SOCIÉTÉ FONCIÈRE LYONNAISE

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2018

The financial statements were approved for publication by the Board of Directors on 15 February 2019.

A – Consolidated Statement of Financial Position

(in thousands of euros) ASSETS	Notes Section E	31 Dec. 2018	31 Dec. 2017
Intangible assets	IV-1	659	1,209
Property and equipment	IV-2	20,834	21,606
Investment property	IV-5	6,458,430	6,119,148
Non-current financial assets	VI-5	820	2,181
Other non-current assets	V-4	32	69
Total non-current assets		**6,480,775**	**6,144,213**
Trade and other receivables	V-3	82,351	88,382
Other current assets	V-4	371	290
Cash and cash equivalents	VI-6	25,304	15,710
Total current assets		**108,026**	**104,382**
Total assets		**6,588,801**	**6,248,595**

(in thousands of euros) EQUITY AND LIABILITIES	Notes Section E	31 Dec. 2018	31 Dec. 2017
Share capital		93,058	93,058
Reserves		3,565,162	2,984,611
Profit for the year		351,636	685,284
Equity attributable to owners of the parent		**4,009,856**	**3,762,953**
Non-controlling interests		502,107	476,019
Total non-controlling interests		**502,107**	**476,019**
Total equity	**VII-1**	**4,511,963**	**4,238,972**
Long-term borrowings and derivative instruments	VI-1	1,494,080	1,661,231
Long-term provisions	VIII-1	1,220	1,161
Deferred tax liabilities	X-3	205,062	197,976
Accrued taxes	X-1	13,368	21,390
Other non-current liabilities	V-6	23,214	22,136
Total non-current liabilities		**1,736,944**	**1,903,894**
Trade and other payables	V-5	25,320	16,798
Short-term borrowings and other interest-bearing debt	VI-1	268,958	36,485
Short-term provisions	VIII-1	1,349	369
Other current liabilities	V-6	44,267	52,077
Total current liabilities		**339,894**	**105,729**
Total equity and liabilities		**6,588,801**	**6,248,595**

B – Consolidated Statement of Comprehensive Income

(in thousands of euros)	Notes Section E	2018	2017
Rental income		193,509	195,780
Property expenses, net of recoveries		(10,773)	(10,873)
Net property rentals	**V-1**	**182,736**	**184,907**
Other income	V-2	4,009	2,160
Depreciation, amortisation and impairment	IV-3	(1,569)	(1,345)
Provision (expense)/reversals, net	VIII-2	(1,304)	1,667
Employee benefits expense	IX-1	(12,788)	(15,409)
Other expenses	V-7	(8,987)	(7,916)
Profit/(loss) on disposal of other assets	IV-4	(6)	-
Profit on disposal of investment property	IV-6	22	80,290
Fair value adjustments on investment property	IV-7	289,014	635,131
Operating profit		**451,127**	**879,485**
Finance costs and other financial expenses	VI-2	(36,728)	(42,861)
Financial income	VI-2	4,276	1,522
Fair value adjustments to financial instruments	VI-3	(18,987)	43
Discounting adjustments to receivables and payables		(548)	606
Changes in provisions for financial assets, net		-	-
Profit before income tax		**399,140**	**838,795**
Income tax	X-2-3	(14,494)	(42,523)
Profit for the year		**384,646**	**796,272**
Attributable to owners of the parent		**351,636**	**685,284**
Attributable to non-controlling interests	VII-5	33,010	110,988
Earnings per share	VII-4	€7.60	€14.83

Other comprehensive income			
Actuarial gains and losses	VIII-1	8	53
Other items		(15)	-
Items that will not be reclassified to profit or loss		(7)	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		**(7)**	**53**
Comprehensive income		**384,639**	**796,325**
Attributable to owners of the parent		**351,629**	**685,337**
Attributable to non-controlling interests		33,010	110,988

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 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**
Movements for the year									
Profit for the year	-	-	-	-	-	-	351,636	351,636	33,010
Other comprehensive income, net of tax	-	-	-	-	-	(7)	-	(7)	-
Comprehensive income	**-**	**-**	**-**	**-**	**-**	**(7)**	**351,636**	**351,629**	**33,010**
Appropriation of profit	-		-	-	-	685,284	(685,284)	-	-
Treasury share transactions	-	-	-	1,446	-	-	-	1,446	-
Gains and losses on sales of treasury shares	-	-	-	(1,741)	-	-	-	(1,741)	-
Share-based payments	-	-	-	-	-	1,952	-	1,952	-
Dividends paid to owners of the parent	-		-	-	-	(106,383)	-	(106,383)	(6,922)
Equity at 31 December 2018	**93,058**	**556,116**	**22,621**	**(18,317)**	**-**	**3,004,744**	**351,636**	**4,009,856**	**502,107**

D – Consolidated Statement of Cash Flows

(in thousands of euros)	Notes Section E	2018	2017
Cash flows from operating activities			
Profit for the year attributable to owners of the parent		351,636	685,284
Fair value adjustments on investment property	IV-5	(289,014)	(635,131)
Depreciation, amortisation and impairment	IV-3	1,569	1,345
Net additions to/(reversals of) provisions		1,100	(1,791)
Net (gains)/losses from disposals of assets, after tax	IV-5	(16)	(80,290)
Discounting adjustments and valuation (gains)/losses on financial instruments		19,534	(649)
Deferral of rent-free periods and key money	V-1	529	(12,458)
Employee benefits	IX-3	1,952	1,546
Non-controlling interests in profit for the year	VII-5	33,010	110,988
Cash flow after finance costs and income tax		**120,300**	**68,844**
Finance costs	VI-2	32,452	41,339
Income tax	X-2-3	14,494	42,523
Cash flow before finance costs and income tax		**167,246**	**152,706**
Change in working capital		276	28,610
Interest paid		(28,827)	(41,245)
Interest received		21	12
Income tax paid		(15,837)	(16,766)
Net cash provided by operating activities		**122,879**	**123,317**
Cash flows from investing activities			
Acquisitions of and improvements to investment property	XII	(38,106)	(207,399)
Acquisitions of intangible assets and property and equipment		(245)	(369)
Proceeds from disposals of investment property, intangible assets and property and equipment	XII	255	441,785
Other cash inflows and outflows		468	-
Net cash used by investing activities		**(37,628)**	**234,017**
Cash flows from financing activities			
Proceeds from the issue of ordinary shares		-	-
Purchases and sales of treasury shares, net		(295)	1,438
Dividends paid to owners of the parent	VII-3	(106,383)	(48,512)
Dividends paid to non-controlling interests		(6,921)	(5,517)
Proceeds from new borrowings		1,269,204	689,610
Repayments of borrowings		(1,180,350)	(945,552)
Other movements in financing items		(17,512)	(1,390)
Net cash used by financing activities		**(42,257)**	**(309,923)**
Net change in cash and cash equivalents		**42,994**	**47,411**
Cash and cash equivalents at beginning of year		(17,690)	(65,101)
Cash and cash equivalents at end of year	XII	25,304	(17,690)
Net change in cash and cash equivalents		**42,994**	**47,411**

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 standards published by the IASB and adopted by the European Union are effective for annual periods ending 31 December 2018:

- 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. The Group is concerned by the standard's financial asset impairment rules. The impact of applying IFRS 9 in the financial statements for the year was not material.

- 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.
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 did not therefore have any impact on the consolidated financial statements.

The following new standards and amendments published by the IASB are applicable in accounting periods beginning after 31 December 2018:

- IFRS 16 – Leases. IFRS 16 replaces IAS 17. This standard requires all leases to be recognised in the financial statements of the lessee, in order to improve visibility of the lessee's assets and liabilities. The accounting treatment in the lessor's accounts is unchanged compared to IAS 17. The Group has prepared an initial inventory of its leases. Most of these leases concern company vehicles. IFRS 16 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.

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

- Annual Improvements to IFRS, 2015-2017 cycle. Limited amendments have been made to four IFRSs. The amendment to IAS 23 clarifies how to determine the amount of borrowing costs to be capitalised as part of the cost of an asset when general borrowings are used to fund the asset.

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-5).

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-5).

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

Properties undergoing development at 31 December 2018 represented roughly 16% of the total portfolio. They consist mainly of three flagship projects being implemented over the next four years. The first of these concerns the retail space in the Louvre-Saint-Honoré complex, representing approximately 16,000 sq.m. The second is the Emile Zola office complex acquired in 2017, representing some 24,000 sq.m. that will be extensively remodelled. The building permit was obtained in May 2018 and the property is currently being prepared for redevelopment. The third project concerns the approximately 9,000 sq.m. 96 Iéna office building. The building permit appeal process for this project has now been completed and redevelopment work is about to start.

There were no material acquisitions or disposals in 2018.

In the course of the year, leases were signed on some 21,000 sq.m. of mainly office space.

II - 2) Financing

In May 2018, SFL issued €500 million worth of 1.50% seven-year bonds due 29 May 2025.

Two new five-year revolving lines of credit were obtained during the year, in July from BCEM and in October from Société Générale, for a total of €250 million.

In September 2018, a €300 million negotiable European commercial paper (NEU-CP) program was set up. Issuance under the program amounted to €263 million at 31 December 2018.

In parallel, an offer was launched to buy back two bond issues due in November 2021 and November 2022, respectively. At the close of the offer period, on 26 September 2018, bonds with an aggregate face value of €300 million had been tendered to the offer, in line with the original objective, including €150 million worth of bonds due 2021 and €150 million worth of bonds due 2022.

These transactions, which were part of the Company's active debt management strategy, allowed SFL to significantly reduce future average borrowing costs while also extending the average maturity of its debt.

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	Other Paris	Western Crescent	Corporate	Total
Rental income	160,490	30,074	2,945	-	193,509
Property expenses, net of recoveries	(8,838)	(1,108)	(827)	-	(10,773)
Net property rentals	**151,652**	**28,966**	**2,118**	**-**	**182,736**
Other income	2,771	731	441	66	4,009
Depreciation, amortisation and impairment	-	-	-	(1,569)	(1,569)
Provision (expense)/reversals, net	(307)	(348)	-	(649)	(1,304)
Employee benefits expense	-	-	-	(12,788)	(12,788)
Other expenses	-	-	-	(8,987)	(8,987)
Profit/(loss) on disposal of other assets	-	-	-	(6)	(6)
Profit on disposal of investment property	-	22	-	-	22
Fair value adjustments on investment property	257,000	32,113	(99)	-	289,014
Operating profit	**411,116**	**61,484**	**2,460**	**(23,933)**	**451,127**
Finance costs and other financial expenses	-	-	-	(36,728)	(36,728)
Financial income	-	-	-	4,276	4,276
Fair value adjustments to financial instruments	-	-	-	(18,987)	(18,987)
Discounting adjustments to receivables and payables	-	-	-	(548)	(548)
Changes in provisions for financial assets, net	-	-	-	-	-
Profit/(loss) before income tax	**411,116**	**61,484**	**2,460**	**(75,920)**	**399,140**
Income tax expense	(5,168)	-	-	(9,326)	(14,494)
Profit/(loss) for the year	**405,948**	**61,484**	**2,460**	**(85,246)**	**384,646**
Attributable to owners of the parent	**366,024**	**61,484**	**2,460**	**(78,332)**	**351,636**
Attributable to non-controlling interests	39,924	-	-	(6,914)	33,010
Other comprehensive income					
Actuarial gains and losses	-	-	-	8	8
Other comprehensive income/(expenses)	-	-	-	(15)	(15)
Items that will not be reclassified to profit or loss	-	-	-	(7)	(7)
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/(expenses)	**-**	**-**	**-**	**(7)**	**(7)**
Comprehensive income/(expenses)	**405,948**	**61,484**	**2,460**	**(85,253)**	**384,639**
Attributable to owners of the parent	**366,024**	**61,484**	**2,460**	**(78,339)**	**351,629**
Attributable to non-controlling interests	39,924	-	-	(6,914)	33,010

(in thousands of euros)	Paris Central Business District	Other Paris	Western Crescent	Corporate	Total
Segment assets	5,341,502	1,018,795	98,134	47,740	6,506,171
Unallocated assets	-	-	-	82,630	82,630
Total assets	**5,341,502**	**1,018,795**	**98,134**	**130,370**	**6,588,801**

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

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

The Group's main geographical segments are as follows:

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

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

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

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

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

IV - 1) Intangible assets

Accounting policy

Intangible assets correspond mainly to purchased software and software development costs incurred in connection with the Group's systems 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. 2017	Increases	Decreases	Reclassifications	31 Dec. 2018
Cost					
Computer software	6,633	-	-	68	6,701
Other	821	157	-	(68)	910
Amortisation and impairment					
Computer software	(6,245)	(259)	-	-	(6,504)
Other	-	(448)	-	-	(448)
Carrying amount	**1,209**	**(550)**	**-**	**-**	**659**

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. 2017	Increases	Decreases	Reclassifications	31 Dec. 2018
Cost					
Owner-occupied property	21,238	-	-	-	21,238
Other property and equipment	5,910	88	(27)	11	5,982
Depreciation and impairment					
Owner-occupied property	(2,770)	(371)	-	-	(3,141)
Other property and equipment	(2,772)	(490)	17	-	(3,245)
Carrying amount	**21,606**	**(773)**	**(10)**	**11**	**20,834**

The appraisal value excluding transfer costs of owner-occupied property – corresponding to the Company's headquarters – was €43,261 thousand at 31 December 2018 and €40,970 thousand at 31 December 2017.

IV - 3) Depreciation, amortisation and impairment

(in thousands of euros)	2018	2017
Amortisation and impairment of intangible assets	(707)	(443)
Depreciation and impairment of property and equipment	(862)	(902)
Total	**(1,569)**	**(1,345)**

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

IV - 4) Profit/(loss) on disposal of other assets

The loss on disposal of other assets in 2018 arose mainly from sales of furniture.

IV - 5) Investment property

Accounting policy

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

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

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 to investment property", are calculated as follows:
Change in fair value = Market value at the period-end – Market value at the prior period-end – Work and other costs capitalised during the period.

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

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

Valuation method

The Group's entire property portfolio was valued at 31 December 2018 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 valuers’ fees are agreed before the appraisal process begins and do not depend in any way on the value of the properties to be appraised. They are determined at a flat rate based exclusively on the number of properties to be valued and the complexity of the appraisal process. Fees paid to the valuers in 2018 other than for annual property appraisals amounted to €38 thousand.

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 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. 2017	Increases	Gains from remeasurement at fair value	Decreases	Losses from remeasurement at fair value	Reclassifications	31 Dec.2018
Investment property	6,119,148	50,510	310,348	(230)	(21,335)	(11)	6,458,430
Total	**6,119,148**	**50,510**	**310,348**	**(230)**	**(21,335)**	**(11)**	**6,458,430**

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

(in thousands of euros)	31 Dec. 2018	31 Dec. 2017
Appraisal value of investment property, excluding transfer costs	6,569,609	6,229,075
Deduction of owner-occupied property (see Note IV-2)	(43,261)	(40,970)
Adjustments to reflect specific lease terms and other adjustments	(67,917)	(68,957)
Fair value of investment property in the statement of financial position	**6,458,430**	**6,119,148**

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

Geographic area	Value excluding transfer costs 31 December 2018 (in € millions, on a 100% basis)	Inputs	Range of values[1]	Weighted average[1]
Paris Central Business District	5,446	Market rent for offices	€600 - €820	€718
		Exit yield	3.15% - 3.40%	3.27%
		Discount rate	3.90% - 5.20%	4.22%
Other Paris	1,025	Market rent for offices	€548 - €682	€592
		Exit yield	3.40% - 3.80%	3.53%
		Discount rate	4.00% - 6.25%	4.78%
Western Crescent	98	Market rent for offices	€313 - €441	€375
		Exit yield	4.03% - 4.95%	4.13%
		Discount rate	4.50% - 5.95%	4.75%
Total	**6,569**			

[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 €507,250 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 €594,983 thousand.

IV - 6) Profit on disposal of investment property

During the year, the Group sold an apartment located in Saint-Denis (93). In 2017, the Group realised a profit on the sale of the IN/OUT building in Boulogne-Billancourt (92) in September.

V - Operating Activities

V -1) Net property rentals

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

Rental income
Rental income from investment property is recognised on a straight-line basis over the fixed lease term. The transfer of economic benefits corresponds to the date stipulated in the contract, or to the tenant's entry date if stipulated in the contract. Other income corresponds mainly to external management fees and is recognised when the related services are rendered in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services, in accordance with IFRS 15.

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% of rental income. Net property rentals take into account the net negative impact of recognising rent-free periods, rent step-ups and key money over the non-cancellable lease term. In 2018, this impact was €529 thousand.

(in thousands of euros)	2018	2017
Rental income	**193,509**	**195,780**
Property operating expenses	(43,334)	(44,605)
Property expenses recovered from tenants	32,561	33,732
Property expenses, net of recoveries	**(10,773)**	**(10,873)**
Net property rentals	**182,736**	**184,907**

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
Rental income	696,698	181,486	432,270	82,942

V - 2) Other income

(in thousands of euros)	2018	2017
Own-work capitalised	58	4
Other income	3,951	2,156
Total	**4,009**	**2,160**

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

V - 3) Trade and other receivables

Accounting policy

Trade receivables are initially recognised at amortised cost, corresponding to the initial invoice amount. Upon origination, the receivables are written down based on the expected loss-to-maturity model, in accordance with IFRS 9. In subsequent periods, the collection risk is systematically reviewed on a case-by-case basis, and a loss allowance is recorded if necessary to reflect the incurred risk.

(in thousands of euros)	31 Dec. 2018			31 Dec. 2017
	Total	Due within 1 year	Due in 1 year or more	
Trade receivables	74,261	18,679	55,581	79,606
Provisions	(1,575)	-	(1,575)	(892)
Trade receivables	**72,686**	**18,679**	**54,006**	**78,714**
Prepayments to suppliers	27	27	-	52
Employee advances	19	19	-	8
Tax receivables (other than income tax)	7,393	7,393	-	6,506
Other operating receivables	1,994	1,994	-	2,398
Other receivables	232	232	-	704
Other receivables	**9,665**	**9,665**	**-**	**9,668**
Total	**82,351**	**28,344**	**54,006**	**88,382**

Trade receivables include €67,917 thousand (of which €14,307 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)	2018	2017
Increases in provisions	(242)	(131)
Reversals of provisions	38	6
Bad debt write-offs, net of recoveries	(5)	(30)
Total	**(209)**	**(155)**
Rental income	193,509	195,780
Net losses as a % of rental income	**0.11%**	**0.08%**

V - 4) Other current and non-current assets

(in thousands of euros)	31 Dec. 2018	31 Dec. 2017
Deferred tax assets	32	69
Total other non-current assets	**32**	**69**
Income tax prepayments	158	71
Other prepayments	213	219
Total other current assets	**371**	**290**

Deferred tax assets are analysed in Note X-3.

V - 5) Trade and other payables

(in thousands of euros)	31 Dec. 2018	31 Dec. 2017
Trade payables	6,697	6,325
Amounts due within one year on asset acquisitions	18,623	10,473
Total	**25,320**	**16,798**

At 31 December 2018, amounts due within one year on asset acquisitions mainly concerned the 112 Zola building.

V - 6) Other current and non-current liabilities

(in thousands of euros)	31 Dec. 2018	31 Dec. 2017
Deposits	23,214	22,136
Total other non-current liabilities	**23,214**	**22,136**
Deposits	2,207	4,625
Customer prepayments	19,997	17,046
Accrued employee benefits expense	5,157	7,957
Accrued taxes	12,648	13,344
Other liabilities	3,682	4,483
Accruals	576	4,622
Total other current liabilities	**44,267**	**52,077**

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 instalments due in 2019 and related to the 131 Wagram and 112 Zola buildings, for a total of €8,443 thousand.
The amounts reported under "Accruals" correspond to deferred revenue.

V - 7) Other expenses

(in thousands of euros)	2018	2017
Fees	(1,726)	(1,708)
Taxes other than on income	(2,521)	(1,851)
Other	(4,740)	(4,357)
Total	**(8,987)**	**(7,916)**

Fees paid to the Auditors in 2018 were as follows:

(in thousands of euros)	2018	2017	2018	2017
	PricewaterhouseCoopers		Deloitte & Associés	
Statutory and contractual audits	318	321	236	242
Other services	52	53	44	20
Total	**370**	**374**	**280**	**262**

In 2018, fees for other services mainly concerned the issuance of a comfort letter in connection with the May 2018 bond issue, review of the non-financial information statement at the Company's request, and, to a lesser extent, review of the translation of financial information.

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. 2018 Short-term portion	31 Dec. 2017 Short-term portion	31 Dec. 2018 Long-term portion	31 Dec. 2017 Long-term portion
Bonds						
€500 million bond issue, 2014-2021	1.875%	26 Nov. 2021	647	925	350,000	500,000
€500 million bond issue, 2015-2022	2.25%	16 Nov. 2022	993	1,418	350,000	500,000
€500 million bond issue, 2018-2025	1.50%	29 May 2025	4,459	-	500,000	-
Bank loans						
Banco Sabadell	Euribor + spread	5 June 2020	-	1	-	10,000
BNP Paribas 2016	Euribor + spread	24 May 2021	40	42	50,000	75,000
BECM	Euribor + spread	23 April 2019	-	91	-	150,000
Cadif	Euribor + spread	16 June 2023	-	16	-	175,000
Natixis – Deka – Deutsche Hypotheken	1.571%	16 July 2022	2,625	2,630	199,160	201,240
Negotiable European commercial paper (NEU-CP)	Fixed rate (payable in advance)	Due within 1 year	262,500	-	-	-
Interest rate swaps						
CA-CIB 5-year swap	0.23%	28 Nov. 2022	52	53	989	51
Bank overdrafts	Various		-	33,400	-	-
Current account advances (liabilities)	Various		40	55	52,246	55,646
Impact of deferred recognition of debt arranging fees			(2,398)	(2,146)	(8,315)	(5,706)
Total			268,958	36,485	1,494,080	1,661,231

The following table analyses borrowings by maturity:

(in thousands of euros)	31 Dec. 2018	Due within 1 year	Due in 1 to 5 years	Due beyond 5 years	31 Dec. 2017
Bonds	1,206,099	6,099	700,000	500,000	1,002,343
Banco Sabadell	-	-	-	-	10,001
BNP Paribas 2016	50,040	40	50,000	-	75,042
BECM	-	-	-	-	150,091
Cadif	-	-	-	-	175,016
Natixis/Deka/Deutsche Hypothekenbank	201,785	2,625	199,160	-	203,870
Negotiable European commercial paper (NEU-CP)	262,500	262,500	-	-	-
CA-CIB 5-year swap	1,041	52	989	-	104
Current account advances (liabilities)	52,286	40	52,246	-	55,701
Deferred debt arranging fees	(10,713)	(2,398)	(7,092)	(1,223)	(7,852)
Bank overdrafts	-	-	-	-	33,400
Total	**1,763,038**	**268,958**	**995,303**	**498,777**	**1,697,716**

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

Debt covenants and acceleration clauses in force at 31 December 2018 concerned the following lines of credit: Société Générale, BECM, BNP Paribas, Cadif, Banco Sabadell and Banque Postale. They can be broken down as follows:

Applicable ratios	Actual ratios at 31 Dec. 2018	Actual ratios at 31 Dec. 2017	Main acceleration clauses
Loan-to-value (LTV) <= 50%	24.1%	24.6%	Loan default Termination of operations
Interest cover >= 2x	5.1	4.0	Bankruptcy proceedings
Secured LTV <= 20%	2.9%	3.1%	Breach of financial covenants
Unrestricted property portfolio value >= €2bn	€6.0bn	€5.6bn	Material adverse event

The Group was not in breach of any of its financial covenants at 31 December 2018.

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

(in thousands of euros)	2018	2017
Interest on bank loans, bonds and commercial paper	(31,689)	(39,841)
Interest on external current account advances	(156)	(228)
Hedging losses	(561)	(53)
Other financial expenses	(4,322)	(2,739)
Finance costs and other financial expenses	**(36,728)**	**(42,861)**
Interest income	21	9
Financial expense transfers	4,255	1,509
Other financial income	-	4
Financial income	**4,276**	**1,522**
Finance costs and other financial income and expenses, net	**(32,452)**	**(41,339)**

Financial expense transfers correspond to finance costs capitalised at the rate of 1.72%, mainly during the redevelopment of the Louvre Saint-Honoré and 112 Zola buildings.

VI - 3) Financial instruments

Accounting policy

The Group uses derivative instruments such as interest rate swaps and caps to hedge the risk of changes in interest rates. These instruments are measured at fair value at each period-end. Gains and losses arising from changes in fair value are recognised directly through profit or loss.

Standard market valuation methods are used – corresponding to Level 2 inputs in the fair value hierarchy (see Note IV-5) – taking into account the risk of non-performance (particularly the Group's own credit risk), in line with IFRS 13.
The Group does not apply hedge accounting.

At 31 December 2018, the Group's portfolio included:

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

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

Fair value of hedging instruments

At 31 December 2018, the Group's hedging instruments had a negative fair value of €398 thousand, as follows:

(in thousands of euros)	Nominal value	Maturity	31 Dec. 2018	31 Dec. 2017
CA-CIB 0.23% swap	100,000	Nov. 2022	(989)	(51)
Cadif 0.25% cap	100,000	Nov. 2022	591	1,484
Total	**200,000**		**(398)**	**1,433**

Fair value adjustments to financial instruments

(in thousands of euros)	2018	2017
Bond retirement penalties	(17,156)	-
Interest rate hedges	(1,831)	43
Total	**(18,987)**	**43**

In September 2018, SFL retired €300 million worth of bonds due November 2021 and November 2022, and paid retirement penalties of €17,156 thousand to the bond holders.

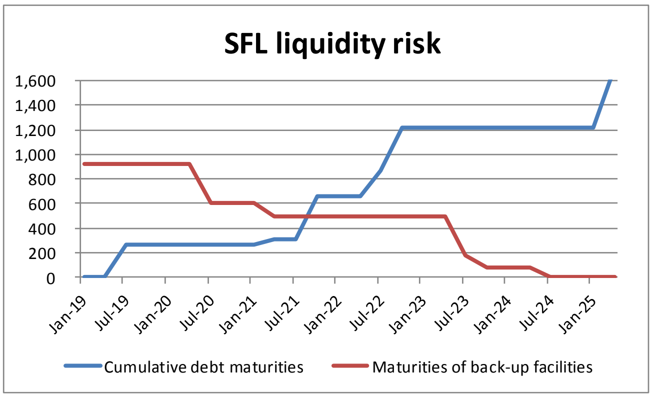
Fair value adjustments to hedging instruments recognised through profit represented a negative €1,831 thousand in 2018.

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 2018, SFL had access to confirmed undrawn lines of credit representing €920 million compared with €760 million at 31 December 2017. 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 November 2021.



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

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

2 - Counterparty risk

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

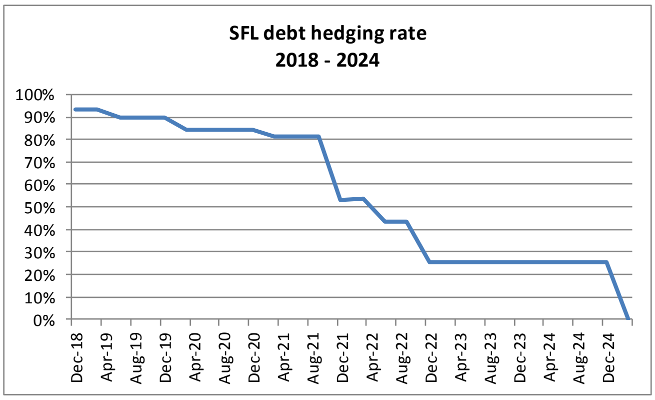
3 - Market risk

The Group did not have any exposure to currency risk at 31 December 2018. Interest rate risks are prudently and actively managed using an information system that tracks changes in the financial markets and calculates the fair value of hedging instruments in real time, thereby allowing the Group to efficiently quantify and analyse the risks associated with interest rate fluctuations.

a/ Objectives and strategy

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

At 31 December 2018, 93% of debt was hedged against interest rate risks.



b/ Risk assessment

The average spot cost of debt stood at 1.49% at 31 December 2018, versus 1.69% at 31 December 2017.

A 50-basis point rise in interest rates across the yield curve in 2018 would have the effect of increasing the average cost of debt to 1.55%, driving up finance costs for the year by €1,064 thousand, representing 2.9% of annual financial expense. A 50-basis point decline in interest rates across the yield curve would lower the average cost of debt to 1.43%, reducing annual finance costs by €993 thousand, representing 2.7% 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 €2,668 thousand at 31 December 2018, while a 50-basis point decrease would reduce their fair value by €2,292 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 2018.

(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
2016 BNP Paribas loan	-	-	50,000	-	-	-	50,000
Negotiable European commercial paper (NEU-CP)	262,500	-	-	-	-	-	262,500
Current account advances	-	52,246	-	-	-	-	52,246
Total floating rate debt	**262,500**	**52,246**	**50,000**	**-**	**-**	**-**	**364,746**

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

Fair value of bonds

The fair value of the Group's outstanding bond issues at 31 December 2018 was €1,222,330 thousand, as follows:

(in thousands of euros)	Nominal value	Maturity	31 Dec. 2018	31 Dec. 2017
November 2014 bonds	350,000	Nov. 2021	362,607	526,900
November 2015 bonds	350,000	Nov. 2022	368,298	535,735
May 2018 bonds	500,000	May 2025	491,425	-
Total	**1,200,000**		**1,222,330**	**1,062,635**

VI - 5) Financial assets

Accounting policy

Non-current financial assets comprise deposits paid to third parties and derivative instruments.

They are initially recognised at fair value, generally corresponding to their purchase price plus transaction costs.
The accounting treatment of derivative instruments is presented in Note VI-3.

(in thousands of euros)	31 Dec. 2017	Increases	Impairment losses recognised during the year	Decreases	Impairment losses reversed during the year	31 Dec. 2018
Deposits	697	-	-	(468)	-	229
Interest rate hedges	1,484	-	-	(893)	-	591
Total	**2,181**	**-**	**-**	**(1,361)**	**-**	**820**

Hedging instruments with a positive fair value recognised in assets totalled €591 thousand at 31 December 2018 (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. 2018	31 Dec. 2017
Cash at bank and in hand	25,304	15,710
Total	25,304	15,710

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. 2017	Increases	Decreases	31 Dec. 2018
Number of treasury shares	307,135	89,591	(122,452)	274,274
Average purchase/sale price, in euros	€64.26	€59.46	€55.31	€66.69
Total	19,736	5,327	(6,773)	18,290

VII - 3) Dividends

(in thousands of euros)	2018		2017	
	Paid	Per share	Paid	Per share
Prior year dividend paid in current year	106,383	€2.30	48,512	€1.05
Total	106,383	€2.30	48,512	€1.05

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)	2018	2017
Profit used to calculate basic earnings per share	351,636	685,284
Number of ordinary shares at 31 December	46,528,974	46,528,974
Number of treasury shares at 31 December	(274,274)	(307,135)
Number of ordinary shares at 31 December excluding treasury shares	**46,254,700**	**46,221,839**
Earnings per share	**€7.60**	**€14.83**
Weighted average number of ordinary shares	46,528,974	46,528,974
Number of treasury shares at 31 December	(274,274)	(307,135)
Weighted average number of ordinary shares excluding treasury shares	**46,254,700**	**46,221,839**
Basic earnings per weighted average share	**€7.60**	**€14.83**

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

VII - 5) Non-controlling interests in net profit

(in thousands of euros)	2018	2017
SCI Washington	**17,396**	**29,427**
Rental income	*7,862*	*6,940*
Fair value adjustments on investment property	*9,607*	*22,498*
Net financial expense	*(151)*	*(157)*
Other	*78*	*146*
Parholding subgroup	**15,614**	**81,561**
Rental income	*14,986*	*14,519*
Fair value adjustments on investment property	*10,357*	*90,979*
Net financial expense	*(1,766)*	*(1,852)*
Deferred tax	*(3,543)*	*(18,016)*
Current tax	*(3,600)*	*(3,096)*
Other	*(820)*	*(973)*
Total	**33,010**	**110,988**

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. 2017**	**Increases**	**Decreases**	***o/w utilisations***	**Actuarial gains and losses**	**Reclassifications**	**31 Dec. 2018**
Provisions for refurbishment work and tenant claims	-	-	-	-	-	-	-
Provisions for employee benefits	1,161	621	(54)	*(54)*	(8)	(500)	1,220
Long-term provisions	**1,161**	**621**	**(54)**	***(54)***	**(8)**	**(500)**	**1,220**
Provisions for refurbishment work and tenant claims	356	119	-	-	-	-	475
Provisions for taxes other than on income	-	332	-	-	-	-	332
Provisions for employee benefits	13	29	-	-	-	500	542
Short-term provisions	**369**	**480**	-	-	-	**500**	**1,349**
Total	**1,530**	**1,101**	**(54)**	***(54)***	**(8)**	**-**	**2,569**

Provisions for employee benefits include provisions for length-of-service awards payable to employees on retirement and jubilees for €902 thousand. See Note IX-2 for more details.

Short- and long-term provisions covering benefits payable to members of senior management amounted to €21 thousand at 31 December 2018 and €16 thousand at 31 December 2017.

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

(in thousands of euros)	**2018**	**2017**
Charges to provisions for impairment of current assets	(242)	(131)
Charges to provisions for operating contingencies and charges	(980)	(218)
Charges to provisions for other contingencies and charges	(120)	(97)
Total charges	**(1,342)**	**(446)**
Reversals of provisions for impairment of current assets	38	6
Reversals of provisions for operating contingencies and charges	-	2,070
Reversals of provisions for other contingencies and charges	-	37
Total reversals	**38**	**2,113**
Total	**(1,304)**	**1,667**

IX - Remuneration and Other Employee Benefits

IX - 1) Employee benefits expense

Employee benefits expense breaks down as follows:

(in thousands of euros)	2018	2017
Wages and salaries	(6,779)	(6,755)
Payroll taxes	(3,560)	(4,102)
Other employee benefits	(1,952)	(1,546)
Statutory and discretionary profit-sharing	(497)	(3,006)
Total	**(12,788)**	**(15,409)**

The decrease in employee benefits expense in 2018 mainly concerns employee profit-sharing, which rose sharply in 2017 due to the profit on the sale of the IN/OUT building (see Note IV-6).

The average number of administrative staff breaks down as follows:

	2018	2017
Officers	2	2
Managers	54	57
Supervisors	12	12
Administrative and technical staff	2	4
Total	**70**	**75**

The Group also had two building staff at 31 December 2018 and 2017.

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)	2018	2017
Projected benefit obligation at 1 January	**872**	**862**
Benefits paid during the year	(54)	(21)
Service cost	83	75
Interest cost	9	9
Actuarial gains and losses	(8)	(53)
Projected benefit obligation at 31 December	**902**	**872**

The projected benefit obligation is calculated at six-monthly intervals based on actuarial assumptions, including a discount rate of 1.57% (31 December 2017: 1.30%) and a 2.20%-rate of future salary increases (31 December 2017: 1.50%). Actuarial gains and losses are recognised in equity.
A 25-bps reduction in the discount rate at 31 December 2018 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 2018

	Plan no. 4	Plan no. 4	Plan no. 5
Date of shareholder authorisation	13/11/2015	13/11/2015	20/04/2018
Grant date (date of Board meeting)	26/04/2016	03/03/2017	20/04/2018
Initial target number of shares	32,036	33,376	33,592
Initial expected vesting rate	70.83%	70.83%	100.00%
Initial number of shares expected to vest	22,691	23,640	33,592
Fair value per share	€41.49	€42.61	€48.64
Rights cancelled/forfeited	(1,168)	(2,268)	(1,456)
Expected vesting rate at 31 December 2018	150.00%	100.00%	100.00%
Number of shares expected to vest at 31 December 2018	**46,302**	**31,108**	**32,136**

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 2018, the rates applied were 150% for the 2016 plan (probable ranking: no. 1) and 100% for the 2017 and 2018 plans (probable ranking: no. 3).

During first-half 2018, a total of 37,896 performance shares vested under 2015 Plan no. 3.

The cost of performance share plans recognised in 2018 amounted to €1,952 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)	2018	2017
Short-term benefits, excluding payroll taxes[1]	3,215	2,973
Payroll taxes on short-term benefits	1,272	1,216
Share-based payments[2]	1,311	1,012
Directors' fees	713	763
Total	**6,511**	**5,964**

[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 2018, related-party transactions comprised current account advances representing the share of the minority shareholder, Prédica, in SCI Washington (see Note VI-1).

X - Income Taxes

X - 1) Current and deferred tax liabilities

Accounting policy

Non-current liabilities with fixed maturities are discounted.

Measurement method

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

Due	2020	2021	Total
Amount payable	**8,316**	**5,052**	**13,368**

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 112 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 a 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 2018 amounted to €7,371 thousand (2017: €6,451 thousand) and mainly concerned the Parholding tax group.

X - 3) Deferred taxes

Accounting policy

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

The election for taxation as a 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% in 2019 and 25% as from 2022. 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%.

(in thousands of euros)	Statement of Financial Position 31 Dec. 2017	Reclassifications	Equity	Statement of Comprehensive Income	Statement of Financial Position 31 Dec. 2018
Fair value adjustments to investment property	(171,910)	-	-	(5,349)	(177,259)
Adjustment of depreciation	(23,039)	-	-	(1,919)	(24,958)
Adjustment of property rentals	(1,601)	-	-	182	(1,419)
Capitalisation of interest expense and transaction costs	(521)	-	-	-	(521)
Other	(836)	-	-	(37)	(873)
Net	**(197,907)**	**-**	**-**	**(7,123)**	**(205,030)**
Of which deferred tax assets	69	-	-	(37)	32
Of which deferred tax liabilities	(197,976)	-	-	(7,086)	(205,062)

XI - Off-Balance Sheet Commitments

XI - 1) Operations-related commitments

Guarantees

(in thousands of euros)	Total	Within 1 year	In 1 to 5 years	Beyond 5 years
Commitments given				
Property guarantees	110	110	-	-
Commitments received				
Guarantees received from tenants (including first demand guarantees)	53,666	3,283	18,706	31,677
Other first demand guarantees	400	-	400	-
Guarantees received from suppliers	1,336	1,336	-	-
Total commitments received	**55,402**	**4,619**	**19,106**	**31,677**

Contractual redevelopment and renovation obligations

At 31 December 2018, the Group's contractual commitments relating to investment property undergoing renovation totalled €23,288 thousand (€26,747 thousand at 31 December 2017), of which €19,836 thousand concerned the Louvre Saint-Honoré, 112 Zola and Iéna properties.

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

Standard mortgages

(in thousands of euros)

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

Undrawn confirmed lines of credit

(in thousands of euros)	Total	Within 1 year	In 1 to 5 years	Beyond 5 years
BECM	150,000	-	150,000	-
2016 BNP Paribas	100,000	-	100,000	-
2015 BNP Paribas	250,000	-	250,000	-
Banque Postale	75,000	-	-	75,000
Banco Sabadell	70,000	-	70,000	-
Société Générale	100,000	-	100,000	-
Cadif	175,000	-	175,000	-
Total	**920,000**	**-**	**845,000**	**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.
One officer of the Company who is not an employee is entitled to compensation for loss of office in the event that he is dismissed from his position for reasons other than gross or wilful misconduct.

At 31 December 2018, total commitments for the payment of compensation amounted to €2,926 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)	2018	2017
Acquisitions of and improvements to investment property		
Purchase price	-	(160,662)
Transaction costs	-	(5,938)
Work	**(38,106)**	(40,799)
Total	**(38,106)**	**(207,399)**
Proceeds from disposals of investment property, intangible assets and property and equipment		
Sale price	264	445,000
Transaction costs	(9)	(3,215)
Total	**255**	**441,785**
Cash and cash equivalents at end of year		
Cash at bank and in hand	25,304	15,710
Bank overdrafts	-	(33,400)
Total	**25,304**	**(17,690)**

Non-cash changes in bonds and bank borrowings amounted to €3,965 thousand in 2018 and corresponded to the deferred recognition of debt arranging fees.

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

XIII - Scope of Consolidation

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

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

Société Foncière Lyonnaise is a fully consolidated subsidiary of Spanish company Inmobiliaria Colonial SA, which owned 81.7% of the capital at 31 December 2018. The Group and all of its subsidiaries have their registered office in the 8th *arrondissement* of Paris.