GRUPPO SANPAOLO IMI

PAREF

French
Property

An original strategy as well as an eclectic mix.

IPO

Eurolist C

Capitalisation based on the price used for the capital increase
€50.8m

Free float:
38%

	Cash Flow (€m)	Cash flow net/share	Dividend (€/share)	Replacement NAV/share	Price/Cash flow	Yield	Price/NAV
2006	3,9	5,45	1,13	76,0	13,1	1,6%	94%
2007	4,7	6,64	3,52	80,4	10,8	4,9%	89%
2008	4,9	6,89	4,51	84,1	10,4	6,3%	85%
2009	5,0	7,09	4,79	87,7	10,1	6,7%	82%

Paref was born of successive initiatives by Hubert Lévy-Lambert, who with the support of AGF created a company managing '*SCPI's*' in 1991: Sopargem. The key part of this was Pierre 48, an *SCPI* investing in occupied residential property and founded in 1996. Paref opened in 1997 to invest in business premises, before taking over Sopargem in 2002.

Paref is now at the head of rental assets worth €29.4m, usufructs valued at €9.2m, development projects estimated at €4.1m and an *SCPI* management company with an estimated value of €4m.

- After raising €9.5m just lately, the plan now is to proceed with a €14.5m capital increase, which would allow the company to invest around €72m in 2006 to bring rental assets to nearly €100m. Growth may continue beyond this, either through tendering of assets for paper under the SIIC 2 regime or calls upon market.

- Paref's strengths are: a management division that is run by a small team, which does not weigh on rental profitability and with little no fixed cost gearing; a strong track record of profitability, which is evidently due not only to a favourable market but also the quality of staff; clear visibility regarding current assets for the next few years thanks to the time left on leases; and specific positioning, which raises hopes that the company will be able to identify quality investment opportunities despite the abundance of players chasing deals.

- Paref weaknesses are: poor stock market liquidity (market cap.), which at the beginning will be one of the smallest on the sector; the need to appoint a new chairman in the next few years as the founder is already 70; the exposure of their portfolio (€11m or 28%) to the more difficult segment of the suburban office market, although this exposure may be diluted through future acquisi; and the weight of new capital (cash) – nearly 50% – in the NAV, and therefore the risk concerning its use in a highly competitive market.

- The IPO will involve a capital increase alone. This will include 202,797 new shares priced at €71,50 each and accruing from 1 January 2005.

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IN THE BEGINNING THERE WERE SCPI's.

Paref was born of a series of initiatives on the part of Hubert Lévy-Lambert. Graduate of the Ecole Polytechnique, senior mining engineer and product of the CPA, he has worked in the public sector (assistant to the French government's forecasting department, member of the economic advisory committee) as well as the banking industry (Indosuez Bank, Société Générale, Ficofrance, chairman of Caisse Centrale de Crédit Immobilier).

In 1991, Lévy-Lambert founded Sopargem – an SCPI management company – with the support of AGF and Propierre 1, the first French domiciled SCPI investing in Israeli. Political developments in Israel and changes in this country's property sector prevented this fund from growing. In 1995, the French securities and exchange commission (then COB, now AMF) granted Sopargem the status of an SCPI manager. Success came with a second idea in 1996, with the creation of a SCPI invested in property subject to the 1948 protected housing law : Pierre 48. The Law of 1948 gives exorbitant rights to tenants, guaranteeing what is often a merely symbolic rent. Occupants rarely leave their homes before they die. Investing in this kind of property may appear very similar to an annuity scheme. The creation of a fund spreads the risk and smoothes income from the sale of emptied properties over time. The other benefit is tax related. The rental yield is symbolic and performance comes mainly in the form of a capital gain upon departure. As a result, these investments are of particular interest to high income tax payers. They are also suitable for people who already own rental assets. By purchasing shares in Pierre 48 on credit, they can create a property loss deductible from other rental assets.

In June 1997, Lévy-Lambert and a dozen associates founded Paref (Paris Realty Fund). This "commandité" company (vesting of management control and remuneration with a third party, typically a minority shareholder), divided into shares, aimed to construct a property portfolio with an emphasis on commercial property. The main partner was Parfond, under the control of the Lévy-Lambert family. Since then, Paref has adding to its portfolio, through the acquisition of buildings as well as usufructs; it also acts as a property developer. In 2002, Paref took control of Sopargem, gaining direct access to the staff of the same. Sopargem had already created a SCPI concentrating on shop premises in 1999: Novapierre. Amongst others, the group manages assets for Westbrook and Shelbourne.

In 2002, Paref launched a takeover bid for *Méhaignerie* SCPI's (a competitor) to take advantage of the bottleneck on the secondary market, which was affecting share prices. This was viewed as hostile and Paref backed down after acquiring no more than a small number of shares. In 2005, Paref abandoned its status as a "commandité" with a view to floating on the stock market.

Overall, Paref's directors have experience of acquiring property worth more than €300m in France.

PAREF TODAY: MANAGEMENT AND ASSETS

Paref now has a small team of 13, which carries out services (proprietary SCPI management) and investment activities (properties, usufructs, development).

Breakdown of main assets upon flotation (€m)

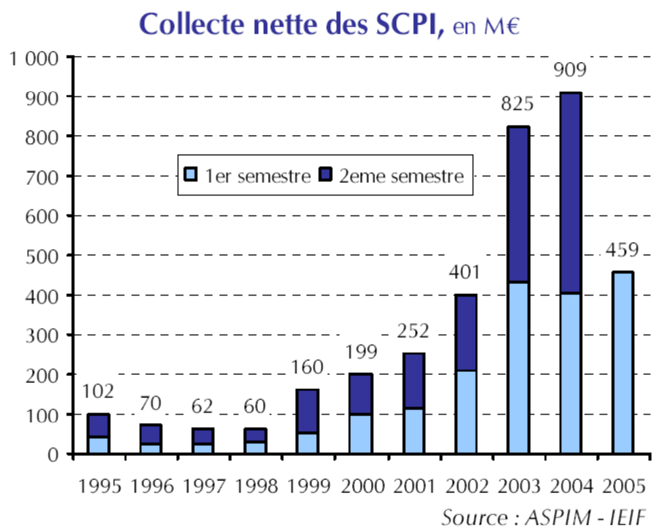
Rental assets		29,4
Usufructs		9,2
Management fees (Sopargem)		4,0
Trading assets (Parmarch)		4,1
Proceeds from capital increases		23,6
	Total	70,3

Services

- SCPI management

Sopargem manages three SCPI's: Pierre 48 (capitalisation of €111m) invested in housing; Novapierre 1, which owns shop premises, mainly in Paris (€17m); and Interpierre, previously named Propierre but recently converted into an office SCPI before being reopened (€2m). New investments in the SCPI market as a whole has been rebounding since 2003, after nearly 10 years of sluggishness following the property crisis.

Novapierre's new subscribed capital over the first half of 2005 amounted to €4m, compared with €1m in H1 04 and €5m in 2004 . The figures for Pierre 48 were €14m in H1 05, vs. €7m in H1 04 and €16m in 2004 .



With times difficult, the SCPI management market has become much more concentrated over the last decade. The 1980s saw a multiplication of operators in a period of healthy gains. However, the property crisis sounded the death knell for the smallest of these. With the exception of Crédit Agricole and BNP, network banks slowed down their activities, put off by the losses their customers suffered.

UFG was the catalyst for several mergers, creating a leader. These three operators – UFG, Crédit Agricole, BNP Paribas – alone account for 54% of outstandings. Sopargem occupies a niche and is ranked 13th on this market.

Collecte brute, collecte nette et capitalisation au 1er semestre 2005 par groupe
Par collecte nette décroissante

GROUPE	Collecte brute M€ (a)		Collecte nette M€ (b)		Capitalisation au 30/06 M€	
U.F.G.	117,87	19,8%	96,03	20,9%	2 972,52	24,7%
SOFIDY S.A.	74,68	12,6%	71,81	15,6%	639,77	5,3%
HSBC C.C.F.	47,86	8,0%	42,52	9,3%	312,91	2,6%
NATEXIS BANQUES POPULAIRES	50,49	8,5%	42,06	9,2%	783,71	6,5%
UNOFI	37,53	6,3%	35,46	7,7%	355,63	3,0%
GROUPE AGF	36,73	6,2%	32,34	7,0%	396,14	3,3%
CREDIT AGRICOLE	55,84	9,4%	28,07	6,1%	1 927,56	16,0%
COFRAG - GROUPE GPD	23,76	4,0%	16,49	3,6%	492,54	4,1%
BANQUE POPULAIRE ATLANTIQUE	17,98	3,0%	15,42	3,4%	173,38	1,4%
GROUPE BNP PARIBAS	36,05	6,1%	14,41	3,1%	1 476,92	12,3%
ADYAL	18,22	3,1%	11,81	2,6%	603,46	5,0%
SOCIETE GENERALE	14,24	2,4%	11,75	2,6%	234,48	1,9%
PAREF	11,99	2,0%	10,20	2,2%	129,16	1,1%
C.D.C.[1]	18,63	3,1%	9,53	2,1%	474,79	3,9%
FONCIA	9,47	1,6%	6,62	1,4%	286,07	2,4%
FIDUCIAL	5,71	1,0%	4,74	1,0%	107,76	0,9%
CABINET VOISIN	4,14	0,7%	3,63	0,8%	86,50	0,7%
CREDIT MUTUEL DE BRETAGNE / LOIRE ATLANTIQUE	3,89	0,7%	3,39	0,7%	69,99	0,6%
INTER GESTION	2,83	0,5%	2,71	0,6%	45,57	0,4%
UNION FINANCIERE DE FRANCE	6,51	1,1%	-	0,0%	280,56	2,3%
AUTRES	0,62	0,5%	-	0,0%	187,30	2,6%
TOTAL	**595,06**		**458,98**		**12 036,70**	

[1] CAISSE D'EPARGNE-POSTE-CAIXA BANK-ACTIGESTION — *Source : ASPIM - IEIF*

(a) émissions nouvelles + volumes échangés sur le marché des parts (b) émissions nouvelles

- Management on behalf of institutional investors

The company also manages on behalf of two important foreign institutional investors: Westbrook Partners since 1998; and Shelbourne Development since 2002. Contracts are renewed each year. Paref is researching new investment opportunities for these clients.

Adding properties belonging to SCPI's (€147m), Paref's buildings and usufructs (€51m after the acquisition at Les Halles) and the assets of Westbrook and Shelbourne (€85m), Sopargem manages total property assets of €283m.

- Property development

This business is largely associated with previously mentioned activities. It allows the acquisition of whole buildings and the sale of some units to the group's SCPI's and the remainder to individual buyers. An operation of this type is underway on Boulevard Beaumarchais with a building whose retail value is estimated at €4.4m, i.e. €4.1m excl. VAT on the margin. A hotel and a restaurant in Lisieux were recently purchased for €650,000.

Property developer status – actually held by the Parmarch subsidiary – enables the group to acquire assets without paying registration fees of 4.80%, on the condition that properties are quickly resold and VAT is paid on the proceeds. This VAT is not recoverable for sales of residential properties.

Assets

- Properties

Rental assets comprise eight properties – one of which is being sold – and another for which the purchase has yet to be completed. These are mostly offices and all are located in the Paris area. The average occupancy rate is 95%, with vacancies concentrated on Vitry.

- a 566m² property on Rue Danielle Casanova, close to Place Vendôme, let to BNP Paribas for €249,000 a year on a commercial lease maturing in 31 August 2012, and valued at €3.1m;

- a 58-room hotel on Rue du Helder near the Opéra Garnier. The lease runs to 30 June 2011 and rent is currently €241,000 per year. This building is also valued at €3.1m;

- a 1,048m² office building constructed in 1987 in the Paris Nord II zone, leased to the regional customs department on a contract expiring on 14 August 2005, for annual rent of €150,000. Negotiations to extend the lease are underway. The property is valued at €1.4m;

- a 3,684m² property built in 2000 in the Croissy-Beaubourg industrial centre (Marne la Vallée), leased to De La Rue Cash Systems for €283,000 a year on a contract expiring on 30 September 2008. The estimated value is €2.9m;

- a 2,204m² property built in 2001 at the Europarc industrial centre in Créteil. This is leased to MTS for €277,000 per year on a contract maturing on 31 December 2009. It was valued at €3m on 30 June 2005 (vs. €2.7m at the end of 2004);

- a 3,800m² office building on Rue de Bitche in Courbevoie. Club Med Gym wanted to terminate a lease running to 2010, with rent set at €608,000 per year. Paref agreed to this in March 2005 upon payment of €1,013,000 compensation, immediately agreeing to sell the property to a leading developer for €8,175,000 net, on the condition that planning permission could be obtained before 21 November 2005, then 21 December. The developer is in negotiations to extend the deadline. Should these fail, the building would be worth €7.4m according to the auditors, which is €775,000 less than the sale price and the value booked in the accounts under IFRS. The valuation (rent of €175/m² and yield of 8.5%) seems extremely prudent for offices just 500m from La Défense where rental values are almost double and yields are lower;

- a complex built in 1995 in Vitry on land covering 12,750m², including 2,250m² for an equipped industrial centre and 2,100m² of offices. The bulk of the centre (1,939m²) is leased to Art Cyl for €130,000 per year on a lease maturing on 30 September 2013. 866m² of the offices are let to various tenants for a further €109,000. The complex has been valued at €3.2m, without including the 'COS' floor space ratio of 2.25 that would allow the group to build another 24,000m² of industrial and office premises;

- 2,000m² of offices and shops leased to France Telecom in Les Halles district of Paris. A purchase agreement worth €12m was signed on 8 November 2005 and the deal should go through before the end of the year.

- Usufructs

Paref has acquired temporary usufructs lasting 5 to 10 years from various investors including Pierre 48 REIT, based on a total yield of 11%. This portfolio is now due to be spun-off into a wholly owned subsidiary. Paref also owns €794,000 of usufructs through Novapierre REIT.

Paref's investments at 30 June 2005

Location	Address	Ex-costs	Post-costs	
Residential usufructs				
Paris	Bastille	1 090	1 155	
Paris	Saint-Antoine	1 750	1 855	
Paris	Lafayette	710	753	
Paris	M. de Fontenay	800	848	
Paris	Botzaris	3 600	3 816	
	Total	7 950	8 427	
Business properties				
Paris	Danielle Casanova	3 100	3 286	offices
Paris	Helder	3 100	3 286	hotel
Croissy-Beaubourg	Vieilles Vignes	2 900	3 074	offices
Courbevoie	Bitche	8 175	8 666	offices
Tremblay- Paris Nord II	Bois de La Pie	1 400	1 484	offices
Créteil	Auguste Perret	3 000	3 180	offices
Vitry	Julian Grimau	3 200	3 392	mixed
	Total	24 875	26 368	
Trading				
Paris	Beaumarchais	4 099	4 099	
Usufructs from SCPI's				
	Novapierre	794	794	
	Total	37 718	39 688	

At the end of 2005, Paref held shares in the Interpierre SCPI worth €0.2m.

Shareholder structure

On the eve of flotation, the Lévy-Lambert family holds 39.54% of the capital and voting rights. Eight other shareholders, who represent 43.36%, have signed a pact with this family. Together, they represent 82.9% of the shares. After the capital increase, and assuming the issue is fully subscribed, the Lévy-Lambert family's holding will fall to 27.09% while that of the other pact signatories will drop to 29.71%, giving a combined ownership of 56.8%.

A shareholders agreement was reached on 27 October 2005 – on the proviso that Paref joins the stock market – for an initial duration of five years between the companies Parfond, Bielle, Anjou Saint Honoré, Gesco, SL1, L'œil écoute and Madar, and Messrs Hubert Lévy-Lambert, Jean-Louis Charon and Guillaume Lévy-Lambert. The companies MO 1, Saffia and Parunion joined this pact when the capital was increased on 17 November 2005. There is a commitment to retain shares held prior to flotation in the following proportions after flotation: 90% of original shares for 6 months, 70% for 12 months, 50% for 18 months and 30% for 24 months.

STRATEGY AND PROSPECTS

A niche strategy

Paref's aim is to:
- use leverage to invest in rental property, hopefully generating return on equity of more than 15% per year, capital gains included,
- manage capital on behalf of third parties, within specific niches.

Its strategy is to:
- create synergies between management and investment activities: divide up buildings, purchase usufructs, track the market and save on structural costs;
- concentrate on assets abandoned by other investors: usufructs, buildings worth €5m to €20m – too large for individuals, too small for institutions;
- attract equity under the SIIC 2 regime, which allows investors to enjoy a reduced tax rate of 16.5% on capital gains.

Expected returns should rule out residential property investment, except where development projects are concerned.

Given the €24m raised from two successive capital increases, the aim now is to acquire around €72m of assets to reach a total of €90m to €100m. Assets are currently concentrated on the Paris area but Paref has not ruled out the possibility of investing in the French provinces or abroad.

Paref is in negotiations regarding half a dozen projects: a single-purpose building in Paris (€10m), a diversified portfolio (€17m), a shopping centre in the Paris suburbs (€15m), a regional property portfolio (€7m), a residential portfolio in Paris (€15m share) and a business property portfolio in the Paris area (€26m). There are no guarantees on the outcome of these discussions.

The company will adopt SIIC status in 2006. This will exempt it from corporation tax in exchange for a commitment to pay out 85% of operating income and 50% of capital gains. The regime only applies to profits on rental properties. For Paref, this excludes earnings on proprietary management activities (Sopargem), property development (Parmarch) and usufructs. The exit tax payable on entry to the regime is estimated at €1.7m.

A light organisation

The Board includes Hubert Lévy-Lambert as chairman, and Alain Perrollaz. The latter, a graduate of ESSEC, worked as an auditor for 10 years before becoming a director of listed companies (CCF Elysées Bourse, Dynabourse, Cheuvreux), then head of DexiaPlus, a direct banking project of the Dexia group. In total, Paref has 13 employees.

SCPI management can only be entrusted to a company approved by the AMF. The Sopargem subsidiary received its “visa” in 1995. It manages properties on behalf of two institutional investors as well Paref. The Parmarch subsidiary looks after property development. For asset management, there is a separate company for each investment.

Financing

At 30 June 2005, Paref's debt amounted to 49% of the assets used in the calculation of NAV excluding potential transaction costs. At the moment, the debt is made of up of long term loans, generally of a 15-year term. Debt stood at €18,514,000 at 30 June 2005, i.e. less than half of the market value of the assets being financed. This credit is repayable over a long term, usually 15 years. The primary usufructs are financed at fixed rates of interest (outstanding capital of €4.4m). The remainder of the debt (€14.1m) is floating rate with caps until November 2009 if the Euribor rate climbs above 5%.

Prospects

Fourfold increase in assets over one year

Paref proceeded with a €9.5m capital increase in November 2005 and has plans for another €14.5m when it joins the stock market. Assets should soon climb towards a hundred million euros, representing a fourfold increase on mid-2005. An initial purchase is currently being finalised. The longer-term project is to develop Paref on a much larger scale. We think a step-by-step approach would be better rather than further calls for more capital, once equity has been invested in a satisfactory manner.

***OPCI* status should replace *SCPI* status in proprietary management**

SCPIs present several disadvantages and this has led to the birth of a new status, *OPCI*, which is more flexible. Its legal approval should come in the first half of 2006 with the first funds marketed within the next year. *SCPIs* may opt for this new status. Two forms are planned: *SPICAV*, for which tax will be similar to tradable securities; and *FPI*, which like the current *SCPIs* will be taxed in line with straight property investments. Sopargem envisages turning its *SCPI* into an *OPCI*.

We can assume that high street banks will immediately seize this reform as an opportunity to launch new savings products. Our fear is that this will result in a flood of capital at an inappropriate stage of the property cycle. The market is 'suffering' from excess capital, and this trend must not be fuelled, at the risk of a rude awakening.

As it is, the peaking of tax breaks per household does not concern Pierre 48, which comes under common law and may actually benefit as a result.

Reform will hit the trading business

The tax regime governing the property trading business had already been tightened in 2004 with a reduction in the time a building could be held. Furthermore, tenants' position was strengthened, extending the deadline for transactions. Last but by no means least, after the pseudo-scandal surrounding unit sales, legislation is being passed to deprive property traders of much of their supplies. Voting on the reform should take place in early 2006. The law would mean that when an entire building is sold, tenants can purchase their homes for a percentage of the total price, except for block buyers who would commit to then current rental agreements for another six years. The uncertainty surrounding this system could affect block sales. Pierre 48 could benefit.

Overall, profitability is satisfactory

Through the combination of service businesses, which require little equity, and highly profitable usufructs, rental assets and leveraging, Paref should generate a satisfactory level of profitability. By our estimates, 2007 cash flow (after IPO-related investments) should account for 8.7% of replacement NAV at the end of 2006. The company would thus become one of the best in the sector.

FORECASTS

Acquisitions

The stated target is to acquire properties, using debt to cover two thirds of the price. Given that €24m of capital will have been raised (€9.5m before flotation and €14.5m during), the investment programme will be €72m. The building currently being purchased is included in this total. We think the company will reach this target in 2006, with an average date of 30 June. The profitability forecasts are those of the company (7% net rent and 4.3% cost of borrowing). We support these as they are consistent with recent transactions and the rates achieved by other property companies. Subsequent changes to the capital (equity swaps, mergers, nominal share issues) have not been taken into account.

Assets held at the end of 2005 will be retained, with the exception of the building in Courbevoie, which is being sold in mid-2006 at the price set under current agreements, i.e. €8,175,000 after payment of compensation of 7% per annum.

Financing

Two capital increases will have been realised at the conclusion of this deal. The first, for €9.5m, before flotation, and the second, for €14.5m, upon flotation. At 31 December 2005 net debt will be equal to the total at 30 June minus earnings for the second half of the year, estimated at €0.8m, but with the addition of a €0.65m dividend payout. SIIC status discourages the company from holding cash as this is taxed. Accordingly, we think the balance will be optimised.

Rents

Rental properties held show a vacancy rate of 5% by value. From 2007, we think the nominal rate will drift towards that of the Ile-de-France office market, i.e. 6.5%. The cost of construction index has growth by an average of 3% to 5% in recent years due to various factors (steel and plastic prices, wage increases, civil engineering companies bringing their margins up to date, having moved from a situation of overcapacity until 1999 to one of undercapacity since). Over the long term, we note that this index has outperformed consumer prices by around 0.5% due to weak productivity gains in a highly labour intensive sector. The latest index to be published in October 2005 reveals a sharp deceleration with an annual increase of just 0.7%. We have assumed that, over time, index-linking will be 1.7%, which is more in line with traditional trends.

Rental overheads

To determine cash operating expenses (as opposed to allocations to depreciation and provisions), we have applied a ratio of 15% of rents, which is standard for companies specialising in business property. This includes not only costs that cannot be recovered from tenants but also charges on vacant premises and the share of head office expenses.

Sopargem's operating income

Sopargem generated net income of €495,000 in 2004, up from €267,000 in 2003. Pre-tax earnings came out at €775,000 (vs. €420,000) on sales of €2,509,000 (vs. €2,084,000). The operating margin was 31%, compared with 20% in 2003. We think management fees will cover payroll costs and that a small percentage of staff will be devoted to subscription selling. As such, profitability would primarily result from new subscription fees. 2005 earnings should be up sharply as costs are mostly fixed and sales had leapt 55% over the 12 months to 30 September. If we assume that Q4 05 will be similar to Q4 04 and that there will be a gross margin of 40% on sales, 2005 operating income would come out at €1.2m. The disappearance of tax shelters is likely to benefit Pierre 48 but we think French house prices are high. A stagnation or even fall in this market could restrict income. As a precaution, we have assumed future operating income of €1m, slightly below the level of 2005. Operating costs should rise only moderately when the company joins the stock market as Paref already values its own assets, carries out an in-depth revision of its accounts and publishes an annual report.

For SCPI’s, subscription fees are usually high at around 10 % of capital collected (8% excluding tax for Sopargem). This rate applied when SCPI’s started out in the 1980s, when interest rates were 10% or more. Today, this level of commission – without mentioning sale costs – represents three years of bond returns. We think there is a risk of this rate eventually dropping.

Usufructs

The income figure above is net of costs. These are shared in a particular way between owner and usufructuary, enabling Paref to enjoy lower than average costs for the sector. The occupancy rate of 97% is assumed to be constant. It is the same as that observed for several years among residential property companies in Paris. Where income of finite duration is concerned, the accounts must amortise the capital to 0. For property usufructs (valued at €8m), we have drawn our calculations up on the basis of a discounted rate of depreciation. For SCPI usufructs, the high number of lines (37) for a small amount (€0.75m in total) has led us to use linear depreciation.

Trading

We have assumed that the more trading business will continue at a modest volume, with the equivalent of a Boulevard Beaumarchais type property every two years (for example, a small Haussmann style building for €4m with a 15% pre-tax margin, i.e. €300,000 per year. For 2006, this income has not been included in the forecasts as it already forms part of the NAV calculation).

Distribution policy

We have assumed distribution will respect the following rules:

- payout of more than 85% of consolidated SIIC income (in practice, this requirement is calculated on the basis of individual company accounts, so there may be a temporary difference with the consolidated calculation),
- payout lower than French GAAP result (legal constraints, calculation also based on individual accounts in reality on ‘social’ accounts),
- annual dividend growth in line with sector trends,
- around 70% of cash flow paid out, similar to the rest of the sector,
- total gearing of under 60%.

NAV

NAV at 30 June 2005

Under IFRS, NAV stood at €19.4m on 30 June 2005. Building values exclude latent transaction costs, while provisions are made for tax liabilities on unrealised capital gains. This gives us a liquidation NAV. To obtain a replacement NAV, we should add back said transaction costs (€1.5m except for Courbevoie, which is being sold, and so the ex-costs figure is used) and deferred tax liabilities (€1.6m on Sopargem and €3.9m on properties) of €5.4m. Using an identical method, replacement NAV comes out at €26.3m.

NAV at 31 December 2005

We have set the base for calculating net assets at 30 June, making the following adjustments.

- **Sopargem**'s valuation, which we consider modest under IFRS, has been revised to 3.3x operating income estimated for 2005, 4x assumed recurrent operating income or 6x post-tax earnings. We have therefore assumed a valuation of €4m, which is €1m higher than the book value.

- **Assets** are included at their value in the accounts at 30 June. This reduces the valuation as business property inflation seems to have accelerated in the second half of the year. The valuation has been drawn up excluding latent transaction costs. For the replacement value, we have estimated the said costs at 6%.

Summary of forecasts

P&L			2006	2007	2008	2009	2010	2011
Rents, lfl basis	1,70%		1,74	1,45	1,45	1,46	1,46	1,46
Rent from acquisitions	1,70%	7%	2,52	5,08	5,17	5,26	5,35	5,44
Total rent			4,26	6,54	6,62	6,71	6,80	6,90
Usufruct income			1,59	1,61	1,63	1,64	1,65	1,67
Usufruct depreciation			0,85	0,95	1,04	1,13	1,22	1,32
Usufruct interest			0,74	0,66	0,59	0,52	0,43	0,35
Trading profits			0,00	0,30	0,30	0,30	0,30	0,30
Prov.for dep., latent tax	1,40%		0,83	1,29	1,30	1,31	1,32	1,34
Cash rental costs	15%		0,64	0,98	0,99	1,01	1,02	1,03
Sopargem op. income	1,70%		1,00	1,02	1,03	1,05	1,07	1,09
Operating income			5,36	7,53	7,56	7,58	7,59	7,60
Financial income	4,30%		-0,91	-2,16	-2,02	-1,92	-1,81	-1,69
"SIIC" earnings			2,71	3,40	3,61	3,79	3,97	4,17
Income tax ex-"SIIC"	33,3%		0,58	0,66	0,64	0,62	0,60	0,58
Change in fair value			0,27	0,91	0,92	0,93	0,94	0,95
Net cash flow			3,87	4,71	4,90	5,03	5,18	5,33
Net income under IFRS			4,14	5,63	5,82	5,97	6,12	6,28
Net income under French GAAP			3,04	3,43	3,60	3,72	3,85	3,99
Distribution								
Distribution (n-1)			0,8	2,5	3,2	3,4	3,6	3,8
Dividend/SIIC income			92%	94%	94%	95%	96%	96%
Dividend/results French GAAP			82%	93%	95%	97%	99%	100%
Dividend/cash flow			65%	68%	69%	72%	73%	75%
Balance sheet								
Properties less transaction costs	1%	27,3	91,4	92,3	93,2	94,1	95,1	96,0
Acquisitions		0,0	72,0	0,0	0,0	0,0	0,0	0,0
Disposals		0,0	8,2	0,0	0,0	0,0	0,0	0,0
Financial debt	4,50%	-9,5	49,9	46,0	43,8	41,5	38,9	36,1
Cash flow		0	0	0	0	0	0	0
Debt (%)			55%	50%	47%	44%	41%	38%
NAV								
Replacement NAV		50,6	54,0	57,1	59,7	62,3	64,8	67,3
Liquidation NAV		47,6	46,6	49,7	52,3	54,9	57,4	59,9
Data per share								
Average number of shares			0,710	0,710	0,710	0,710	0,710	0,710
Number of shares at end		0,710	0,710	0,710	0,710	0,710	0,710	0,710
Net cash flow			5,45	6,64	6,89	7,09	7,29	7,51
Dividend			1,13	3,52	4,51	4,79	5,07	5,35
Replacement NAV		71,3	76,0	80,4	84,1	87,7	91,2	94,7
Liquidation NAV		66,9	65,6	70,0	73,7	77,3	80,8	84,3

However, we have revised the valuation of the Vitry site. This holds important land reserves with the potential for another 24,000m² of buildings, the external valuation ignores this, taking into account only the level of income and the per-metre value of the buildings. We have assumed the construction of 3,000m² of industrial premises rented at €90 for a cost of €700 excluding taxes. Assuming a yield of 8.5%, the terminal value would be €1,060 per metre, i.e. €3.17m at a cost of €2.1m, implying an uplift of €1.07m. Discounted at 15% for 18 months, the current value would be €0.88m.

- We tested the value of **usufructs** by making our own calculations based on discounted cash flow. They assume a yield of 8% on flows based on occupancy of 100%, which seems unlikely. We prefer to use the current, more realistic, occupancy rate, of net flows indexed at 1.7% per annum and a yield of 7.5%. For the five buildings, this produces a value of €8.39m, almost identical to the valuer's estimate (€8.43m).

- **Property trading** is not included in NAV beyond the latent profit on buildings held as trading assets. We feel that a small business without any reserves could not be sold separately. Moreover, the current tightening of conditions for splitting apartment blocks up and selling flats individually could weigh on the market. More than anything, it is a way of improving volumes and purchase prices. The underlying margin is considered to be the difference between a unit based valuation (€4.4m) minus VAT on the profit (€300,000), and the book value at 30 June 2005 (€2,864,000), i.e. €1,235,000. From this we subtract corporation tax (€411,000) to leave a net margin of €822,000.

- Adoption of SIIC status will require the payment of an **exit tax** in exchange for the return of provisions for deferred tax liabilities. The latent tax liability of €3.9m will be replaced by an exit tax of €1.7m.

- The value at 30 June is increased for H2 earnings, estimated at €0.8m net, but reduced for the payout of €0.65m. The two capital increases at the end of 2005 represent gross income of €24m, minus flotation costs (€1m) and capital increase expenses (€0.5m), which themselves are reduced by a third after taking tax into account.

Determination of NAV
(€k)

Net book value at 30/6/2005	**19 402**
Deferred SIIC taxes	3 905
Exit tax	-1 654
H2 05 profit	800
Interim dividend	-648
Latent cap. gains on trading property	823
Net cost of IPO & capital increase	-956
Vitry land bank	880
Sopargem revaluation	1 000
Capital increase pre-IPO	9 500
Capital increase with IPO	14 500
Liquidation NAV at 31/12/2005	**47 552**
Other deferred taxes	1 606
Transaction costs	1 479
Replacement NAV 31/12/2005	**50 637**

VALUATION

Breakdown of capital

Upon flotation, the capital will include 507,482 existing shares and 202,797 new shares, although the latter figure could rise to 233,216. After the operation, the capital will include 710,279 shares, or 740,698 if the extension clause is activated. There are no other options oustanding

Change in the number of shares over 2005 before the IPO:

- capital increase to remunerate the partner, leading to the creation of 11,000 new shares before division,
- twofold division of the share,
- reserved capital increase involving the issue of 147,630 shares at a price of €64.35 each.

Risk profile

Paref's strengths are:

- a management structure that guarantees the presence of a small team, which does not weigh on rental profitability but may prove lucrative if income continues to rise,
- a strong track record of profitability, which is evidently due not only to a favourable market but also the quality of staff,
- clear visibility regarding current assets for the next few years, thanks to maturities of existing leases
- specific positioning, which raises hopes that the company will be able to identify quality investment opportunities despite the numerous buyers of assets.

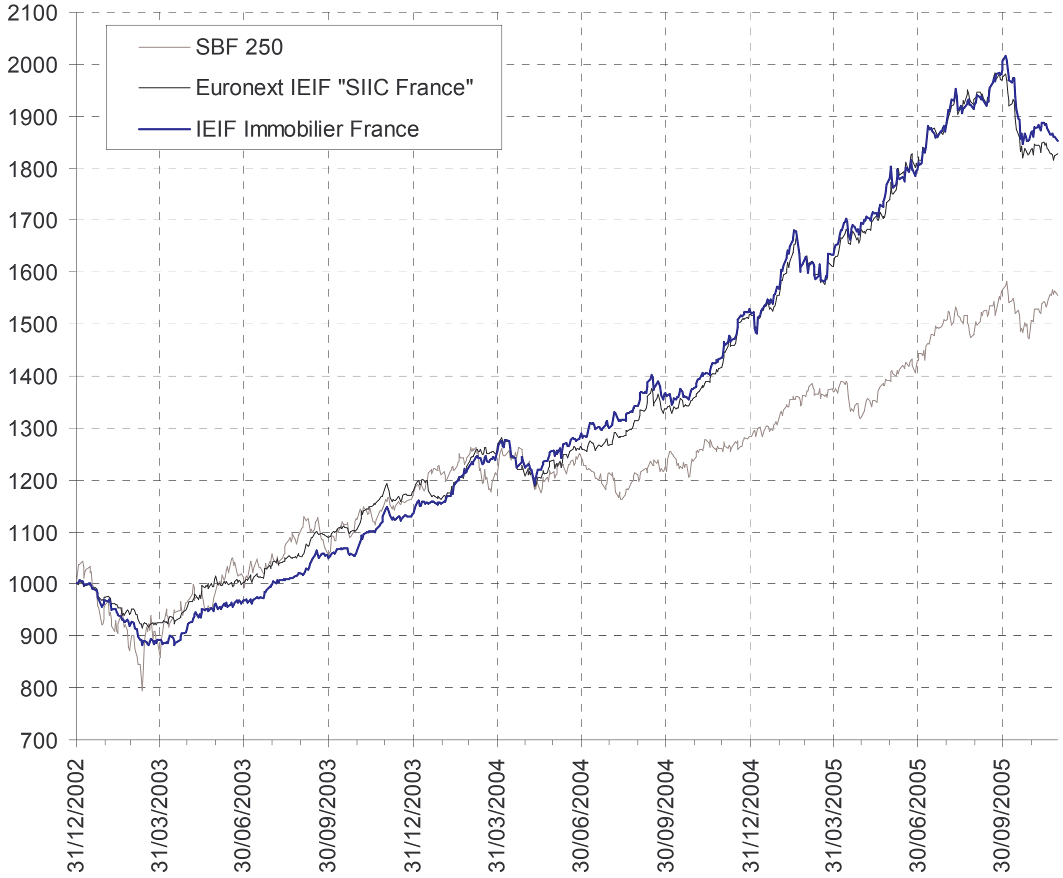
Paref's weaknesses are:

- poor stock market liquidity attached to small capitalisation, which at the beginning will be one of the smallest on the sector;
- the need to appoint a new chairman in the next few years as the founder is already 70;
- the exposure of current assets (€11m or 28%) to the harder segment of the suburban office market, although this exposure may be diluted through future acquisitions;
- the weight of new capital – nearly 50% – in NAV, and therefore the risks concerning their exact use in a highly competitive market.

Stock market environment for the sector

In 2005, the share price of French property companies continued the strong growth that began in 2000, with a 20% increase (source: IEIF). Since the end of 2002, shares in SIICs have risen 83% while the SBF 250 index has gained 55%. The climb was constant until the end of September, up to which point the sector had climbed 31%, but there has since been a dip of 8%.

One might attribute this success to the launch of the SIIC regime. The reform certainly had a positive one-off effect of around 10% when it was announced in late 2002. For the rest of the period, however, French property companies have merely followed the global trend, which has touched Europe as well as the United States and Asia. It has come about as a result of investors returning to high-yield securities, through dissatisfaction with large cap equities and a desire to offset the drop in bond yields. After years of decline, tightening of long-term interest rates has now put an end to this trend. This is true at an international level as well, as shares in US property companies have fallen 6% since peaking in July. For a more detailed review and more in-depth forecasts of the property sector, please refer to the *Guide to Listed Property Companies*, published by Fideuram Wargny in September 2005.



Base 1000 au 31/12/2002

Method

The intention here is to determine a neutral share price after Paref is listed. This property company is notable in that when it is floated, it will present a high proportion of new equity already earmarked for investment. Although the forecasts that we have made seem plausible, we should consider the risk posed by the uncertainty surrounding them. The same price cannot be assumed for a company with similar forecasts but which has already established its assets.

Paref will be one of the smallest listed property companies. It is normal to consider that liquidity reduces risk. As such, we should apply a discount on the ratios of smaller companies. The stock market environment currently has overturned this norm – all sectors combined – and smaller companies now have better multiples than CAC 40 companies. Nevertheless, it seems prudent to bear the previous valuation cycle in mind.

- DCF

The following calculation is based on dividend forecasts as shown in the accounts. Beyond 2011, we have assumed annual rental growth of 1% and reinvestment of cumulated cash flow, with debt of 50% at interest of 4.5% and assets yielding 6.5%. This implies annual growth of 2.5% on this horizon. The valuation uses the first fifty years of dividends.

Paref valuation with dividends discounted at different rates (€m)

Rate	5,5%	6,0%	6,5%	7,0%	7,5%	8,0%	8,5%	9,0%	9,5%	10,0%	10,5%	11,0%	11,5%
Valuation	86,7	79,2	72,6	66,9	61,8	57,3	53,4	49,8	46,7	43,8	41,3	38,9	36,9

Which discount rate should we use? The risk-free rate (10-year OAT) is 3.5% and the risk premium on listed French companies is estimated at 4.9%, giving a total return of 8.4%. Beta on the real estate sector has traditionally been very low, sometimes even negative for some companies. A strict application of this beta would assume very modest expected returns. We have rejected this method as it relies on the premise that the past stock market volatility of a sector influences its future volatility. As far as Paref is concerned, it seems that the risk is greater than the sector average given the free float upon flotation and the narrow liquidity of the shares.

We think expected returns will be similar to the equity market average of 8.4%. However, they are unlikely to exceed 10%. Indeed, the main risk lies in the difficulty finding investment opportunities. Failure would be synonymous with a price increase, which benefits assets in place, and there would be nothing to prevent the redistribution of capital that had become surplus. The valuation range is between €43.8m for 10% profitability and €54.1m for 8.4% profitability. The average of these is €48.9m, implying a yield of 9.15%.

- Bates method

This gives us a better idea of the relative profitability of property companies over time. It takes into account investment pipelines or, on the other hand, the effect of low profitability. It consists of determining the future value of the company and discounting it. As it is, property companies offer visibility over earnings and dividends for the next five years, either because of the quality of assets – mainly for large property companies – or fixed leases, which bind the tenant. Also on this horizon, NAV should again rise above current prices, raising fresh hopes of a takeover. Both these arguments suggest we should be valuing the company on the basis of forecasts for the period up to the end of 2010, albeit with reservations about the most distant figures.

For other property companies, we have assumed that intermediate dividends will be predictable and can be discounted at 5%. The terminal value is considered to be equal to replacement NAV at this date. For Paref as for other property companies, this figure is the sum of current NAV, a partial accumulation of cash flow and the increase in values in line with index-linking of 1% per year.

The great unknown is the discount rate of this terminal value. We have drawn up a similar calculation for the leading property companies, the result of which appears in the table below.

Implied returns under the Bates method
Price on the basis of 2010 NAV in May 2011, dividends for 2005-2010 discounted at 5%

Company	Affine	Bail Inv.	Cofinimmo	Corio	ECP	F. Lyonn.	FDR	Gecina	Klépierre	Rodamco	Silic	Tour Eiffel	Unibail
Price	91,2	39,0	130,9	47,5	30,5	44,2	85,5	91,6	78,8	66,6	77,7	86,0	110,2
IRR	8,6%	10,5%	5,6%	6,2%	9,0%	7,3%	6,2%	10,7%	9,7%	7,6%	10,2%	10,6%	8,3%

The range of yields seems very broad, from 5.6% for Cofinimmo to 10.7% for Gecina. This is only partly due to the different return on equity, which can determine whether or not the price will display a premium on a 2011 horizon. The average of the five property companies closest to Paref (Affine, Bail Investissement, Foncière des Régions, Silic and Tour Eiffel) is 9.2%.

Given Paref's small size and the scale of future investment, the company must offer a higher return than these other companies, i.e. at least 10.7%. We have assumed a yield of 10.9%. Valuing Paref using this method would give a total of €48.4m yielding 10.9% and a range from €48.9m yielding 10.6% to €58.25m yielding 6.2%. The method does Paref no favours as the implied profitability on certain other companies is high in relation to the market risk premium.

- Peer comparison, based on NAV

Paref stands out from other property companies as it operates in several areas. That said, the property business and proprietary management activities can already be found together at Klépierre, Foncière des Régions and, to a lesser extent, Foncière Lyonnaise. Abroad, Pirelli & C° Real Estate is most active in the second domain.

The approach here is to consider Paref in terms of the sum of the parts:

1° disposable equity. This is valued at nominal worth on the grounds that the expected return on a project is in line with investors' profit requirements. It is worth noting that no French property company has been floated at a price above NAV. The most comparable company would be Foncière Masséna, which raised some €20 million in December 2004 on a prior capitalisation of €8m, without assets but with an agreement to buy a portfolio of shop premises.

2° the property side is similar to that of other companies. We think certain features of Paref may justify a discount of 10% on the multiples of established companies. These multiples are shown below. In the category of property companies with rental assets, the premium comes out at 8% on 2006 replacement NAV and 16% on liquidation NAV.

2006 multiples of the leading property companies

Company	Net cash flow	Net yield	Rep. p/NAV	Liq. p/NAV	Price (€)	Capi. (€m)
Property companies specialising in rental properties						
Foncière des Murs	13,9	4,13%	108%	114%	67,00	418
Foncière Masséna	16,6	NS	104%	114%	9,82	38
Tour Eiffel	12,6	4,77%	110%	116%	86,00	218
Affine	15,1	4,72%	110%	118%	91,15	235
Bail Investissement	12,8	4,95%	107%	114%	38,99	1 374
Foncière des Régions	13,4	4,33%	116%	128%	85,45	1 479
Silic	14,2	4,72%	99%	105%	77,70	1 346
Weighted average	**13,5**	**4,62%**	**108%**	**116%**	**Total**	**5 109**
Property companies specialising in rarer buildings						
Cofinimmo	16,4	4,81%	115%	142%	130,90	1 237
Corio	14,7	5,39%	118%	123%	47,49	3 194
Eurocommercial Prop.	19,6	5,14%	107%	115%	30,53	1 052
Foncière Lyonnaise	17,1	5,32%	102%	108%	44,19	1 900
Gecina	17,5	4,80%	96%	103%	91,60	5 689
Klépierre	15,4	3,43%	105%	113%	78,75	3 635
Rodamco Europe	16,9	5,11%	112%	126%	66,55	5 965
Unibail	18,0	3,86%	114%	122%	110,20	5 016
Weighted average	**16,9**	**4,63%**	**108%**	**118%**	**Total**	**27 688**

For Paref, we can isolate NAV from the value of buildings owned, at around €15m (replacement cost) This share implies RoE of around 9%. After dividend, this NAV would be worth €15.75m at the end of 2006. By applying a stock market discount of 8% and a specific discount of 10%, this share of assets would be worth €15.5m. The premium is therefore €0.5m.

3° usufructs. Expected returns are high, and a valuation in line with their valuation is reasonable. A premium is not necessary as it is a short-term flow. Besides, a discount rate of 6%

instead of 7.5% would only increase the value by €0.4m. We are therefore maintaining the value used in NAV.

4° Third Party Management: The earnings multiple implied by NAV is low (6x) and value at introduction is likely to be efficient. The market applies higher multiples to almost all listed companies – all sectors combined – but these are much larger companies.

Overall, the application of this rationale leads us to believe that the target price could be replacement NAV with a premium of €0.5m, i.e. €51.1m.

In using this method, we assume that the Paref share price will rise as and when investments proceed, to catch up with the premium on sector NAV, weighted for the liquidity risk.

The different methods can be summarised as follows:

Discounted dividends	from €43.8m to €54.1m
Bates method	from €48.4m to €58.2m
Peer comparison based on NAV	€50.6m
Capitalisation based on capital increase price	€50.8m

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The intention with this document is to present Paref as it joins the Eurolist on the Euronext Paris market. We draw your attention to the fact that Banque Privée Fideuram Wargny is the company's bank for the operation. This document does not include any stock market recommendation.

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