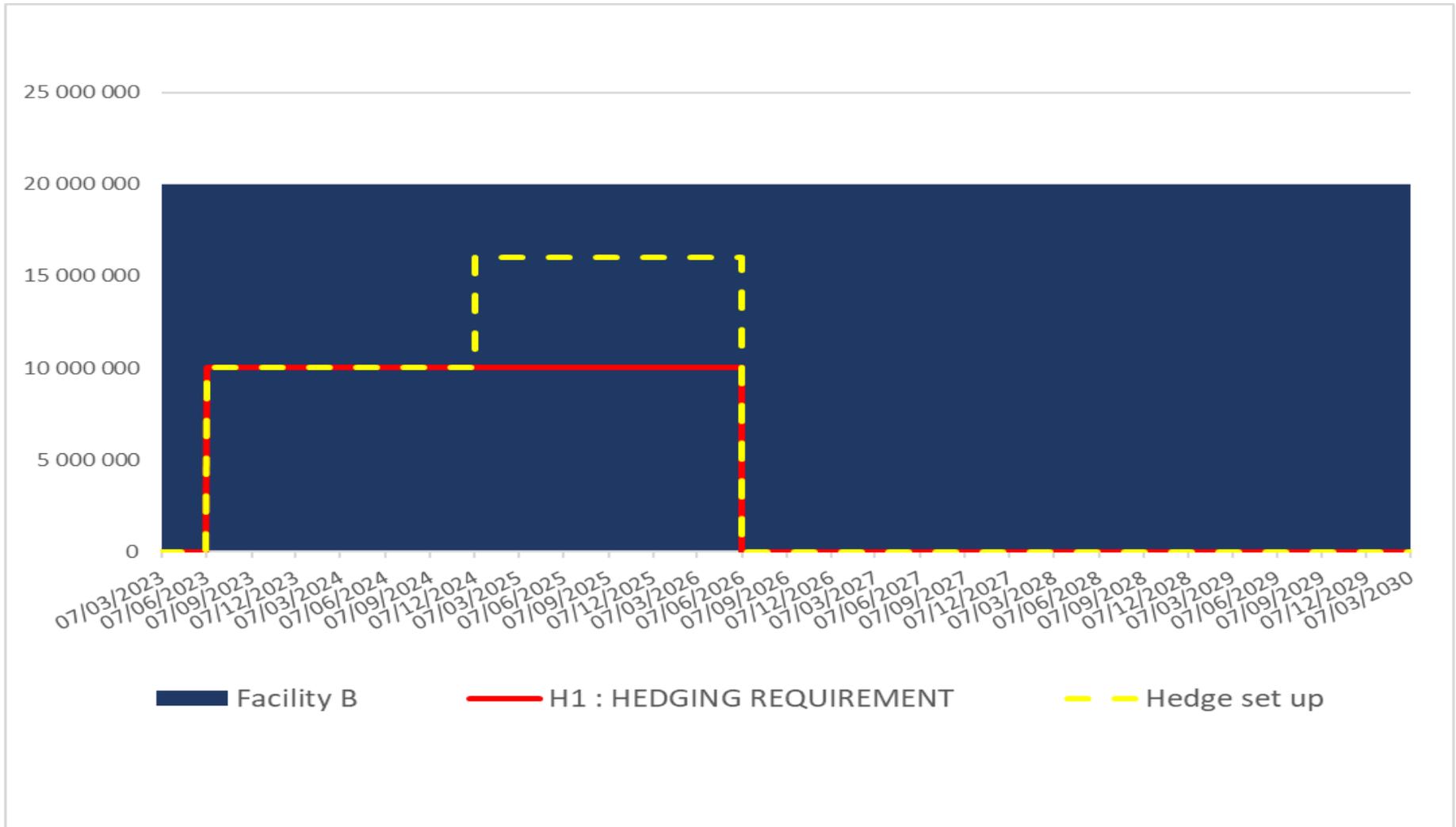


Hedging Interest Rate Risk Final Report

20 June 2023

- ❑ New hedge set up on a 3-year horizon to mitigate the sensitivity of the group to interest rates variations, including the impact of negatives rates with the Cash Flow Hedge objective.
- ❑ A cap with a protection rate (strike) at 3% has been set up to limit the financing rate on the hedged part. Those products take into account the 0% floor on the debt.



- Hedge set up: Purchased Cap 3% for 3 years.
- Banking split : CIC 100%

Hedging Requirement:

1.1 The Parent shall ensure that the Minimum Hedging Requirements (defined below) are satisfied within ninety (90) days from (and including) the Closing Date.

1.2 The Parent will ensure that:

(a) Hedging Agreements are entered into by the Facility B Issuer for the purpose of hedging the interest rate exposure in respect of **50% of the aggregate principal amount** (not including any capitalised or deferred interest) at any time outstanding under Facility B, (the "Minimum Hedging Requirements");

(b) all agreements documenting the Minimum Hedging Requirements shall comply with the requirements of the Intercreditor Agreement in all respects; and

(c) Hedging Agreements satisfying the Minimum Hedging Requirements are in place at all times until **the third anniversary of the Closing Date** (the "Required Hedging Period").

1.3 The Facility B Issuer may enter into interest rate hedging and exchange rate hedging in respect of any Notes issued under Facility B by way of Hedging Agreement(s) for any period longer than, and in respect of notional amounts greater than, the Required Hedging Period and the Minimum Hedging Requirements (respectively) if any such hedging agreement is not entered into for speculative purposes.

1.4 It is acknowledged that individual hedging transactions may have any maturity agreed by the Facility B Issuer and may therefore have a maturity earlier than the expiry of the Required Hedging Period.

1.5 For the avoidance of doubt the Facility B Issuer, at its own discretion, may enter into any Treasury Transaction (as defined in the Notes Purchase Agreement) in addition to any hedging arrangement entered into to comply with the terms of this Hedging Letter.

1.6 The Facility B Issuer may reduce or close out the notional amount of hedging arrangements to which it is party from time to time provided that it remains in compliance with the Minimum Hedging Requirements and all other obligations under this Hedging Letter. → **07/06/2023**

Hedging counterparty: LCL, Crédit Mutuel

Financing: (EURAZEO, IDINVEST) Senior Facility of **€32'000'000, dated 07/03/2023**

- **Facility B: €20'000'000**, bullet amortization, maturing 07/03/2030, **floor 0%** on Euribor 3 mois + 8,00%.
- **Capex and Acquisition Facility : €10'000'000** Not taken into account in the analysis
- **Revolving Facility : €2'000'000** : Not taken into account in the analysis

Product	: Cap with Premium
Strike price	: 3%
Trade Date	: 06/19/2023
Start Date	: 06/07/2023
End date	: 06/07/2026
Index	: Euribor 3 Months
Base	: ACTUAL/360

CIC Hedge

Notional Principal : € 10,000,000 amortization as set out in the table

Annual Premium to pay on a quarterly basis until 06/08/2023 : **0.80%**, corresponding to an upfront premium of **€ 316,578**

Premium to be paid

Fixing	Start	End	Payment	Notional	Premium to be paid	Remaining to be paid in case of settlement
2023-06-05	2023-06-07	2023-09-07	2023-09-07	10 000 000	20 444	-296 133
2023-09-05	2023-09-07	2023-12-07	2023-12-07	10 000 000	20 222	-275 911
2023-12-05	2023-12-07	2024-03-07	2024-03-07	10 000 000	20 222	-255 689
2024-03-05	2024-03-07	2024-06-07	2024-06-07	10 000 000	20 444	-235 244
2024-06-05	2024-06-07	2024-09-09	2024-09-09	10 000 000	20 889	-214 356
2024-09-05	2024-09-09	2024-12-09	2024-12-09	10 000 000	20 222	-194 133
2024-12-05	2024-12-09	2025-03-07	2025-03-07	16 000 000	31 289	-162 844
2025-03-05	2025-03-07	2025-06-09	2025-06-09	16 000 000	33 422	-129 422
2025-06-05	2025-06-09	2025-09-08	2025-09-08	16 000 000	32 356	-97 067
2025-09-04	2025-09-08	2025-12-08	2025-12-08	16 000 000	32 356	-64 711
2025-12-04	2025-12-08	2026-03-09	2026-03-09	16 000 000	32 356	-32 356
2026-03-05	2026-03-09	2026-06-08	2026-06-08	16 000 000	32 356	0

Running premium	0,80%
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Total to be paid	316 578
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FIXING DATE	START DATE	END DATE	PAYMENT DATE	Facility B		TOTAL DEBT	H1 : HEDGING REQUIREMENT	Hedge set up
				Amort.	CRD			
2023-03-03	2023-03-07	2023-06-07	2023-06-07	0	20 000 000	20 000 000	0	0
2023-06-05	2023-06-07	2023-09-07	2023-09-07	0	20 000 000	20 000 000	10 000 000	10 000 000
2023-09-05	2023-09-07	2023-12-07	2023-12-07	0	20 000 000	20 000 000	10 000 000	10 000 000
2023-12-05	2023-12-07	2024-03-07	2024-03-07	0	20 000 000	20 000 000	10 000 000	10 000 000
2024-03-05	2024-03-07	2024-06-07	2024-06-07	0	20 000 000	20 000 000	10 000 000	10 000 000
2024-06-05	2024-06-07	2024-09-09	2024-09-09	0	20 000 000	20 000 000	10 000 000	10 000 000
2024-09-05	2024-09-09	2024-12-09	2024-12-09	0	20 000 000	20 000 000	10 000 000	10 000 000
2024-12-05	2024-12-09	2025-03-07	2025-03-07	0	20 000 000	20 000 000	10 000 000	16 000 000
2025-03-05	2025-03-07	2025-06-09	2025-06-09	0	20 000 000	20 000 000	10 000 000	16 000 000
2025-06-05	2025-06-09	2025-09-08	2025-09-08	0	20 000 000	20 000 000	10 000 000	16 000 000
2025-09-04	2025-09-08	2025-12-08	2025-12-08	0	20 000 000	20 000 000	10 000 000	16 000 000
2025-12-04	2025-12-08	2026-03-09	2026-03-09	0	20 000 000	20 000 000	10 000 000	16 000 000
2026-03-05	2026-03-09	2026-06-08	2026-06-08	0	20 000 000	20 000 000	10 000 000	16 000 000
2026-06-04	2026-06-08	2026-09-07	2026-09-07	0	20 000 000	20 000 000	0	0
2026-09-03	2026-09-07	2026-12-07	2026-12-07	0	20 000 000	20 000 000	0	0
2026-12-03	2026-12-07	2027-03-08	2027-03-08	0	20 000 000	20 000 000	0	0
2027-03-04	2027-03-08	2027-06-07	2027-06-07	0	20 000 000	20 000 000	0	0
2027-06-03	2027-06-07	2027-09-07	2027-09-07	0	20 000 000	20 000 000	0	0
2027-09-03	2027-09-07	2027-12-07	2027-12-07	0	20 000 000	20 000 000	0	0
2027-12-03	2027-12-07	2028-03-07	2028-03-07	0	20 000 000	20 000 000	0	0
2028-03-03	2028-03-07	2028-06-07	2028-06-07	0	20 000 000	20 000 000	0	0
2028-06-05	2028-06-07	2028-09-07	2028-09-07	0	20 000 000	20 000 000	0	0
2028-09-05	2028-09-07	2028-12-07	2028-12-07	0	20 000 000	20 000 000	0	0
2028-12-05	2028-12-07	2029-03-07	2029-03-07	0	20 000 000	20 000 000	0	0
2029-03-05	2029-03-07	2029-06-07	2029-06-07	0	20 000 000	20 000 000	0	0
2029-06-05	2029-06-07	2029-09-07	2029-09-07	0	20 000 000	20 000 000	0	0
2029-09-05	2029-09-07	2029-12-07	2029-12-07	0	20 000 000	20 000 000	0	0
2029-12-05	2029-12-07	2030-03-07	2030-03-07	0	20 000 000	20 000 000	0	0
2030-03-05	2030-03-07	2030-06-07	2030-06-07	20 000 000	0	0	0	0

In addition to the qualitative aspects (analysis and choice of the most appropriate strategy) and the time saved during the process, the KERIUS Finance service generated the following savings:

Value of 1 BP	3 956
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CIC

Total savings	64 478
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Market price without bank margin	301 934
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Price with standard bank margin *	381 056
Standard bank margin (20 basis points) *	79 122

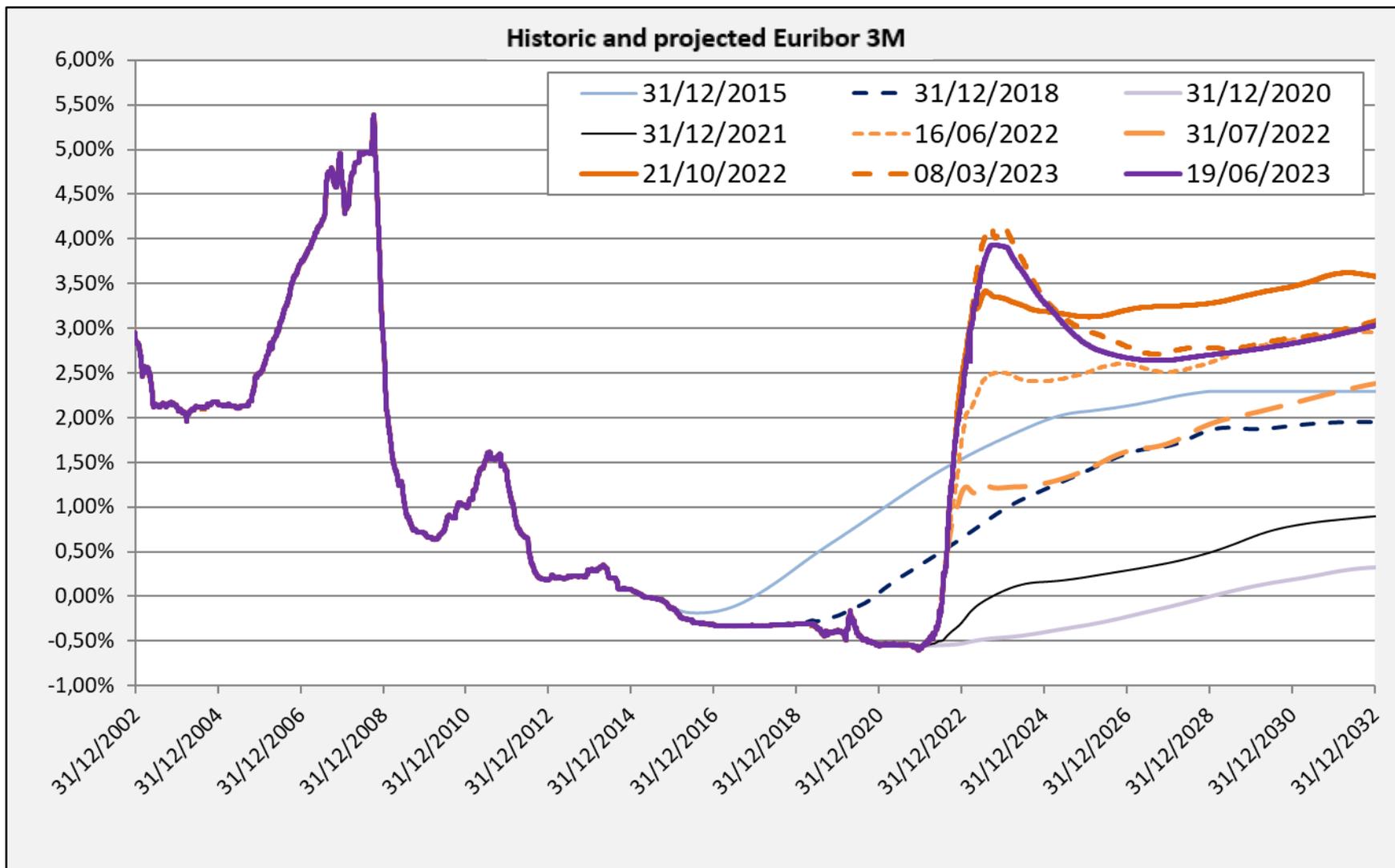
Final price	316 578
Final margin	14 644

* The standard margin taken by banks in this context is 20 to 25 basis points over the fixed rate or running premium compared to the rate / price without margin used above. A margin of 20 basis points is used for this comparison.

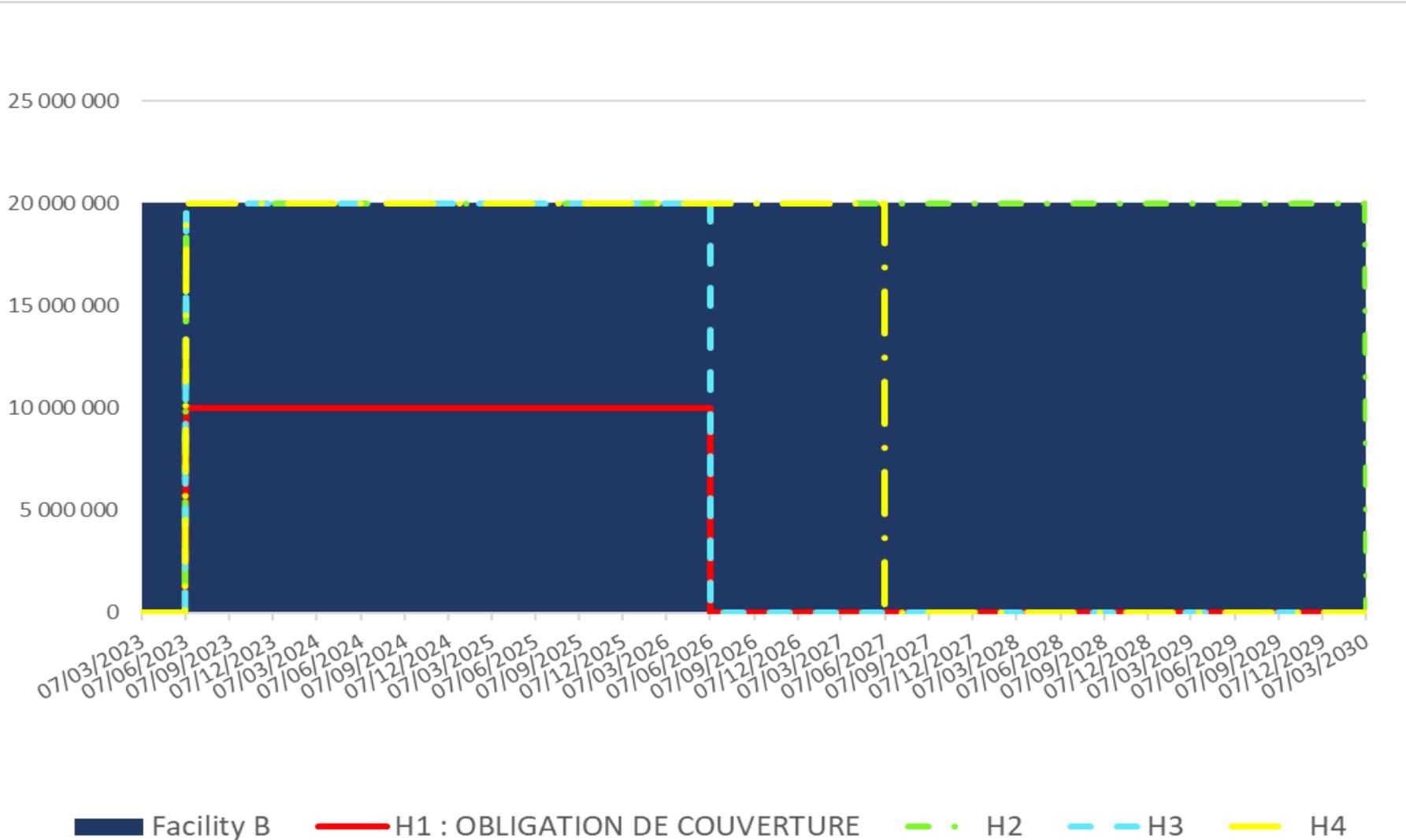
The total savings are made in three stages in a "cooperative" way with the bank:

- Choosing the optimal product: similar or identical products are often "priced" differently
- Preliminary negotiations before quotes tender (explanation of KERIUS method and target margin to be selected)
- Final negotiation at the end of the process

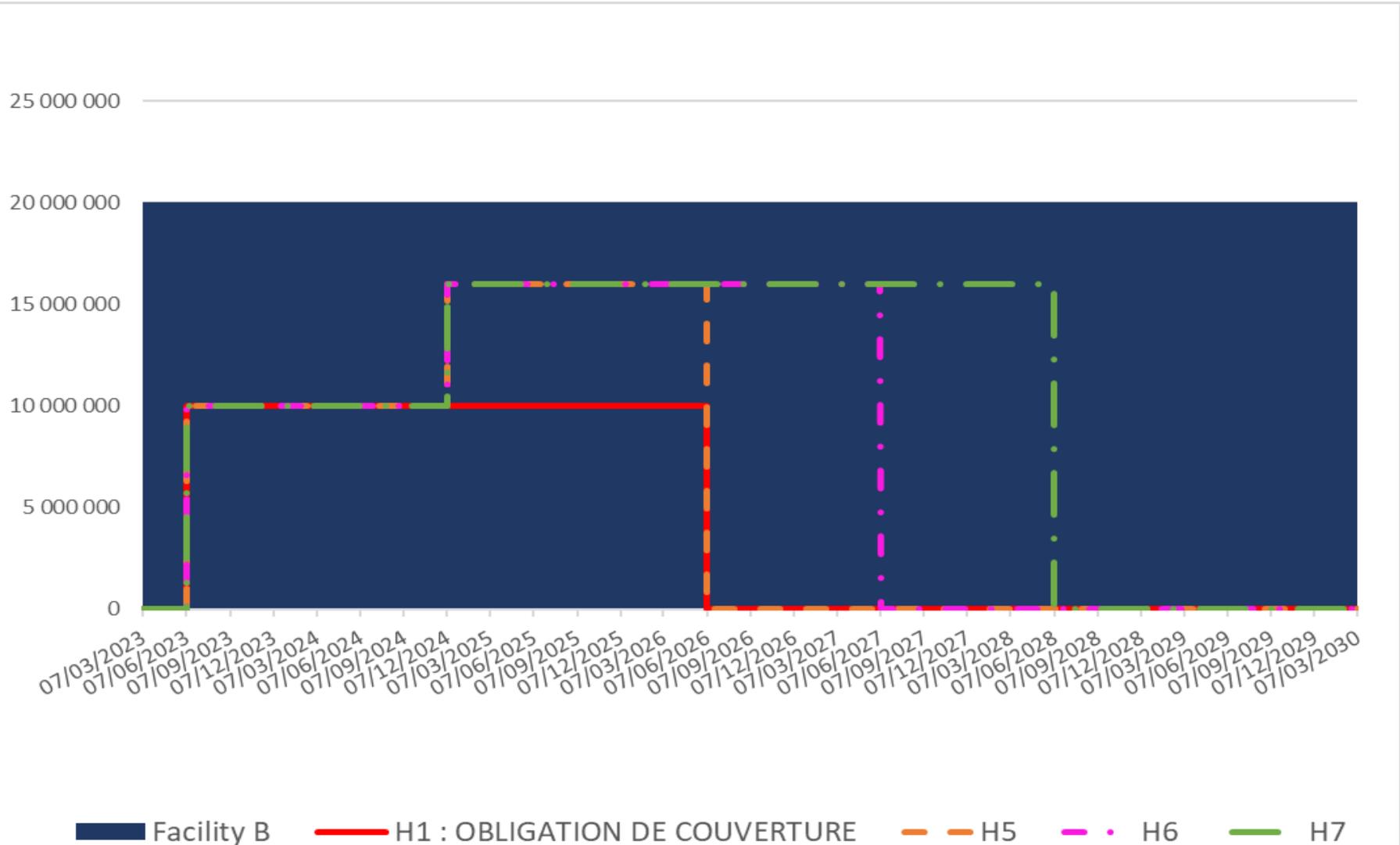
- Market Data : Historic and projected Euribor
- Recall : Financial expenses simulation
- Financing terms
- Recall : Profiles at maturity of different types of hedge



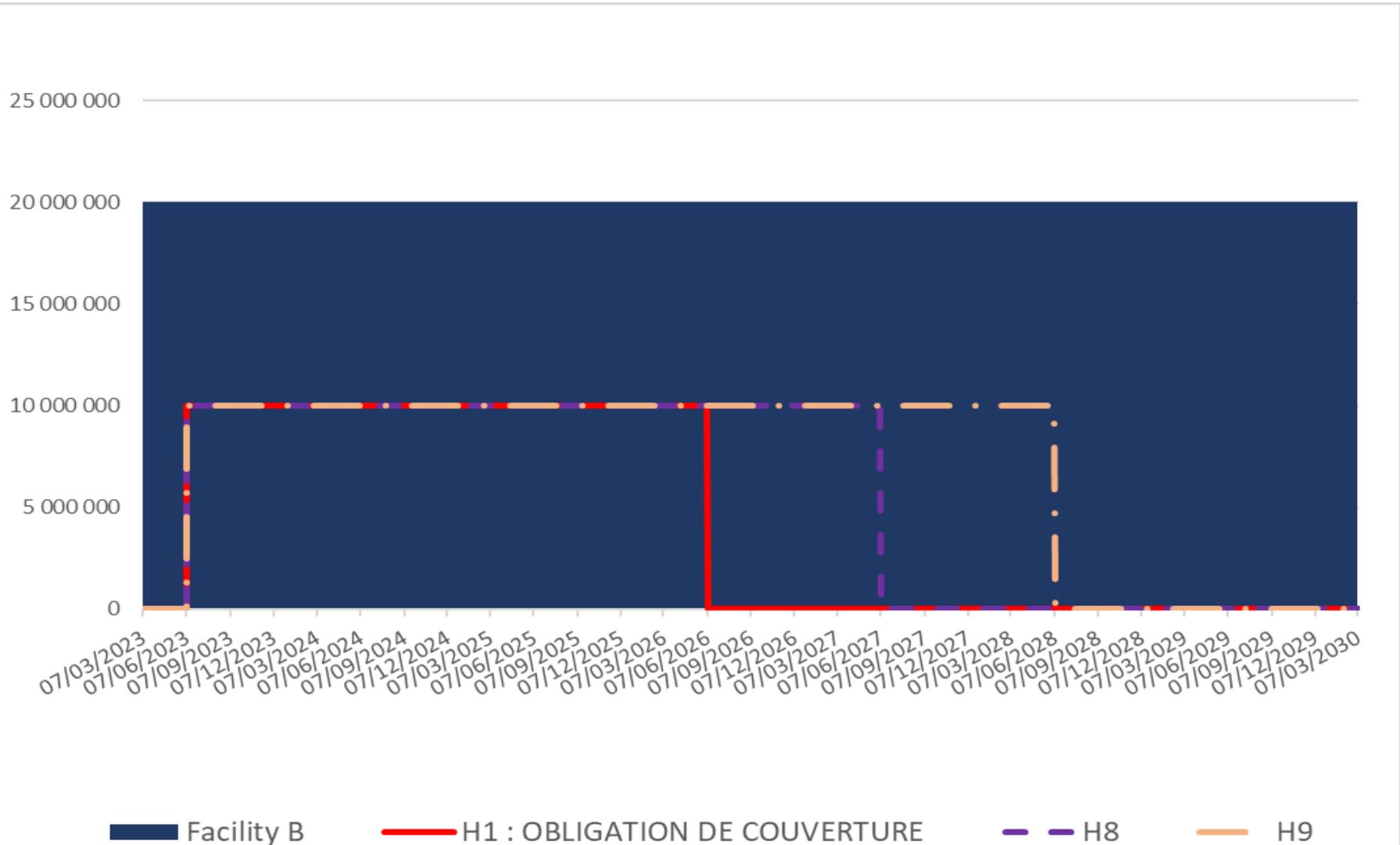
New hedges: Various amounts and maturities possible



New hedges: Various amounts and maturities possible



New hedges: Various amounts and maturities possible



Indicative quotations

Products not recommended

Hedging	H1	H2	H3	H4	H5	H6	H7	H8	H9
Value of 1bp in EUR	3 044	13 694	6 089	8 117	3 956	5 578	7 205	4 058	5 075
Vanilla Swap	3,23%	2,99%	3,22%	3,11%	3,15%	3,03%	2,97%	3,10%	3,04%
Swap with Floor	3,35%	3,16%	3,34%	3,24%	3,27%	3,17%	3,13%	3,24%	3,18%
Cap 0% annualised	3,35%	3,16%	3,34%	3,24%	3,27%	3,17%	3,13%	3,24%	3,18%

There are many interest rate hedging products. There are certain products that we do not recommend or no longer recommend for various reasons, relating to a problem of efficiency or accounting (sometimes the two are linked) or comparative profitability. Product sheets are available in the appendix of this report to clarify the mechanisms and their intrinsic advantages/disadvantages. Here is a (non-exhaustive) list of products we do not recommend and the reasons why:

- **Cap 0%:**
 - Does not allow to benefit from a decrease in rates because this product, which is currently very expensive, completely freezes the interest rates
 - Requires more risk lines in the banks
 - This is a product that we recommended when Euribor rates were negative or close to zero
- **Interest rate swap (simple and floored) :**
 - Simple: toxic in a context of negative rates and therefore can be de-qualified and considered as a speculative product by the company's auditors even in a period of positive rates, which implies recording changes in the product's net asset value in financial income at each closing
 - Floored: increased bank margin for a product equivalent to Cap 0%, but sold at a higher price most of the time for reasons specific to the banks
- **Collar (purchase of cap / sale of floor):**
 - Does not guarantee a cap rate in the event of negative rates because the financing already includes a floor/floor at 0%, which induces an increase in the overall financing rate in the event of a fall in Euribor rates in the negative zone. As such, the product can be de-qualified and considered as a speculative product by the company's auditors even in a period of positive rates (in the same way as the simple swap).
- **Knock-out Cap**
 - Does not guarantee a cap rate, therefore it is not a hedging product and must be considered as speculative by the auditor
- **Knock-in Cap**
 - Increased bank margin and interesting product on very large amounts only to absorb additional bank costs.
- **Cap Spread (e.g.: buy 1% cap / sell 3% cap)**
 - Does not guarantee a cap rate and is never a hedging product in the event of a highly unfavorable rate scenario, so can be considered as speculative by auditors.

Indicatives quotations Recommended products

Hedging	H1	H2	H3	H4	H5	H6	H7	H8	H9
Duration	3 years	6,75 years	3 years	4 years	3 years	4 years	5 years	4 years	5 years
Index	Euribor 3M	Euribor 3M	Euribor 3M	Euribor 3M	Euribor 3M	Euribor 3M	Euribor 3M	Euribor 3M	Euribor 3M
Starting Notional Amount	10 000 000	20 000 000	20 000 000	20 000 000	10 000 000	10 000 000	10 000 000	10 000 000	10 000 000
Notional Amount on 07/12/2024	10 000 000	20 000 000	20 000 000	20 000 000	16 000 000	16 000 000	16 000 000	10 000 000	10 000 000
Start of Period	07/06/2023	07/06/2023	07/06/2023	07/06/2023	07/06/2023	07/06/2023	07/06/2023	07/06/2023	07/06/2023
End of Period	07/06/2026	07/03/2030	07/06/2026	07/06/2027	07/06/2026	07/06/2027	07/06/2028	07/06/2027	07/06/2028
Value of 1bp in EUR	3 044	13 694	6 089	8 117	3 956	5 578	7 205	4 058	5 075

Annualised premium

Cap 2,5% annualised	1,13%	1,15%	1,13%	1,10%	1,10%	1,08%	1,09%	1,10%	1,10%
Max Financing Rate	3,63%	3,65%	3,63%	3,60%	3,60%	3,58%	3,59%	3,60%	3,60%

Cap 3% annualised	0,79%	0,86%	0,79%	0,79%	0,77%	0,78%	0,80%	0,79%	0,80%
Max Financing Rate	3,79%	3,86%	3,79%	3,79%	3,77%	3,78%	3,80%	3,79%	3,80%

Cap 3,5% annualised	0,52%	0,64%	0,51%	0,54%	0,52%	0,55%	0,58%	0,54%	0,57%
Max Financing Rate	4,02%	4,14%	4,01%	4,04%	4,02%	4,05%	4,08%	4,04%	4,07%

Options premium in EUR

Cap 2,5%	325 500	1 456 500	647 800	836 300	408 300	557 700	714 800	417 000	514 900
Cap 3%	227 000	1 095 600	451 500	597 700	288 200	404 000	528 400	297 900	375 400
Cap 3,5%	148 500	808 000	294 900	408 700	193 600	283 700	382 300	203 700	265 000

**Estimated Bank Margin in Basis Points (BP)
included in the prices**

7

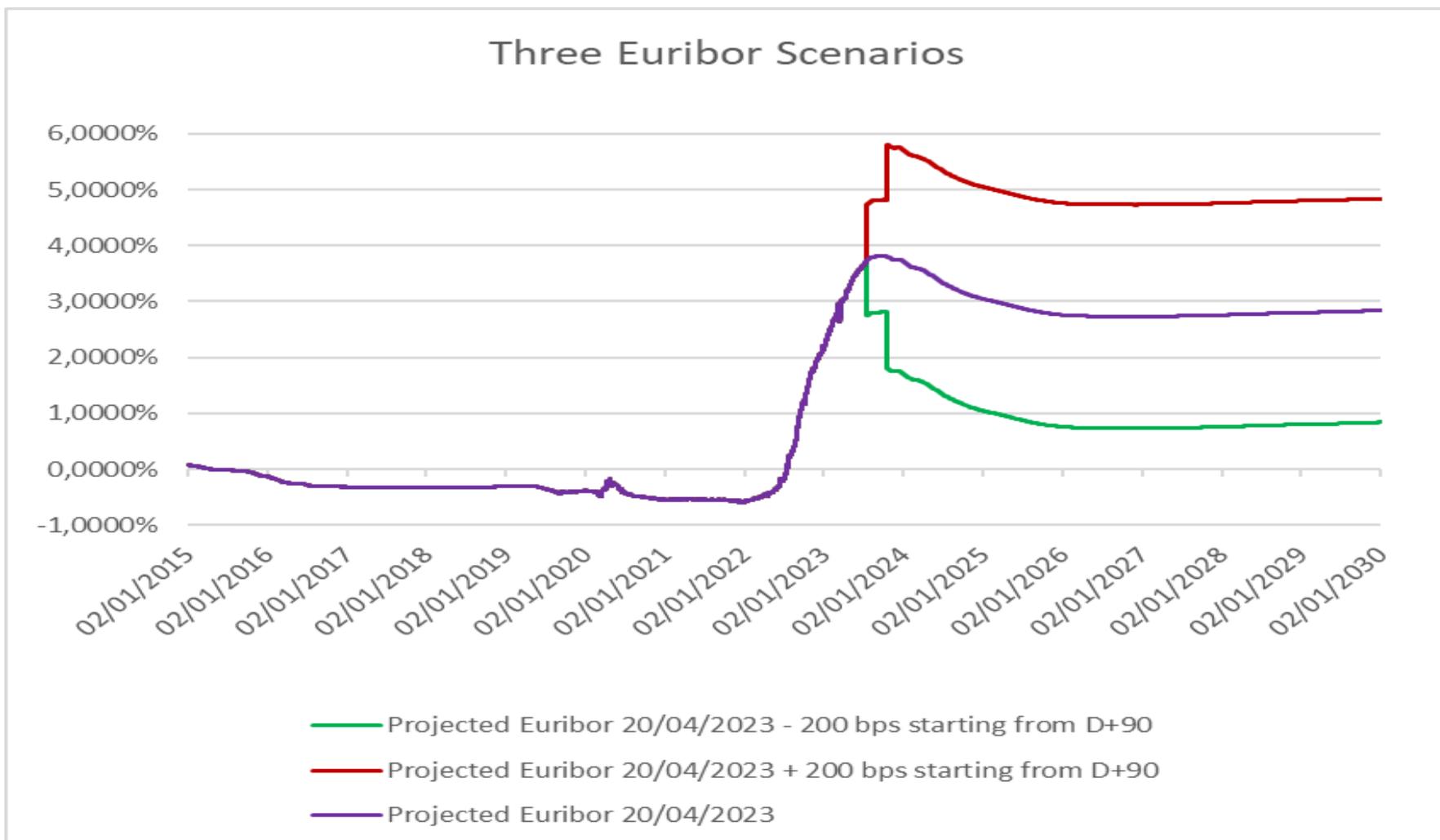
Example of annualized premium payments: H2 Cap 3%

Fixing	Start	End	Payment	Notional	Premium to be paid	Remaining to be paid in case of settlement
05/06/2023	07/06/2023	07/09/2023	07/09/2023	20 000 000	40 891	-1 054 709
05/09/2023	07/09/2023	07/12/2023	07/12/2023	20 000 000	40 446	-1 014 263
05/12/2023	07/12/2023	07/03/2024	07/03/2024	20 000 000	40 446	-973 817
05/03/2024	07/03/2024	07/06/2024	07/06/2024	20 000 000	40 891	-932 927
05/06/2024	07/06/2024	09/09/2024	09/09/2024	20 000 000	41 779	-891 147
05/09/2024	09/09/2024	09/12/2024	09/12/2024	20 000 000	40 446	-850 701
05/12/2024	09/12/2024	07/03/2025	07/03/2025	20 000 000	39 113	-811 588
05/03/2025	07/03/2025	09/06/2025	09/06/2025	20 000 000	41 779	-769 809
05/06/2025	09/06/2025	08/09/2025	08/09/2025	20 000 000	40 446	-729 363
04/09/2025	08/09/2025	08/12/2025	08/12/2025	20 000 000	40 446	-688 917
04/12/2025	08/12/2025	09/03/2026	09/03/2026	20 000 000	40 446	-648 471
05/03/2026	09/03/2026	08/06/2026	08/06/2026	20 000 000	40 446	-608 025
04/06/2026	08/06/2026	07/09/2026	07/09/2026	20 000 000	40 446	-567 579
03/09/2026	07/09/2026	07/12/2026	07/12/2026	20 000 000	40 446	-527 132
03/12/2026	07/12/2026	08/03/2027	08/03/2027	20 000 000	40 446	-486 686
04/03/2027	08/03/2027	07/06/2027	07/06/2027	20 000 000	40 446	-446 240
03/06/2027	07/06/2027	07/09/2027	07/09/2027	20 000 000	40 891	-405 350
03/09/2027	07/09/2027	07/12/2027	07/12/2027	20 000 000	40 446	-364 904
03/12/2027	07/12/2027	07/03/2028	07/03/2028	20 000 000	40 446	-324 458
03/03/2028	07/03/2028	07/06/2028	07/06/2028	20 000 000	40 891	-283 567
05/06/2028	07/06/2028	07/09/2028	07/09/2028	20 000 000	40 891	-242 677
05/09/2028	07/09/2028	07/12/2028	07/12/2028	20 000 000	40 446	-202 230
05/12/2028	07/12/2028	07/03/2029	07/03/2029	20 000 000	40 002	-162 229
05/03/2029	07/03/2029	07/06/2029	07/06/2029	20 000 000	40 891	-121 338
05/06/2029	07/06/2029	07/09/2029	07/09/2029	20 000 000	40 891	-80 448
05/09/2029	07/09/2029	07/12/2029	07/12/2029	20 000 000	40 446	-40 002
05/12/2029	07/12/2029	07/03/2030	07/03/2030	20 000 000	40 002	0

Running premium 0,86%

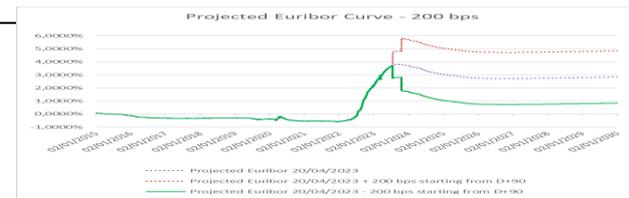
Total to be paid 1 095 600

Simulation of financial expenses with three Euribor evolution scenarios

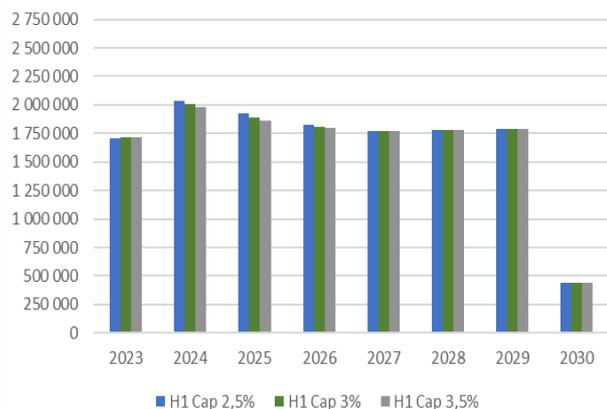


All financial expenses simulations start in 2023. They include the credit margin **8,0%** (Facility B), Euribor 3m variations' impact and the cost of setting up the new hedge.

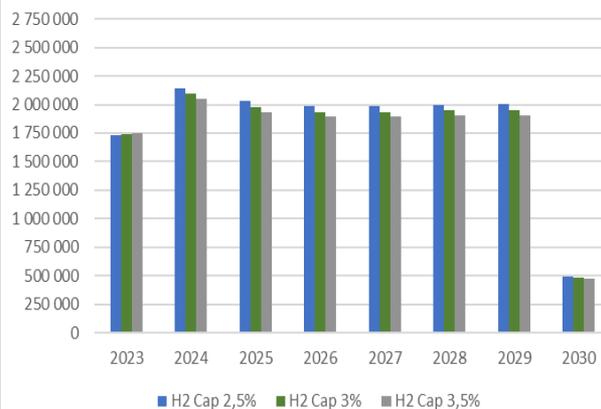
Financial expenses simulation in expected Euribor - 2% Scenario



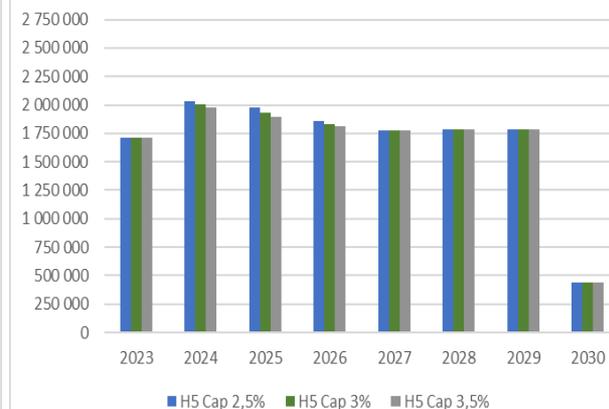
STRATEGY H1



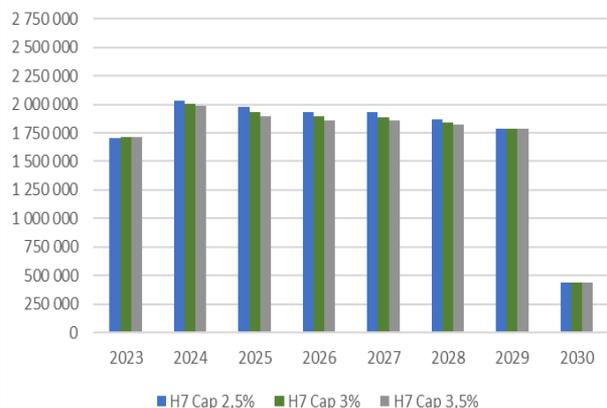
STRATEGY H2



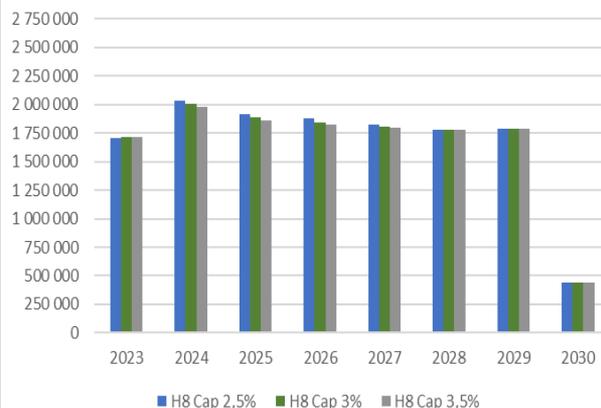
STRATEGY H5



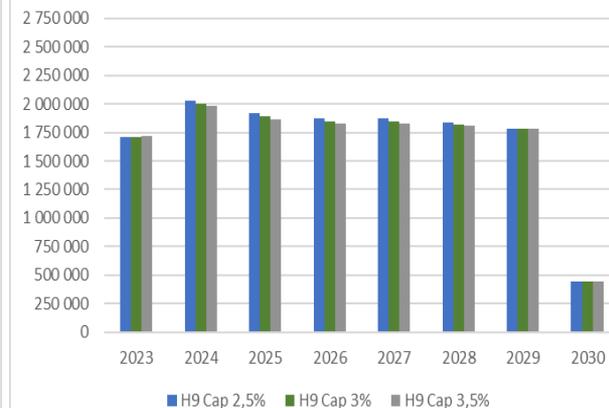
STRATEGY H7



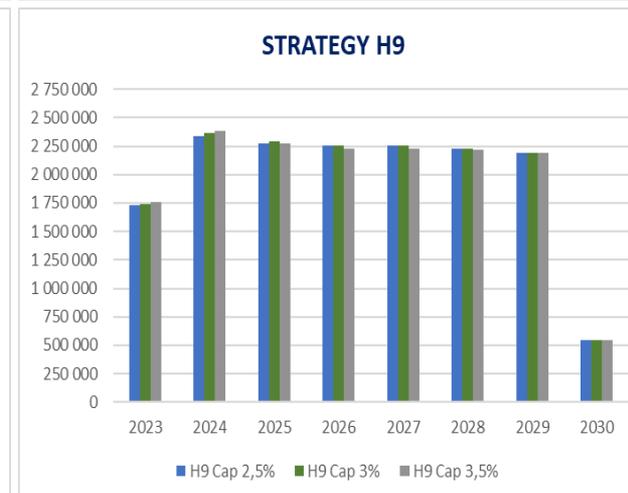
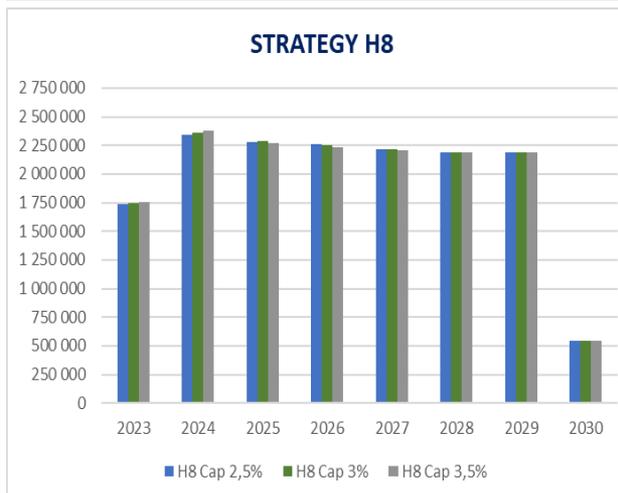
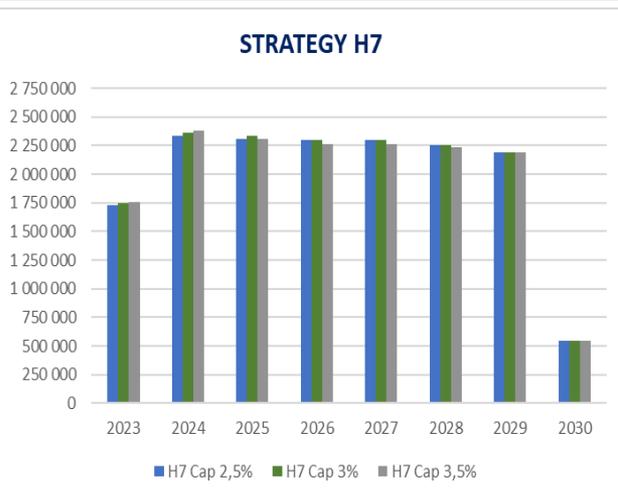
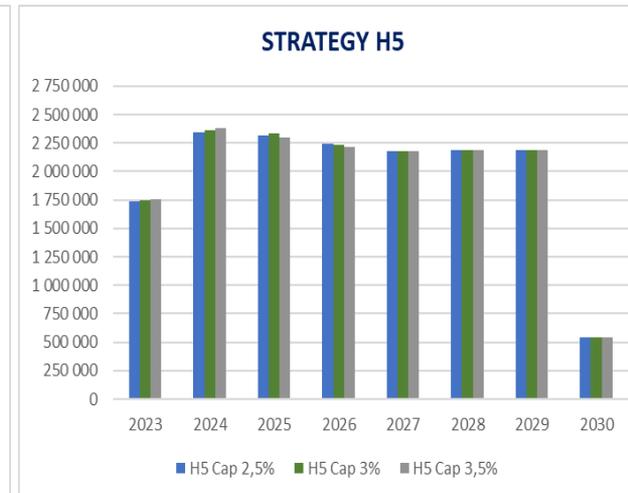
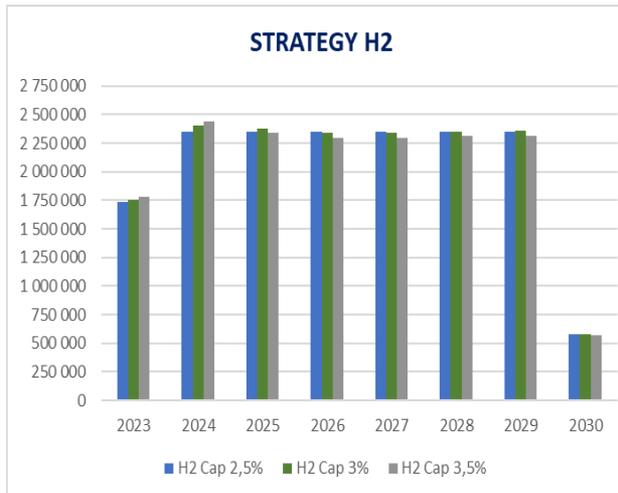
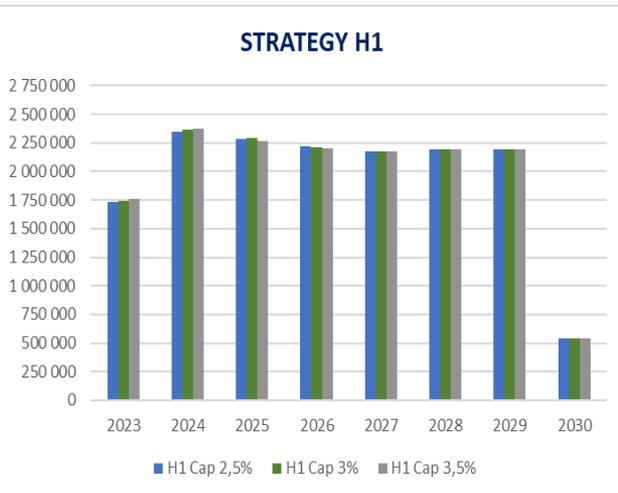
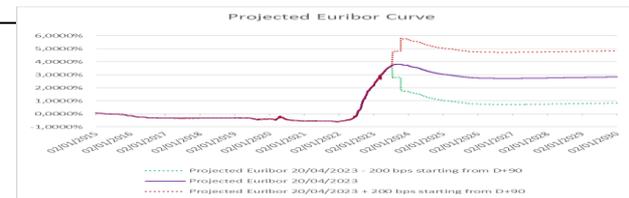
STRATEGY H8



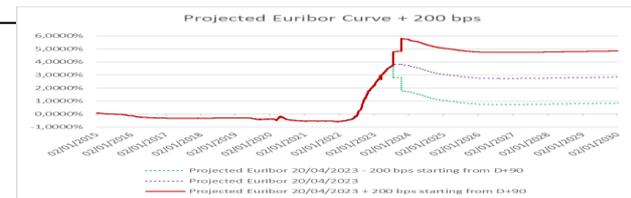
STRATEGY H9



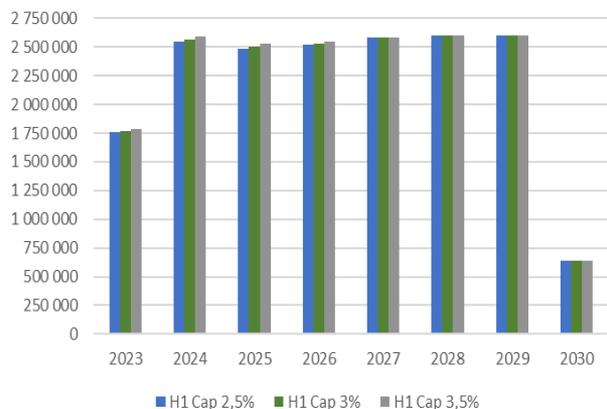
Financial expenses simulation in expected Euribor Scenario



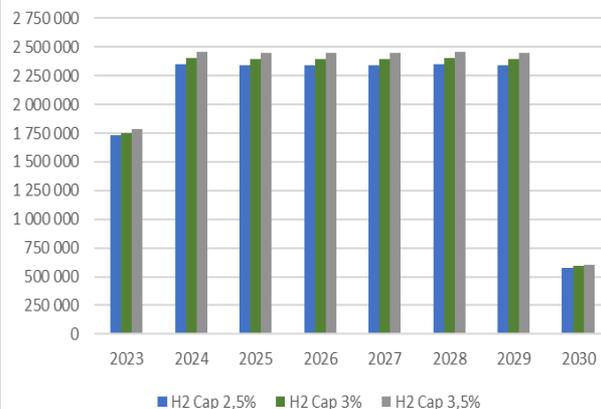
Financial expenses simulation in expected Euribor + 2% Scenario



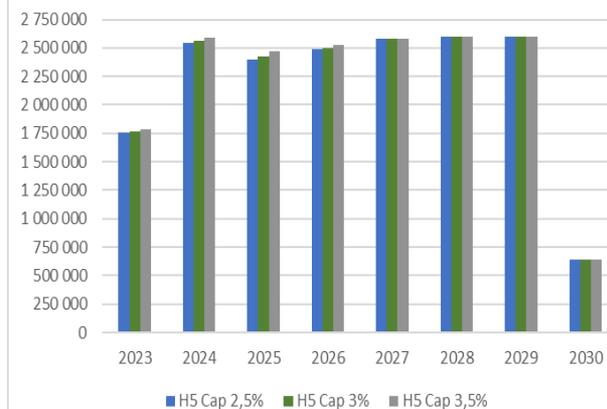
STRATEGY H1



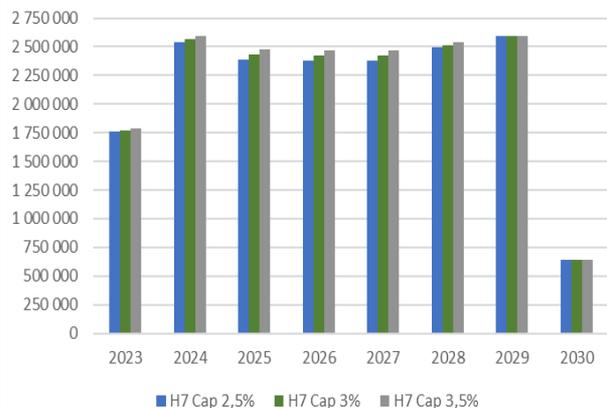
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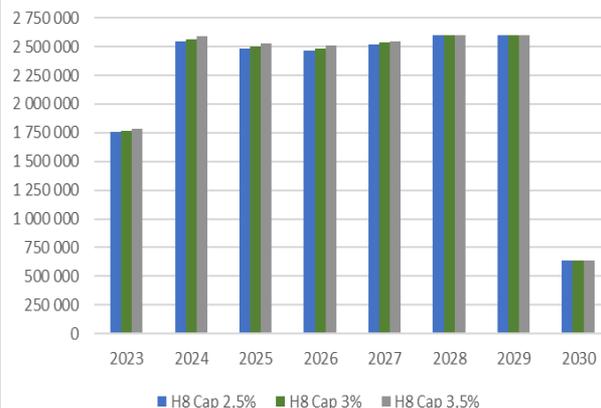
STRATEGIE H5



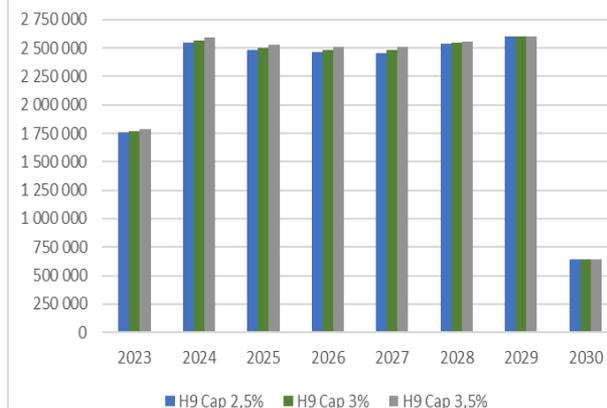
STRATEGY H7



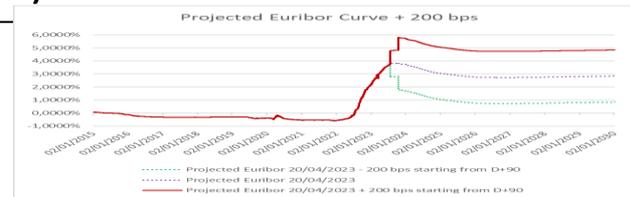
STRATEGY H8



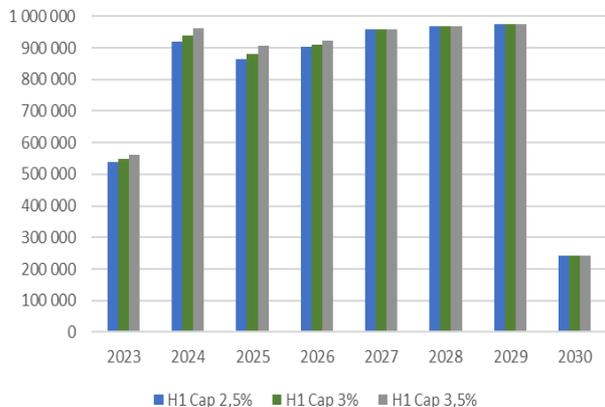
STRATEGY H9



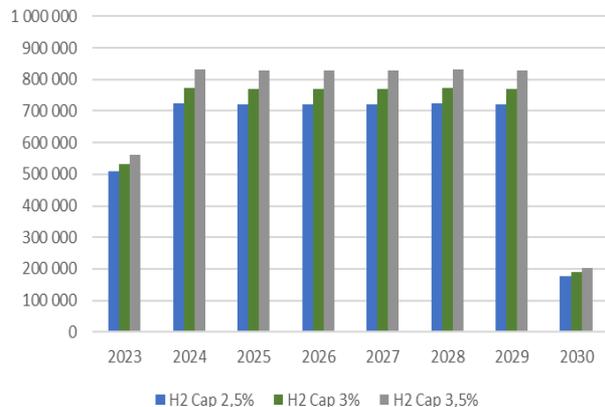
Financial expenses simulation in expected Euribor + 2% Scenario (excluding credit spread)



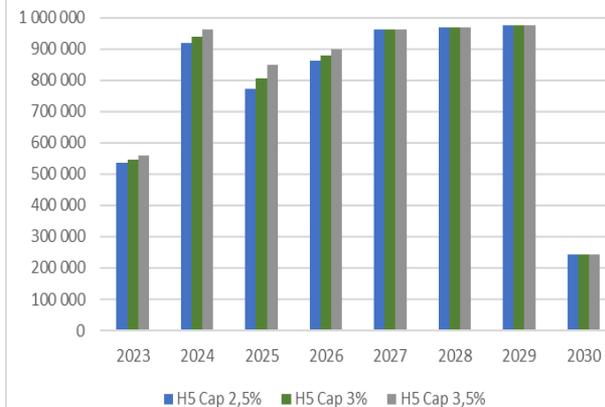
STRATEGY H1



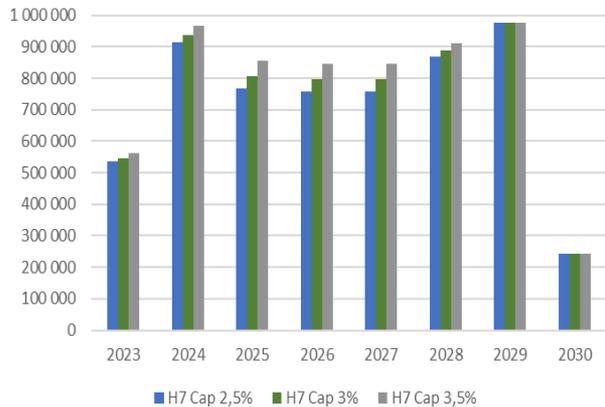
STRATEGY H2



STRATEGIE H5



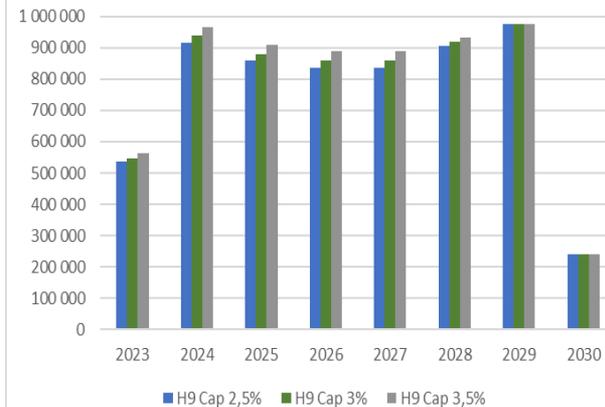
STRATEGY H7



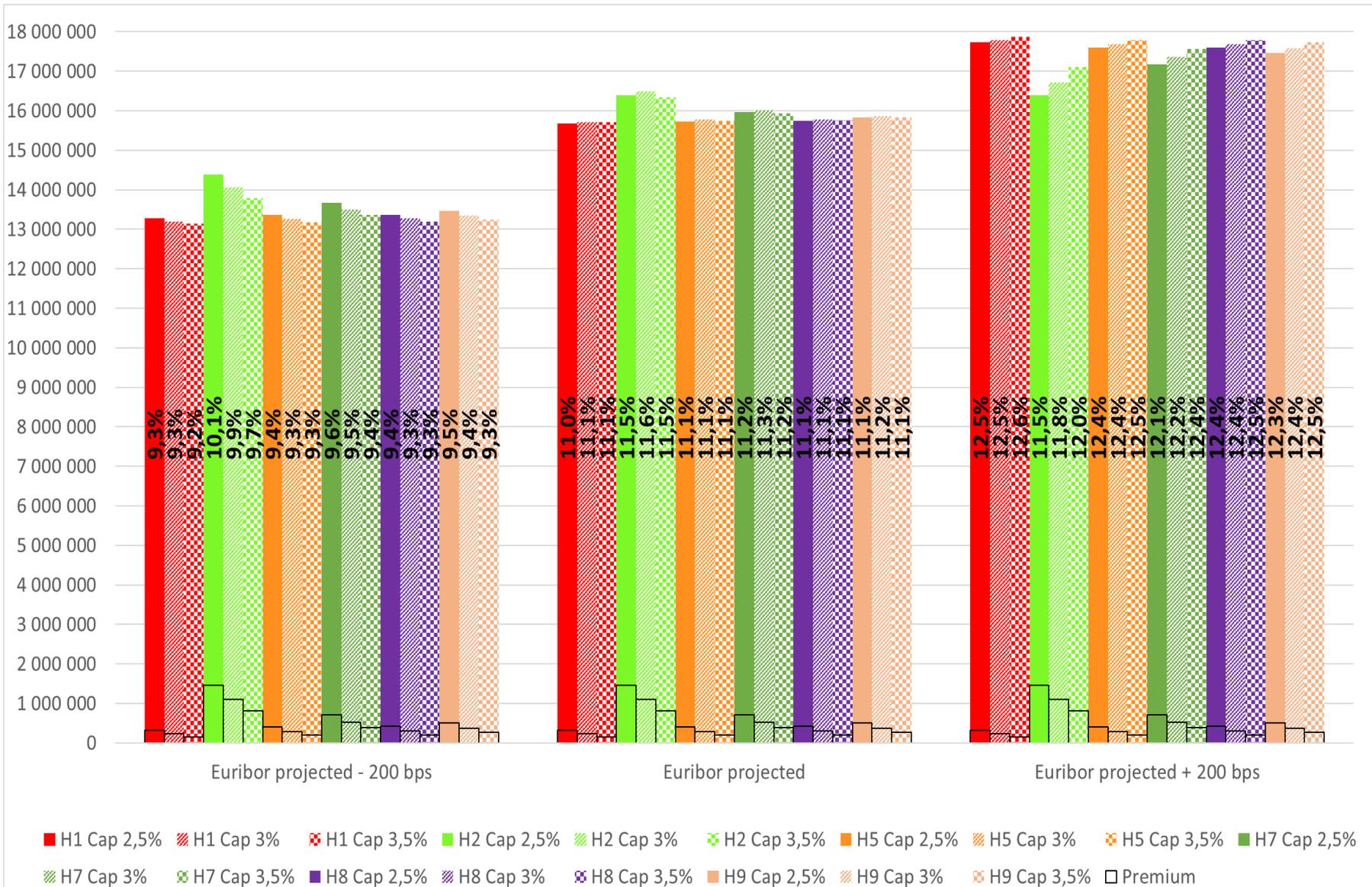
STRATEGY H8



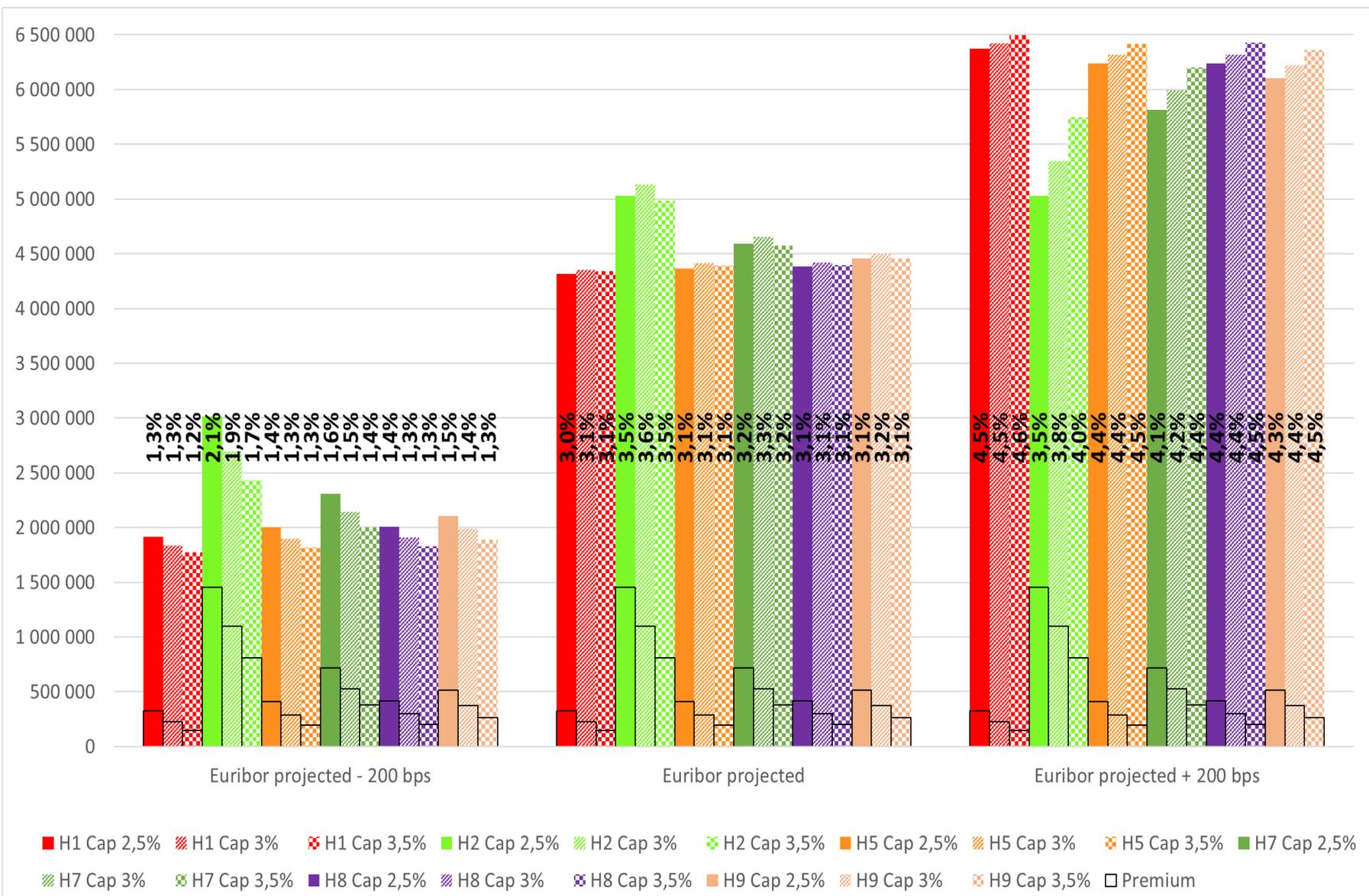
STRATEGY H9



Synthesis of financial costs simulation (over the total duration of the financing, hedging cost included – APR approach)



Synthesis of financial costs simulation
(over the total duration of the financing, hedging cost included – APR approach) **excluding credit spread**



Synthesis of financial costs simulation
(over the total duration of the financing, hedging cost included – APR approach)

	STRATEGY H1			STRATEGY H2			STRATEGY H5		
	H1 Cap 2,5%	H1 Cap 3%	H1 Cap 3,5%	H2 Cap 2,5%	H2 Cap 3%	H2 Cap 3,5%	H5 Cap 2,5%	H5 Cap 3%	H5 Cap 3,5%

Euribor projected - 200 bps

13 280 358 **13 202 360** **13 136 638** **14 377 431** **14 057 537** **13 795 492** **13 363 158** **13 263 560** **13 181 738**

Euribor projected

15 682 891 **15 716 849** **15 706 332** **16 390 171** **16 500 403** **16 348 768** **15 730 886** **15 776 969** **15 751 432**

Euribor projected + 200 bps

17 736 502 **17 790 224** **17 863 946** **16 390 171** **16 713 993** **17 111 116** **17 602 163** **17 679 869** **17 783 075**

	STRATEGY H7			STRATEGY H8			STRATEGY H9		
	H7 Cap 2,5%	H7 Cap 3%	H7 Cap 3,5%	H8 Cap 2,5%	H8 Cap 3%	H8 Cap 3,5%	H9 Cap 2,5%	H9 Cap 3%	H9 Cap 3,5%

Euribor projected - 200 bps

13 669 658 **13 503 760** **13 370 438** **13 371 858** **13 273 260** **13 191 838** **13 469 758** **13 350 760** **13 253 138**

Euribor projected

15 959 043 **16 017 169** **15 940 132** **15 750 877** **15 787 749** **15 761 532** **15 823 326** **15 865 249** **15 822 832**

Euribor projected + 200 bps

17 180 543 **17 354 393** **17 568 543** **17 601 710** **17 685 527** **17 794 244** **17 470 826** **17 585 076** **17 728 426**

Amortization table

FIXING DATE	STARTING DATE	ENDING DATE	PAYMENT DATE	Facility B		TOTAL DEBT	% DEBT	H1 : HEDGING REQUIREMENT
				Amort.	CRD			
03/03/2023	07/03/2023	07/06/2023	07/06/2023	0	20 000 000	20 000 000		0
05/06/2023	07/06/2023	07/09/2023	07/09/2023	0	20 000 000	20 000 000	50%	10 000 000
05/09/2023	07/09/2023	07/12/2023	07/12/2023	0	20 000 000	20 000 000	50%	10 000 000
05/12/2023	07/12/2023	07/03/2024	07/03/2024	0	20 000 000	20 000 000	50%	10 000 000
05/03/2024	07/03/2024	07/06/2024	07/06/2024	0	20 000 000	20 000 000	50%	10 000 000
05/06/2024	07/06/2024	09/09/2024	09/09/2024	0	20 000 000	20 000 000	50%	10 000 000
05/09/2024	09/09/2024	09/12/2024	09/12/2024	0	20 000 000	20 000 000	50%	10 000 000
05/12/2024	09/12/2024	07/03/2025	07/03/2025	0	20 000 000	20 000 000	50%	10 000 000
05/03/2025	07/03/2025	09/06/2025	09/06/2025	0	20 000 000	20 000 000	50%	10 000 000
05/06/2025	09/06/2025	08/09/2025	08/09/2025	0	20 000 000	20 000 000	50%	10 000 000
04/09/2025	08/09/2025	08/12/2025	08/12/2025	0	20 000 000	20 000 000	50%	10 000 000
04/12/2025	08/12/2025	09/03/2026	09/03/2026	0	20 000 000	20 000 000	50%	10 000 000
05/03/2026	09/03/2026	08/06/2026	08/06/2026	0	20 000 000	20 000 000	50%	10 000 000
04/06/2026	08/06/2026	07/09/2026	07/09/2026	0	20 000 000	20 000 000		0
03/09/2026	07/09/2026	07/12/2026	07/12/2026	0	20 000 000	20 000 000		0
03/12/2026	07/12/2026	08/03/2027	08/03/2027	0	20 000 000	20 000 000		0
04/03/2027	08/03/2027	07/06/2027	07/06/2027	0	20 000 000	20 000 000		0
03/06/2027	07/06/2027	07/09/2027	07/09/2027	0	20 000 000	20 000 000		0
03/09/2027	07/09/2027	07/12/2027	07/12/2027	0	20 000 000	20 000 000		0
03/12/2027	07/12/2027	07/03/2028	07/03/2028	0	20 000 000	20 000 000		0
03/03/2028	07/03/2028	07/06/2028	07/06/2028	0	20 000 000	20 000 000		0
05/06/2028	07/06/2028	07/09/2028	07/09/2028	0	20 000 000	20 000 000		0
05/09/2028	07/09/2028	07/12/2028	07/12/2028	0	20 000 000	20 000 000		0
05/12/2028	07/12/2028	07/03/2029	07/03/2029	0	20 000 000	20 000 000		0
05/03/2029	07/03/2029	07/06/2029	07/06/2029	0	20 000 000	20 000 000		0
05/06/2029	07/06/2029	07/09/2029	07/09/2029	0	20 000 000	20 000 000		0
05/09/2029	07/09/2029	07/12/2029	07/12/2029	0	20 000 000	20 000 000		0
05/12/2029	07/12/2029	07/03/2030	07/03/2030	0	20 000 000	20 000 000		0
05/03/2030	07/03/2030	07/06/2030	07/06/2030	20 000 000	0	0		0

Next steps

- Finalize a choice of strategy
- Initiate discussions with banks to ensure they are prepared to address the type of strategy being considered and finalize regulatory documentation.
- Ask them for indicative quotations
- Organize the transaction

-
- Financing terms
 - Profiles at maturity of different types of hedge

Ineffectiveness of simple swaps (and tunnels/collars) in case of a floor in the financing

A video detailing this concern is visible on the blog of KERIUS Finance [by clicking here](#).

The financing contract provides that the Libor cannot be negative, therefore the bank will not pay interest to the borrower.

An Interest Rate swap which allows to fix the rate of a debt is a contract by which the company undertakes to:

- Receive a floating rate on the amount of the hedged debt (to cancel the floating rate of the financing contract)
- Pay a fixed rate on the same amount.

A conventional swap, which does not replicate this floor, that is to say whose variable "leg" does not also include a floor, has two disadvantages when the index (Libor/Euribor) is negative :

- No cap on the overall financing rate: the negative Libor rate is added to the fixed rate to be paid by the company.
- Potential problem with hedge accounting: if hedges are no longer considered as effective by the Auditors as a result of this issue, all mark-to-market swap fluctuations will be recorded In financial result (i.e. not deferred in time).

A similar problem arises with the collar: the floor of the collar doubles the floor of the financing. In the event of negative rates, it induces a loss which increases the financial expenses beyond the threshold rate (cap).

Technical solutions:

- Include in the swap a floor replicating that of the financing, but this has a cost. See simulations.
- Opt for a hedging with a **Cap**, which cannot generate negative valuation in the event of negative rates.

Facilities

13 February

Dated _____ 2023

NEW CO SAB 342
as Parent

NEW CO SAB 341
as Original Issuer

THE SUBSIDIARIES OF THE PARENT LISTED IN PART I OF SCHEDULE 1
as Original Guarantors

THE FINANCIAL INSTITUTIONS LISTED IN PART II OF SCHEDULE 1
as Original Notes Purchasers

EURAZEO INVESTMENT MANAGER
acting as Agent

EURAZEO INVESTMENT MANAGER
acting as Security Agent

NOTES PURCHASE AGREEMENT

"**Total Facility B Commitments**" means the aggregate of the Facility B Commitments, being EUR 20,000,000 as at the date of this Agreement.

"**Total Capex and Acquisition Facility Commitments**" means the aggregate of the Capex and Acquisition Facility Commitments, being EUR 10,000,000 as at the date of this Agreement.

"**Total Revolving Facility Commitments**" means the aggregate of the Revolving Facility Commitments, being EUR 2,000,000 as at the date of this Agreement.

"**Term Reference Rate**" means, in relation to any Term Rate Note in euro, EURIBOR.

"**EURIBOR**" means, in relation to any Term Rate Note denominated in euro:

- (a) the applicable Screen Rate as of the Specified Time for euro and for a period equal in length to the Interest Period of that Note; or
- (b) as otherwise determined pursuant to Clause 16.1 (*Unavailability of Screen Rate*),

and if, in either case, that rate is less than zero, EURIBOR shall be deemed to be zero.

Reimbursement

"**Facility B Redemption Date**" means, in relation to Facility B, the date falling eighty-four (84) Months after the Closing Date.

"**Capex and Acquisition Facility Redemption Date**" means, in relation to the Capex and Acquisition Facility, the date falling eighty-four (84) Months after the Closing Date.

"**Incremental Facility Redemption Date**" means, in relation to any Incremental Facility, the date specified as the "Redemption Date" for that Incremental Facility as set out in the relevant Incremental Facility Notice.

10. REDEMPTION

10.1 Redemption of Facility B Notes

The Original Issuer shall redeem the Facility B Notes issued by it in full on the Facility B Redemption Date.

10.2 Redemption of Capex and Acquisition Facility Notes

The relevant Issuer of Capex and Acquisition Facility Notes shall redeem the Capex and Acquisition Facility Notes issued by it in full on the Capex and Acquisition Facility Redemption Date.

10.3 [Intentionally deleted]

10.4 Redemption of Incremental Facility Notes

The relevant Issuer of Incremental Facility Notes shall redeem the Incremental Facility Notes issued by it in full on the Incremental Facility Redemption Date as detailed in the relevant Incremental Facility Notice.

Hedging Requirement

- (f) The Parent shall procure that within ninety (90) days of the Closing Date, the Original Issuer enters into the Hedging Agreements for the purpose of hedging of the interest rate risks in relation to Facility B required by the Hedging Letter.

Tennaxia – Notes Purchase Agreement dated 13 February 2023 (the "Notes Purchase Agreement")

We refer to the Notes Purchase Agreement. This is the Hedging Letter and it constitutes a Finance Document for the purposes of the Notes Purchase Agreement.

Unless a contrary indication appears, a term defined in the Notes Purchase Agreement has the same meaning when used in this letter.

1. Hedging Strategy

- 1.1 The Parent shall ensure that the Minimum Hedging Requirements (defined below) are satisfied within ninety (90) days from (and including) the Closing Date.
- 1.2 The Parent will ensure that:
- (a) Hedging Agreements are entered into by the Facility B Issuer for the purpose of hedging the interest rate exposure in respect of fifty per cent. (50%) of the aggregate principal amount (not including any capitalised or deferred interest) at any time outstanding under Facility B, (the "**Minimum Hedging Requirements**");
 - (b) all agreements documenting the Minimum Hedging Requirements shall comply with the requirements of the Intercreditor Agreement in all respects; and
 - (c) Hedging Agreements satisfying the Minimum Hedging Requirements are in place at all times until the third anniversary of the Closing Date (the "**Required Hedging Period**").
- 1.3 The Facility B Issuer may enter into interest rate hedging and exchange rate hedging in respect of any Notes issued under Facility B by way of Hedging Agreement(s) for any period longer than, and in respect of notional amounts greater than, the Required

Interest

14. INTEREST

14.1 Calculation of interest

- (a) Subject to Clause 14.4 (*PIK toggle mechanic*), the rate of interest applicable to a Term Rate Note for a particular Interest Period is the percentage rate per annum which is the aggregate of the applicable:
 - (i) Margin; and
 - (ii) Term Reference Rate for that Interest Period.
- (b) Subject to Clause 14.4 (*PIK toggle mechanic*), the rate of interest applicable to a Compounded Rate Note for any day during a particular Interest Period is the percentage rate per annum which is the aggregate of the applicable:
 - (i) Margin; and
 - (ii) Compounded Reference Rate for that day.

15. INTEREST PERIODS

15.1 Selection of Interest Periods

- (a) An Issuer (or the Parent on behalf of an Issuer) may select an Interest Period for a Note in the Notes Subscription Request for that Note or (if the Note has already been issued) in a Selection Notice.
- (b) Each Selection Notice for a Note is irrevocable and must be delivered to the Agent by the relevant Issuer (or the Parent on behalf of the relevant Issuer) to which that Note was made not later than the Specified Time.
- (c) If an Issuer (or the Parent) fails to deliver a Selection Notice to the Agent in accordance with paragraph (b) above, the relevant Interest Period will be six (6) Months.
- (d) Subject to this Clause 15, an Issuer (or the Parent) may select an Interest Period of one (1), three (3) or six (6) Months or any other period agreed between the Parent and the Agent (acting on the instructions of all the Noteholders in relation to the relevant Note).
- (e) An Interest Period for a Note shall not extend beyond the Redemption Date applicable to the Notes issued under the relevant Facility.
- (f) Each Interest Period for a Note shall start on the Notes Subscription Date or (if already made) on the last day of its preceding Interest Period.

Interest

14.3 Payment of cash pay interest

Subject to Clause 14.4 (*PIK toggle mechanic*), the relevant Issuer of a Note shall pay accrued interest on that Note on the last day of each Interest Period (and, if the Interest Period is longer than six (6) Months, on the dates falling at six-Monthly intervals after the first day of the Interest Period (or, in each case in relation to a Compounded Rate Note, if later than the last day of the relevant Interest Period or other period, the date falling three (3) Business Days from the date on which the Agent notifies the Parent in writing of the amount of the relevant interest to be paid).

14.4 PIK toggle mechanic

(a) The relevant Issuer may, **provided that** no Event of Default has occurred and is continuing by way of irrevocable written notice given to the Agent not less than two (2) Business Days before the commencement of the next Interest Period relating to a Facility B Note or a Capex and Acquisition Facility Note, elect that all, or a part of, the Applicable Rate of Interest to accrue during that Interest Period on that Note be capitalised (the "**Designated PIK Interest**"), **provided further that**:

- (i) a sum equal to the difference between the Applicable Rate of Interest and the Designated PIK Interest (the "**Cash-Pay Margin**") shall, if applicable, always be payable in respect of each Facility B Note or Capex and Acquisition Facility Note in cash for each Interest Period in relation to which the relevant Issuer has elected to capitalise interest pursuant to this paragraph (a);
- (ii) such designation shall, in accordance with Article 1343-2 of the French Civil Code be for a minimum of twelve (12) months, and shall take effect for the period commencing on the first day of the applicable Interest Period to the date falling twelve (12) Months after such date (the "**PIK Interest Period**"); and

- (iii) notwithstanding the capitalisation of the PIK Interest on the last day of the PIK Interest Period, any Cash-Pay Margin (if applicable) shall continue to accrue, and be due and payable on each Interest Period in accordance with the provisions of this Clause 14.4;
- (iv) commencing on and from the Closing Date to the date falling three (3) years after the Closing Date, the relevant Issuer may elect to capitalise up to one hundred per cent. (100%) of the Applicable Rate of Interest; and
- (v) from the date falling three (3) years after the Closing Date, in relation to any Interest Period, the relevant Issuer may only elect to capitalise up to fifty per cent. (50%) of the Applicable Rate of Interest.

- (b) Following the giving of such written notice pursuant to paragraph (a) above, the Designated PIK Interest shall be increased by the relevant PIK Premium and the amount of Designated PIK Interest as increased by the relevant PIK Premium (the "**PIK Interest**") shall be capitalised and treated as increasing the principal amount of that Note on the last day of the PIK Interest Period. Any reference herein to that Note and the principal amount of that Note shall thereafter be deemed to be a reference to such Note as having been increased by the amount of PIK Interest so capitalised.
- (c) Any notice provided by the Issuer to the Agent pursuant to paragraph (a) above shall be irrevocable.
- (d) For the avoidance of doubt, no Event of Default shall occur under Clause 28.1 (*Non-payment*) as a result of interest being capitalised, rather than paid on its original due date, as set out in this Clause 14.4.
- (e) The relevant Issuer must cash pay accrued interest on the Facility B Notes and any Capex and Acquisition Facility Notes on the applicable Redemption Date.

Interest

"Margin" means:

- (a) in relation to any Facility B Note, eight per cent. (8.00%) per annum;
- (b) in relation to any Capex and Acquisition Facility Note, eight per cent. (8.00%) per annum;
- (c) in relation to any Revolving Facility Note, eight per cent. (8.00%) per annum;
- (d) in relation to any Incremental Facility Note, as specified in the relevant Incremental Facility Notice;
- (e) in relation to any Unpaid Sum relating or referable to a Facility, the rate per annum specified above for that Facility; and
- (f) in relation to any other Unpaid Sum, the highest rate specified above,

subject to adjustment in accordance with Clause 14.7 (*Adjustment of Margin*).

<u>Leverage Ratio</u>	<u>Facility B Margin (per cent. p.a.)</u>	<u>Capex and Acquisition Facility Margin (per cent. p.a.)</u>
Greater than 5.50:1	8.00%	8.00%
Equal to or less than 5.50:1 but greater than 5.00:1	7.75%	7.75%
Equal to or less than 5.00:1 but greater than 4.50:1	7.50%	7.50%
Equal to or less than 4.50:1	7.25%	7.25%

Cross default

28.5 Cross default

- (a) Any Financial Indebtedness of any member of the Group is not paid when due nor within any originally applicable grace period.
- (b) Any Financial Indebtedness of any member of the Group is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of an event of default (however described).
- (c) Any commitment for any Financial Indebtedness of any member of the Group is cancelled or suspended by a creditor of any member of the Group as a result of an event of default (however described).
- (d) Any creditor of any member of the Group becomes entitled to declare any Financial Indebtedness of any member of the Group due and payable prior to its specified maturity as a result of an event of default (however described).
- (e) No Event of Default will occur under this Clause 28.5 if, in the case of Financial Indebtedness (other than Financial Indebtedness incurred under any Permitted Super Senior RCF), the aggregate amount of Financial Indebtedness or commitment for Financial Indebtedness falling within paragraphs (a) to (d) above is less than EUR 750,000 (or its equivalent in any other currency or currencies).

For the purpose of this Clause 28.5:

- (i) Financial Indebtedness shall not include Financial Indebtedness incurred under the Subordinated Debt, any intra-Group Financial Indebtedness or any Financial Indebtedness supported by a letter of credit issued under any Permitted Super Senior RCF; and
- (ii) Financial Indebtedness in respect of any Treasury Transaction shall take into account its marked to market value if the relevant transaction is not closed out or the actual closed out amount after any applicable netting.

Interest rate swap (example: fixed interest swap vs Euribor 3 months):

Definition: exchange of a stream of fixed interest payments against a stream of floating interest payments (denominated in a particular currency). The objective is to fix a charge of interests linked to a debt facility.

Advantages:

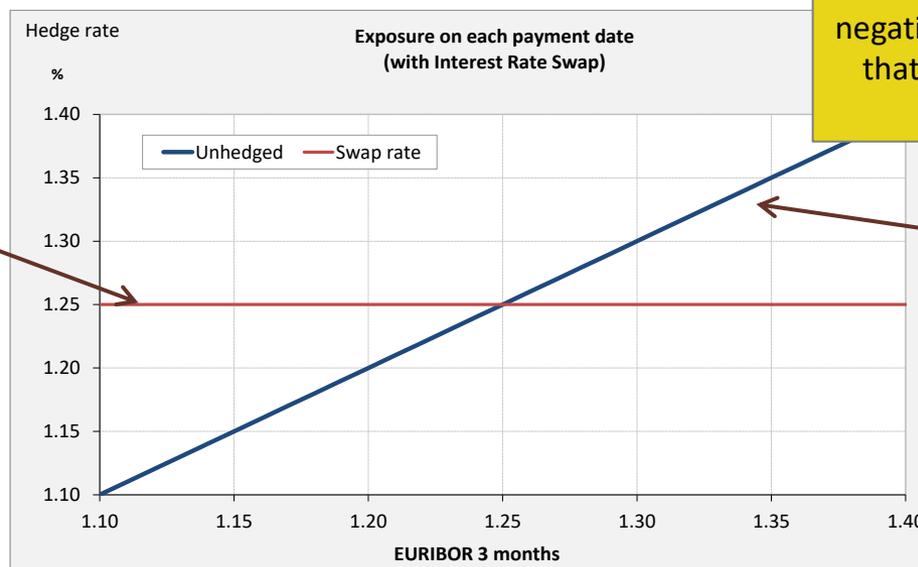
- No premium to pay at inception (the value of the swap is nil on the trade date)
- Simplicity to trade
- Financial charge is known in advance

Swaps must be kept for the part of the exposure that cannot be reduced (risk of unlimited loss).

Disadvantages:

- Cost of opportunity if the rates move in a favorable direction after inception of the hedge;
 - Potential unlimited loss (mark to market)
- Simple but risky product in case of unanticipated reduction of the underlying exposure (debt repayment for example) after inception of the hedge in case of negative mark to market valuation.

Product that does not guarantee a financing rate in a context of negative rates for financing facilities that include a floor on the index (Euribor or else).



Rate fixed by the swap

Floating rate of unhedged underlying

Illustrative graph:
non-updated data

Interest rate Cap: Hedge in which the buyer of the cap receives payments from the bank at the end of each period (fixing date) if the market rate (Euribor or Libor for instance) exceeds the exercise rate of the cap (i.e. strike).

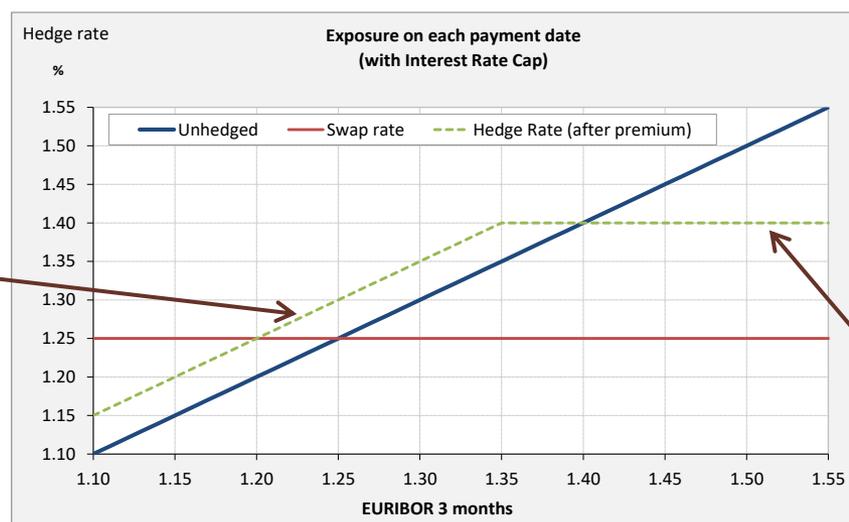
=> The “strike” is the protection rate of the cap.

Advantages:

- Fully flexible to modify or cancel the hedge in case of modification of the exposure;
- Opportunity to benefit from favorable fluctuations of market rates;
- Risk of loss limited to the premium paid initially, in case of hedge modification before expiry

Disadvantages:

- Premium to pay at inception. The premium can be paid upfront to the bank or spread over the life of the hedge if the bank authorized this credit. The premium is then called “running premium” or “running margin”.



The cap option captures favorable variations of the underlying

Illustrative graph:
non-updated data

Maximum hedge rate provided by the cap (protection = strike)

Collars (combinations of options purchased and sold):

Simultaneous purchase of an interest rate cap and sale of an interest rate floor. The buyer's effective interest rate paid fluctuates between the two agreed exercise rates (strikes) of the options, depending on the underlying index. A collar profile is a mix of option profile and swap profile.

Advantages:

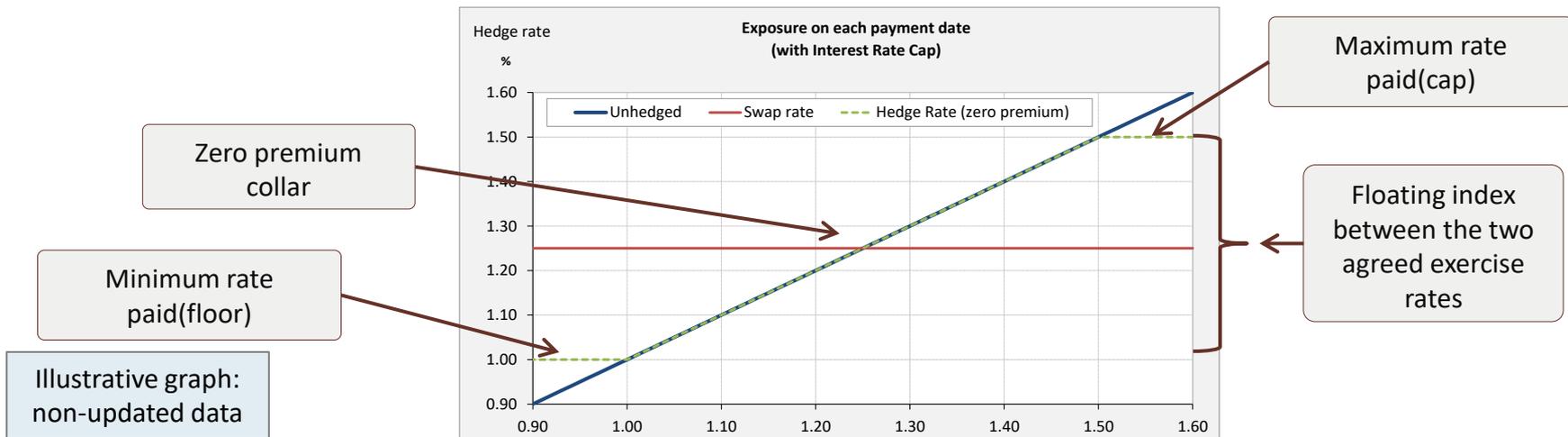
- Flexibility as long as the market rate fluctuates between the exercise rates (strikes)
- Protection if the market rate rises above the exercise rate (strike) at maturity of each period
- Opportunity to offset the cost of the cap with the option sold (floor)

Disadvantages:

- Cost of opportunity if the rates move in a favorable direction after inception of the hedge

Collars must be kept for the part of the exposure that cannot be reduced.

- Potential unlimited gain or loss (mark to market) in case of unanticipated reduction of the underlying exposure (debt repayment for example) after inception of the hedge or reduction/cancellation of the hedge.



Ineffective product in current market conditions (negative rates) because the floor is too close from the cap. And the cap is no more guaranteed if the financing contract is floored.

KERIUS Finance SAS
17 rue Dupin,
75006 Paris, France

Tel: +33 1 83 62 27 61

RC Paris: 520 300 948

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KERIUS Finance Suisse SARL
Chemin de Blandonnet 2,
1214 Vernier - Genève, Suisse

Tel : + 41 22 566 40 52

RC Genève IDE CHE-460.735.969
Numéro fédéral: CH-660-2330011-1

www.kerius-finance.com

Sébastien Rouzaire
s.rouzaire@kerius-finance.com

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