CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018

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3.1. CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

3.1.1. Statement of financial position

Assets

(€K)	Note 3.2.5.	31/12/2018	31/12/2017
Intangible fixed assets	1.2		
Goodwill		113,064	1,572
Other intangible fixed assets		59,138	24,592
Tangible fixed assets	1.2		
Operating properties		1,181,280	176,262
Other tangible fixed assets		35,443	8,399
Fixed assets in progress		24,952	19,120
Investment properties	1.3	20,139,338	18,417,648
Non-current financial assets	2.2	152,846	355,064
Investments in equity affiliates	3.2	249,746	368,901
Deferred tax assets	4	67,965	5,939
Long-term derivatives	11.5	28,752	30,763
Total non-current assets		**22,052,525**	**19,408,261**
Assets held for sale	1.3	558,848	519,891
Loans and receivables	5	6,470	34,441
Inventories and work-in-progress	6.2	95,811	43,237
Short-term derivatives	11.5	18,200	17,415
Trade receivables	7	313,212	279,298
Tax receivables		8,423	13,280
Other receivables	8	153,872	108,024
Prepaid expenses		4,393	12,505
Cash and cash equivalents	9	1,172,450	1,296,636
Total current assets		**2,331,677**	**2,324,727**
TOTAL ASSETS		**24,384,202**	**21,732,988**

Liabilities

(€K)	Note 3.2.5.	31/12/2018	31/12/2017
Share capital		248,709	224,490
Share premium account		3,553,687	2,853,696
Own shares		-18,628	-4,743
Consolidated reserves		3,028,104	2,375,752
Net income		749,574	914,112
Total shareholders' equity, Group Share	10	**7,561,446**	**6,363,307**
Non-controlling interests		3,796,969	3,804,352
Total shareholders' equity		**11,358,414**	**10,167,659**
Long-term borrowings	11.2	9,216,624	8,596,316
Long-term rental liabilities	11.6	163,281	0
Long-term derivatives	11.5	155,945	261,432
Deferred tax liabilities	4	844,005	551,030
Pension plan and other employee benefit	12.2	49,248	47,508
Other long-term liabilities		21,199	14,062
Total non-current liabilities		**10,450,302**	**9,470,348**
Liabilities held for sale		0	0
Trade payables[1]		129,990	116,186
Trade payables on fixed assets[1]		83,189	51,438
Short-term borrowings	11.2	1,843,103	1,524,243
Short-term rental liabilities	11.6	376	0
Short-term derivatives	11.5	79,052	61,424
Security deposits		5,557	5,161
Advances and pre-payments received		170,928	166,062
Short-term provisions	12.2	22,610	10,909
Current tax		32,598	22,982
Other short-term liabilities	13	149,624	117,759
Pre-booked income		58,461	18,817
Total current liabilities		**2,575,486**	**2,094,981**
TOTAL LIABILITIES		**24,384,202**	**21,732,988**

(1) At 31 December 2017, accounts payable to suppliers of fixed assets were included in trade payables.

3.1.2. Statement of net income

(€K)	Note	31/12/2018	31/12/2017
Rental income	3.2.6.2.1	955,891	927,410
Unrecovered rental costs	3.2.6.2.2	-31,945	-43,225
Expenses on properties	3.2.6.2.2	-36,915	-30,509
Net losses on unrecoverable receivables	3.2.6.2.2	-3,200	-3,658
Net rental income		**883,831**	**850,018**
EBITDA from hotel operating activity & Coworking	3.2.6.2.3	75,831	0
Income from other activities	3.2.6.2.3	4,792	6,209
Management and administration income		20,042	20,986
Business expenses		-6,140	-7,310
Overhead		-119,591	-110,929
Development costs (not capitalised)		-585	-4,102
Net cost of operations	3.2.6.2.4	**-106,274**	**-101,355**
Depreciation of operating assets	3.2.6.2.5	-60,120	-9,905
Net change in provisions and other		6,277	-5,976
CURRENT OPERATING INCOME		**804,337**	**738,991**
Net income from inventory properties		-1,087	-4,413
Income from asset disposals	3.2.6.3	97,423	43,701
Income from value adjustments	3.2.6.4	620,693	915,855
Income from disposal of securities	3.2.6.5	119,315	-4,139
Income from changes in scope	3.2.6.5	-160,006	-3,326
OPERATING INCOME		**1,480,674**	**1,686,669**
Cost of net financial debt	3.2.6.6	-187,970	-236,915
Interest cost for rental liabilities	3.2.5.11.6	-4,594	0
Value adjustment on derivatives	3.2.6.7	-16,152	122
Expenses from free shares and discounting	3.2.6.7	-9,458	-6,808
Amortisation of loan issue costs	3.2.6.7	-25,735	-23,273
Share in income of equity affiliates	3.2.5.3.2	22,828	43,238
PRE-TAX NET INCOME		**1,259,594**	**1,463,033**
Deferred tax liabilities	3.2.6.8.2	-90,051	-98,438
Corporate income tax	3.2.6.8.2	-26,081	-12,014
NET INCOME FOR THE PERIOD		**1,143,462**	**1,352,581**
Net income from non-controlling interests		-393,888	-438,469
NET INCOME FOR THE PERIOD – GROUP SHARE		**749,574**	**914,112**
Group net income per share *(€)*	3.2.7.2	**9.99**	**12.41**
Group diluted net income per share *(€)*	3.2.7.2	**9.22**	**12.33**

3.1.3. Statement of comprehensive income

(€K)	31/12/2018	31/12/2017
NET INCOME FOR THE PERIOD	**1,143,462**	**1,352,581**
Other items in the comprehensive income statement recognised directly in shareholders' equity and:		
Destined for subsequent reclassification in the "Net income" section of the income statement		
Actuarial losses on employee benefits	0	1,674
Currency transaction gains and losses	-3,026	0
Effective portion of gains or losses on hedging instruments	-7,507	7,125
Tax on other items of comprehensive income	0	-471
Not destined for subsequent reclassification in the "Net income" section	0	0
Other items of comprehensive income	**-10,533**	**8,328**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**1,132,929**	**1,360,909**
Total comprehensive income attributable		
To the owners of the parent company	744,124	916,929
To non-controlling interests	388,805	443,980
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**1,132,929**	**1,360,909**
Group net comprehensive per share	**9.92**	**12.45**
Group diluted net income (loss) per share	**9.16**	**12.37**

3.1.4. Statement of changes in shareholders' equity

The Covivio share capital was 82,902,898 shares issued and fully paid up each with a par value of €3, *i.e.* €248.7 million at 31 December 2018. Covivio holds 222,461 treasury shares.

(€K)	Share capital	Share premium account	Own shares	Reserves and retained earnings	Gains and losses recognised directly in shareholders' equity	**Total shareholders' equity, Group Share**	Non-controlling interests	Total shareholders' equity
Position at 31 December 2016	**206,274**	**2,480,609**	**-7,496**	**2,647,455**	**-24,470**	**5,302,372**	**3,165,604**	**8,467,976**
Distribution of dividends		-76,061		-248,670		-324,731	-223,158	-547,889
Capital increase	18,216	450,671		-11		468,876	66,326	535,202
Allocation to the legal reserve		-1,523		1,523		0		0
Others			2,753	-1,325		1,428	457	1,885
Total comprehensive income for the period				**914,112**	**2,817**	**916,929**	**443,980**	**1,360,909**
Of which actuarial gains and losses on post-employment benefits (revised IAS 19)					*741*	*741*	*462*	*1,203*
Of which effective portion of gains or losses on hedging instruments					*2,076*	*2,076*	*5,049*	*7,125*
Of which net income (loss)				*914,112*		*914,112*	*438,469*	*1,352,581*
Impact of change in shareholding/Capital increase				-7,040		-7,040	351,143	344,103
Shared-based payments				5,473		5,473		5,473
Position at 31 December 2017	**224,490**	**2,853,696**	**-4,743**	**3,311,517**	**-21,653**	**6,363,307**	**3,804,352**	**10,167,659**
Distribution of dividends				-337,030		-337,030	-235,122	-572,152
Capital increase	23,675	702,902				726,577		726,577
Allocation to the legal reserve	544	-2,911		2,367		0		0
Others			-13,885	-461		-14,346	-280	-14,626
Total comprehensive income for the period				**749,574**	**-5,450**	**744,124**	**388,805**	**1,132,929**
Of which currency transaction gains and losses					*-1,280*	*-1,280*	*-1,746*	*-3,026*
Of which effective portion of gains or losses on hedging instruments					*-4,170*	*-4,170*	*-3,337*	*-7,507*
Of which net income (loss)				*749,574*		*749,574*	*393,888*	*1,143,462*
Impact of change in shareholding/Capital increase				71,056		71,056	-160,786	-89,730
Shared-based payments				7,757		7,757		7,757
POSITION AT 31 DECEMBER 2018	**248,709**	**3,553,687**	**-18,628**	**3,804,780**	**-27,103**	**7,561,446**	**3,796,969**	**11,358,414**

Dividends paid in cash during the period amounted to €337 million, charged to net income and retained earnings.

During 2018, Covivio increased its share capital by almost €727 million through the issue of 7,498,887 shares following the merger with Beni Stabili, and the issue of 392,701 new shares following the conversion of 2,333,896 bonds and the allocation of 181,346 vested free shares.

Reserves correspond to parent company retained earnings and reserves, together with reserves from consolidation.

Changes in the number of shares during the period

Transaction	Shares issued	Own shares	Shares outstanding
Number of shares at 31 December 2017	**74,829,964**	**56,006**	**74,773,958**
Capital increase – delivery of bonus share plan	181,346		
Capital increase – conversion of ORNANE-type bonds	392,701		
Capital increase – Beni Stabili merger	7,498,887		
Own shares – liquidity agreement		36,250	
Own shares – employee award		130,205	
NUMBER OF SHARES AT 31 DECEMBER 2018	**82,902,898**	**222,461**	**82,680,437**

The change of -€7 million in non-controlling interests is mainly due to the net income attributable to minority interests for the period (+€389 million), the merger of FDM Management (operating properties business) with Covivio Hotels and the increase in the share capital of Covivio Hotels making it possible to finance the acquisition of 14 hotels in the United Kingdom (+ €671), to the merger with Beni Stabili and the change in the ownership interest in subsidiaries Central Sicaf (-€806 million), and distributions over the period (-€235 million).

3.1.5. Statement of cashflows

(€K)	Note	31/12/2018	31/12/2017
Net consolidated income (including minority interests)		**1,143,462**	**1,352,581**
Net depreciation and provisions[1] (excluding those related to current assets)	3.2.6.5	194,514	17,785
Unrealised gains and losses relating to changes in fair value	3.2.5.11.5 & 3.2.6.4	-604,530	-915,978
Income and expenses calculated on stock options and related share-based payments		8,802	6,672
Other calculated income and expenses		23,421	26,184
Gains or losses on disposals[2]	3.2.6.3 & 3.2.6.5	-226,326	-46,533
Gains or losses from dilution – accretion		-0	-18
Share of income from companies accounted for under the equity method		-22,828	-43,238
Dividends (non-consolidated securities)		0	0
Cash flow after tax and cost of net financial debt		**516,515**	**397,455**
Cost of net financial debt	3.2.6.6	187,970	236,915
Income tax expense (including deferred taxes)	3.2.6.8.2	116,132	110,452
Cash flow before tax and cost of net financial debt		**820,616**	**744,822**
Taxes paid		-17,375	-7,280
Change in working capital requirements on continuing operations (including employee benefits liabilities)	3.2.5.7.2	81,069	719
Net cash flow generated by the activity		**884,310**	**738,261**
Impact of changes in the scope[3]		-475,832	-667,541
Disbursements related to acquisition of tangible and intangible fixed assets	3.2.5.1.2	-991,339	-1,114,261
Proceeds relating to the disposal of tangible and intangible fixed assets	3.2.5.1.2	1,267,019	1,066,653
Disbursements relating to acquisition of financial assets (non-consolidated securities)		0	-200
Proceeds relating to the disposal of financial assets (non-consolidated securities)		1,185	828
Dividends received (companies accounted for under the equity method, non-consolidated securities)		10,656	21,465
Change in loans and advances granted		71,227	-3,305
Investment grants received		0	0
Other cash flow from investment activities		11,218	-6,365
Net cash flow from investment operations		**-105,866**	**-702,726**
Impact of changes in the scope[4]		-97,543	272,147
Amounts received from shareholders in connection with capital increases:			
Paid by parent company shareholders	3.1.4	174,183	468,876
Paid by minority shareholders of consolidated companies		0	66,326
Purchases and sales of treasury shares		-15,675	2,066
Dividends paid during the reporting period:			
Dividends paid to parent company shareholders	3.1.4	-337,030	-324,733
Dividends paid to non-controlling interests of consolidated companies	3.1.4	-235,122	-169,385
Proceeds related to new borrowings	3.2.5.11.2	2,427,876	2,432,607
Repayments of borrowings (including finance lease agreements)	3.2.5.11.2	-2,507,114	-2,226,821
Net interest paid (including finance lease agreements)		-208,220	-235,974
Other cash flow from financing activities		-68,958	-124,043
Net cash flow from financing operations		**-867,602**	**161,066**
Impact of changes in the exchange rate		-64	-64
Impact of changes in accounting policies		0	0
CHANGE IN NET CASH		**-89,222**	**196,601**
Opening cash position		1,256,739	1,060,137
Closing cash position		1,167,517	1,256,738
CHANGE IN CASH AND CASH EQUIVALENTS		**-89,222**	**196,601**

		31/12/2018	31/12/2017
Gross cash (a)	3.2.5.9.2	1,172,450	1,296,636
Debit balances and bank overdrafts from continuing operations (b)	3.2.5.11.2	-1,398	-26,673
Net cash and cash equivalents (c) = (a) - (b)		**1,171,052**	**1,269,963**
Of which available net cash and cash equivalents		**1,167,517**	**1,256,738**
Of which unavailable net cash and cash equivalents		**3,535**	**13,225**
Gross debt (d)	3.2.5.11.2	11,144,032	10,169,440
Amortisation of financing costs (e)	3.2.5.11.2	-85,703	-75,554
NET DEBT (D) - (C) + (E)		**9,887,278**	**8,823,923**

(1) Net depreciation and provisions of €194.5 million include €131.1 million of impairment of goodwill recorded on the FDM Management merger operations (operating properties business) in Covivio Hotels and €44.3 million of depreciation and amortisation of tangible fixed assets following the integration of the operating properties business.

(2) Gains or losses on disposals mainly consist of income/(losses) from the disposal of assets (-€97.4 million) and income/(losses) from the disposal of securities (-€119.3 million).

(3) The impact of changes in investing activities (§ 39 of IAS 7) amounting to +€475.8 million mainly stem from Hotels Europe (-€353.6 million) and Germany Residential (-€123.8 million).
They consist of the proceeds from the change in consolidation method for Operating Properties companies (+€78.1 million), and proceeds from the disposal of companies (+€97.5 million) and disbursements related to acquisitions of securities in the United Kingdom (-€479.2 million), Spain (-€14 million) and Germany (-€118.9 million).

(4) The -€97.5 million impact of changes in the scope of consolidation related to financing activities (§ 42A of IAS 7) primarily concerns:
- *proceeds related to the sale of the investment in Central Sicaf in Italy Offices (+€70.8 million net of costs)*
- *disbursements related to the acquisition of additional stakes in Beni Stabili (-€139.2 million)*
- *disbursements related to the acquisition of additional stakes in companies in Germany Residential (-€20.2 million)*
- *disbursements related to the acquisition of additional stakes in the Cœur d'Orly companies (-€9.1 million).*

3.2. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3.2.1. General principles

3.2.1.1. Accounting standards

The consolidated financial statements of the Covivio group 31 December 2018 were prepared in accordance with the international accounting standards and interpretations issued by the International Accounting Standards Board (IASB) and adopted by the European Union as of the preparation date. These standards include the IFRS (International Financial Reporting Standards) and their interpretations.

The statements were approved by the Board of Directors on 20 February 2019.

Accounting principles and methods used

The accounting principles applied to the consolidated financial statements as at 31 December 2018 are identical to those used for the consolidated financial statements as at 31 December 2017, with the exception of new standards and amendments whose application is mandatory as from 1 January 2018 and which were not applied early by the Group.

The new standards subject to mandatory application on or after 1 January 2018 include:

- IFRS 9 "Financial instruments: Hedge Accounting", adopted by the European Union on 22 November 2016. This standard will replace IAS 39 concerning financial instruments. The Group will apply the provisions relating to the recognition and measurement of financial instruments, and to the impairment of financial assets retrospectively from 1 January 2018, without restating comparative figures upon first application. The impacts of the implementation of this standard, in particular concerning the treatment of debt renegotiations, are immaterial.
- IFRS 15 "Revenue from Contracts with Customers", adopted by the European Union on 22 September 2016. In May 2014, the IASB and the FASB published IFRS 15, which changes how revenue is recognised and supersedes IAS 18 "Revenue" and IAS 11 "Construction Contracts". IFRS 15 establishes a fundamental principle that requires revenues from contracts with customers to be recognised in a way that reflects the amount to which a seller expects to be entitled when transferring control of a good or service to a customer.

  For the Group, this standard may have an impact on real estate development. This business is still marginal today, but would increase in future years. On off-plan contracts, the principle of recognising revenue and margin as a percentage of completion is unaffected. However, the calculation of the percentage of completion will incorporate land costs, resulting in higher recognition of revenue and margin at the beginning of the contract than is the current practice.

  Amendments to IFRS 15, adopted by the European Union on 31 October 2017. Clarifications have been made to IFRS 15 concerning the following: identification of performance obligations, principal *versus* agent application, licenses, and transitory provisions. The Covivio group together with its Suppliers determined the terms and conditions for tenant service offerings and, on this basis, as agent and not as principal, given that it does not control the services provided according the IFRS 15 criteria and indicators.

  The Group did not recognise any impact on its earnings or shareholders' equity.
- Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts", adopted by the European Union on 3 November 2017. They are intended to remedy the temporary accounting consequences of the time-lag between the effective date of IFRS 9 and that of the new standard on insurance contracts replacing IFRS 4 (IFRS 17).
- Amendments to IFRS 2 "Classification and Measurement of Share-based Payment Transactions", adopted by the European Union on 26 February 2018. This amendment covers three aspects that concern the following: the effects of vesting conditions on the measurement of cash-settled share-based payments and, share-based payment transactions subject to tax withholding obligations, and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.
- Annual improvements to IFRS (2014-2016 cycle), adopted by the European Union on 7 February 2018. These improvements consist of minor amendments to IFRS 1 "First-time adoption of IFRS", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures".
- Amendments to IAS 40 "Transfers of Investment Property" adopted by the European Union on 14 March 2018. Further details on paragraphs 57 and 58 of IAS 40 have been provided by the IASB. An entity is required to transfer a property from investment property to inventories when, and only when, there is a change in use. There is a change in use when the property becomes or ceases to be an investment property, under the definition of that term, and there is evidence of such a change.
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration", adopted by the European Union on 28 March 2018. This interpretation deals with the issue of the exchange rate to be used for advance payments.

New standards awaiting adoption by the European Union, whose application is possible as of 1 January 2018:

- Amendments to IAS 28 "Investments in Associates and Joint Ventures", published 12 October 2017; Its adoption by the European Union is expected in 2019. According to the IASB, the amendments should come into force on 1 January 2019.
- Annual improvements to IFRS (2015-2017 cycle), published on 12 December 2017; Its adoption by the European Union is expected in 2019. According to the IASB, the amendments should come into force on 1 January 2019. These improvements amend IFRS 3 "Business Combinations", IFRS 11 "Partnerships", IAS 23 "Borrowing Costs" and IAS 12 "Income Taxes".
- Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement", published on 7 February 2018; Its adoption by the European Union is expected in 2019. According to the IASB, the amendments should come into force on 1 January 2019.
- Amendment to IFRS 3 "Definition of an enterprise", published on 22 October 2018; its adoption by the European Union is expected in 2019. According to the IASB, the amendments should come into force on 1 January 2020.
- Amendments to IAS 1 and IAS 8 "Definition of significant", published on 31 October 2018; Its adoption by the European Union is expected in 2019. According to the IASB, the amendments should come into force on 1 January 2020.
- Amendments to IFRS 10 and IAS 28 "Sales or contributions of assets made between the Group and equity affiliates, published on 11 September 2014.

The new amendments and standards adopted by the European Union whose application was not mandatory on 1 January 2018 and which are not being applied early by the Covivio group are the following:

- IFRS 16 "Leases", adopted by the European Union on 31 October 2017; according to the IASB, the amendments should come into force on 1 January 2019. On 13 January 2016, the IASB published IFRS 16, which will supersede IAS 17 "Leases", as well as the corresponding interpretations (IFRIC 4, SIC 15 and SIC 27). The most significant change is that all the leases concerned will be recognised on the lessee's balance sheet, providing better visibility on their assets and liabilities. The Group has carried out an initial survey of its leases. At this stage, this primarily involves leases for premises, company vehicles, car parks and construction leases.

  IAS 40 "Investment properties" already incorporates a restatement similar to IFRS 16 for construction lease contracts described as finance leases. In this case, the asset is recognised in the balance sheet as a right of use (integral part of the investment property) and in the liabilities as a rental debt. Accordingly, long-term leases conferring ad rem rights relating to the fiscal year's acquisitions in the United Kingdom have already been restated in the financial statements as at 31 December 2018 (see § 3.2.5.11.6). Impacts from the first time that IFRS 16 is applied will consequently be limited to agreements other than long-term leases conferring ad rem rights and concerning low value agreements.
- Amendment to IFRS 9 "Prepayment Features with Negative Remuneration", adopted by the European Union on 22 March 2018; According to the IASB, the amendments should come into force on 1 January 2019.
- IFRIC 23 "Uncertainty Over Income Tax Treatments", adopted by the European Union on 23 October 2018; According to the IASB, the amendments should come into force on 1 January 2019.

IFRS standards and amendments published by the IASB but not adopted by the European Union, not authorised for financial years beginning on or after 1 January 2018:

- IFRS 17 "Insurance Contracts", published on 18 May 2017; according to the IASB, the amendments should come into force on 1 January 2021. IFRS 17 lays out the principles as to the recognition, valuation, presentation and disclosures concerning insurance contracts within the scope of application of the standard. This standard has no impact on the financial statements.
- Amendments to references to the conceptual framework of the IFRS, published on 29 March 2018; its adoption by the European Union is expected in 2019. According to the IASB, the amendments should come into force on 1 January 2020.

3.2.1.2. Estimates and judgements

The financial statements have been prepared in accordance with the historic cost convention, with the exception of investment properties and certain financial instruments, which were recognised in accordance with the fair value convention. In accordance with the conceptual framework for IFRS, preparation of the financial statements requires making estimates and using assumptions that affect the amounts shown in these financial statements.

The significant estimates made by the Covivio in preparing the financial statements mainly relate to:

- the valuations used for testing impairment, in particular assessing the recoverable value of goodwill and intangible fixed assets
- measurement of the fair value of investment properties
- assessment of the fair value of derivative financial instruments
- measurement of provisions.

Due to the uncertainties inherent in any valuation process, the Covivio group reviews its estimates based on regularly updated information. The future results of the transactions in question may differ from these estimates.

In addition to the use of estimates, Group management makes use of judgements to define the appropriate accounting treatment of certain business activities and transactions when the IFRS standards and interpretations in effect do not precisely address the accounting issues involved.

3.2.1.3. Operating segments

The operating segments of the Covivio group are detailed in paragraph 3.2.8.1.

3.2.1.4. IFRS 7 – Reference table

• Liquidity risk	§ 3.2.2.2
• Financial expense sensitivity	§ 3.2.2.3
• Credit risk	§ 3.2.2.4
• Market risk	§ 3.2.2.6
• Exchange rate risk	§ 3.2.2.7
• Sensitivity of the fair value of investment properties	§ 3.2.5.1.3
• Covenants	§ 3.2.5.11.7

3.2.2. Financial risk management

The operating and financial activities of the Company are exposed to the following risks:

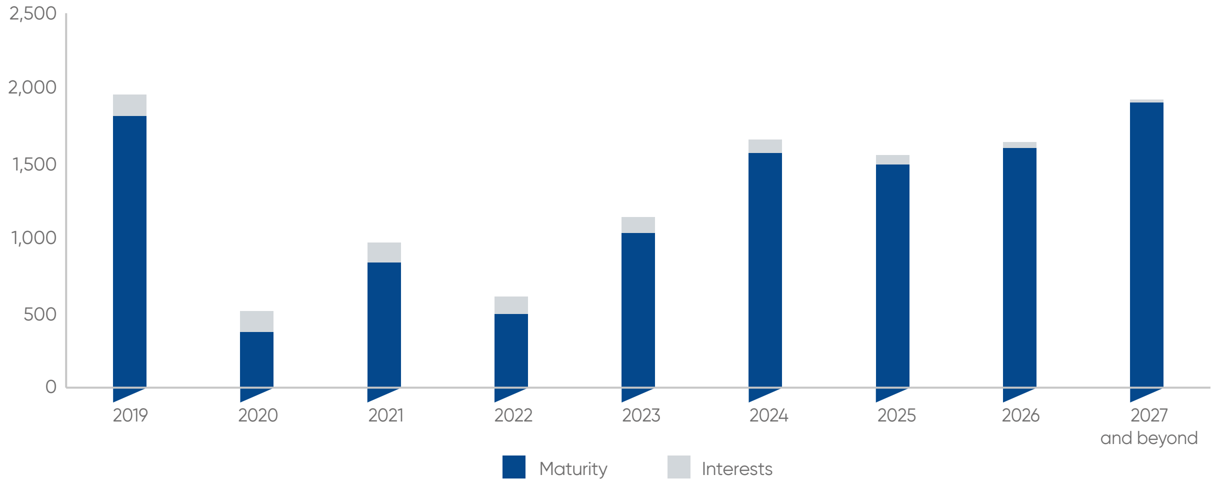
3.2.2.1. Marketing risk for properties under development

The Group is involved in property development. As such, it is exposed to a number of different risks, particularly risks associated with construction costs, completion delays and the marketing of properties. These risks can be assessed in light of the schedule of properties under development (see § 3.2.5.1.5)

3.2.2.2. Liquidity risk

Liquidity risk is managed in the medium and long term with multi-year cash management plans and, in the short term, by using confirmed and undrawn lines of credit. At 31 December 2018, Covivio group's available cash and cash equivalents amounted to €3,050 million, including €1,695 million in usable unconditional credit lines, €1,172 million in investments and €183 million in unused overdraft facilities.

The graph below summarises the maturities of borrowings (in €M) existing as at 31 December 2018:



The 2019 maturities in the graph below include €1,271 million in treasury bills.

The amount of interest payable up to the maturity of the debt, estimated on the basis of the outstanding amount at 31 December 2018 and the average interest rate on the debt, totalled €861 million.

Details concerning the debt maturities are provided in note 3.2.5.11.3, and a description of the banking covenants and accelerated payment clauses included in the loan agreements is presented in note 3.2.5.11.6.

During the year 2018, the Group continued to diversify its sources of financing, reduce the cost of debt and extend its maturity:

- Over the year 2018, Covivio raised or renegotiated €2.2 billion of financing – of which €1.3 billion in France and €0.9 billion in Italy, in particular with an objective to lengthen the average maturity.
  - France Offices:

    In 2018, Covivio raised or renegotiated €1,353 million of financing. The company renegotiated €300 million and raised €33 million in 10-year mortgage debt, including on a partnership project. It renegotiated €925 million of corporate credit facilities, basically with a 7-year maturity or extendible to 7 years. At the same time, the bond issue launched in 2027 was increased by €95 million to be raised to €595 million (coupon at 1.50%).
  - Italy Offices:

    In 2018, Covivio (former Beni Stabili) raised €157 million of new corporate credit facilities, most of which were renegotiated to long-term at the end of the year as part of the merger. In this same context, close to €450 million of mortgage financing operations were renegotiated with more favourable financing conditions, to take effect at the start of 2019.

    The company also repaid €600 million of bond issues: €350 million at its normal maturity (2018 issue at 4.125%) and €250 million repaid early (2019 bond at 3.50%), in part refinanced through an initial 10-year issue of €300 million (coupon 2.375%).
- Hotels in Europe:

  Covivio Hotels raised or secured new financing of around €975 million, mainly:
  - €150 million of new corporate credits with a maturity of 7 years
  - £400 million intended to finance the acquisition of hotel assets in the United Kingdom
  - a bond issue of €350 million at 7 years (coupon 1.875%), after obtaining an S&P BBB positive outlook rating. The purpose of this issue was to extend the average maturity of the Covivio Hotels' debt, while improving the financial conditions. At the start of 2019, the major part of the issue income had been allocated to repaying the shortest term liabilities and those with higher margins.
- Germany Residential:

  In Germany, Covivio Immobilien SE raised or refinanced €483 million of debts, of which:
  - €286 million of new funds raised, with average maturity close to 10 years, to finance the year's acquisitions (primarily in Berlin, Dresden, Leipzig and Hamburg)
  - €197 million releverage/refinancing of existing debts (or one-off corporate budget put in place) to optimise the leverage, maturity and margin conditions.

3.2.2.3. Interest rate risk

The Group's exposure to the risk of changes in market interest rates is linked to its floating rate and long-term financial debt.

To the extent possible, bank debt is primarily hedged *via* financial instruments (see § 3.2.5.11.5). At 31 December 2018, after taking interest rate swaps into account, approximately 83% of the Group's debt was hedged, and the bulk of the remainder was covered by interest rate caps, which resulted in the following sensitivity to changes in interest rates:

- The impact of a 100 bps rate increase as at 31 December 2018 is a loss of €15,784 thousand on the 2019 Group Share of net income.
- The impact of a 50 bps rate increase as at 31 December 2018 is a loss of €7,417 thousand on the 2019 Group Share of net income.
- The impact of a 50 bps rate reduction as at 31 December 2018 is an increase of €6,355 thousand on the 2019 Group Share of net income.

3.2.2.4. Financial counterparty risk

Given Covivio group's contractual relationships with its financial partners, the Company is exposed to counterparty risk. If one of its partners is not in a position to honour its undertakings, the Group's net income could suffer an adverse effect.

This risk primarily involves the hedging instruments entered into by the Group and which would have to be replaced by a hedging transaction at the current market rate in the event of a default by the counterparty.

The counterparty risk is limited by the fact that Covivio group is a borrower, from a structural standpoint. The risk is therefore mainly restricted to the investments made by the Group and to its counterparties in derivative product transactions. The Company continually monitors its exposure to financial counterparty risk. The Company's policy is to deal only with top-tier counterparties, while diversifying its financial partners and its sources of funding.

Counterparty risk is included in the measurement of cash instruments. It totalled €1,470 thousand in the 2018 period.

3.2.2.5. Leasing counterparty risk

Covivio group's rental income is subject to a certain degree of concentration, to the extent that the principal tenants (Orange, Telecom Italia, AccorHotels, Suez, B&B and Enedis/EDF) generate the primary annual rental income.

It should be noted that in 2017, and in the first quarter of 2018, the Group split up the Telecom Italia portfolio and now holds no more than 51%. The Group made significant investments in Spain and the United Kingdom thereby diversifying its Hotels tenants.

Covivio group does not believe it is significantly exposed to the risk of insolvency, since its tenants are selected based on their creditworthiness and the economic prospects of their market segments. The operating and financial performance of the main tenants is regularly reviewed. In addition, tenants grant the Group financial guarantees when leases are signed.

The Group has not recorded any significant overdue payments.

3.2.2.6. Risks related to changes in the value of the portfolio

Changes in the fair value of investment properties are recognised in the income statement. Changes in property values can thus have a material impact on the operating performance of the Group.

In addition, part of the Company's operating income is generated by the sales plan, the income of which is equally dependent on property values and on the volume of possible transactions.

Rentals and property values are cyclical in nature, the duration of the cycles being variable but generally long-term. Different domestic markets have differing cycles that vary from each other in relation to specific economic and market conditions. Within each national market, prices also follow the cycle in different ways and with varying degrees of intensity, depending on the location and category of the assets.

The macroeconomic factors that have the greatest influence on property values and determine the various cyclical trends include the following:

- interest rates
- the liquidity on the market and the availability of other profitable alternative investments
- economic growth.

Low interest rates, abundant liquidity on the market and a lack of profitable alternative investments generally lead to an increase in property asset values.

Economic growth generally increases demand for leased space and paves the way for rent levels to rise, particularly in Offices. These two consequences lead to an increase in the price of real estate assets. Nevertheless, in the medium term, economic growth generally leads to an increase in inflation and then an increase in interest rates, expanding the availability of profitable alternative investments. Such factors exert downward pressure on property values.

The investment policy of Covivio group is to minimise the impact of the various stages of the cycle by choosing investments that:

- have long-term leases and high quality tenants, which soften the blow of a reduction in market rental income and the resulting decline in real estate prices
- are located in major city centres
- have low vacancy rates, in order to avoid the risk of having to re-let vacant space in an environment where demand may be limited.

The holding of real estate assets intended for leasing exposes Covivio group to the risk of fluctuation in the value of real estate assets and lease payments.

Despite the uncertainty created by the economic downturn, this exposure is limited to the extent that the rentals invoiced are derived from rental agreements, the term and diversification of which mitigate the effects of fluctuations in the rental market.

The sensitivity of the fair value of investment properties to changes in capitalisation rates is analysed in 3.2.5.1.3.

3.2.2.7. Exchange rate risk

The group operates both in the euro zone and outside the euro following acquisition of the hotel properties in the United Kingdom. The Group wanted to hedge against currency fluctuations by financing part of the acquisitions through a foreign currency loan and a currency swap.

Impact of a decrease in the GBP/EUR exchange rate on the shareholders' equity

	31/12/2018 *(£M)*	5% decrease in GBP/EUR exchange rate *(€M)*	10% decrease in GBP/EUR exchange rate *(€M)*
Portfolio	756	-42.9	-85.7
Debt	368	20.7	41.4
Cross currency swap	175	9.8	19.7
IMPACT ON SHAREHOLDER'S EQUITY		**-12.3**	**-24.6**

(-) corresponds a loss; (+) corresponds to a gain.

3.2.2.8. Brexit risk

Notwithstanding the impact on real estate valuations relating to economic uncertainties, in the United Kingdom the Group is benefiting from the minimum guaranteed rental income over its whole portfolio limiting the impact of this risk on its financial position and profitability.

3.2.2.9. Risks related to changes in the value of shares and bonds

The Group is exposed to risks for two classes of shares (see § 3.2.5.2.2).

This risk primarily involves listed securities in companies consolidated according to the equity method, which are valued according to their value in use. Value in use is determined based on independent assessments of the real estate assets and financial instruments.

Furthermore, Covivio issued bonds (ORNANE type) valued at their fair value in the income statement at each reporting date for ORNANE France 2019 and by distinguishing a financial debt and amortised cost and a derivative value at fair value for ORNANE Italy 2021. The fair value corresponds to the bond's monthly closing price, exposing the Group to changes in the bond value. The specific features of the ORNANE are described in note 3.2.5.11.4.

3.2.2.10. Tax environment

3.2.2.10.1. Changes in the French tax environment

The French tax environment changed as part of the SIIC tax regime with regard to the obligatory distribution rate of capital gains stemming from disposals raised from 60% to 70% as from 31 December 2018.

3.2.2.10.2. Changes in the Italian tax environment

The changes in the Italian tax environment concern the reformed procedure for settling tax disputes, offering taxpayers the possibility of requesting the definitive settlement of their case by paying only the reassessed principal (without interest and penalties), in a proportion depending on the stage of the proceedings and the party (taxpayer or administration) which obtained the last favourable decision ("tax amnesty" proceedings).

3.2.2.10.3. Changes in the German tax environment

The Group has not observed any significant change in the German tax environment.

3.2.2.10.4. Tax risks

Given the ongoing changes to tax legislation, the Group is likely to be subject to reassessment proposals from the Tax Administration. If our counsel believes that an adjustment presents a risk of reassessment, a provision is made. The list of the main ongoing proceedings includes the following:

- Tax audit of Covivio and Foncière Europe Logistique (merged with Covivio in 2016)

  Covivio was subject to tax audits for the 2012, 2013 and 2014 fiscal years. These audits related to income tax and corporate value added tax (CVAE) and resulted in a tax adjustment paid in 2015.

  This tax adjustment was appealed by the Company. Following a ruling by the French Council of State, Covivio was refunded in full for the amounts paid (€14.4 million) plus interest. The dispute relating to income tax has now been settled and only the appeal over the CVAE adjustment (€0.2 million) remains. Based on the analysis by the Company's legal counsel, no provision was recorded for this dispute.

  In addition, tax audits of Foncière Europe Logistique (merged with Covivio in 2016) for the 2007, 2008, 2010, 2011, 2012 and 2013 fiscal years had resulted in adjustments relating to income tax. Following various appeals, the French Council of State ruled in favour of the Company, which was refunded for the amounts paid. These disputes are fully settled at 31 December 2018

- Covivio Hotels' tax audit

  Covivio Hotels' financial statements were audited for the 2010 and 2011 and 2012, 2013 and 2014 fiscal years, which resulted in a reassessment proposal for the CVAE in the amount of €2.4 million and €2.2 million respectively. These reassessments were partially withdrawn by the tax administration in the first quarter of 2018 and refunds of €1.2 million and €1.1 million were obtained. The remaining balance of the reassessment of €1.1 million is being contested before the Administrative Court following the court's two rulings against the Company. Based on the analysis by the company's legal counsel, these disputes were not provisioned as at 31 December 2018

  The financial statements of Covivio Hotels were also audited for the 2015 fiscal year which resulted in a reassessment proposal for corporate value-added tax (CVAE), on the same grounds as the previous reassessment proposals for €0.2 million. This proposal is being contested, and based on the analysis by the Company legal counsel, no provision was recorded to that effect as at 31 December 2018

- Foncière Otello tax audit (subsidiary of Covivio Hotels)

  Foncière Otello's financial statements were audited for the 2011, 2012 and 2013 fiscal years, which resulted in a reassessment proposal for the CVAE in the amount of €0.5 million. This proposal is being contested before the Administrative Court following this court's ruling against the Company. Based on the analysis by legal counsel, no provision has been recorded for this dispute as at 31 December 2018

  The financial statements of SNC Otello were also audited for the 2014, 2015 and 2016 fiscal years, which resulted in a reassessment proposal in November 2016 for corporate value added tax (CVAE) in the amount of €0.2 million, on the same grounds as the previous reassessment proposal. This proposal is being contested in its entirety, and, based on the analysis by the Company's legal counsel, no provision has been recorded to that effect as at 31 December 2018

- Tax audits of Operating properties

  Two German companies (Rock portfolio) are subject to a tax audit for the 2012 and 2015 financial years, as well as the company Nice-M for 2015 and 2016

- Tax audits of Germany Residential

  Covivio Immobilien and all its subsidiaries have been subjected to a tax audit for the 2011, 2012 and 2013 financial years. As at 31 December 2018, the main elements identified are:

  - golddust portfolio: despite being contested, a provision of €1.5 million was recorded as at 31 December 2018 as the level of interest rates on pre-existing partner loans on acquisition of the companies' securities was questioned
  - reduction of the amount of the deficits of €4.6 million attributable to Covivio Immobilien and impacts of corporate income tax of around €0.2 million with respect to the questioning of the level of interest rates on partner loans. This reassessment has been accepted
  - reduction of the amount of attributable deficits of €2.2 million due to the non-tax deductibility of a credit loss. This reassessment has been accepted.

- Tax audits of Beni Stabili merged with Covivio as at 31 December 2018

  Comit Fund tax dispute – Beni Stabili:

  On 17 April 2012, following a court decision, the Italian tax administration refunded the debt borne by Beni Stabili for the Comit Fund dispute (principal: €58.2 million and interest: €2.3 million). In April 2012, the Tax Administration appealed this decision. The Court of Appeal ruled in favour of the Tax Administration on 18 December 2015

  The dispute with the Tax Administration was settled with the payment of €55 million. The €56.2 million provision recorded in 2015 was reversed as at 31 December 2016

  However, Comit Fund and Beni Stabili have not entered into a joint agreement to definitively agree that they each will pay an equal share of this adjustment. Civil arbitration proceedings taken by Comit Fund confirmed that each party accepts to pay 50% of the cost of the dispute, in accordance with the payments made. In January 2019, Comit Fund appealed against the arbitration decision bringing the dispute to an end. Based on the analysis by the company's legal counsel, no provision has been recorded for this appeal as at 31 December 2018.

  Tax audits:

  Beni Stabili was subject to a tax audit for the 2008, 2009, 2010 and 2011 financial years. The tax administration issued reassessments totalling €9.8 million of principal, which is disputed by the Company in its entirety. An agreement was signed in December 2017 covering the 2008, 2009 and 2010 financial years, with an expected reimbursement of €1.8 million

  With regard to the 2011 fiscal year for which payment of €1.3 million was made pending a ruling, the dispute was settled as at 31 December 2018, following judicial conciliation proceedings, by an additional payment of €0.2 million, *i.e.* a final cost of €1.6 million.

  Under the new "tax amnesty" procedure, Beni Stabili took the decision in December 2018 to definitively settle all its pending tax disputes, by paying an amount of €2.7 million out of a total reassessed amount of €7.5 million. A provision of €2.7 million in this case was recorded as at 31 December 2018.

3.2.2.10.5. Deferred taxes

Most of the Group's real estate companies have opted for the SIIC regime in France, and the SOCIMI regime in Spain. Beni Stabili, which opted for the SIIQ regime, changed its tax regime when it merged with Covivio at 31 December 2018 and the Covivio permanent establishment in Italy will be subject to real estate corporate tax of 20% as of 1 January 2019. The impact of deferred tax liabilities is therefore essentially present in Germany Residential and Italy Offices linked to investments in Hotels in Europe for which the SIIC regime is not applicable (Germany, Spain, Belgium, Netherlands, Portugal and the United Kingdom). In the case of Spain, all Spanish companies have opted for the SOCIMI regime exemption. However, there are deferred tax liabilities related to assets held by the companies prior to opting for SOCIMI treatment.

Because the companies in the Operating Properties business are fully consolidated, a deferred tax liability has been recognised in the financial statements. The deferred tax is mainly due to the recognition of the portfolio's fair value (German rate: 15.825%, French rate: 34%). Please note that the hotel businesses are taxed at a rate of more than 30% in Germany and that deferred tax liabilities have also been recognised at this rate.

3.2.3. Scope of consolidation

3.2.3.1. Accounting principles applicable to the scope of consolidation

3.2.3.1.1. Consolidated subsidiaries and structured entities – IFRS 10

These financial statements include the financial statements of Covivio and the financial statements of the entities (including structured entities) that it controls and its subsidiaries.

Covivio group has control when it:

- has power over the issuing entity
- is exposed or is entitled to variable returns due to its ties with the issuing entity
- has the ability to exercise its power in such as manner as to affect the amount of returns that it receives.

Covivio group must reassess whether it controls the issuing entity when facts and circumstances indicate that one or more of the three factors of control listed above have changed.

A structured entity is an entity structured in such a way that the voting rights or similar rights do not represent the determining factor in establishing control of the entity; this is particularly the case when the voting rights only involve administrative tasks and the relevant business activities are governed by contractual agreements.

If the Group does not hold a majority of the voting rights in an issuing entity in order to determine the power exercised over an entity, it analyses whether it has sufficient rights to unilaterally manage the issuing entity's relevant business activities. The Group takes into consideration any facts and circumstances when it evaluates whether the voting rights that it holds in the issuing entity are sufficient to confer power to the Group, including the following:

- the number of voting rights that the Group holds compared to the number of rights held respectively by the other holders of voting rights and their distribution
- the potential voting rights held by the Group, other holders of voting rights or other parties
- the rights under other contractual agreements
- the other facts and circumstances, where applicable, which indicate that the Group has or does not have the actual ability to manage relevant business activities at the moment when decisions must be made, including voting patterns during previous shareholders' meetings.

Subsidiaries and structured entities are fully consolidated.

3.2.3.1.2. Equity affiliates – IAS 28

An equity affiliate is an entity in which the Group has significant control. Significant control is the power to participate in decisions relating to the financial and operational policy of an issuing entity without, however, exercising control or joint control on these policies.

The results and the assets and liabilities of equity affiliates are recognised in these consolidated financial statements according to the equity method.

3.2.3.1.3. Partnerships (joint control) – IFRS 11

Joint control means the contractual agreement to share the control exercised over a company, which only exists in the event where the decisions concerning relevant business activities require the unanimous consent of the parties sharing the control.

Joint ventures

A joint venture is a partnership in which the parties which exercise joint control over the entity have rights to its net assets.

The results and the assets and liabilities of joint ventures are recognised in these consolidated financial statements according to the equity method.

Joint operations

A joint operation is a partnership in which the parties exercising joint control over the operation have rights to the assets, and obligations for the liabilities relating to it. Those parties are called joint operators.

A joint operator must recognise the following items relating to its interest in the joint operation:

- its assets, including its proportionate share of assets held jointly, where applicable
- its liabilities, including its proportionate share of liabilities undertaken jointly, where applicable
- the income that it derived from the sale of its proportionate share in the yield generated by the joint operation
- its proportionate share of income from the sale of the yield generated by the joint operation
- the expenses that it has committed, including its proportionate share of expenses committed jointly, where applicable.

The joint operator accounts for the assets, liabilities, income and expenses pertaining to its interests in a joint operation in accordance with the IFRS that apply to these assets, liabilities, income and expenses.

No Group company is considered to constitute a joint operation.

3.2.3.2. Additions to the scope of consolidation

Additions to the scope of consolidation for each business are presented in the scope reporting table detailed by company at the start of each segment. The segments concerned are France Offices, Italy Offices, Hotels in Europe, Germany Residential and Other.

3.2.3.3. Internal restructuring/Disposals

Removals from the scope of consolidation for each business are presented in the scope reporting table detailed by company at the end of each segment. The segments concerned are France Offices, Italy Offices, Hotels in Europe, Germany Residential and Other.

3.2.3.4. Change in holding and/or in consolidation method

Restructuring of the Operating Properties business line – Issue of Covivio Hotels shares – Impact on shareholding ratio

On 24 January 2018, Financière Hope was merged with FDM Management, which in turn merged with Covivio Hotels.

Following the merger of this business line, 17,460,738 Covivio Hotels shares were issued. The companies in the Operating Properties business line, most of which are now wholly owned, are fully consolidated.

Alongside the merger, Caisse de Dépôt et Consignation contributed 50% of its stake in SCI Porte Dorée. As compensation for this contribution, 975,273 new Covivio Hotels shares were issued. Porte Dorée SCI is thus wholly-owned and fully consolidated.

Following these two capital increases, 18,436,011 shares were issued. As a result, Covivio now owns 42% of Covivio Hotels, compared to 50% at 31 December 2017.

Italy Offices – Beni Stabili merger – Impact on shareholding ratio

In February 2018, Beni Stabili sold 9% of its stake in Sicaf-Central (Italia Telecom portfolio). Beni Stabili has kept control of the company, which is now 51% owned and fully consolidated.

In the first half of 2018, Covivio acquired 169,547,878 Beni Stabili shares. Covivio's stake in Beni Stabili increased by 7 percentage points, from 52.4% at 31 December 2017 to 59.9%.

At 31 December 2018, Covivio merged with its Italian subsidiary Beni Stabili. On 4 January 2019, the new Covivio shares were delivered to Beni Stabili shareholders, on the basis of an exchange ratio of 8,245 Covivio shares for 1,000 Beni Stabili shares.

Acquisition of 25% of Cœur d'Orly Impact on shareholding ratio

In May 2018, Covivio acquired Altarea's stake in the Cœur d'Orly holding companies. At 31 December 2018, the Group's holding in Cœur d'Orly projects amounted to 50%, *versus* 25% at 31 December 2017. The subsidiaries of these companies (SCI Cœur d'Orly Bureaux and SNC Cœur d'Orly Commerces) remain consolidated by the equity method (see § 3.2.3.6).

3.2.3.5. List of consolidated companies

93 companies France Offices segment	Country	Consolidation method in 2018	Percentage held in 2018	Percentage held in 2017
Covivio	**France**	**Parent company**		
Cité Numérique	France	FC	100.00	-
Danton Malakoff	France	FC	100.00	-
Meudon Bellevue	France	FC	100.00	-
N2 Batignolles	France	FC	50.00	-
Tours Coty	France	FC	100.00	-
Valence Victor Hugo	France	FC	100.00	-
Nantes Talensac	France	FC	100.00	-
Marignane Saint-Pierre	France	FC	100.00	-
Wellio	France	FC	100.00	100.00
Le Clos de Chanteloup	France	FC	100.00	100.00
Bordeaux Lac	France	FC	100.00	100.00
Sully Chartres	France	FC	100.00	100.00
Sucy Parc	France	FC	100.00	100.00
Gambetta Le Raincy	France	FC	100.00	100.00
Orly Promo	France	FC	100.00	100.00
Silex Promo	France	FC	100.00	100.00
21 Rue Jean Goujon	France	FC	100.00	100.00
Villouvette Saint-Germain	France	FC	100.00	100.00
La Mérina Fréjus	France	FC	100.00	100.00
Normandie Niemen Bobigny	France	FC	100.00	100.00
Le Printemps Sartrouville	France	FC	100.00	100.00
Gaugin Saint-Ouen-l'Aumône	France	FC	100.00	100.00
SCI du 15 rue des Cuirassiers	France	FC	50.10	50.10
SCI du 9 rue des Cuirassiers	France	FC	50.10	50.10
SCI Latécoère 2	France	FC	50.10	50.10
SCI Rueil B2	France	FC	100.00	100.00
SCI Rueil B3 B4	France	FC	100.00	100.00
SCI Factor E	France	EM/EA	34.69	34.69
SCI Orianz	France	EM/EA	34.69	34.69
Latepromo	France	FC	100.00	100.00
SNC Promomurs	France	FC	100.00	100.00
FDR Participation	France	FC	100.00	100.00
SCI avenue de la Marne	France	FC	100.00	100.00
Omega B	France	FC	100.00	100.00
GFR Ravinelle	France	FC	100.00	100.00
SCI du 288 rue Duguesclin	France	FC	100.00	100.00
SCI Fédérimmo	France	FC	60.00	60.00
Iméfa 127	France	FC	100.00	100.00
SCI Atlantis	France	FC	100.00	100.00
EURL Fédération	France	FC	100.00	100.00
SARL Foncière Margaux	France	FC	100.00	100.00
SCI du 32 avenue P. Grenier	France	FC	100.00	100.00
SCI du 40 rue J.J. Rousseau	France	FC	100.00	100.00
SCI du 3 place A Chaussy	France	FC	100.00	100.00
SARL BGA Transactions	France	FC	100.00	100.00
SCI 35/37 rue Louis Guérin	France	FC	100.00	100.00
SARL du 25-27 quai Félix Faure	France	FC	100.00	100.00
SCI du 10B et 11 A 13 allée des Tanneurs	France	FC	100.00	100.00
SCI du 125 avenue du Brancolar	France	FC	100.00	100.00

France Offices segment	Country	Consolidation method in 2018	Percentage held in 2018	Percentage held in 2017
SCI du 8 rue M. Paul	France	FC	100.00	100.00
SCI du 1 rue de Chateaudun	France	FC	100.00	100.00
SCI du 1630 Avenue de la Croix Rouge	France	FC	100.00	100.00
SCI du 682 cours de la Libération	France	FC	100.00	100.00
SARL du 106-110 rue des Troënes	France	FC	100.00	100.00
SCI du 2 rue de L'Ill	France	FC	100.00	100.00
SCI du 20 avenue Victor Hugo	France	FC	100.00	100.00
SARL du 2 rue Saint-Charles	France	FC	100.00	100.00
SNC Télimob Paris	France	FC	100.00	100.00
SNC Télimob Nord	France	FC	100.00	100.00
SNC Télimob Rhône Alpes	France	FC	100.00	100.00
SNC Télimob Sud Ouest	France	FC	100.00	100.00
SNC Télimob Est	France	FC	100.00	100.00
SNC Télimob Paca	France	FC	100.00	100.00
SNC Télimob Ouest	France	FC	100.00	100.00
SARL Télimob Paris	France	FC	100.00	100.00
SNC Latécoère	France	FC	50.10	50.10
Palmer Plage SNC	France	FC	100.00	100.00
SCI Palmer Montpellier	France	FC	100.00	100.00
SCI Dual Center	France	FC	100.00	100.00
SAS Cœur d'Orly Promotion	France	EM/EA	50.00	50.00
FDR 2	France	FC	100.00	100.00
SCI Bureaux Cœur d'Orly	France	EM/EA	50.00	25.00
SNC Commerces Cœur d'Orly	France	EM/EA	50.00	25.00
FDR 4	France	FC	75.00	75.00
OPCI Office CB21	France	FC	75.00	75.00
SCI Euromarseille 1	France	EM/JV	50.00	50.00
SCI Euromarseille 2	France	EM/JV	50.00	50.00
SCI Euromarseille BI	France	EM/JV	50.00	50.00
SCI Euromarseille BH	France	EM/JV	50.00	50.00
SCI Euromarseille PK	France	EM/JV	50.00	50.00
SCI Euromarseille Invest	France	EM/JV	50.00	50.00
SCI Euromarseille H	France	EM/JV	50.00	50.00
FDR 7	France	FC	100.00	100.00
Technical	France	FC	100.00	100.00
Le Ponant 1986	France	FC	100.00	100.00
Ruhl Côte d'Azur	France	FC	100.00	100.00
SCI Pompidou	France	FC	100.00	100.00
SCI 11 place de l'Europe	France	FC	50.09	50.09
SCI Lenovilla	France	EM/JV	50.10	50.10
SNC Lenopromo	France	FC	100.00	100.00
SCI Meudon Saulnier	France	FC	100.00	100.00
SCI Charenton	France	FC	100.00	100.00
SCI Raphael	France	Merger	-	100.00
GFR Kléber	France	Merger	-	100.00
SCI Euromarseille BL	France	Merger	-	50.00
SCI Euromarseille BH2	France	Merger	-	50.00
SNC hld Bureaux Cœur d'Orly	France	Merger	-	50.00
SNC hld Commerces Cœur d'Orly	France	Merger	-	50.00
Oméga A	France	Merger	-	100.00
Oméga C	France	Merger	-	100.00

The registered office of the parent company Covivio is located at 18 avenue François Mitterrand – 57000 Metz. The other fully consolidated subsidiaries in the France Offices segment have their registered office located at 10 and 30 avenue Kléber – 75116 Paris.

19 companies in the Italy Offices segment	Country	Consolidation method in 2018	Percentage held in 2018	Percentage held in 2017
Attivita Commerciali Montenero S.r.L.	Italy	FC	100.00	-
Attivita Commerciali Beinasco S.r.L.	Italy	FC	100.00	-
Attivita Commerciali Vigevano S.r.L.	Italy	FC	100.00	-
Covivio Attività Immobiliari 1 S.r.L.	Italy	FC	100.00	-
Central Società di Investimento per Azioni a capitalo fisso Central SICAF S.p.A.	Italy	FC	51.00	31.46
Revalo S.p.A.	Italy	FC	100.00	52.43
Investire S.p.A. SGR	Italy	EM	17.90	9.38
RGD Ferrara 2013 S.r.L.	Italy	EM	50.00	26.21
Resolution Tech S.r.L.	Italy	EM	30.00	15.73
Beni Stabili 7 S.p.A.	Italy	FC	100.00	52.43
Covivio Development S.p.A.	Italy	FC	100.00	52.43
Real Estate Roma Olgiata S.r.L.	Italy	FC	75.00	52.43
B.S. Immobiliare 9 SINQ S.p.A.	Italy	FC	100.00	52.43
RGD Gestioni S.r.L.	Italy	FC	100.00	52.43
Beni Stabili Retail S.r.l.	Italy	FC	55.00	28.83
Beni Stabili Real Estate Advisory S.r.L.	Italy	FC	100.00	52.43
B.S. Engineering S.r.l.	Italy	FC	100.00	52.43
Imser Securitisation S.r.L.	Italy	FC	100.00	52.43
Imser Securitisation 2 S.r.L.	Italy	FC	100.00	52.43
Beni Stabili Italy SIIQ (Parent company)	**Italy**	**Merger**		**52.43**
B.S. Activita commercial 1 S.r.L.	Italy	disposed of	-	52.43
B.S. Activitá commercial 2 S.r.L.	Italy	disposed of	-	52.43

The registered office of the companies in the Italy Offices segment is located at 10 Carlo Ottavio Cornaggia, 20123 Milan.

146 companies Hotels in Europe segment	Country	Consolidation method in 2018	Percentage held in 2018	Percentage held in 2017
SCA Covivio Hotels (Parent company) 100% controlled	France	FC	42.30	50.00
Rock-Lux OPCO	Luxembourg	FC	42.30	-
Blythswood Square Hotel Holdco	United Kingdom	FC	42.30	-
George Hotel Investments Holdco	United Kingdom	FC	42.30	-
Grand Central Hotel Company Holdco	United Kingdom	FC	42.30	-
Grand Principal Birmingham Holdco	United Kingdom	FC	42.30	-
Lagonda Leeds Holdco	United Kingdom	FC	42.30	-
Lagonda Palace Holdco	United Kingdom	FC	42.30	-
Lagonda Russell Holdco	United Kingdom	FC	42.30	-
Lagonda York Holdco	United Kingdom	FC	42.30	-
Oxford Spires Hotel Holdco	United Kingdom	FC	42.30	-
Oxford Thames Holdco	United Kingdom	FC	42.30	-
Roxburghe Investments Holdco	United Kingdom	FC	42.30	-
The St David's Hotel Cardiff Holdco	United Kingdom	FC	42.30	-
Wotton House Properties Holdco	United Kingdom	FC	42.30	-
Blythswood Square Hotel Glasgow	United Kingdom	FC	42.30	-
George Hotel Investments	United Kingdom	FC	42.30	-
Grand Central Hotel Company	United Kingdom	FC	42.30	-
Lagonda Leeds PropCo	United Kingdom	FC	42.30	-
Lagonda Palace PropCo	United Kingdom	FC	42.30	-
Lagonda Russell PropCo	United Kingdom	FC	42.30	-

Hotels in Europe segment	Country	Consolidation method in 2018	Percentage held in 2018	Percentage held in 2017
Lagonda York PropCo	United Kingdom	FC	42.30	-
Roxburghe Investments PropCo	United Kingdom	FC	42.30	-
The St David's Hotel Cardiff	United Kingdom	FC	42.30	-
Wotton House Properties	United Kingdom	FC	42.30	-
Roxburghe Investments Lux	Luxembourg	FC	42.30	-
Lambda Amsterdam BV	Netherlands	FC	42.30	-
HEM Diesterlkade Amsterdam BV	Netherlands	FC	42.30	-
SARL Loire	France	FC	42.30	50.00
Foncière Otello	France	FC	42.30	50.00
SNC Hôtel René Clair	France	FC	42.30	50.00
Foncière Ulysse	France	FC	42.30	50.00
Ulysse Belgique	Belgium	FC	42.30	50.00
Ulysse Trefonds	Belgium	FC	42.30	50.00
Foncière No Bruxelles Grand Place	Belgium	FC	42.30	50.00
Foncière No Bruxelles Aéroport	Belgium	FC	42.30	50.00
Foncière No Bruges Centre	Belgium	FC	42.30	50.00
Foncière Gand Centre	Belgium	FC	42.30	50.00
Foncière Gand Opéra	Belgium	FC	42.30	50.00
Foncière IB Bruxelles Grand-Place	Belgium	FC	42.30	50.00
Foncière IB Bruxelles Aéroport	Belgium	FC	42.30	50.00
Foncière IB Bruges Centre	Belgium	FC	42.30	50.00
Foncière Antwerp Centre	Belgium	FC	42.30	50.00
Foncière Bruxelles Expo Atomium	Belgium	FC	42.30	50.00
Foncière Manon	France	FC	42.30	50.00
Murdelux	Luxembourg	FC	42.30	50.00
Portmurs	Portugal	FC	42.30	50.00
Sunparks Oostduinkerke	Belgium	FC	42.30	50.00
Foncière Vielsam	Belgium	FC	42.30	50.00
Sunparks Trefonds	Belgium	FC	42.30	50.00
Foncière Kempense Meren	Belgium	FC	42.30	50.00
Iris Holding France	France	EM/EA	8.42	9.95
Foncière Iris SAS	France	EM/EA	8.42	9.95
Sables d'Olonne SAS	France	EM/EA	8.42	9.95
OPCI Iris Invest 2010	France	EM/EA	8.42	9.95
FDM Gestion Immobilière	France	FC	42.30	50.00
Tulipe Holding Belgique	Belgium	EM/EA	8.42	9.95
Iris Tréfonds	Belgium	EM/EA	8.42	9.95
Foncière Louvain Centre	Belgium	EM/EA	8.42	9.95
Foncière Liège	Belgium	EM/EA	8.42	9.95
Foncière Bruxelles Aéroport	Belgium	EM/EA	8.42	9.95
Foncière Bruxelles Sud	Belgium	EM/EA	8.42	9.95
Foncière Bruge Station	Belgium	EM/EA	8.42	9.95
Narcisse Holding Belgique	Belgium	EM/EA	8.42	9.95
Foncière Bruxelles Tour Noire	Belgium	EM/EA	8.42	9.95
Foncière Louvain	Belgium	EM/EA	8.42	9.95
Foncière Malines	Belgium	EM/EA	8.42	9.95
Foncière Bruxelles Centre Gare	Belgium	EM/EA	8.42	9.95
Foncière Namur	Belgium	EM/EA	8.42	9.95
Iris investor Holding GmbH	Germany	EM/EA	8.42	9.95
Iris General Partner GmbH	Germany	EM/EA	4.23	5.00

Hotels in Europe segment	Country	Consolidation method in 2018	Percentage held in 2018	Percentage held in 2017
Iris Berlin GmbH	Germany	EM/EA	8.42	9.95
Iris Bochum & Essen	Germany	EM/EA	8.42	9.95
Iris Frankfurt GmbH	Germany	EM/EA	8.42	9.95
Iris Verwaltungs GmbH & co KG	Germany	EM/EA	8.42	9.95
Iris Nurnberg GmbH	Germany	EM/EA	8.42	9.95
Iris Stuttgart GmbH	Germany	EM/EA	8.42	9.95
B&B Invest Lux 1	Germany	FC	42.30	50.00
B&B Invest Lux 2	Germany	FC	42.30	50.00
B&B Invest Lux 3	Germany	FC	42.30	50.00
Campeli	France	EM/EA	8.42	9.95
OPCI Camp Invest	France	EM/EA	8.42	9.95
Dahlia	France	EM/EA	8.46	10.00
Foncière B2 Hôtel Invest	France	FC	21.24	25.10
OPCI B2 Hôtel Invest	France	FC	21.24	25.10
Foncière B3 Hôtel Invest	France	FC	21.24	25.10
B&B Invest Lux 4	Germany	FC	42.30	50.00
NH Amsterdam Center Hotel HLD	Netherlands	FC	42.30	50.00
Hotel Amsterdam Centre Propco	Netherlands	FC	42.30	50.00
Mo Lux 1	Luxembourg	FC	42.30	50.00
LHM Holding Lux SARL	Luxembourg	FC	42.30	20.35
LHM ProCo Lux SARL	Germany	FC	44.24	24.49
SCI Rosace	France	FC	42.30	20.35
Mo Drelinden, Niederrad, Düsseldorf	Germany	FC	39.77	47.00
Mo Berlin	Germany	FC	39.77	47.00
Mo First Five	Germany	FC	41.59	23.02
Ringer	Germany	FC	42.30	50.00
B&B Invest Lux 5	Germany	FC	39.34	46.50
B&B Invest Lux 6	Germany	FC	39.34	46.50
SCI Hôtel Porte Dorée	France	FC	42.30	25.00
FDM M Lux	Luxembourg	FC	42.30	20.35
OPCO Rosace	France	FC	42.30	20.35
Exco Hôtel	Belgium	FC	42.30	20.35
Invest Hôtel	Belgium	FC	42.30	20.35
H Invest Lux	Luxembourg	FC	42.30	50.00
Hermitage Holdco	France	FC	42.30	20.35
Samoens SAS	France	FC	10.62	12.55
Foncière B4 Hôtel Invest	France	FC	21.24	25.10
B&B Invest Espagne SLU	Spain	FC	42.30	50.00
Rock-Lux	Luxembourg	FC	42.30	20.35
Société Liloise Investissement Immobilier Hôtelier SA	France	FC	42.30	20.35
Spiegelrei HLD SA	Belgium	FC	42.30	20.35
Alliance et Compagnie SAS	France	FC	42.30	20.35
Berlin I (Propco Westin Grand Berlin)	Germany	FC	40.15	19.31
Opco Grand Hôtel Berlin Betriebs (Westin berlin)	Germany	FC	40.15	19.31
Berlin II (Propco Park Inn Alexanderplatz)	Germany	FC	40.15	19.31
Opco Hôtel Stadt Berlin Betriebs (Park-Inn)	Germany	FC	40.15	19.31
Berlin III (Propco Mercure Potsdam)	Germany	FC	40.15	19.31
Opco Hôtel Potsdam Betriebs (Mercure Potsdam)	Germany	FC	40.15	19.31
Dresden I (Propco Westin Bellevue)	Germany	FC	40.15	19.31
Opco Hôtel Bellevue Dresden Betriebs (Westein Bellevue)	Germany	FC	40.15	19.31

Hotels in Europe segment	Country	Consolidation method in 2018	Percentage held in 2018	Percentage held in 2017
Dresden II (Propco Ibis Hôtel Dresden)	Germany	FC	40.15	19.31
Dresden III (Propco Ibis Hôtel Dresden)	Germany	FC	40.15	19.31
Dresden IV (Propco Ibis Hôtel Dresden)	Germany	FC	40.15	19.31
Opco BKL Hotelbetriebsgesellschaft (Dresden II to IV)	Germany	FC	40.15	19.31
Dresden V (Propco Pullman Newa Dresden)	Germany	FC	40.15	19.31
Opco Hôtel Newa Dresden Betriebs (Pullman)	Germany	FC	40.15	19.31
Leipzig I (Propco Westin Leipzig)	Germany	FC	40.15	19.31
Opco HotelgesellschaftGeberst, Betriebs (Westin Leipzig)	Germany	FC	40.15	19.31
Leipzig II (Propco Radisson Blu Leipzig)	Germany	FC	40.15	19.31
Opco Hôtel Deutschland Leipzig Betriebs (Radisson Blu)	Germany	FC	40.15	19.31
Erfurt I (Propco Radisson Blu Erfurt)	Germany	FC	40.15	19.31
Opco Hôtel Kosmos Erfurt (Radisson Blu)	Germany	FC	40.15	19.31
Foncière Développement Tourisme	France	FC	21.19	25.05
Airport Garden Hotel NV	Belgium	FC	42.30	20.35
H Invest Lux 2	Luxembourg	FC	42.30	50.00
Constance	France	FC	42.30	20.35
Hotel Amsterdam Noord FDM	Netherlands	FC	42.30	50.00
Hotel Amersfoort FDM	Netherlands	FC	42.30	50.00
Constance Lux 1	Luxembourg	FC	42.30	20.35
Constance Lux 2	Luxembourg	FC	42.30	20.35
So Hospitality	France	FC	42.30	20.35
Nice-M	France	FC	42.30	20.35
Investment FDM Rocatiera	Spain	FC	42.30	50.00
Bardiomar	Spain	FC	42.30	50.00
Trade Center Hotel	Spain	FC	42.30	50.00
Sunparks de Haan	Belgium	disposed of	-	50.00
Star Budget Hôtel GmbH	Germany	disposed of	-	20.35
Spiegelrei SA M&F	Belgium	disposed of	-	20.35
Résidence Cour Saint Georges SA	Belgium	disposed of	-	20.35
FDM Management	France	Merger	-	20.35
Financière Hope SAS	France	Merger	-	20.35
Beni Stabili Hôtel	Luxembourg	Liquidated	-	50.49

The registered office of the parent company Covivio Hotels and all its fully consolidated subsidiaries is located at 30 Avenue Kléber, 75116 Paris.

113 companies Germany Residential segment	Country	Consolidation method in 2018	Percentage held in 2018	Percentage held in 2017
Covivio Immobilien SE (Parent company) 99.74% controlled	**Germany**	**FC**	**61.70**	**61.70**
Seed Portfollio	Germany	FC	60.43	-
Seed Portfollio 2	Germany	FC	65.53	-
Erz 1	Germany	FC	65.53	-
Covivio Berlin 9	Germany	FC	65.53	-
Erz 2	Germany	FC	65.53	-
Best Place Bestand	Germany	FC	31.47	-
Covivio Berlin 8	Germany	FC	65.53	-
Sewoge Service- Und Wohnungsunternehmen	Germany	FC	65.53	-
Covivio Selectimmo.de	Germany	FC	65.57	-
Covivio Prenzlauer Promenade 49 Besitzgesellschaft	Germany	FC	65.53	-
Am Steinberg Immobilienverwaltung	Germany	FC	61.70	-
Covivio Blankenburger Str.	Germany	FC	65.57	-

Germany Residential segment	Country	Consolidation method in 2018	Percentage held in 2018	Percentage held in 2017
Covivio Immobilien Financing	Germany	FC	65.53	-
Covivio Treskowallee 202 Entwicklungsgesellschaft	Germany	FC	65.57	-
Covivio Alexanderplatz	Germany	FC	100.00	-
Hathor Berlin Immobilien	Germany	FC	65.57	-
Objekt Hansastraße 253	Germany	FC	65.57	-
Hathor Deutschland	Germany	FC	65.57	-
Objekt Hansastraße 243	Germany	FC	65.57	-
Objekt Hansastraße 241	Germany	FC	65.57	-
Covivio Immobilien	Germany	FC	61.70	61.70
Covivio Lux Residential	Germany	FC	63.66	61.82
Covivio Valore 4	Germany	FC	63.74	61.82
Covivio Wohnen Verwaltungs	Germany	FC	61.70	61.70
Covivio Grundstücks	Germany	FC	61.70	61.70
Covivio Grundvermögen	Germany	FC	61.70	61.70
Covivio Wohnen Service	Germany	FC	61.70	61.70
Covivio SE & CO KG 1	Germany	FC	61.70	61.70
Covivio SE & CO KG 2	Germany	FC	61.70	61.70
Covivio SE & CO KG 3	Germany	FC	61.70	61.70
Covivio SE & CO KG 4	Germany	FC	61.70	61.70
Covivio Zehnte GMBH	Germany	FC	100.00	100.00
IW-FDL Beteiligungs GmbH & Co KG	Germany	FC	100.00	100.00
Covivio Wohnen	Germany	FC	61.70	61.70
Covivio Gesellschaft für Wohnen Datteln	Germany	FC	64.00	61.84
Covivio Stadthaus	Germany	FC	64.00	61.84
Covivio Wohnbau	Germany	FC	67.83	62.07
Covivio Wohnungsgesellechaft GMBH Dümpten	Germany	FC	67.83	62.07
Covivio Berolinum 2	Germany	FC	63.66	61.82
Covivio Berolinum 3	Germany	FC	63.65	61.82
Covivio Berolinum 1	Germany	FC	63.66	61.82
Covivio Remscheid	Germany	FC	63.66	61.82
Covivio Valore 6	Germany	FC	63.74	61.82
Covivio Holding	Germany	FC	100.00	100.00
Covivio Immobilien Se & Co KG Residential	Germany	FC	61.70	61.70
Covivio Berlin 67 GmbH	Germany	FC	64.00	64.00
Covivio Berlin 78 GmbH	Germany	FC	64.00	64.00
Covivio Berlin 79 GmbH	Germany	FC	64.00	64.00
Covivio Dresden GmbH	Germany	FC	63.66	63.66
Covivio Berlin I SARL	Germany	FC	63.66	63.66
Covivio Berlin V SARL	Germany	FC	63.85	63.85
Covivio Berlin C GMBH	Germany	FC	63.66	63.66
Covivio Dansk Holding Aps	Denmark	FC	61.70	61.70
Covivio Dasnk L Aps	Germany	FC	63.66	63.66
Covivio Berlin Prime	Germany	FC	65.53	48.99
Berlin Prime Commercial	Germany	FC	58.56	58.56
Acopio	Germany	FC	100.00	100.00
Covivio Hamburg Holding ApS	Denmark	FC	65.57	65.57
Covivio Hamburg 1 ApS	Germany	FC	65.57	65.57
Covivio Hamburg 2 ApS	Germany	FC	65.57	65.57
Covivio Hamburg 3 ApS	Germany	FC	65.57	65.57
Covivio Hamburg 4 ApS	Germany	FC	65.57	65.57
Covivio North ApS	Germany	FC	65.57	65.57

Germany Residential segment	Country	Consolidation method in 2018	Percentage held in 2018	Percentage held in 2017
Covivio Arian	Germany	FC	65.53	65.53
Covivio Bennet	Germany	FC	65.53	65.53
Covivio Marien-Carré	Germany	FC	65.57	65.57
Covivio Berlin IV ApS	Denmark	FC	61.70	61.70
Covivio Lux	Luxembourg	FC	100.00	100.00
Covivio Berolina Verwaltungs GmbH	Germany	FC	63.66	63.66
Residenz Berolina GmbH & Co KG	Germany	FC	65.51	65.51
Covivio Quadrigua IV GmbH	Germany	FC	63.66	63.66
Real Property Versicherungsmakler	Germany	FC	61.70	61.70
Covivio Quadrigua 15	Germany	FC	65.51	65.51
Covivio Quadrigua 45	Germany	FC	65.51	65.51
Covivio Quadrigua 36	Germany	FC	65.51	65.51
Covivio Quadrigua 46	Germany	FC	65.51	65.51
Covivio Quadrigua 40	Germany	FC	65.51	65.51
Covivio Quadrigua 47	Germany	FC	65.51	65.51
Covivio Quadrigua 48	Germany	FC	65.51	65.51
Covivio Fischerinsel	Germany	FC	65.57	65.57
Covivio Berolina Fischenrinsel	Germany	FC	65.57	65.57
Covivio Berlin Home	Germany	FC	65.57	65.57
Amber Properties Sarl	Germany	FC	65.53	65.53
Covivio Gettmore	Germany	FC	65.53	65.53
Saturn Properties Sarl	Germany	FC	65.53	65.53
Venus Properties Sarl	Germany	FC	65.53	65.53
Covivio Vinetree	Germany	FC	65.53	65.53
Acopio Facility	Germany	FC	65.53	65.53
Covivio Development	Germany	FC	61.70	31.47
Covivio Rehbergen	Germany	FC	65.57	65.57
Covivio Handlesliegenschaften	Germany	FC	65.57	65.57
Covivio Alexandrinenstrasse	Germany	FC	65.57	65.57
Covivio Spree Wohnen 1	Germany	FC	65.53	65.53
Covivio Spree Wohnen 2	Germany	FC	65.53	65.53
Covivio Spree Wohnen 6	Germany	FC	65.53	65.53
Covivio Spree Wohnen 7	Germany	FC	65.53	65.53
Covivio Spree Wohnen 8	Germany	FC	65.53	65.53
Nordens Immobilien III	Germany	FC	65.53	65.53
Montana-Portfolio	Germany	FC	65.53	65.53
Covivio Cantianstrasse 18 Grundbesitz	Germany	FC	65.53	65.53
Covivio Konstanzer Str.54/Zahringerstr.28, 28a Grundbesitz	Germany	FC	65.53	65.53
Covivio Mariend.Damm28/Markgrafenstr.17 Grundbesitz	Germany	FC	65.53	65.53
Covivio Markstrasse 3 Grundbesitz	Germany	FC	65.53	65.53
Covivio Schnellerstrasse 44 Grundbesitz	Germany	FC	65.53	65.53
Covivio Schnönwalder Str.69 Grundbesitz	Germany	FC	65.53	65.53
Covivio Schulstrasse 16/17.Grundbesitz	Germany	FC	65.53	65.53
Covivio Sophie-Charlotten Strasse 31, 32 Grundbesitz	Germany	FC	65.53	65.53
Covivio Yorckstrasse 60 Grundbesitz	Germany	FC	65.53	65.53
Covivio Zelterstrasse 3 Grundbesitz	Germany	FC	65.53	65.53
Covivio Zinshäuser Alpha	Germany	FC	65.53	65.53
Covivio Zinshäuser Gamma	Germany	FC	65.53	65.53
Second Ragland	Germany	FC	65.53	65.53
RRW FDL Wohnen GmbH	Germany	Merged	-	64.00

The registered office of the parent company Covivio Immobilien SE is at Kleplerstrasse 110-112 – 45147 Essen.

24 companies in Other segment (France Residential, Car parks, Services)	Country	Consolidation method in 2018	Percentage held in 2018	Percentage held in 2017
12 companies in France Residential:				
Foncière Développement Logements (Parent company) 100% controlled	France	FC	100.00	100.00
Iméfa 71	France	FC	100.00	100.00
Iméfa 46	France	FC	100.00	100.00
Iméfa 95	France	FC	100.00	100.00
Suresnes 2	France	FC	100.00	100.00
24-26 rue Duranton	France	FC	100.00	100.00
25 rue Gutenberg	France	FC	100.00	100.00
SCI Le Chesnay 1	France	FC	100.00	100.00
Rueil 1	France	FC	100.00	100.00
Saint Maurice 2	France	FC	100.00	100.00
SCI Dulud	France	FC	100.00	100.00
Batisica	Luxembourg	FC	100.00	100.00
Iméfa 65	France	Merger	-	100.00
Iméfa 97	France	Merger	-	100.00
Bagatelle Courbevoie	France	Merger	-	100.00
Iméfa 93	France	Merger	-	100.00
Iméfa 88	France	Merger	-	100.00
25 rue Abbé Carton	France	Merger	-	100.00
40 rue Abbé Groult	France	Merger	-	100.00
Montrouge 3	France	Merger	-	100.00
6 Car Park companies:				
SAS République (Parent company) 100% controlled	France	FC	100.00	100.00
SNC Comédie	France	FC	100.00	100.00
SNC Gare	France	FC	50.80	50.80
Trinité	France	FC	100.00	100.00
SCI Esplanade Belvédère II	France	FC	100.00	100.00
SCI Gespar	France	FC	50.00	50.00
6 Services companies:				
Covivio Proptech	France	FC	100.00	-
Covivio Proptech Germany	Germany	FC	100.00	-
Covivio Hotels Management	France	FC	100.00	100.00
Covivio Property SNC	France	FC	100.00	100.00
Covivio Développement	France	FC	100.00	100.00
Covivio SGP	France	FC	100.00	100.00

FC: Full consolidation.
EM/EA: Equity Method – Associates.
EM/JV: Equity Method – Joint Ventures.
NC: Not Consolidated.
PC: Proportionate Consolidation.

The registered office of the parent company Foncière Développement Logements and of all its fully consolidated French subsidiaries is located at 30 avenue Kléber – 75116 Paris.

There are 395 companies in the Group, including 351 fully consolidated companies and 44 equity affiliates.

3.2.3.6. Evaluation of control

SCI 11 place de l'Europe (consolidated structured entity)

As at 31 December 2018, SCI 11 place de l'Europe was 50.1% held by Covivio and fully consolidated. The partnership with the Crédit Agricole Assurances group (49.9%) was established as of 18 December 2013 as part of the Campus Eiffage project in Vélizy. Considering the rules of governance that confer on Covivio powers that give it the ability to affect asset yields, the company is fully consolidated.

SCIs of 9 and 15 rue des Cuirassiers (consolidated structured entities)

At 31 December 2018 the SCIs of 9 and 15 rue des Cuirassiers were 50.1% held by Covivio and fully consolidated. The partnership with Assurances du Crédit Mutuel (49.91%) was created in early December 2017 as part of the Silex 1 and Silex 2 office projects in Lyon, Part-Dieu. Considering the rules of governance that confer on Covivio powers that give it the ability to affect asset yields, the company is fully consolidated.

SCI Lenovilla (joint venture)

As at 31 December 2018, Lenovilla was 50.09% held by Covivio and is consolidated according to the equity method. The partnership with the Crédit Agricole Assurances Group (49.91%) was established in January 2013 as part of the New Vélizy (Campus Thales) project. The shareholder agreement stipulates that decisions be made unanimously. The parties exercising joint control have rights to the net assets of the partnership arrangement. The partnership meets the criteria for joint ventures and is consolidated according to the equity method.

SAS Samoëns (consolidated structured entity) and Foncière Développement Tourisme

SAS Samoëns was 25.10% held by Covivio Hotels at 31 December 2018 and is fully consolidated. The partnership with OPCI Lagune (49.9%) and Foncière Développement Tourisme (50.1%) was established as of October 2016 as part of the project to develop a Club Med holiday village in Samoëns.

As manager of Samoëns, Covivio Hotels has the widest powers to act in the name and on behalf of the company in all circumstances, in keeping with its corporate purpose. Considering the rules of governance that confer on Covivio Hotels powers that give it the ability to affect asset yields, the company is fully consolidated.

SCI Bureaux Cœur d'Orly and SNC Cœur d'Orly Commerces (joint ventures)

At 31 December 2018, SCI Cœur d'Orly Bureaux and SNC Cœur d'Orly Commerces were 50% held by Covivio and 50% held by Aéroports de Paris, and consolidated using the equity method. On 10 March 2008, the shareholders signed a memorandum of understanding, subsequently amended by a succession of deeds and by partnership agreements which set out the partners' rights and obligations with respect to SCI Cœur d'Orly Bureaux and SNC Cœur d'Orly Commerces.

The ADP Group (as land developer and joint investor) and Covivio (as property developer and joint investor) signed the required deeds for the construction of the Belaïa office building at Cœur d'Orly, the business district of the Paris-Orly airport. The completion of this building is scheduled for the second half of 2020. The parties exercising joint control have rights to the net assets of the partnership arrangement. The partnership meets the criteria for joint ventures and is consolidated according to the equity method.

3.2.4. Significant events of the period

Two changes in scope amended the structure of the balance sheet:

- the merger of FDM Management with Covivio Hotels which brought about the full consolidation of the companies in the Operating Properties business line and the decrease in Covivio Hotels' 50% holding ratio in Covivio in 2017 to 42% (main impacts: +€1,187 million intangible and tangible fixed assets; +€687 million of borrowings; +€82 million of net deferred tax liabilities)
- the merger with Beni Stabili which is reflected by an increase of €731 million in shareholders' equity.

By segment, the significant events of the period were as follows.

3.2.4.1. France Offices

3.2.4.1.1. Disposals (€267 million – profit or loss on disposals: +€60 million) and assets under preliminary agreement (€35 million)

During the 2018 fiscal year, Covivio disposed of assets for a sale price of €267 million, including assets at 10 and 30 Avenue Kléber (€103 million), the Clichy Pégase asset (€36 million), the Saint-Martin-de-Crau asset (€25 million) and the Angers Félix Faure asset (€10 million). These disposals generated income of +€60 million, mainly stemming from the disposal of the Paris assets at 10 and 30 Avenue Kléber (Covivio headquarters) (+€57.8 million), recognised at amortised cost in the consolidated financial statements (own occupied buildings).

As at 31 December 2018, assets under preliminary agreement amounted to €35.4 million.

3.2.4.1.2. Acquisitions (€134 million)

In April 2018, Covivio acquired its future headquarters, located on Rue Jean Goujon in Paris for €134 million.

In May 2018, 50% of the shares of the Cœur d'Orly holding companies had been acquired, increasing the stake in the Cœur d'Orly portfolio to 50%, *versus* 25% at 31 December 2017.

3.2.4.1.3. Development portfolio

The asset development programme is presented in note 3.2.5.1.5.

The year 2018 was marked by the delivery of a development project. May 2018 saw the delivery of the Toulouse Riverside building located in the centre of Toulouse, owned by Covivio since 2001.

This 11,400 m² office and service building has 2,100 m² of flexible floor space, two independent entrance halls, a landscaped forecourt and 146 parking spaces

3.2.4.1.4. Refinancing and redemption

On 16 January 2018, the outstanding balance on the 2012 bond issue was redeemed at maturity (-€266.4 million).

During fiscal year 2018, Covivio converted 2,333,896 bonds out of a total of 4,071,757, thereby reducing its bond liability by €197,8 million (nominal value of €84.73 per bond). The conversion of the bonds gave rise to the creation of 392,701 new Covivio shares, representing a capital increase of €36 million.

3.2.4.2. Italy Offices

3.2.4.2.1. Disposals (€410 million – income from disposals: +€19 million)

In 2018, 26 assets were sold for a total price of €410 million, including an asset located in Galleria Excelsior, Milan for €138.5 million.

3.2.4.2.2. Acquisitions (€106 million)

Assets located in Milan were acquired during the period for €105.8 million.

The assets under development in Milan – Symbiosis Bâtiment AB (€115.1 million), Monte Titano (€22.5 million) and Colonna (€16.4 million) – were delivered.

3.2.4.2.3. Set-up of debt instruments totalling €456 million and repayment of short-term debts

In January 2018, Covivio (former Beni Stabili) redeemed €350 million worth of 2014 bonds at maturity.

In February 2018, a new bond issue (BBB-) of €300 million was placed with a maturity of 10 years and a coupon of 2.375%.

In March 2018, the bond maturing in 2019 (€250 million) and the mortgage loan maturing in June 2025 (€50.5 million) were redeemed ahead of schedule.

In December 2018, Covivio (former Beni Stabili) also repaid various credit lines in an amount of €136 million as part of the merger.

3.2.4.2.4. Merger of Beni Stabili with Covivio

Beni Stabili merged with Covivio on 31 December 2018. After this merger, 7,498,887 Covivio shares were issued and the Group's shareholders' equity was increased by €731 million. On 4 January 2019, the new Covivio shares were delivered to Beni Stabili shareholders, on the basis of an exchange ratio of 8,245 Covivio shares for 1,000 Beni Stabili shares.

3.2.4.3. Hotels in Europe

3.2.4.3.1. Disposals (€390 million) and assets under preliminary agreement (€288 million)

During 2018, Covivio Hotels sold its entire Quick portfolio for €162.9 million, as well as the company Sunparks de Haan with assets of €102 million, 23 Jardiland assets for €107.7 million, the Tryp Jerez de la Frontera hotel for €13 million, cottages in Belgium for €2.8 million and a Courtepaille asset at Montbéliard for €1.4 million.

At 31 December 2018, the preliminary sale agreements amounted to €288.1 million including preliminary sale agreements for 59 B&B assets in France for €270.1 million and a Novotel asset for €18 million.

In 2018, Covivio Hotels also sold the company Star Budget Hotel, owner of nine businesses in Germany, as well as the companies Spiegelrei and Résidence Cour Saint-Georges SA operating two hotel operating properties in Belgium (€1.5 million consolidated income from the sale).

3.2.4.3.2. Disposals Acquisitions (shares: €1,094 million/assets: €34 million)

In July and November 2018, Covivio Hotels acquired shares in companies with 10 hotels in the 4 and 5-star categories in the main cities of the United Kingdom for €864 million. It should be noted that among the ten hotels properties acquired, six are built on land leased with a firm residual lease duration of 168 years, which led to the recognition of €166 million of use rights for long-term leases according to IAS 40. Furthermore, Covivio Hotels is engaged in acquiring the shares of two companies each owning one hotel real estate in Oxford.

In September and October 2018, Covivio Hotels acquired two NH Hotels located in Hamburg and Berlin for €34 million (discounted value).

In December 2018, Covivio Hotels the hotel real estate NH Amsterdam Nord through the purchase of two companies, Lambda Hotel (holding) and Diestelkade (Propco), for an asset value of €64 million.

3.2.4.3.3. Development portfolio

The year 2018 saw the completion of three projects under development: Motel One Porte Dorée and two B&B hotels in Berlin and Châtenay-Malabry.

3.2.4.3.4. Disposals Financing

In March 2018, Covivio Hotels financed a 7-year corporate credit facility of €50 million.

In June 2018, the debt of SCI Porte Dorée – the holding company for the Motel One Porte Dorée project – was refinanced in the amount of €20 million for a 10-year term.

In 2018 July 2018, Covivio Hotels contracted a bank loan with a banking pool comprised of four banks for £400 million for an 8-year term, £369 drawn down as at 31 December 2018 (*i.e.* €410 million). It includes a rate hedge of £400 million and a cross-currency swap of a maximum of £250 million (£175 million activated as at 31 December 2018).

In September 2018, Covivio Hotels issued an inaugural bond of €350 million maturing in 2025, with coupon of 1.875%.

3.2.4.4. Germany Residential

3.2.4.4.1. Asset disposals (€270 million – income from disposals: +€15 million) and assets under preliminary sale agreements (€30 million)

€270 million of disposals were made during 2018. These disposals basically concern mature assets and out of non-core assets in North Rhine-Westphalia, within the group's policy of rotating assets in the portfolio.

At 31 December 2018, the amount of assets under agreement totalled €29.7 million (net of costs).

3.2.4.4.2. Acquisitions (shares: €378 million/assets: €169 million)

During the fiscal year, Covivio Immobilien acquired several companies holding assets located mostly in Berlin and Hamburg (€378 million including trading assets).

The Group also acquired a portfolio of directly held assets in Berlin for €169.4 million.

3.2.4.5. Other (including France Residential)

3.2.4.5.1. Asset disposals (€73 million net of costs) and assets under sales commitments (€206 million)

In France, Foncière Développement Logements continued its sales plan and made disposals for a sale price of €72.5 million (net of costs).

In December 2018 Foncière Développement Logements received a bid for its entire portfolio. All the assets were reclassified as assets held for sale for the amount of the bid, net of costs, of €205.7 million at 31 December 2018.

3.2.5. Notes to the statement of financial position

3.2.5.1. Portfolio

3.2.5.1.1. Accounting principles applicable to tangible and intangible fixed assets

Intangible fixed assets

Identifiable intangible fixed assets are amortised on a straight-line basis over their expected useful lives. Intangible fixed assets acquired are recorded on the balance sheet at acquisition cost. They primarily include entry fees (and occupancy rights for car parks) and computer software.

Intangible fixed assets are amortised on a straight-line basis, as follows:

- software: over a period of 1 to 3 years
- occupancy rights: 30 years.

Fixed assets in the concession segment – Concession activity

The Covivio group has been applying IFRIC 12 in the consolidated financial statements since 1 January 2008. An analysis of the Group's concession agreements results in classifying agreements as intangible assets as the Group is paid directly by users for all car parks operated without a subsidy from public authorities. These concession assets are assessed at historical cost less accumulated depreciation and any impairment. Note that the Group no longer has wholly owned car parks; accordingly it no longer has "Car Parks" tangible assets.

Business combinations (IFRS 3) and goodwill from acquisitions

An entity must determine whether a transaction or event constitutes a business combination within the meaning of the definition of IFRS 3, which stipulates that a business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return directly to investors in the form of dividends, lower costs or other economic advantages.

In this case, the acquisition cost is set at the fair value on the date of the exchange of the assets and liabilities and equity instruments issued for the purpose of acquiring the entity. Goodwill is recognised as an asset for the surplus of the acquisition cost on the portion of the buyer's interest in the fair value of the assets and liabilities acquired, net of any deferred taxes. Negative goodwill is recorded in the income statement.

To determine whether a transaction constitutes a business combination, the Group considers whether an integrated set of businesses is acquired in addition to real estate. The criteria the Group uses may be the number of assets and the existence of a process such as asset management or sales and marketing units.

Related acquisition costs are recognised in expense in accordance with IFRS 3 under "Income from changes in consolidation scope" in the income statement.

The prospective additional costs are appraised at fair value at the acquisition date. They are definitely appraised in the 12 months following the acquisition. The subsequent change of these additional costs is recorded in the income statement.

After its initial recognition, the goodwill is subject to an impairment test at least once a year. The impairment test consists in comparing the net book value of the intangible and tangible fixed assets and goodwill related to the valuation of the hotels as "Operating Properties" made by the real estate appraisers.

If the Group concludes that the transaction is not a business combination, then it recognises the transaction as an acquisition of assets and applies the standards appropriate to acquired assets.

Investment properties (IAS 40)

Investment properties are real estate properties held for purposes of leasing within the context of operating leases or long-term capital appreciation (or both).

Investment properties represent the majority of the Group's portfolio. The buildings occupied by the Covivio group are recognised as tangible fixed assets (corporate headquarters, office buildings occupied by employees, and spaces operated for the Group's own account as coworking spaces).

Under the option offered by IAS 40, investment properties are assessed at their fair value. Changes in fair value are recorded in the income statement. Investment property is not amortised.

Valuations are carried out in accordance with the Code of conduct applicable to SIICs, the Charter of property valuation expertise, the recommendations of the COB/CNCC working group chaired by Mr Barthès de Ruyter and the international plan in accordance with European TEGoVA standards and those of the Red Book of the Royal Institution of Chartered Surveyors (RICS).

The real estate portfolio directly held by the Group was appraised in full on 31 December 2018 by independent real estate experts including BNP Real Estate, JLL, DTZ, CBRE, Cushman, Yard Valltech, CFE, MKG, VIF, REAG, Christie & Co and HVS.

Assets were estimated at values excluding and/or including duties, and rents at market value. Estimates were made using the comparative method, the rent capitalisation method and the discounted future cash flows method.

The assets are recognised at their net market value.

- For France Offices and Italy Offices, the valuations are primarily performed according to two methods:
  - the yield (or income capitalisation) method:

    this approach consists of capitalising an annual income, which, in general, is rental income from occupied assets, with the possible impact of a reversion potential, and market rent for vacant assets, taking into account the time needed to find new tenants, any renovation work and other costs
  - the discounted cash flow (DCF) method:

    this method consists of determining the useful value of an asset by discounting the forecast cash flows that it is likely to generate over a given time frame. The discount rate is determined on the basis of the risk-free rate plus a risk premium associated with the asset and defined by comparison with the discount rates applied to cash flows generated by similar assets
- For Hotels in Europe, the methodology changes according to the type of assets:
  - the rent capitalisation method is used for restaurants, garden centres and Club Med holiday villages
  - the DCF method is used for hotels (including the revenue forecasts determined by the appraiser) and Sunparks holiday villages

- For Residential, the methodology changes according to the type of asset:

  The assets are recognised at their net fair value. The fair value is determined based on:

  - a block value for assets for which no sales strategy has been developed or which have not been marketed
  - an occupied retail value for assets on which at least one offer has been made before the reporting date

  The following valuation methods were used:

  - for assets located in France: the leasing revenue discount method and the comparison method
  - for assets located in Germany: the Discounted Cash Flow method.

The resulting values are also compared with the initial yield rate and the monetary values per square metre of comparable transactions and transactions carried out by the Group.

IFRS 13 "Fair Value Measurement" establishes a fair value hierarchy that categorises the inputs used in valuation techniques into three Levels:

- level 1: the valuation refers to quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
- level 2: the valuation refers to valuation methods using inputs that are observable for the asset or liability, either directly or indirectly, in an active market
- level 3: the valuation refers to valuation methods using inputs that are unobservable in an active market.

The fair value measurement of investment properties requires the use of different valuation methods using unobservable or observable inputs to which some adjustments have been applied. Accordingly, the Group's portfolio is mainly categorised as Level 3 according to the IFRS 13 fair value hierarchy.

Assets under development (IAS 40)

Assets under construction are recognised according to the general fair-value principle, except where it is not possible to determine this fair value on a reliable and ongoing basis. In such cases, the asset is carried at cost.

As a result, development programmes and extensions or remodelling of existing assets that are not yet commissioned are recognised at their fair value, and are treated as investment properties whenever the administrative and technical fair-value reliability criteria – *i.e.* administrative, technical and commercial criteria – are met.

In accordance with revised IAS 23, the borrowing cost during a period of construction and renovation is included in the cost of the assets. The capitalised amount is determined on the basis of fees paid for specific borrowings and, where applicable, for financing from general borrowings based on the weighted average rate of the particular debt.

Long-term leases conferring ad rem rights (IAS 40)

In application of IAS 40 (§.25 and 50.d), when a real estate asset is held under a letting agreement (long-term lease conferring ad rem rights or leasehold) and classed as an investment property, a right of use (integral part of the investment property) must be recorded at the lower of the fair value of the real estate asset and the current value of the minimum payments for the letting. An equivalent amount is recognised in the liabilities, at amortised cost.

Tangible fixed assets (IAS 16)

Pursuant to the preferred method proposed by IAS 16, operating buildings (head offices and coworking business) and managed hotels under the operating properties business line (Own Occupied Buildings occupied or operated by Group employees) as well as wholly-owned car parks are carried at historical cost less accumulated depreciation and any potential impairment. They are amortised over their expected useful life according to a components based approach.

The hotels operated as Operating Properties are depreciated according to their period of use.

Buildings	50 to 60 years
General installations and layout of the buildings	10 to 30 years
Equipment and furniture	3 to 20 years

If the appraisal values of the Operating Properties is less than the net book value, impairment is recognised, as a priority on the value of the fund, then on the value of the tangible assets.

Non-current assets held for sale (IFRS 5)

In accordance with IFRS 5, when Covivio decides to dispose of an asset or group of assets, it classifies them as assets held for sale if:

- the asset or group of assets is available for immediate sale in its current condition, subject only to normal and customary conditions for the sale of such assets
- its or their sale is likely within one year and marketing for the property has been initiated.

For the Covivio group, only assets corresponding to the above criteria or for which a sale commitment has been signed are classified as assets held for sale.

If a sale commitment exists on the account closing date, the price of the commitment net of expenses constitutes the fair value of the asset held for sale.

3.2.5.1.2. Table of changes in fixed assets

(€K)	31/12/2017	Change in scope and interest rates	Increase/ Charges	Disposal/ Reversals of provisions	Change in fair value	Transfers	Change in exchange rate	31/12/2018
Goodwill	**1,572**	**111,222**	**0**	**0**	**0**	**270**	**0**	**113,064**
Intangible fixed assets	**24,592**	**36,636**	**-1,824**	**5**	**0**	**-271**	**0**	**59,138**[(1)]
Gross amounts	96,137	38,441	3,660	-2,137	0	-10,502	0	125,599
Depreciation	-71,545	-1,805	-5,484	2,142	0	10,231	0	-66,461
Tangible fixed assets	**203,781**	**1,116,664**	**-9,079**	**-45,384**	**0**	**-24,307**	**0**	**1,241,675**
Operating properties	176,262	1,092,292	-36,603	-44,709[(2)]	0	-5,962	-0	1,181,280
Gross amounts	202,930	1,309,231	8,968	-62,259	0	-4,219	-0	1,454,651
Depreciation	-26,668	-216,939	-45,571	17,550	0	-1,743	0	-273,371
Other tangible fixed assets	8,399	20,538	6,116	-675	0	1,065	0	35,443
Gross amounts	20,780	140,026	15,349	-4,166	0	-4,941	0	167,048
Depreciation	-12,381	-119,488	-9,233	3,491	0	6,006	0	-131,605
Fixed assets in progress	19,120	3,834	21,408[(3)]	0	0	-19,410	0	24,952
Gross amounts	19,120	3,834	21,408	0	0	-19,410	0	24,952
Depreciation	0	0	0	0	0	0	0	0
Investment properties	**18,417,648**	**1,476,916**	**884,789**	**0**	**630,970**	**-1,260,018**	**-10,966**	**20,139,338**
Operating properties	17,732,768	1,429,716	658,285	0	576,700	-1,116,751	-10,966	19,269,751
Investment properties under development	684,880	47,200	226,504	0	54,270	-143,267	0	869,587
Assets held for sale	**519,891**	**-102,000**	**12,130**	**-1,147,007**	**-10,277**	**1,286,111**	**0**	**558,848**
Assets held for sale	519,891	-102,000	12,130	-1,147,007	-10,277	1,286,111	0	558,848
TOTAL	**19,167,484**	**2,639,439**	**886,016**	**-1,192,386**	**620,693**	**1,785**	**-10,966**	**22,112,063**

(1) "Intangible fixed assets" include car park assets and concession contracts totalling €19 million, as well as Operating Properties goodwill totalling €36 million.
(2) Including €44.2 million of net book value of the 10 & 30 Avenue Kléber buildings sold during the period.
(3) Including the work done on Residential Germany assets (€3.6 million), the work done on the Operating Properties assets (€3.2 million), work on The Line coworking assets (€2.2 million) and Art&Co (€2 million), and the work done on the 10 Avenue Kléber building (€1.5 million). Instalments paid on asset acquisitions in Italy (€5.6 million) and on asset acquisitions in Germany (€1.1 million).

The changes in tangible and intangible fixed assets mainly relate to the full consolidation of the companies in the Operating Properties business line following the merger of FDM Management with Covivio Hotels.

The hotels portfolio held as Operating Properties totalled €1,040.1 million at 31 December 2018. In accordance with IAS 16, they are recognised in the "Tangible fixed assets" line item.

The "Disbursements related to the acquisition of tangible and intangible fixed assets" line item on the Statement of Cash Flows (€991.3 million) refers to increases in the table of changes in the portfolio excluding the effect of depreciation (€946.3 million), to changes in inventories of the property dealer (+€19.7 million) and adjusted for change in trade payables for fixed assets (+€43.2 million).

The line item "Proceeds relating to the disposal of tangible and intangible fixed assets" in the Statement of Cash Flows (€1,267 million) primarily corresponds to income from disposals as presented in §3.2.6.3. proceeds from the disposal of assets (€1,291.9 million), to the proceeds from the disposal of assets in inventory (€6.5 million), property development (€3.3 million), restated for the change in receivables on asset disposals (-€31.2 million).

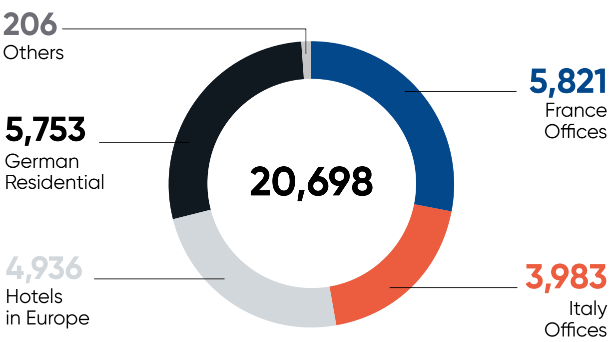
3.2.5.1.3. Investment properties

(€K)	31/12/2017	Change in scope and interest rates	Increase	Disposal	Change in fair value	Transfers	Change in exchange rate	31/12/2018
Investment properties	**18,417,648**	**1,476,916**	**884,789**	**0**	**630,970**	**-1,260,018**	**-10,966**	**20,139,338**
Operating properties	17,732,768	1,429,716[1]	658,285[1]	0	576,700	-1,116,751	-10,966	19,269,751
France Offices	5,319,980	0	184,691	0	68,043	-160,969	0	5,411,745
Italy Offices	3,738,469	0	159,475	0	-25,343	-270,328	0	3,602,273
Hotels Europe	3,634,633	1,093,978	49,347	0	79,805	-314,019	-10,966	4,532,777
Germany Residential	4,799,893	335,738	264,772	0	454,195	-131,642	0	5,722,956
Others	239,793	0	0	0	0	-239,793	0	0
Investment properties under development	684,880	47,200	226,504	0	54,270	-143,267	0	869,587
France Offices	166,046	0	120,716	0	43,503	43,487	0	373,752
Italy Offices	428,900	0	61,904	0	952	-111,254	0	380,502
Hotels Europe	89,934	47,200	43,884	0	9,815	-75,500	0	115,333
Assets held for sale	**519,891**	**-102,000**	**12,130**	**-1,147,007**	**-10,277**	**1,286,111**	**0**	**558,848**
Assets held for sale	519,891	-102,000[1]	12,130[1]	-1,147,007	-10,277	1,286,111	0	558,848
France Offices	112,343	0	251	-156,636	-903	80,337	0	35,392
Italy Offices	22,453	0	0	-385,865	-19,275	382,730	0	43
Hotels Europe	207,396	-102,000	11,117	-284,586	10,805	445,340	0	288,072
Germany Residential	138,211	0	0	-249,257	5,020	135,690	0	29,664
Others	39,488	0	762	-70,663	-5,924	242,014	0	205,677
TOTAL	**18,937,539**	**1,374,916**	**896,919**	**-1,147,007**	**620,693**	**26,093**	**-10,966**	**20,698,186**

(1) Details of the increases and changes in the scope of the operating properties and assets held for sale is shown in §3.2.5.1.4.

The amounts in the "Disposals" column correspond to the appraisal figures published on 31 December 2017.

Portfolio consolidated as at 31 December 2018 *(in €M)*



The Group has not identified the best use of an asset as being different from its current use. Consequently, the application of IFRS 13 did not lead to a modification of the assumptions used for the valuation of the portfolio.

In accordance with IFRS 13, the tables below provide details of the ranges of unobservable inputs by business segment (Level 3) used by the real estate appraisers:

France Offices, Italy Offices and Hotels In Europe

Grouping of similar assets	Level	Portfolio *(€M)*	HD yield rate HD (min.-max.)	Yield rate excluding duties *(weighted average)*	Discounted cash flow rate	Discounted cash flow rate *(weighted average)*
Paris Centre West	Level 3	1,036	3.1% – 7.7%	3.1%	4.0% – 7.0%	4.8%
Paris North East	Level 3	390	3.6% – 7.4%	5.0%	4.0% – 6.5%	5.5%
Southern Paris	Level 3	713	3.4% – 6.3%	4.5%	4.5% – 5.7%	4.6%
Western Crescent	Level 3	1,579	3.7% – 7,1%	5.0%	4.5% – 7.5%	5.2%
Inner rim	Level 3	1,238	4.0% – 7.0%	5.0%	4.5% – 7.7%	5.3%
Outer rim	Level 3	59	4.8% – 12.9%	8.9%	4.5% – 11.5%	5.8%
Total Paris Regions		**5,015**				
Major Regional Cities	Level 3	630	3.5% – 9.6%	4.8%	4.5% – 11.5%	5.4%
Régions	Level 3	175	5.3% – 13.1%	8.8%	4.5% – 12.0%	6.7%
Total Regions		**806**				
TOTAL FRANCE OFFICES		**5,821**				
Milan	Level 3	2,055	1.6% – 6.0%	4.2%	4.5% – 7.0%	5.4%
Rome	Level 3	232	3.3% – 8.5%	5.8%	4.5% – 7.3%	6.3%
Others	Level 3	1,315	4.0% – 14.3%	7.1%	5.0% – 9.6%	7.2%
Total in operation		**3,602**				
Development portfolio	Level 3	381			5.5% – 6.0%	
TOTAL ITALY OFFICES		**3,983**				
Hotels	Level 3	4,484	3.7% – 6.2%	5.2%	5.0% – 8.1%	6.3%
Retail	Level 3	173	6.3% – 7.4%	7.3%	6.9% – 8.1%	7.5%
Total in operation		**4,657**				
Development portfolio	Level 3	115			5.0% – 6.8%	6.1%
Use rights	Level 3	164				
TOTAL HOTELS IN EUROPE		**4,936**				

Germany Residential

Grouping of similar assets	Level	Portfolio *(€M)*	Yield rate*		Discounted cash flow rate	Average value *(€/m²)*
			Total portfolio	Block valued properties		
Duisburg	Level 3	256	4.3% – 5.8%	4.3% – 5.8%	4.4% – 10.3%	1,193
Essen	Level 3	546	4.0% – 6.8%	4.0% – 6.8%	3.9% – 7.6%	1,447
Mülheim	Level 3	174	4.0% – 6.3%	4.0% – 6.3%	4.3% – 8.6%	1,322
Oberhausen	Level 3	139	4.5% – 6.0%	4.5% – 6.0%	5.1% – 8.3%	1,041
Datteln	Level 3	115	3.5% – 5.8%	3.5% – 5.8%	4.3% – 8.2%	1,001
Berlin	Level 3	3,378	3.0% – 5.8%	3.0% – 5.8%	2.1% – 8.1%	2,575
Düsseldorf	Level 3	114	3.5% – 4.5%	3.5% – 4.5%	3.6% – 5.3%	2,101
Dresden	Level 3	379	3.5% – 5.3%	3.5% – 5.3%	2.7% – 6.4%	1,656
Leipzig	Level 3	129	3.3% – 4.8%	3.3% – 4.8%	3.9% – 7.1%	1,244
Hamburg	Level 3	402	3.0% – 4.8%	3.0% – 4.8%	3.5% – 5.9%	2,808
Others	Level 3	120	3.8% – 5.8%	3.8% – 5.8%	2.1% – 9.4%	1,551
TOTAL GERMANY RESIDENTIAL		**5,753**				

* *Yield rate:*
Germany Residential: Potential yield rate assumed excluding taxes (actual rents/appraisal values excluding taxes).

Impact of changes in the yield rate on changes in the fair value of real estate assets, by operating segment

(€M)	Target yield**	Yield Rate -50 bps	Yield rate +50 bps
France Offices*	5.2%	578.0	-476.8
Italy Offices	5.5%	356.8	-297.8
Hotels in Europe*	5.2%	496.8	-409.2
Germany Residential	4.3%	749.4	-594.5
TOTAL*	**5.0%**	**2,180.9**	**-1,778.3**

* *Including assets held by equity affiliates, excl. operating property assets.*
** *Yield on operating portfolio – excluding duties.*

- If the yield rate excluding taxes drops 50 bps (-0.5 point), the market value excluding taxes of the real estate assets will increase by €2,180.9 million.
- If the yield rate excluding taxes increases 50 bps (+0.5 point), the market value excluding taxes of the real estate assets will decrease by €1,778.3 million.

3.2.5.1.4. Acquisitions and works

(€K)	Change in scope and interest rates	Acquisitions	Works	Total increase
Building Jean Goujon		133,873		
Agency BNP OMEGA B		2,524		
France Offices		**136,397**	**48,294**	**184,691**
3 assets in Milan		105,798		
Italy Offices		**105,798**	**53,677**	**159,475**
Use rights for investment properties	165,491			
Investments in the United Kingdom	864,126			
NH Investments in Amsterdam Noord	64,361			
1 Quick land in Angers		153		
2 NH hotels in Hamburg and Berlin		33,397		
Hotels in Europe	**1,093,978**	**33,550**	**15,797**	**49,347**
Investments in Berlin	335,738			
Assets in Berlin, Dresden and Hamburg		169,440		
Germany Residential	**335,738**	**169,440**	**95,332**	**264,772**
TOTAL OPERATING PROPERTIES	**1,429,716**	**445,185**	**213,100**	**658,285**
France Offices			**251**	**251**
Disposal of Sunpark de Haan	-102,000			
Hotels in Europe	**-102,000**		**11,117**	**11,117**
Others			**762**	**762**
TOTAL ASSETS HELD FOR SALE	**-102,000**		**12,130**	**12,130**

3.2.5.1.5. Investment properties under development

Properties under development relate to building or redevelopment programmes that fall within the application of IAS 40 (revised).

(€K)	31/12/2017	Acquisitions and works	Capitalised interest	Change in fair value	Transfers and disposals	Changes in scope	31/12/2018
Paris Saint-Ouen	0	2,233	1,030	-63	83,300		86,500
Châtillon Iro	0	35,136	62				35,198
Cité Numérique	0	2,836	14	1,750			4,600
Montpellier Orange	0	4,059	12	3,129	2,837		10,037
Montpellier Rie	0	775	10	-422	500		863
Lyon Silex 2e tranche	49,000	47,125	1,940	7,835			105,900
Montpellier Pompignane	3,000	767		-17			3,750
Meudon Canopée	24,961	2,034		-6,435			20,560
Meudon Ducasse	2,120	1,524	116	240			4,000
Meudon Opale	26,805	39		4,800			31,644
Montrouge Flow	22,760	7,356	814	18,770			49,700
Lezennes – Helios	13,700	5,856	658	786			21,000
Toulouse Riverside	23,700	5,721	599	13,130	-43,150		0
France Offices	**166,046**	**115,461**	**5,255**	**43,503**	**43,487**	**0**	**373,752**
Milan, via Dante	0	384	279	13	42,724		43,400
Milan, via Principe Amedeo	50,600	9,328	1,716	56			61,700
Milan, Symbiosis area	229,000	20,743	7,750	278	-115,071		142,700
Turin Corso Ferrucci	80,400	4,191	2,312				86,903
Milan, via Schievano	34,700	9,090	1,529	480			45,799
Milan, via Monte Titano	19,200	2,910	397		-22,507		0
Milan, via Colonna	15,000	932	343	125	-16,400		0
Italy Offices	**428,900**	**47,578**	**14,326**	**952**	**-111,254**	**0**	**380,502**
Meininger Porte de Vincennes	26,224	17,338	1,054	3,777			48,393
Meininger Lyon Zimmermann	4,425	8,007	318	659			13,409
B&B Cergy	1,255	2,745	79	1,181			5,260
B&B Bagnolet	2,340	3,319	75	506			6,240
Meininger Munich	35,580	5,375	927	149			42,031
B&B Chatenay	7,350	1,618	91	1,551	-10,610		0
Motel One Porte Dorée			310	890	-48,400	47,200[1]	0
B&B Berlin	12,760	2,534	94	1,102	-16,490		0
Hotels in Europe	**89,934**	**40,936**	**2,948**	**9,815**	**-75,500**	**47,200**	**115,333**
TOTAL	**684,880**	**203,975**	**22,529**	**54,270**	**-143,267**	**47,200**	**869,587**

(1) As of 1 January 2018, full consolidation of SCI Porte Dorée, the company holding the Motel One Porte Dorée project delivered in April 2018.

3.2.5.2. Financial assets

3.2.5.2.1. Accounting principles

Other financial assets

Other financial assets consist of investment-fund holdings, which cannot be classified as cash or cash equivalents.

These securities are recognised upon acquisition at cost plus transaction costs. They are then recognised at fair value in the income statement on the reporting date. The fair value is arrived at on the basis of recognised valuation techniques (reference to recent transactions, Discounted Cash Flows, *etc.*). Some securities that cannot be reliably measured at fair value are recognised at acquisition cost.

Securities available for sale of listed and non-consolidated companies are recorded at their stock-market price with an offsetting entry in shareholders' equity in accordance with IFRS 9.

Dividends received are recognised when they have been approved by vote.

Loans

At each reporting date, loans are recorded at their amortised cost. Moreover, impairment is recognised and recorded on the income statement when there is an objective indication of impairment as a result of an event occurring after the initial recognition of the asset.

3.2.5.2.2. Table of financial assets

(€K)	31/12/2017	Increase	Decrease	Change in fair value	Change in scope	Transfers	Change in exchange rate	**31/12/2018**
Ordinary loans[1]	162,119	85,130	-156,382	0	21,672	-11,450	-53	101,026
Total loans and current accounts	**162,119**	**85,130**	**-156,382**	**0**	**21,672**	**-11,450**	**-53**	**101,026**
Advances and pre-payments on acquisition of shares	147,120	4,501	-21,103	0	-44,351	-78,631	-42	7,494
Securities at historic cost	43,651	-47	-926	0	0	-14,390	0	28,288
Subscribed capital not paid up	20,040	0	0	0	0	0	0	20,040
Total other financial assets[2]	**210,811**	**4,454**	**-22,029**	**0**	**-44,351**	**-93,021**	**-42**	**55,822**
Receivables on financial assets	12,860	12	-1,564	0	1,500	0	0	12,808
Total receivables on financial assets	**12,860**	**12**	**-1,564**	**0**	**1,500**	**0**	**0**	**12,808**
TOTAL	**385,790**	**89,586**	**-179,985**	**0**	**-21,178**	**-104,471**	**-95**	**169,656**
Depreciation and Amortisation[3]	-30,726	-503	29	0	1	14,389	0	-16,810
NET TOTAL	**355,064**	**89,093**	**-179,956**	**0**	**-21,177**	**-90,082**	**-95**	**152,846**

(1) Ordinary loans include receivables from equity investments in equity affiliates.
(2) Total other financial assets are broken down as follows:
- *Advances and deposits made to acquire shares of companies:*
  - *in Germany, deposits of €126 million were used following the final acquisition of company shares*
  - *an instalment of €18 million was used to acquire the shares of a company holding an NH hotel real estate in Amsterdam Nord*
- *Securities at historic cost:*
  - *the investments held by Covivio in Italy in real estate funds (€17.1 million) are valued at their historical cost. Potential impairments are recorded in the income statement*
- *Share capital of the company Foncière Développement Tourisme subscribed by the Caisse de Dépôts et Consignations and not paid up (€20 million).*

(3) Includes impairment losses on securities at historical cost held by Covivio in Italy (€11.2 million) and impairment losses on receivables for disposals of more than one year (€3.4 million) and for receivables related to financial assets (€2.2 million).

3.2.5.3. Investments in equity affiliates and joint ventures

3.2.5.3.1. Accounting principles

Investments in equity affiliates and joint ventures are recognised by the equity method. According to this method, the Group's investment in the equity affiliate or the joint venture is initially recognised at cost, increased or reduced by the changes, subsequent to the acquisition, in the share of the net assets of the affiliate. The goodwill related to an equity affiliate or joint venture is included in the book value of the investment, if it is not impaired. The share in the earnings for the period is shown in the line item "Share in income of equity affiliates".

The financial statements of associates and joint ventures are prepared for the same accounting period as for the parent company, and adjustments are made, where relevant, to adapt the accounting methods to those of the Covivio group.

3.2.5.3.2. Table of investments in equity affiliates and joint ventures

(€K)	% held	Operating segment	Country	31/12/2017	**31/12/2018**	Change	Of which share of net income	Of which distribution and change in scope
SCI Factor E and SCI Orianz	34.69%	France Offices (Properties under development)	France	5,194	11,002	5,808	5,808	0
Lenovilla (New Vélizy)	50.10%	France Offices	France	71,236	68,557	-2,678	2,230	-4,908
Euromarseille (Euromed)	50.00%	France Offices	France	39,325	43,008	3,683	3,685	0
Cœur d'Orly (Askia and Belaïa)	50.00%	France Offices (including the Belaïa building under development)	France	2,883	26,090	23,207	2,447	20,760
Investire Immobiliare and others		Italy Offices	Italy	17,762	17,191	-571	-12	-559
Iris Holding France	19.90%	Hotels in Europe	Belgium, Germany	14,141	15,501	1,359	1,990	-631
OPCI IRIS Invest 2010	19.90%	Hotels in Europe	France	28,226	30,393	2,167	3,535	-1,368
OPCI Camp Invest	19.90%	Hotels in Europe	France	19,951	20,444	493	1,609	-1,116
Dahlia	20.00%	Hotels in Europe	France	16,784	17,559	775	1,536	-761
SCI Porte Dorée[(1)]	50.00%	Hotels in Europe	France	10,328	0	-10,328	0	-10,328
FDM Management[(1)]	40.70%	Hotels in Europe	France and Germany	143,072	0	-143,072	0	-143,072
TOTAL				**368,901**	**249,746**	**-119,155**	**22,829**	**-141,983**

(1) Companies fully consolidated at 100% as at 31 December 2018.

The investments in equity affiliates as at 31 December 2018 amounted to €249.7 million, compared with €368.9 million as at 31 December 2017, *i.e.* a decrease of -€119.2 million.

The change in scope (-€142 million) is mainly due to the merger of FDM Management and Covivio Hotels (-€143.1 million), the effect of the change in the SCI Porte Dorée consolidation method (-€10.3 million) and the increase in the ownership rate of the Cœur d'Orly companies (now 50%) then the capital increase (+€15 million) intended to finance the Belaïa development project.

The impact of the income for the period is +€22.8 million.

3.2.5.3.3. Breakdown of shareholdings in the main equity affiliates and joint ventures

Ownership	Cœur d'Orly	Groupe Euromed	SCI Lenovilla (New Vélizy)	SCI Factor E and SCI Orianz Bordeaux Armagnac
Covivio	**50.0%**	**50.0%**	**50.1%**	**34.7%**
Non-group third parties	**50.0%**	**50.0%**	**49.9%**	**65.3%**
Crédit Agricole Assurances		50.0%	49.9%	
Aéroport de Paris	50.0%			
ANF Immobilier				65.3%
TOTAL	**100%**	**100%**	**100%**	**100%**

Indirect ownership	Iris Holding France	OPCI Iris Invest 2010	OPCI Campinvest	SCI Dahlia
Covivio Hotels	**19.9%**	**19.9%**	**19.9%**	**20.0%**
Non-group third parties	**80.1%**	**80.1%**	**80.1%**	**80.0%**
Crédit Agricole Assurances	80.1%	80.1%	68.8%	80.0%
Pacifica			11.3%	
TOTAL	**100%**	**100%**	**100%**	**100%**

3.2.5.3.4. Key financial information on equity affiliates and joint ventures

(€K)	Asset name	Total balance sheet	Total non-current assets	Cash	Total non-current liabilities excluding financial debt	Total current liabilities excluding financial debt	Financial debt	Rental income	Cost of net financial debt	Net income consolidated
Cœur d'Orly (Askia and Belaïa)	Cœur d'Orly	120,184	87,871	15,782	611	7,499	59,894	3,237	-1,024	4,895
Lenovilla (New Vélizy)	New Vélizy and extension	294,510	265,301	12,924	0	30	157,628	11,855	-1,851	4,452
Euromarseille (Euromed)	Euromed Center	213,850	193,794	12,793	1,082	7,824	118,926	6,844	-791	7,371
SCI Factor E and SCI Orianz	Bordeaux Armagnac	133,265	124,414	6,410	309	10,669	90,572	598	-244	16,743
Iris Holding France	AccorHotels hotels	204,951	185,059	18,214	15,060	2,441	109,450	13,302	-2,743	10,000
OPCI IRIS Invest 2010	AccorHotels hotels	267,392	248,684	16,874	4,351	357	109,956	17,426	-1,794	17,762
OPCI Camp Invest	Campanile Hotels	184,000	169,973	11,891	0	276	80,991	11,709	-1,785	8,084
Dahlia	AccorHotels hotels	167,706	163,515	2,282	0	420	79,491	8,681	-1,519	7,680

3.2.5.4. Deferred tax liabilities on the reporting date

		Increases				Decreases				
(€K)	Balance sheet as at 31/12/2017	First time consolidation scope	Net income for the period	Shareholder's equity	Other changes and transfers	Net income for the period	Difference in rates	Change in exchange rate	Removals from the scope of consolidation	**Balance sheet as at 31/12/2018**
DTA										
Losses carried forward	51,677	7,607	382			-6,066				53,600
Fair value of properties	1,766	6,647	1,011			-2,611		-29		6,784
Derivatives	5,918	184	762			-22	-4			6,838
Temporary differences	15,891	4,952	51,301	253		-5,832				66,565
	75,252									133,787
DTA/DTL offset	-69,313									-65,822
TOTAL DTA	**5,939**	**19,390**	**53,456**	**253**	**0**	**-14,531**	**-4**	**-29**	**0**	**67,965**

(€K)	Balance sheet as at 31/12/2017	Increases: First time consolidation scope	Increases: Net income for the period	Increases: Shareholder's equity	Other changes and transfers	Decreases: Net income for the period	Decreases: Difference in rates	Decreases: Change in exchange rate	Decreases: Removals from the scope of consolidation	**Balance sheet as at 31/12/2018**
DTL										
Fair value of properties	591,617	186,763	145,955			-15,198	-1,554	-558	-28,382	878,643
Derivatives	913	61	907			-74				1,807
Temporary differences	27,813	2,628	1,381			-2,445				29,377
	620,343									909,827
DTA/DTL offset	-69,313									-65,822
TOTAL DTL	**551,030**	**189,452**	**148,243**	**0**	**0**	**-17,717**	**-1,554**	**-558**	**-28,382**	**844,005**
NET TOTAL	**-545,091**	**-170,062**	**-94,787**	**253**	**0**	**3,186**	**1,550**	**529**	**28,382**	**-776,040**
TOTAL IMPACT ON THE INCOME STATEMENT:					**-90,051**	***Negative net balance = liabilities***				

At 31 December 2018, the consolidated deferred tax position showed a deferred tax asset of €68 million (*versus* €6 million as at 31 December 2017) and a deferred tax liability of €844 million (*versus* €551 million as at 31 December 2017).

The primary contributors to the net balance of deferred taxes are:

- Germany Residential: €546 million
- Hotels in Europe: €240.8 million.

The increase in net deferred tax liabilities (+€230.9 million) is mainly due to the consolidation of companies in the Operating Properties business line (+€82 million), the exit from the SIIQ regime in Italy following the merger of Beni Stabili with Covivio (-€11 million), the acquisitions in the fiscal year (+€59 million) in the United Kingdom and Amsterdam reduced by the sale of Sunparks de Haan (-€27 million) and the impact of the deferred tax liabilities relative to increases in the appraisal values of assets held in Germany (+€119 million).

The impact on net income is detailed in paragraph 3.2.6.8.2.

In accordance with IAS 12, deferred tax assets and liabilities are offset for each tax entity when they involve taxes paid to the same tax authority.

The non-recognised tax loss carryforwards, calculated at the standard rate, amounted to €966 million as detailed below:

(€K)	Non-recognised DTA	Non-recognised tax loss carryforwards
France Offices	102,820	298,610
Italy Offices	19,148	79,784
Hotels in Europe	40,100	152,719
Germany Residential	8,761	55,362
Others	123,796	379,528
TOTAL FOR CONTINUING OPERATIONS	**294,626**	**966,003**

3.2.5.5. Short-term loans

(€K)	31/12/2017	Changes in scope	Increase	Decrease	Transfers	**31/12/2018**
Short-term loans	34,411	-24,226	6,136	-9,859	8	6,470
Finance-lease receivables	30	0	0	0	-30	0
TOTAL	**34,441**	**-24,226**	**6,136**	**-9,859**	**-22**	**6,470**
Amortisations and provisions	0	0	0	0	0	0
NET TOTAL	**34,441**	**-24,226**	**6,136**	**-9,859**	**-22**	**6,470**

Short-term loans diminished due to the change in the consolidation method used for LHM Propco following the restructuring of companies in the Operating Properties business line (-€24 million).

3.2.5.6. Inventories and work-in-progress

3.2.5.6.1. Accounting principles applicable to inventories

Inventories are intended to be sold during the normal course of business. They are recorded at acquisition price and, as applicable, are depreciated in relation to the sale value (independent appraisal value).

3.2.5.6.2. Inventories and work-in-progress

The "Inventories and work-in-progress" line item on the balance sheet primarily consists of trading inventories in Italy Offices (€20 million), Germany Residential (€57 million) and Other (€0.6 million). Moreover, this line item includes the assets dedicated to property development in the France Offices segment (€16 million) and inventories of hotels (€2.2 million), following the full consolidation of companies in the Operating Properties business line.

3.2.5.7. Trade receivables

3.2.5.7.1. Accounting principles applicable to trade receivables and the receivables of hotels under operation

The trade receivables are mainly comprised of receivables from simple lease transactions and receivables of hotels under operation. These items are measured at amortised cost. In the event that the recoverable value is lower than the net book value, the Group may be required to account for an impairment charge through profit or loss.

Receivables from operating lease transactions

For operating-lease receivables, a provision for impairment is made at the first non-payment. The impairment rates applied by Covivio group are as follows:

- no impairment provision is recorded for existing or vacated tenants whose receivables are less than three months overdue
- 50% of the total amount of receivables for existing tenants whose receivables are between three and six months overdue
- 100% of the total amount of receivables for existing tenants whose receivables are more than six months overdue
- 100% of the total amount of receivables for vacated tenants whose receivables are more than three months overdue.

The receivables and theoretical impairment provisions arising from the rules above are reviewed on a case-by-case basis in order to factor in any specific situations.

Receivables of hotels under operation

Receivables of hotels under operation are impaired according to payment deadlines.

The receivables and theoretical impairments arising from the rules above are reviewed on a case-by-case basis in order to factor in any specific situations.

3.2.5.7.2. Trade receivables

(€K)	**31/12/2018**	31/12/2017	Change
Expenses to be reinvoiced to tenants	146,705	141,028	5,677
Rent-free periods	91,743	110,717	-18,974
Trade receivables	102,078	54,179	47,899
Total trade receivables	**340,526**	**305,924**	**34,602**
Impairment of receivables	-27,314	-26,626	-688
NET TOTAL TRADE RECEIVABLES	**313,212**	**279,298**	**33,914**

The balance of net trade receivables includes mainly expenses to be invoiced to tenants for €146.7 million, net trade receivables for €74.8 million and receivables related to the linearisation of relief granted on rent for €91.7 million.

The "Trade receivables" line item recorded an increase of €13.6 million from the full consolidation of the companies in the Operating Properties business line.

The line "Change in working capital requirements on continuing operations" on the Cash Flow Statement consists of:

(€K)	**31/12/2018**	31/12/2017
Impact of changes in inventories and work in progress	85	-8
Impact of changes in trade & other receivables	-74,715	-4,761
Impact of changes in trade & other payables	155,699	5,488
CHANGE IN WORKING CAPITAL REQUIREMENTS ON CONTINUING OPERATIONS (INCLUDING EMPLOYEE BENEFITS LIABILITIES)	**81,069**	**719**

3.2.5.8. Other receivables

(€K)	31/12/2018	31/12/2017	Change
Government receivables	72,674	71,954	720
Other receivables	43,340	26,216	17,124
Security deposits received	36,932	5,281	31,651
Current accounts	925	4,577	-3,652
TOTAL	**153,872**	**108,028**	**45,844**

- €72.7 million in government receivables mainly comprise €28.8 million for France Offices, €23.2 million for Italy Offices, €18.7 million for Hotels in Europe. The receivables are mainly VAT and government receivables following the payment of tax adjustments recognised and for which no provision is recorded, amounting to €10.9 million (see § 3.2.2.9.4).
- The changes in receivables on disposals is mainly from the Italy Offices (+€30 million), Germany Residential (+€3.5 million) and Other (-€1.9 million) segments.

3.2.5.9. Cash and cash equivalents

3.2.5.9.1. Accounting principles applicable to cash and cash equivalents

Cash and cash equivalents include cash, short-term deposits, and money-market funds. These are short-term, highly liquid assets that are easily convertible into a known cash amount, and for which the risk of a change in value is negligible.

3.2.5.9.2. Table of cash and cash equivalents

(€K)	31/12/2018	31/12/2017
Money-market securities available for sale	509,261	732,582
Cash at bank	663,189	564,054
TOTAL	**1,172,450**	**1,296,636**

At 31 December 2018, the portfolio of money market securities available for sale consisted mainly of traditional money market funds (Level 2).

- Level 1 of the portfolio corresponds to instruments whose price is listed on an active market for an identical instrument.
- Level 2 corresponds to instruments whose fair value is determined using data other than the prices mentioned for Level 1 and observable directly or indirectly (*i.e.* price-related data).

Covivio holds no investments subject to capital risk.

3.2.5.10. Shareholders' equity

3.2.5.10.1. Accounting principles applicable to equity

Own shares

If the Group buys back its own equity instruments (treasury shares), these are deducted from shareholders' equity. No profit or loss is recognised in the income statement when Group equity capital instruments are purchased, sold, issued or cancelled.

3.2.5.10.2. Statement of changes in shareholders' equity

The statement of changes in shareholders' equity and movements in the share capital are presented in note 3.1.4.

3.2.5.11. Statement of liabilities

3.2.5.11.1. Accounting principles applicable to debt

Financial liabilities include borrowings and other interest-bearing debt.

At initial recognition, financial liabilities are measured at fair value, minus the transaction costs directly attributable to the issue of the liability. They are then recognised at amortised cost based on the effective interest rate. The effective rate includes the nominal rate and actuarial amortisation of issue expenses and issue and redemption premiums.

Financial liabilities of less than one year are posted under "Current financial liabilities".

Convertible bonds (ORNANE-type) issued by Covivio group are either (i) recognised at fair value in the income statement or (ii) recognised separately as a financial liability at amortised cost and an embedded derivative measured at fair value in the income statement.

For Covivio, the fair value is determined according to the closing bond price.

Companies in the Hotels in Europe segment hold intangible fixed assets through finance lease agreements: finance leases (Operating Properties) or long-term leases conferring ad rem rights/construction leases. In this case, the financial liability recognised against the tangible fixed asset is initially recognised at the leased asset's fair value, or if lower, at the discounted value of the minimum lease payments. This debt is amortised as the contracts expire and give rise to the recognition of a financial expense.

Rental liabilities relative to long-term leases conferring ad rem rights/construction leases is shown on the long-term or short-term liabilities line in the balance sheet and the financial costs in the interest costs for rental liabilities line item.

Derivatives and hedging instruments

The Covivio group uses derivatives to hedge its floating rate debt against interest rate risk (hedging of future cash flows).

Derivative financial instruments are recorded on the balance sheet at fair value. The fair value is calculated using valuation techniques that use mathematical calculations based on recognised financial theories and parameters that incorporate the prices of market-traded instruments. This valuation is carried out by an external service provider.

The majority of the financial instruments in Italy Offices qualify for hedge accounting as defined by IFRS 9. In this case, changes in the fair value of the effective portion of the hedge are recognised net of tax in shareholders' equity until the hedged transaction occurs. The ineffective portion is recorded in the income statement.

All derivative instruments in the other segments are therefore recognised at their fair value, and changes are reflected in the income statement.

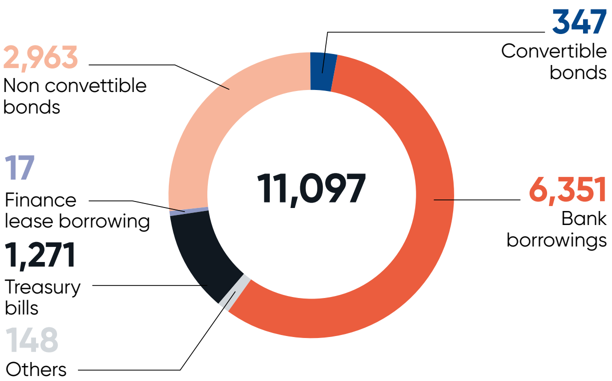
3.2.5.11.2. Table of deb

(€K)	31/12/2017	Increase	Decrease	Changes in scope	Change in exchange rate	Other changes	31/12/2018
Bank borrowings	5,577,368	1,152,895	-993,138	618,570	-4,603	37	6,351,129
Finance lease borrowing	0	0	-2,964	20,063	0	0	17,099
Other borrowings	117,998	29,163	-413,860	410,083	-0	269	143,653
Treasury bills	777,400	527,000	-33,000	0	0	0	1,271,400
Securitised loans	3,978	0	0	0	0	-1	3,977
Non-convertible bonds	3,084,340	745,139	-866,400	0	0	0	2,963,079
Convertible bonds[1]	545,000	0	-197,751	0	0	0	347,249
Subtotal interest-bearing loans	**10,106,084**	**2,454,197**	**-2,507,113**	**1,048,716**	**-4,603**	**305**	**11,097,586**
Accrued interest	63,356	69,514	-92,699	6,540	-6	-259	46,446
Deferral of loan expenses	-75,554	25,950	-26,181	-7,099	-1,457	-2,816	-85,703
Creditor banks	26,673	0	0	72	0	-25,347	1,398
Total borrowings (LT/ST) excl. Fair Value of Ornane-type bonds	**10,120,559**	**2,549,661**	**-2,625,993**	**1,048,229**	**-6,066**	**-28,117**	**11,059,727**
of which Long-term	8,596,316						9,216,624
of which Short-term	1,524,243						1,843,103
Valuation of financial instruments	186,012	0	0	-2,224	0	-14,546	169,242
Convertible bond derivatives	88,666	0	0	0	0	-69,863	18,803
Total derivatives	**274,678**	**0**	**0**	**-2,224**	**0**	**-84,409**	**188,045**
of which Assets	-48,178						-46,952
of which Liabilities	322,856						234,997
TOTAL BANK DEBT	**10,395,237**	**2,549,661**	**-2,625,993**	**1,046,005**	**-6,066**	**-112,526**	**11,247,772**

(1) Convertible bond movements are presented in 3.2.5.11.4 – Convertible bonds.

The new financing taken out during the year is presented in 3.2.2.2 – Liquidity risk and in 3.2.5.11.3 – Bank borrowings.

Debt by type as at 31 December 2018 *(in €M)*



The "Proceeds related to new borrowings" line item of the Statement of Cash Flows

(+€2,427.9 million) refers to:

- increases in interest-bearing borrowings (+€2,454.1 million)
- less new debt issuance costs (-€26.2 million).

The "Repayments of borrowings" line item of the Statement of Cash Flows (-€2,507.1 million) corresponds to decreases in interest-bearing borrowings.

3.2.5.11.3. Bank borrowings

The table below outlines the characteristics of the borrowings taken out by Covivio group and the amount of the associated guarantees (principal amount over €100 million):

(€K)	Outstanding debt (> or < €100 million)	Debt	Appraisal values as at 31/12/2018[1]	Encours debt as at 31/12/2018	Date of signature	Nominal Initial	Maturity
France Offices		€280 M (2015) and €145 M (2015) – Tour CB21 and Carré Suffren		411,550	29/07/15 and 01/12/15	280,000 and 145,000	29/07/25 and 30/11/23
		€167.5 M (2015) – DS Campus		160,381	23/03/15	167,500	20/04/23
		€300 M (2016) – Orange		300,000	18/02/16	300,000	30/06/28
	> €100 M		**2,192,071**	**871,931**			
	< €100 M		**354,850**	**166,633**			
		Total France Offices	**2,546,921**	**1,038,565**			
Italy Offices		€252 M (2015) – Europe		196,180	09/06/15	255,000	09/06/25
		€760 M (2016) – Central		628,170	15/09/16	652,732	14/09/24
	> €100 M		**1,805,035**	**824,350**			
	< €100 M		**650,400**	**184,058**			
		Total Italy Offices	**2,455,435**	**1,008,408**			
Hotels in Europe		€447 M (2013)		141,386	25/10/13	447,000	31/01/23
		€255 M (2012) – Covered bonds		186,553	14/11/12	255,000	16/11/21
		€450 M (2016) – Rock		408,841	29/07/16	450,000	29/07/23
		€278 M (2017) – Rocca		192,820	29/03/17	277,188	29/03/25
		€290 M (2017) – OPCI B2 HI (B&B)		286,400	10/05/17	290,000	10/05/24
		£400 M (2018) - Rocky		410,230	24/07/18	445,033	24/07/26
	> €100 M		**3,867,706**	**1,626,230**			
	< €100 M		**1,308,679**	**520,381**			
		Total Hotels Europe	**5,176,386**	**2,146,610**			
Germany Residential		Lyndon Immeo 01		126,142	12/12/11	140,000	29/01/27
		Refinancing of Indigo, Eagle, Faust, Berlinum 2		156,107	09/03/12	180,251	31/03/24
		Cornerstone		109,731	01/10/14	138,851	30/06/25
		Refinancing Wohnbau/Dümpten/Aurélia/Duomo		134,476	20/01/15	150,000	30/06/25
		Refinancing Amadeus/Herbstlaub/Valore/Valartis/Sunflower		110,983	28/10/15	147,095	30/04/26
		Quadriga		174,376	16/06/15	223,656	30/06/25
		Golddust		110,481	23/03/16	115,000	29/01/27
		Lego		157,701	24/06/16	145,003	29/01/27
		Lyndon Immeo 02		180,471	26/01/17	230,000	14/03/22
	> €100 M		**3,306,480**	**1,260,468**			
	< €100 M		**2,312,143**	**1,016,896**			
		Total Germany Residential	**5,618,622**	**2,277,364**			
Total collateralised			**15,797,364**	**6,470,947**			

(€K)	Outstanding debt (> or < €100 million)	Debt	**Appraisal values as at 31/12/2018[1]**	**Encours debt as at 31/12/2018**	Date of signature	Nominal Initial	Maturity
France Offices		€345 M (2013) – ORNANE		147,249	20/11/13	345,000	01/04/19
		Treasury bills BT/BMTN		1,271,400			
		€180 M (2013) – Private placement		180,000	28/03/13	180,000	30/04/20
		€500 M (2014) – Bonds		226,526	10/09/14	500,000	30/09/21
		€500 M (2016) – Green bond		500,000	20/05/16	500,000	20/05/26
		€500 M (2017) – Bonds		595,000	21/06/17	500,000	21/06/27
	> €100 M			**2,920,175**			
	< €100 M			**0**			
		Total France Offices	**3,469,039**	**2,920,175**			
Italy Offices		€250 M (2014) – Bonds		125,000	30/03/15	125,000	30/03/22
		€200 M (2015) – Convertible bonds		200,000	03/08/15	200,000	31/01/21
		€300 M (2017) – Bonds		300,000	17/10/17	300,000	17/10/24
		€300 M (2018) – Bonds		300,000	20/02/18	300,000	20/02/28
	> €100 M			**925,000**			
	< €100 M			**3,977**			
		Total Italy Offices	**1,568,479**	**928,977**			
Hotels in Europe		€200 M (2015) – Private placement		200,000	29/05/15	200,000	29/05/23
		€350 M (2018) - Edinburgh		350,000	24/09/18	350,000	24/09/25
	> €100 M			**550,000**			
	< €100 M			**85,000**			
		Total Hotels Europe	**832,987**	**635,000**			
Germany Residential	**< €100 M**	**Total Germany Residential**	**146,998**	**0**			
Others	**< €100 M**	**France Residential**	**206,393**	**0**			
		Car parks	**51,230**	**0**			
		Total Other	**257,623**	**0**			
Total unencumbered			**6,275,125**	**4,484,152**			
		Other debt		142,487			
GRAND TOTAL			**22,072,489**	**11,097,586**			

(1) The portfolio includes the fair value of occupied assets and real estate inventories (trading, development). It doesn't include the fair value of consolidated assets accounted for by the equity method.

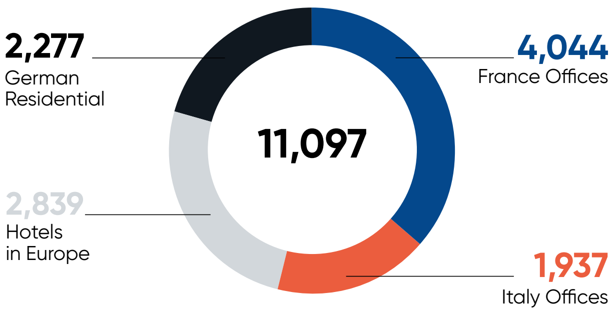
The borrowings are valued after their initial recognition at cost, amortised based on the effective interest rate.

Breakdown of borrowings at their nominal value according to the time left to maturity and by interest-rate type:

(€K)	Balance as at 31/12/2018	Deadline to - 1 year	Balance as at 31/12/2019	Maturity from 2 to 5 years	Balance as at 31/212/2023 (to + 5 years)
Fixed-rate long-term financial liabilities	**6,264,176**	**1,530,364**	**4,733,812**	**1,730,270**	**3,003,542**
France Offices – Bank borrowings	148,144	1,538	146,606	96,606	50,000
France Offices – Ornane*	147,249	147,249	0	0	0
France Offices – Other	85,040	0	85,040	41,776	43,264
Italy Offices – Bank borrowings	65,267	0	65,267	812	64,456
Italy Offices – Convertible bonds*	200,000	0	200,000	200,000	0
Hotels in Europe – Bank borrowings	363,487	111,388	252,098	173,356	78,742
Hotels in Europe – Other	57,435	21,939	35,496	19,955	15,541
Germany Residential – Bank borrowings	1,004,923	18,907	986,017	279,520	706,497
Germany Residential – Other	1,176	1,106	70	28	42
Total borrowings and convertible bonds	**2,072,720**	**302,126**	**1,770,594**	**812,052**	**958,542**
France Offices – Bonds	1,501,526	-139	1,501,665	406,665	1,095,000
France Offices – Treasury bills	1,224,400	1,224,400	0	0	0
Italy Offices – Bonds	725,000	0	725,000	125,000	600,000
Italy Offices – Securitisation	3,977	3,977	0	0	0
Hotels in Europe – Bonds	736,553	0	736,553	386,553	350,000
Total debts represented by securities	**4,191,456**	**1,228,238**	**2,963,218**	**918,218**	**2,045,000**
Floating-rate financial debt	**4,833,410**	**276,756**	**4,556,654**	**999,993**	**3,556,661**
France Offices – Bank borrowings	890,423	5,225	885,198	300,296	584,902
Italy Offices – Bank borrowings	943,141	11,576	931,565	81,506	850,059
Hotels in Europe – Bank borrowings	1,681,577	113,415	1,568,162	471,072	1,097,090
Germany Residential – Bank borrowings	1,271,270	99,540	1,171,730	147,120	1,024,610
Total borrowings and convertible bonds	**4,786,410**	**229,756**	**4,556,654**	**999,993**	**3,556,661**
France Offices – Treasury bills	47,000	47,000	0	0	0
Total debts represented by securities	**47,000**	**47,000**	**0**	**0**	**0**
TOTAL	**11,097,586**	**1,807,120**	**9,290,466**	**2,730,263**	**6,560,203**

* *The ORNANE bonds are presented at nominal value.*

Debt by operating segment as at 31 December 2018 *(in €M)*



3.2.5.11.4. Convertible bonds

France Offices

The features of the convertible bond issue are as follows:

Features	ORNANE-TYPE BONDS France Offices
Issue date	20/11/2013
Issue amount *(€M)*	345
Issue price *(€)*	84.73
Conversion rate	1.14
Nominal rate	0.88%
Maturity	1/04/2019
Number of convertible bonds issued	4,071,757
Number of convertible bonds as at 31 December 2017	4,071,757
Number of bonds converted into Covivio shares	-2,333,896
Number of convertible bonds as at 31 December 2018	1,737,861
Number of potential shares (maximum)	1,981,162
Amount of the issue after redemption and conversion *(€M)*	147

During 2018, 2,333,896 bonds were redeemed, equivalent to almost 57% of the nominal amount. This redemption generated a capital increase of €36.1 million.

Interest is payable half-yearly on 1 April and 1 October.

Based on the quoted price on 31 December 2018, the fair value of the ORNANE-type bonds is €95.97, giving a fair value of €166.8 million at 31 December 2018 (1,737,861 bonds).

Bond holders will have the option to convert their bonds either into cash and existing and/or new shares, or only into shares, based on the stock market prices over a determined period, at the Company's discretion.

Italy Offices

The Italy Offices ORNANE-type bonds are hybrid instruments and are recognised as a Host contract (debt at amortised cost) and as an embedded derivative (financial instrument at fair value through the income statement).

At 31 December 2018, the Ornane derivative maturing in 2021 of Covivio in Italy was valued at €7.1 million.

The features of the convertible bond issue are as follows:

Features	ORNANE-TYPE BONDS Italy Offices
Issue date	01/08/2015
Issue amount *(€M)*	200
Issue price *(€)*	100
Conversion Price	118.084
Nominal rate	0.875%
Maturity	02/2021
Number of convertible bonds issued	2,000,000
Number of convertible bonds as at 31 December 2017	2,000,000
Number of convertible bonds as at 31 December 2018	2,000,000
Number of potential shares	1,693,715

3.2.5.11.5. Derivatives

Derivative instruments consist mainly of rate hedging instruments put in place as part of the Group's interest rate hedging policy.

Fair value of net derivative instruments:

(€M)	31/12/2017 Net	Change in scope or integration method	Share premium account Restructuring balances	Impact on P&L	Impact on shareholder's equity	**31/12/2018 Net**
France Offices	-141,370		37,542	-16,459		-120,287
ORNANE-type bonds France Offices	-82,406		44,785	18,081		-19,540
Italy Offices	3,927		3,630	-2,979	-7,508	-2,930
ORNANE-type bonds Italy Offices	-6,260			6,997		737
Hotels in Europe	-33,030	2,224	12,841	-12,784		-30,749
Germany Residential	-15,540		9,281	-9,017		-15,276
TOTAL	**-274,679**	**2,224**	**108,079**	**-16,161**	**-7,508**	**-188,045**
			Of which	**Cash instruments – Liabilities**		**-234,997**
				Cash instruments – Assets		**46,952**

The total impact of the value adjustments on the derivatives on the income statement was -€16.2 million.

It primarily consists of changes in the value of the cash instruments (-€41.2 million), and the change in the value of the ORNANE-type bonds (+€25 million). In accordance with IFRS 13, the fair values include the counterparty default risk (€1.5 million).

The "Unrealised gains and losses relating to changes in fair value" line item in the Statement of Cash Flows (-€604.5 million), which makes it possible to calculate cash flows from operating activities, mainly incorporates the impact of changes in the value of cash instruments (+€41.2 million), the change in the value of the ORNANE-type bonds (-€25 million) and the change in the value of the portfolio (-€620.7 million).

Breakdown of hedging instruments by maturity of notional values

(€K)	**At 31/12/2018**	Less than one year	From 1 to 5 years	Over 5 years
Fixed hedge				
Fixed rate payer swap	4,621,729	-655,320	719,536	4,557,513
Fixed rate receiver swap	1,593,798	35,000	886,071	672,727
Total swaps	**3,027,931**	**-690,320**	**-166,535**	**3,884,786**
Optional hedge				
Purchase of fixed rate payer swaption	0	-270,000	0	270,000
Sale of fixed rate borrower swaption	125,000	-45,000	0	170,000
Cap purchase	759,398	149,994	307,620	301,784
Floor purchase	125,050	75,520	2,080	47,450
Floor sale	478,442	50,000	-19,558	448,000
TOTAL	**7,703,417**	**-659,806**	**1,895,749**	**6,467,474**

Balance as at 31 December 2018

(€K)	Fixed rate	Floating rate
Borrowings and financial debts (including creditor banks)	6,264,176	4,834,808
Net financial liabilities before hedging	**6,264,177**	**4,834,809**
Swaps		-3,027,931
Caps		-759,398
TOTAL HEDGES		**-3,787,329**

3.2.5.11.6. Rental liabilities

The long-term leases conferring ad rem rights relative of hotel real estate in the United Kingdom recognised as finance lease agreements, are initially recognised as a rental liability of €165.5 million, calculated by discounting future rental incomes over the residual term of the agreement on the acquisition date. At 31 December 2018, the balance of the rental liabilities amounted to €163.7 million (the same amount as rights-of-use recognised under assets).

In 2018, the interest expense relative to these rental liabilities was €4.6 million.

3.2.5.11.7. Banking covenants

Excluding debts raised without recourse to the Group's real estate companies, the debts of Covivio and its subsidiaries generally include bank covenants (ICR and LTV) applying to the borrower's consolidated financial statements. If these covenants are breached, early debt repayment may be triggered. These covenants are established in Group Share for Covivio and for Covivio Hotels.

With respect to Covivio Immobilien (Germany Residential), for which almost all of the debt raised is "non-recourse" debt, portfolio financings do not contain any consolidated covenants.

The most restrictive consolidated LTV covenants amounted to 60% for Covivio and Covivio Hotels at 31 December 2018.

The most restrictive ICR consolidated covenants applicable to the REITs are as follows:

- for Covivio: 200%
- for Covivio Hotels: 200%.

Concerning Covivio, corporate credit facilities usually include an asset-secured debt covenant (100% scope), the cap on which is set at 25% and which measures the ratio of secured debt (or debt with guarantees of any nature) to asset value.

Covivio group's banking covenants were fully complied with at 31 December 2018, as they stood at 45.4% for Group Share LTV, 508% for Group Share ICR, and 9.6% for the asset-secured debt ratio.

No financing has an accelerated payment clause contingent on Covivio or Covivio Hotels' rating, which is currently BBB, positive outlook (Standard & Poor's rating).

Covenant threshold	Company	Scope	Covenant	Ratio
€300 M (2016) – Orange	Covivio	France Offices	≤ 60%	In compliance
€254 M (2015) – Europe	Covivio	Italy Offices	≤ 60%	In compliance
€255 M (2012) – Mortgage bond	Covivio Hotels	Hotels in Europe	≤ 65%	In compliance
€447 M (2013) – REF II	Covivio Hotels	Hotels in Europe	< 60%	In compliance
€200 M (2015) – Private placement	Covivio Hotels	Hotels in Europe	≤ 60%	In compliance
€279 M (2017) – Roca	Covivio Hotels	Hotels in Europe	< 60%	In compliance
£400 M (2018) – Rocky	Covivio Hotels	Hotels in Europe	< 60%	In compliance

Consolidated ICR	Company	Scope	Covenant	Ratio
€300 M (2016) – Orange	Covivio	France Offices	≥ 200%	In compliance
€254 M (2015) – Europe	Covivio	Italy Offices	> 200%	In compliance
€255 M (2012) – Mortgage bond	Covivio Hotels	Hotels in Europe	≥ 200%	In compliance
€447 M (2013) – REF II	Covivio Hotels	Hotels in Europe	> 200%	In compliance
€200 M (2015) – Private placement	Covivio Hotels	Hotels in Europe	≥ 200%	In compliance
€279 M (2017) – Roca	Covivio Hotels	Hotels in Europe	> 200%	In compliance
£400 M (2018) – Rocky	Covivio Hotels	Hotels in Europe	> 200%	In compliance

As part of the mortgage financing, these covenants, moreover, most often include specific covenants for the scopes financed. The purpose of these covenants, generally scope LTV, is mainly to limit the use of financing lines by correlating it with the value of the underlying assets provided as collateral.

3.2.5.12. Provisions for contingencies and losses

3.2.5.12.1. Accounting principles applicable to provisions for contingencies and losses

Retirement commitments

The retirement commitments are recognised in accordance with revised IAS 19. Provisions are recorded on the balance sheet for the liabilities arising from defined benefits pension schemes for existing staff at the reporting date. They are calculated according to the projected credit units method based on valuations made at each reporting date. The past service cost corresponds to the benefits granted, either when the Company adopts a new defined benefits scheme, or when it changes the level of benefits of an existing scheme. When new benefits are granted upon adoption of a new scheme or change in an existing scheme, the past service cost is immediately recognised in the income statement.

Conversely, when the adoption of a new scheme or change in an existing scheme gives rise to the vesting of benefits after its implementation date, the past service cost is recognised as an expense on a straight-line basis over the average remaining period until the benefits become fully vested. Actuarial gains and losses result from the effects of changes in actuarial assumptions and experience adjustments (differences between actuarial assumptions and what has actually occurred). The change in these actuarial gains and losses is recognised in "Other items" of comprehensive income. The expense recognised in operating income includes the cost of the services rendered during the year, amortisation of past service costs and the effects of any reduction or liquidation of the scheme; the cost of discounting is recognised in net financial income. The valuations are made taking into account the Collective Agreements applicable in each country and in keeping with the various local regulations. For each employee, the retirement age is the social security eligibility age.

3.2.5.12.2. Provisions

(€K)	31/12/2017	Change in scope	Charges	Transfer	Change in actuarial gains and losses	Reversal of provision Used	Reversal of provision Unused	31/12/2018
Other provisions for disputes	1,872	243	911	0		-126	-82	2,818
Provisions for guarantees	0	0	0			0	0	0
Provisions for taxes	523	7,933	3,083	0			-191	11,348
Provisions for renovating sites	345	0	0	2,221		0	0	2,566
Other provisions	8,169	-52	1,096	0		-331	-3,004	5,878
Sub-total Provisions – current liabilities	**10,909**	**8,124**	**5,090**	**2,221**	**0**	**-457**	**-3,277**	**22,610**
Provisions for retirement benefit	46,327	1,348	1,899	0	1,039	-1,710	-928	47,975
Provisions for long-service awards	1,181	0	107			-13	-2	1,273
Sub-total Provisions – non-current liabilities	**47,508**	**1,348**	**2,006**	**0**	**1,039**	**-1,723**	**-930**	**49,248**
TOTAL PROVISIONS	**58,417**	**9,472**	**7,096**	**2,221**	**1,039**	**-2,180**	**-4,207**	**71,858**

The provisions for litigation are broken down into €1.9 million for France Offices, €0.3 million for Italy Offices, €0.3 million for Hotels in Europe and €0.3 million for Others.

Provisions for taxes concern Hotels in Europe for €7.9 million (following the full consolidation of the Operating Properties business line) and Italy Offices for €3.4 million.

The provision for retirement indemnities totalled €48 million as at 31 December 2018 (of which €44.5 million for Germany Residential).

The main actuarial assumptions used to estimate the commitments in France were as follows:

- rate of pay increase: managers 4%, non-managers 3%
- discounting rate: 1.27% (TEC 10 n +50 bps).

The main actuarial assumptions used to estimate the commitments in Germany were as follows:

Assumptions used in calculating provisions for retirement benefit obligations in Germany	31/12/2018	31/12/2017
Discount rate	2.1%	2.1%
Annual wage growth	2.5%	2.5%
Rate of social security charges	1%/2%	1%/2%
Impact of provisions for retirement benefits on the income statement *(in thousands of euros)*		
Cost of services rendered during the year	-766	-581
Financial cost	-896	-849
Effects of plan reductions/settlements	-348	
TOTAL IMPACT ON THE INCOME STATEMENT	**-2,010**	**-1,430**

3.2.5.13. Other short-term liabilities

(€K)	31/12/2018	31/12/2017	Change
Social debt	28,035	20,733	7,302
Tax debt	56,148	19,028	37,120
Current accounts – liabilities	169	8,569	-8,400
Dividends to be paid	40	0	40
Other debt	65,030	69,429	-4,399
TOTAL	**149,624**	**117,759**	**31,865**

- The change in tax liabilities was €37 million (including €30.1 million for France Offices and €7.7 million for Hotels in Europe).
- The -€4.4 million drop in other liabilities includes the reclassification into "accounts payable to suppliers of fixed assets" of the deferred payment on the acquisition of hotels in Spain (-€55 million, €49 million of which was paid in December 2018).

3.2.5.14. Recognition of financial assets and liabilities

Categories according to IFRS 9	Line item concerned in the statement of financial position	31/12/2018 Net	Amount given in the assessed Statement of Financial Position: Amortised cost	Fair Value through shareholders' equity	Fair Value through the Income Statement	Fair Value (€K)
Assets at amortised cost	Non-current financial Assets	24,565	24,565			24,565
Loans and receivables	Non-current financial Assets	108,241	108,241			108,241
Subscribed capital not paid up	Non-current financial Assets	20,040	20,040			20,040
	Total non-current financial Assets	**152,846**	**152,846**			**152,846**
Loans and receivables	Trade receivables[1]	221,469	221,469			221,469
Assets at fair value through profit or loss	Derivatives at fair value through profit or loss	46,952			46,952	46,952
Assets at fair value through profit or loss	Cash and cash equivalents	509,261			509,261	509,261
	Total financial Assets	**930,528**	**527,162**	**0**	**556,213**	**930,528**
Liabilities at fair value through profit or loss	ORNANE-type bonds	366,052	192,141		173,911	368,651
Liabilities at amortised cost	Financial debt	10,750,337	10,750,337			10,831,391[2]
Liabilities at fair value through profit or loss	Financial instruments (excluding ORNANE)	216,194		13,180	203,014	216,194
Liabilities at amortised cost	Security deposits	22,743	22,743			22,743
Liabilities at amortised cost	Trade payables	213,179	213,179			213,179
TOTAL FINANCIAL LIABILITIES		**11,568,504**	**11,178,399**	**13,180**	**376,925**	**11,652,157**

(1) Excluding incentive.
(2) The difference between the net book value and the fair value of the fixed rate debt is €81,054 thousand.

Breakdown of financial assets and liabilities at fair value

The table below presents the financial instruments at fair value broken down by level:

- level 1: financial instruments listed in an active market
- level 2: financial instruments whose fair value is evaluated through comparisons with observable market transactions on similar instruments or based on an evaluation method whose variables include only observable market data
- level 3: financial instruments whose fair value is determined entirely or partly by using an evaluation method using an estimate that is not based on market transaction prices on similar instruments.

(€K)	Level 1	Level 2	Level 3	Total
Derivatives at fair value through profit or loss		46,952		46,952
Money-market securities available for sale		509,261		509,261
Total financial Assets	**0**	**556,213**	**0**	**556,213**
ORNANE-type bonds	368,651			368,651
Derivatives at fair value through profit or loss		216,194		216,194
Total financial Liabilities	**368,651**	**216,194**	**0**	**584,845**

3.2.6. Notes to the statement of net income

3.2.6.1. Accounting principles

3.2.6.1.1. Rental income

According to the presentation of the income statement, rental income is treated as revenues. Revenues from hotels under management, car park receipts, property development, and services are now shown in specific lines of the statement of net income, after net rental income.

As a general rule, invoicing is quarterly. The rental income of investment properties is recognised on a straight-line basis over the term of the ongoing leases. Any benefits granted to tenants (rent-free periods, step rental leases) are amortised on a straight-line basis over the duration of the lease agreement, in compliance with SIC 15.

3.2.6.1.2. Share-based payments (IFRS 2)

The application of IFRS 2 has resulted in the recognition of an expense for benefits granted to employees as share-based payments. This expense is recorded in income for the year.

Free shares are valued by Covivio at the date of their award according to a binomial valuation model. This model takes into account the features of the plan (price and exercise period), market data upon award (risk free rate, share price, volatility and expected dividends), and assumptions of beneficiary behaviour. The benefits thus granted are recognised as expenses over the vesting period, and offset by an increase in the consolidated reserves.

3.2.6.2. Operating income

3.2.6.2.1. Rental income

(€K)	31/12/2018	31/12/2017	Change (€K)	Change (%)
France Offices	271,113	272,131	-1,018	-0.4%
Italy Offices	205,760	204,837	923	0.5%
Total Offices rental income	**476,873**	**476,968**	**-95**	**0.0%**
Hotels in Europe	229,921	208,847	21,074	10.1%
Germany Residential	241,162	230,154	11,008	4.8%
Other (including France Residential)	7,935	11,441	-3,506	-30.6%
TOTAL RENTAL INCOME	**955,891**	**927,410**	**28,481**	**3.1%**

The rental income consists of rental and similar income (*e.g.* occupancy fees and entry rights) invoiced for investment properties during the period. Rent exemptions, step rental schemes and entry rights are spread out over the fixed term of the lease.

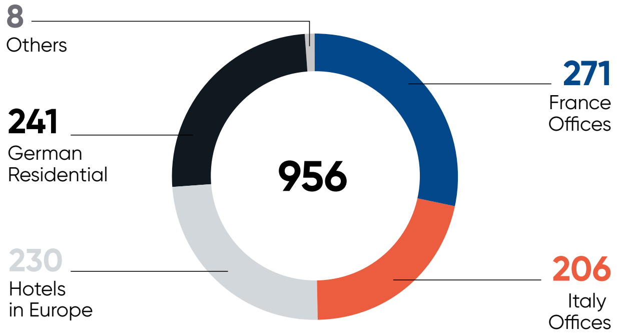
Rental income amounted to €955.9 million as at 31 December 2018, *versus* €927.4 million at 31 December 2017, up by €28.5 million.

The changes by asset-type break down as follows:

- a decrease in rents in France Offices (-0.4%) mainly due to the impact of asset disposals (-€20.2 million), offset especially by the delivery of assets under development in 2017 and 2018 (+€11.4 million), acquisitions (+€4.3 million) and the impact of the change in consolidation method for the Latécoère 2 – Dassault extension (+€4.0 million)
- an increase in rental income from Italy Offices (+0.5%) due to acquisitions (+€6.9 million) as well as re-leases/vacancies (+€4.4 million) minus the impact of disposals (-€9.7 million)
- an increase in rental income from Hotels in Europe (+10.1%) mainly due to acquisitions in the United Kingdom, Spain and Germany (+€22.5 million), by the deliveries of assets under development in France (+€6.8 million) and by the increased rental income from AccorHotels (+€3.6 million), minus the impact of disposals in retail (-€13.0 million)
- an increase in rental income from Germany Residential (+4.8%) following acquisitions (+€19.1 million), rent indexing (+€8.4 million), mitigated by the disposals (-€16.4 million)
- a 30.6% decrease in the Other (France Residential) segment due to disposals and assets made vacant for their disposal.

Note that the tenant Telecom Italia accounts for 46% of total revenues in Italy Offices (€94.3 million). The company holding this asset portfolio is 51% held in partnership by Covivio and fully consolidated.

Rental income for the year 2018 by Operating segment *(in €M)*



3.2.6.2.2. Real estate expenses

(€K)	31/12/2018	31/12/2017	Change (€K)	Change (%)
Rental income	955,891	927,410	28,481	3.1%
Unrecovered rental costs	-31,945	-43,225	11,280	-26.1%
Expenses on properties	-36,915	-30,509	-6,406	21.0%
Net losses on unrecoverable receivables	-3,200	-3,658	458	-12.5%
NET RENTAL INCOME	**883,831**	**850,018**	**33,813**	**4.0%**
Rate for property expenses	**-7.5%**	**-8.3%**		

- Unrecovered rental costs: these expenses are net of re-invoicing to tenants, and basically correspond to charges on vacant premises.
- Expenses on properties: these consist of rental expenses that are borne by the owner, expenses related to works and expenses related to property management.
- Net losses on unrecoverable receivables: these consist of losses on unrecoverable receivables and net provisions on doubtful receivables.

For the period, the increase in unrecovered rental costs (+€11.3 million) and the decrease in expenses on properties (-€6.4 million) are net figures, following reclassifications between accounts in Italy Offices. The net change of +€4.9 million is mainly due to the decrease in non-refundable taxes for France Offices (+€3.4 million).

3.2.6.2.3. EBITDA from hotel operating activity and coworking and Income from other activities

(€K)	31/12/2018	31/12/2017	Change (€K)	Change (%)
Revenues from hotel operating activity	257,308	0	257,308	N/A
Expenses from hotel operating activity and coworking	-181,477	0	-181,477	N/A
EBITDA FROM HOTEL OPERATING ACTIVITY & COWORKING	**75,831**	**0**	**75,831**	**N/A**
Income from other activities	29,213	27,979	1,234	4.4%
Expenses of other activities	-24,421	-21,770	-2,651	12.2%
INCOME FROM OTHER ACTIVITIES	**4,792**	**6,209**	**-1,417**	**-23%**

- Following the full consolidation of the companies in the Operating Properties business line as from 1 January 2018, the income statement from now on will include a line dedicated to this activity and to coworking. EBITDA from hotel operating activity and coworking mainly consists of the €76.7 million EBITDA of the hotels under operation.
- Net income from other activities was down €1.4 million, mainly due to the drop in net income from the property development business line in France Offices (-€2.4 million).

3.2.6.2.4. Net cost of operations

These consist of head office expenses and operating costs net of revenues from management and administration activities.

(€K)	31/12/2018	31/12/2017	Change (€K)	Change (%)
Management and administration income	20,042	20,986	-944	-4.5%
Business expenses	-6,140	-7,310	1,170	-16.0%
Overhead	-119,591	-110,929	-8,662	7.8%
Development costs (not capitalised)	-585	-4,102	3,517	-85.7%
TOTAL NET OPERATING COSTS	**-106,274**	**-101,355**	**-4,919**	**4.9%**

- Overheads increased mainly in Hotels in Europe (+€7.0 million) due to the consolidation of the Operating Properties business line (-€2.2 million) and the increase in the payroll (-€2.5 million). They also increased following leasing of the premises at 10 and 30 Avenue Kléber.
- Development costs at 31 December 2017 relate to discontinued projects in the France Offices segment (-€3 million) and Germany Residential segment (-€1 million).

3.2.6.2.5. Depreciation of operating assets

The increase in this line item (€50.2 million) was mainly due to the depreciation of equipment and buildings operated by the Group (new coworking and hotel activities). In accordance with IAS 40, these assets, which do not meet the definition of investment properties, are recognised at amortised cost.

3.2.6.3. Income from asset disposals

(€K)	31/12/2018	31/12/2017	Change (€K)	Change (%)
Income from asset disposals	1,291,901	1,036,010	255,891	24.7%
Carrying value of investment properties sold	-1,194,478	-992,309	-202,169	20.4%
INCOME FROM ASSET DISPOSALS	**97,423**	**43,701**	**53,722**	**123%**

The period's income from asset disposals (+€97.4 million) mainly stemmed from the sale of the Paris assets at 10 and 30 Avenue Kléber (Covivio headquarters), recognised at amortised cost in the consolidated financial statements (own occupied buildings).

The Italy Offices segment contributes €19 million to the Income from asset disposals (capital gain on the sale of the Excelsior asset) and the Germany Residential segment also contributes €15 million to it.

3.2.6.4. Change in the Fair Value of assets

(€K)	31/12/2018	31/12/2017	Change (€K)
France Offices	110,643	250,578	-139,935
Italy Offices	-43,666	63,188	-106,854
Hotels in Europe	100,425	100,161	264
Germany Residential	459,215	502,222	-43,007
Other (including France Residential)	-5,924	-294	-5,630
TOTAL CHANGE IN FAIR VALUE OF PROPERTIES	**620,693**	**915,855**	**-295,162**

- For France Offices, the fair value was boosted by the rise in the value of well located assets in Paris and major regional cities, in particular assets under development delivered in 2018 and renovated assets.
- In Hotels in Europe, value creation depended largely on the acquisition of the Spanish portfolio in early 2017.
- For the German Residential segment, asset values were pushed upwards by the significant rise in rents and increase in values, particularly in prized locations in Berlin, Hamburg, Dresden and Leipzig.

3.2.6.5. Income from disposal of securities and Income from changes in scope

The merger transactions in the Operating Properties business line and the transfer of 50% of the shares of SCI Porte Dorée were treated in accordance with IFRS 3.

The income of €119.3 million from the disposal of shares mainly recorded:

- the €103 million income from the disposal of securities stemming from the sale of the initial stake in these companies (FDM Management for €85 million and SCI Porte Dorée for €18 million), following the change in their consolidation method (from equity accounting to full consolidation)
- the net income from the deconsolidation of Sunparks de Haan for €15.4 million.

A loss of €160.0 million was recognised under "Income from changes in scope" due to:

- the goodwill impairment of -€131.1 million recognised on the restructuring operations (€242 million), following the re-valuation of Operating Properties assets on the acquisition date
- share acquisition costs (-€28.9 million) which, under IFRS 3, must be recognised in profit or loss (of which -€18.1 million in the Hotels in Europe segment following acquisitions during the period).

3.2.6.6. Cost of net financial debt

(€K)	31/12/2018	31/12/2017	Change (€K)	Change (%)
Interest income on cash transactions	21,429	13,286	8,143	61.3%
Interest expense on financing operations	-172,565	-201,395	28,830	-14.3%
Net expenses on hedges	-36,833	-48,806	11,973	-24.5%
NET FINANCING COST	**-187,970**	**-236,915**	**48,945**	**-20.7%**
Average annual rate of debt	**1.53%**	**1.87%**		

Excluding costs to repurchase fixed-rate debt and penalties (€12.2 million at 31 December 2018 *versus* €58.3 million at 31 December 2017), the cost of debt declined by €2.8 million, under the effect of refinancings and restructured hedges.

3.2.6.7. Net financial Income

(€K)	31/12/2018	31/12/2017	Change (K€)	Change (%)
Cost of net financial debt	-187,970	-236,915	48,945	-20.7%
Interest cost for rental liabilities	**-4,594**	**0**	**-4,594**	**N/A**
Changes in the fair value of financial instruments	-41,230	55,448	-96,678	
Changes in the fair value of ORNANE-type bonds	25,078	-55,326	80,404	
Changes in the fair value of financial instruments	**-16,152**	**122**	**-16,274**	**N/A**
Net financial expenses from discounting	-656	-136	-520	
Free share expenses	-8,802	-6,672	-2,130	
Expenses from free shares and discounting	**-9,458**	**-6,808**	**-2,650**	**38.9%**
Amortisation of loan issue costs	-25,950	-21,641	-4,309	19.9%
Net change in financial and other provisions	215	-1,632	1,847	-113.2%
Amortisation of loan issue costs	**-25,735**	**-23,273**	**-2,462**	**10.6%**
TOTAL NET FINANCIAL INCOME	**-243,909**	**-266,874**	**22,965**	**-8.6%**

3.2.6.8. Taxes payable and deferred tax liabilities

3.2.6.8.1. Accounting principles applicable to current and deferred taxes

SIIC tax regime (French companies)

Opting for the SIIC tax regime involves the immediate liability for an exit tax at the reduced rate of 19% on unrealised capital gains relating to assets and securities of entities not subject to corporation tax. The exit tax is payable over four years, in four instalments, starting with the year the option is taken up. In return, the Company is exempted from income tax on the SIIC business and is subject to distribution obligations.

(1) Exemption of SIIC revenues

The revenues of the SIIC are exempt from taxes concerning:

- income from the leasing of assets
- capital gains realised on asset disposals, investments in companies having opted for the tax treatment or companies not subject to corporation tax in the same business, as well as the rights under a lease contract and real estate rights under certain conditions
- dividends of SIIC subsidiaries.

(2) Distribution obligations

The distribution obligations associated with exemption profits are the following:

- 95% of the earnings derived from asset leasing
- 70% of the capital gains from disposals of assets and shares in subsidiaries having opted for the tax treatment or subsidiaries not subject to corporation tax with a SIIC corporate purpose for two years
- 100% of dividends from subsidiaries that have opted for the tax treatment.

The Exit Tax liability is discounted on the basis of the initial payment schedule determined from the first day the relevant entities adopted SIIC status.

The liability initially recognised is discounted and an interest charge is applied at each closing, allowing the liability to reflect the net discounted value as at the closing date. The discount rate used is based on the yield curve, given the deferred payment.

Ordinary law regime and deferred taxes

Deferred taxes result from temporary differences in taxation or deduction and are calculated using the liability method, and on all temporary differences in the Company financial statements, or resulting from consolidation adjustments. The valuation of the deferred tax assets and liabilities must reflect the tax consequences that would result from the method by which the Company seeks to recover or settle the book value of its assets and liabilities at year-end. Deferred taxes are applicable to Covivio group entities that are not eligible for the SIIC tax regime.

A deferred tax asset is recognised in the case of deferrable tax losses in the likely event that the entity in question, not eligible for the SIIC regime, will have taxable future profits against which the tax losses may be offset.

In the case where a French company intends to opt directly or indirectly for SIIC tax treatment in the near future, an exception under the ordinary law regime is applied by anticipating the application of the reduced rate (Exit Tax) in the valuation of deferred taxes.

SIIQ tax regime (Italian companies)

Following the merger of Beni Stabili with Covivio, the permanent establishment of Covivio in Italy changed its tax regime (exit from the SIIQ tax regime) and will be subject to the 20% real estate tax rate as from 2019.

SOCIMI tax regime (Spanish companies)

The Spanish companies held by Covivio Hotels opted for the SOCIMI tax regime, effective on 1 January 2017. Opting for SOCIMI does not trigger an exit tax upon making the option. However, the capital gains on the period outside of the SOCIMI regime during which assets were held are taxable when disposing of said assets.

The rental income from the leasing of assets and proceeds from disposals of assets held under the SOCIMI regime are exempt, provided 80% of rental profits and 50% of asset disposal profits are distributed. These capital gains are determined by allocating the taxable gains to the period outside the SOCIMI regime in a linear basis, over the total holding period.

3.2.6.8.2. Taxes and theoretical tax rate by geographical area

(€K)	Taxes payable	Deferred tax liabilities	Total	Deferred tax rate
France	-2,084	1,015	-1,069	32.00%
Italy	-2,203	11,316	9,113	20.00%(1)
Germany	-16,706	-94,065	-110,771	15.83%(2)
Belgium	-2,091	-6,754	-8,845	29.58%(3)
Luxembourg	-1,043	-3,501	-4,544	30.00%
United Kingdom	-340	2,034	1,694	17.00%
Netherlands	-507	1,248	741	25.00%
Portugal	-292	-859	-1,151	23.00%
Spain	-815	-484	-1,299	25.00%
TOTAL	**-26,081**	**-90,051**	**-116,132**	

(-) corresponds a tax expense; (+) corresponds to a tax income.
(1) In Italy, the tax rate is 27.9% (IRES and IRAP). After the merger with Covivio and its exit from the SIIQ regime, Covivio in Italy will be subject to a 20% tax rate.
(2) In Germany, the tax rate on property goodwill is 15.83%. However, for companies in the Operating Properties business line, tax rates can exceed 30% due to the application of a tax specific to commercial activities.
(3) In Belgium, the tax rate used for 2018 and 2019 is 29.58%. It will go down to 25% as of 2020.

The income tax payable in France mainly relates to the withholding tax paid on the dividend from the permanent establishment in Italy (-€2.1 million).

The income tax payable by companies in the Operating Properties business line amounts to €4.4 million, mainly for the Rock portfolio in Germany.

The income tax payable on disposals amounts to €7.8 million, of which €5.1 million for the German Residential.

Impact of deferred taxes on income

(€K)	31/12/2018	31/12/2017	Change
France Offices	0	0	0
Italy Offices	11,316	3,230	8,086
Hotels in Europe	-7,231	-1,813	-5,418
Germany Residential	-94,145	-99,844	5,699
Others	9	-11	20
TOTAL	**-90,051**	**-98,438**	**8,387**

- In Italy, deferred tax gains or losses relating to property result in the recognition of a deferred net tax liability (income) of €11.3 million at the rate of 20%.
- The deferred tax charge of Hotels in Europe is mainly related to the increase in the value of leased assets (-€8.9 million), offset by deferred tax income of €1.6 million from the Operating Properties business line.
- The deferred tax expense of Germany Residential mainly relates to an increase in the value of assets.

3.2.6.8.3. Tax proof

The management companies that opted for the SIIC/SIIQ/SOCIMI tax regime in previous years do not pay corporate income tax, except for those that also have a taxable business activity.

Net income before taxes and before income of equity affiliates is neutralised, including for their taxable activities and their transparent taxable subsidiaries.

Accordingly, the tax proof is required solely for taxable French and international companies.

Breakdown of tax by taxable segment (€K)	France (SIIC) Italie (SIIQ) Spain (SOCIMI)	France Common Law	Foreign Common Law	31/12/2018
Net income before tax, before income of equity affiliates	573,938	-2,087	664,915	1,236,766
Income tax expense recorded	6,992	-247	-122,877	-116,132

The actual tax income recognised in the SIIC/SIIQ/SOCIMI tax segment includes deferred tax assets of €11,316 thousand related to the withdrawal from the SIIQ regime in Italy following the merger with Covivio.

(€K)		31/12/2018
Net Income before tax		**1,259,594**
Share of income from equity affiliates		-22,828
Net income before tax, before income of equity affiliates		**1,236,766**
of which SIIC/SIIQ/SOCIMI companies		573,938
of which companies subect to tax		662,828
Theoritical tax rate of 34,43%	(a)	**-228,234**
Impact of rate differencials		118,031
Impact of tax credits and fixed tax rates		-259
Impact of permanent differences		-9,903
Changed to prior year losses without DTA		4,316
Tax losses for the year without DTA		-6,917
Total tax impacts for the period	(b)	**105,268**
Impact of tax audits and taxes on prior years	(c)	-158
Income tax expense recorded	(a)+(b)+(c)	**-123,124**
OVERALL EFFECTIVE TAX RATE		**18.58%**

3.2.7. Other information

3.2.7.1. Personnel remuneration and benefits

3.2.7.1.1. Personnel expenses

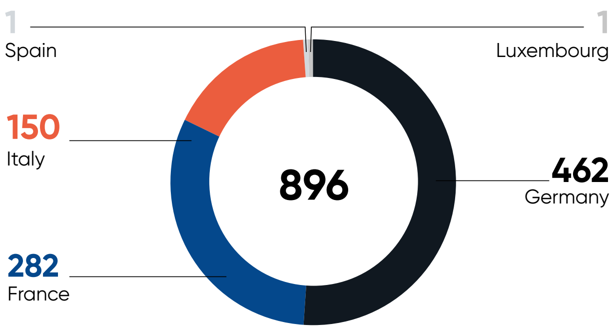
At 31 December 2018, personnel expenses amounted to €141.4 million (compared with €65.6 million at 31 December 2017), breaking down as follows:

(€K)	31/12/2018
EBITDA from Hotel Operating Properties & Coworking	-59,256
Overheads	-69,689
Income from asset disposals	-3,617
Bonus share charges	-8,802
TOTAL PERSONNEL EXPENSES IN THE STATEMENT OF NET INCOME	**-141,364**

Headcount

At 31 December 2018, the headcount of fully consolidated companies, excluding companies in the Operating Properties business line, was 896. For the period, the companies in the Operating Properties business line had an average headcount of 1,467 people.

Headcount by country in number of employees



The average headcount for 2018 was 877 employees.

3.2.7.1.2. Description of share-based payments

Covivio awarded free shares in 2018. The following assumptions were made for the free shares:

Plan of 14 February 2018	Employees – without performance condition	Corporate officers – with performance condition – performance scenario	Corporate officers – with performance condition – internal Covivio target	Employees – with performance condition – performance scenario
Date awarded	14/02/2018	14/02/2018	14/02/2018	14/02/2018
Number of shares awarded	10,523	14,000	14,000	52,000
Share price on the date awarded	€86.30	€86.30	€86.30	€86.30
Exercise period for rights	3 years	3 years	3 years	4 years
Cost of forfeiture of dividends	-€14.14	-€14.14	-€14.14	-€18.92
Actuarial value of the share net of dividends not collected during the vesting period	€72.16	€72.16	€72.16	€67.38
Revenue-related discount:				
In number of shares	1,721	1,670	1,670	7,531
As percentage of share price on the date awarded	16%	12%	12%	14%
Value of the benefit per share	€58.04	€46.31	€46.40	€37.53

Plan of 14 February 2018	Employees – with performance condition – internal Covivio target	Italy – with performance condition – performance scenario	Italy – with performance condition – internal objective
Date awarded	14/02/2018	14/02/2018	14/02/2018
Number of shares awarded	52,000	1,000	1,000
Share price on the date awarded	€86.30	€86.30	€86.30
Exercise period for rights	4 years	3 years	3 years
Cost of forfeiture of dividends	-€18.92	-€14.14	-€14.14
Actuarial value of the share net of dividends not collected during the vesting period	€67.38	€72.16	€72.16
Revenue-related discount:			
In number of shares	7,531	119	119
As percentage of share price on the date awarded	14%	12%	12%
Value of the benefit per share	€41.16	€41.93	€46.40

Plan of 21 November 2018	Group plan – Employees and Executives without performance condition	Discretionary plan France – Employees and Executives without performance condition	Discretionary plan Germany – Employees and Executives without performance condition	Discretionary plan Italy – Employees and Executives without performance condition
Date awarded	21/11/2018	21/11/2018	21/11/2018	21/11/2018
Number of shares awarded	12,040	41,090	19,900	6,650
Share price on the date awarded	€85.50	€85.50	€85.50	€85.50
Exercise period for rights	3 years	3 years	3 years	3 years
Cost of forfeiture of dividends	-€14.92	-€14.92	-€14.92	-€14.92
Actuarial value of the share net of dividends not collected during the vesting period	€70.58	€70.58	€70.58	€70.58
Revenue-related discount:				
In number of shares	1,944	6,636	3,214	1,074
As percentage of share price on the date awarded	16%	16%	16%	16%
Value of the benefit per share	€56.77	€56.77	€56.77	€56.77

In 2018, 224,203 free shares were awarded. As stated elsewhere, the corresponding expense is recognised in income over the entire vesting period.

At 31 December 2018, the balance of these two plans was 220,203 shares following the departure of employees.

The cost of the free share awards recognised at 31 December 2018 amounted to €7,757 thousand, while the related social security contribution was €1,045 thousand. These expenses are presented in the income statement on the "Free share expenses and discounting" line.

The cost of the free share awards includes the impact of the 2014 plan for €113 thousand, the 2015 plan for €1,063 thousand, the 2016 plan for €2,082 thousand, the 2017 plan for €2,854 thousand, and the 2018 plan for €1,645 thousand.

3.2.7.2. Earnings per share and diluted earnings per share

Earnings per share (IAS 33)

Basic earnings per share are calculated by dividing the income attributable to holders of ordinary Covivio shares (the numerator) by the average weighted number of ordinary shares outstanding (the denominator) over the period.

To calculate the diluted earnings per share, the average number of shares outstanding is adjusted to reflect the conversion of all dilutive potential ordinary shares, including free shares being vested and convertible bonds (ORNANE) type.

The impact of the dilution is only taken into account if it is dilutive.

The dilutive effect is calculated using the treasury stock method. The number calculated using this method is added to the average number of shares outstanding and becomes the denominator. To calculate the diluted earnings, the income attributable to the holders of ordinary Covivio shares is adjusted by:

- all dividends or other items under potentially dilutive ordinary shares that were deducted to arrive at the income attributable to the holders of ordinary shares
- interest recognised during the fiscal year to the potentially dilutive ordinary shares
- any change in the income and expenses resulting from the conversion of the dilutive potential ordinary shares.

	Net income
GROUP SHARE *(€K)*	**749,574**
Interest on Ornane-type bonds	2,902
Changes in the fair value of Ornane-type bonds	-21,697
GROUP SHARE AFTER CONVERSION OF THE ORNANE-TYPE BONDS *(€K)*	**730,779**
Average number of undiluted shares	**75,040,604**
Impact of dilution – free shares(1)	**506,087**
Number of free shares(1)	*506,087*
Average number of shares diluted by free shares	**75,546,691**
Dilution impact of conversion of France 2019 Ornane-type bonds	**1,981,162**
Conversion of Ornane-type bonds	*1,981,162*
Dilution impact of conversion of Italy 2021 Ornane-type bonds	**1,693,715**
Conversion of Ornane-type bonds	*1,693,715*
Average number of diluted shares after conversion of Ornane-type bonds	**79,221,568**
Net profit (loss) per non-diluted share *(€)*	**9.99**
Impact of dilution – free shares *(€)*	**-0.07**
DILUTED EARNINGS PER SHARE OF FREE SHARES *(€)*	**9.92**
DILUTION EARNINGS PER SHARE OF FREE SHARES AND ORNANE-TYPE BONDS	**9.22**

(1) The number of shares being vested is broken down according to the following plans:

2015 Plan	*8,500*
2016 Plan	*148,961*
2017 Plan	*128,423*
2018 Plan	*220,203*
Total	*506,087*

In accordance with IAS 33 § 49 "Earnings per share", the impact from the dilution related to the conversion as at 1 January 2018 of the France Ornane – type bonds maturing in 2019 of the Italy Ornane-type bonds maturing in 2021 is taken into account, because the latter is dilutive.

3.2.7.3. Off-balance sheet commitments

3.2.7.3.1. Commitments given

Fully consolidated companies

Off-balance sheet commitments given (€M)	Maturity	31/12/2018	31/12/2017
Commitments related to consolidated companies		**80.0**	**28.9**
Commitments related to investments[1]		78.2	0.0
Commitments given for specific transactions		0.0	0.0
Commitments given for disposal of equity interests - Liabilities guarantees[2]	2018-2020	1.8	28.9
Commitments related to financing		**6,470.9**	**5,675.7**
Financial guarantees given (CRD of pledged debt)		6,470.9	5,675.7
Commitments related to operating activities		**1,273.5**	**993.2**
Commitments given related to business development		**466.6**	**347.4**
Work commitments outstanding on assets under development[3]		434.7	308.8
Purchase commitments		0.0	0.0
Bank guaranties and other guaranties given		31.9	38.6
Commitments given related to the implementation of operating contracts		**248.0**	**125.9**
Work commitments outstanding on investment propertie[4]		166.2	86.3
Other contractual commitments given in "rental income owed"	2050-2065	81.8	39.6
Commitments related to asset disposals		**558.8**	**519.9**
Preliminary sale agreements given		558.8	519.9

(1) Investment commitments before deduction of pre-payments paid amounting to €7.5 million.
(2) Covivio granted liability guarantees in the context of asset disposals:
- *logistics in the amount of €0.8 million maturing in 2020*
- *Car parks, in the amount of €1 million maturing at the end of 2019.*

(3) Commitments relating to work on assets under development:

(M€)	Cost of works budget signed	Amounts of works recognised	Total works commitment outstanding	Delivery date
Montrouge/Flow	105.2	29.4	75.8	2020
Meudon Canopée	13.7	12.4	1.3	>2019
Meudon Opale	13.9	13.4	0.4	>2019
Meudon Ducasse	19.3	2.2	17.0	2020
Lezennes/Helios	21.2	18.5	2.7	T1-2019
Lyon Silex 2e tranche	173.5	76.6	96.8	2020
Montpellier Pompignane	4.2	3.8	0.4	
Montpellier Orange	45.1	4.1	41.1	2021
Montpellier RIE	2.1	1.3	0.7	2021
Paris Saint-Ouen Arago	14.6	2.8	11.8	2021
Cité numérique	38.1	2.8	35.2	2019
Châtillon Iro	78.9	35.1	43.8	2020
Total France Offices	**529.7**	**202.6**	**327.1**	
Turin Corso Ferrucci	86.3	78.1	8.2	2019
Milan Principe Amadeo	56.6	54.4	2.2	2019
Milan Via Dante	52.1	43.6	8.5	2019
Milan Symbiosis Aréa	20.5	2.7	17.9	2020
Milan via Schievano – The Sign	101.4	45.4	56.0	2020
Total Italy Offices	**316.9**	**224.2**	**92.7**	
Meininger Munich	32.2	31.5	0.8	2019
B&B Lyon Bagnolet	7.8	4.3	3.5	2019
Meininger Porte de Vincennes	44.8	39.3	5.5	2019
Meininger Lyon Zimmermann	18.2	13.7	4.5	2019
B&B Cergy	4.8	4.1	0.7	2019
Total Hôtels in Europe	**107.9**	**92.9**	**15.0**	
GRAND TOTAL	**954.4**	**519.7**	**434.7**	

(4) Commitments relating to work on Investment properties:

(€M)	Cost of works budget signed	Amounts of works recognised	Total works commitment outstanding	Maturity
Work commitments on lease or lease renewal	32.6	23.5	9.1	
Elevators modernization work	10.6	7.2	3.4	2020
Jean Goujon	173.0	134.7	38.3	2021
Paris Gobelins	2.6	0.8	1.8	2021
Levallois Omega A	4.7	1.9	2.8	2021
Total France & Italy Offices	**223.5**	**168.1**	**55.4**	
Hôtels Accor	10.4	3.2	7.2	2018-2019
Hotels B&B	57.5	48.5	9.0	
Total Hotels in Europe	**67.9**	**51.7**	**16.2**	
Berlin	103.5	8.9	94.7	2018-2019
Total German Residential	**103.5**	**8.9**	**94.7**	
GRAND TOTAL	**394.9**	**228.7**	**166.2**	

Other commitments given related to consolidated companies

Other commitments:

- under its SIIC status, the Group has specific obligations, as set out in Section 3.2.6.8.1
- under the current free share plans (see Section 3.2.7.2), Covivio has undertaken to deliver (through acquisition or creation) 506,087 shares to the beneficiaries present at the end of the vesting period
- the Central Facilities of the Sunparks asset were contributed to Foncière Vielsalm Loisirs, of which Covivio Hotels holds 35.7% of the share capital but only 2.7% of the voting rights with the possibility for Covivio Hotels to exercise a put option at the end of the 10th year
- as part of the partnership with ACM VIE in the SCIs 9 and 15 rue des Cuirassiers (concerning the Silex properties), Covivio granted a guaranteed return dated 7 December 2017, with the following terms:
  - 2.80% per year beginning 7 December 2017 and ending at the close of the Silex 2 incentive period, or sixteen (16) months after Delivery, for up to a minimum of fifty-four (54) months from the signing of this guarantee
  - this is after deducting any money paid by one of the SCIs to ACM VIE as a dividend (or interim dividend), repayment of premium, or interest during the guaranteed return period
  - in the event that subsequent to the end of the term of this guarantee, money is paid by the SCIs to ACM VIE, the partner would have to pay back these amounts to Covivio within ten (10) working days of their receipt.

Companies consolidated by the equity method

Information is presented for the Group Share.

Off-balance sheet commitments given *(€M)*	Maturity	31/12/2018	31/12/2017
Commitments related to consolidated companies		**0.0**	**0.0**
Commitments related to investments		0.0	0.0
Commitments given for specific transactions		0.0	0.0
Commitments related to financing		**181.2**	**235.8**
Financial guarantees given		181.2	235.8
Commitments related to operating activities		**27.2**	**19.3**
Financial instruments contracted for the purpose of recept or delivery of an non financial item ("own use" contracts)		0.0	0.0
Commitments related to operating activities		**25.9**	**18.5**
Work commitments outstanding on assets under development[1]		25.9	13.6
Bank guaranties and other guaranties given		0.0	4.9
Commitments given related to the implementation of operating contracts		**1.3**	**0.8**
Work commitments outstanding on investment properties		1.3	0.0
Exercise of finance lease options		0.0	0.8

(1) Commitments relating to work on assets under development:

(€M)	Cost of works budget signed	Amounts of works recognised	Total works commitment outstanding	Delivery date
Bordeaux Armagnac (Factor E)	10.9	10.1	0.8	2019
Belaïa	31.8	6.8	25.0	2020
Total France Offices	**42.7**	**16.9**	**25.9**	
GRAND TOTAL	**42.7**	**16.9**	**25.9**	

(2) Commitments relating to work on Investment properties:

(€M)	Cost of works budget signed	Amounts of works recognised	Total works commitment outstanding	Delivery date
Work commitments on lease or lease renewal	1.3	0.0	1.3	2030
Total France Offices	**1.3**	**0.0**	**1.3**	
GRAND TOTAL	**1.3**	**0.0**	**1.3**	

3.2.7.3.2. Commitments received

Fully consolidated companies

Off-balance sheet commitments received *(€M)*	Maturity	**31/12/20 18**	31/12/2017
Commitments related to consolidated companies		**2.0**	**2.0**
Others[(1)]	2019	2.0	2.0
Commitments related to financing		**1,973.4**	**1,548.9**
Financial guarantees received (autorised lines of credit not used)		1,973.4	1,548.9
Commitments related to operating activities		**5,541.7**	**4,091.7**
Other contractual commitments received related to "rental income due" activities[(2)]		4,003.6	2,784.4
Assets received in pledge, mortgage or collateral and guarantees received		369.9	392.3
Other contractual commitments received related to activity	2020	8.5	0.0
Preliminary sale agreements received		558.8	519.9
Worls commitment outstanding (fixed assets) = (2) + (3) commitments given		600.9	395.1

(1) Covivio received, as part of the car parks disposal (the Verdi operation) a performance-based earn-out payment equal to 10% of the difference between the actual 2018 revenue and the benchmark revenue up to a maximum of €2 million, terminating on 30 June 2019.

(2) Other contractual commitments received related to the activity "Rent to be collected":

(€M)	France offices	Hotels in Europe	Total
Less than 1 year	223.6	185.1	408.7
1 to 5 years	699.1	852.3	1,551.4
Over 5 years	98.4	1,945.1	2,043.5
TOTAL	**1,021.2**	**2,982.5**	**4,003.6**

These are minimum payments to be received for non-cancellable operating leases.

Companies consolidated by the equity method

Information is presented for the Group Share.

Off-balance sheet commitments received *(€M)*	Maturity	31/12/2018	31/12/2017
Commitments related to consolidated companies		**0.0**	**0.0**
Commitments received on specific transactions		0.0	0.0
Commitments related to financing		**0.0**	**11.8**
Financial guarantees received (autorised lines of credit not used)		0.0	11.8
Commitments related to operating activities		**36.7**	**18.8**
Assets received in pledge, mortgage or collateral and guarantees received		9.5	5.2
Worls commitment outstanding (fixed assets) = (1) + (2) commitments given		27.2	13.6

Commitments on operating leases

General overview of the main provisions of simple operating lease agreements.

France Offices

	France Offices	
Lease Types	Orange	Other offices
Conditions for renewal or purchase options	Proposal for 6-month or 12-month renewal depending on the lease before expiry of the lease	Proposal for 6-month or 12-month renewal depending on the lease before expiry of the lease
Indexing clauses	ILAT	ICC/ILAT
Term	3-6-9-12 years	3-6-9-12 years

The firm residual duration of leases of France Offices was 4.6 years, *versus* 5 years as at 31 December 2017.

Hotels in Europe

Lease types	AccorHotels Hotels	Sunparks	Club Med
Conditions for renewal or purchase options	Proposal for renewal 18 months before the expiration of the lease The tenant has 6 months to accept or refuse the renewal	Proposal for renewal 15 months before lease expiry for a 10-year term	Proposal for renewal 9 months before the expiration of the term of validity. Renewal on the same terms as the existing lease – 15 years, of which 8 are fixed and irrevocable
Indexing clauses	Based on Hotel revenues	In line with the change in the healthcare index published by Moniteur Belge	In line with the value of the Eurostat CPI index
Term	12 years firm	15 years firm	15 years firm

Lease types	Courtepaille restaurants	Jardiland
Conditions for renewal or purchase options	Renewal at the end of the lease with the same conditions and charges as the initial lease	Renewable for a period of 9 years For the first renewal, the tenant commits to a fixed and irreducible term of 6 years As of the second renewal, option for the tenant to give notice after second three-year period.
Indexing clauses	In line with the change in the commercial rent index (ILC)	In line with the change in the commercial rent index (ILC)
Term	Leases for 3-6-9 years	Leases for 6-12 years, 6-9-12 years or 12 years firm

Lease types	B&B Hotels France	B&B Hotels Germany	B&B Hotels Spain
Conditions for renewal or purchase options	Renewable twice for 12 years, then once for 9 years (with the option to terminate every 3 years)	Two 5-year renewal options under the same conditions and charges	Renewable twice for 15 years on the tenant's request
Indexing clauses	In line with the change in the commercial rent index (ILC)	In line with the change in the German consumer price index (VPI)	100% of the Spanish CPI
Term	12 years firm	20 years firm	15 years firm

Lease types	NH Hotel	Motel One Hotels	B&B Hotels Germany 2	B&B Hotels Germany 3	Hotels in the United Kingdom
Conditions for renewal or purchase options	Renewal at expiration of the lease Four 10-year renewal options	Two 5-year renewal options under the same conditions and charges	Two 5-year extensions possible on the tenant's request	Two 5-year extensions possible on the tenant's request	No option to renew or purhase
Indexing clauses	In line with the change in the consumer price index (CPI)	In line with the change in the German consumer price index (VPI)	100% of the German CPI	100% of the German CPI	100% of the English CPI
Term	20 years firm	20 years firm	20 years firm	20 years firm	25 years firm

Lease types	Bardiomar	Trade Center Hotel	Rocatierra
Conditions for renewal or purchase options	N/A	N/A	N/A
Indexing clauses	Variable rent with minimum guarantee Variable depending on revenue	Based on the Spanish CPI	Based on the Spanish CPI – Variable depending on revenue
Term	45 years firm	20 years firm	12 years firm

The firm residual duration of leases of Hotels in Europe was 13.4 years, *versus* 10.7 years at 31 December 2017.

3.2.7.4. Related-party transactions

The information mentioned below concerns the main related-parties, namely equity affiliates.

Details of related-party transactions *(€K)*

Partner	Type of partner	Operating income	Net financial income	Balance sheet	Comments
Cœur d'Orly	Equity affiliates	407	158	13,714	Monitoring of projects and investments, Loans, Asset and property fees
Euromed	Equity affiliates	673	0	34,596	Loans, Asset and property fees
Lenovilla	Equity affiliates	349	0	24,762	Loans, Asset and property fees
SCI Factor E and SCI Orianz	Equity affiliates	13	196	15,836	Loans

3.2.7.5. Executive Compensation

(€K)	31/12/2018	31/12/2017
Management		
Short-term benefits (fixed/variable)	2,611	2,311
Post-retirement benefits		
Long-term benefits		
Benefits in kind	99	84
Compensation for termination of contract		
TOTAL	**2,710**	**2,395**
Directors		
ATTENDANCE FEES	**596**	**579**

The variable portion does not include the free shares awarded. Moreover, 40,523 free shares were awarded to the senior executives of all Group subsidiaries in 2018 (including 30,000 shares awarded subject to performance conditions) and will vest in 2021.

In case of involuntary departure, an indemnity will be awarded to the following senior executives:

- Christophe Kullmann (Chief Executive Officer)
- Olivier Estève and Dominique Ozanne (Deputy General Managers).

This indemnity will be equal to 24 months' salary (fixed and variable) subject to two performance criteria (change in the NAV and achievement of the annual bonus target performances).

3.2.7.6. Statutory Auditors' fees

	Mazars				Ernst & Young et Autres				Others			
	Amount		%		Amount		%		Amount		%	
(€K)	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Statutory Auditors, certification, audit of company and consolidated financial statements	1,223	1,291	43%	42%	1,512	1,674	53%	55%	93	89	3%	3%
Issuer	312	349	50%	50%	312	349	50%	50%				
Fully consolidated affiliates	905	887	45%	59%	1,045	621	52%	41%	69	37	3%	
Equity affiliates	7	55	4%	7%	155	704	83%	87%	24	52	13%	6%
Other verifications and procedures directly linked to the Statutory Auditors' mission(1)	**111**	**54**	**12%**	**12%**	**852**	**414**	**88%**	**88%**	**0**	**0**		
Issuer	5	21	7%	21%	65	78	93%	79%				
Fully consolidated affiliates	106	13	12%	5%	786	250	88%	95%				
Equity affiliates	0	20	N/A		0	86	N/A	81%				
TOTAL	**1,334**	**1,345**	**35%**	**38%**	**2,363**	**2,088**	**62%**	**59%**	**93**	**89**	**2%**	**3%**

(1) Services other than auditing realised in 2018 relate to the CSR for €133 thousand, and other operations for €830 thousand.

3.2.8. Segment reporting

3.2.8.1. Accounting principles as regards operating segments – IFRS 8

The Covivio group holds a wide range of real estate assets to collect rental income and benefit from appreciation in the assets held. Segment reporting is organised by asset type.

The operating segments are as follows:

- France Offices: office real estate assets located in France
- Italy Offices: real estate office and retail assets located in Italy
- Hotels in Europe: commercial buildings in the hotel segment, retail and hotel operating properties held by Covivio Hotels
- Germany Residential: real estate assets in Germany held by Covivio group through its subsidiary Covivio Immobilien SE.

These segments are reported on and analysed regularly by Group management in order to make decisions on what resources to allocate to the segment and to evaluate their performance.

The France Residential business line is no longer an operating segment since 1 January 2018. It is now classed in Other with car parks and services

The companies in the Operating Properties business line have been fully consolidated since January 2018, following the merger of FDM Management into Covivio Hotels.

3.2.8.2. Intangible fixed assets

2017 *(€K)*	France Offices	Italy Offices	Hotels in Europe	Germany Residential	Other (including France Residential)	Total
Concessions and other fixed assets	1,609	2,083	0	359	22,113	26,164
NET	**1,609**	**2,083**	**0**	**359**	**22,113**	**26,164**

2018 *(€K)*	**France Offices**	**Italy Offices**	**Hotels in Europe**	**Germany Residential**	**Other (including France Residential)**	**Total**
Concessions and other fixed assets	2,034	2,940	146,444	1,952	18,832	172,203
NET	**2,034**	**2,940**	**146,444**	**1,952**	**18,832**	**172,203**

The column "Other" includes the intangible fixed assets of the remaining car park companies.

3.2.8.3. Tangible fixed assets

2017 *(€K)*	France Offices	Italy Offices	Hotels in Europe	Germany Residential	Other (including France Residential)	Total
Operating properties	152,572	18,086	1	5,603	0	176,262
Other fixed assets	1,693	1,508	423	4,590	185	8,399
Fixed assets in progress	10,155	0	3,478	5,487	0	19,120
NET	**164,420**	**19,594**	**3,902**	**15,680**	**185**	**203,781**

2018 *(€K)*	**France Offices**	**Italy Offices**	**Hotels in Europe**	**Germany Residential**	**Other (including France Residential)**	**Total**
Operating properties	146,468	17,452	1,011,948	5,412	0	1,181,280
Other fixed assets	3,166	1,320	23,914	6,888	155	35,443
Fixed assets in progress	8,456	5,625	4,710	6,161	0	24,952
NET	**158,090**	**24,397**	**1,040,572**	**18,461**	**155**	**1,241,675**

The increase (+€1,036 million) in Hotels in Europe includes hotel operating properties (+€1,040.1 million).

The change in fixed assets in progress (+€5.6 million) in Italy Offices mainly relates to the instalment paid on the future acquisition of buildings.

3.2.8.4. Investment properties/Assets held for sale

2017 (€K)	France Offices	Italy Offices	Hotels in Europe	Germany Residential	Other (including France Residential)	Total
Investment properties	5,319,980	3,738,469	3,634,633	4,799,893	239,793	17,732,768
Operating assets held for sale	112,343	22,453	207,396	138,211	39,488	519,891
Investment properties under development	166,046	428,900	89,934	0	0	684,880
TOTAL	**5,598,369**	**4,189,822**	**3,931,963**	**4,938,104**	**279,281**	**18,937,539**

2018 (€K)	**France Offices**	**Italy Offices**	**Hotels in Europe**	**Germany Residential**	**Other (including France Residential)**	**Total**
Investment properties	5,411,745	3,602,273	4,532,777	5,722,956	0	19,269,751
Operating assets held for sale	35,392	43	288,072	29,664	205,677	558,848
Investment properties under development	373,752	380,502	115,333	0	0	869,587
TOTAL	**5,820,889**	**3,982,818**	**4,936,182**	**5,752,620**	**205,677**	**20,698,186**

In France Offices, the change in total assets (€5,412 million in 2018 as compared to €5,320 million in 2017) is due to the acquisition of the future Parisian head office on Rue Jean Goujon (+€133.9 million), the work done during the period (+€48.3 million), the change in fair value (+€68 million), deliveries of assets under development (+€43.2 million), the transfer of the Nice Méridien asset into an operating property (-€37.1 million), the three new development projects (-€86.6 million), and the reclassification of assets into assets held for sale (-€80.3 million).

In Italy Offices, the decrease (-€136.2 million) is due to the acquisition of three buildings in Milan (+€105.8 million), the delivery of three buildings under development (+€154 million) and the launch of a new development project (-€42.7 million), the change in fair value (-€25.3 million), the work done (+€53.7 million) and the reclassification of assets into assets held for sale (-€382.7 million).

In Germany Residential, the total for investment properties rose significantly (+€923.1 million), mainly due to acquisitions of asset-holding companies (+€335.7 million), acquisitions of assets (+€169.5 million), changes in asset values (+€454.2 million), the reclassification of assets into assets held for sale (-€135.7 million) and construction work (+€95.3 million).

In Hotels in Europe, the increase (+€898.1 million) is mainly due to investments in the United Kingdom (+€864.1 million) and in Amsterdam Nord (+€64.4 million), acquisitions of two NH hotels (+€33.4 million), rights of use of buildings (+€165.5 million), the effect of the reclassification into assets held for sale (-€445.3 million), the delivery of three development projects (+€75.5 million), the change in the fair value of assets (+€79.8 million), and work done (+€15.8 million).

3.2.8.5. Financial assets

2017 (€K)	France Offices	Italy Offices	Hotels in Europe	Germany Residential	Other (including France Residential)	Total
Loans	88,051	0	73,086	734	248	162,119
Other financial assets	650	7,078	41,359	124,685	11,924	185,696
Receivables on financial assets	0	6,773	0	476	0	7,249
Sub total financial assets	**88,701**	**13,851**	**114,445**	**125,895**	**12,172**	**355,064**
Investments in equity affiliates	118,637	17,762	232,502	0	0	368,901
NET	**207,338**	**31,613**	**346,947**	**125,895**	**12,172**	**723,965**

2018 (€K)	**France Offices**	**Italy Offices**	**Hotels in Europe**	**Germany Residential**	**Other (including France Residential)**	**Total**
Loans	89,197	95	11,487	8	239	101,026
Other financial assets	651	5,915	27,735	10,300	4	44,605
Receivables on financial assets	0	6,727	0	488	0	7,215
Sub total financial assets	**89,848**	**12,737**	**39,222**	**10,796**	**243**	**152,846**
Investments in equity affiliates	148,658	17,191	83,896	0	0	249,746
NET	**238,506**	**29,928**	**123,119**	**10,796**	**243**	**402,592**

The increase in financial assets in France Offices is due to the increase to 50% in the ownership rate of the Cœur d'Orly companies (+€5.8 million), the capital increase intended to finance the Belaïa project (+€15 million) and the income from the equity affiliates (+€14.1 million).

The decrease in the financial assets of Hotels in Europe was largely due to the redemption of the "Financière Hope" bonds subscribed by Covivio Hotels (-€59.1 million) and by the decline in the securities of the equity affiliates (-€153.4 million) following the full consolidation of SCI Porte Dorée and the merger of FDM Management into Covivio Hotels.

The decrease in the financial assets of the Germany Residential segment is due to the use of pre-payments (-€114.1 million) for acquisitions of companies holding assets.

3.2.8.6. Inventories and work-in-progress

2017 *(€K)*	France Offices	Italy Offices	Hotels in Europe	Germany Residential	Other (including France Residential)	Total
Inventories and work-in-progress	12,284	22,560	0	6,627	1,766	43,237
TOTAL	**12,284**	**22,560**	**0**	**6,627**	**1,766**	**43,237**

2018 *(€K)*	**France Offices**	**Italy Offices**	**Hotels in Europe**	**Germany Residential**	**Other (including France Residential)**	**Total**
Inventories and work-in-progress	16,091	19,853	2,236	57,036	595	95,811
TOTAL	**16,091**	**19,853**	**2,236**	**57,036**	**595**	**95,811**

The increased inventory in Germany Residential is mainly due to investments in real estate companies (+€40.5 million) and acquisitions of real estate companies' inventories (+€12.4 million).

The change (+€4.6 million) in France Offices is due to the work carried out on housing promotion assets (+€3.3 million).

In Italy Offices, the decrease in inventories was mainly due to the sale of the San Gallo asset in Firenze (-€4.5 million).

The increase in inventories of Hotels Europe is related to the full consolidation of companies in the Operating Properties business and corresponds entirely to inventories of goods used in the hotels' operations.

3.2.8.7. Contribution to shareholders' equity

2017 *(€K)*	France Offices	Italy Offices	Hotels in Europe	Germany Residential	Other (including France Residential)	Total
Shareholders' equity Group Share before elimination of securities	5,966,557	976,690	1,094,352	1,500,677	1,334,090	10,872,366
Elimination of securities	0	-1,245,504	-918,276	-1,025,966	-1,319,313	-4,509,059
Shareholders' equity Group Share	**5,966,557**	**-268,814**	**176,076**	**474,711**	**14,777**	**6,363,307**
Minority interests	342,609	1,221,753	1,317,964	919,972	2,054	3,804,352
SHAREHOLDERS' EQUITY	**6,309,166**	**952,939**	**1,494,040**	**1,394,683**	**16,831**	**10,167,659**

2018 *(€K)*	**France Offices**	**Italy Offices**	**Hotels in Europe**	**Germany Residential**	**Other (including France Residential)**	**Total**
Shareholders' equity Group Share before elimination of securities	6,883,242	-269,593	1,289,993	1,769,429	1,361,082	11,034,153
Elimination of securities	0	0	-1,070,401	-1,025,966	-1,376,340	-3,472,707
Shareholders' equity Group Share	**6,883,242**	**-269,593**	**219,592**	**743,463**	**-15,258**	**7,561,446**
Minority interests	353,947	385,261	2,022,120	1,033,493	2,148	3,796,969
SHAREHOLDERS' EQUITY	**7,237,189**	**115,668**	**2,241,712**	**1,776,956**	**-13,110**	**11,358,415**

For the year 2018, the change in the Group Share of the shareholders' equity was due to:

- distribution of dividends
- capital increases
- the acquisition of Beni Stabili shares on the market and its merger at 31 December 2018
- the restructuring of the Operating Properties business line *via* a merger transaction.

3.2.8.8. Financial liabilities

2017 (€K)	France Offices	Italy Offices	Hotels in Europe	Germany Residential	Other (including France Residential)	Total
Total long-term interest-bearing loans	1,057,502	1,965,242	1,673,578	2,072,778	1,827,216	8,596,316
Total short-term interest-bearing loans	9,991	390,350	36,955	58,359	1,028,588	1,524,243
TOTAL LT AND ST LOANS	**1,067,493**	**2,355,592**	**1,710,533**	**2,131,137**	**2,855,804**	**10,120,559**

2018 (€K)	**France Offices**	**Italy Offices**	**Hotels in Europe**	**Germany Residential**	**Other (including France Residential)**	**Total**
Total long-term interest-bearing loans	1,109,149	1,902,802	2,568,075	2,147,925	1,488,673	9,216,624
Total short-term interest-bearing loans	8,645	26,702	256,590	117,793	1,433,374	1,843,104
TOTAL LT AND ST LOANS	**1,117,794**	**1,929,504**	**2,824,665**	**2,265,718**	**2,922,047**	**11,059,728**

3.2.8.9. Derivatives

2017 (€K)	France Offices	Italy Offices	Hotels in Europe	Germany Residential	Other (including France Residential)	Total
Financial instruments – Assets	430	8,306	5,748	6,663	27,031	48,178
Financial instruments – Liabilities	14,640	10,639	38,778	22,203	236,596	322,856
NET FINANCIAL INSTRUMENTS	**14,210**	**2,333**	**33,030**	**15,540**	**209,565**	**274,678**

2018 (€K)	**France Offices**	**Italy Offices**	**Hotels in Europe**	**Germany Residential**	**Other (including France Residential)**	**Total**
Financial instruments – Assets	192	3,871	14,432	9,475	18,982	46,952
Financial instruments – Liabilities	17,062	6,064	45,180	24,751	141,939	234,997
NET FINANCIAL INSTRUMENTS	**16,870**	**2,193**	**30,749**	**15,276**	**122,957**	**188,045**

3.2.8.10. Statement of net income by operating segments

In accordance with IFRS 12, paragraph B11, inter-segment transactions, in particular management fees, are indicated separately in this presentation.

2017 *(€K)*	France Offices	Italy Offices	Hotels in Europe	Germany Residential	Other (including France Residential)	Intercos Inter sector	31/12/2017
Rental income	273,095	204,837	208,847	230,154	11,441	-964	927,410
Unrecovered rental costs	-10,957	-23,875	-2,036	-3,666	-2,750	59	-43,225
Expenses on properties	-9,981	-7,372	-3,267	-18,802	-1,247	10,160	-30,509
Net losses on unrecoverable receivables	-887	-788	-9	-1,845	-129	0	-3,658
Net rental income	**251,270**	**172,802**	**203,535**	**205,841**	**7,315**	**9,255**	**850,018**
EBITDA from hotel operating activity & coworking	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Income from other activities	**2,522**	**-963**	**0**	**785**	**3,867**	**-2**	**6,209**
Management and administration income	16,044	4,882	6,469	5,684	10,829	-22,922	20,986
Business expenses	-2,144	-1,451	-5,417	-1,261	-562	3,525	-7,310
Overhead	-29,493	-25,480	-11,938	-39,949	-14,222	10,153	-110,929
Development expenses	-3,013	0	-11	-1,078	0	0	-4,102
Net cost of operations	**-18,606**	**-22,049**	**-10,897**	**-36,604**	**-3,955**	**-9,244**	**-101,355**
Depreciation of operating assets	-3,504	-2,633	-19	-1,564	-2,185	0	-9,905
Net change in provisions and other	1,263	-7,496	-1,299	-172	1,737	-9	-5,976
CURRENT OPERATING INCOME	**232,945**	**139,661**	**191,320**	**168,286**	**6,779**	**0**	**738,991**
Net income from inventory properties	**-51**	**-5,819**	**0**	**1,390**	**67**	**0**	**-4,413**
Income from asset disposals	**5,318**	**-2,079**	**4,572**	**30,054**	**5,836**	**0**	**43,701**
Income from value adjustments	**250,578**	**63,188**	**100,161**	**502,222**	**-294**	**0**	**915,855**
Income from disposal of securities	**0**	**-3,742**	**0**	**0**	**-397**	**0**	**-4,139**
Income from changes in scope	**0**	**0**	**247**	**-3,135**	**-438**	**0**	**-3,326**
OPERATING INCOME	**488,790**	**191,209**	**296,300**	**698,817**	**11,553**	**0**	**1,686,669**
Income from non-consolidated companies	-1	0	0	1	0	0	0
Cost of net financial debt	-45,387	-50,729	-35,140	-64,162	-41,497	0	-236,915
The interest cost for rental liabilities	0	0	0	0	0	0	0
Value adjustment on derivatives	6,433	-30,922	13,764	15,940	-5,093	0	122
Expenses from free shares and discounting	-6,476	0	626	-849	-109	0	-6,808
Amortisation of loan issue costs	-6,058	-7,884	-5,142	-3,292	-897	0	-23,273
Share in income of equity affiliates	26,422	-693	17,509	0	0	0	43,238
PRE-TAX NET INCOME	**463,723**	**100,981**	**287,917**	**646,455**	**-36,043**	**0**	**1,463,033**
Deferred tax liabilities	0	3,230	-1,813	-99,844	-11	0	-98,438
Corporate income tax	-1,204	-2,747	-2,244	-6,612	793	0	-12,014
NET INCOME FOR THE PERIOD	**462,519**	**101,464**	**283,860**	**539,999**	**-35,261**	**0**	**1,352,581**
Non-controlling interests	-16,248	-56,616	-157,806	-203,539	-4,261	0	-438,469
NET INCOME FOR THE PERIOD – GROUP SHARE	**446,271**	**44,848**	**126,054**	**336,460**	**-39,522**	**0**	**914,112**

2018 (€K)	France Offices	Italy Offices	Hotels in Europe	Germany Residential	Other (including France Residential)	Intercos Inter sector	31/12/2018
Rental income	273,539	205,760	229,921	241,162	7,935	-2,426	955,891
Unrecovered rental costs	-8,459	-17,381	-2,434	-1,844	-1,840	13	-31,945
Expenses on properties	-7,833	-14,820	-3,650	-18,110	-1,211	8,709	-36,915
Net losses on unrecoverable receivables	-23	-1,314	-42	-1,816	-5	0	-3,200
Net rental income	**257,224**	**172,245**	**223,795**	**219,392**	**4,879**	**6,296**	**883,831**
EBITDA from hotel operating activity & coworking	**-893**	**0**	**76,724**	**0**	**0**	**0**	**75,831**
Income from other activities	**-33**	**-1**	**13**	**660**	**4,166**	**-13**	**4,792**
Management and administration income	14,849	4,759	8,310	5,959	9,617	-23,452	20,042
Business expenses	-2,218	-884	-7,054	-1,300	-224	5,540	-6,140
Overhead	-29,127	-24,744	-21,047	-41,717	-14,595	11,639	-119,591
Development expenses	13	0	-92	-415	-92	1	-585
Net cost of operations	**-16,483**	**-20,869**	**-19,883**	**-37,473**	**-5,294**	**-6,272**	**-106,274**
Depreciation of operating assets	-9,351	-1,038	-44,336	-1,691	-3,704	0	-60,120
Net change in provisions and other	-802	1,025	4,383	85	1,597	-11	6,277
CURRENT OPERATING INCOME	**229,662**	**151,362**	**240,696**	**180,973**	**1,644**	**0**	**804,337**
Net income from inventory properties	**73**	**-1,758**	**0**	**596**	**2**	**0**	**-1,087**
Income from asset disposals	**60,062**	**19,131**	**1,406**	**15,517**	**1,307**	**0**	**97,423**
Income from value adjustments	**110,643**	**-43,666**	**100,425**	**459,215**	**-5,924**	**0**	**620,693**
Income from disposal of securities	**0**	**-580**	**119,705**	**190**	**0**	**0**	**119,315**
Income from changes in scope	**-1,954**	**-4,960**	**-149,187**	**-3,010**	**-895**	**0**	**-160,006**
OPERATING INCOME	**398,486**	**119,529**	**313,044**	**653,481**	**-3,866**	**0**	**1,480,674**
Income from non-consolidated companies	0	0	0	0	0	0	0
Cost of net financial debt	-38,589	-39,439	-50,093	-37,429	-22,419	0	-187,970
The interest cost for rental liabilities	0	0	-4,594	0	0	0	-4,594
Value adjustment on derivatives	-2,661	4,024	-12,780	-9,017	4,281	0	-16,152
Expenses from free shares and discounting	-8,864	0	-502	0	-92	0	-9,458
Amortisation of loan issue costs	-6,679	-7,418	-9,909	-1,582	-147	0	-25,735
Share in income of equity affiliates	14,171	-12	8,669	0	0	0	22,828
PRE-TAX NET INCOME	**355,864**	**76,684**	**243,835**	**605,453**	**-22,243**	**0**	**1,259,594**
Deferred tax liabilities	0	11,316	-7,231	-94,145	9	0	-90,051
Corporate income tax	-1,734	-2,203	-9,424	-12,356	-364	0	-26,081
NET INCOME FOR THE PERIOD	**354,130**	**85,797**	**227,180**	**498,952**	**-22,598**	**0**	**1,143,462**
Non-controlling interests	-10,833	-54,542	-144,962	-183,442	-110	0	-393,888
NET INCOME FOR THE PERIOD – GROUP SHARE	**343,297**	**31,255**	**82,218**	**315,510**	**-22,707**	**0**	**749,574**

3.2.9. Subsequent events

Hotels in Europe

On 15 January 2019, Covivio Hotels, through its subsidiary Berlin II, made an early loan repayment of €208 million.

3.3. STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Financial year ended 31 December 2018

To the shareholders of Covivio,

Opinion

In compliance with the engagement conferred on us by your general meetings, we have performed an audit of the accompanying consolidated financial statements of Covivio for the financial year ended 31 December 2018.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the entities included in the Group's scope of consolidation as at 31 December 2018, and of the results of their operations for the year then ended, in accordance with the IFRS accounting framework as adopted in the European Union.

The audit opinion thus formulated is consistent with the content of our report to the company's audit committee.

Basis for the audit opinion

Audit framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our responsibilities by virtue of those professional standards are set out in the latter part of the present report under the heading "Responsibilities of the statutory auditors for the audit of the consolidated financial statements".

Independence

We performed our audit engagement in compliance with the independence requirements applicable to us during the period from 1st January 2018 to the date of issue of our report; in particular, we performed no services prohibited under article 5, paragraph 1 of EU regulation n° 537/2014 or by virtue of France's *Code de déontologie de la profession de commissaire aux comptes*.

Observation

Without qualifying our opinion, we draw your attention to Note 3.2.1.1 "Accounting standards" to the consolidated financial statements detailing the changes in accounting policies resulting from application of the new standards IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments".

Justification of our assessments – Key audit matters

In accordance with the requirements of articles L. 823-9 and R. 823-7 of the French code of commercial law relating to the justification of our assessments, we bring to your attention the following key audit matters relating to the risks of material misstatement which, in our professional view, have presented the greatest significance for the audit of the accompanying consolidated financial statements, as well as the manner in which we have responded to those risks.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report. We do not express any opinion on isolated elements of the consolidated financial statements.

Valuation of investment property

Risk identified	Our response
Given the activity engaged in by Covivio, the fair value of the Group's investment property amounted at 31 December 2018 to 83% of consolidated assets or €20.1 billion. In accordance with the option provided by IAS 40, the Group's investment property is recognised on the basis of its fair value with changes in fair value recognised in profit or loss. Investment property is not amortised. Note 3.2.5.1.1. to the consolidated financial statements states that the Group's investment property is subject to valuation by independent professional property valuers. Property valuation is a complex matter requiring the exercise of significant judgement by the Group's professional property valuers based on the data communicated by the Group's management. Given the weight of the Group's investment property and the sensitivity of their valuation to the applicable assumptions requiring the exercise of judgement, we considered their valuation as a key audit matter.	We obtained an understanding of the Group's process of valuation of its investment property. Our procedures also involved: • assessing the competence and independence of the Group's professional property valuers on the basis of the requirements for rotation and bases of remuneration defined by the Group; • obtaining an understanding of entities' written instructions to their professional property valuers describing the nature of the services required and the scope and limitations of the applicable procedures with particular regard to the verification of the information provided by the entities; • assessing, on a test basis, the relevancy of the information provided by the entities' finance departments to the professional property valuers for the purpose of determining the fair value of their investment property, including rent schedules, other accounting data and capital expenditure budgets; • analysing the professional property valuers' valuation assumptions such as, in particular, the applicable yield rates, discount factors, estimated rents and market rental values, by comparison with the available market data; • interviewing certain professional property valuers in the presence of the entities' finance departments and assessing, by the inclusion of valuation specialists within our audit teams, the consistency and relevancy of the valuation approach applied and of the main associated instances of the exercise of professional judgement; • reconciling the resulting property valuations with the amounts included in the consolidated financial statements.

Specific verifications

We have also performed in accordance with professional standards applicable in France, the specific verifications required by French laws and regulations, on the information included in the Board of Directors' management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

We attest that the non-financial statement provided for by article L. 225-102-1 of the French Commercial Code (Code de commerce) is included in the management report, it being specified that, in accordance with the provisions of article L. 823-10 of said Code, we have verified neither the fairness nor the compliance with the annual accounts of the information contained in this statement that will be covered by the report issued by an independent third party.

Information reflecting other legal and regulatory requirements

Statutory audit appointments

We were appointed as statutory auditors of Covivio by your company's general meeting held on 22 May 2000 in the case of MAZARS and 24 april 2013 in the case of ERNST & YOUNG et Autres.

At 31 december 2018, MAZARS was in its nineteenth year of engagement without interruption and ERNST & YOUNG et Autres in its sixth year.

Groupe PIA that became Conseil Audit & Synthèse (acquired by ERNST & YOUNG Audit in 2010) was the statutory auditor from 2007 to 2012.

Responsibilities of the Group's management, and of the persons involved in the Group's corporate governance, in respect of the consolidated financial statements

The Group's management is responsible for the preparation of consolidated financial statements presenting a true and fair view in accordance with the IFRS accounting framework as adopted in the European Union and for the implementation of the system of internal control it deems necessary for the preparation of consolidated financial statements free from material misstatement whether resulting from fraud or error.

When preparing the consolidated financial statements, it is incumbent on the Group's management to assess the company's capacity to continue to operate as a going concern, make any necessary disclosure in that respect and present the consolidated financial statements on a going concern basis unless there is an intention to liquidate the company or cease its business.

It is incumbent on the Group's audit committee to oversee the Group's financial reporting process and assess the effectiveness of its systems of internal control and risk management, and of any internal audit function, with regard to the preparation and processing of financial and accounting information.

The consolidated financial statements have been authorised for issuance by the company's Board of Directors.

Responsibilities of the statutory auditors for the audit of the consolidated financial statements

Audit purpose and audit approach

We are required to prepare a report on the consolidated financial statements. Our purpose is to obtain reasonable assurance about whether the consolidated financial statements, taken as a whole, are free from material misstatement. Reasonable assurance implies a significant level of assurance which nevertheless does not provide any guarantee that an audit performed in accordance with professional auditing standards will systematically enable the detection of any material misstatement. Misstatements may result from fraud or error and are considered to be material whenever it may reasonably be expected that, taken individually or in aggregate, they may influence the economic decisions taken by users of the financial statements on the basis of those financial statements.

As mentioned by article L823-10-1 of the French code of commercial law, our statutory audit engagement does not guarantee your company's viability or the quality of its management.

In the framework of an audit performed in accordance with professional standards applicable in France, the statutory auditor exercises professional judgement throughout the audit and:

- identifies the risks of material misstatement in the consolidated financial statements, whether resulting from fraud or from error, defines and deploys audit procedures with regard to those risks and gathers the audit evidence deemed sufficient and appropriate to support the audit opinion. The risk of non-detection of a material misstatement attributable to a fraud is greater than that for a material misstatement attributable to error, since fraud may imply the existence of collusion, falsification, voluntary omission, false statements or bypassing of internal controls;
- obtains an understanding of the internal controls relevant to the audit for the purpose of defining appropriate audit procedures but not with the intention of expressing an audit opinion on the effectiveness of the Group's system of internal control;
- assesses the appropriateness of the Group's accounting policies, the reasonableness of management's estimates and the adequacy of the related additional disclosures provided in the consolidated financial statements;
- assesses the appropriateness of management's application of the going concern convention as well as, based on the audit evidence collected, the existence of any material uncertainty with regard to events or circumstances liable to compromise the company's ability to continue to operate as a going concern. The assessment is based on the audit evidence collected up to the date of the audit report and it must be noted in that respect that subsequent circumstances or events may also compromise the company's ability to continue as a going concern. If the auditor concludes as to the existence of any material uncertainty, the attention of readers of the audit report is drawn to the information provided in that respect in the consolidated financial statements or, if such information is not provided or is not relevant, the auditor formulates a qualified audit opinion or a disclaimer of opinion;
- assesses the overall presentation of the consolidated financial statements and judges whether the consolidated financial statements reflect the Group's transactions and underlying events in such a way as to provide a true and fair view;
- with regard to the financial information provided by the entities included in the Group's scope of consolidation, gathers the audit evidence deemed sufficient and appropriate for the expression of an audit opinion on the consolidated financial statements. The statutory auditor has overall responsibility for the direction, supervision and performance of the audit of the consolidated financial statements and for the audit opinion thereon.

Report to the audit committee

We remit to the audit committee a report which presents the scope of the audit procedures, the work programme implemented and the associated conclusions. We also inform the audit committee of any internal control weaknesses identified in respect of the procedures governing the preparation and processing of the Group's financial and accounting information.

The elements communicated in the report to the audit committee equally include the risks of material misstatement which, in our professional view, have presented the greatest significance for the audit of the accompanying consolidated financial statements and which as such constitute the key audit points we are required to describe in the present report.

We also provide the audit committee with the statement required by article 6 of EU regulation n° 537-2014 and confirming our independence in accordance with the requirements applicable in France as defined in particular by articles L. 822-10 to L. 822-14 of the French code of commercial law and by our profession's *Code de déontologie de la profession de commissaire aux comptes*. If appropriate, we discuss with the audit committee any risks threatening our independence and the corresponding safeguards applied.

Courbevoie and Paris-La Défense, 28 February 2019

The statutory auditors

MAZARS	ERNST & YOUNG et Autres
Gilles Magnan	Jean-Roch Varon