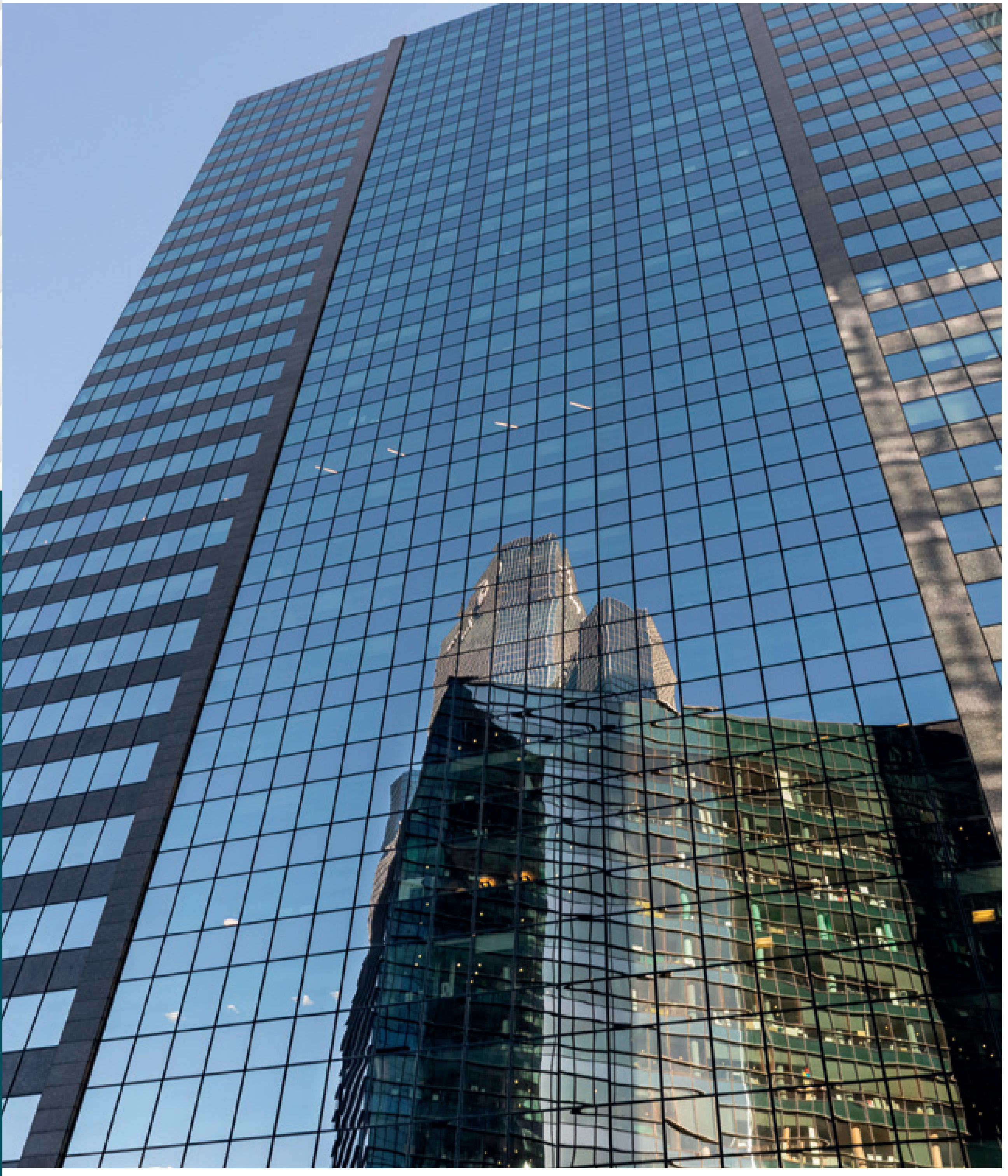
2019 INTERIM FINANCIAL REPORT

SIX-MONTH PERIOD ENDED JUNE 30, 2019

# PLACES FOR SMART BUSINESS



CeGeREAL

# Contents

CeGeREAL

A French *société anonyme* (joint-stock corporation)
with share capital of EUR 79,532,200
Registered office: 42, rue de Bassano 75008 Paris
422 800 029 RCS Paris
SIRET No. 422 800 029 00031

# Interim financial report
# Six-month period ended June 30, 2019

(Article L.451-1-2 III of the French Monetary and Financial Code [*Code monétaire et financier*], Articles 222-4 et seq. of the General Regulations of the French financial markets authority [*Autorité des marchés financiers* – AMF]

Interim financial report for the six-month period ended June 30, 2019 prepared in accordance with the provisions of Article L.451-1-2 III of the French Monetary and Financial Code and Articles 222-4 *et seq.* of the General Regulations of the AMF. This report has been distributed in accordance with the provisions of Article 221-3 of the General Regulations of the AMF. It can also be consulted on the Company's website at www.cegereal.com.

# 1. Attestation by the person responsible for the 2019 interim report

"I certify that to my knowledge, the complete consolidated financial statements for the six-month period ended June 30, 2019 have been prepared in accordance with the applicable accounting standards and give a true and fair view of the assets, financial position and results of the Company and all companies included in the consolidation scope, and that the attached interim activity report includes a fair review of the material events of the first six months of the year and their impact on the interim financial statements, the principal related-party transactions, as well as a description of the main risks and uncertainties for the remaining six months of the year."

Paris, July 24, 2019

Jérôme Anselme
Chief Executive Officer

# 2. Interim activity report

## 2.1. COMMENTS ON ACTIVITY

### 2.1.1. RENTAL ACTIVITY

Cegereal continued to record brisk rental activity across its entire portfolio in the first half of 2019.

The Europlaza tower is now home to the European Banking Authority's 200 employees, who have moved into the fully renovated spaces on floors 24 to 27.

Likewise, the additional space leased by KPMG in the tower's upper floors is now occupied.

Across the entire portfolio, the Group delivered transactions covering nearly 13,000 sq.m, of which 74% were with existing tenants.

Lastly, at end-May 2019 Cap Gemini vacated the office space it occupied in Europlaza.

**Property occupancy rate**

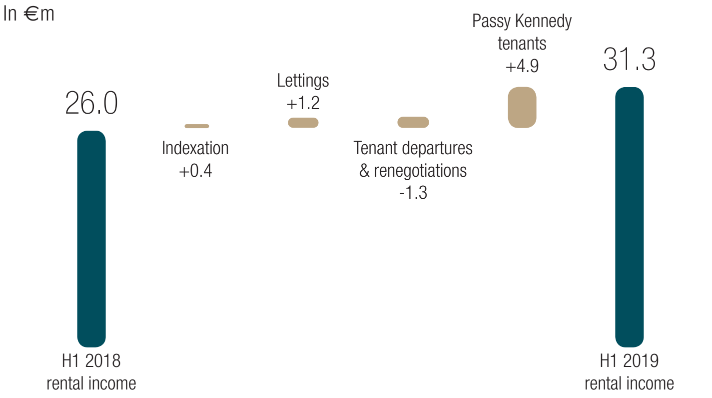
The occupancy rate takes into account premises for which the Company receives rent or rental expenses under a lease agreement.

At July 1, 2019, the occupancy rate stood at 94.2%, compared with 90.5% at June 30, 2018. The breakdown by property is as follows:

| July 1, 2019 | Europlaza | Arcs de Seine | Rives de Bercy | Hanami campus | Passy Kennedy | Total |
|---|---|---|---|---|---|---|
| Occupancy rate | 80.2% | 98.4% | 100% | 100% | 100% | 94.2% |

**Change in rental income (June 30, 2018 – June 30, 2019)**

Front-end incentives are fully amortized over the non-cancellable term of the lease.




### 2.1.2. NET INCOME BY KEY INDICATOR FOR THE PERIOD

In thousands of euros

| Statement of comprehensive income caption | June 30, 2019 | June 30, 2018 | Change | Breakdown |
|---|---|---|---|---|
| Net rental income | 28,502 | 20,707 | 7,795 | In 2019, net rental income corresponds to rental income for the period (€31.3m) and rental expenses rebilled to lessees (€15.0m), less building-related costs (€17.8m).<br>The increase in net rental income was mainly attributable to income generated by the Passy Kennedy property, which accounted for €4.9m of the increase. |
| Administrative costs | (1,983) | (2,377) | 394 | Administrative costs chiefly comprise fees, insurance premiums and personnel costs. The decrease mainly reflects a fall in payroll expenses. |
| Other operating income and expenses | 213 | (138) | 351 | Other operating income mainly correspond to the change in fair value of share subscription warrants (BSA). |
| Change in fair value of investment property | 23,127 | (1,397) | 24,524 | This indicator corresponds to an increase in the fair value of investment property, mainly Europlaza, reflecting a higher rental value, the impact of capital expenditure programs, and yield compression. |
| **Net operating income** | **49,860** | **16,795** | **33,065** | |
| Net financial expense | (7,120) | (5,637) | (1,483) | Net financial expense mainly corresponds to €7.1m in financial expenses. The increase was mainly driven by interest expenses incurred on financing for the Passy Kennedy building. |
| **Net income** | **42,739** | **11,158** | **31,581** | |

## 2.2. FINANCIAL RESOURCES

### STRUCTURE OF NET DEBT AT JUNE 30, 2019

Net debt stood at EUR 738m at June 30, 2019, compared with EUR 713m at December 31, 2018.

### Prothin

On July 26, 2016, Prothin entered into a credit agreement (the "**Prothin Credit Agreement**") with Aareal Bank AG, Natixis, and Natixis Pfandbriefbank AG for a principal amount of EUR 525m, which enabled it in particular to pay back its initial loan and finance certain work and expenditures. The initial due date is July 26, 2021.

The Prothin Credit Agreement provides for mandatory early repayment in the event of a change in control of Prothin and/or Cegereal.

Under the Prothin Credit Agreement, should Prothin make any voluntary early repayments of all or part of the outstanding loan, or in certain cases, mandatory early repayments of all or part of the outstanding loan, Prothin will have to pay, in addition to breakage costs, an early repayment indemnity equal to 0.50% of the amount repaid for all repayments made between the second and third anniversaries of the date of signature. No early repayment indemnity is due for early repayments made after the third anniversary of the date of signature.

### Hanami Rueil SCI

In parallel with Cegereal's acquisition of K Rueil, on December 15, 2016, Hanami Rueil SCI entered into a credit agreement (the "**Hanami Rueil Credit Agreement**") with Banque Postale Credit Entreprises and Société Générale for a principal amount of EUR 100m. The due date is December 15, 2021.

The Hanami Rueil Credit Agreement provides for mandatory early repayment in the event of a change in control of Cegereal.

Under the Hanami Rueil Credit Agreement, should Hanami Rueil SCI make any voluntary or mandatory early repayments of all or part of the outstanding loan, Hanami Rueil SCI will have to pay, in addition to breakage costs, an early repayment indemnity equal to 0.25% of the amount repaid for all repayments made between the second and third anniversaries of the date of signature. No early repayment indemnity is due for early repayments made after the third anniversary of the date of signature. Any mandatory early repayment made following a change of control will be reduced by 50% of its amount.

### CGR Propco SCI

In parallel to the Passy Kennedy acquisition, on December 5, 2018 (the Date of Signature), CGR Propco SCI entered into a loan agreement with Société Générale (the "**CGR Propco SCI Credit Agreement**") for a principal amount of EUR 148.5m to finance part of the Passy Kennedy acquisition price and to cover transaction costs and expenses related to the Passy Kennedy building. The initial due date is December 5, 2022 but may be extended at the company's option for a further year.

The CGR Propco SCI Credit Agreement provides for mandatory early repayment in the event of a change in control of CGR Propco SCI and/or Cegereal.

Under the CGR Propco SCI Loan Agreement, should CGR Propco SCI make any voluntary early repayments of all or part of the outstanding loan, or in certain cases, mandatory early repayments of all or part of the outstanding loan, CGR Propco SCI will have to pay, in addition to breakage costs, an early repayment indemnity equal to:

- 1% of the amount repaid for all repayments made between the Date of Signature (exclusive) and the first anniversary of the Date of Signature (inclusive);
- 0.75% of the amount repaid for all repayments made between the first anniversary of the Date of Signature (exclusive) and the second anniversary of the Date of Signature (inclusive);
- no repayment indemnity is due after the second anniversary of the Date of Signature (exclusive).

### MAIN GUARANTEES

The gross nominal amount of loans guaranteed by real security interests (contractual mortgages, lender's lien, mortgage undertakings) amounted to EUR 770m at June 30, 2019 versus EUR 771m at end-2018.

At June 30, 2019, the total amount of secured loans represented 53.7% of the total value of the portfolio, versus 54.7% at December 31, 2018, compared with a maximum authorized limit ranging from 70% to 75% in the various loan agreements.

The main guarantees given in the credit agreements are as follows:

- *Real security interests:*
Over the buildings, lender's lien and/or first-ranking mortgages.

- *Assignment of receivables:*
Assignments of receivables to banks under the Dailly Law mechanism.

- *Pledge of shares:*
Pledge of the Prothin shares held by Cegereal.

Pledge of the Hanami Rueil SCI shares held by Cegereal and K Rueil.

Pledge of the CGR Propco SCI shares held by Cegereal and CGR Holdco EURL.

- *Pledge of bank accounts:*
Exclusive senior pledges of the credit balance on French bank accounts, in favor of the banks.

- *Cash collateral:*

- *Assignments of insurance indemnities:*
Assignment of any insurance indemnity whose payment has been opposed, as provided for in Article L.121-13 of the French Insurance Code (*Code des assurances*).

- *Pledge of receivables – Hedge contract:*
Pledge of any receivable that might become due to the borrower by the hedging bank under a hedge contract.

- *Pledge of receivables – Recovery claims:*
Pledge of any recovery claims the borrower might come to have against the debtors in respect of any recovery claims related to the pledge of hedge contract receivables.

- *Pledge of subordinated loan receivables:*
Pledge of subordinated loan receivables (i.e., any intragroup loan due to Cegereal from its subsidiaries as borrower).

- *Letters of intent within the meaning of Article 2322 of the French Civil Code (Code civil).*

## MAIN FINANCIAL RATIOS

Cegereal's financial position at June 30, 2019 satisfies the various limits that could affect the conditions set out in the Company's different credit agreements relating to interest and early repayment clauses.

The table below presents the main financial ratios set out in the credit agreements.

| | June 30, 2019 | Dec. 31, 2018 | June 30, 2018 |
|---|---|---|---|
| **Gearing ratio** | | | |
| Non-current borrowings(1)/adjusted net assets(2) | 53.7% | 54.7% | 53.4% |
| **Interest coverage ratio** | | | |
| Rental income for the reference period(3)/ interest expenses(4) | 496% | 475% | 471% |

(1) Non-current borrowings are presented in Note 5.11 to the interim consolidated financial statements.
(2) Adjusted net assets are presented in Note 5.1 to the interim consolidated financial statements.
(3) Rental income for the reference period refers to total projected net rental income on leases signed for the following 12 months (for the Prothin loan) or for the previous six months to the following six months (for the Hanami and Passy Kennedy loan), excluding taxes, less rental income where the risk of non-recovery has been established (notice given, unpaid rent) and operating expenses rebillable to lessees and operating expenses not rebillable to lessees.
(4) Interest expenses comprise expenses (including recoverable expenses) including tax incurred in operating, upkeeping, maintaining, running, managing and administering the buildings (in particular, compensation paid under the asset management agreement and the property management agreement) and administrative expenses incurred by the borrower.

## OTHER FINANCING ARRANGEMENTS

There are no plans to put in place other investment financing with respect to which the management bodies have made firm commitments.

# 2.3. CHANGES IN NET ASSET VALUE (NAV)

The indicators published by Cegereal are aligned with the recommendations of the European Public Real Estate Association (EPRA), of which Cegereal is a member. EPRA's role is to promote, develop and represent the publicly listed real estate sector.

EPRA notably publishes its "Best Practices Recommendations" (BPRs) whose purpose is to improve transparency and comparability of financial reporting by listed real estate companies.

### 2.3.1. EPRA EARNINGS

In thousands of euros, except per share data

| | June 30, 2019 | Dec. 31, 2018 | June 30, 2018 |
|---|---|---|---|
| Net income under IFRS | 42,739 | 33,106 | 11,158 |
| Restatement of changes in fair value of investment property | (23,127) | (11,701) | 1,397 |
| Other restatements of changes in fair value | 490 | 475 | 253 |
| Restatement of other fees | 534 | 8,794 | 1,862 |
| **EPRA earnings** | **20,636** | **30,674** | **14,670** |
| *EPRA earnings per share* | 1.3 | 2.0 | 1.1 |

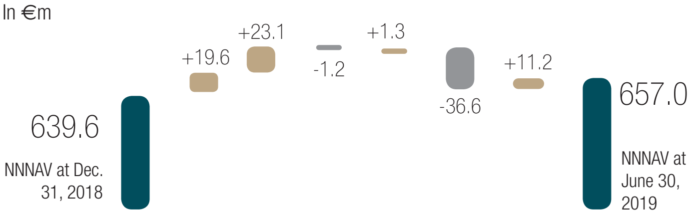
#### 2.3.2. EPRA NAV & EPRA NNNAV

In thousands of euros, except per share data

| | June 30, 2019 | Dec. 31, 2018 | June 30, 2018 |
|---|---|---|---|
| Shareholders' equity under IFRS | 692,214 | 674,889 | 573,697 |
| Portion of rent-free periods | (26,028) | (27,315) | (27,649) |
| Elimination of fair value of interest rate caps | 663 | 246 | 76 |
| Elimination of fair value of interest rate swaps | 342 | 172 | 107 |
| Elimination of fair value of share subscription warrants | 399 | 618 | 674 |
| **EPRA NAV** | **667,590** | **648,611** | **546,905** |
| *EPRA NAV per share* | *42.0* | *41.6* | *40.9* |
| Market value of the loan | (774,055) | (772,432) | (623,728) |
| Carrying amount of the loan | 764,894 | 764,507 | 617,579 |
| Revaluation to fair value of interest rate caps | (663) | (246) | (76) |
| Revaluation to fair value of interest rate swaps | (342) | (172) | (107) |
| Revaluation to fair value of share subscription warrants | (399) | (618) | (674) |
| **EPRA NNNAV** | **657,025** | **639,649** | **539,900** |
| *EPRA NNNAV per share* | *41,3* | *41,0* | *40,4* |
| **Number of shares (excl. treasury shares)** | **15,892,890** | **15,589,311** | **13,357,191** |

EPRA NNNAV

In €m




19.6: H1 2019 recurring income (IFRS)
+23.1: Change in fair value of real estate assets
-1.2: Change in fair value of bank debt
+1.3: Change in lease incentives to tenants
-36.6: Dividends paid in 2019
+11.2: Capital increase

## 2.4. SIGNIFICANT EVENTS BETWEEN THE DATE ON WHICH THE 2018 FINANCIAL STATEMENTS WERE APPROVED FOR ISSUE AND JUNE 30, 2019

The main significant events since the date on which the 2018 financial statements were approved for issue are stated in Note 5.30 to the interim consolidated financial statements.

## 2.5. DESCRIPTION OF THE MAIN RISKS AND UNCERTAINTIES FOR THE REMAINING SIX MONTHS OF THE YEAR

There was no change in the Company's risk factors during the first six months of the year.

Consequently, reference should be made to the Company's Registration Document filed with the AMF on March 22, 2019 under no. DDR.19-0187.

# 3. Interim consolidated financial statements

(for the six-month period ended June 30, 2019)

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2019

In thousands of euros, except per share data

| | Notes | June 30, 2019 | Dec. 31, 2018 | June 30, 2018 |
|---|---|---|---|---|
| | | 6 months | 12 months | 6 months |
| Rental income | 5.18 | 31,290 | 53,026 | 26,036 |
| Income from other services | 5.19 | 15,030 | 15,010 | 10,746 |
| Building-related costs | 5.20 | (17,818) | (31,002) | (16,074) |
| **Net rental income** | | **28,502** | **37,034** | **20,707** |
| | | | | |
| Administrative costs | 5.21 | (1,983) | (4,039) | (2,377) |
| Net additions to provisions & depreciation and amortization | | 0 | (0) | (5) |
| Other operating expenses | 5.22 | (7) | (89) | (133) |
| Other operating income | 5.22 | 220 | 0 | 0 |
| | | | | |
| Increase in fair value of investment property | | 36,137 | 12,501 | 4,291 |
| Decrease in fair value of investment property | | (13,010) | (800) | (5,688) |
| *Total change in fair value of investment property* | 5.1 | *23,127* | *11,701* | *(1,397)* |
| Net operating income | | 49,860 | 44,607 | 16,795 |
| Financial income | | 0 | 6 | 6 |
| Financial expenses | | (7,120) | (11,508) | (5,643) |
| **Net financial expense** | **5.23** | **(7,121)** | **(11,502)** | **(5,637)** |
| | | | | |
| **Corporate income tax** | **5.24** | **0** | **0** | **0** |
| CONSOLIDATED NET INCOME | | 42,739 | 33,106 | 11,158 |
| ***of which attributable to owners of the Company*** | | ***42,739*** | ***33,106*** | ***11,158*** |
| ***of which attributable to non-controlling interests*** | | ***0*** | ***0*** | ***0*** |
| | | | | |
| **Other comprehensive income** | | | | |
| TOTAL COMPREHENSIVE INCOME | | 42,739 | 33,106 | 11,158 |
| ***of which attributable to owners of the Company*** | | ***42,739*** | ***33,106*** | ***11,158*** |
| ***of which attributable to non-controlling interests*** | | ***0*** | ***0*** | ***0*** |
| Basic earnings per share (in euros) | *5.25* | 2.71 | 2.40 | 0.84 |
| Diluted earnings per share (in euros) | *5.25* | 2.60 | 2.27 | 0.79 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT JUNE 30, 2019

In thousands of euros

| | Notes | June 30, 2019 | Dec. 31, 2018 | June 30, 2018 |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Property, plant and equipment | | 44 | 47 | 53 |
| Investment property | 5.1 | 1,435,240 | 1,408,520 | 1,174,400 |
| Non-current loans and receivables | 5.2 | 22,298 | 20,230 | 21,289 |
| Financial instruments | 5.12 | 57 | 597 | 10 |
| **Total non-current assets** | | **1,457,639** | **1,429,393** | **1,195,752** |
| | | | | |
| **Current assets** | | | | |
| Trade accounts receivable | 5.3 | 13,130 | 7,747 | 13,902 |
| Other operating receivables | 5.4 | 9,938 | 14,726 | 11,866 |
| Prepaid expenses | | 131 | 116 | 196 |
| **Total receivables** | | **23,199** | **22,589** | **25,964** |
| | | | | |
| Cash and cash equivalents | 5.5 | 29,187 | 53,367 | 18,879 |
| **Total cash and cash equivalents** | | **29,187** | **53,367** | **18,879** |
| | | | | |
| **Total current assets** | | **52,386** | **75,957** | **44,843** |
| TOTAL ASSETS | | 1,510,025 | 1,505,350 | 1,240,595 |
| **Shareholders' equity** | | | | |
| Share capital | | 79,532 | 78,006 | 66,863 |
| Legal reserve and additional paid-in capital | | 66,462 | 93,277 | 25,314 |
| Consolidated reserves and retained earnings | | 503,481 | 470,500 | 470,363 |
| Net attributable income | | 42,739 | 33,106 | 11,158 |
| **Total shareholders' equity** | **5.10** | **692,214** | **674,889** | **573,697** |
| | | | | |
| **Non-current liabilities** | | | | |
| Non-current borrowings | 5.11 | 763,664 | 763,321 | 616,418 |
| Other non-current borrowings and debt | 5.14 | 9,381 | 9,543 | 6,505 |
| Non-current corporate income tax liability | | 0 | 0 | 0 |
| Financial instruments | 5.12 | 741 | 791 | 780 |
| **Total non-current liabilities** | | **773,786** | **773,655** | **623,704** |
| | | | | |
| **Current liabilities** | | | | |
| Current borrowings | 5.11 | 3,378 | 3,152 | 2,970 |
| Trade accounts payable | 5.16 | 5,866 | 24,996 | 14,698 |
| Corporate income tax liability | | 0 | 0 | 0 |
| Other operating liabilities | 5.15 | 13,953 | 9,698 | 11,363 |
| Prepaid revenue | 5.17 | 20,828 | 18,960 | 14,163 |
| **Total current liabilities** | | **44,025** | **56,806** | **43,194** |
| | | | | |
| **Total liabilities** | | **817,811** | **830,461** | **666,898** |
| TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES | | 1,510,025 | 1,505,350 | 1,240,595 |

# CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2019

In thousands of euros

| | June 30, 2019 | Dec. 31, 2018 | June 30, 2018 |
|---|---|---|---|
| OPERATING ACTIVITIES | | | |
| Consolidated net income | 42,739 | 33,106 | 11,158 |
| | | | |
| *Elimination of items related to the valuation of buildings:* | | | |
| Fair value adjustments to investment property | (23,127) | (11,701) | 1,397 |
| | | | |
| *Elimination of other income/expense items with no cash impact:* | | | |
| Depreciation of property, plant and equipment (excluding investment property) | 7 | 11 | 5 |
| Free share grants not vested at the reporting date | 0 | 0 | 0 |
| Fair value of financial instruments (share subscription warrants, interest rate caps and swaps) | 469 | 473 | 253 |
| Adjustments for loans at amortized cost and fair value of embedded derivatives | 1,177 | 2,247 | 1,208 |
| Contingency and loss provisions | 0 | 0 | 0 |
| Corporate income tax | 0 | 0 | 0 |
| Penalty interest | 0 | 0 | 0 |
| | | | |
| **Cash flows from operations before tax and changes in working capital requirements** | **21,264** | **24,136** | **14,021** |
| Other changes in working capital requirements | (13,314) | 19,621 | 3,965 |
| Working capital adjustments to reflect changes in the scope of consolidation | | | |
| **Change in working capital requirements** | **(13,314)** | **19,621** | **3,965** |
| | | | |
| **Net cash flows from operating activities** | **7,950** | **43,757** | **17,986** |
| INVESTING ACTIVITIES | | | |
| Acquisition of fixed assets | (3,595) | (227,422) | (6,399) |
| Net decrease in amounts due to fixed asset suppliers | (1,950) | 2,620 | 833 |
| | | | |
| **Net cash flows used in investing activities** | **(5,546)** | **(224,802)** | **(5,567)** |
| FINANCING ACTIVITIES | | | |
| Capital increase | 11,204 | 79,901 | 0 |
| Capital increase transaction costs | 0 | (794) | 0 |
| Change in bank debt | (750) | 147,000 | (750) |
| Issue of financial instruments (share subscription warrants) | 0 | 0 | 0 |
| Refinancing/financing transaction costs | (40) | (1,930) | (68) |
| Net increase in liability in respect of refinancing | (420) | 420 | 0 |
| Purchases of hedging instruments | 0 | (796) | 0 |
| Net increase in current borrowings | 204 | 134 | 0 |
| Net decrease in current borrowings | 0 | 0 | (23) |
| Net increase in other non-current borrowings and debt | 0 | 3,615 | 577 |
| Net decrease in other non-current borrowings and debt | (163) | 0 | 0 |
| Purchases and sales of treasury shares | (61) | (42) | (180) |
| Dividends paid | (36,557) | (54,813) | (54,813) |
| **Net cash flows from financing activities** | **(26,583)** | **172,694** | **(55,258)** |
| | | | |
| **Change in cash and cash equivalents** | **(24,179)** | **(8,351)** | **(42,839)** |
| | | | |
| Cash and cash equivalents at beginning of period* | 53,367 | 61,718 | 61,718 |
| | | | |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD*** | **29,188** | **53,367** | **18,879** |

* There were no cash liabilities for any of the periods presented above.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2019

In thousands of euros

| | Share capital | Legal reserve and additional paid-in capital | Treasury shares | Consolidated reserves and retained earnings | Shareholders' equity attributable to owners of the Company | Non-controlling interests | Total shareholders' equity |
|---|---|---|---|---|---|---|---|
| Shareholders' equity at Dec. 31, 2017 | 66,863 | 77,600 | (129) | 473,199 | 617,532 | 0 | 617,532 |
| **Comprehensive income** | **0** | **(794)** | **0** | **33,106** | **32,312** | **0** | **32,312** |
| *- Net income for the period* | | | | 33,106 | 33,106 | | 33,106 |
| *- Other changes** | | (794) | | | (794) | | (794) |
| *- Other comprehensive income* | | | | | | | |
| **Capital transactions with owners** | **11,144** | **16,470** | **(42)** | **(2,527)** | **25,045** | **0** | **25,045** |
| *- Dividends paid (€4.1 per share)* | | (52,286) | | (2,527) | (54,813) | | (54,813) |
| *- Capital increase by increasing par value* | 11,144 | 68,757 | | | 79,901 | | 79,901 |
| *- Change in treasury shares held* | | | (42) | | (42) | | (42) |
| Shareholders' equity at Dec. 31, 2018 | 78,006 | 93,277 | (172) | 503,778 | 674,889 | 0 | 674,889 |
| **Comprehensive income** | **0** | **0** | **0** | **42,739** | **42,739** | **0** | **42,739** |
| *- Net income for the period* | | | | 42,739 | 42,739 | | 42,739 |
| *- Other changes* | | | | | | | 0 |
| *- Other comprehensive income* | | | | | | | |
| **Capital transactions with owners** | **1,526** | **(26,815)** | **(61)** | **(65)** | **(25,415)** | **0** | **(25,415)** |
| *- Dividends paid (€2.3 per share)* | | (36,492) | | (65) | (36,557) | | (36,557) |
| *- Capital increase by increasing par value* | 1,526 | 9,678 | | | 11,204 | | 11,204 |
| *- Change in treasury shares held* | | | (61) | | (61) | | (61) |
| Shareholders' equity at June 30, 2019 | 79,532 | 66,462 | (232) | 546,452 | 692,214 | 0 | 692,214 |

* Other changes corresponds to capital increase transaction costs.

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

# 1. Background and main assumptions used to prepare the consolidated financial statements for the six-month period ended June 30, 2019

## 1.1. OPERATIONAL CONTEXT

On December 5, 2018, Cegereal acquired the Passy Kennedy building through its subsidiary CGR Propco SCI. The building has been included in the Group's real estate assets, which increased the number of properties in its portfolio from four to five in 2018.

The acquisition was financed by a capital increase in the amount of EUR 73m and by external funds in the amount of EUR 148.5m.

## 1.2. PRESENTATION OF COMPARATIVE FINANCIAL INFORMATION

For the purposes of comparison, the financial information presented in the IFRS consolidated financial statements for the six-month period ended June 30, 2019 includes:

- the IFRS consolidated financial statements for the year ended December 31, 2018; and
- the IFRS consolidated financial statements for the six-month period ended June 30, 2018.

## 1.3. REGULATORY CONTEXT

The Group's consolidated financial statements for the six-month period ended June 30, 2019 were prepared in accordance with International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) applicable to reporting periods ended June 30, 2019, as adopted by the European Union (hereafter referred to as "IFRS").

Dividend payments are decided by the General Shareholders' Meeting on the basis of Cegereal SA's financial statements prepared in accordance with French GAAP and not on the basis of the IFRS financial statements.

In addition, Cegereal is required to comply with certain distribution obligations in accordance with its election for tax treatment as a SIIC (see Note 2.8).

The interim consolidated financial statements were adopted by the Board of Directors on July 24, 2019.

# 2. Significant accounting policies used to prepare the consolidated financial statements for the six-month period ended June 30, 2019

## 2.1. PRESENTATION OF THE IFRS FINANCIAL STATEMENTS

### ACCOUNTING STANDARDS

The Group's consolidated financial statements for the six-month period ended June 30, 2019 have been prepared in accordance with international accounting standards (IAS/IFRS) and with the interpretations of the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the European Union at June 30, 2019 and applicable at that date. For the purposes of comparison, the financial statements for the year ended December 31, 2018 have also been prepared according to the same standards.

For the fiscal years presented, the standards and interpretations adopted in the European Union and applicable to the Group are similar to the standards and interpretations effective for these periods as published by the International Accounting Standards Board (IASB). The Group's financial statements are therefore prepared in accordance with IFRS standards and IFRIC interpretations, as published by the IASB.

The consolidated financial statements have been prepared using the historical cost convention, except in the case of investment property, financial instruments and assets held for sale, which are carried at fair value in accordance with IAS 40, IAS 32, IFRS 5 and IFRS 9.

This interim financial report was prepared in accordance with IAS 34 – Interim Financial Reporting.

### STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ADOPTED BY THE EUROPEAN UNION EFFECTIVE FOR REPORTING PERIODS BEGINNING ON OR AFTER JANUARY 1, 2019

As from January 1, 2019, the Company applies:

- IFRIC 23 – Uncertainty over Income Tax Treatments.
- Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures.
- IFRS 16 – Leases. It contains new principles for recognizing leases, primarily for lessees, which are required to recognize assets and liabilities for the majority of leases, as is already the case for finance leases. The standard did not have a material impact on the Group's financial statements.

The standards below, effective for reporting periods beginning on or after January 1, 2019, do not have a material impact on the Group's financial statements:

- Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement.
- Amendments to IFRS 9 – Prepayment Features with Negative Compensation.
- Annual Improvements to IFRSs 2015-2017 Cycle:

- IAS 12 – Income Tax Consequences of Payments on Financial Instruments Classified as Equity.
- IAS 23 – Borrowing Costs Eligible for Capitalization.
- IFRS 3 and IFRS 11 – Previously Held Interest in a Joint Operation.

### PUBLISHED STANDARDS AND INTERPRETATIONS THAT ARE NOT YET EFFECTIVE

The IASB has published the following standards, amendments to standards and interpretations that are applicable to the Group. Although not yet adopted, companies may decide to early adopt them:

- Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (09/14).
- Amendments to IAS 1 and IAS 8 – Definition of Material.

These interpretations and amendments were not early adopted by the Group and are not expected to have a material impact on its consolidated financial statements.

### BASIS OF CONSOLIDATION

The consolidated financial statements include all entities controlled or jointly controlled by the Group, or over which it exercises significant influence. In determining its ownership interest, the Group considers any potential voting rights giving access to additional voting rights, provided that these rights are currently exercisable or convertible.

### FULL CONSOLIDATION

All entities controlled by the Group are fully consolidated. Control is presumed to exist when the Group has the power to manage the relevant activities, is exposed to or is entitled to the variable returns generated by such activities, and has the power to influence such returns.

At June 30, 2019, no entities were jointly controlled or significantly influenced by the Group.

## SCOPE OF CONSOLIDATION

At June 30, 2019, the scope of consolidation included the following entities:

| | Siren no. | % control | % interest | Basis of consolidation | Period taken into account |
|---|---|---|---|---|---|
| Cegereal SA | 422 800 029 | 100% | 100% | Full consolidation | January 1 to June 30, 2019 |
| Prothin SAS | 533 212 445 | 100% | 100% | Full consolidation | January 1 to June 30, 2019 |
| OPPCI K Rueil | 814 319 513 | 100% | 100% | Full consolidation | January 1 to June 30, 2019 |
| Hanami Rueil SCI | 814 254 512 | 100% | 100% | Full consolidation | January 1 to June 30, 2019 |
| CGR Holdco EURL | 833 876 568 | 100% | 100% | Full consolidation | January 1 to June 30, 2019 |
| CGR Propco SCI | 834 144 701 | 100% | 100% | Full consolidation | January 1 to June 30, 2019 |

All entities included in the scope of consolidation close have a December 31 year-end.

## CONSOLIDATION ADJUSTMENTS AND ELIMINATIONS

Business combinations are accounted for in accordance with IFRS 3. A business combination is where the acquirer acquires a controlling interest in one or several businesses. IFRS 3 defines a business as a combination of the three following elements:

- economic resources that create, or have the ability to create outputs;
- any process that, when applied to the resources, creates or has the ability to create outputs;
- the outputs resulting from the processes applied to the resources that provide or have the ability to provide the expected return.

In accordance with IFRS 3, the cost of a business combination reflects the acquisition-date fair value of the assets acquired, liabilities assumed or incurred and equity instruments issued in exchange for the acquiree.

On the first-time consolidation of a company, the impact of consolidation, representing the difference between the acquisition cost of the shares and their share in the fair value of the assets and liabilities transferred, is recorded as:

- a fair value adjustment relating to certain identifiable assets and liabilities, amortized using the same rules as the assets and liabilities to which it relates;
- goodwill (where appropriate), recorded within assets in the consolidated statement of financial position in the case of a positive balance and tested for impairment each year, or recorded within the statement of comprehensive income in the case of a negative balance.

No fair value adjustments or goodwill were recognized on the first-time consolidation of Prothin SAS as the company was created by Cegereal SA on June 22, 2011. This was also the case for CGR Holdco EURL and CGR Propco SCI, which were incorporated in December 2017.

K Rueil and Hanami Rueil SCI entered the scope of consolidation with effect from December 15, 2016. The acquisition did not meet the definition of a business combination within the meaning of IFRS 3 and was therefore treated as the acquisition of a group of assets. The acquisition cost relating to the group of assets was allocated to the identifiable assets acquired and liabilities assumed in proportion to their respective fair value at the acquisition date. No goodwill was recognized.

# 2.2. SEGMENT REPORTING

Within the framework of IFRS 8, the Group has not identified different operating segments insofar as its assets solely comprise commercial real estate located in the Paris area.

IFRS 8 states that operating segments may be aggregated if they are similar in each of the following respects:

- the nature of the products and services;
- the nature of the production processes;
- the type or class of customer for their products and services;
- the methods used to distribute their products or provide their services;
- if applicable, the nature of the regulatory environment, for example, banking, insurance or public utilities.

Consequently, the Group did not have significant additional disclosure requirements as a result of applying IFRS 8.

# 2.3. INVESTMENT PROPERTY

Property held under long-term operating leases to earn rental income or for capital appreciation or both, and not occupied by the Group, is classified as investment property. Investment property includes owned land and buildings.

On acquisition, investment property is measured at the acquisition price including transaction costs (legal fees, transfer duties, etc.) in accordance with IAS 40.

After initial recognition, investment property is remeasured at fair value. As a result, no depreciation or impairment is recognized on investment property. Fair value is measured net of registration tax by an external real estate valuer at the end of each reporting period. The methodology used by the external real estate valuer is described in Note 2.4 below.

Subsequent expenditure may only be allocated to the assets' carrying amount when it is probable that the future economic benefits associated with the property will flow to the Group, and the cost of the property can be measured reliably. All other repair and maintenance costs are recognized in the statement of comprehensive income during the period in which they are incurred. Changes in the fair value of investment property are recognized in the statement of comprehensive income.

# 2.4. ESTIMATES OF THE FAIR VALUE OF INVESTMENT PROPERTY

***Estimates and assumptions***

The fair value of property is measured by an external real estate valuer twice a year in accordance with the benchmark treatment in IAS 40.

In accordance with the recommendations of the Committee of European Securities Regulators (CESR) of July 2009, the Group changes real estate valuer every three years in order to obtain a new analysis of an asset's qualities and market value. Following a rotation, at June 30, 2019, the Company's external real estate valuers are Cushman & Wakefield for Europlaza, Arcs de Seine, Rives de Bercy and Hanami, and CBRE for Passy Kennedy.

When preparing the financial statements, management and the external real estate valuer are required to use certain estimates and assumptions that are likely to affect the amounts of assets, liabilities, income and expenses reported in the financial statements and in the accompanying notes. The Group and its real estate valuer are required to review these estimates and appraisals on an ongoing basis in light of past experience and other factors deemed of material importance with regard to economic conditions. The amounts reported in future financial statements may differ from these estimates as a result of changes in assumptions or circumstances.

The values of investment property measured by the real estate valuers represent the best estimates at June 30, 2019, based on recent market observations and valuation methods commonly used within the profession. These estimates are not intended to anticipate any market changes.

***Valuation methods***

The valuers calculated the fair value of the real estate assets in accordance with the professional standards set out in the French Real Estate Valuation Charter.

The market value of the property is measured using its estimated rental value and the discounted cash flow (DCF) and capitalization methods.

## ESTIMATED RENTAL VALUE

The rental value is determined by comparing the rental value per square meter of the most recent transactions involving properties of similar type and location, in order to determine a market value per square meter for the different types of premises (offices, staff cafeterias, car parks, etc.). This rental value is subject to a reversion rate to take account of the specific features of the real estate assets.

## MARKET VALUE

To estimate market value, the results of applying two traditional methods (the DCF method and the capitalization method) are used, depending on the valuer.

DCF method

This method consists of discounting the annual cash flows generated by the asset, including the assumed resale at the end of a defined ownership period. Cash flows are defined as the total amount of all of the asset's revenues, net of expenses not rebillable to lessees.

Capitalization approach

This method consists of capitalizing the annual income generated by an asset with a capitalization rate defined by reference to the market. The rate used reflects the quality of the financial covenants as well as the long-term risks related to the property.

A discount is applied to the gross value to take account of transfer duties and registration costs, which are estimated at the rate of 7.50%.

## FAIR VALUE HIERARCHY UNDER IFRS 13

Cegereal applies IFRS 13, which defines fair value as the price that would be received in an orderly transaction to sell an asset or paid in an orderly transaction to transfer the liability at the measurement date under current market conditions.

IFRS 13 uses a three-level fair value hierarchy to classify the inputs used as a basis to measure the assets and liabilities concerned.
The three levels are as follows:
Level 1: fair value corresponds to the unadjusted quoted prices in active markets for identical assets and liabilities;
Level 2: fair value is determined, either directly or indirectly, using observable inputs;
Level 3: fair value is determined directly using unobservable inputs.

The categorization of the Group's investment property in accordance with IFRS 13 is presented in Note 5.1.

## 2.5. FINANCIAL INSTRUMENTS – CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities are recognized and measured in accordance with IFRS 9.

### *Loans and receivables*

Loans and receivables include the non-current portion of the economic benefits of the lease, rent-free periods, rent discounts, the portion of fitting-out costs incurred by the lessee and borne by the lessor, and the lease premiums paid to lessees in accordance with IAS 17 and interpretation SIC 15.

### *Trade accounts receivable*

Trade accounts receivable consist of accrued amounts receivable from lessees. They are initially recognized at fair value and subsequently at amortized cost using the effective interest method, less any provisions for impairment.

As rent is usually billed in advance, trade accounts receivable consist of rents billed in respect of the following period. The timing difference between the billing date and the end of the reporting period is eliminated by recognizing rent billed for future periods and not yet due under “Prepaid revenue” (see Note 5.17).

IFRS 9 introduces a new model for recognizing impairment of financial assets based on expected credit losses.

However, it also sets forward a simplified approach for trade and lease receivables, which are often held by companies that do not have sophisticated credit risk tracking or management systems. This approach removes the need to calculate 12-month expected credit losses and track the increase in credit risk. This means that:

- for trade receivables that do not contain a significant financing component, impairment is equal to lifetime expected credit losses; The Company may use a provision matrix based on days past due to measure expected credit losses.
- for trade receivables that contain a significant financing component and for lease receivables, the company may choose between the simplified approach (as for trade receivables that do not contain a significant financing component) or the general approach (which requires tracking changes in credit risk over the lifetime of the trade receivable).

The Group has elected to apply the simplified approach.

### *Non-derivative financial liabilities*

After initial recognition, non-derivative financial liabilities are measured at amortized cost using the effective interest method.

### *Derivative financial instruments*

Cegereal has not opted for hedge accounting. Derivative financial instruments are therefore measured at fair value at the end of each reporting period with any gains or losses recognized in income.

Cegereal applies IFRS 13, which defines fair value as the price that would be received in an orderly transaction to sell an asset or paid in an orderly transaction to transfer the liability at the measurement date under current market conditions (see Note 2.4).

The categorization of the Group’s derivative financial instruments in accordance with IFRS 13 is presented in Note 5.13.

### *Hybrid financial instruments*

A hybrid financial instrument is a non-derivative financial contract (host contract) containing one (or more) derivative instrument(s) (embedded derivative(s)).

When the embedded derivative is not closely related to the host contract, it is accounted for separately. Otherwise, it is accounted for as part of the host contract.

Hybrid instruments are measured:
- under the fair value option when measured as a whole; or
- when the fair value option is not chosen, the host contract is measured at amortized cost.

The Group has not chosen to use the fair value option to measure hybrid financial instruments.

## 2.6. SHARE CAPITAL

Ordinary shares are classified in shareholders’ equity. Incremental costs directly attributable to new share issues are shown in shareholders’ equity as a deduction, net of tax, from additional paid-in capital.

## 2.7. TREASURY SHARES

On August 29, 2006, Cegereal SA entered into a liquidity agreement with Exane BNP Paribas. This agreement complies with the standard-type contract of the French Association of Investment Firms (*Association française des entreprises d’investissement* – AFEI) and the AFEI code of ethics of March 14, 2005 which was approved by the French financial markets authority (*Autorité des marchés financiers* – AMF) on March 22, 2005. Cegereal SA renewed the term of the agreement with Exane BNP Paribas on November 27, 2017.

Under the terms of these agreements, Exane BNP Paribas may buy and sell Cegereal SA shares on behalf of Cegereal SA within the limits imposed by law and the authorizations granted by the Board of Directors within the scope of its share buy-back program.

Within the scope of these liquidity agreements, the Group owned 13,550 treasury shares (representing 0.09% of its total issued shares) for a total amount of EUR 517k at June 30, 2019.

In accordance with IAS 32, these treasury shares are shown as a deduction from consolidated equity based on their acquisition cost (net of directly attributable transaction costs) or their initial carrying amount in the consolidated statement of financial position. Any capital gains or losses arising on the disposal of these shares are eliminated in the statement of comprehensive income and recognized against consolidated equity.

Cash allocated to the liquidity agreement and not invested in Cegereal SA shares at the end of the reporting period is stated in “Other operating receivables”.

## 2.8. ELECTION FOR TAX TREATMENT AS AN SIIC

Cegereal SA has elected for the preferential tax treatment granted to listed real estate investment companies (*sociétés d'investissement immobilières cotées* – SIICs) in accordance with Article 208 C of the French Tax Code (*Code général des impôts*). This election took effect on April 1, 2006.

Owing to this tax treatment, no corporate income tax is payable directly or indirectly through income from subsidiaries in respect of the real estate leasing business and no deferred taxes were recognized at June 30, 2019. Similarly, no tax was payable on capital gains arising on disposals of real estate or equity interests in subsidiaries eligible for the same tax treatment.

Prothin, Cegereal's subsidiary, also benefits from this preferential tax treatment.

In addition, K Rueil is a SPPICAV (company investing predominantly in real estate with a variable share capital) that is exempt from paying corporate income tax.

Hanami Rueil SCI and CGR Propco SCI, subsidiaries of, respectively, K Rueil and Cegereal SA, are transparent for tax purposes, within the meaning of Article 8 of the French Tax Code. CGR Holdco EURL has not elected for preferential treatment as a SIIC.

*Terms and conditions and impact of tax treatment as a SIIC*

a) When a company elects for SIIC status, the ensuing change in tax treatment has a similar impact to that of a discontinuance of business (taxation of unrealized capital gains, income which is subject to tax deferral and as yet untaxed operating income).

b) SIICs that have elected for preferential tax treatment are exempt from paying corporate income tax on the portion of their income resulting from:

- the lease of buildings, provided that 95% of this income is distributed before the end of the fiscal year following the year in which the income is generated;
- capital gains generated on the sale of buildings, shareholdings in partnerships falling within the scope of Article 8 of the French Tax Code and having the same purpose as that of the SIIC, or shareholdings in subsidiaries having elected for preferential tax treatment, provided that 70% of these capital gains are distributed by the end of the second fiscal year following the year in which they were generated;
- dividends received from subsidiaries having elected for preferential tax treatment and resulting from exempt income or from capital gains provided that they are redistributed in full during the fiscal year following the year in which they were received.

In addition, income generated by operations carried out by partnerships falling within the scope of Article 8 of the French Tax Code are deemed to be carried out directly by SIICs or their subsidiaries in proportion to their rights and are therefore exempt under the SIIC rules. Accordingly, this income must be distributed pursuant to the above-mentioned time limits and proportions, based on whether it results from the lease or sale of buildings or from dividends.

In the event that they choose to leave the SIIC tax regime at any time, the SIICs and their subsidiaries must add back to their taxable earnings for the period the portion of their income available for distribution at the end of said period which results from previously tax-exempt amounts.

c) The Amending French Finance Act for 2006 stipulates that companies may not benefit from preferential tax treatment as an SIIC if 60% or more of their capital or voting rights are held by one or several persons acting in concert within the meaning of Article L.233-10 of the French Commercial Code (*Code de commerce*).

d) The Amending French Finance Act for 2006 also introduced a 20% withholding tax to be paid by SIICs on dividends distributed from tax-exempt income to shareholders, other than natural persons, that hold at least 10% of dividend entitlements in said SIICs and that are not liable for corporate income tax or another equivalent tax on the dividends received. However, the withholding tax is not due when the beneficiary of the dividends is a company required to distribute the full amount of the dividends it receives and whose shareholders that directly or indirectly hold at least 10% of the dividend rights are liable for corporate income tax or another equivalent tax on the dividends received.

## 2.9. EMPLOYEE BENEFITS

IAS 19 requires entities to recognize as expenses all current or future benefits or compensation granted by an entity to its employees or to third parties over the period during which the rights to such benefits or compensation vest.

The Group only has three employees and therefore considers that its employee benefit commitments in respect of defined benefit plans are not material. Consequently, the amount of its employee benefit commitments was not assessed at June 30, 2019.

## 2.10. BANK BORROWINGS

On initial recognition, bank borrowings are measured at the fair value of the consideration received, less directly attributable transaction costs.

They are subsequently measured at amortized cost using the effective interest method. The long-term portion (due more than 12 months after the end of the reporting period) is classified in non-current borrowings and debt, while the short-term portion (due in less than 12 months) is classified in current borrowings and debt.

When the agreement contains derivative instruments, it is accounted for as described in the section on "Hybrid financial instruments" in Note 2.5.

## 2.11. RENTAL INCOME

The Group leases out its real estate assets under operating leases. Assets leased under operating leases are recognized in the consolidated statement of financial position within investment property.

Rental income is recognized over the lease term.

In accordance with IAS 17 and interpretation SIC 15, the financial impact of all of the provisions in the lease is recognized on a straight-line basis over the shorter of the lease term or the period up to the date on which the lessee may terminate the lease without incurring any material financial consequences (usually after six years). Therefore, in order to accurately reflect the economic benefits of the lease, rent-free periods, rent discounts, the portion of fitting-out costs incurred by the lessee and borne by the lessor, and lease premiums paid to lessees are recognized over the firm term of the lease.

Termination and restoration indemnities received from former lessees are recognized under "Miscellaneous services" in operating income.

## 2.12. RENTAL EXPENSES AND REBILLING OF EXPENSES TO LESSEES

Rental expenses incurred by the lessor on behalf of lessees and expenses chargeable to the lessees under the terms of the lease are recorded in the statement of comprehensive income under “Building-related costs”.

The rebilling of rental expenses and expenses chargeable to lessees under the terms of the lease are recorded in the statement of comprehensive income under “Income from other services”.

This approach is consistent with IFRS 15, insofar as the Group acts as principal: its “performance obligation” is to provide the underlying goods and services to its tenants. The Group is:
- responsible for satisfying the promise;
- exposed to the inventory risk;
- in charge of setting the price.

The portion of rental expenses concerning vacant premises is recorded directly in the statement of comprehensive income.

Rental expenses include building-related taxes (property tax, tax on office premises and tax on parking areas).

Pursuant to IFRIC 21, the interpretation of IAS 37, property tax, tax on office premises and tax on parking areas are recognized in full at January 1 of each reporting period, i.e., the date of the obligating event. The same applies to taxes rebilled in advance to lessees.

## 2.13. DISCOUNTING OF DEFERRED PAYMENTS

Long-term payables and receivables are discounted when they are considered to have a material impact.

- Security deposits received from lessees are not discounted because they are indexed annually based on an index used for annual rent reviews;

- There are no provisions for material liabilities, as defined in IAS 37.

## 2.14. EARNINGS PER SHARE

Earnings per share is a key indicator used by the Group, and is calculated by dividing net attributable income by the weighted average number of shares outstanding during the period. Treasury shares are not considered as outstanding and are therefore not included in the calculation of earnings per share.

Diluted earnings per share is calculated based on income attributable to holders of ordinary shares and the weighted average number of shares existing during the year, adjusted to reflect the impact of potentially dilutive ordinary shares.

## 2.15. PRESENTATION OF THE FINANCIAL STATEMENTS

Assets and liabilities maturing within 12 months of the reporting date are classified as current assets and liabilities in the consolidated statement of financial position. All other assets and liabilities are treated as non-current.

Expenses in the statement of comprehensive income are shown according to their nature.

In the statement of cash flows, net operating cash flows are calculated using the indirect method, whereby the net amount is based on net income adjusted for non-cash transactions, items of income or expense associated with investing or financing cash flows, and changes in working capital requirements.

# 3. Critical accounting estimates and judgments

To prepare the interim consolidated financial statements, the Group uses estimates and judgments which are updated on a regular basis and are based on past information and other factors, in particular assumptions of future events deemed reasonable in view of the circumstances.

Estimates that could lead to a significant adjustment in the carrying amount of assets and liabilities in the subsequent period mainly concern the determination of the fair value of the Group's real estate assets and financial instruments. The fair value of the Group's real estate assets is measured on the basis of valuations carried out by an external real estate valuer using the methodology described in Note 2.4.

As these valuations are only estimates, there may be a significant difference between the amount obtained upon the sale of certain real estate assets and their estimated value, even when they are sold in the months following the end of the reporting period.

In this context, valuations of the Group's real estate assets by the external real estate valuers could vary significantly according to changes in the yield, based on observations of the rates prevailing in the real estate market.

| In millions of euros | Changes in potential yield | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Building** | **0.500%** | **0.375%** | **0.250%** | **0.125%** | **0.000%** | **-0.125%** | **-0.250%** | **-0.375%** | **-0.500%** |
| Europlaza | 385 | 391 | 398 | 405 | 412 | 420 | 428 | 437 | 447 |
| Arcs de Seine | 420 | 427 | 435 | 443 | 452 | 462 | 472 | 483 | 494 |
| Rives de Bercy | 167 | 169 | 172 | 174 | 177 | 179 | 182 | 185 | 188 |
| Hanami campus | 162 | 164 | 167 | 170 | 172 | 175 | 178 | 181 | 184 |
| Passy Kennedy | 199 | 205 | 211 | 217 | 224 | 231 | 238 | 246 | 255 |
| **Total** | **1,331** | **1,355** | **1,381** | **1,407** | **1,434** | **1,466** | **1,504** | **1,531** | **1,567** |
| | | | | | | | | | |
| Impact on portfolio value | **-7.29%** | **-5.61%** | **-3.84%** | **-1.97%** | **0.00%** | **2.08%** | **4.29%** | **6.63%** | **9.12%** |

Sources: CBRE and Cushman & Wakefield.

These data are linked to the market and could therefore change significantly in the current climate. This could have a significant positive or negative impact on the fair value of the Group's real estate assets.

Regarding hedging instruments, which are analyzed in Note 4.7, a change in interest rates would result in the following values:

| Hedging instrument | Nominal amount | Hedged amount | Fixed rate | -1% | -0.5% | Value at June 30, 2019 | +0.5% | +1% |
|---|---|---|---|---|---|---|---|---|
| Cap | 320,000 | 6-month Euribor | 1.50% | 0 | 0 | 0 | 0 | 0 |
| Cap | 0 | 3-month Euribor | 2.00% | 0 | 0 | 0 | 1 | 4 |
| Swap | 25,000 | 3-month Euribor | 0.10% | (996) | (681) | (371) | (67) | 232 |
| Cap | 15,000 | 3-month Euribor | 1.50% | 0 | 0 | 0 | 0 | 0 |
| Cap | 148,500 | 3-month Euribor | 0.60% | 0 | 6 | 60 | 313 | 1,092 |
| **TOTAL** | | | | **(996)** | **(675)** | **(311)** | **247** | **1,328** |

# 4. Risk management

## 4.1. RISK RELATED TO REFINANCING

On July 26, 2016, Cegereal renegotiated the EUR 405m loan and entered into a new credit agreement authorizing the Group to borrow EUR 525m. The five-year loan consists of two tranches of (i) EUR 445m and (ii) EUR 80m, repayable at maturity on July 26, 2021. The agreement also provides for an optional two-year extension.

The first tranche was drawn down in full on July 26, 2016 and the second tranche was drawn down in an amount of EUR 41m on December 12, 2016. The remaining portion of the second tranche, i.e., EUR 39m, was drawn down on July 7, 2017.

Following the acquisition of Hanami Rueil SCI, the Cegereal Group entered into a credit agreement for EUR 100m on December 15, 2016. The agreement provides for a five-year loan, 0.375% of the principal amount of which is repayable at each due date, and the remainder on maturity at December 15, 2021.

As part of the acquisition of Passy Kennedy, the Cegereal Group entered into a credit agreement for EUR 148.5m on December 5, 2018. The agreement provides for a four-year loan with an optional one-year extension, of which 1% of the principal amount is repayable in the third year, 2.5% in the fourth year (and the fifth year if the agreement is extended), and the remainder at maturity.

## 4.2. RISK RELATED TO THE VALUATION OF REAL ESTATE ASSETS

The Group's real estate portfolio is valued by external real estate valuers. The value of the portfolio depends on the ratio of supply to demand in the property market, a large number of substantially varying factors, and changes in the economic environment.

All of the Group's real estate assets are office buildings with a surface area of between 23,800 and 52,100 sq.m, located in Paris' inner suburbs. A fall in demand for this type of building could adversely affect the Group's earnings, business activities and financial position.

The current economic climate has sparked volatility in real estate prices and values. Consequently, the price obtained if the assets are disposed of in the short term may not be in line with the valuation.

## 4.3. RISK RELATED TO CHANGES IN MARKET RENT LEVELS FOR OFFICE PREMISES

Market rent levels for office premises and the value of office buildings are strongly influenced by the ratio of supply to demand in the property market. A situation where supply outweighs demand is likely to adversely affect the Group's earnings, business activities, assets and liabilities, and financial position.

## 4.4. RISK RELATED TO THE REGULATORY FRAMEWORK APPLICABLE TO LEASES

Certain legal provisions applicable to commercial leases, such as public policy regulations governing lease terms and the indexing of rent, can restrict the capacity of property owners to increase rents. In the event of a change in the regulatory framework or the index used, the Group may be exposed to such risks.

## 4.5. COUNTERPARTY RISK

Group procedures ensure that lease agreements are only entered into with lessees of suitable credit standing.

At June 30, 2019, the Group was dependent on five lessees who collectively represented 44.33% of the total rental income collected during the first half of 2019 and individually more than 5%. Although the Group's real estate assets could be – and are – leased to many different lessees, financial difficulties experienced by one of these lessees, a request for more favorable lease terms upon renewal, or a decision to terminate their lease, could adversely impact the Group's financial position, earnings and future performance.

## 4.6. LIQUIDITY RISK

Prudent liquidity risk management involves maintaining sufficient liquidity and short-term investment securities, being able to raise funds based on suitably adapted lines of credit and the ability to unwind market positions.

The Group's loans were taken out with bank pools.

Notes 4.7 and 5.26 contain a description of the different credit facilities and the early repayment clauses contained in the credit agreements. The Group complied with its covenants at the most recent due date.

## 4.7. INTEREST RATE RISK

On July 26, 2016, Cegereal refinanced its debt following repayment of the loan taken out on July 26, 2012. The new loan agreement authorized the Group to borrow EUR 525m in two tranches of (i) EUR 445m (tranche A) and (ii) EUR 80m (tranche B). At December 31, 2017, tranches A and B had been drawn down in full.

94% of tranche A is subject to a fixed rate of 1.35% if the occupancy rate is greater than 75%, and 1.50% if it is not. The remaining balance of tranche A (i.e., 6%) is subject to a variable interest rate (6-month Euribor with a floor of 0%) plus a margin of 1.35% if the occupancy rate is greater than 75%, and 1.50% if it is not. The Euribor rate was below 0% between January 1, 2019 and June 30, 2019.

Tranche B is subject to the same conditions as the portion of tranche A that is subject to a variable rate.

Following the acquisition of Hanami Rueil SCI, the Cegereal Group entered into a credit agreement for EUR 100m on December 15, 2016. The loan comprises three tranches: one in an amount of EUR 50m at a fixed rate of 1.52%, including a 1.45% margin, one in an amount of EUR 25m at a variable 3-month Euribor rate with a floor of 0%, and one in an amount of EUR 25m at a variable 3-month Euribor rate with a floor of 0.4%. The two variable-rate tranches also have a 1.45% margin.

As part of the acquisition of Passy Kennedy, the Cegereal Group entered into a credit agreement for EUR 148.5m on December 5, 2018. The agreement provides for a four-year loan with an optional one-year extension, of which 1% of the principal amount is repayable in the third year, 2.5% in the fourth year (and the fifth year if the agreement is extended), and the remainder at maturity. The loan carries interest at 3-month Euribor plus a spread of 1.20%. Euribor is considered to be zero if the published rate is negative.

The Group has purchased five hedges:

In thousands of euros

| Financial institution | Commonwealth Bank of Australia | Commonwealth Bank of Australia | Société Générale | Société Générale | Société Générale |
|---|---|---|---|---|---|
| Type of hedge | Cap | Cap | Cap | Swap | Cap |
| Nominal amount (in thousands of euros) | 320,000 | 15,000 | 15,000 | 25,000 | 148,500 |
| Fixed rate | 1.50% | 1.50% | 2.00% | 0.10% | 0.60% |
| Hedged amount | 6-month Euribor | 3-month Euribor | 3-month Euribor | 3-month Euribor | 3-month Euribor |
| Start date | October 15, 2016 | December 15, 2016 | October 15, 2019 | December 15, 2016 | December 5, 2018 |
| Maturity | October 15, 2019 | October 15, 2019 | December 15, 2021 | December 15, 2021 | December 5, 2022 |

# 5. Notes to the consolidated statement of financial position at June 30, 2019 and to the consolidated statement of comprehensive income for the period then ended

## 5.1 INVESTMENT PROPERTY

### CARRYING AMOUNT OF INVESTMENT PROPERTY

Changes in the carrying amount of investment property can be broken down by building as follows:

In thousands of euros

| | Rives de Bercy | Europlaza | Arcs de Seine | Hanami campus | Passy Kennedy | Total |
|---|---|---|---|---|---|---|
| Dec. 31, 2018 | 189,200 | 380,800 | 447,000 | 169,900 | 221,620 | 1,408,520 |
| Acquisitions | | | | 360 | 218 | 578 |
| Indemnity received | | | | | | 0 |
| Subsequent expenditure | | 2,875 | 14 | 125 | | 3,015 |
| Disposals | | | | | | 0 |
| Change in fair value | (13,010) | 28,195 | 4,916 | 1,415 | 1,612 | 23,127 |
| June 30, 2019 | 176,190 | 411,870 | 451,930 | 171,800 | 223,450 | 1,435,240 |

## MAIN FAIR VALUE ASSUMPTIONS

The real estate valuers' estimation of the fair value of the buildings at June 30, 2019 is indicated below, along with the supporting information:

| Building | Estimated value at June 30, 2019 (net of taxes) | | Gross leasable area[1] at June 30, 2019 | | Annual rent (net of taxes)[2] | |
|---|---|---|---|---|---|---|
| | in millions of euros | % | sq.m | % | in thousands of euros | % |
| Europlaza (1999[3]) | 412 | 28.70% | 52,078 | 27.53% | 24.2 | 30.36% |
| Arcs de Seine (2000[3]) | 452 | 31.49% | 47,222 | 24.97% | 22.1 | 27.64% |
| Rives de Bercy (2003[3]) | 176 | 12.28% | 31,942 | 16.89% | 12.3 | 15.44% |
| Hanami campus (2011/2016[3]) | 172 | 11.97% | 34,381 | 18.18% | 10.7 | 13.35% |
| Passy Kennedy | 223 | 15.57% | 25,520 | 12.44% | 10.6 | 13.23% |
| **Total** | **1,435** | **100%** | **189,143** | **100%** | **79.8** | **100%** |

(1) The gross leasable area includes the surface area of the offices, storage areas and a share of common areas (including restaurant).
(2) Annual rent includes rent billed to lessees for space occupied at June 30, 2019 and market rent, as estimated by valuers, in relation to vacant premises.
(3) Year of construction or restoration.

In light of the nature of the French real estate market and the relative lack of publicly-available data, real estate assets have been categorized within Level 3 of the IFRS 13 fair value hierarchy.

# 5.2 NON-CURRENT LOANS AND RECEIVABLES

This item can be broken down as follows:

In thousands of euros

| | June 30, 2019 | Dec. 31, 2018 | June 30, 2018 |
|---|---|---|---|
| Security deposits paid | 33 | 33 | 24 |
| Lease incentives (non-current portion) | 22,265 | 20,197 | 21,265 |
| **Non-current loans and receivables** | **22,298** | **20,230** | **21,289** |

Non-current benefits granted to lessees concern rent-free periods, rent discounts and lease premiums paid to lessees recognized over the firm term of the lease in accordance with the accounting policies stated in Note 2.11.

# 5.3 TRADE ACCOUNTS RECEIVABLE

This item can be broken down as follows:

In thousands of euros

| | June 30, 2019 | Dec. 31, 2018 | June 30, 2018 |
|---|---|---|---|
| Trade accounts receivable | 13,130 | 7,747 | 13,902 |
| Impairment of trade accounts receivable | 0 | 0 | 0 |
| **Trade accounts receivable, net** | **13,130** | **7,747** | **13,902** |

# 5.4 OTHER OPERATING RECEIVABLES

This item can be broken down as follows:

In thousands of euros

| | June 30, 2019 | Dec. 31, 2018 | June 30, 2018 |
|---|---|---|---|
| Lease incentives (current portion) | 3,831 | 7,118 | 6,384 |
| VAT | 2,355 | 4,825 | 0 |
| Supplier accounts in debit and other receivables | 3,421 | 826 | 5,080 |
| Liquidity account/treasury shares | 215 | 341 | 402 |
| Notary fees | 115 | 1,616 | 0 |
| **Other operating receivables** | **9,938** | **14,726** | **11,866** |

# 5.5 CASH AND CASH EQUIVALENTS

"Cash and cash equivalents" comprises either bank account balances or risk-free bank deposits that may be considered as cash equivalents.

Current bank account balances recorded in this caption represent EUR 29,187k.

# 5.6 AGING ANALYSIS OF RECEIVABLES

The aging analysis of receivables at June 30, 2019 is as follows:

In thousands of euros

| | Receivables (net of impairment) June 30, 2019 | Receivables not yet due (net of impairment) | Receivables past due (net of impairment) | o/w receivables less than 6 months past due | o/w receivables more than 6 months and less than 1 year past due | o/w receivables more than 1 year past due |
|---|---|---|---|---|---|---|
| **Non-current receivables** | | | | | | |
| Non-current loans and receivables | 22,298 | 22,298 | 0 | 0 | 0 | 0 |
| **Total non-current receivables** | **22,298** | **22,298** | **0** | **0** | **0** | **0** |
| **Current receivables** | | | | | | |
| Trade accounts receivable[1] | 13,130 | 11,606 | 1,525 | 2,316 | (400) | (391) |
| Other operating receivables | 9,938 | 9,938 | 0 | 0 | 0 | 0 |
| Prepaid expenses | 131 | 131 | 0 | 0 | 0 | 0 |
| **Total current receivables** | **23,199** | **21,674** | **1,525** | **2,316** | **(400)** | **(391)** |
| Total receivables | 45,497 | 43,972 | 1,525 | 2,316 | (400) | (391) |

(1) The amount of trade accounts receivable pledged as collateral for loans and borrowings stood at EUR 13,130k at June 30, 2019 and is detailed in Note 5.26.

The aging analysis of receivables at December 31, 2018 is as follows:

In thousands of euros

| | Receivables (net of impairment) Dec. 31, 2018 | Receivables not yet due (net of impairment) | Receivables past due (net of impairment) | o/w receivables less than 6 months past due | o/w receivables more than 6 months and less than 1 year past due | o/w receivables more than 1 year past due |
|---|---|---|---|---|---|---|
| **Non-current receivables** | | | | | | |
| Non-current loans and receivables | 20,230 | 20,230 | 0 | 0 | 0 | 0 |
| **Total non-current receivables** | **20,230** | **20,230** | **0** | **0** | **0** | **0** |
| **Current receivables** | | | | | | |
| Trade accounts receivable[1] | 7,747 | 6,772 | 976 | 1,201 | 146 | (371) |
| Other operating receivables | 14,726 | 14,726 | 0 | 0 | 0 | 0 |
| Prepaid expenses | 116 | 116 | 0 | 0 | 0 | 0 |
| **Total current receivables** | **22,589** | **21,614** | **976** | **1,201** | **146** | **(371)** |
| Total receivables | 42,819 | 41,843 | 976 | 1,201 | 146 | (371) |

(1) The amount of trade accounts receivable pledged as collateral for loans and borrowings, described in Note 5.26, stood at EUR 7,747k at December 31, 2018.

# 5.7 FAIR VALUE OF FINANCIAL ASSETS

The fair value of financial assets at June 30, 2019 can be analyzed as follows:

In thousands of euros

| | June 30, 2019 | | Dec. 31, 2018 | | June 30, 2018 | | Fair value hierarchy[2] |
|---|---|---|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value | Carrying amount | Fair value | |
| Interest rate cap[1] | 57 | 57 | 597 | 597 | 10 | 10 | Level 2 |
| Total non-current assets | 57 | 57 | 597 | 597 | 10 | 10 | |

(1) Derivative financial instruments.
(2) Classification under IFRS 13 (see Note 2.4).

The characteristics of non-current assets are described in Notes 4.7 and 5.12.

The fair value of other financial assets, which primarily comprise receivables, corresponds to their carrying amount.

# 5.8 FINANCIAL ASSETS AND LIABILITIES

The table below presents a summary of financial assets and liabilities:

In thousands of euros

| Summary of financial assets and liabilities | June 30, 2019 | Dec. 31, 2018 | June 30, 2018 |
|---|---|---|---|
| Financial assets at fair value through profit or loss | 57 | 597 | 10 |
| Held-to-maturity investments | 0 | 0 | 0 |
| Loans and receivables | | | |
| Non-current loans and receivables | 22,298 | 20,230 | 21,289 |
| Current receivables | 23,068 | 22,473 | 25,768 |
| Available-for-sale financial assets | 0 | 0 | 0 |
| Cash and cash equivalents | 29,187 | 53,367 | 18,879 |
| **Total financial assets** | **74,610** | **96,667** | **65,946** |
| Financial liabilities at fair value through profit or loss | 741 | 791 | 780 |
| Financial liabilities measured at amortized cost | 0 | 0 | 0 |
| Non-current liabilities | 773,045 | 772,865 | 622,923 |
| Current liabilities | 23,197 | 37,846 | 29,031 |
| **Total financial liabilities** | **796,983** | **811,501** | **652,735** |

# 5.9 CHANGES IN IMPAIRMENT OF FINANCIAL ASSETS

No impairment was recognized against financial assets in the period.

# 5.10 CONSOLIDATED EQUITY

## Composition of and changes in shareholders' equity

| | Number of shares | Par value of shares in euros | Shares In thousands of euros | Legal reserve and additional paid-in capital In thousands of euros | Consolidated reserves and retained earnings In thousands of euros | Total In thousands of euros |
|---|---|---|---|---|---|---|
| **Shareholders' equity at Dec. 31, 2018** | **15,601,250** | **5** | **78,006** | **93,277** | **503,607** | **674,890** |
| Dividends paid | 0 | 0 | 0 | (36,492) | (65) | (36,557) |
| Net income for the period | 0 | 0 | 0 | 0 | 42,739 | 42,739 |
| Capital increase by increasing par value | 305,190 | 0 | 1,526 | 9,678 | 0 | 11,204 |
| Capital reduction by reducing par value | 0 | 0 | 0 | 0 | 0 | 0 |
| Change in treasury shares held | 0 | 0 | 0 | 0 | (61) | (61) |
| **Shareholders' equity at June 30, 2019** | **15,906,440** | **5** | **79,532** | **66,462** | **546,221** | **692,214** |

## Treasury shares

In euros (except number of shares)

| | Amount at June 30, 2019 | Amount at Dec. 31, 2018 | Amount at June 30, 2018 |
|---|---|---|---|
| Acquisition cost | 517,130 | 460,532 | 612,760 |
| Number of treasury shares at reporting date | 13,550 | 11,939 | 15,309 |

## 5.11 BORROWINGS

The maturity schedule of loans taken out by the Group, valued at amortized cost less transaction costs, is as follows:

In thousands of euros

| | Bank loan | Due in 1 year or less | Due in 1 to 2 years | Due in 2 to 5 years | Due in more than 5 years |
|---|---|---|---|---|---|
| Current and non-current bank borrowings | | | | | |
| - Fixed rate | 464,828 | 750 | 750 | 463,328 | 0 |
| - Variable rate | 305,297 | 750 | 750 | 303,797 | 0 |
| Accrued interest not yet due | 2,148 | 2,148 | 0 | 0 | 0 |
| Bank fees to spread at effective interest rate | (5,231) | (270) | (142) | (4,819) | 0 |
| **Total at June 30, 2019** | **767,043** | **3,378** | **1,358** | **762,306** | **-** |

The Group complies with the ratios described in Note 5.26, which were calculated on April 15, 2019. The loan characteristics are described in Notes 4.1 and 4.7.

## 5.12 FINANCIAL INSTRUMENTS

The table below presents a summary of financial instruments:

In thousands of euros

| | June 30, 2019 | Dec. 31, 2018 |
|---|---|---|
| Interest rate cap | 57 | 597 |
| **Assets** | **57** | **597** |
| Share subscription warrants | 399 | 618 |
| Interest rate swap | 342 | 172 |
| **Liabilities** | **741** | **791** |

The characteristics of the cap and swap agreements are described in Note 4.7.

The share subscription warrants and the swap are considered to be derivative financial instruments and are measured at fair value at the end of each reporting period with any gains or losses recognized in income (see Note 2.5).

On April 14, 2016, Cegereal issued 865,000 share subscription warrants to Northwood Investors France Asset Management SAS at a unit price of EUR 0.01. These warrants were subscribed in a total amount of EUR 8,650 at April 22, 2016. A total of 303,672 warrants were exercised in March 2019.

The remaining warrants must be exercised no later than June 30, 2022.

Each share subscription warrant entitles the holder to subscribe for 1.005 new shares of the Company. The subscription price for one share will be calculated based on the volume-calculated average share price during the 20 trading days prior to the exercise date.

## 5.13 FAIR VALUE OF FINANCIAL LIABILITIES

The fair value of financial liabilities at June 30, 2019 can be analyzed as follows:

In thousands of euros

| | June 30, 2019 | | Dec. 31, 2018 | | June 30, 2018 | | Fair value hierarchy[2] |
|---|---|---|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value | Carrying amount | Fair value | |
| Bank loan | 764,894 | 774,055 | 764,507 | 772,432 | 617,579 | 623,728 | Level 2 |
| Interest rate swap[1] | 342 | 342 | 172 | 172 | 107 | 107 | Level 2 |
| Share subscription warrants[1] | 399 | 399 | 618 | 618 | 674 | 674 | Level 1 |
| **Total non-current liabilities** | **765,635** | **774,796** | **765,297** | **773,222** | **618,360** | **624,509** | |

(1) Derivative financial instruments.
(2) Classification under IFRS 13 (see Note 2.4).

The characteristics of non-current liabilities are described in Notes 4.7 and 5.12. There was no difference between the carrying amounts and fair values of financial liabilities other than those mentioned above.

## 5.14 OTHER NON-CURRENT BORROWINGS AND DEBT

This caption mainly consists of security deposits paid by lessees, which are recorded as non-current borrowings and debt based on the assumption that lessees will seek to renew their leases if they expire within the next 12 months.

## 5.15 OTHER OPERATING LIABILITIES

These can be broken down as follows:

In thousands of euros

| | June 30, 2019 | Dec. 31, 2018 | June 30, 2018 |
|---|---|---|---|
| Personnel | 75 | 93 | 123 |
| Directors' fees | 104 | 0 | 111 |
| Accrued VAT, other taxes and social security charges[1] | 8,762 | 3,450 | 6,398 |
| Accrued rental expenses rebilled to lessees | 1,473 | 1,404 | 1,303 |
| Advance payments by lessees | 1,772 | 2,119 | 1,242 |
| Miscellaneous | 280 | 615 | 549 |
| **Other operating liabilities** | **12,468** | **7,681** | **9,726** |
| Amounts due to fixed asset suppliers | 1,486 | 2,017 | 1,637 |
| **Amounts due to fixed asset suppliers** | **1,486** | **2,017** | **1,637** |
| | | | |
| **Other liabilities** | **13,953** | **9,698** | **11,363** |

(1) Including IFRIC 21 at June 30, 2019.

"Accrued rental expenses rebilled to lessees" corresponds to the balance of lessees' contributions to the financing of large items of shared equipment.

## 5.16 MATURITY SCHEDULE FOR LIABILITIES WITH UNDISCOUNTED CONTRACTUAL VALUES

The maturity schedule for liabilities with undiscounted contractual values is as follows:

In thousands of euros

| | | | Undiscounted contractual value | | |
|---|---|---|---|---|---|
| | Carrying amount at June 30, 2019 | Undiscounted contractual value | Due in 1 year or less | Due in more than 1 year but less than 5 years | Due in more than 5 years |
| **Non-current liabilities** | | | | | |
| Non-current borrowings | 763,664 | 768,625 | | 768,625 | |
| Other non-current borrowings and debt | 9,381 | 9,381 | | | 9,381 |
| Other financial liabilities | 741 | 741 | | | |
| **Total non-current liabilities** | **773,786** | **778,746** | **0** | **768,625** | **9,381** |
| **Current liabilities** | | | | | |
| Current borrowings | 3,378 | 3,648 | 3,648 | | |
| Trade accounts payable | 5,866 | 5,866 | 5,866 | | |
| Other operating liabilities | 13,953 | 13,953 | 13,953 | | |
| **Total current liabilities** | **23,197** | **23,467** | **23,467** | **0** | **0** |

Other non-current borrowings and debt correspond to security deposits paid by lessees. Their maturity date is more than five years because it is the Group's policy to extend leases when they expire.

Other financial liabilities correspond to share subscription warrants, which must be exercised no later than June 30, 2022, and the swap agreement described in Notes 4.7 and 5.12.

## 5.17 PREPAID REVENUE

Prepaid revenue consists of rents billed in advance for the third quarter of 2019.

## 5.18 RENTAL INCOME

Including the impact of benefits granted to lessees, rental income can be broken down by building as follows:

In thousands of euros

| | June 30, 2019 6 months | Dec. 31, 2018 12 months | June 30, 2018 6 months |
|---|---|---|---|
| Europlaza | 7,807 | 14,589 | 7,367 |
| Arcs de Seine | 8,665 | 17,279 | 8,640 |
| Rives de Bercy | 5,183 | 10,084 | 5,030 |
| Hanami campus | 4,705 | 10,359 | 4,999 |
| Passy Kennedy | 4,930 | 716 | 0 |
| | 31,290 | 53,027 | 26,036 |

## 5.19 INCOME FROM OTHER SERVICES

Income from other services can be analyzed as follows:

In thousands of euros

| | June 30, 2019 6 months | Dec. 31, 2018 12 months | June 30, 2018 6 months |
|---|---|---|---|
| Rental expenses and maintenance rebilled to lessees | 5,632 | 8,500 | 4,244 |
| Real estate taxes rebilled to lessees | 7,258 | 5,790 | 6,017 |
| Other amounts rebilled to lessees and miscellaneous income | 179 | 132 | 307 |
| Indemnities | 1,960 | 432 | 177 |
| Miscellaneous income | 0 | 156 | 0 |
| Income from other services | 15,030 | 15,010 | 10,745 |

## 5.20 BUILDING-RELATED COSTS

These can be broken down as follows:

In thousands of euros

| | June 30, 2019 6 months | Dec. 31, 2018 12 months | June 30, 2018 6 months |
|---|---|---|---|
| Rental expenses | 5,451 | 9,476 | 3,446 |
| Corporate income tax | 7,378 | 5,847 | 6,483 |
| Fees | 4,023 | 13,471 | 4,244 |
| Maintenance costs | 82 | 159 | 1,097 |
| Rental expenses and tax on vacant premises | 925 | 1,811 | 584 |
| Other expenses | (41) | 239 | 220 |
| Building-related costs | 17,818 | 31,002 | 16,074 |

Fees mainly comprise asset management fees with Northwood Investors Asset Management SAS, which amounted to EUR 3,023k at June 30, 2019. These fees are calculated based on the Group's net asset value.

The fees break down as follows:
- EUR 2,489k attributable to the advisory fee under the asset management agreement;
- EUR 534k attributable to the incentive fee under the asset management agreement.

## 5.21 ADMINISTRATIVE COSTS

Administrative costs mainly comprise professional fees for EUR 987k and payroll expenses for EUR 259k.

## 5.22 OTHER OPERATING INCOME AND EXPENSES

Other operating income and expenses correspond to changes in the fair value of the share subscription warrants described in Note 5.12 as well as to depreciation of fixtures and fittings at Cegereal's registered office.

## 5.23 FINANCIAL INCOME AND EXPENSES

Financial income and expenses can be broken down as follows:

In thousands of euros

| | June 30, 2019 6 months | Dec. 31, 2018 12 months | June 30, 2018 6 months |
|---|---|---|---|
| Financial income | 0 | 6 | 6 |
| Financial expenses | (7,120) | (11,508) | (5,643) |
| **Net financial expense** | **(7,120)** | **(11,501)** | **(5,637)** |

Financial expenses comprise interest expense and charges on bank borrowings in an amount of EUR 6,374k, and negative fair value adjustments on swaps and caps in an amount of EUR 710k.

## 5.24 CORPORATE INCOME TAX AND TAX PROOF

All consolidated entities contributing to consolidated income fall under the SIIC tax regime for listed real estate investment companies or the SPPICAV tax regime for companies investing predominantly in real estate with a variable share capital, and are not liable for corporate income tax in respect of their property rental activities.

## 5.25 EARNINGS PER SHARE

Earnings per share is calculated by dividing consolidated net income attributable to owners of Cegereal SA by the number of ordinary shares net of treasury shares at June 30, 2019, i.e., EUR 2.71.

Pursuant to IAS 33, the potential shares (warrants) were considered to be dilutive at June 30, 2019. Diluted earnings per share came out at EUR 2.60.

In thousands of euros

| | June 30, 2019 6 months | Dec. 31, 2018 12 months | June 30, 2018 6 months |
|---|---|---|---|
| Net attributable income (in thousands of euros) | 42,739 | 33,106 | 11,158 |
| Weighted average number of shares before dilution | 15,764,027 | 13,776,592 | 13,361,883 |
| **Earnings per share (in euros)** | **2.71** | **2.40** | **0.84** |
| Net attributable income, after impact of dilutive shares (in thousands of euros) | 42,520 | 33,183 | 11,291 |
| Weighted average number of shares after dilution | 16,328,161 | 14,641,592 | 14,226,883 |
| **Diluted earnings per share (in euros)** | **2.60** | **2.27** | **0.79** |

## 5.26 OFF-BALANCE SHEET COMMITMENTS AND SECURITY PROVIDED

All material commitments are listed below. The Group had not entered into any complex commitments at the end of the reporting period.

### COMMITMENTS GIVEN

#### *Credit agreement*

Pursuant to the credit agreement entered into with Prothin on July 26, 2016, the amounts provided shall be used solely to:

– repay the initial loan of EUR 405m as well as the related interest and expenses (i.e., EUR 412m);

– and, in a maximum amount of EUR 120m:
  - finance certain work/expenses,
  - repay a portion of the issue or merger premium,
  - repay any existing or future intragroup loans,
  - refund shareholders in the event of a capital reduction.

The Group's main commitments under the EUR 525m agreement are as follows:

– registration of contractual mortgages carried out on Prothin's real estate assets;

– assignment of rent receivables relating to Prothin's real estate assets under the Dailly Law mechanism;

– senior pledge of Prothin's bank accounts. The Group agrees not to close these accounts or open bank accounts other than those identified in the credit agreement;

– pledge of Prothin Shares from the securities account held in Cegereal's name;

– pledge of receivables relating to the current account agreement between Cegereal and Prothin;

– to ensure that the loan-to-value ratio (LTV) (outstanding loan/market value of real estate assets) remains below 70% (65% in the event that the credit agreement is extended until July 21, 2021). Non-compliance with this ratio (calculated on each drawdown date and on July 26 of each year) results in an obligation to repay the outstanding loan in the amount required for the ratio to be below 60%;

– when the LTV ratio is above 65% (60% if the agreement is extended), to repay the loan in advance, on each interest payment date, in tranches of 0.50% of the loan while the LTV ratio is above 60%;

– to ensure that the ISC ratio (available income/[projected interest + agency fees]) remains above 200%. Non-compliance with this ratio (calculated on each drawdown date and on each interest payment date) results in an obligation to repay the outstanding loan in the amount required for the ratio to be complied with;

– not to grant liens on these assets, rights or income other than security interests;

– to provide the agency with accounting and financial documents, valuation reports, financial ratio calculations and other information relating to the buildings described in the credit agreement;

– to allow the agency to carry out audits and visits as set out in the credit agreement;

– to take out insurance as set out in the credit agreement;

– to set up a hedge;

– not to take out any borrowings other than those provided for in the credit agreement;

– not to grant any loans apart from those set out in the credit agreement;

– (applicable to Prothin only) not to acquire any new real estate assets (except by means of equity financing) or interests;

– early repayment of all or part of the loan in the event of a change of control of the Company or the total or partial sale of one of the buildings, expropriation or a major incident;

– to repay the loan in advance, which would give rise to breakage costs and an early repayment indemnity.

– in the event that the Group no longer benefits from the SIIC regime, to show that the Group has sufficient equity to pay all the taxes and indemnities for which it may be liable and that the fact of no longer benefiting from the regime will not lead to an effective payment of corporate income tax during the term of the loan resulting in a materially unfavorable event.

Under the EUR 100m credit agreement entered into with Hanami Rueil SCI on December 15, 2016, the amounts borrowed must be used solely to refinance in full the amounts due under the previous loan. The Group's main commitments under the agreement are as follows:

– registration of contractual mortgages on Hanami Rueil SCI's real estate assets;

– assignment of rent receivables relating to Hanami Rueil SCI's real estate assets under the Dailly Law mechanism;

– senior pledge of Hanami Rueil SCI's bank accounts. The Group agrees not to close these accounts or open bank accounts other than those identified in the credit agreement;

– pledge of Hanami Rueil SCI shares from the securities account held in the name of K Rueil and Cegereal;

– pledge of receivables relating to subordinate loans granted by K Rueil or Cegereal;

– to ensure that the loan-to-value ratio (LTV) (outstanding loan/market value of real estate assets) remains below 70%;

– to ensure that the debt service coverage ratio (DSC) (available income/[interest expenses + agency fees + principal repaid]) remains above 115%;

– not to grant liens on these assets, rights or income other than security interests;

– to provide the agency with accounting and financial documents, valuation reports, financial ratio calculations and other information relating to the buildings described in the credit agreement;

– to allow the agency to carry out audits and visits as set out in the credit agreement;

– to take out insurance as set out in the credit agreement;

– to set up hedges;

– not to take out any borrowings other than those provided for in the credit agreement;

– not to grant any loans apart from those set out in the credit agreement;

– (applicable to Hanami Rueil SCI only) not to acquire any new real estate assets (except by means of equity financing) or interests;

– to repay some or all of the loan in advance in the event of a change of control of the Company or the total or partial sale of one of the buildings, expropriation or a major incident;

– to repay the loan in advance, which would give rise to breakage costs and an early repayment indemnity.

– Hanami Rueil SCI undertakes to remain transparent for tax purposes, within the meaning of Article 8 of the French Tax Code, and not to elect for corporate income tax liability.

In accordance with the EUR 148.5m credit agreement entered into with CGR Propco SCI on December 5, 2018, the Group is also required to comply with the following main commitments:

– registration of contractual mortgages on CGR Propco SCI's real estate assets;

– pledge of the accounts of CGR Propco SCI;

– assignment of rent receivables relating to CGR Propco SCI's real estate assets under the Dailly Law mechanism;

– pledge of CGR Propco SCI shares registered on the securities account held in the name of CGR Holdco and Cegereal;

– pledge of receivables relating to subordinated loans and hedges;

– to provide cash collateral if the DSCR and/or LTV exceed the defined threshold;

– to provide cash collateral to cover renovation work and to cover breakage costs in the event of early repayment of the loan;

– to ensure that the loan-to-value ratio (LTV) (outstanding loan/market value of real estate assets) remains below 75%;

– to ensure that the debt service coverage ratio (DSC) (available income/[interest expenses + agency fees + principal repaid]) remains above 125%;

– not to grant liens on these assets, rights or income other than security interests;

– to provide the agency with accounting and financial documents, valuation reports, financial ratio calculations and other information relating to the buildings described in the credit agreement;

– to allow the agency to carry out audits and visits as set out in the credit agreement;

– to take out insurance as set out in the credit agreement;

– not to take out any borrowings other than those provided for in the credit agreement;

– not to grant any loans apart from those set out in the credit agreement;

– (applicable to CGR Propco SCI only) not to acquire any new real estate assets or interests;

– to repay some or all of the loan in advance in the event of a change of control of the Company or the total or partial sale of one of the buildings, expropriation or a major incident;

– to repay the loan in advance, which would give rise to breakage costs and an early repayment indemnity.

## ADVISORY SERVICES AGREEMENT

Under the Advisory Services Agreement entered into by Northwood Investors France Asset Management SAS (the "Advisor") and Prothin, effective January 1, 2016 for an initial term of six years and amended on December 23, 2016 (the "Prothin ASA"), an incentive fee is paid to encourage the Advisor to create value for the shareholders ("Value Growth").

Value Growth is determined on the basis of growth in the Group's EPRA NNNAV over a period of three years adjusted upwards for dividend distributions and downwards for capital increases made over that period (the calculation only includes the proportion of net asset value that Prothin represents relative to that of Cegereal and its subsidiaries or affiliates). The incentive fee is equal to a maximum of 10% of Value Growth, provided that an annualized IRR of at least 6% is achieved (the "Initial Hurdle"). A catch-up clause divides the proportion of Value Growth in excess of the Initial Hurdle equally between the Advisor and Prothin until the point that the incentive fee reaches 10% of Value Growth. Beyond that hurdle, the total incentive fee is 10% of Value Growth.

On December 23, 2016, Northwood Investors France Asset Management SAS (the "**Advisor**") and Hanami Rueil SCI entered into an advisory services agreement, effective December 23, 2016 for an initial term of six years (the "**Hanami Rueil SCI ASA**") along the same lines as the Prothin ASA.

On December 5, 2018, Northwood Investors France Asset Management SAS (the "**Advisor**") and CGR Propco SCI entered into an advisory services agreement, effective December 5, 2018 for an initial term of six years (the "**CGR Propco SCI ASA**") along the same lines as the Prothin ASA.

## COMMITMENTS RECEIVED

Security deposits received from lessees amounted to EUR 18,537k at June 30, 2019.

**Description of the main provisions and resulting commitments of the Group's operating leases:**

All of the Group's business assets are located in France and are subject to the provisions of French law. The Group's business activities are governed by Articles L.145-1 to L.145-60 of the French Commercial Code. The lease term may not be less than nine years and only the lessee has the option of terminating the lease at the end of each three-year period following inception of the lease, subject to six months' notice.

Until the entry into force of Act no. 2014-626 of June 18, 2014 on craftspeople, small traders and micro businesses (the "Pinel Act"), the parties could contractually override this three-year termination period. This possibility is now limited in certain cases for leases signed on or after September 1, 2014 (the date on which the Pinel Act came into effect).

Rents are generally payable quarterly in advance and are indexed annually. The lease may provide for a step-up arrangement or for constant rental payments, and it may include rent-free periods or temporary rent freezes, but in any event, the terms and conditions are fixed at the inception of the lease for the entire lease term. Charges, including real property tax and tax on office premises, are generally borne by the lessee unless otherwise stipulated in the lease. Pursuant to Article R.145-35 of the French Commercial Code, some of these charges cannot be rebilled.

**Minimum guaranteed rental income from current operating leases:**

At June 30, 2019, the minimum annual rental income (excluding VAT, rebilling of taxes and expenses, and rent decreases agreed after the end of the reporting period) due to the Group until the earliest possible termination dates of the different operating leases was as follows:

These rents represent amounts to be invoiced, excluding the impact of staggering lease incentives with respect to earlier periods.

In thousands of euros

| | Future minimum annual rental income | | |
|---|---|---|---|
| | June 30, 2019 | Dec. 31, 2018 | June 30, 2018 |
| 2019 | 63,444 | 62,425 | 49,437 |
| 2020 | 65,393 | 52,674 | 41,118 |
| 2021 | 65,827 | 43,795 | 34,679 |
| 2022 | 58,825 | 25,909 | 17,387 |
| 2023 | 64,814 | 21,235 | 16,277 |
| 2024 | 70,197 | 20,295 | 14,780 |
| 2025 | 71,976 | 20,197 | 14,535 |
| 2026 | 74,057 | 6,852 | 0 |
| 2027 | 72,343 | 5,869 | 0 |
| 2028 | 66,285 | 936 | 0 |
| 2029 | 62,128 | | |

# 5.27 TRANSACTIONS WITH RELATED PARTIES

## TRANSACTIONS WITH RELATED COMPANIES

Transactions with related parties mainly comprise the asset management agreements entered into with Northwood Investors France Asset Management SAS

On April 14, 2016, Cegereal issued 865,000 share subscription warrants (BSA) to Northwood Investors France Asset Management SAS at a unit price of EUR 0.01. These warrants were subscribed in a total amount of EUR 8,650 at April 22, 2016. A total of 303,672 warrants were exercised in March 2019. The remaining warrants must be exercised no later than June 30, 2022.

Each share subscription warrant entitles the holder to subscribe for 1.005 new shares of the Company. The subscription price for one share will be calculated based on the volume-calculated average share price during the 20 trading days prior to the exercise date.

In thousands of euros

| | June 30, 2019 6 months | Dec. 31, 2018 12 months | June 30, 2018 6 months |
|---|---|---|---|
| **Impact on operating income** | | | |
| Building-related costs: Asset management and advisory fees | 2,489 | 4,349 | 2,199 |
| Building-related costs: Incentive fee | 534 | 8,794 | 1,862 |
| Administrative costs: Fees | 0 | 0 | 0 |
| **Impact on net financial expense** | | | |
| Financial expenses | 0 | 0 | 0 |
| **Total impact on income statement** | **3,023** | **13,143** | **4,060** |
| | | | |
| **Impact on assets** | | | |
| Prepaid expenses | 0 | 0 | 0 |
| Other operating receivables | 0 | 0 | 0 |
| **Total impact on assets** | **0** | **0** | **0** |
| | | | |
| **Impact on liabilities** | | | |
| Non-current borrowings | 0 | | 0 |
| Trade accounts payable | 641 | 19,485 | 11,166 |
| **Total impact on liabilities** | **641** | **19,485** | **11,166** |

## TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Compensation of the Chairman of the Board of Directors

The Chairman of the Board of Directors does not receive any compensation.

Compensation of the Chief Executive Officer

The Chief Executive Officer does not receive any compensation.

Other commitments

The Company has not entered into any other agreement to pay severance indemnities to senior executives or employees in the event of their resignation or dismissal without just cause, or in the event of a public offer for the Company's shares.

Directors' fees

Directors' fees of EUR 191k were paid for 2018.

Directors' fees of up to EUR 240k have been allocated for 2019.

Loans and securities granted to or on behalf of executives

None

Transactions entered into with executives

None

Entities having key management personnel in common with the Group

The Group has key management personnel in common with Northwood Investors, namely certain directors.

# 5.28 PERSONNEL

At June 30, 2019, the Group had three employees, unchanged from December 31, 2018.

# 5.29 STATUTORY AUDITORS

The Statutory Auditors are:

**KPMG Audit FS I**
Tour Eqho
2 avenue Gambetta
92066 Paris-La Défense Cedex

Tenure renewed at the Ordinary and Extraordinary Shareholders' Meeting of April 20, 2017.

**Denjean & Associés**
35 avenue Victor Hugo
75016 Paris

Tenure renewed at the Ordinary and Extraordinary Shareholders' Meeting of April 20, 2017.

Fees paid to the Statutory Auditors for the six-month period ended June 30, 2019 were as follows:

In thousands of euros

| | KPMG | | | | Denjean | | | | Deloitte | | | | Total | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Amount (excl. tax) | | % | | Amount (excl. tax) | | % | | Amount (excl. tax) | | % | | Amount (excl. tax) | | % | |
| | June 30, 2019 | Dec. 31, 2018 | June 30, 2019 | Dec. 31, 2018 | June 30, 2019 | Dec. 31, 2018 | June 30, 2019 | Dec. 31, 2018 | June 30, 2019 | Dec. 31, 2018 | June 30, 2019 | Dec. 31, 2018 | June 30, 2019 | Dec. 31, 2018 | June 30, 2019 | Dec. 31, 2018 |
| Statutory audit of the financial statements | 94 | 202 | 93 | 81 | 24 | 59 | 100 | 100 | 19 | 13 | 100 | 100 | 137 | 274 | 95 | 86 |
| - Holding company | 46 | 95 | 46 | 38 | 24 | 59 | 100 | 100 | - | - | - | - | 70 | 154 | 49 | 48 |
| - Subsidiaries | 48 | 107 | 47 | 43 | - | - | - | - | 19 | 13 | 100 | 100 | 67 | 120 | 46 | 37 |
| Advisory services and services not related to the statutory audit engagement | 7 | 46 | 7 | 19 | - | - | - | - | - | - | - | - | 7 | 46 | 5 | 14 |
| - Holding company | 7 | 46 | 7 | 19 | - | - | - | - | - | - | - | - | 7 | 46 | 5 | 14 |
| - Subsidiaries | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Total** | **101** | **248** | **100** | | **24** | **59** | **100** | **100** | **19** | **13** | **100** | **100** | **100** | **320** | **100** | **100** |

# 5.30 SUBSEQUENT EVENTS

N/A

# 6. STATUTORY AUDITORS' REPORT

**Cegereal S.A.**
Registered office: 42 rue de Bassano, 75008 Paris, France
Share capital: €79,532,200

## STATUTORY AUDITORS' REVIEW REPORT ON THE 2019 INTERIM FINANCIAL INFORMATION

Six-month period ended June 30, 2019

To the Shareholders,

In compliance with the assignment entrusted to us by your General Shareholders' 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 Cegereal SA for the six months ended June 30, 2019;
• the verification of the information contained in the interim management report.
These interim consolidated financial statements are the responsibility of the Board of Directors. Our role is to express a conclusion on these financial statements based on our review.

## 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 inquiries, 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 have not been prepared in all material respects, in accordance with International Financial Reporting Standards as adopted by the European Union, or that they do not give a true and fair view of the assets, financial position and results of the Company and all companies included in the consolidation scope.

## II – Specific verification

We have also verified the information given in the interim activity 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 consolidated financial statements.

Paris-La Défense, July 24, 2019

**KPMG Audit FS I**

Regis Chemouny
Partner

**Denjean & Associés**

Céline Kien
Partner

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