cdc habitat

FINANCIAL REPORT 2017

- Group Overview
- Consolidated Division
- ESH Division
- Sidom

In 2018, SNI Group changes name to CDC Habitat.

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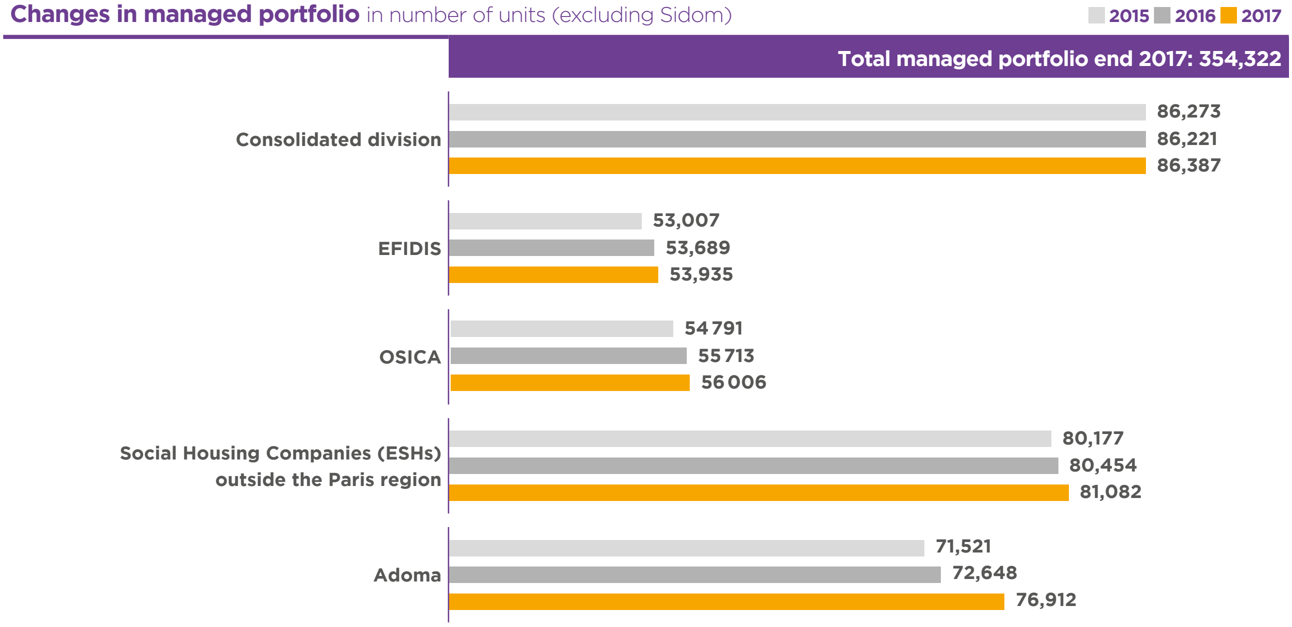
BANQUE des TERRITOIRES | GROUPE Caisse des Dépôts

GROWTH IN PORTFOLIO

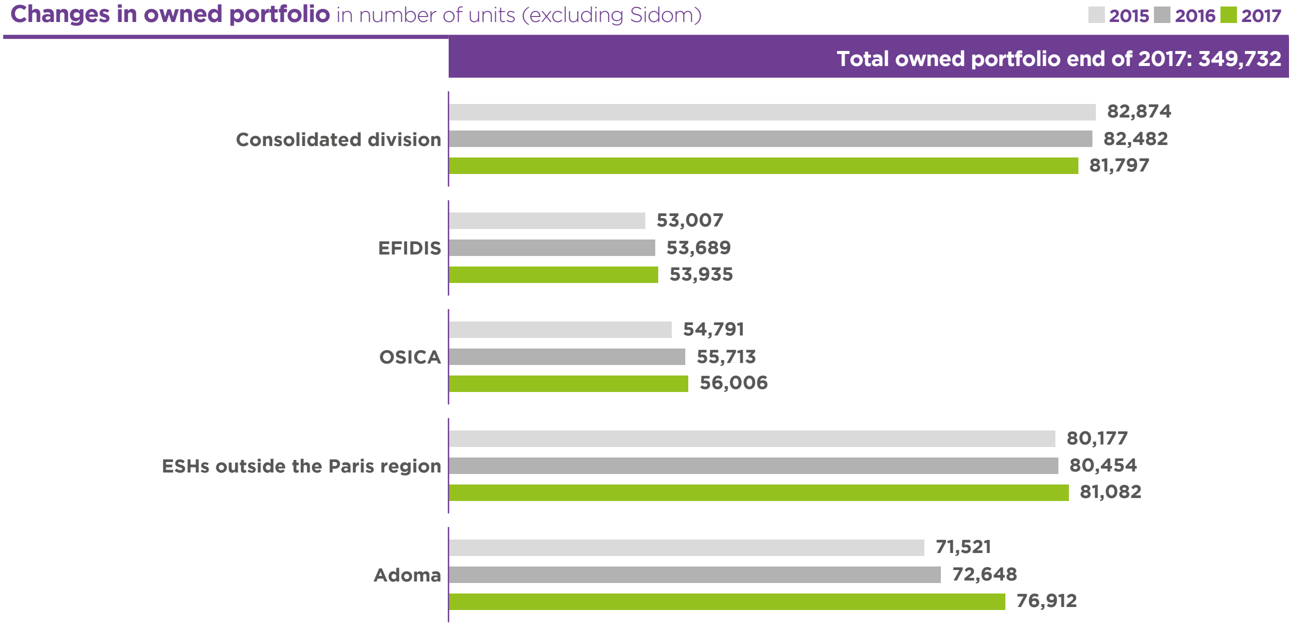
Excluding the impact of the acquisition of the six real estate companies in French Overseas Departments (Sidom), the owned and managed portfolio grew by 1.4% and 1.6% respectively during the year (i.e., +5,597 units) due to the combined impacts of the following:

- a 4,264-unit increase in Adoma's housing portfolio (notably due to newly-managed assets for the Hemisphere fund);
- delivery of 6,323* new units including acquisitions and housing for first-time buyers;
- disposal of 4,164* units including programmes for first-time buyers;
- demolition of 516 units;
- downgrading of 47 units of state-owned housing;
- miscellaneous portfolio adjustments: -263 units.

Changes in managed portfolio in number of units (excluding Sidom)



Changes in owned portfolio in number of units (excluding Sidom)



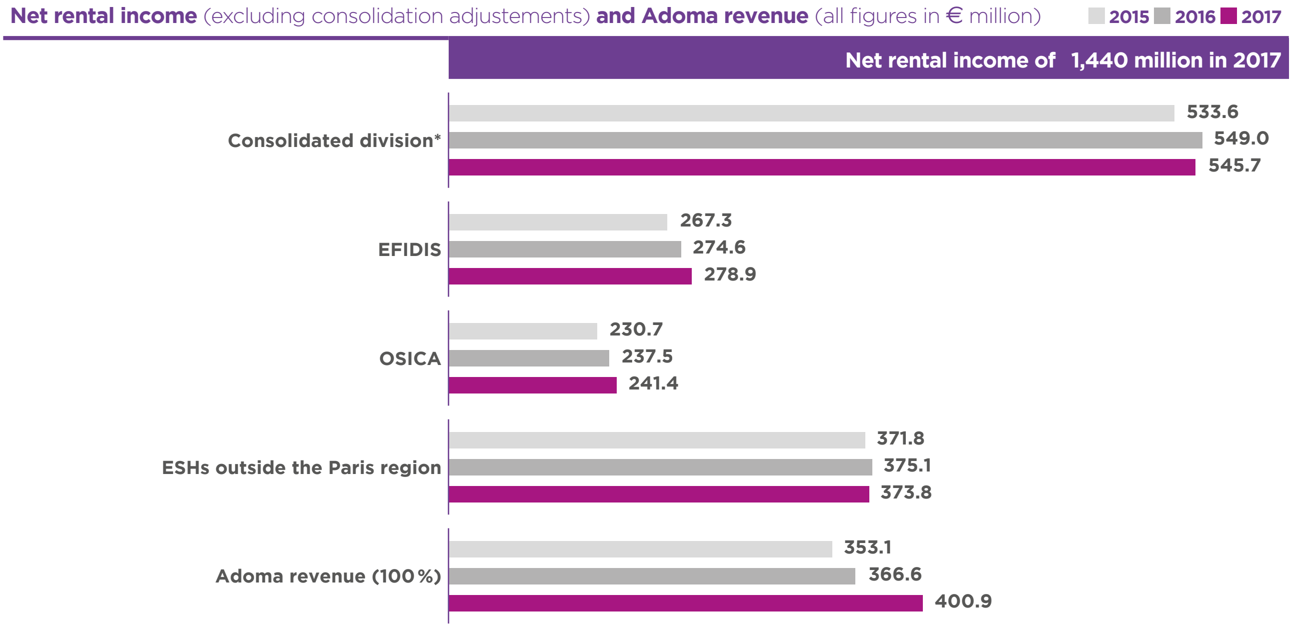
* Excluding Adoma and SOLINTER housing not managed by SNI.

NET RENTAL INCOME

Excluding Adoma, net rental income grew by 0.3% to €1,440 million for the year in line with the small rise in the rent review index.

Adoma reported a 9.4% rise in its revenue for the year to €401 million on the back of the consolidation of Hemisphere fund assets.

Net rental income (excluding consolidation adjustements) **and Adoma revenue** (all figures in € million)



* Statutory net rental income (excluding consolidation adjustments and management fees from third parties).

CONTINUED HIGH LEVELS OF BUSINESS

SNI Group's operating activities (excluding Adoma) generated a consolidated operating ratio of 10.2% for the period, representing a 2.1% improvement on 2016:

- development represented 42% of the Group's operating activity. This was stable year on year and continues to reflect the higher levels of business being driven by the development of social and intermediate housing programmes;
- work on renovation and enhancing neighbourhood quality represented approximately 41% of the Group's total business (23% and 52%, respectively, for the Consolidated and ESH divisions) and its contribution to the ESH division was higher year on year;
- selling activity was slightly down on last year.

This ratio is calculated from Service Orders (SO) relative to equivalent housing units at 1st January.

From service orders (SO) relative to equivalent housing units at 1st January.

	2016	2017
CONSOLIDATED DIVISION	**82,656**	**82,248**
Development (SO)	3,738	5,555
Demolition	198	90
Disposals	1,782	1,683
Renovations	2,368	2,194
Total (%)	**9.8%**	**11.6%**
ESH DIVISION	**168,038**	**169,160**
Development (SO)	5,013	5,277
Demolition	250	269
Disposals	2,432	2,353
Renovations (SO)	4,301	7,878
Enhancing neighbourhood quality	350	455
Total (%)	**7.3%**	**9.6%**
EFIDIS	**48,518**	**48,840**
Development (SO)	1,100	1,322
Demolition	96	0
Disposals	202	276
Renovations (SO)	1,143	2,973
Enhancing neighbourhood quality	0	0
Total (%)	**5.2%**	**9.4%**
OSICA	**47,158**	**48,010**
Development (OS)	1,233	1,321
Demolition	93	99
Disposals	269	354
Renovations (SO)	1,883	2,344
Enhancing neighbourhood quality	350	424
Total (%)	**8.1%**	**9.5%**
ESHs outside the Paris region	**72,362**	**72,310**
Development (OS)	2,680	2,634
Demolition	61	171
Disposals	1,961	1,723
Renovations (SO)	1,275	2,561
Enhancing neighbourhood quality	0	31
Total (%)	**8.3%**	**9.8%**
SUMMARY / CATEGORY	**250,694**	**251,408**
Development (OS)	3.5%	4.3%
Demolition	0.2%	0.1%
Disposals	1.7%	1.6%
Renovations (SO)	2.7%	4.0%
Enhancing neighbourhood quality	0.1%	0.2%
Total (%)	**8.1%**	**10.2%**

INVESTMENTS REMAIN AT HIGH LEVELS

The Group Investment Contribution Ratio (INCR) is equal to:

- gross cash flow divided by;
- investment for the period, net of subsidies received.

For information, gross cash flow is calculated as:

Gross cash flow from operating activities - repayment of related principal and interest + cash proceeds on disposals.

Group investment was 17% lower than last year, reflecting lower numbers of deliveries than in 2016. Gross cash flow was slightly lower year on year and the Group's consolidated investment contribution ratio for 2017 came in at 25.5%. Nevertheless, investments net of subsidies are still nearly four times greater than gross cash flow.

Group Investment Contribution Ratio (INCR)

in € M

	2016	2017	Cumulative 2016/2017
CONSOLIDATED DIVISION			
Investments net of subsidies	411.4	232.3	643.7
Gross cash flow	100.3	43.9	144.2
INCR	**24.4%**	**18.9%**	**22.4%**
ESH DIVISION			
Investments net of subsidies	679.5	670.5	1,350.0
Gross cash flow	164.5	186.2	350.8
INCR	**24.2%**	**27.8%**	**26.0%**
O/W EFIDIS			
Investments net of subsidies	141.3	167.2	308.5
Gross cash flow	39.8	52.5	92.3
INCR	**28.2%**	**31.4%**	**29.9%**
O/W OSICA			
Investments net of subsidies	249.8	192.5	442.3
Gross cash flow	32.0	31.0	62.9
INCR	**12.8%**	**16.1%**	**14.2%**
O/W ESHs outside the Paris region			
Investments net of subsidies	288.4	310.7	599.1
Gross cash flow	92.8	102.7	195.5
INCR	**32.2%**	**33.1%**	**32.6%**
TOTAL GROUP (excluding Adoma)			
Investments net of subsidies	1,090.9	902.8	3,325.8
Gross cash flow	264.8	230.1	738.1
INCR	**24.3%**	**25.5%**	**22.2%**

Adoma's investments were relatively stable year on year at €131 million in the wake of the big increase in 2016 driven by the programme to convert rooms into autonomous housing units, while its cash flow increased after the drop noted in 2016. The investment outlay was nearly three times the amount of cash flow generated over the period.

Adoma			
Investments net of subsidies	132.5	130.6	263.1
Gross cash flow	39.8	44.5	84.3
INCR	**30.0%**	**34.1%**	**32.0%**

VERY EFFECTIVE MANAGEMENT

The overview of the Group's operating and financial ratios highlights the following developments:

- continuing sustained development activity in both the Consolidated division – buoyed by the beginning of work on intermediate housing programmes – and the ESH division, with big differences between different regions. The first-level social housing division (Adoma) continued to be heavily impacted by the portfolio transformation programme;
- a tight rein on maintenance expenditure: this accounted for 9.0% and 11.3%, respectively, of net rental income in the Consolidated and ESH divisions. Recurring maintenance expenditure throughout the Group averages €601/unit;
- vacancy rate has improved throughout the Group and is still very low for the ESH division and first-level social housing division. It is low and improving for the Consolidated division;
- the continuing decline in the proportion of bad debts in the ESH division to 0.89% at end-2017 (compared to 1.17% in 2016) thanks to careful monitoring and support initiatives deployed at Group level. In the Consolidated division, the proportion of bad debts was exceptionally low at 0.45% (versus 0.75% in 2016). There was a slight rise in the proportion of bad debts in the first-level social housing division to 1.2% (versus 1.0% in 2016);
- the ratio of management costs/net rental income increased to 22.8% for the Consolidated division in line with development expenditure on intermediate housing. The division should reap the benefits of this outlay over the coming years. For the ESH division, the ratio was held at 22.1%. Management costs for the first-level social housing division are improving but remain high, reflecting the social support component of this activity;
- the ratio of EBITDA to net rental income was slightly down year on year for the Consolidated and ESH divisions and declined sharply the first-level social housing division (reflecting charges incurred for the launch of the Hemisphère fund);
- generally stable net debt / net rental income ratios throughout the entities in 2017, reflecting the major Group-wide development and investment drive. This ratio remained low for Adoma.

Operating data

	GROUP (excluding Adoma)	Conso-lidated division	ESH division	o/w EFIDIS	o/w OSICA	o/w ESHs outside the Paris region	Adoma
DEVELOPMENT/DISPOSALS							
New SOs/acquisition ratio	4.31%	6.75%	3.12%	2.71%	2.75%	3.64%	5.53%
Disposal ratio	1.61%	2.05%	1.39%	0.57%	0.74%	2.38%	0.25%
PROPERTY MANAGEMENT							
Maintenance/in per equiv. housing unit	601	619	593	675	607	529	435
Maintenance/as % of net rental income	10.5%	9.0%	11.3%	11.9%	12.2%	10.3%	15.2%
Ratio of renovation work/Work to enhance neighbourhood quality	4.2%	2.7%	4.9%	6.1%	5.8%	3.6%	nd
RENTAL MANAGEMENT							
Average vacancy rate on available units (end of period)	1.57%	2.67%	1.19%	1.19%	1.21%	1.18%	0.97%
For info. 2016	1.68%	2.74%	1.31%	1.26%	1.48%	1.24%	1.40%
Average vacancy rate on available units (> 1 month)	0.97%	1.87%	0.66%	0.71%	0.60%	0.67%	nd
For info. 2016	1.04%	1.93%	0.73%	0.75%	0.79%	0.68%	nd
Bad debts	0.76%	0.45%	0.89%	0.78%	0.74%	1.10%	1.23%
For info. 2016	1.04%	0.75%	1.17%	1.22%	0.91%	1.31%	0.97%
Management costs (excluding technical fees) as a % of net rental incom	22.4%	22.8%	22.1%	20.9%	23.5%	22.1%	34.6%
For info. 2016	21.9%	22.1%	21.8%	20.9%	23.1%	21.6%	32.8%

Financial data

	GROUP (excluding Adoma)	Consoli-dated division	ESH division	o/w EFIDIS	o/w OSICA	o/w ESHs outside the Paris region	Adoma
INCOME STATEMENT							
Net rental income or revenue (Adoma)	1,440	546	894	279	241	374	401
For info. 2016	1,436	549	887	275	237	375	367
Recurring operating income or EBITDA/Net rental income*	54.7%	55.3%	54.4%	54.1%	51.4%	56.5%	37.8%
For info. 2016	54.8%	55.8%	54.3%	54.3%	51.2%	56.4%	45.5%
Gains on disposals/Profit before tax**	67.4%	73.4%	63.1%	31.6%	64.9%	82.7%	5.4%
For info. 2016	65.3%	68.9%	62.1%	28.7%	68.3%	79.8%	38.6%
GROSS CASH FLOW/INV (INCR)	**25.5%**	**18.9%**	**27.8%**	**31.4%**	**16.1%**	**33.1%**	**34.1%**
For info. 2016	24.3%	24.4%	24.2%	28.2%	12.8%	32.2%	30.0%
NET DEBT/NET RENTAL INCOME	**6.5**	**5.6**	**7.0**	**6.1**	**7.3**	**7.6**	**2.6**
For info. 2016	6.5	5.6	7.0	6.0	7.4	7.4	2.4

* For the consolidated division: Recurring operating income excluding property development/net rents + income from other activities; ESH division: EBITDA/Net income.
** For the consolidated division Gains on disposals/Profit before tax (adjusted for provisions booked for Swaps).

INCOME STATEMENT

CREDIT RATING

Fitch uses its public sector entities methodology and applies a top-down approach when rating SNI, i.e., its rating is based around that of its shareholder, Caisse des Dépôts et Consignations, whose rating is in turn dependent on that of the French State. SNI's rating factors in its financial and strategic integration within CDC as well as its key role in providing social housing at national level. Differences between SNI's and CDC's ratings reflect the fact that intermediate housing does not benefit from the same institutional support as social housing (via the social housing companies [ESHs]).

In mid-July 2017, as part of Fitch's annual ratings review, SNI's medium- and long-term rating was maintained at AA- with a stable outlook, i.e., one notch below CDC's rating.

Highlights in 2017 included:

- a €400 million increase in SNI's capital fully subscribed by Caisse des Dépôts, €100 million of which was paid up in June 2017;
- acquisition of 34% of the capital of six real estate companies in French Overseas Departments (Sidom). The shareholders' agreement includes an option to acquire an additional stake within 5 years;
- **ADESTIA**'s capital was increased by an amount of €52 million in cash paid up at the beginning of the period to finance the development of the ESH division in the form of shareholder loans and capital increases. In addition, ADESTIA contracted a €200 million loan with the European Investment Bank during the year and carried out a capital increase at the end of 2017 to Nouveau Logis Provençal (NLP);
- **continued sustained development of intermediate housing**: at end-2017, SNI's pipeline comprised over 26,000 units of housing, nearly 21,000 of which had already been ordered. 13,500 units of intermediate housing had been contractualised by end-2017 (38% of the target objective of 35,000 units):

  - **FLI (intermediate housing investment fund)**: over 7,600 units of housing (79% of the target) had been validated by FLI's Investment Committee; 6,415 units had been contractualised (i.e., preliminary reservation agreement/off-plan sale), of which 1,265 had been delivered in late 2017.

  - **SOLINTER**: the Board of SOLINTER validated more than 4,200 units of housing (32% of target), including 2,875 units purchased or subject to a preliminary reservation agreement. At end-2017, 161 units had been delivered.

  - **SNI**: over 4,800 units of housing had been earmarked for SNI (40% of target), of which nearly 3,700 units had been contractualised. At end-2017, 437 units had been delivered.
- under **the SOLINTER framework tender arrangement** for property management services, subsequent calls for tenders will be put out at each delivery for which the three property managers selected will have to bid. At the end of 2017, SNI had successfully bid for 20 tenders representing 537 units of housing, a win rate of 65%;
- **the development of emergency accommodation** with the leasing by **Adoma** of 58 emergency accommodation shelters funded by the Hemisphere programme. This fund is managed by AMPERE Gestion.

SNI's scope of consolidation now includes the following entities:

- SNI, Sainte-Barbe, AMPERE and ADESTIA, all of which are fully consolidated;
- Adoma (56.44% stake) and FLI (19.14% stake), consolidated using the equity method.

This scope of consolidation is itself consolidated for tax purposes in the books of Caisse des Dépôts. SNI's Fitch rating applies to this same group of consolidated entities.

STABLE EARNINGS

Consolidated profit for 2017 came in at 118.7 million which was stable year on year.

Net income excluding property development (rental income + income from other activities) grew by €3 million to €533 million on the back of higher amounts of management fees driven by growth in third parties management activities (up €3.7 million). **Operating expenses** grew by €4 million to €238 million for the year.

Maintenance expenses represented 8.9% of net rental income and reflect the division's big overall commitment to maintenance.

The **property development margin** came in at €1.2 million, which was down on last year.

Recurring operating income was stable year on year, at €296 million. Excluding property development, the recurring operating income margin for 2017 came out at 55.3%.

Disposal gains accounted for 73% of pre-tax profit (€106.9 million).

Adoma contributed €13.3 million to consolidated profit for the year (down from €16 million in 2016) due to lower statutory earnings which were negatively impacted by expenditure incurred for the launch of the Hemisphère programme. Moreover, reported profit for 2016 was enhanced by the proceeds from a major disposal of property in Issy-les-Moulineaux.

FLI's contribution to consolidated profit was virtually zero (i.e., net income of €0.1 million) and income from the first properties delivered still only has a marginal impact on fund earnings.

Net depreciation of property and equipment increased by €7 million year on year to €161.6 million due to major deliveries of new housing.

Cost of net debt was €7.3 million lower than in 2016, thanks in part to an additional €3.5 million in positive fair value adjustments (excluding Adoma).

We should note that, while changes in the fair value of derivatives do not automatically push up/decrease finance costs, they need to be analysed in terms of an opportunity cost/gain due to lower forecast interest rates.

The Group's interest rate hedging policy is to use interest rate swaps to insure the finance costs of Group entities over the very long term and is not intended to be used for speculative purposes.

Profit before tax was 151.5 million, a year on year decline of €16.7 million.

Net profit for the year came in at 118.7 million.

Tax expense for the year was €17.1 million lower than in 2016 and nearly €12 million of this amount was attributable to tax cuts enacted in the 2018 Finance Bill under the liability method (the balance was attributable to lower profit before tax).

Although Return On Equity (ROE) fell back to 5.7% (due to the increase in equity) it was above the target fixed for 2017 (i.e., 4.6%).

Consolidated Income Statement - Prepared under IFRS

in € M

	2016 (Reported)	2017 (Reported)	YoY change 2017/2016	YoY change 2017/2016 (%)
Gross rental income	523.4	521.9	-1.5	-0.3%
Loss on recoverable rental charges	-7.4	-7.5	-0.1	1.0%
NET RENTAL INCOME	**515.9**	**514.4**	**-1.6**	**-0.3%**
Income from property development	18.9	13.2	-5.6	-29.8%
Cost of inventory	-14.8	-12.1	2.7	-18.3%
PROPERTY DEVELOPMENT MARGIN	**4.1**	**1.2**	**-2.9**	**-71.5%**
Income from other activities	14.1	18.7	4.5	32.2%
Purchases consumed	-2.0	-2.0	0.0	-1.0%
Maintenance	-53.9	-52.7	1.2	-2.2%
External services	-55.6	-53.3	2.3	-4.2%
Taxes other than income taxes	-46.0	-44.6	1.4	-3.1%
Personnel expenses, discretionary and non-discretionary profit-sharing	-76.7	-78.6	-1.9	2.5%
Other operating income (expense)	0.0	-7.1	-7.0	-
RECURRING OPERATING INCOME	**299.9**	**296.0**	**-3.9**	**-1.3%**
Disposal gains on investment property	116.7	106.9	-9.8	-8.4%
EBITDA	**416.6**	**402.9**	**-13.8**	**-3.3%**
Depreciation and amortisation net of government grants and subsidies	-154.6	-161.6	-7.0	4.5%
Net (additions to) reversals of provisions	0.4	0.0	-0.4	-109.3%
EBIT before share in net income of associates	**262.5**	**241.3**	**-21.2**	**-8.1%**
Share in net income of associates	16.3	13.4	-2.9	-17.8%
EBIT after share in net income of associates	**278.7**	**254.7**	**-24.1**	**-8.6%**
Cost of net debt	-110.4	-103.1	7.3	-6.6%
PROFIT BEFORE TAX	**168.3**	**151.5**	**-16.7**	**-9.9%**
Income tax expense	-50.0	-32.9	17.1	-34.2%
NET PROFIT	**118.3**	**118.7**	**0.4**	**0.3%**
Non-controlling interests	0.0	0.0	0.0	n/a
NET PROFIT ATTRIBUTABLE TO OWNERS	**118.3**	**118.7**	**0.4**	**0.3%**

	2016 (Reported)	2017 (Reported)
Recurring operating income (excluding property development margin)/net income (net rents + income from other activities)	55.8%	55.3%
Gains on disposals/Profit before tax (excluding impact of swaps	68.8%	73.4%
ROE	7.7%	5.7%

CONSOLIDATED ASSETS GREW BY MORE THAN €370 MILLION

OVERVIEW OF THE GROUP'S BORROWINGS

In December 2016, the Supervisory Board authorised the Group to raise €198 million in new borrowings for 2017 by means of placements on the open market.

Ultimately, €173 million was raised in the form of NSV-type bonds (three tranches of €50 million maturing in 15, 16 and 18 years) and €23 million in bank borrowings (€14 million maturing in 13 years, and €9 million maturing in 16 years). The weighted average interest rate on these borrowings is 1.83% at an average maturity of 16.3 years.

At the end of 2017, a first amount of 80 million was drawn down under the 500 million lending arrangement with the European Investment Bank (EIB) to fund 12,000 units of intermediate housing.

As regards Sainte-Barbe, two fixed-rate 15-year loans were contracted for a total amount of €13.5 million to finance renovation work (i.e., €5 million at 1.10% and €8.5 million at 1.27%).

Because no profits were distributed and due to the effect of the capital increase, the gearing ratio (net debt/equity) dropped to 1.4. Once adjusted for fair value adjustments to interest rate swaps, it comes out at 1.3.

The Loan to Value (LTV) ratio also remained stable at 44%.

IN ASSETS

Non-current assets grew by €56 million (+1%) mainly reflecting the combined effects of:

- a €101 million increase in **investment property**. The value of new buildings placed in service exceeded disposals and depreciation expense for the period;
- a €71 million increase in **available-for-sale financial assets** following the acquisition of the Sidom entities by SNI (€65 million) and the €5 million capital increase carried out by ADESTIA to NLP;
- **the 15 million increase in investments in associates**, reflecting the increased share in the net assets of Adoma;
- the €103 million decrease in **other non-current financial assets**, corresponding mainly to €82 million in negative fair value adjustments to derivatives in the assets of low-cost housing companies (ESHs) (with matching amounts in other financial liabilities), and €20 million in depreciation expense taken over the period on government property-type leases;
- a deferred tax asset has been recognised for an amount of €13 million (€27 million less than in 2016).

Current assets increased by €317 million in the year to 31 December 2017, reflecting the combined effects of:

- lower levels of property development transactions (€11 million less than last year), reflecting higher amounts of disposals than deliveries over the period;
- a €9 million decrease in trade receivables balances;
- the €300 million increase in sundry receivables for the portion of SNI's capital increase of April 2017 not yet paid up by CDC;
- the increase in other current financial assets and cash balances (up €37 million).

IN LIABILITIES AND EQUITY

Equity grew by 33% or €545 million, reflecting the €400 million increase in SNI's capital and the allocation of 100% of profit for 2016.

Current and non-current liabilities were down by €173 million, reflecting the €171 million decrease in other non-current financial liabilities, of which €159 million related to enhanced fair value adjustments to derivatives with negative fair values, and €28 million to capital paid up for FLI.

Current liabilities were €104 million or **14% lower** year on year:

- **other current liabilities** decreased by an amount of €17 million, mainly as a result of €12 million in additional income tax recognised at the end of 2016 (versus a refund of €3 million expected in 2018);
- borrowings remained fairly stable: they grew by €15 million year on year to €3,915 million.

Balance Sheet

in € M

	2016	2017	YoY change 2017/2016
ASSETS			
Intangible assets	5.7	5.4	-0.3
Investment property	4,763.9	4,864.7	100.8
Other non-current assets	12.3	12.3	0.1
Rental property	**4,781.9**	**4,882.4**	**100.5**
Available-for-sale financial assets	78.5	149.4	70.9
Investments in associates	374.5	389.2	14.8
Other financial assets	647.3	544.0	-103.3
Deferred tax assets	39.7	13.0	-26.7
Non-current financial asset	**1,140.0**	**1,095.6**	**-44.4**
NON-CURRENT ASSETS	**5,921.9**	**5,978.0**	**56.1**
Cash and cash equivalents	804.6	841.3	36.7
Inventories	33.1	22.3	-10.8
Trade receivables	226.5	517.2	290.7
CURRENT ASSETS	**1,064.2**	**1,380.9**	**316.7**
Assets held for sale	1.7	2.7	1.0
TOTAL ASSETS	**6,987.8**	**7,361.5**	**373.7**
EQUITY AND LIABILITIES			
Share capital	493.5	893.5	400.0
Reserves	1,036.3	1,180.7	144.5
Net profit for the period	118.3	118.7	0.4
Equity attributable to owners of the parent	**1,648.0**	**2,192.8**	**544.8**
Non-controlling interests		0.0	
TOTAL EQUITY	**1,648.0**	**2,192.8**	**544.8**
TOTAL PROVISIONS	**29.6**	**29.8**	**0.2**
Non-current borrowings	3,381.6	3,484.1	102.5
Other non-current financial liabilities	1,165.1	993.6	-171.5
Deferred tax liabilities	0.0	0.0	0.0
NON-CURRENT LIABILITIES	**4,546.7**	**4,477.7**	**-69.0**
Current provisions	18.7	19.4	0.6
Current borrowings	518.7	430.8	-87.9
Other current liabilities	225.6	208.6	-17.0
CURRENT LIABILITIES	**763.0**	**658.7**	**-104.3**
Liabilities related to assets held for sale	0.5	2.4	1.9
TOTAL EQUITY AND LIABILITIES	**6,987.8**	**7,361.5**	**373.7**

Balance sheet ratios

	2016	2017
Net debt (million)*	3,096	3,074
Gearing (net debt/equity)	1.9	1.4
Gearing (excluding impact of swaps)	1.6	1.3
Net debt/income (statutory accounts)	5.6	5.6

* Net debt = Non-current borrowings + Current borrowings - Cash and cash equivalents

FINANCING THE ACTIVITY

Net funding requirements for 2017 amounted to nearly €48 million following the funding surplus of €59 million recorded in 2016. This reflects a number of factors:

- cash generated by operating activities increased by €3 million to €170.6 million;
- **cash proceeds on disposals**, stable at €163 million, used to fund principal repayments (up by €62 million due to the effect of bullet loan repayments), capital outlay required for work on the housing portfolio (€18 million, stable year on year) and development work (down by €7 million).

Consequently, **free cash flow before equity financing** was €17 million, a drop of €42 million on the figure for 2016.

Free cash flow after equity financing (i.e., cash capital increase paid up by CDC, acquisitions of various equity interests and recapitalisation of subsidiaries) before transfers to reserves was **well balanced at a negative amount of 5 million**.

In order to meet future bullet loan repayments for loans taken out from 2012 on, a **reserve** has been set up to which amounts are transferred every year based on the maturities of loans repayable in equal annual instalments. The balance on this reserve account at end-2017 was almost €43 million, an increase of €7 million on last year, reflecting new bullet loans contracted by the Group during the year and a reduction in the simulated theoretical maturities of repayable loans.

Consolidated Group		in € M
	2016	**2017**
A = Cash flow from operating activities	**167.5**	**170.6**
B = Repayment of principal	-179.9	-242.6
B' = Dividends received from FLI	0.2	0.4
C = A-B = Gross operating cash flow	**-12.2**	**-71.6**
D = Equity invested in renov./enhancement/demolition	-19.1	-18.0
E = C-D = Net operating cash flow	**-31.2**	**-89.6**
F = Cash proceeds on disposals	161.4	162.8
G = Equity invested in development (NB + Acq) (new deliveries)	-61.3	-53.2
H = Equity invested in structural work	-2.3	-1.9
H = Other early repayments	-7.2	-0.9
I = F+G+H = Development activity and disposals	**90.6**	**106.7**
J = E+I = Free Cash Flow before equity financing	**59.4**	**17.1**
Cost of raising funds for FLI	-14.3	-27.8
Recapitalisation of ESH/ADESTIA	0.0	-52.0
External funding for recapitalising ESH/ADESTIA	50.0	0.0
Acquisition of equity interests (Sidom in 2017)	0.0	-42.5
Distributed dividends	0.0	0.0
Cash capital increase	0.0	100.0
H = Free Cash Flow after equity financing and before transfers to reserves	**95.1**	**-5.2**
B' = Transfers to bullet loan repayment reserves	**-36.2**	**-42.7**
TOTAL FREE CASH FLOW	**59.0**	**-48.0**

SOCIAL HOUSING COMPANIES

This division comprises all social housing companies (ESHs) whose shares are owned by ADESTIA, a wholly-owned subsidiary of SNI. In view of restrictions on the shareholder base, voting rights, the disposal of shares and dividend entitlements under current regulations, this division is not consolidated either by SNI or Caisse des Dépôts. These entities are subject to very specific tax treatment (exemption from income tax and property tax exemption over long periods, VAT at a reduced rate).

INCOME STATEMENT

Net rental income grew by 0.8% year on year, mainly thanks to new operations and lower charges on vacant premises to a lesser extent.

Operating expenses (mostly comprising payments into the social rental housing guarantee fund [CGLLS], maintenance, payments to meet regulatory obligations and payroll) were carefully controlled and kept very close to 2016 levels. Consequently, EBITDA came in at €486 million and represented 54.4% of net rental income.

EBIT was hit by big increases in depreciation charges related to new buildings placed in service and renovation work carried out.

The Division's net financial expense fell by €13.1 million in line with lower finance costs tied to interest rates paid on Livret A passbook savings accounts, which were held at 0.75%, and the reversal of a big provision taken on derivatives following an increase in their fair value.

Disposal gains rose 11.2% year on year to €127.9 million in line with the increase in split sales (+145 units or +35%).

The division generated non-recurring income for the period of €12.5 million, which was €0.6 million less than in 2016.

Income and other taxes totalled €6.2 million for the year, €4.5 million higher than in 2016, due to the provision recorded for capital gains tax on split sales pursuant to the 2018 Finance Bill. This resulted in a net profit of €202.8 million.

Income Statement in € M

	2016	2017	YoY change 2017/2016	YoY change 2017/2016 (%)
NET RENTAL INCOME	**887.2**	**894.2**	**7.0**	**0.8%**
Fees paid	-11.2	-11.3	-0.2	1.4%
Maintenance	-103.8	-100.9	2.9	-2.8%
Local non-recoverable payroll	-23.8	-23.5	0.3	-1.2%
Property tax on developed property	-89.5	-91.7	-2.2	2.5%
Other direct costs	-24.4	-22.6	1.8	-7.4%
CONTRIBUTION MARGIN	**634.5**	**644.1**	**9.6**	**1.5%**
Administrative staff payroll	-102.1	-105.6	-3.5	3.4%
Other indirect costs	-28.5	-28.1	0.4	-1.5%
Services	-27.5	-34.8	-7.3	26.5%
Own work capitalised	5.6	10.4	4.8	86.6%
GENERAL EXPENSES	**-152.6**	**-158.1**	**-5.5**	**3.6%**
EBITDA	**481.9**	**486.0**	**4.1**	**0.8%**
Depreciation and amortisation net of government grants and subsidies	-254.8	-266.9	-12.1	4.7%
Variance MR/PMRs	2.3	2.3	0.0	0.3%
EBIT	**229.4**	**221.5**	**-8.0**	**-3.5%**
Financial expense	-165.5	-157.6	7.9	-4.8%
Financial income	6.2	11.3	5.1	82.1%
NET FINANCIAL EXPENSE	**-159.3**	**-146.2**	**13.1**	**8.2%**
Acquisition-related costs	-0.1	0.0	0.1	-69.4%
PROFIT FROM ORDINARY ACTIVITIES	**70.0**	**75.2**	**5.2**	**7.4%**
Net profit on disposals	115.0	127.9	12.9	11.2%
Other non-recurring profit	13.1	12.5	-0.6	-4.6%
Profit sharing	-11.3	-6.5	4.8	-42.3%
Income and other taxes	-1.7	-6.2	-4.5	267.2%
NET PROFIT	**185.2**	**202.8**	**17.6**	**9.5%**

BALANCE SHEET

Total assets grew by 5% (or by €534 million) in 2017.

The main changes in non-current assets (excluding depreciation charges and derecognition of components) were as follows:

- deliveries for the period, i.e., 3,928 units of housing (excluding programmes for first-time buyers), representing a total amount of €486 million;
- investment work for the period totalling €237 million;
- sales for the period, leading to the derecognition of assets totalling €64 million;
- assets under construction, which increased by €149 million year on year.

Equity rose by nearly 5% (or by €194 million) on the previous year, most of which was attributable to profit for the period.

Thanks to large volumes of disposals in recent years, at end-2017 cash on hand represented eleven months' worth of rental income.

Both the net debt/net rental income and gearing ratios (i.e., net debt/equity) remained stable year on year.

Balance Sheet in € M

	2016	2017	YoY change 2017/2016	YoY change 2017/2016 (%)
ASSETS				
Rental property	9,051.1	9,361.5	310.4	3%
Renovation and building work in-progress	777.6	927.0	149.4	19%
Rental property	9,828.7	10,288.5	459.8	5%
Owner-occupied property	24.1	26.3	2.3	9%
Non-current financial assets	24.5	24.4	-0.1	0%
NON-CURRENT ASSETS	**9,877.2**	**10,339.3**	**462.0**	**5%**
Cash and cash equivalents	663.8	805.8	141.9	21%
Inventories	26.4	26.2	-0.2	-1%
Trade receivables	440.2	370.3	-69.9	-16%
Deferred charges	0.2	0.4	0.2	111%
CURRENT ASSETS	**1,130.7**	**1,202.7**	**72.0**	**6%**
TOTAL ASSETS	**11,007.9**	**11,541.9**	**534.0**	**5%**
EQUALITY AND LIABILITIES				
Capital and reserves	2,071.0	2,259.8	188.8	9%
Profit for the period	185.2	202.8	17.6	10%
Government grants	1,287.9	1,275.8	-12.1	-1%
EQUITY	**3,544.1**	**3,738.4**	**194.3**	**5%**
Provisions for major repairs	28.1	28.7	0.6	2%
Other provisions	70.3	65.2	-5.1	-7%
PROVISIONS	**98.4**	**93.9**	**-4.6**	**-5%**
Borrowings (outstanding principal)	6,782.9	7,041.7	258.8	4%
Accrued interest on borrowings not yet due	65.4	63.4	-2.1	-3%
Compensating interest	3.8	1.3	-2.4	-65%
NON-CURRENT LIABILITIES	**6,852.1**	**7,106.4**	**254.3**	**4%**
Current borrowings	489.4	580.7	91.3	19%
Deferred income	23.9	22.5	-1.4	-6%
CURRENT LIABILITIES	**513.3**	**603.2**	**89.9**	**18%**
TOTAL EQUITY AND LIABILITIES	**11,007.9**	**11,541.9**	**534.0**	**5%**

Balance sheet ratios

	2016	2017
Net debt/net rental income	7.0	7.0
Net debt/rental property	0.6	0.6
Gearing (net debt/equity)	1.7	1.7
Cash on hand/number of months of rental income	9.0	10.8

FREE CASH FLOW

Cash generated by operating activities grew by €12 million which absorbed the increase in principal repayments and generated gross operating cash flows of €27.6 million. Capital outlay required for work on the housing portfolio was covered by cash proceeds on disposals.

Free cash flow came out at €35.8 million, which was €29 million more than in 2016, due to a €23 million decrease in equity invested in development (3,928 deliveries in 2017 versus 4,605 in 2016).

After payment of the first tranche of equity financing ("Prêt de Haut de Bilan") of €41.3 million and the €5 million capital increase carried out by ADESTIA to NLP, Free cash flow after equity financing was €82.2 million.

Free Cash Flow — in €M

	2016	2017
Cash flow from operating activities	330.0	342.2
Compensating interest	-4.9	-2.4
Repayment of capital (excl. early repayments)	-302.9	-312.1
GROSS OPERATING CASH FLOW	**22.1**	**27.6**
Equity invested in renov/enhancement work	-38.6	-43.8
Equity invested in building components	-34.8	-37.3
NET OPERATING CASH FLOW	**-51.3**	**-53.6**
Cash proceeds on disposals (price - outstanding principal)	142.5	158.6
Equity invested in development (NB + Acq)	-73.2	-50.1
Equity invested in structural work	-1.7	-2.2
Acquisition-related costs	-0.1	0.0
Other early repayments	-8.1	-15.5
Dividends paid	-1.2	-1.4
FREE CASH FLOW	**6.8**	**35.8**
Additional resources	0.0	46.4
FREE CASH FLOW AFTER EQUITY FINANCING	**6.8**	**82.2**

REAL ESTATE COMPANIES IN FRENCH OVERSEAS DEPARTMENTS

This division comprises six real estate companies in French Overseas Departments (known collectively as Sidom): SIMAR (Martinique), SIG (Guadeloupe), SIGUY (French Guyana), SIMKO (French Guyana), SIDR (Reunion Island) and SIM (Mayotte). SNI acquired a 34% stake in these entities on 19 December 2017.

INCOME STATEMENT

Net rental income grew by 4.5% year on year, mainly due to 1,932 new housing units and 46 commercial units placed in service. EBITDA came in at €175.1 million and represented 51.1% of net rental income. The 9.9% year-on-year increase in EBITDA was driven by lower maintenance expenditure (this represented 10.4% of net rental income versus 12.9% in 2016). The ratio of management costs/net rental income remained stable at 28.8%, however it varied considerably between the different entities (from 18.8% to 36.6%).

EBIT reflected increases in:

- depreciation charges related to new buildings placed in service and renovation work carried out, and
- additions to provisions for major repairs due to an updated works programme.

Net financial expense increased by €3.1 million in 2017, driven by an extra €5 million in financial expense due to an additional €45 million of debt.

Profit from ordinary activities came out at €16 million which was 15.1% higher than last year.

Disposal gains jumped by 82.4% to €14.5 million (248 units of housing sold versus 175 in 2016, including the block sale of 84 housing units by SIMAR).

Net profit was €5.7 million for year, down on 2016 due to the recognition in non-recurring profit of contingency provisions for operations in progress (new buildings or redevelopment work) and write-downs taken on land, mostly on the books of SIDR, SIG and SIGUY.

Income Statement in € M

	2016	2017	YoY change 2017/2016	YoY change 2017/2016 (%)
NET RENTAL INCOME	**328.2**	**342.8**	**14.6**	**4.5%**
Fees	-1.3	-1.3	0.1	-5.8%
Maintenance	-42.3	-35.7	6.6	-15.6%
Local non-recoverable payroll	-3.5	-4.6	-1.1	32.0%
Property tax on developed property	-31.7	-32.1	-0.4	1.1%
Other direct costs	-7.4	-6.8	0.6	-7.9%
CONTRIBUTION MARGIN	**241.9**	**262.3**	**20.4**	**8.4%**
Administrative staff payroll	-68.8	-70.2	-1.4	2.0%
Other indirect costs	-25.4	-28.8	-3.3	13.1%
Services	11.7	11.7	0.0	-0.1%
GENERAL EXPENSES	**-82.5**	**-87.3**	**-4.7**	**5.7%**
EBITDA	**159.4**	**175.1**	**15.7**	**9.9%**
Depreciation and amortisation net of government grants and subsidies	-109.0	-114.5	-5.5	5.1%
Variance MR/PMRs	-1.2	-6.2	-5.0	410.3%
EBIT	**49.2**	**54.4**	**5.2**	**10.6%**
Financial expense	-55.0	-60.1	-5.0	9.1%
Financial income	19.7	21.7	1.9	9.7%
NET FINANCIAL EXPENSE	**-35.3**	**-38.4**	**-3.1**	**8.8%**
PROFIT FROM ORDINARY ACTIVITIES	**13.9**	**16.0**	**2.1**	**15.1%**
Net profit on disposals	7.9	14.5	6.5	82.4%
Other non-recurring profit	-1.5	-22.9	-21.4	1,410.8%
Profit sharing	-0.9	-1.2	-0.4	43.1%
Income and other taxes	-0.8	-0.6	0.2	-23.8%
NET PROFIT	**18.6**	**5.7**	**-13.0**	**-69.6%**

BALANCE SHEET

The balance sheet is based on the restated statutory accounts (i.e., non-current financial assets rolled into rental property) and reflects the activity of the different entities: total assets grew by €153.6 million year on year.

The main changes in non-current assets (excluding depreciation charges and derecognition of components) were as follows:

- deliveries for the period, i.e., 1,932 new housing units and 46 commercial units for amounts of €311 million and €26 million, respectively;
- investment work for the period totalling €76 million;
- assets under construction, which increased by an amount of €46 million year on year.

The amount of cash on hand at end-2017 remained constant at 8.2 months' worth of rental income: borrowings are paid out under pre-financing arrangements as work progresses (on a percentage-of-completion basis).

Equity increased by nearly 6% year on year to €87.7 million, mostly reflecting higher capital and reserves (an €8.5 million capital increase for SIGUY, including an uncalled amount of €6 million) as well as a €76 million increase in government grants.

The €45.4 million increase in borrowings includes new equity financing arrangements for SIG and SIMKO for €6.5 million and €20.5 million, respectively.

The net debt/net rental income ratio edged up slightly to 9 and the net debt/rental property ratio rose to 66.8%. The gearing ratio (net debt/equity) remained stable at 2.

Balance Sheet in € M

	2016	2017	YoY change 2017/2016	YoY change 2017/2016 (%)
ASSETS				
Rental property	3,973.3	4,131.1	157.8	4.0%
Renovation and building work in-progress	440.1	486.1	46.0	10.4%
Rental property	**4,413.4**	**4,617.1**	**203.8**	**4.6%**
Owner-occupied property	48.6	36.4	-12.2	-25.1%
Non-current financial assets	7.8	8.0	0.2	2.5%
NON-CURRENT ASSETS	**4,469.7**	**4,661.5**	**191.8**	**4.3%**
Cash and cash equivalents	218.9	235.4	16.5	7.5%
Inventories	122.5	119.4	-3.2	-2.6%
Trade receivables	468.7	417.3	-51.4	-11.0%
CURRENT ASSETS	**810.2**	**772.0**	**-38.1**	**-4.7%**
TOTAL ASSETS	**5,279.9**	**5,433.5**	**153.6**	**2.9%**
EQUITY AND LIABILITIES				
Capital and reserves	418.9	443.5	24.5	5.9%
Profit for the period	18.6	5.7	-13.0	-69.6 %
Government grants	1,053.2	1,129.2	76.0	7.2%
Other	1.4	1.4	0.1	5.2%
EQUITY	**1,492.1**	**1,579.8**	**87.7**	**5.9%**
Other provisions	96.5	115.2	18.7	19.4%
PROVISIONS	**96.5**	**115.2**	**18.7**	**19.4%**
Borrowings (outstanding principal)	3,251.9	3,297.3	45.4	1.4%
Accrued interest on borrowings not yet due and compensating interest	19.6	24.3	4.7	23.9%
NON-CURRENT LIABILITIES	**3,271.5**	**3,321.7**	**50.1**	**1.5%**
Current borrowings	302.1	313.4	11.3	3.7%
Deferred income	117.6	103.4	-14.2	-12.1%
CURRENT LIABILITIES	**419.7**	**416.9**	**-2.9**	**-0.7%**
TOTAL EQUITY AND LIABILITIES	**5,279.9**	**5,433.5**	**153.6**	**2.9%**

Balance sheet ratios

	2016	2017
Net debt/net rental income	9.3	9.0
Net debt/rental property	69.2%	66.8%
Gearing (net debt/equity)	2.0	2.0
Cash on hand/number of months of rental income	8.0	8.2

FREE CASH FLOW

The entities generated positive gross operating cash flow for the period of €8.6 million which was similar to last year. The net funding requirement amounted to €35.2 million and reflects equity invested in the property portfolio and new construction projects, notably SIG's delivery of commercial real estate which consumed €20 million of equity (the search for funding is ongoing). This shortfall was partially absorbed by €31.4 million in external funding (i.e., increase of €4.3 million in SIGUY's capital and social rental housing guarantee fund [CGLLS], and equity financing arrangements ["Prêt de Haut de Bilan"] for SIG and SIMKO for €6.5 million and €20.5 million, respectively).

Free Cash Flow in € M

	2016	2017
Cash flows from operating activities	133.1	138.1
Compensating interest	0.0	0.0
Repayment of capital (excl. early repayments)	-124.2	-129.6
GROSS OPERATING CASH FLOW	**9.0**	**8.6**
Capital invested in building work (deliveries)	-21.2	-31.9
NET OPERATING CASH FLOW	**-12.3**	**-23.3**
Cash proceeds on disposals (price - outstanding principal)	7.9	12.9
Equity invested in development (NB + Acq)	0.0	-25.7
Equity invested in structural work	-1.2	1.1
Other early repayments	-3.5	-0.1
Dividends	0.0	0.0
FREE CASH FLOW	**-9.2**	**-35.2**
Additional resources	6.0	31.4
FREE CASH FLOW AFTER EQUITY FINANCING	**-3.2**	**-3.7**

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