



2006 || Annual report



SFL
SOCIETE FONCIERE LYONNAISE

21% (€687M)

1.

THE GOLDEN CRESCENT AND LA DÉFENSE

Market located on the western side of Paris, outside the Boulevard Périphérique ring-road, including La Défense, Issy-les-Moulineaux, Sèvres, Boulogne-Billancourt, Rueil-Malmaison, Suresnes, Nanterre, Puteaux, Courbevoie, Neuilly, Levallois, Saint-Cloud and Clichy.

68% (€2,248 M)

2.

THE CENTRAL BUSINESS DISTRICT

Market covering part of the 1st, 2nd, 8th, 9th, 16th and 17th *arrondissements*, including the Paris Golden Triangle and Financial District.

7% (€232 M)

3.

GARE DE LYON

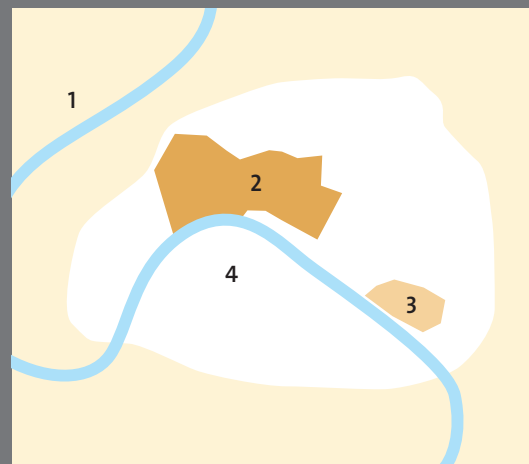
Market covering the area around the Gare de Lyon railway station, extending out to the Bercy district.

4% (€153 M)

4.

OTHER DISTRICTS

Market including the entire Post and Telegraph complex in the 7th *arrondissement*.



With more than €3.3 billion in exceptional property assets located primarily in the Central Business District of Paris, SFL is the preferred vehicle for investors wishing to invest in the French capital's commercial property market.

A VERY HIGH QUALITY PORTFOLIO

SFL's property portfolio includes a number of major office complexes, such as Centre d'Affaires Le Louvre, Edouard VII, Washington Plaza and Cézanne Saint-Honoré. The properties are leased to first-class covenants, mainly businesses operating in a wide range of industries. The occupancy rate, excluding properties undergoing renovation, stands at approximately 98%.

UNIQUE EXPERTISE

SFL ranks among the leaders in Paris for its expertise in renovating office and retail properties. Instead of simply accumulating assets, we carefully select and purchase buildings with high reversionary potential, which we then renovate and actively manage. Renovations currently underway include 103, rue de Grenelle (the former Post and Telegraph headquarters), 247-251, rue Saint-Honoré, Haussmann-St-Augustin (104-110, boulevard Haussmann) and 92, avenue des Champs-Élysées.

STRATEGIC LOCATIONS

The retail portfolio comprises units on some of the best known shopping streets in Paris, including rue Saint-Honoré and avenue des Champs-Élysées. They are let to leading names in luxury goods and other upscale retailers.

— SFL, a benchmark leader in the Paris commercial property market

— SFL owns one of the finest portfolios of properties in the Paris Central Business District. Representing a total of 520,756 square meters, the portfolio is valued at over €3.3 billion excluding transfer costs. It is invested mainly in office properties and premium retail units in prime locations.

— Leveraging our expertise in renovating and improving major office complexes, we select and manage properties with high reversionary potential.

— Since electing for the new REIT-style (SIIC) structure in 2003, we have managed the portfolio even more actively, enabling us to pay significant dividends to shareholders.

— As a subsidiary of Spain's COLONIAL group, owned by INMOCARAL, SFL is a member of one of Europe's leading investors in prime office and retail properties in France and Spain. Its shareholders also include PREDICA, a member of the Crédit Agricole Group.

— SFL is listed on the Eurolist by Euronext Paris market, in compartment A.

€3.3

billion portfolio
(Group share, including transfer costs)

€161.5

million in rental revenue

167.8%

growth in net profit

28.6%

growth in NAV
(including transfer costs)

52%

increase in the net dividend

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The registration document is available on the CD-ROM enclosed with this annual report.

— A new shareholder



Luis Manuel
Portillo Muñoz
Chairman
of the Board of Directors

Last year, SFL acquired the backing of a new shareholder, with the change of ownership of its parent company, Colonial. During the summer, Inmocaral, the Spanish listed property company led by Luis Manuel Portillo Muñoz, purchased a majority stake in Colonial, then made a public offer for the remaining shares. At the close of the offer period, Inmocaral held all of Colonial's capital. The acquisition also gave Inmocaral control of Colonial's subsidiary, SFL. Under French stock market regulations, this meant that Colonial had to make a simplified public offer for the SFL shares it did not already hold, with the result that it now owns just under 85% of SFL. Inmocaral affirmed that it planned to support SFL in pursuing its current strategy and to step up the company's pace of business growth. Luis Manuel Portillo Muñoz, having become Chairman of Colonial, also became Chairman of SFL's Board. Yves Mansion will remain Chief Executive Officer.

My ambition is to leverage Colonial's growth potential to propel our Group onto the European stage. Through targeted acquisitions, we're creating a robust European group capable of withstanding market cycles thanks to its high quality, diversified asset base and stable current cash flow. We are poised to pursue our growth in the most dynamic European markets.

SFL is obviously not the Colonial Group's only asset, but the quality of its prime Paris property holdings was a major factor underlying our decision to acquire Colonial in 2006.

As Chairman of SFL, I would like to encourage its teams to continue the growth strategy that has proved so successful in recent years, and particularly the focus on prime office properties in Paris's central business districts and the policy of actively managing the portfolio through carefully selected purchases, sales and renovation projects.

When we launched the public offer, we confirmed that SFL would continue to be listed on the Paris Bourse, and we also gave an undertaking to look at ways to increase the free-float, in order to give the Company the resources needed to support its development in France.

SFL is now participating in an ambitious European project. We intend to become a benchmark player in the prime commercial property markets in Europe's leading capital cities. This strategy is already underway, but we deeply believe that its success will hinge on the strengths of the companies that we are gradually integrating into our Group. While obviously based on quality property assets, these strengths are primarily derived from the companies' talented and dedicated people.

“On 16 March 2007,
Colonial was included
in Spain's IBEX 35 index.”

— Directors and Auditors

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BOARD OF DIRECTORS

LUIS MANUEL PORTILLO MUÑOZ (10) || Chairman
YVES MANSION (9) || Director and Chief Executive Officer
JEAN ARVIS (4) || Director
JACQUES CALVET (14) || Non-Voting Director
PHILIPPE CHAREYRE (1) || Non-Voting Director
YVES DEFLINE (15) || Honorary Chairman and Director
JEAN-JACQUES DUCHAMP (5) || Director
FRANCISCO JOSÉ MOLINA CALLE (8) || Director
LUIS EMILIO NOZALED A ARENAS (6) || Director
DIEGO PRADO PEREZ-SEOANE (12) || Director
MARIA JESÚS VALERO PEREZ (7) || Director
MARIANO MIGUEL VELASCO (11) || Director
TONY WYAND (2) || Honorary Chairman and Director

Board meetings are also attended by:

ALEC EMMOTT (3) || Managing Director
JEAN-LUC HOFER (16) || Works council representative
NICOLAS REYNAUD (13) || Secretary to the Board

The Board of Directors met seven times in 2006.

AUDIT COMMITTEE

Chairman: **FRANCISCO JOSE MOLINA CALLE**
 since 26 October 2006

Members: **JACQUES CALVET**
PHILIPPE CHAREYRE
YVES DEFLINE
JEAN-JACQUES DUCHAMP
DIEGO PRADO PEREZ-SEOANE
 since 26 October 2006

The Audit Committee met twice in 2006.

Role:

- **Make recommendations** concerning the appointment or re-appointment of the Auditors.
- **Review the financial statements** to be presented to the Board.
- **Assess the effectiveness** of internal controls over procedures, risks and ethical practices.
- **Review the audit plans** of the internal and external auditors.
- **At each period-end**, make inquiries of the Auditors without any member of management being present.

DIRECTORS' CHARTER: THE MAIN PRINCIPLES

The Directors' Charter is more than a simple description of directors' statutory rights and obligations. It is also a code of ethics dealing with such issues as directors' transactions in SFL shares, potential conflicts of interest, multiple directorships, regular attendance at Board meetings and confidentiality. Each voting and non-voting Director, elected in his or her own name or as permanent representative of corporate Directors, is required to hold at least 25 SFL shares registered in his or her name. Directors are required to write to the Company, providing full details of all SFL shares purchased or sold during the period.

In addition, each Director must notify the Company 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 voting 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 voting or non-voting Director and membership on Committees of the Board.

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REMUNERATION AND SELECTION COMMITTEE

Chairman: **MARIANO MIGUEL VELASCO**
since 26 October 2006

Members: **JEAN ARVIS**
YVES MANSION
(except for decisions concerning him)
TONY WYAND

The Remuneration and Selection Committee met twice in 2006.

Role:

- **Make recommendations** to the Board concerning the remuneration of corporate officers, directors' fees, stock option plans and specific incentive bonus plans.
- **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

The Executive and Strategy Committee was created by decision of the Board on 26 October 2006.

Chairman: **LUIS MANUEL PORTILLO MUÑOZ**

Members: **JEAN-JACQUES DUCHAMP**
YVES MANSION
FRANCISCO JOSE MOLINA CALLE
LUIS EMILIO NOZALED A ARENAS
MARIANO MIGUEL VELASCO

Role:

- **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,
- **Help the Board** and senior management to efficiently fulfil their respective responsibilities, by acting as an interface for strategic issues and transactions,
- **Review** business plans and projections in order to assess the medium and long-term outlook,
- **Review and make recommendations** concerning planned transactions that require the Board's prior approval,
- **Authorise** senior management to carry out any acquisition or sale or to enter into any financial commitment representing an amount in excess of €20 million,
- **Report to the Board** on the fulfilment of its responsibilities.

— SFL is actively enhancing the value of its portfolio



Yves Mansion,
Chief Executive Officer

HOW WOULD YOU SUM UP THE PAST YEAR?

2006 was another year of record earnings. This performance was attributable to a sustained rise in property rentals, and also to the outstanding growth in the value of our portfolio. Conditions in the Paris commercial property market were good, with prices for high specification properties such as the ones in our portfolio reaching new highs. Our positioning in the prime office property market in the most sought-after business districts of Paris and the inner suburbs once again paid handsome dividends.

CAN YOU SAY A FEW WORDS ABOUT YOUR RESULTS?

We have two sources of earnings – our property rental operations and portfolio appreciation. In 2006, we followed the example of the vast majority of listed property companies by adopting the fair value model. Under this model, changes in the value of our assets are reflected

immediately in our bottom line. Fair values are determined by independent valuers, using methods widely recognised by the market. Last year, these values rose by a very strong 20% on a comparable portfolio basis, leading to a 27% increase in the portfolio's carrying value. Our property rental operations also delivered very satisfactory results, driving a 6.4% increase in operating profit before fair value adjustments to €134.8 million. Growth was led by a 5.4% rise in property rentals, supported by a record 97.8% occupancy rate excluding properties under renovation. We are seeing signs of an increase in market rents for prime properties.

LAST YEAR, YOU SEEM TO HAVE FOCUSED ON INVESTING IN MAJOR RENOVATION PROJECTS. WHAT'S THE RATIONALE BEHIND THIS ASPECT OF YOUR STRATEGY?

It's true that our two largest acquisitions – 103 rue de Grenelle in the 7th *arrondissement* and 247-251 rue Saint-Honoré in the 1st *arrondissement* – consisted of empty buildings that we plan to extensively renovate and modernise. When they are put back on the rental market in 2009 or 2010, they will offer specifications in line with the expectations of the most exacting tenants. While these properties don't represent an immediate source of revenue – on the contrary, they will represent a drain on cash during the renovation phase – we believe that this approach is the best way of creating additional value for our shareholders over the long term, in view of the impressive rise in the price of properties let to first-class covenants. Moreover, revenue streams from our let properties enable us to easily finance the cost of renovation work without endangering our current cash flow and to continue paying generous dividends to our shareholders.

ARE YOU PLANNING TO INCREASE THE DIVIDEND?

We intend to recommend raising the dividend by nearly 50%, to €3.20, including the €0.7 interim dividend paid last autumn. This increase reflects both our healthy operating profit and the significant capital gains realised on asset sales.

WHAT'S THE OUTLOOK IN THE PRIME OFFICE PROPERTY MARKET FOR 2007?

Market conditions since the start of the year have been very good. The flow of investment capital into the market is keeping prices high and driving down rental yields. At today's prices, you would earn a better return on government bonds than on some Paris properties! In this environment, we are maintaining our focus on seeking out properties or property portfolios with reversionary potential, even at current prices, and this means widening our search. As far as rents are concerned, we're seeing an increase in prices for new leases and we're continuing our policy of signing long-term leases with first-class covenants. At the

same time, we're working hard to ensure that our properties offer the highest specifications, particularly in terms of energy efficiency, to sustain their value and their attractiveness to our target customers.

WILL SIIC 4 AFFECT YOUR BUSINESS?

Yes, because under the new rules adopted last December, as from the end of 2008, controlling shareholders will not be allowed to own more than 60% of an SIIC. The Colonial Group is currently examining the best way of reducing its stake to below this ceiling, with the aim of creating a wider market for our shares and boosting the share price.

MANAGEMENT COMMITTEE



YVES MANSION
Chief Executive Officer



ALEC EMMOTT
Managing Director



PHILIPPE DEPOUX
Deputy Managing Director
Chief Operating Officer



NICOLAS REYNAUD
Chief Financial Officer



FRANÇOIS SEBILLOTTE
Company Secretary



JOAN TORREGUITART
Director, Control
and Coordination



FRANCK DATTÉE
Technical Director



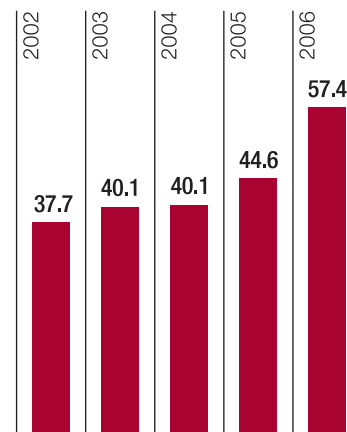
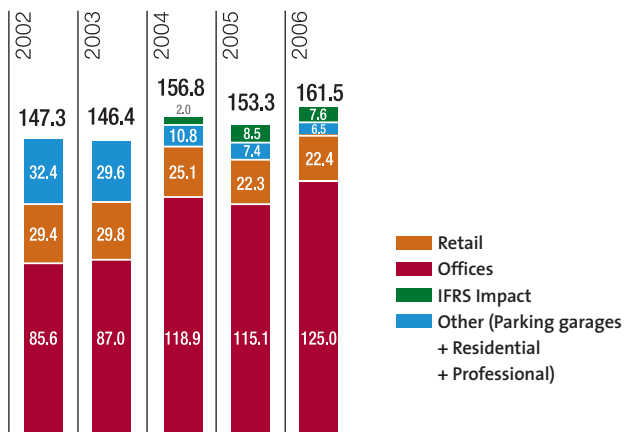
OLIVIER ROCHEFORT
Asset Management Director



JEAN-LUC POTIER
Development Director

— 2006 Key figures

— **In 2006, property rentals grew** by a further 5.4% to €161.5 million, and the value of the property portfolio rose by a strong €533.8 million compared with a €128.1 million increase in 2005. Current cash flow attributable to equity holders came to €79.2 million and attributable profit for the year totalled €606.6 million, up 167.8% from 2005. NAV per share, including transfer costs, rose 28.6% to €57.4. The continued upward trends reflect the excellent quality of SFL's property portfolio.



5.4% GROWTH IN PROPERTY RENTALS (in € millions)

Property rentals rose to €161.5 million in 2006, an increase of 5.4% over 2005 on a reported basis and 2.7% based on a comparable scope of consolidation. The increase, which was achieved despite the disposals carried out during the year, reflects SFL's very high 97.8% occupancy rate and the impact of the rebound in the Paris commercial property market on the prices of new leases.

SHARP RISE IN NAV PER SHARE, INCLUDING TRANSFER COSTS (in €)

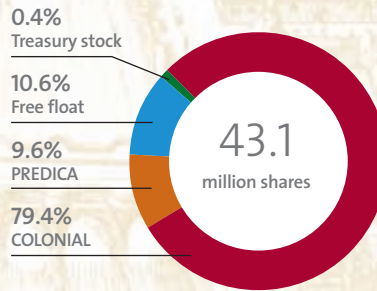
NAV per share, including transfer costs, came to €57.4 at 31 December 2006, up 28.6% from 31 December 2005. The increase was attributable not only to favourable market trends, but also to the successful efforts of SFL's teams in increasing the portfolio's value (see p.12-13).

OWNERSHIP STRUCTURE:

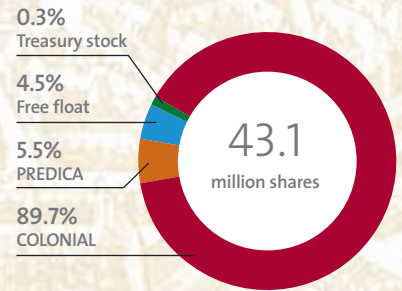
A small free-float, but not for much longer

Following Inmocaral's acquisition of the Colonial group in Spain, Colonial launched a cash offer in December 2006 for the 20% of SFL's capital it did not already own. This transaction reduced the free-float to 4.5%. With the application of new SIIC rules (SIIC 4) in 2007, SFL will take steps to substantially increase its free-float over the medium term.

End 2005



End 2006

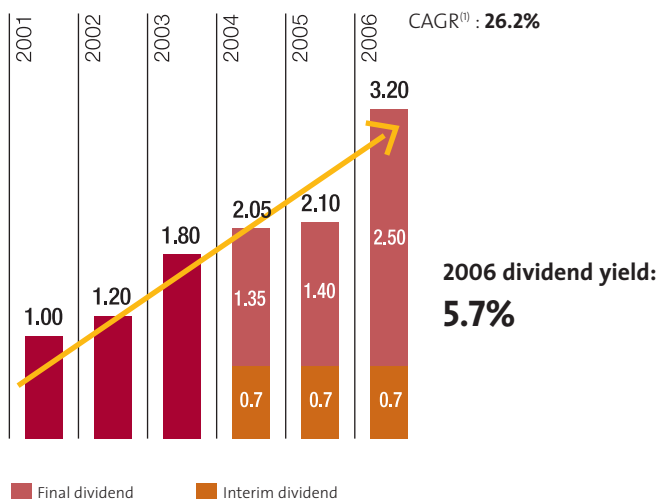


28% GAIN IN THE SHARE PRICE⁽¹⁾

Despite the small free-float, which dampened SFL's stock market performance, growth in the share price was once again in the double digits. The price gained 28% over the year, to reach a high of €56.50 at the year-end, compared with a low of €40.61 on 2 June. Average daily trading volume stood at 29,601 shares.

- SFL : +28%
- SIIC Index : +57%
- EPRA Europe : +46%
- CAC 40 : +18%

(1) Base 100: 31/12/05 – Sources Bloomberg / Euronext



■ Final dividend ■ Interim dividend

(1) CAGR: Compound Annual Growth Rate

NET DIVIDEND PER SHARE (in euros)

Effective from 2006, SFL has elected to measure investment property according to the fair value model, corresponding to the benchmark treatment under IFRS. This change of method has been adopted not only to make the financial statements easier to understand, but also to facilitate comparisons with the financial statements of other property companies, the vast majority of which have opted to apply the fair value model.

DEBT

Net debt⁽¹⁾:
€860 million

Average maturity:
4.2 years

Average borrowing cost⁽²⁾:
5.4%

Loan To Value⁽³⁾:
24.5%

Standard & Poor's rating was withdrawn at SFL's request on 7 March 2007.

(1) Net of cash and cash equivalents, excluding current account advances and accrued interest

(2) After hedging, based on the official Euribor and Eonia rates at 31 December 2006

(3) Net debt/Assets at appraisal value

— The portfolio

— **The portfolio's market value** gained 27% over the year, to an estimated €3,320 million (Group share, excluding transfer costs) at 31 December 2006, reflecting the growth in property values in the Paris Central Business District. The average price per square meter excluding transfer costs stood at €7,884 (€7,747 for offices and €8,823 for retail units), and the average spot yield⁽¹⁾, excluding transfer costs, at 5.77%. Property sales for the year totalled €230 million, generating capital gains of €49.5 million. Property purchases amounted to €250 million, underlining the Group's commitment to an active portfolio management strategy. Leases signed or renewed during the year represented annual revenue of €32 million (on a 100% basis).

(1) Passing rents + assumed rents/appraisal value excluding transfer costs

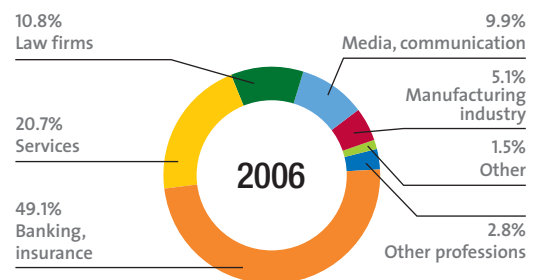
First-class covenants

SFL's tenant base is made up of first-class covenants, such as Unilocations (Calyon Group), Citibank, Natexis, GIE Cartes Bancaires, Lyonnaise des Eaux, Coface, Atos Origin, TV5 Monde, Areva, Thomson Multimedia, Proudreed and the Freshfields, Ashursts, Allen & Overy and Norton Rose law firms.

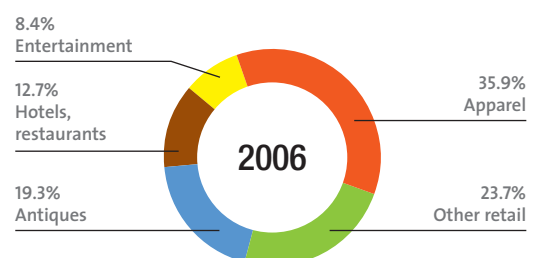
The tenant base is spread across a number of sectors balancing our exposure to economic risks.

SFL's interest in Cézanne Saint-Honoré now at 100%

On 30 March, Prédica sold its 50% interest in SCI Paul Cézanne to SFL in a share swap. The €198 million transaction has raised SFL's interest to 100%.



OFFICE TENANT BASE
by business sector



RETAIL TENANT BASE
by business sector

Portfolio⁽²⁾

€3,320 million⁽³⁾ total appraisal value attributable to the Group

520,756 sq.m. in total, including 414,305 sq.m. attributable to the Group

96% invested in office and retail property

68% located in the Paris Central Business District

€161.5 million in property rentals

Average rent for office properties:

€477 per sq.m. per year

97.8%⁽⁴⁾ occupancy rate

35%⁽⁵⁾ reversionary potential, including 9% renewals

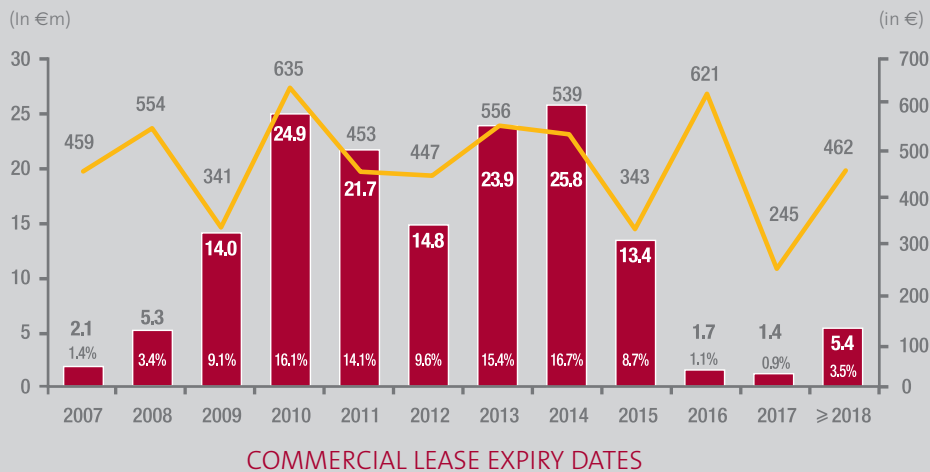
(2) At 31 December 2006

(3) At valuation, excluding transfer costs

(4) Excluding properties undergoing renovation and modernisation

(5) Difference between gross rent at renewal and current rent, Group share

A SECURE REVENUE STREAM



Average period to expiry⁽⁶⁾

6.42 years

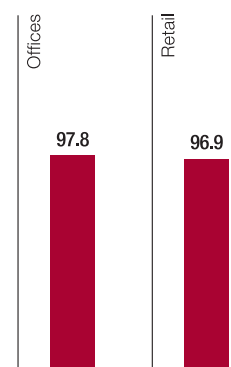
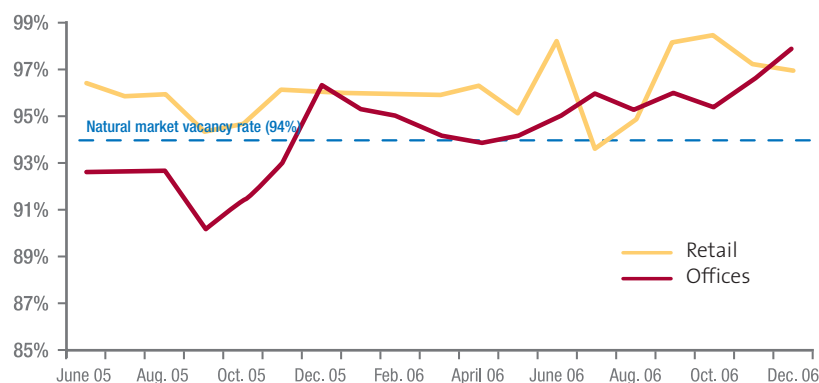
Average period to next exit date⁽⁷⁾

4.24 years

■ Lease renewals calculated on the basis of 31 December 2006 rent roll (in €m)
 ■ Average annual rent for leases expiring in the year indicated (in €/sq.m.)

(6) Weighted average remaining life of leases in progress at 31 December 2006

(7) Weighted average period to next potential exit date for leases in progress at 31 December 2006



A RECORD HIGH OCCUPANCY RATE⁽⁸⁾

At 31 December 2006, the occupancy rate for let and lettable properties was a very high 97.8%. This was significantly above the 94.8% average rate for commercial property in the Paris area as a whole. During the year, leases were signed on 27,274 square meters of offices, representing revenues of €17 million, including new lettings and lease renewals and renegotiations. This rental activity, combined with the lease portfolio's average life of more than 6 years, means that no significant leases will come up for renewal before 2010.

(8) Month-end spot rate

OCCUPANCY RATE BY TYPE OF PROPERTY

— A portfolio of prime Paris office properties with high reversionary potential



— **SFL is well known for its experience and skill** in managing prime properties and restructuring large, high quality office complexes requiring considerable technical expertise. Our policy is designed to unlock sustainable reversionary potential, in order to maximise yields and capital values. Renovation programmes underway during the period, concerning a total of 60,000 square meters, will add some €40 million in rental revenues as the properties are delivered between 2007 and 2010.

80%

LET PROPERTIES

These properties generate a regular stream of cash flows that we work to maintain through regular contacts with tenants and pro-active remarketing of units that have fallen vacant.

10%

PROPERTIES UNDERGOING RENOVATION

These properties are being renovated and modernized to the highest standards, so that they can be repositioned in the rental market.

10%

NEW PROJECTS

In a period of high prices and increased competition, we are constantly on the lookout for opportunities to purchase new properties to which we can add value by undertaking work – often converting properties to other uses – and/or assuming tenant risk.



A measured approach to actively managing the portfolio

The portfolio continued to be actively managed in 2006, with the sale of properties that had achieved their full reversionary potential and the acquisition of prime properties – such as the Vaisseau building in Issy-les-Moulineaux – and other property assets with high potential requiring complete renovation – such as the Post and Telegraph complex on rue de Grenelle and the rue Saint-Honoré property.

We were also very active on the marketing front during the year, signing major leases with Summit Systems (63 boulevard Haussmann), Proudreed (Cézanne Saint-Honoré), Dexia (Washington Plaza) and NBC (quai Le Gallo), among others. In a period of rising rents, this activity enabled us to further leverage property rentals and lock-in existing rental revenues while enhancing our properties' value.

We continued to redefine and renovate our assets in order to maximise each property's reversionary potential and yield. Renovation spending in 2006 totalled just under €69.9 million, representing 2% of the total portfolio value. Looking ahead to 2007, we intend to focus on acquiring high-potential, prime properties that can be extensively renovated and modernised. We will hold firm to our policy of anticipating lease renewals in order to preserve our high occupancy rate. Lastly, we will engage in transactions designed to enhance the value of our portfolio.

SIIC regime:

POSITIVE RESULTS FOR LISTED PROPERTY COMPANIES

The introduction on 1 January 2003 of the SIIC (REIT-style) tax regime for listed property companies gave new momentum to the French real estate industry in terms of both stock market performance and property transactions. By the end of 2006, a total of forty companies had elected to take on SIIC status, which exempts them from income tax on their profits, including capital gains. In exchange, they were required to pay a 16.5% exit tax on their total unrealised gains at the election date. In 2005, the introduction of a reduced tax rate on sales of property to SIICs in exchange for shares – corresponding to phase 2 of the new system – paved the way for a number of major transactions.

Introduced in 2006, SIIC 3 extended this reduced rate to cash transactions, providing new impetus to the trend among listed companies to remove property assets from their balance sheet. The resulting faster asset turnover rates helped to boost shareholders' return on investment in listed property companies.

SIIC 4, applicable as from 1 January 2007, sets a 60% ceiling on the percentage ownership of an SIIC by a majority shareholder or shareholders acting in concert. SIICs will be afforded a two-year grace period in which to comply with the new regulation. In addition, tax-exempt dividends paid to shareholders that own at least 10% of the SIIC will be subject to 20% withholding tax, from 1 July 2007. These measures should widen the market for SIIC stock by increasing the free-float and placing all investors in the Paris stock market on equal footing in terms of taxation.

Centre d'Affaires Le Louvre

- 2 place du Palais-Royal
75001 Paris



**PURCHASED IN 1995
LET PROPERTY**

**TOTAL SURFACE AREA:
47,802 SQ.M.**

- Offices: 28,219 sq.m.
- Retail units: 7,090 sq.m.
- Other: 3,929 sq.m. (archives, stock rooms & staff restaurant)
- Common areas: 8,563 sq.m.
- Parking spaces = 234

MAIN TENANTS:

Banque de France, Conseil d'Etat, Calyon, Devarrieux, SFL headquarters, Louvre des Antiquaires

A TARGETED INVESTMENT IN THE HEART OF THE RENTAL MARKET

Following work to upgrade the building's technical amenities, the Centre d'Affaires remains a prime property in a district where high quality office space is hard to come by. Its central location attracts many first-class covenants. The 2007 programme is continuing, to renovate the common areas, whilst restructuring part of the retail space with the creation of a new exhibition gallery.

Washington Plaza

- 38-44 rue Washington - 75008 Paris
- 29-31 rue de Berri - 75008 Paris
- 43-45 rue d'Artois - 75008 Paris



**PURCHASED IN 2001
BY PREDICA (33%) AND SFL (66%)**

LET PROPERTY

**TOTAL SURFACE AREA:
45,063 SQ.M.**

- Offices: 39,441 sq.m.
- Retail units: 460 sq.m.
- Other: 4,513 sq.m. (archives, staff restaurant & other)
- Common areas: 2,649 sq.m.
- Parking spaces = 662

MAIN TENANTS:

GIE Cartes Bancaires, Norton Rose, Poweo, Dexia, Hammerson, VTG

A NEW GENERATION OF TENANTS

Located just off the Champs-Élysées, on an 8,000-square meter plot, the Washington Plaza is one of the capital's finest office complexes.

Extensively renovated in 1993, the property offers a standard of services in keeping with the current expectations of the Paris rental market and has attracted new, fast-growing companies such as Lasalle Investment, Poweo and VTG. In 2006, the HVAC and access control systems were extensively upgraded and the executive dining room was transformed into offices and let. An engineering study is underway to optimise use of the parking garage.

Hausmann - Saint-Augustin (HSA)

- 104/106 - 108/110 boulevard
Hausmann - 75008 Paris



**50%-OWNED BY SFL IN
PARTNERSHIP WITH ILE-DE-
FRANCE INVESTISSEMENTS SA
BUILDING UNDER RENOVATION
AND MODERNISATION**

**TOTAL SURFACE AREA:
11,897 SQ.M.**

- Offices: 10,152 sq.m.
- Retail units: 1,745 sq.m.

A NEW BUSINESS CENTRE IN THE HAUSSMANN-SAINT AUGUSTIN DISTRICT

By mid-2007, the four buildings on Boulevard Hausmann will have been converted into an upscale, 14,000-square meter business centre located in the heart of the Central Business District, a stone's throw from Boulevard Malesherbes and the Saint-Augustin church. The centrepiece of the complex will be a vast central entrance hall flooded with natural light from a glass roof. A 100-space private parking garage will also be built. Since late-2006, the property has been marketed on a pre-let basis, enabling it to benefit from the upward trend in prime rents in the Central Business District.

← Galerie des Champs-Elysées

- 82-88 avenue des Champs-Elysées
75008 Paris

50%-OWNED BY SFL IN PARTNERSHIP WITH ILE DE FRANCE INVESTISSEMENTS SA PROPERTY UNDER RENOVATION AND MODERNISATION

**TOTAL SURFACE AREA:
5,661 SQ.M.**

- Retail units & stock rooms:
5,661 sq.m.
- Parking spaces = 260

MAIN TENANTS:

Boulangerie Paul, Promod, Etam, Minelli, MacDonalds



REDEFINING ONE OF PARIS'S BEST RETAIL LOCATIONS

The Galerie des Champs-Elysées shopping arcade is located in one of the busiest points on the sunny side of the Champs-Elysées. A vast programme is being launched to renovate and modernise the arcade and reposition it in the retail market. The aim is to create architectural features and services in keeping with the property's prime location. Following Club Med's departure at the end of 2006, the arcade is expected to become home to three medium-sized retail outlets alongside the existing boutiques.

← 92 Champs-Elysées

- 92 avenue des Champs-Elysées - 75008 Paris



**PURCHASED IN 2000
BUILDING UNDER RENOVATION**

**TOTAL SURFACE AREA:
7,641 SQ.M.**

- Offices: 4,209 sq.m.
- Retail units: 3,396 sq.m.
- Common areas: 35 sq.m.

MAIN TENANTS:

Morgan, Solaris, Embassy of Malta, Cartesis

EXCEPTIONAL SERVICES FOR AN EXCEPTIONAL SITE

Number 92 is one of the best-placed buildings on the Champs-Elysées, on the corner of rue de Berri. It comprises retail units on the ground floor and offices on the upper floors. The project aims to replace the current retail units with two or three medium-sized stores, reorganise the layout of the office areas, upgrade the building's utilities and renovate the facade, to restore the property to the glory it deserves.

← Cézanne Saint-Honoré

- 1-6 rue Paul Cézanne - 75008 Paris
- 27 rue de Courcelles - 75008 Paris
- 168 rue du Faubourg Saint-Honoré
75008 Paris



PURCHASED IN 2001 BY PREDICA (50%) AND SFL (50%)

LET PROPERTY

**TOTAL SURFACE AREA:
27,022 SQ.M.**

- Offices: 24,445 sq.m.
- Retail units: 1,816 sq.m.
- Archives & stock rooms:
1,257 sq.m.
- Common areas: 1,504 sq.m.
- Parking spaces = 125

MAIN TENANTS:

Freshfields, Citibank, Caisse Centrale de Réassurance, 3I, Proudreed

A PRIVATE STREET JUST A SHORT WALK FROM PLACE DE L'ETOILE

The Cézanne Saint-Honoré complex delivered in March 2005 has already won two awards. It was named renovation of the year at the 2004 SIMI Awards and received the European Grand Prize in The Urban Land Institute's Awards for Excellence 2005.

After such a textbook renovation, the complex has been let to companies who demand very high quality offices and expect flawless round-the-clock services seven days a week. All of the office spaces and retail units were let in 2006. Amongst them, only one 1,790 sq.m. space will need to be re-let in 2007 following the departure of the tenants.



Edouard VII

- 16-30 boulevard des Capucines
75009 Paris
- 2-18 rue Caumartin
75009 Paris



PURCHASED IN 1999

LET PROPERTY

TOTAL SURFACE AREA: 54,119 SQ.M.

- Offices: 28,112 sq.m.
- Retail units: 7,331 sq.m.
- Residential units: 4,571 sq.m.
- Theatres: 8,019 sq.m.
- Residential hotel: 3,125 sq.m.
- Other (archives, workshops,
store rooms & staff restaurant):
2,961 sq.m.
- Parking spaces = 509

MAIN TENANTS:

L'Olympia, Théâtre Edouard VII,
Citadines, Zara, Habitat,
Pronuptia, Ashursts, Allen &
Overy, Lyonnaise des Eaux, Affine

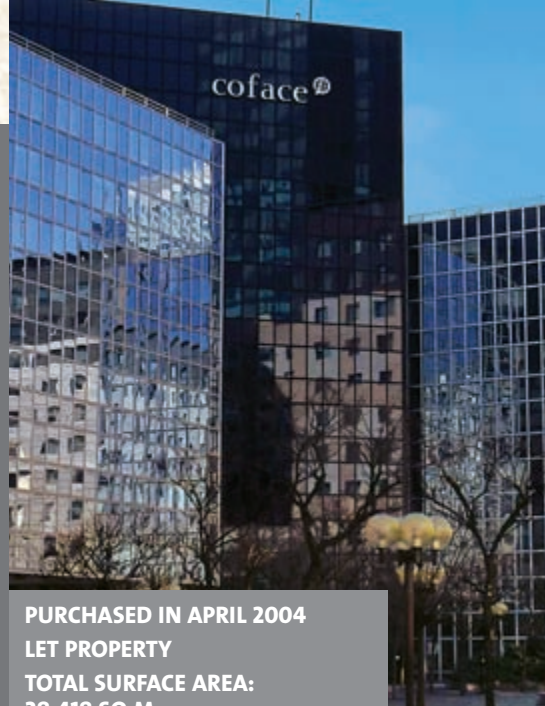
ONE OF THE CAPITAL'S BUSINESS LANDMARKS

Built on a one-and-a-half hectare plot, the Haussmann-style Edouard VII complex is in the heart of a district which boasts the capital's densest concentration of French and international businesses. The complex has been extensively renovated and modernised and now houses a unique collection of high quality offices, legendary theatres, well-known retailers, a residential hotel and luxury apartments. Additional space having been let to existing tenants, the complex is now fully occupied, with the exception of a small 477-square meter space that is currently being marketed.



Tour Coface La Défense

- 12 cours Michelet
92800 Puteaux



PURCHASED IN APRIL 2004

LET PROPERTY

TOTAL SURFACE AREA: 28,418 SQ.M.

- Offices: 26,716 sq.m.
- Archives & staff restaurant:
1,702 sq.m.
- Parking spaces = 235

TENANT:

Coface

A UNIQUE OCCUPANT FOR A BENCHMARK HIGH-RISE

Located in the Michelet quarter of La Défense, the Coface building offers unique amenities, including access to private parking garages. The long-term lease with a first-class covenant and the property's central location in Europe's leading business district guarantee the sustainability of revenues.



Ilot Richelieu

- 81-83 rue de Richelieu - 75002 Paris
- 2-8 rue Ménars - 75002 Paris
- 16-18 rue de Gramont - 75002 Paris
- 1-5 rue Grétry - 75002 Paris



PURCHASED IN APRIL 2004

LET PROPERTY

TOTAL SURFACE AREA: 38,270 SQ.M.

- Offices: 38,270 sq.m.
- Parking spaces = 55

TENANT:

Crédit Lyonnais

A UNIQUE COMPLEX

Ilot Richelieu is a three-building complex within short walking distance of the Palais Brongniart in Paris's financial district. The single-tenant site is a source of recurring cash flow and its renovation and modernisation will generate added value in the future.



63 boulevard Haussmann

- 63 boulevard Haussmann
75008 Paris

PURCHASED IN 2000

LET PROPERTY

TOTAL SURFACE AREA: 2,776 SQ.M.

- Offices: 2,415 sq.m.
- Retail units: 165 sq.m.
- Archives: 196 sq.m.

MAIN TENANT:

Summit systems



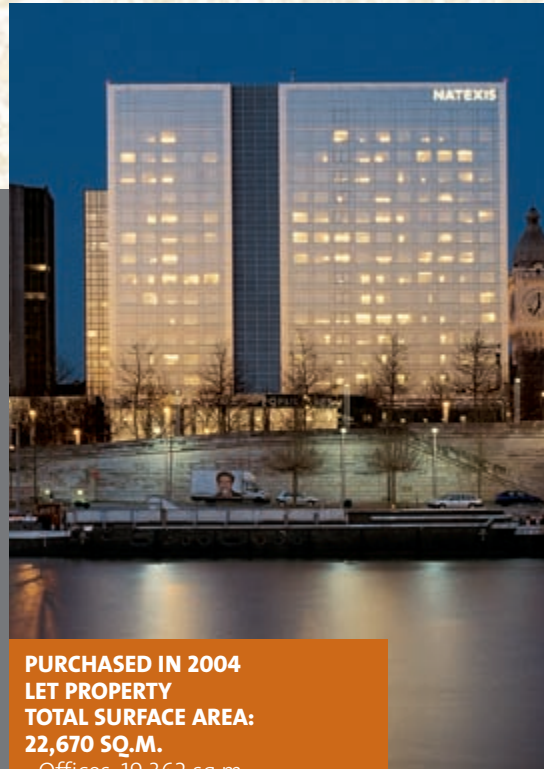
COMBINING PRESTIGE WITH INTELLIGENCE

Set in the centre of one of Europe's largest business districts, opposite Saint-Lazare railway station, this magnificent building was renovated to offer improved services in keeping with the quality of its location. After negotiating the departure of existing tenants, we completely renovated the entire complex and integrated all the features of an intelligent building, while enabling the retail units to remain open. The renovated building was delivered in 2006 and has been fully let to two tenants.



Rives de Seine

- 68-74 quai de la Rapée
75012 Paris



PURCHASED IN 2004 LET PROPERTY TOTAL SURFACE AREA: 22,670 SQ.M.

- Offices: 19,362 sq.m.
- Staff restaurant, archives & other: 3,308 sq.m.
- Parking spaces = 366

TENANT:

Natexis

A SINGLE-OCCUPIER PROPERTY IN EASTERN PARIS

Located on the banks of the Seine, not far from the Gare de Lyon and opposite the Paris Rive Gauche business district, this property is emblematic of the revival of the Eastern Paris commercial property market. Its recent renovation has made it one of the district's landmarks. Let to Natexis, it also represents a natural extension of the banking and financial district that has rapidly developed on the other side of the Seine with Ixis and Banques Populaires.



Avenue de Wagram

- 131 avenue de Wagram
75017 Paris



PURCHASED IN 2000 BUILDING UNDER RENOVATION AND MODERNISATION

TOTAL SURFACE AREA: 9,186 SQ.M.

- Offices: 7,100 sq.m.
- Other (staff restaurant, archives & technical facilities): 2,086 sq.m.
- Parking spaces = 124

TENANT:

TV5 Monde

FROM SONY TO TV5

After Sony, the world's leading music company, moved out, the property was extensively renovated and the layout changed to meet the needs of TV5 Monde for its future headquarters. Boasting 6,650 square meters of offices, 2,000 square meters of meeting rooms, an auditorium, store rooms and a restaurant, the building was delivered at the end of October 2005, in time to enable the new tenant to equip its studios for the successful market launch of TV5 Monde on 1 July 2005. The lease is for a period of 12 years.



Quai Le Gallo

- 46 quai Le Gallo
92100 Boulogne-Billancourt



PURCHASED IN 2000
LET PROPERTY

TOTAL SURFACE AREA:
33,417 SQ.M.

- Offices, workshops & other:
29,712 sq.m.
- Common areas: 3,705 sq.m.
- Parking spaces = 426

MAIN TENANT:
Thomson Multimedia

A BENCHMARK PROPERTY IN A STRATEGIC DISTRICT

This property is located in a high-potential area, adjacent to the 50-hectare site of the former Renault factory and opposite the future telecoms and media centre of excellence along the banks of the Seine.

The former industrial building has been extensively renovated and converted into a modern office complex flooded with natural light from its huge windows. With interior fittings designed by Philippe Starck, the building offers all the high quality services required by 21st century businesses. Utilities management has been outsourced to the building's long-time occupier, Thomson Multimedia.



Le Vaisseau Issy-Les-Moulineaux

- 2, allée des Moulineaux
92 130 Issy-Les-Moulineaux



PURCHASED IN 2006
LET PROPERTY

TOTAL SURFACE AREA:
6,332 SQ.M.

- Offices: 6,026 sq.m.
- Archives : 306 sq.m.
- Parking spaces = 124

MAIN TENANT:
Dalkia

AN INNOVATIVE ARCHITECTURAL COMPLEX

“Le Vaisseau” owes its name to its atypical shape: with its façade reminiscent of naval architecture, the mobile roof that can open upwards along its entire length, its surroundings laid out as a pond with partially wooded banks ... The building offers almost 6,000 sq.m. of office space and benefits from 124 parking spaces. The structure was designed by the architect Jean Nouvel and completed at the end of 1992. It is situated on the western part of the Ile Saint-Germain at Issy-les-Moulineaux, close to the southwestern area of Paris, at the level of the Porte de Versailles.



Rue Alfred de Vigny

- 5 rue Alfred de Vigny
75008 Paris



PURCHASED IN 2005
LET PROPERTY

TOTAL SURFACE AREA:
2,698 SQ.M.

- Offices: 2,698 sq.m.
- Parking spaces = 12

GIVING A MATURE BUILDING A FACE-LIFT

Located in the heart of the Paris Central Business District, close to Parc Monceau, the building was originally the headquarters of Coface. It was vacated at the end of 2005 and renovation began in 2006 to rationalize the layout and install all the technical equipment needed to create a pleasant and efficient working environment. The property was delivered and re-let in January 2007.



Tour Les Miroirs C - La Défense

- 18 avenue d'Alsace
92400 Courbevoie

PURCHASED IN 2005
LET PROPERTY
TOTAL SURFACE AREA:
19,874 SQ.M.

- Offices: 19,432 sq.m.
- Staff restaurant: 442 sq.m.
- Parking spaces = 220

TENANT:
Atos Origine



A LONG-TERM LEASE WITH A FIRST-CLASS COVENANT

Tour Les Miroirs is part of a flagship complex in La Défense. The building is 97-meters tall and offers spectacular 360-degree views of La Défense from its upper storeys. The parking garage can be accessed directly from the Boulevard Circulaire ring-road around La Défense.

Work was completed in 2006 in preparation for the arrival of IT consulting firm Atos Origin, which has leased the entire building under a nine-year lease.



103 rue de Grenelle

- 103 rue de Grenelle
75007 Paris



PURCHASED IN 2006
**OFFICE BUILDING SCHEDULED
FOR RENOVATION**

NET FLOOR SPACE:
20,500 SQ.M.
- Offices: 17,900 sq.m.
(useable area)
- Parking spaces = 100

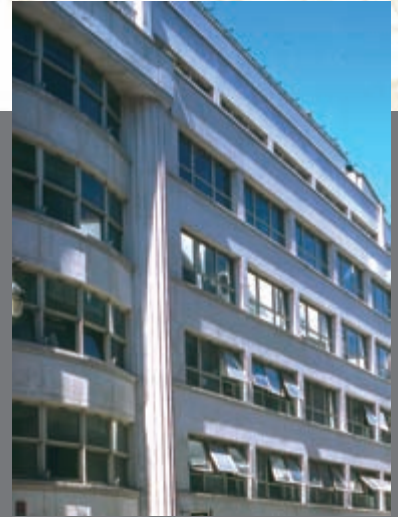
BIRTH OF THE NEW LEFT BANK BUSINESS CENTRE

In 2006, we completed the acquisition of the former headquarters of the French Post Office. Ideally located close to the official residence of the French Prime Minister, Hôtel Matignon, in the district that is home to many French Ministries, the building offers views of the Ministry of Agriculture gardens. Demolition and construction permits were obtained in 2006 in anticipation of a major renovation program to begin in the first quarter of 2007. Scheduled for completion at the end of 2008, the prestigious real estate complex will offer all the amenities of a fully modernised office space in the heart of Paris's government district on the Left Bank of the Seine.



Rue Saint- Honoré

- 247-251 rue Saint-Honoré
75001 Paris



PURCHASED IN 2006
**CONVERSION OF AN OFFICE
BUILDING INTO A FOUR-STAR
LUXURY HOTEL**
NET FLOOR SPACE: 22,000 SQ.M.
HOTEL: 17,400 SQ.M.
(USEABLE AREA)/150 ROOMS
RETAIL UNITS: 1,300 SQ.M.

A SEVENTH LUXURY HOTEL FOR PARIS IN 2010

Located a short distance from Place Vendôme, this complex of 1930s and 1950s buildings was for many years home to the Ministry of Justice before it was acquired as vacant property by SFL in mid-2006. Given the complex's exceptional location and size, it was quickly decided to transform it into a luxury hotel. An agreement was signed with the Mandarin Oriental Group, which will make the site its first Paris location under a long-term lease, conditional on obtaining the necessary authorisations. Work is scheduled to begin at the start of 2008 and the 150-room luxury hotel – the seventh of its kind in Paris – should open at the end of 2010.

— Safety and the environment: exacting, ambitious policies

— **SFL constantly strives to improve the quality** of its portfolio by reducing health and safety risks for tenants and eliminating possible sources of pollution. The SFL environmental charter is based on innovative, ambitious policies that go far beyond strict compliance with regulatory requirements. It serves as a guarantee to tenants, future buyers and our shareholders that environmental risks are properly managed.

AN EFFECTIVE POLICY FRAMEWORK

Since 2003, our environmental risk management activities have been guided by a charter designed to promote early recognition of potential risks and the implementation of effective preventive measures. The charter prescribes a two-pronged approach:

- **Obtaining HQE certification** for all major renovation projects.
- **Developing health and safety plans** for all let and lettable properties.

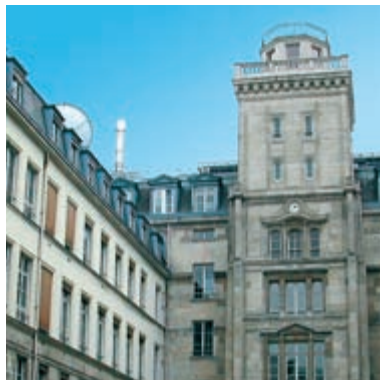
Extremely attentive to changing regulations, we regularly update our environmental charter. While the Technical Department has front-line responsibility for implementing the charter, all our departments play a very active role in applying the Group's environmental practices and procedures. Our teams have on-line access to management information schedules and indicators covering the full range of environmental issues for each building. These shared resources provide instant access to health and safety information for each property in our portfolio and are regularly updated. In addition, a vast training and information programme has been developed for all employees concerned.

Public health action plan

The public health action plan targets issues directly related to health and pollution. Focused on prevention, it involves evaluating and eliminating environmental risks at each site. It provides an overview of the current situation and sets detailed short and medium-term objectives in each area covered. For example:

- › **the asbestos removal programme** continued in 2006, to remove all materials containing asbestos from SFL properties. Asbestos reports (DTAs) are updated regularly for all properties in the portfolio;

The Post and Telegraph building
103, rue de Grenelle
The first freestone building to be
prepared for HQE certification.



The HQE approach:

HIGH ENVIRONMENTAL QUALITY CERTIFICATION IS SOUGHT FOR MODERNISATION AND RENOVATION PROJECTS.

Choosing to obtain HQE certification reflects our goal of optimising energy consumption and heat insulation as well as enhancing user comfort by regulating noise levels, humidity levels and odours and ensuring that the buildings provide adequate natural light, while at the same time guaranteeing that they represent safe and healthy environments. The stringent HQE certification criteria represent a guarantee for customers that a building is in excellent condition. By optimising the performance of our properties, the HQE approach increases their value. That is why SFL is seeking HQE certification for two major renovation projects – the Post and Telegraph building on rue de Grenelle and the rue Saint-Honoré complex, which is being converted into a luxury hotel.

ENVIRONMENTAL EXPENDITURE IN 2006

(in €)	Commitments, excluding tax	Group share
TESTS (I)	166,740	156,368
WORK (II)		
Asbestos removal	3,877,254	3,677,504
Work on cooling and air treatment systems	949,157	897,657
Replacement of lead pipes with copper pipes	43,306	43,306
Work to isolate coatings that contain lead particles	472,461	440,594
Strengthening of heat insulation and sound-proofing (double glazing, installation of thicker glass)	350,893	316,731
Modernisation of air conditioning and heating systems to reduce energy consumption	2,223,045	2,078,045
Expenditure to improve security installations and related compliance work (sprinklers, fire extinguishers, video surveillance systems, etc.)	969,826	967,964
TOTAL INITIATIVES (I + II)	9,052,682	8,578,169

- › all buildings have been tested to ensure that there is no **risk of lead poisoning**. Additional tests are performed periodically as part of an annual monitoring programme;
- › **physical and chemical tests** of drinking water supplies are performed each year;
- › **Legionella bacterium tests** are conducted at monthly intervals on cooling towers, which are in the process of being replaced;
- › **to help prevent damage** to the ozone layer, all air-conditioning systems using R22-type cooling liquids containing HCFCs are also being replaced;
- › **environmental audits** are performed at all of our properties;
- › **renovation projects** include work to improve energy efficiency through better heat insulation and soundproofing. Energy efficiency will be systematically assessed as from 2007, ahead of the regulatory requirement;
- › **strict waste management standards** are upheld at work sites and all companies working under contract to SFL are required to apply selective waste sorting procedures;
- › **lastly, particular attention** is paid to encouraging the users of our buildings to select non-polluting forms of transport – for example, by providing safe areas for people to park bicycles.

Maintenance and safety plan

In addition to these public health initiatives, rigorous preventive maintenance programmes are implemented to control and minimise risks. These programmes enable us to anticipate breakdowns, avoid accidents, guarantee the safety of building users and enhance the performance of technical amenities, while also generating substantial cost savings.

The programme of seminars and information meetings on safety issues was stepped up during the year, focusing on fire safety and the maintenance of proper safety records for our buildings.

Technical audits are also carried out on all the properties in the portfolio. The results of these audits are used to plan large-scale maintenance operations and update rolling maintenance plans for each property.

Lastly, in 2006 all properties at risk of flooding if the Seine were to break its banks were reviewed, in order to determine and implement appropriate protective measures.

— Economic and financial information

I. CONTRIBUTION TO RESULTS OF OPERATIONS

In accordance with the EPRA Best Practice Committee's recommendation, the following table shows the contribution of each property to consolidated Ebitda, on a comparable portfolio basis.

Contribution to consolidated Ebitda by property (in € thousands)

Property	2006 contribution	2006 (€k)	2005 (€k)	Comments
Beaubourg 62	0.8%	1,265	1,391	
Champs-Élysées 90	0.6%	919	1,100	
Call LDA	11.9%	17,791	16,537	
Capucines	1.3%	1,970	1,981	
Edouard VII	14.6%	21,842	24,381	
Hanovre	0.8%	1,165	1,053	
Kléber 46	0.6%	972	986	
Malesherbes 19	0.4%	559	564	
Neuilly	1.8%	2,683	1,670	
Cézanne St-Honoré	4.8%	7,179	6,012	
Pavillon Henri IV	0.3%	438	393	
Prony 11	0.9%	1,277	1,483	
Quai Le Gallo	3.6%	5,324	6,170	
Vélasquez	0.3%	407	434	
Washington Plaza	15.5%	23,163	25,930	
Michelet La Défense	7.7%	11,569	11,851	
Richelieu	8.9%	13,253	14,517	
Rives de Seine	7.9%	11,862	12,090	
TOTAL, COMPARABLE PORTFOLIO	82.6%	123,638	128,543	
Prony-Wagram	2.7%	3,971	(727)	2004-2005: renovation
Haussmann 63	0.1%	124	45	2005-2006: renovation
Haussmann 104-110	(0.1%)	(206)	234	2005-2007: renovation
Champs-Élysées 82-88	1.8%	2,701	2,755	2004-2008: renovation
Champs-Élysées 92	2.2%	3,325	3,004	2005-2008: renovation
TOTAL, RENOVATIONS	6.6%	9,915	5,312	
Le Vaisseau	0.5%	719	0	07/2006: acquisition
103 Grenelle	(0.1%)	(124)	0	07/2006: acquisition + renovation
247 St-Honoré	(0.1%)	(81)	0	07/2006: acquisition + renovation
Les Miroirs	6.1%	9,185	2,803	09/2005: acquisition
Vigny	(0.1%)	(95)	317	09/2005: acquisition + renovation
TOTAL, ACQUISITIONS	6.4%	9,604	3,120	
Champs-Élysées 118	0.9%	1,354	1,867	12/2006: sale
Grande-Armée 12-14	1.0%	1,468	1,139	12/2006: sale
La Boétie 3	1.2%	1,758	2,133	12/2006: sale
Sébastopol	1.5%	2,308	2,158	12/2006: sale
Beaubourg 82	0.2%	253	806	09/2006: sale
Faisanderie 89	0.0%	16	1,196	02/2006: sale
132 Haussmann	0.0%	(24)	530	2005: sale
Grande-Armée 80	0.0%	29	11	2005: sale
Saint-Augustin	(0.1%)	(88)	1,213	2005: sale
Saint-Florentin	0.0%	8	298	2005: sale
Rome-Vienne	0.1%	151	772	2005/2006: sale
Vauban	0.1%	90	(289)	Sales as property trader
Other assets	(0.5%)	(769)	779	Balance of sales
TOTAL, SALES	4.4%	6,554	12,612	
TOTAL CONTRIBUTION OF PROPERTIES TO EBITDA	100%	149,711	149,586	
Corporate		(16,484)	(18,786)	
TOTAL EBITDA		133,227	130,800	

II. DETAILS OF DEBT

There were no fundamental changes in the Group's debt profile in 2006. The nominal amount of debt increased from €769 million at 31 December 2005 to €883 million at 31 December 2006. We have substantial financial resources, with a loan-to-value ratio of around 24%. Following the change in SFL's ultimate majority shareholder at the end of 2006, Standard & Poor's lowered its rating to BB+, triggering the early redemption of the \$125 million US Private Placement Notes issue in the first quarter of 2007. After the downgrade, the Group asked Standard & Poor's to withdraw its rating.

Strict control over risks

We have continued to actively manage liquidity, market and counterparty risks:

1. Liquidity risks

Our liquidity management policy consists of securing long-term financial resources and staggering debt maturities over time to ensure that sufficient funds are always available to sustain our business. We consider it of utmost importance to negotiate clauses providing for early repayment of our lines of credit (at the initiative of the lender).

2. Market risks

Currency risks on our US Private Placement Notes are hedged in full by a swap.

Interest rate risks are managed on a conservative basis, without taking any speculative positions and with due consideration of changing macro-economic conditions in the euro zone. In light of the successive interest rate increases decided by the European Central Bank, the percentage of debt hedged against interest rate risks was maintained at 80% (including caps).

The average cost of debt at 31 December 2006 stood at 5.37% and, all other things being equal, will decrease following the early redemption of our US Private Placement Notes, which represent a cost of 6.39% after hedging.

Rate increases of 100 and 200 basis points across the yield curve would have the effect of increasing our borrowing costs to 6.04% and 6.29% respectively.

Debt in the amount of €400 million is hedged by a cap at the 12-month Euribor + 508.5 bps and is therefore more sensitive to rate decreases than increases.

All of our hedges are qualified as effective under IFRS, and help to reduce the earnings volatility resulting from the application of the fair value model.

3. Counterparty risks

All financial instrument contracts are entered into with leading financial institutions and our investments in money market funds (SICAV) managed by banks are not exposed to any risk of a capital loss.

Debt and related hedges

(in € millions)

Description	Company	Amount	Due	Rate	Hedge
US Private Placement Notes	SFL	100.0	6 Mar. 2007	6.47%	Cross-currency swap
		25.0	6 Mar. 2009	6.09%	Cross-currency swap
HSBC/Calyon (SFL share = 50%)	PARCHAMPS	9.1	29 Dec. 2009	3-month Euribor + 90 bps	(2)
	PARHAUS	10.0	29 Dec. 2009	3-month Euribor + 90 bps	(2)
	PARHAUS	4.7	29 Jun. 2008	3-month Euribor + 90 bps	(3) on €3.8 million
	PARHAUS TRAV	11.6	29 Dec. 2009	3-month Euribor + 90 bps	(4)
	PARHAUS TVA	1.6	29 Mar. 2008	3-month Euribor + 40 bps	(4)
	PARSHERBES	5.4	29 Dec. 2009	3-month Euribor + 90 bps	Not hedged
	PARHOLDING	5.4	29 Dec. 2009	3-month Euribor + 90 bps	Not hedged
	PARCHAR	2.3	29 Dec. 2009	3-month Euribor + 90 bps	(2)
	PARGAL	20.8	29 Dec. 2009	3-month Euribor + 90 bps	(2)
		70.9			
Syndicated loan	SFL	416.0	26 Jan. 2012	3-month Euribor + 40 bps	(1) on €400 million
Lease financing					
131, Wagram	SFL	63.2	15 June 2009	3-month Euribor + 75 bps	Not hedged
Quai Le Gallo	SFL	72.6	28 Feb. 2012	3-month Euribor + 75 bps	Not hedged
Rives de Seine	SFL	115.1	29 Oct. 2013	6-month Euribor + 75 bps	(5) on €100 million
		250.9			
Overdraft facility		20.3			
Total debt		883.1			
Accrued interest		2.6			
Current account advances		60.2			
Deposits		15.6			
Impact of IFRS adjustments		40.3			
Total reported debt		1,001.8			
Loan-To-Value (%)		24.5			

Breakdown between fixed and variable rate debt

(in € millions)

	31/12/2006			
	Amount (€m)	Rate (%) (before hedging)	Maturity (years)	Percent hedged
Fixed rate	125.0	6.39%	0.18	100%
Variable rate	758.1	4.41%	4.92	76%
Total	883.1	4.69%	4.25	80%

(1) Swapped for 12-month Euribor + 141.5 bps post set, with Euribor capped at 508.5 bps

(2) Swapped for 3.85% fixed rate

(3) Swapped for 3.56% fixed rate

(4) Swapped for 3.1250% fixed rate

(5) Swapped for 3.1250% fixed rate

III. NAV AND VALUE CREATION

Change in NAV

The portfolio valuation carried out by AtisReal, Jones Lang Lasalle and CBRE Bourdais puts the appraisal value of the portfolio at €3,320 million excluding transfer costs at 31 December 2006, an increase of 27.0% compared with €2,615 million at the previous year-end. Based on a comparable structure and excluding properties undergoing renovation, the portfolio's appraisal value was up by 22.4%, as follows:

Offices and parking spaces	+ 23.0%
Retail	+ 19.5%
Residential	+ 5.4%

Average values per square meter were as follows:

Average appraisal value per square meter, excluding transfer costs, in 2006	Excluding transfer costs
Offices and parking spaces	€7,747/sq.m.
Retail	€8,823/sq.m
Residential	€6,115/sq.m

The spot yield net of transfer costs for the portfolio as a whole was 5.77%, as follows:

Spot yield = (passing rent + assumed rent)/Appraisal value excluding transfer costs	
Offices	5.80%
Retail	5.82%
Residential	4.45%
Parking spaces	5.23%

At 31 December 2006, NAV excluding transfer costs stood at €2,283 million or €53.0 per share, an increase of 28.4% over the previous year-end:

(in € millions)	31 Dec. 2006	31 Dec. 2005	31 Dec. 2004
Diluted NAV excluding transfer costs	2,283	1,779	1,595
Transfer costs	191	146	135
Diluted NAV including transfer costs	2,474	1,925	1,730
Diluted number of shares (thousands)	43,104	43,103	43,109
Diluted NAV/share excluding transfer costs	€53.0	€41.3	€37.0
Diluted NAV/share including transfer costs	€57.4	€44.6	€40.1

Independent valuations

Independent valuations and NAV calculations

Independent experts

Jones Lang LaSalle, CBRE Bourdais, AtisReal

Valuation method

Discounted cash flow / capitalised net revenue / comparable transactions

Frequency

Entire portfolio valued at 6-monthly intervals (in December and June)

NAV calculation

Before and after transfer costs, fully diluted, with financial instruments marked to market

Appraisal values excluding transfer costs per square meter, 2006 versus 2005

2006 appraisal values excluding transfer costs per square meter* Portfolio at 31 December 2006

Area	Offices €/sq.m.	Retail €/sq.m.	Residential €/sq.m.	Parking spaces €/unit
Outer suburbs	–	1,450	–	–
La Défense	7,671	–	–	22,933
Paris 5/6/7	7,575	3,702	–	–
Paris Marais	5,549	5,554	–	28,074
Paris Rive Gauche	9,637	–	–	35,995
Central Business District	8,393	9,540	6,115	36,338
Western Paris Business District	4,439	5,605	–	18,189

2005 appraisal values excluding transfer costs per square meter* Portfolio at 31 December 2005

Area	Offices €/sq.m.	Retail €/sq.m.	Residential €/sq.m.	Parking spaces €/unit
Outer suburbs	–	1,250	–	–
La Défense	6,273	–	–	14,433
Paris 5/6/7	–	–	–	–
Paris Marais	4,568	2,436	2,957	28,867
Paris Rive Gauche	8,100	–	–	30,821
Central Business District	7,363	8,557	5,040	29,529
Western Paris Business District	3,475	6,392	–	13,838

Year-on-year change**

Area	Offices €/sq.m.	Retail €/sq.m.	Residential €/sq.m.	Parking spaces €/unit
Outer suburbs	–	16.00%	–	–
La Défense	22.29%	–	–	58.89%
Paris 5/6/7	–	–	–	–
Paris Marais	21.48%	127.99%	–	(2.75%)
Paris Rive Gauche	18.97%	–	–	16.79%
Central Business District	13.99%	11.49%	21.33%	23.06%
Western Paris Business District	27.74%	(12.31%)	–	31.44%

* Based on independent valuations

** Resulting from changes in both portfolio structure and market values

Value creation

NAV per share amounted to €53.0 at 31 December 2006, an increase of 28.4% compared with the previous year-end. Value created in 2006 came to €14.90 per share, an increase of 132.8% over the previous year:

Increase in NAV	€11.70 per share
2006 dividend*	€3.20 per share
Value created	€14.90 per share

* Recommended dividend, including the interim dividend of €0.70 and a final dividend of €2.50 per share

— Property portfolio at 31 December 2006

Total portfolio at 31 December 2006

	Surface area attributable to the Group	Offices (useable area)	Retail (useable area)	Hotels (useable area)	Cinemas/Theatres (useable area)	Residential (useable area)	Staff restaurants and other infrastructure	Common areas and other	Parkings spaces (Number)	2006 rental attributable to the Group (€ thousands)
Freehold property	336,015 sq. m.	223,241 sq. m.	41,391 sq. m.	7,594 sq. m.	9,466 sq. m.	4,901 sq. m.	28,507 sq. m.	20,915 sq. m.	2,104	€130,776 K
Properties subject to financial leases	65,273 sq. m.	54,883 sq. m.	–	–	–	–	5,509 sq. m.	4,881 sq. m.	916	€22,727 K
Properties currently for sale	–	–	–	–	–	–	–	–	–	€20 K
Properties sold during the year	–	–	–	–	–	–	–	–	–	€8,015 K
TOTAL AT 31 DECEMBER 2006	401,288 sq. m.	278,124 sq. m.	41,391 sq. m.	7,594 sq. m.	9,466 sq. m.	4,901 sq. m.	34,016 sq. m.	25,795 sq. m.	3,045	€161,538 K

For reference:

Properties accounted for by the equity method

		–	–	–	–	945 sq. m.	396 sq. m.	121	–	
TOTAL AT 31 DECEMBER 2006	414,305 sq. m.	289,800 sq. m.	41,391 sq. m.	7,594 sq. m.	9,466 sq. m.	4,901 sq. m.	34,961 sq. m.	26,192 sq. m.	3,166	€161,538 K

Freehold property

	Surface area attributable to the Group	Offices (useable area)	Retail (useable area)	Hotels (useable area)	Cinemas/Theatres (useable area)	Residential (useable area)	Staff restaurants and other infrastructure	Common areas and other	Parkings spaces (Number)	2006 rental attributable to the Group (€ thousands)
1st 2, place du Palais-Royal CALL/LDA complex	47,801 sq. m. 47,801 sq. m.	28,219 sq. m. 28,219 sq. m.	7,090 sq. m. 7,090 sq. m.	–	–	–	3,929 sq. m. 3,929 sq. m.	8,563 sq. m. 8,563 sq. m.	234 234	€17,875 K €17,875 K
1st rue de Richelieu	38,207 sq. m.	24,392 sq. m.	–	–	–	–	5,095 sq. m.	8,720 sq. m.	52	€14,497 K
1st 247, rue Saint-Honoré	22,024 sq. m.	–	16,319 sq. m.	–	–	–	5,705 sq. m.	–	–	€58 K
2nd 6, rue de Hanovre	4,761 sq. m.	3,003 sq. m.	–	–	–	61 sq. m.	1,697 sq. m.	–	–	€1,295 K
3th 62, rue Beaubourg	3,810 sq. m.	2,844 sq. m.	597 sq. m.	–	–	–	119 sq. m.	250 sq. m.	18	€1,422 K
7th 103, rue de Grenelle	18,403 sq. m.	16,627 sq. m.	253 sq. m.	–	–	–	1,523 sq. m.	–	–	€49 K
8th Washington Plaza (66%)	31,084 sq. m.	26,275 sq. m.	303 sq. m.	–	–	–	2,979 sq. m.	1,527 sq. m.	433	€23,869 K
8th 6, avenue Vélasquez	1,496 sq. m.	1,323 sq. m.	–	–	–	–	173 sq. m.	–	3	€357 K
8th 63, boulevard Haussmann	2,998 sq. m.	2,660 sq. m.	168 sq. m.	–	–	–	170 sq. m.	–	–	€260 K
8th 104-110, boulevard Haussmann (50%)	5,949 sq. m.	4,678 sq. m.	908 sq. m.	–	–	–	364 sq. m.	–	–	€57 K
8th 19, boulevard Malesherbes (50%)	1,484 sq. m.	1,086 sq. m.	–	–	–	331 sq. m.	68 sq. m.	–	23	€597 K
8th Galerie des Champs-Élysées (50%)	2,831 sq. m.	–	2,831 sq. m.	–	–	–	–	–	130	€3,096 K
8th 90, avenue des Champs-Élysées (50%)	3,018 sq. m.	3,018 sq. m.	–	–	–	–	–	–	–	€1,037 K
8th 92, avenue des Champs-Élysées	7,641 sq. m.	4,209 sq. m.	1,949 sq. m.	–	1,447 sq. m.	–	–	36 sq. m.	–	€3,784 K
8th 1 à 6, rue Paul Cézanne (50%)	14,511 sq. m.	12,223 sq. m.	908 sq. m.	–	–	–	628 sq. m.	752 sq. m.	63	€7,723 K
8th 5, rue Alfred de Vigny	2,698 sq. m.	2,698 sq. m.	–	–	–	–	–	–	12	–
9th Edouard VII	54,119 sq. m.	28,112 sq. m.	7,331 sq. m.	3,125 sq. m.	8,019 sq. m.	4,509 sq. m.	3,023 sq. m.	–	509	€25,338 K
9th 12, boulevard des Capucines	2,243 sq. m.	–	2,243 sq. m.	–	–	–	–	–	–	€2,054 K
16th 38-44, avenue Bugeaud	–	–	–	–	–	–	–	–	1	–
16th 46, avenue Kléber (50 %)	1,677 sq. m.	1,560 sq. m.	–	–	–	–	117 sq. m.	–	3	€1,044 K
17th 11, rue de Prony	2,661 sq. m.	2,521 sq. m.	–	–	–	–	41 sq. m.	99 sq. m.	24	€1,313 K
Neuilly - 176, avenue Charles de Gaulle	7,381 sq. m.	5,621 sq. m.	492 sq. m.	–	–	–	426 sq. m.	842 sq. m.	145	€3,003 K
Puteaux - 12, cours Michelet - Tour Coface	28,418 sq. m.	26,716 sq. m.	–	–	–	–	1,702 sq. m.	–	235	€12,065 K
La Défense - 18, avenue d'Alsace - Les Miroirs	19,874 sq. m.	19,432 sq. m.	–	–	–	–	442 sq. m.	–	220	€8,756 K
Issy-les-Moulineaux - 39-51, rue Pierre Poli	6,332 sq. m.	6,026 sq. m.	–	–	–	–	306 sq. m.	–	–	€760 K
Saint-Germain - 21, rue Thiers Pavillon Henri IV (hôtel)	4,596 sq. m.	–	–	4,469 sq. m.	–	–	–	127 sq. m.	–	€466 K
TOTAL	336,015 sq. m.	223,241 sq. m.	41,391 sq. m.	7,594 sq. m.	9,466 sq. m.	4,901 sq. m.	28,507 sq. m.	20,915 sq. m.	2,104	€130,776 K

Properties subject to financial leases

	Surface area attributable to the Group	Offices (useable area)	Retail (useable area)	Hotels (useable area)	Cinemas/Theatres (useable area)	Residential (useable area)	Staff restaurants and other infrastructure	Common areas and other	Parkings spaces (Number)	2006 rental attributable to the Group (€ thousands)
12° Quai de la Rapée	22,670 sq. m.	19,362 sq. m.	–	–	–	–	3,118 sq. m.	190 sq. m.	366	€12,467 K
17° 131, avenue de Wagram Boulogne - 46, quai Le Gallo	9,186 sq. m. 33,417 sq. m.	7,100 sq. m. 28,420 sq. m.	–	–	–	–	1,100 sq. m. 1,292 sq. m.	986 sq. m. 3,705 sq. m.	124 426	€3,702 K €6,558 K
TOTAL	65,273 sq. m.	54,883 sq. m.	–	–	–	–	5,509 sq. m.	4,881 sq. m.	916	€22,727 K

Properties currently for sale (part unsold at 31 December 2006)

	Surface area attributable to the Group	Offices (useable area)	Retail (useable area)	Hotels (useable area)	Cinemas/Theatres (useable area)	Residential (useable area)	Staff restaurants and other infrastructure	Common areas and other	Parkings spaces (Number)	2006 rental attributable to the Group (€ thousands)
8° Ilot Saint-Augustin	–	–	–	–	–	–	–	–	10	€20 K
8° 1, rue de Stockholm	–	–	–	–	–	–	–	–	15	–
TOTAL	–	–	–	–	–	–	–	–	25	€20 K

For reference:

Properties accounted for by the equity method

	Surface area attributable to the Group	Offices (useable area)	Retail (useable area)	Hotels (useable area)	Cinemas/Theatres (useable area)	Residential (useable area)	Staff restaurants and other infrastructure	Common areas and other	Parkings spaces (Number)	2006 rental attributable to the Group (€ thousands)
16° 96, avenue d'Iéna (25 %)	2,214 sq. m.	1,824 sq. m.	–	–	–	–	105 sq. m.	285 sq. m.	78	–
La Défense - Tour Aréva (25 %)	2,583 sq. m.	2,465 sq. m.	–	–	–	–	118 sq. m.	–	9	–
La Défense - Tour Aréva (15 %)	8,220 sq. m.	7,387 sq. m.	–	–	–	–	722 sq. m.	112 sq. m.	34	–
La Défense - Cumul Tour Aréva	10,803 sq. m.	9,852 sq. m.	–	–	–	–	839 sq. m.	112 sq. m.	43	–
TOTAL	13,017 sq. m.	11,676 sq. m.	–	–	–	–	945 sq. m.	396 sq. m.	121	–

For reference:

Properties sold during the year

2° 91-93-95, boulevard de Sébastopol	€2,441 K
3° 82, rue Beaubourg	€382 K
7° Vauban	€8 K
8° 3, rue La Boétie	€1,958 K
8° 39-41, rue de Rome - 10, rue de Stockholm	€79 K
8° 118, avenue des Champs-Élysées (50 %)	€1,430 K
16° 87-89, rue de la Faisanderie	€77 K
17° 12-14, avenue de la Grande-Armée	€1,639 K
TOTAL	€8,015 K

Stock Market

SFL shares are quoted on the Premier Marché of Euronext Paris:

ISIN code: 0000033409

Reuters: FLYP.PA

Bloomberg: FLY.FP

Website

www.fonciere-lyonnaise.com

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Investor Information

The press releases and annual reports published by Société Foncière Lyonnaise can be downloaded from the Company's website. Printed versions will be sent on request.

2007 Investor Calendar

Annual General Meeting: 9 May 2007

Payment of the dividend: 15 May 2007

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