SOCIETE FONCIERE LYONNAISE

INTERIM FINANCIAL REPORT

Six months ended 30 June 2020

OVERVIEW

1. INTERIM MANAGEMENT REPORT

As of 30 June 2020, the composition of the Board of Directors of SFL was as follows:

Chairman:

- Juan José Brugera Clavero

Directors:

- Pere Viñolas Serra (Vice-Chairman)
- Ali Bin Jassim Al Thani
- Angels Arderiu Ibars
- Jean-Jacques Duchamp
- Carlos Fernandez-Lerga Garralda
- Carmina Ganyet i Cirera
- Carlos Krohmer
- Arielle Malard de Rothschild
- Luis Maluquer Trepat
- Nuria Oferil Coll
- Alexandra Rocca
- Anthony Wyand

At its meeting on 28 July 2020, the Board of Directors decided to appoint Najat Aasqui as a director to replace Chantal du Rivau who stepped down from the Board on 30 June 2020.

The interim consolidated financial statements for the six months ended 30 June 2020 were approved by the Board of Directors of Société Foncière Lyonnaise on 28 July 2020, at its meeting chaired by Juan José Brugera Clavero.

In a market thrown into turmoil by the Covid-19 crisis, rental income and EPRA earnings declined but the portfolio's appraisal value continued to rise and the Group's NAV remained stable, attesting to SFL's strategic resilience.
The auditors have completed their review of the financial statements and issued their report on the interim financial information, which does not contain any qualifications or emphasis of matter.

Consolidated data (€ millions)

	H1 2020	H1 2019	Change
Rental income	91.2	97.9	-6.9%
Adjusted operating profit*	74.8	83.3	-10.1%
EPRA earnings	50.1	57.2	-12.5%
Attributable net profit	113.7	253.5	-

* Operating profit before disposal gains and losses and fair value adjustments

	30/06/2020	31/12/2019	Change
Attributable equity	4,473	4,485	-0.3%
Consolidated portfolio value excluding transfer costs	7,239	7,158	+1.1%
Consolidated portfolio value including transfer costs	7,715	7,632	+1.1%
EPRA NNNAV	4,452	4,461	-0.2%
EPRA NNNAV per share	€95.7	€95.9	

Results

Rental income

First-half 2020 consolidated rental income amounted to €91.2 million, down €6.7 million (6.9%) from the €97.9 million reported for the same period of 2019.

- On a like-for-like basis (excluding changes in consolidation scope affecting period-on-period comparisons), rental income contracted by €2.6 million (2.9%). The decline was due to the effects of the Covid-19 crisis, which led to rent holidays being granted to tenants of small retail units (with a marginal overall impact) and the closure of the Edouard VII and #cloud.paris conference centres as well as the Indigo hotel. Adjusted for the impacts of the conference centre, Indigo hotel and Edouard VII car park closures, like-for-like rental income increased by €0.3 million.
- Rental income from units being redeveloped or renovated in the periods concerned was down by €3.5 million, due to the renovation of several floors that were vacated in late 2019 and early 2020, mainly in the 103 Grenelle building.
- Lastly, income from various penalties was down by a slight €0.6 million in first-half 2020.

Operating profit before disposal gains and losses and fair value adjustments to investment property came to €74.8 million in first-half 2020 versus €83.3 million in the year-earlier period.

Portfolio appraisal value

The portfolio's appraisal value at 30 June 2020 was 1.1% higher on a like-for-like basis than at 31 December 2019. Positive fair value adjustments to investment property amounted to €42.8 million at 30 June 2020 versus positive adjustments of €234.5 million at 30 June 2019.

Net profit

Net finance costs amounted to €13.7 million in first-half 2020 compared with €15.2 million in the year-earlier period, a decrease of €1.5 million. The €0.4 million increase in recurring finance costs, mainly reflecting the Group's higher level of debt, was partly offset by the lower average cost of debt.

After taking into account these core items, the Group reported EPRA earnings of €50.1 million in first-half 2020, down 12.5% from €57.2 million in the year-earlier period. Attributable net profit for the period came in at €113.7 million compared with €253.5 million in first-half 2019.

Business review

Rental operations

Despite the Covid-19 crisis which severely disrupted the Paris region rental market, SFL signed leases on around 16,000 sq.m. in first-half 2020 on very good terms. The 10,000 sq.m. of offices let during the period included over 80% (6,500 sq.m.) of the office space in the 83 Marceau building currently in the process of being redeveloped, which has been let to Goldman Sachs under a turnkey lease.

The new office leases were signed at an average nominal rent of €867 per sq.m, corresponding to an effective rent of €754 per sq.m. These prices attest to the Paris rental market's resilience and the very high quality of the Group's properties.

The physical occupancy rate for revenue-generating properties stood at 95.0% at 30 June 2020 compared with 97.4% at 31 December 2019. The remaining vacant units are located mainly in the Le Vaisseau building in Issy-les-Moulineaux and the 103 Grenelle building where around 6,000 sq.m. of newly renovated offices have just been delivered. The EPRA vacancy rate was 4.5% at June 30, 2020 versus 1.6% at 31 December 2019.

Development operations

Properties undergoing development at 30 June 2020 represented roughly 17% of the total portfolio. They consist mainly of the Group's current three flagship projects concerning:

- The retail space in the Louvre Saint-Honoré building, which is scheduled for delivery at the end of 2023 under a turnkey lease on over 20,000 sq.m. Work has just begun on clearing the space to be redeveloped and removing asbestos.
- The Biome office complex on avenue Emile Zola (approximately 24,000 sq.m.), which is being completely redeveloped. The partial demolition phase has already been completed and the building is due to be delivered in 2022.
- The office building at 83 avenue Marceau (approximately 9,000 sq.m.), which is in the process of being redeveloped, with delivery scheduled for 2021. Most of the units have been pre-let, including almost 6,500 sq.m. (81% of the building's total surface area) let under a turnkey lease signed in first-half 2020.

Development costs capitalised in first-half 2020 amounted to €32.5 million, including the above projects for a total of €18.4 million and large-scale renovations of complete floors in the Washington Plaza, 103 Grenelle and 106 Haussmann buildings.

Work on these projects was halted for approximately two months during the Covid-19 lockdown. Once the lockdown was lifted, the various teams gradually returned to work as conditions allowed and site activity was almost back to normal levels in June. The resulting delivery delays were kept to a reasonable three-to-six months depending on the project.

Portfolio operations

No properties were purchased or sold in first-half 2020.

Financing

During the period, SFL issued €500 million worth of 1.50% seven-year bonds due on 5 June 2027.

In addition, a new five-year €150 million revolving line of credit was obtained from BNP Paribas. This new facility cancels and replaces a previous €150 million revolving line of credit that was reduced to €100 million in 2019 and was due to expire in May 2021.

The bond issue and revolving line of credit will be used for general corporate purposes. They have extended the average maturity of the Group's debt as part of its proactive balance sheet management strategy.

Net debt at 30 June 2020 amounted to €1,877 million (compared with €1,732 million at 31 December 2019), representing a loan-to-value ratio of 24.3%. At June 30, 2020, the average cost of debt after hedging was 1.5% and the average maturity was 4.7 years. At the same date, the interest coverage ratio stood at 5.6x.

At 30 June 2020, SFL had €1,040 million in undrawn lines of credit.

EPRA NNNAV

The consolidated market value of the portfolio at 30 June 2020 was €7,239 million excluding transfer costs, an increase of 1.1% from €7,158 million at 31 December 2019 that was primarily due to the value created by work on the Group's flagship projects. The market value of its revenue-generating office properties was stable compared with end-2019.

The average EPRA topped-up net initial yield (NIY) was 3.0% at 30 June 2020, unchanged from 31 December 2019.

EPRA NNNAV stood at €4,452 million or €95.7 per share at 30 June 2020 versus €95.9 per share at 31 December 2019, reflecting a very small 0.2% decrease over the past six months after payment of a dividend of €2.65 per share in April 2020. After adding back the dividend payout, EPRA NNNAV was up 2.6% over the period.

Management of the Covid-19 health crisis

As soon as the crisis emerged, SFL took all necessary measures to limit the pandemic's effects on its business and results:

- All the office buildings remained open and available for use by tenants, and the necessary health protection measures were deployed in the buildings' common areas.
- The conference centres (Edouard VII and #cloud.paris) and the Indigo hotel (Edouard VII) were closed.
- Government measures concerning very small businesses and small retail outlets were applied and tenant requests for help were managed on a case-by-case basis in order to provide them with the necessary support as far as possible, for example by allowing them to defer payment of their second quarter rent.
- Property leasing activities continued in a very slow rental market.
- Agreements were signed with the general contractors working on the main redevelopment projects currently in progress.
- The Group's financial liquidity was strengthened.

As a result of these measures, the top-line impact of the crisis was limited to €3.7 million in "lost" rental income, leading to a €2.5 million reduction in net property rentals.

A citizen-based approach

To ensure business continuity while also protecting employees, all of SFL's teams worked from home during the lockdown, with no temporary lay-offs Since the lockdown was lifted, they have been gradually returning to the office.

Lastly, SFL contributed to the collective effort to fight the pandemic, by donating €550,000 to the Fondation de France's programmes in support of hospitals and health workers, medical research and assistance for vulnerable people. The Group also offered to make one of its vacant properties available to the Paris urban affairs ministry to provide emergency housing.

EPRA indicators

	H1 2020	H1 2019
EPRA Earnings (€ millions)	**50.1**	**57.2**
/share	*€1.08*	*€1.23*
EPRA Cost Ratio (including vacancy costs)	16.1%	13.2%
EPRA Cost Ratio (excluding vacancy costs)	14.3%	12.5%

	30/06/2020	31/12/2019
EPRA NAV (€ millions)	**4,606**	**4,623**
/share	*€99.0*	*€99.4*
EPRA NNNAV (€ millions)	**4,452**	**4,461**
/share	*€95.7*	*€95.9*
EPRA Net Initial Yield (NIY)	2.6%	2.7%
EPRA topped-up NIY	3.0%	3.0%
EPRA Vacancy Rate	4.5%	1.6%

Alternative Performance Indicators (APIs)

API EPRA earnings

€ millions	H1 2020	H1 2019
Attributable net profit	**113.7**	**253.5**
Less:		
Profit (loss) on asset disposals	-	-
Fair value adjustments to investment property	(42.8)	(234.5)
Fair value adjustments to financial instruments, discounting adjustments to debt and related costs	0.2	2.1
Tax on the above items	(9.0)	12.5
Non-controlling interests in the above items	(12.0)	23.6
EPRA earnings	**50.1**	**57.2**

API EPRA NNNAV

€ millions	30/06/2020	31/12/2019
Attributable equity	**4,473**	**4,485**
Treasury shares	4	8
Unrealised capital gains	23	23
Fair value adjustments to fixed rate debt	(48)	(55)
EPRA NNNAV	**4,452**	**4,461**

API net debt

€ millions	30/06/2020	31/12/2019
Long-term borrowings and derivative instruments	1,936	1,441
Short-term borrowings and other interest-bearing debt	258	393
Debt in the consolidated statement of financial position	**2,194**	**1,834**
Less:		
Current account advances (liabilities)	(50)	(50)
Accrued interest, deferred recognition of debt arranging fees, negative fair value adjustments to financial instruments	2	1
Cash and cash equivalents	(270)	(54)
Net debt	**1,877**	**1,732**

2. RISK FACTORS

This section presents the specific risk exposures that could have a material adverse effect on the Company, its business, financial position, results, outlook or ability to fulfil its objectives.

The risk factors are presented in different categories. Within each category, risks are presented in declining order of importance based on the probability of occurrence (high or moderate) and the estimated magnitude of their adverse effect, as assessed by the Company at the date of this report.
The Group's risk management policies were taken into account in the assessment of these risks.

The risk categories are as follows:

A. RISKS THAT ARE SPECIFIC TO THE PROPERTY SECTOR
B. SECTOR-SPECIFIC OPERATIONAL RISKS
C. LEGAL AND TAX RISKS ASSOCIATED WITH THE PROPERTY BUSINESS
D. FINANCIAL RISKS ASSOCIATED WITH THE PROPERTY BUSINESS
E. FINANCIAL RISKS LINKED TO THE EFFECTS OF CLIMATE CHANGE

Risk factors are discussed on **pages 14 to 19 of the 2019 Universal Registration Document** contained in the **2019 Annual Report** filed with the *Autorité des marchés financiers* (AMF) on 13 March 2020.
In the bond prospectus approved by the AMF on 3 June 2020, the description of the following risk factors was modified, mainly due to the Covid-19 pandemic:

A.1) Property cycle risks
A.3) Risks of a credit crunch
B.5) Tenant insolvency risk, correlated to economic growth and levels of inflation and consumer spending
D.13) Liquidity risk
D.14) Counterparty risk
D.15) Interest rate risk

The modifications are reproduced in this report.

It is difficult, at this stage, to assess the direct and indirect effects of the Covid-19 crisis on the Company's business and results, although they currently appear to be limited, due to the nature of the Company's business and the fact that its asset portfolio consists of office properties that are almost fully tenanted.

SFL's robust balance sheet and strategic positioning in the prime office property market represent major strengths in the current environment. However, the uncertain duration and future severity of the Covid-19 pandemic could lead to an increase in the level of risk associated with the Company's business environment and have a material adverse effect on its business, financial position, earnings or outlook.

In response to the situation, the Company has set up a process to regularly assess the impacts of the coronavirus epidemic.
A special monitoring and management committee has been set up, comprising members of senior management and the heads of the operating units, and measures have been deployed to manage the epidemic's effects on business continuity and the continued use of the Company's assets.

Investors should bear in mind that what follows does not purport to be a comprehensive description of all the risks and uncertainties facing the Company. For one thing, the Company is exposed to general risks that are common to all businesses and not specific to SFL. Added to that, other unknown risks or uncertainties, or risks or uncertainties whose occurrence is not considered, at the date of this report, as likely to have a material adverse effect on the Company, may exist or could become significant factors that may have a material adverse effect on the Company.

A. RISKS THAT ARE SPECIFIC TO THE PROPERTY SECTOR	
Risk factors	**Risk prevention/mitigation measures**
High risk	
1) Property cycle risks We are exposed to the risk of a cyclical reversal of the rental and/or investment market triggered by a downturn in the domestic and global economic and financial situation. The Paris office property market is cyclical and prices depend on the balance between office supply and investor demand. At 31 December 2019, 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 8%, 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 9%. *See Note IV-4 to the interim consolidated financial statements (Investment property), pages 28 and 29 of this report, for more information about the parameters used to value investment properties in each asset class.* The Covid-19 public health crisis in France and worldwide is disrupting the property sector. However, it is not currently possible to quantify the financial impact of the crisis on SFL's business and earnings in 2020. The Company is largely unaffected by the government decision to allow very small businesses to defer their rental payments, due to its strategic positioning in the prime segment of the Paris office property market, which means that this tenant category accounts for less than 2% of the Group's annual rental income. The handful of requests received from tenants are analysed on a case-by-case basis and the Group endeavours to support them as far as possible during this difficult period. The rental market has also slowed, without coming to a complete halt; however, SFL is largely unaffected because it has very few vacant units immediately available for rental. Adverse effects: - Lower rental income - Fall in portfolio values - Lost opportunities to purchase and sell properties - Decline in operating profit - Erosion of NAV	- The risk of a cyclical market reversal is measured and taken into account by performing sensitivity tests to determine the impact of a 25 bps increase/decrease in exit yields and discount rates. - A property market monitoring system has been set up. - Advisors are consulted at regular intervals, developments are closely monitored and internal and external studies are commissioned. - The Group's strategic positioning in the prime segment of the office property market represents a risk attenuation factor.

2) 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 NAV. <u>Adverse effects</u>: - on the consolidated financial statements - on the income statement - on NAV	- All of the Group's property assets are valued by qualified independent valuers. - Valuations are performed in accordance with the *Charte d'Expertise en Evaluation Immobilière* (property valuation charter) and comply with the standards issued by The European Group of Valuers' Associations (TEGoVA) as well as with Royal Institution of Chartered Surveyors (the RICS) standards. · Valuations are performed by two experts (Cushman & Wakefield: 55%, CBRE: 45%). *(See also Note IV-4 to the interim consolidated financial statements (Investment property), pages 28 and 29 of this report)*
3) Risk of a credit crunch We are exposed to the risk that a faster-than-expected increase in interest rates could destabilise the financial markets, driving up borrowing costs and potentially making it difficult to access bank financing. Operators of property businesses need regular access to bank financing. *See Note VI-1) to the interim consolidated financial statements (Borrowings and other interest-bearing debt), pages 34 and 35 of this report, for more information about borrowings, debt covenants and acceleration clauses.* *See also paragraph 3/ Market risk in Note VI-4 to the interim consolidated financial statements (Financial risk management objectives and policy), pages 37 and 38 of this report, for more information about sensitivity to changes in interest rates.* <u>Adverse effects</u>: - Restricted ability to purchase new assets - Restricted ability to redevelop assets - Difficulties in refinancing existing debt - Increased finance costs - Erosion of NAV	- Regular cash forecasts are prepared. - Outstanding debt and available borrowing capacity under our lines of credit are monitored. - Our credit ratings are monitored. - Funds can be raised by selling assets, although this alternative source of financing is also subject to market risks (price risk, market liquidity risk). In addition, asset sales carried out when prices are depressed and amid a shortage of potential buyers, or before their full reversionary potential has been achieved, would result in opportunity losses.
Moderate risk	
4) Risks associated with a highly competitive environment We are exposed to competition from investors with considerable equity capital, such as insurers, SCPI and OCPI property funds and sovereign wealth funds, and from other investors with fairly moderate levels of debt and gearing. <u>Adverse effects</u>: - Inability to acquire assets - Lower rental income - Decline in operating profit - Erosion of NAV	- Our business is strategically focused on a prime market segment. - We have established a high quality sector monitoring system. - We have covenant-free financing capacity.

B. SECTOR-SPECIFIC OPERATIONAL RISKS C.	
Risk factors	**Risk prevention/mitigation measures**
High risk	
5) Tenant insolvency risk, correlated to economic growth and levels of inflation and consumer spending We are exposed to the risk of tenant default and rent arrears, non-renewal of leases and lease renewals on less favourable terms, especially in the event of a cyclical market downturn. At 30 June 2020, the physical occupancy rate of revenue-generating properties was 95.0% and the EPRA vacancy rate was 4.5%. For the properties in the portfolio, the average period to the next potential exit date was 5.3 years and the average period to lease expiry was 6.5 years. Offices account for 79% of rental income and retail units for 20%. *See Note V-3) to the interim consolidated financial statements (Trade and other receivables), page 32 of this report, for more information about provisions for impairment in trade receivables set aside in first-half 2020.* Given the effect of the Covid-19 crisis and the lockdown imposed between 17 March and 11 May, the rental market is likely to experience some disruption in the coming months. The level of disruption will vary significantly depending on the market segment (local retail outlets, large shopping centres, offices in central business districts, etc.). While it is still too early to estimate the short- and medium-term operational and financial effects of the crisis, SFL's strategic positioning will help it withstand this period. Very small businesses, which have been the hardest hit by the crisis, represent less than 2% of the Group's annual rental income. Rent defaults were fairly low in the second quarter compared to the total rent roll. In addition, the Group has very few vacant units that are immediately available for rent or will become available before the end of the year. Less than 2% of leases will come up for renewal in the second half. <u>Adverse effects</u>: - Lower physical occupancy rate - Lower rental income - Decline in operating profit	- Tenant diversification: at 31 December 2019, the Group's top ten tenants accounted for around 39.3% of total rental income and the top five for roughly 24.0%. - 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. - New tenants are subject to credit checks before the lease is signed and all new tenants are required to pay a rent deposit. - Half-yearly financial health checks are performed for tenants with rent arrears at the period-end. - Lease expiry dates and EPRA vacancy rates are closely tracked. - A system is in place to enable us to anticipate lease renewals (e.g., to approach tenants with a view to renegotiating the rent or schedule refurbishment work). - Rent arrears are closely monitored.
6) Risk of asset obsolescence and impairment We are exposed to risks related to the sensitivity of assets to changes in environmental and other regulatory standards and to CSR issues. <u>Adverse effects</u>: - Loss of attractiveness to tenants - Higher insurance premiums, operating costs and construction costs - Erosion of NAV - Erosion of SFL's image and reputation	- Close attention is paid to planning asset renovation and redevelopment work, and enhancing assets through the addition of new services. - CSR issues are deeply embedded in the Company's property strategy: · The CSR Committee meets twice a year to define the broad strategic goals for each CSR issue.

	· Procedures are performed to ensure that the Company's CSR performance reflects best industry practice and is recognised by the property valuers. · SFL also complies with the recommendations issued by EPRA for its CSR reporting. · To better understand the expectations of customers and the market, SFL conducted two surveys of its buildings' users in 2017 and 2018, and in 2019, a ParisWorkPlace survey among 2,000 executives in the Paris area on their habits and their expectations in terms of offices, in order to perform comparisons based on a larger population that was still highly representative of the people working in SFL's properties. *(See the Non-Financial Information Statement – NFIS on page 36* et seq. *of the 2019 Universal Registration Document for more details)*
Moderate risk	
7) Risks associated with the loss of key personnel We are exposed to the risk of losing mission-critical skills if top management, Management Committee members and/or key executives leave the Company. Adverse effects: - Decline in profits - Loss of investor confidence - Erosion of SFL's image and reputation	- Our remuneration policy is designed to retain key executives.
8) Risks associated with subcontractors and other service providers We make extensive use of subcontractors and other service providers: - For major redevelopment and renovation projects, and - For the day-to-day maintenance of our properties. Our dependence on outside contractors to complete projects on time is aggravated by the fact that there are relatively few construction companies with the capacity to carry out major renovation work or property redevelopment projects in Paris. There is a risk of contractors failing to honour their commitments or delivering substandard work. Adverse effects: - Delays in completing projects, budget overruns, delays in putting properties back on the rental market - Disruption of the performance bond compliance process - Decline in operating profit - Erosion of SFL's image and reputation	- Subcontractors and service providers are selected through a competitive tendering process. - We apply a contractor diversification policy. - The quality of contractor services is closely monitored.

C. LEGAL AND TAX RISKS ASSOCIATED WITH THE PROPERTY BUSINESS	
Risk factors	**Risk prevention/mitigation measures**
Moderate risk	
9) General regulatory compliance risks We are subject to very detailed and constantly evolving regulations, covering construction operations, commercial leases, administrative permits, safety, the environment and public health issues. Compliance costs are very high. We are exposed to civil and criminal liability risks in the event of regulatory breaches (particularly for environmental damage or public health incidents, or reckless endangerment). There is a risk of tenants failing to strictly comply with all applicable environmental and health and safety regulations. Adverse effects: - Deterioration of profits, margins, growth and development outlook - Erosion of SFL's image and reputation	- We have the legal and technical skill-sets needed to manage these risks: · A specialised Legal Department is responsible for monitoring regulatory developments and overseeing compliance with the various regulations applicable to our business. · We also use the services of external advisors and consultants where necessary. · Internal procedures have been set up to raise the level of accountability of the various people involved. · A technical unit has been set up with specific responsibility for environmental, health and safety compliance.
10) 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 that oversee compliance with health and safety regulations in buildings open to the public. There is a risk of significant delays in obtaining these permits and other authorisations, or of plans having to be modified before the permit will be 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. Adverse effects: - Project delays, budget overruns, abandoned projects - Impossibility of using certain assets - Erosion of the Company's business performance, results and financial position	- We systematically use the services of skilled professionals to prepare our projects (architects, engineering consultants, surveyors and marketability consultants). - We submit draft permit applications to the authorities to check that everything is in order, before filing them officially and before starting work.
11) Risks of neighbour complaints Most of our properties are located in densely populated urban areas and our major redevelopment projects give rise to the risk of disamenities (noise and/or vibrations). Neighbour complaints can lead to significant compensation claims or even injunctions to stop work. Adverse effects: - Project delays, budget overruns, abandoned projects	- 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. - All contractors are required to take measures to limit disamenities, mainly by keeping public spaces clean and managing traffic, dust, noise and vibrations.

- Erosion of the Company's results and financial position	- Noise pollution and other disamenities are closely monitored. - All contractors are now required to meet the high or very high performance criteria under France's HQE standards for maintaining "green" worksites with a minimal environmental footprint.
12) Risks associated with SIIC status We are exposed to the risk of losing the benefit of the SIIC tax regime if the eligibility rules are breached.	The conditions of eligibility for the SIIC regime are regularly monitored, especially changes in the tax authorities' position and legal precedent (dividend obligations, obligations concerning the level of control exercised by the majority shareholder, etc.).

D – FINANCIAL RISKS ASSOCIATED WITH THE PROPERTY BUSINESS	
Risk Factors	**Risk prevention/mitigation measures**
Moderate risk	
13) Liquidity risk Operators of property businesses – especially those in the prime office segment – have to raise significant funds. We have access to confirmed lines of credit but these may not be sufficient to finance capital expenditure and property purchases, and to replace debt at maturity. At 30 June 2020, SFL had €1,040 million in committed undrawn lines of credit. *See Note V1-1) to the interim consolidated financial statements (Borrowings and other interest-bearing debt), page 34 of this report, for more information about debt maturities.* <u>Adverse effects</u>: - Deterioration of our ability to raise funds and consequently to access the liquidity needed to conduct the business - Deterioration of the Company's cash position and profits	- The liquidity represented by backup facilities is sufficient to cover the Group's repayment obligations regarding its lines of credit up until July 2022. - We apply a policy of diversifying our sources of debt. - S&P rating: BBB+ stable outlook.
14) Counterparty risk The banks that provide lines of credit and/or hedging instruments may fail to honour their commitments. The counterparty risk associated with hedging instruments is identified in the market value of the hedge. *See Note V1-1) to the interim consolidated financial statements (Borrowings and other interest-bearing debt), page 34 of this report, for more information about lines of credit and hedging instruments negotiated with banks.* <u>Adverse effects</u>: - Loss of the benefit of hedges - Deterioration of the Company's financial position and profits	- Our lines of credit and hedging instruments are arranged with eight leading banks. - Our minimal cash reserves are generally used to repay borrowings under the revolving lines of credit.

15) Interest rate risk	
We are exposed to the risk of higher interest rates, and the consequential risk of being unable to raise the necessary financial resources to meet our working capital and investment needs. Financial instruments exposed to interest rate risks include negotiable European commercial paper (NEU CP) and undrawn revolving lines of credit. *See paragraph 3/ Market risk in Note VI-4 to the interim consolidated financial statements (Financial risk management objectives and policy), page 37 of this report*, for more information about interest rate risks and sensitivity to changes in interest rates. Adverse effects: - Higher interest charges - Increased finance costs	- 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. This allows us to efficiently quantify and analyse the risks associated with interest rate fluctuations. - 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. Our internal policy consists of hedging at least 70% of debt at all times. At 30 June 2020, 93% of debt was hedged (before taking into account three hedges on a total notional amount of €300 million that will come into effect between November 2021 and November 2022 for a period of five years).

E.16) 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 Non-Financial Information Statement (NFIS), page 36 *et seq* of the 2019 Universal Registration Document.

17) 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.

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3. CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2020

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

The interim consolidated financial statements were approved for publication by the Board of Directors on 28 July 2020.

A – Consolidated Statement of Financial Position

(in thousands of euros)	Notes	30 June 2020	31 December 2019
ASSETS	Section E		

Intangible assets	IV-1	1,025	532
Property and equipment	IV-2	20,688	20,325
Investment property	IV-4	7,124,671	7,045,049
Non-current financial assets	VI-5	1,375	8,225
Other non-current assets	V-4	30,432	8,233
Total non-current assets		**7,178,191**	**7,082,364**
Trade and other receivables	V-3	95,052	78,735
Other current assets	V-4	5,250	234
Cash and cash equivalents	VI-6	270,028	54,002
Total current assets		**370,330**	**132,971**
Total assets		**7,548,521**	**7,215,335**

(in thousands of euros) **EQUITY AND LIABILITIES**	**Notes** **Section E**	**30 June 2020**	**31 December 2019**
Share capital		93,058	93,058
Reserves		4,265,895	3,802,389
Profit for the period		113,651	589,758
Equity attributable to owners of the parent		**4,472,604**	**4,485,205**
Non-controlling interests		536,804	551,770
Total non-controlling interests		**536,804**	**551,770**
Total equity	**VII-1**	**5,009,408**	**5,036,975**
Long-term borrowings and derivative instruments	VI-1	1,935,994	1,441,490
Long-term provisions	VIII-1	1,660	1,414
Deferred tax liabilities	X-3	214,410	221,571
Accrued taxes	X-1	5,169	5,142
Other non-current liabilities	V-6	26,850	26,870
Total non-current liabilities		**2,184,083**	**1,696,487**
Trade and other payables	V-5	40,938	26,196
Short-term borrowings and other interest-bearing debt	VI-1	258,012	392,814
Short-term provisions	VIII-1	967	1,123
Other current liabilities	V-6	55,113	61,740
Total current liabilities		**355,030**	**481,873**
Total equity and liabilities		**7,548,521**	**7,215,335**

B – Consolidated Statement of Comprehensive Income

(in thousands of euros)	Notes Section E	First-half 2020	First-half 2019
Rental income		**91,190**	**97,909**
Gross property expenses		(20,979)	(22,124)
Property expenses recovered from tenants		16,225	16,782
Property expenses, net of recoveries		(4,754)	(5,342)
Net property rentals	**V-1**	**86,436**	**92,567**
Other income	V-2	1,049	2,731
Depreciation, amortisation and impairment	IV-3	(486)	(487)
Provision expense, net	VIII-2	(793)	(67)
Employee benefits expense	IX-1	(6,556)	(6,597)
Other expenses	V-7	(4,831)	(4,881)
Profit/(loss) on disposal of other assets		-	(3)
Fair value adjustments to investment property	IV-4	42,806	234,466
Operating profit		**117,625**	**317,729**
Finance costs and other financial expenses	VI-2	(16,115)	(15,775)
Financial income	VI-2	2,486	2,465
Fair value adjustments to financial instruments	VI-3	(10)	(1,718)
Discounting adjustments to receivables and payables		(78)	(182)
Profit before income tax		**103,908**	**302,519**
Income tax benefit/(expense)	X-2-3	5,578	(17,152)
Profit for the period		**109,486**	**285,367**
Attributable to owners of the parent		**113,651**	**253,549**
Attributable to non-controlling interests	VII-5	(4,165)	31,818
Earnings per share	VII-4	€2.45	€5.48
Diluted earnings per share	VII-4	€2.45	€5.47
Other comprehensive income			
Actuarial gains and losses	VIII-1	(271)	(128)
Other items		-	-
Items that will not be reclassified to profit or loss		(271)	(128)
Valuation gains and losses on financial instruments (cash flow hedges)	VI-3	(4,683)	-
Deferred tax impact of valuation gains and losses on financial instruments		-	-
Items that may be reclassified subsequently to profit or loss		(4,683)	-
Other comprehensive income/(loss)		**(4,954)**	**(128)**
Comprehensive income		**104,532**	**285,239**
Attributable to owners of the parent		**108,697**	**253,421**
Attributable to non-controlling interests		(4,165)	31,818

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 period	Equity attributable to owners of the parent	Equity attributable to non-controlling interests
Equity at 31 December 2018	**93,058**	**556,116**	**22,621**	**(18,317)**	**-**	**3,004,744**	**351,636**	**4,009,856**	**502,107**
Movements for the period									
Profit for the period	-	-	-	-	-	-	253,549	253,549	31,818
Other comprehensive income/(loss), net of tax	-	-	-	-	-	(128)	-	(128)	-
Comprehensive income	**-**	**-**	**-**	**-**	**-**	**(128)**	**253,549**	**253,421**	**31,818**
Appropriation of profit	-	-	-	-	-	351,636	(351,636)	-	-
Treasury share transactions	-	-	-	2,566	-	-	-	2,566	-
Gains and losses on sales of treasury shares	-	-	-	(2,403)	-	-	-	(2,403)	-
Share-based payments	-	-	-	-	-	1,147	-	1,147	-
Dividends paid to owners of the parent	-	-	-	-	-	(122,711)	-	(122,711)	(8,299)
Equity at 30 June 2019	**93,058**	**556,116**	**22,621**	**(18,154)**	**-**	**3,234,688**	**253,549**	**4,141,874**	**525,627**
Movements for the period									
Profit for the period	-	-	-	-	-	-	336,209	336,209	26,144
Other comprehensive income/(loss), net of tax	-	-	-	-	5,697	71	-	5,768	-
Comprehensive income	**-**	**-**	**-**	**-**	**5,697**	**71**	**336,209**	**341,977**	**26,144**
Appropriation of profit	-	-	-	-	-	-	-	-	-
Treasury share transactions	-	-	-	208	-	-	-	208	-
Gains and losses on sales of treasury shares	-	-	-	10	-	-	-	10	-
Share-based payments	-	-	-	-	-	1,135	-	1,135	-
Dividends paid to owners of the parent	-	-	-	-	-	-	-	-	-
Equity at 31 December 2019	**93,058**	**556,116**	**22,621**	**(17,936)**	**5,697**	**3,235,894**	**589,758**	**4,485,205**	**551,770**
Movements for the period									
Profit for the period	-	-	-	-	-	-	113,651	113,651	(4,165)
Other comprehensive income/(loss), net of tax	-	-	-	-	(4,683)	(271)	-	(4,954)	-
Comprehensive income	**-**	**-**	**-**	**-**	**(4,683)**	**(271)**	**113,651**	**108,697**	**(4,165)**
Appropriation of profit	-	-	-	-	-	589,758	(589,758)	-	-
Treasury share transactions	-	-	-	2,635	-	-	-	2,635	-
Gains and losses on sales of treasury shares	-	-	-	(2,643)	-	-	-	(2,643)	-
Share-based payments	-	-	-	-	-	1,538	-	1,538	-
Dividends paid to owners of the parent	-	-	-	-	-	(122,828)	-	(122,828)	(10,801)
Equity at 30 June 2020	**93,058**	**556,116**	**22,621**	**(17,945)**	**1,014**	**3,704,091**	**113,651**	**4,472,604**	**536,804**

D – Consolidated Statement of Cash Flows

(in thousands of euros)	Notes Section E	First-half 2020	First-half 2019
Cash flows from operating activities			
Profit for the period attributable to owners of the parent		113,651	253,549
Fair value adjustments to investment property	IV-4	(42,806)	(234,466)
Depreciation, amortisation and impairment	IV-3	486	487
Net additions to provisions	VIII-1	474	22
Net gains and losses from disposals of assets, after tax		-	3
Discounting adjustments and valuation losses on financial instruments		88	1,900
Deferral of rent-free periods and key money	V-1	(1,256)	1,551
Employee benefits	IX-3	1,538	1,147
Non-controlling interests in profit for the period	VII-5	(4,165)	31,818
Cash flow after finance costs and income tax		**68,010**	**56,011**
Finance costs	VI-2	13,629	13,310
Income tax	X-2-3	(5,578)	17,152
Cash flow before finance costs and income tax		**76,061**	**86,473**
Change in working capital		(13,556)	98
Interest paid		(10,904)	(11,172)
Interest received		32	46
Income tax paid		(7,107)	(7,345)
Net cash provided by (used by) operating activities		**44,526**	**68,100**
Cash flows from investing activities			
Acquisitions of and improvements to investment property	XII	(50,269)	(23,896)
Acquisitions of intangible assets and property and equipment		(1,341)	(206)
Proceeds from disposals of investment property, intangible assets and property and equipment		-	1
Other cash inflows and outflows		2,301	-
Net cash provided by (used by) investing activities		**(49,309)**	**(24,101)**
Cash flows from financing activities			
Purchases and sales of treasury shares, net		(8)	163
Dividends paid to owners of the parent	VII-3	(122,828)	(122,711)
Dividends paid to non-controlling interests		-	(6,794)
Proceeds from new borrowings		1,464,601	915,687
Repayments of borrowings		(1,119,331)	(812,676)
Other movements in financing items		(1,625)	-
Net cash provided by (used by) financing activities		**220,809**	**(26,331)**
Net change in cash and cash equivalents		**216,026**	**17,668**
Cash and cash equivalents at beginning of period		54,002	25,304
Cash and cash equivalents at end of period	XII	270,028	42,972
Net change in cash and cash equivalents		**216,026**	**17,668**

Cash and cash equivalents in the statement of cash flows are stated net of bank overdrafts.

E – Notes to the Interim 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 interim 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 standards and amendments published by the IASB and adopted by the European Union are effective for accounting periods ending 30 June 2020:

- Amendments to IAS 1 & IAS 8 – Definition of Material. The IASB has published amendments to its definition of "material" to make it easier for management to exercise judgement when assessing materiality. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

- Amendments to IFRS 9, IAS 39, IFRS 7 Interest Rate Benchmark Reform – Phase 1. These amendments are designed to facilitate financial reporting during the period of uncertainty arising from the reform of interest rate benchmarks such as interbank offered rates (IBORs) and the replacement of EURIBOR and EONIA with new benchmarks (hybrid EURIBOR, ESTER). In the first phase of the project, companies have been granted temporary relief from applying specific hedge accounting requirements to hedging relationships, so that hedge accounting can continue to be applied. This relief will last until the reform is published. IBOR reform and its potential effects are currently being examined by the Group.

- Narrow scope amendments to IFRS 3 – Definition of a Business. These amendments are designed to help entities determine whether they have acquired a business or a group of assets for the purpose of applying IFRS 3 – Business Combinations. A business is defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers. If substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets, the transaction does not qualify as a business combination.

The following amendments published by the IASB had not yet been adopted by the European Union at 30 June 2020:

- Amendment to IFRS 16 – Leases – Covid-19-Related Rent Concessions. IFRS 16 requires lessees to consider individual lease contracts to determine whether certain rent concessions are lease modifications. If this is the case, the lessee must remeasure the lease liability by applying a revised discount rate. The amendment to IFRS 16 exempts lessees from having to determine whether rent concessions occurring as a direct consequence of the Covid-19 pandemic are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications by recognising their impact in profit or loss for the period. It applies to Covid-19-related rent concessions that reduce lease payments due in 2020.
The amendment does not grant any relief to lessors from the obligation of analysing rent concessions to determine whether they are lease modifications.

- Amendments to IAS 1 – Presentation of Financial Statements – Classification of Liabilities as Current or Non-current. These amendments clarify the criteria for classifying liabilities as current or non-current, which could consequently affect a company's loan covenants. To give companies time to prepare for the amendments, the IASB has set the effective date for these amendment at January 2022.

- Annual Improvements, 2018-2020 cycle – IFRS 9 – Financial Instruments. To determine whether a modified financial liability should be derecognised, its terms are examined to assess whether they are substantially different from those of the original liability. The amendment clarifies the fees a company includes in the "ten percent test" used to perform this assessment. It stipulates that only fees paid or received between the company (the borrower) and the lender should be taken into account.

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 period 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 Period

II - 1) Redevelopment and renovation programmes

Properties undergoing development at 30 June 2020 represented roughly 17% of the total portfolio. They consist mainly of the Group's current three flagship projects concerning:

- Retail space in the Louvre Saint-Honoré building, which is scheduled for delivery in 2023 under a turnkey lease on over 20,000 sq.m. The planning appeal process for the building permit obtained in March 2019 has ended (the permit is now final) and clearance and asbestos removal work is currently in progress;

- The Biome office complex on avenue Emile Zola (approximately 24,000 sq.m.), which will be comprehensively remodelled by end-2021. The planning appeal process for the building permit obtained in May 2018 has ended (the permit is now final), the property has been cleared and prepared for renovation and remodelling work has begun;

- The office building at 83 avenue Marceau (approximately 9,000 sq.m.), which is in the process of being redeveloped, with delivery scheduled for 2021. Most of the units have been pre-let, including almost 6,500 sq.m. (81% of the building's total surface area) let under a turnkey lease signed in first-half 2020.

No properties were purchased or sold in first-half 2020.

During the period, leases were signed on some 16,000 sq.m., including approximately 10,000 sq.m. of office space, of which a portion was pre-let to Goldman Sachs in the 83 Marceau building that is currently being redeveloped. New leases on retail space represented around 6,000 sq.m. and mainly concerned the theatre in the Édouard VII complex.

II - 2) Financing

During the period, SFL issued €500 million worth of 1.50% seven-year bonds due on 5 June 2027.

In addition, a new five-year €150 million revolving line of credit was obtained from BNP Paribas. This new facility cancels and replaces a previous €150 million revolving line of credit that was reduced to €100 million in 2019 and was due to expire in May 2021.

The bond issue and revolving line of credit will be used for general corporate purposes: they have extended the average maturity of the Group's debt as part of its proactive balance sheet management strategy.

II - 3) Impacts of the Covid-19 health crisis

As soon as the crisis emerged, SFL took all necessary measures to limit the pandemic's effects on its business and results.

The Group acted swiftly to ensure that all of its properties could remain open and available for use by tenants. The only services not still available were those that would breach the public health measures introduced in response to the pandemic (mainly food services).

SFL's rental income was largely unaffected by government measures concerning small retail outlets because of its strategic focus on prime office properties in Paris. Calls for help received from retail tenants were analysed on a case-by-case basis and the Group endeavoured to support them as far as possible during this difficult period, for example by allowing them to defer payment of their second-quarter rent or, in some cases, granting rent waivers. In addition to the approximate €0.7 million cost of these rent waivers, provisions of around €0.2 million were booked for second-quarter rents outstanding at 30 June that may not be recoverable. The rent collection rate for second-quarter 2020 stood at 86.5% at 30 June 2020. Lastly, income from the conference centres and the Indigo hotel, which have been closed since the beginning of lockdown, as well as the public car park located in the Edouard VII complex, fell sharply compared with first-half 2019. In all, the Covid-19 crisis reduced rental income for the period by approximately €2.9 million (€1.7 million after deducting net property expenses).

Work on the Group's redevelopment and renovation projects was halted for several weeks. Agreements were signed with the general contractors responsible for the main projects, in order to manage the delivery delays – estimated at several months – and the cost overruns caused by these disruptions and the deployment of health measures required before work could resume.

The rental market slowed as a result of the crisis without coming to a complete halt; however, SFL was largely unaffected because it had very few vacant units immediately available for rental and was able to sign several leases on significant units during the period.

The assumptions used by the Group's valuers to estimate the portfolio's appraisal value at 30 June 2020 were adjusted to take account of the economic environment. Despite these adjustments, the valuers' report includes a material valuation uncertainty declaration in line with the practice alert issued by the RICS.

II - 4) 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 CBD	Other Paris	Western Crescent	Corporate	First-half 2020
Rental income	**76,121**	**13,857**	**1,212**	**-**	**91,190**
Gross property expenses	(16,122)	(4,095)	(762)	-	(20,979)
Property expenses recovered from tenants	13,508	2,386	331	-	16,225
Property expenses, net of recoveries	(2,614)	(1,709)	(431)	-	(4,754)
Net property rentals	**73,507**	**12,148**	**781**	**-**	**86,436**
Other income	787	53	-	209	1,049
Depreciation, amortisation and impairment	-	-	-	(486)	(486)
Provision expense, net	(185)	(134)	-	(474)	(793)
Employee benefits expense	-	-	-	(6,556)	(6,556)
Other expenses	-	-	-	(4,831)	(4,831)
Profit/(loss) on disposal of other assets	-	-	-	-	-
Fair value adjustments to investment property	23,746	23,409	(4,349)	-	42,806
Operating profit/(loss)	**97,855**	**35,476**	**(3,568)**	**(12,138)**	**117,625**
Finance costs and other financial expenses	-	-	-	(16,115)	(16,115)
Financial income	-	-	-	2,486	2,486
Fair value adjustments to financial instruments	-	-	-	(10)	(10)
Discounting adjustments to receivables and payables	-	-	-	(78)	(78)
Profit/(loss) before income tax	**97,855**	**35,476**	**(3,568)**	**(25,855)**	**103,908**
Income tax benefit	-	-	-	5,578	5,578
Profit/(loss) for the period	**97,855**	**35,476**	**(3,568)**	**(20,277)**	**109,486**
Attributable to owners of the parent	**103,751**	**35,476**	**(3,568)**	**(22,008)**	**113,651**
Attributable to non-controlling interests	(5,896)	-	-	1,731	(4,165)
Other comprehensive income					
Actuarial gains and losses	-	-	-	(271)	(271)
Other comprehensive income	-	-	-	-	-
Items that will not be reclassified to profit or loss	-	-	-	(271)	(271)
Valuation gains and losses on financial instruments (cash flow hedges)	-	-	-	(4,683)	(4,683)
Deferred tax impact of valuation gains and losses on financial instruments	-	-	-	-	-
Items that may be reclassified subsequently to profit or loss	-	-	-	(4,683)	(4,683)
Other comprehensive income/(loss)	**-**	**-**	**-**	**(4,954)**	**(4,954)**
Comprehensive income/(loss)	**97,855**	**35,476**	**(3,568)**	**(25,231)**	**104,532**
Attributable to owners of the parent	**103,751**	**35,476**	**(3,568)**	**(26,962)**	**108,697**
Attributable to non-controlling interests	(5,896)	-	-	1,731	(4,165)

(in thousands of euros)	Paris CBD	Other Paris	Western Crescent	Corporate	30 June 2020
Segment assets	5,951,422	1,156,633	111,215	295,008	7,514,278
Unallocated assets	-	-	-	34,243	34,243
Total assets	**5,951,422**	**1,156,633**	**111,215**	**329,251**	**7,548,521**

The segment analysis for the prior-year period breaks down as follows:

(in thousands of euros)	Paris CBD	Other Paris	Western Crescent	Corporate	First-half 2019
Rental income	**81,357**	**15,594**	**958**	**-**	**97,909**
Gross property expenses	(17,314)	(4,152)	(658)	-	(22,124)
Property expenses recovered from tenants	13,689	2,855	238	-	16,782
Property expenses, net of recoveries	(3,625)	(1,297)	(420)	-	(5,342)
Net property rentals	**77,732**	**14,297**	**538**	**-**	**92,567**
Other income	926	224	129	1,452	2,731
Depreciation, amortisation and impairment	-	-	-	(487)	(487)
Provision (expense)/reversals, net	(47)	335	-	(355)	(67)
Employee benefits expense	-	-	-	(6,597)	(6,597)
Other expenses	-	-	-	(4,881)	(4,881)
Profit/(loss) on disposal of other assets	-	-	-	(3)	(3)
Fair value adjustments to investment property	214,737	20,586	(857)	-	234,466
Operating profit/(loss)	**293,348**	**35,442**	**(190)**	**(10,871)**	**317,729**
Finance costs and other financial expenses	-	-	-	(15,775)	(15,775)
Financial income	-	-	-	2,465	2,465
Fair value adjustments to financial instruments	-	-	-	(1,718)	(1,718)
Discounting adjustments to receivables and payables	-	-	-	(182)	(182)
Changes in provisions for financial assets, net	-	-	-	-	-
Profit/(loss) before income tax	**293,348**	**35,442**	**(190)**	**(26,081)**	**302,519**
Income tax expense	-	-	-	(17,152)	(17,152)
Profit/(loss) for the period	**293,348**	**35,442**	**(190)**	**(43,233)**	**285,367**
Attributable to owners of the parent	**252,111**	**35,442**	**(190)**	**(33,814)**	**253,549**
Attributable to non-controlling interests	41,237	-	-	(9,419)	31,818
Other comprehensive income					
Actuarial gains and losses	-	-	-	(128)	(128)
Other comprehensive income/(loss)	-	-	-	-	-
Items that will not be reclassified to profit or loss	-	-	-	(128)	(128)
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/(loss)	**-**	**-**	**-**	**(128)**	**(128)**
Comprehensive income/(loss)	**293,348**	**35,442**	**(190)**	**(43,361)**	**285,239**
Attributable to owners of the parent	**252,111**	**35,442**	**(190)**	**(33,942)**	**253,421**
Attributable to non-controlling interests	41,237	-	-	(9,419)	31,818

(in thousands of euros)	Paris CBD	Other Paris	Western Crescent	Corporate	30 June 2019
Segment assets	5,628,717	1,051,082	98,436	64,887	6,843,122
Unallocated assets	-	-	-	26,907	26,907
Total assets	**5,628,717**	**1,051,082**	**98,436**	**91,794**	**6,870,029**

Segment assets correspond mainly to the Group's property assets.

No segment analysis of liabilities is presented, as they correspond primarily to unsecured financing for general corporate purposes and unsecured bonds that are not allocated to any specific segment.

The Group's main geographical segments are as follows:

* **Paris Central Business District:** market comprising the Golden Triangle and the Financial District, spanning parts of the 1st, 2nd, 9th, 8th, 16th and 17th *arrondissements* of Paris. The segment extends from Porte Maillot, avenue de Malakoff and Trocadéro in the west to rue Montmartre and rue du Louvre in the east, and from Porte Champerret, avenue de Villiers and Saint-Lazare railway station in the north to rue de Rivoli in the south.

* **Other Paris:** corresponding to the rest of Paris, outside the Central Business District.

* **Western Crescent:** located to the west of Paris on the other side of the Boulevard Périphérique ring-road, comprising notably Neuilly-sur-Seine, Boulogne-Billancourt, Issy-les-Moulineaux and Levallois-Perret.

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 upgrades, 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 period in which they are capitalised.

(in thousands of euros)	31 December 2019	Increases	Decreases	Reclassifications	30 June 2020
Cost					
Computer software	6,750	-	-	-	6,750
Other	1,204	566	-	-	1,770
Amortisation and impairment					
Computer software	(6,635)	(27)	-	-	(6,662)
Other	(787)	(46)	-	-	(833)
Carrying amount	532	493	-	-	1,025

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 December 2019	Increases	Decreases	Reclassifications	30 June 2020
Cost					
Owner-occupied property	21,238	-	-	-	21,238
Other property and equipment	6,261	776	-	-	7,037
Depreciation and impairment					
Owner-occupied property	(3,507)	(183)	-	-	(3,690)
Other property and equipment	(3,667)	(230)	-	-	(3,897)
Carrying amount	**20,325**	**363**	**-**	**-**	**20,688**

The fair value excluding transfer costs of owner-occupied property – corresponding to the Company's headquarters – was €48,724 thousand at 30 June 2020 and €48,291 thousand at 31 December 2019.

IV - 3) Depreciation, amortisation and impairment

(in thousands of euros)	First-half 2020	First-half 2019
Amortisation and impairment of intangible assets	(73)	(71)
Depreciation and impairment of property and equipment	(413)	(416)
Total	**(486)**	**(487)**

Amortisation and impairment of intangible assets relate to computer software. Depreciation and impairment of property and equipment concern owner-occupied property (corresponding to the Company's headquarters) and other property and equipment.

IV - 4) Investment property

Accounting policy

Investment property is property held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both.

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.

The properties are initially recognised at cost. SFL has chosen to measure investment property in subsequent periods 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 or loss. 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 income statement under "Fair value adjustments to investment property", are calculated as follows:
Change in fair value = Market value at the period-end – Market value at the prior period-end – Work and other costs capitalised during the period.

The change in fair value is adjusted to exclude the effects of specific lease terms or provisions recognised under other asset captions and included in the fair value calculation, to avoid these effects being taken into account twice.

Investment property is reclassified as held for sale when the sale has been decided by the Board of Directors or a selling agent has been appointed. It continues to be measured at fair value after reclassification in accordance with IFRS 5.

Valuation method

The Group's entire property portfolio was valued at 30 June 2020 by Cushman & Wakefield and CBRE.
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: 56%
- CBRE: 44%

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 valuers’ fees are agreed before the appraisal process begins and do not depend in any way on the value of the properties to be appraised. They are determined at a flat rate based exclusively on the number of properties to be valued and the complexity of the appraisal process. The only fees paid to the valuers in first-half 2020 concerned the half-yearly appraisals. Fees were also paid to a CBRE group company.

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. The value of assets in the process of being redeveloped or renovated includes the estimated cost of completing the work.

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 property markets in first-half 2020 were adversely affected by the Covid-19 pandemic and the valuers therefore placed less weight on prior period comparable market prices for their valuation. The valuers' report includes a material valuation uncertainty declaration in line with RICS Valuation - Global Standards VPS 3 and VPGA 10, stating that the appraisal values are less certain and more conservatively estimated than in normal circumstances.

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 and 1.80% for properties subject to VAT) and excluding transfer costs and acquisition expenses.

Fair value measurement of investment property

IFRS 13 – Fair Value Measurement establishes a single definition of fair value and describes all the information concerning fair value to be disclosed in the notes to the financial statements.

Fair value measurement of a non-financial asset considers a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The valuation of investment property takes into account this definition of fair value.

In IFRS 13, fair value measurements are categorised into a three-level hierarchy. Level 3 concerns unobservable inputs for the asset or liability. An entity develops unobservable inputs using the best information available in the circumstances, which might include the entity's own data, taking into account all information about market participant assumptions that is reasonably available.

Due to the nature of the investment property market in France and the characteristics of the Group's investment property, the most meaningful inputs, particularly market rents, investment yields and/or discount rates, represent Level 3 inputs.

(in thousands of euros)	31 December 2019	Increases	Gains from remeasure-ment at fair value	Decreases	Losses from remeasure-ment at fair value	Reclassifica-tions	30 June 2020
Investment property	7,045,049	36,816	133,613	-	(90,807)	-	7,124,671
Total	**7,045,049**	**36,816**	**133,613**	**-**	**(90,807)**	**-**	**7,124,671**

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

(in thousands of euros)	30 June 2020	31 December 2019
Appraisal value of investment property, excluding transfer costs	7,239,001	7,157,690
Deduction of owner-occupied property (see Note IV-2)	(48,724)	(48,291)
Adjustments to reflect specific lease terms and other adjustments	(65,606)	(64,350)
Fair value of investment property in the statement of financial position	**7,124,671**	**7,045,049**

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

Geographic area	Value excluding transfer costs 30 June 2020 (in € millions, on a 100% basis)	Inputs	Range of values[1]	Weighted average[1]
Paris Central Business District	5,993	Market rent for offices	€630 - €920	€762
		Exit yield	2.75% - 3.21%	3.14%
		Discount rate	3.90% - 4.45%	4.07%
Other Paris	1,135	Market rent for offices	€548 - €744	€615
		Exit yield	3.15% - 3.50%	3.29%
		Discount rate	4.10% - 5.60%	4.55%
Western Crescent	111	Market rent for offices	€313 - €523	€465
		Exit yield	3.64% - 5.00%	4.01%
		Discount rate	4.50% - 6.10%	4.94%
Total	**7,239**			

[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 €576,410 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 €692,589 thousand.

V - Operating Activities

V -1) Net property rentals

Accounting policy

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount can be measured reliably. The specific revenue recognition criteria applied by the Group are as follows:

Rental income

Rental income from investment property is recognised on a straight-line basis over the fixed 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. Rental income also comprises income from external management contracts.

Specific lease terms

Current leases include various specific terms concerning rent-free periods, step-up clauses, key money and eviction compensation. In compliance with IFRS 16, 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.

Property expenses

Following a more detailed analysis of the principal versus agent distinction under IFRS 15, the Group concluded that it acts as principal. Accordingly, it now presents gross property expenses separately from property expenses recovered from tenants in the statement of comprehensive income.

The Group's principal business is the rental of office and retail properties. Net property rentals take into account the positive net impact of recognising rent-free periods and rent step-ups over the non-cancellable lease term. In first-half 2020, this impact was €1,256 thousand. Revenue from external management contracts amounted to €2,115 thousand.

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 2 years	Due in 2 to 3 years	Due in 3 to 4 years	Due in 4 to 5 years	Due beyond 5 years
Rental income	1,106,210	187,129	166,865	129,426	108,634	77,260	436,896

V - 2) Other income

(in thousands of euros)	First-half 2020	First-half 2019
Own-work capitalised	186	1,432
Other income	863	1,299
Total	1,049	2,731

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 amortised cost, corresponding to the initial invoice amount. Upon origination, the receivables are written down using the simplified expected loss-to-maturity model, in accordance with IFRS 9. The model is based on observed actual historical losses and projections of expected future losses taking into account identified risk factors. In subsequent periods, the collection risk is systematically reviewed on a case-by-case basis, and a loss allowance is recorded if necessary to reflect the incurred risk.

(in thousands of euros)	30 June 2020			31 December 2019
	Total	Due within 1 year	Due in 1 year or more	
Trade receivables	84,068	33,007	51,061	69,364
Provisions	(1,629)	(539)	(1,090)	(1,417)
Trade receivables	**82,439**	**32,468**	**49,971**	**67,947**
Prepayments to suppliers	84	84	-	63
Employee advances	47	47	-	11
Tax receivables (other than income tax)	10,726	10,726	-	8,430
Other operating receivables	1,521	1,521	-	1,773
Other receivables	235	235	-	511
Other receivables	**12,613**	**12,613**	**-**	**10,788**
Total	**95,052**	**45,081**	**49,971**	**78,735**

Trade receivables include outstanding receivables, and receivables relating to the recognition of rent-free periods and rent concessions in accordance with IFRS for an amount of €65,606 thousand (of which €16,550 thousand is due within one year). Receivables do not bear interest.

Cost of risk can be analysed as follows:

(in thousands of euros)	First-half 2020	First-half 2019
Increases in provisions	(324)	(323)
Reversals of provisions	5	41
Bad debt write-offs, net of recoveries	-	(3)
Total	**(319)**	**(285)**
Rental income	91,190	198,710
Net losses as a % of rental income	**0.35%**	**0.14%**

V - 4) Other current and non-current assets

(in thousands of euros)	30 June 2020	31 December 2019
Prepayments	30,432	8,233
Total other non-current assets	**30,432**	**8,233**
Income tax prepayments	1,906	173
Prepayments	3,344	61
Total other current assets	**5,250**	**234**

Prepayments recorded under “Non-current assets” concern redevelopment work on the Biome and 83 Marceau buildings.

V - 5) Trade and other payables

(in thousands of euros)	30 June 2020	31 December 2019
Trade payables	16,698	8,247
Amounts due within one year on asset acquisitions	24,240	17,949
Total	**40,938**	**26,196**

V - 6) Other current and non-current liabilities

(in thousands of euros)	30 June 2020	31 December 2019
Deposits	26,850	26,870
Total other non-current liabilities	**26,850**	**26,870**
Deposits	3,830	14,425
Customer prepayments	13,020	22,800
Accrued employee benefits expense	3,972	5,494
Accrued taxes	11,826	13,771
Other liabilities	19,562	4,794
Accruals	2,903	456
Total other current liabilities	**55,113**	**61,740**

The caption "Deposits" 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 2020 and related to the Biome building, for a total of €5,248 thousand.
Other liabilities include the dividend payable by SFL to its shareholder Predica in respect of its interest in SCI Washington and the Parholding subgroup.
The amounts reported under "Accruals" correspond to deferred revenue.

V - 7) Other expenses

(in thousands of euros)	First-half 2020	First-half 2019
Fees	(686)	(790)
Taxes other than on income	(1,470)	(1,379)
Other	(2,675)	(2,712)
Total	**(4,831)**	**(4,881)**

VI - Financing Activities

VI - 1) Borrowings and other interest-bearing debt

Accounting policy

Loans and borrowings are initially recognised at fair value, corresponding to 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)	Effective interest rate	Expiry date	Short-term portion 30 June 2020	Short-term portion 31 December 2019	Long-term portion 30 June 2020	Long-term portion 31 December 2019
Bonds						
€350 million bond issue, 2014-2021	1.875%	26 Nov. 2021	3,908	647	350,000	350,000
€350 million bond issue, 2015-2022	2.25%	16 Nov. 2022	4,906	992	350,000	350,000
€500 million bond issue, 2018-2025	1.50%	29 May 2025	678	4,459	500,000	500,000
€500 million bond issue, 2020-2027	1.50%	5 June 2027	534	-	500,000	-
Bank loans						
Natixis – Deka – Deutsche Hypotheken	1.571%	16 July 2022	2,616	2,619	196,040	197,080
Negotiable European commercial paper (NEU-CP)	Fixed rate (payable in advance)	Due within 1 year	248,500	386,500	-	-
Interest rate swaps						
CA-CIB 5-year swap	0.23%	4 June 2020[1]	-	60	-	1,605
CA-CIB 5-year swap starting 26 Nov. 2021	-0.3475%	26 Nov. 2026	-	-	134	-
Current account advances (liabilities)	Various		33	23	49,866	49,866
Impact of deferred recognition of debt arranging fees			(3,163)	(2,486)	(10,046)	(7,061)
Total			**258,012**	**392,814**	**1,935,994**	**1,441,490**

[1] *Date on which the instrument was unwound (see Note VI.3)*

The following table analyses borrowings by maturity:

(in thousands of euros)	30 June 2020	Due within 1 year	Due in 1 to 5 years	Due beyond 5 years	31 December 2019
Bonds	1,710,026	10,026	1,200,000	500,000	1,206,098
Natixis/Deka/Deutsche Hypothekenbank	198,656	2,616	196,040	-	199,699
Negotiable European commercial paper (NEU-CP)	248,500	248,500	-	-	386,500
CA-CIB 5-year 0.23% swap	-	-	-	-	1,665
CA-CIB 5-year -0.3475% swap	134	-	134	-	-
Current account advances (liabilities)	49,899	33	49,866	-	49,889
Deferred debt arranging fees	(13,209)	(3,163)	(8,846)	(1,200)	(9,547)
Total	**2,194,006**	**258,012**	**1,437,194**	**498,800**	**1,834,304**

Current account advances correspond to Predica's minority interest in SCI Washington.

Debt covenants and acceleration clauses in force at 30 June 2020 concerned lines of credit: Société Générale, BECM, BNP Paribas, Cadif and Banque Postale. They can be broken down as follows:

Applicable ratios	Actual ratios at 30 June 2020	Actual ratios at 31 December 2019	Main acceleration clauses
Loan-to-value (LTV) <= 50%	24.3%	22.7%	Loan default Termination of operations
Interest cover >= 2x	5.6	6.6	Bankruptcy proceedings
Secured LTV <= 20%	2.6%	2.6%	Breach of financial covenants
Unrestricted property portfolio value >= €2bn	€6.6bn	€6.5bn	Material adverse event

The Group was not in breach of any of its financial covenants at 30 June 2020.

VI - 2) Finance costs and other financial income and expenses

(in thousands of euros)	First-half 2020	First-half 2019
Interest on bank loans, bonds and commercial paper	(14,364)	(14,074)
Interest on external current account advances	(61)	(76)
Interest on hedging instruments	(274)	(273)
Other financial expenses	(1,416)	(1,352)
Finance costs and other financial expenses	**(16,115)**	**(15,775)**
Interest income	32	46
Financial expense transfers	2,454	2,419
Financial income	**2,486**	**2,465**
Finance costs and other financial income and expenses, net	(13,629)	(13,310)

Financial expense transfers correspond to finance costs capitalised at the rate of 1.34% during the redevelopment of the Louvre Saint-Honoré, Biome and 83 Marceau buildings.

VI - 3) Financial instruments

Accounting policy

The Group uses derivative instruments such as interest rate swaps and caps to hedge the risk of changes in interest rates. These instruments are measured at fair value at each period-end.

Instruments acquired as cash flow hedges are eligible for hedge accounting. The portion of the gain or loss on these instruments that is determined as being an effective hedge is recognised directly in equity and the ineffective portion is recognised through profit or loss. 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 through profit or loss. The cumulative gains and losses on the instrument recorded in equity at that date are reclassified ("recycled") to the income statement 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 through profit or loss.

Standard market valuation methods are used – corresponding to Level 2 inputs in the fair value hierarchy (see Note IV-5) – taking into account the risk of non-performance (particularly the Group's own credit risk), in line with IFRS 13.

At 30 June 2020, the Group's portfolio included:

- A 5-year forward swap set up with CA-CIB (variable rate swapped for a fixed rate of -0.3475%) on a notional amount of €100,000 thousand. The swap will come into effect on 26 November 2021 and qualifies for hedge accounting as a cash flow hedge.

- A 5-year forward swap set up with CIC (variable rate swapped for a fixed rate of -0.4525%) on a notional amount of €100,000 thousand. The swap will come into effect on 26 November 2021 and qualifies for hedge accounting as a cash flow hedge.

- A 7-year collar set up with Société Générale (the option writer) on a notional amount of €100,000 thousand, with a 0% cap and a -0.7525% floor. No premium is payable on this collar which was set up on 4 September 2019. It is a cash flow hedge qualifying for hedge accounting.

- A 5-year collar set up with CIC (the option writer) on a notional amount of €100,000 thousand, with a -0.25% cap and a -0.52% floor. No premium is payable on this collar, which will come into effect on 16 November 2022. It is a cash flow hedge qualifying for hedge accounting.

Hedging instruments at fair value

At 30 June 2020, the fair value of the hedging instruments amounted to €1,014 thousand, breaking down as follows:

(in thousands of euros)	Notional amount	Maturity	30 June 2020	31 December 2019
CA-CIB 0.23% swap	100,000	June 20[1]	-	(1,605)
CA-CIB swap at -0.3475%	100,000	Nov. 2026	(134)	1,877
CIC swap at -0.4525%	100,000	Nov. 2026	397	2,416
Société Générale collar 0%/ -0.7525%	100,000	Sept. 2026	290	1,404
CIC collar -0.25%/-0.52%	100,000	Nov. 2027	461	-
Total			**1,014**	**4,092**

[1] *Date on which the instrument was unwound.*

Fair value adjustments to financial instruments (income statement)

(in thousands of euros)	First-half 2020	First-half 2019
Interest rate hedges	(10)	(1,718)
Total	**(10)**	**(1,718)**

The 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 that came into effect on 28 November 2017 and was measured at fair value through profit or loss, was wound up in advance in June 2020, giving rise to a cash payment of €1,625 thousand.

Fair value adjustments to financial instruments (equity)

(in thousands of euros)	30 June 2020	30 June 2019
Interest rate hedges	(4,683)	-
Total	**(4,683)**	**-**

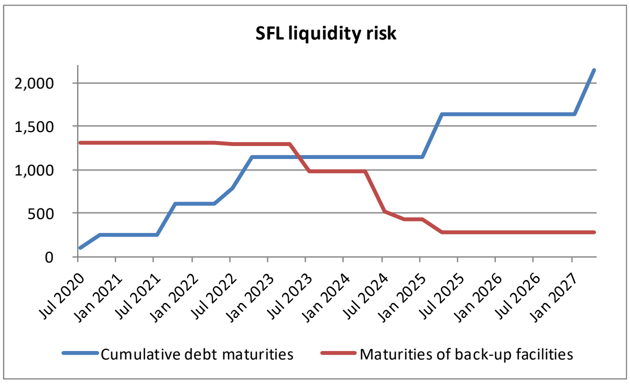
Negative fair value adjustments to financial instruments qualified as cash flow hedges reduced equity by €4,683 thousand at 30 June 2020. At 30 June 2019, these instruments were measured at fair value through profit or loss.

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 30 June 2020, SFL had access to confirmed undrawn lines of credit representing €1,040 million compared with €990 million at 31 December 2019. 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 June 2023.



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.

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 risks are minimised by keeping cash surpluses to a minimum. 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.

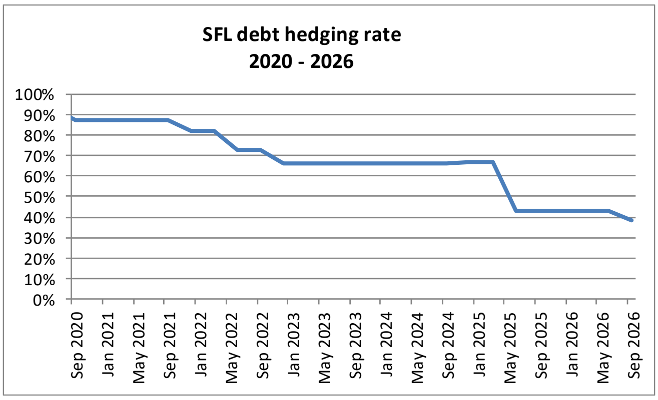
3 - Market risk

The Group did not have any exposure to currency risk at 30 June 2020. 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.

At 30 June 2020, 93% of debt was hedged against interest rate risks.



b/ Risk assessment

The average spot cost of debt stood at 1.49% at 30 June 2020, versus 1.37% at 31 December 2019.

A 50-basis point rise in interest rates across the yield curve in first-half 2020 would have had the effect of increasing the average cost of debt to 1.55%, driving up finance costs for the period by €617 thousand or 3.83%. A 50-basis point decline in interest rates across the yield curve would have had the effect of decreasing the average cost of debt to 1.44%, reducing finance costs for the period by €564 thousand or 3.50%.

Concerning hedging instruments, a 50-basis point increase in interest rates would have had the effect of increasing the fair value of hedging instruments by €8,914 thousand at 30 June 2020, while a 50-basis point decrease would have had the effect of reducing their fair value by €9,475 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 30 June 2020.

(in thousands of euros)	Due within 1 year	Due in 1 to 2 years	Due in 2 to 3 years	Due in 3 to 4 years	Due in 4 to 5 years	Due beyond 5 years	Total
Negotiable European commercial paper (NEU-CP)	248,500	-	-	-	-	-	248,500
Current account advances	-	49,866	-	-	-	-	49,866
Total floating rate debt	**248,500**	**49,866**	**-**	**-**	**-**	**-**	**298,366**

The other financial instruments used by the Group are not listed in the table above because they do not bear interest or are not exposed to any interest rate risk.

Fair value of bonds

The fair value of the Group's outstanding bond issues at 30 June 2020 was €1,747,736 thousand, as follows:

(in thousands of euros)	Notional amount	Maturity	30 June 2020	31 December 2019
November 2014 bonds	350,000	Nov. 2021	354,610	360,810
November 2015 bonds	350,000	Nov. 2022	361,891	369,588
May 2018 bonds	500,000	May 2025	517,485	524,145
June 2020 bonds	500,000	June 2027	513,750	-
Total	**1,700,000**		**1,747,736**	**1,254,543**

VI - 5) Financial assets

Accounting policy

Non-current financial assets comprise 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 December 2019	Increases	Impairment losses recognised during the period	Decreases	Impairment losses reversed during the period	30 June 2020
Deposits	2,529	-	-	(2,301)	-	227
Interest rate hedges	5,697	461	-	(5,010)	-	1,148
Total	**8,225**	**461**	**-**	**(7,311)**	**-**	**1,375**

The €2,300 thousand deposit paid by Parhaus in 2019 was reversed in the first half.
Hedging instruments with a positive fair value recognised in assets totalled €1,148 thousand at 30 June 2020 (see Note VI-3). The instruments concerned are cash flow hedges qualifying for hedge accounting.

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)	30 June 2020	31 December 2019
Cash at bank and in hand	270,028	54,002
Total	**270,028**	**54,002**

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 December 2019	Increases	Decreases	30 June 2020
Number of treasury shares	222,187	13,864	(60,258)	175,793
Average purchase/sale price, in euros	€69.84	€73.40	€60.61	€73.28
Total	**15,516**	**1,018**	**(3,652)**	**12,882**

VII - 3) Dividends

(in thousands of euros)	First-half 2020		First-half 2019	
	Paid	Per share	Paid	Per share
Prior-year dividend paid in current year	122,828	€2.65	122,711	€2.65
Total	**122,828**	**€2.65**	**122,711**	**€2.65**

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.

Diluted 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, as adjusted for the dilutive effect of outstanding performance shares awarded to employees and corporate officers.

(in thousands of euros)	First-half 2020	First-half 2019
Profit used to calculate basic earnings per share	113,651	253,549
Weighted average number of ordinary shares	46,528,974	46,528,974
Number of treasury shares	(175,793)	(225,257)
Weighted average number of ordinary shares excluding treasury shares	**46,353,181**	**46,303,717**
Basic earnings per share	**€2.45**	**€5.48**
Profit used to calculate basic earnings per share	113,651	253,549
Weighted average number of ordinary shares	46,528,974	46,528,974
Number of treasury shares	(175,793)	(225,257)
Effect of dilutive instruments on the average number of shares	65,947	59,297
Diluted weighted average number of ordinary shares excluding treasury shares	**46,419,128**	**46,363,014**
Diluted earnings per share	**€2.45**	**€5.47**

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)	First-half 2020	First-half 2019
SCI Washington	**4,702**	**9,595**
Rental income	*3,824*	*3,969*
Fair value adjustments to investment property	*870*	*5,668*
Net financial expense	*(49)*	*(73)*
Other	*57*	*31*
Parholding subgroup	**(8,867)**	**22,223**
Rental income	*6,897*	*7,608*
Fair value adjustments to investment property	*(17,341)*	*24,165*
Net financial expense	*(875)*	*(867)*
Deferred tax	*3,580*	*(6,875)*
Current tax	*(729)*	*(1,406)*
Other	*(401)*	*(402)*
Total	**(4,165)**	**31,818**

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, and 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 income statement, the provision expense is presented net of the amount recognised for the reimbursement.

(in thousands of euros)	31 December 2019	Increases	Decreases	*o/w utilisations*	Actuarial gains and losses	Reclassifications	30 June 2020
Provisions for employee benefits	1,414	474	(7)	*(7)*	271	(492)	1,660
Long-term provisions	**1,414**	**474**	**(7)**	***(7)***	**271**	**(492)**	**1,660**
Provisions for refurbishment work and tenant claims	475	-	-	-	-	-	475
Provisions for employee benefits	648	-	(648)	*(648)*	-	492	492
Short-term provisions	**1,123**	**-**	**(648)**	***(648)***	**-**	**492**	**967**
Total	**2,537**	**474**	**(655)**	***(655)***	**271**	**-**	**2,627**

Provisions for employee benefits include provisions for length-of-service awards payable to employees on retirement and jubilees for €1,386 thousand. See Note IX-2 for more details.

Short- and long-term provisions covering benefits payable to members of senior management amounted to €62 thousand at 30 June 2020 and €29 thousand at 31 December 2019.

VIII - 2) Provision (expense)/reversals, net

(in thousands of euros)	First-half 2020	First-half 2019
Charges to provisions for impairment of current assets	(324)	(112)
Charges to provisions for operating contingencies and charges	(370)	(307)
Charges to provisions for other contingencies and charges	(104)	(90)
Total charges	**(798)**	**(509)**
Reversals of provisions for impairment of current assets	5	68
Reversals of provisions for other contingencies and charges	-	374
Total reversals	**5**	**442**
Total	**(793)**	**(67)**

IX - Remuneration and Other Employee Benefits

IX - 1) Employee benefits expense

Employee benefits expense breaks down as follows:

(in thousands of euros)	First-half 2020	First-half 2019
Wages and salaries	(3,305)	(3,382)
Payroll taxes	(1,649)	(1,722)
Other employee benefits	(1,466)	(1,196)
Statutory and discretionary profit-sharing	(136)	(297)
Total	**(6,556)**	**(6,597)**

The Group had 74 administrative staff (including 2 corporate officers) and 2 building staff at 30 June 2020, compared with 69 administrative staff and two building staff at 30 June 2019.

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)	30 June 2020	31 December 2019
Projected benefit obligation at beginning of period	**1,018**	**902**
Benefits paid during the period	(7)	(35)
Service cost	98	83
Interest cost	6	11
Actuarial gains and losses	271	57
Projected benefit obligation at end of period	**1,386**	**1,018**

The projected benefit obligation is calculated at six-monthly intervals based on actuarial assumptions, including, at 30 June 2020, a discount rate of 0.70% (31 December 2019: 0.69%) and a 2.00%-rate of future salary increases (unchanged from 31 December 2019). Actuarial gains and losses are recognised in equity.
A 25-bps reduction in the discount rate at 30 June 2020 would lead to a €32 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 income statement.

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 30 June 2020

	Plan no. 5	Plan no. 5	Plan no. 5
Date of shareholder authorisation	20 April 2018	20 April 2018	20 April 2018
Grant date (date of Board meeting)	20 April 2018	15 Feb. 2019	6 Feb. 2020
Initial target number of shares	33,592	32,948	34,476
Initial expected vesting rate	100.00%	100.00%	100.00%
Initial number of shares expected to vest	33,592	32,948	34,476
Fair value per share	€48.64	€54.00	€65.38
Rights cancelled/forfeited	(1,640)	(212)	-
Expected vesting rate at end of period	150.00%	100.00%	100.00%
Number of shares expected to vest at end of period	**47,928**	**32,736**	**34,476**

Main features of the plans

The plans' main features are as follows:

- The shares will vest only if the grantee is still employed by the Group on the vesting date.
- Performance target: the number of shares that vest depends on SFL's ranking among a group of six listed property companies based on growth in consolidated ANAV per share.
- The performance shares will vest 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 30 June 2020, the rates applied were 150% for the 2018 plan (probable ranking: no. 2) and 100% for the 2019 and 2020 plans (probable ranking: no.3).

During first-half 2020, a total of 46,494 performance shares vested under 2017 Plan no.4.

The cost of performance share plans recognised in first-half 2020 amounted to €1,538 thousand (excluding specific employer contributions).

IX - 4) Related party information

The remuneration paid to the members of the Board of Directors and corporate officers breaks down as follows:

(in thousands of euros)	First-half 2020	First-half 2019
Short-term benefits, excluding payroll taxes[1]	2,309	2,017
Payroll taxes on short-term benefits	1,376	1,241
Share-based payments[2]	993	763
Directors' fees	396	287
Total	**5,074**	**4,308**

[1] *Gross salary and other remuneration, bonuses, statutory and discretionary profit-sharing, matching Company payments and termination benefits paid during the period.*

[2] *Cost recognised in the income statement for stock options and employee rights issues.*

At 30 June 2020, related-party transactions comprised current account advances representing the share of the minority shareholder, Predica, in SCI Washington (see Note VI-1).

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	2021	Total
Amount payable	5,169	5,169

This caption corresponds mainly to the long-term portion of the exit tax due as a result of the election for the Biome 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 first-half 2020 amounted to €1,583 thousand (first-half 2019: €3,384 thousand) and mainly concerned the Parholding tax group.

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 companies in the Parholding sub-group that are not eligible for taxation as SIICs.

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., 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., 28%.

(in thousands of euros)	Statement of financial position 31 December 2019	Reclassifications	Equity	Income statement	Statement of financial position 30 June 2020
Fair value adjustments to investment property	(191,297)	-	-	8,957	(182,340)
Adjustment of depreciation	(27,251)	-	-	(918)	(28,169)
Adjustment of property rentals	(1,281)	-	-	(911)	(2,192)
Capitalisation of interest expense and transaction costs	(521)	-	-	-	(521)
Other	(1,221)	-	-	33	(1,188)
Net	**(221,571)**	**-**	**-**	**7,161**	**(214,410)**
Of which deferred tax assets	-	-	-	-	-
Of which deferred tax liabilities	(221,571)	-	-	7,161	(214,410)

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 (including first demand guarantees)	116,982	1,128	76,167	39,687
Other first demand guarantees	400	-	400	-
Guarantees received from suppliers	2,474	337	2,137	-
Total commitments received	**119,856**	**1,465**	**78,704**	**39,687**

Contractual redevelopment and renovation obligations

At 30 June 2020, the Group's contractual commitments relating to investment properties undergoing renovation totalled €116,537 thousand (€67,256 thousand at 31 December 2019), of which €94,921 thousand concerned the Biome and 83 Marceau properties.

XI - 2) Off-balance sheet commitments related to financing

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**
BECM	150,000	-	150,000	-
BNP Paribas 2020	150,000	-	150,000	-
BNPP 2019 syndicated loan	390,000	-	390,000	-
Banque Postale	75,000	-	75,000	-
Société Générale	100,000	-	100,000	-
Cadif	175,000	-	175,000	-
Total	**1,040,000**	**-**	**1,040,000**	**-**

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.
One 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 30 June 2020, total commitments for the payment of compensation amounted to €3,422 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)	30 June 2020	30 June 2019
Acquisitions of and improvements to investment property		
Work	(50,269)	(23,896)
Total	**(50,269)**	**(23,896)**
Cash and cash equivalents at end of period		
Cash at bank and in hand	270,028	42,972
Total	**270,028**	**42,972**

The amount reported in first-half 2020 for improvements to investment properties included €22,199 thousand in long-term prepayments in respect of redevelopment work on the Biome building.
Non-cash changes in bonds and bank borrowings amounted to €1,412 thousand in first-half 2020 and corresponded 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 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
SAS SB2	444 318 398	100	100
SAS SB3	444 318 547	100	100
SCI SB3	444 425 250	100	100
SCI 103 Grenelle	440 960 276	100	100
SCI Paul Cézanne	438 339 327	100	100
SCI Washington	432 513 299	66	66
SNC Condorcet Holding	808 013 890	100	100
SNC Condorcet Propco	537 505 414	100	100

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 SOCIMI, SA, which owned 81.7% of the capital at 30 June 2020. The Group and all of its subsidiaries have their registered office in the 8th *arrondissement* of Paris.

4.

Société Foncière Lyonnaise

Société Anonyme

42, rue Washington
75008 Paris
France

Statutory Auditors' review report on the 2020 interim financial information

Six months ended 30 June 2020

PricewaterhouseCoopers Audit
63, rue de Villiers
92200 Neuilly-sur-Seine

S.A.S au capital de 2 510 460 €
672 006 483 RCS Nanterre

Commissaire aux Comptes
Membre de la compagnie
régionale de Versailles

Deloitte & Associés
6, place de la Pyramide
92908 Paris-La-Défense

S.A.S au capital de 2 188 160 €
572 028 041 R.C.S. Nanterre

Commissaire aux Comptes
Membre de la compagnie
régionale de Versailles

Société Foncière Lyonnaise

Société Anonyme

42, rue Washington
75008 Paris
France

Statutory Auditors' review report on the 2020 interim financial information

Six months ended 30 June 2020

This is a free translation into English of the Statutory Auditors' review 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 compliance with the assignment entrusted to us by your Annual General Meeting and in accordance with the requirements of article L. 451-1-2 III of the French Monetary and Financial Code (*Code monétaire et financier*), we hereby report to you on:

- the review of the accompanying interim consolidated financial statements of Société Foncière Lyonnaise for the six months ended 30 June 2020;
- the verification of the information contained in the interim management report.

These interim consolidated financial statements are the responsibility of the Board of Directors, and were prepared on 28 July 2020 based on the information available as of this date given the changing context of the Covid-19 crisis and the challenges faced in assessing its impacts and future outlook. Our role is to express a conclusion on these financial statements based on our review.

Conclusion on the financial statements

We conducted our review in accordance with professional standards applicable in France. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements do not give a true and fair view of the assets and liabilities and of the financial position of the Group as at 30 June 2019, and of the results of its operations for the six-month period then ended, in accordance with IFRSs as adopted by the European Union.

Specific verification

We have also verified the information given in the interim management report prepared as at 28 July 2020 on the interim consolidated financial statements subject to our review. We have no matters to report as to its fair presentation and its consistency with the interim consolidated financial statements.

Neuilly-sur-Seine and Paris-La Défense, 28 July 2020

The Statutory Auditors

PricewaterhouseCoopers Audit	Deloitte & Associés
Lionel Lepetit	Laure Silvestre-Siaz

SOCIETE FONCIERE LYONNAISE

5. STATEMENT BY THE PERSON RESPONSIBLE FOR THE INTERIM FINANCIAL REPORT

I hereby declare that, to the best of my knowledge, the consolidated financial statements for the six months ended 30 June 2020 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 interim management report on page 3 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 for the remaining six months of the year.

Paris, 28 July 2020

Nicolas Reynaud

Chief Executive Officer

SFL

42 rue Washington - 75008 Paris, France - T +33 (0)1 42 97 27 00 - www.fonciere-lyonnaise.com

SA au capital de 93 057 948 euros - RCS 552 040 982 Paris - Code APE 6820B - Nº TVA INTRACOM. SFL FR 54/552/040/982

SOCIETE FONCIERE LYONNAISE