COMPANHIA PORTUGUESA DE RATING, S.A.

Groupe Réside Études

Strategic Analysis of Risks

Overview:

- Groupe Réside Études is one of the major players in the management of city residences and related services in France (managing over 20 000 dwellings)
- The Group has a 24-years experience as manager / operator and property developer, operating with solid brands
- The business model of the Group allowed to move from a capital intensive activity into a clearly less capital intensive business (approximately EUR 2 billion in assets under management of which EUR 140 million only on balance sheet)
- The Group faces fierce competition in all specialities, but has competitive advantages, given its position in the industry and its expertise of legal, regulatory and tax issues
- The Group stands out amongst its peers on account of the wide range of added value services it provides
- The Group was successful in finding a fair balance between its mature income-generating activities and activities undergoing development, whilst continuing to generate positive results, even after having decided to bank on top range apparthotel residences ("Relais Spa"), which take more time to reach break even
- The Group managed to adjust the duration of its debt to that of its projects and prepare itself for a period of more important investments, with assets that it can dispose of
- The fundamentals are strong as far as service apartments are concerned - ageing population, increasing student population and chronic housing shortage
- The Group pursues an organic growth strategy, whilst seizing opportunities particularly in the senior segment; it is well positioned to succeed: its size, experience, capacity to follow a fast growing process, reputation, robust model, experienced management and stable shareholder base
- A medium term bond issue in the amount of EUR 50 million will be launched in July to finance growth; a review of business case scenarios for the 2013-2018 period shows that such issue is the logical economic answer to face the expected market growth and it's evolution
- Due to France's economic and fiscal problems government engagement and tax support to be provided to investors are likely to ease up, namely after 2016

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1. INTRODUCTION

Réside Études Investissement S.A. (Réside Études) and its subsidiaries (Groupe Réside Études) were subject to a strategic analysis of risks.

The strategic analysis of risks carried out by Companhia Portuguesa de Rating, S.A. (CPR) views to identify and measure the most relevant risks of Groupe Réside Études to provide investors with a reasoned opinion of the risks associated to the Group.

Set up in 1989 (initially as a 100%-owned subsidiary of Crédit National S.A.), Groupe Réside Études was mainly directed to the residences for students and related services market (hence its name). Since then, it has diversified and is now active in the three most important markets of service apartments, namely:

- residences for students, since its creation in 1989;
- hotel and tourism residences, for tourists and businessmen, having entered the market in 1994 and experienced a strong boost from 2006 onwards; and
- senior housing with assisted facilities, since 2007.

Presently, the Group, ranks amongst the leaders in these three segments, which form the core of its business. All three segments were subject to CPR's strategic analysis. Groupe Réside Études is also active in related / complementary markets, namely the development and sale of traditional real estate, including for restaurant-related purposes and traditional residential rental property. Except for real estate development, these “inroads” were marginal at Group level. The Group launched a diversification in the field of building in 2007, but it decided to end this activity in 2013.

2. THE ASSISTED LIVING RESIDENCES MARKET

Housing in France

65.8 million people live in France (1 January 2013), 63.7 million of which are in metropolitan France and 2.1 million in French overseas departments (breakdown according to sex and age group in Table 2.1. herein below).

Conversely to remaining European countries, France has no population growth problem. France's population has grown from 61.3 million in 2003 to 65.8 million in 2013 and it is expected to continue rising in the forthcoming decades: the National Statistics Institute (INSEE) projections point to a 73.6 million population by 2060. This general trend is very important to fuel a sustained growth in the real estate market, whilst gathering the necessary conditions to meet the needs of part of an ageing population.

TABLE 2.1.
STATISTICS ON THE FRENCH POPULATION (BY SEX AND AGE)
(IN % AT 1 JANUARY 2013)

	Women	Men	Jointly
Below 15 years old	17.6	19.6	18.6
15-19 years old	5.8	6.4	6.1
20-24 years old	5.8	6.3	6.1
25-29 years old	5.9	6.1	6.0
30-34 years old	6.2	6.4	6.3
35-39 years old	6.2	6.5	6.4
40-44 years old	6.8	7.1	7.0
45-49 years old	6.8	7.1	6.9
50-54 years old	6.6	6.7	6.7
55-59 years old	6.4	6.3	6.3
60-64 years old	6.3	6.2	6.3
65-69 years old	5.0	4.8	4.9
70-74 years old	3.8	3.4	3.6
75 years old and above	10.9	7.0	9.0
Jointly	**100**	**100**	**100**

Note: France except Mayotte.

Source: INSEE, population estimates (provisional results at end 2012).

In France, as in many European countries, the population is ageing: seniors (over 60 years-old) presently account for 23.8% of total population. INSEE projections anticipate a significant rise in forthcoming decades with seniors accounting for 32.1% out of a population of 73.6 million in 2060. Approximately 24 million people will thus be more than 60 years old by 2060 (see Table 2.2. herein below).

TABLE 2.2.
CHANGES IN POPULATION PROJECTION (BY LARGE AGE GROUP)

	Population at 1 January (in million)	Below 20 years (in %)	20 to 59 years	60 to 74 years	75 years old
2015	64.5	24.2	51.0	15.5	9.3
2020	66.0	23.9	49.6	17.0	9.4
2025	67.3	23.5	48.4	17.2	10.9
2030	68.5	23.0	47.5	17.1	12.3
2035	69.7	22.6	46.7	17.1	13.6
2040	70.7	22.4	46.6	16.3	14.7
2050	72.3	22.3	45.9	15.9	16.0
2060	73.6	22.1	45.8	15.9	16.2

Note: Metropolitan France.

Source: INSEE, population projections 2007-2060.

In 2012, 63.7 million residents in metropolitan France have access to 33.2 million dwellings (29.7 million in 2002), the housing stock being made up of 83.4% of main residences, 9.5% of secondary residences and 7.1% of vacant residences (Table 2.3.). The majority of the dwellings are single-family housings.

TABLE 2.3.
HOUSING STOCK (THOUSAND OF DWELLINGS AT 1 JANUARY)

	2002	2006	2008	2009	2010	2011	2012
Main Residences	**24 760**	**26 047**	**26 616**	**26 866**	**27 155**	**27 414**	**27 680**
Individual	13 896	14 685	15 057	15 215	15 394	15 557	15 725
Collective	10 864	11 361	11 559	11 652	11 761	11 857	11 955
Vacant Units	**1 954**	**1 949**	**2 104**	**2 208**	**2 263**	**2 309**	**2 359**
Individual	883	917	995	1 044	1 067	1 087	1 109
Collective	1 071	1 032	1 109	1 164	1 196	1 222	1 249
Secondary Residences	**2 946**	**3 064**	**3 099**	**3 099**	**3 121**	**3 138**	**3 153**
Individual	1 805	1 887	1 875	1 853	1 845	1 833	1 819
Collective	1 141	1 177	1 224	1 246	1 277	1 306	1 334
Total	**29 660**	**31 060**	**31 819**	**32 174**	**32 539**	**32 862**	**33 192**
Individual	16 584	17 490	17 927	18 112	18 305	18 477	18 653
Collective	13 077	13 570	13 892	14 062	14 234	14 385	14 539

Note: Metropolitan France.

Sources: INSEE and SOeS, annual estimate of the housing stock.

The latest information available from INSEE for the type of housing are of 2009 and are as described in Table 2.4. herein below. The information about the type of occupation show the importance of rented property as against owner-occupied property.

TABLE 2.4.
TYPE OF HOUSING IN FRANCE ACCORDING TO CATEGORY AND OCCUPANCY STATUS
(THOUSAND OF DWELLINGS AT 1 JANUARY)

	1 room	2 rooms	3 rooms	4 rooms	5 rooms	6 rooms and more	Total
Main Residences							
Owner	146	807	2 377	4 406	4 239	3 891	15 866
Tenant of a Vacant non HLM Dwelling[1]	838	1 640	1 734	1 215	571	289	6 286
Tenant of a Vacant HLM Dwelling[1]	213	705	1 427	1 181	398	89	4 013
Other[2]	390	256	254	245	138	86	1 369
Occasional Residence	61	54	41	26	11	9	202
Secondary Residences	315	634	744	596	331	307	2 926
Vacant Units	313	476	587	479	248	188	2 290
Total	**2 275**	**4 571**	**7 164**	**8 146**	**5 936**	**4 860**	**32 952**

Notes: 1) The HLM tenant category, is based on the census which in turn is based on the tenants' statements, whilst in the data estimated for the number of dwellings, the data for the tenants of the social housing stock are estimated based on the owners' statement.
2) Tenants of house leased with furniture and households accommodated for free.

Source: INSEE, RP2009 main exploitation.

Population growth combined with the evolution of lifestyles and the lack of housing units have led to a shortage in residential housing construction in France (particularly in large cities). The need for new houses is estimated at 500 000 units per year, considerably more than what the building industry has been able to supply - from 2002 and 2012, annual deliveries have not exceeded 350 000 dwellings in France and the volume should fall by half in 2013 as a direct consequence of the crisis.

“Résidences avec Services”

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. Firstly, there is an increasing number of students facing problems in finding accommodation (supply is unsuitable, insufficient or over expensive). Adding to these, there is an increasingly older population as result of longer life expectancy who also have housing needs that are not met by the market. Traditional housing is no longer sufficient. A number of related services must be added to relieve beneficiaries, either student or seniors, from certain constraints.

Moreover, France is one of the main tourism destinations in the world. However, for quite some time now, tourist facilities, namely hotels, are suffering from a somewhat dusty and outdated image among both French and foreign tourists. They are unsuited for mass tourism. There is therefore scope for favouring tourism residences, a process that has in fact already started.

This background gave rise to the “assisted residences” concept, which has happened in other countries as well. The formula has met real success since then it was launched a couple of decades ago in France, as:

- it relieves the “client” from numerous constraints; and
- it offers a legal and tax framework that favours private investment (tax exemption laws existing for approximately 20 years).

This concept is at the bottom of new markets such as the student and the senior markets. It can also be viewed as an alternative to an existing market as for residences with assisted tourism services which can replace, at least in part, the traditional hotel accommodation. Likewise, assisted residences for senior people can replace the traditional retirement home and even the "staying at home". It brings innovating long term venturing solutions to investors as it combines the legal and tax status of a landlord with the security of investment in real estate property.

A number of tax exemption / benefits as described below will contribute to create a “tax definition” for assisted residences. An assisted residence:

- is intended to be rented;
- it is equipped and furnished, the landlord benefiting in certain cases of the “status of non-professional landlord of furnished property”, which is an advantageous status from the tax point of view;
- it comprises the rendering of at least 3 rental related services, amongst the four specified by the tax authority:
    - supply of breakfast;
    - regular cleaning;

- provision of household linen;
- reception service (steward for instance);

- it is entrusted to a manager / operator holding a commercial lease for a duration of at least nine years signed by the landlord (or landlord-investors).

Assisted residences target three main markets[1]:

- residences for students;
- hotel or tourism residences for tourists or businessmen; and
- residences for non-disabled elderly people.

Residences for Students

In 2011 France had 15 million enrolled students. Of these, 2.5 million are students in higher education searching for housing solutions. Currently, student housing is distributed as follows:

- 40% of students stay with their parents;
- 45% of students live in the "unidentified sector", i.e. in private homes (lodging with local residents, rental of "city" lodging or the so-called "chambres de bonne" (former maid's room); and
- 15% live in residences with more or less associated services, half of which in social or similar residences to the Centres Régionaux des Œuvres Universitaires et Scolaires (CROUS) (public campuses) and the other half in private residences.

This means a market of 1.5 million students which is likely to rise.

The current supply of student residences comprises 215 500 lodgings in state-owned accommodation facilities (CROUS) and 200 000 private collective residences, which is the sector where Groupe Réside Études operates. 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 CROUS, tax exemption / advantages,…). The diagnosis is nevertheless irrefutable: there is clear shortage of accommodation, namely in the Paris region where 25% to 30% of French students live, but also in major provincial cities, Lyon, Toulouse, Bordeaux, Marseille and Nice. Other geographic areas show a relative saturation of demand: Nantes, Clermont-Ferrand (where the Group holds a quasi-monopoly position), Poitiers and Marseille St-Jérôme (the city's policy being to bring students into the city centre).

The need for private assisted residences is thus real and considerable. Public Authorities are, moreover, willing to support solutions.

Within the "private" category, two types of assisted residences stand out:

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[1] Including mountain and sea tourism residences.

- residences with services for students, in the private sector, which is the market segment where Groupe Réside Études, operates, namely under brands Estudines and Stud'City; and
- assisted residences of social nature, the main difference being that they are financed with public funding with attractive terms that are passed onto rents; Groupe Réside Études has seven residences of this nature, which balance its accounts.

Demand for student lodging is therefore a real fact. In this segment, the solvency problem is generally solved thanks to student housing aids and / or surety provided by parents.

These aids, which are distributed by Caisse des Allocations Familiales, are of three types:

- Aide Personnelle au Logement (APL) (Personal Housing Allowance) - provided according to student revenues. To benefit from this allowance, the residence concerned should have an agreement with the State and meet a number of requirements (amount of the rent, duration, rules,…); certain residences of Groupe Réside Études meet these criteria;
- Allocation de Logement Familiale (ALF) (Family Housing Allowance) - housing allowance for students married and / or with children; and
- Allocation de Logement Sociale (ALS) (Social Housing Allowance) - if the student does fit none of the two situations.

A large number of students who are tenants of Groupe Réside Études are eligible for these aids. A relevant aspect favouring the manager should be pointed out: the allowance may be provided either directly to the student or to the student's landlord. At the beginning, the Group exercised subrogation of allowances. It no longer does it.

The French State Budget for 2013 allocates 2.7% of its expenditures to land-use planning, housing and city planning. This is a modest percentage, but France has a fiscal deficit - in 2012 the public deficit accounted for 4.8% of GDP -, which remains to be solved probably with an impact on education, albeit its strategic importance.

Residences for Non-Disabled Elderly People

As mentioned above, the French population is getting older. Seniors (over 60 years old) account for 23.8% of current population and INSEE projections anticipate a sharp rise in forthcoming decades (32.1% in 2060), as there should be approximately 24 million people over 60 years old by 2060.

An elderly person may live in a traditional house or a retirement home or in an assisted residence. The market benefits from increased life expectancy, however people do not age all in the same way, hence the segmentation of the market into homes for disabled elderly people and residences for non-disabled elders. This segmentation has called for specialty 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 constrained in some regions due to a lack of authorisation for new beds (as result of the fiscal problems in France). The other sector is that of the residences for non-disabled seniors, also called RPA (Résidences Personnes Âgées). RPA must imperatively welcome able-bodied people (to prevent, in case of inspection by the relevant authority, namely the Direction des Affaires Sanitaires et Sociales 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).

In 2013 France should have approximately 400 senior residences offering 35 000 accommodation units. Only 0.2% of seniors over 60 years old live there.

In a student residence, the tenant pays an “all included” rent (including rental charges). In an assisted senior residence, the tenant will pay the manager two different amounts: the rent and the invoicing amount for the services used during the previous month). In this last case, two tenants occupying the same surface area but not using the same services will pay different amounts. The system allows each individual to adjust his / her expense according to his / her needs and budget.

The difficulty for the manager is to find a solvent able population capable of bearing the residence costs. Presently, 70% of households over 60 years old have an average annual income of over EUR 20 000.

In line with what happens in the case of students, a number of aged tenants has access to three different types of allowances:

- APL, allowance granted when the beneficiary moves to a retirement home, determined according to respective income and provided the retirement home is subject to a State agreement;
- ALS, allowance granted to residents of retirement homes not covered by state aids, although being subject to specific requirements (namely concerning hygiene and minimum lodging area); and
- Allocation Personnalisée d’Autonomie (APA) (home care allowance, which depends on the individual's health and ability level).

As result of these allowances, the client base of assisted senior residences can be expanded.

The core target clients of these senior assisted residences are non-disabled seniors aged 75 and over. Below that age, people prefer to remain in their own homes.

Hotel or Tourism Residences (Hotel Related Facilities)

These cover two different types of residences:

- tourist accommodation residences located near the sea, in the country or mountain; and
- residences directed to a more professional client base, normally in important business centres.

The business model of Groupe Réside Études covers both, but it has a larger interest in business clients (80%) than in tourism clients (Relais Spa at Disneyland, which the Group wants to redirect to the seminar holding market, and a number of residences in the city centre). The majority of companies listed on the CAC 40 have a contract with Groupe Réside Études. All these residences are located in the city centre (there is none in the countryside, mountain or coastal areas).

The market seems presently less buoyant in the tourism segment, conversely to the sector of students and senior residences. Certain residences on the market have certainly faced problems but these were associated with a badly targeted geographical situation ("great outdoors") and were exclusively directed to tourists. Réside Études was not affected.

Against the current sluggish background, the market segment of urban residences is performing clearly better than tourism residences. This is a strong point for Groupe Réside Études which has secured a clear position in this market.

These residences are different from the others due to the average stay, which is normally shorter (although certain operators, such as Groupe Réside Études, may benefit from a purely professional client base for "longer stays"). All residences offer services, which differ according to the nature of the residence.

Residences with hotel related facilities compete directly with traditional hotels. Traditional hotels do not provide - at least in theory - lodging related services, but this theory tends to become more relative. As one gets up the scale, more or less sophisticated services may be associated to the offer (information and internet access, meeting rooms, restaurant facilities). Traditional hotel activity is marginal as far as the Group is concerned.

Tax Benefits

Tax exemption in the assisted residences market views to increase the attractiveness of the rental housing market given the key economic and social role of them. It is based on three 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 repayment;
- benefits under the "Censi Bouvard" system - tax advantages offered by this system have decreased over the years and currently consist of a tax reduction of 11% on the purchase price, excluding taxes including notary expenses, up to the amount of EUR 300 000 per investment (i.e. maximum EUR 33 000 reduction broken down in instalments in the same amount over 9 years); and
- taxation of the rentals of the furnished accommodations - which may be professional (LMP) if the owner is registered with the Commercial Register, if revenues deriving therefrom exceed EUR 23 000 - inclusive of all taxes - and over 50% of the 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.

The Group presents its products as investments eligible 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).

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:

a) the accommodation that are provided in classified hotels, classified holiday villages and classified tourism residences for tourists and if leased for a period of at least nine years to a manager having subscribed a tourism development engagement under the terms set forth by decree of the State Council;

b) the provision of a furnished accommodation against a consideration of price and on a regular basis, comprising in addition to lodging accommodation at least three of the following service provisions, rendered in similar conditions to those offered by hotel facilities exploited on a professional basis: breakfast, regular cleaning of facilities and provision of household linen and welcoming of clients, even if not personally;

c) the lease of non furnished or furnished accommodation to an operator of lodging facilities meeting the criteria described in paragraphs a) or b) above, except for those lent to a manager of lodging facilities as provided in article L. 633-1 of the Construction and Housing Code is not entitled to any exemption; and

d) the lodging accommodation provided in residential tourism villages, for tourist accommodation purposes, leased to a manager under a contract with a duration of at least nine years. These residential tourism villages are part of an operation viewing real estate renovation for leisure purposes, as provided in article L. 318-5 of the Town Planning Code.

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, such as Groupe Réside Études, 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 final within 20 years, i.e. 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).

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 many “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.

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. GROUPE RÉSIDE ÉTUDES – CURRENT SITUATION

Shareholder Structure and Management

At the end of 2012 the share capital of Réside Études totalled EUR 30.0 million represented by 1 000 000 shares and the company held 31 250 treasury shares (for the purposes of profit sharing and bonus plans, viewing to develop its shareholder structure based on key staff). The share capital will be increased to EUR 50.0 million at the general meeting that will be held on the 18 of June 2013.

The Group is 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 remaining senior staff and treasury shares.

The three members of the Managing Board have dozens of years of experience in this activity, namely at Réside Études:

- Mr. Philippe Nicolet is exclusively devoted to Groupe Réside Études since June 1993;
- Mr. Robert Vergès has joined the company in 1994; and
- Mr. Christian Verlaine joined the Group in November 1995.

Their involvement in the Group was strengthened following a Leverage Buy Out operation carried out in 1998, to finance the withdrawal of Crédit National S.A..

To ensure the stability of the Group's shareholder structure, a shareholders' agreement was concluded providing for transfers between shareholders on the basis of the book value of the shares.

Note that the Management has divided its tasks according to fields of activity and developed an internal control system to monitor the Group's expansion. To secure management continuity, a second level of selected officers has been established, making up the Group's managing staff. They will be ready to take over.

The Business Model of Réside Études

The business model developed by the Group over more than 20 years is based on four fundamentals:

- in-depth knowledge of real estate markets in terms of supply and demand, namely in the three areas where the Group operates (students, seniors, businessmen) and more promising and profit delivering geographic areas;
- thorough insight of the legal and tax framework applicable to assisted residences;
- know-how common to the whole real estate construction-development chain, and particularly relevant skills in an activity as regulated as real estate development can be; and
- two integrated market forces, upstream (investors) and downstream (lessees).

This is a long term business since a project development requires, in general, 2.5 to 3 years, except if taking on third party development project, and 18 to 20 years of lease management.

The business model presupposes a marketing action according to two axes:

- canvassing of investors with whom the Group will sign a commercial lease contract for a duration of at least 9 years; the manager will be in charge of the day-to-day management of the residence and procuring tenants, and it will also be responsible for maintaining and administrating the residence. The manager will be responsible for invoicing and cashing in the rents; and
- it will be its responsibility to find tenants for the accommodation units.

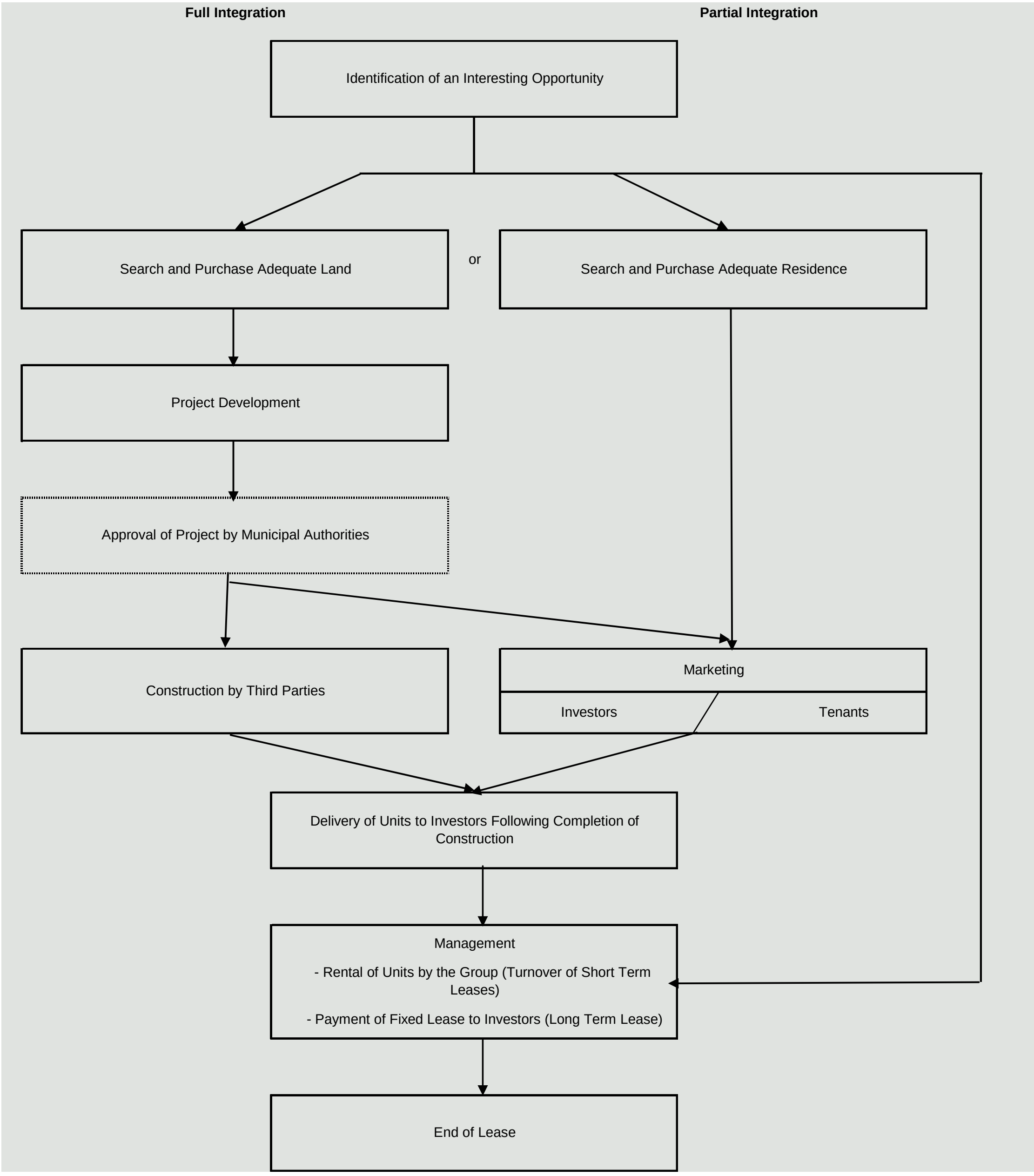
This double approach generates a situation where the investor is guaranteed the payment of a rent during 9 years, which will be financed by shorter term rental revenues, hence the importance of the lessees' selection and loyalty processes.

The Group's sales force is made up of 57 people directly allocated to sales promotion and 46 people directly allocated to sales management. The Group also resorts to independent asset management advisors and banking networks. The Group develops an activity of bulk sale to institutional investors. With the latter, the Group seeks to offset the pressure on margins through savings on marketing costs.

A total of approximately 650 units (lots) are marketed every year, and the goal is to reach 1 000 units.

The marketing of residences can start as soon as the waiting period known as “Recours des Tiers” has expired. This marketing phase can last for 18 months. It 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.

The Group's business model is pictured herein below. The Group follows two models in parallel: one totally integrated (real estate development, marketing and management), and another partially integrated (with contributions from other project developers to be managed and operated by Réside Études). Currently, 50% of new residences are partially integrated projects stemming from initiatives of other developers.



The specific conditions of the Preliminary Reservation Contract are based on provisions in article 261-D-4, amongst others. These provide namely the following:

- a security deposit amount (which cannot exceed 5% of the provisional price if the period for performing the sale is below one year or 2% if this period is below two years); the amount deposited as security is unavailable until completion of the sales contract and will be returned without any withholding or penalty to the investor if:

- the sales contract is not concluded due to the vendor within the term provided in the preliminary contract;
- the sale price exceeds by 5% the provisional price, revised where the case may be, in accordance with provisions in the preliminary contract;
- the loan or loans mentioned in the preliminary contract are not obtained or transmitted or if their amount is below 10% of projections in the said contract;
- one of the equipment items established in the preliminary contract cannot be carried out;
- the building or part of the building covered in the contract, namely its consistency or quality of the works, shows a decrease by more than 10% in its value;

- the sale can only be concluded if the investor obtains respective financing;
- a payment schedule will be set up, which will be based on the evolution of construction;
- the commercial lease entered by the investor and a subsidiary of Groupe Réside Études must have a duration of 9 years (the commercial lease is one of the requirements for recovering the VAT):
  - Groupe Réside Études undertakes to pay an annual rent (fixed, revised annually according to the rental reference index - “IRL”) to the investor, at the term of each quarter; and
  - Groupe Réside Études will pay most condominium fees except for major repairs and the property tax, which shall be borne by the investor.

Rent collection by the investor will lighten its financial burden (repayment of capital and interest) and allows the investor to take advantage of a leveraging effect.

This contractual framework also establishes that:

- the Group can, in the event of change in the VAT rate or suspension of the tax recovery due to legal changes, ask the purchaser the whole or part of the non recovered VAT;
- in the event the investor fails in its obligation to pay the part of the price payable at term, the Group will be able to cancel the sale, upon prior notice of one month sent by registered letter with acknowledgement of receipt;
- if the cancellation is pronounced due to cause attributable to either of the parties, the party concerned shall pay the other party a lump sum compensation of 10% of the sale price and the party concerned shall have to make up for the loss effectively incurred by the other party, if so requested;
- the Group has the right to renew the commercial lease, which cannot be refused subject to an eviction compensation equivalent to the loss caused by the non renewal; this compensation will

namely include the market value of goodwill, determined according to standard industry practice (2 to 3 years of rental revenues), normal moving and relocation expenses, as well as transfer rights and expenses payable for an equivalent goodwill.

The Group will thus pass onto investors the advantages of a legal and tax framework which is favourable to the investor (highlighting tax benefits and the possibility of taking advantage of the leveraging effect). At the same time, it creates a stable financing situation for Group which is thus protected against the possible non renewal of the commercial lease.

Finally, the Group uses its best endeavours to ensure liquidity in the event of resale of the units, thus securing the initial investor.

As far as contracts are concerned, two cases are worth noting amongst the three segments where the Group operates:

- normal hotel contracts; and
- short and medium term contracts for students and non-disabled seniors; the terms of renewal of these contracts take into account the rental reference index, the lessee having the right to rescind the contract upon a one-month prior notice; and the lessee must subscribe its own housing insurance.

As far as students are concerned, the Group requires a guarantee provided by respective parents or a relative or a bank.

Thanks to its reputation, the Group can conclude numerous partnerships with other developers.

<u>The Group's Structure</u>

Groupe Réside Études organised its structure around three major poles:

- real estate management operation;
- real estate development; and
- creation of a property portfolio (equity investment).

Réside Études Investissement S.A. is the holding of the Group. The company controls the construction subsidiary, Compagnie de Bâtiment et de Maçonnerie SAS (CBM), and is the direct holder of 100% of the shares of:

- Résides Études SAS, main property development subsidiary, which comprises 46 branches, each of which dedicated to real estate plans;
- Résidences Étudiantes de France SAS, sub holding responsible for managing student-residences operations;
- Réside Études Gestion SAS, subsidiary responsible for hotel-related services and operations; and

- La Girandière SAS, acquired in 2007, the Group having taken full control in 2011, to develop the senior residences business.

Additionally, Réside Études directly and indirectly holds subsidiaries owning diverse assets, mainly located in residences managed by the Group, seven welfare-based student-residences and Hotel Residence Paris Opéra.

The Group's real estate development business consists of a team of 17 employees including the Technical Director, dedicated to designing real estate projects. A follow-up of the ongoing plans is made on a regular basis. Over the last few years, the Group has delivered a relevant number of plans, as shown in Table 3.1. herein below.

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

	2008	2009	2010	2011	2012
Reservations Made in Million Euros	17.2	82.9	129.1	93.2	66.1
In Number of Dwellings	156	560	762	621	506
Signed Notary Deeds / Disposals in Million Euros	90.5	76.0	150.7	90.4	66.2
In Number of Dwellings	654	515	928	584	483
in Thousand Euros per Dwelling	**138.4**	**147.6**	**162.4**	**154.8**	**137.1**
Profit Net of Losses on Delivered Plans	n.d.	2.7	5.4	7.9	6.7
Number of Delivered Plans	n.d.	7	2	3	6

Note: n.d. = Non available.

Sources: Reports and accounts of Groupe Réside Études.

In relation to CBM, the Group wants to stop this activity. The management of the subsidiary will join the Group. CBM has suffered losses as it has left - wrongly - its major works businesses (masonry), which it knew and controlled well, to become, against a background of margin shrinking in 2011 and 2012, a general company requiring wider skills than those held by CBM.

Summing up, the Group is made up of 106 subsidiaries, almost all of which are 100% controlled and operate in total symbiosis. If a subsidiary has a problem to face, it can always count on the Group's support (principle of risk sharing and reputation withholding, two key factors of the business model of Réside Études).

Business Locations and Brands

Groupe Réside Études has its three types of residences spread throughout the country.

Residences for Students

The Group has 85 students' residences which include the rendering of services, representing 12 525 accommodation units. The Group pricing policy is slightly higher than its competitors reflective of the quality of the services provided. In 2012, occupancy levels remained high, nonetheless flat. These residences are marketed under two brands:

- Estudines, 77 metropolitan residences, 25 of which in Ile-de-France; and
- Stud'City, 8 residences in the city of Clermond-Ferrand.

In terms of location, residences are spread throughout the French territory, holding a strong presence in the Paris region: 4 residences in Paris and 21 in surrounding departments. This strong presence in the Paris region is easily explained. In fact, more than a quarter of French students are in the region of Ile-de-France. The market is far from being saturated.

Groupe Réside Études is also present in most university cities, which corresponds more or less to the cartography of major French cities. The four most important cities in terms of number of students are the following, sorted by order of importance: Paris, Lyon, followed by Marseille and Toulouse.

Réside Études targets mostly university cities with over 10 000 students. Normally, it does not operate in cities with a lower number of students (Nîmes, Valence, Fréjus or Avignon).

Residences for Non-Disabled Elderly People

In this market, at the moment, the presence of Groupe Réside Études is less important: 10 residences at the end of 2012, expected to rise to 14 at the end of 2013, under brand name "La Girandière". The number of accommodation units totalled 905 at the end of 2012. The Group stand outs from competition due to the higher number of services offered to clients. In 2012 the occupancy rate of older residences stood at 95% whilst the rate of those opened in 2012 stood at 25%. However, at the end of April 2013, this occupancy rate had risen to 45%.

These residences are mainly located in the centre or surrounding areas of medium sized cities. Geographically, they are mainly concentrated in the northern half of France.

Hotel or Tourism Residences (Hotel Related Facilities)

Conversely to student residences, which have one unique model or format, in this segment, probably in line with the hotel market, the Group operates in four different niches, with 65 apparthotel residences (corresponding to 6 230 accommodation units):

- the entry level market of less expensive residences under brand name "Séjours & Affaires - Apparthotel", which totals 40 residences (11 in Ile-de-France) and 2 606 accommodation units. There are also residences semi-detached to student residences. The client base is mainly professional;
- the mid-range market consists of the "RésidHome – Apparthotel", corresponding to 3* type residences;
- the top range market is made up of 4* type "RésidHome – Apparthotel"; and 3* and 4* type

"RésidHome – Apparthotel", totalling 2 941 accommodation units in 23 residences (14 in Ile-de-France). The client base is focused on businessmen; the difference between the "RésidHome - Apparthotel" and the "Séjours & Affaires – Apparthotel" lies above all in the services offered to clients; and

- finally, the Group operates in the "five stars" market, with two "Relais Spa" residences located in the Paris region, at Disneyland and near Roissy; these two residences comprise a total of 683 apartments.

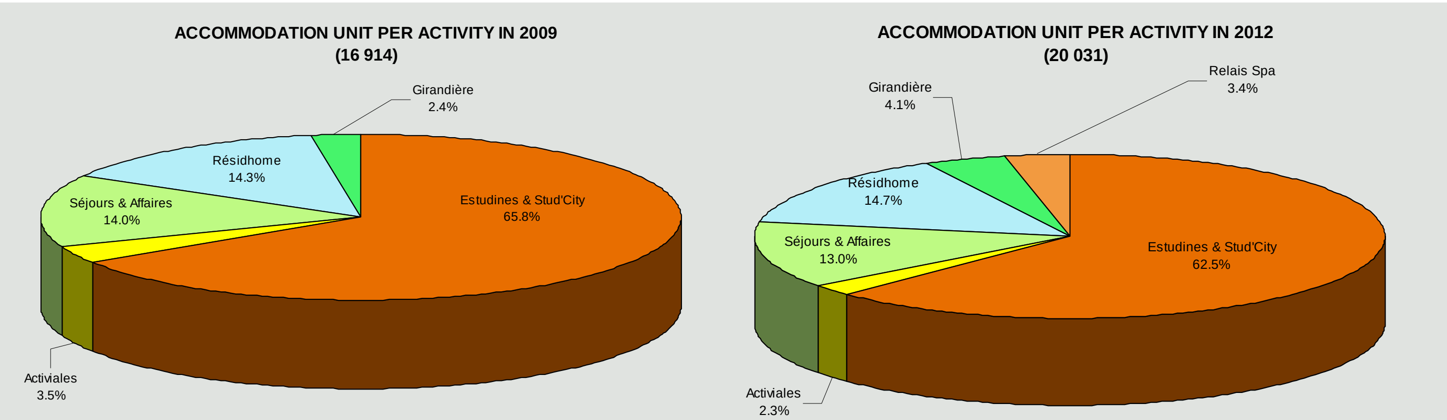
The network covers the whole national territory, covering major French cities. The Paris region is the best served, particularly on the western side (Hauts de Seine) and southeast side (Val de Marne). In 2012, the occupancy rate stood at approximately 70% to 75%, above the sector average, however the most important thing is to find a balance between occupancy rate and return.

Traditional Residential Property

The Group also manages a portfolio of residences for future ownership purposes (called habitation en accession), with no associated services (under brand name "Les Activiales"), resulting of purchase opportunities.

This business is the traditional leased property management, standing between the free housing market and the social housing market. The segment comprises housing with attractive rents, targeted to a middle class whose revenues are above the threshold required to benefit from social housing aid. The Group's portfolio in this segment consists of 600 accommodation units in 7 residences. The Group does not plan to develop this concept.

Evolution of the Portfolio of Accommodation Units



Source: Groupe Réside Études.

The portfolio of accommodation units managed by the Group has not ceased to increase, doubling from 2004 to 2009, reaching 16 914 units. The most relevant rises occurred in 2006 (37.1%), 2008 (9.4%) and 2009 (11.7%), mainly on the back of acquisitions to third parties. This expansion continued in 2012 (+9.6%, 20 031). The increasing number of accommodation units managed by the

Group happened against a background of diversification in terms of tenants, decrease in the relative share of students and increase in apparthotels and senior clients.

Groupe Réside Études Competitors

The business is benefiting from increasing demand, within a context of favourable legal and tax environment, but competition is also rising.

Vis-à-vis competitors, Réside Études has the following advantages:

- its size, in both absolute and relative terms (ranking 2nd in three of its segments);
- its long experience, having started operating in 1989;
- its specialisation: the Group has remained focused and loyal to the assisted residences model for 24 years; and
- the development of such model in other markets and other regions.

The Group seeks to stand out by the quality of its offer, namely the maintenance of units and residences, the security and safety of the property and the reception services it provides. Consequently, the pricing policy followed has placed Groupe Réside Études rather at the top range of the market.

Overview of Main Competitors

Student Residences Segment

Groupe Réside Études ranks second in the private market of student assisted residents, right behind Groupe Nexity, which operates under brand name “Studéa” with 17 000 accommodation units.

The third operator in this market is BNP Paribas Résidence-Services, under brand name “Les Studélites” and 6 100 units.

There are several other competitors, most of which announcing promising development prospects, sometimes favoured by financial backing from financial or property development groups.

Residences for Non-Disabled Elderly People Segment

The market leader is Groupe Aegide, operating under brand name “Domitys”, with 25 residences (each with 100 to 130 accommodation units). In financial terms, this group has always been backed by major shareholders: firstly the group of Caisses d’Epargne (savings banks), then, following 2007, by Nexity, which acquired the share of the Caisses d’Epargne and controls approximately one third of the group's share capital (38%).

Groupe Acapace, under brand name “Jardins d’Arcadie”, holds 10 residences (the same number as Groupe Réside Études) spread throughout cities of variable size.

Conversely to what happens with student residences, this sector is much less concentrated.

Hotel or Tourism Residences Segment

Groupe Réside Études ranks also second in the segment of city apparthotels, following Groupe Adagio, which operates under brand names “Adagio Apparthotel” and “Adagio Access”. Groupe Adagio has 78 apparthotels and is the result of a joint venture between Pierre et Vacances and Groupe Accor (one of the world's leading hotel groups). Its strategy consists in continuing its expansion in France and abroad, in an accelerated way.

The third operator in this market is Groupe Menguy Investissement (GMI), under brand name “Appart City” with 61 apparthotels. GMI is a subsidiary of Acto Capital, associated to an institutional investor.

There are many other groups operating in this market, some of which backed by strong shareholders, however, expansion projects are more modest as compared to remaining segments.

Groupe Réside Études Recent Results

The Group's strategy both in the short and long run is to seek organic growth. In practice, positive results in mature segments, such as the student residences segment, contribute to finance the development of remaining segments where the Group operates. Results of the “students” and “development” segments allow offsetting losses associated to the launching of new residences. However, the final result remains positive. Flows from own assets (property) also contribute to this balance. Recurrent flows stem from management businesses for both third parties and own company. Conversely, property development activities are characterised by less regular flows.

TABLE 3.2.
RATE OF RETURN PER ACTIVITY (RESULTS BEFORE TAX/TURNOVER) %

	2010	2011	2012
Development	9.66	8.16	7.54
Development (Excluding Organisation and Marketing Fees)	10.82	9.58	8.72
Construction - CBM	(7.75)	(18.54)	(20.41)
Management Etudiante	9.56	10.84	9.73
Management of Apparthotels (except for Relais SPA)	(7.31)	0.15	0.68
Management of Relais SPA	(84.03)	(43.60)	(26.55)
Management of Girandières	(4.56)	2.33	(11.05)
Consolidated	4.46	4.29	2.39

Sources: Consolidated reports and accounts of Groupe Réside Études.

Evolution of the Profit and Loss Statement

The Group's consolidated revenues increased by over 50% from 2008 to 2012, growing from EUR 212.7 million to EUR 322.2 million. Note a strong growth in sales in 2008 to 2009. The sharp rise recorded that year was due to the sale of a considerable number of units under a "Sales Before

Completion Contract" (VEFA). The total amount of these VEFA went from EUR 78.6 million in 2008 to EUR 133.1 million in 2009, translating the good performance of the development business that year. These performances slowed down, however, after 2009. In 2012, they stood at EUR 82.6 million. This decrease was offset by a rise in rents, which have not ceased to increase in the last few years, moving from EUR 95.9 million in 2008 to EUR 180 million in 2012. This particularly sharp rise translates the economic model of Groupe Réside Études, i.e. to record a first flow of revenues at the time of the sale of a unit, followed by a series of recurrent revenues stemming from rents following the opening and

TABLE 3.3
CONSOLIDATED GROUPE RÉSIDE ÉTUDES PROFIT AND LOSS ACCOUNT (THOUSAND EUROS)

	2008	2009	2010	2011	2012
TURNOVER	212 661	300 763	292 243	318 352	322 158
Variable Expenses:					
Cost of Goods Sold and Materials Consumed	122 750	199 416	175 136	175 356	164 971
Suppliers and External Services	54 277	48 750	53 770	73 591	85 953
Total Variable Expenses	177 027	248 166	228 906	248 947	250 924
GROSS CONTRIBUTION MARGIN	35 634	52 597	63 337	69 405	71 234
Sundry Operating Income:					
Other Operating Income	4 420	0	4 253	3 453	7 965
Total Sundry Operating Income	4 420	0	4 253	3 453	7 965
OPERATING CONTRIBUTION MARGIN	40 054	52 597	67 590	72 858	79 199
Fixed Operating Expenses:					
Staff Expenses	26 782	33 622	38 931	45 980	48 050
Taxes	3 546	4 476	5 369	7 094	7 422
Other Operating Expenses	0	310	4 094	2 814	8 219
Total Fixed Operating Expenses	30 328	38 408	48 394	55 888	63 691
EBITDA (a)	9 726	14 189	19 196	16 970	15 508
Depreciation and Amortisation	2 586	4 297	4 370	4 572	4 538
Provisions	1 207	1 243	(83)	(224)	1 124
Impairments and Fair Value Change in the Value of Investment Property	2 782	162	(1 133)	(4 403)	(2 135)
EBIT (b)	3 151	8 487	16 042	17 025	11 981
Financial Income	2 183	1 233	1 164	1 017	683
Financial Expenses	3 786	3 409	4 123	4 356	4 956
FINANCIAL RESULT	(1 603)	(2 176)	(2 959)	(3 339)	(4 273)
CURRENT RESULT	1 548	6 311	13 083	13 686	7 708
NON-CURRENT RESULTS	0	0	0	0	0
EARNINGS BEFORE TAXES	1 548	6 311	13 083	13 686	7 708
Income Taxes for the Year	733	2 545	4 888	5 229	3 677
Minority Interests	174	13	109	9	(237)
NET PROFIT FOR THE YEAR	641	3 753	8 086	8 448	4 268
Distribution of Profits	0	581	1 209	1 200	1 200
NET RETAINED PROFITS (LOSSES)	641	3 172	6 877	7 248	3 068

Notes: Figures rounded.
Accounts reclassified by CPR for analisys purposes.
(a) Earnings before interests, taxes, depreciations and amortizations.
(b) Earnings before interests and taxes.

Sources: Groupe Réside Études Annual Reports.

occupancy of the residence. A favourable year in property development translates automatically into managing revenues over the next few years. The Group's know-how (development, marketing, management) favour a true synergy and a virtuous cycle. The increase in revenues comes in the form of rents cashed in rather quickly in the case of students, and more slowly in the case of apparthotels and senior residences. Revenue growth stems also from services sold, at a pace varying according to the nature of the sector (steadily rising in the senior sector: the older the seniors get the more services they use).

TABLE 3.4.
CONSOLIDATED GROUPE RÉSIDE ÉTUDES RESULTS (% OF TURNOVER)

	2008	2009	2010	2011	2012
TURNOVER	100.0	100.0	100.0	100.0	100.0
Variable Expenses:					
Cost of Goods Sold and Materials Consumed	57.7	66.3	59.9	55.1	51.2
Suppliers and External Services	25.5	16.2	18.4	23.1	26.7
Total Variable Expenses	83.2	82.5	78.3	78.2	77.9
GROSS CONTRIBUTION MARGIN	16.8	17.5	21.7	21.8	22.1
Sundry Operating Income:					
Other Operating Income	2.1	0.0	1.5	1.1	2.5
Total Sundry Operating Income	2.1	0.0	1.5	1.1	2.5
OPERATING CONTRIBUTION MARGIN	18.8	17.5	23.1	22.9	24.6
Fixed Operating Expenses:					
Staff Expenses	12.6	11.2	13.3	14.4	14.9
Taxes	1.7	1.5	1.8	2.2	2.3
Other Operating Expenses	0.0	0.1	1.4	0.9	2.6
Total Fixed Operating Expenses	14.3	12.8	16.6	17.6	19.8
EBITDA (a)	4.6	4.7	6.6	5.3	4.8
Depreciation and Amortisation	1.2	1.4	1.5	1.4	1.4
Provisions	0.6	0.4	(0.0)	(0.1)	0.3
Impairments and Fair Value Change in the Value of Investment Property	1.3	0.1	(0.4)	(1.4)	(0.7)
EBIT (b)	1.5	2.8	5.5	5.3	3.7
Financial Income	1.0	0.4	0.4	0.3	0.2
Financial Expenses	1.8	1.1	1.4	1.4	1.5
FINANCIAL RESULT	(0.8)	(0.7)	(1.0)	(1.0)	(1.3)
CURRENT RESULT	0.7	2.1	4.5	4.3	2.4
NON-CURRENT RESULTS	0.0	0.0	0.0	0.0	0.0
EARNINGS BEFORE TAXES	0.7	2.1	4.5	4.3	2.4
Income Taxes for the Year	0.3	0.8	1.7	1.6	1.1
Minority Interests	0.1	0.0	0.0	0.0	(0.1)
NET PROFIT FOR THE YEAR	0.3	1.2	2.8	2.7	1.3
Distribution of Profits	0.0	0.2	0.4	0.4	0.4
NET RETAINED PROFITS (LOSSES)	0.3	1.1	2.4	2.3	1.0

Notes: Figures rounded.
Accounts reclassified by CPR for analisys purposes.
(a) Earnings before interests, taxes, depreciations and amortizations.
(b) Earnings before interests and taxes.

Sources: Groupe Réside Études Annual Reports.

When Réside Études takes over a plan from another developer, it will resell it in units, which will boost sales. On the other hand, if it does not purchase a plan from a developer but merely takes it for managing purposes, management revenues will offset the lower revenues in property sales.

The remaining products of the Group comprise mainly services, which rose from EUR 38.1 million in 2008 to EUR 55.4 million in 2009, stabilising at approximately EUR 60 million. These comprise services sold to seniors (EUR 5.4 million in 2011 and EUR 9.3 million in 2012), fees for the organisation of the plans / programs, marketing and development (EUR 12.0 million in 2010, EUR 15.2 million in 2011 and EUR 12.9 million in 2012), and "construction" fees (CBM: EUR 21.9 million in 2009, EUR 18.2 million in 2010, EUR 25.2 million in 2011 and EUR 22.5 million in 2012), the latter tending to disappear.

This means that in an environment of global revenue growth, the slice of more stable revenues (rents) moved from 45.1% in 2008 (with a bottom low at 37.3% in 2009), to 55.9% in 2012.

TABLE 3.5.
CONSOLIDATED CASH FLOW STATEMENT OF GROUPE RÉSIDE ÉTUDES (THOUSAND EURO)

	2009	2010	2011	2012
OPERATING CASH FLOW (OCF)	17 220	36 818	13 411	29 872
CURRENT CASH FLOW (CCF)	15 044	33 859	10 072	25 599
FUNDS AVAILABLE FOR STRATEGIC DECISIONS (FASD)	9 429	31 186	10 244	25 039
Investment Activities	22 416	14 062	16 043	23 406
CASH FLOW FOR SHAREHOLDERS AND CREDITORS	(12 987)	17 124	(5 799)	1 633
Profits Paid	0	581	1 209	1 200
FINANCING BALANCE	(12 987)	16 543	(7 008)	433
Capital Inflows	105	(296)	228	(469)
Increase in Minority Interests	(35)	3	(505)	(21)
Increase in Medium and Long Term Financing Liabilities	10 498	9 279	11 697	14 505
NET CASH FLOW	(2 699)	25 538	4 116	13 868
Increase in Short Term Financing Liabilities	5 569	(18 137)	2 789	(10 146)
BANK DEPOSITS AND CASH VARIATION	2 870	7 401	6 905	3 722

Notes: Figures rounded, resulting of the calculation made by CPR based on the balance sheet and profit and loss statement. Accounts reclassified by CPR for analisys purposes.

Sources: Groupe Réside Études Annual Reports.

The structure of variable costs reveals a relevant contribution from the development sector in 2009, tumbling down in the following years, due to an increase in the cost of goods sold (including sub-contracting) and intermediate consumption, totalling EUR 200 million, followed by a decrease in the following years. This decrease was offset by a rise in rents paid (by 9% in 2012).

One of the more relevant characteristics of Groupe Réside Études' model is shown:

- in the upward evolution of gross contribution margin, which went from 16.8% in 2008 to 22.1% in 2012, recording a peak in 2010, and
- an increase in staff expenses, whose share of revenues moved from 12.6% in 2008 to 14.9% in 2012. This increase is partly due to the development of the senior residences concept ("La Girandière"), which offers a large number of services to clients. In overall terms, the Group staff rose in average by 15% per year, totalling 1 165 people at this moment.

TABLE 3.6.
CONSOLIDATED FLOWS AND BALANCE SHEET INDICATORS OF GROUPE RÉSIDE ÉTUDES

	2008	2009	2010	2011	2012
Flow Structure					
EBITDAR as a % of Turnover	n.d.	n.d.	n.d.	26.7%	27.8%
Operating Cash Margin	-	5.8%	11.9%	4.3%	8.9%
FASD as a % of Amounts Rec. from Customers	-	3.2%	10.1%	3.3%	7.5%
Payout Ratio	0	15.5%	15.0%	14.2%	28.1%
Coverage of Interest and Similar Payments by OCF	-	5.1	8.9	3.1	6.0
Coverage of Net Fin. Borrowing Costs / EBITDA	6.1	6.5	6.5	5.1	3.6
Coverage of Net Fin. Borrowing Costs / EBIT	2.0	3.9	5.4	5.1	2.8
Average Period to Repay Financing Debts	-	13.3	3.7	12.8	5.4
Financ. Debts / (Net Retained Profits + Depreciation)	33.9	16.8	10.4	11.1	17.8
Financing Debts / Turnover	0.5	0.4	0.4	0.4	0.4
Coverage of Short Term Financing Debts by FASD	-	0.192	1.006	0.303	1.059
Structure of The Balance Sheet					
Equity / Assets	16.8%	17.5%	21.8%	21.7%	22.4%
Minority Interests / Assets	0.2%	0.1%	0.2%	0.0%	(0.1%)
Total Liabilities / Total Assets	83.0%	82.3%	78.0%	78.3%	77.7%
Financial Debt / Total Assets	38.2%	43.0%	44.0%	43.8%	45.3%
Medium and Long Term Financial Debt / Non-Current Assets	66.6%	65.1%	66.8%	67.9%	67.9%
Liquidity Risk = Short Term Financial Debt / (Short Term Financial Debt + Non Used Loans)	n.d.	n.d.	n.d.	0.0%	0.0%
Functional Balance Sheet					
Long Term Capital	124 908	137 116	155 278	178 129	198 934
Non Current Assets	98 653	117 172	128 046	143 213	164 514
NET WORKING CAPITAL (NWC)	26 255	19 944	27 232	34 916	34 420
Cyclical Requirements	169 697	153 408	108 610	121 162	95 689
Cyclical Resources	117 857	104 818	77 348	86 315	75 261
NET WORKING CAP. REQUIREMENTS (NWCR)	51 840	48 590	31 262	34 847	20 428
Positive Cash Position	17 989	21 078	28 185	35 064	38 841
Negative Cash Position	43 574	49 724	32 215	34 995	24 849
NET CASH POSITION (NCP)	(25 585)	(28 646)	(4 030)	69	13 992
As a % of Turnover	(12.0%)	(9.5%)	(1.4%)	0.0%	4.3%
NWC Variation	-	(6 311)	7 288	7 684	(496)
NWCR Variation	-	(3 250)	(17 328)	3 585	(14 419)
NCP Variation	-	(3 061)	24 616	4 099	13 923
As a % of Turnover	-	(1.0%)	8.4%	1.3%	4.3%

Notes: Figures rounded.
Accounts reclassified by CPR for analisys purposes.
n.d. = Non available.

Sources: Groupe Réside Études Annual Reports.

The improvement in gross contribution margin was largely offset by the increase in staff expenses and taxes (particularly property taxes). It resulted in a decrease in the EBITDA margin from 6.6% of revenues in 2010 down to 4.8% in 2012, close to the 4.6% level recorded in 2008. In absolute terms, EBITDA stood at EUR 15.5 million in 2012, i.e. 8.6% less than in 2011, and 19.2% less as compared to the EUR 19.2 million recorded in 2010. This evolution was due to the launching phase required for each new residence before achieving break even (24 to 36 months), with impact in the last 2 years. Moreover, the Group's results were negatively affected by the counter performances of the construction subsidiary which is to be closed down.

One of the most relevant indicators as far as Groupe Réside Études is concerned is the EBITDAR, which measures EBITDA before taking into account the rents paid to investors. This intermediate management balance increased in 2012 by 1.1 percentage points (pp) to 27.8% of revenues.

Operating cash flow have also evolved more irregularly than EBITDA: EUR 17.2 million in 2009, EUR 36.8 million in 2010, EUR 13.4 million in 2011 and EUR 29.9 million in 2012, as they also take into consideration the needs in net working capital.

Depreciation rose by 66.2% in 2009, reaching EUR 4.3 million, accounting for 1.4% of revenues for the year, as compared to 1.2% in 2008. It stabilised since then. This change was mainly the result of acquisitions relating to the “Relais Spa”. Even if the Group's policy in this subject is very conservative and demanding, the level of depreciation and provision was relatively marginal during the period under review, which is positive. The evolution of the “fair value” of the Group's assets is quite moderate, with recorded losses of EUR 2.8 million in 2008 and EUR 0.2 million in 2009, before returning to positive readjustment at EUR 1.1 million, EUR 4.4 million and EUR 2.1 million in 2010, 2011 and 2012, respectively.

The EBIT margin follows the same evolution as the EBITDA margin, albeit with wider differences: 1.5% in 2008, 2.8% in 2009, 5.5% in 2010, 5.3% in 2011 and 3.7% in 2012. This translated in an EBIT of EUR 12.0 million in 2012, down by 29.6% in relation to 2011, which recorded the stronger EBIT figure amongst all the years under review. EBIT was affected by the same reasons explained above for EBITDA, and by adjustments in fair value and increase in provisions.

As far as financial expenses are concerned, 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 equity investment. These financial expenses have risen in average by 13.3% per year from 2009 (EUR 3.4 million) to 2012 (EUR 5.0 million). At the same time, financial income moved from EUR 2.2 million in 2008 to EUR 0.7 million in 2012, falling particularly in 2009 (by 43.5%) and 2012 (by 32.8%). This evolution was mainly driven by the decrease in interest rates, whilst the Group's average cash position tended to increase during the period. Financial result losses rose from EUR 1.6 million in 2008 to EUR 4.3 million in 2012. In 2012, the coverage of net finance borrowing costs by EBITDA stood at 3.6 times. This ratio stood at over 6 times from 2008 to 2010 and 5.1 times in 2011.

Effective tax rate fell from 47.4% of results before tax in 2008 to 37.4% in 2010, rising in 2011 to 38.2%, and then to 47.8% in 2012, due to a change in the taxation method legally required.

The Group's net profit has gradually improved over the past few years, from EUR 0.6 million in 2008 to EUR 8.4 million in 2011. On the other hand, in 2012, the drop in EBITDA and the impact of value corrections combined with an increase in provisions and higher financial result losses brought net profit down to EUR 4.3 million. Return on equity (excluding minority interests) increased significantly from 1.3% to 14% from 2008 to 2010, falling in the following years, before returning to above 6% in 2012. In relation to turnover, net profits evolved in the same direction, going from 0.3% in 2008 to 2.8% in 2010, and then dropping in 2011 and 2012.

The Group has a stable dividend distribution policy (distributing approximately EUR 1.2 million each year), except in an adverse environment that would justify its suspension, as was the case in 2008.

Financial Analysis

At the end of 2012, Groupe Réside Études recorded assets in the amount of EUR 299.0 million, of which EUR 164.5 million were non current assets (55.0% of the total), EUR 95.7 million were current assets (32.0% of the total) and EUR 38.8 million of positive cash position. The global volume of assets remained stable throughout the period under review.

However, important changes have occurred as concerns the breakdown of those assets: sharp rise in non current assets, which moved from EUR 98.7 million in 2008 (34.5% of the total) to EUR 164.5 million in 2012 (55.0% of the total); and, decrease in current assets down to EUR 95.7 million (32.0% of the total) from EUR 169.7 million (59.3% of the total). Figures, however, cannot be directly compared as since 2010, item trade receivables only records the amounts due as advances for works. Accrual information and other operating accounts will be found under liabilities.

The increase in non current assets is explained by a rise in net tangible assets, which moved from EUR 18.9 million in 2008 to EUR 46.8 million in 2012 (mainly strategic assets indispensable for the operation of the residences) and an increase in patrimonial assets, which rose from EUR 70.7 million to EUR 104.3 million (investment property). Gross tangible assets rose by EUR 41.5 million from 2008 to 2012 (of which EUR 10.9 million in 2012) and patrimonial assets (net of value adjustments) increased by EUR 26.1 million, of which EUR 10.1 million in 2012.

The drop in current assets derives mainly from a reduction in stocks, namely in intermediate products (from EUR 66.5 million in 2008 down to EUR 26.4 million in 2012) and a decrease in the trade receivables (by EUR 11.8 million from 2011 to 2012, standing at EUR 31.6 million). These drops were driven by a slowdown in real estate development activities. In fact, an active real estate development moves in line with an increase in stocks and the trade receivables.

TABLE 3.7.
CONSOLIDATED BALANCE SHEET OF GROUPE RÉSIDE ÉTUDES (THOUSAND EURO)

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

Notes: Figures rounded.
Accounts reclassified by CPR for analisys purposes.
(*) As from 2010, recognized net of deferred income associated to the sale of units, which was recorded as accruals and other operating accounts.

Sources: Groupe Réside Études Annual Reports.

Groupe Réside Études has a positive cash position, including treasury surpluses invested, but otherwise available as necessary. These treasury surpluses rose from EUR 18.0 million in 2008 to EUR 38.8 million in 2012.

The Group's equity have grown at an annual pace of 8.6% since 2008, thanks to the allocation to reserves of the results for 2008; of up to 85.0% of results from 2009 to 2011; and, of up to 71.9% in 2012. As result, in 2012 equity totalled EUR 67.0 million after dividend distribution. Réside Études carried out capital increases by incorporation of reserves and its share capital of EUR 1.0 million in 2010 has moved up to EUR 10.0 million in 2011 and then to EUR 30.0 million in 2012. The Management has already proposed a new capital increase by incorporation of reserves viewing to bring the share capital up to EUR 50.0 million in 2013, as mentioned above.

The Group's "equity / assets" ratio stood at 22.4% at the end of 2012 as against 16.8% in 2008. Given the importance of deposits and cash in the Group's balance sheet, note the "equity / corrected assets" ratio, which would be of 25.7% in 2012 (1.1 pp better than in 2011 and 7.7 pp above 2008).

During the period under review, the Group's stable liabilities went from EUR 76.3 million (26.6% of total assets in 2008) to EUR 132.2 million (44.2% of total assets in 2012). At the end of 2012, the Group's liabilities were made up as follows:

- EUR 111.7 million of medium and long term debt (EUR 97.2 million in 2011 and EUR 65.7 million in 2008);
- EUR 16.9 million of deferred tax liabilities (EUR 13.5 million in 2011 and EUR 9.3 million in 2008) as result of unrealised gains on assets recorded as profit and loss using the percentage of completion method; and
- EUR 3.6 million of provisions for charges (including EUR 1.1 million of potential losses concerning subsidiary CBM) and provisions for severance pay (EUR 2.5 million in 2011 and EUR 1.2 million in 2008).

In 2012, long term resources covered 66.5% of assets (improving by 7.0 pp over 2011 and by 22.9 pp over 2008). From 2008 to 2012, the increase in long term resources was sufficient to cover the financing of non current assets growth and expand working capital by EUR 8.2 million, which presently stands at EUR 34.4 million.

In 2012 working capital financed the needs in net working capital in the amount of EUR 20.4 million and provided a net cash position in the amount of EUR 14.0 million, which contrasts with 2008 and 2009 - important years for the real estate development of the Group.

This evolution in net working capital is a characteristic of the Group's dual business of development and management, the latter requiring capturing resources on a longer term. The importance of the development business segment in 2008 and 2009 led to an increase in short term financial debt, which declined afterwards. Taking into account the nature of its assets, the Group seeks to raise long term resources and this is seen in the extension of its debt maturities. Taking into account that financial debt increased by EUR 26.1 million from 2008 to 2012 (total of EUR 135.4 million), the long term share of the debt went from 60.1% in 2008 to 82.5% in 2012. The Group's debt repayment schedule at the end of 2012 was as follows: EUR 23.6 million (17.5% of the total) repayable or likely to be repayable in 2013; EUR 21.6 million repayable in 2014; EUR 18.5 million repayable in 2015; EUR 5.7 million repayable in 2016; EUR 5.0 million repayable in 2017 and EUR 60.8 million repayable in 2018 and beyond.

Note that debt requirements for development purposes reveals the importance of the efforts made in the field of real estate development but also the Group's promptness in relation to the advancing cycle of its real estate plans / programs (see section “business model”). Note also that the Group has to attract investors (most of which are private) to purchase the units and which will only start paying when the construction has already began. The banks with which the Group's real estate companies work require as prior condition to finance the ventures, a level of “prior marketing” of at least 40% and a level of equity to bring into the projected ventures of 10%-15% of the cost price according to the plans / programs. According to the Group, short term loans are seldom extended.

The increase in its positive cash position is deliberate as it is meant to prepare the company to forthcoming investments in the field of real estate development. This approach has allowed limiting to EUR 5.2 million the increase in financial debt since 2008 (it totals EUR 96.5 million in 2012), much lower than the rise in gross financial debt (by EUR 26.1 million). This is the reason why the Group's positive cash position exceeded by EUR 15.2 million the amount of its short term financial debt at the end of 2012. This provides a comfortable liquidity (liquidity risk indicator at 0%).

In 2012 Groupe Réside Études is working with a diversified pool of medium and small regional banks, which are willing to engage themselves in real estate development operations. As far as medium and long term bank debt is concerned, a significant part corresponds to the financing of social residences for students, which benefit from the support of Crédit Foncier de France. The Group's equity investment and management operations are made with several banks.

Floating rate debt of real estate development operations (at short term) is not covered by interest rate risk. The Group's medium and long term debt is mainly at fixed interest rate and where it has a floating rate, it is capped or covered by interest rate risk.

Insurance policies in force at the Group are those common for the business. These policies cover the risks deriving from the Group's activities, namely the mandatory ten year public liability insurance which must be subscribed by every building developer and contractor, damage insurance – mandatory for building developers and contractors, insurance guarantee for completion, professional liability insurance, the “Loi Hoguet” which covers real estate transactions, the sale of units under VEFA and resale, officers and directors liability insurance to protect them against civil liability claims deriving from their activity, construction manager insurances of subsidiary CBM, management activities insurance covering the Group's liability in this field and the equipment and furniture of managed residences and finally business interruption insurance (covering business interruption in the event of accidents and loss of rents), and other initiatives to secure cash flows. On par with this specific coverage, Groupe Réside Études holds insurance policies to cover its assets, and a multiple risk insurance covering up to their full reinstatement value.

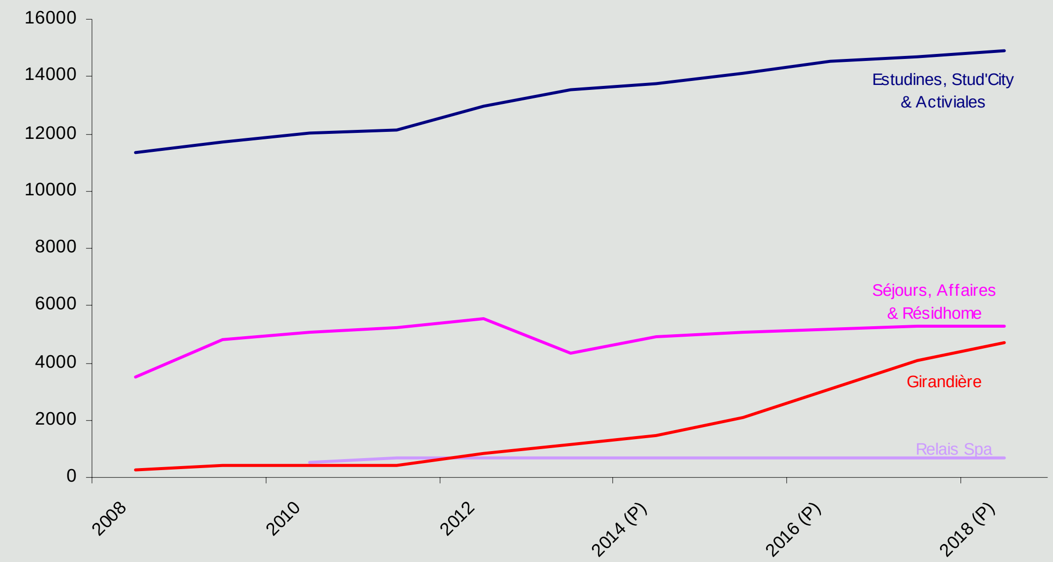
4. GROUPE RESIDE ÉTUDES - OUTLOOK

The Group has prepared its business plan for the 2013-2018 period based on a determined development strategy covering the three segments which make up its core activity. It focuses the senior business segment, which is the main axis for the moment. The development of this activity will take place firstly in France, where the Group operates for 24 years. This geographic positioning does not exclude, however, investments abroad if the opportunity should arise. Favourite countries would be Belgium, Switzerland and other neighbouring countries where Réside Études could intervene in the student residences sector.

As far as senior residences are concerned, the focus has been motivated by:

- an expected sharp rise in the number of senior people in the country: a population aged over 60 of 12.6 million in 2005 is expected to rise to 22.3 million in 2050 and to 24 million in 2060;
- insufficient supply of assisted residences in the country (less than 400 in France, as of this date), this being the sector where "La Girandière" operates; and
- a largely scattered supply in the sector where no operator has a really significant portfolio.

EVOLUTION OF ACCOMMODATION UNITS PER ACTIVITY



Source: Groupe Réside Études.

The Group wants to become one of the leaders in the management / operation of senior residences. To achieve this aim, it views to accelerate the opening of new residences by more than

10 per year as from 2014 (4 in 2013). These openings would provide a portfolio of 5 800 accommodation units at the end of 2018, as result of an annual average expansion of 38%.

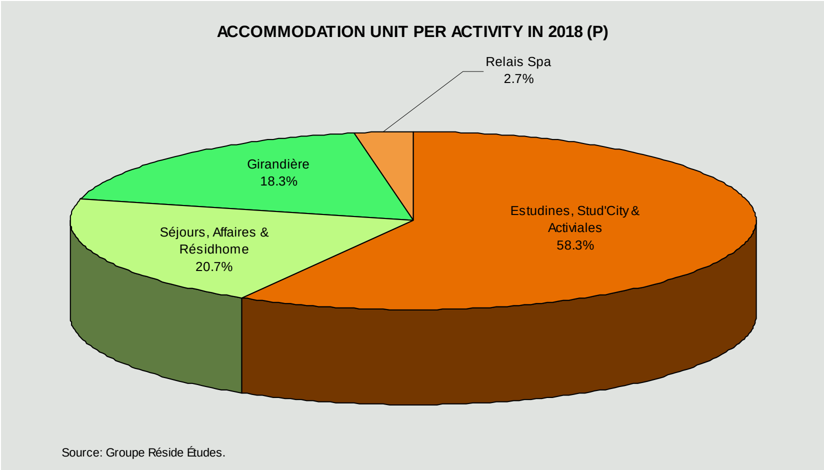
This development plan gives priority to a soundly controlled organic growth based on extensive studies on all the Group's markets in France. The location of new residences is therefore of paramount importance. They are based on two criteria:

- geographic areas with a high senior population density; and
- seniors' income level above average.

A certain number of locations have already been identified. In certain cases, the Group has land and administrative licences to build.

In what concerns the two other business cores of the Group (students and business tourism), they will continue to be developed during the 2013-2018 period, but at a lower pace than for the senior residences business.

All segments combined the Group banks on an annual average growth by 5% in the number of new accommodation units. Naturally, the expected development in the senior residences sector will result in an increase in its contribution to the Group's operating and management revenues, which should be of 25% in 2018. But even following this boost in senior residences, student residences will continue to account for a relevant slice of managed accommodations, estimated at 60% of total accommodations under operation in 2018. This more mature sector will continue to generate relevant and recurrent revenues for the Group.



Taking into account the lack of supply in the market, the Group expects to benefit from very high occupancy rates in student residences and a gradual increase in the two remaining segments. As far as senior residences are concerned, an important part of turnover stems from the use of rendered services, which are expected to grow steadily over the years. This results from the fact that habits grow more slowly in this population and because the need for services increases as the seniors living in the residences grow older. This evolution should also favour revenues growth as the senior segment model is largely based on a wide range of services offered. This aspect has already been pointed out as a main strength of the Group in relation to its peers.

The Group has already numerous projects under development: 6 senior residences, 5 Apparthotel residences, 4 student residences, i.e. a total of 15 plans / programs under construction, which should start operations in 2013/2014. Adding to these, there are 7 already being marketed. Two of these seven were co-developed (50/50). Moreover, the Group does not rule out the possibility of making small acquisitions (of goodwill or competitors') if the opportunity should arise.

To achieve its marketing goal of 1000 units per year as against the current 650 (over 50% increase), the Group will continue to strengthen its own commercial strengths, both upstream vis-à-vis potential investors and downstream vis-à-vis potential tenants. Réside Études will also open regional offices and does not rule out the possibility of developing marketing via networks, in line with the partnership recently entered with Primaxia to market 4 residences. The wholesale' block to institutional investors is another possibility, which has recently started being developed.

The Group's real estate projects are all selected based on minimum return on investment (before tax) goals of:

- 10% for the development activity; and
- 8% for the management / operation activity.

To face this rapid expansion, the Group views to issue a bond loan of EUR 50 million in the form of private placement. This operation will diversify and strengthen financing sources. The loan will also contribute to early repay an existing loan in the amount of EUR 15 million.

As the business plan management case shows, available funds will feed the Group's and its subsidiaries' treasury to cover provisional working capital needs arising out of the new plans / programs, particularly of those intended for seniors. Additionally, as already done in the past, the Group will be able to invest specifically and restrictedly in targeted assets.

This bond loan of Réside Études will take place in mid-July 2013. It will have 5-6 years duration, with a fixed interest rate and repayment “in fine”. It will be listed in Paris.

Taking into account the business plan projections prepared by the Group based on a set of conservative scenarios - taking namely into account the marketing deadlines for the plans (with impact on working capital needs) - the profitability and return on investment rates obtained show that the Groupe Résides Études should improve its cash flow position during the period under projection (2013-2018). However, a higher level of development of the project development activity will create higher working capital needs (which will nevertheless decline if plans / programs should be rapidly sold). Taking into account the diversity of banks with which the Group operates and its experience in this field, obtaining additional funding should not be a problem.

Even in an non anticipated environment of sharp slow down in units sales, the Group would be able to adjust by reining in the launching of plans / programs (namely as concerns senior residences). The Group has already experienced such slowdown in 2008, the goal being to adjust to the current economic environment. In such a scenario, cash flows for the 2013-2018 - period could be restrained but working capital needs would also be reduced. Dividend distribution would be limited, and finally the need for additional financing would decrease.

It is worth pointing out that in a crisis scenario, the Group has numerous assets, both patrimonial and operational assets that can be disposed of.

The Group is well aware of the opportunities and challenges that it will have to face in the forthcoming years. Figures show that the Group has been able to maintain a good balance between its mature business and activities undergoing development, without affecting its market reputation.

5. <u>CONCLUSION</u>

The concept of assisted residences brings a new solution to the problems raised by two structural evolutions in the French society: increase in its ageing population and increase in student population, against a background of scarce accommodation availability, particularly in urban areas where this evolution is more strongly felt. The concept thus benefits from solid demand fundamentals, even if economic and fiscal problems in France may result in a lower involvement and support from public authorities granted to both end users and investors.

All business sectors where the Group operates show strong potential for development, which naturally draws in new competitors that often have a strong financial back up.

Groupe Réside Études' "raison d'être" is to exploit this favourable environment and it is well positioned to do it taking into account:

- its size, both in absolute and relative terms (ranking 2nd in three business areas, with approximately EUR 2 billion worth of real estate assets under management);
- experience gathered in the real estate development and management fields since it was created back in 1989;
- its specialisation, as the Group remained focused on the assisted residences concept;
- its diversification in the application of this model;
- its ability to manage a fast growing business (residences under management have more than tripled over the last ten years);
- a solidly established reputation with investors, clients and partners; and
- a solid business model based on:
  - an in-depth knowledge of the markets;
  - thorough insight of the legal and tax framework;

- its own expertise in the whole real estate chain; and
- an integrated sales force, both upstream and downstream.

This economic model has allowed to transform a capital intensive activity into a lesser capital intensive business: although the total portfolio of assets under management is of approximately EUR 2 billion, the Group only retains in its balance sheet EUR 140 million, as result of the sale of residences to private investors that will then entrust the management of their assets to the Group for a period of at least nine years. This development was made easier by tax exemption measures adopted by successive governments, even in difficult fiscal environments as the current one.

This business model is run by an experienced and well seconded management team and the Group having taken the necessary steps to preserve the control of its capital, which together should ensure a stable and ongoing business activity.

The worse results recorded by its construction business (CBM) had an impact on the Group's profitability, however the Group has reacted well organising a planned close down of this subsidiary. The Group was also successful in finding a fair balance between its mature income-generating activities and activities undergoing development whilst continuing to generate positive results, even after having decided to bank on top range apparthotel residences (“Relais Spa”) which take more to reach break even.

At financial level, Groupe Réside Etudes has sought to adjust the duration of its debt to that of its projects, to be better prepared for more important investments, knowing that these investments may be used as collateral if needed. Furthermore, the Group holds a vast array of assets which it can use, should the need arise (branches, goodwill, land, patrimonial assets, etc.)

The medium term bond loan in the amount of EUR 50 million will be issued in July 2013. It will allow accelerating the development of the rental housing stock (mainly senior residences) and repaying an existing corporate loan of EUR 15 million. Investments that the Group is planning to make are based on comprehensive market studies, where the group has a solid experience.

Taking into account the scenarios drawn for the 2013-2018 period, this bond issue is thus the logical economic answer to face expected market growth and evolution.