SOCIÉTÉ FONCIÈRE LYONNAISE

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

CONSOLIDATED FINANCIAL STATEMENTS

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

A – Consolidated Statement of Financial Position

(in thousands of euros) **ASSETS**	**Notes** **Section E**	**31 Dec. 2016**	**31 Dec. 2015**
Intangible assets	IV-1	1,487	2,512
Property and equipment	IV-2	22,286	22,200
Investment property	IV-4	5,604,526	5,098,496
Non-current financial assets	VI-6	699	696
Other non-current assets	V-4	108	301
Total non-current assets		**5,629,106**	**5,124,205**
Trade and other receivables	V-3	113,937	81,451
Other current assets	V-4	917	446
Cash and cash equivalents	VI-7	19,766	12,487
Total current assets		**134,620**	**94,384**
Total assets		**5,763,726**	**5,218,589**

(in thousands of euros) **EQUITY AND LIABILITIES**	**Notes** **Section E**	**31 Dec. 2016**	**31 Dec. 2015**
Share capital		93,058	93,058
Reserves		2,526,008	2,127,433
Profit for the year		504,079	492,861
Equity attributable to owners of the parent		**3,123,145**	**2,713,352**
Non-controlling interests		370,631	317,735
Total non-controlling interests		**370,631**	**317,735**
Total equity	**VII-1**	**3,493,776**	**3,031,087**
Long-term borrowings and derivative instruments	VI-1	1,619,506	1,704,551
Long-term provisions	VIII-1	3,002	1,011
Deferred tax liabilities	X-3	161,860	186,991
Long-term liabilities	X-1	9,314	2,857
Other non-current liabilities	V-6	19,677	17,637
Total non-current liabilities		**1,813,359**	**1,913,047**
Trade and other payables	V-5	22,487	18,877
Short-term borrowings and other interest-bearing debt	VI-1	389,304	213,053
Short-term provisions	VIII-1	421	570
Other current liabilities	V-6	44,379	41,955
Total current liabilities		**456,591**	**274,455**
Total equity and liabilities		**5,763,726**	**5,218,589**

B – Consolidated Statement of Comprehensive Income

(in thousands of euros)	Notes Section E	2016	2015
Property rentals		198,137	168,794
Property expenses, net of recoveries		(10,542)	(14,266)
Net property rentals	**V-1**	**187,595**	**154,528**
Other income	V-2	2,852	2,370
Depreciation and amortisation expense	IV-3	(2,290)	(1,143)
Provision (expense)/reversals, net	VIII-2	737	(229)
Employee benefits expense	IX-1	(12,057)	(12,623)
Other expenses	V-7	(7,170)	(7,605)
Profit on disposal of other assets		-	14
Fair value adjustments on investment property	IV-4	438,040	513,654
Operating profit		**607,707**	**648,966**
Finance costs and other financial expenses	VI-3	(46,303)	(58,352)
Financial income	VI-3	307	6,231
Fair value adjustments on financial instruments	VI-4	(2,477)	(17,237)
Discounting adjustments to receivables and payables		370	(228)
Changes in provisions for financial assets, net		-	-
Profit before income tax		**559,604**	**579,380**
Income tax benefit/(expense)	X-2-3	3,304	(34,245)
Profit for the year		**562,908**	**545,135**
Attributable to owners of the parent		**504,079**	**492,861**
Attributable to non-controlling interests	VII-5	58,829	52,274
Earnings per share	VII-4	€10.92	€10.68

Other comprehensive income			
Actuarial gains and losses	VIII-1	217	151
Other items		-	130
Items that will not be reclassified to profit or loss		217	281
Valuation gains and losses on financial instruments (cash flow hedges)	VI-4	2,477	8,123
Deferred tax impact of valuation gains and losses on financial instruments	X-3	-	(840)
Items in the accounts of associates that may be reclassified subsequently to profit or loss		-	-
Items that may be reclassified subsequently to profit or loss		2,477	7,283
Other comprehensive income		**2,694**	**7,564**
Comprehensive income		**565,602**	**552,699**
Attributable to owners of the parent		**506,773**	**499,625**
Attributable to non-controlling interests		58,829	53,074

C – Consolidated Statement of Changes in Equity

(in thousands of euros)	Share capital	Share premium account	Revaluation reserve	Treasury shares	Cash flow hedges	Other reserves	Profit for the year	Equity attributable to owners of the parent	Equity attributable to non-controlling interests
Equity at 31 December 2014	**93,058**	**839,668**	**22,621**	**(18,517)**	**(3,097)**	**1,193,334**	**197,737**	**2,324,803**	**268,571**
Movements for the year									
Profit for the year	-	-	-	-	-	-	492,861	492,861	52,274
Other comprehensive income, net of tax	-	-	-	-	6,484	281	-	6,765	800
Comprehensive income	**-**	**-**	**-**	**-**	**6,484**	**281**	**492,861**	**499,626**	**53,074**
Appropriation of profit	-	31,875	-	-	-	165,862	(197,737)	-	-
Treasury share transactions	-	-	-	1,893	-	-	-	1,893	-
Gains and losses on sales of treasury shares	-	-	-	(1,743)	-	-	-	(1,743)	-
Share-based payments	-	-	-	-	-	1,864	-	1,864	-
Dividends paid to owners of the parent	-	(113,091)	-	-	-	-	-	(113,091)	(3,910)
Equity at 31 December 2015	**93,058**	**758,452**	**22,621**	**(18,367)**	**3,387**	**1,361,341**	**492,861**	**2,713,352**	**317,735**
Movements for the year									
Profit for the year	-	-	-	-	-	-	504,079	504,079	58,829
Other comprehensive income, net of tax	-	-	-	-	2,477	217	-	2,694	-
Comprehensive income	**-**	**-**	**-**	**-**	**2,477**	**217**	**504,079**	**506,773**	**58,829**
Appropriation of profit	-	(26,202)	-	-	-	519,063	(492,861)	-	-
Treasury share transactions	-	-	-	377	-	-	-	377	-
Gains and losses on sales of treasury shares	-	-	-	(1,470)	-	-	-	(1,470)	-
Share-based payments	-	-	-	-	-	1,114	-	1,114	-
Dividends paid to owners of the parent	-	(97,350)	-	-	-	349	-	(97,001)	(5,933)
Other adjustments	-	-	-	-	(5,864)	5,864	-	-	-
Equity at 31 December 2016	**93,058**	**634,900**	**22,621**	**(19,460)**	**-**	**1,887,948**	**504,079**	**3,123,145**	**370,631**

D – Consolidated Statement of Cash Flows

(in thousands of euros)	Notes Section E	2016	2015
Cash flows from operating activities			
Profit for the period attributable to owners of the parent		504,079	492,861
Fair value adjustments on investment property	IV-4	(438,040)	(513,654)
Depreciation and amortisation expense (excluding impairment)	IV-3	2,290	1,143
Net additions to/(reversals of) provisions		2,059	178
Net (gains)/losses from disposals of assets, after tax		-	(14)
Discounting adjustments and valuation (gains)/losses on financial instruments		2,107	17,465
Deferral of rent-free periods and key money	V-1	(36,011)	(17,573)
Employee benefits	IX-3	1,114	1,864
Non-controlling interests in profit for the year	VII-5	58,829	52,274
Cash flow after finance costs and income tax		**96,427**	**34,544**
Finance costs	VI-3	45,996	52,121
Income tax (benefit)/expense	X-2-3	(3,304)	34,245
Cash flow before finance costs and income tax		**139,119**	**120,910**
Change in working capital		(190)	9,839
Interest paid		(47,782)	(54,347)
Interest received		16	183
Income tax paid		(7,390)	(10,522)
Net cash provided by operating activities		**83,773**	**66,063**
Cash flows from investing activities			
Acquisitions of and improvements to investment property	XII	(64,968)	(198,946)
Acquisitions of intangible assets and property and equipment	XII	(1,304)	(881)
Proceeds from disposals of investment property, intangible assets and property and equipment	XII	-	414
Other cash inflows and outflows		(4)	21
Net cash used by investing activities		**(66,276)**	**(199,392)**
Cash flows from financing activities			
Proceeds from the issue of ordinary shares		-	-
Purchases and sales of treasury shares, net		(1,093)	150
Dividends paid to owners of the parent	VII-3	(97,001)	(113,091)
Dividends paid to non-controlling interests		(5,933)	(2,380)
Proceeds from new borrowings		487,014	1,105,887
Repayments of borrowings		(456,015)	(844,410)
Other movements in financing items		-	(13,127)
Net cash provided/(used) by financing activities		**(73,028)**	**133,029**
Net change in cash and cash equivalents		**(55,531)**	**(300)**
Cash and cash equivalents at beginning of year		(9,570)	(9,270)
Cash and cash equivalents at end of year	XII	(65,101)	(9,570)
Net change in cash and cash equivalents		**(55,531)**	**(300)**

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

E – Notes to the Consolidated Financial Statements

I - Accounting Policies

I - 1) Accounting standards

As required under European Commission regulation (EC) 16/06/2002 dated 19 July 2002, the consolidated financial statements have been prepared in accordance with the International Accounting Standards (IASs), International Financial Reporting Standards (IFRSs) and related interpretations (SICs and IFRICs) adopted by the European Union.

The following new standards and interpretations published by the IASB had not been adopted by the European Union or were not yet applicable and were not early adopted as of 31 December 2016:

- IFRS 15 – Revenue from Contracts with Customers. This introduces a common standard for recognising revenue from contracts with customers. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard is applicable for annual periods beginning on or after 1 January 2018. It is not expected to have a material impact on the consolidated financial statements, because 98% of the Group's revenue from contracts with customers falls within the scope of IAS 17 and not IFRS 15.
- IFRS 16 – Leases. In accordance with this standard, all leases must be recognised in the statement of financial position of the lessee. The standard is applicable for annual periods beginning on or after 1 January 2019, and will not have a material impact on the Group's financial statements.
- IFRS 9 – Financial Instruments. This standard overhauls the classification and measurement of financial assets and financial liabilities, impairment methodology and hedge accounting. The Group currently has no financial instruments for which hedge accounting is required.
- Disclosure Initiative – Amendments to IAS 7. The principle underpinning the amendments is that an entity should provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments are applicable for annual periods beginning on or after 1 January 2017.

The amendment to IAS 1 – Presentation of Items of Other Comprehensive Income, is applicable in the Group's financial statements from 1 January 2016. It is designed to improve the presentation and quality of information disclosed in the financial statements.

The following new standards and interpretations applicable from 1 January 2016 have no material impact on the Group's financial statements and have not been applied:

- Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation.
- Annual Improvements to IFRSs 2012–2014 Cycle (particularly IFRS 7 – Financial Instruments: Disclosures, and IAS 34 – Interim Financial Reporting).

I - 2) Accounting conventions

The consolidated financial statements are presented in thousands of euros. They include the financial statements of SFL and its subsidiaries. The financial statements of subsidiaries cover the same period as those of SFL and have been prepared according to the same accounting policies. Intragroup transactions are eliminated in consolidation.

Subsidiaries are consolidated from the date when control is acquired and are removed from the scope of consolidation when control is transferred outside the Group. When SFL ceases to exercise control over a subsidiary, the consolidated financial statements include the subsidiary's results for the period from the beginning of the year to the date when control is transferred.

Material companies in which the Group exercises control, pursuant to the terms of a shareholders' pact, through ownership of the majority of voting rights or otherwise, are fully consolidated.

The Group has chosen to measure investment property using the fair value model (see Note IV-4).

I - 3) Critical accounting estimates and judgements

The property portfolio is valued by independent experts using assumptions concerning future cash flows and interest rates that have a direct impact on their valuations. A reduction in the value assessed by these experts would lead to a decrease in the Group's earnings (see Note IV-4).

All of the Group's financial instruments are measured using standard market valuation models (see Note VI-4).

II - Significant Events of the Year

II - 1) Redevelopment and renovation programmes

Following delivery of #cloud.paris in November 2015 and Le Vaisseau in January 2016, properties undergoing development represented just 6% of the Group's investment property portfolio at 31 December 2016, around half of which concerned the redevelopment of the Louvre Saint-Honoré building's retail area. This redevelopment project was approved by the Board of Directors on 30 September 2016.

Apart from exercising its option to acquire 131 Wagram on expiry of the lease (see Financing section below), the Group did not make any other acquisitions or disposals during 2016.

II - 2) Financing

In May 2016, SFL redeemed the outstanding €155.8 million of the 4.625% bond issued in May 2011, thus reducing the average cost of its debt.

In the same month, it obtained a five-year €150-million credit facility from BNP Paribas, comprising a €100-million revolving credit facility and a €50-million term loan.

In addition, SFL exercised its option to buy the 131 Wagram property on 14 June 2016 at the contract price of €26 million upon expiry of the related finance lease. As from the date of exercise, the property has been eligible for SIIC tax exemption in exchange for a €13 million exit tax.

II - 3) Tax audits

In 2016, the Company resolved its dispute with the French tax authorities arising from a 2010-2012 tax audit, by accepting a €2 million reassessment of the tax base that had the effect of reducing its tax loss carry-forwards by the same amount.

No deferred tax asset had been recognised for the tax loss carry-forwards in question and the impact of accepting the reassessment – which concerned the allocation of expenses between SIIC activities and activities subject to corporate income tax – on the consolidated financial statements was therefore not material.

There are currently no tax audits in progress.

II - 4) Appraisal value

Effective from 1 January 2016, sales of properties completed more than five years previously are subject to transfer taxes at an overall rate of 7.5% versus 6.2% (Paris) or 6.9% (outside Paris) in 2015. The impact of the increased rate had already been taken into account in the valuation of the Group's investment property portfolio in the consolidated financial statements for the year ended 31 December 2015 and consequently in its net asset value.

II - 5) Subsequent events

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

III - Segment Information

The Group's properties are similar in nature and, although they are managed separately in the same manner, none are large enough to be treated as a separate reportable segment. They are grouped into geographical segments in accordance with IFRS 8.

Comprehensive income can be analysed as follows by geographical segment:

(in thousands of euros)	Paris Central Business District	Western Crescent	Other	Corporate	Total
Property rentals	152,604	15,957	29,576	-	198,137
Property expenses, net of recoveries	(8,752)	(177)	(1,613)	-	(10,542)
Net property rentals	**143,852**	**15,780**	**27,963**	**-**	**187,595**
Other income	2,069	64	507	212	2,852
Depreciation and amortisation expense	-	-	-	(2,290)	(2,290)
Provision (expense)/reversals, net	(207)	-	983	(39)	737
Employee benefits expense	-	-	-	(12,057)	(12,057)
Other expenses	-	-	-	(7,170)	(7,170)
Profit on disposal of other assets	-	-	-	-	-
Fair value adjustments to investment property	350,983	27,055	60,002	-	438,040
Operating profit	**496,697**	**42,899**	**89,455**	**(21,344)**	**607,707**
Finance costs and other financial expenses	-	-	-	(46,303)	(46,303)
Financial income	-	-	-	307	307
Fair value adjustments on financial instruments	-	-	-	(2,477)	(2,477)
Discounting adjustments to receivables and payables	-	-	-	370	370
Changes in provisions for financial assets, net	-	-	-	-	-
Profit before income tax	**496,697**	**42,899**	**89,455**	**(69,447)**	**559,604**
Income tax benefit/(expense)	11,568	-	-	(8,264)	3,304
Profit for the year	**508,265**	**42,899**	**89,455**	**(77,711)**	**562,908**
Attributable to owners of the parent	**442,927**	**42,899**	**89,455**	**(71,202)**	**504,079**
Attributable to non-controlling interests	65,338	-	-	(6,509)	58,829
Other comprehensive income					
Actuarial gains and losses	-	-	-	217	217
Other	-	-	-	-	-
Items that will not be reclassified to profit or loss	-	-	-	217	217
Valuation gains and losses on financial instruments (cash flow hedges)	-	-	-	2,477	2,477
Deferred tax impact of valuation gains and losses on financial instruments	-	-	-	-	-
Items that may be reclassified subsequently to profit or loss	-	-	-	2,477	2,477
Other comprehensive income	**-**	**-**	**-**	**2,694**	**2,694**
Comprehensive income	**508,265**	**42,899**	**89,455**	**(75,017)**	**565,602**
Attributable to owners of the parent	**442,927**	**42,899**	**89,455**	**(68,508)**	**506,773**
Attributable to non-controlling interests	65,338	-	-	(6,509)	58,829

(in thousands of euros)	Paris Central Business District	Western Crescent	Other	Corporate	Total
Segment assets	4,441,198	416,469	746,859	43,840	5,648,366
Unallocated assets	-	-	-	115,360	115,360
Total assets	**4,441,198**	**416,469**	**746,859**	**159,200**	**5,763,726**

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

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

The Group's main geographical segments are as follows:

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

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

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

These geographic segments have been defined by the main Paris-based real estate professionals by combining neighbourhoods with similar economic features.

IV - Intangible Assets, Property and Equipment, and Investment Property

IV - 1) Intangible assets

Accounting policy

Intangible assets correspond mainly to purchased software and software development costs incurred in connection with the Group's systems upgrade, accounted for in accordance with IAS 38.
Intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses.
Intangible assets with a finite useful life are amortised on a straight-line basis over their useful life. Intangible assets with an indefinite useful life are not amortised but are tested for impairment annually (in accordance with IAS 36) or more frequently if there is an indication that they may be impaired.
Software development costs for the main projects are amortised over the software's expected period of use from the date it is put in production. Other software development costs are amortised over the year in which they are capitalised.

(in thousands of euros)	31 Dec. 2014	Increases	Decreases	Reclassifications	31 Dec. 2015
Cost					
Computer software	4,811	-	-	265	5,076
Other	1,507	604	-	(297)	1,814
Accumulated amortisation					
Computer software	(4,041)	(337)	-	-	(4,378)
Other	-	-	-	-	-
Carrying amount	**2,277**	**267**	**-**	**(32)**	**2,512**

(in thousands of euros)	31 Dec. 2015	Increases	Decreases	Reclassifications	31 Dec. 2016
Cost					
Computer software	5,076	-	-	1,306	6,382
Other	1,814	465	-	(1,371)	908
Accumulated amortisation					
Computer software	(4,378)	(1,425)	-	-	(5,803)
Other	-	-	-	-	-
Carrying amount	**2,512**	**(960)**	**-**	**(65)**	**1,487**

In 2016, amortisation of software development costs in respect of the Cassiopae project amounted to €1,044 thousand.

IV - 2) Property and equipment

Accounting policy

Property and equipment consist mainly of furniture, computer equipment and owner-occupied property.
Owner-occupied property is property held by the owner for use in the production or supply of goods or services or for administrative purposes. The only property in this category is the section of the Washington Plaza building used by the Group for administrative purposes.
Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses, in accordance with IAS 16. Depreciation is calculated by the straight-line method over the asset's estimated useful life. Each part of an item of property or equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Washington Plaza owner-occupied property:

Shell	105 to 118 years
Roof, windows, doors	8 to 24 years
Fixtures, fittings and installations	5 to 29 years

Other:

Fixtures and installations	2 to 20 years
Fittings and equipment	5 to 10 years
Computer and other equipment	2 to 5 years

The gain or loss arising from derecognition of an item of property or equipment, corresponding to the difference between the net disposal proceeds and the carrying amount of the item, is included in profit when the item is derecognised.

(in thousands of euros)	31 Dec. 2014	Increases	Decreases	Reclassifications	31 Dec. 2015
Cost					
Owner-occupied property	21,238	-	-	-	21,238
Other	4,498	275	(407)	436	4,802
Accumulated depreciation					
Owner-occupied property	(1,540)	(421)	-	-	(1,962)
Other	(1,500)	(384)	7	-	(1,878)
Carrying amount	**22,695**	**(530)**	**(400)**	**436**	**22,200**

(in thousands of euros)	31 Dec. 2015	Increases	Decreases	Reclassifications	31 Dec. 2016
Cost					
Owner-occupied property	21,238	-	-	-	21,238
Other	4,802	886	(47)	65	5,706
Accumulated amortisation					
Owner-occupied property	(1,962)	(418)	-	-	(2,380)
Other	(1,878)	(447)	47	-	(2,278)
Carrying amount	**22,200**	**21**	**-**	**65**	**22,286**

The appraisal value excluding transfer costs of owner-occupied property – corresponding to the Company's headquarters – was €38,800 thousand at 31 December 2016 and €36,153 thousand at 31 December 2015.

IV - 3) Depreciation and amortisation

(in thousands of euros)	2016	2015
Amortisation of intangible assets	(1,425)	(337)
Depreciation of property and equipment	(865)	(806)
Total	**(2,290)**	**(1,143)**

Amortisation of intangible assets relates to computer software, and depreciation of property and equipment concerns owner-occupied property (corresponding to the Group's headquarters) and miscellaneous equipment.

IV - 4) Investment property

Accounting policy

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

SFL has chosen to measure investment property using the fair value model as provided for in IAS 40 (paragraph 30). Under this model, investment property is measured at fair value and gains or losses arising from changes in fair value are recognised in profit. Investment property is not depreciated.

The fair value of investment property is the amount at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction. The fair values of investment property carried in the Group's statement of financial position correspond to the prices obtained from independent valuations performed using the method described below.

Changes in fair value, which are recognised in the statement of comprehensive income under "Fair value adjustments on investment property", are calculated as follows:
Change in fair value = Market value at the period-end – Market value at the prior period-end – Work and other costs capitalised during the period.

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

Valuation method

The Group's entire property portfolio was valued at 31 December 2016 by CBRE, Jones Lang LaSalle and BNP Paribas Real Estate.
The valuations were performed in accordance with the *Charte de l'Expertise en Evaluation Immobilière* (property valuation charter) included in the February 2000 report of France's securities regulator (COB, renamed AMF), and also complied with the standards issued by The European Group of Valuers' Associations (TEGoVA) as well as with Royal Institution of Chartered Surveyors (RICS) standards.

Independent experts are rotated in compliance with the SIIC code of ethics, which states:
"Regardless of the number of independent experts used by the SIIC, the following principles must be upheld:
- Appointments should be based on a selection process evaluating each candidate's independence, qualifications and competency to value property within the asset classes and geographical locations concerned.
- When a firm of valuers is used, the SIIC should ensure that the firm's internal valuation teams are rotated after a period of seven years.
- An independent valuer may serve for no more than two four-year terms for any given client, unless that valuer is a company in which case the above team rotation rule applies."

The Group's portfolio is appraised at half-yearly intervals by a group of three independent firms, each of which is responsible for valuing part of the total portfolio as follows (the percentages below are determined by reference to the total value of the properties, excluding transfer costs):
- CBRE: 34%
- Jones Lang LaSalle: 25%
- BNP Paribas Real Estate: 41%

The firms ensure that their internal teams are rotated as required. In addition, certain properties are assigned to different valuers each year to ensure a gradual rotation of assets among them.

The properties are valued primarily by the discounted cash flows method, which consists of discounting projected future cash flows. Assumptions concerning future revenue flows take into account passing rents, estimated market rents for the period beyond the lease expiry dates, any rent-free periods and rent step-ups, vacancy risk and projected changes in the construction cost index (ICC), office rent index (ILAT) and retail rent index (ILC). Each property is analysed in detail, according to the type of use and the surface area of each unit, lease by lease.
Based on information provided by the Group, the valuers noted that rents on certain units were above or below market rents for the period on similar properties. These differences were taken into account to value the properties according to their current occupancy, based on the duration of the underlying leases.
Vacant units were valued on the basis of assumed rents, excluding rent for the estimated marketing period, after deducting remaining renovation costs for the period until the units are re-let and any rent-free period expected to be granted. Expenditure assumptions cover non-recoverable costs – determined on a lease-by-lease basis – and projected capital expenditure to achieve the asset's highest and best use as defined by IFRS 13.
Net cash flows for the final year of the projection period are capitalised to calculate the terminal value, corresponding to the property's resale price at the end of the period.
The results obtained are then compared to market data and adjusted, if necessary, to obtain a market-consistent value. However, given that these appraisal values are essentially estimates that are sensitive to changes in rental values and discount rates, the proceeds from the sale of certain property assets may be different to their appraisal value, even if the sale takes place within a few months of the period-end.

The appraisal values are quoted both including transfer costs (calculated at a standard 7.5% rate for all properties subject to registration duty as of 1 January 2016 and 1.80% for properties subject to VAT) and excluding transfer costs and acquisition expenses.

Fair value measurement of investment property

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

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

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

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

(in thousands of euros)	31 Dec. 2014	Increases	Gains from remeasurement at fair value	Decreases	Losses from remeasurement at fair value	Reclassifications	Changes in scope of consolidation	31 Dec. 2015
Investment property	4,392,767	192,465	513,658	-	(4)	(452)	62	5,098,496
Total	**4,392,767**	**192,465**	**513,658**	**-**	**(4)**	**(452)**	**62**	**5,098,496**

(in thousands of euros)	31 Dec. 2015	Increases	Gains from remeasurement at fair value	Decreases	Losses from remeasurement at fair value	31 Dec. 2016
Investment property	5,098,496	67,990	438,040	-	-	5,604,526
Total	**5,098,496**	**67,990**	**438,040**	**-**	**-**	**5,604,526**

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

(in thousands of euros)	31 Dec. 2016	31 Dec. 2015
Appraisal value of investment property, excluding transfer costs	5,736,416	5,242,406
Deduction of owner-occupied property (see Note IV-2)	(38,800)	(36,153)
Adjustments to reflect specific lease terms	(93,090)	(59,071)
Adjustment to take into account the increase in transfer costs effective 1 January 2016 (see Note II-4)	-	(48,686)
Fair value of investment property in the statement of financial position	**5,604,526**	**5,098,496**

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

Geographic area	Value excluding transfer costs 31 Dec. 2016 (in € millions, on a 100% basis)	Inputs	Range of values[(1)]	Weighted average[(1)]
Paris Central Business District	4,541	Market rent for offices	€525-€790	€654
		Exit yield	3.15%-4.25%	3.57%
		Discount rate	4.15%-5.65%	4.53%
Other Paris	751	Market rent for offices	€475-€680	€554
		Exit yield	3.75%-4.20%	3.97%
		Discount rate	4.60%-4.65%	4.63%
Western Crescent	444	Market rent for offices	€300-€467	€451
		Exit yield	4.40%-5.00%	4.44%
		Discount rate	5.10%-6.00%	5.41%
Total	**5,736**			

[(1)] *Offices*

A 25-bps increase in the exit yield combined with a 25-bps increase in the discount rate would have the effect of reducing the portfolio's appraisal value by €332,931 thousand, while a 25-bps decrease in the exit yield combined with a 25-bps decrease in the discount rate would have the effect of increasing the portfolio's appraisal value by €393,829 thousand.

V - Operating Activities

V - 1) Net property rentals

Accounting policy

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

Property rentals

Property rentals from investment property are recognised on a straight-line basis over the lease term. The transfer of economic benefits corresponds to the date stipulated in the contract, or to the tenant's entry date if stipulated in the contract.

Specific lease terms

Current leases include various specific terms concerning rent-free periods, step-up clauses, key money and eviction compensation. In compliance with IAS 17 and SIC 15, the effects of rent-free periods and step-up clauses are recognised over the non-cancellable lease term.
Key money received by the lessor is recognised in property rentals over the non-cancellable lease term.
Penalties paid by tenants for terminating their lease in advance of the expiry date are treated as revenue from the terminated lease and are recognised in revenue on the payment date.
Eviction compensation may be paid to secure the departure of a tenant, either to allow renovation work to be performed or so that the property can be re-let at a higher rent. In both cases this has the effect of increasing the asset's value and the compensation is therefore capitalized as part of the cost of the asset.

The Group's principal business is the rental of office and retail properties, which account for 97.7% of property rentals. Net property rentals take into account the net positive impact of recognising rent-free periods, rent step-ups and key money over the non-cancellable lease term. In 2016, this impact was €36,011 thousand.

(in thousands of euros)	2016	2015
Property rentals	**198,137**	**168,794**
Property operating expenses	(45,849)	(43,305)
Property expenses recovered from tenants	35,307	29,039
Property expenses, net of recoveries	**(10,542)**	**(14,266)**
Net property rentals	**187,595**	**154,528**

The significant increase in property rentals in 2016 primarily reflected delivery of the #cloud.paris building in November 2015 and completion of the marketing period for the In/Out complex in September 2015.

Future minimum lease payments receivable over the remaining term of non-cancellable operating leases break down as follows:

(in thousands of euros)	Total	Due within 1 year	Due in 1 to 5 years	Due beyond 5 years
Property rentals	**982,391**	198,389	542,729	241,273

V - 2) Other income

(in thousands of euros)	2016	2015
Own-work capitalised	155	999
Other income	2,697	1,371
Total	**2,852**	**2,370**

The caption "Other income" corresponds mainly to rental repairs and other work billed to tenants.

V - 3) Trade and other receivables

Accounting policy

Trade receivables are initially recognised at fair value and are subsequently measured using the cost model. Provisions for impairment are recognised on a case-by-case basis for the difference between the receivables' carrying amount and recoverable amount.

(in thousands of euros)		31 Dec. 2016		31 Dec. 2015
	Total	Due within 1 year	Due in more than 1 year	
Trade receivables	103,140	17,259	85,881	70,239
Provisions	(571)	-	(571)	(3,116)
Trade receivables	**102,569**	**17,259**	**85,310**	**67,123**
Prepayments to suppliers	41	41	-	14
Employee advances	51	51	-	52
Tax receivables (other than income tax)	8,369	8,369	-	11,565
Other operating receivables	2,738	2,738	-	2,628
Other receivables	169	169	-	69
Other receivables	**11,368**	**11,368**	**-**	**14,328**
Total	**113,937**	**28,627**	**85,310**	**81,451**

Trade receivables include €94,090 thousand (of which €12,978 thousand reported under current assets) corresponding to the impact of rent-free periods and other special lease terms that is deferred over the non-cancellable lease term in accordance with IFRS. Receivables do not bear interest.

Provisions for doubtful debts can be analysed as follows:

(in thousands of euros)	31 Dec. 2016	31 Dec. 2015
Increases in provisions	(129)	(124)
Reversals of provisions	2,731	73
Bad debt write-offs, net of recoveries	(33)	(35)
Total	**2,569**	**(86)**
Property rentals	198,137	168,794
Net losses as a % of property rentals	**-1.30%**	**0.05%**

V - 4) Other current and non-current assets

(in thousands of euros)	31 Dec. 2016	31 Dec. 2015
Deferred tax assets	108	145
Other receivables	-	156
Total other non-current assets	**108**	**301**
Income tax prepayments	141	146
Other prepayments	776	300
Total other current assets	**917**	**446**

Deferred tax assets are analysed in Note X-3.

V - 5) Trade and other payables

(in thousands of euros)	31 Dec. 2016	31 Dec. 2015
Trade payables	7,266	6,386
Amounts due within one year on asset acquisitions	15,221	12,491
Total	**22,487**	**18,877**

At 31 December 2016, amounts due within one year on asset acquisitions mainly concerned the Louvre Saint-Honoré and Washington Plaza properties.

V - 6) Other current and non-current liabilities

(in thousands of euros)	31 Dec. 2016	31 Dec. 2015
Deposits	19,677	17,637
Total other non-current liabilities	**19,677**	**17,637**
Deposits	1,733	2,652
Customer prepayments	17,996	19,424
Accrued employee benefits expense	5,127	4,776
Accrued taxes	13,971	6,891
Other liabilities	3,309	2,716
Accruals	2,243	5,496
Total other current liabilities	**44,379**	**41,955**

The caption "Other non-current liabilities" correspond mainly to guarantee deposits and bonds received from tenants.
Accrued employee benefits expense includes statutory and discretionary profit-sharing and bonus accruals.
Accrued taxes include the exit tax instalments due in 2017 and related to the Rives de Seine and 131 Wagram buildings, for a total of €6,159 thousand, and accrued income tax for €4,481 thousand.
The amounts reported under "Accruals" correspond to deferred revenue.

V - 7) Other expenses

(in thousands of euros)	2016	2015
Fees	(1,700)	(1,707)
Taxes other than on income	(1,498)	(1,365)
Other	(3,972)	(4,533)
Total	**(7,170)**	**(7,605)**

Fees paid to the Auditors in 2016 were as follows:

	PricewaterhouseCoopers		Deloitte & Associés	
(in thousands of euros)	**2016**	**2015**	**2016**	**2015**
Statutory and contractual audits	297	284	219	207
Other services	20	41	20	36
Total	**317**	**325**	**239**	**243**

VI - Financing Activities

VI - 1) Borrowings and other interest-bearing debt

Accounting policy

Loans and borrowings are initially recognised at cost, corresponding to the fair value of the consideration paid or received, net of directly attributable transaction costs.

Interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest method. Amortised cost takes into account all debt issuance costs and any difference between the initial amount and the amount at maturity. Finance costs are recalculated based on this amortised cost figure and the related effective interest rate.

Borrowing costs directly attributable to the acquisition, construction or production of property assets are capitalised as part of the cost of the asset.

(in thousands of euros)	Effective interest rate	Expiry date	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
			Short-term portion		Long-term portion	
Bonds						
€500 million 4.625% bond issue, 2011-2016	4.625%	25 May 2016	-	160,151	-	-
€500 million 3.50% bond issue, 2012-2017	3.50%	28 Nov. 2017	301,680	978	-	300,700
€500 million 1.875% bond issue, 2014-2021	1.875%	26 Nov. 2021	925	922	500,000	500,000
€500 million 2.25% bond issue, 2015-2022	2.25%	16 Nov. 2022	1,418	1,414	500,000	500,000
Bank loans						
Banco Sabadell	Euribor + spread (end of drawdown period)	18 June 2020	3	-	50,000	-
BNP Paribas 2015	Euribor + spread (end of drawdown period)	7 July 2020	3	-	20,000	-
BNP Paribas 2016	Euribor + spread (end of drawdown period)	24 May 2021	222	-	150,000	-
BECM loan	Euribor + spread (end of drawdown period)	23 April 2019	96	119	140,000	140,000
Natixis – Deka – Deutsche Hypotheken loan	1.571%	16 July 2022	2,636	2,650	203,320	205,400
Finance leases						
131 Wagram	Euribor + spread (end of drawdown period)	14 June 2016	-	27,271	-	-
Bank overdrafts	Various		84,867	22,057	-	-
Current account advances (liabilities)	Various		70	132	63,346	67,546
Impact of deferred recognition of debt arranging fees			(2,616)	(2,641)	(7,160)	(9,095)
Total			**389,304**	**213,053**	**1,619,506**	**1,704,551**

The following table analyses borrowings by maturity:

(in thousands of euros)	31 Dec. 2016	Due within 1 year	Due in 1 to 5 years	Due beyond 5 years	31 Dec. 2015
Bonds	1,304,023	304,023	500,000	500,000	1,464,165
BECM loan	140,096	96	140,000	-	140,119
Banco Sabadell	50,003	3	50,000	-	-
BNP Paribas 2015	20,003	3	20,000	-	-
BNP Paribas 2016	150,222	222	150,000	-	-
Natixis – Deka – Deutsche Hypotheken loan	205,956	2,636	8,320	195,000	208,050
Finance leases	-	-	-	-	27,271
Current account advances (liabilities)	63,416	70	63,346	-	67,678
Deferred debt arranging fees	(9,776)	(2,616)	(6,612)	(548)	(11,736)
Bank overdrafts	84,867	84,867	-	-	22,057
Total	**2,008,810**	**389,304**	**925,054**	**694,452**	**1,917,604**

Current account advances correspond to Prédica's minority interest in SCI Washington and SAS Parholding.

Debt covenants and acceleration clauses in force at 31 December 2016 concerned the following lines of credit: BPCE, BECM, Banco Sabadell and BNP Paribas. They can be broken down as follows:

Applicable ratios	Actual ratios at 31 Dec. 2016	Actual ratios at 31 Dec. 2015	Main acceleration clauses
Loan-to-value (LTV) <= 50%	31.7%	33.4%	Loan default Termination of operations Bankruptcy proceedings Breach of financial covenants Material adverse event
Interest cover >= 2x	3.7	2.6	
Secured LTV <= 20%	3.4%	4.3%	
Unrestricted property portfolio value >= €2bn	€5.3bn	€4.6bn	

The Group was not in breach of any of its financial covenants at 31 December 2016.

VI - 2) Finance leases

Accounting policy

Finance leases – primarily for the acquisition of property assets – that transfer substantially all the risks and rewards incidental to ownership of the asset are recognised at the commencement of the lease term as assets and liabilities at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. It is recognised directly in finance costs.
Investment property acquired under finance leases are measured at fair value at each period-end.

At 31 December 2016, the Group no longer held any finance leases after exercising its option to acquire the 131 Wagram property in June.

VI - 3) Finance costs and other financial income and expenses

(in thousands of euros)	2016	2015
Interest on bonds and bank loans	(43,016)	(48,210)
Interest on lease liabilities	(231)	(639)
Interest on external current account advances	(322)	(568)
Hedging losses	-	(854)
Other financial expenses	(2,734)	(8,081)
Finance costs and other financial expenses	**(46,303)**	**(58,352)**
Interest income	3	109
Net gains on sales of short-term investments	-	14
Financial expense transfers	291	6,048
Other financial income	13	60
Financial income	**307**	**6,231**
Finance costs and other financial income and expenses, net	**(45,996)**	**(52,121)**

Other financial expenses include amortisation of deferred debt issuance costs, which declined by €4,730 thousand in 2016 due to the impact in 2015 of the renegotiation of several credit lines. Expense transfers in 2015 included finance costs capitalised during the redevelopment of the #cloud.paris building. This practice ceased when the building was delivered in November 2015, leading to a €5,757 thousand decrease in expense transfers for 2016.

VI - 4) Financial instruments

Accounting policy

The Group uses interest rate swaps and other derivative financial instruments to hedge the risk of changes in interest rates. These instruments are measured at fair value at each period-end.
Standard market valuation methods are used – corresponding to Level 2 inputs in the fair value hierarchy (see Note IV-4) – taking into account the risk of non-performance (particularly the Group's own credit risk), in line with IFRS 13.
For the purpose of applying hedge accounting, fair value hedges are defined as hedges of the exposure to changes in fair value of a recognised asset or liability and cash flow hedges are defined as hedges of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable transaction.

For fair value hedges qualifying for hedge accounting, gains and losses arising from remeasuring the hedging instruments at fair value are recognised in profit. Any gain or loss on the hedged item that is attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognised in profit. Adjustments to the carrying amount of a hedged interest-bearing financial instrument are amortised through profit over the instrument's remaining period to maturity.

For cash flow hedges of firm commitments that qualify for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in profit.
When a hedging relationship is discontinued, it no longer qualifies for hedge accounting and any subsequent changes in fair value of the hedging instrument are recognised directly in the statement of comprehensive income. The cumulative gains and losses on the instrument recorded in equity at that date are reclassified ("recycled") to the statement of comprehensive income over the remaining life of the hedged item.

For derivative instruments that do not qualify for hedge accounting, gains and losses from remeasurement at fair value are recognised in profit.

Fair value adjustments on financial instruments

(in thousands of euros)	2016	2015
Equalising payments on bond buy backs	-	(9,515)
Interest rate hedges	(2,477)	(7,722)
Total	**(2,477)**	**(17,237)**

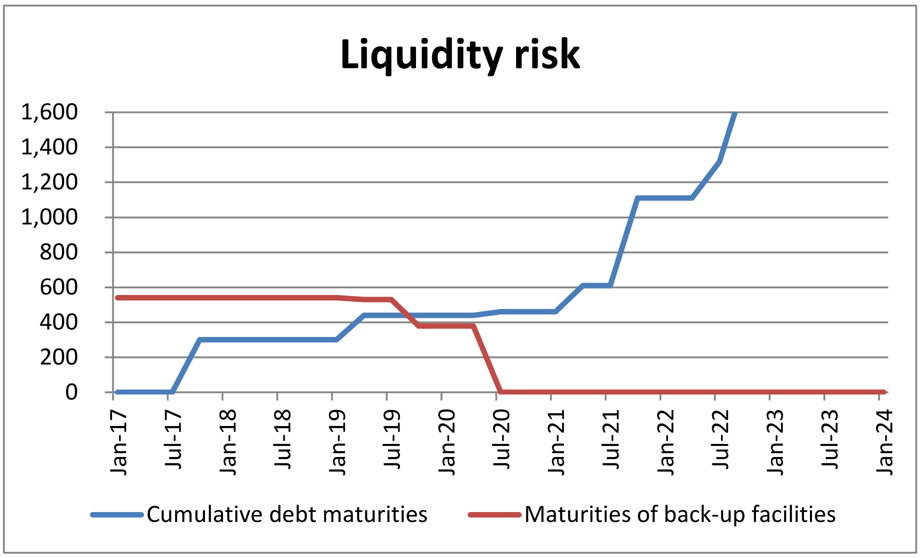
Since the early unwinding of the Parholding swaps in July 2015, the Group no longer holds any interest rate hedges. Cumulative gains and losses recorded in equity on cash flow hedges (swaps) cancelled in the second half of 2012 and first half of 2013 were reclassified to the statement of comprehensive income (in net financial expense) for an amount of €2,477 thousand in 2016.

VI - 5) Financial risk management objectives and policy

The Group prudently manages its various financial risks.

1 - Liquidity risk

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



With its available credit lines, diversified debt structure and high quality assets, the Group manages its liquidity risk prudently and effectively.

The acceleration clauses contained in the facility agreements are presented in Note VI-1.

2 - Counterparty risk

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

3 - Market risk

The Group did not have any exposure to currency risk at 31 December 2016. Interest rate risks are prudently and actively managed using an information system that tracks changes in the financial markets and calculates the fair value of hedging instruments in real time, thereby allowing the Group to efficiently quantify and analyse the risks associated with interest rate fluctuations.

a/ Objectives and strategy

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

b/ Risk assessment

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

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

c/ Interest rate risk

The following table provides an analysis by maturity of the notional amount of financial instruments exposed to interest rate risk at 31 December 2016.

(in thousands of euros)	Due within 1 year	Due in 1-2 years	Due in 2-3 years	Due in 3-4 years	Due in 4-5 years	Due beyond 5 years	Total
BECM loan	-	-	140,000	-	-	-	140,000
Banco Sabadell loan	-	-	-	50,000	-	-	50,000
2015 BNP Paribas loan	-	-	-	20,000	-	-	20,000
2016 BNP Paribas loan	-	-	-	-	150,000	-	150,000
Current account advances	-	63,346	-	-	-	-	63,346
Total floating rate debt	**-**	**63,346**	**140,000**	**70,000**	**150,000**	**-**	**423,346**

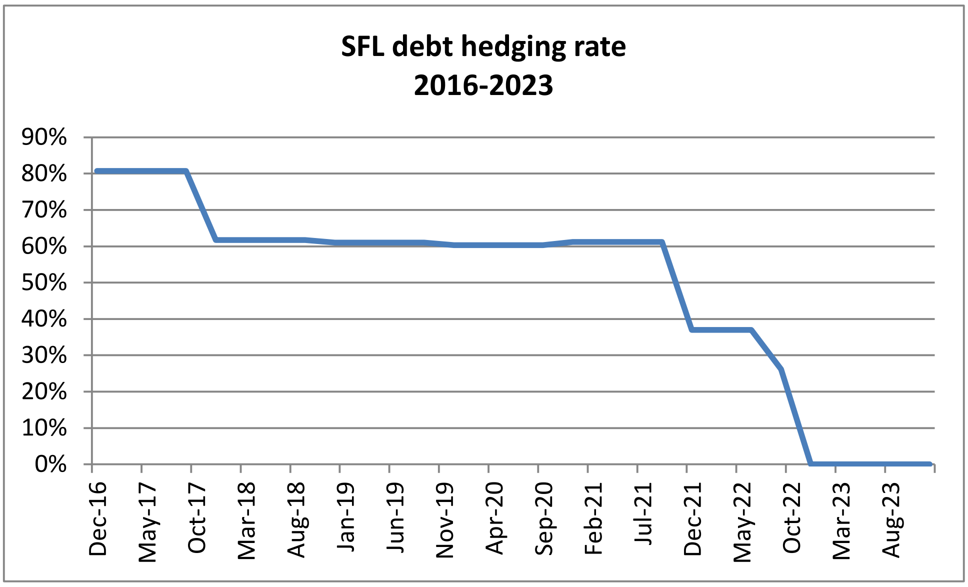
The other financial instruments used by the Group are not listed in the above table because they do not bear interest and are therefore not exposed to any interest rate risk.

Net unhedged position

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

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

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



Fair value of bonds

The fair value of the Group's outstanding bond issues at 31 December 2016 was €1,371,985 thousand, as follows:

(in thousands of euros)	Nominal value	Maturity	31 Dec. 2016	31 Dec. 2015
May 2011 bonds	-	-	-	158,479
November 2012 bonds	300,700	November 2017	310,295	316,538
November 2014 bonds	500,000	November 2021	526,305	500,333
November 2015 bonds	500,000	November 2022	535,385	503,878
Total	**1,300,700**		**1,371,985**	**1,479, 228**

VI - 6) Financial assets

Accounting policy

Non-current financial assets comprise investments in non-consolidated companies and deposits paid to third parties. They are initially recognised at fair value, generally corresponding to their purchase price plus transaction costs.

(in thousands of euros)	31 Dec. 2015	Increases	Impairment losses recognised during the year	Decreases	Impairment losses reversed during the year	31 Dec. 2016
Investments in non-consolidated companies	1,071	-	-	-	-	1,071
Provisions for impairment	(1,071)	-	-	-	-	(1,071)
Investments in non-consolidated companies, net	**-**	**-**	**-**	**-**	**-**	**-**
Deposits	**696**	3	**-**	**-**	**-**	**699**
Total	**696**	3	**-**	**-**	**-**	**699**

Investments in non-consolidated companies concern the Vendôme Rome Group. This investment has been written down in full since 31 December 2010.

VI - 7) Cash and cash equivalents

Accounting policy

Cash and cash equivalents carried in the statement of financial position include cash at bank and on hand and short-term deposits with original maturities of less than three months. They are short-term, highly liquid investments that are readily convertible into a known amount of cash and are subject to an insignificant risk of changes in value.

Cash and cash equivalents in the statement of cash flows correspond to cash and cash equivalents less bank overdrafts. Cash equivalents are measured at fair value, in accordance with IAS 39.

(in thousands of euros)	31 Dec. 2016	31 Dec. 2015
Cash at bank and in hand	19,766	11,399
Short-term investments	-	1,088
Total	**19,766**	**12,487**

VII - Equity and Earnings Per Share

VII - 1) Equity

Equity is analysed in the consolidated statement of changes in equity included in the financial statements.
The Company's share capital amounts to €93,058 thousand, represented by 46,528,974 ordinary shares with a par value of €2.

VII - 2) Treasury shares

Accounting policy

Acquisitions, disposals and cancellations of treasury shares are recorded as a deduction from equity.

(in thousands of euros)	31 Dec. 2015	Increases	Decreases	31 Dec. 2016
Number of treasury shares	377,465	117,893	(132,978)	362,380
Average purchase/sale price, in euros	€60.08	€47.86	€45.26	€61.54
Total	**22,678**	**5,642**	**(6,019)**	**22,301**

VII - 3) Dividends

(in thousands of euros)	2016		2015	
	Paid	Per share	Paid	Per share
Prior year dividend paid in current year	48,506	€1.05	64,624	€1.40
Special dividend paid in current year	48,495	€1.05	48,467	€1.05
Total	**97,001**	**€2.10**	**113,091**	**€2.45**

VII - 4) Earnings per share

Basic earnings per share are calculated by dividing profit attributable to ordinary owners of the parent by the weighted average number of shares outstanding during the period, net of treasury shares held at the period-end.

(in thousands of euros)	2016	2015
Profit used to calculate basic earnings per share	504,079	492,861
Number of ordinary shares at 31 December	46,528,974	46,528,974
Number of treasury shares at 31 December	(362,380)	(377,465)
Number of ordinary shares at 31 December excluding treasury shares	**46,166,594**	**46,151,509**
Earnings per share	**€10.92**	**€10.68**
Weighted average number of ordinary shares	46,528,974	46,528,974
Number of treasury shares at 31 December	(362,380)	(377,465)
Weighted average number of ordinary shares excluding treasury shares	**46,166,594**	**46,151,509**
Basic earnings per weighted average share	**€10.92**	**€10.68**

There were no other transactions on ordinary shares or potential ordinary shares between the period-end and the date when these financial statements were drawn up.

VII - 5) Non-controlling interests in net profit

(in thousands of euros)	2016	2015
SCI Washington	**26,154**	**28,051**
Property rentals	*6,902*	*6,336*
Fair value adjustments on investment property	*19,318*	*22,348*
Net financial expense	*(215)*	*(375)*
Other	*149*	*(258)*
Parholding subgroup	**32,675**	**24,223**
Property rentals	*14,333*	*14,436*
Fair value adjustments on investment property	*19,674*	*28,094*
Net financial expense	*(1,909)*	*(4,385)*
Deferred tax	*4,306*	*(11,261)*
Current tax	*(2,995)*	*(1,963)*
Other	*(734)*	*(698)*
Total	**58,829**	**52,274**

VIII - Provisions

VIII - 1) Short- and long-term provisions

Accounting policy

A provision is recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are recorded in the financial statements if, and only if, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.
Provisions for contingencies and charges are determined using Management estimates and assumptions based on information and circumstances existing at the time of the preparation of the financial statements, and therefore require the use of judgement.
When the Group expects reimbursement of some or all of the expenditure required to settle a provision, the reimbursement is recognised as a separate asset when, and only when, it is virtually certain that it will be received. In the statement of comprehensive income, the provision expense is presented net of the amount recognised for the reimbursement.

(in thousands of euros)	31 Dec. 2015	Increases	Decreases	*o/w utilisations*	Actuarial gains and losses	31 Dec. 2016
Provisions for refurbishment work and tenant claims	-	2,070	-	-	-	2,070
Provisions for employee benefits	1,011	183	(45)	*(45)*	(217)	932
Long-term provisions	**1,011**	**2,253**	**(45)**	***(45)***	**(217)**	**3,002**
Provisions for refurbishment work and tenant claims	284	190	(118)	-	-	356
Provisions for employee benefits	286	-	(221)	*(77)*	-	65
Short-term provisions	**570**	**190**	**(339)**	***(77)***	**-**	**421**
Total	**1,581**	**2,443**	**(384)**	***(122)***	**(217)**	**3,423**

Provisions for employee benefits include provisions for length-of-service awards payable to employees on retirement and jubilees for €862 thousand. See Note IX-2 for more details.

Short- and long-term provisions covering benefits payable to members of senior management amounted to €12 thousand at 31 December 2016 and €14 thousand at 31 December 2015.

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

(in thousands of euros)	2016	2015
Charges to provisions for impairment of current assets	(129)	(124)
Charges to provisions for operating contingencies and charges	(1,895)	(166)
Charges to provisions for other contingencies and charges	(113)	(239)
Total charges	**(2,137)**	**(529)**
Reversals of provisions for impairment of current assets	2,731	73
Reversals of provisions for other contingencies and charges	143	227
Total reversals	**2,874**	**300**
Total	**737**	**(229)**

In 2016, charges to provisions for operating contingencies and charges mainly concerned disputes with two former tenants.

IX - Remuneration and Other Employee Benefits

IX - 1) Employee benefits expense

The Group had 75 administrative staff and 2 building staff at 31 December 2016 compared with 71 administrative staff and 2 building staff at 31 December 2015.

The average number of administrative staff breaks down as follows:

	2016	2015
Officers	2	2
Managers	56	52
Supervisors	10	12
Administrative and technical staff	5	6
Total	**73**	**72**

Employee benefits expense breaks down as follows:

(in thousands of euros)	2016	2015
Wages and salaries	(6,572)	(6,211)
Payroll taxes	(3,581)	(3,520)
Other employee benefits	(1,114)	(2,058)
Statutory and discretionary profit-sharing	(790)	(834)
Total	**(12,057)**	**(12,623)**

IX - 2) Length-of-service awards payable to employees on retirement

Accounting policy

IAS 19R requires companies to recognise all of their employee benefit liabilities in the statement of financial position. Employee benefit plan costs are recognised over the vesting period. The main employee benefit plans concern length-of-service awards payable to employees on retirement.

Measurement method

Long-term employee benefits are recognised in the period in which the qualifying service is rendered by the employee. They are discounted at a rate defined in IAS 19. Short-term employee benefits are recognised in current liabilities and in expenses for the period.

They are calculated at six-monthly intervals based on actuarial assumptions. Actuarial gains and losses are included in "Other comprehensive income". The benefit cost is determined based on employee service rendered up to the measurement date, assuming employees retire at their own initiative.

(in thousands of euros)	2016	2015
Projected benefit obligation at 1 January	**1,011**	**1,112**
Benefits paid during the year	(45)	-
Service cost	66	78
Interest cost	47	(28)
Actuarial gains and losses	(217)	(151)
Projected benefit obligation at 31 December	**862**	**1,011**

The projected benefit obligation is calculated at six-monthly intervals based on actuarial assumptions, including a discount rate of 1.31% (31 December 2015: 2.03%) and a 1.50%-rate of future salary increases (31 December 2015: 2.00%). Actuarial gains and losses are recognised in equity.

A 0.25-point reduction in the discount rate at 31 December 2016 would lead to a €17-thousand increase in the projected benefit obligation at that date.

The Group's employee benefit plans are as follows:

- Length-of-service awards payable to employees on retirement: benefits payable under this plan are specified in a corporate agreement signed with employee representatives.
- Post-employment medical care: this plan concerns a closed group of retired SFL employees. Benefits consist of the payment by SFL of two-thirds of the contributions due to the insurance company responsible for reimbursing medical costs.
- Jubilees: the agreements in force within the Group provide for the payment of one month's salary to administrative staff who complete 20, 30, 35 and 40 years of service with the SFL Group, and one month's salary to building staff who complete 25 years of service.

Employees are not covered by any defined benefit pension plan and are not entitled to any other post-employment benefits. As the Group does not have any such defined benefit obligations, no sensitivity analyses are presented.

IX - 3) Share-based payments

Accounting policy

IFRS 2 requires all share-based payment transactions to be recognised in the statement of comprehensive income.

Measurement method

The total cost of each performance share plan is calculated at the grant date by multiplying the number of performance share rights that are expected to vest by the fair value per share.

The fair value of the performance shares is determined using the Capital Asset Pricing Model (CAPM), based on the share price on the grant date, adjusted for the discounted present value of future dividends payable during the vesting period. The number of shares expected to vest corresponds to the target number of allocated shares multiplied by the estimated vesting rate, taking into account each plan's specific vesting conditions.
The total cost calculated as explained above is recognised on a straight-line basis over the vesting period. The estimated vesting rate and the resulting estimated total cost are adjusted at each period-end to take account of the latest estimate of the number of shares expected to vest.

Details of performance share plans at 31 December 2016

	Plan no. 1	Plan no. 3	Plan no. 4
Date of shareholder authorisation	9 May 2011	22 April 2015	13 Nov. 2015
Grant date (date of Board meeting)	4 March 2014	17 June 2015	26 April 2016
Initial target number of shares	33,981	27,328	32,036
Initial expected vesting rate	70.83%	70.83%	70.83%
Initial number of shares expected to vest	24,069	19,356	22,691
Fair value per share	€31.48	€36.08	€41.49
Rights cancelled/forfeited	(16,165)	(1,728)	(128)
Expected vesting rate at 31 December 2016	150.00%	100.00%	100.00%
Number of shares expected to vest at 31 December 2016	**26,723**	**25,600**	**31,908**

Main features of the plans

The plans' main features are as follows:

- The shares will vest only if the grantee is still employed by the Group on the vesting date.
- Performance target: the number of shares that vest depends on SFL's ranking among a group of six listed property companies based on growth in consolidated ANAV per share.
- The performance shares will vest 10 business days (plan no.1) or 15 business days (plans no.3 and no.4) after the publication, by the last of the Reference Companies to do so, of a press release announcing its results for the third financial year after the grant date.
- Lock-up period: the performance shares may not be sold or otherwise transferred before the end of a period of two years as from the vesting date.

Accounting treatment

The expected vesting rate is adjusted to reflect SFL's most probable ranking at the end of the vesting period. At 31 December 2016, the rates applied were 150% for the 2014 plan (probable ranking: no.1) and 100% for the 2015 and 2016 plans (probable ranking: no.3).

In 2016, a total of 36,424 performance shares vested under the 2013 Plan no.1.

The cost of performance share plans recognised in 2016 amounted to €1,114 thousand (excluding specific employer contributions).

IX - 4) Related party information

The remuneration paid to the members of the Board of Directors and Management Committee breaks down as follows:

(in thousands of euros)	2016	2015
Short-term benefits, excluding payroll taxes(1)	3,175	2,571
Payroll taxes on short-term benefits	1,150	938
Share-based payments(2)	701	1,390
Directors' fees	347	325
Total	**5,373**	**5,224**

(1) Gross salary and other remuneration, bonuses, statutory and discretionary profit-sharing, matching Company payments and termination benefits paid during the year.
(2) Cost recognised in the statement of comprehensive income for stock options and employee rights issues.

At 31 December 2016, related-party transactions comprise current account advances representing the share of the minority shareholder, Prédica, in SCI Washington and SAS Parholding (see Note VI-I).

X - Income Taxes

X - 1) Current and deferred tax liabilities

Accounting policy

Non-current liabilities with fixed maturities are discounted.

Measurement method
Where the effect of the time value of money is material, non-current liabilities are measured at the present value of the expenditure expected to be required to settle the obligation. The present value measurement is performed using a pre-tax discount rate that reflects current market assessments of the time value of money and any risks specific to the liability. Where discounting is used, the increase in the non-current liability due to the passage of time is recognised under "Finance costs".

Due	2018	2019	2020	Total
Amount payable	3,166	3,104	3,044	**9,314**

This item includes the long-term portion of the exit tax due as a result of the exercise, in June 2016, of the finance lease purchase option on the 131 Wagram property. The €13-million tax liability is payable in four annual instalments between 2017 and 2020 and has been discounted.

X - 2) Income tax expense

Accounting policy

The results of businesses subject to income tax are taxed at the standard rate. The Group entities that have elected to be taxed as an SIIC are not liable for income tax and the number of companies for which deferred taxes are recognised is therefore limited.

Current income tax expense for 2016 amounted to €21,790 thousand versus €4,406 thousand for 2015.

The increase was chiefly due to the recognition of a tax expense of €15,529 thousand following the exercise of the option to acquire the 131 Wagram property, of which €13,012 thousand pertaining to the exit tax and €2,517 thousand to standard rate income tax on non-deductible rents added back in full to taxable profit at the end of the lease term. These taxes were offset by the reversal of deferred tax liabilities in the amount of €16,519 thousand.

Income tax expense for the Parholding tax group stood at €5,990 thousand in 2016.

X - 3) Deferred taxes

Accounting policy

For businesses subject to income tax, deferred tax assets and liabilities are recognised by the liability method for all temporary differences between the book value of assets and liabilities and their tax basis.

The election for taxation as an SIIC led to the elimination of the tax bases of the SIICs' assets used to calculate deferred taxes. The only remaining deferred tax assets and liabilities concern partnerships that are not eligible for taxation as an SIIC and assets under finance leases arranged prior to 1 January 2005.

Deferred taxes recognised in the statement of comprehensive income, calculated at the tax rate applicable at the period-end, consist mainly of the following:

(in thousands of euros)	Statement of Financial Position 31 Dec. 2015	Equity	Statement of Comprehensive Income	Statement of Financial Position 31 Dec. 2016
Fair value adjustments on investment property	(164,686)	-	25,303	(139,383)
Adjustment of depreciation	(17,232)	-	(2,090)	(19,322)
Adjustment of property rentals	(3,696)	-	1,937	(1,759)
Capitalisation of interest expense and transaction costs	(521)	-	-	(521)
Other	(709)	-	(58)	(767)
Net	**(186,844)**	-	**25,092**	**(161,752)**
Of which: deferred tax assets	145	-	(37)	108
Of which: deferred tax liabilities	(186,991)	-	25,131	(161,860)

France's 2017 Finance Act provides for a phased reduction in the corporate income tax rate, from 33.33% to 28%. This phased reduction was taken into account for the calculation of deferred taxes at 31 December 2016, with a positive impact of €24,664 thousand.

XI - Off-Balance Sheet Commitments

XI - 1) Operations-related commitments

Guarantees

(in thousands of euros)	Total	Within 1 year	In 1 to 5 years	Beyond 5 years
Commitments given				
Property guarantees	293	293	-	-
Commitments received				
Guarantees received from tenants	51,055	5,763	7,798	37,494
Guarantees received from suppliers	65	65	-	-
Total commitments received	**51,120**	**5,828**	**7,798**	**37,494**

Contractual redevelopment and renovation obligations

At 31 December 2016, the Group's contractual commitments relating to investment property undergoing renovation totalled €10,548 thousand (€32,929 thousand at 31 December 2015), of which €8,877 thousand concerned the Louvre Saint-Honoré, Cézanne Saint-Honoré and Edouard VII properties.

XI - 2) Financing-related commitments

Standard mortgages

(in thousands of euros)

Company		Pargal	Parchamps	Parhaus	Total
Expiry date		**16 July 2023**	**16 July 2023**	**16 July 2023**	
Registered by Deutsche Hypothekenbank	Principal	32,000	15,000	22,333	69,333
	Costs and incidentals	2,240	1,050	1,563	4,853
	Total	**34,240**	**16,050**	**23,896**	**74,186**
Registered by Natixis	Principal	32,000	15,000	22,333	69,333
	Costs and incidentals	2,240	1,050	1,563	4,853
	Total	**34,240**	**16,050**	**23,896**	**74,186**
Registered by Deka	Principal	32,000	15,000	22,333	69,333
	Costs and incidentals	2,240	1,050	1,563	4,853
	Total	**34,240**	**16,050**	**23,896**	**74,186**
Total		**102,720**	**48,150**	**71,688**	**222,558**

Undrawn confirmed lines of credit

(in thousands of euros)	Total	Within 1 year	In 1 to 5 years	Beyond 5 years
BPCE loan	150,000	-	150,000	-
2015 BNP Paribas loan	380,000	-	380,000	-
BECM loan	10,000	-	10,000	-
Total	**540,000**	-	**540,000**	-

XI - 3) Employee-related commitments

Two employees (including one person who is also an officer of the Company) are entitled to compensation if they resign or are dismissed as a result of a major change in the scope of their responsibilities following a significant direct or indirect change in the shareholder base of SFL or its controlling company.
An officer of the Company who is not an employee is entitled to compensation for loss of office in the event that he is dismissed from his position for reasons other than gross or wilful misconduct.

At 31 December 2016, total commitments for the payment of compensation amounted to €2,755 thousand.

The terms and conditions related to this compensation were approved by SFL's Board of Directors on 9 February 2004, 25 July 2006, 4 April 2008 and 27 January 2015.

No related provisions have been recorded in the financial statements.

XII - Note to the Statement of Cash Flows

(in thousands of euros)	2016	2015
Acquisitions of and improvements to investment property		
Purchase price	-	(63,900)
Transaction costs	-	(3,655)
Work	(64,968)	(131,391)
Total	**(64,968)**	**(198,946)**
Proceeds from disposals of investment property, intangible assets and property and equipment		
Sale price	-	414
Transaction costs	-	-
Capital gains tax	-	-
Total	**-**	**414**
Cash and cash equivalents at end of period		
Short-term investments	-	1,088
Cash at bank and in hand	19,766	11,399
Bank overdrafts	(84,867)	(22,057)
Total	**(65,101)**	**(9,570)**

The impact of deferring recognition of rent-free periods is included in "Cash flow" along with additions to and reversals of provisions for impairment of trade receivables.

XIII - Scope of Consolidation

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

Shareholders' pacts give the Group exclusive control over four companies that are 50% owned.
Accordingly, all subsidiaries are controlled exclusively and fully consolidated.

Société Foncière Lyonnaise is a fully consolidated subsidiary of Spanish company Inmobiliaria Colonial SA, which owned 58.55% of the capital at 31 December 2016.
The Group and all of its subsidiaries have their registered office at 42 rue Washington in the 8th *arrondissement* of Paris.