SOCIETE FONCIERE LYONNAISE

INTERIM FINANCIAL REPORT

Six months ended 30 June 2019

OVERVIEW

1. INTERIM MANAGEMENT REPORT

As of 30 June 2019, the composition of the Board of Directors of SFL was as follows:

Chairman:

- Juan José Brugera Clavero

Directors:

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

* At its meeting on 15 February 2019, the Board of Directors decided to appoint Alexandra Rocca as an independent director to replace Sylvia Desazars de Montgailhard, who resigned on 20 January 2019. The decision was ratified by the Annual General Meeting held on 5 April 2019.

Adnane Mousannif resigned from the Board at the meeting held on 19 December 2018.

The financial statements for the six months ended 30 June 2019 were approved by the Board of Directors of Société Foncière Lyonnaise at its meeting held on 26 July 2019.

These financial statements show further significant increases in business indicators, the portfolio value and the Company's NAV, driven by sustained business activity.

Consolidated data (€ millions)

	H1 2019	H1 2018	Change
Rental income	97.9	96.1	+1.9%
Adjusted operating profit*	83.3	78.7	+5.8%
EPRA earnings	57.2	51.7	+10.6%
Attributable net profit	253.5	200.2	-

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

	30/06/2019	31/12/2018	Change
Attributable equity	4,142	4,010	+3.3%
Consolidated portfolio value excluding transfer costs	6,823	6,570	+3.9%
Consolidated portfolio value including transfer costs	7,276	7,005	+3.9%
EPRA NNNAV	4,104	4,017	+2.2%
EPRA NNNAV per share	€88.2	€86.3	

Results

First-half 2019 consolidated rental income amounted to €97.9 million, up €1.8 million or 1.9% from the €96.1 million reported for the same period of 2018.

- On a like-for-like basis (excluding all changes in the portfolio affecting period-on-period comparisons), rental income was €3.3 million (3.6%) higher, attributable to new leases signed in 2018, mainly in the Washington Plaza and Cézanne Saint-Honoré properties, and to index increases.
- Rental income from spaces being redeveloped declined by €1.8 million over the period, mainly reflecting the departure in 2018 of the last tenants from the 83 Marceau building, which is currently being renovated, and the refurbishment of several floors in the 176 Charles de Gaulle building in Neuilly that were vacated at the end of last year.
- Lastly, income from various penalties was up by a slight €0.3 million in first-half 2019.

Net property expenses edged down €0.2 million on the prior-year period to €5.3 million, due in particular to a decrease in expenses relating to management contracts. Net property rentals thus totalled €92.6 million in first-half 2019, compared with €90.5 million in the prior-year period.

Other income represented €2.7 million in first-half 2019, versus €0.6 million in the same period of 2018. It included €1.4 million in own-work capitalised, corresponding to fees in respect of letting services provided by SFL, and €1.3 million relating mainly to rental repairs and other work billed to tenants.

Net provision expense was down €0.5 million year on year, while corporate expenses inched up to €11.5 million, compared with €11.3 million in first-half 2018. As a result, operating profit before disposal gains and losses and fair value adjustments to investment property rose 5.8% to €83.3 million in first-half 2019 from €78.7 million in the year earlier period.

The portfolio's appraisal value at 30 June 2019 was 3.9% higher on a like-for-like basis than at 31 December 2018. The increase led to the recognition of positive fair value adjustments to investment property of €234.5 million in first-half 2019 versus positive adjustments of €159.2 million in the same period of 2018.

Net finance costs amounted to €15.2 million in first-half 2019 compared with €16.5 million in the year-earlier period, representing a net decrease of €1.3 million. The Group's significantly lower average cost of debt led to a €1.8 million reduction in recurring financial expense.

The Group recorded an additional €10.8 million in income tax for the first half of 2019 compared with the prior-year period: €17.2 million at 30 June 2019, versus €6.4 million one year earlier. This increase is chiefly due to the deferred tax expense relating to fair value adjustments to property owned by the Parholding subgroup.

After taking into account these core items, the Group reported EPRA earnings of €57.2 million in first-half 2019, up 10.6% from €51.7 million in first-half 2018, while attributable net profit for the period came in at €253.5 million compared with €200.2 million in first-half 2018.

Business activity

Rental operations

Despite a first-half decline in rental volumes, which were nonetheless in line with the average for the past ten years, the segment of the Paris region office rental market occupied by SFL remained very buoyant, with the shortage of available properties in the Central Business District driving up rental values, especially for prime properties. During the period, the SFL Group signed leases on around 24,000 sq.m. of mainly office space, on exceptional terms.
They include a long-term lease with WeWork on the whole of the 106 Haussmann building (12,000 sq.m.) that will come into effect at the beginning of 2020 after the current tenant moves out at the end of this year.

The new leases were signed at an average nominal rent of €778 per sq.m, corresponding to an effective rent of €672 per sq.m. These prices attest to the very healthy state of the Paris rental market.

The physical occupancy rate for revenue-generating properties stood at 97.5% at 30 June 2019 compared with 97.3% at 31 December 2018. The remaining vacant units are located mainly in the Le Vaisseau building in Issy-les-Moulineaux. The EPRA vacancy rate was 1.7% versus 1.6% at 31 December 2018.

Development operations

Properties undergoing development at 30 June 2019 represented roughly 16% of the total portfolio. They consist mainly of the three flagship projects concerning:

- The retail space in the Louvre-Saint-Honoré complex (approximately 18,000 sq.m.) for which a new building permit was obtained in March. This project is scheduled for delivery in 2023 under a turnkey lease signed with the Richemont group for the entire space. The lease is subject to conditions precedent.
- The Biome office complex on avenue Emile Zola (approximately 24,000 sq.m.), which will be comprehensively remodelled. The property has undergone extensive preparation work and renovation is scheduled to begin in the final quarter of 2019, with delivery by late 2021.
- The office building at 83 avenue Marceau (approximately 9,000 sq.m.). The redevelopment work began on schedule and the building is due to be delivered in 2021.

Capitalized work carried out in first-half 2019 totalled €15.0 million and concerned the above three redevelopment projects, as well as the full renovation of several floors in the Washington-Plaza, 9 Percier and 176 Charles de Gaulle (Neuilly) buildings.

Portfolio operations

No properties were purchased or sold during first-half 2019.

Financing

In June, a €390 million, five-year syndicated revolving line of credit was set up with SFL's banking pool. This new facility cancels and replaces a previous €400 million syndicated revolving line of credit that was reduced to €250 million in 2018 and was due to expire in July 2020.

The Negotiable European commercial paper (NEU-CP) programme set up in 2018 was increased during first-half 2019 from €300 million to €500 million. Issuance under the programme amounted to €354 million at 30 June 2019.

These transactions have enabled the Group to extend the average maturity of its debt while continuing to benefit from historically low average borrowing costs.

Net debt at 30 June 2019 amounted to €1,761 million, compared with €1,688 million at 31 December 2018, representing a loan-to-value ratio of 24.2%. At 30 June 2019, the average cost of debt after hedging was 1.4% and the average maturity was 4.2 years. At the same date, the interest coverage ratio stood at 6.3x.

At 30 June 2019, SFL had €990 million in undrawn lines of credit.

EPRA NNNAV

The consolidated market value of the portfolio rose by 3.9% to €6,823 million excluding transfer costs at 30 June 2019, from €6,570 million at 31 December 2018. The increase reflected higher rental values, resilient prime property yields in Paris and the value added by the Group to properties undergoing redevelopment.

The average EPRA topped-up net initial yield (NIY) was 3.1% at 30 June 2019, down slightly from 3.2% at 31 December 2018.

EPRA NNNAV stood at €4,104 million or €88.2 per share at 30 June 2019 versus €86.3 per share at 31 December 2018, reflecting increases of 2.2% over the past six months (after payment of a dividend of €2.65 per share in April) and 7.1% over twelve months.

EPRA indicators

	H1 2019	H1 2018
EPRA Earnings (€m)	**57.2**	**51.7**
/share	*€1.23*	*€1.11*
EPRA Cost Ratio (including vacancy costs)	13.2%	14.7%
EPRA Cost Ratio (excluding vacancy costs)	12.5%	13.8%

	30/06/2019	31/12/2018
EPRA NAV (€m)	**4,282**	**4,142**
/share	*€92.0*	*€89.0*
EPRA NNNAV (€m)	**4,104**	**4,017**
/share	*€88.2*	*€86.3*
EPRA Net Initial Yield (NIY)	2.9%	2.8%
EPRA topped-up NIY	3.1%	3.2%
EPRA Vacancy Rate	1.7%	1.6%

Alternative Performance Indicators (APIs)

API EPRA earnings

€ millions	H1 2019	H1 2018
Attributable net profit	**253.5**	**200.2**
Less:		
Profit (loss) on asset disposals	-	-
Fair value adjustments to investment property	(234.5)	(159.2)
Fair value adjustments to financial instruments, discounting adjustments to debt and related costs	2.1	1.5
Tax on the above items	12.5	2.0
Non-controlling interests in the above items	23.6	7.2
EPRA earnings	**57.2**	**51.7**

API EPRA NNNAV

€ millions	30/06/2019	31/12/2018
Attributable equity	**4,142**	**4,010**
Treasury shares	8	10
Unrealised capital gains	20	19
Fair value adjustments to fixed rate debt	(66)	(22)
EPRA NNNAV	**4,104**	**4,017**

API net debt

€ millions	30/06/2019	31/12/2018
Long-term borrowings and derivative instruments	1,494	1,494
Short-term borrowings and other interest-bearing debt	364	269
Debt in the consolidated statement of financial position	**1,858**	**1,763**
Less:		
Current account advances (liabilities)	(52)	(52)
Accrued interest, deferred recognition of debt arranging fees, negative fair value adjustments to financial instruments	(2)	2
Cash and cash equivalents	(43)	(25)
Net debt	**1,761**	**1,688**

2. RISK FACTORS

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

They are also discussed on **pages 11 to 16 of the 2018 Financial and Legal Report** contained in the **2018 Annual Report** filed with the Autorité des marchés financiers (AMF) on 15 March 2019.

The risk factors are presented in different categories. Within each category, risks are presented in declining order of importance based on the probability of occurrence (high or moderate) and the estimated magnitude of their adverse effect, as assessed by the Company at the date of this report.

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

The occurrence of new internal or external facts may lead to changes in the order of importance in the future.

A. RISKS THAT ARE SPECIFIC TO THE PROPERTY SECTOR	
Risk factors	**Risk prevention/mitigation measures**
High risk	
1) Property cycle risks We are exposed to the risk of a cyclical reversal of the rental and/or investment market triggered by a downturn in the domestic and global economic and financial situation. <u>Adverse effects</u>: - Lower rental income - Fall in portfolio values - Lost opportunities to purchase and sell properties - Decline in operating profit - Erosion of NAV	- The risk of a cyclical market reversal is measured and taken into account by performing sensitivity tests to determine the impact of a 25 bps increase/decrease in exit yields and discount rates. The tests show that a combined increase or decrease in these two rates would have an impact of less than 10% on the overall value of our portfolio. - A property market monitoring system has been set up. *The information needed to evaluate this risk is provided in Note IV-5 to the consolidated financial statements (Investment property), page 26.*
2) Asset valuation risks As a direct result of property market trends, the Company is exposed to the risk of a fall in value of its assets that would directly affect consolidated profit and ANAV. <u>Adverse effects</u>: - Adverse effect on the consolidated financial statements - Adverse effect on the profit and loss account - Adverse effect on NAV	- Procedures for the valuation of the property portfolio by independent valuers; - Valuations are performed in accordance with the *Charte d'Expertise en Evaluation Immobilière* (property valuation charter) and comply with the standards issued by The European Group of Valuers' Associations (TEGoVA) as well as with Royal Institution of Chartered Surveyors (the RICS) standards; - Valuations performed by two experts (Cushman & Wakefield: 56%, Jones Lang LaSalle: 44%). *(See also Note IV-5 to the consolidated financial statements (Investment property), pages 26 to 28.*
3) Risk of a credit crunch We are exposed to the risk that a faster-than-expected increase in interest rates could destabilise the financial markets, driving up borrowing costs and potentially making it difficult to access bank financing. <u>Adverse effects</u>: - Restricted ability to purchase new assets - Restricted ability to redevelop assets - Difficulties in refinancing existing debt - Increased finance costs - Erosion of NAV	- Regular cash forecasts are prepared. - Outstanding debt and available borrowing capacity under our lines of credit are monitored. - Our credit ratings are monitored. - Funds can be raised by selling assets, although this alternative source of financing is also subject to market risks (price risk, market liquidity risk). In addition, asset sales carried out when prices are depressed and amid a shortage of potential buyers, or before their full reversionary potential has been achieved, would result in opportunity losses.
Moderate risk	
4) Risks associated with a highly competitive environment We are exposed to competition from investors with considerable equity capital, such as insurers, SCPI and OCPI property funds and sovereign wealth funds, and from other investors with fairly moderate levels of debt and gearing. <u>Adverse effects</u>: - Inability to acquire assets - Lower rental income - Decline in operating profit - Erosion of NAV	- Our business is strategically focused on a prime market segment. - We have established a high quality sector monitoring system. - We have covenant-free financing capacity.

B. SECTOR-SPECIFIC OPERATIONAL RISKS	
Risk factors	**Risk prevention/mitigation measures**
High risk	
5) Tenant insolvency risk, correlated to economic growth and levels of inflation and consumer spending We are exposed to the risk of tenant default and rent arrears, non-renewal of leases and lease renewals on less favourable terms. <u>Adverse effects</u>: - Increased EPRA vacancy rate - Lower rental income - Decline in operating profit	- Tenant diversification: at 31 December 2018, our top ten tenants accounted for around 38.3% of total rental income and the top five for roughly 24.2%. - The tenant base comprises companies operating in a wide variety of sectors such as financial services, real estate, consulting, insurance, fashion and luxury goods, and also includes law firms and international organisations. - New tenants are subject to credit checks before the lease is signed. - Half-yearly financial health checks are performed for tenants with rent arrears at the period-end. - Lease expiry dates and EPRA vacancy rates are closely tracked. - A system is in place to enable us to anticipate lease renewals (e.g., to approach tenants with a view to renegotiating the rent or schedule refurbishment work). - Rent arrears are closely monitored. *See also Note V-3 to the consolidated financial statements (Trade and other receivables), pages 29 and 30.*
6) Risk of asset obsolescence and impairment We are exposed to risks related to the sensitivity of assets to changes in environmental and other regulatory standards and to CSR issues. <u>Adverse effects</u>: - Loss of attractiveness to tenants - Higher insurance premiums, operating costs and construction costs - Erosion of NAV - Erosion of SFL's image and reputation	- Close attention is paid to planning asset renovation and redevelopment work, and enhancing assets through the addition of new services. - CSR issues are deeply embedded in the Company's property strategy: · The CSR Committee meets twice a year to define the broad strategic goals for each CSR issue. · Procedures are performed to ensure that the Company's CSR performance reflects best industry practice and is recognised by the property valuers. · SFL also complies with the recommendations issued by EPRA for its CSR reporting. · Tenant satisfaction surveys have been conducted among users of the Company's properties in each of the last two years. · 81% of leases include environmental clauses. *See the Non-Financial Information Statement – NFIS on page 31 et seq. of the 2018 Financial and Legal Report for more details.*

Moderate risk	
7) Risks associated with the loss of key personnel	
We are exposed to the risk of losing mission-critical skills if top management, Management Committee members and/or key executives leave the Company. Adverse effects: - Decline in profits - Loss of investor confidence - Erosion of SFL's image and reputation	- Our remuneration policy is designed to retain key executives.
8) Risks associated with subcontractors and other service providers	
We make extensive use of subcontractors and other service providers: - For major redevelopment and renovation projects, and - For the day-to-day maintenance of our properties. Our dependence on outside contractors to complete projects on time is aggravated by the fact that there are relatively few construction companies with the capacity to carry out major renovation work or property redevelopment projects in Paris. There is a risk of contractors failing to honour their commitments or delivering sub-standard work. Adverse effects: - Delays in completing projects, budget overruns, delays in putting properties back on the rental market - Disruption of the performance bond compliance process - Decline in operating profit - Erosion of SFL's image and reputation	- Subcontractors and service providers are selected through a competitive tendering process. - We apply a contractor diversification policy. - The quality of contractor services is closely monitored.

C. LEGAL AND TAX RISKS ASSOCIATED WITH THE PROPERTY BUSINESS	
Risk factors	**Risk prevention/mitigation measures**
Moderate risk	
9) General regulatory compliance risks	
We are subject to very detailed and constantly evolving regulations, covering construction operations, commercial leases, administrative permits, safety, the environment and public health issues. Compliance costs are very high. We are exposed to civil and criminal liability risks in the event of regulatory breaches (particularly for environmental damage or public health incidents, or reckless endangerment). There is a risk of tenants failing to strictly comply with all applicable environmental and health and safety regulations. <u>Adverse effects</u>: - Deterioration of profits, margins, growth and development outlook - Erosion of SFL's image and reputation	- We have the legal and technical skill-sets needed to manage these risks: · A specialised Legal Department is responsible for monitoring regulatory developments and overseeing compliance with the various regulations applicable to our business. · We also use the services of external advisors and consultants where necessary. · Internal procedures have been set up to raise the level of accountability of the various people involved. · A technical unit has been set up with specific responsibility for environmental, health and safety compliance.
10) Risks associated with government-related procedures	
For most large-scale renovation projects, building and/or other permits have to be obtained from the relevant municipal authorities, sometimes including commercial property authorisations from the CDAC or improvement permits from local commissions that oversee compliance with health and safety regulations in buildings open to the public. There is a risk of significant delays in obtaining these permits and other authorisations, or of plans having to be modified before the permit will be granted. Once the permits are obtained, there is still a risk that third parties will raise objections. This may further delay the project and, in some cases, it may be necessary to adjust the plans. <u>Adverse effects</u>: - Project delays, budget overruns, abandoned projects - Impossibility of using certain assets - Erosion of the Company's business performance, results and financial position	- We systematically use the services of skilled professionals to prepare our projects (architects, engineering consultants, surveyors and marketability consultants). - We submit draft permit applications to the authorities to check that everything is in order, before filing them officially and before starting work.
11) Risks of neighbour complaints	
Most of our properties are located in densely populated urban areas and our major redevelopment projects give rise to the risk of disamenities (noise and/or vibrations). Neighbour complaints can lead to significant compensation claims or even injunctions to stop work.	- When demolition work or work on the fabric of a building is planned, we systematically arrange for a court-appointed expert to prepare a report on the condition of neighbouring properties and on existing disamenities before the work begins. - All contractors are required to take measures to limit disamenities, mainly by keeping public spaces clean and managing traffic, dust, noise and vibrations. - Noise pollution and other disamenities are closely monitored.

Risk factors	Risk prevention/mitigation measures
<u>Adverse effects</u>: - Project delays, budget overruns, abandoned projects - Erosion of the Company's results and financial position	- All contractors are now required to meet the high or very high performance criteria under France's HQE standards for maintaining "green" worksites with a minimal environmental footprint.
12) Risks associated with SIIC status We are exposed to the risk of losing the benefit of the SIIC tax regime if the eligibility rules are breached.	The conditions of eligibility for the SIIC regime are regularly monitored, especially changes in the tax authorities' position and legal precedent (dividend obligations, obligations concerning the level of control exercised by the majority shareholder, etc.)

D. Financial risks associated with the property business	
Risk factors	**Risk prevention/mitigation measures**
Moderate risk	
13) Liquidity risk We are exposed to the risk of being unable to raise significant funds to finance capital expenditure and property purchases, and to replace debt at maturity. <u>Adverse effects</u>: - Deterioration of our ability to raise funds and consequently to access the liquidity needed to conduct the business - Deterioration of the Company's cash position and profits	- At 30 June 2019, SFL had access to confirmed undrawn lines of credit representing €990 million compared with €920 million at 31 December 2018. The liquidity represented by these backup facilities is sufficient to cover the Group's repayment obligations regarding its lines of credit up until July 2022; *See also Note VI-4 to the consolidated financial statements (Financial risk management objectives and policy), pages 33 and 34.* - We apply a policy of diversifying our sources of debt. *See also, in Note VI-1 to the consolidated financial statements (Borrowings and other interest-bearing debt):* · *Analysis of borrowings by maturity (page 32);* · *Debt covenants and acceleration clauses (page 32).*
14) Counterparty risk The banks that provide lines of credit and/or hedging instruments may fail to honour their commitments. <u>Adverse effects</u> - Loss of the benefit of hedges - Deterioration of the Company's financial position and profits	- All lines of credit and hedging instruments are arranged with leading banks. - Our minimal cash reserves are 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. *See also Note VI-4 to the consolidated financial statements, page 34.*
15) Interest rate risk We are exposed to the risk of higher interest rates, and the consequential risk of being unable to raise the necessary financial resources to meet our working capital and investment needs. <u>Adverse effects</u> - Higher interest charges - Increased finance costs	- Interest rate risks are prudently and actively managed using an information system that tracks changes in the financial markets and calculates the fair value of hedging instruments in real time. - This allows us to efficiently quantify and analyse the risks associated with interest rate fluctuations. *The information needed to evaluate this risk is provided in Note IV-4 to the consolidated financial statements, page 35.*

16) Information about the **financial risks linked to the effects of climate change** and the measures taken by the Company to reduce these risks through a low-carbon strategy applied across all business units is provided in the Non-Financial Information Statement (NFIS), page 31 *et seq.* of the 2018 Financial and Legal Report.

CLAIMS AND LITIGATION

No governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) may have or have had significant effects on the Company's financial position or profitability during the last 12 months.

3. CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

CONSOLIDATED FINANCIAL STATEMENTS

The interim consolidated financial statements were approved for publication by the Board of Directors on 26 July 2019.

A – Consolidated Statement of Financial Position

(in thousands of euros) ASSETS	Notes Section E	30 June 2019	31 December 2018
Intangible assets	IV-1	700	659
Property and equipment	IV-2	20,509	20,834
Investment property	IV-5	6,711,869	6,458,430
Non-current financial assets	VI-5	314	820
Other non-current assets	V-4	13	32
Total non-current assets		**6,733,405**	**6,480,775**
Trade and other receivables	V-3	90,321	82,351
Other current assets	V-4	3,330	371
Cash and cash equivalents	VI-6	42,973	25,304
Total current assets		**136,624**	**108,026**
Total assets		**6,870,029**	**6,588,801**

(in thousands of euros) EQUITY AND LIABILITIES	Notes Section E	30 June 2019	31 December 2018
Share capital		93,058	93,058
Reserves		3,795,267	3,565,162
Profit for the period		253,549	351,636
Equity attributable to owners of the parent		**4,141,874**	**4,009,856**
Non-controlling interests		525,627	502,107
Total non-controlling interests		**525,627**	**502,107**
Total equity	**VII-1**	**4,667,501**	**4,511,963**
Long-term borrowings and derivative instruments	VI-1	1,494,269	1,494,080
Long-term provisions	VIII-1	1,322	1,220
Deferred tax liabilities	X-3	218,812	205,062
Accrued taxes	X-1	10,278	13,368
Other non-current liabilities	V-6	25,298	23,214
Total non-current liabilities		**1,749,979**	**1,736,944**
Trade and other payables	V-5	23,983	25,320
Short-term borrowings and other interest-bearing debt	VI-1	363,789	268,958
Short-term provisions	VIII-1	882	1,349
Other current liabilities	V-6	63,895	44,267
Total current liabilities		**452,549**	**339,894**
Total equity and liabilities		**6,870,029**	**6,588,801**

B – Consolidated Statement of Comprehensive Income

(in thousands of euros)	Notes Section E	First-half 2019	First-half 2018
Rental income		**97,909**	**96,066**
Gross property expenses		(22,124)	(22,172)
Property expenses recovered from tenants		16,782	16,579
Property expenses, net of recoveries		(5,342)	(5,593)
Net property rentals	**V-1**	**92,567**	**90,473**
Other income	V-2	2,731	607
Depreciation, amortisation and impairment	IV-3	(487)	(564)
Provision expense, net	VIII-2	(67)	(524)
Employee benefits expense	IX-1	(6,597)	(6,565)
Other expenses	V-7	(4,881)	(4,719)
Profit/(loss) on disposal of other assets	IV-4	(3)	(6)
Fair value adjustments to investment property	IV-5	234,466	159,179
Operating profit		**317,729**	**237,881**
Finance costs and other financial expenses	VI-2	(15,775)	(17,533)
Financial income	VI-2	2,465	2,099
Fair value adjustments to financial instruments	VI-3	(1,718)	(908)
Discounting adjustments to receivables and payables		(182)	(180)
Changes in provisions for financial assets, net		-	-
Profit before income tax		**302,519**	**221,359**
Income tax expense	X-2-3	(17,152)	(6,370)
Profit for the period		**285,367**	**214,989**
Attributable to owners of the parent		**253,549**	**200,157**
Attributable to non-controlling interests	VII-5	31,818	14,832
Earnings per share	VII-4	€5.48	€4.33
Diluted earnings per share	VII-4	€5.47	€4.32

Other comprehensive income			
Actuarial gains and losses	VIII-1	(128)	93
Other items		-	(15)
Items that will not be reclassified to profit or loss		(128)	78
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		**(128)**	**78**
Comprehensive income		**285,239**	**215,067**
Attributable to owners of the parent		**253,421**	**200,235**
Attributable to non-controlling interests		31,818	14,832

C – Consolidated Statement of Changes in Equity

(in thousands of euros)	Share capital	Share premium account	Revaluation reserve	Treasury shares	Cash flow hedges	Other reserves	Profit for the period	Equity attributable to owners of the parent	Equity attributable to non-controlling interests
Equity at 31 December 2017	**93,058**	**556,116**	**22,621**	**(18,022)**	**-**	**2,423,898**	**685,284**	**3,762,953**	**476,019**
Movements for the period									
Profit for the period	-	-	-	-	-	-	200,157	200,157	14,832
Other comprehensive income, net of tax	-	-	-	-	-	78	-	78	-
Comprehensive income	**-**	**-**	**-**	**-**	**-**	**78**	**200,157**	**200,235**	**14,832**
Appropriation of profit	-	-	-	-	-	685,284	(685,284)	-	-
Treasury share transactions	-	-	-	1,355	-	-	-	1,355	-
Gains and losses on sales of treasury shares	-	-	-	(1,754)	-	-	-	(1,754)	-
Share-based payments	-	-	-	-	-	921	-	921	-
Dividends paid to owners of the parent	-	-	-	-	-	(106,383)	-	(106,383)	(6,922)
Equity at 30 June 2018	**93,058**	**556,116**	**22,621**	**(18,421)**	**-**	**3,003,798**	**200,157**	**3,857,327**	**483,929**
Movements for the period									
Profit for the period	-	-	-	-	-	-	151,479	151,479	18,178
Other comprehensive income, net of tax	-	-	-	-	-	(85)	-	(85)	-
Comprehensive income	**-**	**-**	**-**	**-**	**-**	**(85)**	**151,479**	**151,394**	**18,178**
Appropriation of profit	-	-	-	-	-	-	-	-	-
Treasury share transactions	-	-	-	91	-	-	-	91	-
Gains and losses on sales of treasury shares	-	-	-	13	-	-	-	13	-
Share-based payments	-	-	-	-	-	1,031	-	1,031	-
Dividends paid to owners of the parent	-	-	-	-	-	-	-	-	-
Equity at 31 December 2018	**93,058**	**556,116**	**22,621**	**(18,317)**	**-**	**3,004,744**	**351,636**	**4,009,856**	**502,107**
Movements for the period									
Profit for the period	-	-	-	-	-	-	253,549	253,549	31,818
Other comprehensive income, net of tax	-	-	-	-	-	(128)	-	(128)	-
Comprehensive income	**-**	**-**	**-**	**-**	**-**	**(128)**	**253,549**	**253,421**	**31,818**
Appropriation of profit	-	-	-	-	-	351,636	(351,636)	-	-
Treasury share transactions	-	-	-	2,566	-	-	-	2,566	-
Gains and losses on sales of treasury shares	-	-	-	(2,403)	-	-	-	(2,403)	-
Share-based payments	-	-	-	-	-	1,147	-	1,147	-
Dividends paid to owners of the parent	-	-	-	-	-	(122,711)	-	(122,711)	(8,299)
Equity at 30 June 2019	**93,058**	**556,116**	**22,621**	**(18,154)**	**-**	**3,234,688**	**253,549**	**4,141,874**	**525,627**

D – Consolidated Statement of Cash Flows

(in thousands of euros)	Notes Section E	First-half 2019	First-half 2018
Cash flows from operating activities			
Profit for the period attributable to owners of the parent		253,549	200,157
Fair value adjustments to investment property	IV-5	(234,466)	(159,179)
Depreciation, amortisation and impairment	IV-3	487	564
Net additions to provisions		22	333
Net losses from disposals of assets, after tax	IV-4	3	6
Discounting adjustments and valuation losses on financial instruments		1,900	1,088
Deferral of rent-free periods and key money	V-1	1,551	(246)
Employee benefits	IX-3	1,147	921
Non-controlling interests in profit for the period	VII-5	31,818	14,832
Cash flow after finance costs and income tax		**56,011**	**58,476**
Finance costs	VI-2	13,310	15,434
Income tax	X-2-3	17,152	6,370
Cash flow before finance costs and income tax		**86,473**	**80,280**
Change in working capital		98	(300)
Interest paid		(11,172)	(5,330)
Interest received		46	16
Income tax paid		(7,345)	(7,168)
Net cash provided by operating activities		**68,100**	**67,498**
Cash flows from investing activities			
Acquisitions of and improvements to investment property	XII	(23,896)	(14,984)
Acquisitions of intangible assets and property and equipment		(206)	(77)
Proceeds from disposals of investment property, intangible assets and property and equipment		1	4
Other cash inflows and outflows		-	-
Net cash provided by (used by) investing activities		**(24,101)**	**(15,057)**
Cash flows from financing activities			
Proceeds from the issue of ordinary shares		-	-
Purchases and sales of treasury shares, net		163	(399)
Dividends paid to owners of the parent	VII-3	(122,711)	(106,383)
Dividends paid to non-controlling interests		(6,794)	(6,921)
Proceeds from new borrowings		915,687	605,270
Repayments of borrowings		(812,676)	(472,745)
Other movements in financing items		-	-
Net cash provided by (used by) financing activities		**(26,331)**	**18,822**
Net change in cash and cash equivalents		**17,668**	**71,263**
Cash and cash equivalents at beginning of period		25,304	(17,690)
Cash and cash equivalents at end of period	XII	42,972	53,573
Net change in cash and cash equivalents		**17,668**	**71,263**

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

E – Notes to the Interim Consolidated Financial Statements

I - Accounting Policies

I - 1) Accounting standards

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

The following standards and amendments published by the IASB and adopted by the European Union are effective for accounting periods ending 30 June 2019:

- IFRS 16 – Leases. This standard, which replaces IAS 17, 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 inventory of its leases, which have been identified as concerning fewer than a dozen company cars and photocopiers. The estimated full-year impact of applying IFRS 16 would be an increase in assets and liabilities of less than €300 thousand, resulting from the recognition of right-of-use assets and of lease liabilities for the same amounts. This would represent only slightly more than 1% of total property and equipment and total other non-current and current liabilities. As this impact is not material at Group level, it has not been recognised in the financial statements.

- Annual Improvements to IFRSs, 2015-2017 cycle. Narrow scope 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 or specific borrowings are used to fund the asset. A capitalisation rate is to be applied to expenditures on the asset based on the weighted average of the borrowing costs applicable to the borrowings of the entity, other than borrowings made specifically for the purpose of obtaining the asset. No funds have been borrowed specifically by the Group to fund qualifying assets.

The following amendments published by the IASB had not yet been adopted by the European Union at 30 June 2019:

- 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.

- Narrow scope amendments to IFRS 3 – Definition of a business. These amendments are designed to help entities determine whether they have acquired a business or a group of assets for the purpose of applying IFRS 3 – Business Combinations.

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 Period

II - 1) Redevelopment and renovation programmes

Properties undergoing development at 30 June 2019 represented roughly 16% of the total portfolio. They consist mainly of the three flagship projects concerning:

- The retail space in the Louvre-Saint-Honoré complex (approximately 18,000 sq.m.) for which a new building permit was obtained in March. This project is scheduled for delivery in 2023 under a turnkey lease for the entire space. The lease is subject to conditions precedent.
- The Biome office complex on avenue Emile Zola (approximately 24,000 sq.m.) which will be comprehensively remodelled. The property has undergone extensive preparation work and renovation is scheduled to begin in the final quarter of 2019, with delivery by late 2021.
- The office building at 83 avenue Marceau (approximately 9,000 sq.m.). The redevelopment work began on schedule and the building is due to be delivered in 2021.

No properties were purchased or sold during first-half 2019.

They include a lease on the whole of the 106 Haussmann building (12,000 sq.m.) that will come into effect at the beginning of 2020 after the current tenant moves out at the end of this year. During first-half 2019, leases were signed on around 24,000 sq.m. of mainly office space.

II - 2) Financing

In June, a €390 million, 5-year syndicated revolving line of credit was set up with BNP Paribas. This new facility cancels and replaces a previous €400 million syndicated revolving line of credit that was reduced to €250 million in 2018 and was due to expire in July 2020.

The Negotiable European commercial paper (NEU-CP) programme set up in 2018 was increased during the period from €300 million to €500 million. Issuance under the programme amounted to €354 million at 30 June 2019.

These transactions have enabled the Group to extend the average maturity of its debt while continuing to benefit from historically low average borrowing costs.

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

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

(in thousands of euros)	Paris Central Business District	Other Paris	Western Crescent	Corporate	First-half 2018
Rental income	**79,583**	**14,973**	**1,510**	**-**	**96,066**
Gross property expenses	(17,534)	(3,888)	(749)	-	(22,172)
Property expenses recovered from tenants	13,457	2,776	345	-	16,579
Property expenses, net of recoveries	(4,077)	(1,112)	(404)	-	(5,593)
Net property rentals	**75,506**	**13,861**	**1,106**	**-**	**90,473**
Other income	582	2	-	23	607
Depreciation, amortisation and impairment	-	-	-	(564)	(564)
Provision (expense)/reversals, net	(178)	(13)	-	(333)	(524)
Employee benefits expense	-	-	-	(6,565)	(6,565)
Other expenses	-	-	-	(4,719)	(4,719)
Profit/(loss) on disposal of other assets	-	-	-	(6)	(6)
Fair value adjustments to investment property	146,932	12,207	40	-	159,179
Operating profit/(loss)	**222,842**	**26,057**	**1,146**	**(12,164)**	**237,881**
Finance costs and other financial expenses	-	-	-	(17,533)	(17,533)
Financial income	-	-	-	2,099	2,099
Fair value adjustments to financial instruments	-	-	-	(908)	(908)
Discounting adjustments to receivables and payables	-	-	-	(180)	(180)
Changes in provisions for financial assets, net	-	-	-	-	-
Profit/(loss) before income tax	**222,842**	**26,057**	**1,146**	**(28,685)**	**221,359**
Income tax expense	(2,109)	-	-	(4,261)	(6,370)
Profit/(loss) for the period	**220,733**	**26,057**	**1,146**	**(32,947)**	**214,989**
Attributable to owners of the parent	**202,657**	**26,057**	**1,146**	**(29,703)**	**200,157**
Attributable to non-controlling interests	18,076	-	-	(3,244)	14,832
Other comprehensive income					
Actuarial gains and losses	-	-	-	93	93
Other comprehensive income/(expenses)	-	-	-	(15)	(15)
Items that will not be reclassified to profit or loss	-	-	-	78	78
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	-	-	-	-	-
Total other comprehensive income	**-**	**-**	**-**	**78**	**78**
Comprehensive income/(expenses)	**220,733**	**26,057**	**1,146**	**(32,869)**	**215,067**
Attributable to owners of the parent	**202,657**	**26,057**	**1,146**	**(29,625)**	**200,235**
Attributable to non-controlling interests	18,076	-	-	(3,244)	14,832

(in thousands of euros)	Paris Central Business District	Other Paris	Western Crescent	Corporate	30 June 2018
Segment assets	5,208,961	988,764	97,948	77,229	6,372,902
Unallocated assets	-	-	-	92,793	92,793
Total assets	**5,208,961**	**988,764**	**97,948**	**170,022**	**6,465,695**

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

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

The Group's main geographical segments are as follows:

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

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

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

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

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

IV - 1) Intangible assets

Accounting policy

Intangible assets correspond mainly to purchased software and software development costs incurred in connection with the Group's systems upgrades, accounted for in accordance with IAS 38.
Intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses.

Intangible assets with a finite useful life are amortised on a straight-line basis over their useful life. Intangible assets with an indefinite useful life are not amortised but are tested for impairment annually (in accordance with IAS 36) or more frequently if there is an indication that they may be impaired.
Software development costs for the main projects are amortised over the software's expected period of use from the date it is put in production. Other software development costs are amortised over the year in which they are capitalised.

(in thousands of euros)	31 December 2018	Increases	Decreases	Reclassifications	30 June 2019
Cost					
Computer software	6,701	-	-	-	6,701
Other	910	112	-	-	1,022
Amortisation and impairment					
Computer software	(6,504)	(71)	-	-	(6,575)
Other	(448)	-	-	-	(448)
Carrying amount	**659**	**41**	**-**	**-**	**700**

IV - 2) Property and equipment

Accounting policy

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

Washington Plaza owner-occupied property:

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

Other:

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

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

(in thousands of euros)	31 December 2018	Increases	Decreases	Reclassifications	30 June 2019
Cost					
Owner-occupied property	21,238	-	-	-	21,238
Other property and equipment	5,982	94	(6)	-	6,070
Depreciation and impairment					
Owner-occupied property	(3,141)	(183)	-	-	(3,324)
Other property and equipment	(3,245)	(233)	3	-	(3,475)
Carrying amount	**20,834**	**(322)**	**(3)**	**-**	**20,509**

The appraisal value excluding transfer costs of owner-occupied property – corresponding to the Company's headquarters – was €44,879 thousand at 30 June 2019 and €43,261 thousand at 31 December 2018.

IV - 3) Depreciation, amortisation and impairment

(in thousands of euros)	First-half 2019	First-half 2018
Amortisation and impairment of intangible assets	(71)	(142)
Depreciation and impairment of property and equipment	(416)	(422)
Total	**(487)**	**(564)**

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 disposals of other assets in first-half 2019 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 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 30 June 2019 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: 56%
- Jones Lang LaSalle: 44%
The firms ensure that their internal teams are rotated as required. In addition, certain properties are assigned to different valuers each year to ensure a gradual rotation of assets among them. The valuers' fees are agreed before the appraisal process begins and do not depend in any way on the value of the properties to be appraised. They are determined at a flat rate based exclusively on the number of properties to be valued and the complexity of the appraisal process. Fees paid to the valuers in first-half 2019 other than for half-year property appraisals amounted to €83 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. The value of assets in the process of being redeveloped or renovated includes the estimated cost of completing the work.
Net cash flows for the final year of the projection period are capitalised to calculate the terminal value, corresponding to the property's resale price at the end of the period.
The results obtained are then compared to market data and adjusted, if necessary, to obtain a market-consistent value. However, given that these appraisal values are essentially estimates that are sensitive to changes in rental values and discount rates, the proceeds from the sale of certain property assets may be different to their appraisal value, even if the sale takes place within a few months of the period-end.

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

Fair value measurement of investment property

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

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

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

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

(in thousands of euros)	31 December 2018	Increases	Gains from remeasurement at fair value	Decreases	Losses from remeasurement at fair value	Reclassifications	30 June 2019
Investment property	6,458,430	18,973	236,615	-	(2,149)	-	6,711,869
Total	**6,458,430**	**18,973**	**236,615**	**-**	**(2,149)**	**-**	**6,711,869**

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

(in thousands of euros)	30 June 2019	31 December 2018
Appraisal value of investment property, excluding transfer costs	6,823,114	6,569,609
Deduction of owner-occupied property (see Note IV-2)	(44,879)	(43,261)
Adjustments to reflect specific lease terms and other adjustments	(66,366)	(67,917)
Fair value of investment property in the statement of financial position	**6,711,869**	**6,458,430**

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

Geographic area	Value excluding transfer costs 30 June 2019 (in € millions, on a 100% basis)	Inputs	Range of values[(1)]	Weighted average[(1)]
Paris Central Business District	5,674	Market rent for offices	€620 - €830	€733
		Exit yield	3.15% - 3.40%	3.25%
		Discount rate	3.90% - 4.90%	4.15%
Other Paris	1,051	Market rent for offices	€548 - €692	€596
		Exit yield	3.30% - 3.70%	3.49%
		Discount rate	4.20% - 6.15%	4.75%
Western Crescent	98	Market rent for offices	€313 - €455	€406
		Exit yield	3.94% - 4.95%	4.28%
		Discount rate	4.50% - 5.95%	5.00%
Total	**6,823**			

[(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 €530,068 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 €622,567 thousand.

V - Operating Activities

V -1) Net property rentals

Accounting policy

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

Rental income

Rental income from investment property is recognised on a straight-line basis over the fixed lease term. The transfer of economic benefits corresponds to the date stipulated in the contract, or to the tenant's entry date if stipulated in the contract. Rental income also comprises income from properties under management contracts.

Specific lease terms

Current leases include various specific terms concerning rent-free periods, step-up clauses, key money and eviction compensation. In compliance with IFRS 16, the effects of rent-free periods and step up clauses are recognised over the non-cancellable lease term.

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

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

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

Property expenses

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

The Group's principal business is the rental of office and retail properties, which account for 97% of rental income. Net property rentals take into account the negative impact of recognising rent-free periods and rent step-ups over the non-cancellable lease term. In first-half 2019, this impact was €1,551 thousand.

Future minimum lease payments receivable over the remaining term of non-cancellable 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	779,325	179,059	461,715	138,551

V - 2) Other income

(in thousands of euros)	First-half 2019	First-half 2018
Own-work capitalised	1,432	15
Other income	1,299	592
Total	2,731	607

Own-work capitalised mainly corresponds to fees in respect of letting services provided by SFL. The caption "Other income" corresponds mainly to rental repairs and other work billed to tenants.

V - 3) Trade and other receivables

Accounting policy

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

(in thousands of euros)	30 June 2019			31 December 2018
	Total	Due within 1 year	Due in 1 year or more	
Trade receivables	80,220	25,815	54,405	74,261
Provisions	(1,615)	(87)	(1,528)	(1,575)
Trade receivables	**78,605**	**25,728**	**52,877**	**72,686**
Prepayments to suppliers	233	233	-	27
Employee advances	68	68	-	19
Tax receivables (other than income tax)	9,591	9,591	-	7,393
Other operating receivables	1,656	1,656	-	1,994
Other receivables	168	168	-	232
Other receivables	**11,716**	**11,716**	**-**	**9,665**
Total	90,321	37,444	52,877	82,351

Trade receivables include €66,366 thousand (of which €14,608 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)	30 June 2019	31 December 2018
Increases in provisions	(112)	(242)
Reversals of provisions	68	38
Bad debt write-offs, net of recoveries	(3)	(5)
Total	**(47)**	**(209)**
Rental income	97,909	193,509
Net losses as a % of rental income	**0.05%**	**0.11%**

V - 4) Other current and non-current assets

(in thousands of euros)	30 June 2019	31 December 2018
Deferred tax assets	13	32
Total other non-current assets	**13**	**32**
Income tax prepayments	539	158
Prepayments	2,791	213
Total other current assets	**3,330**	**371**

Deferred tax assets are analysed in Note X-3.

V - 5) Trade and other payables

(in thousands of euros)	30 June 2019	31 December 2018
Trade payables	12,702	6,697
Amounts due within one year on asset acquisitions	11,281	18,623
Total	**23,983**	**25,320**

V - 6) Other current and non-current liabilities

(in thousands of euros)	30 June 2019	31 December 2018
Deposits	25,298	23,214
Total other non-current liabilities	**25,298**	**23,214**
Deposits	14,052	2,207
Customer prepayments	21,199	19,997
Accrued employee benefits expense	3,520	5,157
Accrued taxes	16,179	12,648
Other liabilities	6,304	3,682
Accruals	2,641	576
Total other current liabilities	**63,895**	**44,267**

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 Biome buildings, for a total of €8,463 thousand.
The amounts reported under "Accruals" correspond to deferred revenue.

V - 7) Other expenses

(in thousands of euros)	First-half 2019	First-half 2018
Fees	(790)	(910)
Taxes other than on income	(1,379)	(1,304)
Other	(2,712)	(2,505)
Total	**(4,881)**	**(4,719)**

VI - Financing Activities

VI - 1) Borrowings and other interest-bearing debt

Accounting policy

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

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

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

			30 June 2019	31 Dec. 2018	30 June 2019	31 Dec. 2018
(in thousands of euros)	**Effective interest rate**	**Expiry date**	**Short-term portion**		**Long-term portion**	
Bonds						
€500 million bond issue, 2014-2021	1.875%	26 Nov. 2021	3,901	647	350,000	350,000
€500 million bond issue, 2015-2022	2.25%	16 Nov. 2022	4,898	993	350,000	350,000
€500 million bond issue, 2018-2025	1.50%	29 May 2025	678	4,459	500,000	500,000
Bank loans						
BNP Paribas 2016	Euribor + spread	24 May 2021	42	40	50,000	50,000
Natixis – Deka – Deutsche Hypotheken	1.571%	16 July 2022	2,622	2,625	198,120	199,160
Negotiable European commercial paper (NEU-CP)	Fixed rate (payable in advance)	Due within 1 year	354,100	262,500	-	-
Interest rate swaps						
CA-CIB 5-year swap	0.23%	28 Nov. 2022	51	52	2,201	989
Bank overdrafts	Various		-	-	-	-
Current account advances (liabilities)	Various		38	40	52,246	52,246
Impact of deferred recognition of debt arranging fees			(2,541)	(2,398)	(8,298)	(8,315)
Total			**363,789**	**268,958**	**1,494,269**	**1,494,080**

The following table analyses borrowings by maturity:

(in thousands of euros)	30 June 2019	Due within 1 year	Due in 1 to 5 years	Due beyond 5 years	31 December 2018
Bonds	1,209,477	9,477	700,000	500,000	1,206,099
BNP Paribas 2016	50,042	42	50,000	-	50,040
Natixis/Deka/Deutsche Hypothekenbank	200,742	2,622	198,120	-	201,785
Negotiable European commercial paper (NEU-CP)	354,100	354,100	-	-	262,500
CA-CIB 5-year swap	2,252	51	2,201	-	1,041
Current account advances (liabilities)	52,284	38	52,246	-	52,286
Deferred debt arranging fees	(10,839)	(2,541)	(7,519)	(779)	(10,713)
Total	**1,858,058**	**363,789**	**995,048**	**499,221**	**1,763,038**

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

Debt covenants and acceleration clauses in force at 30 June 2019 concerned lines of credit obtained from Société Générale, BECM, BNP Paribas, Cadif and Banque Postale. They can be broken down as follows:

Applicable ratios	Actual ratios at 30 June 2019	Actual ratios at 31 December 2018	Main acceleration clauses
Loan-to-value (LTV) <= 50%	24.2%	24.1%	Loan default Termination of operations
Interest cover >= 2x	6.3	5.1	Bankruptcy proceedings
Secured LTV <= 20%	2.8%	2.9%	Breach of financial covenants
Unrestricted property portfolio value >= €2bn	€6.2bn	€6.0bn	Material adverse event

The Group was not in breach of any of its financial covenants at 30 June 2019.

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

(in thousands of euros)	First-half 2019	First-half 2018
Interest on bank loans, bonds and commercial paper	(14,074)	(15,603)
Interest on external current account advances	(76)	(76)
Hedging losses	(273)	(280)
Other financial expenses	(1,352)	(1,574)
Finance costs and other financial expenses	**(15,775)**	**(17,533)**
Interest income	46	16
Financial expense transfers	2,419	2,083
Other financial income	-	-
Financial income	**2,465**	**2,099**
Finance costs and other financial income and expenses, net	**(13,310)**	**(15,434)**

Financial expense transfers in first-half 2019 correspond to finance costs capitalised at the rate of 1.46% during the redevelopment of the Louvre Saint-Honoré, Biome and 83 Marceau buildings.

VI - 3) Financial instruments

Accounting policy

The Group uses derivative instruments such as interest rate swaps and caps to hedge the risk of changes in interest rates. These instruments are measured at fair value at each period-end. 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 30 June 2019, 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 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.

Hedging instruments at fair value

The Group's hedging instruments had a negative fair value of €2,116 thousand at 30 June 2019, as follows:

(in thousands of euros)	Nominal value	Maturity	30 June 2019	31 December 2018
CA-CIB 0.23% swap	100,000	Nov. 2022	(2,201)	(989)
Cadif 0.25% cap	100,000	Nov. 2022	85	591
Total	**200,000**		**(2,116)**	**(398)**

Fair value adjustments to financial instruments

Fair value adjustments to hedging instruments recognised through profit represented a negative €1,718 thousand in first-half 2019.

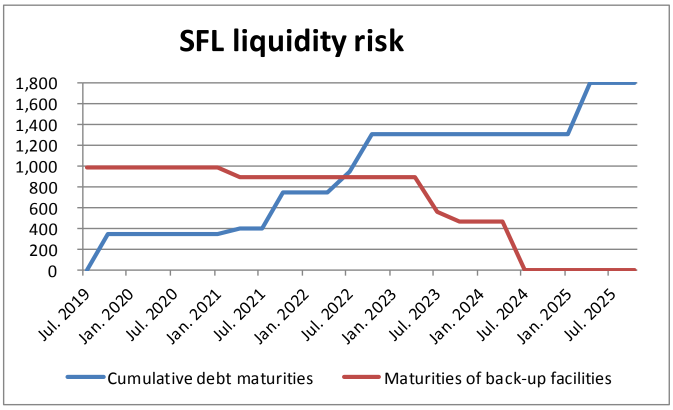
(in thousands of euros)	First-half 2019	First-half 2018
Interest rate hedges	(1,718)	(908)
Total	**(1,718)**	**(908)**

VI - 4) Financial risk management objectives and policy

The Group prudently manages its various financial risks.

1 - Liquidity risk

Liquidity risk is covered by confirmed undrawn lines of credit. At 30 June 2019, SFL had access to confirmed undrawn lines of credit representing €990 million compared with €920 million at 31 December 2018. 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 2022.



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

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

2 - Counterparty risk

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

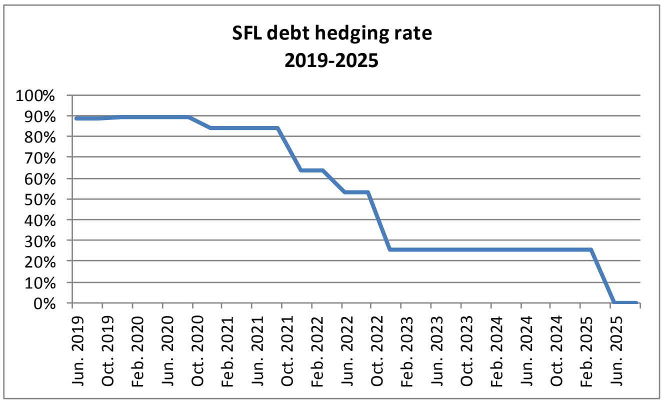
3 - Market risk

The Group did not have any exposure to currency risk at 30 June 2019. Interest rate risks are prudently and actively managed using an information system that tracks changes in the financial markets and calculates the fair value of hedging instruments in real time, thereby allowing the Group to efficiently quantify and analyse the risks associated with interest rate fluctuations.

a/ Objectives and strategy

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

At 30 June 2019, 88% of debt was hedged against interest rate risks.



b/ Risk assessment

The average spot cost of debt after hedging stood at 1.40% at 30 June 2019, versus 1.49% at 31 December 2018.

A 50-basis point rise in interest rates across the yield curve would have had the effect of increasing the average cost of debt to 1.49%, lifting finance costs for the period by 5.15% or €812 thousand. A 50-basis point decline in interest rates across the yield curve would have had the effect of reducing the average cost of debt to 1.32%, lowering finance costs for the period by 4.58% or €722 thousand.

Concerning hedging instruments, a 50-basis point increase in interest rates would have the effect of increasing the fair value of hedging instruments by €1,990 thousand at 30 June 2019, while a 50-basis point decrease would reduce their fair value by €1,760 thousand.

c/ Interest rate risk

The following table provides an analysis by maturity of the notional amount of financial instruments exposed to interest rate risk at 30 June 2019.

(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
BNP Paribas 2016	-	50,000	-	-	-	-	50,000
Negotiable European commercial paper (NEU-CP)	354,100	-	-	-	-	-	354,100
Current account advances	-	52,246	-	-	-	-	52,246
Total floating rate debt	**354,100**	**102,246**	**-**	**-**	**-**	**-**	**456,346**

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

Fair value of bonds

The fair value of the Group's outstanding bond issues at 30 June 2019 was €1,266,247 thousand, as follows:

(in thousands of euros)	Nominal value	Maturity	30 June 2019	31 December 2018
November 2014 bonds	350,000	Nov. 2021	364,637	362,607
November 2015 bonds	350,000	Nov. 2022	375,025	368,298
May 2018 bonds	500,000	May 2025	526,585	491,425
Total	**1,200,000**		**1,266,247**	**1,222,330**

VI - 5) Financial assets

Accounting policy

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

They are initially recognised at fair value, generally corresponding to their purchase price plus transaction costs.

The accounting treatment of derivative instruments is presented in Note VI-3.

(in thousands of euros)	31 December 2018	Increases	Impairment losses recognised during the period	Decreases	Impairment losses reversed during the period	30 June 2019
Deposits	229	-	-	-	-	229
Interest rate hedges	591	-	-	(506)	-	85
Total	**820**	**-**	**-**	**(506)**	**-**	**314**

Hedging instruments with a positive fair value recognised in assets totalled €85 thousand at 30 June 2019 (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)	30 June 2019	31 December 2018
Cash at bank and in hand	42,973	25,304
Total	**42,973**	**25,304**

VII - Equity and Earnings Per Share

VII - 1) Equity

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

VII - 2) Treasury shares

Accounting policy

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

(in thousands of euros)	31 December 2018	Increases	Decreases	30 June 2019
Number of treasury shares	274,274	17,355	(66,372)	225,257
Average purchase/sale price, in euros	€66.69	€65.55	€55.80	€69.81
Total	**18,290**	**1,138**	**(3,703)**	**15,725**

VII - 3) Dividends

(in thousands of euros)	First-half 2019		First-half 2018	
	Paid	Per share	Paid	Per share
Prior year dividend paid in current year	122,711	€2.65	106,383	€2.30
Total	**122,711**	**€2.65**	**106,383**	**€2.30**

VII - 4) Earnings per share

Basic earnings per share are calculated by dividing profit attributable to ordinary owners of the parent by the weighted average number of shares outstanding during the period, net of treasury shares held at the period-end.
Diluted earnings per share are calculated by dividing profit attributable to ordinary owners of the parent by the weighted average number of shares outstanding during the period, net of treasury shares held at the period-end, as adjusted for the dilutive effect of outstanding performance shares awarded to employees and corporate officers.

(in thousands of euros)	First-half 2019	First-half 2018
Profit used to calculate basic earnings per share	253,549	200,157
Weighted average number of ordinary shares	46,528,974	46,528,974
Number of treasury shares	(225,257)	(276,239)
Weighted average number of ordinary shares excluding treasury shares	**46,303,717**	**46,252,735**
Basic earnings per share	**€5.48**	**€4.33**
Profit used to calculate basic earnings per share	253,549	200,157
Weighted average number of ordinary shares	46,528,974	46,528,974
Number of treasury shares	(225,257)	(276,239)
Effect of dilutive instruments on the average number of shares	59,297	56,595
Diluted weighted average number of ordinary shares excluding treasury shares	**46,363,014**	**46,309,330**
Diluted earnings per share	**€5.47**	**€4.32**

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

VII - 5) Non-controlling interests in net profit

(in thousands of euros)	First-half 2019	First-half 2018
SCI Washington	**9,595**	**7,889**
Rental income	*3,969*	*3,760*
Fair value adjustments to investment property	*5,668*	*4,276*
Net financial expense	*(73)*	*(72)*
Other	*31*	*(75)*
Parholding subgroup	**22,223**	**6,943**
Rental income	*7,608*	*7,448*
Fair value adjustments to investment property	*24,165*	*3,937*
Net financial expense	*(867)*	*(878)*
Deferred tax	*(6,875)*	*(1,527)*
Current tax	*(1,406)*	*(1,611)*
Other	*(402)*	*(426)*
Total	**31,818**	**14,832**

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 December 2018	Increases	Decreases	*o/w utilisations*	Actuarial gains and losses	Reclassifications	30 June 2019
Provisions for refurbishment work and tenant claims	-	-	-	-	-	-	-
Provisions for employee benefits	1,220	397	(16)	*(16)*	128	(407)	1,322
Long-term provisions	**1,220**	**397**	**(16)**	***(16)***	**128**	**(407)**	**1,322**
Provisions for refurbishment work and tenant claims	475	-	-	-	-	-	475
Provisions for taxes other than on income	332	-	(332)	-	-	-	-
Provisions for employee benefits	542	-	(542)	-	-	407	407
Short-term provisions	**1,349**	**-**	**(874)**	**-**	**-**	**407**	**882**
Total	2,569	397	(890)	*(16)*	128	-	2,204

Provisions for employee benefits include provisions for length-of-service awards payable to employees on retirement and jubilees for €1,105 thousand. See Note IX-2 for more details.

Short- and long-term provisions covering benefits payable to members of senior management amounted to €35 thousand at 30 June 2019 versus €21 thousand at 31 December 2018.

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

(in thousands of euros)	First-half 2019	First-half 2018
Charges to provisions for impairment of current assets	(112)	(211)
Charges to provisions for operating contingencies and charges	(307)	(219)
Charges to provisions for other contingencies and charges	(90)	(113)
Total charges	**(509)**	**(543)**
Reversals of provisions for impairment of current assets	68	19
Reversals of provisions for operating contingencies and charges	-	-
Reversals of provisions for other contingencies and charges	374	-
Total reversals	**442**	**19**
Total	(67)	(524)

IX - Remuneration and Other Employee Benefits

IX - 1) Employee benefits expense

Employee benefits expense breaks down as follows:

(in thousands of euros)	First-half 2019	First-half 2018
Wages and salaries	(3,382)	(3,624)
Payroll taxes	(1,722)	(1,883)
Other employee benefits	(1,196)	(921)
Statutory and discretionary profit-sharing	(297)	(137)
Total	**(6,597)**	**(6,565)**

The Group had 69 administrative staff (including two corporate officers) and two building staff at 30 June 2019, compared with 72 administrative staff and two building staff at 30 June 2018.

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

Accounting policy

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

Measurement method

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

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

(in thousands of euros)	30 June 2019	31 December 2018
Projected benefit obligation at beginning of period	**902**	**872**
Benefits paid during the period	(16)	(54)
Service cost	79	83
Interest cost	11	9
Actuarial gains and losses	128	(8)
Projected benefit obligation at end of period	**1,105**	**902**

The projected benefit obligation is calculated at six-monthly intervals based on actuarial assumptions, including, at 30 June 2019, a discount rate of 0.81% (31 December 2018: 1.57%) and a 2.20% rate of future salary increases (unchanged from 31 December 2018). Actuarial gains and losses are recognised in equity.

A 25-bps reduction in the discount rate at 30 June 2019 would lead to a €23 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 30 June 2019

	Plan no.4	Plan no.5	Plan no.5
Date of shareholder authorisation	13/11/2015	20/04/2018	20/04/2018
Grant date (date of Board meeting)	03/03/2017	20/04/2018	15/02/2019
Initial target number of shares	33,376	33,592	32,948
Initial expected vesting rate	70.83%	100.00%	100.00%
Initial number of shares expected to vest	23,640	33,592	32,948
Fair value per share	€42.61	€48.64	€54.00
Rights cancelled/forfeited	(2,324)	(1,512)	(56)
Expected vesting rate at end of period	125.00%	100.00%	100.00%
Number of shares expected to vest at end of period	**38,815**	**32,080**	**32,892**

Main features of the plans

The plans' main features are as follows:

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

Accounting treatment

The expected vesting rate is adjusted to reflect SFL's most probable ranking at the end of the vesting period. At 30 June 2019, the rates applied were 125% for the 2017 plan (probable ranking: no. 2) and 100% for the 2018 and 2019 plans (probable ranking: no.3).

During first-half 2019, a total of 46,302 performance shares vested under 2016 Plan no.4.

The cost of performance share plans recognised in first-half 2019 amounted to €1,147 thousand (excluding specific employer contributions).

IX - 4) Related party information

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

(in thousands of euros)	First-half 2019	First-half 2018
Short-term benefits, excluding payroll taxes[1]	2,017	2,156
Payroll taxes on short-term benefits	1,241	803
Share-based payments[2]	763	617
Directors' fees	287	356
Total	**4,308**	**3,932**

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

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

At 30 June 2019, related-party transactions comprise 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	5,176	5,102	10,278

This item corresponds mainly to the long-term portion of the exit tax due as a result of the election for the Biome building to be included in assets taxed under the SIIC regime in December 2017. The €21 million tax liability is payable in four annual instalments between 2018 and 2021 and has been discounted.

The outstanding exit tax payable on 15 May 2020 in respect of the 131 Wagram property has been recorded within accrued taxes under other current liabilities.

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 first-half 2019 amounted to €3,384 thousand (first-half 2018: €3,298 thousand) and mainly concerned the Parholding tax group.

Income tax expense is calculated at the rate applicable at 30 June 2019. The legislative amendment enacted in July 2019 will be applied at 31 December 2019.

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% 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., 31%.

Deferred tax calculations do not take into account the increase in the corporate income tax rate from 31% to 33.33% for 2019, decided in July 2019. Deferred taxes at 31 December 2019 will be measured at the higher rate, but the impact will not be material.

(in thousands of euros)	Statement of Financial Position 31 December 2018	Reclassifications	Equity	Statement of Comprehensive Income	Statement of Financial Position 30 June 2019
Fair value adjustments to investment property	(177,259)	-	-	(12,481)	(189,740)
Adjustment of depreciation	(24,958)	-	-	(889)	(25,847)
Adjustment of property rentals	(1,419)	-	-	(76)	(1,495)
Capitalisation of interest expense and transaction costs	(521)	-	-	-	(521)
Other	(873)	-	-	(323)	(1,196)
Net	**(205,030)**	**-**	**-**	**(13,769)**	**(218,799)**
Of which deferred tax assets	32	-	-	(19)	13
Of which deferred tax liabilities	(205,062)	-	-	(13,750)	(218,812)

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)	54,371	3,466	22,067	28,838
Other first demand guarantees	400	-	400	-
Guarantees received from suppliers	1,315	1,315	-	-
Total commitments received	**56,086**	**4,781**	**22,467**	**28,838**

Contractual redevelopment and renovation obligations

At 30 June 2019, the Group's contractual commitments relating to investment property undergoing renovation totalled €67,955 thousand (€23,288 thousand at 31 December 2018), of which €55,550 thousand concerned the 83 Marceau and 106 Haussmann properties.

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

Standard mortgages

(in thousands of euros)

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

Undrawn confirmed lines of credit

(in thousands of euros)	Total	Within 1 year	In 1 to 5 years	Beyond 5 years
BECM	150,000	-	150,000	-
BNP Paribas 2016	100,000	-	100,000	-
BNP Paribas 2019	390,000	-	390,000	-
Banque Postale	75,000	-	75,000	-
Société Générale	100,000	-	100,000	-
Cadif	175,000	-	175,000	-
Total	**990,000**	**-**	**990,000**	**-**

XI - 3) Employee-related commitments

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

At 30 June 2019, total commitments for the payment of compensation amounted to €3,078 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)	First-half 2019	First-half 2018
Acquisitions of and improvements to investment property		
Work	(23,896)	(14,984)
Total	**(23,896)**	**(14,984)**
Cash and cash equivalents at end of period		
Cash at bank and in hand	42,972	53,582
Bank overdrafts	-	(9)
Total	**42,972**	**53,573**

Non-cash changes in bonds and bank borrowings amounted to €1,352 thousand in first-half 2019 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 Parholding	404 961 351	50	50
SC Parchamps	410 233 498	50	50
SC Pargal	428 113 989	50	50
SC Parhaus	405 052 168	50	50
SAS SB2	444 318 398	100	100
SAS SB3	444 318 547	100	100
SCI SB3	444 425 250	100	100
SCI 103 Grenelle	440 960 276	100	100
SCI Paul Cézanne	438 339 327	100	100
SCI Washington	432 513 299	66	66
SNC Condorcet Holding	808 013 890	100	100
SNC Condorcet Propco	537 505 414	100	100

Shareholders' pacts give the Group exclusive control over four companies that are 50%-owned.
Accordingly, all subsidiaries are controlled exclusively and fully consolidated.
SAS Société Immobilière Victoria, which was included in the consolidation scope at 31 December 2018, was merged with Société Foncière Lyonnaise on 16 May 2019, with retroactive effect from 1 January 2019.

Société Foncière Lyonnaise is a fully consolidated subsidiary of Spanish company Inmobiliaria Colonial SA, which owned 81.7% of the capital at 30 June 2019. The Group and all of its subsidiaries have their registered office in the 8th *arrondissement* of Paris.

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

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

Commissaire aux Comptes
Membre de la compagnie
régionale de Versailles

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

S.A. au capital de 1 723 040 €
572 028 041 R.C.S. Nanterre

Commissaire aux Comptes
Membre de la compagnie
régionale de Versailles

Société Foncière Lyonnaise

Société Anonyme

42, rue Washington
75008 Paris
France

Statutory Auditors' review report on the 2019 interim financial information

Six months ended 30 June 2019

This is a free translation into English of the Statutory Auditors' review report issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting and in accordance with the requirements of article L. 451-1-2 III of the French Monetary and Financial Code (*Code monétaire et financier*), we hereby report to you on:

- the review of the accompanying interim consolidated financial statements of Société Foncière Lyonnaise for the six months ended 30 June 2019;
- the verification of the information contained in the interim management report.

These interim consolidated financial statements are the responsibility of the Board of Directors. Our role is to express a conclusion on these financial statements based on our review.

Conclusions concerning the financial statements

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

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

Specific verification

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

Neuilly-sur-Seine and Paris-La Défense, 26 July 2019

The Statutory Auditors

PricewaterhouseCoopers Audit	Deloitte & Associés
Lionel Lepetit	Laure Silvestre-Siaz

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

I hereby declare that, to the best of my knowledge, the consolidated financial statements for the six months ended 30 June 2019 have been prepared in accordance with the applicable accounting standards and give a true and fair view of the assets and liabilities, financial position and results of the Company and the entities included in the scope of consolidation, and the interim management report on page 3 presents fairly the changes in business, results and financial position of the Company and the entities included in the scope of consolidation, as well as a description of their principal risks and contingencies for the remaining six months of the year.

Paris, 26 July 2019

Nicolas Reynaud
Chief Executive Officer

SFL
42 rue Washington - 75008 Paris – Phone: +33 (0)1 42 97 27 00 - www.fonciere-lyonnaise.com
French société anonyme with share capital of €93,057,948
Registered in Paris under no. 552 040 982 - Code APE 6820B - Nº TVA INTRACOM. SFL FR 54/552/040/982