Risk factors

This chapter covers the risks identified as potentially affecting the Company, including a description of the measures it has taken to anticipate them, mitigate their potential impact and turn them into opportunities. 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 global economic and financial climate and the current geopolitical context may accentuate certain risks related to Befimmo's business.

This list of risks is based on information known (including from dialogue with all stakeholders) at the time of writing this Report. The list of risks in this chapter is therefore not exhaustive: 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.

MAIN RISKS RELATED TO EXTERNAL ECONOMIC FACTORS

DESCRIPTION OF RISK	POTENTIAL IMPACT	BEFIMMO'S POSITION
RISK RELATED TO THE CHANGING WORLD OF WORK		
Office space is being used in increasingly flexible and mobile ways. New technology is facilitating a transformation within businesses: from a static and "sequential" mode of operation to more dynamic environments. Businesses are looking for pleasant and flexible working environments to attract talent. They are setting up for Smart Ways of Working and moving to Activity-Based Working.	▪ The ratio of the number of square metres used per employee is falling and may lead to a decline in buildings' occupancy rates. ▪ Conventional office environments no longer meet expectations. ▪ The coworking business model is still developing.	The Company is committed to this new world of work: ▪ a redesigned world of work; workspaces are organised according to the type of activity and the profile of the users. ▪ acquisition of a majority shareholding in the Silversquare coworking company. ▪ plans to develop (with Silversquare) a Belux network of hybrid offices[1]. ▪ a mix of functions in the new projects to ensure that the environment is conducive to the development of a genuine community life. ▪ projects that integrate into the city; the buildings become an ecosystem open to their urban environment, bringing together a mix of functions.
RISK OF INFLATION AND DEFLATION		
Risk of deflation on income, as Befimmo leases contain clauses indexing rents to changes in the health index. Risk of the costs the Company has to bear being indexed on a basis that changes faster than the health index.	▪ 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.	▪ 95.05%[2] of the leases in Befimmo's consolidated portfolio are covered, in line with general practice, against the effect of any negative indexing - 44.61% provide for a ceiling on the basic rent. - 50.44% contain a clause that sets the minimum at the level of the last rent paid. ▪ The remaining 4.95% of the leases do not provide for any minimum rent. ▪ Contractual agreements put in place in relations with contractors.

1. Befimmo will offer a variety of workspace solutions in a hybrid-office model, ranging from conventional offices to buildings devoted entirely to coworking, or a mix of both solutions. Users will enjoy flexibility in terms of time (duration of their contract), workspace (they can easily occupy more or less space depending on their needs) and meeting facilities. They will be able to move from one place to another, according to their preferences and working hours.
2. Based on the current gross rent under agreements at 31 December 2018.

DESCRIPTION OF RISK	POTENTIAL IMPACT	BEFIMMO'S POSITION
RISK ASSOCIATED WITH CHANGING INTEREST RATES		
Financial charges, the Company's main expense item, are largely influenced by interest rates prevailing on the financial markets.	▪ Increase in financial charges and drop of EPRA earnings[1] and net result. ▪ 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.	▪ Implement a policy of hedging the interest-rate risk: finance part of borrowings at fixed rates and arrange IRS financial instruments or cap and floor options on part of borrowings at floating rates. ▪ Total borrowings as at 31 December 2018: - borrowings of €984.5 million (84.96% of total debt) are financed at fixed rates (fixed rates specified in agreements or rates fixed by IRS). - The remainder of the debt, €174.3 million, is financed at floating rates, €90.0 million of which is hedged against rising interest rates by means of optional instruments (caps and collars[2]). The remaining 7.28% of the total borrowings is therefore unhedged. ▪ Without any hedging, the impact of a rise in market rates of 0.25% would entail an increase in financial charges estimated at €1.4 million (annual basis). ▪ With the hedging arranged at 31 December 2018, the impact of a rise in market rates of 0.25% would entail an increase in financial charges estimated at €0.2 million (annual basis). ▪ The debt ratio is 45.76% as at 31 December 2018, the LTV ratio is 43.62%. ▪ The Standard & Poor's rating agency confirmed the rating of BBB/outlook stable for Befimmo's long-term borrowings and A-2 for its short-term borrowings.
RISK RELATED TO CHANGING CREDIT MARGINS		
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 risk appetite in financial markets and regulations, particularly in the banking sector (the "Basel IV" requirements) and the insurance sector (known as "CRD IV"). They also evolve according to the perception of the Company's credit risk profile.	▪ An increase in financial charges and hence an adverse effect on EPRA earnings and the net result.	▪ Spread the maturities of financing over time and diversify sources of financing. ▪ Optimise the use of financing by giving preference to financing with the lowest margins (e.g., depending on market conditions, a short-term commercial paper programme associated with long-term back-up lines or assignments of receivables from future rents). → "Financial structure and hedging policy"
CURRENCY 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 and the United Kingdom (US Private Placement (USPP)) denominated in US dollars and sterling, maturing in 2019 and 2020.	▪ Adverse change in the exchange rate of the euro against the currencies concerned.	▪ Exchange rate fluctuations fully offset against the interest and principal to be repaid by the Company through the full and immediate hedging of foreign exchange transactions and conversion risks by purchasing currency swap agreements (Cross-Currency Swaps).

1. This is an Alternative Performance Measure. For more information, please consult the chapter "EPRA Best practices" on page 78.
2. 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).

RISK RELATED TO BREXIT		
In June 2016, the United Kingdom voted in favour of leaving the European Union. In March 2017, the process of leaving the European Union was triggered. Under the EU treaties, the UK will leave at the end of a two-year period, allowed for the organisation of the exit process and the negotiation of any new form of partnership. there is still uncertainty about how Brexit will be implemented after 29 March 2019.	BREXIT is creating volatility in the financial markets and uncertainty about the future relationship between the United Kingdom and the European Union. The uncertainty may have a general impact on the economic situation, including reducing liquidity on the financial and housing markets, and may delay or call into question certain financial or real-estate operations, or even affect their value.	▪ Closely monitor the unfolding situation and be more prudent in managing the businesses.

MAIN RISKS RELATED TO STRATEGY

DESCRIPTION OF RISK	POTENTIAL IMPACT	BEFIMMO'S POSITION
RISKS OF SEGMENTAL CONCENTRATION		
The portfolio is almost entirely composed of office buildings (with the exception of a few shops on the ground floor of some buildings).	▪ Sensitivity to the evolution of the office property market.	▪ The Company has an investment strategy focused on: - quality office buildings, with a good location, good accessibility and a sufficient critical size, among other factors. - buildings that are well equipped and flexible, in an appropriate rental situation and with potential for value creation. ▪ The Company is committed to the new world of work: - a redesigned world of work; workspaces are organised according to the type of activity and the profile of the users. - expansion of the offering and potential targets with the acquisition of a majority shareholding in the Silversquare coworking company. - plans to develop (with Silversquare) a Belux hybrid office network. - a mix of functions in the new projects to ensure that the environment is conducive to the development of a genuine community life. - projects that integrate into the city; the buildings become an ecosystem open to their urban environment, bringing together a mix of functions. ➔ "Strategy"
RISKS OF GEOGRAPHICAL CONCENTRATION		
The portfolio is not very diversified in terms of geography. It consists of office buildings, mainly located in Brussels and its economic hinterland (68.9% of the portfolio as at 31 December 2018). ➔ "Property report"	▪ Sensitivity to developments in the Brussels office property market, which is characterised in particular by a significant presence of European institutions and related activities.	▪ Under its investment strategy, the Company seeks to avoid excessive concentration of the portfolio in a single area or asset. ▪ As a matter of interest, the AMCA building in Antwerp, the Paradis tower in Liège, the Gateway building at Brussels airport and WTC Tower 3 in Brussels each account for between 5 and 10% of the fair value of the portfolio as at 31 December 2018. ➔ "Strategy"

DESCRIPTION OF RISK	POTENTIAL IMPACT	BEFIMMO'S POSITION
RISKS RELATED TO RENTAL VACANCY		
Overall, the office property market is currently characterised by higher supply than demand, and changing types of demand. The Company is exposed to the risks of its tenants leaving, and of renegotiating their leases: - Risk of loss of and/or reduced income. - Risk of negative reversion of rents. - Risk of pressure on the renewal conditions and to grant rental gratuities. - Risk of loss of fair value of properties, etc.	▪ Decline in spot occupancy rates and a reduction in the operating result of the portfolio. ▪ On an annual basis at 31 December 2018, a 1% fluctuation in the spot 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. ▪ Direct costs related to rental vacancies, namely charges and taxes on unlet properties. ▪ They are estimated on an annual basis at €2.72 million, equivalent to around 1.89% of total rental income. ▪ Higher expenses in connection with the marketing of properties available for lease. ▪ Fall in the value of buildings.	▪ The Company has an investment strategy focused on: - quality office buildings, with a good location, good accessibility and a sufficient critical size, among other factors. - buildings that are well equipped and flexible, in an appropriate rental situation and with potential for value creation. ▪ The Company is committed to the new world of work: - a redesigned world of work; workspaces are organised according to the type of activity and the profile of the users. - expansion of the offering and potential targets with the acquisition of a majority shareholding in the Silversquare coworking company. - plans to develop (with Silversquare) a Belux hybrid office network. - extensive and personalised range of services to make life easier for its tenants. - a mix of functions in the new projects to ensure that the environment is conducive to the development of a genuine community life. - projects that integrate into the city; the buildings become an ecosystem open to their urban environment, bringing together a mix of functions. ▪ The Company has a professional commercial team dedicated to finding new tenants and actively managing the relationship with its customers. ▪ Steady cash flow depends mainly on rental income being secured. The Company therefore strives to ensure that a large proportion of its portfolio is let on long-term leases and/or to multiple tenants, which helps to spread the rental risks. ▪ At 31 December 2018, the weighted average duration[1] of Befimmo's current leases until the next break was 6.96 years. ▪ The spot occupancy rate[1] of the properties available for lease at 31 December 2018 was 94.50% compared with 94.44% at 31 December 2017. ▪ The major projects in the North area are an opportunity for the Company to address the lack of Grade A[2] buildings in Brussels.
RISKS RELATED TO (RE)DEVELOPMENT ACTIVITIES		
Risk associated with the renovation or construction of buildings. In preparation for a new life cycle, the buildings in the portfolio must undergo a major renovation or be rebuilt. In this context Befimmo is exposed to risks related to: - the choice of service providers (architects, contractors, specialist lawyers). - choice of use format. - obtaining permits (difficulties, delays, changes in the law, etc.). - construction (costs, delays, compliance, etc.). - marketing.	▪ Construction and/or operating costs overrunning the budget. ▪ Absence of rental income on completion of the works and costs related to the vacancy. ▪ Pressure on marketing conditions and for granting of rental gratuities. ▪ Negative impact on the occupancy rate of the portfolio.	▪ Design innovative, sustainable and quality projects (incorporating the latest technologies) to satisfy market needs. ▪ Ongoing analysis of market needs: - a redesigned world of work; workspaces are organised according to the users' type of business and their profile. - wide and personalised range of services to make life easier for its tenants. - a mix of functions in the new projects to ensure that the environment is conducive to the development of a genuine community life. - projects that integrate into the city; the buildings become an ecosystem open to their urban environment, bringing together a mix of functions. ▪ Proactive and repeated dialogue with the public authorities for permit applications. ▪ Choice of quality partners. ▪ Professional commercial team dedicated to finding new occupants.

1. This is a real-estate indicator. For more information, please refer to Appendix II of this Report.
2. A new building (new build or major renovation) meeting the latest environmental, technical and spatial layout standards (notably efficient floor space). Generally, a building that is new or less than 5 years old.

DESCRIPTION OF RISK	POTENTIAL IMPACT	BEFIMMO'S POSITION
RISKS ASSOCIATED WITH TENANTS		
Risks related to the insolvency of its tenants.	▪ Loss of rental income, an increase in property charges where rental charges cannot be recovered, and the emergence of unexpected rental vacancies. ▪ Risk of pressure on the renewal conditions and to grant rental gratuities, etc.	▪ Prior review of the financial health of potential customers. ▪ Private-sector tenants[3] are required to provide a rental guarantee. ▪ There is a procedure for regularly monitoring outstanding receivables. ▪ The ageing balance of trade receivables is given in the financial statements on page 183 of this Report.
RISKS RELATED TO MERGERS, DEMERGERS, ACQUISITIONS AND JOINT VENTURES		
Risk that the value of certain assets may have been over-estimated or that hidden liabilities have been transferred to the Company during mergers, spin-offs or acquisitions, or joint ventures.	▪ Realisation of the need to revalue certain assets or record certain liabilities that could entail a financial loss to the Company.	▪ Take the usual precautions in operations of this type, mainly by carrying out full due-diligence exercises (real-estate, accounts, taxation, etc.) on properties contributed and on absorbed or merged companies, that may involve obtaining guarantees. ▪ Take similar precautions in case of joint ventures.
RISKS RELATED TO THE COWORKING MARKET		
Risks related to the entry into a new and fast-developing market (control of the key factors of success, competition, etc.).	▪ Profitability linked to the success of the underlying activity.	▪ Taking a majority stake in a company (Silversquare) with broad experience in coworking. ▪ The impact is relatively limited on Befimmo as it is developing this business gradually.
RISK RELATED TO THE COMPANY'S REPUTATION		
Reputational risk in relation to stakeholders (current and prospective tenants, local residents, public authorities, current and potential investors, financial and other analysts, suppliers, etc.). Reputation is influenced by information disseminated by the media and on social networks.	▪ Reputational damage to the Company could have adverse repercussions, notably when negotiating lease agreements, seeking financing and/or the value of the share.	▪ Corporate Governance Charter and Code of Ethics drafted by the Board of Directors. ▪ Code of Ethics requiring ethical values to be observed in relations with customers, staff, partners and shareholders. ▪ In addition to its reporting requirements as a listed company and a BE-REIT, Befimmo communicates transparently and proactively in order to best meet the expectations of its stakeholders. ▪ The Company has a communication plan (internal and external) and a crisis communication plan. It commissions reputation analyses from specialist agencies. ▪ The media are monitored daily and any necessary corrections or clarifications are issued. → "Environmental risks" → "Risk related to a change in the Company's rating"

3. Public-sector tenants (the Belgian Government, Flemish Region and European institutions), which occupy a substantial proportion of the Company's portfolio (65.03% as at

31 December 2018, calculated on the basis of the gross rent under current leases as at 31 December 2018), do not generally provide rental guarantees, however, but do have a more limited risk profile.

MAIN RISKS IN THE PROPERTY PORTFOLIO

DESCRIPTION OF RISK	POTENTIAL IMPACT	BEFIMMO'S POSITION
RISK RELATED TO THE FAIR VALUE OF THE PROPERTIES		
▪ Risk of a negative change in the fair value of the portfolio. ▪ Risk of the real-estate experts over-valuing or under-valuing properties in relation to their true market value. 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 (7.46%[1] of the portfolio), and more generally in the Belgian provincial towns.	▪ Impact on the Company's net result, equity, debt[2] and LTV[3] ratios. ▪ Impact on the Company's ability to distribute a dividend[4] 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. ▪ On the basis of the data as at 31 December 2018, a 1% decline in the value of the property assets would have an impact of around -€26.6 million on the net result, entailing a change of around -€1.04 in the net asset value per share, around 0.45% in the debt ratio and around 0.44% in the LTV ratio.	▪ The Company has an investment strategy focused on: - quality office buildings, with a good location, good accessibility and an adequate critical size, among other factors. - buildings that are well equipped and flexible, in an appropriate rental situation and with potential for value creation. ▪ The Company is committed to the new world of work: - a redesigned world of work; workspaces are organised according to the type of activity and the profile of the users. - expansion of the offering and potential targets with the acquisition of a majority shareholding in the Silversquare coworking company. - plans to develop (with Silversquare) a Belux hybrid office network. - extensive and personalised range of services to make life easier for its tenants. - a mix of functions in the new projects to ensure that the environment is conducive to the development of a genuine community life. - projects that integrate into the city; the buildings become an ecosystem open to their urban environment, bringing together a mix of functions. ▪ Statutory rotation of independent experts. They are systematically informed of changes in the situation of the buildings, and regularly visit buildings.
RISKS RELATED TO INADEQUATE INSURANCE COVER		
Risk of occurrence of a major loss affecting the buildings, with insufficient cover.	▪ Costs of refurbishing the affected building. ▪ Fall in the operating result of the portfolio and in the fair value of the building following the termination of the lease through frustration, and therefore an unexpected rental vacancy.	▪ Buildings are covered by a number of insurance policies (risk of fire, storm damage, water damage, etc.) covering loss of rent for a limited period (in principle for the time needed for reconstruction) and the cost of reconstruction, for a total sum (new reconstruction value, excluding the value of the land) of €2,261.6 million as at 31 December 2018. ▪ Buildings are covered by a policy insuring against acts of terrorism.
RISK OF DETERIORATION AND OBSOLESCENCE OF BUILDINGS		
Risk of wear and tear and obsolescence, relating to increasingly stringent requirements (legislative, societal or environmental).	▪ Rental vacancies. ▪ Investments required to bring the building into compliance with regulatory requirements and tenants' expectations.	▪ Property kept in a good state of repair and maintained in line with good practice 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. ▪ Most of the buildings are covered by "total guarantee" maintenance contracts[5]. ▪ At 31 December 2018, 86% of the consolidated portfolio was covered by such a "total guarantee" contract. ▪ Close monitoring of developments in existing environmental legislation, anticipation of new measures, and analysis of sector studies, with a view to incorporating new technologies and management tools as soon as possible into renovation projects. ▪ Use of resources: Befimmo adopts an eco-responsible approach at every stage of a building's life, making optimal use of energy and natural resources.

1. Calculated on the basis of the fair value of the investment properties as at 31 December 2018.
2. The debt ratio is calculated in accordance with the Royal Decree of 13 July 2014.
3. Loan to value (LTV) = [(nominal financial debts – cash)/fair value of portfolio]. This is an Alternative Performance Measure. For more information, please consult Appendix III to this Report.
4. Please see the chapter "Appropriation of results (statutory accounts)" on page 76 of this Annual Financial Report.
5. 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.

DESCRIPTION OF RISK	POTENTIAL IMPACT	BEFIMMO'S POSITION
RISKS RELATED TO EXECUTION OF WORKS		
Risks of delays, budget overspending, environmental damage and organisational problems when erecting, redeveloping and carrying out major works in the buildings in the portfolio. Risk of insolvency and non-compliance with specifications by the contractors responsible for the works.	▪ Adverse impact on the Company's results owing to a loss of rental income and/or an increase in charges. ▪ Adverse impact on the Company's reputation.	▪ Site communication plan, dialogue with local residents, etc. ▪ Monitoring of technical, budgetary and planning aspects has been introduced to manage the risks associated with this work. ▪ Contracts with building contractors generally provide for a number of measures to mitigate such risks (price ceilings, delay penalties, etc.). ▪ Regarding environmental issues, specific measures are incorporated into the specifications and contracts applying to successful tenderers. ▪ Monitoring of compliance with these environmental measures while the works are in progress (notably by external environmental coordinators, ISO 14001 procedures, site audits, BREEAM assessors, etc.). ▪ Regular assessment of main suppliers and service providers, and checks that co-contractors have no unpaid social contributions or taxes.
ENVIRONMENTAL RISKS		
Environmental risks in terms of pollution of soil, water and air (high CO_2 emissions) and also noise pollution. Risk of not achieving the Company's targets for improving its environmental performance and of losing the certifications (BREEAM, ISO 14001, etc.) that it has obtained.	▪ Adverse environmental impact. ▪ High costs for Befimmo. ▪ Adverse impact on Befimmo's reputation with its stakeholders. ▪ In some cases, an adverse impact on the fair value of the portfolio.	▪ A responsible approach, under which, for many years, the necessary action has gradually been taken to reduce the environmental impact of the activities that the Company controls and influences directly. ▪ The implementation of the Environmental Management System (EMS), which is ISO 14001 compliant, helps to anticipate environmental risks at both strategic level (acquisitions, major renovations, etc.) and operational level (building maintenance, use of buildings, etc.). ▪ An analysis was conducted of the environmental performance and the potential for improvement of the portfolio, and compliance with the requirements associated with certifications obtained. ▪ Use of resources: Befimmo adopts an eco-responsible approach at every stage of a building's life, making optimal use of energy and natural resources. ➔ "Property report"
RISK RELATED TO CO-OWNERSHIP		
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 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.	▪ Impact on the times for carrying out major works or even the feasibility of certain projects, as important decisions must be taken by qualified majority voting.	▪ Limitation of the Company's ownership of co-owned assets. ▪ The percentage of the Befimmo portfolio held in co-ownership was 5.36% (based on the fair value of the portfolio) at 31 December 2018.
RISK OF POWER CUTS		
Risk of having buildings in a load-shedding area that might experience a cut or restriction of the electricity supply during the blackout period.	▪ Adverse impact on the wellbeing of the occupants. ▪ Adverse impact on the Company's reputation. ▪ Adverse impact when renegotiating a lease or when concluding a new lease agreement.	▪ When new investments are made, Befimmo analyses whether the property is located in the load-shedding area (at the time of acquisition). ▪ Befimmo also monitors changes in the load-shedding area.

MAIN FINANCIAL RISKS

DESCRIPTION OF RISK	POTENTIAL IMPACT	BEFIMMO'S POSITION
RISK OF A CHANGE IN FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES CARRIED AT FAIR VALUE		
A change in the interest and exchange rates alters the value of the financial assets and liabilities carried at fair value.	▪ Had the euro, US dollar and pound sterling interest rate curves been 0.5% lower than the reference rate curves at 31 December 2018, the change in fair value of the financial assets and liabilities would have been -€22.26 million. In the opposite case, the change in fair value would have been €20.79 million. ▪ Changes in the euro-US dollar and euro-sterling exchange rates can also have a significant impact on the fair value of the USPP finance, which is denominated in US dollars and pounds sterling.	▪ The change in fair value of the USPP debt is substantially offset, however, by a change in the opposite direction of the Cross-Currency Swaps, 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). ▪ At 31 December 2018, the net fair value of all the hedging instruments, including the cumulative change in the fair value of the USPP debt, was -€14.94 million. ▪ Part of Befimmo's borrowings (54.74%) are arranged at floating rates, which therefore means that the debt does not change in value in line with changes in interest rates.
RISK RELATED TO A CHANGE IN THE COMPANY'S RATING		
The Company's financing cost is influenced mainly by Standard & Poor's rating.	▪ 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 entail an additional financing cost estimated at €0.73 million, based on the debt structure and current contracts as at 31 December 2018. ▪ Adverse impact on the Company's image with investors.	▪ Regular review of the criteria (ratios) used to determine its rating, analysis of the potential impact of the Company's decisions on any changes in the rating, and the forecast changes in those ratios. ▪ The Standard & Poor's rating agency confirmed the rating of BBB/outlook stable for Befimmo's long-term borrowings and A-2 for its short-term borrowings.
FINANCIAL LIQUIDITY 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.	▪ New financing arranged at a higher cost. ▪ Sale of certain assets under less than ideal conditions.	▪ Adoption of a financial policy which in particular diversifies the sources and maturities of its financing. At 31 December 2018, the ratio of debt provided by financing from 8 banking institutions was 64.28%. The remainder is provided by various bond issues (one private bond placement in the United States (USPP) and a number of private placements in Europe). ▪ At 31 December 2018, the Company had confirmed unused lines of €264.2 million including cash. The Company aims to continually anticipate its financing needs (notably for its investments) and keep a defined amount in confirmed unused lines at all times so as to hedge this risk over a time frame of at least 12 months. ▪ The debt ratio (as per the Royal Decree) amounts to 45.76% at 31 December 2018 (the statutory limit is 65%) compared to 41.62% as at 31 December 2017.

DESCRIPTION OF RISK	POTENTIAL IMPACT	BEFIMMO'S POSITION
RISK RELATED TO COUNTERPARTY BANKS		
Arranging finance or a hedging instrument with a financial institution creates a counterparty risk of that institution defaulting.	▪ 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.	▪ Diversifying its banking relationships and working with banks that have an adequate rating or an acceptable level of risk. As at 31 December 2018, the Company had a business relationship with several banks: - At 31 December 2018, Befimmo had credit lines of €852.9 million. Banks providing this financing: Agricultural Bank of China Luxembourg, Banque Degroof Petercam, BECM (CM-CIC group), Belfius, BNP Paribas Fortis, ING, KBC and Société Générale; - the counterparty banks for the hedging instruments are BECM (CM-CIC group), Belfius, BNP Paribas Fortis, ING, KBC and Natwest Markets PLC (RBS Group). ▪ The financial model is based on structural borrowing: the amount of cash deposited with financial institutions is structurally very limited. It was €0.59 million as at 31 December 2018 compared with €0.25 million at 31 December 2017.
RISK RELATED TO OBLIGATIONS CONTAINED IN FINANCING AGREEMENTS		
Risk of financing agreements being cancelled, renegotiated or terminated early should the Company fail to abide by the covenants it made when signing those agreements, notably regarding certain financial ratios. Risk of a penalty if agreements 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.	▪ 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.	▪ 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 LINKED TO VOLATILITY AND SHARE PRICE		
The Company is exposed to a significant discrepancy between the share price and the Company's net asset value.	▪ More difficult access to new equity may limit development capacity. ▪ Adverse impact on the Company's reputation.	▪ Devise and implement a value-creation strategy. ▪ Publish outlook and dividend forecast. ▪ Regular, transparent and proactive communication to financial analysts and current and prospective investors.

MAIN RISKS RELATED TO REGULATION

DESCRIPTION OF RISK	POTENTIAL IMPACT	BEFIMMO'S POSITION
RISK RELATED TO REGULATION		
The Company is exposed to changes in (Belgian, European and international) law and increasingly numerous and complex regulations, and to possible changes in their interpretation or application by the authorities or the courts, notably accounting, reporting, fiscal, environmental, urban-development and public-procurement regulations.	▪ Risk of the Company being held liable, 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.	▪ A legal team with the necessary skills ensures strict compliance with current regulations and, as far as possible, anticipates changes in the law (legislation watch). ▪ The Company also calls upon external consultants.
RISKS RELATED TO NON-COMPLIANCE OF THE BUILDINGS WITH THE APPLICABLE REGULATIONS		
The Company runs the risk that one or more of its properties does not immediately meet all the applicable new standards and regulations.	▪ Additional investments which entail higher costs for the Company and/or delays in ongoing projects (renovations, etc.). ▪ Fall in the fair value of a building. ▪ The Company is liable for civil, administrative or criminal fines. ▪ Liability of the Company for non-compliance (e.g. in case of fire for failing to comply with safety standards). ▪ An adverse impact on the Company's reputation, business and results.	▪ Introduce the necessary procedures to: - anticipate new standards and regulations (legislative and regulatory watch), - 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), - bring the building concerned immediately into compliance by adopting these new standards and regulations (project management). ▪ Tenants are made aware of their obligations in this regard by a clause in the standard lease.
RISKS RELATED TO THE BE-REIT STATUS		
Risk of non-compliance with the BE-REIT regime. Risk of future adverse changes to that regime.	▪ Loss of approval for the BE-REIT status, and no longer qualifying for the transparent tax regime applicable to BE-REITs. ▪ Early repayment by acceleration of payment of loans taken out by the Company. ▪ Any future adverse changes in the BE-REIT regime could 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.	▪ A legal team with the necessary skills ensures strict compliance with current regulations and, as far as possible, anticipates changes in the law (legislation watch). ▪ The Company also calls upon external consultants.

DESCRIPTION OF RISK	POTENTIAL IMPACT	BEFIMMO'S POSITION
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 as much cash flow as possible while enjoying certain advantages. In particular, BE-REITs pay a reduced rate of corporation tax as long as at least 80% of its cash flows are distributed (calculated on the basis of Article 13 of the Royal Decree of 13.07.2014). BE-REITs are exempt from corporation tax on the results (rental income and capital gains realised minus operating costs and financial charges)[1]. The exit tax is calculated as per circular Ci.RH.423/567.729 of 23.12.2004, 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		
The Company is a party to legal proceedings and may be involved in others in future.	▪ 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 registration document), are unlikely to have a major impact on Befimmo, as the potential losses are highly unlikely to materialise and/or are of insignificant amounts.	▪ A legal team with the necessary skills ensures strict compliance with current regulations and, as far as possible, proactively anticipates changes in the law (legislation watch). ▪ The Company also calls upon external consultants.

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

MAIN OPERATIONAL RISKS

DESCRIPTION OF RISK	POTENTIAL IMPACT	BEFIMMO'S POSITION
OPERATIONAL RISK		
Risk of loss or loss of earnings resulting from inadequate or failed internal processes, people and systems or from external events (natural disasters, human error, etc.).	• The Company is exposed to the risk of the loss or theft of sensitive data, financial loss, and interruption of business in the event of a failure of systems or processes.	• Corporate Governance Charter and Code of Ethics drafted by the Board of Directors. • Code of Ethics requiring ethical values to be observed in relations with customers, staff, partners and shareholders. • A business continuity plan has been devised, consisting of measures which, in the event of a crisis, allow essential operations and services to continue, possibly in degraded mode, and a planned resumption of business. It covers both functional and IT aspects.
RISK RELATED TO THE INTEGRITY OF INFORMATION SYSTEMS AND DATA		
Failure of information systems and cyber-crime that could jeopardise business continuity.	• The Company is exposed to the risk of disruption of its business in the event of a failure of information systems or cyber-crime.	• A business continuity plan has been devised, consisting of measures which, in the event of a crisis, allow essential operations and 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 using a variety of techniques (redundant infrastructure, daily back-ups online and on cassette). Measures taken to secure access to the Company's data. Outsourced IT support provided by two partners under a service level agreement (SLA). • Awareness actions for the team to the risks of cybercriminality and fraud.
RISK OF FRAUD		
Misappropriation of Company assets for own account or for third parties.	• The Company is exposed to the risk of loss or theft of sensitive data, and financial loss as a result of fraud.	• Corporate Governance Charter and Code of Ethics drafted by the Board of Directors. • Code of Ethics requiring ethical values to be observed in relations with customers, staff, partners and shareholders. • Procedures for controlling sensitive data. • Awareness actions for the team to the risks of cybercriminality and fraud.
RISK RELATED TO TEAM MEMBERS		
Risk of departure of certain key members of staff.	• A loss of key skills in the Company could lead to a delay in achieving some of its objectives.	• Special attention is paid to staff wellbeing and motivation. • Pay is in line with market rates (benchmarking). • Importance of managing the skills of the team members. • Importance of dialogue with the team. • New procedure for the induction of new employees (mentoring system, etc.). • As far as possible, Befimmo prepares for departures and ensures that know-how is passed on.