INTERIM FINANCIAL REPORT

Six months ended 30 June 2021

OVERVIEW

1. INTERIM MANAGEMENT REPORT

As of 30 June 2021, the composition of the Board of Directors of SFL was as follows:

Chairman:

- Juan José Brugera Clavero

Directors:

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

There have been no changes to the composition of the Board of Directors since 28 July 2020, when Najat Aasqui was appointed as a director.

The interim consolidated financial statements for the six months ended 30 June 2021 were approved by the Board of Directors of Société Foncière Lyonnaise on 28 July 2021, at its meeting chaired by Juan José Brugera.

These financial statements show like-for-like growth in rental income and the portfolio's appraisal value, along with a stable NAV, reflecting the quality of SFL's portfolio.

The auditors have completed their review of the financial statements and issued their report on the interim financial information, which does not contain any qualifications or emphasis of matter.

Consolidated data (€ millions)

	H1 2021	H1 2020	**Change**
Rental income	86.1	91.2	-5.6%
Adjusted operating profit*	66.6	74.8	-11.0%
EPRA earnings	43.8	50.1	-12.5%
Attributable net profit	98.8	113.7	-13.1%

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

	30/06/2021	31/12/2020	**Change**
Attributable equity	4,654	4,647	+0.2%
Consolidated portfolio value excluding transfer costs	7,323	7,458	-1.8%
Consolidated portfolio value including transfer costs	7,838	7,946	-1.4%
EPRA NDV	4,608	4,596	+0.3%
EPRA NDV per share	€99.0	€98.8	

Results

Rental income

First-half 2021 consolidated rental income amounted to €86.1 million, down €5.1 million (5.6%) from the €91.2 million reported for the same period of 2020.

- On a like-for-like basis (i.e., excluding all changes in the portfolio affecting period-on-period comparisons), rental income climbed €2.2 million, up 2.7%, buoyed by higher rental income from the Edouard VII, Rives de Seine, 106 Haussmann and Washington Plaza buildings.
- Rental income from units being redeveloped or renovated in the periods concerned was down by €4.6 million, due to the renovation of several floors that were vacated in late 2020, mainly in the Cézanne Saint-Honoré et Washington Plaza buildings.
- The sale of the 112 Wagram and 9 Percier buildings in early 2021 led to a €2.7-million contraction in rental income for the period compared with first-half 2020.

Operating profit before disposal gains and losses and fair value adjustments to investment property came to €66.6 million in first-half 2021 versus €74.8 million in the year-earlier period.

Portfolio appraisal value

The portfolio's appraisal value at 30 June 2021 was 1.8% higher on a like-for-like basis than at 31 December 2020. The increase led to the recognition of positive fair value adjustments to investment property of €54.7 million in first-half 2021 compared with positive adjustments of €42.8 million in first-half 2020.

Net profit

Net finance costs amounted to €14.8 million in first-half 2021 compared with €13.7 million in the year-earlier period, an increase of €1.1 million that primarily reflects the Group's higher average cost of debt. The increase in this item was partly offset by a reduction in average debt.

After taking into account these core items, EPRA earnings came to €43.8 million in first-half 2021, versus €50.1 million in first-half 2020, while attributable net profit for the period came in at €98.8 million compared with €113.7 million in first-half 2020.

Business review

Rental operations

In a lacklustre rental market during the first four months of the period owing to the health crisis, SFL nevertheless bucked the trend, signing leases on some 17,000 sq.m. The main leases concerned:

- Cézanne Saint-Honoré: lease on 3,700 sq.m. signed with Wendel, scheduled for delivery in 2022;
- Washington Plaza: new lease with Finastra (3,200 sq.m.) and TP ICAP (2,000 sq.m.), who are already tenants at the site, and a lease on 1,200 sq.m. signed with Prologis;
- Edouard VII: leases signed on 3,300 sq.m., with two main agreements;
- 103 Grenelle: three leases signed on 2,000 sq.m.;
- 92 Champs-Elysées: commercial lease on 900 sq.m. signed with PSG.

The new office leases were signed at an average nominal rent of €753 per sq.m., corresponding to an effective rent of €647 per sq.m, for an average non-cancellable term of 7.7 years. These conditions attest to the very high quality of the Group's properties.

The physical occupancy rate for revenue-generating properties rose to 94.8% at 30 June 2021 compared with 93.7% at 31 December 2020. The remaining vacant units are located mainly in the Le Vaisseau building in Issy-les-Moulineaux and at 103 Grenelle. The EPRA vacancy rate was 4.6% at 30 June 2021 versus 6.0% at 31 December 2020.

Development operations

Properties undergoing development at 30 June 2021 represented roughly 20% of the total portfolio. They consist mainly of the Group's current three flagship projects concerning:

- The office building at 83 avenue Marceau (approximately 9,000 sq.m.). Redevelopment work is nearing completion and the building will be delivered within the next few weeks. This property has been fully pre-let.
- The Biome office complex on avenue Emile Zola (approximately 24,000 sq.m.). Redevelopment continued during the period with progress on the structural works phase of the new buildings, scheduled for delivery in 2022.
- Retail space in the Louvre Saint-Honoré building, which is scheduled for delivery in 2023 under a turnkey lease on over 20,000 sq.m. signed with the Cartier Foundation. During first-half 2021, site clearance and asbestos removal work was completed and the structural works phase began.

Capitalised work carried out in first-half 2021 amounted to €67.5 million, including the above projects for a total of €50.1 million and large-scale renovations of complete floors in the Washington Plaza and Cézanne Saint-Honoré buildings.

Portfolio operations

Disposal of the 112 Wagram and 9 Percier properties was completed during the period. The disposal processes were launched in 2020 under the Group's asset rotation policy. These properties were sold in January and February 2021 at a net sale price of €120.5 million and €143.5 million, respectively. Their price, already included in the fair value of these assets at 31 December 2020, represented a premium of 16% on their appraisal value at 31 December 2019.

No properties were acquired during the period.

Health crisis

During the period, SFL continued to apply the measures deployed in 2020 to limit the pandemic's effects on its business and results.

Rent collection rates remained highly satisfactory at 30 June 2021, at 98% for first-quarter rents and 96% for second-quarter rents. Past-due rents were reviewed on a case-by-case basis to determine whether a provision was needed. The Edouard VII and #cloud.paris conference centres, along with the Indigo hotel, remained closed for most of first-half 2021.

The rental market had slowed since the onset of the Covid-19 crisis, but it picked up towards the end of first-half 2021 and leases were signed on several significant units.

The value of SFL's office properties at 30 June 2021 proved resilient despite the health crisis, with an overall like-for-like increase of 1.8% in their appraisal values during the period.

Financing

As a result of the above transactions, consolidated net debt was reduced significantly from €1,890 million at 31 December 2020 to €1,748 million at 30 June 2021, representing a loan-to-value ratio of 22.3% based on the portfolio's appraisal value. The average cost of debt after hedging was 1.6% at 30 June 2021 and the average maturity was 4.0 years. At the same date, the interest coverage ratio stood at 4.7x.

The Company's liquidity position at 30 June 2021 was excellent, with €1,040 million in undrawn confirmed lines of credit.

Net asset value

The consolidated market value of SFL's portfolio at 30 June 2021 was €7,323 million excluding transfer costs, down 1.8% on 31 December 2020 (€7,458 million) following the disposals carried out in the period, but up 1.8% on a like-for-like basis. This increase results mainly from redevelopment projects which continued under good conditions during the period, since the value of revenue-generating properties remained broadly stable.

The average EPRA topped-up net initial yield (NIY) was 2.9% at 30 June 2021, unchanged from 31 December 2020.

EPRA Net Disposal Value (NDV) stood at €4,608 million, or €99.0 per share at 30 June 2021, an increase of 2.3% including the dividend of €2.10 per share paid in April 2021, versus €98.8 per share at 31 December 2020.

Colonial's transaction involving SFL shares

On 3 June 2021, Colonial – SFL's majority shareholder – announced a proposed transaction in two parts: (i) a simplified mixed tender offer for the shares of SFL not yet held by Colonial and Prédica, and (ii) a change in the existing partnership between SFL and Prédica.

On 8 July 2021, SFL's Board of Directors issued a favourable opinion on the proposed operation, and recommended that shareholders tender their shares to the offer.

The mixed public offer for SFL's shares was decided pursuant to the AMF's approval dated 20 July 2021, and will run from 22 July 2021 to 25 August 2021 inclusive.

EPRA indicators

	H1 2021	H1 2020
EPRA Earnings (€m)	**43.8**	50.1
/share	*€0.94*	*€1.08*
EPRA Cost Ratio (including vacancy costs)	17.0%	16.1%
EPRA Cost Ratio (excluding vacancy costs)	15.1%	14.3%

	30/06/2021	31/12/2020
EPRA NRV (€m)	**5,238**	5,210
/share	*€112.6*	€112.0
EPRA NTA* (€m)	**4,780**	4,779
/share	*€102.7*	€102.7
EPRA NDV (€m)	**4,608**	4,596
/share	*€99.0*	€98.8
EPRA Net Initial Yield (NIY)	2.7%	2.7%
EPRA topped-up NIY	2.9%	2.9%
EPRA Vacancy Rate	4.6%	6.0%

** Transfer costs are included at their amount as determined in accordance with IFRS (i.e., 0).*

Alternative Performance Indicators (APIs)

API EPRA Earnings

€ millions	H1 2021	H1 2020
Attributable net profit	**98.8**	113.7
Less:		
Profit (loss) on asset disposals	(0.1)	-
Non-recurring costs relating to disposals	2.5	
Fair value adjustments to investment property	(54.7)	(42.8)
Fair value adjustments to financial instruments, discounting adjustments to debt and related costs	-	0.2
Tax on the above items	(3.2)	(9.0)
Non-controlling interests in the above items	0.5	(12.0)
EPRA earnings	**43.8**	50.1

API EPRA NDV

€ millions	30/06/2021	31/12/2020
Attributable equity	**4,654**	4,647
Treasury shares	2	3
Fair value adjustments to owner-occupied property	22	22
Fair value adjustments to fixed rate debt	(70)	(76)
EPRA Net Disposal Value (NDV)	**4,608**	4,596

API net debt

€ millions	30/06/2021	31/12/2020
Long-term borrowings and derivative instruments	1,476	1,476
Short-term borrowings and other interest-bearing debt	371	481
Debt in the consolidated statement of financial position	**1,848**	1,957
Less:		
Current account advances (liabilities)	(62)	(52)
Accrued interest, deferred recognition of debt arranging fees, negative fair value adjustments to financial instruments	1	0
Cash and cash equivalents	(39)	(15)
Net debt	**1,748**	1,890

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 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.

The Group's risk management policies were taken into account in the assessment of these risks.

The risk categories are as follows:

A. RISKS RELATED TO A GLOBAL ECONOMIC AND HEALTH CRISIS
B. RISKS THAT ARE SPECIFIC TO THE PROPERTY SECTOR
C. SECTOR-SPECIFIC OPERATIONAL RISKS
D. LEGAL AND TAX RISKS ASSOCIATED WITH THE PROPERTY BUSINESS
E. FINANCIAL RISKS ASSOCIATED WITH THE PROPERTY BUSINESS
F. FINANCIAL RISKS LINKED TO THE EFFECTS OF CLIMATE CHANGE

Risk factors are discussed on pages **15 to 23 of the 2020 Universal Registration Document** contained in the 2020 Annual Report filed with the *Autorité des marchés financiers* (AMF) on 15 March 2021.

The Covid-19 global health crisis affected the risk factors to which SFL is exposed. SFL's robust balance sheet and strategic positioning in the prime office property market represent major strengths in the current environment. However, the way in which the health crisis is evolving and the emergence of new Covid-19 variants, particularly the rapidly spreading Delta variant, as well as the continued uncertainty as to how long the crisis is likely to last, could lead to an increase in the level of risk associated with the Company's business environment and have a lasting material adverse effect on its business, financial position, earnings or outlook.

As of the date of this report, the Company is not aware of any material risk exposures that are not disclosed in 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. On one hand, 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 an adverse effect on the Company.

Risk factors	Risk prevention/mitigation measures
A. RISKS RELATED TO A GLOBAL ECONOMIC AND HEALTH CRISIS	
High risk	
1. Pandemic risks The Covid-19 health crisis that began in France and worldwide in March 2020 has exposed the property sector to the risk of rent defaults, disruption to development and redevelopment projects, and adverse trends in the rental and investment markets. <u>Adverse effects</u>: - Lower rental income - Fall in portfolio values - Lost opportunities to purchase and sell properties - Delays in delivering major development and redevelopment projects	The Company set up a process to regularly assess the impacts of the coronavirus pandemic. A special Covid-19 monitoring and management committee comprising members of senior management and the heads of operating units was formed at the start of the health crisis and remained in place until June. In addition, measures were deployed to manage the pandemic's effects on business continuity and the continued use of the Company's assets. All in all, from the onset of the crisis, SFL took all necessary measures to limit the pandemic's effects on its business and results:

- Decline in operating profit - Erosion of NAV	- All the office buildings remained open and available for use by tenants and the necessary health protection measures deployed in the buildings' common areas were regularly updated to comply with successive government directives. - Management of the conference centres (Édouard VII and #cloud.paris) and the Indigo hotel focused on limiting as far as possible the effects of government-mandated closures. - Government measures concerning very small businesses and small retail outlets were applied and tenant requests for help were managed on a case-by-case basis in order to provide them with the necessary support as far as possible, for example by authorising rent deferrals or granting rent holidays. - Property leasing activities continued, keeping a close watch on the severely depressed rental market. - Agreements were signed with the general contractors working on the main redevelopment projects currently in progress. - The process for the sale of certain properties was continued. - The Group's financial liquidity was strengthened. Impact on SFL: - The rental market slowed in 2020, without coming to a complete halt; however, SFL was largely unaffected and rental streams held up well. - All told, the crisis had an €8.2 million negative impact on rental income for the year (including €6.8 million in income lost due to the closure of the two conference centres, the Indigo hotel and the Édouard VII public car park) and a €5.4 million negative impact on net property rentals. - **The impact on rental income for first-half 2021 was limited, with the rent recovery rate coming out at 98% in the first quarter and 96% in the second quarter.** *The impacts of the Covid-19 health crisis are described in Note II-2) to the consolidated financial statements for the six months ended 30 June 2021 (page 23 of this report).*

Risk factors	Risk prevention/mitigation measures
B. RISKS THAT ARE SPECIFIC TO THE PROPERTY SECTOR	
High risk	
2. 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. The Paris office property market is cyclical and prices depend on the balance between office supply and investor demand. For example, at 30 June 2021, a 25-bps increase in the exit yield combined with a 25-bps (0.25%) increase in the discount rate would have had the effect of reducing the portfolio's appraisal value by 8%, while a 25-bps decrease in the exit yield combined with a 25-bps (0.25%) decrease in the discount rate would have had the effect of increasing the portfolio's appraisal value by 9.5%.	- 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. - A property market monitoring system has been set up. - Advisors are consulted at regular intervals, developments are closely monitored and internal and external studies are commissioned. - The Group's strategic positioning in the prime segment of the office property market represents a mitigating factor. *See Notes IV-4) (Investment property) and IV-5) (Investment property held for sale) to the consolidated financial statements*

	for the six months ended 30 June 2021, pages 28 to 31 of this report, for more information about the parameters used to value investment properties in each asset class. Covid-19 impacts: Covid-19 measures introduced by the government – including a temporary freeze on tenant evictions, closure of public venues such as the Édouard VII and #cloud.paris conference centres, and travel restrictions which led to a steep fall in the number of guests at the Indigo hotel – had a limited impact on the Company's rental income due to its strategic focus on Paris prime office properties (79% of the portfolio). Nevertheless, the requests for support received from tenants were analysed on a case-by-case basis and we endeavoured to support them as far as possible during this difficult period by granting rent holidays or deferrals.
3. 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 NAV. Adverse effects: - on the consolidated financial statements - on the income statement - on NAV	- All of the Group's property assets are valued by qualified 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 are performed by two experts (Cushman & Wakefield: 56%, CBRE: 44%). *See Notes IV-4) (Investment property) and IV-5) (Investment property held for sale) to the consolidated financial statements for the six months ended 30 June 2021, pages 29 to 32 of this report, for more information about the parameters used to value investment properties in each asset class.* Covid-19 impacts The Covid-19 crisis has had a limited impact on the appraisal value of the Company's asset portfolio. **The portfolio's appraisal value at 30 June 2021 was 1.8% higher on a like-for-like basis than at 31 December 2020.**
4. 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. Operators of property businesses need regular access to bank financing. *See Note VI-1) (Borrowings and other interest-bearing debt) to the consolidated financial statements for the six months ended 30 June 2021, pages 34 and 35 of this report, for more information about borrowings, debt covenants and acceleration clauses.* *See also paragraph 3/Market Risk in Note VI-4) (Financial risk management objectives and policy) to the consolidated financial statements for the six months ended 30 June 2021, page 38 of this report, for more information about*	- 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.

sensitivity to changes in interest rates. Adverse effects: - Restricted ability to purchase new assets - Restricted ability to redevelop assets - Difficulties in refinancing existing debt - Increased finance costs - Erosion of NAV	
Moderate risk	
5. 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. Adverse effects: - 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.

C. SECTOR-SPECIFIC OPERATIONAL RISKS	
High risk	
6. 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, especially in the event of a cyclical market downturn. Adverse effects: - Lower physical occupancy rate - Lower rental income - Decline in operating profit Covid-19 impacts The rental market has been and continues to be severely disrupted by the effects of the Covid-19 crisis and the successive lockdowns and curfews put in place in France. The level of disruption varies significantly depending on the market segment (local retail outlets, large shopping centres, offices in central business districts, etc.).	- Tenant diversification: at 31 December 2020, the Group's top ten tenants accounted for around 40% of total rental income and the top five for roughly 25%. - 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 and all new tenants are required to pay a rent deposit. - 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.
7. 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.	- Close attention is paid to planning asset renovation and redevelopment work, and enhancing assets through the addition of new services.

<table>
<tr><td>Adverse effects:
- Loss of attractiveness to tenants
- Higher insurance premiums, operating costs and construction costs
- Erosion of NAV
- Erosion of SFL’s image and reputation</td><td>- 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.
To better understand the expectations of our tenants and the market, we conducted surveys of our buildings’ users in 2017 and again in 2018. Then in 2019 and 2020, ParisWorkplace surveys were carried out among 2,000 executives in the Paris region on their habits and their expectations in terms of offices, in order to make comparisons based on a larger population that was still highly representative of the people working in SFL’s properties.
(See the Non-Financial Information Statement – NFIS on page 38 et seq. of the 2020 Universal Registration Document for more details)</td></tr>
<tr><td colspan="2">Moderate risk</td></tr>
<tr><td>8. 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</td><td>- Our remuneration policy is designed to retain key executives.</td></tr>
<tr><td>9. 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 substandard 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</td><td>- 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.</td></tr>
</table>

D. LEGAL AND TAX RISKS ASSOCIATED WITH THE PROPERTY BUSINESS	
Moderate risk	
10.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 with these regulations is especially important in the context of the Covid-19 pandemic. 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. · Health measures have been put in place in all of our buildings.
11.Risks associated with government-related procedures For our 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.
12.Risk of site disamenities 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). Complaints by neighbours or tenants can lead to significant compensation claims or injunctions to stop work. <u>Adverse effects</u>: - Project delays, budget overruns, abandoned projects	- 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.

- Erosion of the Company's results and financial position.	- Noise pollution and other disamenities are closely monitored. - All contractors are required to meet the high or very high performance criteria under France's HQE standards for maintaining "green" worksites with a minimal environmental footprint.
13.Risks associated with SIIC status **The proposed simplified mixed tender offer launched by Colonial *(see Note II-3) to the consolidated financial statements for the six months ended 30 June 2021 on page 23 of this report)* has no impact to date on SFL's SIIC regime.** We are exposed to the risk of losing the benefit of the SIIC tax regime if the eligibility rules are breached. These is also a risk of the SIIC regime being abolished in the event of a change in government tax strategy. (Under the SIIC regime, profits from property rental activities and capital gains realised on the sale of the properties are exempt from corporate income tax). <u>Adverse effects</u>: - Lower net profit - Reduced dividends - Reduced profitability	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.)

E. FINANCIAL RISKS ASSOCIATED WITH THE PROPERTY BUSINESS	
Moderate risk	
14.Liquidity risk Operators of property businesses – especially those in the prime office segment – have to raise significant funds. We have access to confirmed lines of credit but these may not be sufficient 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	- The liquidity represented by backup facilities is sufficient to cover the Group's repayment obligations under its lines of credit up to June 2022. At 30 June 2021, SFL had €1,040 million in committed undrawn lines of credit. - We apply a policy of diversifying our sources of debt. - S&P rating: BBB+ stable outlook *See also:* - *Note VI-1) (Borrowings and other interest-bearing debt) to the consolidated financial statements for the six months ended 30 June:* · *Analysis of borrowings by maturity (page 35 of this report).* · *Debt covenants and acceleration clauses (page 35 of this report).*

15.Counterparty risk	
The banks that provide lines of credit and/or hedging instruments may fail to honour their commitments. The counterparty risk associated with hedging instruments is identified in the market value of the hedge. *See Note VI-1) (Borrowings and other interest-bearing debt) to the consolidated financial statements for the six months ended 30 June 2021, pages 34 and 35 of this report, for more information about lines of credit and hedging instruments negotiated with banks.* <u>Adverse effects</u> - Loss of the benefit of hedges - Deterioration of the Company's financial position and profits	- Our lines of credit and hedging instruments are arranged with eight leading banks. - Our minimal cash reserves are generally used to repay borrowings under the revolving lines of credit.
16.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. Financial instruments exposed to interest rate risks include negotiable European commercial paper (NEU CP) and undrawn revolving lines of credit. *See paragraph 3/Market Risk in Note VI-4) (Financial risk management objectives and policy) to the consolidated financial statements for the six months ended 30 June 2021, page 38 of this report, for more information about interest rate risks and sensitivity to changes in interest rates.* <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. - 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. Our internal policy consists of hedging at least 70% of debt at all times. At 30 June 2021, 103% of debt was hedged (before taking into account three hedges on a total notional amount of €300 million that will come into effect between November 2021 and November 2022 for a period of five years).

17) 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 38 *et seq* of the 2020 Universal Registration Document.

18) 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.

SOCIETE FONCIERE LYONNAISE

3. CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

The interim consolidated financial statements were approved for publication by the Board of Directors on 28 July 2021.

A – Consolidated Statement of Financial Position

(in thousands of euros) ASSETS	Notes Section E	30 June 2021	31 December 2020
Intangible assets	IV-1	2,218	1,244
Property and equipment	IV-2	19,750	20,804
Investment property	IV-4	7,212,630	7,081,176
Non-current financial assets	VI-5	3,890	514
Other non-current assets	V-4	63,015	26,832
Total non-current assets		**7,301,503**	**7,130,570**
Investment property held for sale	IV-5	-	259,459
Trade and other receivables	V-3	50,811	83,431
Other current assets	V-4	7,133	2,050
Cash and cash equivalents	VI-6	38,896	15,283
Total current assets		**96,839**	**360,223**
Total Assets		**7,398,342**	**7,490,793**

(in thousands of euros) EQUITY AND LIABILITIES	Notes Section E	30 June 2021	31 December 2020
Share capital		93,058	93,058
Reserves		4,461,953	4,266,590
Profit for the period		98,755	286,879
Equity attributable to owners of the parent		**4,653,766**	**4,646,526**
Non-controlling interests		548,282	550,442
Total non-controlling interests		**548,282**	**550,442**
Total equity	**VII-1**	**5,202,048**	**5,196,968**
Long-term borrowings and derivative instruments	VI-1	1,476,462	1,476,560
Long-term provisions	VIII-1	1,495	1,608
Deferred tax liabilities	X-2	215,391	217,266
Other non-current liabilities	V-6	25,531	27,691
Total non-current liabilities		**1,718,880**	**1,723,126**
Trade and other payables	V-5	47,819	43,708
Short-term borrowings and other interest-bearing debt	VI-1	371,396	480,937
Short-term provisions	VIII-1	938	1,007
Other current liabilities	V-6	57,262	45,047
Total current liabilities		**477,414**	**570,699**
Total equity and liabilities		**7,398,342**	**7,490,793**

B – Consolidated Statement of Comprehensive Income

(in thousands of euros)	Notes Section E	First-half 2021	First-half 2020[1]
Rental income		**86,077**	**91,190**
Gross property expenses		(18,776)	(20,979)
Property expenses recovered from tenants		14,581	16,225
Property expenses, net of recoveries		(4,194)	(4,754)
Net property rentals	**V-1**	**81,882**	**86,436**
Other income	V-2	795	1,049
Depreciation, amortisation and impairment	IV-3	(616)	(486)
Provision expense, net	VIII-2	(1,424)	(793)
Employee benefits expense	IX-1	(9,821)	(6,556)
Other expenses	V-7	(4,197)	(4,831)
Profit on disposal of investment property	IV-6	96	-
Fair value adjustments to investment property	IV-4	54,677	42,806
Operating profit		**121,393**	**117,625**
Finance costs and other financial expenses	VI-2	(14,726)	(13,661)
Financial income	VI-2	9	32
Fair value adjustments to financial instruments	VI-3	-	(10)
Discounting adjustments to receivables and payables		(40)	(78)
Profit before income tax		**106,636**	**103,908**
Income tax benefit/(expense)	X-1-2	(97)	5,578
Profit for the period		**106,539**	**109,486**
Attributable to owners of the parent		**98,755**	**113,651**
Attributable to non-controlling interests	VII-5	**7,784**	(4,165)
Earnings per share	VII-4	€2.13	€2.45
Diluted earnings per share	VII-4	€2.13	€2.45
Other comprehensive income			
Actuarial gains and losses	VIII-1	157	(271)
Items that will not be reclassified to profit or loss		***157***	(271)
Valuation gains and losses on financial instruments (cash flow hedges)	VI-3	3,833	(4,683)
Items that may be reclassified subsequently to profit or loss		***3,833***	(4,683)
Other comprehensive income/(loss)		**3,990**	**(4,954)**
Comprehensive income		**110,529**	**104,532**
Attributable to owners of the parent		**102,745**	**108,697**
Attributable to non-controlling interests	VII-5	7,784	(4,165)

[1] The presentation of finance costs and other financial expenses and financial income has been changed to present capitalised interest in accordance with IAS 23 – Borrowing Costs. The reclassification has no impact on either "Finance costs and other financial income and expenses, net" or "Profit for the period".

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	**Total equity**
Equity at 31 December 2019	**93,058**	**556,116**	**22,621**	**(17,936)**	**5,697**	**3,235,894**	**589,758**	**4,485,205**	**551,770**	**5,036,975**
<u>Movements for the period</u>										
Profit for the period	-	-	-	-	-	-	113,651	113,651	(4,165)	109,486
Other comprehensive income/(loss), net of tax	-	-	-	-	(4,683)	(271)	-	(4,954)	-	(4,954)
Comprehensive income	**-**	**-**	**-**	**-**	**(4,683)**	**(271)**	**113,651**	**108,697**	**(4,165)**	**104,532**
Appropriation of profit	-	-	-	-	-	589,758	(589,758)	-	-	-
Treasury share transactions	-	-	-	2,635	-	-	-	2,635	-	2,635
Gains and losses on sales of treasury shares	-	-	-	(2,643)	-	-	-	(2,643)	-	(2,643)
Share-based payments	-	-	-	-	-	1,538	-	1,538	-	1,538
Dividends paid to owners of the parent	-	-	-	-	-	(122,828)	-	(122,828)	(10,801)	(133,629)
Equity at 30 June 2020	**93,058**	**556,116**	**22,621**	**(17,945)**	**1,014**	**3,704,091**	**113,651**	**4,472,604**	**536,804**	**5,009,408**
<u>Movements for the period</u>										
Profit for the period	-	-	-	-	-	-	173,228	173,228	13,637	186,865
Other comprehensive income/(loss), net of tax	-	-	-	-	(1,184)	156	-	(1,029)	-	(1,029)
Comprehensive income	**-**	**-**	**-**	**-**	**(1,184)**	**156**	**173,228**	**172,199**	**13,637**	**185,836**
Appropriation of profit	-	-	-	-	-	-	-	-	-	-
Treasury share transactions	-	-	-	0	-	-	-	-	-	-
Gains and losses on sales of treasury shares	-	-	-	(9)	-	-	-	(9)	-	(9)
Share-based payments	-	-	-	-	-	1,732	-	1,732	-	1,732
Dividends paid to owners of the parent	-	-	-	-	-	-	-	-	-	-
Equity at 31 December 2020	**93,058**	**556,116**	**22,621**	**(17,953)**	**(170)**	**3,705,978**	**286,879**	**4,646,526**	**550,442**	**5,196,968**
<u>Movements for the period</u>										
Profit for the period	-	-	-	-	-	-	98,755	98,755	7,784	106,539
Other comprehensive income/(loss), net of tax					3,833	157		3,990	-	3,990
Comprehensive income	**-**	**-**	**-**	**-**	**3,833**	**157**	**98,755**	**102,745**	**7,784**	**110,529**
Appropriation of profit	-	-	-			286,879	(286,879)	-		-
Treasury share transactions	-	-	-	4,028	-	-	-	4,028	-	4,028
Gains and losses on sales of treasury shares	-	-	-	(3,995)	-	-	-	(3,995)	-	(3,995)
Share-based payments	-	-	-	-	-	1,938	-	1,938	-	1,938
Dividends paid to owners of the parent	-	-	-	-	-	(97,476)	-	(97,476)	(9,944)	(107,420)
Equity at 30 June 2021	**93,058**	**556,116**	**22,621**	**(17,920)**	**3,663**	**3,897,476**	**98,755**	**4,653,766**	**548,282**	**5,202,048**

D – Consolidated Statement of Cash Flows

(in thousands of euros)	Notes Section E	First-half 2021	First-half 2020
Cash flows from operating activities			
Profit for the period attributable to owners of the parent		98,755	113,651
Fair value adjustments to investment property	IV-4	(54,677)	(42,806)
Depreciation, amortisation and impairment (excluding impairment)	IV-3	616	486
Net additions to provisions	VIII-1	(25)	474
Net gains/(losses) from disposals of investment property	IV-6	(96)	-
Discounting adjustments and valuation losses on financial instruments		40	88
Deferral of rent-free years and key money	V-1	2,680	(1,256)
Employee benefits	IX-3	1,938	1,538
Non-controlling interests in profit for the period	VII-5	7,784	(4,165)
Cash flow after finance costs and income tax		**57,014**	**68,010**
Finance costs	VI-2	14,717	13,629
Income tax	X-2	97	(5,578)
Cash flow before finance costs and income tax		**71,828**	**76,061**
Change in working capital		(11,357)	(13,556)
Interest paid		(18,422)	(10,904)
Interest received		5	32
Income tax paid		372	(7,107)
Net cash provided by operating activities		**42,425**	**44,526**
Cash flows from investing activities			
Acquisitions of and improvements to investment property	XII -1	(65,038)	(50,269)
Acquisitions of intangible assets and property and equipment		(536)	(1,341)
Amounts due on asset acquisitions		439	-
Proceeds from disposals of investment property, intangible assets and property and equipment	IV-6	264,000	-
Investment property disposal costs	IV-6	(1,291)	-
Other cash inflows and outflows		-	2,301
Net cash provided by (used by) investing activities		**197,573**	**(49,309)**
Cash flows from financing activities			
Purchases and sales of treasury shares, net		33	(8)
Dividends paid to owners of the parent	VII-3	(97,476)	(122,828)
Dividends paid to non-controlling interests		-	-
Proceeds from new borrowings	XII-2	51,791	1,464,601
Repayments of borrowings	XII-2	(170,402)	(1,119,331)
Other movements in financing items		4,030	(1,625)
Net cash provided by (used by) financing activities		**(212,024)**	**220,809**
Net change in cash and cash equivalents		**27,975**	**216,026**
Cash and cash equivalents at beginning of period		10,921	54,002
Cash and cash equivalents at end of period	XII-1	38,896	270,028
Net change in cash and cash equivalents		**27,975**	**216,026**

E – Notes to the Consolidated Financial Statements

I - Accounting Policies

I - 1) Accounting standards

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

The following standards and amendments published by the IASB and adopted by the European Union are effective for accounting periods ending 30 June 2021:

- Amendments to IFRS 4, IFRS 7, IFRS 9, IFRS 16 and IAS 39 Interest Rate Benchmark Reform – Phase 2. These amendments, which are in addition to those published in 2019, address the effects of the reform on a company's financial statements that arise when, for example, an interest rate benchmark is replaced with an alternative benchmark rate. They are designed to assist companies in providing useful information concerning the reform's impact on their financial statements. None of the Group's confirmed credit lines were indexed on the old interest rate benchmarks (Libor and Eonia) and therefore no interest rates were replaced at 30 June 2021.

- Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4. The Group is not concerned by these amendments because IFRS 4 only applies to insurance companies.

The following amendments published by the IASB had not yet been adopted by the European Union at 30 June 2021:

- Amendments to IFRS 16 – Leases – Covid-19-Related Rent Concessions. IFRS 16 requires lessees to consider individual lease contracts to determine whether certain rent concessions are lease modifications. If this is the case, the lessee must remeasure the lease liability by applying a revised discount rate. The amendment to IFRS 16 exempts lessees from having to determine whether rent concessions occurring as a direct consequence of the Covid-19 pandemic are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications by recognising their impact in profit or loss for the period. This practical expedient only applies to lessees' rent concessions occurring as a direct consequence of the COVID-19 pandemic, and only if certain conditions are met.
The amendment does not grant any relief to lessors from the obligation of analysing rent concessions to determine whether they are lease modifications.

- Amendments to IAS 1 – Presentation of Financial Statements – Classification of Liabilities as Current or Non-current. These amendments clarify the criteria for classifying liabilities as current or non-current, which could consequently affect a company's loan covenants. To give companies time to prepare for the amendments, the IASB has set the effective date for these amendment at January 2023.

- Amendments to IAS 1 – Disclosure of Accounting Policies. The purpose of these amendments is to help companies improve accounting policy disclosures so that they provide more useful information to users of the financial statements. They require companies to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments are effective for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted.

- Amendments to IAS 8 – Definition of Accounting Estimates. Changes in accounting estimates were previously defined as follows: "A change in accounting estimate is an adjustment to the carrying amount of an asset or liability, or to the amount of the periodic consumption of an asset, resulting from an assessment of the current status of the asset or liability and the expected future benefits and obligations associated with it. Changes in accounting estimates result from new information or new developments and, therefore, are not corrections of errors." This definition has been deleted and replaced by the following definition of accounting estimates: "Accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty." The IASB has stipulated that the amendments to IAS 8 are effective for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted.

- Amendments to IFRS 17 – Insurance Contracts. The purpose of these amendments is to help companies implement the standard. The Group is not concerned by these amendments because IFRS 17 only applies to insurance companies.

• Amendments to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction Under certain circumstances, companies are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations – transactions for which companies recognise both an asset and a liability. The amendments clarify that the exemption does not apply and that companies are required to recognise deferred tax on such transactions. The aim of the amendments is to reduce diversity in the reporting of deferred tax on leases and decommissioning obligations. The amendments are effective for annual reporting periods beginning on or after 1 January 2023, for qualifying transactions occurring on or after the opening date of the first comparative period presented. Early application is permitted.
The Group's financial statements at 30 June do not include any assets and liabilities recognised in a single transaction and therefore, the amendment was not early adopted.

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 period to the date when control is transferred.

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

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

I - 3) Critical accounting estimates and judgements

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

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

II - Significant Events of the Period

II - 1) Redevelopment and renovation programmes

Properties undergoing development at 30 June 2021 represented roughly 20% of the total portfolio. They consist mainly of the Group's current three flagship projects concerning:

- Retail space in the Louvre Saint-Honoré building, which is scheduled for delivery in late 2023 under a turnkey lease on over 20,000 sq.m. During first-half 2021, site clearance and asbestos removal work continued and general contracting work began.

- The Biome office complex on avenue Emile Zola (approximately 24,000 sq.m.). Redevelopment work continued during the period, with the building scheduled for delivery in 2022.

- The office building at 83 avenue Marceau (approximately 9,000 sq.m.). Redevelopment work is nearing completion and the building will be delivered within the next few weeks. This property has been fully pre-let.

The 112 Wagram property was sold in January for €120.5 million and the 9 Percier property was sold in February for €143.5 million (net sale price). The Group began seeking buyers for these properties in 2020 under its asset rotation policy. Their fair values at 31 December 2020 were based on these prices and reflected a 16% average increase in value over the year. This outstanding performance confirms the quality of SFL's assets and strategic positioning.

No properties were acquired during the period.

During first-half 2021, leases were signed on around 17,000 sq.m. of mainly office space.

II - 2) Impacts of the Covid-19 health crisis

During the period, SFL continued to apply the measures deployed in 2020 to limit the pandemic's effects on its business and results.

The rent collection rate at 30 June 2021 was 98% for first-quarter rents and 96% for second-quarter rents. Past-due rents were reviewed on a case-by-case basis to determine whether a provision was needed. Very few new support measures were granted to tenants during the period.

The rental market had slowed since the onset of the Covid-19 crisis, but it picked up in first-half 2021 and leases were signed on several significant units.

The Covid-19 crisis had little impact on asset valuation at 30 June 2021. In the backdrop of the pandemic, office assets were fairly resilient, but valuation assumptions for retail units had to be adjusted to take into account investor aversion to this asset class and uncertainty about the level of turnover-based rents.

II - 3) Announcement by Colonial of a proposed transaction involving SFL shares

On 3 June 2021, Colonial – SFL's majority shareholder – announced a proposed transaction in two parts:

- The first part consists of a simplified mixed (cash and share) tender offer for the shares of SFL not yet held by Colonial and Prédica, details of which were submitted to the French securities regulator (*Autorité des marchés financiers* – AMF) on 16 June 2021.

- The second concerns a change in the existing partnership between SFL and Prédica to consolidate their long-term relationship. It would involve the buyback and cancellation by SFL of some of the SFL shares held by Prédica (representing 7.86% of the capital), and an asset swap whereby SFL would acquire Prédica's interest in the Washington Plaza, 106 Haussmann, Galerie des Champs-Elysées and 90 Champs-Elysées properties and Prédica would acquire SFL's non-controlling interests in the #cloud.paris, Cézanne Saint-Honoré, 92 Champs-Elysées and 103 Grenelle properties. Prédica would then swap its remaining 5% interest in SFL's capital for Colonial shares. The transactions are expected to be carried out during the third quarter of this year.

II - 4) Subsequent events

- At its meeting on 8 July, SFL's Board of Directors approved Colonial's proposed mixed tender offer for SFL shares and recommended that shareholders tender their shares to the offer. The Board's reasoned recommendation is presented in full in the draft response to the offer submitted to the AMF on 8 July 2021.

- The mixed tender offer for SFL's shares was decided pursuant to the AMF's approval dated 20 July 2021, and will run from 22 July 2021 to 25 August 2021 inclusive.

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 CBD	Other Paris	Western Crescent	Corporate	First-half 2021
Rental income	**69,852**	**15,159**	**1,065**	**-**	**86,077**
Gross property expenses	(14,295)	(3,626)	(855)	-	(18,776)
Property expenses recovered from tenants	11,741	2,577	263	-	14,581
Property expenses, net of recoveries	(2,554)	(1,049)	(592)	-	(4,194)
Net property rentals	**67,299**	**14,110**	**473**	**-**	**81,882**
Other income	104	194	11	486	795
Depreciation, amortisation and impairment	-	-	-	(616)	(616)
Provision (expense)/reversals, net	(858)	160	-	(726)	(1,424)
Employee benefits expense	-	-	-	(9,821)	(9,821)
Other expenses	-	-	-	(4,197)	(4,197)
Profit on disposal of investment properties	96	-	-	-	96
Fair value adjustments to investment property	61,235	(4,598)	(1,959)	-	54,677
Operating profit/(loss)	**127,875**	**9,866**	**(1,474)**	**(14,874)**	**121,393**
Finance costs and other financial expenses	-	-	-	(14,726)	(14,726)
Financial income	-	-	-	9	9
Fair value adjustments to financial instruments	-	-	-	-	-
Discounting adjustments to receivables and payables	-	-	-	(40)	(40)
Profit/(loss) before income tax	**127,875**	**9,866**	**(1,474)**	**(29,631)**	**106,636**
Income tax expense	-	-	-	(97)	(97)
Profit/(loss) for the period	**127,875**	**9,866**	**(1,474)**	**(29,728)**	**106,539**
Attributable to owners of the parent	**118,976**	**9,866**	**(1,474)**	**(28,613)**	**98,755**
Attributable to non-controlling interests	8,899	-	-	(1,115)	7,784
Other comprehensive income					
Actuarial gains and losses	-	-	-	157	157
Items that will not be reclassified to profit or loss	-	-	-	*157*	*157*
Valuation gains and losses on financial instruments (cash flow hedges)	-	-	-	3,833	3,833
Items that may be reclassified subsequently to profit or loss	-	-	-	*3,833*	*3,833*
Other comprehensive income/(loss)	**-**	**-**	**-**	**3,990**	**3,990**
Comprehensive income/(loss)	**127,875**	**9,866**	**(1,474)**	**(25,738)**	**110,529**
Attributable to owners of the parent	**118,976**	**9,866**	**(1,474)**	**(24,623)**	**102,745**
Attributable to non-controlling interests	8,899	-	-	(1,115)	7,784

(in thousands of euros)	Paris CBD	Other Paris	Western Crescent	Corporate	30 June 2021
Segment assets	5,968,146	1,204,817	114,450	65,055	7,352,468
Unallocated assets	-	-	-	45,874	45,874
Total assets	**5,968,146**	**1,204,817**	**114,450**	**110,929**	**7,398,342**

The segment analysis for first-half 2020 is as follows:

(in thousands of euros)	Paris CBD	Other Paris	Western Crescent	Corporate	First-half 2020[1]
Rental income	**76,121**	**13,857**	**1,212**	**-**	**91,190**
Gross property expenses	(16,122)	(4,095)	(762)	-	(20,979)
Property expenses recovered from tenants	13,508	2,386	331	-	16,225
Property expenses, net of recoveries	(2,614)	(1,709)	(431)	-	(4,754)
Net property rentals	**73,507**	**12,148**	**781**	**-**	**86,436**
Other income	787	53	-	209	1,049
Depreciation, amortisation and impairment	-	-	-	(486)	(486)
Provision expense, net	(185)	(134)	-	(474)	(793)
Employee benefits expense	-	-	-	(6,556)	(6,556)
Other expenses	-	-	-	(4,831)	(4,831)
Profit/(loss) on disposal of other assets	-	-	-	-	-
Fair value adjustments to investment property	23,746	23,409	(4,349)	-	42,806
Operating profit/(loss)	**97,855**	**35,476**	**(3,568)**	**(12,138)**	**117,625**
Finance costs and other financial expenses	-	-	-	(13,661)	(13,661)
Financial income	-	-	-	32	32
Fair value adjustments to financial instruments	-	-	-	(10)	(10)
Discounting adjustments to receivables and payables	-	-	-	(78)	(78)
Profit/(loss) before income tax	**97,855**	**35,476**	**(3,568)**	**(25,855)**	**103,908**
Income tax benefit	-	-	-	5,578	5,578
Profit/(loss) for the period	**97,855**	**35,476**	**(3,568)**	**(20,277)**	**109,486**
Attributable to owners of the parent	**103,751**	**35,476**	**(3,568)**	**(22,008)**	**113,651**
Attributable to non-controlling interests	(5,896)	-	-	1,731	(4,165)
Other comprehensive income					
Actuarial gains and losses	-	-	-	(271)	(271)
Items that will not be reclassified to profit or loss	-	-	-	(271)	(271)
Valuation gains and losses on financial instruments (cash flow hedges)	-	-	-	(4,683)	(4,683)
Items that may be reclassified subsequently to profit or loss	-	-	-	(4,683)	(4,683)
Other comprehensive income/(loss)	**-**	**-**	**-**	**(4,954)**	**(4,954)**
Comprehensive income/(loss)	**97,855**	**35,476**	**(3,568)**	**(25,231)**	**104,532**
Attributable to owners of the parent	**103,751**	**35,476**	**(3,568)**	**(26,962)**	**108,697**
Attributable to non-controlling interests	(5,896)	-	-	1,731	(4,165)

(in thousands of euros)	Paris CBD	Other Paris	Western Crescent	Corporate	31 Dec. 2020
Segment assets	6,126,040	1,189,464	115,310	39,888	7,470,712
Unallocated assets	-	-	-	20,081	20,081
Total assets	**6,126,040**	**1,189,464**	**115,310**	**59,979**	**7,490,793**

[1] The presentation of finance costs and other financial expenses and financial income has been changed to present capitalised interest in accordance with IAS 23 – Borrowing Costs. The reclassification has no impact on either "Finance costs and other financial income and expenses, net" or "Profit for the period".

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 period in which they are capitalised.

(in thousands of euros)	31 Dec. 2020	Increases	Decreases	Reclassifications	30 June 2021
Cost					
Computer software	7,426	-	-	1,670	9,096
Other	1,372	358	-	(827)	904
Amortisation and impairment					
Computer software	(6,723)	(227)	-	-	(6,949)
Other	(832)	-	-	-	(833)
Carrying amount	**1,244**	**131**	**-**	**843**	**2,218**

IV - 2) Property and equipment

Accounting policy

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

Washington Plaza owner-occupied property:

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

Other:

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

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

(in thousands of euros)	31 Dec. 2020	Increases	Decreases	Reclassifications	30 June 2021
Cost					
Owner-occupied property	21,238	-	-	-	21,238
Other property and equipment	7,514	178	(216)	(843)	6,632
Depreciation and impairment					
Owner-occupied property	(3,794)	(102)	-	-	(3,897)
Other property and equipment	(4,154)	(287)	216	-	(4,225)
Carrying amount	**20,804**	**(212)**	**-**	**(843)**	**19,750**

The fair value excluding transfer costs of owner-occupied property – corresponding to the Company's headquarters – was €50,910 thousand at 30 June 2021 and €51,359 thousand at 31 December 2020.

IV - 3) Depreciation, amortisation and impairment

(in thousands of euros)	First-half 2021	First-half 2020
Amortisation and impairment of intangible assets	(227)	(73)
Depreciation and impairment of property and equipment	(389)	(413)
Total	**(616)**	**(486)**

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) Investment property

Accounting policy

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

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

The properties are initially recognised at cost. SFL has chosen to measure investment property in subsequent periods 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 or loss. 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 income statement 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.

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 2021 by Cushman & Wakefield and CBRE.
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%
- CBRE: 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 experts in first-half 2021 other than for the half-yearly appraisals included marketing fees (tenant searches) for €80 thousand, fees related to property disposals for €482 thousand and fees for valuations performed in connection with a refinancing project for €20 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. Asset valuations include the estimated cost of future work (based on expenditure budgets for properties in the process of being redeveloped), including any lessor contributions to the cost of work carried out by the tenant.

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 1.8% for properties subject to VAT) and excluding transfer costs and acquisition expenses.

Properties in the process of being redeveloped are measured at fair value. Fair value estimates for these properties are determined using the discounted cash flows method and are considered to be reliable.

Fair value measurement of investment property

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

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

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

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

(in thousands of euros)	31 Dec. 2020	Increases	Gains from remeasure-ment at fair value	Decreases	Losses from remeasure-ment at fair value	Reclassifica-tions	30 June 2021
Investment property	7,081,176	76,777	124,130	-	(69,453)	-	7,212,630
Total	**7,081,176**	**76,777**	**124,130**	**-**	**(69,453)**	**-**	**7,212,630**

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

(in thousands of euros)	30 June 2021	31 December 2020
Appraisal value of investment property, excluding transfer costs	7,323,230	7,457,515
Deduction of owner-occupied property (see Note IV-2)	(50,910)	(51,359)
Adjustments to reflect specific lease terms and other adjustments	(59,690)	(65,521)
Reclassification of investment property held for sale	-	(259,459)
Fair value of investment property in the statement of financial position	**7,212,630**	**7,081,176**

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

Geographic area	Value excluding transfer costs 30 June 2021 (in € millions, on a 100% basis)	Inputs	Range of values[1]	Weighted average[1]
Paris Central Business District	6,023	Market rents	€496 - €886	€755
		Exit yield	2.75% - 4.00%	2.98%
		Discount rate	3.65% - 7.00%	3.90%
Other Paris	1,186	Market rents	€555 - €742	€626
		Exit yield	3.00% - 3.40%	3.18%
		Discount rate	3.30% - 5.50%	4.59%
Western Crescent	114	Market rents	€305 - €533	€475
		Exit yield	3.45% - 5.00%	3.84%
		Discount rate	4.40% - 6.10%	4.83%
Total	**7,323**			

[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 €597,698 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 €705,838 thousand.

Investment property valuation inputs used at 31 December 2020 were as follows for each asset class:

Geographic area	Value excluding transfer costs 31 December 2020 (in € millions, on a 100% basis)	Inputs	Range of values[1]	Weighted average[1]
Paris Central Business District	6,176	Market rents	€630 - €940	€758
		Exit yield	2.75% - 3.16%	2.93%
		Discount rate	3.70% - 4.20%	4.07%
Other Paris	1,167	Market rents	€548 - €744	€619
		Exit yield	3.10% - 3.50%	3.27%
		Discount rate	4.00% - 5.40%	4.48%
Western Crescent	115	Market rents	€320 - €547	€487
		Exit yield	3.55% - 5.00%	3.93%
		Discount rate	4.40% - 6.10%	4.85%
Total	**7,458**			

[1] *Offices.*

IV - 5) Investment property held for sale

Accounting policy

Investment property is classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual for sales of such assets and its sale must be highly probable. Investment property is reclassified as "Assets held for sale" when their sale has been decided by the Board of Directors or a selling agent has been appointed.

The following two properties, initially reclassified as held for sale, were sold during the first half:

- 112 Wagram: sale completed on 13 January 2021 for a net sale price of €120.5 million

- 9 Percier: sale completed on 17 February 2021 for a net sale price of €143.5 million

(in thousands of euros)	31 Dec. 2020	Increases	Gains from remeasurement at fair value	Decreases	Losses from remeasurement at fair value	Reclassifications	30 June 2021
Investment property held for sale	259,459	3	-	(259,462)	-	-	-
Total	**259,459**	**3**	**-**	**(259,462)**	**-**	**-**	**-**

IV - 6) Profit on disposal of investment property

(in thousands of euros)	Sale price excl. transfer costs and tax	Carrying amount of the sold properties	Disposal gain	Disposal date
112 Wagram	120,500	120,474	26	13 January 2021
9 Percier	143,500	143,431	69	17 February 2021
Total	**264,000**	**263,904**	**96**	

The above carrying amounts include costs to sell the assets for €1,291 thousand and the effects of specific lease terms which are recognised over the non-cancellable lease term (rent-free periods) for €3,151 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 external 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
An analysis of the principal versus agent distinction under IFRS 15 led to the conclusion that the Group acts as principal. Accordingly, gross property expenses are presented 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 accounts for 98.6% of rental income. Net property rentals take into account the €2,680 thousand negative net impact of recognising rent-free periods and rent step-ups over the non-cancellable lease term. Revenue from external management contracts amounted to €2,941 thousand.

At 30 June 2021, future minimum lease payments receivable over the remaining term of non-cancellable operating leases break down as follows:

(in thousands of euros)	Total	Due within 1 year	Due in 1 to 2 years	Due in 2 to 3 years	Due in 3 to 4 years	Due in 4 to 5 years	Due beyond 5 years
Rental income	1,063,004	182,561	153,043	132,586	92,240	64,601	437,974

At 31 December 2020, future minimum lease payments receivable over the remaining term of non-cancellable operating leases broke down as follows

(in thousands of euros)	Total	Due within 1 year	Due in 1 to 2 years	Due in 2 to 3 years	Due in 3 to 4 years	Due in 4 to 5 years	Due beyond 5 years
Rental income	1,033,110	176,089	158,373	128,602	94,372	60,814	414,861

V - 2) Other income

(in thousands of euros)	First-half 2021	First-half 2020
Own-work capitalised	482	186
Other income	313	863
Total	795	1,049

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. A receivables ageing analysis is used to determine historical losses. Expected losses are then determined based on observed historical losses adjusted for a forward-looking component.
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 2021			31 December 2020
	Total	Due within 1 year	Due in 1 year or more	
Trade receivables	32,950	29,180	3,770	72,009
Provisions	(3,659)	(1,466)	(2,193)	(2,423)
Trade receivables	**29,291**	**27,714**	**1,577**	**69,586**
Prepayments to suppliers	28	28	-	(285)
Employee advances	108	108	-	1
Tax receivables (other than income tax)	16,797	16,797	-	13,038
Other operating receivables	4,156	4,156	-	902
Other receivables	430	430	-	189
Other receivables	**21,520**	**21,520**	**-**	**13,845**
Total	**50,811**	**49,234**	**1,577**	**83,431**

Trade receivables include outstanding receivables, and the short-term portion of receivables relating to the recognition of rent-free periods and rent concessions in accordance with IFRS for an amount of €15,275 thousand. At 31 December 2020, receivables relating to the recognition of rent-free periods and rent concessions amounted to €65,521 thousand, of which €18,190 thousand was due within one year. Receivables do not bear interest.

Cost of risk can be analysed as follows:

(in thousands of euros)	First-half 2021	First-half 2020
Increases in provisions	(926)	(324)
Reversals of provisions	228	5
Bad debt write-offs, net of recoveries	(23)	-
Total	**(721)**	**(319)**
Rental income	86,077	91,190
Net losses as a % of rental income	**0.84%**	**0.35%**

V - 4) Other current and non-current assets

(in thousands of euros)	30 June 2021	31 December 2020
Prepayments	18,600	26,832
Other trade receivables	44,415	-
Total other non-current assets	**63,015**	**26,832**
Income tax prepayments	-	1,855
Prepayments	7,133	195
Total other current assets	**7,133**	**2,050**

Prepayments recorded under "Non-current assets" concern redevelopment work on the Biome building. Other trade receivables recorded under " Non-current assets" correspond to the long-term portion of receivables relating to the recognition of rent-free periods and rent concessions in accordance with IFRS. At 31 December 2020, the long-term portion of receivables relating to the recognition of rent-free periods and rent concessions amounted to €47,331 thousand and was presented as a lump sum with the short-term portion under "Current assets".
Prepayments recorded under "Current assets" include costs related to the proposed transaction involving SFL shares (advisors' fees) for €3,000 thousand and various tax prepayments.

V - 5) Trade and other payables

(in thousands of euros)	30 June 2021	31 Dec. 2020
Trade payables	12,924	9,248
Amounts due within one year on asset acquisitions	34,895	34,460
Total	**47,819**	**43,708**

Amounts due within one year on asset acquisitions correspond mainly to the amounts payable to building contractors in connection with renovation work on the Louvre Saint-Honoré, Biome and 83 Marceau buildings.

V - 6) Other current and non-current liabilities

(in thousands of euros)	30 June 2021	31 Dec. 2020
Deposits	25,529	27,691
Other liabilities	2	-
Total other non-current liabilities	**25,531**	**27,691**
Deposits	3,336	2,921
Customer prepayments	16,515	20,727
Accrued employee benefits expense	6,505	5,936
Accrued taxes	16,377	7,911
Other liabilities	9,799	7,200
Accruals	4,730	352
Total other current liabilities	**57,262**	**45,047**

The caption "Deposits" corresponds mainly to guarantee deposits and bonds received from tenants.
Accrued employee benefits expense includes statutory and discretionary profit-sharing and bonus accruals.
The amounts reported under "Accruals" correspond to deferred revenue.

V - 7) Other expenses

(in thousands of euros)	First-half 2021	First-half 2020
Fees	(730)	(686)
Taxes other than on income	(1,069)	(1,470)
Other	(2,398)	(2,675)
Total	**(4,197)**	**(4,831)**

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.

(in thousands of euros)	Effective interest rate	Expiry date	30 June 2021	31 Dec. 2020	30 June 2021	31 Dec. 2020
			Short-term portion		Long-term portion	
Bonds						
€500 million bond issue, 2020-2027	1.50%	5 June 2027	534	4,316	500,000	500,000
€500 million bond issue, 2018-2025	1.50%	29 May 2025	678	4,459	500,000	500,000
€500 million bond issue, 2015-2022	2.25%	16 Nov. 2022	4,052	821	289,600	289,600
€500 million bond issue, 2014-2021	1.875%	26 Nov. 2021	252,484	250,162	-	-
Bank loans						
Natixis – Deka – Deutsche Hypotheken	1.571%	16 July 2022	2,610	2,622	193,960	195,000
Negotiable European commercial paper (NEU-CP)	Fixed rate (payable in advance)	Due within 1 year	30,000	165,000	-	-
Interest rate swaps						
CA-CIB 5-year swap starting 26 Nov. 2021	-0.3475%	26 Nov. 2026	-	-	-	457
Current account advances (liabilities)	Various		62,137	52,195	-	-
Bank overdrafts	Various		21,791	4,362	-	-
Impact of deferred recognition of debt arranging fees			(2,890)	(3,000)	(7,098)	(8,497)
Total			**371,396**	**480,937**	**1,476,462**	**1,476,560**

The following table analyses borrowings by maturity:

(in thousands of euros)	30 June 2021	Due within 1 year	Due in 1 to 5 years	Due beyond 5 years	31 Dec. 2020
Bonds	1,547,348	257,748	789,600	500,000	1,549,358
Natixis/Deka/Deutsche Hypothekenbank	196,570	2,610	193,960	-	197,622
NEU CP	30,000	30,000	-	-	165,000
CA-CIB 5-year 0.3475% swap	-	-	-	-	457
Current account advances (liabilities)	62,137	62,137	-	-	52,195
Bank overdrafts	21,791	21,791	-	-	4,362
Deferred debt arranging fees	(9,988)	(2,890)	(6,524)	(574)	(11,497)
Total	**1,847,858**	**371,396**	**977,036**	**499,426**	**1,957,497**

Current account advances correspond to Prédica's minority interest in the current accounts of SCI Washington and the Parholding sub-group.

Debt covenants and acceleration clauses in force at 30 June 2021 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 2021	Actual ratios at 31 December 2020	Main acceleration clauses
Loan-to-value (LTV) <= 50%	22.3%	23.8%	Loan default Termination of operations
Interest cover >= 2x	4.7	5.2	Bankruptcy proceedings
Secured LTV <= 20%	2.5%	2.5%	Breach of financial covenants
Unrestricted property portfolio value >= €2bn	€6.7bn	€6.8bn	Material adverse event

The Group was not in breach of any of its financial covenants at 30 June 2021.

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

(in thousands of euros)	First-half 2021	First-half 2020
Interest on bank loans, bonds and commercial paper	(16,361)	(14,364)
Interest on external current account advances	(37)	(61)
Interest on hedging instruments	-	(274)
Other financial expenses	(1,841)	(1,416)
Capitalised interest expense	3,513	2,454
Finance costs and other financial expenses	**(14,726)**	**(13,661)**
Interest income	9	32
Financial income	**9**	**32**
Finance costs and other financial income and expenses, net	**(14,717)**	**(13,629)**

Capitalised interest expense corresponds to interest capitalised at the rate of 1.62% during the redevelopment of the Louvre Saint-Honoré, Biome and 83 Marceau buildings.

The presentation of finance costs and other financial expenses and financial income has been changed to present capitalised interest in accordance with IAS 23 – Borrowing Costs. The reclassification has no impact on either "Finance costs and other financial income and expenses, net" or "Profit for the period".

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.

All of the derivative instruments held by the Group are considered as macro-hedges and qualify for hedge accounting. Prospective hedge effectiveness tests performed at the period-end showed that the hedges were 100% effective. All of the Group's hedging positions correspond to cash flow hedges. The portion of the gain or loss on these instruments that is determined as being an effective hedge is recognised directly in equity and the ineffective portion is recognised through profit or loss. When a hedging relationship is discontinued, it no longer qualifies for hedge accounting and any subsequent changes in fair value of the hedging instrument are recognised directly through profit or loss. The cumulative gains and losses on the instrument recorded in equity at that date are reclassified ("recycled") to the income statement over the remaining life of the hedged item.

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.

At 30 June 2021, the Group's portfolio included:

- A 5-year forward swap set up with CA-CIB (variable rate swapped for a fixed rate of -0.3475%) on a notional amount of €100,000 thousand. The swap will come into effect on 26 November 2021 and qualifies for hedge accounting as a cash flow hedge.

- A 5-year forward swap set up with CIC (variable rate swapped for a fixed rate of -0.4525%) on a notional amount of €100,000 thousand. The swap will come into effect on 26 November 2021 and qualifies for hedge accounting as a cash flow hedge.

- A 7-year collar set up with Société Générale (the option writer) on a notional amount of €100,000 thousand, with a -0.11% cap and a -0.60% floor. No premium is payable on this collar which was set up on 4 September 2019 and restructured in May 2021. It is a cash flow hedge qualifying for hedge accounting.

- A 7-year collar set up with CIC (the option writer) on a notional amount of €100,000 thousand, with a -0.25% cap and a -0.52% floor. No premium is payable on this collar, which will come into effect on 16 November 2022. It is a cash flow hedge qualifying for hedge accounting.

Fair value of hedging instruments

At 30 June 2021, the fair value of the hedging instruments amounted to €3,663 thousand, breaking down as follows:

(in thousands of euros)	Notional amount	Maturity	30 June 2021	31 Dec. 2020
CA-CIB swap at -0.3475%	100,000	Nov. 2026	554	(457)
CIC swap at -0.4525%	100,000	Nov. 2026	1,093	76
Société Générale collar -0.11%/-0.60%	100,000	Sept. 2026	676	46
CIC collar -0.25%/-0.52%	100,000	Nov. 2027	1,340	165
Total			**3,663**	**(170)**

Fair value adjustments to financial instruments through profit or loss and other financial income and expenses

(in thousands of euros)	First-half 2021	First-half 2020
Interest rate hedges	-	(10)
Total	**-**	**(10)**

Fair value adjustments to financial instruments through other comprehensive income

(in thousands of euros)	First-half 2021	First-half 2020
Interest rate hedges	3,833	(4,683)
Total	**3,833**	**(4,683)**

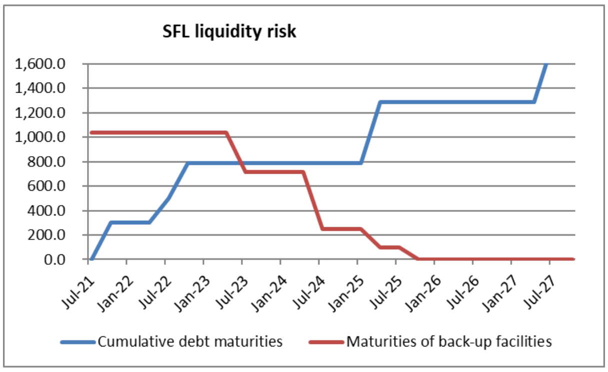
Positive fair value adjustments recorded in other comprehensive income on financial instruments qualified as cash flow hedges amounted to €3,833 thousand in first-half 2021 (first-half 2020: negative fair value adjustments of €4,683 thousand).

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 2021, SFL had access to confirmed undrawn lines of credit in the amount of €1,040 million, unchanged from 31 December 2020. 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 2023.



In addition to its undrawn lines of credit, SFL has diversified sources of financing (comprising bilateral lines of credit, bonds, NEU CP commercial paper programme, etc.) and a portfolio of high quality assets, all of which reduce its exposure to liquidity risk.

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.

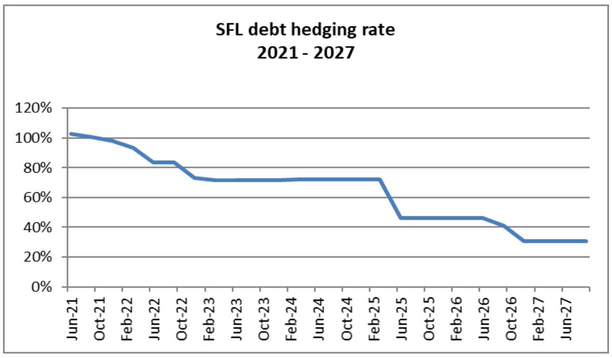
3 - Market risk

The Group did not have any exposure to currency risk at 30 June 2021. 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 2021, 103% of debt was at fixed rates of interest (including variable rate debt swapped for fixed rate).



b/ Risk assessment

The average spot cost of debt stood at 1.64% at 30 June 2021, versus 1.50% at 31 December 2020.

A 50-basis point rise in interest rates across the yield curve in first-half 2021 would not have had any impact on the average cost of debt, which would be unchanged at 1.64%. However, a 50-basis point fall in interest rates across the yield curve would have had the effect of increasing the average cost of debt to 1.66%, lifting finance costs for the period by 1.31% or €193 thousand.

Concerning hedging instruments, a 50-basis point increase in interest rates would have had the effect of increasing the fair value of hedging instruments by €8,748 thousand at 30 June 2021, while a 50-basis point decrease would have had the effect of reducing their fair value by €9,286 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 2021.

(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
Negotiable European commercial paper (NEU-CP)	30,000	-	-	-	-	-	30,000
Current account advances	62,112		-	-	-	-	62,112
Total floating rate debt	**92,112**	**-**	**-**	**-**	**-**	**-**	**92,112**

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 2021 was €1,609,064 thousand, as follows:

(in thousands of euros)	Notional amount	Maturity	30 June 2021	31 Dec. 2020
November 2014 bonds	249,700	Nov. 2021	250,589	253,024
November 2015 bonds	289,600	Nov. 2022	297,550	300,430
May 2018 bonds	500,000	May 2025	528,005	528,315
June 2020 bonds	500,000	June 2027	532,920	533,378
Total	**1,539,300**		**1,609,064**	**1,615,147**

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)	30 June 2021	31 December 2020
Deposits	227	227
Interest rate hedges	3,663	287
Total	**3,890**	**514**

Hedging instruments with a positive fair value recognised in assets totalled €3,663 thousand at 30 June 2021 (see Note VI-3). The instruments concerned are cash flow hedges qualifying for hedge accounting.

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.
Bank overdrafts represent a source of financing for the Group and they are therefore included in cash flows from financing activities in the statement of cash flows.

(in thousands of euros)	30 June 2021	31 Dec. 2020
Cash at bank and in hand	38,896	15,283
Total	**38,896**	**15,283**

VII - Equity and Earnings Per Share

VII - 1) Equity

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

VII - 2) Treasury shares

Accounting policy

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

(in thousands of euros)	31 Dec. 2020	Increases	Decreases	30 June 2021
Number of treasury shares	175,818	7,120	(71,143)	111,795
Average purchase/sale price, in euros	€73.27	€63.47	€62.97	€79.19
Total	**12,882**	**452**	**(4,480)**	**8,853**

VII - 3) Dividends

(in thousands of euros)	First-half 2021		First-half 2020	
	Paid	Per share	Paid	Per share
Prior year dividend paid in current year	97,476	€2.10	122,828	€2.65
Total	**97,476**	**€2.10**	**122,828**	**€2.65**

VII - 4) Earnings per share

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, i.e., the number of ordinary shares outstanding at the beginning of the period, net of treasury shares, adjusted for the time-weighted number of ordinary shares cancelled or issued during the period.
Diluted earnings per share are calculated by dividing profit attributable to ordinary owners of the parent by the weighted average number of ordinary shares outstanding during the period, net of treasury shares and adjusted for the dilutive effect of outstanding performance shares awarded to employees and corporate officers.

(in thousands of euros)	First-half 2021	First-half 2020
Profit used to calculate basic earnings per share	98,755	113,651
Average number of ordinary shares	46,528,974	46,528,974
Average number of treasury shares	(154,903)	(175,793)
Average number of ordinary shares excluding treasury shares	**46,374,072**	**46,353,181**
Basic earnings per share	**€2.13**	**€2.45**
Profit used to calculate basic earnings per share	98,755	113,651
Average number of ordinary shares	46,528,974	46,528,974
Average number of treasury shares	(154,903)	(175,793)
Effect of dilutive instruments on the average number of shares	64,942	65,947
Diluted weighted average number of ordinary shares excluding treasury shares	**46,439,013**	**46,419,128**
Diluted earnings per share	**€2.13**	**€2.45**

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. However, the proposed transaction announced by Colonial that is currently in progress will have an impact on SFL shares in the future (see Note II-3).

VII - 5) Non-controlling interests in net profit

(in thousands of euros)	First-half 2021	First-half 2020
SCI Washington	**8,325**	**4,702**
Rental income	3,479	3,824
Fair value adjustments to investment property	5,004	870
Net financial expense	(15)	(49)
Other	(142)	57
Parholding subgroup	**(541)**	**(8,867)**
Rental income	7,020	6,897
Fair value adjustments to investment property	(6,108)	(17,341)
Net financial expense	(1,007)	(875)
Deferred tax	938	3,580
Current tax	(888)	(729)
Other	(494)	(401)
Total	**7,784**	**(4,165)**

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 income statement, the provision expense is presented net of the amount recognised for the reimbursement.

(in thousands of euros)	31 Dec. 2020	Increases	Decreases	*o/w utilisations*	Actuarial gains and losses	Reclassifications	30 June 2021
Provisions for employee benefits	1,608	726	(20)	*(20)*	(157)	(662)	1,495
Long-term provisions	**1,608**	**726**	**(20)**	***(20)***	**(157)**	**(662)**	**1,495**
Provisions for refurbishment work and tenant claims	276	-	-	-	-	-	276
Provisions for employee benefits	731	-	(731)	*(731)*	-	662	662
Short-term provisions	**1,007**	**-**	**(731)**	***(731)***	**-**	**662**	**938**
Total	**2,615**	**726**	**(751)**	***(751)***	**(157)**	**-**	**2,433**

Provisions for employee benefits include provisions for length-of-service awards payable to employees on retirement and jubilees for €1,133 thousand. See Note IX-2 for more details.

Short- and long-term provisions covering benefits payable to members of senior management amounted to €55.5 thousand at 30 June 2021 and €59 thousand at 31 December 2020.

VIII - 2) Provision expense, net

(in thousands of euros)	First-half 2021	First-half 2020
Charges to provisions for impairment of current assets	(926)	(324)
Charges to provisions for operating contingencies and charges	(631)	(370)
Charges to provisions for other contingencies and charges	(95)	(104)
Total charges	**(1,653)**	**(798)**
Reversals of provisions for impairment of current assets	228	5
Total reversals	**228**	**5**
Total	**(1,424)**	**(793)**

IX - Remuneration and Other Employee Benefits

IX - 1) Employee benefits expense

Employee benefits expense breaks down as follows:

(in thousands of euros)	First-half 2021	First-half 2020
Wages and salaries	(3,515)	(3,305)
Payroll taxes	(1,985)	(1,649)
Other employee benefits	(1,922)	(1,466)
Statutory and discretionary profit-sharing	(2,400)	(136)
Total	**(9,821)**	**(6,556)**

The Group had 70 administrative staff (including 2 corporate officers) and 2 building staff at 30 June 2021, compared with 74 administrative staff and two building staff at 30 June 2020.

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 2021	31 Dec. 2020
Projected benefit obligation at beginning of period	**1,215**	**1,018**
Benefits paid during the period	(20)	(7)
Service cost	92	83
Interest cost	3	6
Actuarial gains and losses	(157)	115
Projected benefit obligation at end of period	**1,133**	**1,215**

The projected benefit obligation is calculated at six-monthly intervals based on actuarial assumptions, including, at 30 June 2021, a discount rate of 0.82% (31 December 2020: 0.29%) and a 1.00% rate of future salary increases (unchanged from 31 December 2020). Actuarial gains and losses are recognised in equity.
A 25-bps reduction in the discount rate at 30 June 2021 would lead to a €26.6 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 income statement.

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 2021

	Plan no. 5	Plan no. 5	Plan no. 5
Date of shareholder authorisation	20 April 2018	20 April 2018	20 April 2018
Grant date (date of Board meeting)	15 Feb. 2019	6 Feb. 2020	11 Feb. 2021
Initial target number of shares	32,948	34,476	33,460
Initial expected vesting rate	100.00%	100.00%	100.00%
Initial number of shares expected to vest	32,948	34,476	33,460
Fair value per share	€54.00	€65.38	€54.59
Rights cancelled/forfeited	(424)	(312)	(184)
Expected vesting rate at end of period	150.00%	100.00%	100.00%
Number of shares expected to vest at end of period	**48,786**	**34,164**	**33,276**

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 2021, the rates applied were 150% for the 2019 plan (probable ranking: no. 2) and 100% for the 2020 and 2021 plans (probable ranking: no. 3).

During first-half 2021, a total of 63,648 performance shares vested under 2018 Plan no. 5.

The cost of performance share plans recognised in first-half 2021 amounted to €1,938 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 2021**	**First-half 2020**
Short-term benefits, excluding payroll taxes[1]	2,538	2,309
Payroll taxes on short-term benefits	1,591	1,376
Share-based payments[2]	1,032	993
Directors' fees	342	396
Total	**5,503**	**5,074**

[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 income statement for stock options and employee rights issues.

At 30 June 2021, related party transactions comprised current account advances representing the share of the minority shareholder, Prédica, in the current accounts of SCI Washington and SAS Parholding (see Note VI-1).

X - Income Taxes

X - 1) Income tax expense

Accounting policy

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

Current income tax expense for first-half 2021 amounted to €1,972 thousand (first-half 2020: €1,583 thousand) and mainly concerned the Parholding tax group.

X - 2) Deferred taxes

Accounting policy

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

The election for taxation as an SIIC led to the elimination of the tax bases of the SIICs' assets used to calculate deferred taxes. The only remaining deferred tax assets and liabilities concern companies in the Parholding sub-group that are not eligible for taxation as SIICs.

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., 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., 26.5%.

(in thousands of euros)	31 Dec. 2020	Reclassifications	Equity	Income statement	30 June 2021
Fair value adjustments to investment property	(183,442)	-	-	3,155	(180,288)
Adjustment of depreciation	(28,895)	-	-	(772)	(29,667)
Adjustment of property rentals	(3,182)	-	-	(524)	(3,706)
Capitalisation of interest expense and transaction costs	(521)	-	-	-	(521)
Other	(1,224)	-	-	15	(1,210)
Net	**(217,266)**	-	-	1,875	(215,391)
Of which deferred tax assets	-	-	-	-	-
Of which deferred tax liabilities	(217,266)	-	-	1,875	(215,391)

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)	114,419	474	79,298	34,647
Other first demand guarantees	400	400	-	-
Guarantees received from suppliers	41,594	12,529	29,065	-
Total commitments received	**156,413**	**13,403**	**108,363**	**34,647**

Contractual redevelopment and renovation obligations

At 30 June 2021, the Group's contractual commitments relating to investment properties undergoing renovation totalled €131,893 thousand (€128,951 thousand at 31 December 2020), of which €107,629 thousand concerned the Biome and Louvre Saint-Honoré 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	-
Cadif	175,000	-	175,000	-
Société Générale	100,000	-	100,000	-
BNP Paribas 2019	390,000	-	390,000	-
Banque Postale	75,000	-	75,000	-
BNP Paribas 2020	150,000	-	150,000	-
Total	**1,040,000**	**-**	**1,040,000**	**-**

XI - 3) Employee-related commitments

An employee who is also an officer of the Company is entitled to compensation if he or she resigns or is dismissed as a result of a major change in the scope of his or her 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 or she is dismissed from his position for reasons other than gross or wilful misconduct.

At 30 June 2021, total commitments for the payment of compensation amounted to €2,710 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

XII - 1) Acquisitions of and improvements to investment properties and cash and cash equivalents

(in thousands of euros)	First-half 2021	First-half 2020
Acquisitions of and improvements to investment property		
Work	(65,038)	(50,269)
Total	**(65,038)**	**(50,269)**
Cash and cash equivalents at end of period		
Cash at bank and in hand	38,896	270,028
Total	**38,896**	**270,028**

XII-2) Changes in net cash provided by (used by) financing activities

(in thousands of euros)	31 Dec. 2020	Cash flows			Non-cash changes			30 June 2021
		Proceeds from new borrowings	Repayments of borrowings	Interest paid[1]	Deferred recognition of debt arranging fees	Dividends decided but not yet paid	Fair value adjustments	
Borrowings (excl. accrued interest)	1,724,882	-	(1,040)	-	1,509	-	-	1,725,351
Accrued interest on borrowings	10,601	-	-	(2,022)	-	-	-	8,579
Commercial paper	165,000	30,000	(165,000)	-	-	-	-	30,000
Derivative instruments (liabilities)	457	-	-	-	-	-	(457)	-
Current account advances (liabilities)	52,195	-	-	(2)	-	9,944	-	62,137
Bank overdrafts	4,362	21,791	(4,362)	-	-	-	-	21,791
Total	**1,957,497**	**51,791**	**(170,402)**	**(2,024)**	**1,509**	**9,944**	**(457)**	**1,847,858**

[1] *This amount represents the impact of the change in accrued interest in paid interest and not the actual interest payments.*

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
SAS Cloud	899 379 390	100	100
SAS 92 Champs-Elysées	899 324 255	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.

During first-half 2021, two new companies were set up: SAS Cloud and SAS 92 Champs-Elysées. Both of these companies are wholly owned by the Group.

Société Foncière Lyonnaise is a fully consolidated subsidiary of Spanish company Inmobiliaria Colonial SOCIMI, SA, which owned 81.7% of the capital at 30 June 2021. The Group and all of its subsidiaries have their registered office in the 8th *arrondissement* of Paris.

4. STATUTORY AUDITORS' REVIEW REPORT

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 et du Centre

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

S.A.S au capital de 2 188 160 €
572 028 041 R.C.S. Nanterre

Commissaire aux Comptes
Membre de la compagnie
régionale de Versailles et du Centre

Société Foncière Lyonnaise

Société Anonyme
42, rue Washington
75008 Paris
France

Statutory Auditors' review report on the 2021 interim financial information

Six months ended 30 June 2021

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 2021;
- the verification of the information contained in the interim management report.

Due to the global crisis related to the Covid-19 pandemic, the interim consolidated financial statements have been prepared and reviewed under specific conditions. Indeed, this crisis and the exceptional measures taken in the context of the state of sanitary emergency have had numerous consequences for companies, particularly on their operations and their financing, and have led to greater uncertainties on their future prospects. Those measures, such as travel restrictions and remote working, have also had an impact on the companies' internal organisation and the performance of our work.

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.

I – Conclusion on 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 2021, and of the results of its operations for the six-month period then ended, in accordance with IFRSs as adopted by the European Union.

II – 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, 28 July 2021

The Statutory Auditors

PricewaterhouseCoopers Audit

Deloitte & Associés

Laurent Daniel

Laure Silvestre-Siaz

Sylvain Durafour

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 2021 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, 28 July 2021

Nicolas Reynaud

Chief Executive Officer

SFL

SOCIETE FONCIERE LYONNAISE