



2006 || Financial Report



SFL
SOCIETE FONCIERE LYONNAISE

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This Registration Document was filed with the Autorité des Marchés Financiers (AMF) on 27 April 2007, in accordance with Article 212-13 of the AMF's *règlement général*. It may be used in connection with a financial transaction provided that it is accompanied by an Information Memorandum approved by the AMF.

The English language version of this Registration Document is a free translation from the original, which was prepared in French. All possible care has been taken to ensure that the translation is an accurate representation of the original. However in all matters of interpretation of information, views or opinion expressed therein the original language version of the document in French takes precedence over the translation.

— Key Figures and Market Analysis

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A – Key figures

SUMMARY CONSOLIDATED PROFIT AND LOSS ACCOUNT AT FAIR VALUE

(in € thousands)	2006	2005	2004
Property rentals	161,538	153,308	156,803
Property expenses, net of recoveries	(8,234)	(8,082)	(9,685)
Net property rentals	153,304	145,226	147,118
Gains and losses for remeasurement at fair value of investment properties	533,807	128,137	93,106
Other income	4,461	8,350	10,225
Depreciation, amortisation and provisions	1,523	(4,130)	(3,825)
Employee benefits expense and other expenses	(24,538)	(22,776)	(35,557)
Operating profit	668,557	254,807	211,067
Profit on disposal of investment properties and other assets	49,459	7,965	21,568
Finance costs, net	(54,600)	(34,811)	(17,068)
Share of profits of associates	5,973	6,140	5,463
Profit before income tax	669,389	234,101	221,030
Income tax	(32,818)	6,315	(2,960)
NET PROFIT	636,571	240,416	218,070
Minority interests	(29,986)	(13,872)	(8,770)
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	606,585	226,544	209,300

CONSOLIDATED CURRENT CASH FLOW

(in € thousands)	2006	2005	2004
EBITDA	133,227	130,800	121,786
IFRS adjustments to EBITDA	(7,584)	(8,463)	(1,536)
Finance costs, net	(54,600)	(34,811)	(17,068)
IFRS adjustments to finance costs, net	13,434	11,437	(18,441)
Current cash flow	84,477	98,962	84,741
CURRENT CASH FLOW ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	79,188	92,810	79,346

CONSOLIDATED PER SHARE DATA

(in €)	2006	2005	2004
EBITDA	3.09	3.04	3.28
Current cash flow	1.96	2.30	2.28
Current cash flow attributable to equity holders of the parent	1.84	2.16	2.14
Earnings per share	14.08	5.26	5.64
DIVIDEND PER SHARE	3.20	2.10	2.05
Number of shares at 31 December (thousands)	43,076	43,064	42,987
Average number of shares (thousands)	43,069	43,034	37,114

Note: Calculated on the basis of the average number of shares outstanding during the year (excluding dividends).

PROPERTY PORTFOLIO AT 31 DECEMBER

(in € millions)	2006	2005	2004
Appraisal value (attributable to equity holders - excluding transfer costs)	3,320	2,615	2,406
Purchases for the period	250	159	539
Sales for the period (including sales as a property trader)	231	143	520 (1)

(1) including Village Victor Hugo.

B – Market analysis

1. The office rental market in the Paris area

1-1. A DYNAMIC MARKET

2006 was a particularly good year, shaped by continued strong growth in demand – in line with the upward trend observed in 2005 – and by a reversal of the previous year's decline in rents. The roots of the market's growth dynamic lie in French businesses' opportunistic approach to managing their real estate assets, underpinned in part by broader strategies to rationalise or extend their office resources and to cut costs.

1-2. VOLUMES

A record 2.9 million square meters were let in 2006, representing an increase of more than 30% over 2005. The fourth quarter also established a new record with over 800,000 square meters let during that period alone.

1-3. PRODUCTS

New and renovated properties accounted for 40% of total letting volume, roughly the same proportion as in 2005. A decrease was observed for units of less than 1,000 square meters, which represented 26% of total volume compared with 30% in 2005. By contrast, letting volume represented by large transactions (over 5,000 square meters) rose 57% to a total of 1.2 million square meters for the year. The increase was attributable to twelve transactions of more than 20,000 square meters each that together represented 40% of total large transaction volume.

1-4. LOCATIONS

Traditional business districts such as West Central Paris and the Western Crescent were once again the biggest markets in 2006, although their share of the total declined slightly to 42% of total lettings from 49% the previous year. Lettings in La Défense grew considerably in 2006 to represent 9% of the Paris area total. Growth was also observed in the outer suburbs, which represented 20% of the market compared with 14% in 2005, reflecting very large transactions to the south of the capital.

1-5. STOCKS

After declining by 7% in 2005, the stock of properties available for immediate occupancy contracted by a further 8% in 2006, to a total of 2.5 million square meters at the year-end compared with 2.77 million square meters in January. This relative stability in a very active year on the marketing front was attributable to properties coming back on the market after renovation, as well as to tenant departures.

In this environment, the overall vacancy rate for the Paris region at 31 December 2006 was down to 5.2%, with contrasting rates from one district to another. An increasing shortage of new supply led to a vacancy rate of 4.4% in West Central Paris, while sustained market activity drove a significant reduction in the rate for La Défense to 5.7% at the end of 2006 from 7.6% the year before.

The future offer represents more than 3 million square meters, which is sufficient to keep the market active.

Finally, the proportion of the total stock represented by new and renovated properties fell to 23% at the end of 2006 from 32% the year before. The decline stemmed from these properties' attractive market rents, which meant that they tended to be let first.

1-6. RENTS

Market rents increased in 2006 after stabilising in 2005 following four years of decline. Average nominal rents grew by 2% to €307 per square meter per year for new and renovated properties and by 4% to €222 per square meter per year for previously occupied properties (in both cases excluding service charges).

The increase was mainly due to the more limited availability of prime properties. This was the case in West Central Paris, for example, where prime rents rose by 9% over the year.

1-7. 2007 OUTLOOK

Last year's upward trend in letting volumes and rents is expected to continue in the first half of 2007. However, given the growing shortage of construction and renovation opportunities in the capital's business districts, the inner suburbs may experience significant growth. Forecasts point to a moderate increase in rents, led once again by prime properties.

Despite these favourable conditions, the anticipated decrease in stocks and increase in rents in 2007 could be disrupted by uncertainty ahead of France's presidential elections as companies adopt a wait-and-see attitude.

2. The buy-to-let market in France

2-1. ANOTHER RECORD YEAR

Following a record performance in 2005, the French office property market set a new record in 2006 with €23.1 billion in investments. The increase was probably due to a combination of several factors. The relative stability of the office property market compared with the financial markets attracted heavy investment from institutions, alongside listed property companies and investment funds. In addition, rising rents made the market all the more appealing to investors. Finally, the improvement was in part due to structural market changes such as the entry of new players, the creation of new investment vehicles that increasingly resemble financial investments (such as funds of funds) and a faster turnover of very high quality assets.

Volumes were very high in 2006, as were transaction amounts. The number of transactions representing more than €100 million increased sharply to 55 in 2006 from 29 in 2005.

The favourable tax regime encouraged market players to step up their investments and also to diversify their portfolios.

2-2. PRODUCTS

Office properties continued to dominate the French market, accounting for 84% of transactions. Transactions involving retail property and warehouses declined in relative terms, with each category representing 8% of the market.

A new investment trend emerged during the year. In addition to the €23.1 billion in office transactions referred to above, more than €2 billion was invested in hotels, restaurants and nursing homes. This shift was encouraged by the SIIC 4 regime, which allows SIICs to hold these types of property in their portfolio.

2-3. MARKET PLAYERS

French investors were the most active players in the market, accounting for 53% of transactions in 2006 versus 36.5% in 2005. The majority of their investments (83%) were in the Paris area. North Americans were the second biggest players, representing 18% of total volume, followed by British investors for 7%. The remaining transactions concerned German and Middle Eastern investors for around 5% each and Spanish investors for 4%.

Property companies accounted for 65% of investments by French investors and institutional investors for 26%. As usual, the vast majority (85%) of transactions by French investors concerned office properties.

The main North American investors were investment funds (91%), which focused primarily on acquiring offices (87%) and the Paris area (82%).

2-4. LOCATIONS

Paris and Western Paris attracted the most investment, accounting for 68% of the total in 2006 compared with 49% in 2005.

Investments in the outer suburbs of Paris and in the regional property markets declined in 2006 to, respectively, 10% and 14% of total investments.

2-5. PRICES

The decline in yields observed in 2005 accelerated in 2006 and affected all product and geographic segments. This was mainly due to an abundant supply of available capital and the strong appeal of the French market. The positive spread between interest rates and property yields, although slightly narrower, also continued to be a contributing factor.

The average yield for prime properties ranges from 4% for offices in West Central Paris to 7.25% for light industrial properties in France.

2-6. 2007 OUTLOOK

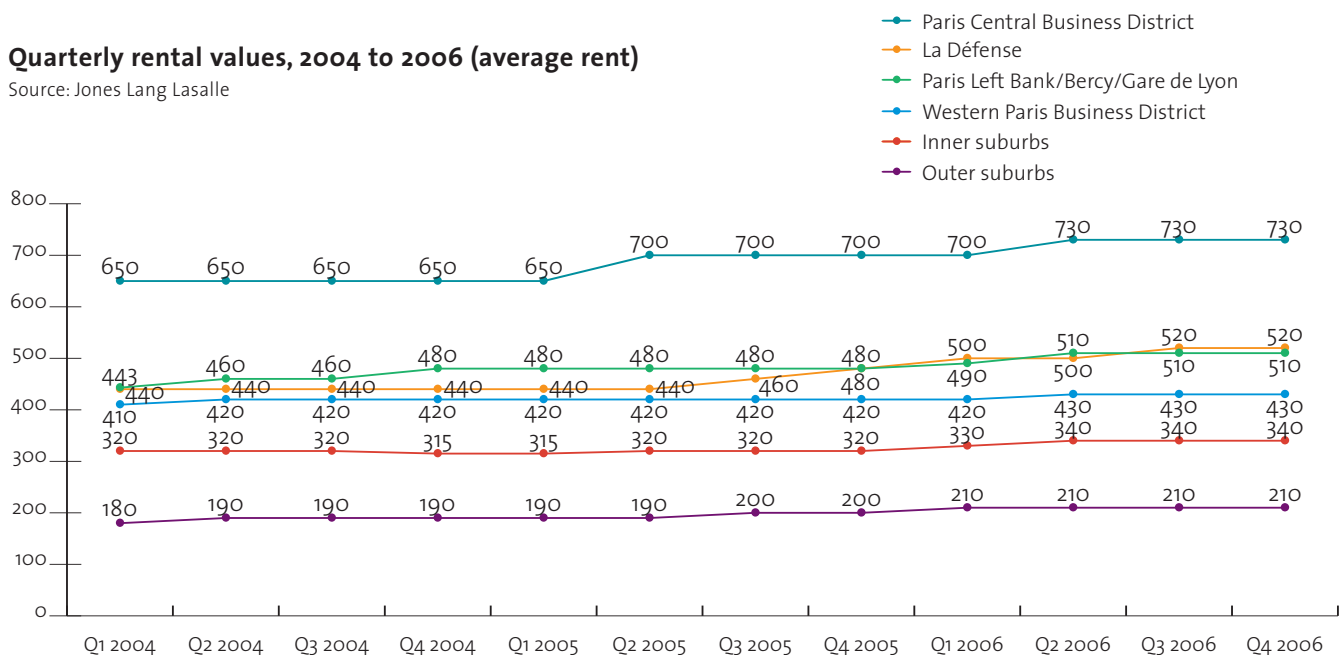
Demand should remain high in the French market in 2007, with volumes at least in line with 2006 levels. Market fundamentals will remain healthy over the next few months due to such factors as abundant available capital and financial market instability.

Commercial property is expected to retain its reputation as a safe investment, especially in light of the rent increases observed in 2006. Although the government is encouraging investors to diversify their holdings through SIIC reforms, offices will continue to be a top investment option.

Strong demand coupled with rising rents are likely to lead to increased pressure on yields.

Quarterly rental values, 2004 to 2006 (average rent)

Source: Jones Lang Lasalle



Financial Statements*

— Consolidated Financial Statements

Year ended 31 December 2006

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* The financial statements were approved for publication by the Board of Directors on 8 February 2007.

A – Consolidated Balance Sheet

ASSETS

(in thousands of euros)	Notes Section E	31/12/2006	31/12/2005	31/12/2004
Intangible assets	6-1	1,641	1,784	1,990
Property and equipment	6-2	289,776	52,863	41,850
Investment properties	6-3	3,034,904	2,477,906	2,259,292
Investments in associates	6-4	25,937	21,857	19,970
Financial assets	6-5	28,321	37,070	42,016
Other non-current assets	6-6	8,917	3,837	2,763
Total Non-Current Assets		3,389,496	2,595,317	2,367,881
Investment properties held for sale	6-7	401	113,176	124,781
Inventories and work in progress	6-8	–	845	14,972
Trade and other receivables	6-9	37,216	53,750	39,559
Other current assets	6-10	2,418	3,805	–
Short-term investments	6-11	21,416	26,659	71,120
Cash and cash equivalents	6-11	2,137	2,272	5,514
Total Current Assets		63,588	200,507	255,946
TOTAL ASSETS		3,453,084	2,795,824	2,623,827

EQUITY AND LIABILITIES

(in thousands of euros)	Notes Section E	31/12/2006	31/12/2005	31/12/2004
Share capital		86,152	86,128	85,975
Reserves		1,543,944	1,383,394	1,285,108
Profit for the period		606,585	226,544	209,300
Equity Attributable to Equity Holders of the Parent		2,236,681	1,696,066	1,580,383
Minority interests		90,721	65,406	55,906
Total Minority Interests		90,721	65,406	55,906
Total Equity	6-12	2,327,402	1,761,472	1,636,289
Long-term borrowings and other interest-bearing debt	6-13	755,343	803,293	556,279
Long-term provisions	6-14	2,479	3,074	1,835
Deferred tax liabilities	6-15	71,030	39,473	51,313
Other long-term tax liabilities	6-16	2,345	5,112	48,855
Other non-current liabilities	6-17	15,640	16,186	17,316
Total Non-Current Liabilities		846,837	867,138	675,598
Trade and other payables	6-18	20,644	18,261	15,191
Short-term borrowings and other interest-bearing debt	6-13	230,849	84,146	276,494
Short-term provisions	6-14	5,303	3,777	2,725
Other current liabilities	6-19	22,049	61,030	17,530
Total Current Liabilities		278,845	167,214	311,940
TOTAL EQUITY AND LIABILITIES		3,453,084	2,795,824	2,623,827

B – Consolidated Profit and Loss Account

(in thousands of euros)	Notes Section E	31/12/2006	31/12/2005	31/12/2004
Property rentals		161,538	153,308	156,803
Property expenses, net of recoveries		(8,234)	(8,082)	(9,685)
Net Property Rentals	6-20	153,304	145,226	147,118
Gains and Losses from Remeasurement at Fair Value of Investment Properties	6-21	533,807	128,137	93,106
Service and other revenues	6-22	1,079	2,430	2,379
Other income	6-23	3,382	5,920	7,846
Depreciation and amortisation expense	6-24	(1,104)	(942)	(2,050)
Provision expense, net	6-25	2,627	(3,188)	(1,775)
Employee benefits expense	6-26	(14,626)	(10,800)	(14,811)
Other expenses	6-27	(9,912)	(11,976)	(20,746)
Operating Profit		668,557	254,807	211,067
Profit on Disposal of Investment Properties	6-28	17,381	–	–
Profit on Disposal of Assets Held for Sale	6-28	31,635	3,461	17,855
Margin on Sales as a Property Trader	6-29	458	4,159	4,251
Profit on Disposal of Other Assets	6-30	(5,117)	345	(538)
Investment income	6-31	8	4,297	979
Share of profits of associates		5,973	6,140	5,463
Finance costs and other financial expense	6-32	(49,711)	(36,656)	(43,214)
Financial income	6-32	5,467	1,374	5,321
Gains and losses from remeasurement at fair value of financial instruments	6-33	(8,915)	(1,073)	–
Discounting adjustments to receivables and payables		(1,351)	(1,453)	(3,211)
Interest on receivables	6-34	2,970	2,495	1,354
Provision expense (financial assets), net	6-35	2,033	(3,795)	21,652
Other financial income and expenses		1	–	51
PROFIT BEFORE INCOME TAX		669,389	234,102	221,030
Income tax expense	6-36	(32,818)	6,315	(2,960)
PROFIT FOR THE PERIOD		636,571	240,418	218,070
ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		606,585	226,544	209,300
Attributable to minority interests		29,986	13,872	8,770
		31/12/2006	31/12/2005	31/12/2004
Basic earnings per share		€14.08	€5.26	€4.87
Diluted earnings per share		€14.07	€5.26	€4.86
Basic earnings per weighted average share		€14.08	€5.26	€5.64
Diluted earnings per weighted average share		€14.08	€5.26	€5.62

C – Consolidated Statement of Changes in Equity

(in thousands of euros)	Share capital	Share premium account	Revaluation reserve	Treasury shares	Other reserves	Equity attributable to equity holders of the parent	Minority interest
Equity at 31 December 2004	85,975	990,540	44,473	(29,806)	489,201	1,580,383	55,906
Dividends paid to equity holders of the parent					(57,851)	(57,851)	
Profit transferred to equity holders of SCI Washington							(4,372)
Equity at 1 January 2005 after appropriation of profit	85,975	990,540	44,473	(29,806)	431,350	1,522,532	51,534
Movements for the period							
Profit for the period					226,545	226,545	13,873
Par value of shares issued during the period	153					153	
Premiums on shares issued during the period		1,968				1,968	
Sales of treasury shares				24,981		24,981	
Impact of gains and losses on sales of treasury shares				7,405		7,405	
Valuation gains and losses on financial instruments taken to equity					(58,176)	(58,176)	
Share issue costs charged to the merger premium		374				374	
Other movements		(1,436)	(16,585)		18,078	57	
Other adjustments					247	247	
Interim dividend paid to equity holders of the parent					(30,019)	(30,019)	
Equity at 31 December 2005	86,128	991,446	27,888	2,580	588,025	1,696,066	65,406
Dividends paid to equity holders of the parent					(60,018)	(60,018)	
Profit transferred to equity holders of SCI Washington							(4,673)
Equity at 1 January 2006 after appropriation of profit	86,128	991,446	27,888	2,580	528,007	1,636,048	60,733
Movements for the period							
Profit for the period					606,585	606,585	29,986
Par value of shares issued during the period	24					24	
Premiums on shares issued during the period		312				312	
Sales of treasury shares				1,221		1,221	
Impact of gains and losses on sales of treasury shares				(553)		(553)	
Valuation gains and losses on financial instruments taken to equity					26,049	26,049	
Adjustments to assets under construction					(586)	(586)	
Adjustments to Parholding deferred taxes					(1,982)	(1,982)	
Other movements			(5,858)		5,396	(462)	
Interim dividend paid to equity holders of the parent					(29,976)	(29,976)	
EQUITY AT 31 DECEMBER 2006	86,152	991,758	22,030	3,248	1,133,493	2,236,681	90,720

D – Consolidated Statement of Cash Flows

(in thousands of euros)	31/12/2006	31/12/2005	31/12/2004
Cash flows from operating activities:			
Profit for the period	606,585	226,544	209,300
Depreciation and amortisation expense	(3,096)	1,649	2,174
Net additions to/(reversals of) provisions	29,819	(9,745)	(16,414)
(Gains)/losses from remeasurement at fair value of investment properties	(533,807)	(128,137)	(93,106)
Net (gains)/losses from disposals of assets, after tax	(41,641)	(3,807)	(22,109)
Discounting adjustments and valuation (gains)/losses on financial instruments	10,267	2,526	–
Minority interests in profit for the period	29,986	13,872	8,770
Other movements	378	–	–
Cash flow	98,492	102,904	88,615
Change in inventories and work in progress	845	14,127	15,162
Change in trade receivables	(991)	(10,869)	1,869
Change in other receivables	4,726	(10,092)	316
Change in trade payables	129	697	(10,568)
Change in other payables	(38,198)	(3,451)	(41,214)
Change in working capital	(33,489)	(9,588)	(34,435)
NET CASH PROVIDED BY OPERATING ACTIVITIES	65,003	93,315	54,180
Cash flows from investing activities:			
Acquisitions of and improvements to investment properties	(202,806)	(189,972)	(561,013)
Acquisitions of intangible assets and property and equipment	–	(313)	(1,979)
Proceeds from sales of treasury shares	860	32,154	6,006
Acquisitions of subsidiaries, net of the cash acquired	(124,605)	(19,721)	–
Proceeds from disposals of investment properties	181,824	124,893	209,004
Proceeds from disposals of subsidiaries, net of the cash sold	28,442	–	–
Other cash inflows and outflows	8,054	(2,113)	(434)
NET CASH USED BY INVESTING ACTIVITIES	(108,231)	(55,071)	(348,416)
Cash flows from financing activities:			
Proceeds from the issue of ordinary shares	337	1,883	7,006
Dividends paid to equity holders of the parent	(89,995)	(87,870)	(90,780)
Dividends received from associates	947	6,104	767
Proceeds from new borrowings	152,800	134,857	545,437
Repayments of borrowings	(38,103)	(143,854)	(253,204)
Other	(280)	(1,735)	(18,205)
NET CASH PROVIDED/(USED) BY FINANCING ACTIVITIES	25,707	(90,615)	191,021
NET CHANGE IN CASH AND CASH EQUIVALENTS	(17,521)	(52,371)	(103,215)
Cash and cash equivalents at beginning of period	20,692	73,063	176,278
Cash and cash equivalents at end of period	3,170	20,692	73,063
NET CHANGE IN CASH AND CASH EQUIVALENTS	(17,521)	(52,371)	(103,215)

E – Notes to the Consolidated Financial Statements

I - Accounting Policies

1-1. ACCOUNTING STANDARDS

The consolidated financial statements have been prepared in accordance with the International Accounting Standards (IASs), International Financial Reporting Standards (IFRSs) and related interpretations adopted by the European Union.

1-2. ACCOUNTING CONVENTIONS

The consolidated financial statements have been prepared according to the fair value model. The carrying amount of investment properties and hedging instruments is adjusted to take into account the impact on fair values of changes in the market and in the underlying risks.

The consolidated financial statements are presented in thousands of euros.

Change of method

Effective from 2006, SFL has chosen to measure investment properties using the fair value model, as provided for in IAS 40. In prior years, investment properties were measured using the cost model, in accordance with IAS 16.

This change of method has been adopted to facilitate comparisons with the financial statements of other property companies, the vast majority of which have opted to apply the fair value model.

The fair value of investment property is the amount at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction. It reflects market conditions at the balance sheet date and not those prevailing at any past or future date. It does not reflect future capital expenditure that will improve or enhance the property or the related future benefits from this future expenditure.

No deduction is made for transaction costs that may be incurred on sale or other disposal.

The fair values of investment properties carried in the Group's balance sheet at 31 December 2006 correspond to the prices including transfer costs obtained from independent valuations, less a 6.20% discount for transfer costs.

Changes in fair value, which are recognized in the income statement under "Gains and losses from remeasurement at fair value of investment properties", are calculated as follows:

Change in fair value = Fair value at the period-end – Fair value at the prior period-end – Work and other costs capitalised during the period.

Valuation method

The entire investment property portfolio was valued at 31 December 2006 by CBRE and Jones Lang Lasalle.

The valuations were performed in accordance with the "Charte de l'Expertise en Evaluation Immobilière" (property valuation charter) included in the February 2000 report of France's securities regulator (COB, renamed AMF). They also complied with the standards issued by The European Group of Valuers' Associations (TEGoVA) and with Royal Institution of Chartered Surveyors (RICS) standards.

They were carried out primarily by the discounted cash flows method, which consists of discounting projected future cash flows. Revenue assumptions take into account current rents, estimated market rents for the period beyond the lease expiry dates, any rent-free periods and rent step-ups, vacancy risk and projected changes in the construction cost index, which is the basis used to determine rent increases in France. Expenditure assumptions cover non-recoverable costs – determined on a lease-by-lease basis – and projected capital expenditure. Net cash flows for the final year of the projection period are capitalised to calculate the terminal value, corresponding to the property's resale price at the end of the period. The results obtained determine the instant effective yield, which is compared to market data and adjusted, if necessary, to obtain a market-consistent value.

The discounted cash flows method is now the main method used by the majority of property valuers in France. Previously, the most commonly used method was based on instant yields. However, the values obtained by this latter method were adjusted to take into account the difference in actual rents (excess or shortfall) compared with market rental values based on the duration of the underlying leases, in order to value the properties according to their current occupancy. As a result, both methods yield equivalent results.

The appraisal values were quoted both including transfer costs (calculated at a standard 6.20% for all properties subject to registration duty) and also excluding transfer costs.

Prior-period adjustments resulting from retrospective application of the change of method

The effects of the change of method on 2005 profit were as follows:

	31/12/2005			31/12/2005
	Cost model	Adjustments	Note	Fair value model
Property rentals	153,308			153,308
Property expenses, net of recoveries	(8,082)			(8,082)
Net Property Rentals	145,226			145,226
Gains and losses arising from remeasurement of investment properties at fair value		128,137	1	128,137
Service and other revenues	2,430			2,430
Other income	5,920			5,920
Depreciation and amortisation expense	(34,631)	33,689	2	(942)
Provision expense, net	(3,188)			(3,188)
Employee benefits expense	(10,800)			(10,800)
Other expenses	(11,976)			(11,976)
Operating Profit	92,981	161,826		254,807
Profit on Disposal of Investment Properties	-			-
Profit on Disposal of Assets Held for Sale	27,647	(24,186)	3	3,461
Margin on Sales as a Property Trader	4,159			4,159
Profit on Disposal of Other Assets	345			345
Investment income	4,297			4,297
Share of profits of associates	1,377	4,763	4	6,140
Finance costs and other financial expense	(36,656)			(36,656)
Financial income	1,374			1,374
Gains and losses from remeasurement at fair value of financial instruments	(1,073)			(1,073)
Discounting adjustments to receivables and payables	(1,453)			(1,453)
Interest on receivables	2,495			2,495
Provision expense (financial assets), net	(3,795)			(3,795)
Other financial income and expenses	-			-
PROFIT BEFORE INCOME TAX	91,698	142,403		234,102
Income tax expense	2,959	3,356	5	6,315
PROFIT FOR THE PERIOD	94,657	145,759		240,418
Minority interests	(5,196)	(8,676)	6	(13,872)
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	89,461	137,083		226,544
Basic earnings per share	€2.08			€5.26
Diluted earnings per share	€2.08			€5.26

Note 1: The adjustment consisted of recognizing in profit the change in fair value over the period of investment properties held at the year-end, net of the cost of work capitalized during the period.

Note 2: As investment properties are measured at fair value, the depreciation charge for the period is neutralised in full.

Note 3: The carrying amount of investment properties sold during the period corresponds to their fair value at the date of reclassification under "Assets held for sale". The adjusted disposal gain is therefore equal to the sale price less the carrying amount of the assets.

Note 4: The Group's share of the profits of associates has been adjusted to reflect the effects of applying the fair value model to investment properties.

Note 5: Deferred taxes concern properties held by subsidiaries that do not qualify for the SIIC regime.

Note 6: Minority interests correspond to 34% of the increase in value of the Washington Plaza property and 34% of the cancelled depreciation expense on this property.

The impact of the change of method on 2004 profit was as follows:

	31/12/2004		31/12/2004	
	Cost model	Adjustments	Note	Fair value model
Property rentals	156,803			156,803
Property expenses, net of recoveries	(9,685)			(9,685)
Net Property Rentals	147,118			147,118
Gains and losses arising from remeasurement of investment properties at fair value	–	93,106	1	93,106
Service and other revenues	2,379			2,379
Other income	7,846			7,846
Depreciation and amortisation expense	(36,143)	34,093	2	(2,050)
Provision expense, net	(1,775)			(1,775)
Employee benefits expense	(14,811)			(14,811)
Other expenses	(20,746)			(20,746)
Operating Profit	83,868	127,199		211,067
Profit on Disposal of Investment Properties				
Profit on Disposal of Assets Held for Sale	22,218	(4,363)	3	17,855
Margin on Sales as a Property Trader	4,251			4,251
Profit on Disposal of Other Assets	(538)			(538)
Investment income	979			979
Share of profits of associates	2,354	3,109	4	5,463
Finance costs and other financial expense	(43,214)			(43,214)
Financial income	5,321			5,321
Gains and losses from remeasurement at fair value of financial instruments	–			–
Discounting adjustments to receivables and payables	(3,211)			(3,211)
Interest on receivables	1,354			1,354
Provision expense (financial assets), net	21,652			21,652
Other financial income and expenses	51			51
PROFIT BEFORE INCOME TAX	95,085	125,945		221,030
Income tax expense	(2,960)		5	(2,960)
PROFIT FOR THE PERIOD	92,125	125,945		218,070
Minority interests	(2,974)	(5,796)	6	(8,770)
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	89,151	120,149		209,300
Basic earnings per share	€2.07			€4.87
Diluted earnings per share	€2.07			€4.86

Note 1: The adjustment consisted of recognizing in profit the change in fair value over the period of investment properties held at the year-end, net of the cost of work capitalized during the period.

Note 2: As investment properties are measured at fair value, the depreciation charge for the period is neutralised in full.

Note 3: Note 3: The carrying amount of investment properties sold during the period corresponds to their fair value at 31 December 2004. The adjusted disposal gain is therefore equal to the sale price less the carrying amount of the assets.

Note 4: The Group's share of the profits of associates has been adjusted by applying the fair value model to investment properties.

Note 5: Following SFL's election to be taxed as an SIIC, operations subject to income tax were not material in 2004 and deferred taxes have therefore not been taken into account in the above table.

Note 6: Minority interests correspond to 34% of the increase in value of the Washington Plaza property and 34% of the cancelled depreciation expense on the property.

The effects of the change of method on the balance sheet at 31 December 2005 were as follows:

	31/12/2005			31/12/2005
	Cost model	Adjustments	Note	Fair value model
ASSETS				
Intangible assets	1,784			1,784
Property and equipment	18,228	34,635		52,863
Investment properties	2,166,536	311,370	1	2,477,906
Investments in associates	10,123	11,734		21,857
Financial assets	37,070			37,070
Other non-current assets	3,837			3,837
Total Non-Current Assets	2,237,578	357,739		2,595,317
Investment properties held for sale	103,537	9,639	1	113,176
Inventories and work in progress	845			845
Trade and other receivables	53,750			53,750
Other current assets	3,805			3,805
Short-term investments	26,659			26,659
Cash and cash equivalents	2,272			2,272
Total Current Assets	190,868	9,639		200,507
TOTAL ASSETS	2,428,446	367,378		2,795,824
EQUITY AND LIABILITIES				
Share capital	86,128			86,128
Reserves	1,203,117	180,277	3	1,383,394
Profit for the period	89,461	137,083	3	226,544
Equity Attributable to Equity Holders of the Parent	1,378,706	317,360		1,696,066
Minority interests	46,480	18,926	3	65,406
Total Minority Interests	46,480	18,926		65,406
Total Equity	1,425,186	336,286		1,761,472
Long-term borrowings and other interest-bearing debt	803,293			803,293
Long-term provisions	3,074			3,074
Deferred tax liabilities	8,381	31,092	2	39,473
Other long-term tax liabilities	5,112			5,112
Other non-current liabilities	16,186			16,186
Total Non-Current Liabilities	836,046	31,092		867,138
Trade and other payables	18,261			18,261
Short-term borrowings and other interest-bearing debt	84,146			84,146
Short-term provisions	3,777			3,777
Other current liabilities	61,030			61,030
Total Current Liabilities	167,214			167,214
TOTAL EQUITY AND LIABILITIES	2,428,446	367,378		2,795,824

The main effects of the change of method on the balance sheet at 31 December 2005 were as follows:

Note 1: €311,370 thousand increase in the carrying amount of investment properties and €9,639 thousand increase in the carrying amount of investment properties held for sale.

Note 2: Increase in deferred tax liabilities related to adjustments to assets that do not qualify for the SIIC regime.

Note 3: A corresponding €317,360 thousand increase in equity, including a €137,083 thousand adjustment to 2005 profit.

The effects of the change method on the balance sheet at 31 December 2004 were are follows:

	31/12/2004			31/12/2004
	Cost model	Adjustments	Note	Fair value model
ASSETS				
Intangible assets	1,990			1,990
Property and equipment	15,878	25,972		41,850
Investment properties	2,092,088	167,204	1	2,259,292
Investments in associates	12,999	6,971		19,970
Financial assets	42,016			42,016
Other non-current assets	2,763			2,763
Total Non-Current Assets	2,167,734	200,147		2,367,881
Investment properties held for sale	100,624	24,157	1	124,781
Inventories and work in progress	14,972			14,972
Trade and other receivables	39,559			39,559
Other current assets	–			–
Short-term investments	71,120			71,120
Cash and cash equivalents	5,514			5,514
Total Current Assets	231,789	24,157		255,946
TOTAL ASSETS	2,399,523	224,304		2,623,827
EQUITY AND LIABILITIES				
Share capital	85,975			85,975
Reserves	1,225,227	59,881	3	1,285,108
Profit for the period	89,151	120,149	3	209,300
Equity Attributable to Equity Holders of the Parent	1,400,354	180,029		1,580,383
Minority interests	45,656	10,250	3	55,906
Total Minority Interests	45,656	10,250		55,906
Total Equity	1,446,010	190,279		1,636,289
Long-term borrowings and other interest-bearing debt	556,279			556,279
Long-term provisions	1,835			1,835
Deferred tax liabilities	17,288	34,025	2	51,313
Other long-term tax liabilities	48,855			48,855
Other non-current liabilities	17,316			17,316
Total Non-Current Liabilities	641,573	34,025		675,598
Trade and other payables	15,191			15,191
Short-term borrowings and other interest-bearing debt	276,494			276,494
Short-term provisions	2,725			2,725
Other current liabilities	17,530			17,530
Total Current Liabilities	311,940	–		311,940
TOTAL EQUITY AND LIABILITIES	2,399,523	224,304		2,623,827

The main effects of the change of method on the balance sheet at 31 December 2004 were as follows:

Note 1: €167,204 thousand increase in the carrying amount of investment properties and €24,157 thousand increase in the carrying amount of investment properties held for sale.

Note 2: Increase in deferred tax liabilities related to adjustments to assets that do not qualify for the SIIC regime.

Note 3: A €180,029 thousand increase in equity, including €120,149 thousand adjustment to 2004 profit.

1-3. PUBLISHED STANDARDS, INTERPRETATIONS AND AMENDMENTS THAT MAY BE EARLY ADOPTED AT 31 DECEMBER 2006

The Group has decided not to early adopt the following standards, interpretations and amendments to existing standards that are applicable in financial periods commencing on or after 1 January 2007:

- **Amendment to IAS 1** - Presentation of Financial Statements: Capital Disclosures (applicable in financial periods commencing on or after 1 January 2007).

- **IFRS 7** - Financial Instruments: Disclosures and additional amendment to IAS 1 - Presentation of Financial Statements: Capital Disclosures (applicable in financial periods commencing on or after 1 January 2007) SFL has concluded that the main additional disclosures required under IFRS 7 and the amendment to IAS 1 concern market risk sensitivity analyses.

IFRS 7 and the amendment to IAS 1 will be adopted as from 1 January 2007.

- **IFRIC 8** - Scope of IFRS 2: Share-Based Payment (applicable in financial periods commencing on or after 1 May 2006 based on the transitional provisions of IFRS 2). The interpretations of the scope of IFRS 2 do not currently have any impact on SFL's accounts.

- **IFRIC 9** - Reassessment of Embedded Derivatives (applicable in financial periods commencing on or after 1 June 2008). SFL does not currently have any embedded derivatives.

- **IFRIC 10** - Interim Financial Reporting and Impairment (applicable in financial periods commencing on or after 1 November 2006). This interpretation does not currently apply to SFL.

- **IFRIC 11** - Group and Treasury Share Transactions (applicable in financial periods commencing on or after 1 March 2007). This interpretation does not currently apply to SFL.

1-4. BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of SFL and its subsidiaries. The financial statements of subsidiaries cover the same period as those of SFL and have been prepared according to the same accounting policies. Intragroup transactions are eliminated in consolidation.

Subsidiaries are consolidated from the date when control is acquired and are removed from the scope of consolidation when control is transferred outside the Group. When SFL ceases to exercise control over a subsidiary, the consolidated financial statements include the subsidiary's results for the period from the beginning of the year to the date when control is transferred.

Financial assets are measured using the cost model.

Material companies in which SFL holds the majority of voting rights and is therefore in a position to exercise exclusive control are fully consolidated.

1-5. JOINT VENTURES

Joint ventures are consolidated by the proportional method based on the Group's percentage interest. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

1-6. ASSOCIATES

Investments in associates are accounted for by the equity method. An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. A provision is recorded when an investment in an associate is impaired and its value is not expected to recover in the foreseeable future.

Under the equity method, the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Group's share of the associate's net assets, less any impairment losses. The Group's consolidated profit includes SFL's share of the associate's profit.

1-7. FOREIGN CURRENCY TRANSLATION

The functional and presentation currency of SFL and its subsidiaries is the euro. Transactions in foreign currency are initially recognised in the functional currency by applying the exchange rate on the transaction date. At the period-end, foreign currency monetary assets and liabilities are translated at the closing rate. Translation differences are recognised in the profit and loss account.

1-8. INCOME TAXES

The results of businesses subject to income tax are taxed at the standard rate.

For companies liable for income tax, deferred tax assets and liabilities have been recognised by the liability method for all temporary differences between the book value of assets and liabilities and their tax basis. The Group entities that have elected to be taxed as an SIIC are not liable for income tax and the number of companies for which deferred taxes are recognised is therefore limited.

II - Measurement Methods

2-1. PROPERTY AND EQUIPMENT

Property and equipment consist mainly of furniture, computer equipment, properties acquired for renovation that will subsequently be transferred to the “Investment property” portfolio and owner-occupied properties. Owner-occupied property is property held by the owner for use in the production or supply of goods or services or for administrative purposes. The only property in this category is the section of the Centre d’Affaires du Louvre building used by the Group for administrative purposes.

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses, in accordance with IAS 16. Depreciation is calculated by the straight-line method over the asset’s estimated useful life. Each part of an item of property or equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. If the appraisal value of a property is less than its carrying amount, an impairment loss is recognised.

The gain or loss arising from derecognition of an item of property or equipment, corresponding to the difference between the net disposal proceeds and the carrying amount of the item, is included in profit when the item is derecognised.

2-2. INVESTMENT PROPERTIES

Investment property is property held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both.

Investment properties represent the majority of SFL’s assets. SFL has decided to measure investment properties using the fair value model, in accordance with IAS 40 (paragraph 30). Under this model, investment properties are measured at fair value, with changes in fair value recognised in profit. Investment properties are not depreciated.

Purchased properties that are under construction or renovation and are intended to be held as investment properties are initially measured in accordance with IAS 16. When the work is completed, the property is transferred to the “Investment property” account, provided that it fulfils the definition in IAS 40. Investment properties that are subsequently renovated continue to be measured in accordance with IAS 40.

Investment properties are reclassified as “Assets held for sale” when their sale has been decided by the Board of Directors or a selling agent has been appointed.

The fair value of property corresponds to the market value as determined by independent experts.

2-3. INTANGIBLE ASSETS

Intangible assets correspond mainly to software development costs incurred in connection with the Group’s systems upgrade, accounted for in accordance with IAS 38.

They are amortised by the straight-line method over three years.

2-4. RECOVERABLE AMOUNT OF NON-CURRENT ASSETS

IAS 36 “Impairment of Assets” applies to intangible assets, property and equipment, financial assets and goodwill. No goodwill is carried in the Group’s consolidated balance sheet.

At each period-end, the Group assesses whether there is any indication that any assets in the above categories may be impaired. If any such indication exists, the asset’s recoverable amount is estimated. If the recoverable amount is less than its carrying amount, an impairment loss is recognised.

Indications of impairment include a change in the asset’s economic or technical environment and a fall in its market value.

Recoverable amounts are determined by reference to appraisal values.

2-5. BORROWING COSTS

The allowed accounting treatments of borrowing costs are described in IAS 23. Under IAS 23, borrowing costs directly attributable to the acquisition, construction or production of a property asset may be recognised as an expense in the period in which they are incurred (benchmark treatment) or capitalised as part of the cost of the asset (allowed alternative treatment).

SFL has chosen to apply the allowed alternative treatment.

2-6. ASSETS HELD FOR SALE

Properties classified as “held for sale” are measured at the lower of their carrying amount and fair value less costs to sell. Once an asset measured using the cost model (owner-occupied property) has been classified as “held for sale” no further depreciation charges are recorded.

When a property is initially reclassified as “held for sale”, it is measured at its carrying amount immediately prior to reclassification.

Assets are classified as “held for sale” when they meet the following criteria:

- The asset is available for immediate sale in its present condition.
- Its sale is highly probable (this is considered to be the case when the sale of the asset has been decided by the Board of Directors or a selling agent has been appointed).
- An active programme to locate a buyer has been initiated.
- The asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value.
- The sale is expected to qualify for recognition as a completed sale within one year from the date of classification.
- Actions taken to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

2-7. FINANCIAL INSTRUMENTS (OTHER THAN DERIVATIVES)

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial instruments are initially recognised at cost, corresponding to the fair value of the consideration paid, including transaction costs directly attributable to the acquisition.

Financial instruments are classified in four categories for the purpose of measurement after initial recognition, as follows:

- Instruments classified as “financial assets at fair value through profit or loss” or “available-for-sale financial assets” are measured at fair value. Gains and losses on instruments in the first category are recognised through profit. Gains and losses on available-for-sale financial assets are recognised on a separate line in equity until the financial asset is derecognised, at which time the gain or loss previously recognised in equity is reclassified into profit.
- Non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity are classified as “held-to-maturity investments” and measured at amortised cost. Financial assets that are intended to be held for an indefinite period are not classified as “held-to-maturity”.
- The amortised cost of bonds and other investments intended to be held to maturity is determined by the effective interest method. Under this method, the difference between the cost of the instruments, including any premium or discount, and the maturity amount is amortised over the remaining period to maturity. Gains and losses on instruments measured at amortised cost are recognised through profit when the instruments are derecognised or through the recognition of impairment losses, as well as through amortisation charges.
- The fair value of instruments that are actively traded on an organised financial market is determined by reference to

the period-end quoted market price. The fair value of instruments that are not actively traded is determined by reference to current prices or rates for similar financial instruments.

Purchases and sales of financial instruments are recognised on the transaction date, corresponding to the date when the Group becomes a party to the contractual provisions of the instrument.

2-8. INVENTORIES

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

For properties sold on a break-up basis, the amount deducted from inventory is determined by dividing the total carrying amount of the property by the percentage sold.

2-9. AMOUNTS RECEIVABLE FROM TENANTS AND TRADE RECEIVABLES

Receivables are initially recognized at fair value and are subsequently measured using the cost model. Provisions for impairment are determined on a case-by-case basis, for the difference between the receivables’ carrying amount and recoverable amount.

2-10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents carried in the balance sheet include cash at bank and on hand and short-term deposits with original maturities of less than three months.

Cash and cash equivalents in the statement of cash flows correspond to cash and cash equivalents less short-term bank loans and overdrafts.

Short-term investments are measured at fair value, in accordance with IAS 32.

2-11. INTEREST-BEARING LOANS AND BORROWINGS

Loans and borrowings are initially recognized at cost, corresponding to the fair value of the consideration paid or received, including directly attributable transaction costs.

Interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest method. Amortised cost takes into account all debt issuance costs and any difference between the initial amount and the amount at maturity. Gains and losses are recognised through profit when the loans and borrowings are derecognized or through the recognition of impairment losses, as well as through amortisation charges.

2-12. DISCOUNTING OF NON-CURRENT LIABILITIES

The requirement under IFRS to discount non-interest-bearing non-current liabilities applies, in the case of the Group, to guarantee deposits, long-term provisions and the exit tax payable in four annual instalments following election for SII status. Provisions are not discounted, as the discounting adjustment would not be material due to the amounts involved and the estimated period before the provisions are reversed.

2-13. PROVISIONS

A provision is recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

When the Group expects reimbursement of some or all of the expenditure required to settle a provision, the reimbursement is recognised as a separate asset when, and only when, it is virtually certain that it will be received. In the profit and loss account, the expense relating to the provision is presented net of the amount recognised for the reimbursement. Where the effect of the time value of money is material, provisions are discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and those risks specific to the liability that have not been reflected in the best estimate of the expenditure. Where discounting is used, the increase in the provision due to the passage of time is recognised under "Finance costs".

2-14. EMPLOYEE BENEFITS

Long-term benefits consist mainly of length-of-service awards payable to employees on retirement and jubilees.

Long-term benefits are recognised in the period in which the qualifying service is rendered by the employee. They are discounted at a rate defined in IAS 19. Short-term employee benefits are recognized in current liabilities and in expenses for the period. The projected benefit obligation is calculated annually based on actuarial assumptions including a retirement age of 65, a discount rate of 4.5% and a 2% rate of future salary increases. The calculation parameters are determined separately for each individual company, on a historical basis. Actuarial gains and losses are recognised in profit.

- **Length-of-service awards payable to employees on retirement:** benefits payable under this plan are specified in a corporate agreement signed with employee representatives.

- **Post-employment medical care:** this plan concerns a closed group of 12 retired SFL employees. Benefits consist of the payment by SFL of two-thirds of the contributions due to the company responsible for reimbursing medical costs.

- **Jubilees:** the agreements in force within the Group provide for the payment of one month's salary to administrative staff who complete 25 and 30 years service, and one month's salary for concierges and caretakers who complete 25 years service.

Employees are not covered by any defined benefit pension plan and are not entitled to any other post-employment benefits. As the Group does not have any such defined benefit obligations, no sensitivity analyses are presented.

2-15. TREASURY SHARES

Treasury shares are recorded as a deduction from equity. Any gains and losses on sales of treasury shares are cancelled.

2-16. SHARE-BASED PAYMENT

Under the transitional provisions of IFRS 2, recognition in the financial statements of equity-settled share-based transactions is required only for equity instruments that were granted after 7 November 2002 and had not yet vested at 1 January 2005. In the case of SFL, IFRS 2 was only applied to the 2 March 2006 stock option plan. Options granted under this plan were measured using the Black & Scholes option-pricing model.

2-17. FINANCE LEASES

Finance leases - primarily for the acquisition of property assets - that transfer substantially all the risks and rewards incidental to ownership of the asset are recognized at the commencement of the lease term as assets and liabilities at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. The finance charge is recognised directly in finance costs.

Investment properties acquired under finance leases are measured at fair value at each period-end.

2-18. DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses interest rate swaps and other derivative financial instruments to hedge the risk of changes in interest rates (and foreign exchange rates). These instruments are measured at fair value.

For the purpose of applying hedge accounting, fair value hedges are defined as hedges of the exposure to changes in fair value of a recognized asset or liability and cash flow hedges are defined as hedges of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction.

For fair value hedges qualifying for hedge accounting, gains and losses arising from remeasuring the hedges at fair value are recognised in profit. Any gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognized in profit. Adjustments to the carrying amount of a hedged interest-bearing financial instrument are amortised through profit over the instrument's remaining period to maturity.

For cash flow hedges of firm commitments that qualify for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in profit.

For derivative instruments that do not qualify for hedge accounting, gains and losses from remeasurement at fair value are recognized in profit.

Hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting. In this case, the gain or loss on the hedging instrument recognised directly in equity is reclassified into profit when the forecast transaction occurs. If the forecast transaction is no longer expected to occur, any related cumulative gain or loss on the hedging instrument that remains recognized directly in equity is recognized in profit.

2-19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICY

SFL applies a strict risk management policy in the areas of:

- Liquidity risk, which is managed by maintaining long maturities and spreading debt across the yield curve.
- Counterparty risk, which is managed by carrying out all financial transactions, including short-term investments, with leading financial institutions.
- Market risk, which is managed by hedging all currency risks and interest rate risks on 80% of debt.

2-20. REVENUE

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount can be measured reliably. The revenue recognition criteria applied by the Group are as follows:

Property rentals

Property rentals from investment properties are recognised on a straight-line basis over the lease term.

Specific lease terms

Current leases include various specific terms concerning rent-free periods, step-up clauses, eviction compensation and the payment of key money.

The effects of rent-free periods and step-up clauses are recognised over the lease term.

When a tenant is evicted to permit renovation work to be carried out, the compensation is recognised as an asset as part of the renovation cost. When the payment of eviction compensation enables the Group to enhance the asset's yield (by re-letting the property at a higher rent), the compensation is deducted from rental revenue over the lease term.

Key money received by the lessor is recognised in property rentals over the lease term.

Penalties paid by tenants for terminating their lease in advance of the expiry date are treated as revenue from the terminated lease and are recognised in profit on the payment date.

Asset sales

Revenue from asset sales is recognized when the significant risks and rewards of ownership of the asset are transferred to the buyer and the amount of revenue can be measured reliably.

Interest income

Interest income is recognized on an accruals basis using the effective interest method, which consists of applying a rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Dividends

Dividends are recognized when the Group's right to receive payment is established.

III - Segment Information

The Group's primary reportable segment is the geographical segment, determined based on the location of its property assets.

	Golden Triangle	Financial District	Golden Crescent La Défense	Other	Head- quarters	Total
Property rentals	51,887	62,301	31,142	16,208	–	161,538
Property expenses, net of recoveries	(3,302)	(6,562)	(2,503)	4,133	–	(8,234)
Net Property Rentals	48,585	55,739	28,639	20,341	–	153,304
Gains and losses from remeasurement at fair value of investment properties	185,488	181,939	115,805	50,574	–	533,807
Service and other revenues	–	2	–	–	1,077	1,079
Other income	214	207	839	143	1,979	3,382
Depreciation and amortisation expense	–	(234)	–	–	(869)	(1,104)
Provision expense, net	1,147	311	37	532	600	2,627
Employee benefits expense	–	–	–	–	(14,626)	(14,626)
Other expenses	(5)	–	–	(1)	(9,906)	(9,912)
Operating Profit	235,429	237,963	145,321	71,588	(21,745)	668,557
Profit on Disposal of Investment Properties	17,381	–	–	–	–	17,381
Profit on Disposal of Assets Held for Sale	11,365	–	–	20,269	–	31,634
Margin on Sales as a Property Trader	–	–	–	458	–	458
Profit on Disposal of Other Assets	–	–	–	–	(5,117)	(5,117)
Investment income	–	–	–	–	8	8
Share of profits of associates	2,913	–	3,060	–	–	5,973
Finance costs, net	(2,383)	(1)	(2,794)	(4,454)	(34,613)	(44,244)
Gains and losses from remeasurement at fair value of financial instruments	–	–	–	–	(8,915)	(8,915)
Discounting adjustments to receivables and payables	–	–	–	–	(1,351)	(1,351)
Interest on receivables	–	–	–	7	2,963	2,970
Provision expense (financial assets), net	–	–	–	–	2,033	2,033
Other financial income and expenses	–	–	–	–	1	1
Profit before Income Tax	264,706	237,962	145,587	87,869	(66,736)	669,389
Income tax expense	(12,478)	–	(6,158)	(10,598)	(3,584)	(32,818)
Profit for the Period	252,228	237,962	139,429	77,271	(70,320)	636,571
Minority interests	(29,986)	–	–	–	–	(29,986)
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	222,242	237,962	139,429	77,271	(70,320)	606,585
	Golden Triangle	Financial District	Golden Crescent La Défense	Other	Head- quarters	Total
Segment assets	1,098,995	1,222,817	637,007	389,567	627	3,349,013
Unallocated assets	–	–	–	–	104,071	104,071
TOTAL ASSETS	1,098,995	1,222,817	637,007	389,567	104,698	3,453,084

Segment assets correspond to the Group's property assets. No analysis of liabilities by geographic segment is presented.

- **Paris-Golden Triangle**, comprising parts of the 8th, 16th and 17th arrondissements. The segment extends from avenue Raymond Poincaré and boulevard Gouvion Saint-Cyr in the west to rue Tronchet in the east, and from avenue de Villiers and boulevard Malesherbes in the north to the banks of the Seine up to Trocadero in the south.

- **The Financial District**, comprising parts of the 1st, 2nd and 9th arrondissements. This segment extends from rue Tronchet in the west to rue du Sentier and rue du Faubourg-Poissonnière in the east, and from rue de Chateaudun in the north to rue de Rivoli in the south.

- **Golden Crescent/La Défense**, located to the west of Paris, on the other side of the Boulevard Périphérique ring-road, and consisting mainly of La Défense.

The secondary reportable segment is the business segment. The Group has two business segments, property rental services and sales as a property trader.

	Property rental services	Sales as a property trader	Head- quarters	Total
Property rentals	161,530	8	–	161,538
Margin on sales as a property trader	–	458	–	458
Profit for the period	676,356	549	(70,320)	606,585

- Property rental services revenue consists of rent.
- Revenue from sales as a property trader consists of management fees for a property held under the property trader regime which was sold on a break-up basis. The final units were sold in 2006.

IV - Significant Events of the Year

4-1. ASSET PURCHASES AND SALES

During the period, various properties were purchased and sold in line with the Group's asset management policy. Details of the sales are provided in Note 6-28 to the profit and loss account and details of the purchases are given in Note 6-3 to the balance sheet.

4-2. FINANCING

Apart from a €20 million overdraft facility, no new financing was obtained during the year.

Following Standard & Poor's decision to downgrade SFL's credit rating to BB+ in December 2006, the Company initiated the process for the early repayment of the US Private Placement Notes. The related impact on the accounts is described in Notes 6-13 and 6-33.

4-3. RENOVATION PROGRAMMES

Renovation of the 63 Haussmann property was completed during the first half of the year.

Renovation of 5 rue Alfred de Vigny was completed in December 2006.

Renovation of 104-110 boulevard Haussmann, which is 50%-owned by SFL, is currently underway and the building is scheduled for delivery at the end of the first half of 2007.

Plans are currently being drawn up for the renovation of Galerie des Champs-Élysées – which is 50%-owned by SFL – and 92 avenue des Champs-Élysées.

Renovation plans for 103 Grenelle and 247 Saint-Honoré, acquired in 2006, are in the process of being finalized.

4-4. TAX AUDITS

The following is a discussion of tax audits, by type of proposed reassessment.

Provisions for major repairs

The tax authorities have challenged the method used by SFL to calculate these provisions and have notified the Group of a €3,751 thousand reassessment of the tax base. The Group has contested the tax authorities' position, on the grounds that the work involved was certain of being carried out and could be reliably measured. No provision has been recorded.

VAT

Following an audit covering 2002, additional input VAT of €2,551 thousand was recovered during the year. In addition, the Group has applied for a refund of €451 thousand in VAT on rent-free periods and eviction compensation that was paid following tax audits. This amount is covered by a provision.

Analysis of property values between the value of the land and that of the building

The tax authorities have challenged the breakdown of the value of certain properties in the accounts between the value of the land and that of the building and have notified the Group of €2,611 thousand worth of reassessments of the tax base. The Group has partially contested the tax authorities' position and has recorded a provision of €1,000 thousand.

Fair values of properties used to calculate exit tax

The tax authorities have challenged the fair values used to calculate the 16.50% exit tax, leading to a €75,623 thousand reassessment of unrealised capital gains corresponding to a tax deficiency of €12,478 thousand. The Group has formally contested the tax authorities' position, on the grounds that the exit tax was based directly on the property valuation carried out at 31 December 2002 by independent experts in connection with the half-yearly valuations of the Group's property portfolio. The Group also pointed out that the valuation method used by the independent experts was in line with standard professional practice. As a result, the Group considers that these values cannot be challenged. No provision has been recorded.

4-5. SUBSEQUENT EVENTS

Under the terms of a memorandum of understanding signed on 8 February 2007, PREDICA will sell its 50% stake in SCI Paul Cézanne to SFL – which already holds a 50% interest in the company – and sell the shares issued by SFL in exchange for the stake to a group of investors selected by Grupo Inmocaral and SFL.

The stake is valued at €198 million, or 50% of SCI Paul Cézanne's revalued net assets, including partners' current accounts at 31 December 2006. The final sale price will be adjusted to include PREDICA's share of the SCI's 2007 profit up to the date of the sale.

SFL shares issued to pay for the acquisition will be priced at €58 per share.

V - Scope of Consolidation

Consolidated companies	Registration No.	Percentage	
		Interest	Voting rights
Parent company:			
SA Société Foncière Lyonnaise	552 040 982	–	–
Fully-consolidated companies:			
SA SEGPIM	326 226 032	100	100
SAS Locaparis	342 234 788	100	100
SAS SB1	444 310 247	100	100
SAS SB2	444 318 398	100	100
SAS SB3	444 318 547	100	100
SCI SB3	484 425 450	100	100
SCI Washington	432 513 299	66	66
SCI COFIMMO	327 469 607	100	100
SCI 103 Grenelle	440 960 276	100	100
Proportionately-consolidated companies:			
SAS Parholding	404 961 351	50	50
SC Pargrin	414 829 929	50	50
SC Parsherbes	413 175 639	50	50
SC Parchamps	410 233 498	50	50
SC Pargal	428 113 989	50	50
SC Parhaus	405 052 168	50	50
SC Parchar	414 836 874	50	50
SAS Parkleb	582 033 643	50	50
SCI Paul Cézanne	438 339 327	50	50
Associates (accounted for by the equity method):			
SAS Iéna	434 564 357	25	25
SAS La Défense	434 583 100	25	25
SNC Iéna 1	434 756 904	25	25
SNC Iéna 2	434 756 987	25	25
SNC La Défense	434 756 425	25	25
SNC Amarante	444 670 996	15	15
SNC Péridot	444 959 456	15	15
SNC Lazuli	444 991 806	15	15

SNC Amarante, SNC Péridot and SNC Lazuli, all of which are 15%-owned, are accounted for by the equity method because SFL has two representatives on each company's five-member management committee and is therefore in a position to exercise significant influence over their management. SFL is also responsible for the commercial and technical management of the companies' properties and for their financial and administrative management.

SCI 103 Grenelle, owner of an office property at 103 rue de Grenelle, Paris 7 that is due to be renovated, has been consolidated since 20 July 2006.

SCI no.6 du Courcellor II was placed in liquidation on 15 November 2006. At that date, the company no longer held any assets.

SC Parelys, owner of the property at 118 Champs-Élysées, was sold on 15 December 2006.

Société Foncière Lyonnaise is 89.7%-owned by Inmobiliaria Colonial SA, a Spanish company owned by Grupo Inmocaral SA, also incorporated in Spain.

VI - Notes to the Consolidated Balance Sheet and Profit and Loss Account

The key balance sheet and profit and loss account items are analysed below. All amounts are stated in thousands of euros.

6-1. INTANGIBLE ASSETS

	31/12/2004	Increases	Decreases	Reclassifications	Acquisitions of subsidiaries	31 /12/2005
Gross						
Computer software	2,568	311	(68)	(7)	–	2,804
Other intangible assets	23	–	(23)	–	–	–
Accumulated amortisation						
Computer software	(601)	(524)	65	40	–	(1,020)
Other intangible assets	–	–	–	–	–	–
Gains and losses from remeasurement at fair value	–	–	–	–	–	–
CARRYING AMOUNT	1,990	(213)	(26)	33	–	1,784

	31/12/2005	Increases	Decreases	Reclassifications	Acquisitions of subsidiaries	31 /12/2006
Gross						
Computer software	2,804	404	–	–	–	3,208
Other intangible assets	–	–	–	–	–	–
Accumulated amortisation						
Computer software	(1,020)	(547)	–	–	–	(1,567)
Other intangible assets	–	–	–	–	–	–
Gains and losses from remeasurement at fair value	–	–	–	–	–	–
CARRYING AMOUNT	1,784	(143)	–	–	–	1,641

6-2. PROPERTY AND EQUIPMENT

	31/12/2004	Increases	Decreases	Reclassi- fications	Acquisitions of subsidiaries	31/12/2005
Gross						
Owner-occupied property	16,034	–	–	–	–	16,034
Equipment	28,173	11,684	(664)	81	–	39,274
Accumulated depreciation						
Owner-occupied property	(1,369)	(235)	–	–	–	(1,604)
Equipment	(988)	(194)	436	(95)	–	(841)
Gains and losses from remeasurement at fair value	–	–	–	–	–	–
CARRYING AMOUNT	41,850	11,255	(228)	(15)	–	52,863

	31/12/2005	Increases	Decreases	Reclassi- fications	Acquisitions of subsidiaries	31/12/2006
Gross						
Owner-occupied property	16,034	–	–	–	–	16,034
Equipment	39,274	114,945	(37)	(1,300)	124,257	277,139
Accumulated depreciation						
Owner-occupied property	(1,604)	(235)	–	–	–	(1,839)
Equipment	(841)	(321)	–	(396)	–	(1,558)
Gains and losses from remeasurement at fair value	–	–	–	–	–	–
CARRYING AMOUNT	52,863	114,389	(37)	(1,696)	124,257	289,776

The fair value of owner-occupied property – corresponding to the section of the Centre d’Affaires Le Louvre used by SFL as its administrative headquarters – rose to €20,483 thousand at 31 December 2006 from €16,980 thousand at the previous year-end.

In 2006, SFL acquired two properties for renovation, at rue de Grenelle, Paris 7, and rue Saint-Honoré, Paris 1.

6-3. INVESTMENT PROPERTIES

	31/12/2004	Increases	Decreases	Reclassifications	Acquisitions of subsidiaries	31 /12/2005
Gross						
Investment properties	2,081,700	150,922	–	(61,727)	24,715	2,195,609
Investment properties under construction	39,704	27,557	4	(41,389)	–	25,876
Accumulated depreciation						
Investment properties	–	–	–	(395)	–	(395)
Gains and losses from remeasurement at fair value	137,888	128,137	–	(9,208)	–	256,817
CARRYING AMOUNT	2,259,292	306,616	4	(112,719)	24,715	2,477,906

	31/12/2005	Increases	Decreases	Reclassifications	Acquisitions of subsidiaries	31 /12/2006
Gross						
Investment properties	2,195,609	41,593	(43,821)	44,154	–	2,237,535
Investment properties under construction	25,876	48,141	(841)	(31,024)	–	42,152
Accumulated depreciation						
Investment properties	(395)	–	–	395	–	–
Gains and losses from remeasurement at fair value	256,817	533,807	(36,162)	755	–	755,217
CARRYING AMOUNT	2,477,906	623,541	(80,824)	14,280	–	3,034,904

Investment properties, other than properties held for sale, are valued by qualified valuers at six-monthly intervals.

In 2006, SFL acquired a fully let office property in Issy-les-Moulineaux.

Interest expense capitalised during 2006 on investment properties undergoing renovation amounted to €4,124 thousand.

6-4. INVESTMENTS IN ASSOCIATES

	% interest	31/12/2004	31/12/2005	Dividends received	Profit	Disposals	31 /12/2006
SCI n° 6 du Courcellor II	38	4,222	947	–	(2)	(945)	–
SAS Iéna	25	(14)	(177)	479	375	–	677
SAS La Défense	25	(7)	(111)	289	111	–	289
SAS Roosevelt	25	(2)	–	–	–	–	–
SNC Iéna 1	25	3,584	4,643	(319)	1,795	–	6,119
SNC Iéna 2	25	799	1,439	(160)	743	–	2,022
SNC La Défense	25	2,476	4,633	(290)	1,577	–	5,920
SNC Roosevelt	25	536	–	–	–	–	–
SNC Amarante	15	(9)	(723)	(947)	(1,475)	–	(3,145)
SNC Péridot	15	3,744	5,010	230	986	–	6,226
SNC Lazuli	15	4,611	6,197	446	1,187	–	7,830
TOTAL		19,970	21,858	(272)	5,297	(945)	25,938

SCI n° 6 du Courcellor II was liquidated on 15 November 2006.

6-5. FINANCIAL ASSETS

	31/12/2004	31/12/2005	Increases	Impairment losses recognised during the year	Decreases	Impairment losses released during the year	31/12/2006
Investments in non-consolidated companies	6,345	6,027	–	–	(4,949)	–	1,078
Provisions for impairment	(432)	(4,255)	–	–	–	4,255	–
Investments in non-consolidated Companies, net	5,913	1,772	–	–	(4,949)	4,255	1,078
Teachers JV (25%) loan	8,579	10,039	–	–	(7,411)	–	2,628
Teachers JV (15%) loan	8,725	8,725	–	–	–	–	8,725
Advance to SCI Champvernier	15,245	15,245	–	–	–	–	15,245
Deposits	1,032	1,032	8	–	(652)	–	388
Other non-current financial assets	2,522	257	–	–	–	–	257
Advances to non-consolidated companies	35,298	35,298	8	–	(8,063)	–	27,243
TOTAL	42,016	37,070	8	–	(13,012)	4,255	28,321

6-6. OTHER NON-CURRENT ASSETS

	31/12/2006	31/12/2005	31/12/2004
Deferred tax assets	3,647	3,582	467
Other receivables due beyond one year	5,270	255	–
Non-current prepayments	–	–	2,296
TOTAL	8,917	3,837	2,763

Deferred tax assets are analysed in Note 6-36.

6-7. ASSETS HELD FOR SALE

At 31 December 2006, assets held for sale consisted of a limited number of parking spaces.

6-8. STOCK

Inventories correspond to properties held by SA Segpim, which operates as a property trader. The decrease in inventories, from €14,972 thousand at 31 December 2004 to €845 thousand at 31 December 2005 and to €0 at 31 December 2006, corresponds to the sale of the Vauban property on a break-up basis, which was completed during 2006.

6-9. TRADE AND OTHER RECEIVABLES

	31/12/2006			31/12/2005	31/12/2004
	Total	Due within one year	Due in more than one year	Total	Total
Trade receivables	28,223	7,330	20,893	31,075	18,645
Provisions	(1,631)	N/A	N/A	(2,546)	(1,837)
Trade receivables, net	26,592	7,330	20,893	28,529	16,808
Prepayments to suppliers	26	26	–	1,628	2,064
Employee advances	45	45	–	1,517	28
Short-term portion of tax receivables (other than income tax)	10,053	10,053	–	14,785	17,815
Other operating receivables	353	353	–	6,352	2,660
Other receivables	147	147	–	939	183
Other receivables	10,624	10,624	–	25,221	22,750
TOTAL	37,216	17,954	20,893	53,750	39,559

Receivables do not bear interest.

Provisions for doubtful debts can be analysed as follows:

	31/12/2006	31/12/2005	31/12/2004
Increases	(476)	(1,344)	(738)
Reversals	1,391	702	894
Bad debt write-offs	(765)	(587)	(282)
Total	150	(1,229)	(126)
Property rentals	161,538	153,308	156,803
NET LOSSES AS A % OF PROPERTY RENTALS	(0.09%)	0.80%	0.08%

6-10. OTHER ASSETS

	31/12/2006	31/12/2005	31/12/2004
Income tax prepayments	559	–	–
Other prepayments	1,859	3,805	–
TOTAL	2,418	3,805	–

6-11. CASH AND CASH EQUIVALENTS

	31/12/2006	31/12/2005	31/12/2004
Cash at bank and in hand	2,137	2,272	5,514
Short-term investments	21,416	26,659	71,120
TOTAL	23,553	28,931	76,634

Short-term investments are measured at fair value. They break down as follows:

	31/12/2006	31/12/2005	1/12/2004
Société Générale money market fund	148	6,770	48,965
Crédit Lyonnais money market fund	–	–	423
HSBC money market fund	9,194	3,008	7,592
Crédit Agricole money market fund	12,074	16,881	14,140
TOTAL	21,416	26,659	71,120

6-12. EQUITY

The Company's share capital amounts to €86,152 thousand, represented by 43,075,952 ordinary shares with a par value of €2. During the period, share capital was increased by €24 thousand through the issue of 12,164 ordinary shares with a par value of €2 each. The corresponding premium totalled €312 thousand.

Treasury shares are deducted from equity. Details of transactions in treasury shares are presented below:

	31/12/2004	Purchases	Sales	31/12/2005	Purchases	Sales	31/12/2006
Number of shares	1,004,774	–	825,207	179,567	134,500	184,000	130,067
Average purchase/sale price, in euros	€30.27	–	€30.27	€30.27	€48.11	€30.26	€32.39
TOTAL	30,418	–	24,981	5,435	6,471	5,568	4,214

Equity is analysed in the consolidated statement of changes in equity included in the financial statements.

6-13. SHORT AND LONG-TERM INTEREST-BEARING DEBT

	Effective Interest Rate	Due	Long-term portion			Short-term portion		
			31/12/2006	31/12/2005	31/12/2004	31/12/2006	31/12/2005	31/12/2004
Lease liabilities:								
131, Wagram	3-month Euribor + 75 bps	15/06/2009	62,201	63,153	64,105	952	952	951
Quai Le Gallo	3-month Euribor + 75 bps	28/02/2012	69,308	72,627	75,806	3,318	3,179	3,046
6, Hanovre	3-month Euribor + 80 bps	18/12/2010	–	–	5,763	–	–	286
Rives de Seine	6-month Euribor + 75 bps	29/10/2013	105,934	115,127	123,941	9,94	8,814	8,450
3, La Boétie	6-month Euribor + 70 bps	08/04/2012	–	–	17,539	–	–	690
63, Haussmann	6-month Euribor + 70 bps	31/07/2012	–	–	10,489	–	–	402
62, Beaubourg	6-month Euribor + 80 bps	16/01/2012	–	–	10,689	–	–	418
82, Beaubourg	6-month Euribor + 80 bps	13/03/2012	–	–	5,958	–	–	232
12, Capucines	6-month Euribor + 80 bps	18/12/2011	–	–	14,080	–	–	572
11, Prony	6-month Euribor + 80 bps	16/01/2012	–	–	9,402	–	–	368
Sébastopol	6-month Euribor + 80 bps	16/01/2012	–	–	15,454	–	–	605
Pavillon Henri IV	6-month Euribor + 80 bps	16/01/2012	–	–	4,205	–	–	165

Short and long-term interest-bearing debt (suite)

	Effective Interest Rate	Due	Long-term portion			Short-term portion		
			31/12/2006	31/12/2005	31/12/2004	31/12/2006	31/12/2005	31/12/2004
Impact of deferred recognition of debt arranging fees			(1,377)	(2,008)	–	(449)	(280)	–
OECA convertible bonds:	4%	01/01/2005	–	–	–	–	–	238
Bank loans								
Natexis syndicated loan	3-month Euribor + 40 bps	26/01/2012	416,000	296,000	–	187	39	–
HSBC/Calyon/CFF loan	3-month Euribor + 90 bps	29/12/2009	69,282	73,409	73,848	26	1,521	1,519
HSBC/Calyon/CFF loan	3-month Euribor + 40 bps	29/03/2008	1,577	737	–	1	–	–
Société Générale syndicated loan	3-month Euribor + 60 bps	25/01/2005	–	–	–	–	–	162,539
Société Générale loan	3.89%	09/02/2005	–	–	–	–	–	253
Paul Cézanne financing	3-month Euribor + 50 bps	15/07/2005	–	–	–	–	–	30,063
US Private Placement Notes (USD 100 million)	6.27%	10/12/2012	–	83,493	100,000	76,212	317	365
US Private Placement Notes (USD 25 million)	5.67%	10/12/2009	–	20,873	25,000	19,047	71	83
Current account advances	3-month Euribor + 60 bps		–	–	–	60,185	61,293	61,678
Hedging instruments at fair value								
Swap no.1 on Calyon/HSBC/CFF loan	3.85%	29/12/2009	(188)	1,920	–	1	–	–
Swap no.2 on Calyon/HSBC/CFF loan	3.56%	29/06/2009	(41)	81	–	–	–	–
Swap no.3 on Calyon/HSBC/CFF loan	3.13%	29/12/2009	(373)	20	–	(1)	–	–
Barclays swap on US Private Placement Notes	6.47%	10/12/2012	–	30,374	–	32,706	–	–
Barclays swap on US Private Placement Notes	6.09%	10/12/2009	–	6,373	–	7,199	–	–
JPMorgan swap (on €400 million)	12-month Euribor + 141.5 bps	03/01/2014	33,881	41,114	–	1,868	–	–
Swap on Calyon loan	3.79%	23/05/2011	(861)	–	–	20	–	–
Bank overdrafts:	3-month Euribor + margin		–	–	–	20,383	8,240	3,571
TOTAL			755,343	803,293	556,279	230,849	84,146	276,494

Bank overdrafts are included in cash and cash equivalents in the statement of cash flows.

The following table analyses borrowings by maturity:

	31/12/2006	Due within one year	Due in 1 to 5 years	Due beyond five years
Natexis syndicated loan	416,187	187	216,000	200,000
HSBC/Calyon/CFF loan	70,886	27	70,859	–
Lease liabilities	250,907	13,464	117,902	119,541
US Private Placement Notes	95,259	95,259	–	–
Current account advances	60,185	60,185	–	–
Deferred debt arranging fees	(1,826)	(449)	(1,367)	(10)
Swap no.1 on Calyon/HSBC/CFF loan	(187)	1	(188)	–
Swap no.2 on Calyon/HSBC/CFF loan	(41)	–	(41)	–
Swap no.3 on Calyon/HSBC/CFF loan	(374)	(1)	(373)	–
Barclays swap on US Private Placement Notes (USD 100 million)	32,706	32,706	–	–
Barclays swap on US Private Placement Notes (USD 25 million)	7,199	7,199	–	–
JPMorgan swap (on €400 million)	35,749	1,868	–	33,881
Swap on Calyon loan	(841)	20	(861)	–
Bank overdrafts	20,383	20,383	–	–
TOTAL	986,192	230,849	401,931	353,412

Comments (excluding accrued interest)

US Private Placement Notes: The USD 125 million in US Private Placement Notes converted at the 31 December 2006 dollar exchange rate are carried in the balance sheet for an amount of €94,913 thousand.

In accordance with the rating trigger included in the US Private Placement Notes loan agreement, following Standard & Poor's decision to downgrade SFL's credit rating to BB+, the Company offered to repay the debt early, on 6 March 2007.

All the investors have accepted early repayment and the US Private Placement Notes together with the related hedging instruments have therefore been reclassified in short-term interest-bearing debt at 31 December 2006.

A provision of €2,221 thousand has been recorded in the balance sheet at that date to cover the early-repayment penalty provided for in the loan agreement (see Note 6-14). Measurement of the US Private Placement Notes and related hedging instrument at fair value at 31 December 2006 led to the recognition of a €9,697 thousand net loss.

At 31 December 2006, the Company had drawn down €416,000 thousand on the Natexis syndicated loan.

The Parholding sub-group's bank borrowings are indexed to the 3-month Euribor. SFL's share of these borrowings amounts to €70,859 thousand.

Following the 15 December sale of Parelys, quarterly loan repayments have been suspended until 29 June 2008.

Current account advances correspond to PREDICA's interest in SCI Washington.

6-14. SHORT AND LONG-TERM PROVISIONS

	31/12/2004	31/12/2005	Increases	Decreases	o/w utilisations	Reclassi- fications	31/12/2006
Long-term provisions							
Provisions related to refurbishment work and tenant claims	250	187	–	(187)	(187)	–	–
Provisions for taxes other than on income	–	–	–	–	–	1,000	1,000
Provisions for employee benefits	1,519	2,887	–	(1,408)	(625)	–	1,479
Other provisions	66	–	–	–	–	–	–
Total	1,835	3,074	–	(1,595)	(812)	1,000	2,479
Short-term provisions							
Provisions related to refurbishment work and tenant claims	1,520	1,992	–	(640)	(640)	200	1,552
Provisions for taxes other than on income	–	–	275	–	–	–	275
Provisions for employee benefits	–	310	1,045	(100)	–	–	1,255
Other provisions	1,205	1,475	2,221	(275)	(275)	(1,200)	2,221
Total	2,725	3,777	3,541	(1,015)	(915)	(1,000)	5,303
TOTAL	4,560	6,851	3,541	(2,610)	(1,727)	–	7,782

Provisions for employee benefits include provisions for length-of-service awards payable to employees on retirement and jubilees for a total of €1,479 thousand. The portion of short- and long-term provisions covering benefits payable to members of senior management amounted to €1,796 thousand at 31 December 2006.

Provisions related to refurbishment work mainly concern claims for faulty work on sold properties or units. Provisions for tenant claims cover tenant business interruption claims.

No provision is recorded in the accounts for contingencies giving rise to a possible, not a probable obligation.

6-15. DEFERRED TAXES

See Note 6-36.

6-16. OTHER LONG-TERM TAX LIABILITIES

This item corresponds mainly to the balance of the exit tax payable over three years following the election for SIIC status. The liability has been discounted as follows:

Due date	2008	2009	Total
Amount	1,202	1,143	2,345

6-17. OTHER NON-CURRENT LIABILITIES

This item corresponds mainly to guarantee deposits and bonds received from tenants.

6-18. TRADE AND OTHER PAYABLES

	31/12/2006	31/12/2005	31/12/2004
Trade payables	6,826	8,325	8,413
Amounts due within one year on asset acquisitions	13,818	9,936	6,778
TOTAL	20,644	18,261	15,191

6-19. OTHER CURRENT LIABILITIES

Other current liabilities break down as follows:

	31/12/2006	31/12/2005	31/12/2004
Customer prepayments	1,052	4,344	1,092
Accrued employee benefits expense	7,484	6,820	4,603
Accrued taxes	10,027	39,184	9,734
Other current liabilities	3,442	8,283	2,045
Accruals	44	2,399	56
TOTAL	22,049	61,030	17,530

Accrued employee benefits expense includes statutory and discretionary profit-sharing and accruals for variable salaries.

Accrued taxes in 2006 include the exit tax instalment due in 2007 for €1,281 thousand and income taxes payable of €4,370 thousand. Accrued taxes in 2005 included the exit tax instalment due in 2006 for €27,174 thousand.

Accruals correspond to funds collected in advance.

6-20. NET PROPERTY RENTALS

The Group's principal business is the rental of office and retail properties, which account for 95.3% of property rentals. Net property rentals for 2006 include €7,584 thousand corresponding to the recognition of rent-free periods and rent step-ups recognised over the life of the lease.

6-21. GAINS AND LOSSES FROM REMEASUREMENT OF INVESTMENT PROPERTIES AT FAIR VALUE

Details of gains and losses from remeasurement of investment properties at fair value are provided in Note 1-2.

6-22. SERVICE AND OTHER REVENUES

This item corresponds to service fees for €1,079 thousand in 2006, €2,430 thousand in 2005 and €2,379 thousand in 2004.

6-23. OTHER INCOME

	31/12/2006	31/12/2005	31/12/2004
Own-work capitalised	1,807	1,327	6,216
Other income	1,575	4,593	1,630
TOTAL	3,382	5,920	7,846

Other income corresponds to work billed to third parties and renovation project management fees.

6-24. DEPRECIATION AND AMORTISATION EXPENSE

	31/12/2006	31/12/2005	31/12/2004
Amortisation of intangible assets	(548)	(611)	(405)
Depreciation of property and equipment	(556)	(331)	(1,645)
TOTAL	(1,104)	(942)	(2,050)

6-25. PROVISION REVERSALS (EXPENSE), NET

	31/12/2006	31/12/2005	31/12/2004
Charges to provisions for operating contingencies and charges	(1,320)	(2,079)	(1,800)
Charges to provisions for impairment of current assets	(476)	(1,344)	(738)
Charges to provisions for other contingencies and charges	–	(1,000)	(1,210)
Reversals of provisions for operating contingencies and charges	2,745	239	1,079
Reversals of provisions for impairment of current assets	1,391	702	894
Reversals of provisions for other contingencies and charges	287	294	–
TOTAL	2,627	(3,188)	(1,775)

Provision reversals in 2006 include the reversal of €1,408 thousand in provisions for length-of-service awards payable to employees on retirement.

6-26. EMPLOYEE BENEFITS EXPENSE

	31/12/2006	31/12/2005	31/12/2004
Wages and salaries	(8,642)	(6,482)	(6,545)
Social security taxes	(4,332)	(2,512)	(6,467)
Death and disability insurance	(64)	(64)	(74)
Other payroll taxes	(649)	(524)	(680)
Statutory and discretionary profit-sharing	(939)	(1,218)	(1,045)
TOTAL	(14,626)	(10,800)	(14,811)

In 2006, the Group had 94 administrative staff (97 and 95 respectively in 2005 and 2004) and 4 building staff (11 and 18 respectively in 2005 and 2004).

The remuneration paid to Company directors and officers amounted to €5,333 thousand in 2006 and €2,549 thousand in 2005.

6-27. OTHER EXPENSES

	31/12/2006	31/12/2005	31/12/2004
Purchases	(140)	(351)	(1,506)
General subcontracting	(628)	(799)	(624)
Rent (operating leases)	(878)	(942)	(857)
Maintenance and repairs	(158)	(293)	(306)
Fees	(2,963)	(3,924)	(2,025)
Publications and public relations	(786)	(960)	(954)
Bank charges	(395)	(636)	(878)
Taxes other than on income	(1,742)	(1,452)	(2,669)
Travel and entertainment	(378)	(347)	(279)
Non-recurring expenses	(1,085)	(1,595)	(9,834)
Other	(759)	(677)	(824)
TOTAL	(9,912)	(11,976)	(20,746)

6-28. PROFIT ON DISPOSAL OF INVESTMENT PROPERTIES

The following properties were sold in 2006:

	Sale price excl. transfer costs and tax	Carrying amount	Disposal gain (loss)	Disposal date
Investment properties sold during the year				
87/89 rue de la Faisanderie	20,000	16,896	3,104	14/02/06
Rome – Vienne	4,827	3,963	864	28/02/06
82 rue Beaubourg	12,300	10,387	1,913	06/09/06
Îlot Sébastopol	51,500	37,112	14,388	05/12/06
12/14 Grande-Armée	42,000	30,635	11,365	12/12/06
3 La Boétie	53,250	43,858	9,392	15/12/06
118 Champs-Élysées (SC Parelys)	34,218	26,007	8,211	15/12/06
Other		222	(222)	
TOTAL	218,095	169,080	49,015	

6-29. MARGIN ON SALES AS A PROPERTY TRADER

	31/12/2006	31/12/2005	31/12/2004
Sales as a property trader	1,182	18,070	19,973
Production taken to inventory	(724)	(13,911)	(15,722)
TOTAL	458	4,159	4,251

The sale of the Vauban property on a break-up basis was completed during 2006.

6-30. PROFIT ON DISPOSAL OF OTHER ASSETS

	31/12/2006	31/12/2005	31/12/2004
Liquidation of SCI Tour Horizon		(314)	
Liquidation of SCI Courcellor	(3,947)		
Liquidation of SC Parmentier	(62)		
Unwinding of the VVH transaction			(538)
Sale of SAS Roosevelt shares		681	
Loss on the sale of Colonial shares purchased for hedging purposes	(1,106)		
Other	(2)	(22)	
TOTAL	(5,117)	345	(538)

The loss on the liquidation of SCI Courcellor is covered by the reversal of a provision for financial contingencies (see Note 6-35).

6-31. INVESTMENT INCOME

	31/12/2006	31/12/2005	31/12/2004
Dividends received from SCI Courcellor I	8	4,257	601
Dividends received from SCI Tour Horizon	–	40	378
TOTAL	8	4,297	979

6-32. FINANCE COSTS, NET

	31/12/2006	31/12/2005	31/12/2004
Interest on bank loans	(18,187)	(8,746)	(7,215)
Interest on lease liabilities	(9,636)	(8,366)	(13,033)
Interest on convertible bonds	–	–	(4,154)
Interest on US Private Placement Notes	(5,896)	(6,336)	(6,067)
Interest on external current account advances	(4,234)	(3,638)	(2,652)
Interest on swaps	(11,664)	(9,520)	(9,729)
Other	(94)	(50)	(364)
TOTAL FINANCE COSTS	(49,711)	(36,656)	(43,214)
Interest income	9	46	–
Net gains on sales of short-term investments	986	772	3,731
Financial expense transfers	4,124	221	–
Other financial income	348	335	1,590
TOTAL FINANCIAL INCOME	5,467	1,374	5,321
FINANCE COSTS, NET	(44,244)	(35,282)	(37,893)

6-33. FINANCIAL INSTRUMENTS

Interest rate risk

The following table analyses the carrying amount of financial instruments exposed to interest rate risk by maturity (excluding accrued interest):

FIXED RATE	Due within one year	Due in 1-2 years	Due in 2-3 years	Due in 3-4 years	Due in 4-5 years	Due beyond five years	Total
US Private Placement Notes	94,913	–	–	–	–	–	94,913
Swap on US Private Placement Notes	39,785	–	–	–	–	–	39,785
Swap no.1 on Calyon/HSBC/CFF loan at 3.85%	–	–	(188)	–	–	–	(188)
Swap no.2 on Calyon/HSBC/CFF loan at 3.56%	–	–	(41)	–	–	–	(41)
Swap no.3 on Calyon/HSBC/CFF loan at 3.1250%	–	–	(373)	–	–	–	(373)
Swap on Calyon loan at 3.7850%	–	–	–	(861)	–	–	(861)
TOTAL	134,698	–	(602)	(861)	–	–	133,235
FLOATING RATE	Due within one year	Due in 1-2 years	Due in 2-3 years	Due in 3-4 years	Due in 4-5 years	Due beyond five years	Total
Bank overdrafts	20,345	–	–	–	–	–	20,345
Natexis syndicated loan	–	–	–	16,000	200,000	200,000	416,000
HSBC/Calyon/CFF loan	–	6,550	64,309	–	–	–	70,859
Current account advances	60,185	–	–	–	–	–	60,185
Lease liabilities	13,464	14,005	74,868	14,207	14,822	119,541	250,907
JPMorgan swap	–	–	–	–	–	33,881	33,881
TOTAL	93,994	20,555	139,177	30,207	214,822	353,422	852,177

The other financial instruments used by the Group are not listed in the above table because they do not bear interest and are therefore not exposed to any interest rate risk.

Hedging

The hedging portfolio comprises the following three contracts:

Cross-currency swap on the US Private Placement Notes

Counterparty: Barclays. Description: The currency swap is a fair value hedge and the interest rate swap is a cash flow hedge. The fair value of the currency swap is determined based on the year-end dollar exchange rate. The swap commenced 10 December 2002, with a 6.47% fixed rate on €100,000 thousand for 10 years and a 6.09% fixed rate on €25,000 thousand for 7 years.

Following Standard & Poor's decision to downgrade SFL's credit rating to below investment grade, the Company offered to repay the notes early, on 6 March 2007. The hedging position will be closed on the repayment date. At 31 December 2006, the contract had a negative fair value of €39,785 thousand. This amount was recognised as a loss in the 2006 accounts; it was partly offset by an exchange gain on the underlying debt denominated in US dollars. The net impact on 2006 profit was a €9,697 thousand loss.

Interest rate hedges on the financing of the Parholding portfolio

Counterparty: HSBC-Calyon. Description: cash flow hedges. Under the initial hedge, which was restructured on 29 June 2005, SFL pays 3.85% on a notional amount of €44,640 thousand until 29 December 2009. Under the second hedge, set up on 6 August 2004, the Company pays a fixed rate of 3.56% on a notional amount of €3,800 thousand until 29 June 2009. The third swap, which was set up on 29 December 2005

with an increasing notional amount, is linked to the revolving line of credit used to finance Parhaus renovation work. At 31 December 2006, the notional amount was €13,500 thousand. The hedge expires on 29 December 2009.

At 31 December 2006, these contracts had a positive fair value of €602 thousand. The contracts represent 100% effective hedges and are not intended to be separated from the underlying debt.

General hedges of other floating rate debt

Counterparty: JP Morgan. Description: cash flow hedge. Following the restructuring carried out on 3 January 2005, the hedge is on a notional amount of €400,000 thousand and expires on 3 January 2014. SFL pays the 12-month Euribor +141.5 bps, with a cap at 508.5 bps and a floor of 200 bps. The hedge enhances the protection provided by the cross-currency swap by breaking the link with US interest rates. JP Morgan and SFL both have the right to terminate the contract on 3 January 2010. If this right is exercised, the terminating party will be required to pay to the other party an amount equal to the replacement cost of the instrument.

At 31 December 2006, the contract had a negative fair value of €33,881 thousand. It represents a macro-hedging transaction that has as its underlying several clearly identified balance sheet items whose value is at least equal to the notional amount of the hedging instrument.

Counterparty: Calyon. Description: cash flow hedge. This 5-year swap was set up on 23 May 2006 as a hedge of an identified balance sheet item. SFL pays a fixed rate of 3.7850%. At 31 December 2006, the contract had a positive fair value of €861 thousand.

6-34. INTEREST ON RECEIVABLES

	31/12/2006	31/12/2005	31/12/2004
Interest on the Champvernier loan	552	428	422
Interest on the Teachers loans	991	908	932
Other interest income	1,427	1,159	–
TOTAL	2,970	2,495	1,354

6-35. NET CHANGE IN PROVISIONS FOR IMPAIRMENT IN VALUE OF FINANCIAL ASSETS

	31/12/2006	31/12/2005	31/12/2004
Provisions for convertible bond redemption premiums	–	–	(2,393)
Provision for early repayment penalty due on the US Private Placement Notes	(2,221)	–	–
Provisions for impairment in value of Courcellor I shares	–	(4,135)	–
Financial expense transfers	–	–	635
Reversals of provisions for financial contingencies and charges	4,254	340	23,410
TOTAL	2,033	(3,795)	21,652

The Courcellor I liquidation deficit was covered by a €4,254 thousand provision reversal.

6-36. INCOME TAX EXPENSE

The election for taxation as an SIIC led to the elimination of the tax bases of the SIICs' assets used to calculate deferred taxes. The only remaining deferred tax assets and liabilities concern partnerships that are not eligible for taxation as an SIIC and assets under finance leases. Deferred taxes recognised in the profit and loss account, calculated at the tax rate applicable at 31 December, consist mainly of the following:

DEFERRED TAXES	Balance sheet 31/12/2005	Changes in scope of consolidation	Equity	2006 profit	Balance sheet 31/12/2006
Gains and losses from remeasurement of investment properties at fair value	(26,431)	–	–	(23,935)	(50,366)
Recognition of finance leases in the consolidated balance sheet	(10,956)	–	–	(4,457)	(15,413)
Revaluation of entities not eligible for taxation as an SIIC	1,890	200	–	–	2,090
Additional deferred taxes recognised on the Parholding group	–	200	(1,982)	–	(1,782)
Hedging instruments	–	–	(504)	–	(504)
Adjustment of depreciation	(275)	–	–	(198)	(472)
Adjustment of property rentals	(156)	(43)	–	(774)	(973)
Capitalisation of interest expense and transaction costs	(59)	–	–	–	(59)
Other expenses	96	–	–	–	96
NET	(35,891)	357	(2,486)	(29,364)	(67,383)
Of which: deferred tax assets	3,582	(35)	155	(55)	3,647
Of which: deferred tax liabilities	39,473	(392)	2,641	29,308	71,030

Income tax expense for the year amounted to €3,454 thousand.

France's amended 2006 Finance Act, voted on 30 December 2006, includes a series of measures concerning SIICs, referred to as "SIIC 4".

Under SIIC 4, if an SIIC pays a dividend to a shareholder owning less than 10% of its capital that is not taxed on the dividend income, the SIIC will be required to pay withholding tax equal to 20% of the dividend paid to the shareholder out of tax-exempt profits. Profits are qualified as tax-exempt when no tax is due or when the tax due represents less than two-thirds of the corporate income tax that would have been payable under standard French tax rules.

The new rule will apply to dividends paid on or after 1 July 2007.

In view of the current uncertainty concerning both the legal nature and the accounting treatment of the withholding tax, and also of possible future shareholder decisions affecting the amount of the withholding, no impact of the new rule has been recognised in the 2006 financial statements.

6-37. DISCONTINUED OPERATIONS

No businesses were discontinued during the year.

6-38. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing profit attributable to ordinary equity holders of the parent by the weighted average number of shares outstanding during the period.

Diluted earnings per share are calculated by dividing profit attributable to ordinary equity holders of the parent by the weighted average number of shares outstanding during the period, adjusted for the dilutive effect of in-the-money stock options and non-cumulative mandatorily convertible preference shares.

The following table shows the earnings and numbers of shares used to calculate basic and diluted earnings per share for all businesses:

	31/12/2006	31/12/2005	31/12/2004
Profit used to calculate basic earnings per share	606,585	226,544	209,300
Profit used to calculate diluted earnings per share	606,585	226,544	209,300
Number of ordinary shares at 31 December used to calculate basic earnings per share	43,075,952	43,063,788	42,987,187
Weighted average number of ordinary shares used to calculate basic earnings per share	43,068,717	43,034,466	37,113,770
Number of in-the-money stock options used to calculate diluted earnings per share	27,673	39,837	122,094
Diluted number of ordinary shares at 31 December	43,103,625	43,103,625	43,109,281
Diluted weighted average number of ordinary shares	43,096,390	43,074,303	37,235,864
Basic earnings per share based on the number of shares at 31 December	€14.08	€5.26	€4.87
Diluted earnings per share based on the number of shares at 31 December	€14.07	€5.26	€4.86
Basic earnings per share based on the weighted average number of shares	€14.08	€5.26	€5.64
Diluted earnings per share based on the weighted average number of shares	€14.08	€5.26	€5.62

There were no other transactions on ordinary shares or potential ordinary shares between the year-end and the date when these financial statements were drawn up.

6-39. DIVIDENDS

	31/12/2006		31/12/2005		31/12/2004	
	Total	Per share	Total	Per share	Total	Per share
Declared dividend for prior year	90,434	€2,10	88,124	€2,05	64,457	€1,80
Prior year interim dividend	30,019	€0,70	29,317	€0,70	-	-
Prior year dividend paid in current year	60,018	€1,40	57,851	€1,35	61,482	€1,80
TOTAL	90,037	€2,10	87,168	€2,05	61,482	€1,80

An interim dividend of €29,976 thousand, or €0.70 per share, was paid in November 2006.

6-40. OFF-BALANCE SHEET COMMITMENTS

Pledges and mortgages

On property and equipment

Mortgages on Parholding sub-group properties held by Calyon	Expiry date	Amount (principal + costs and incidental items)
1/ Parchamps	29/12/2009	11,000
2/ Parchar	29/12/2009	2,750
3/ Pargal	29/12/2009	25,300
4/ Parhaus	29/12/2009	12,100
5/ Parsherbes	29/12/2009	6,600
TOTAL		57,750

On investments

Pledges on shares in the following companies granted on 29 December 2002	Expiry date	Number of shares	Unit value	Total value (SFL share)
1/ Parchamps	29/12/2009	100,000	15	750
2/ Parchar	29/12/2009	1,374	15	10
3/ Pargal	29/12/2009	60,000	152	4,560
4/ Parhaus	29/12/2009	100,000	15	750
5/ Parsherbes	29/12/2009	77,910	15	584
6/ Parkleb	29/12/2009	62,422	15	468
TOTAL				7,123

The Teachers joint ventures that are 25%-owned by SFL have contracted loans totalling €83,931 thousand, of which €73,400 thousand is guaranteed by primary and secondary mortgages on the underlying properties, and the 15%-owned Teachers joint ventures have contracted loans totalling €217,096 thousand, of which €156,000 thousand is guaranteed by a security interest and €16,000 thousand by a secondary mortgage.

Guarantees and other commitments

	Total	Within one year	1 to 5 years	Beyond five years
Commitments given				
Guarantee given to Société Générale on behalf of SAS Locaparis pursuant to Article 3-2 of the Act of 2 January 1970	4,115	4,115	–	–
Guarantee given to Floviex on behalf of SAS Parkleb	54	54	–	–
Commitments received				
Guarantees received from tenants and suppliers	37,141	2,724	21,545	12,872
Revolving line of credit (SFL)	184,000	–	184,000	–
Revolving line of credit (Parhaus Réhabilitation)	10,943	–	10,943	–
Revolving line of credit (Parhaus, to cover VAT payments)	1,748	–	1,748	–
Overdraft facility	44,655	44,655	–	–

Stock option plans at 31 December 2006

Date of shareholder authorisation	17/10/1997	17/10/1997	16/05/2002	21/04/2005	21/04/2005
Grant date	06/04/2000	21/03/2002	25/04/2003	02/03/2006	02/03/2006
Number of shares under option	280,952	309,000	346,000	134,500	134,500
Issuer	SFL	SFL	SFL	SFL	Colonial
Starting date of exercise period	06/04/2005	21/03/2002	25/04/2003	24/11/2006	01/09/2006
Expiry date	05/04/2010	20/03/2012	24/04/2013	02/03/2011	02/03/2011
Exercise price (in euros- options exercisable for newly issued shares)	27.59				
Exercise price (in euros – options exercisable for shares bought back for this purpose)		27.78	26.41	51.07	58.23
Number of options at 1 January	39,587	68,000	65,000		
Number of options granted				134,500	134,500
Number of options exercised	11,914	65,000	0	119,000	122,000
Number of cancelled options				15,500	12,500
NUMBER OF OPTIONS OUTSTANDING	27,673	3,000	65,000	0	0

In accordance with IFRS 1, only share options that were granted after 7 November 2002 and had not yet vested at 31 December 2005 were required to be recognised and measured in the balance sheet at the IFRS transition date. Options granted prior to 7 November 2002 have not been restated.

The amount recognised in 2006 in respect of options granted and exercised during the year totalled €2,713 million.

Employee benefit obligations

On 26 October 2006, the Board of Directors terminated Yves Mansion's appointment as Chairman and approved the payment to him of compensation for loss of office of €1,000 thousand in line with the principle approved by the Board on 9 February 2004.

In the case of termination of Alec Emmott's appointment as Managing Director, he will receive compensation for loss of office of €800 thousand. A provision has been recorded for this amount.

Seven employees who are not executive directors are also entitled to compensation in the event that their employment is terminated or there is a significant change in their responsibilities following a change of control of SFL. The aggregate compensation that would be payable to these employees amounts to €2,431 thousand.

These agreements were approved by the Board on 9 February 2004, 25 July 2006 and 26 October 2006. No provisions have been recorded for the commitments concerning the seven employees who are not executive directors.

6-41. NOTE TO THE STATEMENT OF CASH FLOWS

	31/12/2006	31/12/2005	31/12/2004
Acquisitions of subsidiaries, net of the cash acquired:			
Purchase price	(1,975)	(21,415)	–
Cash acquired	–	1,694	–
Repayment of intragroup current account advances	(122,630)	–	–
Receivables from the sale of investments	–	–	–
Assets and liabilities acquired:			
Non-current assets	124,257	20,137	–
Current assets	517	1,699	–
Equity	(1,975)	(21,415)	–
Current liabilities	(122,799)	(420)	–
Proceeds from disposals of intangible assets and property and equipment:			
Sale price	188,167	125,390	211,237
Transaction costs	(2,997)	(497)	(2,233)
Capital gains tax	(3,345)	–	–
Cash and cash equivalents at end of period:			
Cash equivalents	21,416	26,659	71,120
Cash	2,137	2,272	5,514
Short-term bank loans and overdrafts	(20,345)	(8,240)	(3,571)

Additional information

Changes in deposits received from tenants are included in cash flows from operating activities.

Purchases and sales of treasury shares are included in cash flows from investing activities.

6-42. RELATED PARTY INFORMATION

The consolidated financial statements include the financial statements of all companies included in the scope of consolidation. Related party transactions concern proportionately consolidated companies and associates.

	31/12/2006	31/12/2005	31/12/2004
Parholding Group			
Service revenue	217	231	494
Interest on loans and receivables	338	108	–
Other financial income	–	–	510
PREDICA			
Service revenue	264	476	84
Interest on loans and receivables	1,061	648	–
Other income	–	147	379
Teachers Joint-venture			
Long-term loan	11,353	18,764	17,304
Service revenue	555	921	644
Interest on loans and receivables	991	904	–

Remuneration of the members of the Board of Directors and Management Committee

	31/12/2006	31/12/2005	31/12/2004
Short-term benefits, excluding payroll taxes (1)	3,045	2,741	2,410
Payroll taxes on short-term benefits	1,195	1,203	1,079
Post-employment benefits (2)			
Other long-term benefits (3)			
Share-based payments (4)	2,209		4,318
TOTAL	6,449	3,944	7,807

(1)) Gross salary and other remuneration, bonuses, discretionary and non-discretionary profit-sharing, matching Company payments, directors' fees and benefits in kind paid during the year.

(2) Service cost.

(3) Other vested deferred remuneration.

(4) Cost recognised in the income statement for stock options and employee rights issues.

— Company Financial Statements

Year ended 31 December 2006 (summarized)

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The summary financial statements of the Company presented on the following pages have been extracted from the Company's audited financial statements. The audited financial statements, together with the corresponding Auditors' reports, are available on request - in French only - from the Company's headquarters.

A – Summary Balance Sheet

ASSETS

(in €)	2006	2005	2004
Property assets	1,279,944,313	1,350,614,276	1,226,664,555
Other tangible and intangible fixed assets	161,020,833	57,945,578	54,788,803
Fixed asset investments	202,054,707	213,064,435	197,985,734
Current assets	339,841,789	242,452,572	229,643,284
Cash and cash equivalents	4,345,337	17,859,357	83,401,692
Other	2,743,000	3,272,289	1,175,372
TOTAL ASSETS	1,989,949,979	1,885,208,507	1,793,659,440

EQUITY AND LIABILITIES

(in €)	2006	2005	2004
Equity	1,366,043,533	1,365,574,106	1,393,414,261
Provisions	14,633,348	2,814,654	7,403,144
Convertible bonds	–	–	238,179
Mandatory convertible bonds	–	–	–
Other non-current liabilities	575,560,606	444,505,375	308,042,080
Current liabilities	33,712,492	72,314,372	84,561,776
TOTAL EQUITY AND LIABILITIES	1,989,949,979	1,885,208,507	1,793,659,440

B – Summary Profit and Loss Account

(in €)	2006	2005	2004
Net revenue	118,470,330	121,799,332	135,487,018
Other operating income	142,920,416	147,773,759	162,597,166
Operating expense	(102,471,390)	(106,432,040)	(96,294,852)
Operating profit	40,449,026	41,341,719	66,302,314
Financial income	32,100,573	32,709,218	69,563,945
Financial expense	(45,007,392)	(27,797,324)	(34,267,588)
Net financial (expense) income	(12,906,819)	4,911,894	35,296,357
Profit before tax and other income and expense	27,542,207	46,253,613	101,598,671
Other income	188,451,082	138,657,344	488,372,483
Other expense	(129,574,557)	(128,205,720)	(527,588,288)
Other income (expense), net	58,876,525	10,451,624	(39,215,805)
Employee profit-sharing	(346,523)	(79,470)	(99,234)
Income tax expense	1,427,250	(6,665,204)	(186,173)
NET PROFIT	87,499,459	49,960,563	62,097,459

C – Five-Year Financial Summary

(in €)	2006	2005	2004	2003	2002
I. Capital at 31 December					
Share capital	86,151,904	86,127,576	85,974,374	71,618,342	71,420,472
Number of ordinary shares outstanding	43,075,952	43,063,788	42,987,187	35,809,171	35,710,236
Par value	2.00	2.00	2.00	2.00	2.00
Number of potential ordinary shares to be issued:					
– On conversion of convertible bonds	–	–	7,935	6,939,508	6,939,508
– On exercise of warrants	–	–	–	–	–
II. Results of operation					
Net revenue	118,470,330	121,799,332	135,487,018	23,405,279	25,410,707
Profit before tax, depreciation, amortisation and provisions	120,515,903	92,700,375	47,531,707	3,575,048	303,262,125
Income tax expense	(1,427,250)	6,665,204	186,173	43,278,194	10,652,473
Net profit	87,499,459	49,960,563	62,097,458	31,681,261	195,034,869
Total dividends	148,804,163	90,433,955	88,123,733	64,456,508	42,852,283
III. Earnings per share					
Earnings per share after tax, before depreciation, amortisation and provisions	2.83	2.00	1.10	(1.11)	8.19
Net earnings per share	2.03	1.16	1.44	0.88	5.46
Net dividend per share	3.20	2.10	2.05	1.80	1.20
IV. Employee data					
Number of employees at year-end	76	65	49	53	59
Including building employees	4	11	5	5	12
Total payroll	7,941,466	5,178,661	5,563,184	3,246,037	3,604,233
Total benefits	3,927,593	2,191,720	1,563,631	1,386,619	1,572,760

D – Investments in Subsidiaries and Affiliates

SUBSIDIARIES AND AFFILIATES

(in €)

1) with a book value in excess of €15,000

Unquoted shares			165,807,020
4,174,368	SCI Washington shares	79,788,878	
200,000	SCI Paul Cézanne shares	34,085,250	
12,674	Coface Immbilier shares	20,111,069	
589,188	SA Parholding shares	18,400,300	
3,583,075	SNC Amarante shares	3,583,075	
274,994	SEGPIM shares	2,987,373	
79,546	Groupe Vendôme Rome SCA shares	2,286,735	
120,629	SAS léna shares	2,043,984	
64,056	SAS La Défense shares	1,230,616	
10	SCI 103 Grenelle shares	1,169,740	
1,000	SAS SB 1 shares	40,000	
1,000	SAS SB 2 shares	40,000	
1,000	SAS SB 3 shares	40,000	

2) with a book value below €15,000

Unquoted shares			7,497
17	Société d'Economie Mixte d'Equipements et d'Aménagement du 15 ^e shares	5,997	
100	SCI SB 3 shares	1,500	
Property development companies (total)		215	215

TOTAL SHARES IN SUBSIDIARIES AND AFFILIATES

165,814,732

— Reports

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A – Auditors’ report on the consolidated financial statements

Year ended 31 December 2006

To the shareholders,

In compliance with the assignment entrusted to us by the Annual General Meeting, we have examined the accompanying consolidated financial statements of Société Foncière Lyonnaise for the year ended 31 December 2006.

The consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

We conducted our audit in accordance with the professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and results of the consolidated group of companies, in accordance with IFRSs as adopted by the European Union.

JUSTIFICATION OF OUR ASSESSMENTS

In accordance with the requirements of Article L.823-9 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

Note 1-2 to the consolidated financial statements (“Accounting conventions – Change of method”), explains the change of accounting method relative to the application of the fair value model under IAS 40. In accordance with IAS 8, this change of method has been applied retrospectively to the comparative information for the periods ended 31 December 2005 and 2004 presented in the 2006 consolidated financial statements. Consequently, this comparative information differs from the information reported in the published 2005 and 2004 consolidated financial statements.

As part of our assessment of the Company’s accounting methods, we obtained assurance that the change of method had been properly applied in the comparative information for the periods ended 31 December 2005 and 2004 and that the related disclosures in the notes to the consolidated financial statements were appropriate.

As explained in note 1-2 to the consolidated financial statements (“Accounting conventions – Valuation method”) all of the Company’s property assets have been valued by qualified independent valuers. We reviewed the valuation methods used, assessed the consistency of the assumptions adopted and obtained assurance that the fair value of the Company’s property assets had been determined based on the independent valuations.

Note 2-18 to the consolidated financial statements (“Derivative financial instruments”) describes the accounting rules and methods applied to determine the fair value of derivative instruments, as well as the characteristics of the hedging instruments used by the Company. We obtained assurance that these accounting methods and the disclosures made in notes 2-18 and 6-32 (“Financial instruments”) to the consolidated financial statements were appropriate.

These assessments were made in the context of our audit of the consolidated financial statements, taken as a whole, and therefore contributed to the formation of the unqualified opinion expressed in the first part of this report.

SPECIFIC VERIFICATION

In accordance with professional standards applicable in France, we have also verified the information given in the group management report. We have no matters to report regarding the fair presentation of this information and its conformity with the consolidated financial statements.

Neuilly-sur-Seine, 29 March 2007

Statutory Auditors

PricewaterhouseCoopers Audit



Catherine THURET

Deloitte & Associés



Thierry AUBERTIN



Laure SILVESTRE-SIAZ

B – Auditors' report on related party agreements

Year ended 31 December 2006

To the shareholders,

In our capacity as Auditors of Société Foncière Lyonnaise, we hereby present our report on related party agreements.

AGREEMENTS ENTERED INTO IN 2006

In accordance with Article L.225-40 of the French Commercial Code (Code de commerce), we were advised of agreements entered into during the year that were approved in advance by the Board of Directors.

Our responsibility does not include identifying any undisclosed agreements. We are required to report to shareholders, based on the information provided, about the main terms and conditions of agreements that have been disclosed to us, without commenting on their relevance or substance. According to Article R.225-31 of the French Commercial Code, it is the responsibility of shareholders to determine whether the agreements are appropriate and should be approved.

We conducted our review in accordance with the professional standards generally accepted in France. Those standards require that we carry out the necessary procedures to verify the consistency of the information disclosed to us with the source documents.

Agreements with Yves Mansion

- Agreement cancelling the vesting conditions applicable to the outstanding stock options granted to Yves Mansion. He may exercise the stock options at any time, even in the event that he leaves the Group, regardless of the reasons for or circumstances of his departure.
- Agreement providing for Yves Mansion to work for the Group as an external consultant for a period of one year as from the date of his departure from the Group, if he leaves before 30 June 2007. This arrangement may be extended at the end of the one-year period, by mutual agreement between Yves Mansion and the Company (represented by its Chairman). The annual consulting fee payable to Yves Mansion would be €200,000.

Agreements with Alec Emmott

- Agreement cancelling the vesting conditions applicable to the outstanding stock options granted to Alec Emmott. He may exercise the stock options at any time, even in the event that he leaves the Group, regardless of the reasons for or circumstances of his departure.
- Agreement providing for Alec Emmott to work for the Group as an external consultant for a period of one year as from the date of his departure from the Group, if he leaves before 30 June 2007. This arrangement may be extended at the end of the one-year period, by mutual agreement between Alec Emmott and the Company (represented by its Chairman). The annual consulting fee payable to Alec Emmott would be €100,000.

AGREEMENTS ENTERED INTO IN PRIOR YEARS WHICH REMAINED IN FORCE IN 2006

In application of the decree of 23 March 1967, we were advised of the following agreements approved in prior years, which remained in force in 2006.

Agreement with Yves Mansion

- Yves Mansion will be paid a gross indemnity of €1,000,000 in the case of termination of his appointment as Chairman by decision of the Board or of a material change in Société Foncière Lyonnaise's ownership structure (following a take-over bid or merger or otherwise) that significantly alters the substance of his responsibilities, making it difficult for him to continue his activities and exercise his normal prerogatives. In accordance with the agreement, a €1,000,000 indemnity was paid to Yves Mansion following the Board of Directors' meeting of 26 October 2006.

Agreement with Alec Emmott

- Alec Emmott will be paid a gross indemnity of €800,000 in the case of termination of his appointment as Managing Director by decision of the Board or of a material change in Société Foncière Lyonnaise's ownership structure (following a take-over bid or merger or otherwise) that significantly alters the substance of his responsibilities, making it difficult for him to continue his activities and exercise his normal prerogatives.
A corresponding provision of €800,000 was recorded in Société Foncière Lyonnaise's 2006 financial statements.

Agreements with Segpim

- Tax bond given by Société Foncière Lyonnaise on behalf of Segpim covering the payment of interest, taxes and penalties up to a maximum of €650,000 following an application by Segpim for a stay of payment of the amounts claimed.
- €365,000 counter guarantee given by Société Foncière Lyonnaise, covering the financial guarantee given by Crédit Lyonnais on behalf of Segpim in accordance with Article 3-2 of the Act of 2 January 1970.

Agreement with Locaparis

- €4,115,000 counter guarantee given by Société Foncière Lyonnaise, covering the financial guarantee given by Crédit Lyonnais on behalf of Locaparis in accordance with Article 3-2 of the Act of 2 January 1970.

We conducted our review in accordance with the professional standards generally accepted in France. Those standards require that we carry out the necessary procedures to verify the consistency of the information disclosed to us with the source documents.

Neuilly-sur-Seine, 29 March 2007

Statutory Auditors

PricewaterhouseCoopers Audit



Catherine THURET

Deloitte & Associés



Thierry AUBERTIN



Laure SILVESTRE-SIAZ

C – Report on corporate governance and internal control

In accordance with Articles L.225-37 and L.225-68 of the French Commercial Code (Code de Commerce), as amended by the Employee Profit Sharing and Stock Ownership Act of 30 December 2006 (Loi pour le développement de la participation et de l'actionnariat salarié), we present below our report on the Board practices and on internal control procedures, as well as on the restrictions on the Chief Executive Officer's powers decided by the Board.

I. Corporate governance

1-1. BOARD PRACTICES

1-1-1. Organisation of the Board of Directors

Composition of the Board of Directors

The Board of Directors is made up of eleven directors and two non-voting directors.

Directors are elected for a three-year term, except for candidates who are aged 70 or over on the date of their election or re-election, whose term is limited to one year.

The number of directors aged over 70 may not represent more than one-third of the members of the Board.

The Chairman is required to retire from this function at the close of the Annual General Meeting called to approve the financial statements for the year of his 65th birthday.

Non-voting directors are also elected for a three-year term, except for candidates who are aged 70 or over on the date of their election or re-election, whose term is limited to one year.

Non-voting directors participate in meetings of the Board of Directors but do not take part in the vote. They may present observations at General Meetings of Shareholders, if asked to do so and if they consider such a course of action appropriate. They must be invited to attend all Board Meetings. Non-voting directors may be assigned specific tasks by the Board. They receive the same fees as the directors. They may sit on Committees of the Board.

General information about the directors

- Luis Manuel Portillo Muñoz, Chairman of the Board, born 18 November 1961 (appointed by the Board for a period expiring in 2009, subject to shareholder ratification);
- Yves Mansion, Chief Executive Officer, born 9 January 1951 (current term expires in 2008);
- Yves Defline, born 11 May 1935 (current term expires in 2007);
- Tony Wyand, born 24 November 1943 (current term expires in 2007);
- María Jesús Valero Pérez, born 6 March 1964 (appointed by the Board for a period expiring in 2008, subject to shareholder ratification);
- Mariano Miguel Velasco, born 30 October 1954 (appointed by the Board for a period expiring in 2007, subject to shareholder ratification);
- Diego Prado Perez-Seoane, born 16 January 1959 (appointed by the Board for a period expiring in 2008, subject to shareholder ratification);
- Luis Emilio Nozaleda Arenas, born 2 May 1955 (appointed by the Board for a period expiring in 2008, subject to shareholder ratification);
- Francisco José Molina Calle, born 27 October 1960 (appointed by the Board for a period expiring in 2008, subject to shareholder ratification);
- Jean Arvis, born 3 December 1935 (current term expires in 2007);
- Jean-Jacques Duchamp, born 29 August 1954 (current term expires in 2007).

Independent directors

The Board determines whether directors are independent based on the definition contained in the European Commission's recommendation of 15 February 2005, as follows:

"A director should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgement."

SFL's independent directors fulfil the following criteria, as provided for in the MEDEF/AFEP-AGREF report on corporate governance:

- None are employees or corporate officers of the Company or of a member of the SFL consolidated group;
- None are corporate officers of a company of which SFL is also a director, either directly or indirectly;
- None have any close family ties with any of the corporate officers of the Company;
- None worked on the audit of the Company's accounts in the five years preceding their election to the Board.

The following criteria are not applied by SFL:

- Limit on the number of years as director of the Company;
- Term as director.

The three independent directors are:

- Yves Defline, born 11 May 1935 (current term expires in 2007);
- Tony Wyand, born 24 November 1943 (current term expires in 2007);
- Jean Arvis, born 3 December 1935 (current term expires in 2007).

Non-voting directors

The two non-voting directors also qualify as independent. Their participation in Board meetings provides a valuable source of advice and expertise, by virtue of their familiarity with the Company's business and their recognized expertise in the areas of property and finance.

- Jacques Calvet, born 19 September 1931 (current term expires in 2007);
- Philippe Chareyre, born 15 September 1929 (current term expires in 2007).

Directorships and other positions held by the members of the Board

Luis Manuel Portillo Muñoz

Directorships and other positions in France:

Chairman of the Board of Directors of Société Foncière Lyonnaise

Directorships and other positions outside France:*

- Director of Zent Inversiones, S.L.
- Director of Alinilam, S.L.
- Director of Expo-AN, S.A.
- Director of Nazaria E.C., S.L.
- Director of Atymisa Nuevas Tecnologías, S.L.U.
- Director of Plaza de Toros de Marbella, S.L.U.
- Director of Almitravel, S.L.U.
- Chairman of Producciones Agrícolas Nature, S.L.
- Director of Inversiones Portival, S.L.
- Director of Landship Investments, S.L.
- Director of Development Resource, S.L.

- Legal Representative of Grupo Portival, S.L. on the Board of Expogestion 2000 S.L.
- Chairman and Director of Las Salinas de Roquetas, S.L.
- Legal Representative of Grupo Portival, S.L. as Chairman of Vitafresh, S.L.U.
- Director of Inversiones Vendome, S.L.
- Chairman and Director of Abaco Grupo Financiero Inmobiliario, S.A.U.
- Director of Desarrollo Turísticos Hoteleros Sancti Petri, S.L.
- Legal Representative of Grupo Portival, S.L. on the Board of Gestiones Empresariales Jarque, S.L.
- Representative of Mancimunado as Director of Inrama Gestiones, S.L.
- Director of Recreo Las Lomas, S.L.
- Director of Paiz y Díaz, S.L.
- Legal Representative of Grupo Portival, S.L. on the Board of Inmopolis Calidad Sevilla, S.A.
- Director of Corporación Eólica de Huelva, S.A.
- Director of Sociedad Herdade da Rendeira-Agropecuaria, S.A.
- Sociedad agropecuaria da Coruaqueira, S.A., Director
- Legal Representative of Expo-AN, S.A on the Board of Villas de Condequinto, S.L.
- Inversiones Turísticas Hoteleras, S.L., Legal Representative of the Advisor of Grupo Portival, S.L.
- Legal Representative of Grupo Portival, S.L. as Vice-Chairman of Occidental Andaluza De Agrocomercio, S.L.
- Director of Inversiones Tersina, S.L.
- Legal Representative of Inveriones Tersina, S.L. as Chairman of Grupo Inmocaral, S.A.
- Director of Explotaciones Forestales y Cinegeticas Alta Baja, S.A.
- Chairman of Inmobiliaria Colonial, S.A.
- Director of Inversiones Notenth, S.L.
- Director of Inversiones Tres Cantos, S.L.
- Legal Representative of Grupo Portival, S.L. as Chairman of Entrenucleos Desarrollos Inmobiliarios, S.L.
- Legal Representative of Grupo Portival, S.L. as Chairman of Dehesa de Valme, S.L.

Yves Mansion

Directorships and other positions in France:

Director and Chief Executive Officer of Société Foncière Lyonnaise

Legal Manager of SCI Paul Cézanne*, SCI Washington* and SCI de la Sorbonne*

Member of the Supervisory Board and Audit Committee of Euler Hermes

Member of the Board of Autorité des Marchés Financiers (French securities regulator)*

Directorships and other positions outside France:*

Director and Member of the Audit Committee of Alcan (Canada)

* Directorships not taken into account to determine compliance with Articles L. 225-21 and L. 225-77 of the French Commercial Code on multiple directorships.

Yves Defline*Directorships and other positions in France:*

Director of Société Foncière Lyonnaise

Tony Wyand*Directorships and other positions in France:*

Director of Société Foncière Lyonnaise and Société Générale
Member of the Supervisory Board of Aviva France and Aviva Participations

Directorships and other positions outside France:*

Director of Grosvenor (United Kingdom) and Unicredito (Italy)

María Jesús Valero-Perez*Directorships and other positions in France:*

Director of Société Foncière Lyonnaise

Directorships and other positions outside France:*

- Director of Zent Inversiones, S.L.
- Director of Alinilam, S.L.
- Director of Alminar, S.L.
- Director of Inversiones Terrer, S.L.
- Legal Representative of Dessarrollo Empresarial Quetro, S.L. on the Board of Grupo Inmocaral, S.A.
- Director of Desarrollo Empresarial Quetro, S.L.
- Director of Inmobiliaria Colonial, S.A.
- Director of Inversiones Pormu, S.A.

Mariano Miguel Velasco*Directorships and other positions in France:*

Director of Société Foncière Lyonnaise

Diego Prado Perez-Seoane*Directorships and other positions in France:*

Director of Société Foncière Lyonnaise

Directorships and other positions in France:

Director of Inmocaral S.A. (Spain)
Chairman of Hotel Ritz Madrid, S.A. (Spain)
Director of Sotecep, S.A. (Spain)
Director of Acerinox, S.A. (Spain)
Director of Telco Investments, S.A.R.L. (Luxemburg)
Director of Iberbanda, S.A. (Spain)

Luis Emilio Nozaleda Arenas*Directorships and other positions in France:*

Director of Société Foncière Lyonnaise

Francisco José Molina Calle*Directorships and other positions in France:*

Director of Société Foncière Lyonnaise

Directorships and other positions outside France:*

- Legal Representative of Grupo Portival, S.L., on the Board of Producciones Agrícolas Nature, S.L.
- Director of Las Salinas de Roquetas, S.L.

- Legal Representative of Inversiones Mobiliarias Fraeli, S.L. on the Board of Vitafresh, S.L.U.
- Director of Abaco Grupo Financiero Inmobiliario, S.A.U.
- Director of Inrama Gestiones, S.L.
- Director of Sociedad Herdade da Rendeira-Agropecuária, S.A.
- Legal Representative of Inversiones Mobiliarias Fraeli, S.L. on the Board of Occidental Andaluza de Agrocomercio, S.L.
- Director of Grupo Inmocaral, S.L.
- Director of Inmobiliaria Colonial, S.A.
- Director of Inversiones Notenth, S.A.
- Legal Representative of Grupo Portival, S.L. on the Board of Inversiones Tres Cantos, S.L.
- Director of Entrenúcleos Desarrollos Inmobiliarios, S.L.
- Director of Dehesa de Valme, S.L.
- Director of Inversiones Mobiliarias Fraeli, S.L.

Jean Arvis*Directorships and other positions in France:*

Director of Société Foncière Lyonnaise, IMI, Alma and Adyal
Non-Voting Director of CFSH (Rothschild) and Gimar

Directorships and other positions outside France:*

- Director of Scor US
- Director of Scor Canada
- Director of the AXA Sun Life Monitoring Board (United Kingdom)
- Director of Wafa (Morocco)
- Director of FAPR (Ireland)
- Chairman of Atlas Finances Conseil (Morocco)
- Chairman of Alma Europe (Luxemburg)
- Legal Manager of Azbenar (Morocco)

Jacques Calvet*Directorships and other positions in France:*

Non-Voting Director of Société Foncière Lyonnaise*, EPI*, Cottin Frères* and Scherlafarge*

Chairman of the Supervisory Board of BHV

Vice-Chairman of the Supervisory Board of Galeries Lafayette, S.A.

Director of Novarte, S.A.S. and of Société Financière des Pimonts-Icade, S.A.*

Honorary Chairman of BNP Paribas*

Advisor to Banque de France*

Philippe Chareyre*Directorships and other positions in France:*

Non-Voting Director of Société Foncière Lyonnaise*

Jean-Jacques Duchamp*Directorships and other positions in France:*

Director of Société Foncière Lyonnaise

- Member of the Prédica Financial Services Executive Committee*
- Director of Sanef
- Director of CAIM (Crédit Agricole Immobilier)
- Director of Groupe Batipart: Suren (nursing home group) – Medidep – Foncière des Régions

* Directorships not taken into account to determine compliance with Articles L. 225-21 and L. 225-77 of the French Commercial Code on multiple directorships.

Role of the Board of Directors

The Board of Directors has the powers and responsibilities vested in it by law.

In addition, the General Meeting of 21 April 2005 granted the Board of Directors a 26-month delegation of competence to decide the issue, with or without pre-emptive subscription rights for existing shareholders, of ordinary shares and securities with rights to ordinary shares to be paid up in cash or by capitalising debt. The aggregate amount by which the capital may be increased under this authorisation is capped at €85 million.

Additional delegations of competence were granted to the Board, for the same 26-month period and within the same €85 million limit, as follows:

- For issues of ordinary shares and securities with rights to shares, without pre-emptive subscription rights, to set the issue price by the method decided by the shareholders in General Meeting instead of applying the pricing rules specified by law.
- In the case of any share issue with or without pre-emptive subscription rights that is oversubscribed, to increase the number of shares offered.
- To issue ordinary shares and securities with rights to shares, without pre-emptive subscription rights, in payment for shares tendered to a public exchange offer for the shares of another company made by SFL.
- To issue ordinary shares or securities with rights to shares, without pre-emptive subscription rights, in payment for shares or securities with rights to shares contributed to SFL.
- To issue securities with rights to debt securities, provided that the aggregate amount of debt securities issued directly and indirectly on exercise of rights attached to the original securities does not exceed €750 million.
- To increase the capital by a maximum of €25 million by capitalising reserves, profits or share premiums.
- To issue ordinary shares for cash to employees and retired employees who are members of a Sharesave Plan set up by the Company and/or related companies within the meaning of Article L.225-180 of the French Commercial Code, provided that the aggregate par value of the new shares does not exceed €500,000, and to make grants of existing or newly issued ordinary shares or securities with rights to shares to employees and officers. The aggregate par value of new shares, if any, issued under this latter authorisation is capped at €500,000 and will be paid up by capitalising reserves, profits or share premiums.

The Board will propose that shareholders renew the following authorizations at the Annual General Meeting to be held to approve the 2006 financial statements:

- To grant stock options to employees and officers of the Company and/or related companies within the meaning of Article L.225-180 of the French Commercial Code. These option grants are subject to a ceiling of 3% of the Company's issued capital at the date of the General Meeting and the authorisation covers a period of thirty-eight months.
- To make share grants to employees - or certain categories of employees - and officers of the Company and/or related companies within the meaning of Article L.225-197-2 of the French Commercial Code. The number of shares granted under the authorisation may not represent over 1% of the Company's issued capital at the date of the General Meeting and the authorisation covers a period of thirty-eight months.

1-1-2. Practices of the Board of Directors and the Committees of the Board

Meetings of the Board of Directors

The Board of Directors met seven times in 2006, with an average attendance rate of 95%.

At least five days before each meeting, except for emergency meetings, the directors are given a file on the agenda items that warrant detailed consideration prior to the meeting. Where applicable, the file includes the recommendations of the Committees of the Board.

The issues discussed during the 2006 meetings were as follows:

2 February 2006 meeting:

- Placing on record of the share issues carried out upon conversion of bonds and exercise of stock options.
- Review of the 2005 financial statements, the Audit Committee's report of 1 February 2006, the Auditors' report; determination of the recommended dividend.
- Preparation of the Annual General Meeting (notice and agenda; approval of the reports of the Board of Directors and of the resolutions).
- Renewal of authorisations to guarantee the commitments of Segpim and Locaparis.
- Financial announcement – results and changes in the SIIC regime.

2 March 2006 meeting:

- The real estate market and SFL's market position.
- The Saint Louis project.
- Report of the Remuneration and Selection Committee.

4 May 2006 meeting:

- Re-election of non-voting directors.
- First quarter 2006 results.
- Actual and planned property purchases and disposals.

25 July 2006 meeting:

- Resignation of a Director – appointment of a new Director.
- First half 2006 results and business – portfolio – NAV.
- Budget update.
- Inmocaral's public tender offer for the Colonial Group/SFL.

26 October 2006 meeting:

- Resignation and appointment of Directors.
- Separation of the positions of Chairman and Chief Executive Officer – Appointments.
- Reorganisation of the Committees (Executive and Strategy Committee, Audit Committee, Remuneration and Selection Committee).
- Appointment of an independent expert in connection with Inmocaral's public tender offer.
- Information regarding the Company's business and results.
- Payment of an interim dividend.

10 November 2006 meeting:

- Review of the public tender offer launched by Inmocaral (implications for SFL and its employees, benefits of the offer for shareholders, opinion of the banks advising SFL, report of the independent expert: fairness opinion).

11 December 2006 meeting:

- Report of the Executive and Strategy Committee meeting of 22 November 2006.
- Forecast 2006 results.
- 2007 budget and 2008/2011 business plan.
- Review of the outcome of the public tender offer.
- Planned acquisition of Prédica's interest in SCI Paul Cézanne.

Internal Rules

A summary of the Board's internal rules, ethical and corporate governance standards is available on-line, on the Company's website (www.fonciere-lyonnaise.com).

The rules describe the Board's statutory rights and obligations, as well as an ethical framework establishing the directors' duties in respect of their interests in SFL shares, potential conflicts of interest, multiple directorships, regular attendance at Board meetings and confidentiality. Each director and non-voting director, elected in his or her own name or as permanent representative of a corporate director, is required to hold at least 25 SFL shares registered in his or her name. Directors are required to write to the Chairman of the Board, providing full details of all SFL shares purchased or sold during the period. In addition, each director must notify the Chairman of all directorships and corporate functions

held in all other companies (giving the names of the companies concerned) at the end of each year and whenever any change occurs. Directors must act at all times in the Company's interest, notify the Board of any conflicts of interest, attend General Meetings and treat all information received as strictly confidential. When a new director or non-voting director takes office, he or she is given a copy of the Company's Articles of Association and of the Board's internal rules by the Chairman of the Board.

The directors' fees awarded by the Annual General Meeting are allocated among Directors by the Board according to two criteria: the responsibility inherent in the function of director or non-voting director and membership on Committees of the Board.

Requirement to disclose to the AMF any and all transactions in SFL shares carried out by a corporate officer, senior executives or any person close to them (Article L.621-18-2 of the Financial and Monetary Code) / Requirement to establish and maintain an updated list of persons having access to inside information (Article L.621-18-4 of the Financial and Monetary Code)

European Union regulations on insider trading and market abuse set out **the disclosure requirements** for transactions in the shares of their company carried out by corporate officers, senior executives or persons close to them.

The AMF publishes the disclosed information on its website.

The management report presented at the Annual General Meeting summarises the transactions conducted during the period by Company officers, senior executives and persons close to them.

The aim is to improve market transparency and, in particular, help detect cases of insider trading. The fulfilment of the disclosure requirement does not exempt the persons concerned from their obligation to abstain from dealing in the Company's shares in the event that they obtain inside information.

In addition, the AMF requires that companies establish and maintain a list of insiders.

Committees of the Board

In 1995, we implemented the recommendations of the Viénot report on corporate governance by setting up several Committees of the Board. The purpose of these Committees is to involve the Board more deeply in defining and overseeing strategies related to the Company's financial and operating performance. Each Committee has the right to obtain all the information needed to fulfil its terms of reference, and may make enquiries of the external auditors and of any member of management. The Committees report to the Board on their work after each of their meetings.

Audit Committee*(two meetings in 2006, on 1 February and 25 July)*

Chairman: José María Grau Greoles

Members: Jacques Calvet

Philippe Chareyre

Yves Defline

Jean-Jacques Duchamp

Francisco Emilio Ruiz Armengol

Audit Committee as from 26 October 2006:

Chairman: Francisco José Molina Calle

Members: Jacques Calvet

Philippe Chareyre

Yves Defline

Jean-Jacques Duchamp

Diego Prado Perez-Seoane

Role:

- To make recommendations concerning the appointment or re-appointment of the Auditors.
- To review the financial statements to be presented to the Board.
- To assess the effectiveness of internal controls over procedures, risks and compliance with ethical standards.
- To review the audit plans of the internal and external auditors.
- At each period-end, to make inquiries of the Auditors without any member of management being present.

Remuneration and Selection Committee*(two meetings in 2006, on 2 March and 25 July)*

Chairman: Juan José Brugera Clavero

Members: Jean Arvis

Tony Wyand

Yves Mansion

(except for decisions concerning him)

Audit Committee as from 26 October 2006:

Chairman: Mariano Miguel Velasco

Members: Jean Arvis

Tony Wyand

Yves Mansion

(except for decisions concerning him)

Role:

- To make recommendations to the Board concerning the remuneration of corporate officers, directors' fees, stock option plans and specific incentive bonus plans.
- To make recommendations to the Board concerning candidates for election to the Board, senior management succession planning, particularly when a seat on the Board or a senior management position falls vacant for unforeseeable reasons or following a change in the number of seats on the Board.

Executive and Strategy Committee*(one meeting in 2006 on 22 November)*

The Executive and Strategy Committee was created by decision of the Board on 26 October 2006. Its purpose is to advise the Board and senior management on strategic development issues and major transactions.

Role:

- To advise the Board and senior management on overall strategies to promote business growth in the best interests of the Company and all of its shareholders.
- To help the Board and senior management to efficiently fulfil their respective responsibilities, by acting as an interface for strategic issues and transactions.
- To review business plans and projections in order to assess the medium and long-term outlook.
- To review and make recommendations concerning planned transactions that require the Board's prior approval.
- To authorise senior management to carry out any acquisition, sale or financial commitment representing an amount in excess of €20 million.
- To report to the Board on the fulfilment of its responsibilities.

Members:

Chairman: Luis Manuel Portillo Muñoz

Members: Luis Emilio Nozaleda Arenas

Mariano Miguel Velasco

Francisco José Molina Calle

Jean-Jacques Duchamp

Yves Mansion

1.2 RESTRICTIONS ON THE POWERS OF THE CHIEF EXECUTIVE OFFICER DECIDED BY THE BOARD

At its meeting on 26 October 2006, the Board of Directors decided to separate the positions of Chairman and Chief Executive Officer, with immediate effect.

Pursuant to this decision, Luis Manuel Portillo Muñoz was appointed Chairman of the Board of Directors and Yves Mansion continued to act as Chief Executive Officer.

The Chief Executive Officer represents the Company in its dealings with third parties and, in accordance with the law, is vested with the broadest powers to act in any and all circumstances in the Company's name within the limits of its corporate purpose, with the exception of those powers expressly attributed by law to the shareholders and the Board of Directors, and subject to obtaining the authorisation of the Executive and Strategy Committee prior to any and all acquisitions, disposals or financial commitments in excess of €20 million.

II. Internal control procedures

The purpose of internal control procedures is to:

- Ensure that all acts of management, all transactions, and the behaviour of all Company employees, comply with the general strategic guidelines established by the Board of Directors, the applicable laws and regulations, and SFL's corporate values, standards and internal rules.
- Ensure that all accounting, financial and management information reported to the Company's Board of Directors gives a true and fair view of the Company's business and position.
- Prevent and manage business risks, as well as the risk of accounting and other errors and fraud.

However, no system of controls can provide an absolute guarantee that all such risks have been completely eliminated.

Identifiable risks

- Fraud
- Loss of or damage to assets (managed through building maintenance, "plan 14", technical monitoring of refurbishment projects, property surveys, etc.)
- Breaches of environmental regulations
- Rent defaults, failure to take into account the full impact of vacancy rates (see report on the management of rental properties)

2-1. INTERNAL ACCOUNTING CONTROLS

The system of internal accounting controls and the procedures for the preparation and processing of accounting and financial information are regularly updated to keep pace with changes in our operating environment. In 2004, the existing organisation had to be adapted to two major changes – the implementation of a new information system and the change in our Company's ownership structure. The accounts of all Group companies are all kept on the same internal accounting system, which is integrated in the management information system that came on stream in April 2004. The consolidated financial statements are produced using consolidation software that represents a market standard, guaranteeing its reliability and maintainability.

The production of the accounts is the responsibility of the Finance Department. The accounts are kept by a team of ten corporate accountants reporting to the Chief Accountant, and by six operations accountants, who are responsible for the subsidiary accounts. These latter accountants report to the profit centre managers and have a dotted-line reporting relationship with the Chief Accountant. The Chief Accountant reports to the Chief Financial Officer.

The corporate accountants each keep the accounts of one or several consolidated companies. They rotate between companies from time to time, to limit the risks arising from an excessive concentration of information in the hands of a single person and also to facilitate multi-tasking when the

need arises. To strengthen this duplication of knowledge, the accountants are paired up and fill in for each other when required.

The corporate accountants check the subsidiary accounting ledgers produced by the profit centre operations accountants, and assist these accountants with the tasks required to close the accounts at each period-end.

Each year, the corporate accountants are assigned specific objectives. Their performance in relation to these objectives is assessed at the end of the year, during their annual performance review, and determines the amount of their bonus.

The consolidated accounts are produced by the consolidation manager who reports to the Chief Financial Officer.

As mentioned in the Corporate Governance section, the Audit Committee of the Board of Directors meets twice a year to review with the external auditors the financial statements, any accounting or tax issues and any significant transactions for the period. The Committee also reviews the external auditors' work programme and holds meetings with them to discuss the post-audit reports prepared after their audits of the interim and annual financial statements, setting out their observations and recommendations.

At the end of 2006, SFL abandoned the traditional method of measuring investment properties at historical cost in favour of the fair value model under IAS 40. The fair value model was applied retrospectively to pro forma 2004 and 2005 data in order to facilitate comparisons.

2-2. DESCRIPTION OF PROCEDURES

2-2-1. General organisation

We did not need to set up specific controls to obtain assurance concerning the quality of internal control within the various consolidated entities, because all of these entities apply the same procedures and the accounting teams responsible for producing their accounts rotate periodically. Moreover, following the merger of all the wholly owned subsidiaries into SFL, the number of non-standard practices is now very limited.

Procedure manuals were updated following implementation of the new information system.

As part of the drive to limit the risk of fraud, payables accounting and payment functions are strictly segregated. The cash management department is independent of the accounts department and reports directly to the Chief Financial Officer.

To improve the reliability and quality of accounting information, a separate control department analyses management and cost accounting data and performs reconciliations between these data and the statutory accounts.

Although the control department reports to the Chief Financial Officer, it is completely independent of the accounts department. The control department team was strengthened at the end of 2004 and the quality of control data was enhanced with the implementation of a new information system, capable of producing more and better analyses than the previous system. Separate data are now produced for each property in the portfolio. These data are aggregated and reconciled to the statutory accounting data and consolidation packages produced by the entities concerned, providing a critical means of control.

2-2-2. Procedure for the preparation of the consolidated financial statements

To comply with our majority shareholder's reporting procedures, monthly consolidated accounts are produced for submission on the sixth day following each month-end. The quarterly consolidated financial statements are also presented to the Board of Directors. These monthly and quarterly consolidated financial statements are not audited or published.

Procedures for the preparation of the monthly accounts have been drawn up with the assistance of outside consultants, to ensure that reporting deadlines are met. All departments are concerned and controls over the centralised data are performed to ensure that the reported statutory and management accounting data have been prepared on a consistent basis.

The half-yearly and annual financial statements represent the basis for a widespread financial communication exercise and are published within a very short timeframe in order to comply with market standards. The publication dates are announced to the market in advance and must be adhered to. Having been quoted on the stock exchange since 1879, the Company has all the necessary reflexes when it comes to providing the market with the information it needs and expects.

2-2-3. Reporting procedure

SFL is fully consolidated in the consolidated financial statements of its main shareholder and is required to produce specific monthly reporting packages for this purpose. In addition to incorporating new and frequently complementary data processing and control practices, the monthly reporting process also helps management to monitor the business more closely:

- Basic reporting schedules are prepared by cash generating unit, corresponding in the case of SFL to each individual building.
- The monthly reporting schedules are reconciled to the budget, allowing management to swiftly identify variances or any inconsistencies in processing the raw data.

Several Group companies are owned jointly with French and foreign partners, who also have recurring reporting needs. The Boards of the companies that own these joint ventures represent the lynchpin in the reporting process. These exchanges of data represent a valuable opportunity to share expertise and best practices.

2-2-4. Procedures to identify and manage company-specific risks

Twice-yearly valuations of the Group's main assets are performed by independent experts, to verify the existence of the properties and assess their value.

The accounts department pays particular attention to ensuring the completeness of accounting entries concerning renovation, repair and other work undertaken by Group companies.

An accounts clerk has been given specific responsibility for managing works accounts for all companies, providing the Technical Department with a single point of contact and guaranteeing consistent treatment of all transactions. The internal auditor oversees a risk-mapping exercise covering all the major property renovation projects planned by the Group. The map lists and measures all the risks associated with each project, providing decision support for senior management and the basis for determining a risk monitoring methodology applicable during the renovation phase.

Checks to ensure that all liabilities have been identified and measured are performed at several levels:

- Tenant risks are reviewed regularly by the property specialists in our Legal Department and second-tier controls are performed by an accounting manager on a centralised basis.
- The risk of legal disputes with our partners is closely monitored by the profit centres, with guidance from the property specialists in our Legal Department.
- Lastly, the Treasury Department participates actively in reporting off-balance sheet commitments related to hedging and debt instruments, as well as commitments to suppliers, and checking the completeness of the reported data.

a) Controls over liquidity risks

Our liquidity management policy consists of maintaining long maturities of debt, in order to be in a position to efficiently roll over or replace borrowings without having to contend with market distortions which, while rare, nevertheless exist.

b) Management of market risks

Market risks are managed on a conservative basis, without taking any speculative positions. Currency risks are hedged in full, while interest rate risks are managed with due consideration of changing macro-economic conditions in the euro zone.

c) Controls over counterparty risks

All financial transactions are carried out with leading financial institutions.

Cash reserves, which are limited due to the use of revolving credit facilities, are invested with high quality banks and are not exposed to the risk of any loss of capital.

2-2-5. Controls over the quality of accounting and financial information

As a quoted company, SFL is under the obligation to apply a rigorous and highly disciplined approach to preparing financial information.

With a very high capital-per-employee ratio, we use the services of external experts to keep us informed of technical developments in the areas of accounting, finance and tax. As well as providing regular technical updates, these experts also give formal advice on the choice of accounting options that have a material impact on the financial statements.

We participate in work groups set up by the industry federation and other organisations representing the property sector, providing an opportunity to exchange information about best practices and industry standards.

As well as carrying out account closing procedures, the control department produces a rolling five-year business plan, the first year of which corresponds to the budget. The business plan is prepared by aggregating and checking the detailed information produced by all Group departments. For example, the property management departments provide revenue and expense forecasts for each individual lease.

The annual budget is broken down into monthly budgets.

The business plan includes:

- 5-year profit and loss account projections
- A simplified balance sheet
- A quarterly analysis of changes in consolidated debt
- Key financial ratios: EBITDA, operating profit after interest, cash flow, loan-to-value

The business plan is reviewed each year and approved by the Board of Directors at the year-end. It can be completely reworked or modified at the specific request of the Board. The budget is updated three times during the year.

The business plan plays an essential role as a road map for the business and also as a benchmark for measuring actual performance, based on the monthly reporting packages submitted to the majority shareholder.

In conclusion, our control procedures over the production of accounting and financial information, and our internal control procedures covering the preparation of the consolidated financial statements are appropriate for the purpose of producing reliable accounting and financial information.

2-3. OTHER INTERNAL CONTROL PROCEDURES

2-3-1. Delegation of signature authority

Delegations of signature authority only concern the signature of payment instruments. They are based on the principle of segregating responsibility for purchasing from that of paying for the purchases. Dual signatures are required in all cases.

2-3-2. Purchases and competitive bids

Routine purchases are made from accredited suppliers at regularly negotiated prices. For other purchases, competitive bids are obtained from several companies or suppliers where appropriate.

2-3-3. Insurance

During 2005, we drew up specifications to support the renegotiation of all of our property insurance policies effective 1 January 2006. The business was placed through a leading French insurance broker.

The policies include both property cover and liability cover for SFL and its subsidiaries, based on the nature of their businesses and the underlying risks.

2-4. CONTROLS OVER PROPERTY-RELATED TECHNICAL RISKS

The purpose of controls over property-related technical risks is to prevent and contain environmental risks (asbestos, lead, legionella, etc.) associated with the properties in our portfolio and to ensure that all of these properties comply strictly with the applicable laws and regulations.

All of the risks have been identified and described in an environmental charter. Procedures have been drawn up covering all identified risks, including checks for asbestos and lead paint, legionella prevention measures, analyses of drinking water and safety checks on technical installations (electricity systems, lifts, safety equipment, gas pressure equipment, escalators, automatic doors and travelling units).

The procedures describe the action to be taken, the implementation timeline and the related controls. Employees responsible for these measures and controls receive specific training.

2-5. INFORMATION SYSTEMS RISKS

The information system was extensively upgraded in the period from April 2003 to April 2004, based on our IT Master-plan. The system covers all functions within the organisation.

The Information Systems Department is responsible for drawing up systems security standards covering:

- Systems uptime rates
- Data classification
- Data backups and protection
- Incident management
- Protection against computer viruses and security breaches

Information systems management is outsourced to an external service provider. We obtain assurance that databases are backed up at daily intervals and that the technical quality of backups is satisfactory. The outsourcing contract also includes a contingency plan, providing for the transfer of processing operations to IBM Global Service in the event of a major systems failure. Management of the applications used for property management, the bedrock of our business, is also outsourced under a facilities management contract which comprises all necessary safeguards to guarantee data security, including:

- A communications protocol describing data exchange methods and the documents used for communications between SFL and the external service provider.
- A facilities management procedure manual, describing the procedures to be followed for receiving, processing and tracking requests for applications changes and upgrades, as well as for the acceptance of new developments and their transfer from development to operational status.
- Weekly internal steering committee meetings and monthly steering committee meetings with the external service providers to track the status of major projects.
- Weekly activity reports comprising indicators to monitor the quality of information systems administration services.

An information systems audit was conducted by the external auditors. The Information Systems Department, which coordinates security procedures and data processes, assisted the external auditors in analysing information systems risks and verifying control processes and the traceability of transactions.

We intend to implement the recommendation of the auditors to establish written control procedures, particularly for recently installed accounting software.

2-6. INTERNAL AUDIT

The internal auditor is responsible for:

- Analysing internal management procedures at the level of the Company and all of the subsidiaries.
- Detecting and analysing any control weaknesses in the various departments and proposing corrective action ;
- Obtaining assurance concerning the reliability of information circuits.

Procedures have been drawn up and approved by Group management and packaged together in a Procedure Manual.

2-7. INTERNAL CODE OF ETHICS

All Group employees are required to comply with the internal Code of Ethics, which sets out rules of behaviour, particularly with regard to dealings with third parties. All staff members have also been specifically notified of the rules concerning insider trading and the use of inside information.

D – Report of the Board of Directors

Resolutions tabled at the Extraordinary General Meeting of 9 May 2007

We invite shareholders to vote the eleven resolutions presented below.

Shareholders are asked to grant “delegations of competence” to the Board to issue shares and securities with rights to ordinary shares, with or without pre-emptive subscription rights for existing shareholders, in order to enable the Company to swiftly take advantage of market opportunities. In light of the wide variety of financial instruments currently available and the rapidly changing market conditions, it is important for the Board to have the greatest possible flexibility in choosing the best type of issue. The delegations of competence will give the Board ample scope to act in the best interests of the Company – in line with the aims of the law – in all circumstances, by deciding to issue ordinary shares and securities with rights to ordinary shares in France or abroad. They will replace the unused portion of earlier shareholder authorisations to the same effect. In the first and second extraordinary resolutions, which are based on the blanket delegation of competence provisions of the law, shareholders are asked to delegate to the Board their competence for deciding to issue ordinary shares and securities with rights to ordinary shares, with or without pre-emptive subscription rights for existing shareholders. This authorisation is being sought for a period of 26 months. The aggregate par value of shares issued under the authorisation will not exceed €100 million, as specified in the seventh extraordinary resolution.

Shareholders are also asked to grant additional delegations of competence for the same 26-month period. These delegations are dealt with in separate resolutions, which are necessary due to legal exceptions to the principle of a blanket delegation. Under the third extraordinary resolution, for issues of ordinary shares and securities with rights to shares, without pre-emptive subscription rights, the Board of Directors would be

authorised to set the issue price by the method decided by the shareholders in General Meeting instead of applying the pricing rules specified by law.

The purpose of the fourth extraordinary resolution is to give the Board of Directors an option to issue additional shares in the event that a share issue with or without pre-emptive subscription rights is over-subscribed.

The fifth extraordinary resolution concerns a delegation of competence to the Board of Directors to issue ordinary shares or securities with rights to ordinary shares without pre-emptive subscription rights, in connection with a public exchange offer made by the Company for the shares of another listed company.

The purpose of the sixth extraordinary resolution is to give the Board of Directors the necessary powers to issue shares or securities with rights to ordinary shares, without pre-emptive subscription rights, in payment for shares or securities with rights to ordinary shares of a private company contributed to the Company, as allowed under the new provisions of the law.

The seventh extraordinary resolution sets a blanket ceiling of €100 million on the authorisations given in the first six extraordinary resolutions.

The purpose of the eighth extraordinary resolution is to grant a delegation of competence to the Board of Directors to issue securities with rights to debt securities representing an aggregate debt obligation of no more than €1 billion.

The ninth extraordinary resolution concerns a delegation of competence to the Board of Directors to increase the capital by an aggregate amount of no more than €25 million, by capitalising reserves, profits or share premiums. This amount is separate from the aggregate ceiling applicable to issues under the first six extraordinary resolutions.

The tenth extraordinary resolution concerns a delegation of competence to the Board of Directors to issue shares for cash to employees and retired employees who are members of a Sharesave Plan set up by the Company and/or by related

companies within the meaning of Article L.225-180 of the Commercial Code. The aggregate par value of shares issued under this authorisation will not exceed €500,000. This amount is separate from the €100 million aggregate ceiling applicable to issues under the first six extraordinary resolutions. The authorisation could also be used to make grants of existing or newly-issued shares or securities with rights to ordinary shares. The aggregate par value of new shares, if any, issued under this latter authorisation will also be capped at €500,000 and will be paid up by capitalising reserves, profits or share premiums. This amount is separate from the ceiling applicable to capital increases under the ninth extraordinary resolution.

These authorisations to issue ordinary shares and/or securities with rights to ordinary shares, with or without pre-emptive subscription rights for existing shareholders, will enable the Board to take up opportunities – especially by cancelling shareholders' pre-emptive rights – to carry out public and private placements in France, abroad and/or on international markets, based on the interests of the Company and shareholders. Depending on the type of securities, the issues may be denominated in euros or in foreign currencies, or in any monetary unit determined by reference to a basket of currencies.

To comply with legal and regulatory requirements, there follows a description of the reasons for and effects of the authorisations sought in these resolutions.

1. AUTHORISATION TO ISSUE ORDINARY SHARES AND SECURITIES WITH RIGHTS TO ORDINARY SHARES

In the first and second extraordinary resolutions, shareholders are asked to grant the Board of Directors a delegation of competence, for a period of 26 months, to decide to issue, with or without pre-emptive subscription rights for existing shareholders, ordinary shares or securities with immediate or future rights to existing or new ordinary shares, in accordance with Articles L.225-129-2 and L.228-92 of the Commercial Code. The aggregate par value of ordinary shares issued under these authorisations will not exceed €100 million.

The Board considers it appropriate to exclude from these authorisations:

- Preference share issues
- Issues of securities with immediate or future rights to preference shares.

Shareholders are therefore asked to specifically rule out preference share issues and issues of securities with immediate or future rights to preference shares.

1-1. Issues with pre-emptive subscription rights (first extraordinary resolution)

a) The first extraordinary resolution concerns a delegation of competence to decide issues of ordinary shares and securities with immediate or future rights to ordinary shares, with pre-emptive subscription rights for existing shareholders.

A decision to delegate competence to the Board to issue securities with future rights to ordinary shares will automatically entail or could entail, depending on the case, the waiver by shareholders of their pre-emptive right to subscribe for any shares issued on exercise of the rights attached to the securities (although shareholders will have a pre-emptive right to subscribe for the securities).

In the first extraordinary resolution, the aggregate amount by which the capital could be increased during the 26-month period covered by the authorisation is capped at €100 million.

This ceiling does not take into account the effect on the amount of the capital increase of any adjustments that may be made to protect the rights of holders of rights attached to securities with rights to ordinary shares.

The aggregate nominal value of dated or undated, subordinated or unsubordinated debt securities that may be issued under the first extraordinary resolution – including securities associated with the issue of debt securities or securities allowing the issue of intermediate debt securities – will not exceed €1 billion or the equivalent (on the date the issue is decided) in foreign currency or in a monetary unit determined by reference to a basket of currencies. This ceiling does not include any redemption premiums payable on the securities. This non-cumulative ceiling applies to all debt securities that may be issued under the first, second, fifth and sixth extraordinary resolutions tabled at this meeting, but is separate from the ceiling on the issue of debt securities with rights to debt securities under the eighth extraordinary resolution of this Meeting and from the ceiling on issues of debt securities that may be decided or authorised by the Board of Directors in application of Article L.228-40 of the Commercial Code.

The life of debt securities with rights to ordinary shares will not exceed 50 years, although the authorisation could also be used to issue undated subordinated or unsubordinated debt

securities. The authorisation may be used to issue fixed and/or floating rate or zero coupon debt securities; the securities may be redeemable in advance at par or at a premium, and they may also be repayable in instalments. The securities may also be bought back on the market or through a cash or exchange offer made by the Company.

In accordance with Article L.228-97 of the Commercial Code, the issue agreement may stipulate that the securities will be redeemable only after all of the Company's other creditors have been paid, including or excluding holders of participating securities; it may also stipulate a creditor ranking.

b) The issue price of debt securities with rights to ordinary shares will be set in such a way that the amount received immediately by the Company plus any amount to be received at a future date for each ordinary share issued as a result of the issue of these securities, is at least equal to the amount defined in a), adjusted as necessary to take into account differences in cum dividend dates.

c) The Board of Directors may grant shareholders the right to subscribe for ordinary shares or securities not taken up by other shareholders exercising their pre-emptive subscription rights. In each case, if the entire issue is not taken up by shareholders, the Board of Directors may take all or some of the following courses of action, in the order of its choice: (i) limit the amount of the issue to the subscriptions received, provided that at least three-quarters of the issue is taken up; or (ii) freely allocate all or some of the unsubscribed shares or securities, or (iii) offer all or some of the unsubscribed shares or securities for subscription by the public, through a public placement in France and/or, if appropriate, abroad and/or on the international market.

d) On these bases, the Board of Directors will have the broadest powers to carry out the above issues, on one or several occasions and on all markets, in the best interests of the Company and its shareholders, to place the issue(s) on record and to amend the Articles of Association to reflect the new capital, to charge the issue costs against the premiums on the issued shares and deduct any amounts from said premiums to raise the legal reserve to one tenth of the new capital, and to carry out any and all reporting and other formalities and obtain any and all authorisations that may be necessary to carry out and complete the issues.

The Board of Directors will decide the characteristics, terms and conditions of each issue, set the subscription price of the shares or other securities, which may or may not include a

premium, the future or retroactive date from which the shares or securities have coupon rights and, in the case of securities with rights to ordinary shares, the terms on which the rights are exercisable for ordinary shares.

e) In accordance with the law, the Board of Directors may delegate to the Chief Executive Officer or – with the CEO's agreement – to the Managing Director, subject to limits to be set by the Board, the powers granted by shareholders under the first extraordinary resolution.

1-2. Issues without pre-emptive subscription rights *(second extraordinary resolution)*

a) In the interests of the Company and shareholders, the Board of Directors may in certain circumstances want to take up opportunities offered by the financial markets, by carrying out issues without pre-emptive subscription rights. This is why, in the second extraordinary resolution, the Board is seeking a delegation of competence to issue ordinary shares or securities with rights to ordinary shares without pre-emptive subscription rights for existing shareholders. The maximum amount of such issues is specified in the resolution. The delegation will be given for a period of 26 months and the terms and conditions will be the same as in the first extraordinary resolution, except for the specific matters described in paragraphs b) and e) below.

The aggregate nominal value of debt securities issued under the second extraordinary resolution will be capped at €1 million; this amount will not be cumulative with the amount authorised in the first extraordinary resolution and, as for that resolution, will not include any redemption premiums that may be decided. This non-cumulative ceiling applies to all debt securities that may be issued under the first, second, fifth and sixth extraordinary resolutions tabled at this meeting, but is separate from the ceiling on the issue of debt securities with rights to debt securities under the eighth extraordinary resolution of this Meeting and from the ceiling on issues of debt securities that may be decided or authorised by the Board of Directors in application of Article L.228-40 of the Commercial Code.

b) If shareholders grant this delegation of competence to the Board of Directors and, accordingly, waive their pre-emptive subscription rights, the issue price of any ordinary shares issued under the resolution will be at least equal to the minimum amount provided for in the laws and regulations in force at the time of issue, adjusted as necessary to take into account differences in cum dividend dates.

For any securities with rights to ordinary shares issued under the resolution, the issue price will also comply with the laws and regulations in force on the issue date. It will be set in such a way that the amount received immediately by the Company plus any amount to be received at a future date for each ordinary share issued as a result of the issue of these securities, is at least equal to the minimum amount provided for in the laws and regulations in force at the time of issue, adjusted as necessary to take into account differences in cum dividend dates.

On these bases, the Board of Directors will set the issue price of the securities and, in the case of debt securities, the interest terms, in the best interests of the Company and shareholders taking into account all relevant parameters. These will include the type of securities issued, stock market trends and the market for SFL shares, any priority subscription right granted to existing shareholders, market interest rates (in the case of an issue of debt securities), the number of ordinary shares represented by the rights and, generally, all the characteristics of the issued securities.

In accordance with new Article 155-5 of the Decree of 23 March 1967 (created by the Decree of 10 February 2005 in application of Article L.225-136 of the Commercial Code), the new ordinary shares will not be issued at a discount of more than 5% to the weighted average share price for the three trading sessions immediately preceding the pricing date.

However, if shareholders vote the third extraordinary resolution of this Meeting, for ordinary share issues representing no more than 10% of the capital carried out in any twelve month period the Board will be authorised not to apply the legal pricing rules and the issue price will be set by the method stipulated in said third extraordinary resolution (see paragraph 1.3 below).

c) On these bases, the Board will have the broadest powers to issue ordinary shares and securities with rights to ordinary shares, on one or several occasions without pre-emptive subscription rights, and to set the terms and conditions of each issue as explained above in the section dealing with the first extraordinary resolution.

The securities will be placed in accordance with market practices on the issue date. The Board is nevertheless asking shareholders for an authorisation to grant shareholders a non-transferable priority subscription right – if circumstances permit – possibly including a priority right to subscribe for securities not taken up by other shareholders.

The conditions of exercise of this right would be determined by the Board in accordance with the law. If the issue is not taken up in full – if applicable, including by shareholders exercising their priority subscription right – the Board will be authorised to reduce its amount on the basis provided for by law.

d) Shareholders should note that under this delegation of competence the Board will be authorised to take all other necessary measures in connection with or as a result of the issues. These measures, which are described above, in the section dealing with the first extraordinary resolution, include amending the Articles of Association to reflect the new capital.

e) In accordance with the law, the Board of Directors may delegate authority for deciding issues to be carried out under the second extraordinary resolution, on the same basis as for the first extraordinary resolution (see above).

1-3. Issues without pre-emptive subscription rights: determination of the issue price by the Board of Directors by the method decided by shareholders (third extraordinary resolution)

In accordance with the alternative rules introduced in Article L.225-136 of the Commercial Code, the Board of Directors is seeking a 26-month authorisation (i) not to apply the pricing rules specified by law, as described above, and (ii) to set the price of ordinary shares and securities with rights to ordinary shares by the method described below. This exception will apply only to ordinary share issues representing no more than 10% of the capital (at the date of this Meeting) carried out in any twelve month period under the delegation of competence given in the second extraordinary resolution. For these issues, the following pricing rules will apply:

i) Ordinary shares will be issued at a discount of no more than 10% to the weighted average SFL share price for the three trading sessions immediately preceding the pricing date.

ii) The issue price of debt securities with rights to ordinary shares will be set in such a way that the amount received immediately by the Company plus any amount to be received at a future date for each ordinary share issued as a result of the issue of these securities, is at least equal to the amount defined in i), adjusted as necessary to take into account differences in cum dividend dates.

This authorisation will give the Board of Directors greater flexibility in pricing public placements of ordinary shares issued without pre-emptive subscription rights, up to a certain amount, and thereby increase the chances of the issue being a success.

The aggregate par value of shares issued directly or indirectly under this authorisation will be deducted from the amount by which the capital may be increased under the second extraordinary resolution.

The Board will be authorised to delegate its powers to the Chief Executive Officer or – with the CEO's agreement – to the Managing Director, subject to the limits to be set by the Board.

If and when the authorisation given in the third extraordinary resolution is used, the Board and the Auditors will report to shareholders on the final terms of the issue and on the estimated impact on the situation of existing shareholders.

1-4. Share issue with or without pre-emptive subscription rights:

*authorisation to be given to the Board to increase the number of shares to be issued
(fourth extraordinary resolution)*

In accordance with the new rules introduced in Article L.225-135-1 of the Commercial Code, in the fourth extraordinary resolution the Board of Directors is seeking an authorisation to decide, for all issues carried out pursuant to the first and second extraordinary resolutions, to increase the number of shares offered for subscription, on the basis allowed under Article L.225-135-1, provided that the ceiling specified in the related resolution is not exceeded.

This authorisation will enable the Board to offer additional shares on the same terms as for the original offer in the event that an offer is over-subscribed.

In accordance with Article 155-4 of the Decree of 23 March 1967, as amended by the Decree of 10 February 2005, the Board of Directors will be authorised to decide, within thirty days of the close of the original subscription period for each issue decided pursuant to the first and second extraordinary resolutions, to increase the number of shares offered by up to 15% compared to the original offer, provided that this does not result in the ceiling set in the relevant resolution being exceeded.

The Board will be authorised to delegate its powers to the Chief Executive Officer or – with the CEO's agreement – to the Managing Director, subject to the limits to be set by the Board.

1-5. Issues of securities carrying the right to debt securities

(eighth extraordinary resolution)

The eighth extraordinary resolution concerns a 26-month delegation of competence to the Board to decide to issue securities with rights to debt securities, as provided for in Articles L.225-129-2 and L.228-92 of the Commercial Code. These issues, which may be carried out on one or several occasions, in France or abroad and/or on the international market, may consist of bonds and equivalents, dated or undated subordinated notes or any other securities conferring – for the same issue – the same claim on the Company.

The aggregate amount of debt securities issued under this authorisation, directly and indirectly on exercise of the rights attached to the original securities, will be capped at €1 billion or the equivalent in foreign currencies or in any monetary unit determined by reference to a basket of currencies. For the purpose of determining whether the above ceiling has been complied with, no account will be taken of any redemption premiums payable on the debt securities.

1-6. Capital increase to be paid up by capitalising reserves, profits or share premiums

(ninth extraordinary resolution)

The ninth resolution concerns a delegation of competence to the Board to increase the capital by capitalising reserves, profits or share premiums. This type of transaction, which does not necessarily lead to the issuance of new ordinary shares, is governed by specific legal provisions contained in Article L.225-130 of the Commercial Code. The authorisation is subject to the quorum and majority voting rules applicable to Ordinary General Meetings, which is why a separate resolution is being tabled.

The 26-month delegation of competence will enable the Board of Directors to decide to increase the capital by up to €25 million through one or several transactions. This ceiling does not include the par value of any ordinary shares to be issued in respect of adjustments made to protect the rights of holders of securities with rights to ordinary shares. In addition, it is not cumulative with the ceilings set in the first six extraordinary resolutions.

The Board of Directors will have full powers to decide the items and amounts to be capitalised, as well as the method to be used to effect the capital increase (increase in the par value of shares and/or bonus share issues), to place on record each capital increase and amend the Articles of Association to reflect the new capital, and to make any and all adjustments required by law.

If the capital increase is carried out by issuing bonus shares, with future or retroactive dividend rights, the Board may decide that rights to fractions of shares are non-transferable, and that the corresponding shares will be sold, in which case the sale proceeds will be allocated among holders of rights to fractions of shares within the period stipulated in the applicable regulations.

The Board will be authorised to delegate its powers to the Chief Executive Officer or – with the CEO's agreement – to the Managing Director, subject to the limits to be set by the Board.

2. SPECIFIC AUTHORIZATIONS

2-1. Issue of ordinary shares or securities with rights to ordinary shares without pre-emptive subscription rights, in connection with a public exchange offer made by the Company for the shares of another listed company (fifth extraordinary resolution)

Article L.225-148 of the Commercial Code allows shareholders to authorise the Board to use the authorisation given in the second extraordinary resolution to issue ordinary shares and securities with rights to ordinary shares in payment for shares tendered to a public exchange offer for the shares of another company made by SFL in France or in another country under local rules. This applies not only to straight exchange offers, but also to alternative cash and exchange offers, cash offers or exchange offers with an exchange or a cash alternative, or any other type of exchange offer that complies with the applicable laws. Article L.225-148 stipulates, however, that the shares of the target must be traded on a regulated market in a country that is a member of the European Economic Area or of the OECD (as is the case of France).

The procedure allows shares to be exchanged without SFL being required to apply the procedures applicable to contributions of shares or other securities.

The rules described in the above section on the second extraordinary resolution would also apply to issues carried out under the fifth extraordinary resolution, except those concerning the issue price of ordinary shares or of securities with rights to ordinary shares, and the priority subscription right granted to existing shareholders.

Existing shareholders would not have a pre-emptive right to subscribe for the new shares and shareholders are therefore asked to waive this right, on the same basis as under the second extraordinary resolution.

In addition, if the authorisation is used to issue securities with rights to ordinary shares, shareholders will automatically be considered as having waived their pre-emptive right to subscribe for the shares issued on exercise of said rights.

For each issue, the Board will be authorised to decide the type and characteristics of the ordinary shares or securities with rights to ordinary shares to be issued, the exchange ratio and the amount of any cash payment that would be due if application of the exchange ratio results in rights to fractions of shares. The amount of the capital increase will depend on the number of shares of the target tendered to the offer, taking into account the number of ordinary shares and securities with rights to ordinary shares issued and the exchange ratio.

The aggregate par value of ordinary shares issued under this delegation of competence, which is the subject of a special resolution, will be capped at €100 million. This amount is not cumulative with the ceiling set in the second extraordinary resolution for issues without pre-emptive subscription rights. It does not include the effect of any adjustments to be made to protect the rights of holders of securities with rights to ordinary shares. The delegation of competence is being sought for a period of 26 months from the date of this Meeting.

The rules described in the above section on the second extraordinary resolution would also apply to issues carried out under the fifth extraordinary resolution, except those concerning the issue price of ordinary shares or of securities with rights to ordinary shares, and the priority subscription right granted to existing shareholders.

2-2. Issues in payment for shares or securities with rights to shares contributed to SFL

(sixth extraordinary resolution)

In accordance with the rules introduced in Article L.225-147 of the Commercial Code, the sixth extraordinary resolution concerns a 26-month authorisation to be given to the Board of Directors to issue ordinary shares and securities with rights to ordinary shares in payment for shares or securities with rights to shares contributed to the Company under transactions that are not governed by Article L.225-148 of the Commercial Code. Issues under this authorisation will be capped at 10% of the Company's capital at the issue date. Shareholders will be required to waive their pre-emptive right to subscribe for the new shares or securities, in favour of the holders of the contributed shares or securities.

In addition, if the authorisation is used to issue securities with rights to ordinary shares, shareholders will automatically be considered as having waived their pre-emptive right to subscribe for the shares issued on exercise of said rights. Issues under this authorisation will be deducted from the amount available under the blanket ceiling set in the seventh extraordinary resolution, for issues carried out under the first six extraordinary resolutions.

If the sixth extraordinary resolution is used, the Board will be authorised to approve the value attributed to the contributed shares or securities and to the benefits granted, based on the valuation report issued by the expert appraiser of capital contributions, in the same way as if the transaction had been presented to shareholders for approval (paragraphs 1 and 2 of Article L.225-147 of the Commercial Code), and to place on record the capital increases carried out under the resolution. The Board may also reduce the value attributed to the contributed shares or securities or the remuneration of any benefits granted, with the agreement of the parties making the contribution.

The Board will be given the necessary powers to act on this authorisation and to amend the Articles of Association to reflect the resulting capital increase(s).

The Board will be authorised to delegate its powers to the Chief Executive Officer or – with the CEO's agreement – to the Managing Director, subject to the limits to be set by the Board.

2-3. Blanket ceiling on the authorisations

(seventh extraordinary resolution)

Shareholders are asked to set at €100 million the aggregate par value of ordinary shares issued directly or indirectly under the authorisations given in the first six extraordinary resolutions. The par value of any ordinary shares to be issued in respect of adjustments made to protect the rights of holders of securities with rights to ordinary shares will be in addition to this ceiling.

2-4. Share issues to employees who are members of an SFL Sharesave Plan

(tenth extraordinary resolution)

The Board of Directors is also seeking an authorisation to issue ordinary shares or securities with rights to ordinary shares to employees and retired employees who are members of a Sharesave Plan set up by the SFL Group, or to make grants of ordinary shares or securities with rights to ordinary shares, to be paid up by capitalising reserves, profits, share premiums or other items. These issues would be governed by the employee share ownership provisions of the Commercial Code (Articles L.225 129-6, L.225 129-6 I and II and L.225-138-1) and the Labour Code (Articles L.443-1 et seq.).

This authorisation is being sought for a period of 26 months. The aggregate par value of ordinary shares that may be issued under the authorisation – directly or on exercise of rights attached to securities with rights to ordinary shares – is capped at €500,000. This ceiling does not include the par value of any ordinary shares to be issued in respect of adjustments made to protect the rights of holders of securities with rights to ordinary shares. In addition, it is not cumulative with the ceilings on issues of ordinary shares – directly or on exercise of rights attached to securities with rights to ordinary shares – carried out under the first six extraordinary resolutions.

The aggregate par value of ordinary shares issued directly or on exercise of rights attached to securities with rights to ordinary shares without consideration, as paid up by capitalising reserves, profits or share premiums, is also capped at €500,000. This ceiling does not include the par value of any ordinary shares to be issued in respect of adjustments made to protect the rights of holders of securities with rights to ordinary shares. In addition, it is not cumulative with the ceiling set in the ninth extraordinary resolution.

The discount will be set at 20% or, if the lock-up period provided for in the plan in accordance with Article L.443-6 of the Labour Code is 10 years or more, 30% of the average of the opening prices quoted for SFL shares on Eurolist by Euronext over the 20 trading days immediately preceding the date on which the opening date of the subscription period is decided. However, shareholders may decide to authorise the Board to reduce the discount in the case of an offer to members of a Group Sharesave Plan of shares or securities on the international market and/or outside France, to comply with any local laws.

The Board will also be authorised to replace all or part of the discount with a free grant of ordinary shares or securities with rights to ordinary shares. The terms of any such grant of ordinary shares or securities with rights to ordinary shares must comply with Article L.443-5 of the Labour Code.

If shareholders vote this resolution, they will be required to waive their pre-emptive subscription rights to the ordinary shares or securities with rights to ordinary shares in favour of the employees and retired employees who are members of the Sharesave Plan. They will also be considered as having automatically waived their pre-emptive right to subscribe for shares to be issued to these employees and retired employees on exercise of the rights attached to securities with rights to ordinary shares.

The Board will be authorised to delegate its powers to the Chief Executive Officer or – with the CEO's agreement – to the Managing Director, subject to the limits to be set by the Board.

3. ADDITIONAL REPORT TO BE ISSUED UPON UTILISATION OF THE AUTHORISATIONS GIVEN IN THE FIRST TO SIXTH AND TENTH EXTRAORDINARY RESOLUTIONS

In accordance with the law, if the Board of Directors uses the authorisations sought in the first six extraordinary resolutions or the tenth extraordinary resolution, when the decision is made it will issue an additional report describing the final terms and conditions of the issue and the impact on the situation of existing shareholders, in terms of dilution or otherwise. This report, and that of the Auditors, will be made available to shareholders within 15 days of the relevant Board Meeting and will also be presented at the next General Meeting.

4. ALIGNMENT OF THE ARTICLES OF ASSOCIATION WITH THE DECREE OF 11 DECEMBER 2006

The purpose of the eleventh extraordinary resolution is to align the Articles of Association with the provisions of the Decree of 11 December 2006 amending the Decree of 23 March 1967. Under this amendment, holders of bearer shares held in an account kept by a bank or broker are no longer required to provide evidence that their shares have been placed in a blocked account as stated above. Instead, all shareholders of record are entitled to vote at General Meetings. The record date for this purpose is the third business day (at midnight) preceding the General Meeting. The corresponding amendment to the Articles of Association is as follows:

Article 25

The Board proposes replacing section I of Article 25 with the following text:

“I - General Meetings may be attended by all shareholders of record as of the record date, as follows:

- Holders of bearer shares and holders of registered shares recorded in an account not kept by the Company may vote at General Meetings in person, by proxy or by post provided that their shares are recorded in an account kept by an accredited intermediary as of the record date.
- Holders of registered shares recorded in an account kept by the Company may vote at General Meetings in person, by proxy or by post provided that their shares are recorded as of the record date.

The record date is midnight CET on the third business day prior to the General Meeting.

Shareholders, representatives of shareholders and accredited intermediaries are entitled to attend General Meetings on presentation of proof of their eligibility to attend and their identity. The Board of Directors may provide shareholders with personal admission cards for General Meetings and require their production on attendance, if it thinks fit.”

The Board also proposes reducing the time limit for disclosing changes in shareholders' interests to above or below any statutory disclosure thresholds (Article 10 III of the Articles of Association, paragraph 1) from fifteen days to five. In addition, the Board proposes adding the following paragraph to Article 19, below paragraph 6:

“The Board of Directors may authorise members to participate in meetings using videoconferencing or other telecommunications facilities that permit them to be identified and to participate directly in the discussions, in compliance with the applicable regulations.”

5. CANCELLATION OF AUTHORISATIONS GIVEN AT THE EXTRAORDINARY GENERAL MEETING OF 21 APRIL 2005

If the resolutions tabled at this Meeting are voted by shareholders, the unused portions of the authorisations given to the Board of Directors by the Extraordinary General Meeting of 21 April 2005 will be automatically cancelled.

6. ACTIVITIES OF THE COMPANY SINCE 1 JANUARY 2007

In accordance with the regulations applicable to share issues, the report of the Board of Directors to the Annual General Meeting includes information about the activities of the Company since the beginning of the current financial year.

The Auditors will report to shareholders their opinion on the various proposed issues and the cancellation of existing shareholders' pre-emptive subscription rights.

Shareholders are invited to vote the resolutions tabled at this Meeting, after considering the reports of the Auditors drawn up in accordance with the applicable laws.

Board of Directors

E – Auditors' report on the report of the Chairman of the Board of Directors

Year ended 31 December 2006

Auditors' report, prepared in application of Article L.225-235 of the French Commercial Code (Code de commerce), on the report of the Chairman of the Board of Directors describing internal control procedures related to the preparation and processing of accounting and financial information

To the shareholders,

In our capacity as Statutory Auditors of Société Foncière Lyonnaise (SFL) and in application of Article L.225-235 of the French Commercial Code, we present below our report on the report prepared by the Chairman of SFL in application of Article L.225-37 of the French Commercial Code for the year ended 31 December 2006.

In his report, the Chairman of the Board of Directors is required to comment on the conditions applicable for the preparation and organization of the work carried out by the Board of Directors and the internal control procedures implemented within the Company.

Our responsibility is to report to shareholders our comments on the information contained in the Chairman's report on internal controls over the preparation and processing of accounting and financial information.

We conducted our work in accordance with the professional guidelines applicable in France. Those guidelines require that we perform procedures to assess the fairness of the information given in the Chairman's report on internal controls over the preparation and processing of accounting and financial information. These procedures included:

- Reviewing the internal control objectives, organization and procedures related to the preparation and processing of accounting and financial information, as described in the Chairman's report.
- Reviewing the work underpinning the information given in the Chairman's report.

Based on our procedures, we have no matters to report concerning the information about the Company's internal controls over the preparation and processing of accounting and financial information, as contained in the report of the Chairman of the Board of Directors prepared in accordance with Article L.225-37, final paragraph, of the French Commercial Code.

Neuilly-sur-Seine, 29 March 2007

Statutory Auditors

PricewaterhouseCoopers Audit



Catherine THURET

Deloitte & Associés



Thierry AUBERTIN



Laure SILVESTRE-SIAZ

— Additional Information

at 31 December 2006

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1 – General Information about the Company

1-1. Legal information

CORPORATE NAME AND REGISTERED OFFICE

- Corporate name: Société Foncière Lyonnaise.
- Registered office: 151, rue Saint-Honoré - 75001 Paris.

LEGAL FORM

“*Société anonyme*” (public limited company) governed by the French Commercial Code.

GOVERNING LAW

French law.

DATE OF INCORPORATION AND TERM

- Incorporated on 9 October 1879.
- Term: 8 October 2064.

CORPORATE PURPOSE (Article 3 of the Articles of Association)

The Company's purpose is to:

- Acquire, by way of purchase or absorption or under a long or short lease, any and all real property located in France, the French overseas territories or abroad; extend any such properties; conduct any industrial, rental or management activities and generally enhance the value of the properties.
- Sell or exchange such properties, for cash or for shares.
- Manage properties on behalf of third parties.
- Participate by any method in any and all existing or future companies or business ventures related to the corporate purpose, including by means of the formation of new companies, the sale of assets in exchange for shares, membership of a general partnership, subscription or purchase of shares or other rights.
- Conduct any and all transactions related directly or indirectly to the corporate purpose or which are likely to facilitate the fulfilment of said purpose.

REGISTRATION PARTICULARS

Paris Companies Registry: 552 040 982 – NAF Code: 702C.

CONSULTATION OF LEGAL DOCUMENTS

All legal documents related to the Company's activities may be consulted at the registered office at 151, rue Saint-Honoré - 75001 Paris.

FINANCIAL YEAR

1 January to 31 December.

APPROPRIATION OF PROFITS (Article 33 of the Articles of Association)

The profit or loss for the year represents the difference between total income and total expenses, including charges to and reversals from depreciation, amortisation and provisions, shown in the profit and loss account.

At least 5% of net profit for the year, less any losses brought forward from prior years, is transferred to the legal reserve, until such time as the legal reserve represents one tenth of the share capital.

Profit available for distribution consists of profit for the year, less any losses carried forward from prior years and any amounts transferred to the legal reserve as provided for above, plus retained profits carried forward from prior years.

Total profit available for distribution is appropriated as follows:

- to provident reserves or any other reserves, by decision of the Annual General Meeting;
- to dividends payable to shareholders.

Any unappropriated balance is carried forward to the next year.

GENERAL MEETINGS (Extracts from Articles 10, 24, 25 and 29 of the Articles of Association)

General Meetings are called in accordance with the applicable laws and regulations.

Meetings are held at the Company's registered office or at the venue selected by the Board of Directors, as specified in the notice of meeting.

I - General Meetings may be attended by all holders of fully paid up shares which have been registered prior to the date of the meeting as follows:

– In order to participate in General Meetings in person, by proxy, or by casting a postal vote, holders of bearer shares or registered shares recorded in an account kept by a bank or broker are required to obtain a certificate from their bank or broker stating that the shares have been placed in a blocked account until the date of the Meeting. The certificate must be deposited at the address specified in the notice of meeting at least five days prior to the date of the Meeting.

– Holders of registered shares recorded in the Company's share register are entitled to participate in General Meetings in person, by proxy, or by casting a postal vote provided that their names are recorded in the Company's share register at least five days prior to the date of the Meeting.

However, the Board of Directors may reduce or waive these minimum periods.

Shareholders or their representatives or intermediaries are entitled to attend General Meetings on presentation of proof of their identity and eligibility to attend. The Board of Directors may provide shareholders with personal admission cards for General Meetings and require their production on attendance, if it thinks fit.

On 11 December 2006, a Decree was issued in France that amended the provisions of the Decree of 23 March 1967 concerning bearer shares. Under this amendment, holders of bearer shares held in an account kept by a bank or broker are no longer required to provide evidence that their shares have been placed in a blocked account as stated above. Instead, all shareholders of record are entitled to vote at General Meetings. The record date for this purpose is the third business day (at midnight) preceding the General Meeting. The corresponding amendment to the Company's Articles of Association will be submitted to shareholders for approval at the Annual General Meeting to be held on 9 May 2007.

II - In accordance with the applicable law and regulations, shareholders may cast postal votes or give proxy to their spouse or to another shareholder to attend a General Meeting. Written requests for the proxy/postal voting form must be received at the Company's registered office at least six days before the Meeting.

Completed postal voting or proxy forms must be received by the Company at least three days before the date of the Meeting.

Details for the return of these forms are set out by the Board of Directors in the notice of the Meeting.

Shareholders domiciled outside France may give proxy to an intermediary, registered in accordance with the applicable legal conditions, provided the Company is informed of the proxy in writing at least five days before the date of the Meeting.

The Board of Directors may reduce or waive these time periods.

Resolutions are adopted by the number of votes prescribed in the corresponding legislation in force on the date of the Meeting. Shareholders are entitled to one vote per share. No shares carry double voting rights.

IDENTIFICATION OF SHAREHOLDERS

The Board of Directors is authorised to use all methods provided for under the law and regulations – including an application to the securities clearing house – to obtain identification details of holders of shares and other securities convertible, redeemable, exercisable or otherwise exchangeable for shares carrying voting rights at the Company's General Meetings, together with details of the number of securities held by each such person and of any restrictions affecting the securities.

DISCLOSURE THRESHOLDS

In addition to legal disclosure threshold obligations, any individual or legal entity, acting alone or in concert, that holds – directly or indirectly in accordance with Articles L.233-7 *et seq.* of the Commercial Code – shares or other securities convertible, redeemable, exercisable or otherwise exchangeable for shares representing at least 2% of the Company's capital or voting rights, is required to disclose to the Company by registered letter with return receipt requested, within fifteen trading days of the registration of the additional interest*, details of the number of shares, voting rights and securities convertible, redeemable, exercisable or otherwise exchangeable for shares held.

These disclosure formalities must be followed each time a shareholder's interest is raised to above or reduced to below any 2% threshold as explained above, including when the shareholder's interest exceeds 5%.

In the case of failure to comply with these disclosure rules, at the request of one or several shareholders with combined holdings representing at least 2% of the Company's capital or voting rights, the undisclosed shares will be stripped of voting rights, in accordance with the conditions set down by law. The said request will be recorded in the minutes of the General Meeting and will entail the automatic application of the above-mentioned sanction.

MAIN SHAREHOLDERS OF THE COMPANY AT 31 DECEMBER 2006

At 31 December 2006, the Company held 130,067 of its own shares. These shares are stripped of voting rights and the total number of voting rights is therefore 42,945,885. No SFL shares are held by subsidiaries.

The number of shares held by employees and management, directly or through specialist pooled investment vehicles, is not material.

At 31 December 2006, SFL had approximately 3,000 identified shareholders.

* At the Annual General Meeting of 9 May 2007, a resolution will be tabled reducing this period to five trading days.

SHAREHOLDERS' PACT (AMF Decision and Announcement no. 204C1487)

Pursuant to Article L.233-11 of the Commercial Code, a copy of the shareholders' pact between Colonial and Prévoyance Dialogue du Crédit Agricole (Prédica), which was signed on 24 November 2004 and came into effect the same day, was transmitted to the French securities regulator (*Autorité des Marchés Financiers*).

Prédica became a shareholder of SFL through the purchase from Colonial of 4,126,400 SFL shares, representing 9.63% of the capital and 9.90% of the voting rights at the transaction date.

TERMS OF THE PACT

In the pact's preamble, the parties stipulate that they do not intend to act in concert at meetings of SFL shareholders.

The main terms of the pact are as follows:

- Prédica has the right to designate one Director of SFL, for as long as Colonial controls SFL and Prédica's interest represents at least 5%.

- Colonial is committed to buying back all the SFL shares originally sold to Prédica, as well as any additional shares acquired by Prédica under the anti-dilution clause (involving either a share issue underwritten by Colonial or an additional sale of shares by Colonial) at a price based on SFL's NAV, in certain circumstances and subject to certain conditions.

- Colonial has a pre-emptive right to purchase any SFL shares offered by Prédica, directly or indirectly, to any third party, with the customary exclusions (intercompany transfers by Prédica and sales of shares to Directors), provided that Prédica may sell on the market in any 12-month period a number of shares representing up to 2% of SFL's capital.

- Prédica benefits from an exit clause in the case of a private sale by Colonial of SFL shares to a third party that has the effect of reducing Colonial's interest to less than 50% of the capital.

- Prédica will not increase its percentage interest in SFL's capital, unless there is a reasonably liquid market for the shares.

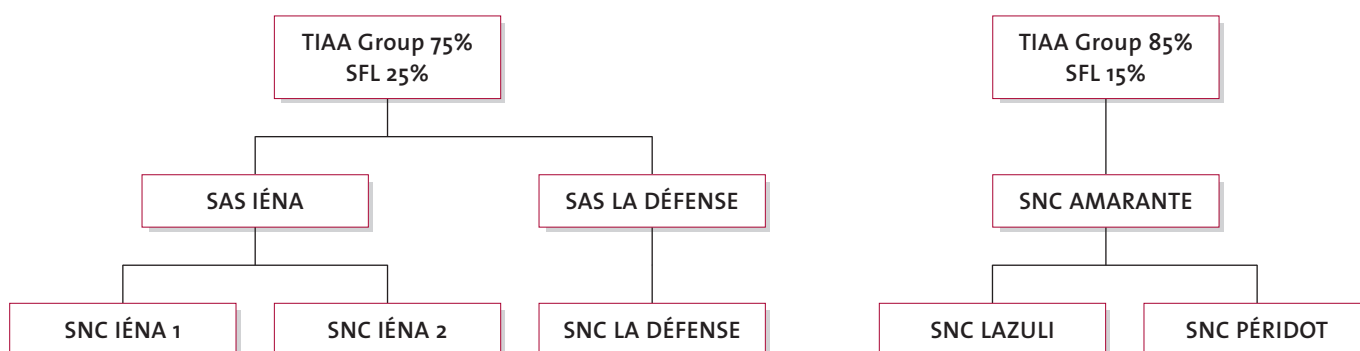
The pact has been signed for an initial period of five years and is automatically renewable for successive five-year periods. It may be terminated by either party at the end of any five-year period subject to six months' notice.

PARTNERSHIPS – SHAREHOLDERS' PACTS

Partner	Joint venture	Main clauses
TIAA Group ⁽¹⁾	<ul style="list-style-type: none"> – SFL holds 25% of the capital of Iéna SAS (which in turn holds 100% of Iéna 1 SNC and Iéna 2 SNC) – SFL holds 25% of the capital of La Défense SAS (which in turn holds 100% of La Défense SNC) 	<p>In the case of a change of control of SFL (50%), TIAA has the option of:</p> <ul style="list-style-type: none"> – either agreeing to the change of control, – or acquiring all the shares held by SFL in the joint ventures, at a price corresponding to the market value of the underlying assets, to be determined jointly by the parties or by an independent expert⁽²⁾.
TIAA Group ⁽¹⁾	<ul style="list-style-type: none"> – SFL holds 15% of SNC Amarante (which in turn holds 100% of Lazuli SNC and Péridot SNC; Tour Framatome) 	<p>If the TIAA Group sells all of its shares in one of the joint ventures, it can require the other shareholders of the company concerned to simultaneously sell all of their shares to the buyer of the TIAA Group's stake, on the same terms.</p>

(1) Teachers Insurance and Annuity Association of America.

(2) Following the takeover of SFL by Grupo Inmocaral, through its subsidiary Inmobiliaria Colonial SA, the TIAA Group notified SFL on 26 March 2007 that it intended to exercise this latter option. Under the terms of the shareholders' pact, within thirty days of 26 March 2007 each shareholder must appoint an international firm of independent experts to value SFL's interest in the joint ventures. The procedure has been launched and the experts will be required to report the results of their valuation within thirty days of being appointed.

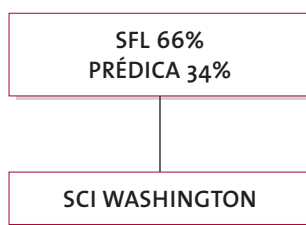


Partner	Joint venture	Main clauses
PRÉDICA ⁽¹⁾	– SFL holds 66% of SCI Washington (and 100% of SCI Paul Cézanne since 30 March 2007 ⁽³⁾)	In the case of a change of control of SFL or Prédica (50%) the other partner has the option of: – either agreeing to the change of control ⁽²⁾ , – or acquiring all the shares and shareholders' advances of the other partner, or – selling all its shares and shareholders' advances to the other partner, at a price corresponding to the market value of the underlying assets, to be determined jointly by the parties or by an independent expert.

(1) Life insurance subsidiary of the Crédit Agricole Group.

(2) Following takeover of SFL by Grupo Inmocaral, through its subsidiary Inmobiliaria Colonial SA, the joint venture partners agreed to the change of control, as provided for under the terms of the related shareholders' pact.

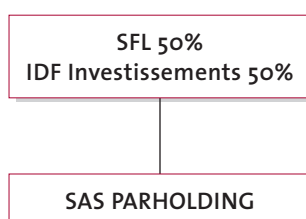
(3) Following the sale of Prédica's entire stake in SCI Paul Cézanne to SFL, the shareholders' pact of 25 July 2001 was automatically terminated and the parties were discharged from all of their commitments thereunder as from the transaction date.



Partner	Joint venture	Main clauses
Ile-de-France Investissements ⁽¹⁾	– SFL holds 50% of the Parholding SAS sub-group	In the case of a change of control of SFL or Ile-de-France Investissements (50%) the other partner has the option of: – either agreeing to the change of control ⁽²⁾ , – or acquiring all the shares of the other partner, or – selling all its shares to the other partner, at a price corresponding to the market value of the underlying assets, to be determined jointly by the parties or by an independent expert.

(1) Latsis Group holding company.

(2) Following takeover of SFL by Grupo Inmocaral, through its subsidiary Inmobiliaria Colonial SA, the joint venture partners agreed to the change of control, as provided for under the terms of the related shareholders' pact.



1-2. Information about the Company's capital

SHARE CAPITAL

At 31 December 2006, the issued share capital amounted to €86,151,904 divided into 43,075,952 ordinary shares with a par value of €2, all fully paid-up.

AUTHORISED, UNISSUED CAPITAL

The Annual General Meeting of 21 April 2005 cancelled, with immediate effect, the unused portions of the financial authorisations given to the Board of Directors at the Annual General Meetings of 16 May 2002 and 30 April 2004, and replaced them with new authorisations to the same effect.

Under the new authorisations, the Board of Directors may issue shares and share equivalents with or without pre-emptive subscription rights (first and second extraordinary resolutions), including in connection with a public exchange offer made by SFL (fifth extraordinary resolution). The amount by which the capital may be increased is capped at €85 million (seventh extraordinary resolution), and the amount of debt that may be taken on through the issue of share equivalents is capped at €750 million (eighth extraordinary resolution). The Board of Directors may also carry out employee rights issues in connection with share-save plans, up to a total amount of €0.5 million, excluding premiums (tenth extraordinary resolution).

These authorisations were given for a period of 26 months starting 21 April 2005 and will be submitted to shareholders for renewal at the Annual General Meeting of 9 May 2007.

The Annual General Meeting of 21 April 2005 also authorised the Board of Directors to grant stock options and free shares to management and employees. The option plan may not exceed the equivalent of 3% of the issued capital (eleventh extraordinary resolution) and the share grants may not exceed 1% (twelfth extraordinary resolution). These authorisations were given for a period of 38 months starting 21 April 2005.

AUTHORISED, ISSUED CAPITAL

The Board of Directors used the authorisation given by the Extraordinary General Meeting of 17 October 1997 to set up a stock option plan on 6 April 2000 for the management and employees of the Company and its subsidiaries. The exercise price of these options is €27.59.

During 2006, 12,164 options were exercised for new shares carrying rights to the 2006 dividend.

The Board of Directors used the authorisation given by the Extraordinary General Meeting of 21 April 2005 (sixth resolution) to issue shares in payment for the shares of another company (see note 1.4, page 87).

CHANGES IN CAPITAL

Date	Description	Issues			New capital	
		Number of shares	Par value	Gross premium	Number of shares	New capital
From 1 Jan. 1992 to 1. Jan 1995		–	–	–	3,714,251	FF 185,712,550
November 1995	Scrip dividend	86,085	FF 4,304,250	FF 42,009,480	3,800,336	FF 190,016,800
December 1995 ⁽¹⁾	Shares issued in payment for properties acquired from Abeille Assurances	421,607	FF 21,080,350	FF 320,421,320	4,221,943	FF 211,097,150
December 1995 ⁽¹⁾	Shares issue in payment for 100% of the shares of FIPARIM from POSSF Paris Nominees Limited and SCIPAR-Montparnasse	1,333,294	FF 66,664,700	FF 1,013,303.44	5,555,237	FF 277,761,850
August 1996	Scrip dividend	105,302	FF 5,265,100	FF 51,387,376	5,660,539	FF 283,026,950
August 1997	Scrip dividend	25,518	FF 1,275,900	FF 16,101,858	5,686,057	FF 284,302,850
October 1997 ⁽²⁾	Issue of shares for cash	1,007,042	FF 50,352,100	FF 664,647,720	6,693,099	FF 334,654,950
July 1998	Conversion of bonds	1,050	FF 52,500	FF 787,500	6,694,149	FF 334,707,450
August 1998 ⁽³⁾	Issuance of shares to EXOR	1,575,000	FF 78,750,000	FF 1,283,625,000	8,269,149	FF 413,457,450
August 1998	Exercise of share warrants	22	FF 1,100	FF 25,300	8,269,171	FF 413,458,550
May 1999	Redemption of Société Générale equity notes	650,773	FF 32,538,650	FF 467,461,243.14	8,919,944	FF 445,997,200
1999	Exercise of share warrants	4	FF 200	FF 4,600	8,919,948	FF 445,997,400
1 July 2000	Conversion of par value of shares from FF 50 to €8	0	€3,367,718.68	–	8,919,948	€71,359,584
6 November 2000	Four-for-one stock split – par value of shares reduced from €8 to €2	0	–	–	35,679,792	€71,359,584
2000	Exercise of share warrants	52	€104	€2,274.20	35,679,844	€71,359,688
27 December 2001	Employee share issue	16,076	€32,152	€311,874.40	35,695,920	€71,391,84
2001	Exercise of share warrants	60	€120	€2,624.07	35,695,980	€71,391,960
December 2002	Exercise of stock options	9,164	€18,328	€217,461.72	35,705,144	€71,410,288
2002	Exercise of share warrants	5,092	€10,184	€222,697.11	35,710,236	€71,420,472
First half of 2003	Exercise of stock options	66,767	€133,534	€1,584,380.91	35,777,003	€71,554,006
Second half of 2003	Exercise of stock options	32,168	€64,336	€763,346.64	35,809,171	€71,618,342
2004	Conversion of bonds	6,927,523	€13,855,046	€195,273,912.64	42,736,694	€85,473,388
2004	Exercise of stock options	250,493	€500,986	€6,505,485.85	42,987,187	€85,974,374
2005	Conversion of bonds	2,278	€4,556	€64,229	42,989,465	€85,978,930
2005	Exercise of stock options	74,323	€148,646	€3,041,230.46	43,063,788	€86,127,576
2006 ⁽⁴⁾	Exercise of stock options	12,164	€24,328	€312,205.90	43,075,952	€86,151,904

(1) Described in the information document registered with the COB on 20 November 1995 under no. E 95-008.

(2) Described in the information document registered with the COB on 17 October 1997 under no. 97-570. Part of a broad-based fund raising exercise.

(3) Described in the information document registered with the COB on 23 July 1998 under no. 98-665.

(4) No other transactions took place in the period to 31 December 2006.

OWNERSHIP STRUCTURE AND VOTING RIGHTS AT 31 DECEMBER 2006

Main shareholders	Business	Total	Total voting rights	Group total	% interest	% voting rights
INMOBILIARIA COLONIAL SA ⁽¹⁾	Property	38,624,500	38,624,500	38,624,500	89.67%	89.94%
PRÉDICA ⁽²⁾	Personal insurance (subsidiary of Crédit Agricole)	2,368,509	2,368,509	2,368,509	5.50%	5.52%
Sub-total, main shareholders		-	-	40,993,009	95.17%	95.46%
Free-float		1,952,876	1,952,876	1,952,876	4.53%	4.55%
Own shares		130,067	0	130,067	0.30%	
Total shares at 31 December 2006		-	-	43,075,952	100.00%	-
Capital at 31 December 2005		43,063,788	-	-	-	-
Shares issued between 1 January and 31 December 2006		12,164	-	-	-	-
TOTAL VOTING RIGHTS ⁽³⁾ AT 31 DECEMBER 2006		-	42,945,885	-	-	99.70%

(1) Spanish property company, subsidiary of the Inmocaral SA Group.

(2) Life insurance company, subsidiary of the Crédit Agricole Group.

(3) No shares carry double voting rights and own shares are stripped of voting rights.

DISCLOSURE THRESHOLDS

The following disclosures were made to the Company during the year:

– On 12 May 2006 **Crédit Agricole SA** disclosed that on 5 May 2006 it had indirectly raised its interest in the Company's capital and voting rights to more than 10% through an increase in the trading positions held by the capital markets department of Calyon⁽¹⁾. At that date, Crédit Agricole SA indirectly held 4,322,888 SFL shares with the same number of voting rights, representing 10.06% of the Company's capital and 10.10% of the voting rights⁽²⁾, breaking down as follows:

	Number of shares	% capital	Number of voting rights	% voting rights
Calyon	196,484	0.46	196,484	0.46
Prédica ⁽³⁾	4,126,400	9.60	4,126,400	9.64
Crédit Agricole Cheuvreux ⁽⁴⁾	4	ns	4	ns
TOTAL	4,322,888	10.06	4,322,888	10.10

(1) Calyon is 95.28%-owned by Crédit Agricole SA (97.78% including indirect interests).

(2) Based on a share capital of 42,987,187 shares, representing 42,819,646 voting rights.

(3) Prédica is wholly-controlled directly by Crédit Agricole SA.

(4) Crédit Agricole Cheuvreux is wholly-controlled directly by Calyon and indirectly by Crédit Agricole SA.

– On 12 May 2006 **Crédit Agricole SA** disclosed that on 9 May 2006 it had indirectly decreased its interest in the Company's capital and voting rights to less than 10% through a reduction in the trading positions held by the capital markets department of Calyon. At that date, Crédit Agricole SA indirectly held 4,126,404 SFL shares with the same number of voting rights, representing 9.60% of the Company's capital and 9.64% of the voting rights, breaking down as follows:

	Number of shares	% capital	Number of voting rights	% voting rights
Prédica	4,126,400	9.60	4,126,400	9.64
Crédit Agricole Cheuvreux	4	ns	4	ns
TOTAL	4,126,404	9.60	4,126,404	9.64

– In its 12 May 2006 disclosure letter, Crédit Agricole SA stated that it did not plan to further significantly raise its interest in SFL and that it did not therefore intend to ask for any additional seats on the Board.

– On 3 October 2006, the **Spanish company Grupo Inmocaral SA** ⁽¹⁾ disclosed that on the same date it held 34,180,921 SFL shares and voting rights through Inmobiliaria Colonial SA, representing 79.37% of the Company's capital and 79.57% of the voting rights ⁽²⁾.

This indirect interest in SFL was acquired through Grupo Inmocaral SA's takeover of Inmobiliaria Colonial SA – which holds 79.37% of SFL's capital and 79.57% of its voting rights – further to a public tender offer. Following the settlement under this tender offer on 3 October 2006, Grupo Inmocaral SA held 93.41% of the capital and voting rights of Inmobiliaria Colonial SA.

Grupo Inmocaral SA stated that it had acted alone in these transactions. Further details concerning its intentions are provided in the information document issued at the time of the tender offer.

– On 14 December 2006, the **Spanish company Inmobiliaria Colonial – which is controlled by Grupo Inmocaral SA** – disclosed that following the simplified public tender offer for SFL shares launched by Grupo Inmocaral, as of 7 December 2006 it held 38,624,500 SFL shares and voting rights which, based on a share capital of 43,072,452 shares, represented:

- 89.67% of the Company's capital and voting rights, based on all of the shares carrying voting rights, including shares stripped of voting rights in accordance with Article 222-12 of the AMF's General Regulations;
- 89.67% of the Company's capital and 90.19% of the voting rights, based on the total number of voting rights exercisable in General Meetings, i.e. 42,823,385 voting rights, taking into account the 249,067 shares held in treasury by SFL ⁽³⁾.

On 4 April 2007, Crédit Agricole SA disclosed that it had increased its interest to over 10% of SFL's capital and voting rights through its subsidiary Prédica⁽⁴⁾, and that, as of 2 April 2007, it held, indirectly, 5,793,858 shares and voting rights, representing 12.46% of SFL's capital and voting rights⁽⁵⁾. The interest was also disclosed by Prédica, on the same day. The increase in Prédica's direct interest and Crédit Agricole SA's indirect interest arose from the acquisition of shares issued by SFL in payment for Prédica's 50% interest in SCI Paul Cézanne⁽⁶⁾.

“Crédit Agricole SA's disclosure letter included the following statement of intent made on behalf of Prédica in accordance with Article L.233-7 of the Commercial Code:

- Pursuant to the agreement dated 8 February 2007, Prédica sold its entire 50% interest in SCI Paul Cézanne to SFL, which already held the other 50%, in exchange for 3,425,349 SFL shares issued at a price of €58 per share.
- In the very near future, Prédica will sell an equivalent number of SFL shares to three investors.
- Prédica will retain at least 5% of SFL's capital and voting rights.
- Prédica is not acting in concert with any other shareholders and does not plan to increase its interest in SFL's current capital, although it may take part in any future share issues decided by SFL in the next 12 months, as well as in any transactions to support SFL's development.
- Prédica does not intend to ask for any additional seats on the SFL Board of Directors.

(1) 38.44% owned by José Manuel Portillo Muñoz, directly and indirectly.

(2) Based on a share capital of 43,063,788 shares, representing 42,954,385 voting rights.

(3) See the announcement of the results of the simplified public tender offer for SFL's shares (D&I 2006C2232 – 8 December 2006).

(4) Prédica is wholly-owned by Crédit Agricole SA.

(5) Based on a total of 46,501,301 shares and voting rights outstanding.

(6) See the press releases published by SFL on 9 February and 30 March 2007.

MAIN SHAREHOLDERS OF THE COMPANY AT 31 DECEMBER 2004 AND 2005

	COLONIAL ⁽¹⁾	PRÉDICA ⁽²⁾	Own shares	Free float	Total
31 December 2004					
Number of shares	36,760,426	4,126,400	1,004,774	1,095,587	42,987,187
Number of voting rights	36,760,426	4,126,400	–	1,095,587	41,982,413
% interest	85.51%	9.60%	2.34%	2.55%	100.00%
% of voting rights ⁽³⁾	87.56%	9.83%	–	2.61%	97.66%
31 December 2005					
Number of shares	34,180,921	4,126,400	179,567	4,576,900	43,063,788
Number of voting rights	34,180,921	4,126,400	–	4,576,900	42,884,221
% interest	79.37%	9.58%	0.42%	10.63%	100.00%
% of voting rights ⁽³⁾	79.71%	9.62%	–	10.67%	99.58%

(1) Spanish property company, subsidiary of the Inmocaral SA Group.

(2) Life insurance company, subsidiary of the Crédit Agricole Group.

(3) No shares carry double voting rights and treasury shares are stripped of voting rights.

SHARE BUYBACK PROGRAMME

The General Meeting of 4 May 2006 authorised a share buyback programme with the following objectives:

- Purchase shares for allocation to Group employees in connection with (i) the statutory profit-sharing scheme, (ii) any programme of employee share grants, with or free of consideration, governed by Articles L.443-1 *et seq.* of the Labour Code or (iii) any stock option plan or programme of share grants free of consideration for all or certain categories of employees and corporate officers.
- Buy and sell shares under a liquidity contract with an investment firm that complies with a code of ethics recognised by the French securities regulator (*Autorité des Marchés Financiers*), to create a liquid market for the shares.
- Permit the issue of debt securities convertible into equity instruments and the fulfilment of the obligations related thereto, in particular by delivering shares upon exercise of rights attached to securities convertible, redeemable, exchangeable or otherwise exercisable for shares.
- Purchase shares for delivery in exchange or payment for shares of another company in connection with any future external growth transactions.

The maximum purchase price for these shares was set at €65.

At 31 December 2006, the Company held 130,067 shares in treasury, representing 0.30% of the capital, as follows:

1. 83,500 shares purchased for allocation to SFL Group employees.
2. 23,284 shares purchased under a liquidity contract with an investment firm.

3. 23,283 shares purchased for delivery in exchange or payment for shares of another company in connection with any future external growth transactions.

No shares are held for delivery on exercise of rights attached to share equivalents.

The Board of Directors has decided to submit a resolution to its General Meeting on 9 May 2007 authorising the purchase of shares under a further buyback programme. The maximum purchase price for these shares would be set at €80 (twenty-third ordinary resolution).

Under the terms of the programme, the Company would be authorised to buy back shares representing up to 10% of the issued capital. Based on the issued capital at 31 December 2006, the authorisation would concern the buyback of up to 4,307,595 shares. The ceiling will be adjusted in the event of any changes in issued capital in the period to the date of the General Meeting.

The aims of the programme would be to:

- Purchase shares for allocation to Group employees in connection with (i) the statutory profit-sharing scheme, (ii) any programme of employee share grants, with or free of consideration, governed by Articles L.443-1 *et seq.* of the Labour Code or (iii) any stock option plan or programme of share grants free of consideration for all or certain categories of employees and corporate officers.
- Buy and sell shares under a liquidity contract with an investment firm that complies with a code of ethics recognised by the French securities regulator (*Autorité des Marchés Financiers*), to create a liquid market for the shares.

- Permit the issue of debt securities convertible into equity instruments and the fulfilment of the obligations related thereto, in particular by delivering shares upon exercise of rights attached to securities convertible, redeemable or otherwise exercisable for shares.
- Purchase shares for delivery in exchange or payment for shares of another company in connection with any future external growth transactions.

The number of shares purchased for delivery in exchange or payment for shares of another company received in connection with a merger, demerger or asset transfer would be limited to the equivalent of 5% of the issued capital, i.e. 2,153,797 shares.

The authorisation would be given for a period of eighteen months.

TRANSACTIONS IN SFL SHARES BY THE COMPANY

Disclosures for the period from 1 January 2006 to 31 December 2007

Percentage of capital held by the Company and/or its subsidiaries	0.30%
Number of shares cancelled in the last 24 months	–
Number of shares held	130,067
Carrying amount of the portfolio	€4,213,514.29
Market value of the portfolio	€8,192,920.33 (at 29 December 2006)

	Cumulative transactions		Open positions on the publication date of programme details			
	Purchases	Sales/ Transfers	Open buy positions		Open sell positions	
			Purchased calls	Forward purchases	Written calls	Forward sales
Number of shares	134,500	184,000				
Average maximum maturity	–	–	–	–	–	–
Average transaction price	€48.11	€39.84				
Average exercise price	–	–	–	–	–	–
Amounts	€6,471,138	€7,330,870				

1-3. Other general information

INSURANCE

All of SFL's liability insurance policies were renewed in 2006 with the same levels of cover as in 2005. Certain premiums were maintained at the same level while others were adjusted.

The comprehensive policies for properties in the portfolio have been cancelled and new policies negotiated with improved cover and lower premiums.

- Most of the Group's property assets are covered by all-risks policies with named exclusions, as well as by landlord's liability insurance. The policies cover reconstruction or replacement cost (without any deduction for wear-and-tear),

and lost of revenue for a maximum of 36 months (including loss of use). This 36-month period has been extended to 48 months for the following properties:

- Washington Plaza,
- Paul Cézanne,
- 46, quai Le Gallo,
- Square Édouard VII,
- 90, avenue des Champs-Élysées,
- 104/110, boulevard Haussmann,
- 12, cours Michelet,
- 81/83, rue de Richelieu,
- 72/76, quai de la Rapée,
- 91/95, boulevard Sébastopol,
- 151, rue Saint-Honoré,
- 1, place de la Coupole (Tour Areva),
- 18, avenue d'Alsace (Tour Les Miroirs).

- For properties which are only partly owned by SFL and/or those managed by a third-party administrator, “administrator failure” cover has also been renewed. This cover was renegotiated in 2006 at the same time as the all-risks policies with named exclusions for the Group’s wholly-owned properties. Under this “administrator failure” policy, insurance cover for the properties concerned kicks in solely in the event that the cover taken out by the administrator is inadequate or the administrator has failed to take out insurance. The guarantees are based on updated calculations of the surface areas involved, and cover fire and related risks, storm, hail and flood damage, theft, broken windows, landlord’s liability, terrorist attacks and natural disasters.
- Liability insurance has been taken out covering the businesses conducted by SFL and its subsidiaries.

Management liability

Insured amount: €7.7 million (including €25,000 to cover the cost of managing crisis situations without any deductible).

Liability arising from portfolio management and property maintenance activities

This policy covers:

- Operational liability, up to a maximum of €7.5 million;
- Liability for bodily injury, direct and consequential damage after work and/or delivery, up to a maximum of €750,000.

Liability arising from activities as the principal in property renovation and refurbishment projects

- Liability, arising from activities as the principal in property renovation and refurbishment projects (combined single limit): €3.05 million.
- Cap for losses other than bodily injury: €915,000.
- Principal’s liability towards the developer (combined single limit): €305,000.

Segpim has cancelled its estate agent and property manager professional liability insurance as the company has decided not to renew its licences relating to these types of business.

Locaparis has taken out professional liability and building manager insurance, covering operating liability up to a maximum of €6.4 million and professional liability up to €0.8 million.

Specific public car park manager liability insurance has been obtained for “Louvre des Antiquaires – *Centre d’Affaires le Louvre*”, for up to a maximum of €6.1 million.

Lastly, liability risks arising from property renovation and refurbishment projects are covered by comprehensive site insurance, structural damage insurance and/or building contractor insurance.

In 2006, total insurance premiums for these policies amounted to approximately €999 thousand.

CLAIMS AND LITIGATION

To the best of the Company’s knowledge, no claims or litigation are in progress or pending that would be likely to have a material impact on the business, assets and liabilities, financial position or results of the Company or the Group.

DEPENDENCE

Not applicable.

1.4 Subsequent events

Pursuant to the agreement dated 8 February 2007, on 30 March Prédica sold its entire 50% interest in SCI Paul Cézanne to SFL, raising SFL’s interest to 100%.

The value of €198,670,242 attributed to this 50% interest was certified by the designated merger auditors in a report filed with the Paris Commercial Court on 22 March.

The acquisition was paid for through the issue of 3,425,349 new SFL shares at a price of €58 per share. These shares rank *pari passu* with existing shares and are quoted on the stock exchange on the same line. The issue, representing less than 8% of SFL’s capital, was carried out pursuant to the extraordinary resolution voted at the 21 April 2005 Annual General Meeting authorising the Board of Directors to issue shares representing up to 10% of the capital in settlement of stock-for-stock transactions.

Prédica confirmed to SFL that it had agreed to sell an equivalent number of SFL shares to three investors at the same price. Following these transactions, Prédica will continue to hold at least 5% of SFL’s capital and voting rights, thereby retaining the rights provided for in the shareholders’ pact with Immobiliaria Colonial dated 24 November 2004.

2 – Appropriation of Profit and Dividend Policy

2-1. Appropriation of profit

At 31 December 2006, the share premium account totalled €991,758,204.73, following the issuance of 12,164 shares on the exercise of the same number of stock options. The Board of Directors proposes transferring €2,432.80 of this amount to the legal reserve in order to increase the said reserve to one tenth of the Company's new capital. Following this transfer the share premium account will stand at €991,755,771.93.

Net profit for the year totalled €87,499,458.63.

The total amount available for distribution is €162,459,366.77, comprising net profit of €87,499,458.63 plus retained earnings of €74,959,908.14.

RECOMMENDED APPROPRIATION

– €148,804,163.20 to dividends, corresponding to a net dividend per share of €3.20, including the interim dividend of €0.70 paid during 2006.

– €13,655,203.57 to retained earnings.

The dividend will be paid as from 15 May 2007. SFL shares held by the Company on that date will be stripped of dividend rights and the corresponding amount will be credited to retained earnings.

2-2. Dividend policy

Uncollected dividends are time-barred after a period of five years.

Dividends paid in the last 5 years were as follows:

(€ per share)	2002	2003	2004	2005	2006
Net dividend	1.20	1.80 (including 1.38 ⁽²⁾ and 0.42 ⁽³⁾)	2.05 (including 0.70 ⁽⁴⁾ and 1.35 ⁽⁵⁾)	2.10 (including 0.70 ⁽⁵⁾ and 1.40 ⁽⁶⁾)	3.20 ⁽⁶⁾ (including 0.70 and 2.50)
Tax credit	0.60 / 0.12 ⁽¹⁾	0.21 / 0.04 ⁽¹⁾	–	–	–

(1) Calculated at 50% for individuals and for companies qualifying for the affiliation privilege (Article 145 of the General Tax Code), and 10% for other companies.

(2) Paid out of tax-exempt profits and not qualifying for the avoïr fiscal tax credit.

(3) Paid out of taxed profits, qualifying for the avoïr fiscal tax credit.

(4) Interim dividend not qualifying for either the avoïr fiscal tax credit or the tax relief (paid on 10 December 2004).

(5) Qualifying for the 50% tax relief referred to in paragraph 3-2 of the former Article 158 of the General Tax Code (2004 Finance Act (Act no. 2003-1311 of 30 December 2003, Article 93)).

(6) Qualifying for 40% tax relief referred to in paragraph 3-2 of the new Article 158 of the General Tax Code (2006 Finance Act (Act no. 2005-1719 of 30 December 2005, Article 76 I)).

3 – Market for the Company's Securities

Market for the Company's shares

SFL shares have been quoted in Compartment A of Eurolist by Euronext since 21 February 2005. They were previously quoted on the *Premier Marché* of Euronext Paris as from 25 March 1998 and on the cash settlement market before that (ISIN code: 0000033409).

	Price (€)		Trading volume	
	High	Low	Number of shares	Amount (in €m)
2005				
July	44.65	43.00	298,273	12.897
August	48.55	43.50	140,753	6.462
September	50.00	47.20	158,500	7.806
October	49.50	43.60	150,424	6.942
November	44.50	43.00	107,946	4.735
December	44.30	41.50	54,742	2.370
2006				
January	46.37	43.60	261,315	11.960
February	48.20	44.20	201,275	9.305
March	50.55	47.05	346,474	17.275
April	49.50	46.51	132,474	6.526
May	49.50	44.55	111,830	5.215
June	48.10	40.61	167,008	7.596
July	51.00	45.20	275,866	13.138
August	50.30	49.15	127,730	6.380
September	53.00	49.90	128,784	6.601
October	53.20	51.65	182,816	9.596
November	55.60	54.70	2,356,963	129.655
December	57.75	53.75	3,577,876	196.636
2007				
January	60.95	55.55	83,928	4.909
February	65.00	57.95	104,789	6.241
March	64.00	61.00	62,389	3.924

Source: Euronext.

4 – Additional Information about Human Resources

4-1. General employee-related information

TOTAL GROUP EMPLOYEES AT 31 DECEMBER 2006

Employees (with employment contracts)	97
Corporate officer	1

ANALYSIS OF EMPLOYEES BY TYPE OF CONTRACT AT 31 DECEMBER 2006

Fixed-term contracts	0
Permanent contracts	97

EMPLOYEES HIRED DURING 2006

Fixed-term contracts	8
Permanent contracts	13

EMPLOYEE DEPARTURES IN 2006

Resignations	5
Unsuccessful trial periods	2
Expiry of fixed-term contracts	10
Retirements	3
Terminations	6
<i>of which: for personal reasons</i>	4
<i> redundancies</i>	2
Company transfers – Art. L. 122-12 of the Labour Code	4

WORKING HOURS

Total working hours for employees covered by the National Collective Bargaining Agreement for the Property Industry are calculated on an annual basis in accordance with the applicable law and regulations. These employees are granted time off in lieu for hours worked in excess of a thirty-five hour week (calculated on an annual basis) in addition to their holiday entitlements provided for by law and by the collective bargaining agreement.

Employees covered by the National Collective Bargaining Agreement for Site staff, Caretakers and Building employees

(Category A) are subject to the standard provisions relating to working hours contained in the law and the collective bargaining agreement.

ABSENTEEISM (IN DAYS)

Occupational accidents	19
Leave to take care of sick children	26
Paternity leave	11
Illness	666
Maternity leave	212

COLLECTIVE AGREEMENTS

In addition to the Collective Bargaining Agreements relating to Site staff, Caretakers and Building employees, SFL Group employees are covered by the general provisions of the following collective agreements:

- Company-level agreement dated 1 July 1999 – administrative category under the Collective Bargaining Agreement of the Property Industry.
- Addendum no. 1 dated 17 December 1999 to the company-level agreement of 1 July 1999.
- Addendum no. 2 dated 16 October 2000 to the company-level agreement of 1 July 1999.
- Addendum no. 3 dated 15 December 2003 to the company-level agreement of 1 July 1999.
- Addendum no. 4 dated 21 December 2005 to the company-level agreement of 1 July 1999.
- Addendum no. 5 dated 21 December 2005 to the company-level agreement of 1 July 1999.
- Addendum no. 6 dated 26 September 2006 to the company-level agreement of 1 July 1999.
- SFL Group Statutory Profit-Sharing Agreement of 20 June 2002 and addenda dated 5 April 2003, 13 April 2005 and 27 September 2005.
- SFL Group Discretionary Profit-Sharing Agreement of 27 June 2005.
- SFL Group PEE Employee Sharesave Plan of 30 September 2002 and addenda dated 21 September 2004 and 29 November 2004.
- SFL Group Pensions Savings Plan (PERCO) of 31 January 2005.
- Agreement concerning effective salaries, effective working hours and the organisation of working time dated 21 December 2006.

GENDER EQUALITY IN THE WORKPLACE

The SFL Group complies with the provisions of Act no. 83-635 of 13 July 1983 relating to gender equality in the workplace, particularly concerning remuneration, training, job allocation, qualifications, classification and/or promotion.

HEALTH AND SAFETY

The three-member Health, Safety and Working Conditions Committee comprising staff representatives contributes to improving employee health and safety and working conditions.

In addition, specific employee safety training is organised each year on such matters as incident prevention plans, fire safety and fire drills.

Thanks to this policy, only two workplace accidents occurred in 2006.

COMPANY BENEFIT SCHEMES

In 2006, the SFL Group paid a total of €137,224 to the Works Council to cover running costs and the financing of social and cultural activities.

DISABLED WORKERS

In connection with its policy of supporting measures to help the disabled to find work, each year, the Group allocates a significant proportion of the amount payable under the apprenticeship tax scheme (50% of the amount available) to ADAPT, an association working in this area.

In 2006, the SFL Group contributed €7,227 to the Association for the Management of Funds for the Vocational Integration of Disabled People (AGEFIPH) in fulfilment of its obligations concerning the employment of disabled workers.

STABLE EMPLOYEE NUMBERS

The Group had 94 administrative employees at 31 December 2006.

Thirteen people were hired by the Company during the year, including four to take on the following newly-created positions:

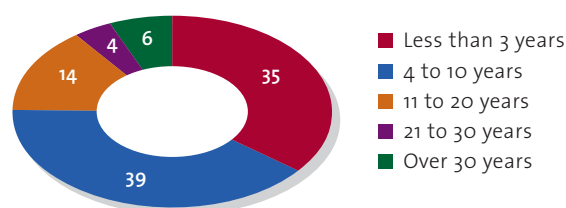
- A junior property analyst
- An office and retail property sales manager
- An IT project manager
- A consolidation and financial reporting manager

Our ongoing policy of selective asset sales, mainly of residential properties, led to a reduction in the number of building staff. At 31 December 2006, we had four caretakers and building employees on our payroll.

NUMBER OF EMPLOYEES AT 31 DECEMBER 2006

	2006	2005
Administrative staff	94	97
Building staff	4	11
TOTAL STAFF	98	108

GROUP EMPLOYEES BY YEARS OF SERVICE AT 31 DECEMBER 2006



AN ACTIVE TRAINING POLICY

For a group like SFL whose success is underpinned by the skills of its employees, investment in training represents a key competitive advantage. Our training policy needs to meet both employee expectations and the Group's requirements by enabling us to keep abreast of changes in business trends and constantly adapt our available skill sets in line with required competencies.

For these reasons, we continued to implement an active training policy in 2006, investing the equivalent of more than 3% of the total payroll. During the year, 70 employees received a total of over 2,800 hours' training, mainly in the areas of commercial leases, information systems, safety, accounting and tax, property management, team management and languages.

ATTRACTIVE EMPLOYEE SAVINGS SCHEMES

In 2006, incentive bonuses and profit sharing – respectively totalling €779,583 and €236,664 – represented on average more than 12% of employees' basic remuneration.

During the year fifty-four employees signed up to the PERCO employee savings scheme (*Plan d'Épargne Retraite Collectif*), launched in 2005. This scheme enables employees to save for their retirement, with top-up payments from the company, without paying income tax or payroll taxes on their savings.

Voluntary contributions paid into the scheme amounted to €111,855 in 2006, up 30% on 2005. In view of the scheme's success, we have decided to raise the maximum amount of top-up payments on voluntary contributions from €1,800 to €2,400 for 2007.

4-2. Payroll and stock option plans

TOTAL PAYROLL AND SOCIAL SECURITY AND OTHER EMPLOYEE-RELATED CONTRIBUTIONS

Total Group payroll for the year ended 31 December 2006 amounted to €9,424,238.

Social security and other employee-related contributions break down as follows:

– URSSAF (general social security contributions)	€3,326,288
– ASSEDIC (unemployment benefit contributions)	€427,112
– Supplementary pension contributions	€1,212,589
– Healthcare and personal risk insurance contributions	€294,475

STOCK OPTION PLANS

At 31 December 2006, three stock option plans were outstanding. These plans were set up under the authorisation given at the Extraordinary General Meetings of 17 October 1997 (6 April 2000 and 21 March 2002 plans) and 16 May 2002 (25 April 2003 plan).

Plans	Price (in euros)	Expiry date	Options exercisable at 31/12/2006	Number of grantees at 31/12/2006	Including employees working for SFL at 31/12/2006
6 April 2000 plan	27.59	05/04/2010	27,673	3	–
Total stock subscription options outstanding at 31 December 2006			27,673	–	–
21 March 2002 plan	27.78	20/03/2012	3,000	1	–
25 April 2003 plan	26.41	24/04/2013	65,000	1	1
Total stock purchase options outstanding at 31 December 2006			68,000	–	–

Details of the number of options received by the ten persons (employees and corporate officers) who received the greatest number of options are provided in the table in section 5.2.

5 – Information about the Board of Directors and Senior Management

5-1. Directors and officers

SFL GROUP MANAGEMENT

Luis Manuel Portillo Muñoz, Chairman of the Board of Directors (since 2006)

Yves Mansion, Chief Executive Officer (since 2006, previously Chairman and CEO since 2002)

Alec Emmott, Managing Director (since 1997, previously Advisor to the Chairman since 1995)

Philippe Depoux, Deputy Managing Director and Chief Operating Officer (since 2005)

Nicolas Reynaud, Chief Financial Officer and Secretary to the Board of Directors (since 2006)

François Sebillotte, Company Secretary (since 2001, previously Director of Group Legal Affairs since 2000)

Franck Dattée, Technical Director (since 2003)

Olivier Rochefort, Asset Management Director (since 2007, previously Director, Profit Centres since 2002)

Joan Torreguitart, Director, Control and Coordination (since 2005)

Jean-Luc Potier, Development Director (since 2002)

BOARD OF DIRECTORS ⁽¹⁾

Chairman

Luis Manuel Portillo Muñoz (2006)

Directorships and other positions in France:

Chairman of the Board of Directors of Société Foncière Lyonnaise

Directorships and other positions outside France:*

Director of Zent Inversiones, S.L.

Director of Alinilam, S.L.

Director of Expo-AN, S.A.

Director of Nazaria E.CC, S.L.

Director of Atymisa Nuevas Tecnologías, S.L.U.

Director of Plaza De Toros De Marbella, S.L.U.

Director of Almitravel, S.L.U.

Chairman of Producciones Agrícolas Nature, S.L.

Director of Inversiones Portival, S.L.

Director of Landship Investments, S.L.

Director of Development Resource, S.L.

Legal Representative of Grupo Portival, S.L. on the Board of Expogestion 2000, S.L.

Chairman and Director of Las Salinas De Roquetas, S.L.

Legal Representative of Grupo Portival, S.L., as Chairman of Vitafresh, S.L.U.

Director of Inversiones Vendome, S.L.

Chairman and Director of Abaco Grupo Financiero Inmobiliario, S.A.U.

Director of Desarrollo Turísticos Hoteleros Sancti Petri, S.L.

Legal Representative of Grupo Portival, S.A. on the Board of Gestiones Empresariales Jarque S.L.

Representative of Mancomunado as Director of Inrama Gestiones S.L.

Director of Recreo Las Lomas, S.L.

Director of Paiz y Diaz, S.L.

Legal Representative of Grupo Portival, S.A. on the Board of Inmopolis Calidad Sevilla, S.A.

Director of Corporacion Eolica De Huelva, S.A.

Director of Sociedad Herdade Da Rendeira-Agropecuaria S.A.

Director of Sociedad agropecuaria Da Coruajeira, S.A.

Legal Representative of Expo-AN S.A. on the Board of Villas De Condequinto, S.L.

Legal Representative of Grupo Portival, S.L. as Director

of Inversiones Turísticas Hoteleras, S.L.

Legal Representative of Grupo Portival, S.L. as Vice-Chairman of Occidental Andaluza De Agrocomercio, S.L.

Director of Inversiones Tersina, S.L.

Legal Representative of Inversiones Tersina S.L. as Chairman of Grupo Inmocaral, S.A.

Director of Explotaciones Forestales y Cinegeticas Alta Baja, S.A.

Chairman of Inmobiliaria Colonial, S.A.

Director of Inversiones Notenth, S.L.

Director of Inversiones Tres Cantos, S.L.

Legal Representative of Grupo Portival, S.L. as Chairman of Entrenucleos Desarrollos Inmobiliarios, S.L.

Legal Representative of Grupo Portival, S.L. as Chairman of Dehesa De Valme, S.L.

(1) Each Director's name is followed in brackets by the year of his/her election to the Board.

* These directorships are not required to be taken into account when determining compliance with Articles L.225-21 and L.225-77 of the French Commercial Code relating to multiple directorships.

Chief Executive Officer**Yves Mansion** (2002)*Directorships and other positions in France:*

Director and Chief Executive Officer of Société Foncière Lyonnaise

Legal Manager of SCI Paul Cézanne*, SCI Washington*, and SCI de La Sorbonne*

Member of the Supervisory Board and Audit Committee of Euler Hermes

Member of the Board of Autorité des Marchés Financiers (French securities regulator)*

Directorships and other positions outside France:*

Director and member of the Audit Committee of Alcan (Canada)

Managing Director (not a member of the Board)**Alec Emmott** (1997)*Directorships and other positions in France:*

Chairman and Chief Executive Officer and Director of Segpim SA*

Chairman of Locaparis SAS,*

Managing Director and member of the Board of S.H.E. SA Representative of S.H.E., Lille as Legal Manager of SCI du 2/10 Rue Nationale*

Director of I.E.I.F.

Director of I.P.D.

Legal Manager of SCI du Teretre*

Directorships and other positions outside France:

Director of The European Asset Value Fund, Martin Currie Absolute Return Funds, Martin Currie Global Funds, and Crowstone European Properties Limited (Guernsey)

Directors

The Board met seven times in 2006.

The Board of Directors comprises the following members:

Two former Chairmen of the Company**Tony Wyand** (1995)*Directorships and other positions in France:*

Director of Société Foncière Lyonnaise and Société Générale Member of the Supervisory Board of Aviva France and Aviva Participations

Directorships and other positions outside France:*

Director of Grosvenor (United Kingdom) and Unicredito (Italy)

Yves Defline (1997)*Directorships and other positions in France:*

Director of Société Foncière Lyonnaise

Six Directors representing the Company's two main shareholders**Maria Jesús Valero-Perez** (2006)*Directorships and other positions in France:*

Director of Société Foncière Lyonnaise

Directorships and other positions outside France:

Director of Zent Inversiones, S.L.

Director of Alinilam, S.L.

Director of Alminar, S.L.

Director of Inversiones Terrer, S.L.

Legal Representative of Desarrollo Empresarial Quetro, S.L. on the Board of Grupo Inmocaral S.A.

Director of Desarrollo Empresarial Quetro, S.L.

Director of Inmobiliaria Colonial, S.A.

Director of Inversiones Pormu, S.A.

Mariano Miguel Velasco (2006)*Directorships and other positions in France:*

Director of Société Foncière Lyonnaise

Diego Prado Perez-Seoane (2006)*Directorships and other positions in France:*

Director of Société Foncière Lyonnaise

Directorships and other positions outside France:

Director of Inmocaral SA (Spain)

Chairman of Hotel Ritz Madrid SA (Spain)

Director of Sotecep SA (Spain)

Director of Acerinox SA (Spain)

Director of Telco Investments SARL (Luxembourg)

Director of Iberbanda SA (Spain)

Luis Emilio Nozaleda Arenas (2006)*Directorships and other positions in France:*

Director of Société Foncière Lyonnaise

Francisco José Molina Calle (2006)*Directorships and other positions in France:*

Director of Société Foncière Lyonnaise

Directorships and other positions outside France:*

Legal Representative of Grupo Portival, S.L. on the Board of Producciones Agrícolas Nature, S.L.

Director of Las Salinas De Roquetas, S.L.

Legal Representative of Inversiones Mobiliarias Franeli, S.L. on the Board of Vitafresh, S.L.U.

Director of Abaco Grupo Financiero Inmobiliario, S.A.U.

Director of Inrama Gestiones, S.L.

Director of Sociedad Herdade Da Rendeira-Agropecuaria, S.A.

Legal Representative of Inversiones Mobiliarias Franeli S.L.

on the Board of Occidental Andaluza De Agrocomercio, S.L.

Director of Grupo Inmocaral, S.A.

Director of Inmobiliaria Colonial, S.A.

* These directorships are not required to be taken into account when determining compliance with Articles L.225-21 and L.225-77 of the French Commercial Code relating to multiple directorships.

Director of Inversiones Notenth, S.A.
Legal Representative of Grupo Portival, S.L. on the Board
of Inversiones Tres Cantos, S.L.
Director of Entrenúcleos Desarrollos Inmobiliarios, S.L.
Director of Dehesa De Valme, S.L.
Director of Inversiones Mobiliarias Franeli, S.L.

Jean-Jacques Duchamp (2004)

Directorships and other positions in France:

Director of Société Foncière Lyonnaise
Member of the Prédica Financial Services Executive
Committee*
Director of Sanef
Director of CAIM (Crédit Agricole Immobilier)
Director of Groupe Batipart: Suren (nursing homes group) –
Medidep – Foncière des Régions

**One Director and two non-voting Directors
representing a valuable source of advice
and experience, by virtue of their familiarity with
the Company's business and their recognised
expertise in the areas of property and finance:**

Jean Arvis (1987)

Directorships and other positions in France:

Director of Société Foncière Lyonnaise, IMI, Alma and Adyal
Non-voting Director of CFSH (Rothschild) and Gimar

Directorships and other positions outside France:

Director of Scor US
Director of Score Canada
Director of the Axa Sun Life Monitoring Board
(United Kingdom)
Director of Wafa (Morocco)
Director of Fapr (Ireland)
Chairman of Atlas Finances Conseil (Morocco)
Chairman of Alma Europe (Luxembourg)
Legal Manager of Azbenar (Morocco)

Jacques Calvet

(Director since 1999, Non-voting Director since 2005)

Directorships and other positions in France:

Non-voting Director of Société Foncière Lyonnaise*, EPI*,
Cottin Freres* and Scherlafarge*
Chairman of the Supervisory Board of BHV
Vice-Chairman of the Supervisory Board of Galeries
Lafayette, SA
Director of Novarte, SAS and Société Financière
des Pimonts-Icade, SA*
Honorary Chairman of BNP Paribas*
Advisor to Banque de France*

Philippe Chareyre

(Director since 1987, Non-voting Director since 2005)

Directorships and other positions in France:

Non-voting Director of Société Foncière Lyonnaise*.

The Directors fulfil, in all material respects, the criteria used
to define independent Directors in the MEDEF AFEP-AGREF
report on corporate governance.

COMPLIANCE WITH THE INDEPENDENCE CRITERIA SET OUT IN THE MEDEF AFEP-AGREF REPORT

SFL's Directors fulfil the independence criteria as specified in
the recommendations of the MEDEF AFEP-AGREF report:

- None of them are employees or corporate officers of the
Company or of a member of the SFL consolidated group.
- None of them are corporate officers of a company of which
SFL is also a Director, either directly or indirectly.
- None of them have any close family ties with any of the
corporate officers.
- None of them worked on the audit of the Company's
accounts in the five years preceding their election to the
Board.

The following criteria are not applied by SLF:

- 12-year limit on the number of years as Director of the
Company;
- Limit on the duration of Directors' terms of office.

CHANGES IN THE COMPOSITION OF THE BOARD

The Board of Directors was notified of the resignation of the
following members:

- Juan José Brugera Clavero on 10 October 2006
- Francisco Emilo Ruiz Armengol on 24 October 2006
- José Maria Grau Greoles on 26 October 2006
- Eduard Mendiluce Fradera on 26 October 2006
- Pierre Lheritier on 26 October 2006
- José Manuel Basanez Villaluenga on 26 October 2006.

At the Annual General Meeting of 9 May 2007, shareholders
will be invited to:

- Ratify the appointment of Luis Manuel Portillo Muñoz as
Director, decided by the Board at its meeting on 26 October
2006, to replace José Maria Grau Greoles, following the
latter's resignation, for the remainder of José Maria Grau
Greoles' term of office, expiring at the close of the Annual
General Meeting to be held to approve the 2008 financial
statements.

(1) Each Director's name is followed in brackets by the year of his/her election to the Board.

* These directorships are not required to be taken into account when determining compliance with Articles L.225-21 and L.225-77 of the French Commercial Code relating to multiple directorships.

- Ratify the appointment of Maria Jesús Valero Perez as Director, decided by the Board at its meeting on 26 October 2006 to replace Eduard Mendiluce Fradera, following the latter's resignation, for the remainder of Eduard Mendiluce Fradera's term of office, expiring at the close of the Annual General Meeting to be held to approve the 2007 financial statements.
- Ratify the appointment of Francisco José Molina Calle as Director, decided by the Board at its meeting on 26 October 2006 to replace Francisco Emilio Ruiz Armengol, following the latter's resignation, for the remainder of Francisco Emilio Ruiz Armengol's term of office, expiring at the close of the Annual General Meeting to be held to approve the 2007 financial statements.
- Ratify the appointment of Luis Emilio Nozaleda Arenas as Director, decided by the Board at its meeting on 26 October 2006 to replace Pierre Lheritier, following the latter's resignation, for the remainder of Pierre Lheritier's term of office, expiring at the close of the Annual General Meeting to be held to approve the 2007 financial statements.
- Ratify the appointment of Diego Prado Perez-Seoane as Director, decided by the Board at its meeting on 26 October 2006 to replace José Manuel Basanez Villaluenga, following the latter's resignation, for the remainder of José Manuel Basanez Villaluenga's term of office, expiring at the close of the Annual General Meeting to be held to approve the 2007 financial statements.
- Ratify the appointment of Mariano Miguel Velasco as Director, decided by the Board at its meeting on 26 October 2006 to replace Juan José Brugera Clavero, following the latter's resignation, for the remainder of Juan José Brugera Clavero's term of office, expiring at the close of the Annual General Meeting to be held to approve the 2006 financial statements.
- Re-elect Mariano Miguel Velasco as Director, for a three-year term expiring at the close of the Annual General Meeting to be held to approve the 2009 financial statements.
- Re-elect Tony Wyand as Director, for a three-year term expiring at the close of the Annual General Meeting to be held to approve the 2009 financial statements.
- Re-elect Jean-Jacques Duchamp as Director, for a three-year term expiring at the close of the Annual General Meeting to be held to approve the 2009 financial statements.
- Re-elect Yves Defline as Director, for a one-year term expiring at the close of the Annual General Meeting to be held to approve the 2007 financial statements.
- Re-elect Jean Arvis as Director, for a one-year term expiring at the close of the Annual General Meeting to be held to approve the 2007 financial statements.
- Elect REIG Capital Group Luxembourg SARL (share capital: €12,500; registered office: 65 boulevard Grande Duchesse Charlotte, L-1331 Luxembourg) as Director for a three-year term expiring at the close of the Annual General Meeting to be held to approve the 2009 financial statements.
- Elect Domingo Diaz de Mera, c/Alfonso XII, 26 – Entreplanta, 28014 Madrid (Spain) as Director for a three-year term expiring at the close of the Annual General Meeting to be held to approve the 2009 financial statements.
- Elect José Ramón Carabante de la Plaza, Plaza Marqués de Salamanca 2, 28006 Madrid (Spain) as Director for a three-year term expiring at the close of the Annual General Meeting to be held to approve the 2009 financial statements.
- Elect Aurelio Gonzalez Villarejo, c/Fernando El Santo 9 – 1a, 28010 Madrid (Spain) as Director for a three-year term expiring at the close of the Annual General Meeting to be held to approve the 2009 financial statements.
- Renew the appointment of PricewaterhouseCoopers as Auditors, for a six-year term expiring at the close of the Annual General Meeting to be held to approve the 2012 financial statements.
- Appoint Anik Chaumartin as substitute Auditor, for a six-year term expiring at the close of the Annual General Meeting to be held to approve the 2012 financial statements, to replace Pierre Coll whose term expires at the Annual General Meeting of 9 May 2007.

5-2. Management remuneration, benefits in kind and stock option plans

REMUNERATION AND BENEFITS IN KIND PAID TO CORPORATE OFFICERS

Chief Executive Officer

Gross fixed remuneration paid in 2006 to Yves Mansion, Chief Executive Officer, by Société Foncière Lyonnaise, amounted to €343,200. His variable remuneration is tied to growth in net profit. Gross variable remuneration paid to Yves Mansion in 2007 in respect of 2006 totalled €343,200.

Yves Mansion also has the use of a company car, representing a benefit in kind valued at a gross amount of €2,841 in 2006. Gains realised by Yves Mansion in 2006 on the exercise of stock options granted by the Company under the 2 March 2006 plan represented a gross amount of €402,332.

During the year, Yves Mansion also received Directors' fees of €23,000 from Group companies.

Total gross remuneration paid to Yves Mansion by Société Foncière Lyonnaise in 2006 breaks down as follows:

– Fixed remuneration	€343,200
– Variable remuneration for 2005	€330,000
– Benefits in kind	€2,841
– Gains on the exercise of stock options	€402,332
– Directors' fees	€24,000 *

Managing Director

Gross fixed remuneration paid in 2006 to Alec Emmott, Managing Director, by Société Foncière Lyonnaise amounted to €229,937. His variable remuneration is tied to growth in net profit. Gross variable remuneration paid to Alec Emmott in 2007 in respect of 2006 totalled €228,800.

Alec Emmott also has the use of a company car, representing a benefit in kind valued at a gross amount of €4,194 in 2006.

Gains realised by Alec Emmott in 2006 on the exercise of stock options granted by the Company under the 2 March 2006 plan represented a gross amount of €319,912.

Alec Emmott does not receive any Directors' fees from the Group companies of which he is a member of the Board.

Total gross remuneration paid to Alec Emmott by Société Foncière Lyonnaise in 2006 breaks down as follows:

– Fixed remuneration	€229,93
– Variable remuneration for 2005	€220,000
– Benefits in kind	€4,194
– Gains on the exercise of stock options	€319,912
– Incentive bonuses/profit sharing for 2005	€20,891

REMUNERATION AND BENEFITS PAID TO SENIOR MANAGEMENT OTHER THAN CORPORATE OFFICERS IN 2006

Total remuneration paid by Société Foncière Lyonnaise in 2006 to the persons who were members of the Executive Committee at 31 December 2006 (excluding corporate officers) was as follows:

– Fixed remuneration	€782,651
– Variable remuneration for 2005	€150,000
– Benefits in kind	€12,051
– Exceptional bonus	€90,000
– Repatriation bonus	€84,000
– Gains on the exercise of stock options	€863,823
– Incentive bonuses/profit sharing for 2005	€79,073
– Top-up payments made in relation to the PERCO scheme	€7,200

* Paid in January and July 2006

STOCK OPTIONS GRANTED TO CORPORATE OFFICERS

	Plan		Number of options granted	Price (in €)	Expiry date	Number of options exercised	Number of options outstanding at 31/12/2006
Yves Mansion	21/03/2002	SFL	100,000	€27.78	20/03/2012	100,000	–
	25/04/2003	SFL	100,000	€26.41	24/04/2013	100,000	–
	02/03/2006	SFL	22,000	€51.07	02/03/2011	22,000	–
	02/03/2006	COLONIAL	22,000	€58.23	02/03/2011	22,000	–
Alec Emmott	27/11/1997	SFL	12,736	€25.73	26/11/2007	12,736	–
	25/02/1999	SFL	17,760	€30.83	24/02/2009	17,760	–
	06/04/2000	SFL	39,684	€27.59	05/04/2010	39,684	–
	21/03/2002	SFL	65,000	€27.78	20/03/2012	65,000	–
	25/04/2003	SFL	65,000	€26.41	24/04/2013	–	65,000
	02/03/2006	SFL	17,500	€51.07	02/03/2011	17,500	–
	02/03/2006	COLONIAL	17,500	€58.23	02/03/2011	17,500	–

TEN EMPLOYEES OTHER THAN CORPORATE OFFICERS WHO RECEIVED THE GREATEST NUMBER OF OPTIONS IN 2006

	Plan		Number of options granted	Price (in €)	Expiry date	Number of options exercised	Number of options outstanding at 31/12/2006
François Sebillotte	21/03/2002	SFL	9,000	€27.78	20/03/2012	9,000	–
	25/04/2003	SFL	15,000	€26.41	24/04/2013	15,000	–
	02/03/2006	SFL	10,000	51.07	02/03/2011	10,000	–
	02/03/2006	COLONIAL	10,000	€€58.23	02/03/2011	10,000	–
			44,000			44,000	–
Jean-Luc Potier	27/11/1997	SFL	5,808	€25.73	26/11/2007	5,808	–
	25/02/1999	SFL	972	€30.83	24/02/2009	972	–
	06/04/2000	SFL	6,544	€27.59	05/04/2010	6,544	–
	21/03/2002	SFL	6,000	€27.78	20/03/2012	6,000	–
	25/04/2003	SFL	6,000	€26.41	24/04/2013	6,000	–
	02/03/2006	SFL	5,000	€51.07	02/03/2011	5,000	–
	02/03/2006	COLONIAL	5,000	€58.23	02/03/2011	5,000	–
			35,224			35,224	–
Philippe Depoux	02/03/2006	SFL	12,500	€51.07	02/03/2011	12,500	–
	02/03/2006	COLONIAL	12,500	€58.23	02/03/2011	12,500	–
			25,000			25,000	–
Christelle Abily	27/11/1997	SFL	2,720	€25.73	26/11/2007	2,720	–
	25/02/1999	SFL	624	€30.83	24/02/2009	624	–
	06/04/2000	SFL	4,808	€27.59	05/04/2010	4,808	–
	21/03/2002	SFL	6,000	€27.78	20/03/2012	6,000	–
	25/04/2003	SFL	6,000	€26.41	24/04/2013	6,000	–
	02/03/2006	SFL	2,000	€51.07	02/03/2011	2,000	–
	02/03/2006	COLONIAL	2,000	€58.23	02/03/2011	2,000	–
				24,152			24,152
Joan Torreguitart	02/03/2006	SFL	10,000	€51.07	02/03/2011	10,000	–
	02/03/2006	COLONIAL	10,000	€58.23	02/03/2011	10,000	–
			20,000			20,000	–
Olivier Rochefort	25/04/2003	SFL	9,000	€26.41	24/04/2013	9,000	–
	02/03/2006	SFL	5,000	€51.07	02/03/2011	5,000	–
	02/03/2006	COLONIAL	5,000	€58.23	02/03/2011	5,000	–
			19,000			19,000	–
François Derrian	25/04/2003	SFL	9,000	€26.41	24/04/2013	9,000	–
	02/03/2006	SFL	3,000	€51.07	02/03/2011	3,000	–
	02/03/2006	COLONIAL	3,000	€58.23	02/03/2011	3,000	–
			15,000			15,000	–
Brigitte Sahabna	25/04/2003	SFL	9,000	€26.41	24/04/2013	9,000	–
	02/03/2006	SFL	3,000	€51.07	02/03/2011	3,000	–
	02/03/2006	COLONIAL	3,000	€58.23	02/03/2011	3,000	–
			15,000			15,000	–
Jean-Luc Hofer	27/11/1997	SFL	4,660	€25.73	26/11/2007	4,660	–
	25/02/1999	SFL	984	€30.83	24/02/2009	984	–
	06/04/2000	SFL	6,608	€27.59	05/04/2010	6,608	–
			12,252			12,252	–
Hervé Tabart	27/11/1997	SFL	3,964	€25.73	26/11/2007	3,964	–
	25/02/1999	SFL	872	€30.83	24/02/2009	872	–
	06/04/2000	SFL	6,104	€27.59	05/04/2010	6,104	–
			10,940			10,940	–

AUDITORS' FEES

Fees paid to the Auditors in respect of 2006, corresponding solely to audit fees, were as follows:

- PricewaterhouseCoopers Audit: €266,845 excluding tax.
- Deloitte & Associés: €203,125 excluding tax.

DIRECTORS' INTERESTS AND FEES

	Position	Number of SLF shares held ⁽¹⁾	Directors' fees paid in respect of 2006 (gross – in €)
Luis Manuel Portillo Muñoz	Chairman of the Board Chairman of the Executive and Strategy Committee	100	6,000
Yves Mansion	Director – Chief Executive Officer Member of the Executive and Strategy Committee Member of the Remuneration and Selection Committee	15,000	23,000
Mariano Miguel Velasco	Chairman of the Remuneration and Selection Committee Member of the Executive and Strategy Committee	100	6,000
Francisco José Molina Calle	Chairman of the Audit Committee Member of the Executive and Strategy Committee	100	6,000
Jean Arvis	Member of the Remuneration and Selection Committee	500	18,000
Yves Defline	Member of the Audit Committee	362	18,000
Jean-Jacques Duchamp	Member of the Audit Committee Member of the Executive and Strategy Committee	25	18,000
Luis Emilio Nozaleda Arenas	Member of the Executive and Strategy Committee	100	4,500
Diego Prado Perez-Seoane	Member of the Audit Committee	25	4,500
Tony Wyand	Member of the Remuneration and Selection Committee	100	18,000
María Jesús Valero Perez		100	3,000
Jacques Calvet	Non-voting director, member of the Audit Committee	825	18,000
Philippe Chareyre	Non-voting director, member of the Audit Committee	100	18,000

Directors in office until 26 October 2006:

Juan Jose Brugera Clavero	Committee Chairman	–	20,000
José María Grau Greoles	Committee Chairman		20,000
Francisco Ruiz Armengol	Committee member		15,000
Eduardo Mendiluce Fradera			10,000
Pierre Lhéritier			10,000
Josep Manuel Basanez	Director from 25 July to 26 October 2006		4,000
Gabriel Castello	Director until 9 May 2006		5,000

⁽¹⁾ The Directors' Charter stipulates that each Director must disclose to SFL the shares held directly and indirectly (art. L.225-109 of the Commercial Code). Under Article 17 of the Articles of Association, each Director is required to hold at least 25 shares.

6 – Persons Responsible for the Registration Document and the Audit of the Accounts

6-1. Person responsible for the Registration Document

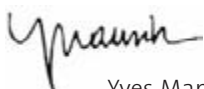
PERSON RESPONSIBLE FOR THE REGISTRATION DOCUMENT

Yves Mansion, Chief Executive Officer

STATEMENT BY THE PERSON RESPONSIBLE FOR THE REGISTRATION DOCUMENT

"I hereby declare that, having taken all reasonable care to ensure that such is the case, the information contained in the Registration Document is, to the best of my knowledge, in accordance with the facts and contains no omission likely to affect its import.

I obtained a statement from the Statutory Auditors at the end of their engagement affirming that they have read the whole of the Registration Document and examined the information about the financial position and the historical accounts contained therein."



Yves Mansion

6-2. Persons responsible for the audit of the accounts

Auditors

	First appointed	Renewed on	Term expires*
Statutory Auditors			
Deloitte & Associés 185, avenue Charles-de-Gaulle - 92200 Neuilly-sur-Seine Represented by Laure Silvestre-Siaz	21/4/2005	–	2010
PricewaterhouseCoopers Audit SA 63, rue de Villiers - 92200 Neuilly-sur-Seine Represented by Catherine Thuret	25/4/2003	30/4/2004	2006
Substitute Auditors			
BEAS 7-9, villa Houssay - 92200 Neuilly-sur-Seine	21/4/2005	–	2010
Pierre Coll 4, avenue du Colonel-Bonnet - 75016 Paris	30/4/2004	–	2006

* At the close of the Annual General Meeting to be called to approve the financial statements for the year indicated.

7 – Portfolio Valuation Report

SFL's entire property portfolio was valued at 31 December 2006, part by CB Richard Ellis Valuation and part by Jones Lang Lasalle (excluding the property at 247 rue Saint-Honoré, which was valued by Atis Real Expertise).

The valuations were performed in accordance with the "Charte de l'Expertise en Evaluation Immobilière" (property valuation charter) included in the February 2000 report of France's securities regulator (COB, renamed AMF in 2004). They also complied with the standards issued by the European Group of Valuers' Associations (TEGoVA) and with Royal Institution of Chartered Surveyors (RICS) standards.

METHOD

The properties were valued primarily by the discounted cash flow method, which consists of discounting projected net future cash flows and the resale value of the property at the end of the projection period.

Each property is analysed in detail, based on the surface of each designated area, lease by lease.

The valuers noted that, based on fourth-quarter 2006 rent-rolls, rents on certain units were above or below observed market rents for the quarter on similar properties. These differences were taken into account over the duration of the underlying leases in order to value the properties according to their current occupancy.

Vacant units were valued on the basis of assumed rents, excluding rent for the estimated marketing period, after deducting remaining renovation costs and service charges for the period until the units are re-let.

The cost of scheduled renovation work – based on information supplied by the Group – was taken into account over the cash flow projection period.

The results of the valuation were checked by applying the capitalised net rental revenue method, and based on direct comparisons with the observed price per square metre of recent buy-to-let transactions involving occupied and vacant properties.

The appraisal values were determined including transfer costs (calculated at a standard 6.2% for all properties subject to registration duty), and also excluding transfer costs.

At the request of the Group, the valuation method used in 2006 was the discounted cash flow method.

On the basis described above, the value of the portfolio at 31 December 2006 is **€3,320,079,142 excluding transfer costs and €3,511,003,185 including transfer costs.**



— Resolutions and cross-reference table

CONTENTS

104 — A • Ordinary and extraordinary resolutions

117 — B • Cross-reference table

A – Ordinary and extraordinary resolutions

Ordinary resolutions

FIRST ORDINARY RESOLUTION

(Approval of the financial statements for the year ended 31 December 2006 and discharge to Directors)

The Annual General Meeting, having considered the Chairman's report on internal control, the Board of Directors' management report and the Auditors' reports, approves the financial statements for the year ended 31 December 2006, showing net profit of €87,499,458.63, together with the transactions reflected in these financial statements or described in these reports.

The Annual General Meeting gives discharge to the Board of Directors for the fulfilment of its duties during the 2006 financial year.

SECOND ORDINARY RESOLUTION

(Transfer from the share premium account)

The Annual General Meeting:

- Notes that the balance of the share premium account at 31 December 2004 amounts to €991,758,204.73 following the issue of 12,164 new shares upon exercise of 12,164 stock options.
- Resolves, based on the recommendation of the Board of Directors, to transfer an amount of €2,432.80 from the share premium account to the legal reserve, to raise this reserve to 10% of the new capital.
- Notes that the balance of the share premium account after this deduction will amount to €991,755,771.93.

THIRD ORDINARY RESOLUTION

(Appropriation of profit)

The Annual General Meeting:

- Notes that net profit for the year, after tax and provision charges, amounts to €87,499,458.63.
- Notes that profit available for distribution, including retained earnings brought forward from the prior year, is as follows:

– Net profit for the year ended 31 December 2006	€87,499,458.63
– Retained earnings brought forward from the prior year	€74,959,908.14
– Net profit for the year ended 31 December 2006	€87,499,458.63
– Retained earnings brought forward from the prior year	€74,959,908.14
– Profit available for distribution	€162,459,366.77
– Profit available for distribution	€162,459,366.77

- Resolves, based on the recommendation of the Board of Directors, to:

– Pay a total dividend of €148,804,163.20 representing a net dividend per share of €3.20. After deducting the interim dividend of €0.70 paid in 2006, the final dividend will amount to €2.50 per share;

– Appropriate the balance of €13,655,203.57 to retained earnings.

- Resolves that the final dividend will be paid as from 15 May 2007 and that dividends on any SFL treasury shares held by the Company at that date – which are stripped of dividend rights – will be credited to retained earnings;
- Gives the Board of Directors full powers to place on record the actual amount of profit distributed and the amount credited to retained earnings;

The Meeting notes that:

- Individual shareholders resident in France for tax purposes will be eligible for the 40% tax relief referred to in paragraph 3-2 of Article 158 of the French General Tax Code (Article 76 I of the 2006 Finance Act – no. 2005-1719 of 30 December 2005) on the interim and final dividend.

Dividends paid in the last three years were as follows:

Year	Dividend per share	Tax credit	Total revenue
2003	€1.80 (of which €1.38 ⁽³⁾ and €0.42 ⁽⁴⁾)	€0.21 ⁽¹⁾ €0.04 ⁽²⁾	€2.01 ⁽¹⁾ €1.84 ⁽²⁾
2004	€2.05 (of which €0.70 ⁽⁵⁾ and €1.35 ⁽⁶⁾)		
2005	€2.10 (of which €0.70 ⁽⁶⁾ and €1.40 ⁽⁷⁾)		

(1) At the rate of 50% for individuals and corporate shareholders qualifying for the affiliation privilege (Art. 145 CGI).

(2) At the rate of 10% for other corporate shareholders.

(3) Paid out of tax-exempt profits, not qualifying for any *avoir fiscal* tax credit.

(4) Paid out of taxed profits, qualifying for the *avoir fiscal* tax credit.

(5) Interim dividend not qualifying for either the *avoir fiscal* tax credit or the tax relief (paid on 10 December 2004).

(6) Eligible for the 50% tax relief referred to in paragraph 3-2 of the former Article 158 of the French General Tax Code (Article 93 of the 2004 Finance Act – no. 2003-1311 of 30 December 2003).

(7) Eligible for the 40% tax relief referred to in paragraph 3-2 of Article 158 of the French General Tax Code (Article 76 of the 2006 Finance Act – no. 2005-1719 of 30 December 2005).

FOURTH ORDINARY RESOLUTION

(Approval of the consolidated financial statements for the year ended 31 December 2006)

The Annual General Meeting, having considered the Auditors' report on the consolidated financial statements, approves the consolidated financial statements for the year ended 31 December 2006 as well as the transactions reflected in these accounts and described in the Board of Directors' management report.

The Annual General Meeting notes the changes made to the presentation of the financial statements and the valuation methods applied for their preparation, as described and explained in the notes to the financial statements.

FIFTH ORDINARY RESOLUTION

(Auditors' special report on agreements governed by Articles L.225-38 et seq. of the Commercial Code)

The Annual General Meeting, having considered the Auditors' special report on agreements governed by Articles L.225-38 et seq. of the Commercial Code, notes the information contained in the report and approves the agreements referred to therein.

SIXTH ORDINARY RESOLUTION

(Ratification of the appointment as Director of Luis Manuel Portillo Muñoz)

The Annual General Meeting resolves to ratify the appointment as Director of Luis Manuel Portillo Muñoz, Avda. Palmera, 48, 41012 Seville, Spain, to replace José María Grau Greoles following the latter's resignation, decided by the Board at its meeting of 26 October 2006. Luis Manuel Portillo Muñoz will serve as Director for the remainder of his predecessor's term, expiring at the close of the Annual General Meeting to be held to approve the financial statements for the year ending 31 December 2008.

SEVENTH ORDINARY RESOLUTION

(Ratification of the appointment as Director of María Jesús Valero Perez)

The Annual General Meeting resolves to ratify the appointment as Director of María Jesús Valero Perez, Avda. Palmera, 48, 41012 Seville, Spain, to replace Eduard Mendiluce Fradera following the latter's resignation, decided by the Board at its meeting of 26 October 2006.

María Jesús Valero Perez will serve as Director for the remainder of her predecessor's term, expiring at the close of the Annual General Meeting to be held to approve the financial statements for the year ending 31 December 2007.

EIGHTH ORDINARY RESOLUTION**(Ratification of the appointment as Director of Francisco José Molina Calle)**

The Annual General Meeting resolves to ratify the appointment as Director of Francisco José Molina Calle, Avda. Palmera, 48, 41012 Seville, Spain, to replace Francisco Emilio Ruiz Armengol following the latter's resignation, decided by the Board at its meeting of 26 October 2006. Francisco José Molina Calle will serve as Director for the remainder of his predecessor's term, expiring at the close of the Annual General Meeting to be held to approve the financial statements for the year ending 31 December 2007.

NINTH ORDINARY RESOLUTION**(Ratification of the appointment as Director of Luis Emilio Nozaleda Arenas)**

The Annual General Meeting resolves to ratify the appointment as Director of Luis Emilio Nozaleda Arenas, c/ Princesa, 2 - 5º, 28008, Madrid, Spain, to replace Pierre Lheritier following the latter's resignation, decided by the Board at its meeting of 26 October 2006.

Luis Emilio Nozaleda Arenas will serve as Director for the remainder of his predecessor's term, expiring at the close of the Annual General Meeting to be held to approve the financial statements for the year ending 31 December 2007.

TENTH ORDINARY RESOLUTION**(Ratification of the appointment as Director of Diego Prado Perez-Seoane)**

The Annual General Meeting resolves to ratify the appointment as Director of Diego Prado Perez-Seoane, Pº de la Castellana, 28 - 5ª, 28046 Madrid, Spain, to replace José Manuel Basanez Villaluenga following the latter's resignation, decided by the Board at its meeting of 26 October 2006.

Diego Prado Perez-Seoane will serve as Director for the remainder of his predecessor's term, expiring at the close of the Annual General Meeting to be held to approve the financial statements for the year ending 31 December 2007.

ELEVENTH ORDINARY RESOLUTION**(Ratification of the appointment as Director of Mariano Miguel Velasco)**

The Annual General Meeting resolves to ratify the appointment as Director of Mariano Miguel Velasco, Pº de la Castellana, 52 - 7º, 28046 Madrid, Spain, to replace Juan José Brugera Clavero following the latter's resignation, decided by the Board at its meeting of 26 October 2006.

Mariano Miguel Velasco will serve as Director for the remainder of his predecessor's term, expiring at the close of the Annual General Meeting to be held to approve the financial statements for the year ending 31 December 2006.

TWELFTH ORDINARY RESOLUTION**(Re-election as Director of Mariano Miguel Velasco)**

The Annual General Meeting, having noted that the term as Director of Mariano Miguel Velasco expires at the close of the Meeting, resolves to re-elect him for a three-year term expiring at the close of the Annual General Meeting to be held to approve the financial statements for the year ending 31 December 2009.

Mariano Miguel Velasco has stated that he will accept his re-election and that he fulfills all the conditions laid down in the applicable laws and regulations, concerning, in particular, the number of directorships that may be held by a single individual, and is not affected by the age limit specified in the Articles of Association.

THIRTEENTH ORDINARY RESOLUTION**(Re-election as Director of Tony Wyand)**

The Annual General Meeting, having noted that the term as Director of Tony Wyand expires at the close of the Meeting, resolves to re-elect him for a three-year term expiring at the close of the Annual General Meeting to be held to approve the financial statements for the year ending 31 December 2009.

Tony Wyand has stated that he will accept his re-election and that he fulfills all the conditions laid down in the applicable laws and regulations, concerning, in particular, the number of directorships that may be held by a single individual, and is not affected by the age limit specified in the Articles of Association.

FOURTEENTH ORDINARY RESOLUTION**(Re-election as Director of Jean-Jacques Duchamp)**

The Annual General Meeting, having noted that the term as Director of Jean-Jacques Duchamp expires at the close of the Meeting, resolves to re-elect him for a three-year term expiring at the close of the Annual General Meeting to be held to approve the financial statements for the year ending 31 December 2009.

Jean-Jacques Duchamp has stated that he will accept his re-election and that he fulfills all the conditions laid down in the applicable laws and regulations, concerning, in particular, the number of directorships that may be held by a single individual, and is not affected by the age limit specified in the Articles of Association.

FIFTEENTH ORDINARY RESOLUTION (Re-election as Director of Yves Defline)

The Annual General Meeting, having noted that the term as Director of Yves Defline expires at the close of the Meeting, resolves to re-elect him for a one-year term expiring at the close of the Annual General Meeting to be held to approve the financial statements for the year ending 31 December 2007.

Yves Defline has stated that he will accept his re-election and that he fulfills all the conditions laid down in the applicable laws and regulations, concerning, in particular, the number of directorships that may be held by a single individual, and is not affected by the age limit specified in the Articles of Association.

SIXTEENTH ORDINARY RESOLUTION (Re-election as Director of Jean Arvis)

The Annual General Meeting, having noted that the term as Director of Jean Arvis expires at the close of the Meeting, resolves to re-elect him for a one-year term expiring at the close of the Annual General Meeting to be held to approve the financial statements for the year ending 31 December 2007.

Jean Arvis has stated that he will accept his re-election and that he fulfills all the conditions laid down in the applicable laws and regulations, concerning, in particular, the number of directorships that may be held by a single individual, and is not affected by the age limit specified in the Articles of Association.

SEVENTEENTH ORDINARY RESOLUTION (Election of a Director)

The Annual General Meeting resolves to elect Reig Capital Group Luxembourg S.A.R.L. (capital: €12,500, head office: 65, boulevard Grande-Duchesse Charlotte, L – 1331 Luxembourg) as Director for a three-year term expiring at the close of the Annual General Meeting to be held to approve the financial statements for the year ending 31 December 2009.

EIGHTEENTH ORDINARY RESOLUTION (Election of a Director)

The Annual General Meeting resolves to elect Domingo Diaz de Mera, c/ Alfonso XII, 26 – Entreplanta, 28014 Madrid, Spain, as Director for a three-year term expiring at the close of the Annual General Meeting to be held to approve the financial statements for the year ending 31 December 2009.

NINETEENTH ORDINARY RESOLUTION (Election of a Director)

The Annual General Meeting resolves to elect José Ramón Carabante de la Plaza, Plaza Marqués de Salamanca 2, 28006 Madrid, Spain, as Director for a three-year term expiring at the close of the Annual General Meeting to be held to approve the financial statements for the year ending 31 December 2009.

TWENTIETH ORDINARY RESOLUTION (Election of a Director)

The Annual General Meeting resolves to elect Aurelio Gonzalez Villarejo, c/ Fernando El Santo 9 – 1a, 28010 Madrid, Spain, as Director for a three-year term expiring at the close of the Annual General Meeting to be held to approve the financial statements for the year ending 31 December 2009.

TWENTY-FIRST ORDINARY RESOLUTION (Re-appointment of a Statutory Auditor)

The Annual General Meeting, having noted that the term of PricewaterhouseCoopers Audit as Statutory Auditor expires at the close of the Meeting, resolves to re-appoint PricewaterhouseCoopers Audit as Statutory Auditor for a six-year term, expiring at the close of the Annual General Meeting to be held to approve the 2012 financial statements.

The Annual General Meeting acknowledges that it has been informed that the Statutory Auditor has not participated in any capital contribution or merger involving the Company or its subsidiaries in either of the last two years.

TWENTY-SECOND ORDINARY RESOLUTION (Appointment of a Substitute Auditor)

The Annual General Meeting, having noted that the term of Pierre Coll as Substitute Auditor expires at the close of the Meeting, resolves to appoint Anik Chaumartin (born 19 June 1961 in Lyon, business address: 63, rue de Villiers 9220 Neuilly-sur-Seine) as Substitute Auditor for a six-year term, expiring at the close of the Annual General Meeting to be held to approve the 2012 financial statements.

The Annual General Meeting acknowledges that it has been informed that the Substitute Auditor has not participated in any capital contribution or merger involving the Company or its subsidiaries in either of the last two years.

TWENTY-THIRD RESOLUTION

(Authorisation given to the Board of Directors to purchase, hold or transfer SFL shares)

The Annual General Meeting, after considering the Board of Directors' report and the Auditors' special report drawn up in accordance with Article L.225-209, paragraph 2, of the Commercial Code, resolves to:

- Cancel with immediate effect the unused portion of the authorisation given in the seventh ordinary resolution of the General Meeting of 4 May 2006 to buy back the Company's shares;
- Authorise the Company to buy back shares representing up to 10% of the issued capital at the date of this Meeting, in accordance with Articles L.225-209 *et seq.* of the Commercial Code, as follows:
 - The shares may not be bought back at a price in excess of €80 per share, as adjusted if appropriate for the effects of any corporate actions, including any bonus share issue paid up by capitalising reserves and/or any share split or reverse share split.

Consequently, the total amount invested in the share buyback programme will represent a maximum of €344,607,600 based on the number of shares outstanding as of 31 December 2006. This maximum may be adjusted to take into account the number of shares outstanding at the date of this Meeting.

- The share buyback programme may be carried out over a period of eighteen months from the date of this Meeting.
- The share buybacks carried out under this authorisation may not under any circumstances result in the Company holding, directly or indirectly, more than 10% of the shares making up its issued capital.
- The authorisation may be used at any time, including while a public offer is in progress provided that said offer is for cash only, on the basis and subject to the restrictions – particularly in terms of volumes and price – specified in the laws and regulations applicable on the transaction date. The buybacks may be carried out by any appropriate method, including on the market or over-the-counter, through block purchases or sales or otherwise, or through the use of derivative financial instruments traded on the market or over-the-counter, on the basis approved by the securities regulator. The timing of such transactions will be decided by the Board of Directors or by any person duly authorised by the Board.

The shares may be bought back for any purpose allowed by law. The objectives of the share buyback programme shall be as follows:

- To purchase shares for allocation to Group employees in connection with (i) the statutory profit-sharing scheme, (ii) any programme of employee share grants, with or without consideration, governed by Articles L.443-1 *et seq.* of the Labour Code or (iii) any stock option plan for all or certain categories of employees and corporate officers;
- To buy and sell shares under a liquidity contract with an investment firm that complies with a code of ethics recognised by the French securities regulator (*Autorité des Marchés Financiers*);
- To permit the issue of debt securities convertible into equity instruments and the fulfilment of the obligations related thereto, in particular by delivering shares upon exercise of rights attached to securities convertible, redeemable or otherwise exercisable for shares;
- To buy shares for delivery at a future date in exchange or payment for shares of another company in connection with any external growth transactions.

The number of shares bought back to be held and subsequently delivered in payment or exchange for shares of another company in connection with a merger or demerger may not exceed 5% of the issued capital.

The Board of Directors shall report to shareholders at each Annual General Meeting on the transactions carried out under this resolution, in accordance with Article L.225-209 of the Commercial Code.

The Annual General Meeting gives full powers to the Board of Directors, including the power of delegation, to place buy and sell orders, enter into any and all agreements, draw up any and all information and other documents, allocate or re-allocate the bought back shares to any of the above purposes, carry out any and all reporting and other formalities with all organisations and generally do whatever is necessary.

TWENTY-FOURTH ORDINARY RESOLUTION

(Powers to carry out formalities)

The Annual General Meeting gives full powers to the bearer of an extract or copy of the minutes of the Meeting to carry out all necessary formalities.

Extraordinary resolutions

FIRST EXTRAORDINARY RESOLUTION

(Delegation of competence to the Board of Directors to issue ordinary shares and securities with rights to ordinary shares, with pre-emptive subscription rights for existing shareholders)

The Extraordinary General Meeting, having considered the Board of Directors' report and the Auditors' special report and noted that the Company's issued capital is fully paid up, resolves, in accordance with Articles L.225-129-2 and L.228-92 of the Commercial Code, to:

- Cancel, with immediate effect, the unused portion of the authorisation given in the first extraordinary resolution of the General Meeting of 21 April 2005.
- Grant the Board of Directors a 26-month delegation of competence, from the date of this Meeting, to decide the issue, with pre-emptive subscription rights for existing shareholders, of ordinary shares and securities with rights to ordinary shares to be paid up in cash or by capitalising debt.

The Board of Directors shall not use this authorisation to issue preference shares or securities with rights to preference shares.

The aggregate par value of ordinary shares issued under this authorisation, either directly or at a future date on exercise of the rights attached to securities with rights to ordinary shares, shall not exceed €100,000,000, not including the par value of any ordinary shares to be issued in respect of adjustments made to protect the rights of holders of securities with rights to ordinary shares.

The securities with rights to ordinary shares issued under this authorisation may consist of debt securities or securities associated with the issue of debt securities or securities allowing the issue of intermediate debt securities. They may be dated or undated, and subordinated or unsubordinated, and may be denominated in euros, in foreign currency or in any monetary unit determined by reference to a basket of currencies. The aggregate nominal value of said debt securities shall not exceed €2,000,000,000 or the equivalent in foreign currency or monetary units at the date the issue is decided. This ceiling does not include any redemption premiums payable on the securities. This non-cumulative ceiling shall apply to all debt securities that may be issued under this resolution and the second, fifth and sixth extraordinary resolutions tabled at this Meeting, but is separate from the ceiling on the issue of debt securities with rights to debt securities under the eighth extraordinary resolution of this Meeting and from the ceiling on issues of debt securities that may be decided or authorised by the Board of Directors in application of Article L.228-40 of the Commercial Code.

The life of debt securities with rights to ordinary shares shall not exceed 50 years, although this authorisation may also be used to issue undated debt securities. It may be used to issue fixed and/or floating rate or zero coupon debt securities; the securities may be redeemable in advance at par or at a premium, and they may also be repayable in instalments. The securities may also be bought back on the market or through a cash or exchange offer made by the Company.

Shareholders shall have a pre-emptive right to subscribe for the ordinary shares or securities with rights to ordinary shares issued under this authorisation, pro rata to their existing shareholdings. The Board of Directors may also give

shareholders a pre-emptive right to subscribe for ordinary shares or securities with rights to ordinary shares not taken up by other shareholders; in this case, if the issue is oversubscribed this secondary pre-emptive right will also be exercisable pro rata to the existing shareholdings of the shareholders concerned.

If the entire issue is not taken up by shareholders exercising their pre-emptive subscription rights as provided for above, the Board of Directors may take all or some of the following courses of action, in the order of its choice: (i) limit the amount of the issue to the subscriptions received, provided that at least three-quarters of the issue is taken up; or (ii) freely allocate all or some of the unsubscribed shares or securities, or (iii) offer all or some of the unsubscribed shares or securities for subscription by the public, through a public placement in France and/or, if appropriate, abroad and/or on the international market.

The Extraordinary General Meeting notes that this authorisation automatically entails the waiver by shareholders of their pre-emptive right to subscribe for any ordinary shares issued on exercise of the rights attached to securities with rights to ordinary shares issued under this authorisation.

The Board of Directors shall decide the characteristics, amount, terms and conditions of each issue and of the securities issued. In particular, it shall determine the category of securities to be issued and, based on the information given in its report, set the subscription price of the shares or other securities, which may or may not include a premium, the method of payment of the subscription price, the future or retroactive date from which the shares or securities have coupon rights and, in the case of securities with rights to ordinary shares, the terms on which the rights are exercisable for ordinary shares.

The Board of Directors shall have full powers to act on this authorisation, to enter into any and all underwriting or other agreements for this purpose and to issue the securities defined above, on one or several occasions on dates and for amounts to be decided by the Board, in France and/or abroad and/or on the international market, and if appropriate to decide to abandon any such issue, to place the issues on record, amend the Articles of Association to reflect any resulting increase in capital, carry out any and all reporting and other formalities, and obtain any and all authorisations that may be necessary to implement and complete the issues.

The Board of Directors may delegate to the Chief Executive Officer or – with the CEO's agreement – to the Managing Director, subject to limits to be set by the Board, the powers granted by shareholders under this resolution.

SECOND EXTRAORDINARY RESOLUTION

(Delegation of competence to the Board of Directors to issue ordinary shares and securities with rights to ordinary shares, without pre-emptive subscription rights for existing shareholders)

The Extraordinary General Meeting, having considered the Board of Directors' report and the Auditors' special report and noted that the Company's issued capital is fully paid up, resolves, in accordance with Articles L.225-129-2, L.225-135 and L.228-92 of the Commercial Code, to:

- Cancel, with immediate effect, the unused portion of the authorisation given in the second extraordinary resolution of the General Meeting of 21 April 2005.
- Grant the Board of Directors a 26-month delegation of competence, from the date of this Meeting, to decide the issue of ordinary shares and securities with rights to ordinary shares to be paid up in cash or by capitalising debt.

The Extraordinary General Meeting resolves that shareholders shall not have a pre-emptive right to subscribe for the ordinary shares or securities with rights to ordinary shares issued under this authorisation.

The Board of Directors shall not use this authorisation to issue preference shares or securities with rights to preference shares.

The aggregate par value of ordinary shares issued under this authorisation, either directly or at a future date on exercise of the rights attached to securities with rights to ordinary shares, shall not exceed €100,000,000, not including the par value of any ordinary shares to be issued in respect of adjustments made to protect the rights of holders of securities with rights to ordinary shares.

The securities with rights to ordinary shares issued under this authorisation may consist of debt securities or securities associated with the issue of debt securities or securities allowing the issue of intermediate debt securities. The provisions applicable to securities with rights to ordinary shares stipulated in the first extraordinary resolution shall also apply to the issue and during the existence of securities with rights to ordinary shares issued under this resolution, as well as to the exercise of the attached rights for ordinary shares and the redemption of the securities or their repayment in instalments. The aggregate nominal value of said debt securities shall not exceed €2,000,000,000 or the equivalent in foreign currency or monetary units at the date the issue is decided. This ceiling does not include any redemption premiums payable on the securities. This non-cumulative ceiling shall apply to all debt securities that may be issued under this resolution and the first, fifth and sixth extraordinary resolutions tabled at this Meeting, but is separate from

the ceiling on the issue of debt securities with rights to debt securities under the eighth extraordinary resolution of this Meeting and from the ceiling on issues of debt securities that may be decided or authorised by the Board of Directors in application of Article L.228-40 of the Commercial Code.

The Board of Directors may grant shareholders a priority right to subscribe for the ordinary shares or securities with rights to ordinary shares, exercisable pro rata to their existing shareholdings. The Board of Directors may also give shareholders a priority right to subscribe for ordinary shares or securities with rights to ordinary shares not taken up by other shareholders; in this case, if the issue is oversubscribed this secondary pre-emptive right will also be exercisable pro rata to the existing shareholdings of the shareholders concerned. The conditions of exercise of said priority rights will be decided by the Board of Directors. The rights will be non-transferable. Any ordinary shares or securities with rights to ordinary shares not taken up by shareholders exercising their priority rights as defined above shall be offered for subscription by the public through a public placement in France and/or abroad and/or on the international market.

If the issue is not taken up in full by the public and the shareholders, the Board of Directors may reduce the amount of the issue on the basis provided for by law.

The Extraordinary General Meeting notes that this authorisation automatically entails the waiver by shareholders of their pre-emptive right to subscribe for any ordinary shares issued on exercise of the rights attached to securities with rights to ordinary shares issued under this authorisation.

The Board of Directors shall decide the characteristics, amount, terms and conditions of each issue and of the securities issued. In particular, it shall determine the category of securities to be issued and, based on the information given in its report, set the subscription price of the shares or other securities, which may or may not include a premium, the future or retroactive date from which the shares or securities have coupon rights, the method of payment of the subscription price, the duration of the securities if applicable, and, in the case of securities with rights to ordinary shares, the terms on which the rights are exercisable for ordinary shares, provided that:

a) The issue price of ordinary shares shall be at least equal to the minimum amount provided for in the laws and regulations in force at the time of issue, adjusted as necessary to take into account differences in cum dividend dates.

b) The issue price of any securities with rights to ordinary shares shall be set in such a way that the amount received immediately by the Company plus any amount to be received at a future date for each ordinary share issued as a result of the issue of these securities, is at least equal to the amount defined in a) above, adjusted as necessary to take into account differences in cum dividend dates.

The Board of Directors shall have full powers to act on this authorisation, to enter into any and all underwriting or other agreements for this purpose and to issue the securities defined above, on one or several occasions on dates and for amounts to be decided by the Board, in France and/or abroad and/or on the international market, and if appropriate to decide to abandon any such issue, to place the issues on record, amend the Articles of Association to reflect any resulting increase in capital, carry out any and all reporting and other formalities, and obtain any and all authorisations that may be necessary to implement and complete the issues.

The Board of Directors may delegate to the Chief Executive Officer or – with the CEO's agreement – to the Managing Director, subject to limits to be set by the Board, the powers granted by shareholders under this resolution.

THIRD EXTRAORDINARY RESOLUTION

(Authorisation given to the Board of Directors, for issues of ordinary shares and securities with rights to shares, without pre-emptive subscription rights, to set the issue price by the method decided by the shareholders in General Meeting)

The Extraordinary General Meeting, having considered the Board of Directors' report and the Auditors' special report, resolves, in accordance with Article L.225-136 of the Commercial Code, to give the Board of Directors a 26-month authorisation from the date of this Meeting, for each issue decided pursuant to the second extraordinary resolution, provided that the number of shares issued in any given 12-month period does not exceed 10% of the Company's issued capital at the date of this Meeting, to set the issue price of the ordinary shares and/or securities with rights to ordinary shares on the basis stipulated below and not according to the pricing method stipulated in the second extraordinary resolution:

a) Ordinary shares shall be issued at a discount of no more than 10% to the weighted average SFL share price for the three trading sessions immediately preceding the pricing date.

b) The issue price of debt securities with rights to ordinary shares shall be set in such a way that the amount received immediately by the Company plus any amount to be received at a future date for each ordinary share issued as a result of the issue of these securities, is at least equal to the amount defined in a), adjusted as necessary to take into account differences in cum dividend dates.

The aggregate par value of shares issued directly or indirectly under this authorisation will be deducted from the amount by which the capital may be increased under the second extraordinary resolution.

The Board may delegate its powers to the Chief Executive Officer or – with the CEO's agreement – to the Managing Director, subject to the limits to be set by the Board.

FOURTH EXTRAORDINARY RESOLUTION

(Authorisation given to the Board of Directors, in the case of a share issue with or without pre-emptive subscription rights, to increase the number of shares offered)

The Extraordinary General Meeting, having considered the Board of Directors' report and the Auditors' special report, resolves, in accordance with Article L.225-135-1 of the Commercial Code, to give the Board of Directors a 26-month authorisation from the date of this Meeting to decide, for each issue decided pursuant to the first and second extraordinary resolutions, to increase the number of securities to be issued, on the basis specified in the above Article L.225-135-1, provided that the final amount of the issue does not exceed the ceiling set in the relevant resolution.

The Board may delegate its powers to the Chief Executive Officer or – with the CEO's agreement – to the Managing Director, subject to the limits to be set by the Board.

FIFTH EXTRAORDINARY RESOLUTION

(Delegation of competence to the Board of Directors to issue ordinary shares and securities with rights to ordinary shares in connection with a public exchange offer made by the Company)

The Extraordinary General Meeting, having considered the Board of Directors' report and the Auditors' special report, resolves, in accordance with Articles L.225-129-2, L.225-148 and L.228-92 of the Commercial Code, to:

- Cancel, with immediate effect, the unused portion of the authorisation given in the third extraordinary resolution of the General Meeting of 21 April 2005.

- Grant the Board of Directors a 26-month delegation of competence, from the date of this Meeting, to decide to use the second extraordinary resolution to issue ordinary shares or securities with rights to ordinary shares in payment for shares tendered to a public exchange offer for the shares of another company traded on one of the regulated markets referred to in the above Article L.225-148 made by SFL in France or in another country under local rules. To this end, the Extraordinary General Meeting resolves to waive, in favour of the holders of said shares, the pre-emptive right of existing shareholders to subscribe for these ordinary shares or securities with rights to ordinary shares.

The Extraordinary General Meeting notes that this authorisation automatically entails the waiver by shareholders of their pre-emptive right to subscribe for any ordinary shares issued on exercise of the rights attached to securities with rights to ordinary shares issued under this authorisation.

The aggregate par value of ordinary shares issued under this authorisation, either directly or at a future date on exercise of the rights attached to securities with rights to ordinary shares, shall not exceed €85,000,000, not including the par value of any ordinary shares to be issued in respect of adjustments made to protect the rights of holders of securities with rights to ordinary shares. This ceiling is not cumulative with that set in the second extraordinary resolution.

The Extraordinary General Meeting gives full powers to the Board of Directors to carry out public exchange offers under this authorisation and to:

- Set the exchange ratio and any cash payment to be made if application of the exchange ratio results in rights to fractions of shares.
- Place on record the number of securities tendered to the offer.
- Determine the date and terms of issue, including the price and cum dividend date, of the new ordinary shares or, if applicable, the securities with rights to ordinary shares.
- Record in a "contribution premium" account in shareholders' funds, to which all shareholders shall have rights, the difference between the issue price of the new shares and their par value.
- Charge against said premium all costs and fees incurred in connection with the offer.
- Generally, take any and all appropriate measures and enter into any and all agreements to complete the authorised transaction, place on record the resulting capital increase(s) and amend the Articles of Association to reflect the new capital.

The Board may delegate its powers to the Chief Executive Officer or – with the CEO's agreement – to the Managing Director, subject to the limits to be set by the Board.

**SIXTH EXTRAORDINARY RESOLUTION
(Authorisation given to the Board of Directors to issue ordinary shares and securities with rights to shares in payment for contributed shares or securities with rights to shares of another company)**

The Extraordinary General Meeting, having considered the Board of Directors' report, resolves, in accordance with Article L.225-147 of the Commercial Code:

- Cancels, with immediate effect, the unused portion of the authorisation given in the sixth extraordinary resolution of the General Meeting of 21 April 2005.
- Gives the Board of Directors a 26-month authorisation from the date of this Meeting to use the second extraordinary resolution to issue ordinary shares or securities with rights to ordinary shares, based on the report of the expert appraiser(s) of capital contributions referred to in the first and second paragraphs of the above-mentioned Article L.225-147, in payment for shares or securities with rights to shares of another company that are contributed to the Company under transactions not governed by Article L.225-148 of the Commercial Code. To this end, the Extraordinary General Meeting resolves to waive, in favour of the contributing parties, the pre-emptive right of existing shareholders to subscribe for these ordinary shares or securities with rights to ordinary shares.

The aggregate par value of ordinary shares issued directly or on exercise of the rights attached to securities with rights to ordinary shares pursuant to this authorisation shall not exceed 10% of the Company's issued capital at the issue date.

The Extraordinary General Meeting notes that this authorisation automatically entails the waiver by shareholders of their pre-emptive right to subscribe for any ordinary shares issued on exercise of the rights attached to securities with rights to ordinary shares issued under this authorisation.

The Board of Directors shall have full powers to use this authorisation and to approve the value attributed to the contributed shares or securities and to the benefits granted, based on the valuation report issued by the expert appraiser(s) of capital contributions referred to in the first and second paragraphs of the above-mentioned Article L.225-147, place on record the capital increases carried out under this authorisation, amend the Articles of Association to reflect the new capital, carry out any and all reporting and other formalities and obtain any and all authorisations that are necessary to effect the contributions.

The Board may delegate its powers to the Chief Executive Officer or – with the CEO's agreement – to the Managing Director, subject to the limits to be set by the Board.

**SEVENTH EXTRAORDINARY RESOLUTION
(Blanket ceiling on financial authorisations)**

The Extraordinary General Meeting, having considered the Board of Directors' report and having voted the first, second, third, fourth, fifth and sixth extraordinary resolutions, resolves to set at €100,000,000 the maximum aggregate par value of ordinary shares issued directly or on exercise of the rights attached to securities with rights to ordinary shares issued under the authorisations given in the first, second, third, fourth, fifth and sixth extraordinary resolutions. This ceiling shall not include the par value of ordinary shares to be issued in respect of the adjustments made to protect the rights of holders of securities with rights to ordinary shares.

**EIGHTH EXTRAORDINARY RESOLUTION
(Delegation of competence to the Board of Directors to issue debt securities with rights to debt securities)**

The Extraordinary General Meeting, having considered the Board of Directors' report and the Auditors' special report, resolves, in accordance with Articles L.225-129-2 and L.228-92 of the Commercial Code, grants a delegation of competence to the Board of Directors to decide the issue, on one or several occasions in France, abroad, and/or on the international market, of any and all securities with rights to debt securities, including bonds and equivalents, undated subordinated or unsubordinated notes and any other securities conferring – for the same issue – the same claim on the Company.

The aggregate amount of debt securities issued under this authorisation, directly and indirectly on exercise of the rights attached to the original securities, will be capped at €2,000,000,000 or the equivalent in foreign currencies or in any monetary unit determined by reference to a basket of currencies. For the purpose of determining whether the above ceiling has been complied with, no account will be taken of any redemption premiums payable on the debt securities.

This authorisation is given for a period of 26 months from the date of this Meeting.

The Board of Directors shall have full powers to:

- Carry out said issues within the limit specified above, and decide the timing, type, amount and currency of each such issue.
- Decide the characteristics of the securities to be issued and of the debt securities to which said securities shall carry

rights, including their nominal value, the starting date for interest accruals, the issue price, at par or with a premium, the fixed or floating interest rate and the interest payment date or, in the case of floating rate securities, the method to be used to determine the interest rate, or the basis on which interest will be capitalised.

- Set, based on market conditions, the repayment and/or early redemption terms of the securities and of the debt securities to which said securities carry rights, including any fixed or variable premium, or the terms on which the securities may be bought back by the Company.
- If applicable, decide to issue a guarantee or collateral as security for the securities to be issued and the debt securities to which said securities carry rights, and determine the nature and characteristics thereof.
- Generally, set all the terms and conditions of each issue, enter into any and all agreements, with any and all banks and any and all organisations, take any and all necessary measures and carry out any and all necessary formalities and, generally, do whatever is necessary.

The Board may delegate its powers to the Chief Executive Officer or – with the CEO's agreement – to the Managing Director, subject to the limits to be set by the Board.

NINTH EXTRAORDINARY RESOLUTION

(Delegation of competence to the Board of Directors to increase the capital by capitalising reserves, profits or share premiums)

The Extraordinary General Meeting, after considering the Board of Directors' report, resolves, in accordance with Articles L.225-129-2 and L.225-130 of the Commercial Code, to:

- Cancel with immediate effect the unused portion of the authorisation given in the fourth extraordinary resolution of the General Meeting of 21 April 2005.
- Grant a 26-month delegation of competence to the Board of Directors from the date of this Meeting, to increase the capital on one or several occasions, on dates and for amounts to be decided by the Board, to be paid up by capitalising reserves, profits or share premiums and issuing bonus shares or raising the par value of existing shares or both.

The Extraordinary General Meeting gives the Board of Directors full powers to decide that rights to fraction of shares shall be non-transferable and that the corresponding shares will be sold, with the proceeds from the sale allocated among the holders of rights to fractions of shares within the period specified in the application regulations.

The aggregate amount by which the capital may be increased through transactions carried out under this authorisation shall not exceed €25,000,000. This ceiling (i) shall not take into account the par value of any ordinary shares that may be issued by the Company in the future to protect the rights of holders of securities with rights to ordinary shares, and (ii) is separate from the ceilings for aggregate share issues – including on exercise of rights attached to securities with rights to ordinary shares – carried out under the first, second, third, fourth, fifth and sixth extraordinary resolutions.

The Board of Directors shall have full powers to use this authorisation and, generally, to take all necessary measures and carry out all necessary formalities to permit the completion of each capital increase.

The Board may delegate its powers to the Chief Executive Officer or – with the CEO's agreement – to the Managing Director, subject to the limits to be set by the Board.

TENTH EXTRAORDINARY RESOLUTION

(Delegation of competence to the Board of Directors to issue shares to employees who are members of a Sharesave Plan)

The Extraordinary General Meeting, having considered the Board of Directors' report and the Auditors' special report, resolves, in accordance with Articles L.225-129-6, L.225-138 I and II and L.225-138-1 of the Commercial Code and Articles L.443-1 *et seq.* of the Commercial Code, to:

- Cancel, with immediate effect, the unused portion of the authorisation given to the Board of Directors in the sixth extraordinary resolution of the General Meeting of 21 April 2005.
- Grants a 26-month delegation of competence to the Board of Directors, as from the date of this Meeting, to decide to increase the capital on one or several occasions, on dates and terms to be decided by the Board, by issuing ordinary

shares or securities with rights to ordinary shares to employees and retired employees who are members of an SFL Group Sharesave Plan or by making share grants without consideration to be paid up by capitalising reserves, profits or share premiums, within the limits set in the applicable laws and regulations.

The aggregate par value of ordinary shares that may be issued under the authorisation – directly or on exercise of rights attached to securities with rights to ordinary shares – shall not exceed €500,000. This ceiling does not include the par value of any ordinary shares to be issued in respect of adjustments made to protect the rights of holders of securities with rights to ordinary shares. In addition, it is not cumulative with the ceilings on issues of ordinary shares – directly or on exercise of rights attached to securities with rights to ordinary shares – carried out under the first, second, third, fourth, fifth and sixth extraordinary resolutions.

The aggregate par value of ordinary shares issued directly or on exercise of rights attached to securities with rights to ordinary shares without consideration, as paid up by capitalising reserves, profits or share premiums, is also capped at €500,000. This ceiling does not include the par value of any ordinary shares to be issued in respect of adjustments made to protect the rights of holders of securities with rights to ordinary shares. In addition, it is not cumulative with the ceiling set in the ninth extraordinary resolution.

If an issue is not taken up in full, the amount of the issue shall be reduced based on the number of shares or securities effectively subscribed.

The Extraordinary General Meeting resolves to waive, in favour of Sharesave Plan members, the pre-emptive right of existing shareholders to subscribe for the ordinary shares or securities with rights to ordinary shares. In addition, this authorisation automatically entails the waiver by shareholders of their pre-emptive right to subscribe for any ordinary shares issued on exercise of the rights attached to securities with rights to ordinary shares issued under this authorisation.

The Extraordinary General Meeting resolves:

- To set the discount offered under the Sharesave Plan at 20% of the average of the opening prices quoted for SFL shares on the Euronext Eurolist over the 20 trading days immediately preceding the date on which the opening date of the subscription period is decided, or 30% of said average if the Plan's lock-up period set in accordance with Article L.443-6 of the Labour Code is at least 10 years. The Board of Directors may reduce this discount, at its discretion, in the case of an offer to members of a Group Sharesave Plan of shares or securities on the international market and/or outside France, to comply with any local laws. It may also replace all or part of the discount with a grant, without consideration, of ordinary shares or securities with rights to ordinary shares on the basis stipulated below.
- That the Board of Directors may make grants of ordinary shares or securities with rights to ordinary shares, without consideration, provided that the aggregate amount of the benefit resulting from these grants and the discount referred to above, if any, does not exceed the benefit that the Sharesave Plan members would have received if the shares or securities had been offered to them at a discount of 20% or 30% if the Plan's lock-up period set in accordance with Article L.443-6 of the Labour Code is at least 10 years. In addition, the total benefit including the pecuniary value of the ordinary shares attributed without consideration, determined based on the subscription price, must not exceed the legal limits.

The Board of Directors shall have full powers to use this authorisation and to:

- Decide the characteristics, amount and terms of each issue of ordinary shares or securities with rights to shares and each grant without consideration.
- Decide that the shares or securities will be offered for subscription either directly or through a corporate mutual fund.
- Draw up, in accordance with the law, the list of companies or other entities whose employees and retired employees will be eligible to subscribe for the ordinary shares or securities with rights to ordinary shares and, if applicable, to receive grants of ordinary shares or securities with rights to ordinary shares without consideration.

- Decide the conditions of eligibility in terms of years of service of employees and retired employees to subscribe for the ordinary shares or securities with rights to ordinary shares or to receive grants of ordinary shares or securities with rights to ordinary shares without consideration.
- Set the terms and conditions of the issues of ordinary shares or securities with rights to ordinary shares to be carried out under this authorisation, including the cum dividend date and the method of payment of the subscription price.
- Decide the opening and closing dates of the subscription periods.
- Place on record the capital increases based on the aggregate par value of the number of ordinary shares actually subscribed.
- Decide, if applicable, the type of securities to be granted without consideration, as well as the terms and conditions of grant.
- Determine, if applicable, the amounts to be capitalised within the limit specified above, the accounts from which said amounts are to be transferred, and the cum dividend date of the ordinary shares issued without consideration.
- At the Board's sole discretion, charge the share issuance costs against the related premium and deduct from the premium the amount necessary to increase the legal reserve to one-tenth of the new capital after each issue.
- Take all necessary measures to implement the capital increases, carry out any and all related formalities, including listing formalities for the new shares, amend the Articles of Association to reflect the new capital and generally do whatever is necessary.

The Board may delegate its powers to the Chief Executive Officer or – with the CEO's agreement – to the Managing Director, subject to the limits to be set by the Board.

ELEVENTH EXTRAORDINARY RESOLUTION (Amendment of the Articles of Association)

The Extraordinary General Meeting, having considered the Board of Directors' report and the Auditors' special report, resolves to align the Articles of Association with the provisions of Decree no. 2006-1566 of 11 December 2006 amending Decree no. 67-236 of 23 March 1967.

The Extraordinary General Meeting resolves to amend Article 25 of the Articles of Association as follows:

Article 25

The Extraordinary General Meeting resolves to replace section I of Article 25 with the following text:

"I - General Meetings may be attended by all shareholders of record as of the record date, as follows:

- Holders of bearer shares and holders of registered shares recorded in an account not kept by the Company may vote at General Meetings in person, by proxy or by post provided that their shares are recorded in an account kept by an accredited intermediary as of the record date.
- Holders of registered shares recorded in an account kept by the Company may vote at General Meetings in person, by proxy or by post provided that their shares are recorded as of the record date.

The record date is midnight CET on the third business day prior to the General Meeting.

Shareholders, representatives of shareholders and accredited intermediaries are entitled to attend General Meetings on presentation of proof of their eligibility to attend and their identity. The Board of Directors may provide shareholders with personal admission cards for General Meetings and require their production on attendance, if it thinks fit."

The Extraordinary General Meeting further resolves to reduce the time limit for disclosing changes in shareholders' interests to above or below any statutory disclosure thresholds (Article 10 III of the Articles of Association, paragraph 1) from fifteen days to five.

The rest of Article 10 is unchanged.

The Extraordinary General Meeting resolves to amend Article 19 of the Articles of Association as follows:

Addition of the following text below paragraph 6:

"The Board of Directors may authorise members to participate in meetings using videoconferencing or other telecommunications facilities that permit them to be identified and to participate directly in the discussions, in compliance with the applicable regulations."

The rest of Article 19 is unchanged.

TWELFTH EXTRAORDINARY RESOLUTION (Powers to carry out formalities)

The Annual General Meeting gives full powers to the bearer of an extract or copy of the minutes of the Meeting to carry out all necessary formalities.

B – Cross-Reference Table

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In application of Article 212-11 of Autorité des Marchés Financiers (AMF), the following information is incorporated by reference in this Registration Document.

– The 2004 consolidated financial statements prepared in accordance with French generally accepted accounting principles and the related Auditors' reports, presented respectively on pages 50 to 83 and 88 of the 2004 Registration Document filed with the AMF on 12 April 2005 under n°Do5-0426.

– The 2005 consolidated financial statements prepared in accordance with IFRS accounting principles and the related Auditors' reports, presented respectively on pages 9 to 49 and 56 of the 2005 Registration Document filed with the AMF on 12 April 2006 under n°Do6-0256. Those statements included 2004 financial data retreated under IFRS.

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En application de l'article 212-11 du règlement de l'AMF, les éléments suivants sont inclus par référence :

- les comptes consolidés de l'exercice 2004 établis en application des normes comptables françaises, ainsi que les rapports des contrôleurs légaux y afférents, figurant respectivement en pages 50 à 83 et 88 du document de référence 2004 déposé auprès de l'AMF le 12.04.2005 sous le n° D.05.0426 ;
- les comptes consolidés de l'exercice 2005 établis selon les normes IFRS, ainsi que les rapports des contrôleurs légaux y afférents, figurant respectivement en pages 9 à 49 et 56 du document de référence 2005 déposé auprès de l'AMF le 12.04.2006 sous le n° D.06.0256. Ces comptes, dans les pages ci-avant citées, intègrent, à titre indicatif, les données relatives à l'exercice 2004 retraitées suivant le référentiel IFRS.