SOCIÉTÉ FONCIÈRE LYONNAISE

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

CONSOLIDATED FINANCIAL STATEMENTS

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

A – Consolidated Statement of Financial Position

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

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

B – Consolidated Statement of Comprehensive Income

(in thousands of euros)	Notes Section E	2017	2016
Rental income		195,780	198,137
Property expenses, net of recoveries		(10,873)	(10,542)
Net property rentals	**V-1**	**184,907**	**187,595**
Other income	V-2	2,160	2,852
Depreciation and amortisation expense	IV-3	(1,345)	(2,290)
Provision (expense)/reversals, net	VIII-2	1,667	737
Employee benefits expense	IX-1	(15,409)	(12,057)
Other expenses	V -7	(7,916)	(7,170)
Profit on disposal of investment properties	IV-5	80,290	-
Fair value adjustments on investment properties	IV-4	635,131	438,040
Operating profit		**879,485**	**607,707**
Finance costs and other financial expenses	VI-2	(42,861)	(46,303)
Financial income	VI-2	1,522	307
Fair value adjustments on financial instruments	VI-3	43	(2,477)
Discounting adjustments to receivables and payables		606	370
Changes in provisions for financial assets, net		-	-
Profit before income tax		**838,795**	**559,604**
Income tax benefit/(expense)	X-2-3	(42,523)	3,304
Profit for the year		**796,272**	**562,908**
Attributable to owners of the parent		**685,284**	**504,079**
Attributable to non-controlling interests	VII-5	110,988	58,829
Earnings per share	VII-4	€14.83	€10.92

Other comprehensive income			
Actuarial gains and losses	VIII-1	53	217
Other items		-	-
Items that will not be reclassified to profit or loss		53	217
Valuation gains and losses on financial instruments (cash flow hedges)	VI-3	-	2,477
Deferred tax impact of valuation gains and losses on financial instruments		-	-
Items that may be reclassified subsequently to profit or loss		-	2,477
Other comprehensive income		**53**	**2,694**
Comprehensive income		**796,325**	**565,602**
Attributable to owners of the parent		**685,337**	**506,773**
Attributable to non-controlling interests		110,988	58,829

C – Consolidated Statement of Changes in Equity

(in thousands of euros)	Share capital	Share premium account	Revaluation reserve	Treasury shares	Cash flow hedges	Other reserves	Profit for the year	Equity attributable to owners of the parent	Equity attributable to non-controlling interests
Equity at 31 December 2015	**93,058**	**758,452**	**22,621**	**(18,367)**	**3,387**	**1,361,341**	**492,861**	**2,713,352**	**317,735**
Movements for the year									
Profit for the year	-	-	-	-	-	-	504,079	504,079	58,829
Other comprehensive income, net of tax	-	-	-	-	2,477	217	-	2,694	-
Comprehensive income	**-**	**-**	**-**	**-**	**2,477**	**217**	**504,079**	**506,773**	**58,829**
Appropriation of profit	-	(26,202)	-	-	-	519,063	(492,861)	-	-
Treasury share transactions	-	-	-	377	-	-	-	377	-
Gains and losses on sales of treasury shares	-	-	-	(1,470)	-	-	-	(1,470)	-
Share-based payments	-	-	-	-	-	1,114	-	1,114	-
Dividends paid to owners of the parent	-	(97,350)	-	-	-	349	-	(97,001)	(5,933)
Other adjustments	-	-	-	-	(5,864)	5,864	-	-	-
Equity at 31 December 2016	**93,058**	**634,900**	**22,621**	**(19,460)**	**-**	**1,887,948**	**504,079**	**3,123,145**	**370,631**
Movements for the year									
Profit for the year	-	-	-	-	-	-	685,284	685,284	110,988
Other comprehensive income, net of tax	-	-	-	-	-	53	-	53	-
Comprehensive income	**-**	**-**	**-**	**-**	**-**	**53**	**685,284**	**685,337**	**110,988**
Appropriation of profit	-	(29,929)	-	-	-	534,008	(504,079)	-	-
Treasury share transactions	-	-	-	2,565	-	-	-	2,565	-
Gains and losses on sales of treasury shares	-	-	-	(1,127)	-	-	-	(1,127)	-
Share-based payments	-	-	-	-	-	1,546	-	1,546	-
Dividends paid to owners of the parent	-	(48,855)	-	-	-	343	-	(48,512)	(5,517)
Other adjustments	-	-	-	-	-	-	-	-	(83)
Equity at 31 December 2017	**93,058**	**556,116**	**22,621**	**(18,022)**	**-**	**2,423,898**	**685,284**	**3,762,953**	**476,019**

D – Consolidated Statement of Cash Flows

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

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

E – Notes to the Consolidated Financial Statements

I - Accounting Policies

I - 1) Accounting standards

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

The following new standards and interpretations published by the IASB had not been adopted by the European Union or were not yet applicable and were not early adopted as of 31 December 2017:

- IFRS 15 – Revenue from Contracts with Customers. This introduces a common standard for recognising revenue from contracts with customers. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard is effective for financial periods beginning on or after 1 January 2018.
An assessment has been made of the impact on the financial statements of applying IFRS 15.
Substantially all of the Group's revenue from contracts with customers falls within the scope of IAS 17 and not IFRS 15. Other revenues are marginal and their accounting treatment complies with IFRS 15.
The new standard will not therefore have any impact on the consolidated financial statements.

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

- IFRS 16 – Leases. This standard requires all leases to be recognised in the financial statements of the lessee. The accounting treatment in the lessor's accounts is unchanged compared to IAS 17. The standard is applicable for annual periods beginning on or after 1 January 2019, and will not have a material impact on the Group's financial statements.

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

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

I - 2) Accounting conventions

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

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

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

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

I - 3) Critical accounting estimates and judgements

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

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

II - Significant Events of the Year

II - 1) Redevelopment and renovation programmes

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

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

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

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

II - 2) Financing

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

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

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

II - 3) Subsequent events

None.

III - Segment Information

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

Comprehensive income can be analysed as follows by geographical segment:

(in thousands of euros)	Paris Central Business District	Western Crescent	Other	Corporate	Total
Rental income	154,135	12,712	28,933	-	195,780
Property expenses, net of recoveries	(8,762)	(762)	(1,349)	-	(10,873)
Net property rentals	**145,373**	**11,950**	**27,584**	**-**	**184,907**
Other income	1,542	134	470	14	2,160
Depreciation and amortisation expense	-	-	-	(1,345)	(1,345)
Provision (expense)/reversals, net	(125)	-	2,070	(278)	1,667
Employee benefits expense	-	-	-	(15,409)	(15,409)
Other expenses	-	-	-	(7,916)	(7,916)
Profit on disposal of investment properties	-	80,290	-	-	80,290
Fair value adjustments on investment properties	576,835	4,046	54,250	-	635,131
Operating profit/(loss)	**723,625**	**96,420**	**84,374**	**(24,934)**	**879,485**
Finance costs and other financial expenses	-	-	-	(42,861)	(42,861)
Financial income	-	-	-	1,522	1,522
Fair value adjustments on financial instruments	-	-	-	43	43
Discounting adjustments to receivables and payables	-	-	-	606	606
Changes in provisions for financial assets, net	-	-	-	-	-
Profit/(loss) before income tax	**723,625**	**96,420**	**84,374**	**(65,624)**	**838,795**
Income tax benefit/(expense)	(33,148)	-	-	(9,375)	(42,523)
Profit/(loss) for the year	**690,477**	**96,420**	**84,374**	**(74,999)**	**796,272**
Attributable to owners of the parent	**572,583**	**96,420**	**84,374**	**(68,093)**	**685,284**
Attributable to non-controlling interests	117,894	-	-	(6,906)	110,988

Other comprehensive income					
Actuarial gains and losses	-	-	-	53	53
Other comprehensive income	-	-	-	-	-
Items that will not be reclassified to profit or loss	-	-	-	53	53
Valuation gains and losses on financial instruments (cash flow hedges)	-	-	-	-	-
Deferred tax impact of valuation gains and losses on financial instruments	-	-	-	-	-
Items that may be reclassified subsequently to profit or loss	-	-	-	-	-
Other comprehensive income	**-**	**-**	**-**	**53**	**53**
Comprehensive income	**690,477**	**96,420**	**84,374**	**(74,946)**	**796,325**
Attributable to owners of the parent	**572,583**	**96,420**	**84,374**	**(68,040)**	**685,337**
Attributable to non-controlling interests	117,894	-	-	(6,906)	110,988

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

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

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

The Group's main geographical segments are as follows:

* **Paris Central Business District:** market comprising the Golden Triangle and the Financial District, spanning parts of the 1st, 2nd, 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 Crescen**t**:** 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. 2016	Increases	Decreases	Reclassifications	31 Dec. 2017
Cost					
Computer software	6,382	-	-	251	6,633
Other	908	183	-	(270)	821
Accumulated amortisation					
Computer software	(5,803)	(443)	-	-	(6,245)
Other	-	-	-	-	-
Carrying amount	**1,487**	**(260)**	**-**	**(19)**	**1,209**

IV - 2) Property and equipment

Accounting policy

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

Washington Plaza owner-occupied property:

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

Other property and equipment:

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

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

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

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

IV - 3) Amortisation and depreciation

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

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

IV - 4) Investment properties

Accounting policy

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

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

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

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

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

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

Valuation method

The Group's entire property portfolio was valued at 31 December 2017 by Jones Lang LaSalle and Cushman & Wakefield.
The valuations were performed in accordance with the *Charte de l'Expertise en Evaluation Immobilière* (property valuation charter) included in the February 2000 report of France's securities regulator (COB, renamed AMF), and also complied with the standards issued by The European Group of Valuers' Associations (TEGoVA) as well as with Royal Institution of Chartered Surveyors (RICS) standards.

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

The Group's portfolio is appraised at half-yearly intervals by a group of two independent firms, each of which is responsible for valuing part of the total portfolio as follows (the percentages below are determined by reference to the total value of the properties, excluding transfer costs):

- Cushman & Wakefield: 55%
- Jones Lang LaSalle: 45%

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

The properties are valued primarily by the discounted cash flows method, which consists of discounting projected future cash flows. Assumptions concerning future revenue flows take into account passing rents, estimated market rents for the period beyond the lease expiry dates, any rent-free periods and rent step-ups, vacancy risk and projected changes in the construction cost index (ICC), office rent index (ILAT) and retail rent index (ILC). Each property is analysed in detail, according to the type of use and the surface area of each unit, lease by lease.
Based on information provided by the Group, the valuers noted that rents on certain units were above or below market rents for the period on similar properties. These differences were taken into account to value the properties according to their current occupancy, based on the duration of the underlying leases.
Vacant units were valued on the basis of assumed rents, excluding rent for the estimated marketing period, after deducting remaining renovation costs for the period until the units are re-let and any rent-free period expected to be granted. Expenditure assumptions cover non-recoverable costs – determined on a lease-by-lease basis – and projected capital expenditure to achieve the asset's highest and best use as defined by IFRS 13.
Net cash flows for the final year of the projection period are capitalised to calculate the terminal value,

corresponding to the property's resale price at the end of the period.
The results obtained are then compared to market data and adjusted, if necessary, to obtain a market-consistent value. However, given that these appraisal values are essentially estimates that are sensitive to changes in rental values and discount rates, the proceeds from the sale of certain property assets may be different to their appraisal value, even if the sale takes place within a few months of the period-end.

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

Fair value measurement of investment properties

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

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

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

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

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

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

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

This acquisition of the Emile Zola property was organised as follows:

- Acquisition of the entire capital of Société Immobilière Victoria, owner of the plot of land and part of the buildings. The acquisition is reported in the above table in the column “Changes in scope of consolidation” for €107,721 thousand.
- Acquisition of the buildings not owned by Société Immobilière Victoria for €52,941 thousand excluding transaction expenses.

The €324,672 thousand reported in the “Decrease” column corresponds to the sale of the IN/OUT building (see Note IV-5).

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

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

[(1)] *Offices.*

A 25-bps increase in the exit yield combined with a 25-bps increase in the discount rate would have the effect of reducing the portfolio's appraisal value by €479,113 thousand, while a 25-bps decrease in the exit yield combined with a 25-bps decrease in the discount rate would have the effect of increasing the portfolio's appraisal value by €561,018 thousand.

IV - 5) Profit on disposal of investment properties

The IN/OUT building in Boulogne-Billancourt (92) was sold in 2017.

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

[(1)] *Carrying amount including transaction costs*

V - Operating Activities

V -1) Net property rentals

Accounting policy

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

Rental income

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

Specific lease terms

Current leases include various specific terms concerning rent-free periods, step-up clauses, key money and eviction compensation. In compliance with IAS 17 and SIC 15, the effects of rent-free periods and step up clauses are recognised over the non-cancellable lease term.

Key money received by the lessor is recognised in property rentals over the non-cancellable lease term.

Penalties paid by tenants for terminating their lease in advance of the expiry date are treated as revenue from the terminated lease and are recognised in revenue on the payment date.

Eviction compensation may be paid to secure the departure of a tenant, either to allow renovation work to be performed or so that the property can be re-let at a higher rent. In both cases this has the effect of increasing the asset's value and the compensation is therefore capitalised as part of the cost of the asset.

The Group's principal business is the rental of office and retail properties, which account for 98.1% of rental income. Net property rentals take into account the net positive impact of recognising rent-free periods, rent step-ups and key money over the non-cancellable lease term. In 2017, this impact was €12,458 thousand.

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

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

(in thousands of euros)	Total	Due within 1 year	Due in 1 to 5 years	Due beyond 5 years
Property rentals	747,298	184,493	438,179	124,626

V - 2) Other income

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

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

V - 3) Trade and other receivables

Accounting policy

Trade receivables are initially recognised at fair value and are subsequently measured using the cost model.

Provisions for impairment are recognised on a case-by-case basis for the difference between the receivables' carrying amount and recoverable amount.

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

Trade receivables include €68,957 thousand (of which €14,313 thousand reported under current assets) corresponding to the impact of rent-free periods and other special lease terms that is deferred over the non-cancellable lease term in accordance with IFRS. Receivables do not bear interest.

Cost of risk can be analysed as follows:

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

V - 4) Other current and non-current assets

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

Deferred tax assets are analysed in Note X-3.

V - 5) Trade and other payables

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

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

V - 6) Other current and non-current liabilities

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

The caption "Other non-current liabilities" corresponds mainly to guarantee deposits and bonds received from tenants.
Accrued employee benefits expense includes statutory and discretionary profit-sharing and bonus accruals.
Accrued taxes include the exit tax instalment due in 2018 on the 131 Wagram and Emile Zola buildings for €8,437 thousand, and accrued income tax for €617 thousand.
The amounts reported under "Accruals" correspond to deferred revenue.

V - 7) Other expenses

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

Fees paid to the Auditors in 2017 were as follows:

(in thousands of euros)	2017	2016	2017	2016
	PricewaterhouseCoopers		Deloitte & Associés	
Statutory and contractual audits	321	297	242	219
Other services	53	20	20	20
Total	**374**	**317**	**262**	**239**

VI - Financing Activities

VI - 1) Borrowings and other interest-bearing debt

Accounting policy

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

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

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

			31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
(in thousands of euros)	**Effective interest rate**	**Expiry date**	**Short-term portion**		**Long-term portion**	
Bonds						
€500 million 3.50% bond issue, 2012-2017	3.50%	28 Nov. 2017	-	301,680	-	-
€500 million 1.875% bond issue, 2014-2021	1.875%	26 Nov. 2021	925	925	500,000	500,000
€500 million 2.25% bond issue, 2015-2022	2.25%	16 Nov. 2022	1,418	1,418	500,000	500,000
Bank loans						
Banco Sabadell	Euribor + spread (end of drawdown period)	5 June 2020	1	3	10,000	50,000
BNP Paribas 2015	Euribor + spread (end of drawdown period)	7 July 2020	-	3	-	20,000
BNP Paribas 2016	Euribor + spread (end of drawdown period)	24 May 2021	42	222	75,000	150,000
BECM	Euribor + spread (end of drawdown period)	23 April 2019	91	96	150,000	140,000
Cadif	Euribor + spread (end of drawdown period)	16 June 2023	16	-	175,000	-
Natixis – Deka – Deutsche Hypotheken	1.571%	16 July 2022	2,630	2,636	201,240	203,320
Interest rate swaps						
CA-CIB 5-year swap	0.23%	28 Nov. 2022	53	-	51	-
Bank overdrafts	Various		33,400	84,867	-	-
Current account advances (liabilities)	Various		55	70	55,646	63,346
Impact of deferred recognition of debt arranging fees			(2,146)	(2,616)	(5,706)	(7,160)
Total			**36,485**	**389,304**	**1,661,231**	**1,619,506**

The following table analyses borrowings by maturity:

(in thousands of euros)	31 Dec. 2017	Due within 1 year	Due in 1 to 5 years	Due beyond 5 years	31 Dec. 2016
Bonds	1,002,343	2,343	1,000,000	-	1,304,023
BECM loan	150,091	91	150,000	-	140,096
Banco Sabadell loan	10,001	1	10,000	-	50,003
BNP Paribas 2015	-	-	-	-	20,003
BNP Paribas 2016	75,042	42	75,000	-	150,222
Cadif loan	175,016	16	-	175,000	-
Natixis – Deka – Deutsche Hypotheken loan	203,870	2,630	201,240	-	205,956
CA-CIB 5-year swap	104	53	51	-	-
Current account advances (liabilities)	55,701	55	55,646	-	63,416
Deferred debt arranging fees	(7,852)	(2,146)	(5,605)	(101)	(9,776)
Bank overdrafts	33,400	33,400	-	-	84,867
Total	**1,697,716**	**36,485**	**1,486,332**	**174,899**	**2,008,810**

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

Debt covenants and acceleration clauses in force at 31 December 2017 concerned the following lines of credit: BPCE, BECM, BNP Paribas, Cadif, Banco Sabadell and Banque Postale. They can be broken down as follows:

Applicable ratios	Actual ratios at 31 Dec. 2017	Actual ratios at 31 Dec. 2016	Main acceleration clauses
Loan-to-value (LTV) <= 50%	24.6%	31.7%	Loan default Termination of operations
Interest cover >= 2x	4.0	3.7	Bankruptcy proceedings
Secured LTV <= 20%	3.1%	3.4%	Breach of financial covenants
Unrestricted property portfolio value >= €2bn	€5.6bn	€5.3bn	Material adverse event

The Group was not in breach of any of its financial covenants at 31 December 2017.

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

(in thousands of euros)	2017	2016
Interest on bonds and bank loans	(39,841)	(43,016)
Interest on lease liabilities	-	(231)
Interest on external current account advances	(228)	(322)
Hedging losses	(53)	-
Other financial expenses	(2,739)	(2,734)
Finance costs and other financial expenses	**(42,861)**	**(46,303)**
Interest income	9	3
Financial expense transfers	1,509	291
Other financial income	4	13
Financial income	**1,522**	**307**
Finance costs and other financial income and expenses, net	**(41,339)**	**(45,996)**

Financial expense transfers in 2017 correspond to finance costs capitalised at the rate of 1.90% during the redevelopment of the Louvre Saint-Honoré and Emile Zola buildings.

VI - 3) Financial instruments

Accounting policy

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

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

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

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

At 31 December 2017, the Group’s portfolio included:

- A 5-year swap set up with CA-CIB (variable rate swapped for a fixed rate of 0.23%) on a notional amount of €100,000 thousand. The instrument came into effect on 28 November 2017 and is measured at fair value through profit or loss. At 31 December 2017, the contract had a negative fair value of €51 thousand.

- A 5-year cap at 0.25% on a notional amount of €100,000 thousand set up with Cadif (the option writer). The option came into effect on 16 November 2017 and is measured at fair value through profit or loss. At 31 December 2017, the contract had a positive fair value of €1,484 thousand.

Fair value of hedging instruments

The fair value of the Group's hedging instruments at 31 December 2017 was €1,433 thousand, as follows:

(in thousands of euros)	Nominal value	Maturity	31 Dec. 2017	31 Dec. 2016
CA-CIB 0.23% swap	100,000	Nov. 2022	(51)	-
CADIF 0.25% cap	100,000	Nov. 2022	1,484	-
Total	**200,000**		**1,433**	**-**

Gains and losses from remeasurement at fair value of financial instruments

Fair value adjustments to hedging instruments recognised through profit represented a positive €43 thousand in 2017.

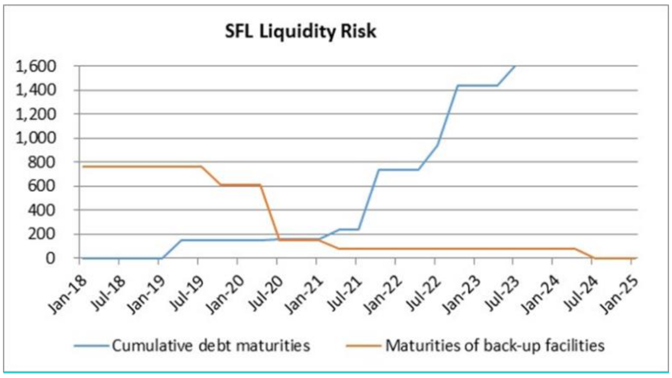
(in thousands of euros)	2017	2016
Interest rate hedges	43	(2,477)
Total	**43**	**(2,477)**

VI - 4) Financial risk management objectives and policy

The Group prudently manages its various financial risks.

1 - Liquidity risk

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



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

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

2 - Counterparty risk

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

3 - Market risk

The Group did not have any exposure to currency risk at 31 December 2017. Interest rate risks are prudently and actively managed using an information system that tracks changes in the financial markets and calculates the fair value of hedging instruments in real time, thereby allowing the Group to efficiently quantify and analyse the risks associated with interest rate fluctuations.

a/ Objectives and strategy

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

b/ Risk assessment

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

A 50-basis point rise in interest rates across the yield curve would have the effect of increasing the average cost of debt to 1.78%, driving up finance costs for 2017 by €1,552 thousand, representing 3.62% of annual financial expense. A 50-basis point decline in interest rates across the yield curve would lower the average cost of debt to 1.59%, reducing annual finance costs by €1,576 thousand, representing 3.68% of annual financial expense.

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

c/ Interest rate risk

The following table provides an analysis by maturity of the notional amount of financial instruments exposed to interest rate risk at 31 December 2017.

(in thousands of euros)	Due within 1 year	Due in 1-2 years	Due in 2-3 years	Due in 3-4 years	Due in 4-5 years	Due beyond 5 years	Total
BECM loan	-	150,000	-	-	-	-	150,000
Banco Sabadell loan	-	-	10,000	-	-	-	10,000
Cadif loan	-	-	-	-	-	175,000	175,000
2016 BNP Paribas loan	-	-	-	75,000	-	-	75,000
Current account advances	-	55,646	-	-	-	-	55,646
Total floating rate debt	**-**	**205,646**	**10,000**	**75,000**	**-**	**175,000**	**465,646**

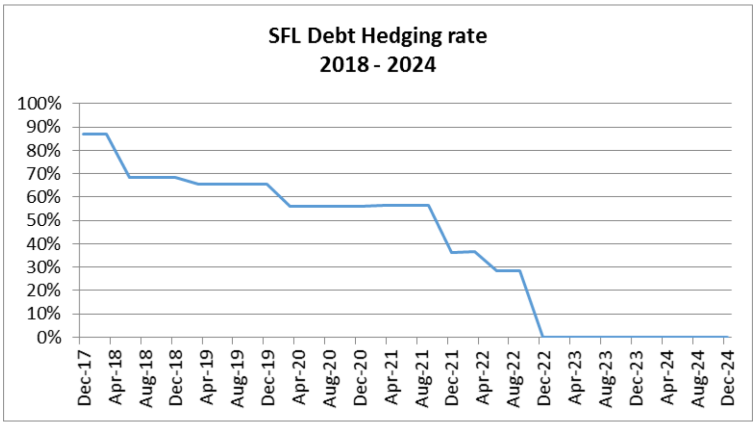
The other financial instruments used by the Group are not listed in the above table because they do not bear interest and are therefore not exposed to any interest rate risk.

Net unhedged position

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

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

At 31 December 2017, 87% 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 2017 was €1,062,635 thousand, as follows:

(in thousands of euros)	Nominal value	Maturity	31 Dec. 2017	31 Dec. 2016
November 2012 bonds	300,700	Nov. 2017	-	310,295
November 2014 bonds	500,000	Nov. 2021	526,900	526,305
November 2015 bonds	500,000	Nov. 2022	535,735	535,385
Total	1,300,700		1,062,635	1,371,985

VI - 5) Financial assets

Accounting policy

Non-current financial assets comprise investments in non-consolidated companies, deposits paid to third parties and derivative instruments. They are initially recognised at fair value, generally corresponding to their purchase price plus transaction costs. The accounting treatment of derivative instruments is presented in Note VI-3.

(in thousands of euros)	31 Dec.2016	Increases	Impairment losses recognised during the year	Decreases	Impairment losses reversed during the year	31 Dec.2017
Investments in non-consolidated companies	1,071	-	-	(1,071)	-	-
Provisions for impairment	(1,071)	-	-	-	1,071	-
Investments in non-consolidated companies, net	**-**	**-**	**-**	**(1,071)**	**1,071**	**-**
Deposits	699	-	-	(2)	-	697
Interest rate hedges	-	1,484	-	-	-	1,484
Total	699	1,484	-	(1,073)	1,071	2,181

The Vendôme-Rome group was liquidated in 2017. The investment in this group had been written down in full since 31 December 2010.
Hedging instruments with a positive fair value recognised in assets totalled €1,484 thousand at 31 December 2017 (see Note VI-3).

VI - 6) Cash and cash equivalents

Accounting policy

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

(in thousands of euros)	31 Dec. 2017	31 Dec. 2016
Cash at bank and in hand	15,710	19,766
Total	15,710	19,766

VII - Equity and Earnings Per Share

VII - 1) Equity

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

VII - 2) Treasury shares

Accounting policy

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

(in thousands of euros)	31 Dec. 2016	Increases	Decreases	31 Dec. 2017
Number of treasury shares	362,380	74,446	(129,691)	307,135
Average purchase/sale price, in euros	€61.54	€53.98	€50.76	€64.26
Total	**22,301**	**4,019**	**(6,584)**	**19,736**

VII - 3) Dividends

(in thousands of euros)	2017		2016	
	Paid	Per share	Paid	Per share
Prior year dividend paid in current year	48,512	€1.05	48,506	€1.05
Special dividend paid in current year	-	-	48,495	€1.05
Total	**48,512**	**€1.05**	**97,001**	**€2.10**

VII - 4) Earnings per share

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

(in thousands of euros)	2017	2016
Profit used to calculate basic earnings per share	685,284	504,079
Number of ordinary shares at 31 December	46,528,974	46,528,974
Number of treasury shares at 31 December	(307,135)	(362,380)
Number of ordinary shares at 31 December excluding treasury shares	**46,221,839**	**46,166,594**
Earnings per share	**€14.83**	**€10.92**
Weighted average number of ordinary shares	46,528,974	46,528,974
Number of treasury shares at 31 December	(307,135)	(362,380)
Weighted average number of ordinary shares excluding treasury shares	**46,221,839**	**46,166,594**
Basic earnings per weighted average share	**€14.83**	**€10.92**

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

VII - 5) Non-controlling interests in net profit

(in thousands of euros)	2017	2016
SCI Washington	**29,427**	**26,154**
Rental income	*6,940*	*6,902*
Fair value adjustments on investment properties	*22,498*	*19,318*
Net financial expense	*(157)*	*(215)*
Other	*146*	*149*
Parholding subgroup	**81,561**	**32,675**
Rental income	*14,519*	*14,333*
Fair value adjustments on investment properties	*90,979*	*19,674*
Net financial expense	*(1,852)*	*(1,909)*
Deferred tax	*(18,016)*	*4,306*
Current tax	*(3,096)*	*(2,995)*
Other	*(973)*	*(734)*
Total	**110,988**	**58,829**

VIII - Provisions

VIII - 1) Short and long-term provisions

Accounting policy

A provision is recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are recorded in the financial statements if, and only if, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

Provisions for contingencies and charges are determined using Management estimates and assumptions based on information and circumstances existing at the time of the preparation of the financial statements, and therefore require the use of judgement.

When the Group expects reimbursement of some or all of the expenditure required to settle a provision, the reimbursement is recognised as a separate asset when, and only when, it is virtually certain that it will be received. In the statement of comprehensive income, the provision expense is presented net of the amount recognised for the reimbursement.

(in thousands of euros)	31 Dec. 2016	Increases	Decreases	*o/w utilisations*	Actuarial gains and losses	31 Dec. 2017
Provisions for refurbishment work and tenant claims	2,070	-	(2,070)	-	-	-
Provisions for employee benefits	932	303	(21)	*(21)*	(53)	1,161
Long-term provisions	**3,002**	**303**	**(2,091)**	***(21)***	**(53)**	**1,161**
Provisions for refurbishment work and tenant claims	356	-	-	-	-	356
Provisions for employee benefits	65	14	(66)	*(29)*	-	13
Short-term provisions	**421**	**14**	**(66)**	***(29)***	-	**369**
Total	**3,423**	**317**	**(2,157)**	***(50)***	**(53)**	**1,530**

The dispute between SFL and a former tenant was settled in SFL's favour and the corresponding provision of €2,070 thousand was therefore reversed at 31 December 2017.

Provisions for employee benefits include provisions for length-of-service awards payable to employees on retirement and jubilees for €872 thousand. See Note IX-2 for more details.

Short- and long-term provisions covering benefits payable to members of senior management amounted to €16 thousand at 31 December 2017 and €12 thousand at 31 December 2016.

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

(in thousands of euros)	2017	2016
Charges to provisions for impairment of current assets	(131)	(129)
Charges to provisions for operating contingencies and charges	(218)	(1,895)
Charges to provisions for other contingencies and charges	(97)	(113)
Total charges	**(446)**	**(2,137)**
Reversals of provisions for impairment of current assets	6	2,731
Reversals of provisions for operating contingencies and charges	2,070	-
Reversals of provisions for other contingencies and charges	37	143
Total reversals	**2,113**	**2,874**
Total	1,667	737

See Note VIII-1 for details of the provision for operating contingencies and charges reversed in the year ended 31 December 2017.

IX - Remuneration and Other Employee Benefits

IX - 1) Employee benefits expense

Employee benefits expense breaks down as follows:

(in thousands of euros)	2017	2016
Wages and salaries	(6,755)	(6,572)
Payroll taxes	(4,102)	(3,581)
Other employee benefits	(1,546)	(1,114)
Statutory and discretionary profit-sharing	(3,006)	(790)
Total	(15,409)	(12,057)

The increase in employee benefits expense mainly concerns employee profit-sharing which rose sharply in 2017 due to the profit on the sale of the IN/OUT building (see Notes II-1 and IV-5).

The average number of administrative staff breaks down as follows:

	2017	2016
Officers	2	2
Managers	57	56
Supervisors	12	10
Administrative and technical staff	4	5
Total	75	73

The Group also had two building staff at 31 December 2017 and 2016.

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

Accounting policy

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

Measurement method

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

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

(in thousands of euros)	2017	2016
Projected benefit obligation at 1 January	**862**	**1,011**
Benefits paid during the year	(21)	(45)
Service cost	75	66
Interest cost	9	47
Actuarial gains and losses	(53)	(217)
Projected benefit obligation at 31 December	**872**	**862**

The projected benefit obligation is calculated at six monthly intervals based on actuarial assumptions, including, at 31 December 2017, a discount rate of 1.30% (31 December 2016: 1.31%) and a 1.50% rate of future salary increases (31 December 2016: 1.50%). Actuarial gains and losses are recognised in equity.
A 25-bps reduction in the discount rate at 31 December 2017 would lead to a €17 thousand increase in the projected benefit obligation at that date.

The Group's employee benefit plans are as follows:

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

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

IX - 3) Share-based payments

Accounting policy

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

Measurement method

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

The fair value of the performance shares is determined using the Capital Asset Pricing Model (CAPM), based on the share price on the grant date, adjusted for the discounted present value of future dividends payable during the vesting period. The number of shares expected to vest corresponds to the target number of allocated shares multiplied by the estimated vesting rate, taking into account each plan's specific vesting conditions.

The total cost calculated as explained above is recognised on a straight-line basis over the vesting period. The estimated vesting rate and the resulting estimated total cost are adjusted at each period-end to take account of the latest estimate of the number of shares expected to vest.

Details of performance share plans at 31 December 2017

	Plan no. 3	Plan no. 4	Plan no. 4
Date of shareholder authorisation	22 April 2015	13 Nov. 2015	13 Nov. 2015
Grant date (date of Board meeting)	17 June 2015	26 April 2016	03 March 2017
Initial target number of shares	27,328	32,036	33,376
Initial expected vesting rate	70.83%	70.83%	70.83%
Initial number of shares expected to vest	19,356	22,691	23,640
Fair value per share	€36.08	€41.49	€42.61
Rights cancelled/forfeited	(2,064)	(912)	(784)
Expected vesting rate at 31 December 2017	150.00%	100.00%	100.00%
Number of shares expected to vest at 31 December 2017	**37,895**	**31,124**	**32,592**

Main features of the plans

The plans' main features are as follows:

- The shares will vest only if the grantee is still employed by the Group on the vesting date.
- Performance target: the number of shares that vest depends on SFL's ranking among a group of five listed property companies based on growth in consolidated ANAV per share.
- The performance shares will vest 15 business days after the publication by the last of the Reference Companies to do so, of a press release announcing its results for the third financial year after the grant date.
- Lock-up period: the performance shares may not be sold or otherwise transferred before the end of a period of two years as from the vesting date.

Accounting treatment

The expected vesting rate is adjusted to reflect SFL's most probable ranking at the end of the vesting period. At 31 December 2017, the rates applied were 150% for the 2015 plan (probable ranking: no.1) and 100% for the 2016 and 2017 plans (probable ranking: no.3).

During first-half 2017, a total of 26,725 performance shares vested under 2014 Plan no.1.

The cost of performance share plans recognised in 2017 amounted to €1,546 thousand (excluding specific employer contributions).

IX - 4) Related party information

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

(in thousands of euros)	**2017**	**2016**
Short-term benefits, excluding payroll taxes[1]	2,973	3,175
Payroll taxes on short-term benefits	1,216	1,150
Share-based payments[2]	1,012	701
Directors' fees	763	347
Total	**5,964**	**5,373**

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

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

At 31 December 2017, related-party transactions comprise current account advances representing the share of the minority shareholder, Prédica, in SCI Washington and SAS Parholding (see Note VI-I).

X - Income Taxes

X - 1) Current and deferred tax liabilities

Accounting policy

Non-current liabilities with fixed maturities are discounted.

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

Due	2019	2020	2021	Total
Amount payable	**8,294**	**8,153**	**4,943**	**21,390**

This item corresponds mainly to the long-term portion of the exit tax due as a result of:

- the exercise, in June 2016, of the finance lease purchase option on the 131 Wagram property. The €13 million tax liability is payable in four annual instalments between 2017 and 2020 and has been discounted.

- the election for the Emile Zola building to be included in assets taxed under the SIIC regime in December 2017. The €21 million tax liability is payable in four annual instalments between 2018 and 2021 and has been discounted.

X - 2) Income tax expense

Accounting policy

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

Current income tax expense for 2017 amounted to €6,451 thousand versus €21,790 thousand for 2016.

The difference was due to the recognition in 2016 of a tax expense of €15,529 thousand following the exercise of the option to acquire the 131 Wagram property.

Income tax expense for the Parholding tax group stood at €6,192 thousand in 2017.

X - 3) Deferred taxes

Accounting policy

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

The election for taxation as an SIIC led to the elimination of the tax bases of the SIICs' assets used to calculate deferred taxes. The only remaining deferred tax assets and liabilities concern businesses that are not eligible for taxation as a SIIC (certain non-qualifying partnerships).

Deferred tax assets and liabilities are calculated for all temporary differences using the tax rate that is expected to apply to the period when the asset is realised or the liability is settled, i.e., 31% and 25% following enactment of France's 2018 Finance Act providing for a gradual reduction in the corporate income tax rate from 33.33% to 25%. If the criteria for applying either of the above rates are not fulfilled, the tax rate at the period-end is used, i.e., 33.33%.

The phased reduction was taken into account for the calculation of deferred taxes at 31 December 2017, with a positive impact of €19,449 thousand, including a €13,779 thousand favourable adjustment to deferred taxes at 1 January 2017.

(in thousands of euros)	Statement of financial position 31 Dec. 2016	Reclassifications	Equity	Statement of Comprehensive Income	Statement of financial position 31 Dec. 2017
Fair value adjustments on investment properties	(139,383)	779	-	(33,306)	(171,910)
Adjustment of depreciation	(19,322)	(779)	(83)	(2,855)	(23,039)
Adjustment of property rentals	(1,759)	-	-	158	(1,601)
Capitalisation of interest expense and transaction costs	(521)	-	-	-	(521)
Other	(767)	-	-	(69)	(836)
Net	**(161,752)**	-	**(83)**	**(36,072)**	**(197,907)**
Of which deferred tax assets	108	-	-	(39)	69
Of which deferred tax liabilities	(161,860)	-	(83)	(36,033)	(197,976)

XI - Off-Balance Sheet Commitments

XI - 1) Operations-related commitments

Guarantees

(in thousands of euros)	Total	Within 1 year	In 1 to 5 years	Beyond 5 years
Commitments given				
Property guarantees	110	110	-	-
Commitments received				
Guarantees received from tenants	59,413	1,024	18,755	39,634
Guarantees received from suppliers	145	101	44	-
Total commitments received	**59,558**	**1,125**	**18,799**	**39,634**

Contractual redevelopment and renovation obligations

At 31 December 2017, the Group's contractual commitments relating to investment properties undergoing renovation totalled €26,747 thousand (€10,548 thousand at 31 December 2016), of which €21,769 thousand concerned the Louvre Saint-Honoré, Emile Zola and Iéna properties.

XI - 2) Financing-related commitments

Standard mortgages

(in thousands of euros)

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

Undrawn confirmed lines of credit

(in thousands of euros)	Total	Within 1 year	In 1 to 5 years	Beyond 5 years
BPCE loan	150,000	-	150,000	-
2015 BNP Paribas loan	400,000	-	400,000	-
2016 BNP Paribas loan	75,000	-	75,000	-
Banque Postale loan	75,000	-	-	75,000
Banco Sabadell loan	60,000	-	60,000	-
Total	**760,000**	**-**	**685,000**	**75,000**

XI - 3) Employee-related commitments

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

At 31 December 2017, total commitments for the payment of compensation amounted to €3,017 thousand.

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

No related provisions have been recorded in the financial statements.

XII - Note to the statement of cash flows

(in thousands of euros)	2017	2016
Acquisitions of and improvements to investment properties		
Purchase price	(160,662)	-
Transaction costs	(5,938)	-
Work	(40,799)	(64,968)
Total	**(207,399)**	**(64,968)**
Proceeds from disposals of investment properties, intangible assets and property and equipment		
Sale price	445,000	-
Transaction costs	(3,215)	-
Total	**441,785**	**-**
Cash and cash equivalents at end of period		
Cash at bank and in hand	15,710	19,766
Bank overdrafts	(33,400)	(84,867)
Total	**(17,690)**	**(65,101)**

Non-cash changes in bonds and bank borrowings amounted to €1,576 thousand in 2017 and corresponded mainly to the deferred recognition of debt arranging fees.
The impact of deferring recognition of rent-free periods is included in "Cash flow" along with additions to and reversals of provisions for impairment of trade receivables.

XIII - Scope of Consolidation

Consolidated companies	Registration no.	Percentage (%) Interest	Voting rights
Parent company			
SA Société Foncière Lyonnaise	552 040 982	-	-
Fully-consolidated companies			
SA SEGPIM	326 226 032	100	100
SAS Locaparis	342 234 788	100	100
SAS Maud	444 310 247	100	100
SAS SB2	444 318 398	100	100
SAS SB3	444 318 547	100	100
SCI SB3	444 425 250	100	100
SAS Société Immobilière Victoria[(1)]	602,039,364	100	100
SCI Washington	432 513 299	66	66
SCI 103 Grenelle	440 960 276	100	100
SNC Condorcet Holding	808 013 890	100	100
SNC Condorcet Propco	537 505 414	100	100
SCI Paul Cézanne	438 339 327	100	100
SAS Parholding	404 961 351	50	50
SC Parchamps	410 233 498	50	50
SC Pargal	428 113 989	50	50
SC Parhaus	405 052 168	50	50

[(1)] *Companies consolidated for the first time in 2017 (see Notes II-1 and IV-4)*

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

Société Foncière Lyonnaise is a fully consolidated subsidiary of Spanish company Inmobiliaria Colonial SA, which owned 58.6% of the capital at 31 December 2017.
The Group and all of its subsidiaries have their registered office in the 8th *arrondissement* of Paris.