

Réside Études

Issuer Rating

BBB+

Medium and Long Term
(BBB+, with stable outlook)

Issues Rating

BBB+

Medium and Long Term
(BBB+, with stable outlook)

(Details on page 2)

Period of Analysis

Historic 2009 to the first half of 2014
Forecast 2014 to 2019

Methodology

ARC Ratings Non Financial Corporations'
Rating Methodology (www.arcratings.com)

Rating Panel

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Next Follow-up

5 October 2015

Initial Rating

12 September 2013

Résidé Études Investissement S.A. (Résidé Études)

Issuer Rating

BBB+

Medium and Long Term
(BBB+, with stable outlook)

Résidé Études

Issues Rating

Issuers

Validity

BBB+

Medium and Long Term
(BBB+, with stable outlook)

Bond Loan - 50,0 M€

Résidé Études

6 years

Notes:

M€ = Million Euros

EXECUTIVE SUMMARY

Résidence Études Investissement S.A. (Résidence Études) is the holding of a Group created in 1989 mainly focused on the assisted residence for students market in France (hence its name). Since then, it has diversified and is currently present in the three main assisted residence markets in France, managing 21 322 accommodation units at the end of the first half of 2014. Six per cent of this total is fully owned by the Group, whereas the remaining is held by investors and managed by the Group. 60% of the accommodation units consist of student residences, 33% are hotel and tourism residences and 5% are residences for non-disabled seniors. The Group's presence in this last segment is more recent (dating from 2007), but is experiencing a major boom. The Group stands among leading operators in these segments in France.

The characteristics of the Group's activities are the following: long term activity, project development requiring 2.5 to 3 years in average; canvassing with investors with whom the Group signs a lease for a minimum period of 9 years; residences' marketing phase, over a period of 18 months on average for delivery within 24 months from the start of construction; search for tenants followed by occupation, maintenance and management of residences, where the manager is responsible for invoicing and collecting rents.

At the end of 2013 the Group's asset value amounted to EUR 358.8 million, the most relevant slice of which consisting of the residences owned by the Group (investment property) of EUR 114.7 million, tangible fixed assets of EUR 50.6 million and real estate production of EUR 85.1 million. The Group's equity/assets ratio and return on equity stood at 20.7% and 10.5% respectively, at the end of 2013. The value of real estate assets under management totals EUR 2 billion. The Group's business plan (base scenario) for 2014-2019 estimates an average annual increase by 3.5% in managed residences (24 647 units at the end of 2019). Total assets will rise by approximately 10%, whereas the equity/assets (including net working capital requirements (NWCR)) ratio should reach 53.4% at the end of 2019. This strategy involves carrying out real estate development activity, including management.

Risks likely to affect Résidence Études' capacity to timely and fully meet its financial requirements subject to rating are centred in France, namely:

- the evolution of household disposable income, which will affect occupancy rates in residences and the gap between rents received from tenants and rents paid to investors; on the other hand, this evolution will depend on economic growth and unemployment rates, as well as taxation (taxes on income and consumption);
- changes in investment decision-making factors and consequently in demand for the acquisition of new assisted residence units and lease renewals; taxation is one of the most important factors affecting investment;
- changes in the law, which would result in an increase in maintenance, refurbishment and operation costs of assisted residences; and
- market competition in the assisted residences segment capable of affecting return levels; entrance of new market players and competition from existing players wanting to gain market share.

There are three other factors likely to influence Résidence Études capacity to timely and fully meet its financial engagements subject to rating:

- capacity and availability of bank partners to finance the Group's development;
- Group's capacity to attract investors and retain their loyalty; and
- Group's capacity to well manage residences' operating and real estate development activity risks.

On the other hand, there are factors which reduce the Group's sector risks, mitigating the impact of the aspects referred to above:

- it is controlled by an experienced management board (two decades of experience in this activity) and it has a shareholders' agreement in force allowing for transfers among shareholders, thus ensuring the stability of the shareholder structure;
- its strategy is based on organic growth (in France): the positive results of mature segments, such as the student residence segment, and the results of development and property activity can offset losses arising from the launching of new residences; the Group has shown resilience and capacity to absorb losses from activities that are shut down and others newly started;
- the strategy and dividend distribution policy remains conservative (approximately EUR 1.2 million each year), allowing the Group to reinforce its equity/assets (including NWCR) ratio;
- the Group is backed by a diversified pool of banks;
- the Group shows the capacity to withstand the stress scenarios envisaged by ARC Ratings, S.A. (ARC Ratings);
- the Group has the capacity to pilot its activity and, if necessary, to adjust the developments of new plans and investments planned for own property, in order to boost its treasury, if ever needed;
- ultimately, the Group could dispose of part of its own property and operating assets; and
- according to the contracts entered with investors, the Group has the right to renew the leases, which cannot be refused except if investors support the cost of an indemnity (such as the market value of goodwill, which can cover 2 to 3 years of rents).

1. DESCRIPTION OF THE OPERATIONS SUBJECT TO FOLLOW-UP

The following operations are subject to follow-up by ARC Ratings:

1.1. Medium and long term financial commitments of Réside Études;

1.2. Bond loan in the maximum nominal amount of EUR 50 million in the form of private placement subject to the following terms:

- repayment at par following a period of 6 years;
- interest is payable annually, as from issue date at a fixed interest rate (not yet established) of 5.2% added of 1.25 percentage points / year in case the gearing ratio ¹ is equal to or higher than 0.85 times; if this ratio is equal to or higher than 1.00 times, it will trigger the early repayment of the loan; taking into account the consolidated financial statements at 31 December 2013, this ratio is negative at -0.07 times;
- non subordinated and (subject to a negative pledge cause), without any security to be provided by Réside Études, ranking pari passu, without any preference among themselves (subject to such exceptions as are from time to time mandatory under French law), ranking pari passu with any other unsubordinated and unsecured obligations, present of future, of Reside Études; this clause does not apply to credits financing own property assets and development operations;
- pari-passu;
- early repayment of all or part of the bonds in case of change in control; and
- cross default.

Of the maximum nominal amount of EUR 50 million, an amount of EUR 44 million was placed at 23 October 2013. Réside Études considers a comparable additional emission of EUR 6 million on October 23, 2014, subject to the same conditions referred to hereinabove, except for the following; repayable at par at the end of a 5 year period; fixed interest rate of 5.2% but including an issue premium.

The ratings assigned by ARC Ratings to these financial commitments show the willingness and capacity of Réside Études to meet them timely and in full. The ratings will remain valid until their maturity; they will be subject to follow-up on an annual basis, the next due before 5 October 2015.

¹ The leverage ratio will be determined based on the latest consolidated annual accounts available of Réside Études, as of 31 December of last year. This ratio is obtained by dividing the amount of consolidated financial debt (considering the total amount of short, medium and long term loans and debt with banks or financial institutions, not allocated to real estate development operations and equity investment operations, deducted of available cash position) by the amount of consolidated equity (including minority interests).

2. THE ASSISTED LIVING RESIDENCES MARKET

GRUPE RÉSIDE ÉTUDES POSITIONING

Groupe Résidence Études ranks among leaders in the three most important markets of assisted living residences in France:

- residences for students, since its creation in 1989;
- hotel and tourism residences, for tourists or businessmen ; it entered the market in 1994 and experienced a strong boost from 2006 onwards; and
- residences for non-disabled elderly people having entered this market niche more recently (2007) but enjoying a marked development.

Groupe Résidence Études maintains its presence in related / complementary markets, namely the development and sale of traditional real estate, restaurants and traditional residential rental property, but remain marginal activities at Group level. The Group diversified into building in 2007, but it decided to discontinue such activity in 2013.

HOUSING IN FRANCE

French population and housing characteristics are presented in the rating report dated 12 September 2013 (Rating Report), of which we point out the following: conversely to remaining European countries, France has no population growth problem; in France, as in many European countries, the population is ageing; population growth has led to a shortage in residential housing construction in France (particularly in large cities).

“RÉSIDENCES AVEC SERVICES”

Characteristics of the assisted residences market in France are described in the Rating Report. Among these characteristics, the following are worth noting:

- some real estate market niches show an important shortage of supply given the demographic evolution of the last decades and what can be expected for the next few years;
- an increasingly higher number of students is having lodging problems (unsuitable, insufficient or over expensive lodging supply);
- an increasingly older population resulting from longer life expectancy is also having housing needs which the market has not been able to meet;
- traditional housing is no longer sufficient;
- a set of tax exemption / benefits for assisted residences; and

- aimed at three main markets referred to herein below.

RESIDENCES FOR STUDENTS

Characteristics of the student residences market in France are described in the Rating Report. Among these characteristics, the following are worth noting:

- the need for private assisted residences is real and considerable;
- the need to increase the supply of student accommodation is recognised by public authorities since long ago and has translated in a number of initiatives (moderate increase in the supply of public collective residences (CROUS), tax exemption / advantages,...); and
- the solvency problem normally associated with this demand is solved thanks to government lodging aids (note that a large number of students who are clients of Groupe Résidence Études are eligible to these aids) and/or sureties provided by parents.

RESIDENCES FOR NON-DISABLED ELDERLY PEOPLE

Characteristics of the residence market for non disabled elderly people are described in the Rating Report. Among these characteristics, the following are worth noting:

- although the market benefits from increased life expectancy, people do not age in the same way; hence, the market is segmented into homes for disabled elderly people and residences for non-disabled elders; this segmentation has called for specialised operators (players in one segment generally do not operate in the other segment);
- on one hand, the market of EHPAD (Établissement d'Hébergement pour Personnes Âgées Dépendantes) is directed to dependant individuals. This is a highly regulated market, requiring professional and administrative licences. Its development potential is currently restricted in some regions due to a lack of authorisation for additional beds (as result of France's fiscal problems);
- the other sector is that of the residences for non-disabled seniors, also called RPA (Résidences Personnes Âgées). The RPA are prohibited from providing medical care (to prevent, in case of inspection by the relevant authority, namely the Direction des Affaires Sanitaires et Sociales, presently renamed l'Agence Régionale de Santé, to be requalified as an EHPAD, with heavy consequences in terms of costs and requirements if a large number of residents were to be recognised as dependent); Groupe Résidence Études is positioning itself in this market segment;
- the tenant will pay the manager two amounts: the rent plus an invoiced amount for the services used during the previous month;
- in 2013 there existed 435 seniors assisted residences in France, totaling 43 500 accommodation units; less than 1% of 60 year-old seniors were in these units; and

- presently, 70% of households of over 60 years-old seniors have an average annual income of over EUR 20 000.

HOTEL OR TOURISM RESIDENCES (HOTEL RELATED FACILITIES)

Characteristics of the hotel and tourism residences (hotel related facilities) market in France are described in the Rating Report. Among these characteristics, the following are worth noting:

- Hotel or Tourism Residences cover two different types of residences: tourist accommodation residences located by the sea, in the countryside or mountain; and city residences directed to a more professional customer base, normally in important business centres; the business model of Groupe Résidé Études it is focused mainly on the city residences directed to a business clientele but also tourists;
- the market seems presently less buoyant in the tourism segment, conversely to the sector of students and senior residences; and
- the market segment of city residences experiencing greater development than tourism residences. This is a strong point for Groupe Résidé Études which has successfully positioned itself in this segment.

TAXATION

Tax on revenues from assisted residences has long benefited from tax advantages ("défiscalisation") that created a "windfall effect", which boosted this market. Tax exemption laws aim at increasing the attractiveness of investment rental (on a furnished basis) taking into account its economic and social role. The latest taxation law in force in this field is the "Censier-Bouvard" law, which has often changed over time, especially in terms of the tax reduction it provides. This law is based on three major cornerstones:

- repayment to the investor of Value Added Tax (VAT) on the investment (Article 261-D-4 of the General Taxation Code), subject to holding the property for 20 years; otherwise the Tax Administration can claim back such payment; more lately, the Tax Administration considered that any reimbursement could only be provided in two conditions: if the new landlord takes over the commercial lease 'as is' and if rents charged by the investor are subject to VAT; resale is thus made easier;
- benefits under the "Censi-Bouvard" system - tax advantages offered by this system have decreased over the years; they currently consist of a tax reduction of 11% on the purchase price, excluding taxes but including notary expenses, up to the amount of EUR 300 000 per investment (i.e. maximum of tax cut of EUR 33 000 to be broken down in installments in the same amount over 9 years); this law was recently altered by a new tax exemption ceiling of EUR 10 000 per year since 2013; note that the Censi-Bouvard law is only applicable to dwellings bought new, and that it will cease to apply as from end 2016 (unless a new law is passed until then); the introduction of a different law as from that date cannot be excluded, however; and
- taxation of the rentals of the furnished accommodation, which may be professional (LMP) if the owner is registered

with the "Registre du Commerce", if rent revenues thereof exceed EUR 23 000 - inclusive of all taxes - and if they account for over 50% of the investor's household income; failure to comply with these rules (threshold of EUR 23 000 inclusive of all taxes and 50%), makes the owner eligible to the non professional furnished rental taxation (LMNP) which is still attractive, albeit in a lower proportion; this taxation also applies in the event of resale.

As mentioned in the rating report dated 12 September 2013 the Group presents its products as eligible investments for professional or non professional furnished rental taxation, as it has the advantage of being long-lasting (conversely to tax exemption laws, which can be and are altered on a regular basis).

As mentioned in the Rating Report rentals for housing purposes are VAT exempted. According to provisions in article 261-D-4 of the General Taxation Code, there are however four exceptions to this exemption. One of them apply to investments proposed by Résidence Études. Therefore, accommodation units sold by the Group fall within the scope of application of VAT. The recovery of VAT on investment is one of the key selling points to potential investors in assisted residences. In this case, at the beginning of the operation (at the time of the purchase), the investor has a VAT credit (VAT on the purchase price), which it can claim to the Treasury and recover within a few months. Certain developers as is the case of Résidence Études Group even advance this amount to the purchaser that will therefore only disburse the amount exclusive of taxes, thus benefiting the purchase. It should be noted that this recovery is only find within 20 years. This means that if the investor should resell its property within a period of less than 20 years, it will have to return to the Treasury an amount pro rata to the number of years left (5% per year left), except if the new owner takes over the commercial lease "as is" and its rents are subject to added value tax. To benefit from this VAT recovery, the investor must enter a commercial lease with the operator and the lease must be for a period of at least 9 years (minimum legally required). The operator ensures to the investor an (indexed) rent amount throughout the duration of the lease.

The Group seldom enters into "triple net" leases. Normally, in (an either residential or commercial) lease, maintenance costs are distributed amongst the owner (large works) and the manager (or occupant, i.e. the tenant in case of a house lease), who pays the current maintenance. In triple net leases, major works are deemed to be paid by the operator (article 606 of the Civil Code, which is borne by the manager). The same happens with the property tax, which should be borne by the investor, except for triple net leases. Finally, practically no charge is paid by the owner, and the rent thus received provides a net return.

As mentioned in the Rating Report if at the date of renewal of the lease the owners do not want to renew it, they will have to pay an eviction indemnity to the operator, by way of goodwill which the manager will have created. In practice, it is very difficult to be separated from the operator at the end of the lease. This is an advantage for the operator.

3. RÉSIDÉ ÉTUDES GROUP

SHAREHOLDER STRUCTURE AND MANAGEMENT

In 2013 the share capital of Résidence Études was increased to EUR 50.0 million, by incorporation of reserves in the amount of EUR 20 million. As of this date the share capital is, represented by 1 000 000 shares and the company holds

20 000 treasury shares (for the purposes of profit sharing and bonus plans to develop its shareholder structure based on key staff).

Résidence Études continues to be almost entirely controlled by its Management: Mr. Philippe Nicolet, as President and founder, holding 75.4% of the share capital; Mr. Christian Verlaine, with 9%; and Mr. Robert Vergès, with 8.7%. The remaining is distributed amongst other senior staff and treasury stock. As mentioned in the Rating Report, the three members of the Managing Board have two decades of experience in this activity, namely at Résidence Études:

To ensure the stability of Résidence Études shareholder structure, the shareholders' agreement signed in 2001 establishes transfers between shareholders on the basis of the book value of the shares. According to this agreement, every new minority shareholder joining the share capital of Résidence Études must subscribe the provisions of the agreement.

Résidence Études shareholders opted to have a moderate dividend distribution policy (distributing approximately EUR 1.2 million each year), except in case of an difficult conditions that would justify its suspension, as was the case in 2008.

THE BUSINESS MODEL OF RÉSIDENCE ÉTUDES

The business model of Résidence Études is fully described in the Rating Report. This model is based on four cornerstones: in-depth knowledge of real estate markets; thorough insight of the relevant legal and tax frameworks; common expertise of the whole real estate construction-development chain; integrated market forces, both upstream (investors) and downstream (lessees).

The Group's activities as presented in the Rating Report are quite unique:

- long term activity since a project development will require, in general 2.5 to 3 years, whereas management of accommodation units is for an unlimited period as the Group renews investors leases;
- canvassing of investors with whom the Group will sign a commercial lease contract for a duration of at least 9 years; This marketing phase, which can last up to 18 months, begins with a preliminary reservation contract, followed by a sales contract under the form of a "Sales Before Completion Contract (Vente en État Futur d'Achèvement) (VEFA). Delivery takes place approximately 2 years following beginning of construction.
- search for tenants, occupancy, maintenance and management of residence; the manager will be responsible for invoicing and collecting final rents;
- the Group offers a service for the resale of accommodation to ensure both the liquidity to investors and to protect its goodwill; and
- the Group also has the capacity to conclude numerous partnerships with other developers.

THE GROUP'S STRUCTURE

The structure of Groupe Résidence Études is organised around three main areas:

- real estate development, which accounted for 28.8% of business turnover in 2013;
- real estate management and operation, which accounted for 63.8% of turnover in 2013; and
- own property activity, which accounted for 2.7% of turnover in 2013.

Résidence Études Investissement S.A. is the Group's holding company. It took over the direct control of the construction subsidiary, Compagnie de Bâtiment et de Maçonnerie SAS (CBM) which is being shut down, and is the direct holder of 100% of the shares of:

- Résidence Études SAS, main property development subsidiary, which comprises 54 branches, each of which dedicated to one real estate development plan;
- Résidence Etudes Exploitation SAS (known as Résidences Étudiantes de France SAS before the legal restructuring of the management and operation arm) is the holding of the operation businesses; it directly controls the residences operating companies: Résidences Services Gestion SAS - students (including the 7 social residences held); Résidence Etudes Apparthotels SAS, Relais SPA and Relais SPA Roissy - apparthotels; and Girandière SAS - assisted living residences for seniors; and
- Résidence Études Gestion SAS, which became the holding company for the services and joint ownership businesses.

This legal reorganisation started at the end of 2013 (following the early repayment of the corporate loan – see point 4.) and will continue in 2014: linking of the restaurant business to the residences operating companies; linking of the property structures holding operating assets to operating companies. Stud'City SAS was absorbed by Résidences Services Gestion SAS with retroactive effect as of 1 January 2014.

Note that the "real estate development" and "management central" sales forces were reinforced during 2013.

As mentioned in the Rating Report, the Group wants to end CBM's activity as soon as ongoing works are completed and delivered. In 2013, the turnover of CBM dropped to EUR 9.1 million as against EUR 22.5 million in 2012, with losses before taxes at EUR 5.6 million as against EUR 4.6 million in 2012. 2013's results were significantly affected by shut-down costs during the year. This activity will cease in 2014 with the delivery of the last building.

LOCATIONS, BRANDS AND COMPETITION

REAL ESTATE DEVELOPMENT BUSINESS

The evolution of the real estate plans completed by the Group is shown in table 3.1. herein below. The recovery in sales started in the fourth quarter of 2012 was confirmed. 2013 experienced a sharp rise in sales. The performance of assisted living residences segment is in fact an exception in the real estate market, which remains quite depressed in France.

Business growth in 2013 was outstanding: reservations grew by 55.9% in terms of value (by 62.1 % in terms of units); the number of notary deeds signed rose by 38.4% in terms of value (by 46.8% in terms of units). This trend remained positive in the first half of 2014, as the value of reservations and deeds rose by 43.0% and 44.5% respectively, as compared to the first half of 2013.

TABLE 3.1.
DEVELOPMENT - EVOLUTION OF RESERVATIONS, NOTARY DEEDS AND DELIVERED PLANS / PROGRAMS

	2009	2010	2011	2012	2013	1st Half 2013	1st Half 2014
Reservations Made in Million Euros	82,9	129,1	93,2	68,7	107,1	53,6	76,6
In Number of Dwellings	560	762	621	528	856	414	511
Signed Notary Deeds / Disposals in Million Euros	76,0	150,7	90,4	66,2	91,6	20,9	30,2
In Number of Dwellings	515	928	584	483	709	156	238
In Thousand Euros per Dwelling	147,6	162,4	154,8	137,1	129,2	134,0	126,9
Profit Net of Losses on Delivered Plans	2,7	5,4	7,9	6,7	18,1	1,8	2,7
Number of Delivered Plans	7	2	3	6	6	1	1

Sources:
Reports and accounts of Groupe Résidence Études.

The Group thus continues to deliver residences at good pace (7 in the period of 2013-1st half 2014), with significant return. In terms of market category, these residences are distributed as follows:

- student residences (marketed under brand Les Estudines): a development plan located in Montreuil was partially delivered at the end of 2013 (approximately 72%) and April 2014;
- aparthotel residences (marketed under brand name Residhome): two developments located in Neuilly Plaisance and Roissy were delivered at the end of 2013; no aparthotel residence (marketed under brand name Séjours & Affaires) was delivered in 2013; and
- assisted living residences for seniors (marketed under brand name «La Girandière»): three developments located in Saint-Berthevin-Lès-Laval, Chanteloup-en-Brie and Trélissac were delivered in 2013; the development located in Meaux was delivered in May 2014 instead of December 2013.

In August 2014 the following development plans are undergoing marketing and construction:

- 4 student residences: Rosny sous bois, Saint Quentin en Yvelines, Nice; the Group plans to begin the marketing of the Marseille development soon;
- nineteen assisted living residences for seniors: Tarbes and Epernay (to be delivered in September 2014), Perpignan, Caen, Le Havre, Clermont, Le Mans and Nice; additionally, sales of the following developments are now in progress (construction is to start in the second half of 2014 or in 2015): Challans, Mulhouse, Dinan, l'Isle d'Abeau; the Group will soon start selling the residences of Saint-Malo, Bretigny s/Orge, Cherbourg, Chessy, Tours, Bourgoin-Jallieu, Marseille; and
- one residence intended for ownership (Cesson, delivery end 2014).

According to the Group, the level of fixed expenses of the sales branch in 2013 was higher than it used to be due to the sales cost of two unusual plans in Nice and Paris.

MANAGEMENT / OPERATION - RESIDENCES FOR STUDENTS

In competitive terms, the Group's positioning stands out for: i) slightly higher price policy based on the quality of services; ii) nation-wide coverage, with strong presence in the Paris region where over of a quarter of French students reside; iii) presence in main university cities; iv) number 2 in the market.

At the end of 2013 the Group held 87 student residences with services, representing 12 786 accommodation units (12 525 at the end of 2012). The average occupancy rate of these student residences has fallen slightly in 2013 (to 90.0% as against 90.3% in 2012) due to i) an unfavourable economic background, particularly in provinces and ii) recent opening of two residences (with an occupancy rate of only 80% in 2013). According to the Group, in spite of the economic background, results of the main operating branch in this sector were spurred by the beginning of operation of new residences.

In the first half of 2014 the average occupancy rate of Groupe Résidé Études student residences stood at 86.5%, mainly due to the rise in VAT rate (to 10% from 7%) applicable to furnished rented units since the 1st of January 2014. Notwithstanding, revenues from this operating business arm rose by 1.5% in relation to the first half of 2013.

MANAGEMENT / OPERATION - RESIDENCES FOR NON-DISABLED ELDERLY PEOPLE

In this business segment, the following should be noted: still modest Group presence (13 service residences at the end of 2013, out of 435 existing in the market), in spite of an increase by over 30% in the number of accommodation units in 2013 (1083 units); Group's initial implantation made in town centres or in surrounding areas of average-sized cities in northern France; the Group stands out from competitors due to the higher number of services made available; the market leader is Groupe Aegide (36 residences with services at the end of 2013).

The non-disabled seniors residences business of Groupe Résidé Études has experienced a strong boost in 2013, resulting from a rise in occupancy rate and the opening of three new residences. Operating results for the year was positive, also thanks to the development branch which provided aid to the marketing launch.

In the first half of 2014 the evolution of the occupancy rate of Groupe Résidé Études residences was globally positive. Thanks to this performance and the creation of new residences, revenues from the senior residences business rose by 51.4% over the first half of 2013.

MANAGEMENT / OPERATION - HOTEL OR TOURISM RESIDENCES (HOTEL RELATED FACILITIES)

The Group's position in this segment is based on four different niches: «low range» under brand name «Séjours & Affaires - Apparthotel», with 3* residences «RésidHome – Apparthotel», «high range», with 4* residences «RésidHome - Apparthotel», «top range» with two «Relais Spa» residences; the Group is present in the majority of large French cities; In Paris, particularly in the west of the city, the Group holds a large number units; Groupe Résidé Études ranks second in the segment of city apparthotels, behind Groupe Adagio.

According to the Group, in 2013 Résidence Études has experienced a quite satisfactory activity and a sharp rise in turnover in this business segment. Results of the main operating segment are strongly rising, although the hotel and tourism-related residences sector's overall results remained in the red due to losses posted by two residences: Relais SPA de Val d'Europe and Relais SPA Roissy, which are still in launching phase. It should be noted that until the beginning of 2014 Val d'Europe residence was managed outside the general organisation implemented by the Operational Division. All sales, price and procurement policies and quality standards were managed by the residence itself without any hierarchic link to the Group's Operational Division. This management was changed in January 2014. This residence now benefits from the Group's managing powers and quality standards, which have already led to better results in the first half of 2014 as compared to the same period of the previous year.

In the first half of 2014 the Group opened four new residences, including three «high range» and one «mid-range» facilities. It is presently well positioned in this market segment with 69 residences and 6 988 accommodation units.

Occupancy rates of residences improved in 2013 (70%), except for the «low-range» market segment. The occupancy rate of Relais SPA stands at 58.8% but this is because its activity is quite recent. The economic background and the rise in VAT rate also affected occupancy rates in the first half of 2014 (except for Relais SPA) (62.3%).

Revenues from this business segment - except for Relais SPA - improved by 13.1% in the first half of 2014 as against the same period of the previous year; revenues from Relais SPA improved by 11.8%, due to the increase in income generated by residences opened in previous years.

MANAGEMENT / OPERATION - TRADITIONAL RESIDENTIAL PROPERTY

The Group continues to manage a portfolio of residences for future ownership purposes, with no associated services (under brand name «Les Activiales»), resulting of purchase opportunities. As mentioned in the Rating Report, this activity consists of the management of property intended for lease, falling somewhere between the free housing market and the social housing market. At the end of 2013 the Group's portfolio in this segment consisted of 450 accommodation units in 7 residences.

PROPERTY INVESTMENT

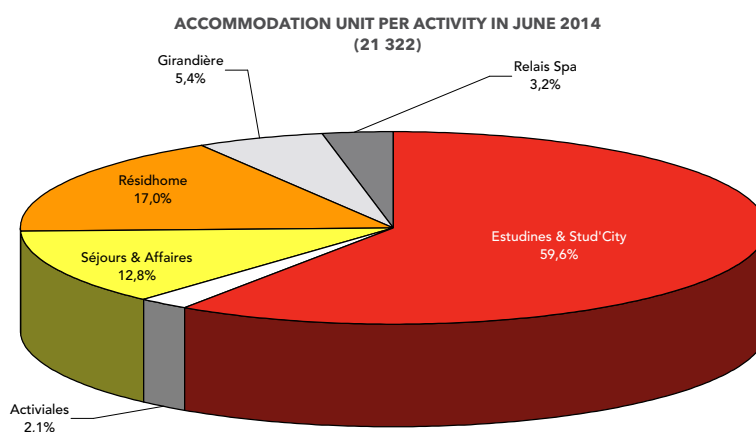
During 2013 the Group's real estate property was widened with a student residence in Marseille («République») of 206 lodging units, which was opened in September. In April 2014 the Group acquired 51 social accommodation units for students in residence «Estudines François Arago» at Montreuil. Following this operation, the Group's assets rose by EUR 4.9 million. These assets will be further increased in the next three years with two new residences, one for seniors in Marseille and one for students in Paris.

EVOLUTION OF THE PORTFOLIO OF ACCOMMODATION UNITS

In 2013 the Group started the operation of 5 new residences with 561 units: two student residences (including Marseille - République with 206 units), which it owns and residence «Estudines François Arago» at Montreuil (94 units), which it manages; three residences for seniors (261 accommodation units) at Saint-Berthevin (Laval), Trélissac (Périgueux)

and Chanteloup en Brie (Marne La Vallée). In line with this upward trend, in the first half of 2014, the Group started the operation of 5 new residences, including 4 RésidHome – Aparthotel (mostly 4*, at Issy les Moulineaux, Roissy Park, Neuilly Plaisance and Clarion Carré Senart) and a residence for seniors in Meaux. As result, the property portfolio managed by the Group covered 21 322 units as of 30 June 2014 (20 571 units at the end of 2013 and 20 031 at end 2012). This reveals a slight increase in the portfolio (by 2.7% in 2013 and by 3.7% in the first half of 2014).

As of 30 June 2014 this portfolio was broken down as follows: 60% corresponded to students, one third was tourism related and 5.4% to seniors (rising slightly in relation to 30 June 2013).



Source: Groupe Résidé Études.

STRATEGY

At short and medium term, the strategy of Résidé Études views organic growth in France. Positive and recurrent results in mature sectors such as the student residences allow offsetting losses from the launching of new residences, including other segments where the Group operates. The results of the «development» business, which are more irregular, and of the own property business also contributed to this performance, having improved in overall terms.

4. ECONOMIC AND FINANCIAL ANALYSIS

GENERAL CONSIDERATIONS

The analysis of Résidé Études consolidated financial statements covered the 2009-2013 period. These financial statements were audited by Deloitte & Associés. The financial statements for 2012 were subject to the following restatements to allow comparison with 2013's:

- marketing and organisation fees were eliminated by charging the products invoiced by Résidé Études SAS to expenses taken into account by the «Sociétés Programmes»; accordingly, this restatement was applied to certain invoices for services provided within the group, flowing through the co-ownership accounts; this restatement had an

impact on the consolidated profit and loss statement (decrease in turnover by EUR 17.3 million offset by a decrease in supplies and consumables by EUR 9.4 million and operating expenses by EUR 7.8 million);

- the consolidated profit and loss account was restated to eliminate items from the construction affiliate CBM, which is being shut down (profit net of taxes of EUR -2.9 million); and
- Sales under VEFA were considered as long term contracts; as result, marketing fees were recorded as inventory (EUR +9.0 million); this impact was offset by a decrease by EUR 9.0 million in accrued expenses and deferred income.

In 2013 the following aspects concerning the financial statements are worth noting:

- an evaluation of investment property at fair value made by an independent entity resulted in gains of EUR 1.7 million in 2013 (EUR 2.1 million in 2012);
- interest rate swaps resulted in unrealised losses of EUR 0.802 million at the end of 2013, with an impact on equity in the amount of EUR 0.535 million, following deduction of contingent tax credit of EUR 0.267 million; the annual net change in fair value resulted in gains net of taxes of EUR 0.517 million, with an impact on equity since it consists of a non speculative instrument;
- income tax expense for the year was reduced, namely as result of the extension of tax integration to the loss-making subsidiaries Relais Spa, which was made possible by the purchase of minority interests; and
- the decision to close down the construction business developed by subsidiary CBM required the Group to set aside provisions for this purpose in the financial statements for the year (provisioning of EUR 1.1 million directly related to CBM).

Consolidated financial statements of Résidé Études relating to the period ranging from 2009 to 2013 were restated by ARC Ratings for the purposes of analysis. These restatements concern mainly: i) the dividends to be distributed in the following year, were restated as profits distribution on the negative cash position; ii) profits of businesses closed down or to be disposed, net of income taxes, which were restated as non current results.

RETURN AND CAPACITY TO GENERATE CASH FLOWS

From 2012 to 2013 the consolidated turnover of Résidé Études rose by 11.8% reaching EUR 315.7 million. Given the Group's current development phase, without deducting sector relations, the development business grew more than management business. However, the turnover of the management business still accounts for approximately 69% of consolidated turnover. Growth in the property business also exceeded the change in consolidated turnover.

Gross contribution margin also evolved favorably, by 1.2 percentage points of turnover, standing at 26.5% in 2013. Sundry operating income as a percentage of turnover increase of 0.3 points. These positive developments were more than enough to offset the rise in total fixed operating expenses. EBITDA as a percentage of turnover moved from 6.8% in 2012 to 7.4% in 2013, increasing by 0.6%. In absolute terms, EBITDA amounted to EUR 23.3 million in 2013,

improving by 21.9% in relation to 2012. Note the increase in the operation/management business, which accounted for 55% of consolidated EBITDA (50% in 2012).

TABLE 4.1.
CONSOLIDATED GROUPE RÉSIDÉ ÉTUDES PROFIT AND LOSS ACCOUNT (THOUSAND EUROS)

	2008	2009	2010	2011	2012	2012 Re	2013
TURNOVER	212 661	300 763	292 243	318 352	322 158	282 352	315 730
Variable Expenses	177 027	248 166	228 906	248 947	250 924	211 038	232 150
Cost of Goods Sold and Materials Consumed	122 750	199 416	175 136	175 356	164 971	150 890	165 640
Suppliers and External Services	54 277	48 750	53 770	73 591	85 953	60 148	66 510
GROSS CONTRIBUTION MARGIN	35 634	52 597	63 337	69 405	71 234	71 314	83 580
Sundry Operating Income	4 420	0	4 253	3 453	7 965	7 962	9 664
Other Operating Income	4 420	0	4 253	3 453	7 965	7 962	9 664
OPERATING CONTRIBUTION MARGIN	40 054	52 597	67 590	72 858	79 199	79 276	93 244
Fixed Operating Expenses	30 328	38 408	48 394	55 888	63 691	60 170	69 963
Staff Expenses	26 782	33 622	38 931	45 980	48 050	44 791	51 559
Taxes	3 546	4 476	5 369	7 094	7 422	7 172	8 313
Other Operating Expenses	0	310	4 094	2 814	8 219	8 207	10 091
EBITDA (a)	9 726	14 189	19 196	16 970	15 508	19 106	23 281
Depreciation and Amortisation	2 586	4 297	4 370	4 572	4 538	4 461	5 162
Provisions	1 207	1 243	(83)	(224)	1 124	246	(425)
Impairments and Fair Value Change in the Value of Investment Property	2 782	162	(1 133)	(4 403)	(2 135)	(2 135)	(1 703)
EBIT (b)	3 151	8 487	16 042	17 025	11 981	16 534	20 247
FINANCIAL RESULT	(1 603)	(2 176)	(2 959)	(3 339)	(4 273)	(4 269)	(5 190)
Financial Income	2 183	1 233	1 164	1 017	683	676	540
Financial Expenses	3 786	3 409	4 123	4 356	4 956	4 945	5 730
CURRENT RESULT	1 548	6 311	13 083	13 686	7 708	12 265	15 057
NON-CURRENT RESULTS	0	0	0	0	0	(2 947)	(3 777)
EARNINGS BEFORE TAXES (*)	1 548	6 311	13 083	13 686	7 708	9 318	11 280
Income Taxes for the Year	733	2 545	4 888	5 229	3 677	5 287	3 473
Minority Interests	174	13	109	9	(237)	(237)	0
NET PROFIT FOR THE YEAR	641	3 753	8 086	8 448	4 268	4 268	7 807
Distribution of Profits	0	581	1 209	1 200	1 200	1 200	1 200
NET RETAINED PROFITS (LOSSES)	641	3 172	6 877	7 248	3 068	3 068	6 607

Notes:
 Figures rounded.
 Accounts reclassified by ARC Ratings for analysis purposes.
 (a) Earnings before interests, taxes, depreciations and amortizations.
 (b) Earnings before interests and taxes.
 (Re) 2012 with reclassifications in order to compare with 2013.
 (*) Excluding activities shutting down in 2012 and 2013.

Sources:
 Groupe Résidé Études Annual Reports.

The EBITDAR is also worth noting, being a relevant indicator as far as Groupe Résidé Études is concerned, since it measures EBITDA before taking into account rents paid to investors. In absolute terms EBITDAR went from EUR 93.1 million in 2012 to EUR 105.7 million in 2013, i.e. +13.5%. As a percentage of turnover, EBITDAR stood at 33.5% in 2013 as against 33.0% in 2012.

EBIT performed in line with EBITDA.

Financial results moved from EUR -4.3 million in 2012 to EUR -5.2 million in 2013 due to an increase in financial expenses (by approximately 16% reaching EUR 5.7 million), resulting from a higher financial debt. Thanks to the improvement in EBITDA, the net financial expense / EBITDA coverage ratio was kept at 4.5x in 2013. It should be noted that the Group capitalises financial expenses associated with its development business, which means that the profit and loss account only records financial expenses attributable to remaining activities, particularly property investment.

Non current results derived from the construction activity developed by CBM, which posted losses (net of taxes) of EUR 3.8 million in 2013 (as against losses of EUR 2.9 million in 2012).

The effective tax rate, excluding discontinuing activities, decreased from 2012 to 2013 due to the extension of the tax integration to the loss making subsidiaries Relais Spa, as mentioned above.

Net consolidated profits, influenced by the situations described above, increased from EUR 4.3 million in 2012 to EUR 7.8 million in 2013, growing by 82.9% in annual terms, despite the deterioration in CBM net losses. This evolution shows the Group's resilience and capacity to absorb losses arising from discontinuing activities and new businesses. Excluding CBM's activity, net consolidated profits for 2012 and 2013 represented 2.5% and 3.7% of turnover, respectively. Net consolidated profits for 2013 accounted for 10.5% of equity, improving by 4.2 points in relation to 2012.

TABLE 4.2.
CONSOLIDATED FLOWS AND BALANCE SHEET INDICATORS OF GROUPE RÉSIDÉ ÉTUDES

	2008	2009	2010	2011	2012	2012 Re	2013
Flow Structure							
EBITDAR as a % of Turnover	n.av.	n.av.	n.av.	26,7%	27,8%	33,0%	33,5%
Payout Ratio	0	15,5%	15,0%	14,2%	28,1%	28,1%	15,4%
Coverage of Net Fin. Borrowing Costs / EBITDA	6,1	6,5	6,5	5,1	3,6	4,5	4,5
Coverage of Net Fin. Borrowing Costs / EBIT	2,0	3,9	5,4	5,1	2,8	3,9	3,9
Financ. Debts / (Net Retained Profits + Depreciation)	33,9	16,8	10,4	11,1	17,8	18,0	15,0
Financing Debts / Turnover	0,5	0,4	0,4	0,4	0,4	0,5	0,6
Structure of The Balance Sheet							
Equity / Assets	16,8%	17,5%	21,8%	21,7%	22,4%	n.ap.	20,7%
Minority Interests / Assets	0,2%	0,1%	0,2%	0,0%	(0,1%)	n.ap.	0,0%
Total Liabilities / Total Assets	83,0%	82,3%	78,0%	78,3%	77,7%	n.ap.	79,3%
Financial Debt / Total Assets	38,2%	43,0%	44,0%	43,8%	45,3%	n.ap.	49,1%
Medium and Long Term Financial Debt / Non-Current Assets	66,6%	65,1%	66,8%	67,9%	67,9%	n.ap.	82,4%
Liquidity Risk = Short Term Financial Debt / (Short Term Financial Debt + Non Used Loans)	n.av.	n.av.	n.av.	0,0%	0,0%	n.ap.	0,0%
Functional Balance Sheet (Thousand Euro)							
Long Term Capital	124 908	137 116	155 278	178 129	198 934	n.ap.	245 733
Non Current Assets	98 653	117 172	128 046	143 213	164 514	n.ap.	182 982
NET WORKING CAPITAL (NWC)	26 255	19 944	27 232	34 916	34 420	n.ap.	62 751
Cyclical Requirements	169 697	153 408	108 610	121 162	95 689	n.ap.	120 552
Cyclical Resources	117 857	104 818	77 348	86 315	75 261	n.ap.	86 489
NET WORKING CAP. REQUIREMENTS (NWC)	51 840	48 590	31 262	34 847	20 428	n.ap.	34 063
Positive Cash Position	17 989	21 078	28 185	35 064	38 841	n.ap.	55 219
Negative Cash Position	43 574	49 724	32 215	34 995	24 849	n.ap.	26 531
NET CASH POSITION (NCP)	(25 585)	(28 646)	(4 030)	69	13 992	n.ap.	28 688
As a % of Turnover	(12,0%)	(9,5%)	(1,4%)	0,0%	4,3%	5,0%	9,1%
NWC Variation	-	(6 311)	7 288	7 684	(496)	n.ap.	28 331
NWCR Variation	-	(3 250)	(17 328)	3 585	(14 419)	n.ap.	13 635
NCP Variation	-	(3 061)	24 616	4 099	13 923	n.ap.	14 696
As a % of Turnover	-	(1,0%)	8,4%	1,3%	4,3%	4,9%	4,7%

Notes:
 Figures rounded.
 Accounts reclassified by ARC Ratings for analysis purposes.
 (Re) 2012 with reclassifications in order to compare with 2013.
 n.av. = Non available. n.ap. = Non applicable.

Sources:
 Groupe Résidé Études Annual Reports.

Likewise, pre-tax consolidated profits - excluding discontinuing activities - in 2013 were 17% higher than estimated in the business plan analysed in the Rating Report. This situation occurred in a background of:

- an improvement by 33% in results of the operation/management business despite a deterioration in the student residences business pré-tax profits by approximately 13%; pre-tax results of the aparthotel business were slightly better than expected (though with a slight negative change in the number of units) whereas the profits of the Relais Spa business were in line with estimated; the operation of the seniors residences recorded losses above estimates, due namely to: i) operational problems in residences undergoing strong development (at staff level, for instance), which the Group will be able to solve; and ii) longer than expected residences filling in of the, causing delays in revenues; these aspects do not undermine the operational balance of these residences;
- rise in profits of the own property investment business by approximately 25% - excluding the valuation change in investment property; and
- lower profits from the development business - excluding CBM - despite higher than estimated sales and transfers of development plans - respectively 19% and 15% in terms of value – generating fees higher than estimated; notwithstanding, margins calculated based on percentage of completion were lower than estimated (a part of which will be recognised in 2014); expenses were higher due to a reinforcement of marketing and advertising channels and marketing costs of unusual plans in Nice and Paris.

As far as CBM is concerned, pre tax losses were worse than estimated.

FINANCIAL POLICY

At the end of 2013 total consolidated assets of Résidence Études amounted to EUR 358.8 million, growing by EUR 59.7 million over 2012, as result of the following: i) rise by EUR 18.5 million in non current assets - mostly investment property (EUR +10.4 million, reflecting a boost in property activity) and tangible assets (EUR 3.7 million) - ii) rise by EUR 24.9 million in current assets - mainly trade accounts receivable (EUR +15.0 million, see evolution of the development business) and inventories (+EUR 11.8 million, including EUR 9.0 in marketing fees, subject to restatement in 2012 and recorded against accruals and other Operating accounts); and rise by EUR 16.4 million in deposits and cash which reached EUR 55.2 million by end 2013.

During this period, the Group's equity rose by EUR 7.2 million, thanks to its cash generation capacity and a moderate dividend distribution policy, which permitted an increase in reserves. The recurrent dividend policy of distributing EUR 1.2 million each year, has led to a distribution rate of consolidated net profits of 15.4%, 12.7 percentage points less than in 2012. Despite this increase in equity / assets ratio which in 2012 stood at 22.4% dropped to 20.7% in 2013, falling by 1.7 percentage points . Taking into account the importance of deposits and cash in the balance sheet, it is worth noting the equity / corrected assets ratio (where assets are deducted from cash and deposits and cash), of 24.4% in 2013, dropping by 1.3% percentage points over 2012. Note that this evolution had been foreseen and it resulted from the development phase of the real estate development business and from an increase in own property.

The Group improved its liabilities structure and diversified its financing sources in 2013, namely via a bond issue of EUR 44.0 million placed with institutional investors, intended to finance growth. In fact, the Group's liabilities changed

from EUR 132.2 million at the end of 2012 to EUR 171.6 million one year later. This figure is broken down as follows: Medium and long term financial debt in the amount of EUR 150.7 million (EUR 111.7 million in 2012); deferred tax liabilities of EUR 17.3 million (EUR 16.9 million in 2012); provisions and employee benefit plans in the amount of EUR 3.6 million (idem in 2012).

TABLE 4.3.
CONSOLIDATED BALANCE SHEET OF GROUPE RÉSIDÉ ÉTUDES (THOUSAND EURO)

	2008	2009	2010	2011	2012	2013
Intangible Assets (Net)	8 279	8 584	8 360	8 742	9 109	9 556
Tangible Assets (Net)	18 930	33 343	37 753	40 054	46 836	50 557
Investment Property	70 663	71 157	78 562	92 009	104 278	114 710
Equity Holdings and Other Investments	557	3 302	2 536	2 280	3 865	7 831
Deferred Tax Assets	224	786	835	128	426	328
NON CURRENT ASSETS	98 653	117 172	128 046	143 213	164 514	182 982
Raw Materials and Goods	0	0	235	264	247	273
Finished and Semi-Finished Products	66 543	52 754	24 606	22 396	26 387	38 199
Trade Accounts Receivable (*)	55 381	55 340	38 359	43 401	31 621	46 591
Advances by Suppliers	1 585	345	836	288	340	355
Social Contributions and Tax Receivable	23 784	24 571	19 069	23 969	18 200	21 180
Accruals and Other Operating Accounts	22 404	20 398	25 505	30 844	18 894	13 954
CURRENT ASSETS	169 697	153 408	108 610	121 162	95 689	120 552
Deposits and Cash	17 989	21 078	28 185	35 064	38 841	55 219
POSITIVE CASH POSITION	17 989	21 078	28 185	35 064	38 841	55 219
TOTAL ASSETS	286 339	291 658	264 841	299 439	299 044	358 753
Share Capital	1 000	1 000	1 000	10 000	30 000	50 000
Other Reserves	46 538	47 004	49 889	47 698	33 897	17 503
Retained Earnings	641	3 172	6 877	7 248	3 068	6 607
EQUITY	48 179	51 176	57 766	64 946	66 965	74 110
MINORITY INTERESTS	438	416	528	32	(226)	0
Provisions and Employee Benefits	1 230	2 039	2 339	2 476	3 616	3 601
Deferred Tax Liabilities	9 325	7 251	9 132	13 465	16 864	17 306
Medium and Long Term Financial Debt	65 736	76 234	85 513	97 210	111 715	150 716
STABLE LIABILITIES	76 291	85 524	96 984	113 151	132 195	171 623
LONG TERM CAPITAL	124 908	137 116	155 278	178 129	198 934	245 733
Trade Payables	26 846	35 796	30 048	40 182	36 570	37 739
Advances Trade Accounts	2 180	0	637	351	1 211	0
Social Contributions and Taxes Payable	15 857	22 371	35 957	23 387	19 842	26 847
Accruals and Other Operating Accounts	72 974	46 651	10 706	22 395	17 638	21 903
CYCLICAL LIABILITIES	117 857	104 818	77 348	86 315	75 261	86 489
Short Term Financial Debt	43 574	49 143	31 006	33 795	23 649	25 331
Dividends Distribution	0	581	1 209	1 200	1 200	1 200
NEGATIVE CASH POSITION	43 574	49 724	32 215	34 995	24 849	26 531
TOTAL LIABILITIES	237 722	240 066	206 547	234 461	232 305	284 643
TOTAL EQUITY + LIABILITIES	286 339	291 658	264 841	299 439	299 044	358 753

Notes:
 Figures rounded.
 Accounts reclassified by ARC Ratings for analysis purposes.
 (*) À partir de 2010 sont présentés en termes net de les produits constatés d'avance liés aux ventes de logements, qui a été enregistré au titre de comptes de régularisation et divers d'exploitation.

Sources:
 Groupe Résidé Études Annual Reports.

The balance of medium and long term financial debt at the end of 2013 was made up as follows:

- EUR 43.0 million of the EUR 44.0 million bond loan (subject to follow-up), deducted of issuing expenses to be recognised in the medium term; and
- EUR 106.7 million of other financial debt, namely financing of own property assets, including social housing loans for student residences and real estate leases; a total of EUR 22.0 million in other financial debt were contracted in 2013,

most of which as real estate leases; note that following the bond issue, the Group repaid a corporate loan (of EUR 13 million in 2013, and EUR 17.5 million in 2012).

The terms of the real estate leases, which accounted for approximately 36% of total financial debt balance at the end of 2013, were analysed in the Rating Report.

In 2013 long term resources (equity and stable liabilities) accounted for 68.5% of total assets (as against 66.5% in 2012). Despite the increase in assets, financial stability improved by 2 percentage points. On the other hand, growth in long term resources permitted to finance the rise in non current assets but also increase working capital (to EUR 62.8 million). In 2013 working capital contributed to finance net working capital requirements by EUR 34.6 million, whilst obtaining net cash position of EUR 28.7 million (EUR +14.7 million in relation to 2012).

The evolution in net working capital reflects the impact of Group's dual business - property development and management - which is characterized by high capital intensity. Taking into account that financial debt increased by EUR 40.7 million in 2013 totaling EUR 176.0 million, the share of medium and long-term debt rose to 85.6% (82.5% in 2012). It should be noted that these debts have long-term maturity - generally 15 years for real estate leases, 30 years for social housing loans for student residences and 6 years for the EUR 44.0 million bond issue.

Working capital requirements (WCR) increased by EUR 13.6 million in 2013 to EUR 34.1 million, reflecting the increase in the Group's property development business.

The strengthening of the net financial position was intentional as it viewed to anticipate the impact of forthcoming investments in property and real estate development. This is the reason why the Group's cash position exceeded by approximately EUR 30.0 million the amount of its short term financial debt at the end of 2013 (as against EUR 15.2 million at the end of 2012). This provides for a comfortable liquidity position (liquidity risk indicator at 0%).

Note that the increase in financial debt in 2013 net of cash assets amounted to EUR 24.3 million, reaching EUR 120.8 million at the end of the year.

In what concerns short term debt at the end of 2013, an amount of EUR 14.7 million corresponded to bank overdrafts (including EUR 14.0 million to finance the property development activity). These loans will be repaid when the development plans will be delivered. The Group continues to benefit from the support of a diversified pool of banks, as mentioned in the Rating Report. Note that the Group has approved credit ceilings until the end of 2016 (EUR 58.8 million as of 31 July 2014) for the development plans.

As mentioned in the Rating Report, floating rate debt related to real estate development (short term) operations is not subject to interest rate hedging. The Group's medium and long term debt is preferably subject to fixed interest rate, whereas for its floating rate debt, the Group seeks customised solutions to cap or hedge these interest rates. In what concerns its interest rate swaps, in July 2014 the Group renewed the contract entered by Résidence Home Opera, with maturity date on October 15, 2014. Renewal - commencing on 16 October 2014 and ending on 16 October 2019 - with a nominal value of EUR 12.5 million gradually repayable, regarding which Résidence Home Opera will pay at 0.72% per year and is paid at the 3-month EURIBOR. Swap contracted by Relais SPA Roissy Paris, with maturity on

15 October 2021 and a nominal value of EUR 7.4 million at the end of 2013, regarding which Relais SPA Roissy Paris will pay approximately 2.0% and is paid at the 3-month EURIBOR. These interest rate swaps, which are in line with market standards, are measured at their fair value, in accordance with IFRS rules.

In September 2014 the Group will enter a new swap on the financing operation (of approximately EUR 16.3 million) of Marseille République residence.

Finally, as concerns the insurance policies subscribed by the Group, no changes were made in relation to what was described in the Rating Report.

5. OUTLOOK

GENERAL ENVIRONMENT

The International Monetary Fund (IMF) (April 2014's World Economic Outlook) foresees for 2014 the continuation of a (very mild) economic recovery in France, with Gross Domestic Product (GDP) expected to grow by 1.0%, following an increase by 0.3% in 2013 and stabilisation in 2012. This growth pace should accelerate in forthcoming years, at rates of +1.5% in 2015 and +1.9% in 2019. In 2013 the French government deficit was of 4.2% of GDP, improving by 0.6% in relation to 2012 (government revenues rose by 1.1 percentage points and expenditure by 0.5 percentage points). This contraction in the French deficit has continued over the last four years. Nonetheless, it still fails to comply with the thresholds imposed by the Maastricht Treaty. In 2013, the rate of taxes and social security contributions stood at 44.7% of GDP, increasing by 1.0 percentage points in relation to 2012. Public debt increases by 3.1 percentage points in relation to GDP, reaching 91.8%.

Taking into account the medium and long term ratings assigned to the French Republic by Credit Rating Agencies (CRA) registered with or certified by ESMA - European Securities and Markets Authority, and the methodology followed by ARC Ratings for this subject, the medium and long term considered by ARC Ratings for the French Republic is AA+, with stable outlook.

The seven largest retail banks in France are: BNP Paribas, Groupe Crédit Agricole, Société Générale, Groupe Crédit Mutuel, Groupe BPCE, HSBC France, and La Banque Postale. Except for foreign banks established in France (such as HSBC France) or those government-related (Caisse des Dépôts et Consignations, La Banque Postale), ratings given to the largest French banks, according to public information of CRA, range from A+, with a stable outlook, to A, with a negative outlook.

Note that the Groupe Résidé Études medium and long term debt was distributed among a dozen of financial institutions. Amongst these, the most relevant were: Crédit Foncier de France, belonging to Groupe BPCE; Natixis, belonging to Groupe BPCE; BPI-Groupe, formerly known as EPIC Oseo, S.A., which is government-related; Sogébaïl-Sogéfimur, belonging to Groupe Société Générale; and CIC Lyonnaise des Banques, of Groupe Crédit Mutuel.

GROUPE RÉSIDE ÉTUDES

Résidence Études Group updated its business plan for the period 2014-2019 (base scenario) which was analyzed by ARC Ratings in the Rating Report, This updated business plan has the following differences compared with the one analyzed in the Rating Report:

- the amount of the bond loan issued in October 2013 was of EUR 44 million and not EUR 50 million;
- a slower growth in the development activity with the aim of reaching a sale to investors of 831 accommodation units, instead of 1 000 units; no stock sales was considered (instead of 1 in 2014 and 2 per year for the remaining years); to note that the target for accommodation units sale is conservative, as 511 units have been sold in the first half of 2014; accordingly NWCR will be significantly lower;
- due to the development activity slower growth the Group expects an average annual growth on accommodation units in the three segments of about 3.5% instead of 4.5% (thus tending to less 1 000 accommodation units at the end of 2019);
- the decline in new property investment (EUR -17.1 million) concomitant with the valuation of investment properties (excluding Marseille République and new investments) of 1% per year, compared with no valuation in the previous business plan; and
- a policy of recurring dividend of EUR 1.2 million (EUR 1.7 million in 2019), compared to 15% of net profit in previous year in previous business plan.

Thus the Group plans to open 38 residences between 2014 and 2017, including 21 for the seniors. In 2018 and 2019 the Group expects to deliver 600 accommodation units each year for this segment. Thus this segment average annual growth in terms of accommodation units will be about 26%, to 4,401 accommodation units at the end of 2019 (about 18% of the total), and the annual opening rate will be between 5 and 7 from 2015. As such the Group plans to increase the contribution of senior residences to its operating and management revenues, which will reach the threshold of 24.4% at 2019 (versus 6.6% in 2013).

In what relates to the other two Group's core businesses growth will be lower than the senior, with the opening of 9 student residences (mostly in 2015 and located in the Île-de-France) and 8 for business tourism (especially in 2014, all located in Ile-de-France). As such the portfolio will reach 24,647 accommodation units by the end of 2019 of which 58% of student residences.

The Group estimates to intervene directly in approximately 80% of new residences taking advantage of its wide experience in this field. It should be noted that almost half of this figure correspond to the operations conducted in co promotion.

Regarding senior residences management, the business plan takes into account the difficulties in 2013 to cope with a large increase in activity. Group management has taken and will continue to take measures aiming the successful

development of this activity. The Group expects to reach break even in this activity in 2017 (vs. 2016 in the previous business plan) and to obtain significant profits from 2018 / 2019.

The profits of hotel and tourism residences (2*, 3* and 4*) reflect the impact of new units openings, particularly in 2014. The Group expects positive results in this segment with an improvement in 2016 and beyond. Despite the positive deviation in 2013, the Group estimates, however, profits and returns from 2014 to 2019 above the ones considered in the previous business plan.

TABLE 5.1.
GROUPE RÉSIDÉ ÉTUDES BASE SCENARIO FOR 2014-2019 PERIOD (MILLIONS EUROS)

	2014 (F)	2015 (F)	2016 (F)	2017 (F)	2018 (F)	2019 (F)
A) Earnings Before Taxes	9,0	15,2	18,6	22,7	30,2	33,7
which						
Management Operation Activities	4,5	5,6	8,8	11,8	18,0	20,7
which						
Student Residences	7,4	7,6	7,6	7,9	8,3	8,6
Apparthotels Residences	(2,5)	(2,2)	0,0	2,2	4,2	5,6
which "Relais Spa"	(4,2)	(3,8)	(2,2)	(0,7)	0,6	1,3
Seniors Residences	(1,0)	(0,3)	0,7	1,1	4,9	5,9
Real Estate Development Activities	6,2	8,9	9,6	10,3	10,5	10,9
Equity Investment Activities	2,9	3,2	2,6	3,0	4,1	4,3
Holding Activities	(4,6)	(2,5)	(2,4)	(2,4)	(2,4)	(2,2)
B) Taxes and Participation	(4,0)	(6,8)	(8,4)	(10,2)	(13,6)	(15,2)
C) Net Profit from Activities (A + B)	4,9	8,4	10,2	12,5	16,6	18,5
D) Net Depreciation	4,9	5,3	5,6	6,2	6,4	6,7
E) Cash Flow Position (C+D)	8,8	12,6	14,8	17,6	21,9	24,1
F) Variation of NWCR - Operational Activities	(3,5)	(1,6)	(0,4)	(0,4)	(0,4)	(0,4)
G) Cash Flow Position Corrected by the Variation of NWCR (E+F)	5,4	11,0	14,4	17,2	21,5	23,8
H) Investment Activities	(17,1)	(32,0)	(17,0)	(9,4)	(10,0)	(10,0)
which						
Tangible and Exploration Assets	(2,1)	(6,2)	(8,3)	(9,9)	(10,5)	(10,6)
Investment Property	(10,5)	(26,3)	(9,2)	0,0	0,0	0,0
I) Dividends	(1,2)	(1,2)	(1,2)	(1,2)	(1,2)	(1,7)
J) Financing Needs before the Debt Service Capital (G + H + I)	(12,9)	(22,1)	(3,8)	6,7	10,3	12,0
L) The Debt Service Capital	(25,9)	(29,9)	(31,4)	(33,4)	(34,1)	(78,4)
which						
Medium and Long Term Financial Debt	(11,1)	(7,7)	(7,1)	(8,6)	(8,8)	(52,6)
which Bond Issue	0,0	0,0	0,0	0,0	0,0	(44,0)
which Others Loans	(11,1)	(7,7)	(7,1)	(8,6)	(8,8)	(8,6)
Potential - Short Term Financial Debt	(14,9)	(22,2)	(24,3)	(24,8)	(25,3)	(25,8)
M) New Debt	37,8	50,5	33,5	27,0	27,0	28,7
which						
Potential - Short Term Financial Debt Renewed	14,9	22,2	24,3	24,8	25,3	25,8
Additional Short Term Financial Debt	7,3	2,1	0,5	0,5	0,5	0,5
Medium and Long Term Financial Debt	15,6	26,2	8,7	1,7	1,2	2,4
which Others Loans	15,6	26,2	8,7	1,7	1,2	2,4
N) Variation in Gross Cash Position (J+L+M)	(1,0)	(1,5)	(1,7)	0,3	3,2	(37,6)
Summary:						
Gross Cash Position at the End of the Year	54,2	52,7	51,0	51,3	54,6	16,9
Short Term Financial Debt	22,2	24,3	24,8	25,3	25,8	26,3
Net Cash Position at the End of the Year	32,0	28,4	26,2	26,0	28,8	(9,4)

TABLE 5.1. (cont.)
GRUPE RÉSIDÉ ÉTUDES BASE SCENARIO FOR 2014-2019 PERIOD (MILLIONS EUROS)

Consolidated Balance Sheet (End of the Year)	2014 (F)	2015 (F)	2016 (F)	2017 (F)	2018 (F)	2019 (F)
Total of Assets non Current	196,2	223,9	236,3	240,6	245,2	249,6
which Tangible and Exploration Assets	52,8	53,7	56,4	60,2	64,3	68,2
which Investment Property	126,2	153,5	163,7	164,7	165,8	166,8
Total of Current Assets	48,6	46,6	44,8	45,0	48,1	10,3
which NWCR	16,6	18,2	18,6	19,0	19,3	19,7
which Net Cash Position	32,0	28,4	26,2	26,0	28,8	(9,4)
Total Assets with NWCR	244,8	270,5	281,1	285,6	293,3	260,0
Total Equity	79,0	86,2	95,3	106,5	121,9	138,8
Medium and Long Term Financial Debt	165,7	184,3	185,9	179,0	171,4	121,2
which Bond Issue	42,7	42,7	42,7	42,7	42,7	(1,3)
which Corporate Financing	4,7	4,1	3,5	2,7	1,8	1,3
which Patrimonial Assets Financings	113,3	132,3	133,8	126,4	118,7	110,7
which Equipments Financings	5,1	5,2	5,9	7,2	8,2	10,5
Equity / Total Assets with NWCR	32,3%	31,9%	33,9%	37,3%	41,6%	53,4%
Financial Debt Medium and Long Term / Cash Flow Position (times)	18,7	14,6	12,6	10,2	7,8	5,0

Notes:
(F) Forecast for 2014-2019.

Sources:
2014-2019 Groupe Résidence Études Business Plan.

Under the "Residence Relais Spa" the break even for Val d'Europe is considered for 2018, although improvement has already been recorded in the first half of 2014 (in this year this residence was attached to the Group operating management). Similarly, the Group plans to break even the residence Roissy in 2018. The previous version of the business plan considered operating break even for both residences in 2015 if the "Relais Spa" profits were added.

The profits of students residents management remain positive and huge although lower than previous business plan. It will be due to lower rates of return than in the previous business plan (-1.2 to -1.6 percentage points). The reduction in rates of return is due to the impact of higher VAT rate applicable in 2014 to furnished apartments rentals and slightly less economies of scale as the number of accommodation units managed are lower than in the previous business plan (-4,7% at the end of 2019). Here we are in a maturity sector but which continues to generate significant and recurring income for the Group.

Property investment activity has for the period 2014-2019 lower profits, despite: i) the expected valuation of investment properties (excluding residence Marseille Republic and new investment), ii) the impact of the renegotiation of interest rate swap by Résidence Home Opera, due to in particular the decline in investment (approximately EUR 17.1 million) and an anticipation of its achievement. The Group estimates to open the residence for seniors in Marseille Republic in 2016 and the break even will be reached only in 2018 (due to the financing selected already contracted).

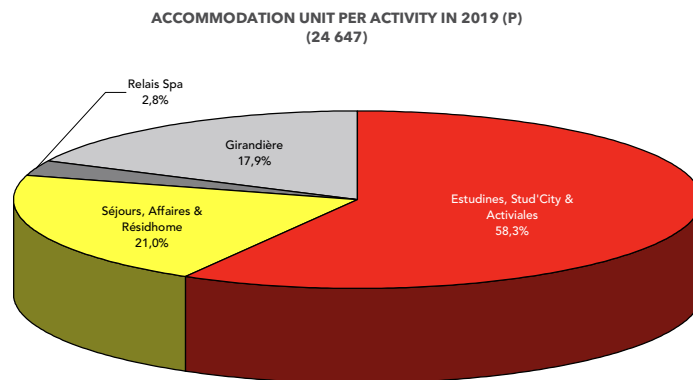
For the development activity the Group estimates a regular generation of profits but lower (-32% on average) compared to the previous business plan. The pace of commercialization of the units will be slower and the Group expects carry-forward margins to turnover 1.7 percentage points lower (stock sales not included). Similarly, the updated version of the business plan is cautious about the amounts of fees, including origination fees (in line with figures 2013).

Compared to the previous business plan, the Group has lower cash flow position corrected by the NWCR variation (30%), lower investments (34%) and lower dividend payments (53%). The combination of operational and investment

activities and dividends will give rise to annual net financing needs of EUR 12.9 million in 2014, EUR 22.1 million in 2015 and EUR 3.8 million in 2016. In the following years this evolution is reversed with production surpluses of EUR 6.7 million in 2017, EUR 10.3 million in 2018 and EUR 12.0 million in 2019, an improvement over the previous business plan.

As far as the medium and long term debt service is concerned, the Group plans to repay EUR 7 million to EUR 9 million each year (reaching a peak of EUR 11.1 million in 2014). The Group will also have to renew its short term debt on an annual basis (this debt is associated to the real estate development activity and should normally be repaid at the end of the plans).

Due to the expansion of the real estate development activity, short-term debt should increase until 2019 (reaching EUR 26.3 million). In what concerns medium and long term financing sources, for the 2014-2019 period, the Group plans to enter additional loans viewing, in particular, a reinforcement in investment property, in the amount of EUR 15.6 million in 2014 and approximately EUR 26.2 million in 2015, and lower amounts in the remaining years.



Source: Groupe Résidé Études.

As result the Group will have to renew or subscribe banking debt up to EUR 37.8 million in 2014, EUR 50.5 million in 2015, EUR 33.5 million in 2016 and approximately EUR 27.0 million in the following years.

As far as the capital structure is concerned, the base scenario leads to a sharp rise in equity, considering that it will retain 86% of future net results; this should result in a continuous enhancement of the Group's capital base and in achieving an equity / assets ratio (deducted of short term net financial debt, cyclical resources and deferred tax liabilities) of approximately 53.4% at the end of 2019 (21.6 percentage points more as against end-2013). Moreover, the balance of medium and long term debt at the end of the year compared with the annual cash flow position suggests a quicker repayment of such debt.

SENSITIVITY ANALYSIS CARRIED OUT BY ARC RATINGS CONCERNING GROUPE RÉSIDÉ ÉTUDES' CAPACITY TO GENERATE CASH-FLOWS

The Group's cash flow position remains sensitive to various factors associated with its activity level and its return, among which the following:

- demand for managed residences, demand based on solid grounds but exposed to fierce competition despite the Group's distinct characteristics relating to the quality and extended number of added value services;
- capacity to attract new investors and retaining them, knowing that the renewal rate of contracts is already high; and
- possible changes in the legal or taxation framework against a background of economic and fiscal restraints in France, especially following 2016.

In order to assess the impact on the Group of a smaller cash flow position, ARC Ratings has outlined a stress scenario taking into account the base scenario.

Starting from this base scenario, we have considered - all other things remaining equal - reductions in return rates and earnings before taxes in management / operation and real estate development related businesses:

- decrease by 1.5 percentage points in management of student residences (i.e. 20% less against the base scenario);
- decline by 0.7 percentage points in apparthotels management as from 2016, following which this activity should increase (except for the "Relais Spa", which should only become mature as from 2018) which would represent 21% less than the base scenario;
- drop by 1.3 percentage points in senior residences management business from 2018 onwards, which is the year this business will become significant, i.e. 20% less than in the base scenario; and
- in the development business, decrease by 1.3 percentage points in carry-forward margins.

Additionally, ARC Ratings considered the simultaneous occurrence of a 10% drop in revenues from the student residences, apparthotel residences and seniors residences management businesses (in the years for which a decrease in return rates was also estimated).

Even in a scenario of simultaneous occurrence of falls in return and activity levels in these businesses, partially offset by possible tax savings, the Group would continue to show a cash flow position of approximately 83.4% of the cash flow position considered in the base scenario. Maintaining the same payout ratio considered in the base scenario, all other things remaining equal, this scenario would result in a deterioration of the Group's cash position (EUR 16.6 million throughout the 2014-2019 period, including annual deteriorations by EUR 2.0 million and EUR 3.7 million). Even in these circumstances, following the repayment of the bond loan, gross cash position would stand at EUR 0.4 million at the end of 2019. In this scenario, the Group would still be able to handle this stress scenario.

However, in this case, according to the Group, its business management would be different. As a matter of fact, the Group may slowdown the development of new plans and reduce the net working capital requirements associated to the real estate development activity, which would immediately result in an increase in cash position. The Group could also consider to sharply reducing its planned investments in investment property. The Group's cash position would immediately improve.

TABLE 5.2.
SENSITIVITY ANALYSIS CONCERNING GROUPE RÉSIDÉ ÉTUDES FOR THE 2014-2019 PERIOD (MILLIONS EUROS)

Base Scenario with Hypothesis of Reduction in Return Before Taxes and Activity Levels	2014 (F)	2015 (F)	2016 (F)	2017 (F)	2018 (F)	2019 (F)
Hypothesis:						
Drop in Revenues (-10%) and in Return Before Taxes in:						
1.5 percentage points in Management Operation Student Activities	yes	yes	yes	yes	yes	yes
0.7 percentage points in Management Operation Apparthotels Activities	no	no	yes	yes	yes	yes
1.3 percentage points in Management Operation Seniors Activities	no	no	no	no	yes	yes
For Real Estate Development Activity:						
-1.3 percentage points Carry-Forward Margins	yes	yes	yes	yes	yes	yes
Impacts:						
A) Earnings Before Taxes	(3,6)	(3,8)	(4,7)	(4,9)	(6,3)	(6,7)
Management Operation Student Activities	(2,1)	(2,1)	(2,2)	(2,3)	(2,3)	(2,4)
Management Operation Apparthotels Activities	n.ap.	n.ap.	(0,8)	(0,9)	(1,0)	(1,0)
Management Operation Seniors Activities	n.ap.	n.ap.	n.ap.	n.ap.	(1,2)	(1,4)
Real Estate Development Activities	(1,5)	(1,7)	(1,7)	(1,8)	(1,8)	(1,8)
B) Taxes and Participation	1,6	1,7	2,1	2,2	2,8	3,0
C) Net Profit from Activities (A + B)	(2,0)	(2,1)	(2,6)	(2,7)	(3,5)	(3,7)
D) Net Depreciation	n.ap.	n.ap.	n.ap.	n.ap.	n.ap.	n.ap.
E) Cash Flow Position (C+D)	(2,0)	(2,1)	(2,6)	(2,7)	(3,5)	(3,7)
...						
I) Dividends	n.ap.	n.ap.	n.ap.	n.ap.	n.ap.	n.ap.
...						
E) + I) All Other Things Remaining Equal, the Cash Position at the End of the Year Will be Lower	2,0	2,1	2,6	2,7	3,5	3,7
...						

Note:
n.ap. = Non applicable. (F) Forecast 2014-2019.

Sources:
2014-2019 Groupe Résidé Études Business Plan.

Finally and ultimately, the Group could dispose of part of its investment property and operation assets. Just as a reminder, at the end of 2013, the fair value of its seven students social residences exceeded by EUR 19.9 million the amount of respective debt and the fair value of the Paris Opéra apparthotel surpassed by EUR 6.9 million the amount of respective debt. In what concerns property partially recorded as investment property and operational property (recorded net of amortisation), the gap is estimated at EUR 12.0 million.

6. RATING

Taking into account Résidé Études, and the Group it holds, fundamental aspects and after assessing the ability of the Group to absorb the impact of stress scenarios considered by ARC Ratings, the ability of Résidé Études to meet in time and in full its medium and long term financial commitments (bond loan to a maximum amount of EUR 50 million) continues to deserve its BBB+ rating with a stable outlook.

Résidence Études

Follow-up Report



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MEDIUM AND LONG-TERM ISSUERS

Low Risk Range

AAA

An obligor rated "AAA" has the highest possible Issuer's Credit Rating assigned by ARC Ratings. It has not only the ability to show an extremely strong capacity to meet its financial commitments but is also benefited by a full set of circumstances that actually turn the possibility of credit default into a strictly remote event.

AA

An obligor rated "AA" also has very strong capacity to meet its financial commitments. It differs from the highest rated obligors only in a very small degree.

A

An obligor rated "A" has a quite strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions when compared to obligors in highest-rated categories.

Moderate Risk Range

BBB

An obligor rated "BBB" exhibits an adequate capacity to meet its financial commitments. However, adverse economic conditions or suddenly changing circumstances are more likely to lead to a weakened capacity to the obligor to meet its financial commitments.

BB

An obligor rated "BB" exhibits a fair capacity to meet its financial obligations. However, it faces major on-going uncertainties or exposure to adverse business, financial or economic conditions, which could lead to an unforeseen deterioration of the obligor's capacity to meet its financial commitments.

High Risk Range

B

An obligor rated "B" is more vulnerable than the obligors rated "BB", in the sense that its capacity to meet its financial commitments may, under adverse business, financial or economic conditions very likely impair such capacity or even the willingness to service its debts.

CCC

An obligor rated "CCC" is currently very vulnerable, and is thus strictly dependent upon favourable business, financial and economic conditions to meet its financial commitments.

Imminent or Actual Default

CC

An obligor rated "CC" is highly vulnerable to not being able to meet future obligations, although not showing payment delays at present.

C

Default would appear to be imminent. A debt restructuring procedure may be under way either by creditors' own initiative or through a judicial ordinance.

D

A "D" rating is assigned when the obligor is currently in default.

The ratings from "AA" to "CCC" may be modified by the addition of "+" or "-" to show their relative standing within own rating categories. The rating outlook (**positive, stable, negative or developing**) highlights the potential direction of a rating during the following year. An outlook is not necessarily a precursor of a rating change or future follow-up ahead of schedule.

* ARC Ratings has updated its Rating Definitions on June 18, 2013, maintaining the equivalence between the notations before and after the update.

MEDIUM AND LONG-TERM ISSUES

Low Risk Range

AAA

An obligation rated "AAA" has the highest possible rating assigned by ARC Ratings. The obligor's future cash flow capacity to meet its financial commitments on the obligation is gauged as extremely strong. A timely and full payment of principal and interest thereof is not but remotely subject to adverse influence of an outside force or future event.

AA

An obligation rated "AA" differs from the highest rated obligations only in a very small degree. The obligor's capacity to meet its financial commitments on the obligation remains very strong.

A

An obligation rated "A" is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions when compared to obligations in highest categories. However, the obligor's capacity to meet its financial commitments on the obligation remains quite strong.

Moderate Risk Range

BBB

An obligation rated "BBB" always exhibits an adequate set of protection parameters. However, adverse economic conditions or suddenly changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments on the obligation.

BB

An obligation rated "BB" exhibits a fair set of financial protection parameters. However, the obligor may face a future deterioration of its payment capacity due to adverse business, financial or economic conditions, which could lead to an unforeseen deterioration of the chances of a timely and full debt servicing.

High Risk Range

B

An obligation rated "B" is more vulnerable than obligations rated "BB", in the sense that its obligor, while currently showing a limited capacity to meet its financial commitments on the obligation, may under adversely changing business, financial or economic conditions very likely impair such capacity or even the willingness to service its debt.

CCC

An obligation rated "CCC" is currently very vulnerable, and is thus strictly dependent upon favourable business, financial, and economic conditions facing the obligor to meet its financial commitment. Upon the event of adverse business, financial or economic conditions, the obligor will most likely not have the capacity to meet its financial commitments on the obligation.

Imminent or Actual Default

CC

An obligation rated "CC" is highly vulnerable to payment delays and/or partial default although not showing payment delays at present, due to its own endogenous limitations, notwithstanding the outside conditions facing the obligor.

C

An obligation rated "C" faces an imminent default. The "C" rating may be used to cover a situation where a bankruptcy petition has been filed or similar action taken, but payments on this obligation have not yet been discontinued.

D

An obligation rated "D" is currently under payments default.

The ratings from "AA" to "CCC" may be modified by the addition of "+" or "-" to show their relative standing within own rating categories.

The rating outlook (**positive**, **stable**, **negative** or **developing**) highlights the potential direction of a rating during the following year. An outlook is not necessarily a precursor of a rating change or future follow-up ahead of schedule.

* ARC Ratings has updated its Rating Definitions on June 18, 2013, maintaining the equivalence between the notations before and after the update.

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This Follow-up Report should preferably be read together with the initial Rating Report.

Ratings assigned by ARC Ratings represent opinions on the capacity and willingness of an entity to make all required payments on a given obligation in a timely manner.

The rating(s) assigned by ARC Ratings in this report was / were sought by the entity whose financial commitments are subject to rating.

Prior to the assignment or revision of a rating ARC Ratings provides to the entity whose financial commitments are subject to rating the documents that substantiate the rating to be attributed (the Preliminary Rating Report). This entity is thus given the opportunity to clarify or correct factual details, thus allowing the rating assigned to be as accurate as possible. The comments made by the entity whose financial commitments are subject to rating are taken into account by ARC Ratings in the assignment of the rating.

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Ratings do not constitute a recommendation to buy or sell, but only one of the factors to be weighted by investors.

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