RISK FACTORS

This chapter covers the identified risks that could affect the Company, including a description of the measures it has taken to anticipate and limit the potential impact of those risks. Note that doing business involves taking risks and so it is not possible to eliminate the potential impact of all the risks identified, nor of any residual risk that therefore has to be borne by the Company and, indirectly, by its shareholders. The current economic and financial climate may accentuate certain risks to Befimmo's business.

This list of risks is based on information known at the time of writing of this Report, though other risks, which may be unknown, improbable or unlikely to have an adverse effect on the Company, its business or its financial situation, may of course exist. The list of risks in this chapter is therefore not exhaustive.

MAIN MARKET-RELATED RISKS

RISK OF SEGMENTAL AND GEOGRAPHICAL CONCENTRATION

DESCRIPTION OF RISK

The Befimmo portfolio is not very diversified in terms of segment and geography. It consists of office buildings, mainly located in Brussels and its economic Hinterland (68.4%[1] of the portfolio as at 31 December 2016). The vacancy rate for the Brussels office market was 9.30%[2] at 31 December 2016 compared with 10.10% at the end of 2015. Befimmo's portfolio was let with an occupancy rate[3] of 94.79% at 31 December 2016 compared with a rate of 94.15% at the end of 2015.

? Glossary
→ "Property portfolio, on page 29"

POTENTIAL IMPACT

Given this sectoral and geographical concentration, the Company is sensitive to developments in the Brussels office property market, which is characterised in particular by a significant presence of European institutions and related activities.

MITIGATION AND CONTROL MEASURES

Befimmo's investment strategy is focused on quality office buildings, with a good location, good accessibility and a sufficient critical size, among other factors. Buildings must be well equipped and flexible, have an appropriate rental situation and a potential for value creation. This investment strategy makes the buildings more attractive to tenants and hence ensures a better occupancy rate. This makes Befimmo in principle less sensitive to any deterioration of the market.

→ "Identity and strategy, on page 20"

RISKS RELATED TO RENTAL VACANCY

DESCRIPTION OF THE RISKS

The office property market is currently characterised by higher supply than demand. As at 31 December 2016, the occupancy rate[3] of Befimmo's portfolio was 94.79% (compared with 94.15% at 31 December 2015). The Company is exposed to the risks of its tenants leaving, and of renegotiating their leases. These risks include, among others, the following: risk of lost and/or reduced income, risk of negative reversion on rents, risk of pressure on renewal conditions and to grant periods of gratuities, risk of decline in fair value, etc. Befimmo is also exposed to the impact of tenants' policy to optimise their needs for office space.

1. Calculated on the basis of the fair value of the investment properties.
2. Source: CBRE at 31 December 2016.
3. Current rents/(current rents + estimated rental value of vacant space). Calculated on the basis of properties available for lease.

POTENTIAL IMPACT

If this risk were to materialise it would lead to a decline in occupancy rates and a reduction in the operating result of the portfolio. On an annual basis as at 31 December 2016, a 1% fluctuation in the occupancy rate of the Company's portfolio would have an impact of some €2.1 million on the property operating result, €0.08 on the net asset value per share and 0.08% on the debt ratio.

The direct costs related to rental vacancy, namely charges and taxes on unlet properties, were estimated at -€4.05 million on an annual basis, or about 2.94% of total rental income.

The Company may also be exposed to higher expenses in connection with the marketing of properties available for lease.

MITIGATION AND CONTROL MEASURES

To mitigate these risks, the Company invests in quality properties. It has a professional sales team dedicated to finding new tenants and actively managing the relationship with its customers. Tenant satisfaction is a priority, and Befimmo strives to equip its buildings with that in mind.

Moreover, Befimmo offers a comprehensive personalised service to facilitate the everyday lives of its tenants.

→ "Identity and strategy, on page 20"
→ "Social Responsibility - The tenants, on page 105"

The constancy of Befimmo's cash flow depends mainly on its rental income being secured. The Company therefore strives to ensure that a proportion of its portfolio is let on long-term leases and/or to multiple tenants, which helps to spread the rental risks. As at 31 December 2016, the average duration of Befimmo's leases was 8.07 years.

RISKS ASSOCIATED WITH TENANTS

DESCRIPTION OF THE RISKS

The Company is exposed to the risks related to the financial default of its tenants.

POTENTIAL IMPACT

The financial default of tenants can lead to a loss of rental income, an increase in property charges where rental charges cannot be recovered and the appearance of unexpected rental vacancies. As described in the risks related to rental vacancy, the Company is in this case exposed to the risk of pressure on renewal conditions and to grant periods of gratuities etc. The ageing balance of trade receivables is to be found in the financial statements (note 32 on page 174 of this Annual Financial Report 2016).

MITIGATION AND CONTROL MEASURES

To limit the risk of default, the Company makes a prior analysis of the financial health of its prospective customers. Moreover, in line with standard market practice, private-sector tenants are required to provide a rental guarantee. Public-sector tenants (the Belgian Government, Flemish Region and European institutions), which occupy a substantial proportion of the Company's portfolio (65.74%[1] as at 31 December 2016), do not generally give rental guarantees, however, but do have a more limited risk profile. Moreover, a procedure of regular follow up of outstanding receivables is applied.

MAIN RISKS RELATED TO THE PROPERTY PORTFOLIO G4-2

RISK RELATED TO THE FAIR VALUE OF THE PROPERTIES

DESCRIPTION OF RISK

The Company is exposed to the risk of a decline in the fair value of its portfolio as independently valued every quarter by independent experts. The Company is also exposed to the risk of the real-estate experts over-valuing or under-valuing its properties in relation to their true market value.

A change in the value of properties may result from various factors specific to the property (change of occupation, technical condition, etc.) and/or its environment (general economic trends and interest rates, regulatory framework, geopolitical context, etc.).

This risk is accentuated in the market segments in which the limited number of transactions gives the experts few points of comparison, which still holds true to some extent for the decentralised areas and periphery of Brussels (9.4%[2] of the portfolio), and more generally in the Belgian provincial towns.

POTENTIAL IMPACT

A decline in the fair value of the portfolio has an impact on the Company's net result, equity, debt ratio[3] and LTV[4]. A significant negative change in the fair value of the portfolio could have an impact on the Company's ability to distribute a dividend[5] if the cumulative negative changes in fair value were to exceed the total value of distributable and non-distributable reserves and the distributable portion of the share premiums.

1. Calculated on the basis of the current rent as at 31 December 2016.
2. Calculated on the basis of the fair value of the investment properties as at 31 December 2016.
3. The debt ratio is calculated in accordance with the Royal Decree of 13 July 2014.
4. Loan to value ("LTV") = [(nominal financial debts – cash)/fair value of portfolio]. This is an Alternative Performance Measure. For more information, please consult Appendix II of this Report.
5. Please see the chapter "Appropriation of results (statutory accounts)" of this Annual Financial Report 2016.

Based on the data as at 31 December 2016, a 1% decline in the value of the property assets would have an impact of around -€25.1 million on the net result, entailing a change of around -€0.98 in the net asset value per share, around +0.44% in the debt ratio and around +0.43% in the LTV ratio.

As a matter of interest, the AMCA building in Antwerp, the Paradis Tower in Liège, the Gateway building at Brussels airport and the WTC Tower III in Brussels each account for between 5 and 10% of the fair value of the portfolio as at 31 December 2016.

MITIGATION AND CONTROL MEASURES

The scale of the risks related to a decline in the fair value of the properties is mitigated by Befimmo's investment policy which is to invest in quality office buildings in good locations, on good leases: such buildings historically have a less volatile fair value. The regulations provide for the rotation of the independent experts, and Befimmo systematically informs its experts, organising tours of the buildings, among other things.

RISK RELATED TO INADEQUATE INSURANCE COVER

DESCRIPTION OF RISK

The Company is exposed to the risk of major losses in its buildings.

POTENTIAL IMPACT

A loss in a property entails the costs of repairing the damage. A major loss where the premises can no longer be occupied may lead to the termination of a lease, and hence an unexpected rental vacancy, which could reduce the portfolio's operating income and diminish the fair value of the building.

MITIGATION AND CONTROL MEASURES

In order to mitigate this risk, the buildings in Befimmo's portfolio are covered by a number of insurance policies (risks of fire, storm, water damage, etc.) covering loss of rent for a limited period (in principle for the time needed for reconstruction), and also the cost of works, for a total value (new reconstruction value, excluding the value of the land) of €2,208.9 million at 31 December 2016. Befimmo has moreover a policy that covers terrorism risks.

→ "Property portfolio, on page 29"

RISK OF DETERIORATION AND OBSOLESCENCE OF BUILDINGS

DESCRIPTION OF RISK

The Company is exposed to the risk of deterioration of its buildings through wear and tear, and the risk of obsolescence associated with the growing (legislative and societal) demands, mainly in terms of sustainable development (energy performance, etc.).

POTENTIAL IMPACT

The obsolescence and deterioration of a building increase the risk of rental vacancy and require investment to bring the building into compliance with regulatory requirements and tenants' expectations.

MITIGATION AND CONTROL MEASURES

Befimmo ensures that its property is kept in a good state of repair and is upgraded in terms of energy, technical and other performance criteria by making an inventory of preventive and corrective maintenance work to be carried out, and establishing a works programme. Befimmo is also keen to have most of its buildings covered by "total guarantee"[6] maintenance contracts.

At 31 December 2016, 81%[7] of the consolidated portfolio was covered by such a "total guarantee" contract.

True to one of the key principles of sustainable development, "reduction at source"[8] of environmental impact, Befimmo is closely monitoring the development of existing legislation, anticipating forthcoming legislation and analysing the sector studies in order to incorporate new management technologies and tools into its renovation projects as quickly as possible.

RISKS RELATED TO THE EXECUTION OF WORKS

DESCRIPTION OF THE RISKS

When carrying out major works on the buildings in its portfolio, the Company is exposed to the risks of delays, overshooting the budget, environmental damage and organisational problems. It is also exposed to the risk of default and non-compliance with specifications by the contractors responsible for the works.

POTENTIAL IMPACT

Problems encountered during the execution of the works may adversely affect the Company's results owing to a loss of rental income and/or a decline in value of the property and/or an increase in charges, and may also have an adverse impact on its reputation.

MITIGATION AND CONTROL MEASURES

Detailed monitoring of technical, budgetary and planning aspects has been introduced to manage the risks associated with such works. Furthermore, the contracts with building contractors generally provide for a number of measures to limit these risks (price ceilings, delay penalties, etc.). Befimmo also regularly assesses its main suppliers and service providers, and in particular checks that its co-contractors have no unpaid social contributions or taxes. Regarding environmental issues, specific measures – complying with and in some cases exceeding the regulations in force – are incorporated into the specifications and contracts applying to successful tenderers.

Compliance with these environmental measures is monitored while the works are in progress (notably by external environmental coordinators, ISO 14001 procedures, site audits, BREEAM assessors, etc.).

6. A maintenance contract with a total guarantee facility covers all preventive and corrective maintenance activities to be carried out over the duration of the contract and sets a price cap which protects the owner against major unforeseen expenses.
7. The Paradis Tower was covered by the builder's guarantee until the end of 2016, and a total guarantee thereafter.
8. In other words, being proactive where possible, at the design stage of a project, rather than reacting through corrective measures on an existing building.

ENVIRONMENTAL RISKS

DESCRIPTION OF THE RISKS

When managing its portfolio, the Company is exposed to environmental risks, notably in terms of pollution, soil, water, air (high CO_2 emissions) and also noise pollution. It is also exposed to the risk of not achieving its targets for improving its environmental performance and of losing the certifications (BREEAM, ISO 14001, etc.) that it was received.

POTENTIAL IMPACT

In view of its real-estate activity in the broad sense, if such risks were to materialise, the environment could sustain damage and Befimmo could also incur significant costs and suffer damage to its reputation with its stakeholders. The occurrence of an environmental risk could, in some cases, also have an adverse impact on the fair value of the portfolio.

MITIGATION AND CONTROL MEASURES

Befimmo adopts a responsible approach under which it has, for many years, aimed to take the necessary measures to reduce the environmental impact of the activities it controls and directly influences, such as, for its renovation and/or building projects, site checks, and for the operational portfolio compliance with the environmental permits.

Furthermore, the implementation of its Environmental Management System ("EMS"), which is ISO 14001 compliant, allows it better to anticipate environmental risks at both strategic level (acquisitions, major renovations, etc.) and operational level (building maintenance, use of buildings, etc.).

It also devotes the necessary resources, both internal and external, to analysing its environmental performance and the potential for improvement, and ensuring compliance with the requirements associated with certifications obtained.

→ "Social Responsibility, on page 77"

RISK RELATED TO MERGERS, DEMERGERS OR ACQUISITIONS

DESCRIPTION OF RISK

Many of the buildings in the Befimmo real-estate portfolio were acquired through companies, which were generally then absorbed into or merged with Befimmo. There is therefore a risk that the value of certain assets may have been over-estimated or that hidden liabilities have been transferred to the Company during such operations.

POTENTIAL IMPACT

The realisation of the need to revalue certain assets or record certain liabilities could entail a financial loss to the Company.

MITIGATION AND CONTROL MEASURES

The Company takes the usual precautions in operations of this type, mainly by carrying out full due-diligence exercises (accounts, taxation, etc.) on properties contributed and on absorbed or merged companies that may involve obtaining guarantees.

RISK RELATED TO CO-OWNERSHIP

DESCRIPTION OF RISK

Some properties in the Befimmo portfolio are co-owned. Co-ownerships are governed by the Civil Code and provide in particular that important decisions other than the routine management of the co-ownership, when it involves major work affecting the common parts of the building, must be taken by special majorities. Furthermore, no single co-owner may ever have a majority voting power in relation to all other co-owners present or represented.

POTENTIAL IMPACT

Important decisions must be taken by qualified majority voting, which could have an impact on the time needed to carry out major works or even the feasibility of certain projects.

MITIGATION AND CONTROL MEASURES

Befimmo generally endeavours to limit its ownership of co-owned assets. 5.32%[1] of the portfolio is co-owned.

RISKS RELATED TO NON-COMPLIANCE OF THE BUILDINGS WITH THE APPLICABLE REGULATIONS

DESCRIPTION OF THE RISKS

The Company is exposed to the inflation of, and increasingly complex, regulatory standards applicable to the buildings in its portfolio. This trend requires the Company to keep up to date at all times with these new rules and to bring its buildings in conformity with the applicable standards.

The Company runs the risk that one or more of its properties do not immediately meet all the applicable new standards and regulations.

POTENTIAL IMPACT

The adoption of new rules applicable to the properties in the Company's portfolio may necessitate additional investments and thereby entail increased costs to the Company and/or delays in ongoing projects (renovation, etc.).

Non-compliance of a building with all the applicable regulations is liable to have an impact at several levels for the Company: the valuation of the property may be adversely affected by non-compliance with any regulation; the Company may be liable for civil, administrative or criminal fines; tenants or other third parties may hold the Company liable for non-compliance (e.g. in case of fire for failing to comply with safety standards).

More generally, non-compliance with the regulations for one or more properties owned by the Company, and the potential consequences of that, are liable to have an adverse impact on the Company's reputation, business and results.

1. On the basis of the fair value as at 31 December 2016.

MITIGATION AND CONTROL MEASURES

To manage these risks, the Company has put in place the necessary procedures (i) to anticipate these new standards and regulations (legal and regulatory monitoring), (ii) to check the compliance of buildings newly acquired (technical due diligence) and in the portfolio (product manager in charge of regulatory compliance, checks on compliance with standards and regulations, notably related to the environment) and, (iii) to bring the building concerned immediately into compliance by adopting these new standards and regulations (project management). Tenants are also made aware of their obligations in this regard by a clause in the standard lease.

MAIN ECONOMIC AND FINANCIAL RISKS

RISK OF INFLATION AND DEFLATION

DESCRIPTION OF RISK

Befimmo leases contain clauses indexing rents to changes in the health index. The Company is therefore exposed to a risk of deflation on its income. Befimmo is also exposed to the risk that the costs it has to bear are indexed on a basis that changes faster than the health index.

POTENTIAL IMPACT

The impact of the adjustment of rents can be estimated at €1.4 million on an annual basis (not including protection) per percentage point change in the health index.

MITIGATION AND CONTROL MEASURES

Regarding the risk of deflation, 90.76%[2] of the leases in Befimmo's consolidated portfolio are hedged, in line with standard practice, against the effect of any negative indexing (42.45% provide for a minimum equal to the base rent while 48.31% contain a clause that sets a minimum of the last rent paid). The remaining 9.24% of the leases do not provide for any minimum rent.

In relationships with building contractors, Befimmo strives to contain this risk through contractual clauses.

RISK ASSOCIATED WITH CHANGING INTEREST RATES

DESCRIPTION OF RISK

Financial charges are the Company's main item of expenditure. They are heavily influenced by interest rates on the financial markets.

POTENTIAL IMPACT

Rising interest rates increase financial charges and decrease the net result and EPRA earnings[3].

In the context of current interest rates, the practice of some banks to set a 0% floor on Euribor, used as reference in financing contracts, has an adverse impact on financial charges. This practice can also create distortion between the floating rates used in financing contracts and IRS type hedging contracts.

A change in interest rates could also have an impact, with a delayed effect, on valuations of the properties in the portfolio

MITIGATION AND CONTROL MEASURES

The Company has implemented a policy of hedging its interest-rate risk, consisting of financing part of its borrowings at fixed rates and arranging IRS financial instruments or CAP options on part of its borrowings at floating rates.

On the basis of total borrowings as at 31 December 2016, a debt of €766.5 million (or 72.1% of the total) is financed at fixed rates (conventional fixed rates or rates fixed by IRS). The remainder of the debt, €296.7 million, is financed at floating rates, part of which (27.3%) is hedged against rising interest rates by means of optional instruments (CAP/COLLAR[4]). A remaining of 0.7% of the debt is thus not covered.

Without taking account of hedging, on the basis of the borrowings situation and the Euribor rates at 31 December 2016 (all assumed to be constant over a 12-month period), the impact of a 0.25% rise in market rates would raise financial charges by an estimated €1.5 million (annualised). Conversely, a 0.25% decline in market rates would reduce financial charges by an estimated €1.5 million (annualised).

Taking account of the hedging arranged, the borrowings situation and the Euribor rates at 31 December 2016 (all assumed to be constant over a 12-month period), the impact of a 0.25% rise in market rates would raise financial charges by an estimated €0.4 million (annualised). Conversely, a 0.25% decline in market rates would reduce financial charges by an estimated €0.4 million (annualised).

RISK RELATED TO CHANGING CREDIT MARGINS

DESCRIPTION OF RISK

The Company's financing cost also depends on the credit margins charged by the banks and the financial markets. These financing margins change in line with the global economic climate, and also with the regulations, especially in the banking sector (known as the "Basel III" and "Basel IV" requirements).

POTENTIAL IMPACT

An increase in credit margins raises financial charges and therefore adversely affects EPRA earnings and the net result.

2. On the basis of the current rent as at 31 December 2016.
3. This is an Alternative Performance Measure. For more information, please consult the chapter "EPRA Best Practices" on page 56.
4. Buying a COLLAR (buying a CAP and selling a FLOOR) places a ceiling (CAP) on the impact of a rise in interest rates, but also involves an undertaking to pay a minimum rate (FLOOR).

MITIGATION AND CONTROL MEASURES

To limit this risk, the Company spreads the maturities[1] of its financing over time and diversifies its sources[2] of financing.

It also seeks to optimise the use of its financing by giving preference to financing with the lowest margins (e.g. a short-term commercial paper programme associated with long-term back-up lines or assignments of receivables from future leases).

→ "Financial structure, on page 50"

CURRENCY RISK

DESCRIPTION OF RISK

Befimmo invests solely in the euro zone and has no plans to take currency risks in its investments, income or financing. Nevertheless, in May 2012 it arranged a private bond placement in the United States (US Private Placement (USPP)) denominated in US Dollars and Pound Sterling, maturing in 2019 and 2020.

POTENTIAL IMPACT

Carrying out financing transactions in foreign currencies exposes the Company to the impact of an adverse change in the exchange rate of the Euro against those currencies.

MITIGATION AND CONTROL MEASURES

When the Company obtains finance in currencies other than the Euro, as it did in May 2012, it immediately hedges the entire currency transaction and conversion risk by acquiring Cross Currency Swaps, which fully offset fluctuations in the exchange rate on the Company's repayments of interest and capital.

RISK OF A CHANGE IN FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES CARRIED AT FAIR VALUE

DESCRIPTION OF RISK

A change in the forecast movements of interest and exchange rates alters the value of the financial assets and liabilities carried at fair value.

POTENTIAL IMPACT

Had the Euro, US Dollar and Euro-Pound Sterling interest rate curves been 0.5% lower than the reference rate curves at 31 December 2016, the change in fair value of the financial assets and liabilities would have been -€24.37 million. In the opposite case, the change would have been +€23.58 million.

Changes in the Euro-US Dollar and Euro-Pound Sterling exchange rates can also have a significant impact on the fair value of the USPP debt, which is denominated in US Dollar and Pound Sterling.

MITIGATION AND CONTROL MEASURES

The change in fair value of the USPP debt is more than offset, however, by a change in the opposite direction of the Cross Currency Swaps (CCS), hedging instruments arranged at the same time as the financing.

The impact of the change in fair value of the financial assets and liabilities at fixed rates can be partially mitigated by a combination of hedging instruments (options and swaps). As at 31 December 2016, the net fair value of all the hedging instruments, including the cumulated variation of the fair value of the USPP debt, was -€17.75 million.

Part of Befimmo's borrowings (27.9%) are arranged at floating rates, which therefore means that the debt does not change in value in line with changes in the outlook for interest rates.

RISK RELATED TO A CHANGE IN THE COMPANY'S RATING

DESCRIPTION OF RISK

The Company's financing cost is influenced mainly by the rating given by the agency Standard & Poor's. The rating is determined on the basis of an assessment of the risk profile of the activity and the Company's financial profile.

POTENTIAL IMPACT

Any downgrade of the rating would make it harder to obtain new financing and, if the rating were reduced by one notch from BBB to BBB-, would generate an additional financing cost estimated at €0.78 million, based on the debt structure as at 31 December 2016. Such a downgrade could also have an adverse impact on the Company's image with investors

MITIGATION AND CONTROL MEASURES

The Company regularly reviews the criteria (ratios) used to determine its rating and analyses the potential impact of its decisions on any changes in the rating, and the forecast changes in the ratios.

FINANCIAL LIQUIDITY RISK

DESCRIPTION OF RISK

Befimmo is exposed to a liquidity risk related to the renewal of its financing as it reaches maturity or for any additional funding needed to meet its commitments. The Company could also be exposed to this risk if its financing agreements were terminated.

POTENTIAL IMPACT

The Company could be obliged to arrange additional financing at a higher cost or to sell some assets under less than ideal conditions.

1. For more information, consult the Report on page 50.
2. For more information, consult the Report on page 51.

MITIGATION AND CONTROL MEASURES

To mitigate this risk, the Company diversifies the sources and maturities of its financing. At 31 December 2016, the ratio of debt provided by financing from 7 banking institutions was 60.2%. The remainder is provided by various bond issues (one retail bond, one private bond placement in the United States (USPP) and eight private placements in Europe).

At 31 December 2016, the Company had confirmed unused lines of €270.6 million including cash. The Company aims to cover this risk by keeping a defined amount in confirmed unused lines at all times. The amount of net interest charges was €20.76 million at 31 December 2016.

In addition, article 24 of the Royal Decree of 13 July 2014 requires BE-REITs to prepare a financial plan for the FSMA if the consolidated debt ratio exceeds 50%.

As at 31 December 2016, Befimmo's debt ratio was 44.65%, compared with 48.37% as at 31 December 2015.

→ "Financial structure, on page 50"

RISK RELATED TO COUNTERPARTY BANKS

DESCRIPTION OF RISK

Arranging finance or a hedging instrument with a financial institution creates a counterparty risk of that institution defaulting.

POTENTIAL IMPACT

The Company could find itself in a situation where it is unable to access the financing arranged or the cash flows to which it is entitled through hedging instruments.

MITIGATION AND CONTROL MEASURES

Befimmo therefore takes care to diversify its banking relationships and to work with banks that have an adequate rating. As at 31 December 2016, the Company had a business relationship with several banks:

- The bank credit lines granted to Befimmo amounted to €832.4 million at 31 December 2016. The banks, in alphabetical order, providing this finance are Agricultural Bank of China Luxembourg, Banque Degroof, BECM (CM-CIC group), Belfius, BNP Paribas Fortis, ING and KBC;
- The counterparty banks for the hedging instruments are BECM (CM-CIC group), Belfius, BNP Paribas Fortis, ING, KBC and RBS.

Since Befimmo's financial model is based on structural borrowing, the amount of cash deposited with financial institutions is structurally very limited. It was €0.2 million as at 31 December 2016 compared with €0.2 million as at 31 December 2015.

RISK RELATED TO OBLIGATIONS CONTAINED IN FINANCING AGREEMENTS

DESCRIPTION OF RISK

The Company is exposed to the risk of its financing agreements being cancelled, renegotiated or terminated early should it fail to abide by the covenants it made when signing those agreements, notably regarding certain financial ratios. Furthermore, some financing agreements provide for payment of a penalty if they are terminated prematurely.

When the Company carries out a financing transaction on a foreign market, it is subject to laws and counterparties with which it is less familiar.

POTENTIAL IMPACT

Any challenge to a financing agreement would expose the Company to having to arrange additional financing at a potentially higher cost or sell certain assets under less than ideal conditions.

MITIGATION AND CONTROL MEASURES

The Company negotiates covenants with its counterparties at levels consistent with its estimated forecasts of changes in those indicators, and regularly analyses any changes in those forecasts.

RISK RELATED TO BREXIT

DESCRIPTION OF RISK

On 23 June 2016, 51.8% of the population of the United Kingdom voted in a referendum for their country to leave the European Union.

POTENTIAL IMPACT

The outcome of this vote creates volatility in the financial markets and uncertainty about the future relationship between the United Kingdom and the European Union. Opinions on the impact of BREXIT are divided, some viewing it as a risk. The uncertainty may have a general impact on the economic situation, including reducing liquidity on the financial and real-estate markets, and may delay or call into question certain financial or real-estate operations, or even affect their value.

MITIGATION AND CONTROL MEASURES

Befimmo is closely monitoring developments on this issue and is conducting its business with additional caution.

MAIN RISKS RELATED TO REGULATION G4-2

REGULATION

DESCRIPTION OF RISK

The Company is exposed to changes in the law and increasingly numerous and complex regulations, and of possible changes in their interpretation or application by the authorities or the courts, notably, accounting, fiscal (e.g. provisions and circulars relating to withholding tax or anti-abuse provisions), environmental, urban-development and public-procurement regulations.

POTENTIAL IMPACT

Changes in and non-compliance with regulations expose the Company to risks of liability, civil, criminal or administrative convictions, and the risk of not obtaining or the non-renewal of permits. This could adversely affect the Company's business, its results, profitability, financial situation and/or outlook.

MITIGATION AND CONTROL MEASURES

The Company has a legal team with the necessary skills to ensure strict compliance with regulations in force and proactively anticipate changes in the law (regulatory monitoring). It also calls upon external consultants.

BE-REIT STATUS

DESCRIPTION OF RISK

Should the Company lose its BE-REIT status, it would no longer qualify for the transparent tax regime applicable to BE-REITs. The Company is also exposed to the risk of future adverse changes to that regime.

POTENTIAL IMPACT

Loss of the status is also generally regarded as grounds for early repayment by acceleration of payment of loans taken out by the Company. Any future adverse changes in the BE-REIT regime could also lead to a decline in results or net asset value, increase the debt ratio (e.g. by applying new accounting rules), reduce the maximum debt ratio, or affect the extent to which a BE-REIT must distribute dividends to shareholders.

MITIGATION AND CONTROL MEASURES

The Company has a legal team that ensures strict compliance with regulations in force and proactively anticipates changes in the law (regulatory monitoring). It also calls upon external consultants.

TAX REGIME

As a BE-REIT, the Company enjoys a specific tax regime. The legislator intended the BE-REIT to ensure a high degree of transparency for real-estate investments and distribute a maximum of cash flow while enjoying certain advantages. In particular, BE-REITs pay a reduced rate of corporation tax as long as at least 80% of the cash flows are distributed (calculated on the basis of article 13 of the Royal Decree of 13 July 2014). BE-REITs[1] are exempt from corporation tax on the results (rental income and capital gains realised minus operating costs and financial charges).

The exit tax is calculated taking account of the provisions of circular Ci.RH.423/567.729 of 23 December 2004, the interpretation or practical application of which is liable to change. The real value of a property, as referred to in that circular, is calculated after deducting the registration fees or VAT. This real value differs from (and so may be less than) the fair value of the property as set out in the BE-REIT's IFRS balance sheet. Any change to this circular could potentially entail an increase in the basis on which the exit tax is calculated. Befimmo complies in all respects with the regulations in force, and the provisions of the above-mentioned circular, for the calculation of exit taxes it owes in connection with the transactions on which the tax is due.

RISK OF LEGAL PROCEEDINGS

DESCRIPTION OF RISK

The Company is a party to legal proceedings and may be involved in others in the future.

POTENTIAL IMPACT

At the time of writing, Befimmo is involved in a number of legal proceedings which, on the whole (according to the information available to the Company at the date of this Report), are unlikely to have a major impact on Befimmo, as the potential losses are highly unlikely to materialise and/or are of insignificant amounts.

MITIGATION AND CONTROL MEASURES

The Company has a legal team with the skills needed to analyse its contractual commitments in its various areas of business and ensure strict compliance with the regulations. It also regularly calls upon external consultants.

1. But this does not apply to its subsidiaries which are not institutional BE-REITs.

MAIN OPERATIONAL RISKS G4-2

OPERATIONAL RISK G4-58

DESCRIPTION OF RISK

Risk of loss or loss of earnings resulting from inadequate or failed internal processes, people and systems or from external events (fraud, natural disasters, human error, failure of information systems, cybercrime, etc.).

POTENTIAL IMPACT

The Company is exposed to the risk of loss or theft of sensitive data, financial loss through fraud, interruption of business in the event of a failure of systems or processes.

MITIGATION AND CONTROL MEASURES

The Company has a corporate governance charter and a code of ethics drawn up by the Board of Directors.

The code of ethics requires ethical values to be observed in relations with its customers, staff, partners and shareholders. These documents are made available to team members by posting on the intranet site and can also be consulted on the Company's website. A business continuity plan has been devised, consisting of measures which, in the event of a crisis, allowing operations and essential services to continue, possibly in degraded mode, and a planned resumption of business. It covers both functional and IT aspects.

Depending on the type of data, back-ups are organised by a variety of techniques (redundant infrastructure, daily back-ups online and on tape). Measures are taken to manage access to the Company's data. Outsourced IT support is provided by two partners under a service level agreement (SLA).

RISK RELATED TO TEAM MEMBERS

DESCRIPTION OF RISK

The Company is exposed to the risk of departure of certain "key" members of staff.

POTENTIAL IMPACT

A loss of "key" skills in the Company could lead to a delay in achieving some of its objectives.

MITIGATION AND CONTROL MEASURES

Befimmo pays special attention to the well-being of its employees. Furthermore, its pay scales are in line with market rates.

Befimmo also attaches great importance to managing the skills of its team members.

The Company has introduced a procedure for monitoring the induction of new employees (mentoring system, etc.). Departures are prepared for as early as possible and Befimmo ensures that know-how is passed on.

"Social responsibility - The team, on page 99"