: – Chairman of the Board of Directors: • SPIRICA (SA) – Director: • CPR – ASSET MANAGEMENT (SA) • PACIFICA (SA) • RAMSAY GÉNÉRALE DE SANTÉ (SA) (listed company) – Permanent representative of Predica, director: • GECINA (SA) (listed company) – Deputy Managing Director: • CRÉDIT AGRICOLE ASSURANCES (SA) Italy: – Director: • CA VITA (SA)	Portugal: – Director: • BES VIDA SA France: – Director: • CRÉDIT AGRICOLE IMMOBILIER – Member of the Supervisory Board/director: • KORIAN-MEDICA – Permanent representative of Crédit Agricole Assurances, Director: • DOLCEA VIE – Permanent representative of Predica, director (Predica's term expired on 12 June 2017): • SANEF

Chantal du Rivau			
Position: – Director		Other positions held in the Company: –	
Age	62	Business address:	16 Boulevard de Vaugirard 75015 Paris France
Nationality	French		
First elected	2014		
Current term:			
– re-elected at the Annual General Meeting of	26 April 2016		
– term	3 years		
– term expires	2019		
Number of SFL shares held	30		
Attendance rate at Board meetings	86%		

Other directorships and positions held at 31 December 2017	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* • OPCI RIVER OUEST* – Chairman of the Board of Directors: • OPCI PREDICA HABITATION* – Director: • ALTA BLUE (SAS) • B2 HOTEL INVEST* • CAMP INVEST* • IRIS INVEST 2010* • OPCI CAA Kart* • URBIS PARK (SASU) • OPCI MASSY BUREAUX (SAS)* • OPCI ECO CAMPUS* • OPCI GHD* • 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) – Member of the Supervisory Board: • UNIPIERRE ASSURANCE** – Legal Manager: • DIAPRE UN (SARL)	–

* 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	68	Business address:	Monte Esquinza, 14-7°D 28010 Madrid Spain
Nationality	Spanish		
First elected	2008		
Current term:			
– re-elected at the Annual General Meeting of	26 April 2016		
– term	3 years		
– 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 2017	Other directorships and positions held in the past five years
Spain: – Director, member of the Executive Committee, member of the Audit Committee, Chairman of the Remuneration and Selection Committee: • INMOBILIARIA COLONIAL (SA) (listed company) – Director: • EUR - CONSULTORES SL – Director, Chairman of the Board of Directors, Chairman of the Audit Committee: • IBERDROLA INGENIERIA Y CONSTRUCCIÓN (SA)	Spain: – Director: • GAMESA CORPORACIÓN TECNOLÓGICA (SA)

Carmina Ganyet I Cirera			
Position: – Director		Other positions held in the Company: – Member of the Executive and Strategy Committee – Member of the Audit Committee (since 3 March 2017)	
Age	49	Business address:	Avenida Diagonal 532 08006 Barcelona Spain
Nationality	Spanish		
First elected	2009		
Current term:			
– re-elected at the Annual General Meeting of	28 April 2017		
– term	3 years		
– term expires	2020		
Number of SFL shares held	30		
Attendance rate at Board meetings	100%		
Attendance rate at Audit Committee meetings	100%		
Attendance rate at Executive and Strategy Committee meetings	No meetings held in 2017		

Other directorships and positions held at 31 December 2017	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 - Adeslas	France: – Director: • SIIC DE PARIS (SA)

Carlos Krohmer			
Position: – Director		Other positions held in the Company: –	
Age	46	Business address:	Avenida Diagonal 532 08006 Barcelona Spain
Nationality	German		
First elected	2014		
Current term:			
– re-elected at the Annual General Meeting of	28 April 2017		
– term	3 years		
– term expires	2020		
Number of SFL shares held	30		
Attendance rate at Board meetings	100%		

Other directorships and positions held at 31 December 2017	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	62	Business address:	Rambla de Catalunya 123 6ª Planta 08036 Barcelona Spain
Nationality	Spanish		
First elected	2010		
Current term:			
– re-elected at the Annual General Meeting of	28 April 2017		
– term	3 years		
– term expires	2020		
Number of SFL shares held	400		
Attendance rate at Board meetings	100%		

Other directorships and positions held at 31 December 2017	Other directorships and positions held in the past five years
Spain: – Director, member of the Remuneration and Selection Committee, member of the Audit Committee: • INMOBILIARIA COLONIAL (SA) (listed company) – Director: • FILUX (SA) • VITEK (SA) • M&M ENTERTAINMENT (SL) • PINEAPPLE TREE (SL) – Chairman: • CÁMARA ARGENTINA DE COMERCIO EN ESPAÑA	Spain: – Chairman of the Board of Directors: • BALAGUER 98 DE INVERSIONES, SICAV • INVER 99 SICAV – Director: • ALDESAGO • FORTUNELLA • MALUQUER ADVOCATS (SCP) • PRAEVERTO (SLP)

Adnane Mousannif			
Position: – Director		Other positions held in the Company: –	
Age	37	Business address:	Qtel Tower 5th Floor 23224 Doha Qatar
Nationality	French and Moroccan		
First elected	2015		
Current term:			
– elected at the General Meeting of	13 November 2015		
– term	3 years		
– term expires	2018		
Number of SFL shares held	1,500		
Attendance rate at Board meetings	100%		

Other directorships and positions held at 31 December 2017	Other directorships and positions held in the past five years
France: – Director: • ELYPONT (SA) • EAGLE SPPICAV • 52 CAPITAL (SA) • DIAMOND SPPICAV Spain: – Director, member of the Audit Committee, member of the Remuneration and Selection Committee: • INMOBILIARIA COLONIAL (SA) (listed company) Qatar: • QATAR INVESTMENT AUTHORITY	–

Nuria Oferil Coll			
Position: – Director		Other positions held in the Company: –	
Age	43	Business address:	Avenida Diagonal 532 08006 Barcelona Spain
Nationality	Spanish		
First elected	2015		
Current term:			
– elected at the General Meeting of	13 November 2015		
– term	3 years		
– term expires	2018		
Number of SFL shares held	25		
Attendance rate at Board meetings	100%		

Other directorships and positions held at 31 December 2017	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 – Member of the Executive and Strategy Committee	
Age	55	Business address:	Avenida Diagonal 532 08006 Barcelona Spain
Nationality	Spanish		
First elected	2008		
Current term:			
– re-elected at the Annual General Meeting of	26 April 2016		
– term	3 years		
– 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 2017		

Other directorships and positions held at 31 December 2017	Other directorships and positions held in the past five years
Spain: – Chief Executive Officer, member of the Executive Committee: • INMOBILIARIA COLONIAL (SA) (listed company) – Director: • ELECTRO-STOCKS SL • BLUESPACE	France: – 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	74	Business address:	42 rue Washington 75008 Paris France
Nationality	British		
First elected	1995		
Current term:			
– re-elected at the Annual General Meeting of	28 April 2017		
– term	1 year		
– term expires	2018		
Number of SFL shares held	100		
Attendance rate at Board meetings	100%		
Attendance rate at Remuneration and Selection Committee meetings	100%		

Other directorships and positions held at 31 December 2017	Other directorships and positions held in the past five years
France: – Chairman of the Board of Directors: • CYBÈLE ASSET MANAGEMENT (SA) Italy: – Director: • UNICREDITO	France: – Director: • AVIVA France • AVIVA Participations • SOCIÉTÉ GÉNÉRALE

3.7 Board practices

3.7.1 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 two-to-five year business plan as prepared by management.

3.7.2 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 sections 3.7.3 and 3.7.4 below.

The internal rules describe the Board's duties and practices, as well as the rights and obligations of individual directors.

3.7.3 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.

3.7.4 Work of the Board of Directors in 2017

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 meeting, except for emergency meetings, 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 seven times in 2017, with an average attendance rate of 96.19%.

The issues covered during the meetings were as follows:

Agenda of the 10 February 2017 meeting

1. Approval of the minutes of the 15 November 2016 meeting
2. Approval of the 2016 financial statements – Portfolio valuation – ANAV – Audit Committee report – Statutory Auditors' report
3. Dividend
4. Other business
   - Report of the Remuneration and Selection Committee
   - 2017 meeting schedule

Agenda of the 3 March 2017 meeting

1. Approval of the minutes of the meetings held on 15 November 2016 and 10 February 2017
2. Preparation of the Annual and Extraordinary General Meeting of 28 April 2017
   - 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 28 April 2017 meeting

1. Approval of the minutes of the 3 March 2017 meeting
2. Proposed sale of an asset
3. Bank financing
4. First-quarter 2017 business review
5. Other business
   - Forecasts and projections to be prepared in compliance with Article L.232-2 of the French Commercial Code
   - Allocation of directors' fees

Agenda of the 27 July 2017 meeting

1. Approval of the minutes of the 28 April 2017 meeting
2. Review of the 2017 interim financial statements and first-half business review – Portfolio valuation – ANAV – Audit Committee report – Statutory Auditors' report
3. Other business
   - Authorisation to guarantee Locaparis' commitments
   - Board of Directors' self-assessment (questionnaire)

Agenda of the 6 October 2017 meeting

1. Approval of the minutes of the 27 July 2017 meeting
2. Bank financing
3. Other business
   - Forecasts and projections
   - Report of the Audit Committee (risk map)

Agenda of the 17 November 2017 meeting

1. Approval of the minutes of the 6 October 2017 meeting
2. 2017 forecast – 2018-2022 Business Plan
3. Authorisation to carry out a bond issue
4. Other business
   - Report of the Remuneration and Selection Committee
   - Report of the Audit Committee (assessment of the Board of Directors' practices)
   - Proposed 2018 meeting schedule

Agenda of the 19 December 2017 meeting

1. Approval of the minutes of the 17 November 2017 meeting
2. Review of the office market and SFL's investments
3. Approval of the 2018-2022 Business Plan
4. Other business
   - Presentation of the assessment of the Board of Directors' practices
   - Decision concerning the proposal by the Remuneration and Selection Committee: long-term incentive plan, adjustment to maximum performance share grant
   - Approval of the 2018 meeting schedule

3.7.5 Assessment of the work of the Board and its Committees

As recommended by the AFEP-MEDEF Corporate Governance Code (Article 9), the practices of the Board of Directors and the Committees of the Board were assessed during the year by an external firm of consultants.

The assessment was based on a blind questionnaire distributed to directors, covering both quantitative and qualitative issues. The questionnaire comprised five sections to be filled out by all directors and two sections intended respectively for members of the Audit Committee and members of the Remuneration and Selection Committee. It consisted solely of closed questions, to facilitate analyses of the responses; however, directors were able to add comments and suggestions at the end of each section.

The results of the assessment were presented by the Audit Committee and discussed during the Board meeting held on 19 December 2017.

The directors generally expressed satisfaction with their role, the respect afforded to their work on the Board and the quality of the Board's discussions.

They awarded high scores to questions concerning the quality of the information given to directors, their understanding of what was expected of the Board and its Committees, and the proportion of independent directors on the Remuneration and Selection Committee.

They were emphatic in their belief that the Board's current composition, organisation and procedures enable it to efficiently fulfil its role in an appropriate environment through high quality discussions.

However, certain areas for improvement were identified, with the directors recommending that the number of Board members be adjusted to enable it to function more efficiently, that information about risks be improved by preparing a summary risk report and that communications be improved through greater interaction with line managers.

These recommendations will be examined in more detail.

3.8 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.

3.9 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 executive 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.

3.10 Committees of the Board

3.10.1 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.

3.10.2 The Audit Committee

Members of the Audit Committee as of 31 December 2017:
Chairman: Carlos Fernandez-Lerga Garralda
Members: Anne-Marie de Chalambert (independent director)
Jean-Jacques Duchamp
Carmina Ganyet I Cirera*

* Carmina Ganyet I Cirera was appointed as a member of the Audit Committee by the Board of Directors on 3 March 2017.

The Audit Committee members' experience in the areas of finance and accounting is described on pages 89, 92, 93 and 95 of this report.

In accordance with French government order 2016-315 dated 17 March 2016 concerning the reform of the audit profession and as specified in 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 seven times in 2017, with an average attendance rate of 95.24%.

The issues covered during the meetings were as follows:

Agenda of the 12 January 2017 meeting

1. Approval of the minutes of the 15 November 2016 meeting
2. 2017 internal audit plan

Agenda of the 9 February 2017 meeting

1. Approval of the minutes of the 12 January 2017 meeting
2. Review of the 2016 financial statements
3. Re-appointment of DELOITTE as Statutory Auditors
4. Other business

Agenda of the 2 March 2017 meeting

1. Approval of the minutes of the 9 February 2017 meeting
2. Report of the Chairman of the Board of Directors on corporate governance and internal audit
3. Services provided by the Statutory Auditors – Delegations of authority to the Audit Committee (French government order dated 17 March 2016)

Agenda of the 27 June 2017 meeting

1. Approval of the minutes of the 2 March 2017 meeting
2. Review of internal audits proposed and approved at the Audit Committee meeting of 12 January 2017
3. Assessment of the Board of Directors' practices
4. Review of measures to strengthen internal control
5. Other business
   - CSR review

Agenda of the 26 July 2017 meeting

1. Approval of the minutes of the 27 June 2017 meeting
2. Review of the 2017 interim financial statements
3. Other business
   - Management indicators at 30 June 2017 (risk monitoring)
   - Audit reform: compliance review

Agenda of the 27 September 2017 meeting

1. Approval of the minutes of the 26 July 2017 meeting
2. 2017 internal audit engagements
   - Engagement 21: Risk map (presentation of "modified risks" following the Audit Committee meeting of 27 June) – Final approval
   - Engagement 23: Capex reinvoicing process
3. Strengthening of the Statutory Auditors' role – Respective roles of the Statutory Auditors and the Audit Committee

– Presentations by Deloitte and PwC of the template for their additional report and changes to the auditors' role and responsibilities.

Agenda of the 17 November 2017 meeting

1. Approval of the minutes of the 27 September 2017 meeting
2. 2017 internal audit engagements
   – Engagement 22: Contract tendering process
   – Engagement 24: Follow-up of the internal auditors' recommendations
3. Report on KPMG's assessment of the Board's practices

For more information about the Audit Committee's work in 2017, see page 22 *et seq.* ("Internal control" section).

3.10.3 The Remuneration and Selection Committee

Members of the Remuneration and Selection Committee as of 31 December 2017:
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 an executive management position unexpectedly falls vacant or following an increase in the number of seats on the Board.

The Remuneration and Selection Committee met four times in 2017, with an average attendance rate of 100%.

The issues covered during the meetings were as follows:

Agenda of the 30 January 2017 meeting

1. Approval of the minutes of the 3 November 2016 meeting
2. Payment of executives' bonuses for 2016
3. Executives' bonuses for 2017

Agenda of the 2 March 2017 meeting

1. Approval of the minutes of the 30 January 2017 meeting
2. Performance share plan
3. Directors' fees awarded to the Chairman and members of the Board of Directors and the Chairmen and members of the Committees of the Board
4. Review of candidates for election to the Board
5. Proposed appointment of an Audit Committee member

Agenda of the 27 July 2017 meeting

1. Performance share plan

Agenda of the 17 November 2017 meeting

1. Information about the performance share plan to be presented to the Board of Directors
2. Substitution of Eurosic in the performance share plans
3. 2018 bonus formula for the Chief Executive Officer and the Managing Director

3.10.4 The Executive and Strategy Committee

Members of the Executive and Strategy Committee as of 31 December 2017:
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 executive 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 2017.

3.10.5 The Committee of Independent Directors

Members of the Committee of Independent Directors as of 31 December 2017:
– Anne-Marie de Chalambert
– Sylvia Desazars de Montgailhard
– Anthony Wyand

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 2017.

4. Remuneration policy – Chairman of the Board of Directors and Chief Executive Officer

In accordance with Article L.225-37-2 of the French Commercial Code, as amended by French government order 2017-1162 dated 12 July 2017, this section presents the principles and criteria for determining, allocating and awarding the fixed, variable and special components of the remuneration and benefits awarded to the Chairman of the Board of Directors and the Chief Executive Officer.

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 2018 remuneration and benefits of Juan José Brugera Clavero in his capacity as Chairman of the Board of Directors and Nicolas Reynaud in his capacity as Chief Executive Officer, as described below.

In accordance with Article L.225-37-2 of the French Commercial Code, payment of the variable and special components of their remuneration, as presented in this section, will depend on their remuneration being approved by the Annual General Meeting to be held in 2019 to approve the 2018 financial statements.

4.1 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 2018 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.

4.1.1 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.

4.1.2 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.

4.1.3 Performance shares

In line with the authorisation given by the Extraordinary 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.

Performance shares awarded under Plan 4 will vest provided that the recipient has not left the Group on the vesting date and the performance targets described below are met.

They 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.

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

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, 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.

At the Annual General Meeting on 20 April 2018, shareholders will be asked to renew the authorisation given to the Board of Directors to award performance shares to eligible employees and officers of SFL and/or its subsidiaries.

This authorisation would cancel, with immediate effect, the unused portion of the authorisation given at the Extraordinary General Meeting of 13 November 2015.

The Chairman of the Board of Directors would be eligible to participate in any performance share plan decided by the Board of Directors pursuant to the new authorisation.

4.2 Principles and criteria applied to determine the remuneration of the Chief Executive Officer

The principles and criteria applied to determine the components of the 2018 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.

4.2.1 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.

4.2.2 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 2018 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 2018 (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 (50%) and before taking into account any reduction in the potential bonus due to performance shares awarded during the year.

The total bonus (qualitative bonus + quantitative bonus) 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%

Where necessary, the bonus is adjusted to take into account any changes in Group structure that have taken place during the year.

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 business confidentiality reasons. Actual performance in relation to the targets is assessed each year by the Remuneration and Selection Committee.

4.2.3 Performance shares

In line with the authorisation given by the Extraordinary 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).

Performance shares awarded under Plan 4 will vest provided that the recipient has not left the Group on the vesting date and the performance targets are met.

They will vest 15 business days after the publication by the last of the Reference Companies (see definition on page 103 above) to do so, of a press release announcing its results for the third financial year following the grant date.

The Plan 4 Rules are presented in section 4.1.3 above.

At the Annual General Meeting on 20 April 2018, shareholders will be asked to renew the authorisation given to the Board of Directors to award performance shares to eligible employees and officers of SFL and/or its subsidiaries.

This authorisation would cancel, with immediate effect, the unused portion of the authorisation given at the Extraordinary General Meeting of 13 November 2015.

The Chief Executive Officer would be eligible to participate in any performance share plan decided by the Board of Directors pursuant to the new authorisation.

4.2.4 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).

4.2.5 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 discretionary profit-sharing scheme.

4.2.6 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.

5. Remuneration and benefits paid to the Chairman of the Board of Directors, the Chief Executive Officer, the Managing Director and other members of executive management for 2017

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

This section presents the 2017 remuneration and benefits paid to 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 5.1.4 below have been prepared in accordance with the Autorité des Marchés Financier's position paper/recommendation 2009-16 and the AFEP-MEDEF Corporate Governance Code for Listed Companies.

The components of the 2017 remuneration and benefits payable to José Brugera Clavero, Chairman of the Board of Directors, and Nicolas Reynaud, Chief Executive Officer, in accordance with the remuneration policy approved by shareholders at the Annual General Meeting of 28 April 2017 (15th extraordinary resolution) are subject to shareholder approval at the Annual General Meeting of 20 April 2018 in accordance with Article L.225-100 of the French Commercial Code. See below for details.

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 2017

On the recommendation of the Remuneration and Selection Committee of 2 March 2017, at its meeting on 3 March 2017, the Board of Directors unanimously decided that, as from 1 January 2017, directors would be allocated fixed and variable attendance fees for the amounts shown in the table below. These amounts were subject to adoption by the Annual General Meeting of 28 April 2017 of the 16th ordinary resolution increasing the total amount of directors' fees from €400,000 to €800,000 as from 2017.

At its meeting held immediately after the 2017 Annual General Meeting, the Board of Directors noted that the 16th ordinary resolution had been adopted and confirmed the allocation of directors' fees decided at its meeting on 3 March 2017. Consequently, as from 1 January 2017 and until a new decision is made, directors' fees are allocated as follows:

Fixed annual fee:	Director:	€20,000
	Member of a Committee of the Board:	€30,000
	Chairman of the Board and/or of a Committee of the Board:	€40,000
Variable fee:	Per meeting of the Board:	€3,000
	Per meeting of a Board Committee:	€2,000

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

In addition, Mr. Brugera Clavero received directors' fees of €61,000, including a fixed annual fee of €40,000 and variable fees of €21,000.

Performance shares

On 3 March 2017, the Board of Directors awarded 4,500 performance shares to Mr. Brugera Clavero under Plan 4, subject to the following conditions:

- If the performance conditions are met, the 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 year ended 31 December 2019.
- The performance shares will vest only if Mr. Brugera Clavero is still a corporate officer of the Company or another Group entity at the end of the three-year vesting period, unless his loss of office is due to certain events that are beyond his control.
- 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.
- 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, after the end of this statutory two-year lock-up period, Mr. Brugera Clavero 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.

The following table presents the components of the remuneration and benefits due or awarded to Juan José Brugera Clavero in his capacity as Chairman of the Board of Directors for 2017:

Components of remuneration due or awarded for the year ended 31 December 2017	Amount or accounting value	Comments
Fixed fee	€150,000	The fixed fee for 2017 is unchanged from 2016
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	€90,546	Juan José Brugera Clavero was awarded 4,500 performance shares by the Board on 3 March 2017.
Directors' fees	€61,000	Juan José Brugera Clavero receives 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 2017 subject to approval by the Annual General Meeting under the procedure covering related party agreements and commitments	Amount	Comments
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.

5.1.2 Remuneration and benefits due or awarded to Nicolas Reynaud, Chief Executive Officer, for the year ended 31 December 2017

Salary

Nicolas Reynaud's gross annual salary for 2017 amounted to €350,000.

Bonus

Nicolas Reynaud's 2017 bonus, calculated by the method decided by the Board of Directors on 10 February 2017, amounted to €355,322, as follows:

– A quantitative bonus of €180,322, based on growth in the Group's EPRA earnings and rental income.

This bonus reflects an achievement rate of 101.49% compared to the objectives.

– A qualitative bonus of €175,000, based on performance in relation to personal objectives (not disclosed for business confidentiality reasons).

Payment of the bonus is subject to shareholder approval at the Annual General Meeting on 20 April 2018.

Performance shares

On 3 March 2017, the Board of Directors awarded 15,000 performance shares to Nicolas Reynaud under Plan 4, subject to the conditions described in section 5.1.1 ("Performance shares").

Compensation for loss of office

None.

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).

The following table presents the components of the remuneration and benefits due or awarded to Nicolas Reynaud in his capacity as Chief Executive Officer for 2017:

Components of remuneration due or awarded for the year ended 31 December 2017	Amount or accounting value	Comments
Salary	€350,000	Nicolas Reynaud's salary was increased by €10,000 in 2017 compared with 2016.
Annual bonus	€355,322 (Payment of the bonus is subject to shareholder approval at the Annual General Meeting on 20 April 2018)	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.
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	€301,821	Nicolas Reynaud was awarded 15,000 performance shares by the Board on 3 March 2017.
Directors' fees	N/A	Nicolas Reynaud does not receive any directors' fees.
Benefits in kind	€17,386	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	€23,608	Matching employer payments on voluntary contributions for 2017 to the SFL Group Pension Savings Plan (PERCO), rights under the discretionary profit-sharing plan for 2016, paid in 2017 (profit shares for 2017 had not been determined as of the date this document was published).

Components of remuneration due or awarded for the year ended 31 December 2017 subject to approval by the Annual General Meeting under the procedure covering related party agreements and commitments	Amount	Comments
Compensation for loss of office	Not applicable in 2017	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.

5.1.3 Remuneration and benefits due or awarded to Dimitri Boulte, Managing Director, for the year ended 31 December 2017

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's gross annual salary for 2017 amounted to €250,377.

Bonus

Dimitri Boulte's 2017 bonus, calculated by the method decided by the Board of Directors on 10 February 2017, amounted to €203,041.

Performance shares

On 3 March 2017, the Board of Directors awarded 12,000 performance shares to Dimitri Boulte under Plan 4, subject to the conditions described in section 5.1.1.

Benefits in kind

Dimitri Boulte has the use of a company car.

Termination benefit

None.

The following table presents the components of the remuneration and benefits due or awarded to Dimitri Boulte in his capacity as Managing Director for 2017:

Components of remuneration due or awarded for the year ended 31 December 2017	Amount or accounting value	Comments
Salary	€250,377	Dimitri Boulte's salary was increased by €20,000 in 2017 compared with 2016.
Annual bonus	€203,041	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.
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	€241,457	Dimitri Boulte was awarded 12,000 performance shares by the Board on 3 March 2017.
Directors' fees	N/A	Dimitri Boulte does not receive any directors' fees.
Benefits in kind	€6,595	Dimitri Boulte has the use of a company car.
Other	€26,271	Matching employer payments on voluntary contributions for 2017 to the SFL Group Pension Savings Plan (PERCO), rights under the discretionary profit-sharing plan for 2016, paid in 2017 (profit shares for 2017 had not been determined as of the date this document was published).

	Amount	Comments
Termination benefit	Not applicable in 2017	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.

5.1.4 Remuneration summaries

The following tables have been prepared in accordance with the AMF's position paper/recommendation 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 of the Board of Directors	2016	2017
Remuneration due for the year (see Table 2 for details)	186,000	211,000
Long-term incentive bonus	0	0
Fair value of stock options granted during the year	0	0
Fair value of performance shares granted during the year(1) (see Table 6 for details)	88,159	90,546
Other deferred remuneration	0	0
TOTAL	**274,159**	**301,546**

(1) 4,500 performance shares were awarded to Juan José Brugera Clavero at the Board Meeting of 26 April 2016 and 4,500 at the Board Meeting of 3 March 2017. The performance share vesting conditions and values are presented in Appendix 12.2 (pages 80-81).

Nicolas Reynaud Chief Executive Officer	2016	2017
Remuneration due for the year (see Table 2 for details)	785,599	746,316
Long-term incentive bonus	0	0
Fair value of stock options granted during the year	0	0
Fair value of performance shares granted during the year(1) (see Table 6 for details)	293,865	301,821
Other deferred remuneration	0	0
TOTAL	**1,079,464**	**1,048,137**

(1) 15,000 performance shares were awarded to Nicolas Reynaud at the Board Meeting of 26 April 2016 and 15,000 at the Board Meeting of 3 March 2017. The performance share vesting conditions and values are presented in Appendix 12.2 (pages 80-81).

Dimitri Boulte Managing Director	2016	2017
Remuneration due for the year(1) (see Table 2 for details)	482,012	486,284
Long-term incentive bonus	0	0
Fair value of stock options granted during the year	0	0
Fair value of performance shares granted during the year(2) (see Table 6 for details)	235,092	241,457
Other deferred remuneration	0	0
TOTAL	**717,104**	**727,741**

(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 26 April 2016 and 9,000 at the Board Meeting of 3 March 2017. The performance share vesting conditions and values are presented in Appendix 12.2 (pages 80-81).

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

Juan José Brugera Clavero Chairman of the Board of Directors	2016		2017	
	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	61,000	61,000
Benefits in kind	0	0	0	0
Other	0	0	0	0
Total	**186,000**	**186,000**	**211,000**	**211,000**

(1) The above remuneration was paid to Juan José Brugera Clavero in his capacity as Chairman of the Board of Directors.

(2) Annual directors' fees based on the allocation decided by the Board of Directors on 9 December 2008 for 2016 and 3 March 2017 for 2017.

Nicolas Reynaud Chief Executive Officer	2016		2017	
	Due	Paid	Due	Paid
Salary(1)	340,000	340,000	350,000	350,000
Annual bonus(2)	405,089	405,089	355,322	355,322
Long-term incentive bonus	0	0	0	0
Special bonus	0	0	0	0
Directors' fees	0	0	0	0
Benefits in kind(3)	17,077	17,077	17,386	17,386
Other(4)	23,433	23,433	23,608	23,608
Total	**785,599**	**785,599**	**746,316**	**746,316**

(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 10 February 2017, the Board of Directors decided to increase Nicolas Reynaud's salary to €350,000 for 2017 from €340,000 in 2016. The increase was decided based on the recommendation of the Remuneration and Selection Committee which met on 30 January 2017, 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 12 February 2016 for the 2016 bonus and on 10 February 2017 for the 2017 bonus.

The performance criteria to be used to determine the 2016 bonuses of the Chief Executive Officer and the Managing Director were decided by the Board of Directors at its meeting on 12 February 2016, 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 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, and
- 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 bonuses for 2016, applying the following correspondence table:

Overall target achievement rate	2016 quantitative bonus as a % of salary(*)	
	Chief Executive Officer	Managing Director/Chief Operating Officer
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 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 performance targets for the 2017 bonuses of the Chief Executive Officer and the Managing Director were approved by the Board of Directors on 10 February 2017 based on the recommendation of the Remuneration and Selection Committee.

As in 2016, their 2017 bonuses comprise a quantitative component and a qualitative component as follows:
- 50% of the bonus is based on the Company's performance in relation to two criteria: EPRA earnings and rental income (quantitative bonus), and
- 50% is based on their performance in relation to their personal objectives (qualitative bonus).

To determine the 2017 quantitative bonuses, the Board of Directors decided to set the following objectives for the two performance criteria:
- 2017 EPRA earnings target of €101.7 million, and
- 2017 rental income target of €197.9 million.

The average of the achievement rates for these two criteria has been taken as the overall achievement rate used to determine the quantitative bonus for 2017, applying the above correspondence table, which is unchanged from 2016.

The amount obtained by the above calculation has been multiplied by a coefficient based on the following ratio: Current year EPRA earnings/Prior year EPRA earnings
The coefficient has been determined as shown in the following table and is unchanged from 2016:

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 2016 and 2017 were clearly defined in advance. They are not disclosed for business 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 2016 and 2017 to the SFL Group Pension Savings Plan (PERCO), rights under the non-discretionary and discretionary profit-sharing plans for 2015 and 2016, paid in 2016 and 2017 respectively (profit shares payable in respect of 2017 had not been determined as of the date this document was published).

Dimitri Boulte Managing Director and Chief Operating Officer	2016		2017	
	Due	Paid	Due	Paid
Salary(1)	230,377	230,377	250,377	250,377
Annual bonus(2)	219,225	219,225	203,041	203,041
Long-term incentive bonus	0	0	0	0
Special bonus	0	0	0	0
Directors' fees	0	0	0	0
Benefits in kind(3)	6,317	6,317	6,595	6,595
Other(4)	26,093	26,093	26,271	26,271
Total	**482,012**	**482,012**	**486,284**	**486,284**

(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 10 February 2017, the Board of Directors decided to increase Dimitri Boulte's salary to €250,377 for 2017 from €230,377 in 2016. The increase was decided based on the recommendation of the Remuneration and Selection Committee which met on 30 January 2017, 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 12 February 2016 for the 2016 bonus and on 10 February 2017 for the 2017 bonus.

The criteria and method applied to determine the bonus are described in footnote (2) to the above table concerning Nicolas Reynaud.

(3) Company car.

(4) Matching employer payments on voluntary contributions for 2016 and 2017 to the SFL Group Pension Savings Plan (PERCO), rights under the non-discretionary and discretionary profit-sharing plans for 2015 and 2016, paid in 2016 and 2017 respectively (profit shares payable in respect of 2017 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 SHARES 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 shares granted during the year(1)	Fair value of performance shares 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 3 March 2017	4,500	90,546	3 March 2020	3 March 2022	(5)
Nicolas Reynaud	Plan 4 3 March 2017	15,000	301,821	3 March 2020	3 March 2022	(5)
Dimitri Boulte	Plan 4 3 March 2017	12,000	241,457	3 March 2020	3 March 2022	(5)
Directors	No performance shares were awarded during the year					

(1) 31,500 performance shares granted to the Chairman, the Chief Executive Officer and the Managing Director under the performance share plan approved by the Board of Directors on 3 March 2017 pursuant to an authorisation given by the General Meeting on 13 November 2015. The reported number corresponds for each recipient to the maximum number of shares that may vest under the plan approved by the Board of Directors on 3 March 2017, 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 Appendix 12.2.

(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 grant date, adjusted for the discounted value of future dividends expected to be paid during the vesting period (€42.82 for performance shares granted under the plan dated 3 March 2017).

(3) Date when the performance shares will vest, provided that the recipient remains with the Group until that date and the performance conditions are met. The vesting date is timed to fall 15 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 grant date and not less than three years after the grant date (i.e., 3 March 2020 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 plus paid dividends over the vesting period. The performance criteria are presented in Appendix 12.2.

TABLE 7 – PERFORMANCE SHARES GRANTED 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 4 March 2014	3,750	N/A
Nicolas Reynaud	Plan 1 4 March 2014	4,368	N/A
Dimitri Boulte	Plan 1 4 March 2014	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 of the Board of Directors		X		X		X		X
Nicolas Reynaud, Chief Executive Officer		X		X	X(1)			X
Dimitri Boulte, Managing Director and Chief Operating Officer	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 4.2.6 above for details).

(2) In 2017, Dimitri Boulte had an employment contract covering his duties as Chief Operating Officer, a position he has 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 2017, 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, 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.

5.2 Remuneration paid or awarded to directors

Concerning directors' remuneration, at the Annual General Meeting of 28 April 2017 (16th ordinary resolution), the total attendance fees awarded to directors were increased from €400,000 to €800,000 as from 2017.

At its meeting held immediately after the Annual General Meeting, the Board of Directors confirmed the allocation of directors' fees decided at its meeting on 3 March 2017 based on the Remuneration and Selection Committee's recommendation of 2 March 2017. Consequently, as from 1 January 2017 and until a new decision is made, directors' fees are allocated as follows:

Fixed annual fee:	Director:	€20,000
	Member of a Committee of the Board:	€30,000
	Chairman of the Board and/or of a Committee of the Board:	€40,000
Variable fee:	Per meeting of the Board:	€3,000
	Per meeting of a Board Committee:	€2,000

As shown above, since 1 January 2017 the Company complies with the recommendation in the AFEP-MEDEF Code (Article 20.1), 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.

There are no agreements providing for the payment of compensation for loss of office to directors in any circumstances.

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

Name	Amounts paid in 2016	Amounts paid in 2017
Ali Bin Jassim Al Thani		
Directors' fees	18,000	38,000
Other remuneration	0	0
Angels Arderiu Ibars		
Directors' fees	18,000	38,000
Other remuneration	0	0
Jacques Calvet(1)		
Directors' fees	7,693	0
Other remuneration	0	0
Anne-Marie de Chalambert(2)		
Directors' fees	24,000	70,000
Other remuneration	0	0
Sylvia Desazars de Montgailhard(3)		
Directors' fees	0	28,536
Other remuneration	0	0
Chantal du Rivau		
Directors' fees	18,000	38,000
Other remuneration	0	0
Jean-Jacques Duchamp		
Directors' fees	24,000	63,000
Other remuneration	0	0
Carlos Fernandez-Lerga Garralda		
Directors' fees	36,000	75,000
Other remuneration	0	0
Carmina Ganyet I Cirera(4)		
Directors' fees	24,000	59,000
Other remuneration	0	0
Carlos Krohmer		
Directors' fees	18,000	41,000
Other remuneration	0	0
Luis Maluquer Trepat		
Directors' fees	18,000	41,000
Other remuneration	0	0
Adnane Mousannif		
Directors' fees	18,000	41,000
Other remuneration	0	0
Nuria Oferil Coll		
Directors' fees	18,000	41,000
Other remuneration	0	0
Pere Viñolas Serra		
Directors' fees	24,000	59,000
Other remuneration	0	0
Anthony Wyand		
Directors' fees	36,000	69,000
Other remuneration	0	0
REIG Capital Group Luxembourg(5) **represented by Maria Reig Moles**		
Directors' fees	9,000	0
Other remuneration	0	0
Total	**310,693**	**701,536**

(1) Director until 26 April 2016
(2) Member of the Audit Committee since 26 July 2016
(3) Director and member of the Committee of Independent Directors since 28 April 2017
(4) Member of the Audit Committee since 3 March 2017
(5) Director until 30 June 2016

5.3 Remuneration and benefits in kind paid to executive management other than corporate officers

The following table presents the total gross remuneration for 2017 paid by SFL to the persons who were members of the Management Committee at 31 December 2017 other than the Chief Executive Officer and the Managing Director:

	2017
2017 salaries	€955,749
2017 bonuses(1)	€361,515
Benefits in kind	€27,706
Special bonuses	€0
Non-discretionary/discretionary profit-sharing(2)	€124,993
Matching payments to the Group Pension Savings Plan (PERCO)	€22,000

(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 10 February 2017.

(2) Rights under the non-discretionary and discretionary profit-sharing plans for 2016, paid in 2017 (profit shares in respect of 2017 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 18 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. As of 31 December 2017, two employees (including the Chief Operating Officer, who also holds the position of Managing Director) were covered by the change of control clause.

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 BY THE TEN EMPLOYEES OTHER THAN CORPORATE OFFICERS WHO RECEIVED THE GREATEST NUMBER OF OPTIONS

None.

TABLE 10 – SUMMARY OF PERFORMANCE SHARES GRANTED IN PREVIOUS YEARS

	Plan 1			Plan 2	Plan 3	Plan 4	
Date of General Meeting	9 May 2011				22 April 2015	13 November 2015	
Grant date	16 February 2012	5 March 2013	4 March 2014	16 February 2012	17 June 2015	26 April 2016	3 March 2017
Total performance shares granted, of which performance shares granted to:	49,481	52,716	50,972	20,516	40,992	48,054	50,064
The Chairman, Chief Executive Officer and Managing Director	34,331	37,462	37,462	20,516	24,750	31,500	31,500
• Juan José Brugera Clavero	3,750	3,750	3,750	–	4,500	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	15,000
• Dimitri Boulte	4,369	7,500	7,500	–	9,000	12,000	12,000
Vesting date	19 March 2015	7 April 2016	4 March 2017	4 April 2014	17 June 2018	26 April 2019	3 March 2020
End of lock-up period	18 March 2017	6 April 2018	3 March 2019	3 April 2016	16 June 2020	25 April 2021	2 March 2022
Performance criteria		(1)		(2)	(3)	(4)	
Number of vested performance shares as of 31 December 2017	44,375	36,424	26,275	20,516	–	–	–
Cumulative number of performance share rights cancelled or forfeited	–	–	–	–	3,096	1,368	1,176
Number of performance share rights outstanding at 31 December 2017	–	–	–	–	37,896	46,686	48,888

(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 12.2.

Plan 1 Rules

Vesting date

Provided that the recipient 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 grant 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 recipient is still an employee or officer of the Company or another Group entity, as applicable.

However, this rule is waived if the recipient'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 recipient 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 second financial year following the grant date.

Continuing presence within the Group

The shares will vest provided that the recipient serves as a corporate officer of the Company for an uninterrupted period of two years from the award date, unless the recipient'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 recipient 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 third financial year following the grant date (i.e., for the 17 June 2015 award, the year ended 31 December 2017).

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 3, 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 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 grant, 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 recipient is still an employee or corporate officer of the Company or another Group entity, unless the recipient'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.

6. Agreements between a corporate officer or material shareholder of SFL and one of its subsidiaries

In accordance with the disclosure requirements of Article L.225-37-4.2 of the French Commercial Code, shareholders are informed that no agreements have been entered into, directly or through a third party, between a corporate officer or a shareholder that holds over 10% of SFL's voting rights and a subsidiary of SFL, other than agreements entered into in the normal course of business on arm's length terms.

7. Summary of financial authorisations

In accordance with the disclosure requirements of Article L.225-37-4.3 of the French Commercial Code, the table below provides a summary of the currently valid authorisations to increase the capital given to the Board of Directors by shareholders pursuant to Articles L.225-129-1 and L.225-129-2 of the Code. The table also provides information on the use of these authorisations during 2017.

Date of AGM	Authorisation or delegation of competence	Used/unused in 2017	Duration of authorisation
28 April 2017	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
28 April 2017	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
28 April 2017	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
28 April 2017	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 placement 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.	Unused	26 months
28 April 2017	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
28 April 2017	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
28 April 2017	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
28 April 2017	Delegation of competence to the Board of Directors to increase the Company's capital by capitalising reserves, profits or share premiums.	Unused	26 months
28 April 2017	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
28 April 2017	Authorisation given to the Board of Directors to grant stock options to employees and corporate officers.	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 3 March 2017 (see Appendix 12.2).

8. 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 proxy holder 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.

9. 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.225-37-5 of the French Commercial Code:

1. Details about the Company's ownership structure are provided in section 7.1.2 of the Management Report.
2. 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.
3. The direct or indirect interests of which the Company is aware are presented in section 7.1.2 of the Management Report.
4. The Company has not issued any securities comprising any special rights of control.
5. 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 7.5 of the Management Report).
6. To the best of the Company's knowledge, there are no shareholders' pacts or other agreements in force between the shareholders (see section 9 of the Management Report).
7. 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.
   Amendments to the Articles of Association are made in accordance with the applicable laws and regulations.
8. The delegations of competence and authority to the Board of Directors are described in the section on the share buyback programme (section 7.6.3 of the Management Report, page 27) and in the financial authorisations table (page 119).
9. Contracts entered into by the Company that would be affected or terminated by a change of control are described in section 8 of the Management Report (pages 30 and 31).
10. Details of the compensation that would be due to certain employees under the change of control clauses included in their employment contracts are provided in section 5.3 of this report.
11. Details of the compensation for loss of office that could be due to the Chief Executive Officer and the termination benefit that could be due to the Managing Director in the event of a change of control are provided in sections 4.2.6, 5.1.2 and 5.1.3 of this report.

The Board of Directors

Appendix 12.5

Agenda for the Annual General Meeting of 20 April 2018

Ordinary Meeting

- Approval of the Company financial statements for the year ended 31 December 2017.
- Approval of the consolidated financial statements for the year ended 31 December 2017.
- Appropriation of profit for the year ended 31 December 2017 and dividend.
- Re-election as a director of Anne-Marie de Chalambert.
- Re-election as a director of Nuria Oferil Coll.
- Re-election as a director of Angels Arderiu Ibars.
- Re-election as a director of Sheikh Ali Bin Jassim Al Thani.
- Re-election as a director of Adnane Mousannif.
- Re-election as a director of Anthony Wyand.
- Approval of the components of the remuneration paid or awarded to Juan José Brugera Clavero, Chairman of the Board of Directors, for the year ended 31 December 2017.
- Approval of the components of the remuneration paid or awarded to Nicolas Reynaud, Chief Executive Officer, for the year ended 31 December 2017.
- 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, Juan José Brugera Clavero.
- 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 Chief Executive Officer, Nicolas Reynaud.
- 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 and ceiling.
- Powers to carry out formalities.

Extraordinary Meeting

- 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 and ceiling.
- Authorisation given to the Board of Directors to award performance shares to eligible employees and corporate officers of SFL and/or its subsidiaries, without pre-emptive subscription rights for existing shareholders.
- 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 2017)

The Annual General Meeting, having considered the Board of Directors' Corporate Governance Report, 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 2017 as presented, showing net profit of €272,390,385.35, 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 2017)

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 2017 as presented, showing profit attributable to owners of the parent of €685,284 thousand, as well as the transactions reflected in these financial statements or described in these reports.

THIRD ORDINARY RESOLUTION (Appropriation of profit for the year ended 31 December 2017 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 net profit for the year ended 31 December 2017, after tax and provision charges, amounts to €272,390,385.35.
2. Notes that profit available for distribution, including retained earnings brought forward from the prior year, is as follows:

Net profit for the year ended 31 December 2017	€272,390,385.35
Retained earnings brought forward from the prior year	€343,032.90
Profit available for distribution	€272,733,418.25

3. Approves the recommendation of the Board of Directors and resolves to pay to shareholders a dividend per share of €2.30, representing a total payout of €107,016,640.20 based on the 46,528,974 shares outstanding at 31 December 2017.
4. Approves the recommendation of the Board of Directors and resolves to charge the dividend against:
   - Retained earnings for €343,032.90, reducing retained earnings to zero.
   - Profit available for distribution for €106,673,607.30.

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 30 April 2018.

The dividend will be paid in cash as from 3 May 2018.

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 and the amount credited to retained earnings.

The Annual General Meeting notes that the dividend of €2.30 per share (based on 46,528,974 shares) will be paid out of profits that are exempt from corporate income tax under the tax rules applicable to French real estate investment trusts ("SIICs"). Consequently, for personal income tax purposes, the total dividend will qualify as securities revenue as defined in Article 158-3.1 of the French Tax Code. In accordance with Article 158-3.3 bis of the Code, shareholders will not be entitled to the 40% tax relief provided for in Article 158-3.1 of the Code.

The dividend will be subject to the flat tax (*prélèvement forfaitaire non libératoire*) provided for in Article 117 *quater* of the French Tax Code and the withholding tax (*retenue à la source*) provided for in Article 119 *bis* of the Code, as follows:

In the case of individual shareholders who are resident in France for tax purposes and whose SFL shares are not held in a "PEA" personal equity plan, the dividend will be subject to a flat tax of 12.8% in accordance with Article 117 *quater* of the French Tax Code.

In the case of non-resident shareholders, the dividend will be subject to withholding tax at the rate of 12.8% (residents of a European Union member state, Iceland, Norway or Liechtenstein), 15% (dividends invested in a French OPCVM, OPCI, SICAF or other equivalent French or foreign investment fund), 75% (dividends paid outside France in "uncooperative" countries or jurisdictions within the meaning of Article 238A of the Code) or 30% (residents of other countries) (Articles 119 *bis* and 187 of the Code).

However, a lower withholding tax rate may apply to residents of countries that have signed a double tax treaty with France. Shareholders resident in such countries will be required to provide a certificate of residence to benefit from the treaty rate.

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 French corporate income tax or an equivalent foreign tax, SFL will have to pay a 20% tax on the dividends paid to the shareholder concerned out of profits generated by "SIIC" activities, provided that the shareholder fulfils the above-mentioned conditions. To avoid the 20% tax, the non-resident shareholder will have to provide a certificate stating that the dividends paid out of the "SIIC" profits will be subject to an amount of foreign tax that is no more than two-thirds less than the corporate income tax that would have been paid in France if the profits had not qualified for the "SIIC" regime.

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)
2014	€0.70(2)	–	–	€0.70	€32,570,281.80
	€1.40	–	€0.68	€0.72	€65,140,563.60
2015	€1.05(3)	–	–	€1.05	€48,855,422.70
	€1.05	–	–	€1.05	€48,855,422.70
2016	€1.05(4)	–	–	€1.05	€48,855,422.70
	€1.05	–	–	€1.05	€48,855,422.70

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

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

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

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

FOURTH 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 2018.

FIFTH ORDINARY RESOLUTION (Re-election as a director of Nuria Oferil Coll)

The Annual General Meeting, having noted that Nuria Oferil Coll'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 2020.

SIXTH ORDINARY RESOLUTION (Re-election as a director of Angels Arderiu Ibars)

The Annual General Meeting, having noted that Angels Arderiu Ibars' 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 2020.

SEVENTH ORDINARY RESOLUTION (Re-election as a director of Sheikh Ali Bin Jassim Al Thani)

The Annual General Meeting, having noted that Sheikh Ali Bin Jassim Al Thani'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 2020.

EIGHTH ORDINARY RESOLUTION (Re-election as a director of Adnane Mousannif)

The Annual General Meeting, having noted that Adnane Mousannif'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 2020.

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 2018.

TENTH ORDINARY RESOLUTION (Approval of the components of the remuneration paid or awarded to Juan José Brugera Clavero, Chairman of the Board of Directors)

The Annual General Meeting, having considered the Board of Directors' Corporate Governance Report, resolves, in accordance with Article L.225-100 of the French Commercial Code, to approve the fixed, variable and special components of the total remuneration and benefits paid or awarded to Juan José Brugera Clavero in his capacity as Chairman of the Board of Directors, as described in section 5.1.1 of the Board of Directors' Corporate Governance Report for the year ended 31 December 2017.

ELEVENTH ORDINARY RESOLUTION (Approval of the components of the remuneration paid or awarded to Nicolas Reynaud, Chief Executive Officer)

The Annual General Meeting, having considered the Board of Directors' Corporate Governance Report, resolves, in accordance with Article L.225-100 of the French Commercial Code, to approve the fixed, variable and special components of the total remuneration and benefits paid or awarded to Nicolas Reynaud in his capacity as Chief Executive Officer, as described in section 5.1.2 of the Board of Directors' Corporate Governance Report for the year ended 31 December 2017.

TWELFTH 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 awarded to Juan José Brugera Clavero in his capacity as Chairman of the Board of Directors)

The Annual General Meeting, having considered the Board of Directors' Corporate Governance Report, approves the principles and criteria applied to determine, allocate and award the fixed, variable and special components of the remuneration and benefits awarded to Juan José Brugera Clavero in his capacity as Chairman of the Board of Directors, as described in section 4.1 of the Corporate Governance Report.

THIRTEENTH 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 awarded to Nicolas Reynaud in his capacity as Chief Executive Officer)

The Annual General Meeting, having considered the Board of Directors' Corporate Governance Report, approves the principles and criteria applied to determine, allocate and award the fixed, variable and special components of the remuneration and benefits awarded to Nicolas Reynaud in his capacity as Chief Executive Officer, as described in section 4.2 of the Corporate Governance Report.

FOURTEENTH 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, duration of the authorisation, purpose, terms, ceiling)

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 seventeenth ordinary resolution of the Extraordinary General Meeting of 28 April 2017 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 restrictions:

- The shares may not be bought back at a price in excess of €90 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 2017, the total amount invested in the share buyback programme will represent a maximum of €418,760,730 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 18 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 authorisation may be used 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 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 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* – 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, in accordance with Article L.225-209 of the French Commercial Code, subject to adoption of the first 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 permitted in the future 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 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 on 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, and generally do whatever is necessary.

FIFTEENTH 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 (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.

SECOND EXTRAORDINARY RESOLUTION (Authorisation given to the Board of Directors to grant shares to eligible employees and corporate officers of SFL and/or its subsidiaries, without pre-emptive subscription rights for existing shareholders)

The Extraordinary General Meeting, having considered the Board of Directors' report and the Auditors' special report, resolves:

- To cancel, with immediate effect, the unused portion of the authorisation given in the first extraordinary resolution of the General Meeting of 13 November 2015.
- To authorise the Board of Directors, or any person to whom this authority may be delegated pursuant to the law, to make one or more awards of existing or newly-issued ordinary shares of the Company in accordance with Articles L.225-197-1 *et seq.* of the French Commercial Code, on the basis specified below.

The awards may be made to employees or corporate officers (within the meaning of Article L.225-197-1 II paragraph 1 of the French Commercial Code) of the Company or of related companies or entities within the meaning of Article L.225-197-2 of the French Commercial Code, or to certain categories of employees or corporate officers.

This authorisation is given for a period of 38 months from the date of this Meeting.

The total number of ordinary shares granted under this resolution shall not represent more than 1% of the Company's share capital as of the date of this Meeting and, within this limit, the number of shares granted to corporate officers (*mandataires sociaux*) shall not represent more than 0.5% 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.

The Board of Directors shall set the vesting period applicable to each award, which shall not be less than one year as from the grant date, in accordance with the law.

The Board of Directors shall also set the lock-up period applicable to each award, provided that the total period represented by the vesting period and the lock-up period shall not be less than two years.

As an exception to the above stipulation, the Extraordinary General Meeting resolves that the shares shall vest before the end of the vesting period if the recipient is classified as suffering from a category 2 or category 3 disability as defined in Article L.341-4 of the French Social Security Code. In the event of death of a recipient, his or her heirs may apply for the shares to be allocated to them within six months of the date of death. Any shares that vest immediately in the event of a recipient's disability or that are transferred to a deceased recipient's heirs shall become freely transferable with immediate effect.

The shares granted under this resolution may be bought back in transactions governed by Article L.225-208 of the French Commercial Code or under the buyback programme authorised in the fourteenth ordinary resolution of this Meeting pursuant to Article L.225-209 of the Code or any buyback programme applicable before or after this resolution is adopted.

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 ordinary shares to be issued in respect of the awards. The Extraordinary General Meeting further notes and resolves that, if the awards are fulfilled by issuing new shares, this authorisation shall result in a capital increase at the end of the vesting period, to be paid up by capitalising retained earnings, profits or the share premium, and that shareholders shall automatically waive their right to the capitalised portion of retained earnings, profits or the share premium.

The Extraordinary General Meeting gives full powers to the Board of Directors – which may delegate these powers to any person to whom the powers may be delegated pursuant to the law and may be assisted by a committee made up of persons of its choice – within the limits specified above, to:

- Set the terms of the ordinary share grants and the allocation criteria, if any.
- Decide the dates of the share grants, on the basis of and subject to the restrictions prescribed by law.
- Draw up the list of recipients, the number of shares to be granted to each recipient, and the related terms and conditions.
- Determine, within the limits set in this resolution, the vesting period and the lock-up period, if any.
- Decide on the situations in which the number of shares granted will be adjusted following any corporate actions, in order to protect the rights of recipients.
- Generally, enter into any and all agreements, draw up any and all documents, place on record the capital increases resulting from the share grants, 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.

THIRD 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.

FOURTH 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 12.6

Report of the Board of Directors to the Extraordinary General Meeting

We invite shareholders to adopt the extraordinary resolutions presented below.

I. Authorisation to cancel SFL shares acquired under a buyback programme (first extraordinary resolution)

In relation to the fourteenth 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 fourteenth 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. Authorisation to the Board of Directors to grant shares to eligible employees and corporate officers of SFL and/or its subsidiaries, without pre-emptive subscription rights for existing shareholders (second 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 make one or more awards of existing or newly-issued ordinary shares of the Company in accordance with Articles L.225-197-1 *et seq.* of the French Commercial Code, on the basis specified below.

This authorisation would cancel, with immediate effect, the unused portion of the authorisation given in the first extraordinary resolution of the General Meeting of 13 November 2015.

The awards may be made to employees or corporate officers (within the meaning of Article L.225-197-1 II paragraph 1 of the French Commercial Code) of the Company or of related companies or entities within the meaning of Article L.225-197-2 of the French Commercial Code, or to certain categories of employees or corporate officers.

This authorisation is being sought for a period of 38 months from the date of this Meeting.

The total number of ordinary shares awarded under this resolution would not represent more than 1% of the Company's share capital as of the date of this Meeting and, within this limit, the number of shares awarded to corporate officers (*mandataires sociaux*) would not represent more than 0.5% 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 are met.

The Board of Directors would set the vesting period applicable to each grant, which would not be less than one year as from the award date, in accordance with the law.

The Board of Directors would also set the lock-up period applicable to each award, with the provision that the total period represented by the vesting period and the lock-up period would not represent less than two years.

As an exception to the above stipulation, the shares would vest before the end of the vesting period if the recipient was classified as suffering from a category 2 or category 3 disability as defined in Article L.341-4 of the French Social Security Code. In addition, in the event of death of a recipient, his or her heirs could apply for the shares to be allocated to them within six months of the date of death. Any shares that vested immediately in the event of a recipient's disability or that were transferred to a deceased recipient's heirs would become freely transferable with immediate effect.

The shares awarded under this resolution could be bought back in transactions governed by Article L.225-208 of the French Commercial Code or under the buyback programme authorised in the fourteenth ordinary resolution of this Meeting pursuant to Article L.225-209 of the Code or any buyback programme applicable before or after this resolution is adopted.

This authorisation would automatically entail the waiver by existing shareholders of their pre-emptive right to subscribe for ordinary shares to be issued in respect of vested share awards. In addition, if this authorisation resulted in a capital increase at the end of the vesting period, paid up by capitalising retained earnings, profits or share premiums, shareholders would automatically waive their right to the capitalised portion of retained earnings, profits or share premiums.

The Board of Directors is asking shareholders for full powers to implement this resolution within the limits specified above. These powers could be delegated to any person to whom the powers may be delegated pursuant to the law and the Board could be assisted by a committee made up of persons of its choice. Specifically, the Board would have the power to:

- Set the terms of the ordinary share awards and the allocation criteria, if any.
- Decide the dates of the share awards, on the basis and subject to the restrictions prescribed by law.
- Draw up the list of recipients, the number of shares to be awarded to each recipient, and the related terms and conditions.
- Determine, within the limits set in this resolution, the vesting period and the lock-up period, if any.
- Decide the situations in which the number of shares awarded will be adjusted following any corporate actions, in order to protect the rights of recipients.
- Generally, enter into any and all agreements, draw up any and all documents, place on record the capital increases resulting from the share awards, 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 would report to shareholders at each Annual General Meeting on the transactions carried out under this resolution, in accordance with Article L.225-197-4 of the French Commercial Code.

Cancellation of authorisations and delegations of competence given at the Extraordinary Meetings of 28 April 2017 and 13 November 2015

If the extraordinary resolutions tabled at this Meeting are adopted by shareholders, the unused portions of the authorisations and delegations of competence given to the Board of Directors by the Extraordinary General Meetings of 28 April 2017 and 13 November 2015 will be automatically cancelled.

III. 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 (third 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 an 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, shareholders are invited to adopt the third extraordinary resolution giving full powers to the Board of Directors 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 2018

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 12.7
Portfolio at 31 December 2017

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	8,861	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		
15th arrondissement	112 Zola*	20,977	20,977		
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		
Total		**387,932**	**289,549**	**27,208**	**3,125**

* 112 Zola corresponds to a 21,000 sq.m. office complex on a 6,300 sq.m. plot at 112/122 avenue Emile Zola in the 15th *arrondissement* of Paris, that was acquired by a subsidiary of SFL, Société Immobilière Victoria. Title to the property was transferred on 30 November 2017.
The building will be completely remodelled.

The In/Out building at 46 quai le Gallo in Boulogne-Billancourt was sold on 29 September 2017.

Cinemas/ theatres (sq.m.)	Residential (sq.m.)	Staff restaurants/ fitness centres (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	266	1,704	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
					201
			421	930	264
			75	562	29
		449	1,104	532	124
			382	861	145
			306		124
8,019	**6,071**	**12,556**	**17,932**	**23,471**	**3,288**

Consolidated Financial Statements for the Year Ended 31 December 2017

The consolidated financial statements were approved for publication by the Board of Directors on 9 February 2018.

A. Consolidated Statement of Financial Position

ASSETS

(in thousands of euros)	Notes Section E	31 Dec. 2017	31 Dec. 2016
Intangible assets	IV-1	1,209	1,487
Property and equipment	IV-2	21,606	22,286
Investment properties	IV-4	6,119,148	5,604,526
Non-current financial assets	VI-5	2,181	699
Other non-current assets	V-4	69	108
Total non-current assets		**6,144,213**	**5,629,106**
Trade and other receivables	V-3	88,382	113,937
Other current assets	V-4	290	917
Cash and cash equivalents	VI-6	15,710	19,766
Total current assets		**104,382**	**134,620**
Total assets		**6,248,595**	**5,763,726**

EQUITY AND LIABILITIES

(in thousands of euros)	Notes Section E	31 Dec. 2017	31 Dec. 2016
Share capital		93,058	93,058
Reserves		2,984,611	2,526,008
Profit for the year		685,284	504,079
Equity attributable to owners of the parent		**3,762,953**	**3,123,145**
Non-controlling interests		476,019	370,631
Total non-controlling interests		**476,019**	**370,631**
Total equity	**VII-1**	**4,238,972**	**3,493,776**
Long-term borrowings and derivative instruments	VI-1	1,661,231	1,619,506
Long-term provisions	VIII-1	1,161	3,002
Deferred tax liabilities	X-3	197,976	161,860
Long-term liabilities	X-1	21,390	9,314
Other non-current liabilities	V-6	22,136	19,677
Total non-current liabilities		**1,903,894**	**1,813,359**
Trade and other payables	V-5	16,798	22,487
Short-term borrowings and other interest-bearing debt	VI-1	36,485	389,304
Short-term provisions	VIII-1	369	421
Other current liabilities	V-6	52,077	44,379
Total current liabilities		**105,729**	**456,591**
Total equity and liabilities		**6,248,595**	**5,763,726**

B. Consolidated Statement of Comprehensive Income

(in thousands of euros)	Notes Section E	2017	2016
Rental income		195,780	198,137
Property expenses, net of recoveries		(10,873)	(10,542)
Net property rentals	**V-1**	**184,907**	**187,595**
Other income	V-2	2,160	2,852
Depreciation and amortisation expense	IV-3	(1,345)	(2,290)
Provision (expense)/reversals, net	VIII-2	1,667	737
Employee benefits expense	IX-1	(15,409)	(12,057)
Other expenses	V-7	(7,916)	(7,170)
Profit on disposal of investment properties	IV-5	80,290	–
Fair value adjustments on investment properties	IV-4	635,131	438,040
Operating profit		**879,485**	**607,707**
Finance costs and other financial expenses	VI-2	(42,861)	(46,303)
Financial income	VI-2	1,522	307
Fair value adjustments on financial instruments	VI-3	43	(2,477)
Discounting adjustments to receivables and payables		606	370
Changes in provisions for financial assets, net		–	–
Profit before income tax		**838,795**	**559,604**
Income tax benefit/(expense)	X-2-3	(42,523)	3,304
Profit for the year		**796,272**	**562,908**
Attributable to owners of the parent		**685,284**	**504,079**
Attributable to non-controlling interests	VII-5	110,988	58,829
Earnings per share	VII-4	€14.83	€10.92
Other comprehensive income			
Actuarial gains and losses	VIII-1	53	217
Other items		–	–
Items that will not be reclassified to profit or loss		53	217
Valuation gains and losses on financial instruments (cash flow hedges)	VI-3	–	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
Other comprehensive income		**53**	**2,694**
Comprehensive income		**796,325**	**565,602**
Attributable to owners of the parent		**685,337**	**506,773**
Attributable to non-controlling interests		110,988	58,829

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 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**
Movements for the year									
Profit for the year	–	–	–	–	–	–	685,284	685,284	110,988
Other comprehensive income, net of tax	–	–	–	–	–	53	–	53	–
Comprehensive income	**–**	**–**	**–**	**–**	**–**	**53**	**685,284**	**685,337**	**110,988**
Appropriation of profit	–	(29,929)	–	–	–	534,008	(504,079)	–	–
Treasury share transactions	–	–	–	2,565	–	–	–	2,565	–
Gains and losses on sales of treasury shares	–	–	–	(1,127)	–	–	–	(1,127)	–
Share-based payments	–	–	–	–	–	1,546	–	1,546	–
Dividends paid to owners of the parent	–	(48,855)	–	–	–	343	–	(48,512)	(5,517)
Other adjustments	–	–	–	–	–	–	–	–	(83)
Equity at 31 December 2017	**93,058**	**556,116**	**22,621**	**(18,022)**	**–**	**2,423,898**	**685,284**	**3,762,953**	**476,019**

D. Consolidated Statement of Cash Flows

(in thousands of euros)	Notes Section E	2017	2016
Cash flows from operating activities			
Profit for the period attributable to owners of the parent		685,284	504,079
Fair value adjustments on investment properties	IV-4	(635,131)	(438,040)
Depreciation and amortisation expense (excluding impairment)	IV-3	1,345	2,290
Net additions to/(reversals of) provisions		(1,791)	2,059
Net (gains)/losses from disposals of assets, after tax	IV-5	(80,290)	–
Discounting adjustments and valuation (gains)/losses on financial instruments		(649)	2,107
Deferral of rent-free periods and key money	V-1	(12,458)	(36,011)
Employee benefits	IX-3	1,546	1,114
Non-controlling interests in profit for the year	VII-5	110,988	58,829
Cash flow after finance costs and income tax		**68,844**	**96,427**
Finance costs	VI-2	41,339	45,996
Income tax benefit/(expense)	X-2-3	42,523	(3,304)
Cash flow before finance costs and income tax		**152,706**	**139,119**
Change in working capital		28,610	(190)
Interest paid		(41,245)	(47,782)
Interest received		12	16
Income tax paid		(16,766)	(7,390)
Net cash provided by operating activities		**123,317**	**83,773**
Cash flows from investing activities			
Acquisitions of and improvements to investment properties	XII	(207,399)	(64,968)
Acquisitions of intangible assets and property and equipment		(369)	(1,304)
Proceeds from disposals of investment properties, intangible assets and property and equipment	XII	441,785	–
Other cash inflows and outflows		–	(4)
Net cash used by investing activities		**234,017**	**(66,276)**
Cash flows from financing activities			
Proceeds from the issue of ordinary shares		–	–
Purchases and sales of treasury shares, net		1,438	(1,093)
Dividends paid to owners of the parent	VII-3	(48,512)	(97,001)
Dividends paid to non-controlling interests		(5,517)	(5,933)
Proceeds from new borrowings		689,610	487,014
Repayments of borrowings		(945,552)	(456,015)
Other movements in financing items		(1,390)	–
Net cash used by financing activities		**(309,923)**	**(73,028)**
Net change in cash and cash equivalents		**47,411**	**(55,531)**
Cash and cash equivalents at beginning of year		(65,101)	(9,570)
Cash and cash equivalents at end of year	XII	(17,690)	(65,101)
Net change in cash and cash equivalents		**47,411**	**(55,531)**

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 of the SFL Group 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 2017:

- 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 effective for financial periods beginning on or after 1 January 2018.
  An assessment has been made of the impact on the financial statements of applying IFRS 15.
  Substantially all of the Group's revenue from contracts with customers falls within the scope of IAS 17 and not IFRS 15. Other revenues are marginal and their accounting treatment complies with IFRS 15.
  The new standard will not therefore have any impact on the consolidated financial statements.

- IFRS 9 – Financial Instruments. This standard overhauls the classification and measurement of financial assets and financial liabilities, impairment methodology, hedge accounting and the accounting treatment of modified loans. IFRS 9 is applicable for annual periods beginning on or after 1 January 2018. The Group is currently analysing its impact on the Group's accounts. So far, no material impacts have been identified.

- IFRS 16 – Leases. This standard requires all leases to be recognised in the financial statements of the lessee. The accounting treatment in the lessor's accounts is unchanged compared to IAS 17. 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.

The following amendments published by the IASB and adopted by the European Union are effective for annual periods ending 31 December 2017:

- Amendments to IAS 7 – Statement of Cash Flows – Disclosure Initiative. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. The principle underpinning the amendments is that an entity should provide disclosures that enable users of financial statements to reconcile changes in cash flows from financing activities to changes in debt reported in the statement of financial position.

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

On 13 January 2017, the Company entered into a €165-million deal to acquire the SMA Group's historical headquarters building, a 21,000-sq.m. property located at 112-122 avenue Emile Zola in the 15th *arrondissement* of Paris. Contracts were exchanged when SMA moved to its new headquarters on 30 November 2017. The building stands on a 6,300-sq.m. plot featuring a tree-filled garden. It dates back to 1966 and will be completely remodelled.

On 29 September 2017, SFL exchanged contracts on the In/Out building at 46 Quai Alphonse le Gallo in Boulogne-Billancourt, sold to Primonial REIM. The 35,000 sq.m. building was completely remodelled between 2011 and 2013. Since 2015, it has been leased in full to the Organisation for Economic Co-operation and Development (OECD) under a lease expiring in 2027. The net sale price was €445 million.

Renovation and redevelopment programmes in progress as of 31 December 2017 represented around 13% of the Group's investment property portfolio. The main programmes concerned the newly acquired building on avenue Emile Zola and the Louvre Saint-Honoré building's retail area.

During the year, leases were signed on around 21,000 sq.m. of mainly office space, including eight leases on units in excess of 1,000 sq.m.

II - 2) Financing

The remaining €300.7 million worth of 3.5% 2012 bonds were redeemed at maturity in November 2017.

During the year, two new bilateral revolving lines of credit were obtained, a six-year line with Crédit Agricole Île-de-France for €175 million and a seven-year line with La Banque Postale for €75 million. In addition, the five-year line of credit obtained from Banco Sabadell in 2015 was increased from €50 million to €70 million.

These operations have reduced the cost and extended the average life of the Group's debt, while also providing a significant reserve of undrawn confirmed credit facilities that can be used to fulfil its short- and medium-term repayment obligations and take up investment opportunities.

II - 3) Subsequent events

None.

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
Rental income	154,135	12,712	28,933	–	195,780
Property expenses, net of recoveries	(8,762)	(762)	(1,349)	–	(10,873)
Net property rentals	**145,373**	**11,950**	**27,584**	**–**	**184,907**
Other income	1,542	134	470	14	2,160
Depreciation and amortisation expense	–	–	–	(1,345)	(1,345)
Provision (expense)/reversals, net	(125)	–	2,070	(278)	1,667
Employee benefits expense	–	–	–	(15,409)	(15,409)
Other expenses	–	–	–	(7,916)	(7,916)
Profit on disposal of investment properties	–	80,290	–	–	80,290
Fair value adjustments on investment properties	576,835	4,046	54,250	–	635,131
Operating profit/(loss)	**723,625**	**96,420**	**84,374**	**(24,934)**	**879,485**
Finance costs and other financial expenses	–	–	–	(42,861)	(42,861)
Financial income	–	–	–	1,522	1,522
Fair value adjustments on financial instruments	–	–	–	43	43
Discounting adjustments to receivables and payables	–	–	–	606	606
Changes in provisions for financial assets, net	–	–	–	–	–
Profit/(loss) before income tax	**723,625**	**96,420**	**84,374**	**(65,624)**	**838,795**
Income tax benefit/(expense)	(33,148)	–	–	(9,375)	(42,523)
Profit/(loss) for the year	**690,477**	**96,420**	**84,374**	**(74,999)**	**796,272**
Attributable to owners of the parent	**572,583**	**96,420**	**84,374**	**(68,093)**	**685,284**
Attributable to non-controlling interests	117,894	–	–	(6,906)	110,988
Other comprehensive income					
Actuarial gains and losses	–	–	–	53	53
Other comprehensive income	–	–	–	–	–
Items that will not be reclassified to profit or loss	–	–	–	53	53
Valuation gains and losses on financial instruments (cash flow hedges)	–	–	–	–	–
Deferred tax impact of valuation gains and losses on financial instruments	–	–	–	–	–
Items that may be reclassified subsequently to profit or loss	–	–	–	–	–
Other comprehensive income	**–**	**–**	**–**	**53**	**53**
Comprehensive income	**690,477**	**96,420**	**84,374**	**(74,946)**	**796,325**
Attributable to owners of the parent	**572,583**	**96,420**	**84,374**	**(68,040)**	**685,337**
Attributable to non-controlling interests	117,894	–	–	(6,906)	110,988

(in thousands of euros)	Paris Central Business District	Western Crescent	Other	Corporate	Total
Segment assets	5,048,688	97,673	972,787	40,588	6,159,736
Unallocated assets	–	–	–	88,859	88,859
Total assets	**5,048,688**	**97,673**	**972,787**	**129,447**	**6,248,595**

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, 8th, 9th, 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. 2016	Increases	Decreases	Reclassifications	31 Dec. 2017
Cost					
Computer software	6,382	–	–	251	6,633
Other	908	183	–	(270)	821
Accumulated amortisation					
Computer software	(5,803)	(443)	–	–	(6,245)
Other	–	–	–	–	–
Carrying amount	**1,487**	**(260)**	**–**	**(19)**	**1,209**

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. 2016	Increases	Decreases	Reclassifications	31 Dec. 2017
Cost					
Owner-occupied property	21,238	–	–	–	21,238
Other property and equipment	5,706	203	(18)	19	5,910
Accumulated depreciation					
Owner-occupied property	(2,380)	(390)	–	–	(2,770)
Other property and equipment	(2,278)	(512)	18	–	(2,772)
Carrying amount	**22,286**	**(699)**	**–**	**19**	**21,606**

The appraisal value excluding transfer costs of owner-occupied property – corresponding to the Company's headquarters – was €40,970 thousand at 31 December 2017 and €38,800 thousand at 31 December 2016.

IV - 3) Amortisation and depreciation

(in thousands of euros)	2017	2016
Amortisation of intangible assets	(443)	(1,425)
Depreciation of property and equipment	(902)	(865)
Total	**(1,345)**	**(2,290)**

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 other property and equipment.

IV - 4) Investment properties

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.

Acquisitions of property companies that do not meet the definition of a business combination under IFRS 3 are treated as direct acquisitions of the underlying investment property.

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 properties", 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 2017 by Jones Lang LaSalle and Cushman & Wakefield.

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 two 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):
– Cushman & Wakefield: 55%
– Jones Lang LaSalle: 45%
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 on the basis of 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 properties

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 concerned 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 properties, the most meaningful inputs, particularly market rents, investment yields and/or discount rates, represent Level 3 inputs.

(in thousands of euros)	31 Dec. 2016	Increases	Gains from remeasurement at fair value	Decreases	Losses from remeasurement at fair value	Changes in scope of consolidation	31 Dec. 2017
Investment property	5,604,526	96,442	647,109	(324,672)	(11,978)	107,721	6,119,148
Total	**5,604,526**	**96,442**	**647,109**	**(324,672)**	**(11,978)**	**107,721**	**6,119,148**

Reconciliation of the appraisal value of investment properties to their fair value in the statement of financial position:

(in thousands of euros)	31 Dec. 2017	31 Dec. 2016
Appraisal value of investment property excluding transfer costs	6,229,075	5,736,416
Deduction of owner-occupied property (see Note IV-2)	(40,970)	(38,800)
Adjustments to reflect specific lease terms and other adjustments	(68,957)	(93,090)
Fair value of investment properties in the statement of financial position	**6,119,148**	**5,604,526**

This acquisition of the Emile Zola property was organised as follows:
– Acquisition of the entire capital of Société Immobilière Victoria, owner of the plot of land and part of the buildings. The acquisition is reported in the above table in the column "Changes in scope of consolidation" for €107,721 thousand;
– Acquisition of the buildings not owned by Société Immobilière Victoria for €52,941 thousand excluding transaction expenses.

The €324,672 thousand reported in the "Decrease" column corresponds to the sale of the In/Out building (see Note IV-5).

The table below shows the fair value measurement inputs for each asset class:

Geographic area	Value excluding transfer costs 31 Dec. 2017 (in € millions, on a 100% basis)	Inputs	Range of values[1]	Weighted average[1]
Paris Central Business District	5,156	Market rent for offices	€580 - €814	€692
		Exit yield	3.15% - 3.60%	3.28%
		Discount rate	3.90% - 6.10%	4.26%
Other	975	Market rent for offices	€538 - €668	€585
		Exit yield	3.40% - 3.80%	3.55%
		Discount rate	4.00% - 6.50%	4.82%
Western Crescent	98	Market rent for offices	€313 - €427	€386
		Exit yield	4.03% - 4.95%	4.36%
		Discount rate	4.50% - 5.85%	4.98%
Total	**6,229**			

(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 €479,113 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 €561,018 thousand.

IV - 5) Profit on disposal of investment properties

The In/Out building in Boulogne-Billancourt (92) was sold in 2017.

(in thousands of euros)	Sale price excl. transfer costs and tax	Carrying amount of the property(1)	Gain on disposal	Disposal date
In/Out	445,000	(364,710)	80,290	Sep. 2017
Total	**445,000**	**(364,710)**	**80,290**	

(1) Carrying amount including transaction costs.

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:

Rental income

Rental income 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 98.1% of rental income. 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 2017, this impact was €12,458 thousand.

(in thousands of euros)	2017	2016
Rental income	**195,780**	**198,137**
Property operating expenses	(44,605)	(45,849)
Property expenses recovered from tenants	33,732	35,307
Property expenses, net of recoveries	**(10,873)**	**(10,542)**
Net property rentals	**184,907**	**187,595**

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	**747,298**	**184,493**	**438,179**	**124,626**

V - 2) Other income

(in thousands of euros)	2017	2016
Own-work capitalised	4	155
Other income	2,156	2,697
Total	**2,160**	**2,852**

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. 2017			31 Dec. 2016
	Total	Due within 1 year	Due in 1 year or more	
Trade receivables	79,606	19,494	60,112	103,140
Provisions	(892)	–	(892)	(571)
Trade receivables	**78,714**	**19,494**	**59,220**	**102,569**
Prepayments to suppliers	52	52	–	41
Employee advances	8	8	–	51
Tax receivables (other than income tax)	6,506	6,506	–	8,369
Other operating receivables	2,398	2,398	–	2,738
Other receivables	704	704	–	169
Other receivables	**9,668**	**9,668**	–	**11,368**
Total	**88,382**	**29,162**	**59,220**	**113,937**

Trade receivables include €68,957 thousand (of which €14,313 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.

Cost of risk can be analysed as follows:

(in thousands of euros)	31 Dec. 2017	31 Dec. 2016
Increases in provisions	(131)	(129)
Reversals of provisions	6	2,731
Bad debt write-offs, net of recoveries	(30)	(33)
Total	**(155)**	**2,569**
Rental income	195,780	198,137
Net losses as a % of property rentals	**0.08%**	**-1.30%**

V - 4) Other current and non-current assets

(in thousands of euros)	31 Dec. 2017	31 Dec. 2016
Deferred tax assets	69	108
Total other non-current assets	**69**	**108**
Income tax prepayments	71	141
Other prepayments	219	776
Total other current assets	**290**	**917**

Deferred tax assets are analysed in Note X-3.

V - 5) Trade and other payables

(in thousands of euros)	31 Dec. 2017	31 Dec. 2016
Trade payables	6,325	7,266
Amounts due within one year on asset acquisitions	10,473	15,221
Total	**16,798**	**22,487**

At 31 December 2017, amounts due within one year on asset acquisitions mainly concerned the Louvre Saint-Honoré building.

V - 6) Other current and non-current liabilities

(in thousands of euros)	31 Dec. 2017	31 Dec. 2016
Deposits	22,136	19,677
Total other non-current liabilities	**22,136**	**19,677**
Deposits	4,625	1,733
Customer prepayments	17,046	17,996
Accrued employee benefit expense	7,957	5,127
Accrued taxes	13,344	13,971
Other liabilities	4,483	3,309
Accruals	4,622	2,243
Total other current liabilities	**52,077**	**44,379**

The caption “Other non-current liabilities” corresponds 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 instalment due in 2018 on the 131 Wagram and Emile Zola buildings for €8,437 thousand, and accrued income tax for €617 thousand.
The amounts reported under “Accruals” correspond to deferred revenue.

V - 7) Other expenses

(in thousands of euros)	2017	2016
Fees	(1,708)	(1,700)
Taxes other than on income	(1,851)	(1,498)
Other	(4,357)	(3,972)
Total	**(7,916)**	**(7,170)**

Fees paid to the Auditors in 2017 were as follows:

(in thousands of euros)	2017	2016	2017	2016
	PricewaterhouseCoopers		Deloitte & Associés	
Statutory and contractual audits	321	297	242	219
Other services	53	20	20	20
Total	**374**	**317**	**262**	**239**

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 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
	Effective interest rate	Expiry date	Short-term portion		Long-term portion	
Bonds						
€500 million 3.50% bond issue, 2012-2017	3.50%	28 Nov. 2017	–	301,680	–	–
€500 million 1.875% bond issue, 2014-2021	1.875%	26 Nov. 2021	925	925	500,000	500,000
€500 million 2.25% bond issue, 2015-2022	2.25%	16 Nov. 2022	1,418	1,418	500,000	500,000
BANK LOANS						
BANCO SABADELL	Euribor + spread (end of drawdown period)	5 June 2020	1	3	10,000	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	42	222	75,000	150,000
BECM	Euribor + spread (end of drawdown period)	23 April 2019	91	96	150,000	140,000
CADIF	Euribor + spread (end of drawdown period)	16 June 2023	16	–	175,000	–
NATIXIS – DEKA – DEUTSCHE HYPOTHEKEN	1.571%	16 July 2022	2,630	2,636	201,240	203,320
Interest rate swaps						
CA-CIB 5-year swap	0.23%	28 Nov. 2022	53	–	51	–
Bank overdrafts	Various		**33,400**	**84,867**	**–**	**–**
Current account advances (liabilities)	Various		**55**	**70**	**55,646**	**63,346**
Impact of deferred recognition of debt arranging fees			**(2,146)**	**(2,616)**	**(5,706)**	**(7,160)**
Total			**36,485**	**389,304**	**1,661,231**	**1,619,506**

The following table analyses borrowings by maturity:

(in thousands of euros)	31 Dec. 2017	Due within 1 year	Due in 1 to 5 years	Due beyond 5 years	31 Dec. 2016
Bonds	1,002,343	2,343	1,000,000	–	1,304,023
BECM	150,091	91	150,000	–	140,096
BANCO SABADELL	10,001	1	10,000	–	50,003
BNP PARIBAS 2015	–	–	–	–	20,003
BNP PARIBAS 2016	75,042	42	75,000	–	150,222
Cadif	175,016	16	–	175,000	–
NATIXIS – DEKA – DEUTSCHE HYPOTHEKEN	203,870	2,630	201,240	–	205,956
CA-CIB 5-year swap	104	53	51	–	–
Current account advances (liabilities)	55,701	55	55,646	–	63,416
Deferred debt arranging fees	(7,852)	(2,146)	(5,605)	(101)	(9,776)
Bank overdrafts	33,400	33,400	–	–	84,867
Total	**1,697,716**	**36,485**	**1,486,332**	**174,899**	**2,008,810**

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 2017 concerned the following lines of credit: BPCE, BECM, BNP Paribas, Cadif, Banco Sabadell and Banque Postale. They can be broken down as follows:

Applicable ratios	Actual ratios at 31 Dec. 2017	Actual ratios at 31 Dec. 2016	Main acceleration clauses
Loan-to-value (LTV) <= 50%	24.6%	31.7%	Loan default Termination of operations
Interest cover >= 2x	4.0	3.7	Bankruptcy proceedings
Secured LTV <= 20%	3.1%	3.4%	Breach of financial covenants
Unrestricted property portfolio value >= €2bn	€5.6bn	€5.3bn	Material adverse event

The Group was not in breach of any of its financial covenants at 31 December 2017.

VI - 2) Finance costs and other financial income and expenses

(in thousands of euros)	2017	2016
Interest on bonds and bank loans	(39,841)	(43,016)
Interest on lease liabilities	–	(231)
Interest on external current account advances	(228)	(322)
Hedging losses	(53)	–
Other financial expenses	(2,739)	(2,734)
Finance costs and other financial expenses	**(42,861)**	**(46,303)**
Interest income	9	3
Financial expense transfers	1,509	291
Other financial income	4	13
Financial income	**1,522**	**307**
Finance costs and other financial income and expenses, net	**(41,339)**	**(45,996)**

Financial expense transfers in 2017 correspond to finance costs capitalised at the rate of 1.90% during the redevelopment of the Louvre Saint-Honoré and Emile Zola buildings.

VI - 3) 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.

At 31 December 2017, the Group's portfolio included:
- A 5-year swap set up with CA-CIB (variable rate swapped for a fixed rate of 0.23%) on a notional amount of €100,000 thousand. The instrument came into effect on 28 November 2017 and is measured at fair value through profit or loss. At 31 December 2017, the contract had a negative fair value of €51 thousand.
- A 5-year cap at 0.25% on a notional amount of €100,000 thousand set up with Cadif (the option writer). The option came into effect on 16 November 2017 and is measured at fair value through profit or loss. At 31 December 2017, the contract had a positive fair value of €1,484 thousand.

Fair value of hedging instruments

The fair value of the Group's hedging instruments at 31 December 2017 was €1,433 thousand, as follows:

(in thousands of euros)	Nominal value	Maturity	31 Dec. 2017	31 Dec. 2016
CA-CIB 0.23% swap	100,000	Nov. 2022	(51)	–
CADIF 0.25% cap	100,000	Nov. 2022	1,484	–
Total	**200,000**		**1,433**	**–**

Gains and losses from remeasurement at fair value of financial instruments

Fair value adjustments to hedging instruments recognised through profit represented a positive €43 thousand in 2017.

(in thousands of euros)	2017	2016
Interest rate hedges	43	(2,477)
Total	**43**	**(2,477)**

VI - 4) Financial risk management objectives and policy

The Group prudently manages its various financial risks.

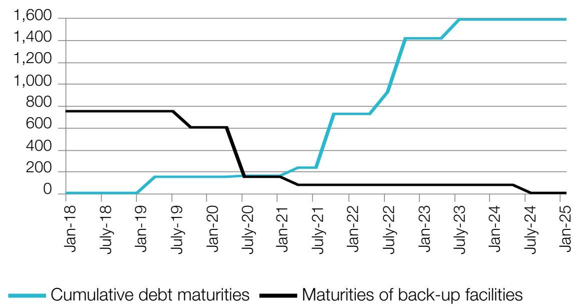
1 - Liquidity risk

Liquidity risk is covered by confirmed undrawn lines of credit. At 31 December 2017, SFL had access to confirmed undrawn lines of credit representing €760 million compared with €540 million at 31 December 2016. 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 July 2020.

With its available credit lines, diversified debt structure and the quality of its assets, the Group manages its liquidity risk prudently and effectively.

The acceleration clauses contained in the facility agreements are presented in Note VI-1.

LIQUIDITY RISK



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 2017. 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 stood at 1.69% at 31 December 2017, versus 1.95% at 31 December 2016.

A 50-basis point rise in interest rates across the yield curve in 2017 would have the effect of increasing the average cost of debt to 1.78%, driving up finance costs for 2017 by €1,552 thousand, representing 3.62% of annual financial expense. A 50-basis point decline in interest rates across the yield curve would lower the average cost of debt to 1.59%, reducing annual finance costs by €1,576 thousand, representing 3.68% of annual financial expense.

Concerning hedging instruments, a 50-basis point increase in interest rates would have the effect of increasing the fair value of hedging instruments by €3,581 thousand at 31 December 2017, while a 50-basis point decrease would reduce their fair value by €3,170 thousand.

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 2017.

(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	–	150,000	–	–	–	–	150,000
Banco Sabadell loan	–	–	10,000	–	–	–	10,000
Cadif loan	–	–	–	–	–	175,000	175,000
2016 BNP Paribas loan	–	–	–	75,000	–	–	75,000
Current account advances	–	55,646	–	–	–	–	55,646
Total floating rate debt	**–**	**205,646**	**10,000**	**75,000**	**–**	**175,000**	**465,646**

The other financial instruments used by the Group are not listed in the table above because they do not bear interest and are therefore not exposed to any interest rate risk.

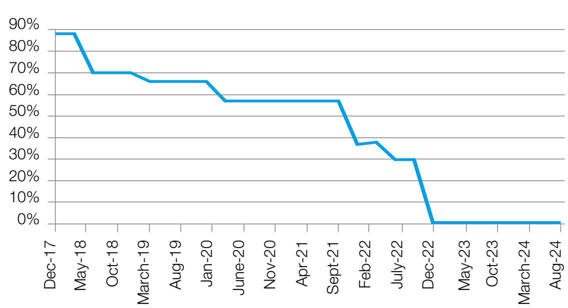
Net unhedged position

The Group's net exposure to interest rate risks can be analysed as follows for the period between 31 December 2017 and 31 December 2021:

(in thousands of euros)	31 Dec. 2017	31 Dec. 2018	31 Dec. 2019	31 Dec. 2020	31 Dec. 2021
BECM	150,000	150,000	–	–	–
BANCO SABADELL	10,000	10,000	10,000	–	–
CADIF	175,000	175,000	175,000	175,000	175,000
2016 BNP PARIBAS	75,000	75,000	75,000	75,000	–
Current account advances	55,646	55,646	–	–	–
Total floating rate debt	**465,646**	**465,646**	**260,000**	**250,000**	**175,000**
CA-CIB 0.23% swap	100,000	100,000	100,000	100,000	100,000
CADIF 0.25% cap	100,000	100,000	100,000	100,000	100,000
Net unhedged position	**265,646**	**265,646**	**60,000**	**50,000**	**(25,000)**

At 31 December 2017, 87% of debt was hedged against interest rate risks.

SFL DEBT HEDGING RATE 2018-2024



Fair value of bonds

The fair value of the Group's outstanding bond issues at 31 December 2017 was €1,062,635 thousand, as follows:

(in thousands of euros)	Nominal value	Maturity	31 Dec. 2017	31 Dec. 2016
November 2012 bonds	300,700	Nov. 2017	–	310,295
November 2014 bonds	500,000	Nov. 2021	526,900	526,305
November 2015 bonds	500,000	Nov. 2022	535,735	535,385
Total	**1,300,700**		**1,062,635**	**1,371,985**

VI - 5) Financial assets

Accounting policy

Non-current financial assets comprise investments in non-consolidated companies, deposits paid to third parties and derivative instruments.

They are initially recognised at fair value, generally corresponding to their purchase price plus transaction costs. The accounting treatment of derivative instruments is presented in Note VI-3.

(in thousands of euros)	31 Dec. 2016	Increases	Impairment losses recognised during the year	Decreases	Impairment losses reversed during the year	31 Dec. 2017
Investments in non-consolidated companies	1,071	–	–	(1,071)	–	–
Provisions for impairment	(1,071)	–	–	–	1,071	–
Investments in non-consolidated companies, net	**–**	**–**	**–**	**(1,071)**	**1,071**	**–**
Deposits	699	–	–	(2)	–	697
Interest rate hedges	–	1,484	–	–	–	1,484
Total	**699**	**1,484**	**–**	**(1,073)**	**1,071**	**2,181**

The Vendôme-Rome group was liquidated in 2017. The investment in this group had been written down in full since 31 December 2010. Hedging instruments with a positive fair value recognised in assets totalled €1,484 thousand at 31 December 2017 (see Note VI-3).

VI - 6) 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 that 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.

(in thousands of euros)	31 Dec. 2017	31 Dec. 2016
Cash at bank and in hand	15,710	19,766
Total	**15,710**	**19,766**

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. 2016	Increases	Decreases	31 Dec. 2017
Number of treasury shares	362,380	74,446	(129,691)	307,135
Average purchase/sale price, in euros	€61.54	€53.98	€50.76	€64.26
Total	**22,301**	**4,019**	**(6,584)**	**19,736**

VII - 3) Dividends

(in thousands of euros)	2017		2016	
	Paid	Per share	Paid	Per share
Prior year dividend paid in current year	48,512	€1.05	48,506	€1.05
Special dividend paid in current year	–	–	48,495	€1.05
Total	**48,512**	**€1.05**	**97,001**	**€2.10**

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)	2017	2016
Profit used to calculate basic earnings per share	685,284	504,079
Number of ordinary shares at 31 December	46,528,974	46,528,974
Number of treasury shares at 31 December	(307,135)	(362,380)
Number of ordinary shares at 31 December excluding treasury shares	**46,221,839**	**46,166,594**
Earnings per share	**€14.83**	**€10.92**
Weighted average number of ordinary shares	46,528,974	46,528,974
Number of treasury shares at 31 December	(307,135)	(362,380)
Weighted average number of ordinary shares excluding treasury shares	**46,221,839**	**46,166,594**
Basic earnings per weighted average share	**€14.83**	**€10.92**

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)	2017	2016
SCI Washington	**29,427**	**26,154**
Rental income	*6,940*	*6,902*
Fair value adjustments on investment properties	*22,498*	*19,318*
Net financial expense	*(157)*	*(215)*
Other	*146*	*149*
Parholding subgroup	**81,561**	**32,675**
Rental income	*14,519*	*14,333*
Fair value adjustments on investment properties	*90,979*	*19,674*
Net financial expense	*(1,852)*	*(1,909)*
Deferred tax	*(18,016)*	*4,306*
Current tax	*(3,096)*	*(2,995)*
Other	*(973)*	*(734)*
Total	**110,988**	**58,829**

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. 2016	Increases	Decreases	*o/w utilisations*	Actuarial gains and losses	31 Dec. 2017
Provisions for refurbishment work and tenant claims	2,070	–	(2,070)	–	–	–
Provisions for employee benefits	932	303	(21)	*(21)*	(53)	1,161
Long-term provisions	**3,002**	**303**	**(2,091)**	***(21)***	**(53)**	**1,161**
Provisions for refurbishment work and tenant claims	356	–	–	–	–	356
Provisions for employee benefits	65	14	(66)	*(29)*	–	13
Short-term provisions	**421**	**14**	**(66)**	***(29)***	**–**	**369**
Total	**3,423**	**317**	**(2,157)**	***(50)***	**(53)**	**1,530**

The dispute between SFL and a former tenant was settled in SFL's favour and the corresponding provision of €2,070 thousand was therefore reversed at 31 December 2017.

Provisions for employee benefits include provisions for length-of-service awards payable to employees on retirement and jubilees for €872 thousand. See Note IX-2 for more details.

Short- and long-term provisions covering benefits payable to members of senior management amounted to €16 thousand at 31 December 2017 and €12 thousand at 31 December 2016.

VIII - 2) Provision (expense)/reversals, net

(in thousands of euros)	2017	2016
Charges to provisions for impairment of current assets	(131)	(129)
Charges to provisions for operating contingencies and charges	(218)	(1,895)
Charges to provisions for other contingencies and charges	(97)	(113)
Total charges	**(446)**	**(2,137)**
Reversals of provisions for impairment of current assets	6	2,731
Reversals of provisions for operating contingencies and charges	2,070	–
Reversals of provisions for other contingencies and charges	37	143
Total reversals	**2,113**	**2,874**
Total	**1,667**	**737**

See Note VIII-1 for details of the provision for operating contingencies and charges reversed in the year ended 31 December 2017.

IX - Remuneration and Other Employee Benefits

IX - 1) Employee benefits expense

Employee benefits expense breaks down as follows:

(in thousands of euros)	2017	2016
Wages and salaries	(6,755)	(6,572)
Payroll taxes	(4,102)	(3,581)
Other employee benefits	(1,546)	(1,114)
Statutory and discretionary profit-sharing	(3,006)	(790)
Total	**(15,409)**	**(12,057)**

The increase in employee benefits expense mainly concerns employee profit-sharing which rose sharply in 2017 due to the profit on the sale of the In/Out building (see Notes II-1 and IV-5).

The average number of administrative staff breaks down as follows:

	2017	2016
Officers	2	2
Managers	57	56
Supervisors	12	10
Administrative and technical staff	4	5
Total	**75**	**73**

The Group also had two building staff at 31 December 2017 and 2016.

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)	2017	2016
Projected benefit obligation at 1 January	**862**	**1,011**
Benefits paid during the year	(21)	(45)
Service cost	75	66
Interest cost	9	47
Actuarial gains and losses	(53)	(217)
Projected benefit obligation at 31 December	**872**	**862**

The projected benefit obligation is calculated at six monthly intervals based on actuarial assumptions, including, at 31 December 2017, a discount rate of 1.30% (31 December 2016: 1.31%) and a 1.50% rate of future salary increases (31 December 2016: 1.50%). Actuarial gains and losses are recognised in equity.
A 25-bps reduction in the discount rate at 31 December 2017 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 2017

	Plan no. 3	Plan no. 4	Plan no. 4
Date of shareholder authorisation	22 April 2015	13 Nov. 2015	13 Nov. 2015
Grant date (date of Board meeting)	17 June 2015	26 April 2016	03 March 2017
Initial target number of shares	27,328	32,036	33,376
Initial expected vesting rate	70.83%	70.83%	70.83%
Initial number of shares expected to vest	19,356	22,691	23,640
Fair value per share	€36.08	€41.49	€42.61
Rights cancelled/forfeited	(2,064)	(912)	(784)
Expected vesting rate at 31 December 2017	150.00%	100.00%	100.00%
Number of shares expected to vest at 31 December 2017	**37,895**	**31,124**	**32,592**

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 five listed property companies based on growth in consolidated ANAV per share.
- The performance shares will vest 15 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 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 2017, the rates applied were 150% for the 2015 plan (probable ranking: no.1) and 100% for the 2016 and 2017 plans (probable ranking: no.3).
During first half 2017, a total of 26,725 performance shares vested under 2014 Plan no. 1.
The cost of performance share plans recognised in 2017 amounted to €1,546 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)	2017	2016
Short-term benefits, excluding payroll taxes(1)	2,973	3,175
Payroll taxes on short-term benefits	1,216	1,150
Share-based payments(2)	1,012	701
Directors' fees	763	347
Total	**5,964**	**5,373**

(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 2017, 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	2019	2020	2021	Total
Amount payable	**8,294**	**8,153**	**4,943**	**21,390**

This item corresponds mainly to 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.
- the election for the Emile Zola building to be included in assets taxed under the SIIC regime in December 2017. The €21 million tax liability is payable in four annual instalments between 2018 and 2021 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 2017 amounted to €6,451 thousand versus €21,790 thousand for 2016. The difference was due to the recognition in 2016 of a tax expense of €15,529 thousand following the exercise of the option to acquire the 131 Wagram property.
Income tax expense for the Parholding tax group stood at €6,192 thousand in 2017.

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 businesses that are not eligible for taxation as a SIIC (certain non-qualifying partnerships).

Deferred tax assets and liabilities are calculated for all temporary differences using the tax rate that is expected to apply to the period when the asset is realised or the liability is settled, i.e., 31% and 25% following enactment of France's 2018 Finance Act providing for a gradual reduction in the corporate income tax rate from 33.33% to 25%. If the criteria for applying either of the above rates are not fulfilled, the tax rate at the period-end is used, i.e., 33.33%.
The phased reduction was taken into account for the calculation of deferred taxes at 31 December 2017, with a positive impact of €19,449 thousand, including a €13,779 thousand favourable adjustment to deferred taxes at 1 January 2017.

(in thousands of euros)	Statement of financial position 31 Dec. 2016	Reclassifications	Equity	Statement of Comprehensive Income	Statement of financial position 31 Dec. 2017
Fair value adjustments on investment properties	(139,383)	779	–	(33,306)	(171,910)
Adjustment of depreciation	(19,322)	(779)	(83)	(2,855)	(23,039)
Adjustment of property rentals	(1,759)	–	–	158	(1,601)
Capitalisation of interest expense and transaction costs	(521)	–	–	–	(521)
Other	(767)	–	–	(69)	(836)
Net	**(161,752)**	**–**	**(83)**	**(36,072)**	**(197,907)**
Of which deferred tax assets	108	–	–	(39)	69
Of which deferred tax liabilities	(161,860)	–	(83)	(36,033)	(197,976)

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	110	110	–	–
Commitments received				
Guarantees received from tenants	59,413	1,024	18,755	39,634
Guarantees received from suppliers	145	101	44	–
Total commitments received	**59,558**	**1,125**	**18,799**	**39,634**

Contractual redevelopment and renovation obligations

At 31 December 2017, the Group's contractual commitments relating to investment properties undergoing renovation totalled €26,747 thousand (€10,548 thousand at 31 December 2016), of which €21,769 thousand concerned the Louvre Saint-Honoré, Emile Zola and Iéna 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	150,000	–	150,000	–
2015 BNP Paribas	400,000	–	400,000	–
2016 BNP Paribas	75,000	–	75,000	–
Banque Postale	75,000	–	–	75,000
Banco Sabadell	60,000	–	60,000	–
Total	**760,000**	**–**	**685,000**	**75,000**

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 2017, total commitments for the payment of compensation amounted to €3,017 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)	2017	2016
Acquisitions of and improvements to investment properties		
Purchase price	(160,662)	–
Transaction costs	(5,938)	–
Work	(40,799)	(64,968)
Total	**(207,399)**	**(64,968)**
Proceeds from disposals of investment properties, intangible assets and property and equipment		
Sale price	445,000	–
Transaction costs	(3,215)	–
Total	**441,785**	**–**
Cash and cash equivalents at end of period		
Cash at bank and in hand	15,710	19,766
Bank overdrafts	(33,400)	(84,867)
Total	**(17,690)**	**(65,101)**

Non-cash changes in bonds and bank borrowings amounted to €1,576 thousand in 2017 and corresponded mainly to the deferred recognition of debt arranging fees.
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
SAS Société Immobilière Victoria(1)	602,039,364	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

(1) Companies consolidated for the first time in 2017 (see Notes II-1 and IV-4)

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 58.6% of the capital at 31 December 2017.
The Group and all of its subsidiaries have their registered office in the 8th *arrondissement* of Paris.

Company Financial Statements for the Year Ended 31 December 2017

Balance Sheet

ASSETS

(in €)	Total	Depreciation, amortisation and provisions	31 Dec. 2017 Net	31 Dec. 2016 Net
NON-CURRENT ASSETS				
Intangible assets				
Software	6,587,904	6,245,693	342,211	533,864
Lease premiums and goodwill[(1)]	–	–	–	–
Other	797,926	–	797,926	884,274
Prepayments to suppliers of intangible assets	–	–	–	–
Property and equipment				
Land	677,197,889	5,649	677,192,240	721,457,230
Buildings	960,976,064	225,932,904	735,043,160	841,387,778
Plant and equipment	–	–	–	–
Other	5,095,612	2,546,084	2,549,528	2,756,048
Assets under construction	89,650,242	–	89,650,242	90,325,939
Prepayments to suppliers of property and equipment	–	–	–	–
Non-current financial assets				
Shares in subsidiaries and affiliates	478,346,284	–	478,346,284	391,584,965
Advances to subsidiaries and affiliates[(2)]	27,484,333	–	27,484,333	22,433,196
Other long-term investments	–	–	–	–
Loans	–	–	–	–
Other	685,394	–	685,394	678,965
Total I	**2,246,821,648**	**234,730,330**	**2,012,091,318**	**2,072,042,259**
CURRENT ASSETS				
Inventories and work in progress				
Receivables[(3)]				
Prepayments to suppliers	51,587	–	51,587	40,993
Rental receivables	7,844,367	218,312	7,626,055	7,055,394
Other receivables	476,874,751	–	476,874,751	496,683,119
Current financial assets				
Treasury shares	16,889,368	1,371,306	15,518,062	16,734,934
Cash equivalents	1,343,666	–	1,343,666	–
Cash at bank and in hand	2,235,618	–	2,235,618	45,329
Prepaid expenses[(3)]	188,055	–	188,055	185,552
Total II	**505,427,412**	**1,589,618**	**503,837,794**	**520,745,321**
Deferred debt issuance costs **(III)**	5,596,536	–	5,596,536	6,762,400
Debt redemption premiums **(IV)**	855,998	–	855,998	1,301,883
Conversion losses **(V)**	–	–	–	–
Total assets (I + II + III + IV + V)	**2,758,701,594**	**236,319,948**	**2,522,381,646**	**2,600,851,863**
(1) Of which, lease premiums				
(2) Of which, due within one year (gross)			*27,484,333*	*22,433,196*
(3) Of which, due beyond one year (gross)			*473,491,116*	*491,754,607*

EQUITY AND LIABILITIES

(in €)	31 Dec. 2017	31 Dec. 2016
EQUITY		
Share capital (o/w paid-up 93,057,948)	93,057,948	93,057,948
Share premium account	556,114,516	634,898,957
Revaluation reserve	21,438,656	21,438,656
Other reserves		
Legal reserve	9,305,795	9,305,795
Statutory or contractual reserves		
Untaxed reserves		
Other reserves		
Retained earnings	343,033	349,503
Interim dividend		
Profit/(loss) for the year	272,390,385	(30,278,521)
Capital and reserves	**952,650,333**	**728,772,337**
Government grants		
Untaxed provisions	20,796,171	19,393,269
Total I	**973,446,505**	**748,165,606**
Participating securities		
Total Ia		
Provisions for contingencies and charges	3,419,494	4,486,723
Total II	**3,419,494**	**4,486,723**
LIABILITIES(1)(2)		
Convertible bonds		
Other bonds	1,002,342,466	1,304,022,830
Bank borrowings(3)	443,486,581	445,184,542
Other borrowings	51,535,178	52,305,204
Prepaid property rentals	7,730,262	4,113,989
Trade payables	7,268,388	7,431,402
Accrued taxes and payroll costs	18,867,360	23,823,021
Due to suppliers of property and equipment	8,072,725	7,762,829
Other liabilities	1,593,089	1,315,294
Deferred income	4,619,599	2,240,423
Total III	**1,545,515,648**	**1,848,199,534**
Conversion gains **(IV)**		
Total equity and liabilities (I + II + III + IV)	**2,522,381,646**	**2,600,851,863**
(1) Of which, due beyond one year	*1,464,565,556*	*1,420,880,507*
(2) Of which, due within one year	*80,950,092*	*427,319,026*
(3) Of which, short-term bank loans and overdrafts	*33,337,214*	*84,860,295*

Profit and Loss Account

(in €)	2017	2016
OPERATING INCOME		
Property rentals	99,591,492	86,106,667
Service revenue	1,830,445	1,629,053
Total revenue	**101,421,937**	**87,735,720**
Own-work capitalised	439,083	255,627
Reversals of depreciation, amortisation and provisions, and expense transfers	29,163,139	31,078,684
Other income	1,845,927	2,263,852
Total I	**132,870,086**	**121,333,883**
OPERATING EXPENSES		
Other purchases and external charges	34,796,161	32,419,652
Taxes other than on income	11,787,227	11,317,822
Wages and salaries	8,812,127	8,226,252
Payroll taxes and other employee benefits expenses	3,874,700	3,319,907
Depreciation, amortisation and provision expense		
Depreciation and amortisation expense	46,201,193	48,453,212
Impairment losses on current assets	76,990	57,723
Provision expense	2,136,051	3,776,360
Other expenses	827,853	10,713,245
Total II	**108,512,302**	**118,284,173**
Operating profit (I - II)	**24,357,784**	**3,049,710**
FINANCIAL INCOME		
From investments in subsidiaries and affiliates	29,992,024	27,598,438
From other non-current financial assets		6,301
Other interest income	937,564	1,175,730
Reversals of provisions and impairment losses, and expense transfers	4,806,501	1,399,923
Net gains from sales of current financial assets		118
Total III	**35,736,089**	**30,180,510**
FINANCIAL EXPENSES		
Amortisation, impairment losses and other provision expense	445,885	520,444
Interest expense	36,922,641	45,855,794
Net losses from sales of current financial assets		115
Total IV	**37,368,526**	**46,376,353**
Net financial expense (III - IV)	**(1,632,437)**	**(16,195,843)**
Profit/(loss) before tax and other income and expense (I - II + III - IV)	**22,725,347**	**(13,146,133)**
OTHER INCOME		
From revenue transactions	90,544	205,152
From capital transactions	445,231,288	720,389
Reversals of provisions and impairment losses, and expense transfers	1,178,596	1,576,769
Total V	**446,500,428**	**2,502,310**
OTHER EXPENSES		
From revenue transactions	135,466	1,616,295
From capital transactions	191,921,153	
Amortisation, impairment losses and other provision expense	2,499,777	2,424,356
Total VI	**194,556,396**	**4,040,652**
Net non-recurring income/(expense) (V - VI)	**251,944,032**	**(1,538,342)**
Employee profit-sharing (VII)	2,327,288	65,055
Income tax benefit/(expense) (VIII)	(48,294)	15,528,992
Total income (I + III + V)	**615,106,603**	**154,016,703**
Total expenses (II + IV + VI + VII + VIII)	**342,716,218**	**184,295,225**
Profit/(loss) for the year	**272,390,385**	**(30,278,521)**

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 large-scale renovation, are considered as an integral part of the renovation 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).

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 component 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 2017 was performed by independent experts Jones Lang LaSalle and Cushman & Wakefield.

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).

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 rents 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

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 were exchanged when SMA moved to its new headquarters on 30 November 2017. The deal was structured as follows:
– acquisition of the entire capital of Société Immobilière Victoria, owner of the land and part of the buildings, and
– acquisition of the part of the buildings not owned by Société Immobilière Victoria.

The building stands on a 6,300 sq.m. plot featuring a tree-filled garden. It dates back to 1966 and will be completely remodelled.

On 29 September 2017, the In/Out building located at 46 Quai Alphonse le Gallo in Boulogne-Billancourt was sold to Primonial REIM. The 35,000 sq.m. building was completely remodelled between 2011 and 2013. Since 2015, it has been leased in full to the Organisation for Economic Co-operation and Development (OECD) under a lease expiring in 2027. The net sale price was €445 million.

Financing and hedges

The remaining €300.7 million worth of 3.5% 2012 bonds were redeemed at maturity in November 2017.

During the year, two new bilateral revolving lines of credit were obtained: a six-year line with Crédit Agricole Ile de France for €175 million and a seven-year line with La Banque Postale for €75 million.

In addition, the five-year line of credit obtained from Banco Sabadell in 2015 was increased from €50 million to €70 million.

These operations have reduced the cost and extended the average life of the Company's debt, while also providing a significant reserve of undrawn confirmed credit facilities that can be used to fulfil its short- and medium-term repayment obligations and take up investment opportunities.

B – Tax audits

On 19 December 2017, the French tax authorities announced that they planned to perform an audit of the Company's accounts for the years 2015 and 2016.

C - Subsequent events

None.

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. 2016	Additions	Disposals	Reclassifications	31 Dec. 2017
Software	6,336,814	–	–	251,090	6,587,904
Prepayments to suppliers of intangible assets	884,274	184,013	–	(270,361)	797,926
Total	**7,221,088**	**184,013**	**0**	**(19,272)**	**7,385,830**

Software includes both software licences and internally-developed software.

Amortisation (in €)	31 Dec. 2016	Amortisation for the year	Amortisation written off on disposals and other	31 Dec. 2017
Software	5,802,950	442,743	–	6,245,693
Total	**5,802,950**	**442,743**	**0**	**6,245,693**

A-1.2) Property and equipment

Property and equipment at cost (in €)	31 Dec. 2016	Additions	Disposals	Reclassifications	31 Dec. 2017
Land	722,551,472	–	45,353,583	–	677,197,889
Buildings	527,719,172	–	73,675,004	629,788	454,673,955
Leasehold buildings	–	52,940,893	–	–	52,940,893
Fixtures and fittings	524,235,268	–	88,836,433	17,962,380	453,361,216
Furniture and equipment	4,885,202	–	–	210,410	5,095,612
Assets under construction	90,325,939	25,168,188	7,060,579	(18,783,306)	89,650,242
Total	**1,869,717,053**	**78,109,081**	**214,925,599**	**19,272**	**1,732,919,807**

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.

Movements in 2017 included:
– the addition, under “Buildings”, of the property at 112-114 Emile Zola, 75015 Paris, for €52,941 thousand;
– the disposal of the In/Out building, for €208,000 thousand.

Depreciation (in €)	31 Dec. 2016	Depreciation for the year	Depreciation written off on disposals and other	Reclassifications	31 Dec. 2017
Land					
Buildings	46,385,916	9,352,664	6,646,754	(27,954)	49,063,872
Fixtures and fittings	164,180,746	34,010,132	21,349,800	27,954	176,869,032
Furniture and equipment	2,129,154	416,930	–	–	2,546,084
Total	**212,695,816**	**43,779,726**	**27,996,554**	**0**	**228,478,988**

Impairment (in €)	31 Dec. 2016	Increases	Decreases	31 Dec. 2017
Land	1,094,242	–	1,088,593	5,649
Total	**1,094,242**	**0**	**1,088,593**	**5,649**

Following the valuations carried out at 31 December 2017, 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. 2016	Increases	Decreases	31 Dec. 2017
Le Vaisseau	1,086,377	–	1,086,377	0
Saint-Denis	7,865	–	2,216	5,649
Total	**1,094,242**	**0**	**1,088,593**	**5,649**

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. 2016	Additions	Disposals	31 Dec. 2017
Shares in subsidiaries and affiliates	393,871,912	86,761,320	2,286,948	478,346,284
Advances to subsidiaries and affiliates	22,433,196	27,484,333	22,433,196	27,484,333
Deposits	678,965	6,429	–	685,394
Total	**416,984,073**	**114,252,082**	**24,720,144**	**506,516,011**

In 2017, the Company acquired the entire capital of Société Immobilière Victoria for €86,761 thousand.

Impairment (in €)	31 Dec. 2016	Increases	Decreases	31 Dec. 2017
Shares in subsidiaries and affiliates	2,286,948	–	2,286,948	0
Total	**2,286,948**	**0**	**2,286,948**	**0**

The impairment loss recorded on Vendôme-Rome shares was written off following the liquidation of this company.

Analysis by maturity at 31 December 2017 (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	27,484,333	*27,484,333*	27,484,333	–	–
Deposits	685,394	–	–	–	685,394

LIST OF SUBSIDIARIES AND AFFILIATES

Company	Share capital	Reserves and retained earnings before profit appropriation	% interest	Carrying amount of investment		Outstanding loans and advances granted by SFL	Out-standing guaran-tees	Last published net revenue	Last published profit	Dividends received during the year	Observa-tions
				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	110,473,677	100%	291,846,722	291,846,722	–	–	13,403,858	7,062,319	–	–
SCI 103 GRENELLE	150	6,567,050	100%	1,168,570	1,168,570	162,318,630	–	7,952,171	3,359,735	–	–
SCI WASHINGTON	94,872,000	14,658,474	66%	79,788,878	79,788,878	108,085,714	–	20,006,445	9,318,524	–	–
SAS SOCIÉTÉ IMMOBILIÈRE VICTORIA	243,856	90,972,957	100%	86,761,320	86,761,320	–	–	–	–	–	–
2. Affiliates (10-50%-owned)											
SAS PARHOLDING	15,000,000	10,372,730	50%	18,400,300	18,400,300	15,809	–	–	7,505,293	1,814,699	–
B - Aggregate information about investments not listed in A above:											
Subsidiaries (at least 50%-owned)	–	–	–	380,493	380,493	201,320,214	–	–	12,270,199	692,992	–
Affiliates (less than 50%-owned)	–	–	–	–	–	–	–	–	–	–	–

A-2) Receivables

Analysis by maturity at 31 December 2017 (in €)	Total	*o/w accrued income*	Due within 1 year	Due in 1 to 5 years	Due beyond 5 years
Prepayments to suppliers	51,587	–	51,587	–	–
Trade receivables	7,844,367	*2,253,605*	6,972,406	871,961	–
Other					
• Employee advances	6,250	–	6,250	–	–
• Prepaid and recoverable taxes	2,567,237	–	2,567,237	–	–
• Current account advances	472,619,155	*92,623*	–	–	472,619,155
• Miscellaneous receivables	1,682,109	–	1,682,109	–	–
Prepaid expenses	188,055	–	188,055	–	–

Impairment (in €)	31 Dec. 2016	Increases	Decreases	31 Dec. 2017
Rental receivables	194,946	76,990	53,624	218,312
Total	**194,946**	**76,990**	**53,624**	**218,312**

A-3) Current financial assets

Marketable securities consist exclusively of treasury shares.

The total carrying amount of treasury shares held at 31 December 2017 came to €16,889 thousand versus a fair value of €16,707 thousand. The average SFL share price for December 2017 was €54.40 compared with €48 in December 2016.

Treasury shares	31 Dec. 2016	Additions(1)	Disposals	31 Dec. 2017
Number of shares	362,380	122,452	177,697	307,135
Average purchase/sale price (in €)	€54.00	€52.90	€51.52	€54.99
Total	**19,567,535**	**6,477,287**	**9,155,454**	**16,889,368**

(1) Including 46,057 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 €1,371 thousand at 31 December 2017 as follows:

Treasury shares	Number of shares	Cost	Provisions	Net	Market value	Gross gain or loss
Shares allocated to share-based payment plans(1)						
2015 performance share plan	37,895	1,766,219	N/A(1)	1,766,219	–	–
2016 performance share plan	31,124	1,509,514	N/A(1)	1,509,514	–	–
2017 performance share plan	32,592	1,624,227	N/A(1)	1,624,227	–	–
Sub-total	**101,611**	**4,899,960**	**0**	**4,899,960**	**–**	**–**
Available treasury shares						
Shares held for future stock-for-stock acquisitions	181,241	11,229,990	1,371,150	9,858,840	9,858,840	–
Shares held for external growth transactions	23,283	704,866	–	704,866	1,266,509	561,643
Shares held under the liquidity contract	1,000	54,552	156	54,396	54,396	–
Sub-total	**205,524**	**11,989,408**	**1,371,306**	**10,618,102**	–	–
Total	**307,135**	**16,889,368**	**1,371,306**	**15,518,062**	**–**	**–**

(1) Treasury shares allocated to performance share plans concern SFL Group companies and are carried at cost.

Impairment (in €)	31 Dec. 2016	Increases	Decreases	Reclassifications	31 Dec. 2017
Treasury shares	2,832,601	–	1,172,276	(289,019)	1,371,306
Total	**2,832,601**	**0**	**1,172,276**	**(289,019)**	**1,371,306**

Changes in impairment over the year included a €1,172 thousand provision reversal through profit and the reclassification of €289 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 3	Plan 4	Plan 4
Date of General Meeting	22 April 2015	13 Nov. 2015	13 Nov. 2015
Grant date	17 June 2015	26 April 2016	3 March 2017
End of vesting period	31 Dec. 2017	31 Dec. 2018	31 Dec. 2019
Initial expected vesting rate	70.83%	70.83%	70.83%
Target number of shares	18,255	22,561	22,691
Value per share(1)	€42.10	€48.50	€48.70

(1) SFL share price on the grant date

Number of performance share rights expected to vest	Plan 3	Plan 4	Plan 4
Number of shares expected to vest at beginning of the year	25,544	31,824	–
Performance share rights granted during the year	12,649	–	32,036
Performance share rights cancelled during the year (departures/vesting conditions not met)	(381)	(784)	(784)
Expected vesting rate at 31 December 2017	150.00%	100.00%	100.00%
Number of shares expected to vest at the year-end	**37,812**	**31,040**	**31,252**

A-4) Cash equivalents

Option premiums (caps)	Life of the instrument	Total	Amortisation for the year	Accumulated amortisation	Net
Cadif 25 bps cap – value at 16 November 2017	5 years	1,390,000	46,334	46,334	1,343,666
Total		**1,390,000**	**46,334**	**46,334**	**1,343,666**

The premium is recognised over the life of the cap.

A-5) Deferred charges

Debt issuance costs (in €)	Amortisation period	Total	Accumulated amortisation at 1 Jan. 2017	Amortisation for the year	Accumulated amortisation at 31 Dec. 2017	Net
2012 bond issuance costs	5 years	2,893,365	2,574,409	318,956	2,893,365	0
2014 bond issuance costs	7 years	2,465,480	733,676	352,212	1,085,888	1,379,592
2015 bond issuance costs	7 years	2,407,120	386,865	343,872	730,737	1,676,383
2014 BECM loan fees	5 years	1,050,000	577,500	210,000	787,500	262,500
2014 Natixis loan fees	5 years	900,000	390,000	180,000	570,000	330,000
2014 Natixis loan renegotiation fees	4 years	100,000	30,615	24,492	55,107	44,893
2015 Banco Sabadell loan fees	5 years	150,600	47,690	102,910	150,600	0
2015 BNP Paribas loan fees	5 years	1,222,088	366,624	244,416	611,040	611,048
2016 BNP Paribas loan fees	5 years	771,084	89,958	154,212	244,170	526,914
2017 Crédit Agricole loan fees	6 years	550,360	–	28,905	28,905	521,455
2017 Banque Postale loan fees	7 years	262,500	–	18,749	18,749	243,751
Total		**12,772,597**	**5,197,337**	**1,978,726**	**7,176,063**	**5,596,536**

Fees are amortised over the life of the loan at the same rate as repayments.

A-6) Debt redemption premiums

Redemption premiums (in €)	Amortisation period	Total	Amortisation for the year	Accumulated amortisation	Net
2012 bonds	5 years	2,295,000	253,033	2,295,000	0
2014 bonds	7 years	615,000	87,852	270,877	344,123
2015 bonds	7 years	735,000	105,000	223,125	511,875
Total		**3,645,000**	**445,885**	**2,789,002**	**855,998**

Redemption premiums are amortised over the life of the loan at the same rate as repayments.

A-7) Equity

A-7.1) Changes in equity

A. Equity at 31 December 2016 before appropriation of the loss for the year	**748,165,606**
B. Appropriations decided at the Annual General Meeting	
Transfer to the legal reserve	0
C. Dividend paid during the year	
2016 dividend decided by the Annual General Meeting of 28 April 2017	(48,512,390)
D. Other movements for the year	
Share issues	–
Reduction in the share premium account	–
Change in untaxed provisions	1,402,903
Profit for the year	272,390,385
E. Equity at 31 December 2017	**973,446,505**
F. Change in equity during the year	**225,280,899**

At 31 December 2017, 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 46,221,839.

Société Foncière Lyonnaise is a subsidiary of Spanish company Inmobiliaria Colonial SA, which owned 58.56% of the capital at 31 December 2017.

Untaxed provisions correspond exclusively to accelerated capital allowances, representing excess tax depreciation calculated on the residual value of certain properties.

Untaxed provisions	31 Dec. 2016	Increases	Decreases	31 Dec. 2017
Excess tax depreciation	19,393,269	2,486,577	1,083,674	20,796,172
Total	**19,393,269**	**2,486,577**	**1,083,674**	**20,796,172**

A-7.2) Dividends

Dividends	2017		2016	
	Paid	Per share	Paid	Per share
Prior year dividend paid in reporting year	48,512,390	€1.05	48,505,920	€1.05
Special dividend paid in reporting year	–	–	48,494,816	€1.05
Total	**48,512,390**	**€1.05**	**97,007,736**	**€2.10**

A-7.3) Provisions for contingencies and charges

Provisions for contingencies and charges (in €)	31 Dec. 2016	Increases	Decreases	31 Dec. 2017
Provisions for property-related contingencies and tenant claims	2,426,000	–	2,070,000	356,000
Provisions for employee benefits	2,060,723	2,149,251	1,146,480	3,063,494
Total	**4,486,723**	**2,149,251**	**3,216,480**	**3,419,494**

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 claims from former tenants decreased during the year following the settlement of one claim.

Provisions for employee benefits correspond for the most part to deferred performance share plan costs. Decreases in 2017 included the €1,146 thousand provision reversed upon delivery of shares granted under the 2014 Plan 1.

A-8) Liabilities

Liabilities at 31 December 2017 by maturity (in €)	Total	*o/w accrued expenses*	Due within 1 year	Due in 1 to 5 years	Due beyond 5 years
Bonds	1,002,342,466	*2,342,466*	2,342,466	1,000,000,000	–
Bank borrowings	443,486,581	*165,400*	33,486,581	235,000,000	175,000,000
Other borrowings and financial liabilities					
• Tenant deposits	14,574,900	–	3,878,374	3,159,403	7,537,123
• Current account advances	36,960,278	*96,986*	96,986	–	36,863,292
Prepaid property rentals	7,730,262	–	7,730,262	–	–
Trade payables	7,268,388	*6,219,964*	7,268,388	–	–
Accrued payroll costs	7,407,879	*6,958,270*	7,407,879	–	–
Accrued taxes	11,459,481	–	4,953,293	6,506,188	–
Due to suppliers of property	8,072,725	*6,863,432*	8,072,725	–	–
Other liabilities	1,593,089	*716,697*	1,593,089	–	–
Deferred income	4,619,599	–	4,120,049	311,408	188,142
Total	**1,545,515,648**	***23,363,215***	**80,950,092**	**1,244,976,999**	**219,588,557**

Prepaid property rentals correspond to rent and property expenses for the first quarter of 2018 payable in advance.
Accrued employee benefits expense mainly includes statutory and discretionary profit-sharing and bonus accruals.
Accrued taxes include the exit tax instalments due in 2018 on the 131 Wagram building, for a total of €9,759 thousand.

Long and short-term debt (in €)	31 Dec. 2017	31 Dec. 2016	Year-on-year change
2012 bonds	–	301,680,364	(301,680,364)
2014 bonds	500,924,658	500,924,658	–
2015 bonds	501,417,808	501,417,808	–
2014 BECM loan	150,090,667	140,095,679	9,994,988
2015 BNP Paribas loan	–	20,003,003	(20,003,003)
2016 BNP Paribas loan	75,042,298	150,222,231	(75,179,933)
Banco Sabadell loan	10,000,667	50,003,333	(40,002,666)
2017 Crédit Agricole loan	175,015,735	–	175,015,735
Bank overdrafts	33,337,214	84,860,296	(51,523,082)
Total	**1,445,829,047**	**1,749,207,372**	**(303,378,325)**

B - Notes to the Profit and Loss Account

B-1) Net revenue

(in €)	2017	2016
Property rentals and lease termination penalties	91,933,050	79,651,579
Property management fees	2,066,430	2,037,231
Key money	766,668	766,668
Other fees	1,725,418	1,325,920
Facility management revenues	3,099,926	2,325,269
Sub-total	**99,591,492**	**86,106,667**
Administration and accounting fees	141,200	141,200
Payments received for seconded employees	1,689,245	1,487,853
Sub-total	**1,830,445**	**1,629,053**
Total	**101,421,937**	**87,735,720**

The increase in property rentals and lease termination penalties reflected the ending of the rent-free periods granted to certain new tenants of the #cloud.paris, Edouard VII and 131 Wagram buildings.

B-2) Payroll costs

(in €)	Administrative staff	Building staff	2017 total	2016 total
Wages and salaries				
Wages and salaries	8,735,566	76,561	8,812,127	8,226,252
Sub-total	**8,735,566**	**76,561**	**8,812,127**	**8,226,252**
Payroll taxes and other employee benefits expenses				
Social security taxes and disability/health insurance premiums	3,309,470	39,571	3,349,040	2,842,236
Other employee benefits expenses	524,343	1,316	525,659	477,671
Sub-total	**3,833,813**	**40,887**	**3,874,700**	**3,319,907**
Total	**12,569,379**	**117,448**	**12,686,827**	**11,546,159**

The remuneration paid to Company directors and officers (including bonuses, benefits in kind, corporate savings plan rights, termination benefits, etc.) amounted to €2,973 thousand in 2017.

Directors' fees for the year awarded to the members of the Board of Directors represented a total of €763 thousand.

B-3) Number of employees

The Company had 63 administrative managers and employees and 2 building staff at 31 December 2017 compared with 61 administrative staff and 2 building staff at 31 December 2016.

The average number of employees breaks down as follows:

(number)	2017	2016
Building caretakers	2	2
Administrative staff	3	4
Supervisors	9	7
Managers	51	50
Total	**65**	**63**

B-4) Net financial expense

(in €)	2017	2016
Dividends from SAS Parholding	1,814,699	3,063,778
Dividends from SA Segpim	692,992	959,740
Revenue from SCI Paul Cézanne	7,062,306	10,813,435
Revenue from SNC Condorcet	10,915,426	–
Revenue from SCI Washington	6,150,226	7,184,164
Revenue from SCI 103 Grenelle	3,356,375	5,577,321
Sub-total	**29,992,024**	**27,598,438**
Interest income from the SCI Champvernier loan	–	6,301
Sub-total	**0**	**6,301**
Interest income from current account advances to subsidiaries	931,174	1,173,583
Other financial income	6,390	2,147
Sub-total	**937,564**	**1,175,730**
Capitalised interest expense	1,347,277	291,200
Reversals of impairment of current financial assets	1,172,276	1,108,723
Reversals of impairment of shares in subsidiaries and affiliates	2,286,948	–
Sub-total	**4,806,501**	**1,399,923**
Net gains from sales of current financial assets	–	118
Sub-total	**0**	**118**
Financial income	**35,736,089**	**30,180,510**
Change in provisions for bond redemption premiums	445,885	520,444
Sub-total	**445,885**	**520,444**
Interest expense on bonds and bank loans	33,324,843	36,484,599
Interest expense on current account advances from subsidiaries	235,365	312,795
Interest expense on bank overdrafts	186,219	194,320
Bank loan arranging fees	3,077,086	3,041,045
Expenses on financial instruments	99,128	–
Cancellation of SNC Condorcet's 2015 profit(1)	–	5,823,035
Sub-total	**36,922,641**	**45,855,794**
Net losses from sales of current financial assets	–	115
Sub-total	**0**	**115**
Financial expenses	**37,368,526**	**46,376,353**
Net financial expense	**(1,632,437)**	**(16,195,843)**

(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-5) Other income and expense

(in €)	2017	2016
Capital gains and losses on disposal of non-current assets, net	256,538,804	–
Fines and penalties	–	(124,268)
Capital gains and losses on sales of treasury shares, net	(941,720)	(1,395,371)
Value of Vendôme-Rome shares	(2,286,948)	–
Tax relief	85,847	–
Prior period adjustments, net	(130,769)	108,496
Settlement of a dispute with a former tenant	–	720,389
Untaxed provisions	(1,402,903)	(2,345,396)
Non-recurring reversals of provisions for contingencies	(13,200)	138,700
Insurance settlements	94,921	1,359,109
Total	**251,944,032**	**(1,538,341)**

Capital gains and losses on disposal of non-current assets for 2017 correspond to the gain on the sale of the In/Out property.

B-6) Income tax expense

(in €)	2017	2016
Income tax (benefit)/expense	(48,294)	2,516,614
Exit tax	–	13,012,378
Total	**(48,294)**	**15,528,992**

The income tax benefit in 2017 corresponds mainly to tax credits.

C- Related party transactions

(in €)	2017	2016
Balance Sheet		
Non-current financial assets	478,346,284	391,584,964
Advances to subsidiaries and affiliates	27,484,333	22,433,187
Other loans	368,649	361,108
Trade receivables	590,220	447,511
Other receivables	472,619,155	491,867,008
Other borrowings	148,627	147,179
Trade payables	2,987,525	2,716,613
Other liabilities	36,960,278	40,967,057
Profit and Loss Account		
Revenue	3,329,200	3,129,744
Other income	645,356	635,769
Expense transfers	293,476	288,860
Other purchases and external charges	1,767,709	1,694,526
Property management fees	2,468,102	2,163,910
Dividend income from subsidiaries and affiliates	29,992,024	27,598,438
Interest expense on liabilities related to advances to subsidiaries and affiliates	–	5,823,035
Interest received on advances to subsidiaries and affiliates	792,795	1,002,072
Interest paid on liabilities related to advances to subsidiaries and affiliates	96,986	141,284

D – 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	–	–	–	–
Real estate guarantees/Locaparis	110,000	110,000	–	–
Commitments received				
Guarantees received from tenants	36,626,528	915,467	8,388,099	27,322,962
Guarantees received from suppliers	121,811	78,025	43,786	–
Undrawn confirmed lines of credit				
BPCE loan	150,000,000	–	150,000,000	–
2015 BNP PARIBAS	400,000,000	–	400,000,000	–
BANQUE POSTALE	75,000,000	–	–	75,000,000
BANCO SABADELL	60,000,000	–	60,000,000	–
2016 BNP PARIBAS	75,000,000	–	75,000,000	–

At 31 December 2017, the Company's portfolio included:
- A 5-year swap with CA-CIB (variable rate swapped for a fixed rate of 0.23%) on a notional amount of €100,000 thousand. The instrument came into effect on 28 November 2017 and is measured at fair value through profit or loss. At 31 December 2017, the swap had a negative fair value of €51 thousand (including the borrowing cost).
- A 5-year cap at 0.25% on a notional amount of €100,000 thousand set up with Cadif (the option writer). The option came into effect on 16 November 2017 and is measured at fair value through profit or loss. At 31 December 2017, the cap had a positive fair value of €1,484 thousand (including the borrowing cost).

Hedging portfolio

Hedging instruments	Notional amount	Maturity	Fair value at 31 December
CA-CIB 0.23% swap	100,000,000	Nov. 2022	(51,312)
CADIF 0.25% cap	100,000,000	Nov. 2022	1,484,401
	200,000,000		**1,433,089**

Contractual redevelopment and renovation obligations

At 31 December 2017, the Company's contractual commitments relating to investment properties undergoing renovation totalled €25,475 thousand (€8,675 thousand at 31 December 2016), of which €21,769 thousand concerned the Louvre Saint-Honoré, Emile Zola and Iéna 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 €768 thousand at 31 December 2017. 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 1.3% and a 1.5% rate of future salary increases.

SFL'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 Company provide for the payment of one month's salary to:
• administrative staff who complete 20, 30, 35 and 40 years of service, and
• 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.

E – 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 2017

Statutory Auditors' report on the consolidated financial statements Year ended 31 December 2017

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking readers. This report includes information specifically required by European regulations or French law, such as information about the appointment of Statutory Auditors. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders,

Opinion

In compliance with the engagement entrusted to us by your Annual General Meeting, we have audited the accompanying consolidated financial statements of Société Foncière Lyonnaise for the year ended 31 December 2017.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at 31 December 2017 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

The audit opinion expressed above is consistent with our report to the Audit Committee.

Basis for opinion

Audit framework

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

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

Independence

We conducted our audit engagement in compliance with the independence rules applicable to us for the period from 1 January 2017 to the date of our report and in particular we did not provide any non-audit services prohibited by Article 5(1) of Regulation (EU) No 537/2014 or the French Code of Ethics (*Code de déontologie*) for Statutory Auditors.

Justification of assessments – Key audit matters

In accordance with the requirements of Articles L.823-9 and R.823-7 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we inform you of the key audit matters relating to the risks of material misstatement that, in our professional judgement, were of most significance in our audit of the consolidated financial statements, as well as how we addressed those risks.

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

Fair value measurement of investment property

Description of risk

Société Foncière Lyonnaise owns investment property, which it measures using the fair value model as provided for in IAS 40. Gains and losses arising from changes in fair value from the previous year are recognised in profit.

Investment property thus represented a value of €6,119,148 thousand in the statement of financial position, with an increase in value of €635,131 thousand in the statement of comprehensive income, out of total assets worth €6,248,595 thousand and a net profit before tax of €838,795 thousand.

As described in Notes I-3) and IV-4) to the consolidated financial statements, all of the Group's property assets are valued by qualified independent experts to estimate their fair value.

Valuing property assets requires a significant degree of judgement from management in terms of determining the appropriate assumptions to be used, such as discount and capitalisation rates, market rents and any specific incentives granted to tenants.

We deemed the measurement of investment property at fair value to be a key audit matter given the material impact of this value on the consolidated financial statements and the degree of judgement required from management to determine fair value.

How our audit addressed this matter

We assessed the expertise, independence and integrity of the property experts selected by Société Foncière Lyonnaise, including by verifying their professional credentials.

We verified the effective implementation and quality of management's process for reviewing valuations and of the control of the data used by the property experts for valuation purposes.

On a sample basis, we reconciled the data used in the valuation process with the appropriate documentation, such as leases, to verify the accuracy of the information supplied by management to the independent experts.

We interviewed the independent experts to gain an understanding of and evaluate the relevance of the estimates, assumptions and valuation methodologies used. Our work focused on those properties for which the assumptions used or the change in value from the previous year varied significantly from published market data, external data and factors specific to the properties.

Lastly, we verified that the values, once obtained, had been properly accounted for.

We verified the appropriateness of the disclosures provided in the notes to the consolidated financial statements.

Accounting treatment of rental income for leases with specific terms

Description of risk

Rental income stood at €195,780 thousand in 2017 and is recognised on a straight-line basis over the lease term, including for leases with specific terms such as rent-free periods, step-up clauses, key money and eviction compensation.
The accounting treatment of these specific terms is described in Notes V-1) and V-3) to the consolidated financial statements. More specifically, rent-free periods and other special lease terms are recorded as trade receivables, which amounted to €68,957 thousand at 31 December 2017.
This accounting treatment directly impacts on rental performance as reflected in the Group's consolidated financial statements. We deemed the accounting treatment of specific lease terms with respect to rental income to be a key audit matter given the work involved in terms of identifying and calculating the trade receivables deriving from these terms and assessing their recoverability.

How our audit addressed this matter

We perused new leases and any amendments and followed up on existing leases, on a sample basis, with a view to identifying any incentives that might require specific accounting treatment.
We assessed the relevance of the procedures and controls implemented by management for the measurement of receivables deriving from the accounting treatment of specific lease terms.
We examined the documentation on the assessment of the recoverability of these rental receivables.
We verified the appropriateness of the disclosures provided in the notes to the consolidated financial statements.

Verification of the information pertaining to the Group presented in the management report

As required by law and in accordance with professional standards applicable in France, we have also verified the information pertaining to the Group presented in the management report of the Board of Directors.
We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Report on other legal and regulatory requirements

Appointment of the Statutory Auditors

We were appointed Statutory Auditors of Société Foncière Lyonnaise by the Annual General Meetings of 15 April 2003 for PricewaterhouseCoopers Audit and 21 April 2005 for Deloitte & Associés.

As at 31 December 2017, PricewaterhouseCoopers Audit was in the fifteenth year of total uninterrupted engagement and Deloitte & Associés was in the thirteenth year.

- **Responsibilities of management and those charged with governance for the consolidated financial statements**

Management is responsible for preparing consolidated financial statements presenting a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and for implementing the internal control procedures it deems necessary for the preparation of consolidated financial statements free of material misstatement, whether due to fraud or error.
In preparing the consolidated financial statements, management is responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless it expects to liquidate the company or to cease operations.
The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems, as well as, where applicable, any internal audit systems, relating to accounting and financial reporting procedures.
The consolidated financial statements were approved by the Board of Directors.

- **Responsibilities of the Statutory Auditors relating to the audit of the consolidated financial statements**

Objective and audit approach

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free of material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
As specified in Article L.823-10-1 of the French Commercial Code, our audit does not include assurance on the viability or quality of management of the company.

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

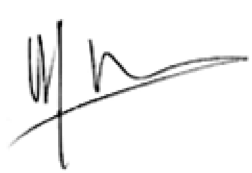
– Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence considered to be sufficient and appropriate to provide a basis for their opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
– Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management and the related disclosures in the notes to the consolidated financial statements.
– Assess the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of the audit report. However, future events or conditions may cause the company to cease to continue as a going concern. If the Statutory Auditors conclude that a material uncertainty exists, they are required to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or are inadequate, to issue a qualified opinion or a disclaimer of opinion.
– Evaluate the overall presentation of the consolidated financial statements and assess whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.
– Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. The Statutory Auditors are responsible for the direction, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed thereon.

Report to the Audit Committee

We submit a report to the Audit Committee which includes in particular a description of the scope of the audit and the audit programme implemented, as well as the results of our audit. We also report any significant deficiencies in internal control that we have identified regarding the accounting and financial reporting procedures.
Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgement, were of most significance in the audit of the consolidated financial statements and which constitute the key audit matters that we are required to describe in this report.
We also provide the Audit Committee with the declaration provided for in Article 6 of Regulation (EU) No 537/2014, confirming our independence within the meaning of the rules applicable in France, as defined in particular in Articles L.822-10 to L.822-14 of the French Commercial Code and in the French Code of Ethics for Statutory Auditors. Where appropriate, we discuss any risks to our independence and the related safeguard measures with the Audit Committee.

Neuilly-sur-Seine, 16 March 2018
The Statutory Auditors

PricewaterhouseCoopers Audit
Philippe Gueguen



Deloitte & Associés
Laure Silvestre-Siaz

Statutory Auditors' report on the Company financial statements Year ended 31 December 2017

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking readers. This report includes information specifically required by European regulations or French law, such as information about the appointment of Statutory Auditors. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders,

Opinion

In compliance with the engagement entrusted to us by your Annual General Meeting, we have audited the accompanying financial statements of Société Foncière Lyonnaise for the year ended 31 December 2017.
In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as at 31 December 2017 and of the results of its operations for the year then ended in accordance with French accounting principles.
The audit opinion expressed above is consistent with our report to the Audit Committee.

Basis for opinion

Audit framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.
Our responsibilities under these standards are further described in the "Responsibilities of the Statutory Auditors relating to the audit of the financial statements" section of our report.

Independence

We conducted our audit engagement in compliance with the independence rules applicable to us for the period from 1 January 2017 to the date of our report and in particular we did not provide any non-audit services prohibited by Article 5(1) of Regulation (EU) No 537/2014 or the French Code of Ethics (*Code de déontologie*) for Statutory Auditors.

Justification of assessments – Key audit matters

In accordance with the requirements of Articles L.823-9 and R.823-7 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we inform you of the key audit matters relating to the risks of material misstatement that, in our professional judgement, were of most significance in our audit of the financial statements, as well as how we addressed those risks.

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

Valuation and impairment risk of property and equipment

Description of risk

As at 31 December 2017, property and equipment was valued at €1,504,435,169, versus total assets worth €2,522 381,646. This item is primarily comprised of the properties owned by the company.
Property is stated at cost less accumulated depreciation and any accumulated impairment losses. Impairment is determined by comparing the carrying amount to market value. As indicated in Note I-b) to the financial statements, the company works with independent property valuers to determine market value.
Valuing property assets requires a significant degree of judgement from management in terms of determining the appropriate assumptions to be used, such as discount and capitalisation rates, market rents and any specific incentives granted to tenants.
We deemed the valuation and impairment risk of property and equipment to be a key audit matter given the material impact of this value on the financial statements and the degree of judgement required from management to determine market value.

How our audit addressed this matter

We assessed the expertise, independence and integrity of the property experts selected by Société Foncière Lyonnaise, including by verifying their professional credentials.
We verified the effective implementation and quality of management's process for reviewing valuations and of the control of the data used by the property experts for valuation purposes.
On a sample basis, we reconciled the data used in the valuation process with the appropriate documentation, such as leases, to verify the accuracy of the information supplied by management to the independent experts.
We interviewed the independent experts to gain an understanding of and evaluate the relevance of the estimates, assumptions and valuation methodologies used. Our work focused on those properties for which the assumptions used or the change in value from the previous year varied significantly from published market data, external data and factors specific to the properties.
We verified that the market value of the properties were equivalent to or greater than the carrying amounts and, if this was not the case, that the appropriate provisions for impairment had been recorded.

We verified the appropriateness of the disclosures provided in the notes to the financial statements.

Valuation and impairment risk of shares in subsidiaries and affiliates

Description of risk

As at 31 December 2017, shares in subsidiaries and affiliates were valued at €478,346,284, versus total assets worth €2,522 381,646. Certain properties are owned by subsidiaries of the company.
As indicated in Note I-c) to the financial statements, shares in subsidiaries and affiliates are stated at cost and are impaired if their fair value falls below this amount. The fair value of shares in subsidiaries and affiliates is determined on the basis of the value in use of the relevant investment and takes into account the market value of the investee's property assets, which in turns relies on reports prepared by independent property valuers. Valuing property assets requires a significant degree of judgement from management in terms of determining the appropriate assumptions to be used, such as discount and capitalisation rates, market rents and any specific incentives granted to tenants.
We deemed the valuation and impairment risk of shares in subsidiaries and affiliates to be a key audit matter given the material impact of this value on the financial statements and the degree of judgement required from management to determine market value.

How our audit addressed this matter

In order to assess the reasonableness of the estimated fair values of shares in subsidiaries and affiliates, based on the information provided to us, our work consisted primarily in verifying that the estimated values determined by management were based on an appropriate measurement method and underlying data.

Our work consisted in:
– Verifying, for the relevant investees, that the market value of the properties had been taken into account in the valuation;
– Verifying that the fair values of the securities were equivalent to or greater than the carrying amount and, where this was not the case, that the appropriate provisions for impairment had been recorded.

Verification of the management report and of the other documents provided to the shareholders

In accordance with professional standards applicable in France, we have also performed the specific verifications required by French law.

Information given in the management report with respect to the Company's financial position and the financial statements

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report of the Board of Directors and in the other documents provided to shareholders with respect to the financial position and the financial statements.

Report on corporate governance

We attest that the Board of Directors' report on corporate governance sets out the information required by Articles L.225-37-3 and L.225-37-4 of the French Commercial Code.
Concerning the information given in accordance with the requirements of Article L.225-37-3 of the French Commercial Code relating to remuneration and benefits received by corporate officers and any other commitments made in their favour, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your Company from companies controlling it or controlled by it. Based on this work, we attest to the accuracy and fair presentation of this information.
Concerning the information given in accordance with the requirements of Article L.225-37-5 of the French Commercial Code relating to items that the Company considers liable to have an impact in the event of a public cash or exchange offer, we verified the consistency of said information with the underlying documents provided to us. Based on this work, we have no matters to report with regard to this information.

Other information

In accordance with French law, we have verified that the required information concerning the acquisition of investments and controlling interests and the identity of the shareholders and holders of the voting rights has been properly disclosed in the management report.

Report on other legal and regulatory requirements

Appointment of the Statutory Auditors

We were appointed Statutory Auditors of Société Foncière Lyonnaise by the Annual General Meetings of 15 April 2003 for PricewaterhouseCoopers Audit and 21 April 2005 for Deloitte & Associés.
As at 31 December 2017, PricewaterhouseCoopers Audit was in the fifteenth year of total uninterrupted engagement and Deloitte & Associés was in the thirteenth year.

• **Responsibilities of management and those charged with governance for the financial statements**

Management is responsible for preparing financial statements presenting a true and fair view in accordance with French accounting principles, and for implementing the internal control procedures it deems necessary for the preparation of financial statements free of material misstatement, whether due to fraud or error.
In preparing the financial statements, management is responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless it expects to liquidate the company or to cease operations.
The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems, as well as, where applicable, any internal audit systems, relating to accounting and financial reporting procedures.
The financial statements were approved by the Board of Directors.

• **<u>Responsibilities of the Statutory Auditors relating to the audit of the financial statements</u>**

Objective and audit approach

Our role is to issue a report on the financial statements. Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
As specified in Article L.823-10-1 of the French Commercial Code, our audit does not include assurance on the viability or quality of management of the company.

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditors exercise professional judgement throughout the audit. They also:
– Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence considered to be sufficient and appropriate to provide a basis for their opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
– Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management and the related disclosures in the notes to the financial statements.
– Assess the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of the audit report. However, future events or conditions may cause the company to cease to continue as a going concern. If the Statutory Auditors conclude that a material uncertainty exists, they are required to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or are inadequate, to issue a qualified opinion or a disclaimer of opinion;
– Evaluate the overall presentation of the financial statements and assess whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

Report to the Audit Committee

We submit a report to the Audit Committee which includes in particular a description of the scope of the audit and the audit programme implemented, as well as the results of our audit. We also report any significant deficiencies in internal control that we have identified regarding the accounting and financial reporting procedures.
Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgement, were of most significance in the audit of the financial statements and which constitute the key audit matters that we are required to describe in this report.
We also provide the Audit Committee with the declaration provided for in Article 6 of Regulation (EU) No 537/2014, confirming our independence within the meaning of the rules applicable in France, as defined in particular in Articles L.822-10 to L.822-14 of the French Commercial Code and in the French Code of Ethics for Statutory Auditors. Where appropriate, we discuss any risks to our independence and the related safeguard measures with the Audit Committee.

Neuilly-sur-Seine, 16 March 2018
The Statutory Auditors

PricewaterhouseCoopers Audit
Philippe Gueguen

Deloitte & Associés
Laure Silvestre-Siaz

Statutory Auditors' special report on related party agreements and commitments (Annual General Meeting held to approve the financial statements for the year ended 31 December 2017)

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.

It is our responsibility to report to shareholders, based on the information provided to us, on the main terms and conditions of, and the reasons for, the agreements and commitments that have been disclosed to us or that we may have identified as part of our engagement, 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 are appropriate and should be approved.

We are also required to disclose the information provided for under Article R.225-31 of the French Commercial Code concerning the implementation in 2017 of any related party agreements and commitments approved by shareholders in prior years.

We performed the procedures that we deemed necessary in accordance with the professional standards applicable in France to such engagements. These standards require us to perform procedures to verify that the information given to us agrees with the underlying documents.

- **Agreements and commitments subject to approval by shareholders**

- **Agreements and commitments authorised in 2017**

We were not advised of any agreements or commitments authorised over 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 already approved by the Annual General Meeting**

Agreements and commitments approved in prior years

a) that were implemented in 2017

- **Agreement with Predica**

– Authorised at the Board meeting of 15 November 2012.
– Approved by shareholders at the Annual General Meeting of 18 April 2013.
– Persons concerned: Chantal du Rivau and Jean-Jacques Duchamp.
– Partnership agreement with Parholding of 26 December 2012.
– This partnership agreement signed with Predica on 26 December 2012 gives Société Foncière Lyonnaise 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 partnership agreement with Predica is governed by Articles L.225-38 *et seq.* of the French Commercial Code.

- **Agreement with Dimitri Boulte**

– Authorised at the Board meeting of 27 January 2015.
– Corporate officer concerned: Dimitri Boulte, Chief Operating Officer since 27 January 2015.
– 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 an executive officer of the Company.

b) that were not implemented in 2017

In addition, we were advised of the continued application of the following agreements and commitments already approved by Annual General Meetings in previous years, which were not implemented over the year.

- **Agreement with Nicolas Reynaud**

– Authorised at the Board meeting of 27 January 2015.
– 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.
The 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.

Neuilly-sur-Seine, 16 March 2018
The Statutory Auditors

PricewaterhouseCoopers Audit
Philippe Gueguen

Deloitte & Associés
Laure Silvestre-Siaz

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, 28 March 2018

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 Laure Silvestre-Siaz	21 April 2005	28 April 2017	2022
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			
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)			%		
	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015
Statutory and contractual audits												
Issuer	230,000	210,000	197,500	52%	66%	68%	230,000	210,000	197,500	88%	88%	84%
Fully consolidated subsidiaries	87,560	86,590	85,560	20%	27%	27%	8,700	8,600	8,500	3%	4%	-
Audit-related services												
Issuer	124,881	19,753	40,502	28%	6%	5%	22,600	19,600	35,500	9%	8%	16%
Fully consolidated subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–
Sub-total	**442,441**	**316,343**	**323,562**	**100%**	**100%**	**100%**	**261,300**	**238,200**	**241,500**	**100%**	**100%**	**100%**
Other services												
Legal and tax advice	–	–	–	–	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	–	–	–	–	–
Sub-total	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**442,441**	**316,343**	**323,562**	**100%**	**100%**	**100%**	**261,300**	**238,200**	**241,500**	**100%**	**100%**	**100%**

Non-audit services (NAS) entrusted to the Auditors by SFL and performed in 2017 were as follows:

– Deloitte & Associés:
- Audit of the consolidated social, environmental and societal information set forth in Article L. 255-102-1 of the French Commercial Code.
- Statement on the number of free shares to grant under a performance share plan, requested by SFL.

– PricewaterhouseCoopers Audit:
- Review of translation;
- Review of cyber-security.

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 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 29 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.

The Articles of Association can be downloaded from the SFL website.

3.2 Share capital

Share capital at 31 December 2017

As of 31 December 2017, 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 25 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 31 of the Management Report for a description of the shareholders' pacts in force in relation to the Company.

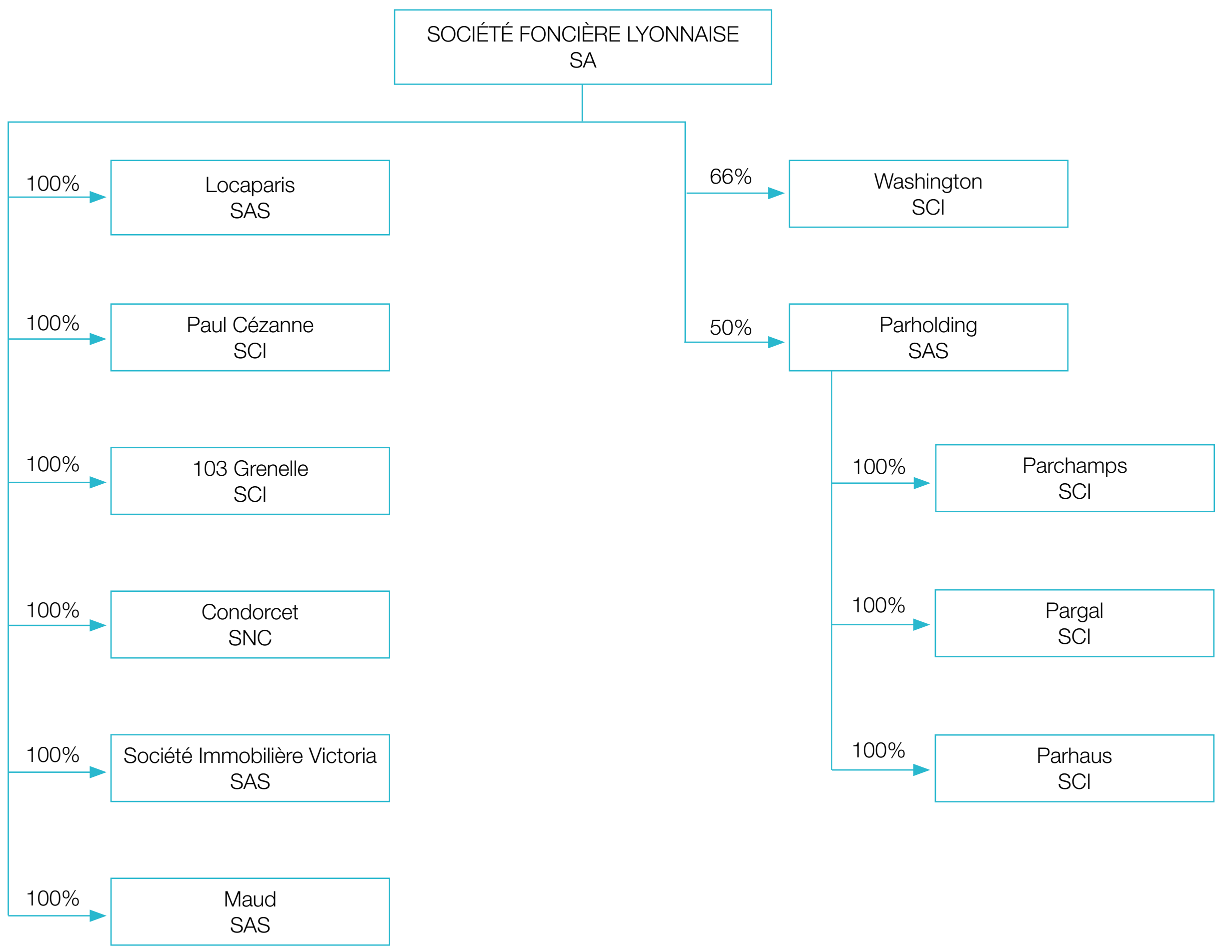
3.5 Corporate governance

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 Board of Directors' corporate governance report can be found on pages 83 *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 2017 by two firms, Jones Lang LaSalle Expertise and Cushman & Wakefield Expertise.
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 2017 rent-rolls, rents on certain units were above or below observed market rents for the second half of 2017 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 2017 was the discounted cash flow method.

Each of the two firms provided an individual appraisal value and is not responsible for the valuations performed by other firms.

On the basis described above, the value of the portfolio, Group share, at 31 December 2017 was €5,487,679,433 excluding transfer costs and €5,822,198,684 including transfer costs. The value of the portfolio on a 100% basis was €6,229,075,933 excluding transfer costs and €6,619,201,196 including transfer costs.

Cushman & Wakefield Valuation France SA
Tour Cœur 12 – 77 Esplanade du Général de Gaulle
92081 Paris La Défense Cedex
Tél +33 (0)1 53 76 92 92
Société Anonyme au capital de 160 000 €
RC Siret 332 111 574 00049
intracommunautaire FR 10 332 111 574

Jones Lang LaSalle Expertises
S.A.S. au capital de 37 000 Euros
Siège social : 40/42 rue La Boétie - 75008 PARIS
Tél : 01 40 55 15 15
444 628 150 R.C.S. PARIS

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Historical financial information

Financial statements and Statutory Auditors' reports for 2017: 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 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.

The consolidated financial statements for the year ended 31 December 2016, prepared in accordance with IFRS, and the related auditors' reports, as presented on pages 150 to 177 and 198 of the 2016 Registration Document filed with the AMF on 5 April 2017 under No. D.17-0329.

SOCIETE FONCIERE LYONNAISE

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Registered with the Paris Companies Registry under number 552 040 982

Design and execution | W

SOCIETE FONCIERE LYONNAISE