COMPAGNIE
FONCIÈRE
INTERNATIONALE

# INTERIM MANAGEMENT REPORT

# 30 JUNE 2010

## I. Business activity and significant events in the half year to 30 June 2010

### 1. Some signs of improvement in the property market, but only to the benefit of core investors

The property market showed some signs of improvement in the first half of 2010, with volumes still low but rising. Property investments were up 34% year-on-year to €3.6 billion.

However, although the market saw some renewed deal flow, including transactions exceeding €100 million and €200 million, this trend was highly selective and only applied to prime shopping centre and office property assets, for which three-quarters of buyers were equity investors, i.e. French institutional investors, including insurance companies, and German funds.

In a climate of falling long-term interest rates, yields came under pressure due to the imbalance between the scarce supply of secure prime assets and the amount of capital available to invest in them.

Conversely, non-core assets with 'added value potential' – particularly those with leasing risks or a need for refurbishment – failed to show signs of recovery. Admittedly, carrying costs are now exceptionally low and the impact of government support measures together with the appropriate handling of covenants by the banks are all providing a cushion for potential vendors, enabling them to hold on until the market improves.

This market momentum was clearly not favourable for opportunistic investors.

Take-up remained flat compared to the first half of 2009, although the second quarter saw a slight upturn, especially in Paris and its Western Business District. Companies' efforts to streamline their business premises continued to be the main driver behind transactions.
On the other hand, fewer leases were renegotiated and rents were more in line with market realities. However, on a like-for-like basis, the impact of renegotiated leases and negative rental indexation could lead to virtually zero cash flow growth in 2010, even for retail properties.

In any case, the overall economic outlook for France is still far from promising, with 2010 GDP growth estimated at 1.4% and a relentless rise in unemployment. There are also major uncertainties hanging over the second half of 2010 and the 2011 full year, due to doubts about the strength of the recovery in the United States and the anticipated impact of the austerity plans announced in Europe. Lastly, major deadlines for the renegotiation of property debt are approaching, related to the 2006/2007 period. This combination of factors could pave the way for more buying opportunities.

Against this background, the Company maintained its presence in the property market, examined several potential investment opportunities, and made a new acquisition to complement the deal carried out in 2009.

## 2. CFI acquired its thirteenth cinema property asset: UGC Bordeaux

On 28 June 2010, CFI acquired the UGC Bordeaux multiplex cinema property from UGC, which owned part of this property outright and held the remainder under a finance lease. CFI purchased this property through its subsidiary SCI Bordeaux Image, which was specifically set up for this purpose.

This cinema complex is located in the heart of the city centre. It has 18 screens and 2,784 seats, and sold more than one million tickets in 2009.

This €10.9 million investment, including acquisition costs, was financed by a €8 million, five-year floating-rate bank loan, together with equity contributions from the shareholders of SCI Bordeaux Image, in proportion to their existing shareholdings, amounting to €1.6 million from CFI (55%) and €1.3 million from UGC (45%).

This transaction is a positive addition to the existing portfolio of twelve UGC cinema complexes acquired by CFI in 2009 and will create value in two ways: (i) through a new investor-type lease signed with UGC Ciné Cité for a fixed term of 12 years; and (ii) from end-2010, the Company will own the entire property outright, as SCI Bordeaux Image, the finance lessee, has opted for the early exercise of the purchase option provided in the finance lease contract.

## 3. Dividend payment of €0.21 per share

The Combined Ordinary and Extraordinary General Meeting of Shareholders held on 31 March 2010 approved a proposal by the Board of Directors to pay out a dividend of €0.21 per share, i.e. a total dividend of €179,387.54 corresponding to the amount, after rounding, that the Company is legally required to pay by virtue of its status as a 'SIIC' listed property investment company (*Société d'Investissement Immobilier Cotée*).

This dividend was paid on 15 April 2010.

## 4. Introduction of a new share buyback programme and renewal of the liquidity contract

The aforementioned Combined General Meeting authorised the Board of Directors, for a period of 18 months, to continue purchasing the Company's own shares for the purpose of a liquidity contract, and with the view of stimulating the secondary market for these shares.

The Meeting set a ceiling on the number of shares that may be purchased under this authorisation, corresponding to 5% of the outstanding share capital. It also set a maximum purchase price of €65 per share.

In its meeting on 31 March, the Board of Directors agreed to renew the liquidity contract entered into with CA-Cheuvreux SA.

## II. Risks and uncertainties

Through its subsidiaries, the Company is exposed to property risks and more specifically to properties operated by UGC as multiplex cinemas, a risk which is nonetheless mitigated by the fact that UGC is one of the most successful operators in France.

In this context, changes in market conditions may have a favourable or unfavourable impact on the parameters used by the independent appraiser CB Richard Ellis (CBRE) to value these properties and, consequently, on the Group's consolidated profit and shareholders' equity.

Most of the uncertainty surrounding the second half of 2010 relates to the macroeconomic climate and its implications for the property market. The correction in market values and rental values witnessed so far is not sufficient to boost transaction levels. An upturn in the global economic outlook and improved visibility for companies appear to be the only factors capable of restoring the type of deal flow that could spread gradually into all market segments. However, given the backdrop of high unemployment and sluggish European economic growth in 2010 and 2011, this is not the most likely scenario, especially now that governments are implementing measures to rebalance their public finances, which are bound to depress the market.

CFI has no interest rate exposure as its cash surplus is invested in acquisitions made by its subsidiaries. The same applies to CFI-Image which, in February 2009, entered into a floating-rate to fixed-rate swap arrangement covering its entire €98 million debt. Only SCI Bordeaux Image is currently exposed to floating interest rates through its €8 million floating-rate bank loan, although its shareholders are prepared to hedge this risk if necessary.

As regards CFI's liquidity risk, this is covered by the regular stream of dividends from its subsidiary CFI-Image, as well as a €1 million bank overdraft facility granted to the parent company and renewed for a further period of 12 months from 30 June 2010.

## III. Transactions with related parties during the period

On 26 June 2010, the Company and its new subsidiary SCI Bordeaux Image entered into a standard management agreement governing the provision of administrative, legal and accounting services.

## IV. Interim financial statements for the first half ending 30 June 2010

Rental income in the first half of 2010 amounted to €6.5[1] million.
After deduction of general operating expenses, operating profit on ordinary activities came to € 6.2 million.

Based on the appraisal value of the portfolio measured by CB Richard Ellis, which totalled €216 million net of costs and taxes, including €13.7 million for the UGC Bordeaux cinema property, the increase in fair value boosted consolidated profit by €3.3 million. On a like-for-like basis, the appraisal value of the portfolio held steady compared with 31 December 2009.

After deducting finance costs of €2.6 million, the consolidated financial statements showed a net profit of €6.9 million, of which €3.5 million was attributable to the equity holders of the parent.

*Key consolidated figures (in thousands of euros, unless otherwise stated)*

| | 30 June 2010 (6 months) | 30 June 2009 (1) (4.5 months) |
|---|---|---|
| Net rental income | 6,545 | 4,925 |
| Change in fair value | 3,282 | 49,236 |
| Operating profit on ordinary activities | 6,192 | 3,973 |
| Net profit | 6,880 | 51,012 |
| *Of which:* | | |
| ■ Minority interests (2) | 3,359 | 24,335 |
| ■ Attributable to the equity holders of the parent | 3,521 | 26,677 |
| *Earnings per share (€)* | *4.13* | *31.25* |
| *Of which*, net profit on ordinary activities attributable to the equity holders of the parent | 1,745 | 1,125 (3) |
| *Ordinary earnings per share (€)* | *2.05* | *1.32* (3) |
| Net Asset Value attributable to the equity holders of the parent | 55,697 | 53,447 |
| *NAV per share (€)* | *65.35* | *62.62* |

*(1) From 13 February to 30 June*
*(2) Arising from the financing structure of the acquisition, in 2009, of the cinema property portfolio, based mainly on the issuance by CFI-Image of €25.5 million in bonds redeemable in shares ('ORAs').*
*(3) Restated to reflect the same basis as for 30 June 2010 results.*

## V. Financial position – Net Asset Value

Net Asset Value (NAV) is based on the fair market value of the properties, excluding costs and taxes[(1)], as determined by the independent appraiser CBRE. NAV corresponds to shareholders' equity reported in the consolidated financial statements. At 30 June 2010, NAV attributable to the equity holders of the parent amounted to €55.897 million.

Net Asset Value per share, net of costs and taxes, attributable to the equity holders of the parent, is calculated by dividing NAV by the number of ordinary shares outstanding, not taking into account treasury shares. Details of NAV per share attributable to the equity holders of the parent company at 30 June 2010 are provided in the table below:

*Expressed in thousands of euros, unless otherwise stated*

| | **30 June 2010** |
|---|---|
| Consolidated shareholders' equity (IFRS basis) attributable to the equity holders of the parent | 55,897 |
| Number of shares, excluding treasury shares | 852,284 |
| NAV per share, net of costs and taxes, attributable to the equity holders of the parent (€) | 65.58 |

## V. Outlook

In a market that is showing some signs of improvement, but is characterised by a wait-and-see attitude, the Company will continue seeking out new investment opportunities that meet its value creation objectives.

(1) Costs and taxes that would be payable if the properties were sold.