SOCIETE FONCIERE LYONNAISE

PRESS RELEASE

Paris, 15 February 2019

SFL: strong financial position and results in 2018, consolidating the Group's position as a prime player

Rental income: €193.5 million (up 5.0% like-for-like)
EPRA earnings: €106.7 million (up 4.1%)
Attributable net profit: €351.6 million
Property portfolio value: €6,570 million (up 5.5%)
EPRA NNNAV: €86.3 per share (up 7.7%)

Paris, 15 February 2019 – The financial statements for the year ended 31 December 2018 were approved by the Board of Directors of Société Foncière Lyonnaise on 15 February 2019 at a meeting chaired by Juan José Brugera.

2018 business indicators were very robust, with further underlying growth in rental income and historically high EPRA earnings. The portfolio's appraisal value and the Company's net asset value also continued to grow, attesting to SFL's excellent positioning.

The auditors have completed their audit of the annual financial information and are in the process of issuing their report.

Consolidated data (€ millions)

	2018	2017	Change
Rental income	193.5	195.8	-1.2%
Adjusted operating profit*	162.1	164.1	-1.2%
Attributable net profit	351.6	685.3	-
EPRA earnings	106.7	102.4	+4.1%

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

	31/12/2018	31/12/2017	Change
Attributable equity	4,010	3,763	+6.6%
Consolidated portfolio value excluding transfer costs	6,570	6,229	+5.5%
Consolidated portfolio value including transfer costs	7,005	6,619	+5.8%
EPRA NNNAV	4,017	3,729	+7.7%
EPRA NNNAV per share	€86.3	€80.1	

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Results: Rental income up 5% on a like-for-like basis and EPRA earnings up 4.1%

Rental income

Consolidated rental income in 2018 amounted to €193.5 million, compared with €195.8 million in 2017. The modest €2.3 million decline (-1.2%) was due to a change in portfolio. Like-for-like growth offset most of the impact of selling the IN/OUT property in September 2017.

- On a like-for-like basis (excluding all changes in the portfolio affecting year-on-year comparisons), rental income was €8.7 million higher, representing a 5.0% increase attributable to new leases signed in 2017 and 2018, mainly for units in the Washington Plaza, Cézanne Saint-Honoré, 103 Grenelle and Galerie des Champs Elysées properties.
- Rental income from spaces being redeveloped declined by €1.4 million over the year, mainly reflecting the departure of tenants from the 96 Iéna building which is undergoing renovation.
- The sale of the IN/OUT building on 29 September 2017 led to a €9.7 million decrease in rental income compared with 2017.
- Lastly, lease termination penalties received from tenants added a net €0.7 million to rental income in 2018, compared with €0.5 million in 2017.

Operating profit before disposal gains and losses and fair value adjustments to investment property amounted to €162.1 million in 2018 versus €164.1 million in 2017.

Portfolio value

The portfolio's appraisal value grew by 5.5% over the year on a like-for-like basis. The increase led to the recognition of positive fair value adjustments to investment property of €289.0 million in 2018 (versus €635.1 million in 2017).

Net profit

Net finance costs amounted to €52.0 million in 2018 versus €40.7 million the previous year. The increase was due to non-recurring costs, mainly the €17.2 million balancing payment made in respect of the €300 million worth of bonds bought back in September 2018. Recurring finance costs, which came out at €30.6 million, were down by a significant €10.7 million, reflecting a further improvement in average refinancing costs and a reduction in average debt.

After taking into account these key items, the Group reported attributable net profit for the year of €351.6 million, versus €685.3 million in 2017.

Excluding the impact of disposals, changes in fair value of investment property and financial instruments and the related tax effect, EPRA earnings amounted to €106.7 million in 2018 versus €102.4 million the year before (an increase of 4.1%).

A robust business performance: full occupancy of the Group's properties, strong marketing dynamic, pipeline of 56,000 sq.m. in Paris.

Rental operations:

The rental market remained buoyant in 2018, although volumes declined slightly due to the shortage of available properties, especially prime properties in Paris itself. In this environment, SFL signed leases on approximately 21,000 sq.m. in 2018 on excellent terms. The main leases concerned units in the following properties:

- Washington Plaza, with leases on a total of 8,700 sq.m. signed with six tenants, some of whom already had offices in the building and wanted to expand or move to new floors.
- Cézanne Saint-Honoré, with leases signed on 5,800 sq.m., including 3,800 sq.m. of renovated space taken up by Wells Fargo and Luxottica France.
- Louvre Saint-Honoré, with leases signed on around 3,600 sq.m.

Nominal office rents for lease agreements signed in 2018 averaged €704/sq.m. with effective rents of €610/sq.m.

The physical occupancy rate for revenue-generating properties at 31 December 2018 was 97.3%, compared with 96.4% at the previous year end, and the EPRA vacancy rate stood at a record low of 1.6%.

Development operations:

The development pipeline at 31 December 2018 represented roughly 16% of the total portfolio**.** The three main projects concern:

- The core of the Louvre Saint-Honoré building, where approximately 16,000 sq.m. of outstanding retail space are being developed over three floors.
- The office complex on avenue Emile Zola acquired in 2017, representing some 24,000 sq.m. The building permit was obtained in May 2018 and the property is currently being prepared for redevelopment.
- The 96 Iéna building, representing approximately 9,000 sq.m. The planning appeal process has now ended and renovation work is due to begin shortly.

Capitalized work carried out in 2018 totalled €43.0 million and concerned the above three redevelopment projects, floor-by-floor renovations, as well as work to improve common areas and the services offered by the Group's properties in response to the new needs expressed by tenants and users on the back of emerging office use practices.

Portfolio operations:

No properties were purchased or sold during 2018.

Financing: conservative LTV of 24% and historically low average borrowing costs

Net debt at 31 December 2018 stood at €1,688 million (compared with €1,631 million at 31 December 2017), representing a loan-to-value ratio of 24.1%. At 31 December 2018, the average cost of debt after hedging was 1.5% and the average maturity was 4.6 years. At the same date, the interest coverage ratio stood at 5.1x.

Several significant financial transactions were completed in 2018, as part of SFL's strategy of actively managing its debt. Together, these transactions led to a sharp reduction in future average borrowing costs while also extending the average maturity of the Company's debt.

During the year, SFL issued €500 million worth of 7-year 1.50% bonds due 29 May 2025 (see press release dated 17 May 2018) and obtained two new 5-year revolving lines of credit for a total of €250 million.

In addition, a €300 million negotiable European commercial paper (NEU-CP) program was set up, with issuance under the program amounting 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. The offer closed on 26 September 2018. Bonds representing a total nominal amount of €300 million were tendered to the offer, spread equally between the two issues (see press release dated 27 September 2018).

At 31 December 2018, SFL had €920 million in undrawn back-up lines of credit that are available to finance investment opportunities and cover the Group's liquidity risk.

EPRA NNNAV up 7.7%

The consolidated market value of the portfolio at 31 December 2018 was €6,570 million excluding transfer costs, an increase of 5.5% from €6,229 million at 31 December 2017. The further growth in appraisal values mainly reflected the value added to properties in the process of being redeveloped as the work progressed and the higher rents obtained across the portfolio.

The average EPRA topped-up net initial yield (NIY) stood at 3.2% at 31 December 2018, stable year on year.

EPRA NNNAV stood at €4,017 million or €86.3 per share at 31 December 2018, an increase of 7.7% compared to €80.1 per share at 31 December 2017.

Dividend

At the Annual General Meeting to be held on 5 April 2019, the Board of Directors will recommend paying a dividend of €2.65 per share (an increase of 15.2%).

EPRA indicators

€ millions	2018	2017
EPRA Earnings	**106.7**	**102.4**
/share	*€2.29*	*€2.20*
EPRA NAV	**4,142**	**3,889**
/share	*€89.0*	*€83.6*
EPRA NNNAV	**4,017**	**3,729**
/share	*€86.3*	*€80.1*

(%)	2018	2017
EPRA Net Initial Yield (NIY)	2.8%	2.8%
EPRA topped-up NIY	3.2%	3.2%
EPRA Vacancy Rate	1.6%	3.1%
EPRA Cost Ratio (including vacancy costs)	14.2%	13.6%
EPRA Cost Ratio (excluding vacancy costs)	13.0%	12.2%

Alternative Performance Indicators (APIs)

API EPRA earnings

€ millions	2018	2017
Attributable net profit	**351.6**	**685.3**
Less:		
Profit (loss) on asset disposals	0.0	(80.3)
Non-recurring disposal costs	0.0	3.0
Fair value adjustments to investment property	(289.0)	(635.1)
Fair value adjustments to financial instruments, discounting adjustments to debt and related costs	21.4	(0.6)
Tax on the above items	5.3	33.3
Non-controlling interests in the above items	17.3	96.8
EPRA earnings	**106.7**	**102.4**

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API EPRA NNNAV

€ millions	31/12/2018	31/12/2017
Attributable equity	**4,010**	**3,763**
Treasury shares	10	11
Unrealised capital gains	19	17
Fair value adjustments to fixed rate debt	(22)	(62)
EPRA NNNAV	**4,017**	**3,729**

API net debt

€ millions	31/12/2018	31/12/2017
Long-term borrowings and derivative instruments	1,494	1,661
Short-term borrowings and other interest-bearing debt	269	36
Debt in the consolidated statement of financial position	**1,763**	**1,697**
Less:		
Current account advances (liabilities)	(52)	(56)
Derivative instruments (liabilities)	(1)	0
Accrued interest and deferred recognition of debt arranging fees	3	6
Cash and cash equivalents	(25)	(16)
Net debt	**1,688**	**1,631**

More information is available at www.fonciere-lyonnaise.com

About SFL

Leader in the prime segment of the Parisian commercial real estate market, Société Foncière Lyonnaise stands out for the quality of its property portfolio, which is valued at €6.6 billion and is focused on the Central Business District of Paris (#cloud.paris, Edouard VII, Washington Plaza, etc.), and for the quality of its client portfolio, which is composed of prestigious companies in the consulting, media, digital, luxury, finance and insurance sectors. As France's oldest property company, SFL demonstrates year after year an unwavering commitment to its strategy focused on creating a high value in use for users and, ultimately, substantial appraisal values for its properties.

Stock market: Euronext Paris Compartment A – Euronext Paris ISIN FR0000033409 – Bloomberg: FLY FP – Reuters: FLYP PA

S&P rating: BBB+ stable outlook

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