NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL BUSINESS INFORMATION

Befimmo ("the Company") is a public BE-REIT (Société Immobilière Réglementée/Gereglementeerde Vastgoedvennootschap). It is organised as a "Société Anonyme" (Limited-Liability Company). Its registered office is at Chaussée de Wavre 1945, 1160 Brussels (Belgium).

The Company closes its fiscal year at 31 December. Befimmo has a 100% holding, directly or indirectly, in its subsidiaries Axento SA, Befimmo Property Services SA, Beway SA, Fedimmo SA, Meirfree SA and Vitalfree SA. All the subsidiaries of Befimmo close their fiscal years at 31 December.

The Company is presenting consolidated financial statements as at 31 December 2016. The Board of Directors of Befimmo SA adopted the financial statements for this fiscal year on 14 February 2017 and authorised its publication on 23 February 2017.

The Company's business is the provision of office premises and associated services.

As at 31 December 2016, the premises provided consisted of quality office buildings in Belgium, mainly in Brussels and in the main Belgian cities, and the Grand Duchy of Luxembourg, two thirds of which are let to public institutions and the remainder to multinationals and Belgian companies.

The Company is listed on Euronext Brussels.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union. Except where otherwise specified, they are denominated in thousands of euros, rounded to the nearest thousand. Accounting policies have been applied consistently to the fiscal years presented.

In preparing its consolidated financial statements as at 31 December 2016, the Company has analysed and, as the case may be, has applied the following new or amended standards and interpretations which entered force during the fiscal year opening on 1 January 2016:

- Improvements to IFRS (2010-2012) (effective for annual periods beginning on or after 1 February 2015) which had no impact on the financial statements;
- Improvements to IFRS (2012-2014) (effective for annual periods beginning on or after 1 February 2016) which had no impact on the financial statements;
- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities - Application of consolidation exemption (effective for annual periods beginning on or after 1 January 2016) which had no impact on the financial statements;
- Amendments to IFRS 11 Joint Arrangements - Acquisition of an interest in a joint venture (effective for annual periods beginning on or after 1 January 2016) which had no impact on the financial statements;
- Amendments to IAS 1 Presentation of Financial Statements - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016) which had no impact on the financial statements;
- Amendments to IAS 16 and IAS 38 Intangible and Tangible Assets - Clarification of Acceptable Methods of Depreciation (effective for annual periods beginning on or after 1 January 2016) which had no impact on the financial statements;
- Amendments to IAS 19 Employee Benefits - Employee Contributions (effective for annual periods beginning on or after 1 February 2015) which had no impact on the financial statements; and
- Amendments to IAS 27 Separate Financial Statements - Equity Method (effective for annual periods beginning on or after 1 January 2016) which had no impact on the financial statements.

Furthermore, the Company has anticipated the following new or amended standards or interpretations issued before the date that the consolidated financial statements were closed, but with a date of entry into force later than the fiscal period closing at 31 December 2016:

- IFRS 9 – *Financial Instruments* and related amendments that restructure the treatment of financial instruments. The impact of these new provisions could relate in particular to the evaluation model of impairment losses on trade receivables and the fair value option for financial liabilities. IFRS 9 is applicable for annual periods beginning on or after 1 January 2018.

- IFRS 15 – *Revenue from Contracts with Customers* which develops the principles of recognition and measurement of revenue by replacing IAS 18 and IAS 11 and related interpretations. Since the revenue generated by the group comes mainly from leases that are excluded from the scope of IFRS 15, the potential impacts should be limited. This new standard is applicable for annual periods beginning on or after 1 January 2018.
- IFRS 16 - *Leases* which replaces IAS 17 and the related interpretations and which requires the recognition in the balance sheet of the lessee of all leases, with limited exceptions. As regards the lessor, the changes introduced by this new standard are limited so that the expected accounting impacts for the group are low. IFRS 16 is effective for annual periods beginning on or after 1 January 2019 but this new standard has not yet been adopted at European level.
- Amendments to IFRS 10 and IAS 28 – *Sales or Contribution of Assets between Investor and its Associate Joint Venture*, which should not have any impact on the financial statements. The date of entry into force of these amendments was postponed so that adoption at European level was also postponed.
- Improvements to IFRS (2014-2016) (effective for annual periods beginning on or after 1 January 2017 or 2018, but not yet adopted at European level).
- Amendments to IFRS 2 - *Classification and Measurement of Share-based Transactions* (effective for annual periods beginning on or after 1 January 2018 but not yet adopted at European level).
- Amendments to IAS 7 - *Statement of Cash Flows - Disclosure Initiative* (effective for annual periods beginning on or after 1 January 2017 but not yet adopted at European level). Pursuant to these amendments, the group will provide a reconciliation in the notes of changes in liabilities from financing activities.
- Amendments to IAS 12 - *Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses* (effective for annual periods beginning on or after 1 January 2017 but not yet adopted at European level).
- Amendments to IAS 40 - *Transfers of Investment Property* (effective for annual periods beginning on or after 1 January 2018 but not yet adopted at European level). This standard should not have any impact on the Company's accounts.
- IFRIC 22 - *Foreign Currency Transactions and Advance Consideration* (effective for annual periods beginning on or after 1 January 2018 but not yet adopted at European level).

Most of Befimmo's assets and liabilities are carried at fair value in the IFRS balance sheet.

The balance sheet assets consist primarily of investment properties, valued by independent experts and carried at fair value. Most other asset items are short-term, so their carrying amount is almost equivalent to their fair value.

The balance sheet liabilities consist mainly of financial borrowings. Borrowings at floating rates have a carrying amount equivalent to their fair value, while fixed-rate loans are either recognised at fair value (estimated by calculating an update of future flows – this exception (fair-value option) was chosen for the United States private placement (USPP) debt only, which has its own specific interest-rate and currency hedging also assessed at fair value) or carried in the accounts at amortised cost (this applies to a bond issue, the European private placements and the debts related to the assignment of future rents and future usufruct fees). The other liabilities items are short-term, so their carrying amount is almost equivalent to their fair value.

2.2. GENERAL PRINCIPLES OF CONSOLIDATION

For reading the consolidated financial statements, the following definitions apply:

Subsidiary

A subsidiary controls an investee, pursuant to the IFRS 10 standard §7, i.e. when:

- it has power over the investee;
- it has the right, or is exposed to variable returns from its involvement with the investee; and
- it had the ability to use its power to affect the amount of return it acquires over the investee.

A subsidiary is consolidated by full incorporation from the date on which the Company obtains control. It is deconsolidated on the date on which that control ceases.

Jointly controlled entity

A jointly controlled entity is an entity of which the Company and one or more other shareholders have joint control under a contractual arrangement.

A jointly controlled entity is accounted using the equity method from the date the Company has joint control, and until such time as it ceases.

Business combinations

A business combination is an undertaking over which the Company has significant influence but no controlling interest. It is accounted using the equity method.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains and losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with jointly controlled entities are eliminated in proportion to the Company's interest in such entities.

Unrealised losses are eliminated in the same way as unrealised gains, but only if there is no indication of any impairment.

2.3. BUSINESS COMBINATIONS AND GOODWILL

When the Company takes control of a business as defined in standard IFRS 3 – *Business Combinations*, the assets, liabilities and any identifiable liabilities of the business acquired are recorded separately at fair value.

The difference between the fair value of the consideration transferred to the vendor and the share of the fair value of the net asset acquired is booked under goodwill on the assets side of the balance sheet.

If that difference is negative (often termed “negative goodwill” or “badwill”), after confirmation of the values, it is booked straight to the income statement.

Costs related with acquisition, such as fees paid to consultants, are expensed directly. Goodwill is subject to an impairment test carried out at least once a year in accordance with IAS 36 – *Depreciation of Assets*.

2.4. FOREIGN CURRENCY

Foreign currency transactions

Foreign currency transactions are recorded initially at the exchange rate prevailing at the transaction date.

Monetary assets and liabilities denominated in foreign currencies are then remeasured at closing rate when the financial statements are prepared. Any losses or profits from remeasurement are recognised in the income statement.

Profits or losses arising from foreign currency transactions are recorded in the income statement under “Financial result”.

Foreign operations

In the context of the consolidation, assets and liabilities of operations outside the euro zone are converted into euros at the closing rate when the financial statements are prepared. Income statement items are converted into euros at the average exchange rate for the period.

The resulting translation differences are booked to the equity item “Translation differences”.

2.5. INTANGIBLE ASSETS

Intangible assets are recognised only when it is probable that the expected future economic benefits associated with the asset will flow to the Company and its cost can be measured reliably. They are initially measured at cost, then evaluated by subtracting accumulated depreciation and impairment losses from that cost.

Intangible assets are amortised using the straight-line method to allocate the cost over the best possible estimate of the useful life of the asset. The useful life and amortisation method of intangible assets are reviewed at least at each financial year end.

2.6. INVESTMENT PROPERTIES

2.6.1. GENERAL PRINCIPLES

Properties available for lease and under renovation are classed as investment properties.

Investment property is measured initially at its cost, including related transaction costs and non-deductible VAT. For buildings acquired through a merger, split or contribution of a branch of activity, taxes on the potential capital gains on the companies absorbed are included in the cost of the assets. After initial recognition, investment properties are carried at fair value. The transaction costs of an acquisition, as well as any change in fair value of properties during the fiscal year are immediately recognised in the income statement. The adjustment of the transaction costs linked to the subsequent evolution of the fair value of a building or to the realisation of a building, is indirectly determined during the appropriation of the reserves.

Properties that are being constructed or developed for own account, in order to be leased are also valued at fair value.

An independent expert determines the investment value of the property portfolio (also known as "deed-in-hands value"). This valuation is based on the present value of the net rental income in accordance with the International Valuation Standards, established by the International Valuation Standards Committee, as set out in the expert's report. The fair value of the investment property is obtained by subtracting from this investment value the amount of expenses and taxes (registration rights and/or value added tax, notary's expenses, etc.) that the investor has to defray in order to acquire ownership of the property. Based on the various transactions on the market, the average rate of these transaction costs amounts to 2.5%[1] for properties valued at more than €2.5 million and 10% or 12.5% for properties below that value, depending on their location.

The independent expert establishes the investment value of the real-estate portfolio in detail at the end of each fiscal year. At the end of each quarter, the expert updates the valuation in line with market developments and the specific characteristics of the properties. Any gain or loss arising from a change in fair value is posted in the income statement, including those arising from the first valuation.

2.6.2. COMMISSIONS PAID TO REAL-ESTATE AGENTS AND OTHER TRANSACTION COSTS

The initial carrying value of the assets includes the fees for the acquisition of investment properties. The same applies to the purchase of shares in a property company, a contribution in kind of a property in consideration for new shares, or a contribution of assets through a merger with or takeover of a property company. However, when the transaction establishes a business combination, the costs associated with the transaction are expensed directly in the income statement.

Commissions relating to property rentals are recorded as costs in the income statement.

2.6.3. WORKS CARRIED OUT ON INVESTMENT PROPERTIES

The accounting treatment of works carried out on investment properties depends on the type of work concerned:

Improvement works

This is occasional work to improve the functionality of a building or significantly improve comfort, in order to increase the rent and hence the estimated rental value.

The cost of this work is capitalised within the asset's carrying amount provided and to the extent that the independent expert recognises an appreciation in the value of the property as a result of the work done.

Example: installation of an air-conditioning system where one did not previously exist.

Major renovation works

This is work done at the end of a building's life cycle to carry out a thorough renovation of the building using modern techniques, generally retaining the existing structure.

These costs are capitalised within the asset's carrying amount.

In accordance with IAS 23 – *Borrowing Costs*, borrowing costs are capitalised and charged to the balance sheet under the heading "Investment properties", provided that the building in question does not generate income during this period. By the same logic, withholding taxes, levies and other property charges on projects (properties that are being constructed or developed for own account) that are not earning income are recognised on the assets side of the balance sheet.

Maintenance and repair

Expenditure relating to maintenance and repair work which does not add any extra functionality to or increase the standard of comfort of the building is recorded as charges in the income statement.

2.6.4. INVESTMENT PROPERTY OCCUPIED BY OWNER

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment and its fair value at the date of reclassification becomes its cost for accounting purposes.

If the Company occupies only a minimal part of the property it owns, the whole property is recognised as an investment property at fair value.

2.7. OTHER PROPERTY, PLANT AND EQUIPMENT

Other tangible assets are recorded at cost, less accumulated depreciation and impairment losses. This cost includes all direct costs and appropriate allocation of indirect costs incurred to bring the asset to working condition for its intended use.

The straight-line depreciation method is applied through the estimated useful life of the assets. The useful life and depreciation method are reviewed at least at each financial year end.

1. Average transactions costs paid, as recorded by experts on the Belgian market. This accounting method is described at length in the BeAMA press release of 8 February 2006 and confirmed in the press release of the BE-REIT Association of 10 November 2016.

Useful life is defined as follows per main type of asset:

- Computer equipment: 3 years;
- Office furniture and fittings: 5 years;
- Office equipment: 10 years;
- Finance-leased equipment: duration of contract.

2.8. FINANCIAL ASSETS

Financial assets are classified in the balance sheet as current or non-current financial assets, based on the intention or probability of realisation within twelve months at the balance sheet date.

There are four types of financial asset: (i) assets held to maturity, (ii) assets at fair value through profit or loss, (iii) assets available for sale and (iv) loans and receivables.

(i) Held-to-maturity assets

These are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company has the positive intention and ability to hold to maturity. Held-to-maturity investments are carried at amortised cost using the effective-interest method.

(ii) Assets at fair value through profit or loss

These assets include:

- assets held for trading, i.e. assets acquired principally for the purpose of selling in the short term;
- assets designated by management to be recognised based on the fair value option in accordance with IAS 39 – *Financial Instruments: Recognition and Measurement*.

These two categories of assets are carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value are booked to the income statement in the period in which they arise.

(iii) Assets available for sale

These are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

Assets available for sale are carried at fair value. Unrealised gains and losses arising from changes in the fair value are recognised in equity. In case of sale or loss in value, the accumulated fair-value adjustments already recorded in equity are transferred to the income statement.

(iv) Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not listed on an active market. They arise when the Company provides money directly to a debtor with no intention of trading the receivable.

Loans and receivables are stated at amortised cost, i.e. their carrying amount less appropriate allowance for irrecoverable amounts, plus or minus the cumulative amortisation using the effective-interest method of any difference between the initial amount and the maturity amount. The amount of the allowance is recognised in the income statement.

Derivative financial instruments

The Company uses derivative financial instruments to hedge its exposure to interest-rate and currency risks arising from the financing of its activities. The Company does not hold or issue derivative financial instruments for trading purposes.

However, derivatives that do not qualify for hedge accounting (IFRS) are recorded as "Permitted hedging instruments to which hedge accounting as defined in IFRS is not applied".

Derivative financial instruments are recognised initially at cost. Subsequently they are stated at fair value. Recognition of any resulting gain or loss depends on whether or not hedge accounting is applied and possibly on the nature of the item being hedged.

At inception of the hedge, the derivative is designated either as (i) a hedge of the fair value of recognised assets or liabilities or of a firm commitment, or (ii) a hedge of future cash flow. Based on these criteria, changes in fair value of derivatives are recorded as follows:

(i) Fair-value hedge

Changes in the fair value of these derivatives are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(ii) Cash-flow hedge

The effective portion of changes in the fair value of these derivatives is recognised in equity via the other elements of the comprehensive income.

Amounts accumulated in equity are transferred to the income statement of the periods during which the hedged cash flows affect the income statement.

Gains or losses that are related to the ineffective portion are booked directly to the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the income statement when the commitment or hedged cash flows are ultimately recognised in the income statement.

When hedged cash flows are no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Even if they do result in an effective economic hedge, certain derivative instruments do not qualify for hedge accounting according to IAS 39 – *Financial Instruments: Recognition and Measurement*. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

2.9. PROPERTY HELD FOR SALE

A property is classified as held for sale if it meets the criteria in IFRS 5 – *Non-Current Assets Held for Sale and Discontinued Operations*. Investment property held for sale is valued on the same basis as other investment property.

2.10. TRADE RECEIVABLES

Trade receivables are stated at amortised cost (see section 2.8 (iv) before).

2.11. CASH AND CASH EQUIVALENTS

Cash includes cash in hand and cash with banks. Cash equivalents are short term, highly liquid investments that are readily convertible into known amounts of cash, have maturity dates at acquisition of three months or less, and are subject to an insignificant risk of change in value.

These items are carried in the balance sheet at their carrying amount or at cost.

2.12. IMPAIRMENT OF ASSETS

The Company reviews the carrying amount of intangible and tangible assets (other than investment properties) at each balance sheet date to determine whether there is any indication of impairment, in which case an impairment test is carried out.

Such a test is carried out systematically every year on the cash-flow generating units (CGUs) or groups of CGUs to which the goodwill has been allocated in the context of a business combination.

An impairment test consists of comparing the carrying amount of an asset or CGU (group of CGUs) with its recoverable amount being the higher of its fair value less costs to sell or its value in use. The value in use is the present value of the estimated future cash flows from the use of an asset or CGU (group of CGUs).

If the carrying amount of an asset or CGU (group of CGUs) exceeds its recoverable amount, the excess is recognised as an impairment loss recorded directly in costs and charged as a priority as a reduction in the goodwill for the CGU (group of CGUs).

An impairment loss is reversed if the recoverable amount of the asset or CGU (group of CGUs) exceeds the carrying amount, with the exception of impairment of goodwill, which is never reversed.

In addition, at each balance sheet date, the Company reviews the carrying value of its other financial assets and, where appropriate, records an appropriate write-down.

2.13. CAPITAL

Costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Dividends are recognised as a liability when they are declared by the General Meeting of shareholders. Own shares held are recorded at their historical value as a debit in the “Own shares (-)” equity account.

2.14. INTEREST-BEARING BORROWINGS

In general, borrowings are initially recognised for the amount of the proceeds received, net of transaction costs. Borrowings are subsequently stated at amortised cost. Any difference between the net proceeds and the redemption value is recognised in the income statement using the effective interest method.

Furthermore, loans denominated in foreign currencies are subject to exchange rate hedging (and possibly interest rate risk hedging) through Cross Currency Swaps. They are therefore assessed at fair value, as are the hedges assigned to them.

2.15. TRADE AND OTHER PAYABLES

Trade and other payables are stated at amortised cost.

2.16. EMPLOYEE BENEFITS

The Company operates two types of supplementary pension scheme concurrently.

A. Defined-contribution supplementary pension scheme

This group insurance involves employer contributions only. The fixed contributions paid under this new group insurance are recognised as expenses as they fall due, and as such are included in personnel costs.

Under the current Belgian legal framework, from a technical point of view, this scheme has to be treated as a defined-benefits plan, as the employer is bound to guarantee a minimum return for its employees.

B. Defined-benefits supplementary pension scheme

This plan is funded by contributions paid by the Company to the insurance company and by payment of defined contributions into that same insurance company within the framework of a group insurance.

A defined-benefit supplementary pension scheme is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, dependent on his years of service and remuneration.

Under the old pension scheme, the fixed group insurance contributions are paid by the Company and by employees (above a certain remuneration level) to an insurance company. Contributions are recognised as expenses as they fall due, and as such are included in employee costs.

The amount presented for the defined-benefit pension plans in the balance sheet is based on actuarial calculations (using the projected unit credit method). It is the present value of the defined-benefit obligation minus the fair value of the plan assets.

If this amount is positive, a provision will be recorded on the liability side of the balance sheet, representing at this time the complement of the amount the Company would have to pay to its employees at their retirement. Conversely, if the amount is negative, in principle an asset is recognised in the balance sheet provided that the Company can benefit in future by over-funding the plan in this way ("asset ceiling"). The current service cost during the fiscal year, together with the financial cost of the obligations, the interest income of the plan assets and the financial cost of the asset ceiling are recognised in the net result for the fiscal year.

Actuarial gains and losses arising from changes in assumptions or related experience, performance of plan assets (net interest amount excluded) as well as the potential impact of the asset ceiling are recognised directly in equity via the other elements of the comprehensive income.

2.17. PROVISIONS

A provision is recognised in the balance sheet when the following three conditions are met:

- there is an obligation, legal or constructive, as a result of a past event;
- it is probable that an outflow of resources will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

2.18. INCOME

Rental income from operating leases is recognised in income on an accrual basis over the lease term.

Rental gratuities and other incentives granted to customers are recognised over the first firm period of the lease term, on a straight-line basis. This spreading is offset under the heading "Other operating income and expenses" of the income statement.

2.19. GAIN OR LOSS ON SALES OF INVESTMENT PROPERTY

The result on disposals of investment property represents the difference between sales proceeds net of transaction costs and the latest reported fair value of the property sold. The result is realised at the time of the transfer of risks and rewards.

2.20. INCOME TAXES

Income taxes for the fiscal year include both current tax and deferred tax. Taxes are recorded in the income statement except where they relate to items recorded directly in equity, in which case they too are recorded in equity. Current tax is the expected tax payable on the taxable income of the year, and any adjustment to tax payable (or receivable) in respect of previous years. It is calculated using tax rates enacted at the balance sheet date.

Deferred taxes are calculated using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. This tax is measured using the tax rates expected to apply when the asset is realised or the liability settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable earnings will be available against which the temporary differences can be utilised.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND MAIN SOURCES OF UNCERTAINTY REGARDING ESTIMATES

3.1. SIGNIFICANT JUDGEMENTS REGARDING THE COMPANY'S ACCOUNTING POLICIES

For buildings on a long-term let, except for limited expectations, the Company considered that hardly any of the risks and benefits inherent in the ownership of the assets have been transferred to the tenant and, therefore, that these contracts are simple lease agreements pursuant to IAS 17 – *Leases*.

3.2. MAIN SOURCES OF UNCERTAINTY REGARDING ESTIMATES

Estimate of the fair value and of the value in use of investment property

The fair value and, if appropriate, the value in use of investment property are estimated by independent experts in accordance with the principles set out in the accounting policies.

Disputes and uncertainties

The Company is a party to legal proceedings and may be involved in others in future. At the time of writing, Befimmo is involved, as defendant or plaintiff, 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. Befimmo wishes to clarify that the legal proceedings relating to the award of the development contract for the provision of a building to house the Federal Public Service Finance ("Finance FPS") in Liege, brought in 2009, are ongoing[1]. Meanwhile, all the judicial appeals relating to the granting of the permits (before the Council of State) have been dismissed.

1. For more information, please see page 17 of the Annual Financial Report 2013 (www.befimmo.be).