ALTAREA

CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

CONTENTS

1 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In € millions	Note	31/12/2016	31/12/2015
NON-CURRENT ASSETS		**5,034.9**	**4,498.0**
Intangible assets	7.2	257.9	202.1
o/w Goodwill		*155.3*	*128.7*
o/w Brands		*89.9*	*66.6*
o/w Client relations		*5.5*	*–*
o/w Other intangible assets		*7.2*	*6.7*
Property, plant and equipment		14.2	6.2
Investment properties	7.1	4,256.0	3,759.6
o/w Investment properties in operation at fair value		*3,797.0*	*3,453.6*
o/w Investment properties under development and under construction at cost		*459.0*	*306.0*
Securities and receivables in equity affiliates and unconsolidated interests	4.5	412.0	361.0
Loans and receivables (non-current)		9.1	42.9
Deferred tax assets	5.3	85.7	126.2
CURRENT ASSETS		**2,046.6**	**1,634.9**
Net inventories and work in progress	7.3	978.1	711.5
Trade and other receivables	7.3	524.0	475.0
Income tax credit		9.4	6.0
Loans and receivables (current)		46.4	29.2
Derivative financial instruments	8	10.2	20.0
Cash and cash equivalents	6.2	478.4	266.0
Assets held for sale and from the discontinued operation		–	127.2
TOTAL ASSETS		**7,081.4**	**6,132.9**
EQUITY		**2,758.3**	**2,250.9**
Equity attributable to Altarea SCA shareholders		**1,620.9**	**1,230.3**
Capital	6.1	229.7	191.2
Other paid-in capital		588.3	396.6
Reserves		635.1	534.0
Income associated with Altarea SCA shareholders		167.8	108.4
Equity attributable to minority shareholders of subsidiaries		**1,137.4**	**1,020.6**
Reserves associated with minority shareholders of subsidiaries		840.5	749.8
Other equity components, subordinated perpetual notes		195.1	195.1
Income associated with minority shareholders of subsidiaries		101.8	75.8
NON-CURRENT LIABILITIES		**2,337.6**	**2,416.2**
Non-current borrowings and financial liabilities	6.2	2,280.7	2,366.4
o/w Participating loans and advances from associates		*82.3*	*63.6*
o/w Bond issues		*428.0*	*477.8*
o/w Borrowings from lending establishments		*1,770.3*	*1,825.0*
Long-term provisions	6.3	20.0	17.4
Deposits and security interests received		31.7	29.8
Deferred tax liability	5.3	5.3	2.5
CURRENT LIABILITIES		**1,985.5**	**1,465.8**
Current borrowings and financial liabilities	6.2	799.9	450.6
o/w Bond issues		*104.4*	*4.4*
o/w Borrowings from lending establishments		*240.0*	*335.1*
o/w Treasury notes		*358.6*	*60.5*
o/w Bank overdrafts		*2.5*	*4.9*
o/w Advances from Group shareholders and partners		*94.3*	*45.8*
Derivative financial instruments	8	75.3	37.3
Accounts payable and other operating liabilities	7.3	1,109.9	837.7
Tax due		0.4	9.5
Liabilities of the discontinued operation		–	130.7
TOTAL LIABILITIES		**7,081.4**	**6,132.9**

2 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In € millions	Note	31/12/2016	31/12/2015
Rental income		183.9	174.6
Property expenses		(4.8)	(5.0)
Unrecoverable rental expenses		(6.8)	(5.5)
Management costs		1.5	1.4
Net charge to provisions for risks and contingencies		(5.5)	(5.0)
NET RENTAL INCOME	**5.1**	**168.3**	**160.5**
Revenue		1,368.0	1,010.9
Cost of sales		(1,178.2)	(869.7)
Selling expenses		(61.9)	(44.9)
Net charge to provisions for current assets		(8.2)	(7.1)
Amortisation of customer relationships		(4.6)	–
NET PROPERTY INCOME	**5.1**	**115.0**	**89.2**
External services		29.9	32.7
Own work capitalised and production held in inventory		124.0	99.4
Personnel costs		(163.9)	(119.2)
Other overhead expenses		(62.2)	(49.2)
Depreciation expense on operating assets		(5.0)	(4.6)
NET OVERHEAD EXPENSES		**(77.2)**	**(40.9)**
Other income and expenses		(0.6)	(6.7)
Depreciation expenses		(0.8)	(0.6)
Transaction costs		(2.7)	(5.2)
OTHER		**(4.1)**	**(12.4)**
Proceeds from disposal of investment assets		2.9	3.7
Carrying amount of assets sold		(2.8)	(6.5)
Net charge to provisions for risks and contingencies		–	–
NET GAIN/(LOSS) ON DISPOSAL OF INVESTMENT ASSETS		**0.1**	**(2.8)**
Change in value of investment properties	7.1	177.2	113.5
Net impairment losses on investment properties measured at cost		–	5.2
Net impairment losses on other non-current assets		(0.0)	–
Net charge to provisions for risks and contingencies		(1.1)	0.2
Operating income before the share of net income of equity-method associates		**378.1**	**312.5**
Share in earnings of equity-method associates	4.5	37.6	13.4
Operating income after the share of net income of equity-method associates		**415.7**	**325.9**
Net borrowing costs	5.2	(43.5)	(37.4)
Financial expenses		(59.4)	(52.8)
Financial income		15.9	15.4
Change in value and income from disposal of financial instruments	5.2	(75.8)	(40.5)
Discounting of debt and receivables		(0.3)	(0.2)
Proceeds from the disposal of investments		(0.1)	13.4
Dividend per share		0.1	(0.0)
Profit (loss) before tax		**296.3**	**261.3**
Income tax	5.3	(28.9)	(4.8)
Net income from continuing operations		**267.4**	**256.5**
o/w Net income from continuing operations attributable to Altarea SCA shareholders		**165.5**	**180.7**
o/w Net income from continuing operations attributable to minority interests in subsidiaries		101.8	75.8
Net income from discontinued operations		**2.3**	**(72.3)**
o/w Net income from discontinued operations attributable to Altarea SCA shareholders		**2.3**	**(72.3)**
o/w Net income from discontinued operations attributable to minority interests in subsidiaries		–	–
Net income		**269.6**	**184.2**
o/w Net income attributable to Altarea SCA shareholders		**167.8**	**108.4**
o/w Net income attributable to minority interests in subsidiaries		101.8	75.8
Average number of non-diluted shares(1)		13,994,904	12,628,560
Non-diluted net income per share from continuing operations attributable to shareholders of Altarea SCA(€)		11.83	14.31
Non-diluted net income per share from discontinued operations attributable to shareholders of Altarea (€)		0.16	(5.72)
Net income per share attributable to shareholders of Altarea SCA (€)	**5.4**	**11.99**	**8.58**
Diluted average number of shares(1)		14,120,403	12,703,660
Diluted net income per share from continuing operations attributable to shareholders of Altarea SCA (€)		11.72	14.23
Diluted net income per share from discontinued operations attributable to shareholders of Altarea SCA (€)		0.16	(5.69)
Diluted net income per share attributable to shareholders of Altarea SCA (€)	**5.4**	**11.88**	**8.53**

(1) Pursuant to IAS 33, the weighted average number of shares (diluted and non-diluted) was adjusted retrospectively to take account of the capital increase with preferential subscription rights that took place during H1 2016.

Other items of comprehensive income

In € millions	31/12/2016	31/12/2015
NET INCOME FROM CONTINUING OPERATIONS	**267.4**	**256.5**
Actuarial differences on defined-benefit pension plans	(0.2)	0.6
o/w Taxes	*0.1*	*(0.3)*
Subtotal of comprehensive income items that may not be reclassified to profit or loss	(0.2)	0.6
OTHER ITEMS OF COMPREHENSIVE INCOME	**(0.2)**	**0.6**
COMPREHENSIVE INCOME FROM CONTINUING OPERATIONS	**267.2**	**257.1**
o/w Net comprehensive income from continuing operations attributable to Altarea SCA shareholders	165.4	181.3
o/w Net comprehensive income from continuing operations attributable to minority interests in subsidiaries	101.8	75.8
NET INCOME FROM DISCONTINUED OPERATIONS	**2.3**	**(72.3)**
Actuarial differences on defined-benefit pension plans	–	0.1
o/w Taxes	–	*(0.1)*
Subtotal of comprehensive income items that may not be reclassified to profit or loss	–	0.1
OTHER ITEMS OF COMPREHENSIVE INCOME	**–**	**0.1**
COMPREHENSIVE INCOME FROM DISCONTINUED OPERATIONS	**2.3**	**(72.2)**
o/w Net comprehensive income from discontinued operations attributable to Altarea SCA shareholders	2.3	(72.2)
o/w Net comprehensive income from discontinued operations attributable to minority interests in subsidiaries	–	(0.0)
NET INCOME	**269.6**	**184.2**
Actuarial differences on defined-benefit pension plans	(0.2)	0.7
o/w Taxes	*0.1*	*(0.3)*
Subtotal of comprehensive income items that may not be reclassified to profit or loss	(0.2)	0.7
OTHER ITEMS OF COMPREHENSIVE INCOME	**(0.2)**	**0.7**
COMPREHENSIVE INCOME	**269.4**	**184.9**
o/w Net comprehensive income attributable to Altarea SCA shareholders	167.6	109.1
o/w Net comprehensive income attributable to minority interests in subsidiaries	101.8	75.8

3 CONSOLIDATED STATEMENT OF CASH FLOWS

In € millions	Note	31/12/2016	31/12/2015
Cash flow from operating activities			
Net income from continuing operations		**267.4**	**256.5**
Elimination of income tax expense (income)	5.3	28.9	4.8
Elimination of net interest expense (income)		43.4	37.7
Net income before tax and before net interest expense (income)		**339.7**	**299.1**
Elimination of share in earnings of equity-method subsidiaries	4.5	(37.6)	(13.4)
Elimination of depreciation and impairment		11.0	5.2
Elimination of value adjustments	7.1/5.2	(102.6)	(79.5)
Elimination of proceeds from disposals(1)		0.2	(7.8)
Elimination of dividend income		(0.1)	0.0
Estimated income and expenses associated with share-based payments	6.1	16.4	1.9
Net cash flow from continuing operations		**226.9**	**205.4**
Tax paid		(15.2)	(10.6)
Impact of change in operational working capital requirement (WCR)	7.3	(69.5)	(108.7)
CASH FLOW FROM CONTINUING OPERATING ACTIVITIES		**142.1**	**86.1**
Cash flow from investment activities			
Net acquisitions of assets and capitalised expenditures	7.1	(246.1)	(237.7)
Gross investments in equity-method subsidiaries and non-consolidated investments	4.5	(29.4)	(100.2)
Acquisitions of consolidated companies, net of cash acquired	4.3	(81.3)	(66.8)
Other changes in Group structure		(0.0)	(0.0)
Increase in loans and advances		(21.3)	(8.7)
Sale of non-current assets and repayment of advances and down payments(1)		2.6	12.4
Disposals of holdings in equity-method subsidiaries and non-consolidated investments	4.5	57.5	14.9
Disposals of consolidated companies, net of cash transferred		(0.5)	52.2
Reduction in loans and other financial investments		5.7	3.6
Net change in investments and derivative financial instruments		(26.4)	(113.4)
Dividends received		23.3	8.7
Interest income		14.7	13.4
CASH FLOW FROM CONTINUING INVESTMENT ACTIVITIES		**(301.1)**	**(421.5)**
Cash flow from financing activities			
Capital increase(2)		237.9	–
Subordinated Perpetual Notes(3)		37.0	–
Minority interests share in capital increases in subsidiaries(2)		38.3	38.3
Dividends paid to Altarea SCA shareholders	6.1	(13.5)	(125.7)
Dividends paid to minority shareholders of subsidiaries		(22.3)	(15.6)
Issuance of debt and other financial liabilities	6.2	2,524.5	1,848.8
Repayment of borrowings and other financial liabilities	6.2	(2,362.5)	(1,408.0)
Net sales (purchases) of treasury shares	6.1	(14.8)	(5.7)
Net change in security deposits and guarantees received		1.6	1.4
Interest paid		(51.2)	(47.6)
CASH FLOW FROM CONTINUING FINANCING ACTIVITIES		**375.0**	**286.1**
Net cash flow for discontinued operation		(1.3)	(45.3)
Change in cash balance		**214.8**	**(94.7)**
Cash balance at the beginning of the year	**6.2**	**261.1**	**355.9**
Cash and cash equivalents		266.0	358.0
Bank overdrafts		(4.9)	(2.1)
Cash balance at period-end	**6.2**	**475.9**	**261.1**
Cash and cash equivalents		478.4	266.0
Bank overdrafts		(2.5)	(4.9)

(1) Proceeds on disposals included in the calculation of net cash flow are presented net of transaction costs. Likewise, disposals of property assets are presented net of transaction costs in the cash flow from investment activities.
(2) See change in equity.
(3) These are undated subordinated securities issued by Altarea SCA and underwritten by APG. The claim was settled during the year.

4 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In € millions	Capital	Additional paid-in capital	Elimination of treasury shares	Reserves and retained earnings	Equity attributable to Altarea SCA shareholders	Equity attributable to minority shareholders of subsidiaries	Total equity
At 1 January 2015	**191.2**	**518.7**	**(19.6)**	**559.8**	**1,250.1**	**919.8**	**2,169.9**
Net income	–	–	–	*108.4*	***108.4***	*75.8*	***184.2***
Actuarial difference relating to pension obligations	–	–	–	*0.7*	***0.7***	*0.0*	***0.7***
Comprehensive income	–	–	–	109.1	**109.1**	75.8	**184.9**
Dividend distribution	–	*(122.1)*	–	*(3.5)*	***(125.7)***	*(13.3)*	***(138.9)***
Capital increase	–	*(0.0)*	–	*0.0*	***0.0***	*38.3* (1)	***38.3***
Subordinated Perpetual Notes	–	–	–	–	–	–	–
Measurement of share-based payments	–	–	–	*1.4*	***1.4***	*0.0*	***1.4***
Elimination of treasury shares	–	–	*(3.0)*	*(1.7)*	***(4.7)***	–	***(4.7)***
Transactions with shareholders	–	(122.1)	(3.0)	(3.9)	**(129.0)**	25.1	**(104.0)**
Changes in ownership interests without taking or losing control of subsidiaries	–	–	–	0.0	**0.0**	(0.0)	**(0.0)**
Changes in ownership interests associated with taking or losing control of subsidiaries	–	0.0	–	–	**0.0**	–	**0.0**
Other	–	–	–	0.0	**0.0**	0.0	**0.0**
At 31 December 2015	**191.2**	**396.6**	**(22.6)**	**665.1**	**1,230.3**	**1,020.6**	**2,250.9**
Net income	–	–	–	*167.8*	***167.8***	*101.8*	***269.6***
Actuarial difference relating to pension obligations	–	–	–	*(0.2)*	***(0.2)***	*(0.0)*	***(0.2)***
Comprehensive income	–	–	–	167.6	**167.6**	101.8	**269.4**
Dividend distribution	–	*(134.8)*	–	*(5.7)*	***(140.5)***	*(23.1)*	***(163.6)***
Capital increase	*38.4*	*326.5*	–	*0.0*	***364.9***(2)	*38.3*(1)	***403.2***
Measurement of share-based payments	–	–	–	*10.8*	***10.8***	*0.0*	***10.8***
Elimination of treasury shares	–	–	*(7.3)*	*(4.9)*	***(12.2)***	–	***(12.2)***
Transactions with shareholders	38.4	191.7	(7.3)	0.1	**222.9**	15.2	**238.1**
Changes in ownership interests without taking or losing control of subsidiaries	–	–	–	0.0	**0.0**	(0.2)	**(0.2)**
Changes in ownership interests associated with taking or losing control of subsidiaries	–	–	–	–	–	–	–
Other	–	–	–	0.1	**0.1**	(0.0)	**0.0**
At 31 December 2016	**229.7**	**588.3**	**(29.9)**	**832.8**	**1,620.9**	**1,137.4**	**2,758.3**

(1): This relates to the share of minority interests in the capital increase of the subsidiary Altablue, net of issuance costs, in June 2015 and June 2016.

(2): three successive capital increases of Altarea SCA: in February an issue reserved for the selling shareholders in the Pitch group, issued in partial payment of their contribution for €31.7 million, in April resulting from the conversion of the dividend into shares for €127 million, and in May, a public offering with PSR for €206.3 million (net of expenses).

5 CONSOLIDATED INCOME STATEMENT BY SEGMENT

In € millions	31/12/2016 Funds from operations (FFO)	31/12/2016 Changes in value, estimated expenses and transaction costs	31/12/2016 Total	31/12/2015 Funds from operations (FFO)	31/12/2015 Changes in value, estimated expenses and transaction costs	31/12/2015 Total
Rental income	183.9	–	183.9	174.6	–	174.6
Other expenses	(15.6)	–	(15.6)	(14.1)	–	(14.1)
Net rental income	**168.3**	**–**	**168.3**	**160.5**	**–**	**160.5**
External services	21.9	–	21.9	21.3	–	21.3
Own work capitalised and production held in inventory	9.4	–	9.4	17.6	–	17.6
Operating expenses	(47.3)	(3.6)	(50.8)	(58.6)	(0.8)	(59.4)
Net overhead expenses	**(16.1)**	**(3.6)**	**(19.6)**	**(19.7)**	**(0.8)**	**(20.5)**
Share of equity-method affiliates	**15.4**	**(2.1)**	**13.3**	**14.7**	**(11.0)**	**3.7**
Net allowances for depreciation and impairment	**–**	**(2.6)**	**(2.6)**	**–**	**(2.4)**	**(2.4)**
Income/loss on sale of assets	**–**	**(0.3)**	**(0.3)**	**–**	**9.8**	**9.8**
Income/loss in the value of investment property	**–**	**177.2**	**177.2**	**–**	**118.7**	**118.7**
Transaction costs	**–**	**(1.6)**	**(1.6)**	**–**	**(3.0)**	**(3.0)**
NET RETAIL PROPERTIES INCOME (SHOPPING CENTRES)	**167.7**	**167.1**	**334.8**	**155.5**	**111.4**	**266.9**
Revenue	1,066.5	–	1,066.5	883.3	–	883.3
Cost of sales and other expenses	(981.1)	(2.4)	(983.5)	(812.2)	–	(812.2)
Net property income	**85.4**	**(2.4)**	**83.0**	**71.1**	**–**	**71.1**
External services	1.1	–	1.1	(0.2)	–	(0.2)
Production held in inventory	98.2	–	98.2	68.9	–	68.9
Operating expenses	(134.0)	(6.9)	(140.9)	(93.4)	(1.3)	(94.7)
Net overhead expenses	**(34.8)**	**(6.9)**	**(41.6)**	**(24.6)**	**(1.3)**	**(25.9)**
Share of equity-method affiliates	**18.9**	**(2.0)**	**16.9**	**5.9**	**0.3**	**6.2**
Net allowances for depreciation and impairment	**–**	**(3.0)**	**(3.0)**	**–**	**(2.6)**	**(2.6)**
Transaction costs	**–**	**(0.3)**	**(0.3)**	**–**	**(1.5)**	**(1.5)**
NET RESIDENTIAL PROPERTY INCOME (LOSS)	**69.5**	**(14.6)**	**55.0**	**52.3**	**(5.0)**	**47.4**
Revenue	295.9	–	295.9	121.1	–	121.1
Cost of sales and other expenses	(261.4)	(2.2)	(263.6)	(102.8)	–	(102.8)
Net property income	**34.6**	**(2.2)**	**32.4**	**18.2**	**–**	**18.2**
External services	6.4	–	6.4	7.4	–	7.4
Production held in inventory	16.4	–	16.4	12.8	–	12.8
Operating expenses	(26.1)	(2.3)	(28.3)	(16.4)	(0.5)	(16.9)
Net overhead expenses	**(3.2)**	**(2.3)**	**(5.5)**	**3.8**	**(0.5)**	**3.4**
Share of equity-method affiliates	**8.8**	**(1.3)**	**7.4**	**8.3**	**(0.1)**	**8.3**
Net allowances for depreciation and impairment	**–**	**(0.7)**	**(0.7)**	**–**	**(0.0)**	**(0.0)**
Transaction costs	**–**	**–**	**–**	**–**	**(0.5)**	**(0.5)**
NET OFFICE PROPERTY INCOME (LOSS)	**40.1**	**(6.5)**	**33.6**	**30.4**	**(1.1)**	**29.4**
Other (Corporate)	**(2.9)**	**(4.7)**	**(7.6)**	**(3.5)**	**(0.7)**	**(4.2)**
OPERATING INCOME	**274.5**	**141.2**	**415.7**	**234.7**	**104.7**	**339.4**
Net borrowing costs	**(37.2)**	**(6.3)**	**(43.5)**	**(31.9)**	**(5.4)**	**(37.4)**
Discounting of debt and receivables	**–**	**(0.3)**	**(0.3)**	**–**	**(0.2)**	**(0.2)**
Change in value and income from disposal of financial instruments	**–**	**(75.8)**	**(75.8)**	**–**	**(40.5)**	**(40.5)**
Proceeds from the disposal of investments	**–**	**(0.1)**	**(0.1)**	**–**	**(0.1)**	**(0.1)**
Dividend per share	**0.1**	**–**	**0.1**	**(0.0)**	**–**	**(0.0)**
PROFIT BEFORE TAX	**237.5**	**58.7**	**296.3**	**202.8**	**58.6**	**261.3**
Corporate income tax	**(1.4)**	**(27.5)**	**(28.9)**	**(0.9)**	**(3.9)**	**(4.8)**
NET INCOME FROM CONTINUING OPERATIONS	**236.1**	**31.3**	**267.4**	**201.8**	**54.7**	**256.5**
Minority shares in continued operations	**(44.1)**	**(57.8)**	**(101.8)**	**(40.7)**	**(35.2)**	**(75.8)**
NET INCOME FROM CONTINUING OPERATIONS, Group share	**192.0**	**(26.5)**	**165.5**	**161.2**	**19.5**	**180.7**
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS	**–**	**2.3**	**2.3**	**–**	**(72.3)**	**(72.3)**
Minority shares in discontinued operations	**–**	**–**	**–**	**–**	**–**	**–**
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS, Group share	**–**	**2.3**	**2.3**	**–**	**(72.3)**	**(72.3)**
NET INCOME (LOSS)	**236.1**	**33.5**	**269.6**	**201.8**	**(17.7)**	**184.2**
Non-controlling interests	**(44.1)**	**(57.8)**	**(101.8)**	**(40.7)**	**(35.1)**	**(75.8)**
NET INCOME, Group share	**192.0**	**(24.2)**	**167.8**	**161.2**	**(52.8)**	**108.4**
Diluted average number of shares(1)	*14,120,403*	*14,120,403*	*14,120,403*	*12,703,660*	*12,703,660*	*12,703,660*
NET EARNINGS PER SHARE FROM CONTINUING OPERATIONS, Group share	**13.60**	**(1.88)**	**11.72**	**12.69**	**1.54**	**14.23**
NET EARNINGS PER SHARE (€/SHARE), Group share	**13.60**	**(1.72)**	**11.88**	**12.69**	**(4.16)**	**8.53**

(1) Pursuant to IAS 33, the weighted average number of shares (diluted and non-diluted) was adjusted retrospectively to take account of the capital increase with preferential subscription rights that took place during H1 2016.

The notes constitute an integral part of the consolidated financial statements.

6 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 Information concerning the company

Altarea is a *société en commandite par actions* (a French partnership limited by shares), the shares of which are traded on the Euronext Paris regulated market, (Compartment A). Its registered office is located at 8 avenue Delcassé in Paris.

Altarea chose the SIIC corporate form (*société d'investissement immobilier cotée*, comparable to a REIT) as of 1 January 2005.

Altarea and its subsidiaries ("Altarea" or "the Company") are primarily in the property business for brick-and-mortar shopping centres. This activity includes the asset and property management functions performed on a proprietary basis and for third parties.

Altarea is also active as an overall property developer in the brick-and-mortar shopping centre sector, and a significant player in the Residential and Office Property promotion sectors. Altarea thus operates in all REIT asset classes (shopping centres, offices, hotels and housing).

Altarea enjoys a close relationship with local authorities.

Altarea controls the company Altareit, whose shares are admitted to trading on the regulated market Euronext Paris, Compartment B.

Altarea's financial statements and notes to the financial statements are expressed in millions of euros.

The consolidated financial statements for the year ended 31 December 2016 were approved by Management on 22 February 2017, after having been reviewed by the Audit Committee and the Supervisory Board.

NOTE 2 Accounting principles and methods

2.1 ACCOUNTING STANDARDS APPLIED BY THE COMPANY

The accounting principles adopted for preparation of the annual consolidated financial statements are in line with IFRS standards and interpretations from the IASB, as adopted by the European Union at 31 December 2016 and available at:

http://ec.europa.eu/internal_market/accounting/ias_fr.htm#adopted-commission.

The accounting principles adopted on 31 December 2016 are the same as those used for the consolidated financial statements at 31 December 2015, with the exception of changes to the standards and interpretations adopted by the European Union applicable at 1 January 2016, and without material impact on the Group's financial statements.

The information for the year ended 31 December 2015, presented in the Registration Document filed with the AMF on 24 March 2016 under number D16-0201, is incorporated by reference.

Standards, interpretations and amendments applicable as from the year commencing 1 January 2016:

- **Amendments to IAS 1, "Presentation of financial statements**"- Disclosure initiative, Information to be provided
- **Amendments to IFRS 11** - Accounting for acquisitions of interests in joint operations
- **Amendments to IAS 16 and IAS 38** - Clarification of acceptable methods of amortisation
- **Amendments to IAS 16 and IAS 41** - Agriculture - Bearer plants
- **Annual improvements to IFRS (2012-2014)** - (issued by the IASB on 25 September 2014)
- **Amendments to IAS 27** - Using the equity method in separate financial statements
- **Amendments to IFRS 10, IFRS 12 and IAS 28** - Investment Entities - Application of consolidation exception

Accounting standards and interpretations applied in advance on 31 December 2016 and mandatory for periods commencing on or after 1 January 2017

None.

Accounting standards and interpretations in effect at 1 January 2017 and mandatory after 31 December 2016

- **IFRS 15** – Revenue from contracts with customers

  Analysis is underway specifically with regard to development activities whose revenue is recognised based on the percentage of completion method described at § 2.3.18.b)

- **IFRS 9** – Financial instruments (phase 1: classification and assessment of financial assets and liabilities) and subsequent amendments;

Other essential standards and interpretations released by the IASB but not yet approved by the European Union:

- **IFRS 16** – Rental agreements

  The agreements were identified and are currently in review.

- **Amendments to IAS 7** – Disclosure initiative, information to be provided
- **Amendments to IAS 12** - Recognition of deferred tax assets for unrealised losses
- **Annual improvements to IFRS (2014-2016)**
- **Amendments to IAS 40** – Investment properties
- **Amendments to IFRS 2** – Classification and measurement of share-based payments.
- **IFRS 14** – **Regulatory deferral accounts**

- **Amendments to IFRS 4** – Implementation of IFRS 9 and IFRS 4
- **Amendments to IFRS 15** – Clarifications

2.2 USE OF ESTIMATES

Management reviews its estimates and assumptions on a regular basis using its past experience and various other factors deemed reasonable in the circumstances. These estimates represent the basis for its assessment of the carrying amount of income or the classification of expense items and assets and liabilities. They have an impact on the amount of income and expense items and on the carrying amount of assets and liabilities. It is conceivable that the actual amounts may subsequently differ from the estimates adopted.

The main items that require estimates at the closing date based on assumptions about the future, and for which there is significant risk of a material change in value from that recorded on the balance sheet, concern the following:

Measurement of intangible assets not subject to amortisation

Measurement of goodwill and brands related to Cogedim, acquired in 2007, and Pitch Promotion, acquired on 26 February 2016 (see Notes 2.3.8, "Re-measurement of non-current assets (other than financial assets and investment properties) and impairment losses", and 7.2, "Intangible assets and goodwill").

Measurements of other assets and liabilities

- measurement of investment properties (see Notes 2.3.6 "Investment properties" and 7.1 "Investment properties");
- measurement of inventories (see Note 2.3.9 "Inventories");
- measurement of deferred tax assets (see Notes 2.3.17 "Taxes" and 5.3 "Corporate income tax"); it should be noted that the Group applied the rate reduction scheduled by the Finance Law 2017 to its consolidated financial statements at 31 December 2016;
- measurement of share-based payments (see Note 6.1 "Equity");
- measurement of financial instruments (see Note 8 "Management of financial risks").

Operating income estimates

- measurement of net property income and services using the percentage-of-completion method (see Note 2.3.18 "Revenue and related expenses").

Non-current assets held for sale and discontinued operations

In accordance with the provisions of IFRS 5, the Group determines whether the criteria used to determine whether an asset or a group of assets should be classified as held for sale or if an operation is to be discontinued are met (see Note 2.3.7 "Non-current assets held for sale and discontinued operations" and 7.1 "Investment properties").

2.3 ACCOUNTING PRINCIPLES AND METHODS OF THE COMPANY

2.3.1 Equity investments of the Company and consolidation methods

For consolidation, the following standards apply:

- **IFRS 10** – Consolidated Financial Statements
- **IFRS 11** – Joint Arrangements
- **IFRS 12** – Disclosure of interests in other entities
- **IAS 28** – Investments in associates and joint ventures

IFRS 10 defines control as follows: "an investor controls an investee when it is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee". The Company has power over an investee when it has existing substantive rights that give it the current ability to direct the relevant activities, defined as activities that significantly affect the investee's returns.

To assess control as defined by IFRS 10, the Company has developed a framework for analysing the governance of entities with which the company has relations, particularly where there exist joint arrangements governed by broad contractual terms such as Articles of Association, shareholders' agreements, etc. It also takes into account the facts and circumstances.

On this basis, and within the limit of the protective rights granted to joint partners,

- Altablue and Aldeta, jointly held along with two other institutional partners, are considered to be controlled by the Group. These companies hold the Cap 3000 shopping centre located near Nice.
- Alta Crp Gennevilliers, Alta Crp La Valette, Alta Gramont, Toulouse Gramont, Bercy Village and Société d'aménagement de la Gare de l'Est, jointly held with another institutional partner, are considered to be controlled by the Group.

In accordance with IFRS 10, *ad hoc* entities are consolidated when, in substance, the relation between the Company and the entity is such that the Company is considered to exercise control over the latter.

Exclusively controlled entities

Exclusively controlled subsidiaries are fully consolidated. All intra-group balances and transactions as well as income and expense from internal transactions and dividends are eliminated.

Any modification in the Company's interest in a subsidiary not resulting in a loss of control is recognised in equity. If the Company loses the control over a subsidiary, the assets and liabilities and equity of this former subsidiary are derecognised. Any gain or loss resulting from this loss of control is recognised in profit or loss. Any interest retained in the former subsidiary is recognised at fair value on the date of loss of control according to the recognition method required under IFRS 11, IAS 28 or IAS 39.

Entities subject to joint control

According to IFRS 11, companies are subject to joint control when important decisions about the relevant activities require the unanimous consent of the parties sharing control.

Joint control may be exercised through joint operation or a joint venture. According to IFRS 11, the joint operation is distinguished from the joint venture by the existence or not of directly held rights to certain assets and direct obligations for certain liabilities of the entity, whereas the joint venture confers a right to the entity's net assets. For joint operations, the Company records, in its accounts, the assets, liabilities, income and expenses relating to its interests in the joint operation. For joint ventures, the Company's interest in the entity's net assets is recognised according to the equity method described in IAS 28.

Investments in joint operations or joint ventures are presented in accordance with IFRS 12.

Entities subject to significant influence

In accordance with IAS 28, the equity method also applies to all associates in which the Company exercises a significant influence without possessing control, which is considered to exist when the percentage of voting rights held is greater than or equal to 20%. Each investment is analysed, regardless of the percentage of interest held, taking into account the facts and circumstances in order to determine if the Company exercises a significant influence.

According to the equity method, the Company's interest in the associate is initially recognised at the acquisition cost of its proportionate share of the investee's net assets, which is then increased or decreased to reflect changes subsequent to the acquisition. Goodwill arising on an associate, if unimpaired, is included in the carrying amount of the investment. The Group's proportionate share of the entity's profit or loss for the period is shown under the "Share in earnings of equity-method associates" line item in the income statement. These investments are presented in the balance sheet under "Securities and receivables on equity-method associates and non-consolidated interests" with the corresponding investment-related receivables.

The financial statements of associates are prepared for the same accounting period as those for the parent company. If necessary, corrections are made to achieve consistency with the Group's accounting policies.

Investments in associates are presented in accordance with IFRS 12.

2.3.2 Classification of assets and liabilities between current and non-current items

In accordance with IAS 1, the Company presents its assets and liabilities by distinguishing between current and non-current items:

- assets and liabilities that are components of the working capital requirement for the normal operating cycle of the activity concerned are classified as current;
- capitalised assets are classified as non-current, with the exception of financial assets that are split into current and non-current portions except trading instruments, which are current by nature;
- derivative assets and liabilities are classified as current assets or liabilities;
- provisions arising from the normal operating cycle of the activity concerned are classified as current, as is the share of other provisions portion due in less than one year. Provisions that meet neither of these criteria are classified as non-current liabilities;
- financial liabilities that must be settled within 12 months of the closing date are classified as current. Conversely, the portion of financial liabilities due in more than 12 months is classified as non-current;
- deposits and security interests received under leases are classified as non-current;
- deferred taxes are all shown as non-current assets or liabilities.

2.3.3 Business combinations and goodwill

In accordance with the provisions of IFRS 1, Altarea has chosen not to restate business combinations that occurred prior to 1 January 2004.

Business combinations are recognised using the acquisition method described in IFRS 3 as revised: when the Group acquires control of an entity and consolidates it for the first time, the identifiable assets and liabilities, including contingent liabilities, are recognised at fair value on the acquisition date. Intangible assets are specifically identified whenever they are separable from the acquired entity or result from legal or contractual rights. Under IFRS 3, when control of an entity is acquired, the difference between the acquisition cost and the acquirer's proportionate interest in the fair value of the entity's identifiable assets, liabilities and contingent liabilities at the acquisition date is classified as goodwill representing future economic benefits resulting from assets that are not individually identified and separately recognised. The acquisition cost is the amount of the consideration transferred including, where applicable, any price supplements at their fair value. In accordance with revised IFRS 3, the acquisition cost of the shares is expensed.

Goodwill:

- if positive, goodwill is recognised on the balance sheet and must be tested for impairment at least once a year;
- if negative, goodwill is taken directly to income.

In accordance with revised IFRS 3, minority interests may be measured either at fair value or at the proportionate share of the acquiree's assets; the choice is made on an acquisition-by-acquisition basis.

The standard allows a period of 12 months from the acquisition date for final measurement of the acquisition; any adjustments and measurements made must reflect facts and circumstances that existed as of the acquisition date. As such, after the measurement period, any contingent consideration is recognised in net income for the year unless it is in the form of an equity instrument.

According to revised IFRS 3, the purchase or sale of shares in an entity controlled by the same party or parties both before and after the transactions are deemed to be transactions between shareholders and are recognised in equity: they have no impact on goodwill or the income statement. In the event of loss of control, the residual interest is measured at fair value and the gain or loss on disposal is recognised in the income statement.

The Company conducts impairment testing of goodwill at the end of each financial year and each interim period (i.e. at least once a year) and more frequently where evidence of impairment exists.

Main elements of goodwill result from controlling interests acquired in Cogedim in 2007 and in the Pitch Promotion property developer on 26 February 2016.

Goodwill that results from controlling interests acquired in Cogedim in 2007 and Pitch in 2016 is allocated to CGUs (cash generating units - the programmes) corresponding to the Residential and Office Property operating segments. The principal evidence of impairment for Property Development, Residential and Office Property development sectors are a slower absorption rate for programmes or a contraction in margin levels combined with a decline in new business (reservations, backlog, portfolio, etc.).

On an exceptional basis, acquisitions of isolated assets carried out through the purchase of shares in a company, the sole purpose of which is to hold investment assets and, in the absence of any productive activities implying the existence of contracts related to the assets or employees, are recognised in accordance with IAS 40 – "Investment Property" or IAS 2 – "Inventories."

2.3.4 Intangible assets

The Group's intangible assets consist essentially of software, brands and customer relationships.

In accordance with IAS 38,

- acquired or created software is recognised at cost and amortised over its useful life, which is generally between one year and five years;
- brands are amortised over their estimated useful lives when resulting from the identification of a finite life asset derived from an acquisition. They are tested for impairment where, as applicable, evidence of such impairment exists.

The Cogedim and Pitch Promotion brands, which have an indefinite useful life are thus not amortised. They are allocated to the CGUs corresponding to the Residential and Office Property operating segments.

- customer relationship assets, which result from the identification of intangible assets acquired from property developers, are subject to amortisation at the rate at which the acquired order backlog is filled or, for the portion relating to acquired purchase options or those that can be amortised on a straight-line basis, at the rate at which development programmes are launched. They are tested for impairment where, as applicable, evidence of such impairment exists.

2.3.5 Property, plant and equipment

Property, plant and equipment correspond primarily to general plant, transport equipment, office equipment and IT equipment. In accordance with IAS 16, these items are recognised at cost and depreciated over their useful life, estimated to be between 5 and 10 years. No other significant component of these assets has been identified.

2.3.6 Investment properties

According to IAS 40, investment properties are held to earn rentals or for capital appreciation or both.

The investment properties held by the Group are primarily shopping centres and, to a lesser extent, offices and hotels.

The Group's investment properties portfolio consists of properties in operation and properties under development or construction on a proprietary basis.

In accordance with IAS 40, Altarea has opted for the fair value model. On that basis, investment properties are measured at fair value in accordance with IFRS 13 – "Fair value measurement" whenever this can be reliably determined. Otherwise, they are recorded at cost and are tested for impairment at least once per year and where evidence of impairment exists.

The fair value of investment properties used by Management is based on the facts and circumstances taking into account their purpose. With this objective, Management uses mainly external appraisals giving values inclusive of duties less the amount of duties corresponding to transfer taxes and expenses. These duties were estimated, in France, at 6.9% (with the exception of Paris, set at 7.5%), in Italy at 4% (identical to 2015) and, in Spain at 1.8% (Catalonia).

Since 30 June 2015, external measurement of Altarea group assets has been assigned to Cushman & Wakefield (in France, Italy and Spain) and Jones Lang Lasalle (in France).

The appraisers use two methods:

- a method based on discounting projected cash flows over ten years, taking into account the resale value at the end of the period determined by capitalising net rental income. Amid the prevailing inefficient market conditions, appraisers have often opted to use the results obtained using this method;
- a method that relies on capitalising net rental income: the appraiser applies a rate of return based on the site's characteristics (surface area, competition, rental

potential, etc.) to rental income (including guaranteed minimum rent, variable rent and the market rent of vacant premises), adjusted for all charges incumbent upon the owner. The second method is used to validate the results obtained from the first method.

Rental income takes into account:

- rent increases to be applied on lease renewals;
- the normative vacancy rate;
- the impact of future rental gains resulting from the letting of vacant premises;
- the increase in rental income from stepped rents;
- renewal of leases coming up for expiry;
- a delinquency rate.

Altarea's valuation of investment properties complies with the recommendations of the "Report of the working group on appraisal of property assets of publicly traded companies" chaired by Mr Georges Barthès de Ruyter and issued in 2000 by the *Commission des Opérations de Bourse*. In addition, experts refer to the RICS Appraisal and Valuation Standards published by the Royal Institute of Chartered Surveyors Red Book.

Investment properties in operation

Investment properties in operation are systematically measured at fair value.

At 31 December 2016, an external appraisal was performed of all assets in operation.

Each time an exchange value exists for one of the Company's buildings, set in connection with a potential transaction between knowledgeable and willing parties in an arm's length transaction, the company will use its own judgment to choose between this value and that of the appraiser.

Investment properties under development and construction

For properties developed on a proprietary basis, in addition to the acquisition cost of land, for the development and construction of buildings are capitalised once the development project begins (prospecting, preparation: replying to tenders and pre-letting, prior to the signature of preliminary sales agreements for land; administrative phase: obtaining authorisations, if necessary with the signature of preliminary purchase agreements for land), once there is reasonable assurance that administrative authorisations will be obtained. The primary expenses incurred for these properties are:

- design fees,
- management fees, both internal and external to the Group;
- legal fees,
- demolition costs (if applicable),
- land order fees or guarantees,
- early termination fees,
- construction costs,
- ancillary costs directly attributable to the project,
- interest expenses in accordance with revised IAS 23.

Internal fees are primarily programme management fees (management of projects) and project management fees, which from an economic standpoint are components of the cost price of the asset and are thus included in the carrying amount in non-current assets or inventory, as the case may be. The amount of fees included is calculated after elimination of inter-company profit margins.

Since 1 January 2009, Investment Properties Under Construction (IPUC) has been included within the scope of IAS 40 and is measured at fair value in accordance with IFRS 13 guidance and when the criteria predefined by the company are met.

The Company believes that a property under construction can be reliably measured at fair value if most of the uncertainties affecting the determination of fair value have been lifted or if the project completion date is in the near future.

All three of the following conditions must be met to ensure a reliable estimate of the fair value of a property under construction:

- all administrative authorisations needed to carry out the development project have been obtained;
- construction contracts have been signed and work has begun;
- the letting rate is high and allows for a reasonable assessment of the value creation attached to the property under construction.

Consequently, investment properties under development and construction are measured either at cost or at fair value:

- properties under development before land is purchased are measured at cost;
- land not yet built is measured at cost;
- properties under construction are measured at cost or at fair value in accordance with the above criteria; if the completion date for a property is close to the closing date, the property is systematically measured at fair value.

Investment properties under development and construction measured at cost

Investment properties under development and construction measured at cost are properties that do not meet the criteria set by the Group allowing for an assessment of whether the fair value of a property can be reliably determined.

For these properties and assuming that there is a delay in the start of construction or when the construction period is unusually long, management assesses on a case-by-case basis the validity of temporarily stopping the capitalisation of interest expenses or internal fees incurred.

These properties, which are recognised in the financial statements at cost, are tested for impairment at least once a year, and whenever there is evidence of impairment (increase in cost price, reduction in expected rental values, a material delay in project execution, delay in marketing, increase in expected yields, etc.).

The recoverable amount of these assets, which are still recognised at cost, is assessed by comparison with the cost price on completion and with the estimated value of expected future cash flows for the Company. If the recoverable amount is lower than the cost price on completion, an impairment loss in the form of a provision for impairment is recognised in the income statement under "Impairment losses on investment properties measured at cost".

Investment properties under construction measured at fair value

The fair value of properties under construction measured at fair value is determined mainly on the basis of independent appraisals. The appraiser values the asset as if it were fully complete, taking account of market conditions at the date of valuation and the specific characteristics of the property. Expenses not yet incurred at the account closing date are deducted from this value.

The difference between the fair value of investment properties under construction measured at fair value from one period to the next is recognised in the income statement under the heading "Change in value of investment properties".

2.3.7 Non-current assets held for sale and discontinued operations

In accordance with IFRS 5, a non-current asset is classified as "held for sale" if its carrying amount is to be recovered primarily through a sale transaction rather than through ongoing use.

This is the case if the asset is available for immediate sale in its current state, subject only to the usual and customary conditions for the sale of such an asset, and if its sale is highly probable.

Indications of a high probability of sale include the existence of a plan by Group management to sell the asset and an active programme to find a buyer and close a sale within the following 12 months. Management assesses the situations. When at the closing date there is a preliminary sales agreement or a firm commitment, the property is systematically included in assets held for sale.

The asset is measured at fair value, which is generally the amount agreed to between the parties minus selling costs.

For an operation to be considered discontinued, the Company determines, according to the facts and circumstances, whether or not there exists a single and coordinated plan to dispose of a major line of business or geographical area of operations.

2.3.8 Re-measurement of non-current assets (other than financial assets and investment properties) and impairment losses

In accordance with IAS 36, property plant and equipments and intangible assets subject to amortisation are tested for impairment whenever any internal or external evidence of impairment is observed.

Goodwill and other intangible assets with an indeterminate life, such as the Cogedim and Pitch Promotion brands, are systematically tested for impairment annually or more frequently if internal or external events or circumstances indicate that their value may have declined.

The value of assets (and certain associated liabilities) on the balance sheet, when they are directly related or attributable to cash generating units (CGUs) or groups of CGUs including intangible assets and goodwill, if applicable, is compared to the recoverable amount of the CGU or group of CGUs, defined as the higher of the sale price net of any costs that may be incurred for the sale, and value in use. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Value in use of the CGU or the combination of several CGUs is determined using a multi-criteria approach that relies primarily on the discounted cash flow (DCF) method, supplemented by market comparables and transaction multiples.

The basic principles of the DCF method are:

- estimated cash flows (before tax) are derived from business plans generally covering five-year periods drawn up by Group management;
- the discount rate determined on the basis of a weighted average cost of capital;
- terminal value is calculated as the sum to infinity of the discounted cash flows, which are determined on the basis of a normalised cash flow and a growth rate for the business line concerned. This assumed growth rate must be consistent with the growth potential of the markets in which the activity is conducted, as well as with the entity's competitive position in those markets.

The multiples approach via market comparables is based on determining a sample of comparable listed companies, for which a multiple is calculated and reapplied to those aggregates considered relevant.

The multiples approach via comparable transactions is based on selecting a panel of transactions in comparable companies and reapplying these to the aggregates considered relevant.

Sensitivity tables are created for all impairment tests carried out.

An impairment loss is recognised, if applicable, if the value of the assets (and certain associated liabilities) on the balance sheet is higher than the recoverable amount of the CGU or group of CGUs, and is written off in priority against goodwill, then against other intangible assets and property, plant and equipment on a prorata basis for their carrying amount. The impairment thus recognised is reversible, except for any portion charged to goodwill.

2.3.9 Inventories

Inventories relate to:

- programmes for Property Development for Third Parties and the portion of shopping centre development not intended to be held in Altarea's portfolio (hypermarket building shells, parking facilities, etc.);
- programmes where their nature or specific administrative situation prompts a decision to classify them as inventory (dealer's stock) or where a final decision to hold them in the portfolio has not been made.

Interest expenses attributable to programmes are included in inventories in accordance with Revised IAS 23.

"Inventories" are carried at cost price less the portion of cost price retired on a percentage-of-completion basis for off-plan sale (VEFA) or Property Development contract transactions. The cost price includes:

- the acquisition cost of land;
- construction costs (including roads and utilities works);
- all technical and programme management fees, whether internal or external to the Group;
- programme marketing fees and sales commissions when this involves services provided by third parties external to the Group for the sale of units that are part of the programmes and that may be assigned specifically to a unit;
- sales commissions to Group employees attributable directly to the units marketed when the marketing is carried out by the Group;
- related expenses associated directly with the construction programme.

Any profit on internal fees for services performed within the Group is eliminated.

Generally speaking, whenever the net realisable value of inventories and work in progress is less than the cost price, impairment losses are recognised.

2.3.10 Trade and other receivables

Trade and other receivables are measured at face value less any allowances for impairment to reflect actual possibilities of recovery.

For long-term contracts accounted for using the percentage-of-completion method, trade receivables correspond to receivables calculated on percentage of completion (inclusive of tax) after deduction of collected calls for funds. They therefore include:

- receivables due;
- receivables not yet due, corresponding to any advances between collected calls for funds and the actual percentage of completion at the closing date.

These receivables are classified in the balance sheet into:

- "Trade and other receivables", if the receivables calculated on percentage of completion are greater than collected calls for funds;
- "Trade and other payables", if the receivables calculated on percentage of completion are less than the collected calls for funds.

2.3.11 Financial Assets and Liabilities (excluding trade and other receivables)

Altarea Group has elected not to apply the hedge accounting proposed in IAS 39.

Application principles for IAS 32 and 39 and IFRS 7 are as follows:

1. Measurement and recognition of financial assets

- The assets available for sale consist of equity securities of non-consolidated companies and are carried at fair value. Changes in fair value are registered in a separate equity line item under "other comprehensive income". An impairment is recognised in the income statement upon evidence of impairment and, where applicable, any reversals are recognised directly in equity without going through profit or loss. If these securities are not listed or fair value cannot be reliably determined, they will be recognised at cost.
- Security and deposits paid
  - a) Relate to deposits paid on projects,
  - b) Are the offsetting amount of security deposits paid into escrow accounts by shopping centre tenants and/or,
  - c) Are security deposits paid on buildings occupied by the Group.
- Receivables relating to participating interests in equity-method associates are classified in the balance sheet under "Securities and receivables on equity-method associates or non-consolidated interests". Other receivables from participating interests and shareholders' accounts classified in the balance sheet under "Financial receivables and loan" relate mainly to advances made to minority partners of consolidated or deconsolidated companies.
- Derivative financial instruments are considered to be held for trading purposes. They are measured at fair value. The change in fair value of derivatives is recognised in the income statement.
- The Company has no held-to-maturity assets.
- Cash as defined in IAS 7 includes liquid assets in bank current accounts, term deposits and holdings in money-market funds that are redeemable or tradable in the very short term (i.e. initial maturity of less than three months) and carry no significant risk of loss of value through fluctuations in interest rates. These assets are carried on the balance sheet at fair value. Changes in the fair value of these instruments are recognised in income, with a corresponding adjustment to cash. Cash

must be available immediately for the needs of the Group or its subsidiaries.

2. Measurement and recognition of financial liabilities

- All borrowings and interest-bearing liabilities are initially recognised at the fair value of the amount received less directly attributable transaction costs. Thereafter, they are carried at amortised cost using the effective interest rate method. The initial effective interest rates were determined by an actuary. The effective interest rates were not reviewed given the backdrop of a decline in interest rates because the impact on the effective interest rates was not material.
- Derivative financial instruments are considered to be held for trading purposes. They are measured at fair value. Changes in the fair value of these derivative financial instruments are recognised in the income statement if the requirements for hedge accounting are not met.
- The portion of borrowings and financial liabilities due in less than one year is shown under current liabilities.
- Security and deposits paid by shopping centre tenants are not discounted.

3. Determination of the fair value of financial instruments (other than interest-bearing debt)

Financial assets and liabilities are initially recognised at the fair value of the price paid, including acquisition-related costs. After initial recognition, such assets and liabilities are recognised at fair value.

For financial assets and liabilities such as listed shares that are actively traded on organised financial markets, fair value is determined by reference to the published market price at the closing date.

For other financial assets and liabilities such as OTC derivatives, swaps, caps, etc. that are traded on active markets (market composed of numerous transactions, continuously displayed and traded prices), fair value is estimated by an actuary using commonly accepted models and in compliance with guidance from IFRS 13 – "Fair value measurement." A mathematical model is used to bring together calculation methods based on recognised financial theories. This takes into account the measurement of credit risk (or risk of default) of Altarea vis-à-vis its bank counterparties and the risk of its counterparties vis-à-vis Altarea (Credit Value Adjustment/Debit Value Adjustment). Altarea applies the default probability calculation method used by the secondary market (according to estimated bond spreads of its counterparties).

As a last resort, the Company measures financial assets and liabilities at cost less potential impairment. This applies exclusively to non-consolidated participating interests.

The realisable value of financial instruments may differ from the fair value calculated at the closing date of each financial year.

2.3.12 Total equity

Equity represents the residual value of assets, after liabilities have been deducted.

Issuance costs for equity securities including merger-related costs are deducted from the proceeds of the issue.

An instrument is an equity instrument if the instrument includes no contractual obligation to deliver cash or another financial asset, or to exchange assets or liabilities with another entity under conditions unfavourable to the issuer. On that basis, the Subordinated Perpetual Notes issued by Altarea SCA are equity instruments.

Own equity instruments that have been bought back (treasury shares) are deducted from equity. No gain or loss is recognised in income when own equity instruments of the Company are purchased, sold, issued or cancelled.

2.3.13 Share-based payments

Share-based payments are transactions based on the value of shares of the issuing company: stock options, free share grants and company savings plans.

These rights may be settled in equity instruments or cash: at Altarea Group, all plans concerning the Altarea shares must be settled in equity instruments.

In accordance with the provisions of IFRS 2, share-based payments to corporate officers and employees of Altarea or Group companies are accounted for in the financial statements as follows: the fair value of the equity instrument awarded is recognised in the income statement as a staff cost, with a corresponding increase in equity on the balance sheet if the plan has to be settled in equity instruments, or decrease in equity if the plan must be settled in cash.

The staff cost representing the benefit conferred (corresponding to the fair value of the services rendered by the employees) is valued at the option grant date by an actuary firm using the binomial Cox-Ross-Rubinstein mathematical model on the basis of turnover determined over the last three years. This model is adapted to suit plans that provide for a vesting period and a lock-up period. The expense is spread over the vesting period. Share grant plans and employee investment plans are measured on the basis of market value.

2.3.14 Earnings per share

Basic earnings per share (in €)

Basic earnings per share is calculated by dividing net income (Group share) by the weighted average number of ordinary shares in issue during the period.

Diluted earnings per share (in €)

Diluted earnings per share is calculated using the share repurchase method. Under this method, the funds received from the exercise of warrants or options are assumed to be applied first to repurchasing own shares at the market price. The market price is taken to be the volume-weighted average of average monthly prices of Altarea shares.

The theoretical number of shares that would be repurchased at this market price is subtracted from the total number of shares produced by the exercise of warrants and options. The number calculated using this method is then added to the average number of shares in issue to produce the denominator.

When the theoretical number of shares to be bought at market price is greater than the number of potentially dilutive shares, the difference is disregarded. The weighted average number of shares after dilution is then equal to the average number of shares before dilution.

Potential shares are treated as dilutive if their conversion into ordinary shares would cause a reduction in earnings per share.

At 31 December 2016, dilution derived from rights to free shares granted to employees or corporate officers of the Group.

2.3.15 Employee benefits

In accordance with IAS 19 and amendments adopted by the European Union in June 2012, employee benefits are recognised under "personnel costs" in the income statement, with the exception of liability (or asset) revaluations recognised directly in equity and recorded in "Other comprehensive income."

- **Post-employment benefits**

Benefits payable at retirement are paid to employees at the time of retirement based on length of service and final salary. These benefits belong to defined-benefit pension plans. Accordingly, to measure the amount of its retirement obligations, the Group uses the retrospective projected unit credit method prescribed by IAS 19.

This method represents the probable present value of the vested rights taking into account salary increases until retirement, the probability of retirement and the probability of survival.

The formula for the past service obligation can be broken down as follows:

Past service cost = (benefit rights earned by the employee) ✕ (probability that the entity will pay the benefits) ✕ (discounting to present value) ✕ (payroll tax coefficient) ✕ (length of service to date/length of service at retirement)

The main assumptions used for estimating the pension obligation are as follows:

- discount rate: Rate of return on AA-rated Corporate bonds *(Eurozone)* with maturity of more than 10 years. The Group selects the Iboxx rate which stands at 1.46%;
- mortality table: Women's Table (TF) and Men's Table (TH) 2000-2002;
- reason for departure: depending on local laws and for France, voluntary retirement on the date of eligibility for full pension benefits;
- turnover: annual average turnover observed over the last 3 years, standing at between 4% and 9% depending on branch and age group;
- long-term salary adjustment rate (including inflation): 2.2%.

Actuarial gains and losses and valuation adjustments are recorded directly in equity under other comprehensive income.

The amount of the obligation determined using this method is then reduced by the value of any assets held to cover it (not applicable in this case).

The provisions of the 2008 French Social Security Financing Act (voluntary retirement beyond 65) did not have a material impact on the amount of the obligation.

- **Other post-employment benefits**

These benefits are offered under defined-contribution pension plans. As such, the Group has no obligation except to pay its share of contributions. The expense corresponding to contributions paid is recognised in the income statement as incurred.

- **Other long-term benefits**

There are no other long-term benefits granted by the Group.

- **Severance pay**

Where applicable, payments for termination of an employment contract are provisioned on the basis of the collective agreement.

- **Short-term benefits**

Short-term benefits include in particular an incentive agreement for employees to share in the profit recorded by their economic and social unit, signed by the service companies of the Group that are members of the economic and social unit, and the works council. Benefits also include an employee profit-sharing plan applicable to the profit of the economic and social unit as required under French common law.

Short-term employee benefits including those arising from these profit-sharing plans are expensed as incurred.

2.3.16 Provisions and contingent liabilities

In accordance with IAS 37, a provision is recognised when an obligation to a third party will certainly or probably result in an outflow of resources without any equivalent benefits being received in consideration, and when the amount required to settle the obligation can be reliably estimated. The provision is maintained as long as the timing and amount of the outflow of resources are not known with precision.

In general, these provisions are not linked to the Group's normal operating cycle. Provisions are discounted when appropriate using a pre-tax rate of return that reflects the risks specific to the liability.

Non-current provisions consist mainly of provisions arising from litigation between the Altarea Group and third parties or from rent guarantees granted to shopping centre buyers.

Contingent liabilities correspond to a potential obligation for which the probability of occurrence or a reliable estimate of the amount cannot be determined. They are not recognised on the balance sheet. A disclosure is made in the notes unless the amounts at stake can reasonably be expected to be small.

2.3.17 Tax

Following its decision to adopt the SIIC tax status, the Altarea Group is subject to a specific tax regime:

- a SIIC sector comprising the Group companies that have elected to adopt SIIC tax status and are therefore exempt from income tax on their ordinary profits and gains on disposal,
- a taxable sector comprising those companies that cannot elect to adopt SIIC status.

Income taxes are recognised in accordance with IAS 12.

From the time that SIIC tax status was adopted, deferred taxes are calculated for companies without such status and on the taxable profits of companies in the SIIC sector. Deferred taxes are recognised on all timing differences between the carrying amounts of assets and liabilities for financial reporting purposes and their values for tax purposes, and on tax loss carryforwards, using the liability method.

The carrying amount of deferred tax assets is reviewed at each closing date and reduced if it is no longer probable that sufficient future taxable profits will be available to permit utilisation of all or part of the deferred tax assets. Deferred tax assets are reassessed at each closing date and are recognised where it is likely that future taxable profits will allow their recovery based on a business plan for tax purposes prepared by management and derived from the Group's business plan drawn up for a reasonable period.

Deferred tax assets and liabilities are measured using the liability method at the tax rates expected to apply when the asset will be realised or the liability settled, on the basis of known tax rates at the closing date.

Taxes on items recognised directly in equity are also recognised in equity, not in the income statement.

Deferred tax assets and liabilities are offset when they relate to the same tax entity and the same tax rate.

2.3.18 Revenue and revenue-related expenses

Income from ordinary activities is recognised when it is probable that future economic benefits will flow to the Group and the amounts of income can be reliably measured.

a) Net rental income

Net rental income includes: rental income and other net rental income less land expenses, non-recovered service charges, management fees and net allowances to provisions for bad debt.

Rental income includes gross rental income, including the effects of spreading stepped rents over the non-cancellable lease term, rent holidays and other benefits granted by contract to the lessee by the lessor, and notably reductions granted during the lease term.

Other net rental income includes revenues and expenses recognised on initial lease payments received, termination fees received and early termination fees paid to tenants. Termination fees are charged to tenants when they terminate the lease before the end of the contract term. They are recognised in income when charged. Termination fees paid to tenants in return for vacating the premises before term are expensed where it is not possible to demonstrate that enhancement of the rental profitability of the property is attributable to the tenants' removal.

Land expenses correspond to amounts paid in fees for temporary occupation permits, very long-term land (emphyteutic) leases and construction leases, both of which are treated as operating leases.

Non-recoverable rental expenses correspond to charges that are normally passed on to tenants (building maintenance expenses, local taxes, etc.) but are borne by the owner because of tax caps on re-billing or because some rental premises are vacant.

Management fees include all other expenses associated with the leasing activity: rental management fees, letting fees with the exception of initial letting fees, which are included in the cost of production of the assets, and net loss on bad debt.

b) Net property income

Net property income is the difference between revenues and cost of sales, selling expenses and net allowances for impairment on bad debt and inventories.

It corresponds primarily to the profit margin on Residential and Office Property sectors, plus the profit margin on sales of assets related to the shopping centre development business (hypermarket building shells, parking facilities, etc.) in the Retail sector.

For **Property Development activities**, net property income is recognised in Altarea's financial statements using the percentage-of-completion method.

This method is used for all off-plan (VEFA) and property development contract transactions.

Losses on "new operations" are included in net property income.

For these programmes, revenues from sales effected via notarised sales are recognised – in accordance with IAS 18 – "Income from ordinary activities" and IFRIC 15 – "Agreements for the Construction of Real Estate" – in proportion to the percentage of completion of the programme, as measured by the total percentage of costs directly related to construction (not including the cost of land) incurred in comparison to the total forecast budget (updated at each closing date) and to the percentage of sales realised, determined relative to budgeted total sales. The event giving rise to revenue recognition is thus the commencement of construction work combined with the signature of valid deeds of sale (sales that have closed).

Net property income on property development transactions is measured according to the percentage-of-completion method based on the following criteria:

- project accepted by the other party to the contract;
- existence of documented projections reliable enough to provide a sound estimate of the overall economics of the transaction (selling price, stage of completion of construction work, no risk of non-completion).

Purchase/resale transactions in property complexes are recorded as and when sales are closed. For these transactions, the net property income firstly highlights sales (net VAT amount on margin where applicable) and secondly the cost of sales in respect of cost price items.

c) Net overhead expenses

The "Net overhead expenses" line item includes income and expense items that are inherent in the business activities of the Group's service companies.

- Income

For each operating segment, income includes payments for services provided to third parties, such as delegated project management fees related to property development activities, rental management fees (syndicate agent, co-ownership management), and fees for marketing and other services (additional work borne by acquirers), internal management fees (after elimination of inter-company profit margins) - see note on investment properties or inventories).

- Expenses

Expenses includes personnel costs, overhead costs (miscellaneous fees, rent, etc.), as well as depreciation of operating assets. Capitalised production and production held in inventory is deducted from this amount.

d) Other

Other income and expenses relate to Group companies that are not service providers. They correspond to overhead costs and miscellaneous management fee income. Amortisation of intangible assets and depreciation of tangible assets other than portfolio assets in operation are also included in this line item.

2.3.19 Leases

According to IAS 17, a lease is an agreement whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time. IAS 17 distinguishes between finance leases, which transfer substantially all the risks and rewards incidental to ownership of the leased asset, and operating leases, which do not.

1. Leases in the financial statements with the Company as lessor

The Company's rental income derives primarily from operating leases and are accounted for on a straight-line basis over the entire term of the lease. The Company therefore retains substantially all the risks and rewards incidental to ownership of its investment properties.

- **Treatment of contingent rent**

IAS 17 states that contingent rent amounts (stepped rents, rent holidays and other benefits granted to lessees) must be recognised on a straight-line basis over the firm lease term, which is understood as the period during which the lessee has no right to cancel. These amounts therefore increase or reduce rental income for the period.

- **Treatment of initial lease payments**

Initial lease payments received as a lump sum by the lessor are analysed as additional rent. As such, IAS 17 requires initial lease payments to be spread linearly over the firm lease term.

- **Lessee termination fees**

Termination fees are charged to tenants when they terminate the lease before the end of the contract term.

These fees are accounted for as part of the lease agreement that was terminated and are taken to income in the year they are recognised.

- **Early termination fees**

When the lessor terminates a lease before its term, the lessor pays a termination fee to the tenant in place.

- **Replacement of a tenant**

If payment of an early termination fee enables performance of the asset to be enhanced (as by increasing the rent and thereby the value of the asset), this expenditure may be capitalised. If not, this expenditure is expensed as incurred.

- **Renovation of a building requiring removal of the tenants in place**

If an early termination fee is paid as part of major renovation or reconstruction work on a building that requires tenants to leave, this expenditure is capitalised and included in the cost price of the asset under development or redevelopment.

2. Leases in the financial statements with the Company as lessee

Leases of land or buildings and construction leases are classified either as finance leases or as operating leases on the same basis as leases of other assets.

These contracts are considered finance leases if they transfer virtually all risks and rewards incidental to ownership to the lessee; otherwise, they are considered operating leases.

An upfront payment on such a lease represents prepaid rent that is recognised in prepaid expenses and then spread over the term of the lease. Each lease agreement requires a specific analysis of its terms.

2.3.20 Gain (loss) on the disposal of investment assets

The gain or loss on Investment Properties is the difference between:

- the net selling price received and estimated provisions for rent guarantees granted; and
- the fair value of property sold on the closing date of the previous reporting period.

2.3.21 Adjustment in the fair value and impairment of investment properties

Adjustments in the value on each property measured at fair value are recognised in the income statement under "Adjustment in value of investment properties measured at fair value" and are determined as follows:

Market value excluding transfer duties at the end of the period (taking into account the impact of stepped rents and rent holidays as measured by the appraiser) minus [Market value at the end of the previous period if the property was measured at fair value, or cost if the property is marked to market for the first time + amount of construction work and expenses eligible for capitalisation during the year + effect of deferral period for stepped rents and rent holidays net of the deferral of initial lease payments]

Impairment losses on each property measured at cost are recognised in the income statement under "Net impairment of investment properties measured at cost."

2.3.22 Borrowing costs or costs of interest-bearing liabilities

In accordance with revised IAS 23, borrowing costs directly attributable to the construction of qualifying assets are included in the cost of these assets.

Interest expenses attributable to programmes are capitalised as part of the cost of inventories or property assets under development and construction, during the construction phase of the asset, except in certain cases.

The cost of net financial debt includes interest incurred on borrowings including the amortisation of issuance expenses, and other financial liabilities, income from loans and advances to participating interests, gains on sale of marketable securities and the impact of interest-rate swaps used as interest-rate hedges.

Where there is a significant delay in the construction project, Management may decide, if the delay is unusually long, not to capitalise interest expenses attributable to the programme any longer. Management estimates the date at which the capitalisation of interest expenses may resume.

2.3.23 Discounting of payables and receivables

This line item shows the combined effect of discounting payables and receivables due in more than one year to present value.

2.3.24 Cash flow statement

The cash flow statement is presented using the indirect method permitted under IAS 7. Tax expense is shown as a single item in cash flows from operating activities. Interest paid is shown in cash flows from financing activities, and interest received is shown in cash flows from investing activities. Dividends paid are classified as cash flows from financing activities.

2.3.25 Operating segments (IFRS 8)

IFRS 8 – "Operating segments" requires the presentation of operating segments to reflect the Company's organisation and internal reporting system, which is presented in compliance with IFRS recognition and measurement principles. An operating segment represents an activity of the Company that incurs income and expenses, and whose operating income is regularly reviewed by the Company's Management and executive bodies. Each segment includes separate financial information.

The Company's internal reporting is based on an analysis of the period's results in accordance with

a) a Funds from operations (FFO[1]);

b) changes in value (unrealised or realised), estimated expenses, and transaction costs.

According to these analytical criteria, operating income, including earnings from equity affiliates, is monitored on an operating segment basis.

In addition to operating income, asset book values (and certain related liabilities) are monitored by operating segment when they are directly related or can be allocated to a sector. They are considered economic assets of the sector in question.

The Company has the following operating segments:

- "Retail": shopping centres completed or under development;
- "Residential": residential property development;
- "Offices": Office property development and investor services.

Items under "Other" allow reconciliation of various reporting indicators with accounting indicators.

Borrowing costs, changes in the value of financial instruments and gains and losses from their disposal, taxes, and earnings from minority interests are not allocated by sector. Balance-sheet items such as financial assets and liabilities cannot be allocated, nor can deferred-tax assets corresponding to the recognition of tax losses.

1. Funds from operations (FFO)

This item measures the creation of wealth available for distribution from net income (Group share of FFO). Funds from operations are defined as net income, Group share (i.e., attributable to equity holders of the parent), exclusive of changes in value, estimated expenses, transaction costs, and changes in deferred tax, as defined below.

Operating income line

Operating cash flow is defined as operating income exclusive of changes in value, estimated expenses, and transaction costs, as defined below.

Each segment's **operating cash flow** is presented within the following framework:

- Net income of the segment, including impairment of current assets:
  - Retail: net rental income,
  - Residential and Office: net property income;

[1] *Funds from operations*

- Net overhead expenses including the provision of services that offset a portion of overhead and operating expenses;
- Operating expenses defined as:
  - personnel costs excluding estimated expenses and related items defined below,
  - other operating expenses exclusive of net allowances for depreciation and impairment, and non-current provisions,
  - other segment income and expenses excluding transaction costs defined below,
  - expenses covered by reversals of provisions used;
- Share of joint ventures or affiliates: the share in income of equity affiliates, excluding the share in income recognised from changes in value.

Net borrowing costs line

Net borrowing costs excluding estimated expenses defined below.

Tax line

Current taxes excluding deferred taxes and excluding current taxes related to changes in value (exit tax, etc.) and dividend distributions.

Minority interests line

The share of funds from operations attributable to minority shareholders of subsidiaries. After deduction of the share of funds from operations attributable to minority interests, the **Group share of funds from operations (FFO)** (i.e., the share attributable to shareholders of Altarea SCA) is presented, followed by the **Group share of funds from operations (per share)**.

2. Changes in value, estimated expenses, and transaction costs

These changes in value measure the value created or realised by the Company during the period.

The relevant indicator for monitoring value is the change in going concern net asset value, to which funds from operations contribute. This management indicator is presented in detail in the business review.

The change in NAV is reconciled with the income statement as follows:

Prior year NAV

\+ Funds from operations (FFO)

\+ Changes in value, estimated expenses, and transaction costs

\- Dividend distribution

\+ Capital increase

+/- Other reconciliation items

= Current-year NAV

Operating income line

Changes in value concern gains and losses from the brick-and-mortar retail property sector:

- from asset disposals, and where applicable, extraordinary payments received and equivalent in economic terms to the value of the asset sold;
- from the value of investment properties, including value adjustments for properties measured at fair value or held for sale as well as impairment losses of properties measured at cost.

Estimated expenses include:

- expenses or net allowances for the period related to share-based payments or other benefits granted to employees;
- allowances for depreciation and amortisation net of reversals for non-current assets other than investment properties, including allowances relating to intangible assets or goodwill identified during business combinations;
- allowances for non-current provisions net of used or unused reversals.

Transaction costs include fees and other non-recurring expenses incurred from Corporate development projects that are ineligible for capitalisation (e.g., expenses incurred from business combinations or equity investments, whether completed or not) or that are ineligible for inclusion under issuance costs (e.g. certain commissions incurred from capital management). Income and expenses outside the Company's going concerns are also included.

Borrowing costs line

Estimated expenses that correspond to the amortisation of bond issuance costs.

Line concerning changes in value and gains and losses on the sale of financial instruments

Changes in value represent fair-value adjustments of financial instruments and the discounting of receivables and payables. Results from the disposal of financial instruments represent the balance for amounts incurred in the period from restructuring or cancelling financial instruments.

Tax line

Deferred tax recognised for the period and current taxes related to changes in value and distribution of dividends (exit tax, etc.).

Minority interests line

The share attributable to minority interests of subsidiaries for changes in value, estimated expenses, transaction costs, and deferred tax.

NOTE 3 Information on operating segments

3.1 BALANCE SHEET ITEMS BY OPERATING SEGMENT

At 31 December 2016

In € millions	Retail	Residential	Offices	Other	**Total**
Operating assets and liabilities					
Intangible assets	17.9	214.5	24.2	1.4	257.9
Property, plant and equipment	2.3	6.5	5.3	0.1	14.2
Investment properties	4,217.7	–	38.3	–	4,256.0
Securities and receivables in equity affiliates and unconsolidated interests	196.9	122.8	92.4	–	412.0
Operational working capital requirement	50.8	451.8	33.4	(8.1)	527.9
Total operating assets and liabilities	**4,485.6**	**795.6**	**193.6**	**(6.7)**	**5,468.0**

At 31 December 2015

In € millions	Retail	Residential	Offices	Other	**Total**
Operating assets and liabilities					
Intangible assets	18.3	173.6	9.0	1.2	202.1
Property, plant and equipment	2.7	3.5	0.0	0.0	6.2
Investment properties	3,759.6	–	–	–	3,759.6
Securities and receivables in equity affiliates and unconsolidated interests	219.1	65.0	76.8	–	361.0
Operational working capital requirement	38.2	317.9	51.2	22.0	429.3
Total operating assets and liabilities	**4,037.8**	**560.0**	**137.1**	**23.2**	**4,758.2**

3.2 CONSOLIDATED INCOME STATEMENT BY OPERATING SEGMENT

See consolidated income statement by segment in the financial statements.

3.3 RECONCILIATION OF THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AND OF THE CONSOLIDATED INCOME STATEMENT BY SEGMENT

	31/12/2016			31/12/2015		
In € millions	Funds from operations (FFO)	Changes in value, estimated expenses and transaction costs	Total	Funds from operations (FFO)	Changes in value, estimated expenses and transaction costs	Total
Rental income	183.9	–	183.9	174.6	–	174.6
Property expenses	(4.8)	–	(4.8)	(5.0)	–	(5.0)
Unrecoverable rental expenses	(6.8)	–	(6.8)	(5.5)	–	(5.5)
Management costs	1.5	–	1.5	1.4	–	1.4
Net charge to provisions for current assets	(5.5)	–	(5.5)	(5.0)	–	(5.0)
NET RENTAL INCOME	**168.3**	**–**	**168.3**	**160.5**	**–**	**160.5**
Revenue	1,362.4	5.5	1,368.0	1,004.4	6.5	1,010.9
Cost of sales	(1,172.7)	(5.5)	(1,178.2)	(863.1)	(6.6)	(869.7)
Selling expenses	(61.9)	–	(61.9)	(44.9)	–	(44.9)
Net charge to provisions for current assets	(7.8)	(0.4)	(8.2)	(7.1)	–	(7.1)
Amortisation of customer relationships	–	(4.6)	(4.6)	–	–	–
NET PROPERTY INCOME	**119.9**	**(4.9)**	**115.0**	**89.3**	**(0.1)**	**89.2**
External services	29.9	–	29.9	28.7	4.0	32.7
Own work capitalised and production held in inventory	124.0	–	124.0	99.4	–	99.4
Personnel costs	(148.3)	(15.6)	(163.9)	(116.6)	(2.6)	(119.2)
Other overhead expenses	(61.8)	(0.4)	(62.2)	(48.9)	(0.3)	(49.2)
Depreciation expense on operating assets	–	(5.0)	(5.0)	–	(4.6)	(4.6)
NET OVERHEAD EXPENSES	**(56.3)**	**(21.0)**	**(77.2)**	**(37.4)**	**(3.5)**	**(40.9)**
Other income and expenses	(0.6)	–	(0.6)	(6.6)	(0.0)	(6.7)
Depreciation expenses	–	(0.8)	(0.8)	–	(0.6)	(0.6)
Transaction costs	–	(2.7)	(2.7)	–	(5.2)	(5.2)
OTHER	**(0.6)**	**(3.5)**	**(4.1)**	**(6.6)**	**(5.8)**	**(12.4)**
Proceeds from disposal of investment assets	–	2.9	2.9	–	3.7	3.7
Carrying amount of assets sold	–	(2.8)	(2.8)	–	(6.5)	(6.5)
NET GAIN/(LOSS) ON DISPOSAL OF INVESTMENT ASSETS	**–**	**0.1**	**0.1**	**–**	**(2.8)**	**(2.8)**
Change in value of investment properties	–	177.2	177.2	–	113.5	113.5
Net impairment losses on investment properties measured at cost	–	–	–	–	5.2	5.2
Net impairment losses on other non-current assets	–	(0.0)	(0.0)	–	–	–
Net charge to provisions for risks and contingencies	–	(1.1)	(1.1)	–	0.2	0.2
Operating income before the share of net income of equity-method associates	**231.4**	**146.7**	**378.1**	**205.8**	**106.7**	**312.5**
Share in earnings of equity-method associates	43.1	(5.5)	37.6	24.2	(10.8)	13.4
Operating income after the share of net income of equity-method associates	**274.5**	**141.2**	**415.7**	**229.9**	**95.9**	**325.9**
Net borrowing costs	(37.2)	(6.3)	(43.5)	(31.9)	(5.4)	(37.4)
Financial expenses	(53.1)	(6.3)	(59.4)	(47.4)	(5.4)	(52.8)
Financial income	15.9	–	15.9	15.4	–	15.4
Change in value and income from disposal of financial instruments	–	(75.8)	(75.8)	–	(40.5)	(40.5)
Discounting of debt and receivables	–	(0.3)	(0.3)	–	(0.2)	(0.2)
Proceeds from the disposal of investments	–	(0.1)	(0.1)	4.8	8.6	13.4
Dividend per share	0.1	–	0.1	(0.0)	–	(0.0)
PROFIT BEFORE TAX	**237.5**	**58.7**	**296.3**	**202.8**	**58.5**	**261.3**
Income tax	(1.4)	(27.5)	(28.9)	(0.9)	(3.9)	(4.8)
Tax due	(1.4)	–	(1.4)	(0.9)	(0.1)	(1.0)
Deferred tax	–	(27.5)	(27.5)	–	(3.8)	(3.8)
Net income from continuing operations	**236.1**	**31.3**	**267.4**	**201.9**	**54.6**	**256.5**
o/w Income from continuing operations attributable to Altarea SCA shareholders	**192.0**	**(26.5)**	**165.5**	**161.2**	**19.5**	**180.7**
o/w Income from continuing operations attributable to minority interests in subsidiaries	44.1	57.8	101.8	40.7	35.1	75.8
Net income from discontinued operations	**–**	**2.3**	**2.3**	**–**	**(72.3)**	**(72.3)**
o/w Income from discontinued operations attributable to Altarea SCA shareholders	**–**	**2.3**	**2.3**	**–**	**(72.3)**	**(72.3)**
o/w Income from discontinued operations attributable to minority interests in subsidiaries	–	–	–	–	–	–
Net income	**236.1**	**33.5**	**269.6**	**201.9**	**(17.7)**	**184.1**
o/w Net income attributable to Altarea SCA shareholders	**192.0**	**(24.2)**	**167.8**	**161.2**	**(52.8)**	**108.4**
o/w Net income attributable to minority interests in subsidiaries	44.1	57.8	101.8	40.7	35.1	75.8
Average number of non-diluted shares (1)	13,994,904	13,994,904	13,994,904	12,628,560	12,628,560	12,628,560
Non-diluted net income per share from continuing operations attributable to shareholders of Altarea SCA (€)	13.72	(1.89)	11.83	12.76	1.54	14.31
Non-diluted net income per share from discontinued operations attributable to shareholders of Altarea SCA (€)	–	0.16	0.16	–	(5.72)	(5.72)
Net income per share attributable to shareholders of Altarea SCA (€)	**13.72**	**(1.73)**	**11.99**	**12.76**	**(4.18)**	**8.58**
Diluted average number of shares (1)	14,120,403	14,120,403	14,120,403	12,703,660	12,703,660	12,703,660
Diluted net income per share from continuing operations attributable to shareholders of Altarea SCA (€)	13.60	(1.88)	11.72	12.69	1.54	14.23
Diluted net income per share from discontinued operations attributable to shareholders of Altarea SCA (€)	–	0.16	0.16	–	(5.69)	(5.69)
Diluted net income per share attributable to shareholders of Altarea SCA (€)	**13.60**	**(1.72)**	**11.88**	**12.69**	**(4.16)**	**8.53**

(1) Pursuant to IAS 33, the weighted average number of shares (diluted and non-diluted) was adjusted retrospectively to take account of the capital increase with preferential subscription rights that took place during H1 2016.

3.4 REVENUE BY GEOGRAPHICAL REGION AND OPERATING SEGMENT

By geographical region

In € millions	31/12/2016 France	Italy	Spain	Other	Total	31/12/2015 France	Italy	Spain	Other	Total
Rental income	162.0	14.0	8.0	–	183.9	149.8	17.0	7.9	–	174.6
External services	21.4	0.3	0.3	–	21.9	20.6	0.4	0.3	–	21.3
Revenues from net property income	5.5	–	–	–	5.5	6.5	–	–	–	6.5
BRICK-AND-MORTAR RETAIL	**188.9**	**14.2**	**8.2**	**–**	**211.3**	**176.9**	**17.3**	**8.2**	**–**	**202.4**
Revenue	1,066.5	–	–	–	1,066.5	883.3	–	–	–	883.3
External services	1.1	–	–	–	1.1	(0.2)	–	–	–	(0.2)
RESIDENTIAL	**1,067.6**	**–**	**–**	**–**	**1,067.6**	**883.1**	**–**	**–**	**–**	**883.1**
Revenue	295.9	–	–	–	295.9	121.1	–	–	–	121.1
External services	5.9	–	–	0.5	6.4	6.8	–	–	0.6	7.4
OFFICES	**301.8**	**–**	**–**	**0.5**	**302.4**	**127.9**	**–**	**–**	**0.6**	**128.5**
Other (Corporate)	0.5	–	–	–	0.5	4.2	–	–	–	4.2
Total revenues	**1,558.8**	**14.2**	**8.2**	**0.5**	**1,581.7**	**1,192.1**	**17.3**	**8.2**	**0.6**	**1,218.2**

In 2016 as was the case in 2015, one customer represented more than 10% of the revenue of Altarea Cogedim Group, for total revenue of €176 million and €140 million in the Residential and Office Property segments respectively.

NOTE 4 Major events and changes in the scope of consolidation

4.1 MAJOR EVENTS

Reinforcement of equity: €369 million raised

In 2016, Altarea Cogedim reinforced its equity to the tune of €369 million through three transactions: €210 million through the capital increase conducted on the market, €127 million through the dividend-paid-in-securities option and €32 million through the reserved capital increase conducted in the framework of the acquisition of Pitch Promotion.

These transactions enabled the Group's growth to be financed whilst reducing the consolidated LTV level to 37.2% compared with 44.5% as at 31 December 2015.

Retail

In 2016, the Group delivered two shopping centres - L'Avenue 83 in Toulon-La Valette (54,000 m²) and Le Parks in central Paris (33,000 m²) - and the first instalment of restructuring at the Cap 3000 centre in Nice.

In 2016, Altarea Cogedim signed the temporary occupation authorisation (AOT)[2] for the Paris-Austerlitz train station and the public spaces temporary occupation agreement (COTDP)[3] for the Paris-Montparnasse train station. The Group is expanding its station portfolio in Paris[4] and strengthening its leader position in travel retail in France.

Development

On 26 February 2016, Altarea Cogedim acquired 100% of the capital of the Pitch Promotion property developer. Pitch Promotion has been consolidated since that date in the Group's financial statements.

Boosted by a favourable environment, property development experienced very strong growth, in Residential in particular (+61% to €2,286 million corresponding to 10,011 units). Excluding Pitch (acquired in February 2016), the number of units sold was 8,372, up 39%[5].

Furthermore, the Group has continued its expansion strategy as regards its national network with three new regional agencies openings: Lille-Hauts de France, Rennes and Bayonne-Basque Country.

Mixed-use projects

Large mixed-use projects have in common the development of complex real estate projects combining housing, shops, offices, with public and leisure facilities (resorts, cultural spaces, sports, etc.). In recent years, the Group has become the undisputed leader in this area by providing cities with an integrated real estate solution, thanks to its multi-product expertise. In 2016, the Group further strengthened its position by winning three major projects (Issy Cœur de ville, Bordeaux Belvédère[6] and Bobigny-La Place) for a total floor area of 340,000 m².

The list of large urban projects in assembly or production now stands at 10 operations for an area of approximately 700,000 m², with potential revenue of more than €2.1 billion[7].

[2] *Temporary occupation permit.*
[3] *Agreement to temporarily occupy publicly-owned land.*
[4] *The Group already manages the retail spaces at the Gare du Nord and Gare de l'Est.*
[5] *New orders from Pitch Promotion were recognised from 1 January 2016.*

[6] *The Group is involved on a 50% basis in this co-promoted project.*
[7] *In Group share.*

4.2 SCOPE

The main companies within the scope of consolidation, selected according to revenue and total assets criteria are as follows:

COMPANY		SIREN		31/12/2016 Method	Interest	Consolidation	31/12/2015 Method	Interest	Consolidation
ALTAREA SCA		335480877	parent company	FC	100.0%	100.0%	FC	100.0%	100.0%
Brick-and-mortar retail – France									
ALDETA SAS	(a)	311765762		FC	33.3%	100.0%	FC	33.3%	100.0%
ALTA AUBETTE SNC		452451362		FC	65.0%	100.0%	FC	65.0%	100.0%
ALTA AUSTERLITZ SNC		812196616		FC	100.0%	100.0%	FC	100.0%	100.0%
ALTA CARRÉ DE SOIE SCI		449231463	joint venture	EM	50.0%	50.0%	EM	50.0%	50.0%
ALTA CRP AUBERGENVILLE SNC		451226328		FC	100.0%	100.0%	FC	100.0%	100.0%
ALTA CRP GENNEVILLIERS SNC		488541228		FC	51.0%	100.0%	FC	51.0%	100.0%
ALTA CRP GUIPAVAS SNC		451282628		FC	100.0%	100.0%	FC	100.0%	100.0%
ALTA CRP LA VALETTE SNC		494539687		FC	51.0%	100.0%	FC	51.0%	100.0%
ALTA CRP RUAUDIN SNC		451248892		FC	100.0%	100.0%	FC	100.0%	100.0%
ALTA GRAMONT SAS		795254952		FC	51.0%	100.0%	FC	51.0%	100.0%
ALTA ORGEVAL SNC		795338441		FC	100.0%	100.0%	FC	100.0%	100.0%
ALTA QWARTZ (formerly ORI ALTA SNC)		433806726		FC	100.0%	100.0%	FC	100.0%	100.0%
ALTABLUE SAS	(a)	522193796		FC	33.3%	100.0%	FC	33.3%	100.0%
ALTAREA FRANCE		324814219		FC	100.0%	100.0%	FC	100.0%	100.0%
ALTAREA MANAGEMENT		509105375		FC	100.0%	100.0%	FC	100.0%	100.0%
ALTAREA PROMOTION COMMERCE SNC		420490948		FC	100.0%	100.0%	FC	100.0%	100.0%
AVENUE PAUL LANGEVIN SNC		428272751		FC	100.0%	100.0%	FC	100.0%	100.0%
BERCY VILLAGE SCI		384987517		FC	51.0%	100.0%	FC	51.0%	100.0%
Centre Commercial de THIAIS SNC		479873234		FC	100.0%	100.0%	FC	100.0%	100.0%
Centre Commercial du KB SNC		485045876		FC	65.0%	100.0%	FC	65.0%	100.0%
FONCIERE ALTAREA SAS		353900699		FC	100.0%	100.0%	FC	100.0%	100.0%
LIMOGES INVEST SCI		488237546		FC	75.0%	100.0%	FC	75.0%	100.0%
PETIT MENIN SCI		481017952	joint venture	EM	50.0%	50.0%	EM	50.0%	50.0%
SCI CŒUR D'ORLY BUREAUX		504255118	joint venture	EM	25.0%	25.0%	EM	25.0%	25.0%
SCI MAC DONALD COMMERCE		524049244	affiliate	EM	50.0%	50.0%	EM	50.0%	50.0%
SIC RETAIL PARK LES VIGNOLES		512086117		FC	100.0%	100.0%	FC	100.0%	100.0%
Société d'Aménagement de la GARE de L'EST SNC		481104420		FC	51.0%	100.0%	FC	51.0%	100.0%
Société du Centre Commercial MASSY SNC		950063040		FC	100.0%	100.0%	FC	100.0%	100.0%
TECI ET CIE SNC		333784767		FC	100.0%	100.0%	FC	100.0%	100.0%
Brick-and-mortar retail – Italy									
ALTABASILIO SRL		NA		FC	100.0%	100.0%	FC	100.0%	100.0%
ALTACERRO SRL		NA		FC	100.0%	100.0%	FC	100.0%	100.0%
ALTAREA ITALIA SRL		NA		FC	100.0%	100.0%	FC	100.0%	100.0%
Brick-and-mortar retail – Spain									
ALTAREA ESPANA S.L		NA		FC	100.0%	100.0%	FC	100.0%	100.0%
ALTAREA PATRIMAE S.L		NA		FC	100.0%	100.0%	FC	100.0%	100.0%
Diversification									
SEMMARIS		662012491	affiliate	EM	33.3%	33.3%	EM	33.3%	33.3%
On-line retail									
RUE DU COMMERCE SAS		422797720		NI	0.0%	0.0%	FC	99.9%	100.0%
Residential									
ALTAREIT SCA		552091050		FC	99.9%	100.0%	FC	99.9%	100.0%
ALBATROS SNC		803307354	affiliate	EM	46.1%	46.2%	EM	46.1%	46.2%
ALTA FAUBOURG SAS		444560874		FC	99.9%	100.0%	FC	99.9%	100.0%
Altarea Cogedim IDF Grande Métropole		810928135		FC	99.9%	100.0%	FC	99.9%	100.0%
Altarea Cogedim Régions		810847905		FC	99.9%	100.0%	FC	99.9%	100.0%
Altarea Cogedim ZAC VLS (SNC)		811910447		FC	99.9%	100.0%	FC	99.9%	100.0%
HISTOIRE ET PATRIMOINE SAS		480309731	affiliate	EM	55.6%	55.6%	EM	55.6%	55.6%
MASSY GRAND OUEST SNC – AF050		793338146		FC	99.9%	100.0%	FC	99.9%	100.0%
PITCH PROMOTION SAS (formerly Alta Favart SAS)		450042338		FC	99.9%	100.0%	FC	99.9%	100.0%
PITCH PROMOTION SNC		422989715		FC	99.9%	100.0%	NI	0.0%	0.0%
SCCV DOMAINE PARISIS T1		798065959	affiliate	EM	49.9%	50.0%	NI	0.0%	0.0%
SCCV PETITE RÉPUBLIQUE		803204874	affiliate	EM	48.9%	49.0%	NI	0.0%	0.0%
SCCV SPIRITO VERDE LOGEMENT		793990193	affiliate	EM	50.9%	51.0%	NI	0.0%	0.0%
SNC 91 BIS CHERCHE MIDI		791262223	affiliate	EM	49.9%	50.0%	NI	0.0%	0.0%
SNC CARRÉ BLANC		801838244	affiliate	EM	30.0%	30.0%	NI	0.0%	0.0%
SCCV ANNEMASSE FOSSARD		803779438		FC	79.9%	100.0%	FC	79.9%	100.0%
SNC BORDEAUX FAURE DURAND INFLUENCE		803042118	joint venture	EM	49.9%	50.0%	EM	49.9%	50.0%
SCCV BOULOGNE VAUTHIER		533782546		FC	50.9%	100.0%	FC	50.9%	100.0%
SCCV ROSSO		538357492		FC	69.9%	100.0%	FC	69.9%	100.0%
SNC COGEDIM PROVENCE		442739413		FC	99.9%	100.0%	FC	99.9%	100.0%

COMPANY	SIREN		31/12/2016 Method	Interest	Consolidation	31/12/2015 Method	Interest	Consolidation
COGEDIM SAS	054500814		FC	99.9%	100.0%	FC	99.9%	100.0%
SCCV CONFLANS FOCH	802774810		FC	59.9%	100.0%	FC	59.9%	100.0%
SCCV MAISON ALFORT SANGNIER	791796543	joint venture	EM	49.9%	50.0%	EM	49.9%	50.0%
SCCV NANTERRE PROVINCES FRANÇAISES LOT A3	793491812	joint venture	EM	49.9%	50.0%	EM	49.9%	50.0%
SCCV PANTIN MEHUL	807671656		FC	50.9%	100.0%	FC	50.9%	100.0%
SNC COGEDIM AQUITAINE	388620015		FC	99.9%	100.0%	FC	99.9%	100.0%
SNC COGEDIM ATLANTIQUE	501734669		FC	99.9%	100.0%	FC	99.9%	100.0%
SNC COGEDIM GRAND LYON	300795358		FC	99.9%	100.0%	FC	99.9%	100.0%
SNC COGEDIM GRENOBLE	418868584		FC	99.9%	100.0%	FC	99.9%	100.0%
SNC COGEDIM LANGUEDOC ROUSSILLON	532818085		FC	99.9%	100.0%	FC	99.9%	100.0%
SNC COGEDIM MEDITERRANÉE	312347784		FC	99.9%	100.0%	FC	99.9%	100.0%
SNC COGEDIM MIDI-PYRÉNÉES	447553207		FC	99.9%	100.0%	FC	99.9%	100.0%
SNC COGEDIM PARIS MÉTROPOLE	319293916		FC	99.9%	100.0%	FC	99.9%	100.0%
SNC COGEDIM SAVOIES-LEMAN	348145541		FC	99.9%	100.0%	FC	99.9%	100.0%
SNC COGEDIM VENTE	309021277		FC	99.9%	100.0%	FC	99.9%	100.0%
SNC CORESI	380373035		FC	99.9%	100.0%	FC	99.9%	100.0%
SNC COGEDIM GESTION	380375097		FC	99.9%	100.0%	FC	99.9%	100.0%
SNC ST GENIS – RUE DARCIEUX	793115908		FC	99.9%	100.0%	FC	99.9%	100.0%
SCCV VITRY 82	793287392		FC	74.9%	100.0%	FC	74.9%	100.0%
Offices								
ALTAREA COGEDIM ENTREPRISE PROMOTION SNC	535056378		FC	99.9%	100.0%	FC	99.9%	100.0%
ACEP INVEST 2 CDG NEUILLY / formerly ACEP INVEST 4	794194274	affiliate	EM	16.6%	16.7%	EM	16.6%	16.7%
AF INVESTCO 4 (SCI)	798601936	affiliate	EM	58.3%	58.4%	EM	58.3%	58.4%
ISSY PONT SCI	804865996	joint venture	EM	25.0%	25.0%	EM	25.0%	25.0%
LYON 7 GARNIER VERCORS SNC	798069365		FC	100.0%	100.0%	FC	100.0%	100.0%
PASCALPROPCO (SAS)	437929813	affiliate	EM	15.0%	15.1%	EM	15.0%	15.1%
SCCV 15 GERLAND	522391382	affiliate	EM	49.9%	50.0%	NI	0.0%	0.0%
SNC ATHÈNES CLICHY	808359558		FC	99.8%	100.0%	NI	0.0%	0.0%
SNC EUROMED CENTER	504704248	joint venture	EM	49.9%	50.0%	EM	49.9%	50.0%
SCCV SILOPARK	799237722	joint venture	EM	49.9%	50.0%	EM	49.9%	50.0%
SNC ROBINI	501765382	joint venture	EM	49.9%	50.0%	EM	49.9%	50.0%
SNC COGEDIM ENTREPRISE	424932903		FC	99.9%	100.0%	FC	99.9%	100.0%

4.3 CHANGES IN THE SCOPE OF CONSOLIDATION

In number of companies	31/12/2015	Acquisition	Creation	Sale	Absorption, dissolution, deconsolidation	Change in consolidation method	31/12/2016
Fully consolidated subsidiaries	308	27	33	(2)	(13)	2	355
Joint ventures*	92	1	6	–	(9)	(2)	88
Affiliates*	45	55	11	–	(3)		108
Total	**445**	**83**	**50**	**(2)**	**(25)**	**–**	**551**

* Entities consolidated under the equity method

The scope of consolidation primarily relates to the acquisition of the Pitch Promotion Group on 26 February 2016.

The main withdrawal from the scope of consolidation is the disposal of the Rue du Commerce company.

4.3.1 Statement of net acquisitions of consolidated companies, net of cash acquired

Over the financial year, this relates to the acquisition of Pitch Promotion Group.

In € millions	31/12/2016	31/12/2015
Investments in consolidated securities	(116.7)	(70.5)
Cash of acquired companies	35.5	3.6
Total	**(81.3)**	**(66.8)**

4.4 BUSINESS COMBINATIONS AND GOODWILL

On 26 February 2016, through its subsidiary Pitch Promotion SAS (formerly Alta Favart), Altarea Cogedim acquired 200,177 shares representing the capital of the Pitch Promotion company. Upon signing the share sale agreement, the Group holds 100% of the Pitch Promotion property developer which works both in housing and in commercial property and is present in Greater Paris and in major regional cities.

In accordance with the agreements between the parties, the main shareholder of Pitch Promotion used a portion (€31.7 million) of the proceeds from the sale to subscribe to 190,000 Altarea shares (or 1.5% of Altarea's capital) in a capital increase of Altarea reserved for it.

The acquisition price (determined in accordance with the principles set out in § 2.3.3 of the accounting principles and methods section) amounted to €127.0 million.

In accordance with IFRS 3 "Business Combinations", the valuation at fair value of the company's acquired assets and assumed liabilities led to the recognition, gross of deferred tax, of the brand at €23.3 million, customer relationships at €10.1 million, bond issues and financial instruments at fair value. Once these adjustments were recognised in the statement of financial position on the date of acquisition, goodwill of €26.6 million, determined by the comprehensive goodwill method, was recognised.

Contingent liabilities were identified and recognised.

The fair value of identifiable assets and liabilities and the corresponding book values were as follows on the date of acquisition:

In € millions	Fair Value	Book Value
Brand	23.3	–
Customer relationships	10.1	–
Other non-current assets	74.0	74.7
Current assets	240.6	240.6
Cash assets	33.5	33.5
Total assets	**381.5**	**348.8**
Non-current liabilities and bond issues	68.0	61.5
Deferred taxes on brand and customer relationships	11.5	–
Current liabilities (including contingent liabilities)	201.5	200.5
Cash liabilities	0.1	0.1
Total liabilities	**281.1**	**262.0**
Net assets	**100.4**	**86.8**
Goodwill allocated, calculated at 100%	26.6	–
Equity value at takeover date	**127.0**	**86.8**
Group share of direct minority shareholders in Pitch Promotion	–	–
Net assets acquired	**127.0**	**86.8**

In accordance with IFRS, adjustments to these valuations may be made within 12 months after acquisition, leading to a corresponding adjustment to recognised goodwill and its allocation. As such, the identification and valuation of temporarily acquired assets and liabilities at 30 June 2016 were adjusted at 31 December 2016. The goodwill shown above is final and has been allocated to the Group's business segments.

The integrated Group contributed €225.9 million to Group revenues (contribution over 10 months).

4.5 SECURITIES AND RECEIVABLES IN EQUITY AFFILIATES AND UNCONSOLIDATED INTERESTS

In application of IFRS 10, 11 and 12, the following are recognised under securities and receivables on equity affiliates, investments in joint ventures and associated companies, including receivables from these holdings.

4.5.1 Equity-accounting value of joint ventures and affiliated companies and related receivables

In € millions	31/12/2016	31/12/2015
Equity-accounting value of joint ventures	**76.7**	72.9
Equity-accounting value of affiliated companies	**141.2**	124.0
Value of stake in equity-method affiliates	**218.0**	**196.9**
Non-consolidated securities	**0.8**	**0.4**
Receivables from joint ventures	**90.2**	101.4
Receivables from affiliated companies	**103.0**	62.3
Receivables from equity-method subsidiaries and non-consolidated interests	**193.2**	**163.7**
Total Securities and receivables in equity affiliates and unconsolidated interests	**412.0**	**361.0**

The individual carrying value of each of these companies is not significant for the Group.

4.5.2 Principal balance sheet and income statement items of joint ventures and affiliated companies

In € millions	*Joint ventures*	*Affiliates*	31/12/2016	*Joint ventures*	*Affiliates*	31/12/2015
Balance sheet items, Group share:						
Non-current assets	176.5	325.6	502.1	155.2	230.7	385.9
Current assets	203.4	324.4	527.7	217.3	114.4	331.7
Total assets	**379.9**	**649.9**	**1,029.8**	**372.5**	**345.1**	**717.6**
Non-current liabilities	120.7	152.2	272.9	99.9	77.6	177.4
Current liabilities	182.5	356.5	539.0	199.6	143.6	343.2
Total liabilities	**303.1**	**508.7**	**811.9**	**299.5**	**221.1**	**520.7**
Net assets (equity-accounting basis)	**76.7**	**141.2**	**218.0**	**72.9**	**124.0**	**196.9**
Share of income statement items, Group share:						
Operating income	**20.3**	**29.8**	**50.1**	**9.1**	**10.6**	**19.8**
Net borrowing costs	(2.7)	(2.1)	(4.8)	(2.3)	(0.9)	(3.3)
Change in value of hedging instruments	(0.4)	(0.0)	(0.4)	0.2	(0.0)	0.2
Proceeds from the disposal of investments	–	0.0	0.0	–	(0.2)	(0.2)
Dividend per share	–	0.5	0.5	–	0.5	0.5
Net income before tax	**17.2**	**28.2**	**45.3**	**7.0**	**10.0**	**17.0**
Corporate income tax	(2.6)	(5.0)	(7.7)	(0.7)	(2.9)	(3.5)
Net income after tax, Group share:	**14.5**	**23.1**	**37.6**	**6.3**	**7.2**	**13.4**
Non-Group profit or loss	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Net income, Group share	14.5	23.1	37.6	6.3	7.1	13.4

Group revenues from joint ventures amounted to €7.1 million at 31 December 2016, compared to €3.5 million at 30 June 2016 and €17.0 million at 31 December 2015.

Group revenues from affiliates amounted to €16.5 million at 31 December 2016, compared to €8.3 million at 30 June 2016 and €7.0 million at 31 December 2015.

4.5.3 Commitments given or received in connection with joint ventures (in Group share)

Commitments given

Cogedim Résidences Services undertook to pay rent in connection with the leasing of the Résidences Services Cogedim Club ®. In exchange, Cogedim Résidences Services receives the lease payments of the sub-lessees.

Commitments received

At 31 December 2016, the main commitments received by the joint ventures concerned security deposits received from tenants for €2.4 million (in Group share).

Completion guarantees were given in connection with property development activities for joint ventures, for a Group share in the amount of €20.7 million.

NOTE 5 Income

5.1 OPERATING INCOME

5.1.1 Net rental income

In 2016, net rental income increased by €7.8 million (+4.9%) to achieve €168.3 million. This increase is accounted for mainly by the opening of L'Avenue 83 in Toulon-La Valette in April 2016, the 100% acquisition of Qwartz shopping centre in March 2015 and the like-for-like increase of net rental income (+1,4%).

5.1.2 Net property income

At 31 December 2016, Altarea Cogedim Group's net property income stood at €115.0 million compared to €89.2 million at 31 December 2015. The growth of €25.8 million is led by Residential and Office Property segment. This can be explained by the initial results of Development's excellent operational performance in 2015 and 2016 and the contribution of Pitch Promotion, consolidated since 26 February 2016 in the financial statements.

5.2 COST OF NET FINANCIAL DEBT AND OTHER FINANCIAL ITEMS

5.2.1 Cost of net financial debt

In € millions	31/12/2016	31/12/2015
Bond and bank interest expenses	(51.9)	(42.1)
Interest on partners' advances	(1.1)	(1.4)
Interest rate on hedging instruments	(5.6)	(7.5)
Non-use fees	(2.5)	(2.3)
Other financial expenses	(0.8)	(0.4)
Capitalised interest expenses	8.8	6.3
FFO financial expenses	**(53.1)**	**(47.4)**
Net proceeds from the sale of marketable securities	0.0	0.2
Interest on partners' advances	5.2	3.3
Other interest income	2.0	0.6
Interest income on bank current accounts	0.0	0.0
Interest rate on hedging instruments	8.7	11.4
FFO financial income	**15.9**	**15.4**
FFO NET BORROWING COSTS	**(37.2)**	**(31.9)**
Spreading of bond issue costs(1)	(6.3)	(5.4)
Estimated financial expenses	**(6.3)**	**(5.4)**
NET BORROWING COSTS	**(43.5)**	**(37.4)**

(1) Spreading of bond issue costs in accordance with IAS 32 and IAS 39.

Capitalised interest expenses relate only to companies carrying an asset under development or construction (shopping centres and Residential and Office Property operating segments) and are deducted from interest paid to credit institutions.

The capitalisation rate used to determine the amounts of borrowing costs that may be included in the carrying amount of assets is the interest rate on financing assigned specifically to asset development or, if there is no specific financing, to the average cost of debt borne by the Company and not assigned specifically to another purpose.

The Altarea Cogedim Group's average cost of debt, including the credit spread, was 1.92% as of 31 December 2016, compared to 1.94% at the end of 2015.

5.2.2 Impact of income from financial instruments

Changes in value of financial instruments and proceeds from their disposal resulted in a net expense of €75.8 million at 31 December 2016 compared to a net expense of €40.5 million at 31 December 2015. This figure reflects the aggregate changes in value of interest-rate economic hedging instruments used by the Group and balancing cash payments and premiums paid to restructure several hedging instruments. At 31 December 2016, balancing cash payments and premiums represented an outflow of €25.5 million.

5.2.3 Net income from discontinued operations

At 31 December 2015, the Group identified an operation held for sale under IFRS 5 – “Non-current assets held for sale and discontinued operations”, the online retail operation of the Rue du Commerce subsidiary, which was sold on 1 January 2016. A protocol agreement was signed between Carrefour and the Group during H1 2016, ending all ongoing discussions and closing the sale. On this basis, the Group achieves a gain of €2.3 million.

5.3 INCOME TAX

Analysis of tax expense

Tax expense is analysed as follows:

In € millions	31/12/2016	31/12/2015
Tax due	**(1.4)**	**(1.0)**
Tax loss carryforwards and/or use of deferred losses	(20.9)	(5.5)
Valuation differences	6.5	0.0
Fair value of investment properties	(3.4)	(5.3)
Fair value of hedging instruments	0.7	(3.3)
Net property income on a percentage-of-completion basis	(7.2)	12.8
Other timing differences	(3.2)	(2.6)
Deferred tax	**(27.5)**	**(3.8)**
	(28.9)	**(4.8)**

Effective tax rate

In € millions	31/12/2016	31/12/2015
Pre-tax profit of consolidated companies (excluding discontinued operations)	**258.6**	**247.9**
Group tax savings (expense)	**(28.9)**	**(4.8)**
Effective tax rate	**-11.17%**	**-1.94%**
Tax rate in France	34.43%	34.43%
Theoretical tax charge	**(89.0)**	**(85.4)**
Difference between theoretical and effective tax charge	**60.1**	**80.5**
Differences related to entities’ SIIC status	71.5	57.5
Differences related to treatment of losses	(11.7)	22.3
Other permanent differences and rate differences	0.3	0.7

Differences related to entities’ SIIC status correspond to tax savings accumulated by the French companies having opted for SIIC status.

Differences related to the treatment of losses correspond to the tax expense for unrecognised losses incurred in the period and/or to tax savings from the use or recognition of a previously unrecognised loss.

Deferred tax assets and liabilities

In € millions	As of 31/12/2016	As of 31 Dec. 2015
Tax loss carryforwards	153.1	174.1
Valuation differences	(27.9)	(22.9)
Fair value of investment properties	(26.5)	(23.1)
Fair value of financial instruments	(0.8)	(3.1)
Net property income on a percentage-of-completion basis	(16.6)	2.4
Other timing differences	(0.9)	(3.7)
Net deferred tax on the balance sheet	**80.4**	**123.7**

Deferred taxes relating to valuation differences correspond primarily to the brands held by the Group.

Deferred taxes relating to recognition of tax losses primarily relate to losses recognised in the Altareit tax group.

Deferred taxes are calculated (for French companies which are part of the Group's main consolidation scope) at the rate of 34,43%, as currently applicable in France. The 2017 Finance Act provides for a decrease in the rate of the corporate income tax, which would be set to 28.92% as of 1 January 2019 for the Altareit Group; accordingly, a discount was applied to the tax calculated based on the items the Group does not expect to be cleared before this date, i.e. Cogedim and Pitch brands (deferred tax liability) on the one hand, and a fraction of the equity loss carry-forwards that was not consumed in Alta Faubourg and Cogedim (deferred tax assets).

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5.4 EARNINGS PER SHARE

Net income per share (basic earnings per share) is the net income (Group share) compared to the weighted average number of shares in issue during the period, less the weighted average number of treasury shares.

To calculate the diluted net income per share, the weighted average number of shares in issue is adjusted to take into account the potentially dilutive effect of all equity instruments issued by the Company.

At 31 December 2016, as in 2015, dilution derived only from the granting of rights to free shares in Altarea SCA to employees or corporate officers of the Group.

The average number of shares in 2015 was corrected in order to take account of the capital increase carried out with preferential subscription rights, in accordance with IAS 33.

Pursuant to IAS 33, the preferential subscription right corresponds to a value freely allocated to the shareholders which is not representative of a result and which results in an upward adjustment of the average number of shares in order to reflect this loss of substance.

In € millions	31/12/2016	31/12/2015
Numerator		
Net income from continuing operations, Group share	165.5	180.7
Net income from discontinued operations, Group share	2.3	(72.3)
Net income, Group share	167.8	108.4
Denominator		
Weighted average number of shares before dilution	13,994,904	12,628,560
Effect of potentially dilutive shares		
Stock options	*0*	*0*
Rights to free share grants	*125,499*	*75,100*
Total potential dilutive effect	125,499	75,100
Weighted diluted average number of shares	14,120,403	12,703,660
Basic net income per share attributable to Group shareholders from continuing operations (in €)	**11.83**	**14.31**
Basic net income per share attributable to Group shareholders from discontinued operations (in €)	0.16	(5.72)
Basic net income per share attributable to Group shareholders (in €)	**11.99**	**8.58**
Diluted net income per share attributable to Group shareholders from continuing operations (in €)	**11.72**	**14.23**
Diluted net income per share attributable to Group shareholders from discontinued operations (in €)	0.16	(5.69)
Diluted net income per share attributable to Group shareholders (in €)	**11.88**	**8.53**

NOTE 6 Liabilities

6.1 EQUITY

6.1.1 Share capital, share-based payments and treasury shares

CAPITAL

Altarea SCA share capital (in €)

(number of shares and in €)	Number of shares	Nominal	Share capital
Number of shares outstanding at 31 December 2014	**12,515,497**	**15.28**	**191,244,972**
Number of shares outstanding at 31 December 2015	**12,515,497**	**15.28**	**191,244,972**
authorisations to issue ordinary shares to shareholders of Pitch Group	190,000	15.28	2,903,200
conversion of dividends into shares	821,762	15.28	12,556,523
capital increase of 13 June 2016	1,503,028	15.28	22,966,268
Number of shares outstanding at 31 December 2016	**15,030,287**	**15.28**	**229,670,964**

Capital management

The aim of the Group's capital management is to ensure liquidity and optimise its capital structure.

The Company's policy is to maintain its LTV ratio below 45%, excluding temporarily exceeding that level or exceptional transactions. The Corporate loan agreement clauses specifically stipulate that the Group must maintain an LTV ratio below 60%.

SHARE-BASED PAYMENTS

The gross expense recorded on the income statement for share-based payments was €16.4 million in 2016 compared to €1.9 million in 2015.

Stock option plan

No stock option plan was underway at 31 December 2016.

Free share grants

On existing plans as of 31/12/2015, in 2016:

- 1,102 rights were canceled;

- 64,698 shares were delivered.

In addition, following the "All in action! (*Tous en actions* !)" wage policy of Altarea Cogedim Group implemented in 2016, 258,803 free shares were allocated to the Group's employees.

Award date	Number of rights awarded	Vesting date	Rights in issue at 31/12/2015	Awarded	Delivery	Rights cancelled(*)	Rights in issue at 31/12/2016
Stock grant plans on Altarea shares							
18 February 2013	82,900	18 February 2016	62,800		(61,698)	(1,102)	–
17 June 2013	3,000	17 April 2016	3,000		(3,000)		–
1 February 2016	32,975	1 February 2017	–	32,975		(2,495)	30,480
8 February 2016	30,864	8 February 2017	–	30,864		(810)	30,054
25 February 2016	19,050	25 February 2017	–	19,050		(350)	18,700
31 March 2016	33,210	31 March 2018	–	33,210		(440)	32,770
7 April 2016	8,506	7 April 2017	–	8,506		(10)	8,496
15 April 2016	5,225	15 April 2017	–	5,225		(185)	5,040
11 July 2016	5,250	11 July 2017	–	5,250		–	5,250
25 July 2016	4,775	25 July 2017	–	4,775		(355)	4,420
19 October 2016	5,500	30 March 2018	–	5,500		–	5,500
10 November 2016	7,927	30 March 2018	–	7,927		(250)	7,677
10 November 2016	12,450(**)	11 April 2019	–	12,450		–	12,450
14 December 2016	33,365(**)	10 April 2019	–	33,365		–	33,365
15 December 2016	26,490	1 February 2018	–	26,490		–	26,490
16 December 2016	33,216	1 February 2018	–	33,216		–	33,216
Total	**344,703**		**65,800**	**258,803**	**(64,698)**	**(5,997)**	**253,908**

(*): Rights cancelled for reasons of departure, lack of certainty that performance criteria have been met or changes in plan terms
(**): Plans subject to performance criteria for 60% and 50% of the rights awarded, respectively.

Valuation parameters for new free share grants

	31/12/2016
Expected dividend rate	6.50%
Expected volatility*	21.26% for Altarea share price and 16.83% for IEIF Immobilier France index
Risk-free interest rate	0.00%
Model used	Cox Ross Rubinstein binomial model/Monte-Carlo method*

* Only for grants subject to performance criteria.

TREASURY SHARES

The acquisition cost of treasury shares was €29.9 million at 31 December 2016 for 188,555 shares (including 187,712 shares intended for allotment to employees under free share grant or stock option plans and 843 shares allocated to a liquidity contract), compared with €22.6 million at 31 December 2015 for 169,263 shares (including 167,762 shares intended for allotment to employees under free share grant or stock option plans and 1,501 shares allocated to a liquidity contract). Treasury shares are eliminated and offset directly in equity.

In addition, a net loss on disposal and/or free share grants of treasury shares to Company employees was recognised directly in equity in the amount of €7.5 million before tax at 31 December 2016 (€4.9 million after tax) compared with €2.7 million at 31 December 2015 (€1.7 million before tax).

The negative impact on cash flow from purchases and disposals over the period came to €14.8 million at 31 December 2016 compared to €5.7 million at 31 December 2015.

DIVIDENDS PROPOSED AND PAID

In respect of financial year 2016, payment of a cash dividend of €11.50 per share, representing a total of €170.5 million (based on the number of shares outstanding at the closing date less treasury shares), will be put to a vote at the forthcoming General Meeting on 11 May 2017, called to approve the financial statements for the year ended 31 December 2016. It will be accompanied by a proportional payment to the sole General Partner, Altafi 2, of €2.6 million, representing 1.5% of the amount paid to limited partners.

At the same meeting, the shareholders will be offered the option to receive payment of the ordinary dividend in cash or in shares to be created by the Company. The issue price of new shares delivered in payment of the dividend will be set at no less than 90% of the average of the opening prices quoted on the 20 trading sessions preceding the date of the General Meeting, less the amount of the dividend per share of €11.50, which will be decided by the General Meeting.

In respect of financial year 2015, the General Meeting of the Shareholders of 15 April 2016 voted, on a proposal by the Supervisory Board, for the payment of a dividend of €11 per share, representing a total of €138.4 million based on the securities entitled to a dividend on the date of its effective payment. It will be accompanied by a proportional payment to the sole General Partner, Altafi 2, of €2.1 million, representing 1.5% of the amount paid to limited partners.

At the General Meeting, shareholders were offered the option to receive the payment in cash or in shares to be created by the Company. The issue price of new shares was set at €154,51, which corresponds to 90% of the average of the opening prices quoted on the 20 trading sessions preceding the date of the General Meeting, less the amount of the dividend per share of €11.

The option period began on 19 April 2016 and ended on 26 April 2016. The option to have a dividend paid in shares was subscribed at a rate of 91,69% of the total of outstanding shares and led to the creation of 821,762 new shares on 6 May 2016.

Payment of the cash dividend also took place on 6 May 2016, for €11.5 million. Payment of the dividend to the partner took place on the same date, for €2.1 million.

6.2 NET FINANCIAL DEBT AND GUARANTEES

Current and non-current borrowings and financial liabilities, and net cash

	31/12/2015	Cash flow	"Non cash" change: Spreading of issue costs	Change in scope of consolidation	Present value adjustment	Other impacts	31/12/2016
Bonds (excluding accrued interest)	477.8	15.7	0.5	34.0	–	–	528.0
Treasury bills	60.5	298.1	–	–	–	–	358.6
Bank borrowings, excluding accrued interest and overdrafts	2,153.1	(216.1)	5.8	58.9	–	–	2,001.7
Net bond and bank debt, excluding accrued interest and overdrafts	**2,691.4**	**97.7**	**6.3**	**92.9**	**–**	**–**	**2,888.3**
Accrued interest on bond and bank borrowings	11.4	0.6	–	1.2	–	–	13.1
Bond and bank debt, excluding overdrafts	**2,702.7**	**98.3**	**6.3**	**94.1**	**–**	**–**	**2,901.4**
Cash and cash equivalents	(266.0)	(177.4)	–	(35.0)	–	0.0	(478.4)
Bank overdrafts	4.9	(2.4)	–	0.1	–	–	2.5
Net cash	**(261.1)**	**(179.8)**	**–**	**(35.0)**	**–**	**0.0**	**(475.9)**
Net bond and bank debt	**2,441.6**	**(81.6)**	**6.3**	**59.1**	**–**	**0.0**	**2,425.5**
Equity loans and shareholders' advances(*)	103.6	73.4	–	(7.3)	–	0.2	169.9
Accrued interest on shareholders' advances	5.8	1.1	–	–	–	(0.2)	6.7
Net financial debt	**2,551.0**	**(7.0)**	**6.3**	**51.8**	**–**	**0.0**	**2,602.1**

(*) o/w appropriation of income to current accounts for €9.1 million.

At 31 December 2016, bank borrowings excluding accrued interest and bank overdrafts include a finance lease debt in the amount of €40.1 million, compared to €36.0 million at 31 December 2015. This debt is financing, among other things, investment properties valued at €88.9 million at the end of December 2016.

During the financial year, the Group notably:

- finalised its mortgage refinancing (framework agreement signed in July 2015, concerning 16 assets, for €854 million) for a total of €192.8 million on 5 assets;
- refinanced the existing Corporate loans by extending their duration and, for some, by increasing their ceiling for €496 million (including 100 million of additional resources);
- implemented Corporate (bank or bond) financing for €314 million;
- implemented asset financing or refinancing for €78.4 million.

All financing was not fully drawn at 31 December 2016.

The change in scope of consolidation mainly corresponds to the consolidation of Pitch Promotion financing, which the Group took control of on 26 February 2016. Part of this debt was repaid during the year.

Borrowing costs are analysed in the note on earnings.

Net cash

Marketable securities classified as cash equivalents are recognised at fair value at each reporting date (see § 2.3.11. of Accounting principles and methods).

The amounts shown in relation to the change in scope of consolidation mainly concern the controlling interest acquired in property developer Pitch Promotion.

Breakdown of bank and bond debt by maturity

In € millions	31/12/2016	31/12/2015
< 3 months	299.3	28.7
3 to 6 months	218.0	226.1
6 to 9 months	30.0	94.3
9 to 12 months	158.6	55.9
Less than 1 year	**705.8**	**405.1**
2 years	175.3	435.5
3 years	243.2	143.0
4 years	265.3	499.6
5 years	615.9	48.7
1 to 5 years	**1,299.6**	**1,126.8**
More than 5 years	**926.4**	**1,202.3**
Issuance cost to be amortised	(27.9)	(26.6)
Total gross bond and bank debt	**2,903.9**	**2,707.6**

The increase in the portion under one year of the bond and bank debt is attributable to the treasury bills schedule and the maturing of Corporate bond and bank loans.

Breakdown of bank and bond debt by guarantee

In € millions	31/12/2016	31/12/2015
Mortgages	1,145.1	1,312.4
Mortgage commitments	249.6	144.2
Moneylender lien	27.0	19.9
Pledging of receivables	6.5	–
Pledging of securities	355.0	391.0
Altarea SCA security deposit	159.0	200.0
Not Guaranteed	989.5	666.7
Total	**2,931.8**	**2,734.2**
Issuance cost to be amortised	(27.9)	(26.6)
Total gross bond and bank debt	**2,903.9**	**2,707.6**

Mortgages are given as guarantees for financing or refinancing of shopping centres. Mortgage commitments and the lender's lien mainly concern Property Development activities. Pledges of securities and sureties are guarantees given for specific financing.

Breakdown of bank and bond debt by interest rate

In € millions	Gross bond and bank debt Variable rate	Fixed rate	Total
At 31 December 2016	2,016.8	887.1	2,903.9
At 31 December 2015	1,948.3	759.4	2,707.6

The market value of fixed rate debt stood at €912.2 million at 31 December 2016 compared to €787.0 million at 31 December 2015.

Schedule of future interest expenses

In € millions	31/12/2016	31/12/2015
< 3 months	14.8	10.5
3 to 6 months	9.6	10.3
6 to 9 months	10.6	10.0
9 to 12 months	10.5	9.4
Less than 1 year	**45.5**	**40.1**
2 years	58.1	38.2
3 years	55.4	49.5
4 years	46.6	41.5
5 years	34.5	29.1
1 to 5 years	**194.7**	**158.3**

These future interest expenses concern borrowings and financial instruments.

6.3 PROVISIONS

In € millions	31/12/2016	31/12/2015
Provision for benefits payable at retirement	9.5	8.7
Other provisions	10.5	8.8
Total provisions	**20.0**	**17.4**

Provision for benefits payable at retirement was measured, as in previous financial years, by an external actuary. Valuation and accounting principles are detailed in the accounting principles and methods of the Company, § 2.3.15. "Employee benefits". The main assumptions used when evaluating this commitment are turnover, the discount rate and the rate of salary increase: a change of +/- 0.50% in the last two criteria would not have any significant impacts.

Other provisions primarily cover:

- the risk of payment of rent guarantees granted upon the sale of shopping centres, along with disputes with tenants;
- the risk of disputes arising from construction operations;
- the risk of the failure of certain partners;
- as well as estimates of residual risks involving completed programmes (litigation, ten-year guarantee, definitive general statement, etc.).

NOTE 7 Assets and impairment tests

7.1 INVESTMENT PROPERTIES

In € millions	Investment properties measured at fair value	Investment properties measured at cost	Total investment properties
At 1 January 2015	**2,974.4**	**189.2**	**3,163.6**
Subsequent investments and expenditures capitalised	131.9	124.4	256.3
Change in spread of incentives to buyers	(8.9)	–	(8.9)
Disposals/repayment of down payments made	(2.1)	(0.1)	(2.2)
Net impairment/project discontinuation	–	5.2	5.2
Transfers to assets held for sale or to or from other categories	–	(7.1)	(7.1)
Change in fair value	113.5	–	113.5
Change in scope of consolidation	244.8	(5.6)	239.2
At 31 December 2015	**3,453.6**	**306.0**	**3,759.6**
Subsequent investments and expenditures capitalised	151.5	123.9	275.4
Change in spread of incentives to buyers	7.5	–	7.5
Disposals/repayment of down payments made	(2.8)	–	(2.8)
Net impairment/project discontinuation	–	–	–
Transfers to assets held for sale or to or from other categories	9.9	29.2	39.1
Change in fair value	177.2	–	177.2
Change in scope of consolidation	–	–	–
At 31 December 2016	**3,797.0**	**459.0**	**4,256.0**

During 2016, interest expenses amounting to €2.9 million were capitalised in respect of projects under development and construction (whether recognised at value or at cost).

Investment properties at fair value

The primary movements for 2016 concern:

- investments and expenditures associated with:
  - the L'Avenue 83 centre in La Valette-du-Var, opened on 13 April 2016;
  - redevelopments of the existing part of the Cap 3000 centre.
  - Acquisition of co-ownership units in Sant Cugat, in Spain;
- Changes in fair value of shopping centres in operation.

Investment properties valued at cost

Assets in development or under construction carried at cost mainly concern projects for the extension of the Cap 3000 centre in Saint Laurent du Var and the redevelopment of the shopping centres in the Paris region.

Value Measurement – IFRS 13

In accordance with IFRS 13 – "Fair Value Measurement" and the EPRA's recommendation on IFRS 13, "EPRA Position Paper on IFRS 13 – Fair Value Measurement and Illustrative Disclosures, February 2013", Altarea Cogedim chose to present additional parameters used to determine the fair value of its property portfolio.

The Altarea Cogedim Group found that classifying its assets in level 3 was most appropriate. This treatment reflects the primarily unobservable nature of the data used in the assessments, such as rents from rental statements, capitalisation rates and average annual growth rate of rents. The tables below thus present a number of quantitative parameters used to determine the fair value of Altarea Cogedim's property portfolio. These parameters apply only to shopping centres controlled exclusively by Altarea Cogedim Group (and therefore do not include assets consolidated under the equity method) and which are measured at fair value by the expert appraisers.

		Initial capitalisation rate	Rent in € per m²	Discount rate	Capitalisation rate at exit	Average annual growth rate of net rental income
		a	b	c	d	e
France	Maximum	8.4%	782	8.2%	7.3%	6.0%
	Minimum	3.9%	94	5.4%	3.8%	1.5%
	Weighted average	**4.7%**	**377**	**5.9%**	**4.4%**	**2.8%**
International	Maximum	6.7%	404	7.3%	6.7%	2.2%
	Minimum	5.6%	187	7.0%	5.5%	1.6%
	Weighted average	**6.3%**	**309**	**7.1%**	**6.0%**	**1.9%**

a - The initial capitalisation rate is the net rental yield relative to the appraisal value excluding transfer duties

b - Annual average rent (minimum guaranteed rent and variable rent) per asset and m²

c - Rate used to discount the future cash flows

d - Capitalisation rate to discount the income in the exit year to calculate exit value

e - Average Annual Growth Rate (AAGR) of net rental income

Based on a Group weighted average capitalisation rate, a 0.25% increase in capitalisation rates would lead to a reduction of €159.0 million in the value of investment properties (-4.32%), while a 0.25% decrease in capitalisation rates would increase the value of investment properties by €178.2 million (4.84%).

Depreciation – Investment assets under development and construction valued at cost

The principal uncertainties surrounding the development and construction of these assets are linked to the award of administrative authorisations and to delays in the start-up or marketing of projects when economic conditions become less favourable.

Investment assets under development and construction are monitored by the Company depending on whether the project is at the study stage, “secured” (a project is completely secured when the property is under contract), has obtained administrative authorisation (CNEC and CDAC commercial authorisations, building permits) or is in leasing and under construction. The projected value is determined on the basis of internal five-year business plans that are reviewed by management at regular intervals. The methods used are rental income capitalisation or discounted cash flow.

Net impairment losses on investment properties at cost correspond to the impairment of shopping centre or office projects that were discontinued, abandoned or delayed because of local market conditions that were more difficult than expected.

Investment working capital requirement

In € millions	Receivables on fixed assets	Amounts due on non-current assets	Investment WCR
At 31 December 2015	**4.4**	**(84.9)**	**(80.6)**
Change	(0.4)	(54.4)	(54.8)
Present value adjustment	0.0	(0.2)	(0.2)
Transfers	–	–	–
Change in scope of consolidation	–	–	–
At 31 December 2016	**3.9**	**(139.6)**	**(135.6)**
Change in WCR at 31 December 2016	**(0.4)**	**(54.4)**	**(54.8)**

Net acquisitions of assets and capitalised expenditures

In € millions	31/12/2016	31/12/2015
Type of non-current assets acquired:		
Intangible assets	(3.6)	(3.0)
Property, plant and equipment	(3.6)	(1.6)
Investment properties	(238.9)	(233.1)
Total	**(246.1)**	**(237.7)**

7.2 INTANGIBLE ASSETS AND GOODWILL

In € millions	Gross	Amortisation and/or impairment	31/12/2016	31/12/2015
Goodwill	**394.9**	**(239.6)**	**155.3**	**128.7**
Brands	**89.9**	**–**	**89.9**	**66.6**
Customer relationships	**191.7**	**(186.2)**	**5.5**	**–**
Software	25.3	(18.5)	6.8	6.2
Leasehold Right	2.5	(2.2)	0.4	0.5
Other	0.7	(0.7)	0.0	0.0
Other intangible assets	**28.5**	**(21.3)**	**7.2**	**6.7**
Total	**705.0**	**(447.1)**	**257.9**	**202.1**

In € millions	31/12/2016	31/12/2015
Net values at beginning of the period	**202.1**	**244.7**
Acquisition of intangible assets	3.6	3.0
Disposals and write-offs	(0.1)	(1.4)
Change in scope of consolidation and other*	59.8	(41.4)
Net allowances for depreciation	(7.5)	(2.9)
Net values at the end of the period	**257.9**	**202.1**

** Impact of the application of IFRS 5 "Non-current assets held for sale and discontinued operations" for the disposal of Rue du Commerce in 2015*

The brands relate to the Cogedim brand, and the Pitch Promotion brand acquired with the controlling interest taken in the property developer on 26 February 2016. These brands are an indefinite life intangible asset, and therefore not subject to amortisation.

Goodwill relates to the goodwill history of Cogedim and that concerning the acquisition of Pitch Promotion.

The net amount of customer relationships relates to the social relations pertaining to the acquisition of property developer Pitch Promotion and can be amortised on a straight-line basis as of the vesting date, i.e. 26 February 2016. At 31 December, they were subject to an amortisation in the amount of €4.6 million.

Goodwill from the acquisition of Cogedim and Pitch Promotion

The monitoring of business indicators for the Residential and Office Property segments did not reveal any evidence of impairment for these activities.

As per the accounting principles and methods applied by the Group (§ 2.3.3 and 2.3.8), goodwill was tested for impairment as of 31 December 2016. On the basis of these assumptions, the fair value determined of the economic assets in the Residential and Office Property segments as calculated do not require recognition of impairment.

Goodwill of €15 million was allocated to the brick-and-mortar retail segment to reflect synergies from the Cogedim acquisition. For the segment's going-concern net asset value, this goodwill was tested separately for impairment.

Goodwill recognised in the acquisition of Cogedim and Pitch Promotion thus remains unchanged at €154.6 million at 31 December 2016.

Brands

Cogedim and Pitch Promotion brands were assessed individually and as part of the Residential and Office Property CGUs. No impairment was to be recognised at 31 December 2016.

7.3 OPERATIONAL WORKING CAPITAL REQUIREMENT

Summary of components of operational working capital requirement

In € millions	31/12/2016	31/12/2015	Flows: Created by the business	Flows: Changes in scope of consolidation and other
Net inventories and work in progress	**978.1**	**711.5**	**137.5**	**129.2**
Net trade receivables	192.1	149.3	28.9	13.9
Other operating receivables - net	328.0	321.3	(44.5)	51.2
Trade and other operating receivables - net	**520.1**	**470.6**	**(15.6)**	**65.1**
Trade payables	(416.8)	(302.7)	(63.1)	(51.0)
Other operating payables	(553.5)	(450.0)	10.7	(114.2)
Trade payables and other operating payables	**(970.3)**	**(752.7)**	**(52.4)**	**(165.2)**
Operational working capital requirement	**527.9**	**429.3**	**69.5**	**29.0**

The Group's operational working capital requirement (presentation excluding payables and receivables on the sale or acquisition of fixed assets) is essentially linked to the property development operating segment. Changes in scope of consolidation are due primarily to the acquisition of control of Pitch Promotion Group.

7.3.1 Inventories and work in progress

In € millions	Gross inventories	Impairment	Net inventories
At 1 January 2015	**623.9**	**(6.0)**	**617.9**
Change	127.4	–	127.4
Increases	–	(0.6)	(0.6)
Reversals	0.1	0.1	0.1
Transfers to or from other categories	7.1	–	7.1
Reclassification of the operation held for sale*	(41.2)	0.8	(40.4)
At 31 December 2015	**717.2**	**(5.8)**	**711.5**
Change	137.0	0.1	137.1
Increases	–	(0.5)	(0.5)
Reversals	–	0.9	0.9
Transfers to or from other categories	(38.6)	(0.1)	(38.8)
Change in scope of consolidation	166.4	1.5	168.0
At 31 December 2016	**982.0**	**(3.8)**	**978.1**

**Impact of the application of IFRS 5 "Non-current assets held for sale and discontinued operations" for the disposal of Rue du Commerce.*

Change in inventories are primarily due to changes in the Group's business, changes in scope of consolidation (including controlling interest acquired in property developer Pitch Promotion) and reclassifications in investment properties.

7.3.2 Trade and other receivables

In € millions	31/12/2016	31/12/2015
Gross trade receivables	**211.9**	**168.2**
Opening impairment	**(18.9)**	**(23.7)**
Increases	(6.1)	(7.2)
Changes in scope of consolidation	(0.0)	2.3
Reversals	5.1	4.6
Reclassification of the operation held for sale	0.0	5.2
Closing impairment	**(19.8)**	**(18.9)**
Net trade receivables	**192.1**	**149.3**
Advances and down payments paid	36.0	32.7
VAT receivables	194.1	232.4
Sundry debtors	54.0	25.1
Prepaid expenses	29.0	18.3
Principal accounts in debit	24.8	21.1
Total other operating receivables - gross	**338.0**	**329.6**
Opening impairment	**(8.3)**	**(6.5)**
Increases	(1.7)	(2.3)
Reversals	0.1	0.6
Other changes	(0.0)	0.0
Closing impairment	**(9.9)**	**(8.3)**
Net operating receivables	**328.0**	**321.3**
Trade receivables and other operating receivables	**520.1**	**470.6**
Receivables on sale of assets	3.9	4.4
Trade receivables and other operating receivables	**524.0**	**475.0**

Depreciation allowances for net trade receivables mainly concern impairment of certain customers regarding recovery of rents.

Trade receivables

Receivables on off-plan sales (VEFA) are recorded inclusive of all taxes and represent revenues on a percentage-of-completion basis less receipts received from customers.

Breakdown of trade receivables due:

In € millions	31/12/2016
Total gross trade receivables	**211.9**
Impairment of trade receivables	(19.8)
Total net trade receivables	**192.1**
Trade accounts to be invoiced	(22.4)
Receivables lagging completion	60.7
Trade accounts receivable due	**230.4**

In € millions	Total	On time	30 days	60 days	90 days	More than 90 days
Trade accounts receivable due	**230.4**	176.1	2.7	18.0	3.2	30.4

Advances and down payments paid

Advances and down payments correspond primarily to compensation for loss of use paid by Cogedim to the sellers of land when preliminary sales agreements are signed (for those not covered by guarantees) as part of its property development business. They are offset against the price to be paid on completion of the purchase.

Land advances are provisioned in the amount of €3.4 million.

Principal accounts in debit

As part of its property management business and real estate transactions, the Group presents the cash balance it manages for third parties on its balance sheet.

7.3.3 Accounts payable and other operating liabilities

In € millions	31/12/2016	31/12/2015
Trade payables and related accounts	416.8	302.7
Trade payables and related accounts	**416.8**	**302.7**
Advances and down payments received from clients	333.6	233.6
VAT collected	75.0	110.7
Other tax and social security payables	49.9	39.8
Prepaid income	2.9	2.9
Other payables	67.3	41.9
Principal accounts in credit	24.8	21.1
Other operating payables	**553.5**	**450.0**
Amounts due on non-current assets	139.6	84.9
Accounts payable and other operating liabilities	**1,109.9**	**837.7**

Advances and down payments received from clients

This item includes net advances from clients in property programmes where trade receivables (incl. tax) calculated based on the percentage of completion are greater than calls for funds received.

Payables on acquisition of assets

Payables on acquisition of assets correspond mainly to debts to suppliers for shopping centres just completed or under development.

NOTE 8 **Financial risk management**

The Group is exposed to the following risks as part of its operational and financing activities: interest rate risk, liquidity risk, counterparty risk, and currency risk.

8.1 CARRYING AMOUNT OF FINANCIAL INSTRUMENTS BY CATEGORY IN ACCORDANCE WITH IAS 39

At 31 December 2016

			Financial assets and liabilities carried at amortised		Financial assets and liabilities carried at fair value				
In € millions	Total carrying amount	Non-financial assets	Loans Receivables	Liabilities at amortised cost	Assets available for sale	Assets and liabilities at fair value through profit and loss	*Level 1**	*Level 2***	*Level 3****
NON-CURRENT ASSETS	**421.1**	**218.0**	**202.3**	**–**	**0.8**	**–**	**–**	**–**	**0.8**
Securities and investments in equity affiliates and unconsolidated interests	412.0	218.0	193.2	–	0.8	–	–	–	0.8
Loans and receivables (non-current)	9.1	–	9.1	–	–	–	–	–	–
CURRENT ASSETS	**1,059.1**	**–**	**1,037.2**	**–**	**–**	**21.8**	**11.7**	**10.2**	**–**
Trade and other receivables	524.0	–	524.0	–	–	–	–	–	–
Loans and receivables (current)	46.4	–	46.4	–	–	–	–	–	–
Derivative financial instruments	10.2	–	–	–	–	10.2	–	10.2	–
Cash and cash equivalents	478.4	–	466.8	–	–	11.7	11.7	–	–
NON-CURRENT LIABILITIES	**2,312.3**	**–**	**–**	**2,312.3**	**–**	**–**	**–**	**–**	**–**
Borrowings and financial liabilities	2,280.7	–	–	2,280.7	–	–	–	–	–
Deposits and security interests received	31.7	–	–	31.7	–	–	–	–	–
CURRENT LIABILITIES	**1,985.1**	**–**	**–**	**1,909.8**	**–**	**75.3**	**–**	**75.3**	**–**
Borrowings and financial liabilities	799.9	–	–	799.9	–	–	–	–	–
Derivative financial instruments	75.3	–	–	–	–	75.3	–	75.3	–
Accounts payable and other operating liabilities	1,109.9	–	–	1,109.9	–	–	–	–	–
Amount due to shareholders	0.0	–	–	0.0	–	–	–	–	–

** Financial instruments quoted on an active market*
*** Financial instruments whose fair value is determined using valuation techniques based on observable market inputs*
**** Financial instruments whose fair value (in whole or in part) is based on non-observable inputs*

Non-consolidated securities classified as assets available for sale are measured at their fair value, previously determined on the basis of their net worth, without determining valuation assumptions.
Cash and cash equivalents breakdown between cash presented under receivables and marketable securities presented as financial assets within Level 1 of the fair value hierarchy.

At 31 December 2015

			Financial assets and liabilities carried at amortised			Financial assets and liabilities carried at fair value			
In € millions	Total carrying amount	Non-financial assets	Loans Receivables	Liabilities at amortised cost	Assets available for sale	Assets and liabilities at fair value through profit and loss	*Level 1**	*Level 2***	*Level 3****
NON-CURRENT ASSETS	**403.9**	**196.9**	**206.6**	**–**	**0.4**	**–**	**–**	**–**	**0.4**
Securities and investments in equity affiliates and unconsolidated interests	361.0	196.9	163.7	–	0.4	–	–	–	0.4
Loans and receivables (non-current)	42.9	–	42.9	–	–	–	–	–	–
CURRENT ASSETS	**790.2**	**–**	**659.1**	**–**	**–**	**131.1**	**111.0**	**20.0**	**–**
Trade and other receivables	475.0	–	475.0	–	–	–	–	–	–
Loans and receivables (current)	29.2	–	29.2	–	–	–	–	–	–
Derivative financial instruments	20.0	–	–	–	–	20.0	–	20.0	–
Cash and cash equivalents	266.0	–	155.0	–	–	111.0	111.0	–	–
NON-CURRENT LIABILITIES	**2,396.3**	**–**	**–**	**2,396.3**	**–**	**–**	**–**	**–**	**–**
Borrowings and financial liabilities	2,366.4	–	–	2,366.4	–	–	–	–	–
Deposits and security interests received	29.8	–	–	29.8	–	–	–	–	–
CURRENT LIABILITIES	**1,325.6**	**–**	**–**	**1,288.8**	**–**	**36.7**	**–**	**36.7**	**–**
Borrowings and financial liabilities	450.6	–	–	450.6	–	–	–	–	–
Derivative financial instruments	37.3	–	–	0.6	–	36.7	–	36.7	–
Accounts payable and other operating liabilities	837.7	–	–	837.7	–	–	–	–	–
Amount due to shareholders	0.0	–	–	0.0	–	–	–	–	–

8.2 INTEREST RATE RISK

Altarea holds a portfolio of swaps, caps and collars designed to protect against interest rate risk on its floating rate debts.

Altarea did not elect to account for these swaps as cash flow hedges under IAS 39.

Derivatives are carried at fair value.

In compliance with IFRS 13, these instruments are measured by taking into account the Credit Valuation Adjustment (CVA) when positive, and the Debit Valuation Adjustment (DVA) when negative. This adjustment measures, by application on each cash flow date of the valuation of a probability of default, the counterparty risk defined as an obligation to replace a hedging operation at the market rate in force following the default by one of the counterparties. CVA, calculated for a given counterparty, takes into account the probability of default for this counterparty. DVA, based on the Company's credit risk, corresponds to the counterparty's exposure to loss in the event of the Company's default.

The resulting impact is a positive change in the fair value of derivative financial instruments of €3.5 million on net income for the period.

Position in derivative financial instruments

In € millions	31/12/2016	31/12/2015
Interest-rate swaps	(69.0)	(18.6)
Interest-rate collars	–	(2.1)
Interest-rate caps	0.3	0.5
Accrued interest not yet due	3.6	3.4
Premiums and balancing cash payments payable	–	(0.6)
Total	**(65.1)**	**(17.3)**

Derivatives were valued by discounting future cash flows estimated according to interest rate curves at 31 December 2016.

Maturity schedule of derivative financial instruments (notional amounts)

At 31 December 2016

	Dec. 2016	Dec. 2017	Dec. 2018	Dec. 2019	Dec. 2020	Dec. 2021
ALTAREA – pay fixed – swap	690.9	1,467.4	2,147.2	2,020.7	2,216.5	1,990.2
ALTAREA – pay floating rate – swap	330.0	230.0	230.0	230.0	230.0	–
ALTAREA – pay fixed – collar	–	–	–	–	–	–
ALTAREA – pay fixed – cap	958.0	940.5	181.5	75.0	75.0	–
Total	**1,978.9**	**2,637.9**	**2,558.7**	**2,325.7**	**2,521.5**	**1,990.2**
Average hedge ratio	0.10%	0.70%	1.16%	1.00%	1.02%	1.04%

At 31 December 2015

	Dec. 2015	Dec. 2016	Dec. 2017	Dec. 2018	Dec. 2019	Dec. 2020
ALTAREA – pay fixed – swap	1,312.5	1,349.7	1,465.7	1,720.6	1,487.8	1,486.5
ALTAREA – pay fixed – collar	50.0	–	–	–	–	–
ALTAREA – pay fixed – cap	187.0	148.9	75.0	75.0	75.0	75.0
Total	**1,549.5**	**1,498.6**	**1,540.7**	**1,795.6**	**1,562.8**	**1,561.5**
Average hedge ratio	0.62%	0.54%	1.01%	1.44%	1.16%	1.16%

Management position

At 31 December 2016

	Dec. 2016	Dec. 2017	Dec. 2018	Dec. 2019	Dec. 2020	Dec. 2021
Fixed-rate bond and bank loans	(891.2)	(679.1)	(676.4)	(523.6)	(520.9)	(288.2)
Floating-rate bank loans	(2,012.7)	(1,519.0)	(1,346.5)	(1,256.0)	(993.5)	(611.9)
Cash and cash equivalents (assets)	478.4	–	–	–	–	–
Net position before hedging	**(2,425.5)**	**(2,198.1)**	**(2,022.8)**	**(1,779.7)**	**(1,514.4)**	**(900.1)**
Swap	1,020.9	1,697.4	2,377.2	2,250.7	2,446.5	1,990.2
Collar	–	–	–	–	–	–
Cap	958.0	940.5	181.5	75.0	75.0	–
Total derivative financial instruments	**1,978.9**	**2,637.9**	**2,558.7**	**2,325.7**	**2,521.5**	**1,990.2**
Net position after hedging	**(446.6)**	**439.9**	**535.8**	**546.1**	**1,007.1**	**1,090.1**

At 31 December 2015

	Dec. 2015	Dec. 2016	Dec. 2017	Dec. 2018	Dec. 2019	Dec. 2020
Fixed-rate bond and bank loans	(762.7)	(751.9)	(550.0)	(548.1)	(396.2)	(394.2)
Floating-rate bank loans	(1,944.9)	(1,550.6)	(1,317.0)	(1,176.0)	(828.3)	(783.3)
Cash and cash equivalents (assets)	266.0	–	–	–	–	–
Net position before hedging	**(2,441.6)**	**(2,302.5)**	**(1,867.0)**	**(1,724.0)**	**(1,224.4)**	**(1,177.5)**
Swap	1,312.5	1,349.7	1,465.7	1,720.6	1,487.8	1,486.5
Collar	50.0	–	–	–	–	–
Cap	187.0	148.9	75.0	75.0	75.0	75.0
Total derivative financial instruments	**1,549.5**	**1,498.6**	**1,540.7**	**1,795.6**	**1,562.8**	**1,561.5**
Net position after hedging	**(892.1)**	**(803.9)**	**(326.3)**	**71.6**	**338.3**	**384.0**

Analysis of interest-rate sensitivity:

The following table shows the interest-rate sensitivity (including the effect of hedging instruments) of the entire portfolio of floating-rate borrowings from credit institutions and derivative instruments.

	Increase/decrease in interest rates	Impact of the gain or loss on pre-tax profit	Impact on the value of the portfolio of financial instruments
31/12/2016	+50 bps -50 bps	-€4.0 million +€0.1 million	+€72.3 million -€74.9 million
31/12/2015	+50 bps -50 bps	-€2.6 million +€2.6 million	+€58.9 million -€61.6 million

8.3 LIQUIDITY RISK

CASH

The Group had a positive cash position of €478.4 million at 31 December 2016, compared to €266 million at 31 December 2015. This represents its main tool for management of liquidity risk.

Part of this cash is classified as restricted for the Group, but is available for those subsidiaries that carry it: at 31 December 2016, the amount of this restricted cash was €147.2 million.

On this date, in addition to the available cash of €331.3 million, the Group also had €542.4 million of additional available cash and cash equivalents (in confirmed corporate credit lines that had not been used and were not assigned to projects) and €149.4 million of available cash and cash equivalents for projects.

COVENANTS

The covenants (financial ratios) with which the Group must comply concern the listed Corporate bond and banking credits, for €1,052.3 million, including the €235 million banking credit subscribed by Cogedim SAS.

The covenants with which Foncière Altarea's consolidated companies must comply (holding company for the brick-and-mortar retail business with the exception of the shopping centres directly held by Altarea SCA or via its Altablue subsidiary for Cap 3000) concern the Corporate banking credits subscribed by Altarea SCA (€163.3 million) and the private bond credit subscribed by Foncière Altarea (€150 million).

The bank credit subscribed by Cogedim SAS is also subject to leverage covenants.

	Altarea Group covenants	31/12/16	Consolidated Altarea land covenants	31/12/16	Consolidated Cogedim covenants	31/12/16
Loan To Value (LTV)						
Net bond and bank financial debt/re-assessed value of the Company's assets	< 60%	37.2%	< 50%	26.9%		
Interest Cover Ratio (ICR)						
Operating income (FFO column or cash flow from operations)/Company's net borrowing cost (FFO column)	> 2	7.4	> 1.8	9.5		
Leverage						
Leverage: Net financial Debt/EBITDA					<= 5	3.5
Gearing: Net financial debt/Equity					<= 3	0.7
ICR: EBITDA/Net interest expenses					>= 2	6.8

The covenants specific to mortgage loans to finance shopping centres in operation:

- DSCR = net rental income of the Company/cost of net financial debt plus principal repayment > normally 1.50 (or a lower ratio);
- LTV ratio in operation = Loan To Value = Company net debt/Company net asset value is normally < 70%;
- The covenants specific to mortgage loans for shopping centres under development or redevelopment may be more restrictive than to loans for centres in operation, within the limit of the following values: DSCR > 2.0 and LTV < 60%.

At 31 December 2016, the Company met all its covenants. In the highly likely event that certain mortgage debt may be required to be partially repaid at a subsequent date, the amount of these repayments is recognised under current liabilities until the maturity date.

COUNTERPARTY RISK

The use of derivatives to limit interest-rate risk exposes the Group to a possible default by a counterparty. The Group mitigates this risk by selecting only major financial institutions as counterparties in hedging transactions.

CURRENCY RISK

Because the Company operates exclusively in the euro zone, it has not entered into any currency hedges.

NOTE 9 Related party transactions

Ownership structure of Altarea SCA

Ownership of Altarea's shares and voting rights is as follows:

In percentage	31/12/2016 % share capital	31/12/2016 % voting rights	31/12/2015 % share capital	31/12/2015 % voting rights
Founding shareholders and the expanded concert party*	46.45	47.04	47.75	48.40
Crédit Agricole Assurances	26.57	26.91	27.32	27.70
ABP	8.19	8.30	8.27	8.38
Opus Investment BV**	1.32	1.33	1.33	1.34
Treasury shares	1.25	–	1.35	–
Public + employee investment mutual fund	16.22	16.42	13.98	14.18
Total	**100.0**	**100.0**	**100.0**	**100.0**

** Alain Taravella and Jacques Nicolet, the founding shareholders in their own name (or the name of relatives) or via legal entities that they control, and Gilles Boissonnet and Stéphane Theuriau acting in concert.*

*** and related party*

Related party transactions

The main related parties are the companies of the founding shareholders that own a stake in Altarea:

- AltaGroupe, AltaPatrimoine and Altager, represented by Alain Taravella;
- JN Holding, represented by Jacques Nicolet.

Company Management consists of Alain Taravella and Altafi 2, of which Alain Taravella is Chairman, and Atlas, of which Alain Taravella is Chairman and Gilles Boissonnet and Stéphane Theuriau are Chief Executive Officers.

Transactions with these related parties mainly relate to services rendered by Altafi 2 as Co-Manager of the Company and, to a lesser extent, services and rebillings by the Company to Altafi 2.

Management compensation

Altarea and its subsidiaries remunerate the Management – Altafi 2, as Co-Manager, represented by Alain Taravella as of 2016 according to the fifth resolution of the General Meeting of 15 April 2016, and previously according to the sixth resolution of the General Meeting of 27 June 2013. In this respect, the following expense was recognised:

	Altafi 2 SAS	
In € millions	31/12/2016	31/12/2015
Fixed Management compensation	2.6	2.5
- o/w amount recognised in other Company overhead costs	2.6	2.5
Variable Management compensation(1)	1.2	1.8
TOTAL	**3.8**	**4.3**

(1) The variable compensation of Management is calculated in proportion to net income (FFO) for the year 2015, and to the net income (FFO), Group share for 2016.

Assistance services and rebilling of rents

Assistance services and rebilling of rents and other items are recognised as a deduction from other Company overhead costs in the amount of €0.1 million. Services invoiced to related parties by the Altarea Group are invoiced on an arm's length basis.

Assets and liabilities toward related parties

	Altafi 2 SAS	
In € millions	31/12/2016	31/12/2015
Trade and other receivables	0.0	0.1
TOTAL ASSETS	**0.0**	**0.1**
Accounts payable and other operating liabilities (*)	1.4	2.5
TOTAL LIABILITIES	**1.4**	**2.5**

(*) Mainly corresponds to part of variable Management compensation

Compensation of the founding shareholder-managers

Alain Taravella does not receive any compensation from Altarea SCA or its subsidiaries in his capacity as Manager. Alain Taravella receives compensation from holding companies that own a stake in Altarea.

Christian de Gournay, in his capacity as Chairman of Altarea SCA's Supervisory Board, as from 2 June 2014, received gross compensation directly from Altarea SCA, which is included in the compensation paid to the Group's main Managers stated below.

No share-based payments were made by Altarea SCA to its founding shareholder-managers. No other short-term or long-term benefits or other forms of compensation and benefits were granted to the founding shareholder-managers by Altarea SCA.

Compensation of the Group's senior executives

In € millions	31/12/2016	31/12/2015
Gross salaries*	5.2	5.7
Social security contributions	2.0	2.4
Share-based payments**	2.9	1.2
Number of shares delivered during the period	24,000	23,000
Post-employment benefits***	0.0	0.0
Other short- or long-term benefits and compensation****	0.0	0.0
Termination indemnities*****	–	1.0
20% employer contribution for free share grants	0.7	–
Loans	–	-
Post-employment benefit commitment	0.3	0.5

** Fixed and variable compensation; variable compensation corresponds to performance-related pay*

*** Charge calculated in accordance with IFRS 2*

**** Pension service cost according to IAS 19, life insurance and medical care*

***** Benefits in kind, directors' fees and other compensation vested but payable in the future*

****** Post-employment benefits, including social security costs*

In number of rights in circulation	31/12/2016	31/12/2015
Rights to Altarea SCA's free share grants	50,028	24,000
Altarea share subscription warrants	–	–
Stock options on Altarea shares	–	–

"Executive officers" include members of the Company's Group Executive Committee and members of Altarea's Supervisory Board who receive compensation from Altarea or its subsidiaries.

NOTE 10 Group commitments and contigent liabilities

10.1 OFF-BALANCE SHEET COMMITMENTS

The main commitments given by the Group are mortgages and mortgage commitments made to secure loans or lines of credit from credit institutions.

Pledges of securities, assignments of receivables (intra-Group loans, interest rate hedges, VAT, insurance policies, etc.) and undertakings not to sell or assign ownership units are also made by the Company to secure certain loans.

These commitments appear in Note 6.2 “Net financial debt and guarantees”.

In addition, the Company has received commitments from banks for unused credit lines, which are described in Note 8.3, “Liquidity risk”.

All other material commitments are set out below:

In € millions	31/12/2015	31/12/2016	Less than 1 year	1 to 5 years	More than 5 years
Commitments received					
Commitments received relating to financing (excl. borrowings)	**–**	**–**	**–**	**–**	**–**
Commitments received relating to company acquisitions	**55.2**	**17.5**	**2.2**	**12.0**	**3.3**
Commitments received relating to operating activities	**126.6**	**144.2**	**77.1**	**51.0**	**16.1**
Security deposits received from FNAIM (Hoguet Act)	55.0	55.0	55.0	–	–
Security deposits received from tenants	14.9	19.4	1.1	4.0	14.3
Payment guarantees received from customers	56.2	69.3	20.8	47.0	1.5
Unilateral land sale undertakings received and other commitments	0.4	0.4	0.1	–	0.3
Other commitments received relating to operating activities	0.2	0.2	0.2	0.0	–
Total	**181.8**	**161.8**	**79.3**	**63.0**	**19.5**
Commitments given					
Commitments given relating to financing (excl. borrowings)	**11.0**	**11.0**	**5.0**	**–**	**6.0**
Commitments given relating to company acquisitions	**186.4**	**181.8**	**8.9**	**136.5**	**36.5**
Commitments given relating to operating activities	**793.6**	**1,004.8**	**339.8**	**629.8**	**35.2**
Construction work completion guarantees (given)	500.3	725.2	186.9	534.5	3.9
Guarantees given on forward payments for assets	191.6	153.2	105.5	47.2	0.5
Guarantees for loss of use	41.9	69.0	32.1	36.7	0.2
Other sureties and guarantees granted	59.7	57.4	15.3	11.5	30.6
Total	**991.0**	**1,197.6**	**353.6**	**766.3**	**77.7**

Commitments received

COMMITMENTS RECEIVED RELATING TO ACQUISITIONS/DISPOSALS

The Group is covered by representations and warranties in connection with acquisitions of subsidiaries and equity interests, and in particular for the acquisition of Altareit. Relating to the latter, Altarea received a guarantee from the seller Bongrain that it shall be entitled to compensation for a period of ten years, through a reduction in the selling price of the 100% share block, for any damage or loss originating from the business activities effectively incurred by Altareit with a cause or origin predating 20 March 2008 (non-costed commitment).

Altarea and Majhip hold reciprocal put and call options for the balance of Histoire et Patrimoine shares still held by Majhip. These options are exercisable for 45-day periods starting from the date the financial statements are approved for the years ended 31 December 2017 and 2018. Altarea has also been given representations and warranties in connection with this acquisition.

The Group also received a commitment from Pitch Promotion's sellers that it shall be entitled for compensation in the amount of up to €12 million until 31 December 2018, for any damage or loss originating from the business activities incurred by the Group with a cause or origin predating 31 March 2015.

COMMITMENTS RECEIVED RELATING TO OPERATING ACTIVITIES

- **Security deposits**

Under France’s “Hoguet Act”, Altarea holds a security deposit received from FNAIM in an amount of €55 million as a guarantee covering its property management and sales activity.

Altarea also receives security deposits from its tenants to guarantee that they will pay their rent.

- **Payment guarantees received from customers**

The Group receives customer payment guarantees issued by financial institutions to guarantee sums payable by the customer. They mainly relate to retail and office property development operations.

- **Unilateral land sale undertakings received and other commitments**

Other guarantees received consist mainly of commitments received from property sellers.

- **Other commitments received**

In its Property Development business, the Group receives deposits on construction contracts from contractors to cover holdbacks (up to 5% of the amount of the contract – non-costed commitment).

Commitments given

COMMITMENTS GIVEN RELATING TO FINANCING ACTIVITIES

Altarea provided guarantees of €11 million to cover overdraft facilities granted to its subsidiaries.

COMMITMENTS GIVEN RELATING TO ACQUISITIONS

The Group makes representations and warranties or contingent consideration when disposing of shares in subsidiaries and affiliates. When the Group considers that it is probable that there will be a cash outlay under the terms of these guarantees, it sets aside allowances to provisions and their amount is re-assessed at each closing date.

The Group committed to pay contingent consideration to Pitch Promotion Group as part of the acquisition that took place on 26 February 2016.

The main commitments concern an undertaking to subscribe for the capital of companies comprising the Altafund investment fund in the amount of €100.6 million (including a firm commitment for €43.3 million and €57.2 million unused).

Representations and warranties after the partner Allianz acquired a stake in certain shopping centres were given at year-end 2013. These representations and warranties amount to €35 million as of 3 December 2015, and until their maturity. Following the disposal of the Italian assets (in 2015) and the disposal of Rue du Commerce, representations and warranties were given, respectively, for €35 million and €6 million.

The shares of Altablue, Aldeta, Alta Crp Gennevilliers, Alta Crp La Valette, Alta Gramont, Toulouse Gramont, Bercy Village and Société d'Aménagement de la Gare de l'Est as well as assets held by these companies, are for a limited period subject to conditions for sale contingent on the agreement of each of the partners of these companies.

COMMITMENTS GIVEN RELATING TO OPERATING ACTIVITIES

- **Construction work completion guarantees**

Completion guarantees are given to customers as part of off-plan sales, and are provided on behalf of Group companies by financial institutions, mutual guarantee organisations or insurance companies. They are reported in the amount of risk borne by the financial institution that issued the guarantee.

In return, Group companies give financial institutions a promise of mortgage security and an undertaking not to sell ownership units.

- **Guarantees on forward payments for assets**

These guarantees mainly cover purchases of land or buildings for the Property Development business (including Altafund, the office property investment fund).

- **Compensation for loss of use**

As part of its Property Development activities, the Group signs preliminary sales agreements with landowners, the execution of which is subject to conditions precedent, including conditions relating to obtaining administrative authorisations. In return for their undertakings, landowners receive compensation for loss of use, which takes the form of an advance (carried on the asset side of the balance sheet) or a surety (an off-balance sheet liability). The Group undertakes to pay the compensation for loss of use if it decides not to buy the land when the conditions precedent are met.

- **Other sureties and guarantees granted**

The other sureties and guarantees granted relate primarily to the Group's involvement in Altafund, the office property investment fund, the sureties granted in connection with its property development activity, as well as the REIT business in Italy for guarantees granted by companies to the Italian government regarding their VAT position.

Reciprocal commitments

Notably in the ordinary course of its Property Development activities, the Group enters into reciprocal commitments to ensure the REIT control of future transactions. The Group signs bilateral sales agreements with landowners: the owner undertakes to sell their land and the Group commits to buy it if the (administrative and/or marketing) conditions precedent are met.

Other commitments

In the conduct of its proprietary shopping centre development business, Altarea has made commitments to invest in projects initiated and controlled by the company.

Moreover, in the conduct of its Residential property development, the Group signs reservation contracts (or preliminary sales agreements) with its customers, the execution of which depends on whether the customers meet the conditions precedent, particularly with respect to their ability to secure financing.

Lastly, as part of its property development business, the Group has a future offering consisting of unilateral preliminary sales agreements.

The amount of these commitments is shown in the business review.

Minimum future rents to be paid or received

Minimum future rents to be received

The total of minimum future rents to be received under non-cancellable rental agreements over the period amounted to:

	31/12/2016	31/12/2015
Less than 1 year	162.5	142.5
Between 1 and 5 years	327.2	237.3
More than 5 years	99.6	71.4
Guaranteed minimum rent	**589.2**	**451.2**

Rents receivable relate only to shopping centres owned by the Group.

Minimum future rents to be paid

The total of minimum future rents payable under non-cancellable operating leases over the period amounted to:

	31/12/2016	31/12/2015
Less than 1 year	14.0	10.9
Between 1 and 5 years	14.5	14.5
More than 5 years	0.3	0.3
Minimum future rents to be paid	**28.8**	**25.7**

Rents to be paid concern:

- offices leased by the Group for its own operations;
- rents to be paid to the owner of the hotel building on Avenue de Wagram in Paris.

10.2 CONTIGENT LIABILITIES

No new litigation or governmental, legal, or arbitration proceedings that are likely to have significant effects on the Company's financial position or profitability arose in 2016 other than those for which a provision has been recognised (see Note 6.3 "Provisions") or that have been effectively challenged or are being challenged by the Company (see Note 5.2 "Corporate income tax" or 6.3 "Provisions").

It should be noted that, on 29 May 2015, Coresi and Jemmape, Property Development division subsidiaries, received proposed adjustments for a tax base amount of €85 million. Following the departmental negotiation that took place on 19 May 2016, both companies received a full rebate notification by post on 26 May. These litigations are closed, as the administration recognised the validity of the arguments put forward by the companies. During the second half, ongoing control procedures on other companies ended with no adjustment for the Group.

NOTE 11 Post-closing events

No major events occurred subsequent to the closing date and prior to the preparation of the financial statements.