

SFL – First-Half 2019 Results

Rental income: €97.9 million (up 3.6% like-for-like)
EPRA earnings: €57.2 million (up 10.6%)
Attributable net profit: €253.5 million
Property portfolio value: €6,823 million (up 3.9%)
EPRA NNAV: €88.2 per share (up 2.2% over 6 months / up 7.1% over 1 year)

The interim consolidated financial statements for the six months ended 30 June 2019 were approved by the Board of Directors of Société Foncière Lyonnaise on 26 July 2019, at its meeting chaired by Juan José Brugera.

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

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

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

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

Results: significant increases in business indicators

Rental income:

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

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

Operating profit before disposal gains and losses and fair value adjustments to investment property rose 5.8% to €83.3 million in first-half 2019 from €78.7 million in the year-earlier period.

Portfolio appraisal value:

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

Net profit for the period:

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

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

Sustained business activity: full occupancy of assets, dynamic letting activity and progress on redevelopment projects

Rental operations:

Despite a first-half decline in rental volumes, which were nonetheless in line with the average for the past ten years, the segment of the Paris region office rental market occupied by SFL remained very buoyant, with the shortage of available properties in the Central Business District driving up rental values, especially for prime properties. During the period, the SFL Group signed leases on around 24,000 sq.m. of mainly office space, on excellent terms.

They include a long-term lease with WeWork on the whole of the 106 Haussmann building (12,000 sq.m.) that will come into effect at the beginning of 2020 after the current tenant moves out at the end of this year.

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

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

Development operations:

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

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

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

Portfolio operations:

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

Financing: further reduction in average borrowing costs, a very robust financial position

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

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

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

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

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

EPRA NNAV up 2.2%

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

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

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

EPRA indicators

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

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

Alternative Performance Indicators (APIs)

API EPRA earnings

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

API EPRA NNAV

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

API net debt

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

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

About SFL

Leader in the prime segment of the Parisian commercial real estate market, Société Foncière Lyonnaise stands out for the quality of its property portfolio, which is valued at €6.8 billion and is focused on the Central Business District of Paris (#cloud.paris, Edouard VII, Washington Plaza, etc.), and for the quality of its client portfolio, which is composed of prestigious companies in the consulting, media, digital, luxury, finance and insurance sectors. As France's oldest property company, SFL demonstrates year after year an unwavering commitment to its strategy focused on creating a high value in use for users and, ultimately, substantial appraisal values for its properties.

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

S&P rating: BBB+ stable outlook