2005

Financial report

SFL

Societe Fonciere Lyonnaise

Contents

Key Figures and Market Analysis

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A - Key Figures

SUMMARY CONSOLIDATED PROFIT AND LOSS ACCOUNT *(in thousands of euros)*

	IFRS		French Gaap		
	2005	**2004**	**2004**	**2003**	
Net Property Rentals	**145,226**	**147,118**	**177,128**	**216,758**	**Net turnover**
Property rentals	153,308	156,803	154,777	146,427	Property rentals
Property expenses, net of recoveries	(8,082)	(9,685)	19,973	67,797	Sales of apartments from stock
			2,378	2,534	Service revenue
Operating profit	**92,981**	**83,868**	**107,029**	**107,934**	**Operating profit before interest**
Profit on disposal of investment properties	**27,647**	**22,218**	**-**	**-**	
Margin on sales as a property trader	**4,159**	**4,251**	**-**	**-**	
Finance costs, net	**(34,811)**	**(17,068)**	**(13,591)**	**(54,509)**	**Net interest expense**
Share of profits of associates	**1,378**	**2,354**	**-**	**-**	
	-	**-**	**93,439**	**53,426**	**Operating profit after interest**
	-	**-**	**9,812**	**(4,701)**	**Net non-operating income (expense)**
Profit before income tax	**91,698**	**92,125**	**-**	**-**	
Income tax expense	**2,959**	**(2,960)**	**(2,961)**	**8,906**	**Income tax expense**
	-	**-**	**2,328**	**778**	**Equity in profits of companies accounted for by the equity method**
Minority interests	**(5,196)**	**(2,973)**	**(4,199)**	**(3,525)**	**Minority interests**
Profit attributable to equity holders of the parent	**89,462**	**89,151**	**98,418**	**54,884**	**Net profit**

CONSOLIDATED CURRENT CASH FLOW

(100% basis – in thousands of euros)

	2005	2004	2004	2003
	IFRS	IFRS	French Gaap	French Gaap
EBITDA *before margin on sales as a property trader*	130,800	121,786	130,340	121,503
Margin on sales as a property trader	4,159	4,251	4,251	15,527
EBITDA including margin on sales as a property trader	**134,958**	**126,037**	**134,591**	**137,030**
IFRS adjustments to EBITDA	(8,463)	(1,536)	–	–
EBITDA including margin on sales as a property trader, before IFRS adjustments	**126,495**	**124,500**	**134,591**	**137,030**
Finance costs, net before provision movements	**(31,016)**	**(38,720)**	**(35 243)**	**(51,098)**
IFRS adjustments to finance costs, net	7,642	3,211	–	–
Current cash flow before tax	**103,121**	**88,991**	**99,348**	**85,932**
Current cash flow before tax *excluding margin on sales as a property trader*	98,962	84,740	95,097	70,405

Note: in addition to the adjustments shown above, certain items have been reclassified in the IFRS accounts compared with the French Gaap format.

CONSOLIDATED PER SHARE DATA *(in euros)*

	2005	2004	2004	2003
	IFRS	IFRS	French Gaap	French Gaap
EBITDA *before margin on sales as a property trader* (1)	3.0	3.3	3.5	3.4
EBITDA including margin on sales as a property trader (1)	3.1	3.4	3.6	3.8
EBITDA including margin on sales as a property trader before IFRS adjustments (1)	2.9	3.4	3.6	3.8
Current cash flow before tax (1)	**2.4**	**2.4**	**2.7**	**2.4**
Current cash flow before tax *excluding margin on sales as a property trader* (1)	2.3	2.3	2.6	2.0
Earnings per share (1)	**2.1**	**2.4**	**2.7**	**1.5**
Net dividend per share	**2.1**	**2.05**	**2.05**	**1.8**
Number of shares at 31 December *(thousands)*	43,064	42,987	42,987	35,809
Average number of shares *(thousands)*	43,034	37,114	37,114	35,783

(1) Calculated on the basis of the average number of shares outstanding during the year.

PROPERTY PORTFOLIO *(in thousands of euros)*

At 31 December	2005	2004	2003
Appraisal value (Group share - excluding transfer costs)	2,615	2,406	2,227 (1)
Purchases for the period	159	539	77
Sales for the period (including sales of apartments from stock)	143	520 (1)	381

(1) Including Village Victor Hugo.

B - Market analysis

1. THE OFFICE RENTAL MARKET IN THE PARIS AREA

1-1. A robust but uneven market

While dynamic, the property market was shaped by paradoxical trends in 2005. Volumes were very high and rental demand came from a variety of sources, yet rents continued to decline and let properties were quickly replaced by new properties coming onto the market, resulting in significant stocks at the end of the year. The overall trend was towards optimising existing office facilities, by rationalising and modernising available space, instead of expanding.

Volumes

For the office rental market, 2005 was the best year since 2001. A total of 2,165,000 square meters were let, 12% more than in 2004. A third of this volume was placed during the fourth quarter, a possible sign that the economy is about to pick up. These market conditions fuelled an increase in pre-marketing activity and a fall in letting up periods, particularly for new property where the average period is now around 12 months.

Products

Demand for new and restructured properties remained strong, accounting for 42% of total letting volume. The sharpest increases were for 500 to 3,000-square meter units (representing 32% of total volume, up 22% over 2004) and for 3,000 to 10,000-square meter units (26% of total volume, up 25% over 2004), which offer greater scope for multi-tenant occupancy. The volume of very large transactions remained stable, with 62 leases signed on properties of more than 5,000 square meters, representing 35% of total letting volume.

Locations

The steady decline in rents since 2002 and the modernisation of centrally-located buildings drove a strong revival in interest in the traditional prime locations (Central Business District and Western Paris) and in prime properties. The Western Paris business district, the Central Business District and La Défense were once again the biggest markets in 2005, together accounting for 65% of transactions.

Stocks

The stock of properties available for immediate occupancy contracted by 7% to 2.8 million square meters, an equivalent level to that in 1997. The volume of office space certain of coming on the market in the future remained stable at 4 million square meters, equivalent to the 1998 level. The proportion of the total represented by new and restructured properties increased slightly, reflecting the ongoing modernisation of office stocks. An analysis of stocks by location reveals contrasting situations. In the traditional office markets (Central Business District and Western Paris), the stock of properties available for immediate occupancy represents less than annual letting volume, while stocks in the inner suburbs to the North and South of the capital far exceed the local take-up rate. Vacancy rates declined overall, to 5.8% at the end of 2005 from 6.3% the year before, with the biggest falls recorded in La Défense and the Central Business District.

Rents

After four years of decline, average nominal rents stabilised at €299 per square meter per year. Today, nominal rents are at roughly the same level, in real terms, as in 1999. At the end of the year, there were signs of a recovery in nominal rents for large prime properties in the Central Business District and La Défense, combined with a general extension of lease periods without an escape clause for major transactions – 70% of new leases on properties in excess of 5,000 square meters were for an initial non-cancellable period of 9 years.

1-2. A promising outlook

The economic outlook for 2006 is good, with forecasts pointing to faster growth, lower unemployment, increased job opportunities for managers, recruitment drives by IT services firms and improved corporate earnings. For the property market, this should lead to a transaction volume on a par with or better than in 2005. Rents should remain reasonable, far below those in London, and no significant increases are expected. Prospective tenants are likely to be increasingly well-informed and even more demanding, accentuating a trend that was already observable last year. In the prime segment, demand will focus on high quality, rational buildings suitable for multi-tenant occupancy.

2. THE BUY-TO-LET MARKET IN FRANCE

2-1. A record year

Europe's largest market in terms of the number of office properties and the second most popular capital after London, Paris is a magnet for property investors. A key feature of the Paris market remains the wide variety of players and products. 2005 saw an increase in speculative programmes and in the amount of liquid resources invested in the property market, as well as a rise in prices combined with lower yields.

Volumes (offices, warehouses, retail)

With €17 billion invested in commercial property, up 31% over 2004, France is Europe's second largest market behind the United Kingdom. The market in the Paris area remained exceptionally buoyant in 2005, with volumes up 13% over 2004 at €11.6 billion. The number of transactions rose by 18.5% and the average deal size increased to €23 million. During the year, there were no less than 29 transactions at more than €100 million, including 20 in excess of €200 million.

Products

The market in the Paris area continued to be dominated by office properties, which accounted for 84% of transactions compared with 8.5% for retail properties and 7.5% for warehouses. In France as a whole, the proportion of the market represented by offices declined, however, to 68% of the total from 78% in 2004, while retail properties and warehouses gained ground. Significant new markets emerged during the year, offering attractive diversification opportunities, such as hotels (ACCOR, Intercontinental), nursing homes, residential communities, retail parks and vacation centres (Center Parcs, Club Med).

Market players

In the Paris area, selective asset sales by property companies were instrumental in creating dynamic supply, accounting for 75% of transactions. Despite the market entry of players from other European countries, French investors continued to lead the field, accounting for 36.5% of total volume. North Americans were the second biggest players, while the number of German investors continued to decline. Pan-European funds became increasingly active and Paris started to attract investors from new countries, such as Italy, Ireland, the Middle and Far East, Australia and Israel. With the SIIC (REIT-style) regime acting as a significant growth lever in the buy-to-let market since 2003, French property companies remained the largest domestic investors, spending a total of €2.45 billion.

The main investment markets in the Paris area

The Central Business District was the largest market, at €2.9 billion or 23% of total volume (up 68% over 2004), followed by Western Paris at €1.9 billion or 12% and La Défense at €1 billion or 8%.

Prices

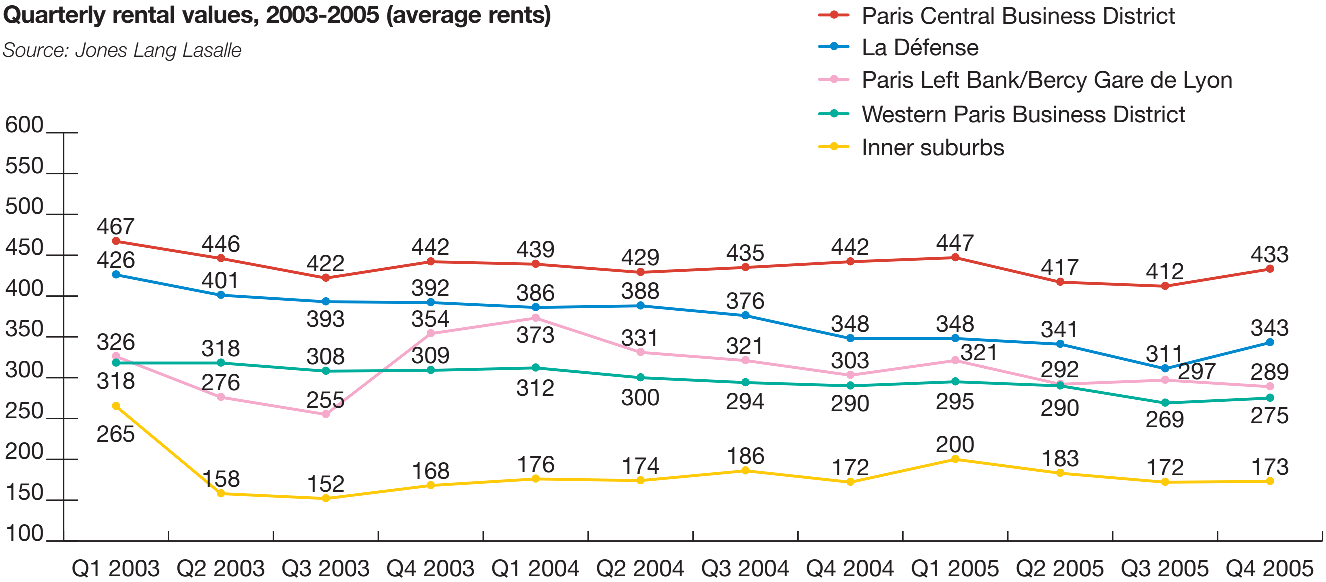
The imbalance between supply and demand led to a rapid drop in yields. Asset prices depend as much on the quality of cash flows, the length of the lease and the quality of the covenant as on the property's location and technical services. We are seeing a marked decline in yields on properties let under longer leases, combined with a sharp reversal of the usual relative values. Rental values have fallen at a slower rate than yields, leading to an increase in prices per square meter. For "prime prime" properties, we are now seeing prices in the region of €15,000 per square meter. In real terms, this is close to the levels observed in 1990, in a vastly different context.

2-2. A new market dynamic

The buy-to-let market should continue to perform very well in 2006, with investment volumes looking set to break new records. The many and varied players, new entrants, high asset turnover rates and the number of new and upcoming investment vehicles (SIIC, OPCI, REIT) will all help to boost underlying demand. The quantity and quality of properties on the market will depend to a large extent on selective asset sales by property companies, as well as on moves by companies and institutions to remove property assets from their balance sheets, which have been fairly limited in France despite the favourable tax environment created by "SIIC 2" and "SIIC 3". The search for higher yields is expected to lead to increased investment in specialist and niche properties, as well as in the regional property markets and in speculative programmes. With this trend, companies and funds specialised by product and/or by location should outperform non-specialist vehicles.

Quarterly rental values, 2003-2005 (average rents)

Source: Jones Lang Lasalle



FINANCIAL STATEMENTS*

Consolidated Financial Statements
year ended 31 december 2005

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* The financial statements were approved for publication by the Board of Directors on 2 February 2006.

A - Consolidated Balance Sheet

(in thousands of euros)

ASSETS		31/12/2005	31/12/2004
	Notes section E	Net	Net
Intangible assets	*6-1*	1,784	1,990
Property and equipment	*6-2*	18,228	15,878
Investment properties	*6-3*	2,166,536	2,092,088
Investments in associates	*6-4*	10,123	12,999
Financial assets	*6-5*	37,070	42,016
Other non-current assets	*6-6*	3,837	2,763
Total non-current assets		**2,237,578**	**2,167,734**
Inventories and work in progress	*6-7*	845	14,972
Trade and other receivables	*6-8*	53,750	39,559
Other current assets	*6-9*	3,805	–
Cash equivalents	*6-10*	26,659	71,120
Cash	*6-10*	2,272	5,514
Total current assets		**87,331**	**131,165**
Investment properties held for sale	*6-11*	103,537	100,624
Other assets held for sale		–	–
Total assets held for sale		**103,537**	**100,624**
TOTAL ASSETS		**2,428,446**	**2,399,523**

EQUITY AND LIABILITIES

EQUITY AND LIABILITIES	Notes section E	31/12/2005 Net	31/12/2004 Net
Share capital		86,128	85,975
Reserves		1,203,117	1,225,227
Profit attributable to equity holders of the parent		89,461	89,151
Total equity attributable to equity holders of the parent		**1,378,706**	**1,400,353**
Minority interests		46,480	45,656
Total minority interests		**46,480**	**45,656**
Total equity	*6-12*	**1,425,186**	**1,446,009**
Long-term borrowings and other interest-bearing debt	*6-13*	803,293	556,279
Long-term provisions	*6-14*	3,074	1,835
Deferred tax liabilities	*6-15*	8,381	17,288
Other long-term tax liabilities	*6-16*	5,112	48,855
Other non-current liabilities	*6-17*	16,186	17,316
Total non-current liabilities		**836,046**	**641,573**
Trade and other payables	*6-18*	18,261	15,191
Short-term borrowings and other interest-bearing debt	*6-13*	84,146	276,494
Short-term provisions	*6-14*	3,777	2,725
Other current liabilities	*6-19*	61,030	17,530
Total current liabilities		**167,214**	**311,940**
Liabilities related to other assets held for sale		–	–
Total liabilities related to assets held for sale		**–**	**–**
TOTAL EQUITY AND LIABILITIES		**2,428,446**	**2,399,523**

B - Consolidated Profit and Loss Account

(in thousands of euros)

	Notes section E	31/12/2005	31/12/2004
Property rentals		153,308	156,803
Property expenses, net of recoveries		(8,082)	(9,685)
Net property rentals	*6-20*	**145,226**	**147,118**
Service and other revenues	*6-21*	2,430	2,379
Other income	*6-22*	5,920	7,846
Depreciation and amortisation expense	*6-23*	(34,631)	(36,143)
Provision expense, net	*6-24*	(3,188)	(1,775)
Employee benefits expense	*6-25*	(10,800)	(14,811)
Other expenses	*6-26*	(11,976)	(20,746)
Operating profit		**92,981**	**83,868**
Profit on disposal of investment properties		**–**	**–**
Profit on disposal of assets held for sale	*6-27*	**27,647**	**22,218**
Margin on sales as a property trader	*6-28*	**4,159**	**4,251**
Profit on disposal of other assets	*6-29*	**345**	**(538)**
Investment income	*6-30*	4,297	979
Share of profits of associates		1,377	2,354
Finance costs, net	*6-31*	(35,282)	(37,893)
Gains and losses from remeasurement at fair value of financial instruments	*6-32*	(1,073)	–
Discounting adjustments to receivables and payables		(1,453)	(3,211)
Interest on receivables	*6-33*	2,495	1,354
Provision expense (financial assets), net	*6-34*	(3,795)	21,652
Other financial income and expenses		–	51
Profit before income tax		**91,698**	**95,085**
Income tax expense	*6-35*	2,959	(2,960)
Profit for the period		**94,658**	**92,125**
Minority interests		(5,196)	(2,974)
Profit attributable to equity holders of the parent		**89,462**	**89,151**

	31/12/2005	31/12/2004
Basic earnings per share attributable to ordinary equity holders of the parent	2.08	2.07
Diluted earnings per share attributable to ordinary equity holders of the parent	2.08	2.07
Basic earnings per weighted average share attributable to ordinary equity holders of the parent	2.08	2.40
Diluted earnings per weighted average share attributable to ordinary equity holders of the parent	2.08	2.40

C - Consolidated Statement of Cash Flows

(in thousands of euros)

	31/12/2005	31/12/2004	31/12/2004
	IFRS	IFRS	GAAP French
Cash flows from operating activities:			
Profit for the period	89,462	89,152	98,419
Depreciation and amortisation expense	35,338	36,267	26,999
Net additions to/(reversals of) provisions	(6,389)	(16,414)	(16,904)
Net (gains)/losses from disposals of assets, after tax	(27,993)	(26,473)	(25,935)
Discounting adjustments and valuation (gains)/losses on financial instruments	2,526	–	–
Minority interests in profit for the period	5,196	2,974	4,199
Government grants recognised in profit	–	–	–
Cash flow	**98,141**	**85,506**	**86,778**
Change in inventories and work in progress	14,127	15,162	15,162
Change in trade receivables	(10,869)	1,869	3,808
Change in other receivables	(5,329)	3,425	3,425
Change in trade payables	697	(10,568)	(10,568)
Change in other payables	(3,451)	(41,214)	(44,425)
Change in working capital	**(4,825)**	**(31,326)**	**(32,598)**
Net cash provided by operating activities	**93,315**	**(54,180)**	**54,180**
Cash flows from investing activities:			
Acquisitions of and improvements to investment properties	(189,972)	(561,013)	(561,013)
Acquisitions of intangible assets and property and equipment	(313)	(1,979)	(1,979)
Proceeds from sales of treasury shares	32,154	6,006	6,006
Acquisitions of subsidiaries, net of the cash acquired	(19,721)	–	–
Proceeds from disposals of investment properties	124,893	209,004	209,004
Proceeds from disposals of subsidiaries, net of the cash sold	–	–	–
Other cash inflows and outflows	(2,113)	(434)	(434)
Net cash used by investing activities	**(55,071)**	**(348,416)**	**(348,416)**
Cash flows from financing activities:			
Proceeds from the issue of ordinary shares	1,883	7,006	7,006
Dividends paid to equity holders of the parent	(87,870)	(90,780)	(90,780)
Dividends received from associates	6,104	767	767
Proceeds from new borrowings	134,857	545,437	545,437
Repayments of borrowings	(143,854)	(253,204)	(253,204)
Other	(1,735)	(18,205)	(18,205)
Net cash (used) provided by financing activities	**(90,615)**	**191,021**	**191,021**
Net change in cash and cash equivalents	**(52,371)**	**(103,215)**	**(103,215)**
Cash and cash equivalents at beginning of period	73,063	176,278	176,278
Cash and cash equivalents at end of period	20,692	73,063	73,063
Net change in cash and cash equivalents	**(52,371)**	**(103,215)**	**(103,215)**

D - 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 interests
Equity at 31 December 2003	**71,618**	**583,067**	**208,887**	**(35,406)**	**363,671**	**1,191,837**	**45,168**
Dividends paid to equity holders of the parent	–	–	–	–	(61,462)	(61,462)	–
Profit transferred to equity holders of SCI Washington	–	–	–	–	–	–	(3,699)
Equity at 1 January 2004 after appropriation of profit	**71,618**	**583,067**	**208,887**	**(35,406)**	**302,209**	**1,130,375**	**41,469**
Profit attributable to equity holders of the parent	–	–	–	–	89,151	89,151	2,974
Sales of treasury shares	–	–	–	4,990	–	4,990	–
Gains on sales of treasury shares	–	–	–	610	–	610	–
Depreciation of investment properties	–	–	–	–	(1,213)	(1,213)	1,213
Par value of shares issued upon conversion of bonds	13,856	–	–	–	–	13,856	–
Premiums on shares issued upon conversion of bonds	–	195,274	–	–	–	195,274	–
Par value of shares issued upon exercise of options	501	–	–	–	–	501	–
Premiums on shares issued upon exercise of options	–	6,505	–	–	–	6,505	–
Adjustment to costs charged against the merger premium in prior year	–	–	–	–	877	877	–
Adjustment of the 2003 revaluation of the Prony-Wagram property	–	–	–	–	(4,719)	(4,719)	–
Adjustment of the 2003 revaluation of the Edouard VII property	–	–	–	–	(3,181)	(3,181)	–
Adjustment of the 2003 revaluation of the 89 rue de la Faisanderie property	–	–	–	–	(608)	(608)	–
Adjustment of the 2003 revaluation of Vendôme-Rome shares	–	–	–	–	(1,216)	(1,216)	–
Other adjustments to 2003 revaluations	–	–	–	–	(1,280)	(1,280)	–
Other movements	–	205,694	(164,414)	–	(41,531)	(251)	–
Interim dividend paid to equity holders of the parent	–	–	–	–	(29,318)	(29,318)	–
Equity at 31 December 2004	**85,975**	**990,540**	**44,473**	**(29,806)**	**309,171**	**1,400,353**	**45,656**

	Share capital	Share premium account	Revaluation reserve	Treasury shares	Other reserves	Equity attributable to equity holders of the parent	Minority interests
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)**	**251,320**	**1,342,502**	**41,284**
Movements for the year	–	–	–	–	–	–	–
Profit attributable to equity holders of the parent	–	–	–	–	89,462	89,462	5,196
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	–
Gains 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	–
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**	**270,664**	**1,378,706**	**46,480**

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 (IAS), International Financial Reporting Standards (IFRS) and related interpretations endorsed by the European Union. They include pro forma comparative information for 2004 prepared in accordance with the same standards, except for IAS 32 and IAS 39 which, in line with the option available to first-time adopters under IFRS 1, have been applied with effect from 1 January 2005 (see note 6-42 Transition to IFRS).

1-2. Accounting conventions

The consolidated financial statements have been prepared according to the cost model, except for derivative financial instruments and available-for-sale financial assets which have been measured using the fair value model. The carrying amount of hedging instruments is adjusted to reflect changes in the fair value of the underlying risks.

The consolidated financial statements are presented in thousands of euros.

1-3. Published standards, interpretations and amendments that were not applicable at 31 December 2005

The Group has not elected for early adoption of the following standards, interpretations and amendments to existing standards that are applicable on or after 1 January 2006:

Amendment to IAS 19 "Actuarial Gains and Losses, Group Plans and Disclosures", applicable as from 1 January 2006, which introduces an additional recognition option for actuarial gains and losses. The amendment requires additional disclosures for multi-employer plans where the information available does not permit their recognition as defined benefit plans. The amendment also requires certain other additional disclosures. Since the Group does not plan to change its method of accounting for actuarial gains and losses and does not participate in any multi-employer plans, the effects of applying this amendment will be limited to certain changes in the form and level of detail of the disclosures made in the notes to the consolidated financial statements. The amendment to IAS 19 will be adopted by the Group as from 1 January 2006.

Amendment to IAS 39 "Cash Flow Hedge Accounting of Forecast Intragroup Transactions", applicable as from 1 January 2006. Under this amendment, the foreign currency risk of a highly probable forecast intragroup transaction may qualify as a hedged item in consolidated financial statements provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated profit or loss. This amendment has no impact on the Group's consolidated financial statements, because no intragroup transactions denominated in foreign currencies were carried out in 2005 or 2004.

Amendment to IAS 39 "The Fair Value Option", applicable as from 1 January 2006. This amendment modifies the definition of financial instruments classified as at fair value through profit or loss and restricts the use of this classification for financial liabilities. The Group is currently able to apply the new classification criteria and does not expect the amendment to have a material impact on the classification of financial instruments carried on the balance sheet. The amendment will be adopted as from 1 January 2006.

Amendment to IAS 39 and IFRS 4 "Financial Guarantee Contracts", applicable as from 1 January 2006. Under this amendment, financial guarantee contracts other than those that have previously been designated as insurance contracts must be initially recognised at fair value and subsequently measured at the higher of (a) the unamortised balance of deferred acquisition costs and (b) the cost of settling the commitment at the balance sheet date. The Group has reviewed this amendment to IAS 39 and considers that it is not applicable to SFL.

IFRS 7 "Financial Instruments: Disclosures" and amendment to IAS 1 "Capital Disclosures", applicable as from 1 January 2007. The additional disclosures to be made by the Group will mainly concern market risk sensitivity analyses and the capital disclosures required under the amendment to IAS 1. IFRS 7 and the amendment to IAS 1 will be adopted as from 1 January 2007.

IFRIC 4 "Determining whether an Arrangement contains a Lease", applicable as from 1 January 2006. IFRIC 4 stipulates that determining whether an arrangement is, or contains, a lease should be based on the substance of the arrangement. This requires assessing whether (a) fulfilment of the arrangement is dependent on the use of a specific asset and (b) the arrangement conveys a right to use the asset. The Group intends to assess the potential impact of IFRS 4 on its rental and sales activities.

The following standards and interpretations are not applicable to SFL due to the nature of its business:

IFRIC 6 "Liabilities arising from Participating in a Specific Market —Waste Electrical and Electronic Equipment", applicable as from 1 December 2005.

IFRS 6 "Exploration for and Evaluation of Mineral Resources", applicable as from 1 January 2006.

IFRIC 5 "Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds", applicable as from 1 January 2006.

1-4. Basis of consolidation

The consolidated financial statements include the financial statements of SFL and its subsidiaries for the year ended 31 December 2005. 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 and owner-occupied property. 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 Le 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.

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 property

Investment property, defined as property held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both, is accounted for in accordance with IAS 40.

Under IAS 40, investment properties are initially recognised at cost, including acquisition expenses, and are subsequently measured using either the fair value model, with changes in fair value recognised in profit, or the cost model provided for in IAS 16.

Investment properties under construction or renovation are measured in accordance with IAS 16. When the work is completed, they are accounted for in accordance with IAS 40.

SFL has chosen to apply the cost model, which is also used by the Group's majority shareholder Inmobiliaria COLONIAL. If SFL decides, at a future date, to apply the fair value model, all of its investment properties will have to be measured at fair value, with changes in fair value recognised in profit.

Investment properties are reclassified as "Assets held for sale" in accordance with IFRS 5 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 qualified experts.

Definition of the fair value model (for information)

The fair value of investment property is the amount (excluding transaction costs) at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction. Fair value must reflect 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.

Definition of the cost model

The cost model consists of measuring investment property at cost less any accumulated depreciation and any accumulated impairment losses.

As allowed under IFRS 1, in the opening IFRS balance sheet at 1 January 2004, investment properties were measured at the amount resulting from the revaluation carried out on 1 January 2003 in connection with the change to the SIIC regime, which was comparable to the properties' fair value at that date.

In order to disclose financial information that can be compared with that of the main listed property companies that have chosen to use the fair value model, pro forma information on the fair values of investment properties is also provided.

Investment properties are derecognised on disposal or when they are permanently withdrawn from use and no future economic benefits are expected from their disposal. Gains or losses arising from the retirement or disposal of investment properties are recognised in profit for the period of retirement or disposal.

Application of the components method to investment properties

The useful lives of separate parts of each property in the portfolio have been determined from technical data produced by independent experts and reviewed by the SFL technical department. Based on this analysis, properties have been broken down into the following component parts for depreciation purposes:

– Shell
– Roof and fencing
– Fixtures and installations
– Fittings and equipment.

Provisions for major repairs recorded in the French GAAP accounts have been reversed by reducing the carrying value of the corresponding parts of the properties.

The method used by the technical experts consisted of estimating the cost of rebuilding or replacing each part of the property, its degree of wear and tear and its useful life. These technical data were used by SFL to determine the proportion of each property's value represented by each component part. This ratio was then applied to the revaluations at 1 January 2003 that were used as deemed cost at the IFRS transition date. The remaining useful life of each component part was used as the basis for determining depreciation charges by the straight-line method.

The experts' reports were reviewed by the SFL Technical Department and certain adjustments were made based on the Department's detailed knowledge of the properties and in order to align the various experts' approaches.

Considering the high technical and general quality of the properties, the estimated useful lives of structural components were extended, while the useful lives of technical installations were shortened to reflect SFL's high level maintenance and repair practices.

The technical experts' valuations of certain buildings were different from the valuations made by the valuers (based on a breakdown between the land and the building). The breakdown of valuations between the land and the building was therefore adjusted in some cases and residual values were calculated for certain properties at the end of the depreciation period, as provided for in IFRS. These adjustments consisted of reclassifying €67,108 thousand to land and deducting residual values totalling €414,454 thousand from the depreciation base. The impact of these adjustments on depreciation expense was not material.

Depreciation

Investment properties are systematically depreciated over their estimated useful lives, by a method that reflects the pattern in which their future economic benefits are expected to be consumed. Each part of an investment property with a cost that is significant in relation to the total cost of the property is depreciated separately. Transaction costs are allocated between the land and the building, with the portion allocated to the building being depreciated over the useful life of the shell.

The useful lives of the component parts of investment properties are as follows, except for certain specific cases which do not materially affect depreciation expense:

Shell	100 to 125 years
Roof and fencing	20 to 125 years
Fixtures and installations	10 to 50 years
Fittings and equipment	5 to 40 years

Depreciation is calculated based on:
– The useful lives of the component parts of the property. 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 over its respective useful life.
– The cost of the asset less its residual value.

The residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Useful lives and residual values are reviewed at each year-end and, if expectations differ from previous estimates, depreciation expense for the current and future periods is adjusted (IAS 16-49).

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, investment properties measured using the cost model, 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 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.

The Group values its assets at half-yearly intervals. The tests performed show that the recoverable amount of the properties is equal to their market value excluding transfer costs. The valuation of the portfolio at 31 December 2005 was performed by CBRE.

2-5. Borrowing costs

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 (IAS 23).

2-6. Assets held for sale

In accordance with IFRS 5, 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 has been classified as "held for sale" no further depreciation charges are recorded.

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.

Inventories consist of the 39 rue de Rome property (purchased by SA SEGPIM in its capacity as a property trader) and the Place Vauban property, which are measured at purchase cost plus the cost of any work carried out during the period. For properties sold on a break-up basis, the amount deducted from inventory is determined by dividing the total cost of the property by the percentage sold.

2-9. Amounts receivable from tenants and trade receivables

Receivables are measured at the lower of their nominal value and recoverable amount, determined on a case-by-case basis.

Receivables are initially recognized at fair value and subsequently according to 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 recognised 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 derecognised or through the recognition of impairment losses, as well as through amortisation charges.

2-12. Discounting of non-current liabilities

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 SIIC status.

Guarantee deposits carried in the opening balance sheet at 1 January 2004 have not been discounted as the impact on the consolidated accounts would not be material.

Similarly, no discounting adjustments have been recorded on provisions recorded under liabilities, as these are essentially short-term.

2-13. Provisions

A provision is recognised 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 provision expense 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 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 recognised 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. The calculation parameters are determined separately for each individual company, on a historical basis. The discount rate applied is 2%. Actuarial gains and losses are recognised in profit.

– Long-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.

– Golden parachutes: Certain members of senior management are entitled to compensation for loss of office. The payment is equivalent to redundancy pay and is therefore covered by a provision.

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. The recognition requirement under IFRS 2 does not apply to any of the Group's plans.

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 recognised 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 interest expense.

Assets acquired under finance leases are depreciated over their useful lives.

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 recognised 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 recognised 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 recognised 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 recognised 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 gain or loss on the hedging instrument recognised directly in equity is reclassified into profit immediately.

The Group has opted to apply IAS 32 and 39 as from 1 January 2005. Derivative instruments are used in connection with the Group's policy of hedging interest rate risks on debt. In December 2004, the JP Morgan swap was restructured. The restructuring, which was carried out in a period of low interest rate volatility, reduced the impact of higher volatility, thereby lowering the risk associated with the swap. The swap qualifies as an effective hedge under IAS 39 and changes in its fair value will therefore be recorded in equity as from 1 January 2005.

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 77% of debt, in line with Group targets. All hedges qualify for hedge accounting under IFRS, helping to reduce earnings volatility caused by adjustments to fair values.

2-20. Revenue

Revenue is recognised 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 recognised 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 recognised 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 recognised 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	49,587	60,584	23,372	19,765	–	153,308
Property expenses, net of recoveries	(2,766)	(2,855)	(886)	(1,576)	–	(8,082)
Net property rentals	**46,821**	**57,729**	**22,486**	**18,190**	**–**	**145,226**
Service and other revenues	–	50	–	–	2,380	2,430
Other income	3,092	989	1	269	1,570	5,920
Depreciation and amortisation expense	(9,845)	(13,851)	(6,612)	(3,453)	(870)	(34,631)
Provision expense, net	(15)	(326)	(37)	(736)	(2,074)	(3,188)
Employee benefits expense	–	–	–	–	(10,800)	(10,800)
Other expenses	(13)	–	6	(33)	(11,936)	(11,976)
Operating profit	**40,040**	**44,590**	**15,844**	**14,237**	**(21,730)**	**92,981**
Profit on disposal of investment properties	22,426	2,192	–	3,031	(2)	27,647
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	–	–	–	–	1,378	1,378
Finance costs, net	(1,831)	10	(2,281)	(3,999)	(27,181)	(35,282)
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	6	–	–	–	2,489	2,495
Provision expense (financial assets), net	–	–	–	–	(3,795)	(3,795)
Other financial income and expenses	–	–	–	–	–	–
Profit before income tax	**60,641**	**46,792**	**13,564**	**17,427**	**(46,725)**	**91,698**
Income tax expense	3,271	6,168	(424)	596	(6,652)	2,959
Profit for the period	**63,912**	**52,960**	**13,139**	**18,023**	**(53,377)**	**94,658**
Minority interests	–	–	–	–	(5,196)	(5,196)
Profit attributable to equity holders of the parent	**63,912**	**52,960**	**13,139**	**18,023**	**(58,573)**	**89,462**

	Golden Triangle	Financial District	Golden Crescent La Défense	Other	Head-quarters	Total
Segment assets	779,182	840,736	423,464	248,143	–	2,291,526
Unallocated assets	–	–	–	–	136,920	136,920
Total assets	**779,182**	**840,736**	**423,464**	**248,143**	**136,920**	**2,428,446**

Segment liabilities correspond solely to rent guarantee deposits received from tenants.

• 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. The “Offices and Retail” sub-segment accounts for 97.3% of revenue from the property rental services segment.

	Property rental services	Sales as a property trader	Head-quarters	Total
Property rentals	153,199	109	–	153,308
Margin on sales as a property trader	–	4,159	–	4,159
Profit for the period	144,682	3,353	(58,573)	89,462

• Property rental services revenue consists of rent.

• Revenue from services related to sales as a property trader consists of management fees for a property held under the property trader regime which is currently being sold on a break-up basis.

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 24 to the profit and loss account and details of the purchases are given in note 3 to the balance sheet.

4-2. Financing

On 26 January 2005, a new seven-year €600 million syndicated loan was obtained. The principal is repayable in three annual instalments as from the fifth year.

The purchase options on nine finance leases were exercised early, at the beginning of the year. The corresponding debt at 31 December 2004 amounted to €97 million.

On 29 November 2005, Parhaus obtained a €25,825 thousand loan from a pool of banks (CALYON, HSBC and CFF) to finance its property renovation programmes. SFL’s share of this loan is 50%.

During the year, the Group obtained a new €15 million overdraft facility from CADIF.

4-3. Renovation programmes

The final phase of the Cézanne Saint-Honoré property was delivered and put in service during the period.

Renovation of 104-110 boulevard Haussmann, which is held by PARHAUS, a 50%-owned subsidiary of SFL, began during the first half of the year.

In September 2005, SFL acquired COFIMMO, owner of a property located at 5 rue Alfred de Vigny. This property will be renovated and put back on the rental market in the first half of 2007.

4-4. Tax audits

SNC François 1er: following a tax audit covering the years 2001 and 2002, SNC François 1er was notified of a proposed reassessment of the tax base in the amount of €1,349 thousand (excluding late interest and penalties), on the grounds that the method used to calculate provisions for major repairs did not comply with tax rules. This reassessment has been contested and no provision has been recorded.

SAS 10 Nicolo: No reassessments were made following the tax audit covering the years 2001 and 2002.

SCI Paul Cézanne: Following an audit of VAT returns for 2002, additional input VAT of €2,551 thousand was recovered during the period. In addition, SCI Paul Cézanne intends to contest the claim for VAT of €451 thousand on rent-free periods and eviction compensation, with a view to obtaining a refund of this amount.

SA SEGPIM: following a tax audit covering the years 2001, 2002 and 2003, the tax authorities claimed €458 thousand in back business tax, including late interest and penalties. This amount has been settled.

SNC FIPARIM: No reassessments were made following the tax audit covering the years 2001, 2002 and 2003.

SAS European Prime Properties : The additional €27 thousand in VAT claimed by the tax authorities has been paid by SFL.

SAS Neuilly: The €68 thousand in additional tax claimed following a tax audit covering the years 2001, 2002 and 2003, has been settled by SFL.

SAS Montaigne: Following a tax audit covering the years 2002 and 2003, the tax authorities challenged the allocation of the sale price of a property between the land and the building, and notified the company of a €1,794 thousand reassessment of the tax base. This reassessment has been contested and no provision has been booked.

SAS Saint-Augustin: Following a tax audit covering the years 2002 and 2003, the tax authorities challenged the portion of the property's value allocated to the building, and notified the company of a €627 thousand reassessment. This reassessment has been contested and no provision has been booked.

SAS Cirque: Following a tax audit covering the years 2002 and 2003, the tax authorities challenged the breakdown of the sale price of a property between the land and the building, and notified the company of a €303 thousand reassessment. This reassessment has been contested and no provision has been booked.

SA Cirgec: Following a tax audit covering the years 2002 and 2003, SA CIRGEC was notified of a proposed reassessment in the amount of €274 thousand (excluding late interest and penalties), on the grounds that the method used to calculate provisions for major repairs did not comply with tax rules. The fair values used to calculate the exit tax (income tax at the rate of 16.50%) have also been challenged, leading to a €43,897 thousand reassessment of unrealised capital gains. This reassessment has been contested and no provision has been booked.

SAS Lyonnaise Marengo 1: Following a tax audit covering 2003, the tax authorities challenged the fair values used to calculate the exit tax (income tax at the rate of 16.50%), leading to a €31,726 thousand reassessment of unrealised capital gains. This reassessment has been contested and no provision has been booked.

Most of these companies have been merged into SFL.

V - BASIS 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
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
SC Parelys	414 960 096	50	50
SAS Parkleb	582 033 643	50	50
SCI Paul Cézanne	438 339 327	50	50
Companies accounted for by the equity method:			
SCI n° 6 du Courcellor II	446 207 850	38	38
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.

SAS Roosevelt and its subsidiary, SNC Roosevelt, were removed from the scope of consolidation following the sale of SFL's interest in SAS Roosevelt. SCI COFIMMO has been consolidated as from 1 October.

Société Foncière Lyonnaise SA, the parent company, is 79.5%-owned by the COLONIAL Group, based in Barcelona, Spain, whose main shareholder is the CAIXA Group.

No transactions were carried out with COLONIAL during the year.

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, with comparative information for 2004. All amounts are stated in thousands of euros.

6-1. Intangible assets

	31/12/2004	Increases	Decreases	Reclassi-fications	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	–	–	–	–	–	–
Accumulated impairment losses	–	–	–	–	–	–
Carrying amount	**1,990**	**(213)**	**(26)**	**33**	**–**	**1,784**

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	2,201	3,022	(664)	81	–	4,639
Accumulated depreciation						
Owner-occupied property	(1,369)	(235)	–	–	–	(1,604)
Equipment	(988)	(194)	436	(95)	–	(841)
Accumulated impairment losses	–	–	–	–	–	–
Carrying amount	**15,878**	**2,593**	**(228)**	**(15)**	**–**	**18,228**

The appraisal value of owner-occupied property amounted to €16,980 thousands at 31 December 2005 and €15,457 thousands at 31 December 2004. Owner-occupied property corresponds to the section of the Centre d'Affaires Le Louvre building used by the Group for administrative purposes.

6-3. Investment properties

	31/12/2004	Increases	Decreases	Reclassi-fications	Acquisitions of subsidiaries	31/12/2005
Gross						
Investment properties	2,107,672	150,922	–	(63,623)	24,715	2,219,687
Properties under construction	39,704	36,219	4	(39,493)	–	36,434
Accumulated depreciation						
Investment properties	(55,288)	(33,689)	–	3,971	(4,578)	(89,584)
Accumulated impairment losses	–	–	–	–	–	–
Carrying amount	**2,092,088**	**153,452**	**4**	**(99,145)**	**20,137**	**2,166,536**

Capitalised interest for the period amounted to €910 thousands.

Investment properties were valued at 31 December 2005 by CB Richard Ellis Valuation. 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.

Valuation method

Investment properties are valued primarily by the revenue method, which consists of capitalising net rental revenues and discounting future cash flows. Each property is analysed in detail, based on the surface of each designated area, lease by lease.

The valuer noted that fourth-quarter 2005 rents on certain units were above or below market rents for the period on similar properties. These differences were taken into account based on the duration of the underlying leases to value the properties according to their current occupancy.

Vacant units were valued on the basis of assumed rents, excluding rent for the marketing period considered necessary to find tenants, after deducting remaining renovation costs and service charges for the period until the units are re-let.

The cost of work scheduled to be carried out in the very short term was taken into account based on information supplied by the Group.

The results of the valuation were checked by making direct comparisons with the price per square meter observed for recent buy-to-let transactions involving occupied and vacant properties.

The appraisal values were determined including transfer costs (calculated at a standard 6% for all properties subject to registration duty) and also excluding transfer costs.

The valuation methods used in 2005 were unchanged from previous years.

Investment properties, other than properties held for sale, are valued by qualified valuers at six-monthly intervals. Their net market value amounted to €2,530,372 thousands at 31 December 2005 and €2,279,049 thousands at 31 December 2004. The increase over the year can be analysed as follows:

	Market value of properties under finance leases	Market value of properties owned outright	Total
At 31 December 2004	**358,018**	**1,921,031**	**2,279,049**
Acquisitions	–	166,571	166,571
Disposals	–	–	0
Properties reclassified as "held-for-sale"	–	(86,581)	(86,581)
Changes in market value	18,744	152,590	171,334
At 31 December 2005	**376,761**	**2,153,611**	**2,530,372**

During the year, the Group acquired a 20,500 square metre property in La Défense for €140,246 thousands and a 2,700 square metre property at 5 rue Alfred de Vigny for €20,137 thousands.

Borrowing costs capitalised during the year, in the amount of €1,234 thousand, concerned the SCI Paul Cézanne and SC Parhaus renovation projects.

6-4. Investments in associates

	% interest	31/12/2004	Dividends paid	Profit	Disposals	31/12/2005
SCI n° 6 du Courcellor II	38	4,222	(3,243)	(32)	–	947
SAS Iéna	25	(14)	–	(163)	–	(177)
SAS La Défense	25	(7)	–	(104)	–	(111)
SAS Roosevelt	25	(2)	–	–	2	–
SNC Iéna 1	25	2,194	–	297	–	2,491
SNC Iéna 2	25	489	–	117	–	606
SNC La Défense	25	1,736	–	197	–	1,933
SNC Roosevelt	25	300	–	–	(300)	–
SNC Amarante	15	(9)	(714)	(1)	–	(723)
SNC Péridot	15	1,841	–	517	–	2,358
SNC Lazuli	15	2,249	–	550	–	2,800
Total		**12,999**	**(3,957)**	**1,378**	**(298)**	**10,123**

Disposals concern SAS Roosevelt and SNC Roosevelt. The capital gain on these disposals is analysed in note 29.

SCI n°6 du Courcellor II is in liquidation. The fair value of the shares at 31 December 2005 was greater than their carrying amount.

6-5. Financial assets

	At 1 January 2005	Additions	Impairment losses recognised during the year	Disposals	Impairment losses released during the year	At 31 december 2005
Investments in non-consolidated companies	6,345	–	–	(318)	–	6,027
Provisions for impairment	(432)	–	(4,135)	–	312	(4,255)
Investments in non-consolidated companies, net	**5,913**	–	**(4,135)**	**(318)**	**312**	**1,772**
Advances to non-consolidated companies	2,147	–	–	(2,147)	–	–
Teachers JV (25%) loan	8,579	2,598	–	(1,138)	–	10,039
Teachers JV (15%) loan	8,725	–	–	–	–	8,725
SCI Champvernier loan	15,245	–	–	–	–	15,245
Deposits	1,032	–	–	–	–	1,032
Other non-current financial assets	375	4	–	(122)	–	257
Total	**42,015**	**2,602**	**(4,135)**	**(3,725)**	**312**	**37,069**

The reduction in loans to the Teachers joint ventures corresponds to repayments made on disposal of the Roosevelt companies. The increase corresponds to acquisition financing for the 24th floor of Tour Areva, acquired through SCI La Défense.

	Vendôme Rome S.C.A. Group	SCI Le Courcellor	SCI Tour Horizon	SCI Parmentier 2	Other	Total
Gross at 1 January 2005	1,071	4,830	312	120	12	6,345
Provisions at 1 January 2005	–	–	(312)	(120)	–	(432)
Carrying amount at 1 January 2005	**1,071**	**4,830**	**–**	**–**	**12**	**5,913**
Additions						
Disposals	–	–	(312)	–	(6)	(318)
Impairment losses recognised during the year	–	(4,135)	–	–	–	(4,135)
Impairment losses released during the year	–	–	312	–	–	312
Gross at 31 December 2005	1,071	4,830	–	120	6	6,027
Provisions at 31 December 2005	–	(4,135)	–	(120)	–	(4,255)
Carrying amount at 31 December 2005	**1,071**	**695**	**–**	**–**	**6**	**1,772**
	Note 1	*Note 2*	–	*Note 3*	–	
Number of shares	79,546	1,296	–	818	N/A	
Percentage interest	2.44%	19.98%	–	74.63%	N/A	
Equity	50,158	1,978	–	411	N/A	
Profit	7	3,331	–	(5)	N/A	
Group share in equity	**1,224**	**1,061**	**–**	**303**	**N/A**	

Note 1: at 31 December 2004.

Note 2: at 31 December 2004, after deducting a €20,698 thousand interim dividend from profit. The property was sold in 2004 for €29,226 thousands. Its appraisal value at the time of the 2003 revaluation was €28,200 thousands.

Note 3: liquidation balance sheet at 31 August 2005. SCI Parmentier is not consolidated because it is not material in relation to the Group as a whole.

At 31 December 2005, there were no impairment losses not covered by provisions.

6-6. Other non-current assets

	31/12/2005	31/12/2004
Deferred tax assets	3,582	467
Other receivables due beyond one year	255	–
Non-current prepaid expenses	–	2,296
Total	**3,837**	**2,763**

Deferred tax assets are analysed in note 35.

6-7. Inventories

Inventories correspond to properties held by SA Segpim, which operates as a property trader. The €14,127 thousands decrease in inventories, from €14,972 thousands at 31 December 2004 to €845 thousands at 31 December 2005, corresponds mainly to break-up sales carried out during the year for a total of €18,070 thousands.

6-8. Trade and other receivables

	31/12/2005			31/12/2004
	Total	Due within one year	Due in more than one year	Total
Trade receivables	31,075	16,547	14,528	18,645
Provisions	(2,546)	N/A	N/A	(1,837)
Trade receivables, net	**28,529**	**16,547**	**14,528**	**16,808**
Prepayments to suppliers	1,628	1,628	–	2,064
Employee advances	1,517	1,517	–	28
Short–term portion of tax receivables (other than income tax)	14,785	14,785	–	17,815
Other operating receivables	6,352	6,352	–	2,660
Other receivables	939	939	–	183
Other receivables	**25,221**	**25,221**	**–**	**22,750**
Total trade and other receivables	**53,750**	**41,768**	**14,528**	**39,559**

Receivables do not bear interest.

Provisions for doubtful debts can be analysed as follows:

	31/12/2005	31/12/2004
Increases	(1,344)	(738)
Reversals	702	894
Bad debt write-offs	(587)	(282)
Total	(1,229)	(126)
Property rentals	156,803	153,308
Net losses as a % of property rentals	**0.8%**	**0.1%**

6-9. Other assets

This item corresponds to assets not included in the above captions.

6-10. Cash and cash equivalents

	31/12/2005	31/12/2004
Cash at bank and in hand	2,272	5,514
Short-term investments	26,659	71,120
Total	**28,931**	**76,634**

No interest is received on cash at bank and in hand. The fair value of cash and cash equivalents was €28,931 thousands at 31 December 2005 and €76,634 thousands at 31 December 2004. At 31 December 2005, the Group had a €45,000 thousands overdraft facility, which had been utilised in the amount of €8,240 thousands.

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

	31/12/2005	31/12/2004
Société Générale investment funds	6,770	48,965
Crédit Lyonnais investment funds	0	423
HSBC investment funds	3,008	7,592
Crédit Agricole and Calyon investment funds	16,881	14,140
Total	**26,659**	**71,120**

6-11. Assets held for sale

Investment properties totalling €103,537 thousands were classified as held for sale at 31 December 2005 (€100,624 thousands at 31 December 2004).

6-12. Equity

The Company's share capital amounts to €86,128 thousands, represented by 43,063,788 ordinary shares with a par value of €2. During the period, share capital was increased by €153 thousands through the issue of 76,601 ordinary shares with a par value of €2 each. The corresponding premium totalled €1,968 thousands.

Adjustments to the 2003 revaluation concern parameters known at the end of the year which were not taken into account in 2003.

In accordance with the recommendations of the French securities regulator (AMF) and the note on share buybacks dated 25 March 2005, treasury shares have been deducted from equity effective from 1 January 2004.

	31/12/2004	Increases	Decreases	31/12/2005
Number of shares	1,004,774		825,207	179,567
Average purchase price (*in euros*)	30.27		30.27	30.27
Total *(in thousands of euros)*	**30,418**		**24,981**	**5,435**

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 31/12/2005	Long-term portion 31/12/2004	Short-term portion 31/12/2005	Short-term portion 31/12/2004
Lease liabilities:						
131, Wagram	3-months Euribor + 75 bps	15/06/2009	63,153	64,105	952	951
Quai le Gallo	3-months Euribor + 75 bps	28/02/2012	72,627	75,806	3,179	3,046
6, Hanovre	3-months Euribor + 80 bps	18/12/2010	–	5,763	–	286
Rives de Seine	6-months Euribor + 80 bps	29/10/2013	115,127	123,941	8,814	8,450
3, Boétie	6-months Euribor + 70 bps	08/04/2012	–	17,539	–	690
63, Haussmann	6-months Euribor + 70 bps	31/07/2012	–	10,489	–	402
62, Beaubourg	6-months Euribor + 80 bps	16/01/2012	–	10,689	–	418
82, Beaubourg	6-months Euribor + 80 bps	13/03/2012	–	5,958	–	232
12, Capucines	6-months Euribor + 80 bps	18/12/2011	–	14,080	–	572
11, Prony	6-months Euribor + 80 bps	16/01/2012	–	9,402	–	368
Sébastopol	6-months Euribor + 80 bps	16/01/2012	–	15,454	–	605
Pavillon Henri IV	6-months Euribor + 80 bps	16/01/2012	–	4,205	–	165
Impact of deferred recognition of debt arranging fees			(2,008)	–	(280)	–
Convertible bonds						
OECA	4%	01/01/2005	–	–	–	238
Bank loans						
Société Générale syndicated loan	3-months Euribor + 60 bps	26/01/2005	–	–	–	162,539
Natexis syndicated loan	3-months Euribor + 40 bps	26/01/2012	296,000	–	39	–
Société Générale loan	3.89%	09/02/2005	–	–	–	253
HSBC/CALYON/CFF loan	3-months Euribor + 90 bps	29/12/2009	73,409	73,848	1,521	1,519
HSBC/CALYON/CFF loan	3-months Euribor + 40 bps	29/03/2008	737	–	–	–
Paul Cézanne financing	3-months Euribor + 50 bps	15/07/2005	–	–	–	30,063
US Private Placement Notes (USD 100 million)	6.27%	10/12/2012	83,493	100,000	317	365
US Private Placement Notes (USD 25 million)	5.67%	10/12/2009	20,873	25,000	71	83
Current account advances	3-months Euribor + 60 bps		–	–	61,293	61,678
Hedging instruments at fair value						
Swap no.1 on CALYON/HSBC/CFF loan	3.85%	29/12/2009	1,920	–	–	–
Swap no.2 on CALYON/HSBC/CFF loan	3.56%	29/06/2009	81	–	–	–
Swap no.3 on CALYON/HSBC/CFF loan	3.13%	29/12/2009	20	–	–	–
Barclays swap on US Private Placement Notes	6.47%	10/12/2012	30,374	–	–	–
Barclays swap on US Private Placement Notes	6.09%	10/12/2009	6,373	–	–	–
JPMorgan swap (on €400 million)	12-months Euribor + 141.5 bps	03/01/2014	41,114	–	–	–
Bank overdrafts	3-months Euribor + 50 bps		–	–	8,240	3,571
Total short and long-term interest-bearing debt			**803,293**	**556,279**	**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:

	31/12/2005	Due within one year	Due in 1 to 5 years	Due beyond five years	31/12/2004
Convertible bonds	–	–	–	–	238
Syndicated loan	296,039	39	–	296,000	162,539
Société Générale loan	–	–	–	–	253
HSBC/CALYON/CFF loan	75,667	1,521	74,146	–	75,367
Lease liabilities	263,852	12,945	116,544	134,363	373,616
Short-term bank loans	–	–	–	–	30,063
US Private Placement Notes	104,754	388	20,873	83,493	125,448
Current account advances	61,293	61,293	–	–	61,678
Deferred debt arranging fees	(2,288)	(280)	(1,112)	(896)	–
Swap no. 1 on CALYON/HSBC/CFF loan	1,920	–	1,920	–	–
Swap no. 2 on CALYON/HSBC/CFF loan	81	–	81	–	–
Swap no. 3 on CALYON/HSBC/CFF loan	20	–	20	–	–
Barclays swap on US Private Placement Notes (USD 100 million)	30,374	–	–	30,374	–
Barclays swap on US Private Placement Notes (USD 25 million)	6,373	–	6,373	–	–
JPMorgan swap (on €400 million)	41,114	–	–	41,114	–
Bank overdrafts	8,240	8,240	–	–	3,571
Total	**887,439**	**84,146**	**218,845**	**584,448**	**832,773**

Comments (excluding accrued interest)

The USD 125 million in US Private Placement Notes converted at the 31 December 2005 dollar exchange rate are carried in the balance sheet for an amount of €104,366 thousands.

Under the terms of the new 7-year syndicated loan obtained at the beginning of 2005, SFL may draw down €400,000 thousands the first year and €600,000 thousands thereafter. Repayments are due in three annual instalments as from the fifth year. As of 31 December 2005, borrowings under this facility amounted to €296,000 thousands.

Lease liabilities decreased to €263,852 thousands following the exercise of purchase options on nine properties at the beginning of 2005. Lease liabilities in the amount of €263,852 thousands concern investment properties acquired under finance leases. The corresponding properties are carried at a total cost of €328,766 thousands less accumulated depreciation of €12,054 thousands.

The Parholding sub-group's bank loans (of which SFL's share amounts to €75,646 thousands) are indexed to the 3-months Euribor and are repayable in instalments up to 29 March 2008 and 29 December 2009.

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

6-14. Short and long-term provisions

	31/12/2004	Increases	Decreases	Including utilisations	Changes in scope of consolidation	31/12/2005
Long-term provisions						
Provisions for convertible bond redemption premiums	26	–	(26)	(26)	–	0
Provisions for losses on SFL share grants	40	–	(40)		–	0
Provisions for claims and litigation	250	–	(63)		–	187
Provisions for employee benefits	1,519	1,368	–		–	2,887
Total	**1,835**	**1,368**	**(129)**	**(26)**	**–**	**3,074**
Short-term provisions						
Provisions for non-recovery of rent arrears from tenants of sold properties	242	–	(40)	(40)	–	202
Provisions for non-recovery of service charges from tenants	453	187	–	–	–	640
Provisions related to refurbishment work	825	525	(200)	–	–	1,150
Other provisions for operating contingencies and charges	1,205	1,000	(421)	(231)	–	1,785
Total	**2,725**	**1,713**	**(661)**	**(271)**	**–**	**3,777**
Total	**4,560**	**3,081**	**(791)**	**(297)**	**–**	**6,851**

Provisions for employee benefits include provisions for long-service awards payable to employees on retirement and jubilees for €2,262 thousands and a €625 thousands provision for compensation for loss of office payable to the Chairman. During the year, an addendum was signed to the agreement on long-service awards, raising the amount of these awards and the related provision was therefore increased.

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

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

6-15. Deferred taxes

See note 35.

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 in accordance with IAS 32. An instalment of €25,951 thousands was paid in December 2005. The €25,951 thousands instalment due in 2006 is included in “Other current liabilities”. The balance corresponds to the remaining exit tax payable in the following periods:

Due	2007	2008	2009	Total
Amount	2,205	1,486	1,421	5,112

6-17. Other non-current liabilities

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

6-18. Trade and other payables

This item includes trade payables of €8,325 thousands and €9,936 thousands payable to suppliers of fixed assets.

6-19. Other current liabilities

Other current liabilities break down as follows:

	31/12/2005	31/12/2004
Customer prepayments	4,344	1,092
Accrued employee benefits expense	6,820	4,603
Accrued taxes	39,184	9,734
Other payables	8,283	2,045
Other liabilities	2,399	56
Other current liabilities	**61,030**	**17,530**

Accrued employee benefits expense includes statutory and discretionary profit-sharing and accruals for variable salaries.
Accrued taxes include the 2006 exit tax instalment of €27,174 thousands.
Other liabilities correspond to deferred income.

6-20. Net property rentals

The Group's principal business is the rental of office and retail properties, which account for 97.3% of property rentals. The amount recognised in 2005 revenue in respect of rent-free periods and rent step-ups was €8,463 thousands.

6-21. Service and other revenues

This item corresponds to service fees for €2,430 thousands in 2005 and €2,379 thousands in 2004.

6-22. Other income

Other income consists of capitalised work in the amount of €1,327 thousands and revenues of €4,593 thousands corresponding to work billed to third parties (€6,216 thousands and €1,630 thousands respectively in 2004).

6-23. Depreciation and amortisation expense

	31/12/2005	31/12/2004	% change
Amortisation of intangible assets	(611)	(405)	51%
Depreciation of property and equipment and investment properties	(34,020)	(35,738)	(5%)
Total depreciation and amortisation expense	**(34,631)**	**(36,143)**	**(4%)**

6-24. Provision expense, net

	31/12/2005	31/12/2004	% change
Charges to provisions for operating contingencies and charges	(2,079)	(1,800)	16%
Charges to provisions for impairment of current assets	(1,344)	(738)	82%
Charges to provisions for non-operating contingencies and charges	(1,000)	(1,210)	(17%)
Reversals of provisions for operating contingencies and charges	239	1,079	(78%)
Reversals of provisions for impairment of current assets	702	894	(21%)
Reversals of provisions for non-operating contingencies and charges	294	–	–
Provision expense, net	**(3,188)**	**(1,775)**	**80%**

6-25. Employee benefits expense

	31/12/2005	31/12/2004	% change
Wages and salaries	(6,482)	(6,545)	(1%)
Social security taxes	(2,512)	(2,149)	17%
Death and disability insurance	(64)	(74)	(14%)
Other payroll taxes	(524)	(680)	(23%)
Statutory and discretionary profit-sharing	(1,218)	(1,045)	17%
Total employee benefits expense	**(10,800)**	**(10,493)**	**3%**

In 2005, the Group had 97 administrative staff and 11 building staff (95 and 18 respectively in 2004). The remuneration paid to the directors and officers of the Company amounted to €2,549 thousands.

6-26. Other expenses

	31/12/2005	31/12/2004	% change
Purchases	(351)	(1,506)	(77%)
General subcontracting	(799)	(624)	28%
Operating leases	(942)	(857)	10%
Maintenance and repairs	(293)	(306)	(4%)
Fees	(3,924)	(2,025)	94%
Publications and public relations	(960)	(954)	1%
Bank charges	(636)	(878)	(28%)
Taxes other than on income	(1,452)	(2,669)	(46%)
Travel and entertainment	(347)	(279)	24%
Non-recurring income and expenses, net	(1,595)	(14,142)	(89%)
Other	(677)	(824)	(18%)
Total other expenses	**(11,976)**	**(25,064)**	**(52%)**

6-27. Profit on disposal of investment properties

No profit is reported under this caption because the properties concerned are reclassified as "Assets held for sale" prior to their disposal.

	Sale price	Carrying amount	Disposal gain (loss)	Disposal date
Investment properties sold during the year				
80 Grande Armée	18,907	(15,639)	3,268	16/02/2005
Rome-Vienne	27,054	(24,117)	2,937	15/06/2005
Saint-Augustin	55,210	(39,124)	16,086	15/06/2005
Saint-Florentin	11,784	(9,592)	2,192	15/06/2005
132 Haussmann	12,792	(9,720)	3,072	30/09/2005
Bugeaud parking garage	35	29	64	25/04/2005
Stockholm parking garage	37	(26)	11	28/09/2005
Adjustments to prior year disposals	–	17	17	n/a
Total investment properties sold	**125,819**	**(98,172)**	**27,647**	**–**

6-28. Margin on sales as a property trader

	31/12/2005	31/12/2004	% change
Sales as a property trader	18,070	19,973	(10%)
Own-work capitalised	(13,911)	(15,722)	(12%)
Margin on sales as a property trader	**4,159**	**4,251**	**(2%)**

6-29. Profit on disposal of other assets

This item corresponds mainly to the €681 thousands profit on the sale of shares in the Roosevelt companies, which have been removed from the scope of consolidation, the €314 thousands loss on liquidation of Tour Horizon and Roger Salengro, and various scrapping losses for a total of €22 thousands.

6-30. Investment income

This item includes dividends of €4,257 thousands from SCI Courcellor and €40 thousands from SCI Tour Horizon.

6-31. Finance costs, net

	31/12/2005	31/12/2004	% change
Interest on bank loans	(8,746)	(7,215)	21%
Interest on lease liabilities	(8,366)	(13,033)	(36%)
Interest on convertible bonds	0	(4,154)	(100%)
Interest on US Private Placement Notes	(6,336)	(6,067)	(4%)
Interest on external current account advances	(3,638)	(2,652)	37%
Interest on swaps	(9,520)	(9,729)	(2%)
Other financial expense	(50)	(364)	(86%)
Total finance costs	**(36,656)**	**(43,214)**	**(15%)**
Interest income	46	0	–
Net gains on sales of short-term investments	772	3,731	(79%)
Financial expense transfers	221	–	–
Other financial income	335	1,590	(79%)
Total financial income	**1,374**	**5,321**	**(74%)**
Finance costs, net	**(35,282)**	**(37,893)**	**(7%)**

Interest received from the joint ventures with Teachers, in the amount of €908 thousands, is reported under “Finance costs, net”.

6-32. 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	–	–	–	20,873	–	83,493	104,366
Swap on USD 125 million Private Placement Notes	–	–	–	6,373	–	30,374	36,747
Swap no.1 on CALYON/HSBC loan at 3.85%	–	–	–	1,920	–	–	1,920
Swap no.2 on CALYON/HSBC loan at 3.56%	–	–	–	81	–	–	81
Swap no.3 on CALYON/HSBC loan at 3.1250%	–	–	–	20	–	–	20
Total	**–**	**–**	**–**	**29,267**	**–**	**113,867**	**143,134**

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	8,240	–	–	–	–	–	8,240
Revolving line of credit (SFL)	–	–	–	–	–	296,000	296,000
HSBC/CALYON/CFF loan	1,500	1,500	2,175	70,471	–	–	75,646
Current account advances	61,293	–	–	–	–	–	61,293
Lease liabilities	12,945	13,464	14,005	74,868	14,207	134,363	263,852
JP Morgan swap	–	–	–	–	–	41,114	41,114
Total	**83,974**	**14,964**	**16,180**	**145,339**	**14,207**	**471,477**	**746,141**

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 thousands for 10 years and a 6.09% fixed rate on €25,000 thousands for 7 years. Barclays and SFL both have the right to terminate the contract on 5 November 2007. 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.

Due mainly to the current dollar exchange rate, at 31 December 2005 the swap had a negative fair value of €36,747 thousands. However, since the contract represents a 100% effective hedge of the underlying debt, the bulk of this negative value is offset by the positive fair value of the underlying debt.

Interest rate hedges on the financing of the Parholding portfolio

Counterparty: HSBC-CALYON.

Description: cash flow hedges. The initial hedge was restructured on 4 April 2005 to extend the expiry date to 29 December 2009, with a 3.85% fixed rate on €57,820 thousands. A second hedge commenced on 6 August 2004 with a 3.56% fixed rate on €3,800 thousands, expiring 29 June 2009. A third hedge commenced on 29 December 2005 on an increasing notional amount, expiring 29 December 2009. This hedge is linked to the revolving credit facility used to finance Parhaus renovation work. At 31 December 2005 it had a fixed rate of 3.1250% on a notional amount of €6,500 thousands.

At 31 December 2005, these contracts had a negative fair value of €2,021 thousands. The contracts represent 100% effective hedges and are not intended to be separated from the underlying debt.

General hedge 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 thousands 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. The restructuring, which was carried out in a period of low interest rate volatility, eliminates the impact of higher volatility and of increases in US interest rates on the value of the hedge. This represented a particularly useful move in view of the new accounting standards on hedging instruments adopted in 2005. 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 2005, the contract had a negative fair value of €41,114 thousands. 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 restructured hedging instrument.

The fair value of financial instruments carried in the balance sheet includes €58,176 thousands recorded in reserves, €(1,073) thousand recorded in the profit and loss account and €59,249 thousands recorded in non-current liabilities.

6-33. Interest on receivables

	31/12/2005	31/12/2004	% change
Interest on the Champvernier loan	428	422	(1%)
Interest on the Teachers loans	908	932	3%
Other interest income	1,159	–	–
Total interest on receivables	**2,495**	**1,354**	**(46%)**

6-34. Net change in provisions for impairment in value of financial assets

	31/12/2005	31/12/2004
Provisions for convertible bond redemption premiums	–	(2,393)
Provisions for impairment in value of Courcellor 1 shares	(4,135)	–
Financial expense transfers	–	635
Reversals of provisions for financial contingencies and charges	340	23,410
Net change in provisions for impairment in value of financial assets	**(3,795)**	**21,652**

6-35. Income tax expense

The election for taxation as an SIIC led to the elimination of the tax bases of the SIIC' 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 tax liabilities related to certain finance leases were reversed following the early exercise of the lease purchase options and the election for taxation under SIIC rules. Deferred taxes recognised in the profit and loss account, calculated at the tax rate applicable at 31 December, consist mainly of the following:

Deferred tax base	Balance sheet 31/12/2004	Changes in scope of consolidation	Equity	Profit 31/12/2005	Balance sheet 31/12/2005
Recognition of finance leases in the consolidated balance sheet	51,928	–	–	(33,645)	18,283
Revaluation of entities not eligible for taxation as a SIIC	(4,569)	–	–	(920)	(5,489)
Adjustment of depreciation	1,384	–	–	(586)	798
Adjustment of property rentals	–	–	–	454	454
Capitalisation of interest expense and transaction costs	–	–	–	171	171
Intragroup unrealised gains	(163)	–	–	163	–
Other addbacks and deductions	(1,223)	–	–	943	(280)
Net	**47,357**	**–**	**–**	**(33,420)**	**13,937**

Deferred tax base	Balance sheet 31/12/2004	Changes in scope of consolidation	Equity	Profit 31/12/2005	Balance sheet 31/12/2005
Recognition of finance leases in the consolidated balance sheet	(18,396)	–	–	12,101	(6,295)
Revaluation of entities not eligible for taxation as a SIIC	1,596	–	–	293	1,890
Adjustment of depreciation	(491)	–	–	215	(275)
Adjustment of property rentals	–	–	–	(156)	(156)
Capitalisation of interest expense and transaction costs	–	–	–	(59)	(59)
Intragroup unrealised gains	35	–	–	(35)	–
Non-deductible expenses	433	–	–	(336)	96
Net	**(16,821)**	**–**	**–**	**12,022**	**(4,799)**
Of which: deferred tax assets	467	–	–	3,115	3,582
Of which: deferred tax liabilities	17,288	–	–	(8,907)	8,381

Income tax expense for the year amounted to €9,063 thousands.

6-36. Discontinued operations

No businesses were discontinued during the year.

6-37. 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 equity holders of the parent (after deducting interest on non-cumulative mandatorily convertible preference shares) by the weighted average number of shares outstanding during the period, adjusted for the dilutive effect of 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:

	31/12/205	**31/12/204**
Profit attributable to ordinary equity holders of the parent used to calculate basic earnings per share	89,462	89,151
Profit attributable to ordinary equity holders of the parent used to calculate diluted earnings per share	89,462	89,151
Number of ordinary shares at 31 December used to calculate basic earnings per share	43,064	43,053
Weighted average number of ordinary shares used to calculate basic earnings per share	43,034	37,114
Number of share options used to calculate diluted earnings per share	40	50
Diluted number of ordinary shares at 31 December	43,103	43,104
Diluted weighted average number of ordinary shares	43,074	37,164
Basic earnings per share attributable to ordinary equity holders of the parent (in euros)	2.08	2.07
Diluted earnings per share attributable to ordinary equity holders of the parent (in euros)	2.08	2.07
Basic earnings per weighted average share attributable to ordinary equity holders of the parent (in euros)	2.08	2.40
Diluted earnings per weighted average share attributable to ordinary equity holders of the parent (in euros)	2.08	2.40

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.

6-38. Dividends

	31/12/2005	Per share	31/12/2004	Per share
Declared dividend for prior year	88,124	2.05	64,457	1.80
Prior year interim dividend	29,317	0.7	–	–
Prior year dividend paid in current year	57,851	1.35	61,482	1.80
Total prior year dividends paid in current year	**87,168**	**2.05**	**61,482**	**1.80**

The recommended dividend amounts to €2.10 per share, representing a total payout of €90,434 thousands based on the number of shares outstanding at 31 December 2005. A total interim dividend of €30,019 thousands was paid in 2005.

6-39. Off-balance sheet commitments

Pledges and mortgages

	Expiry date	Amount	Total balance sheet item	% of balance sheet item
On property and equipment	–	**71,000**	–	–
Mortgages on buildings held by the Parholding sub-group	Dec. 2009	71,000	**2,250,633**	**3.2%**
On investments (1)	–	**8,009**	**231,193**	**3.5%**
50,000 Parchamps shares (50% of capital) pledged to CALYON	Dec. 2009	750	–	–
687 Parchar shares (48% of capital) pledged to CALYON	Dec. 2009	10	–	–
59,156 Parelys shares (50% of capital) pledged to CALYON	Dec. 2009	887	–	–
30,000 Pargal shares (50% of capital) pledged to CALYON	Dec. 2009	4,560	–	–
31,211 Parkleb shares (50% of capital) pledged to CALYON	Dec. 2009	468	–	–
50,000 Parhaus shares (50% of capital) pledged to CALYON	Dec. 2009	750	–	–
38,955 Parsherbes shares (50% of capital) pledged to CALYON	Dec. 2009	584	–	–

(1) The total balance sheet item has been adjusted to include shares in subsidiaries that are eliminated in consolidation.

The Teachers joint ventures that are 25%-owned by SFL have contracted loans totalling €78,742 thousands, of which €38,570 thousands is guaranteed by a security interest, and the 15%-owned Teachers joint ventures have contracted loans totalling €217,028 thousands, of which €156,000 thousands is guaranteed by a security interest.

Guarantees and other commitments

	Total	Within one year	In one to five 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	4,615	4,615	–	–
Guarantee given to Crédit Lyonnais on behalf of SA Segpim pursuant to Article 3-2 of the Act of 2 January 1970	365	365	–	–
Tax bonds	874	874	–	–
Guarantee given to Natexis	3,000	–	3,000	–
Commitments received				
Guarantees received from tenants and suppliers	36,488	3,916	22,492	10,080
Revolving line of credit (SFL)	304,000	–	–	304,000
Revolving line of credit (Parhaus Réhabilitation)	21,441	–	21,441	–
Revolving line of credit (Parhaus, to cover VAT payments)	2,588	–	2,588	–
Overdraft facility	36,760	36,760	–	–

Stock option plans at 31 December 2005

Date of shareholder authorisation	17/10/1997	17/10/1997	17/10/1997	16/05/2002
Grant date	25/02/1999	06/04/2000	21/03/2002	25/04/2003
Number of shares under option	60,968	280,952	309,000	346,000
Starting date of exercise period	25/02/2002	06/04/2005	21/03/2002	25/04/2003
Expiry date	24/02/2009	05/04/2010	20/03/2012	24/04/2013
Exercise price (in euros- options exercisable for newly issued shares)	30.83	27.59	–	–
Exercise price (in euros – options exercisable for shares bought back for this purpose)	–	–	27.78	26.41
Number of options exercised	58,910	214,217	241,000	281,000
Number of cancelled options	1,808	27,148	0	0
Number of options outstanding	**250**	**39,587**	**68,000**	**65,000**

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

Employee benefit obligations

The Company is committed to paying to Yves MANSION gross compensation for loss of office of €1,000 thousands 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 Following the lifting of the restrictions on the application of the agreement as of 30 June 2004, payment of this compensation is now highly probable. Accordingly, a provision of €527 thousands was booked at 31 December 2004 and a further €98 thousands was set aside in 2005.

The Company is also committed to paying to Alec EMMOTT gross compensation for loss of office of €800 thousands 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.

Three other members of senior management also benefit from similar protection, in a total amount of €1,170 thousand.

The related agreements were approved by the Board of Directors on 9 February 2004. Settlement of the obligation towards the Managing Director and the three other members of senior management is not probable and, therefore, no provision has been recorded.

Commitment to purchase property

On 20 October 2005, the Group signed an undertaking to purchase the property at 103 rue de Grenelle, Paris VII, subject to the condition precedent that a building permit is obtained. The transaction is expected to be completed in mid-2006. The property will then be renovated with the aim of delivering the 14,500 square metres of offices at the end of 2008.

6-40. Note to the statement of cash flows

	31/12/2005	31/12/2004
Acquisitions of subsidiaries, net of the cash acquired:		
Purchase price	(21,415)	–
Cash acquired	1,694	–
Repayment of intragroup current account advances	–	–
Receivables from the sale of investments	–	–
Assets and liabilities acquired:		
Non-current assets	20,137	–
Current assets	1,699	–
Equity	(21,415)	–
Current liabilities	(420)	–
Proceeds from disposals of intangible assets and property and equipment:		
Sale price	125,390	211,237
Transaction costs	(497)	(2,233)
Capital gains tax	–	–
Impact on the statement of cash flows of recognising finance leases in the consolidated balance sheet:		
Repayments of borrowings	109,748	15,479
Acquisitions of intangible assets and property and equipment		
Amount included in property and equipment	–	171,239
Recognised lease liabilities (Rives de Seine finance lease)	–	(140,492)
Cash and cash equivalents at end of period:		
Cash equivalents	26,659	71,120
Cash	2,272	5,514
Short-term bank loans and overdrafts	(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.

6-41. Fair value of investment properties

Under IAS 40, investment properties may be measured using either the fair value model or the cost model.

SFL has chosen to use the cost model, which consists of measuring investment properties at cost less accumulated depreciation and impairment losses. As the fair value model is recognised as the benchmark accounting treatment among listed property companies, in the interest of full disclosure SFL has chosen to disclose details of the main effects on profit of applying this model. This disclosure is in line with the recommendations of the European Public Real Estate Association (EPRA).

	Cost model	Fair value 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	–	138,428	*1*	138,428
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**	**172,117**		**265,098**
Profit on disposal of investment properties	**–**	**–**		**–**
Profit on disposal of assets held for sale	**27,647**	**(24,198)**	*3*	**3,449**
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	1,378	–		1,378
Finance costs, net	(35,282)	–		(35,282)
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**	**147,920**		**239,618**
Income tax expense	2,959	–		2,959
Profit for the period	**94,658**	**147,920**		**242,577**
Minority interests	(5,196)	(10,475)	*4*	(15,671)
Profit attributable to equity holders of the parent	**89,462**	**137,444**		**226,905**

Note 1: The adjustment consists of recognising in profit the increase in value of investment properties observed over the period. The calculation concerns investment properties held by the Group at the balance sheet date and the change in fair value is determined after taking into account the cost of any work capitalised during the period.

Note 2: As investment properties are measured at fair value, the depreciation charge for the period is neutralised in full in the amount of €33,689 thousands.

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 therefore corresponds to the disposal proceeds of €125,819 thousands less the properties' carrying amount (fair value) at 31 December 2004 of €122,370 thousands.

Following SFL's election to be taxed as a SIIC, operations subject to income tax are not material and deferred taxes have therefore not been taken into account in the table.

Note 4: Minority interests correspond to 34% of the increase in value and the decrease in depreciation expense on the Washington Plaza property.

6-42. Transition to IFRS

Reconciliation of the French GAAP balance sheet at 31 December 2003 to the opening IFRS balance sheet at 1 January 2004

	31/12/2003						01/01/2004
	French GAAP	IFRS adjustments					IFRS
	Carrying amount	Derecognition of VVH	IAS 40	IAS 17	Other IFRS	Total adjustments	Carrying amount
ASSETS							
Intangible assets	5,762	(566)	(3,188)	–	–	(3,754)	2,008
Property and equipment	2,158,700	(279,132)	(1,865,725)	–	–	(2,144,857)	13,843
Investment properties	–	–	1,861,164	–	(182,877)	1,678,287	1,678,287
Financial assets	22,075	274,962	–	–	–	274,962	297,037
Other non-current assets	4,913	–	–	–	180	180	5,093
Total non-current assets	**2,191,450**	**(4,736)**	**(7,749)**	**–**	**(182,697)**	**(195,182)**	**1,996,268**
In inventories and work in progress	30,134	–	–	–	–	–	30,134
Trade and other receivables	38,126	(1,024)	–	4,038	–	3,014	41,139
Other current assets	34,174	6,500	–	–	(1,625)	(4,875)	39,049
Cash	211,854	(399)	–	–	(35,406)	(35,805)	176,049
Total current assets	**314,287**	**5,077**	**–**	**4,038**	**(37,031)**	**(27,916)**	**286,372**
Assets held for sale	–	–	–	–	182,877	182,877	182,877
Total assets held for sale	**–**	**–**	**–**	**–**	**182,877**	**182,877**	**182,877**
Total Assets	**2,505,736**	**341**	**(7,749)**	**4,038**	**(36,851)**	**(40,221)**	**2,465,515**

	31/12/2003						01/01/2004
	French GAAP	IFRS adjustments					IFRS
	Carrying amount	Derecognition of VVH	IAS 40	IAS 17	Other IFRS	Total adjustments	Carrying amount
EQUITY AND LIABILITIES							
Share capital	71,618	–	–	–	–	–	71,618
Reserves	1,095,427	(824)	(965)	4,038	(32,341)	(30,092)	1,065,335
Profit for the period	54,883	–	–	–	–	–	54,883
Equity attributable to equity holders of the parent	**1,221,928**	**(824)**	**(965)**	**4,038**	**(32,341)**	**(30,092)**	**1,191,837**
Minority interests	44,629	–	–	–	539	539	45,168
Total minority interests	**44,629**	**–**	**–**	**–**	**539**	**539**	**45,168**
Total equity	**1,266,558**	**(824)**	**(965)**	**4,038**	**(31,802)**	**(29,553)**	**1,237,005**
Long-term borrowings and other interest-bearing debt	1,006,368	13,508	–	–	–	13,508	797,476
Long-term provisions	31,842	(4,013)	(6,785)	–	1,029	(9,769)	22,073
Deferred tax liabilities	15,433	(795)	–	–	180	(615)	14,818
Other long-term tax liabilities	95,869	(3,505)	–	–	(6,258)	(2,753)	86,106
Other non-current liabilities	24,951	(2,583)	–	–	–	(2,583)	22,368
Total non-current liabilities	**1,174,462**	**2,612**	**(6,785)**	**–**	**(5,049)**	**(9,222)**	**942,840**
Trade and other payables	20,765	(1,193)	–	–	–	(1,193)	19,572
Short-term borrowings and other interest-bearing debt	20,601	–	–	–	–	–	243,001
Short-term provisions	1,580	–	–	–	–	–	1,580
Other current liabilities	21,772	(254)	–	–	–	(254)	21,518
Total current liabilities	**64,717**	**(1,447)**	**–**	**–**	**–**	**(1,447)**	**285,670**
Total Equity and Liabilities	**2,505,736**	**341**	**(7,749)**	**4,038**	**(36,851)**	**(40,221)**	**2,465,515**

Reconciliation of the French GAAP and IFRS balance sheets at 31 December 2004

	31/12/2004						31/12/2004
	French GAAP	IFRS adjustments					IFRS
	Carrying amount	Derecognition of VVH	IAS 40	IAS 17	Other IFRS	Total adjustments	Carrying amount
ASSETS							
Intangible assets	6,267	–	(4,277)	–	–	(4,277)	1,990
Property and equipment	2,221,331	–	(2,205,452)	–	–	(2,205,452)	15,878
Investment properties	–	–	2,192,712	–	(100,625)	2,092,088	2,092,088
Financial assets	54,988	–	–	26	–	26	55,015
Other non-current assets	2,296	–	–	–	467	467	2,763
Total non-current assets	**2,284,882**	**–**	**(17,017)**	**26**	**(100,158)**	**(117,148)**	**2,167,734**
In inventories and work in progress	14,972	–	–	–	–	–	14,972
Trade and other receivables	33,495	–	–	6,064	–	6,064	39,559
Other current assets	1,625	–	–	–	(1,625)	(1,625)	–
Cash	107,050	–	–	–	(30,416)	(30,416)	76,634
Total current assets	**157,142**	**–**	**–**	**6,064**	**(32,041)**	**(25,977)**	**131,165**
Assets held for sale	–	–	–	–	100,625	100,625	100,625
Total assets held for sale	**–**	**–**	**–**	**–**	**100,625**	**100,625**	**100,625**
Total Assets	**2,442,024**	**–**	**(17,017)**	**6,091**	**(31,574)**	**(42,501)**	**2,399,523**

	31/12/2004						31/12/2004
	French GAAP			IFRS adjustments			IFRS
	Carrying amount	Derecognition of VVH	IAS 40	IAS 17	Other IFRS	Total adjustments	Carrying amount
EQUITY AND LIABILITIES							
Share capital	85,975	–	–	–	–	–	85,975
Reserves	1,250,647	(538)	(965)	4,038	(27,954)	(25,419)	1,225,228
Profit for the period	98,418	538	(9,382)	2,053	(2,476)	(9,267)	89,151
Equity attributable to equity holders of the parent	**1,435,040**	**–**	**(10,347)**	**6,091**	**(30,430)**	**(34,686)**	**1,400,354**
Minority interests	45,129	–	–	–	527	527	45,656
Total minority interests	**45,129**	**–**	**–**	**–**	**527**	**527**	**45,656**
Total equity	**1,480,169**	**–**	**(10,347)**	**6,091**	**(29,903)**	**(34,159)**	**1,446,010**
Long-term borrowings and other interest-bearing debt	556,279	–	–	–	–	–	556,279
Long-term provisions	7,597	–	(6,671)	–	909	(5,762)	1,835
Deferred tax liabilities	16,821	–	–	–	467	467	17,288
Other long-term tax liabilities	51,902	–	–	–	(3,047)	(3,047)	48,855
Other non-current liabilities	17,316	–	–	–	–	–	17,316
Total non-current liabilities	**649,914**	**–**	**(6,671)**	**–**	**(1,671)**	**(8,342)**	**641,573**
Trade and other payables	15,192	–	–	–	–	–	15,192
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	**2,442,024**	**–**	**(17,017)**	**6,091**	**(31,574)**	**(42,501)**	**2,399,523**

Reconciliation of the French GAAP and IFRS profit and loss accounts for 2004

	Detail	Sub-total	Total
Profit under French GAAP			**98,418,351**
IAS 40		(8,156,746)	
Restatement of investment properties	(9,381,957)		
Minority interests in restatement of investment properties	1,225,211		
IAS 17		2,052,615	
Leases: deferred recognition of rent-free periods and step-ups	2,052,615		
Other IFRS		(3,163,000)	
Employee benefits	(490,000)		
Discounting of deferred payments	(3,211,000)		
Neutralisation of consolidated loss on VVH, derecognised at 31 December 2003 under IFRS	538,000		
Total IFRS adjustments			**(9,267,130)**
Profit under IFRS			**89,151,221**

DEBT COVENANTS AND ACCELERATION CLAUSES

Loan	Required ratios	Value at 31/12/2005 (1)	Value at 31/12/2004 (1)	Acceleration clauses (2)
PARHOLDING LOAN (100% basis)	LTV (Loan-to-value) < 70%	50.8%	52.2%	Breach of financial covenants Withdrawal of collateral
	ROCE = Net rental revenues/Interest on debt and swaps > 1.30	2.1	1.9	Bankruptcy proceedings Dissolution, merger, demerger
	Net rental revenues/Interest on debt and swaps and debt reimbursement > 1	1.5	na	Termination of mandates Auditor refusal to express an opinion on the accounts Inscriptions - Seizure of assets Default on an instalment Material adverse change
SYNDICATED LOAN (Group share)	Interest cover > 2,5	3,8	3,8	Default on an interest
	Gearing <= 50%	27.5%	27.0%	Breach of financial covenants
	Loan-to-value <= 20%	11.7%	na	Bakruptcy proceedings
	Asset value >= €1 Md	€2.5 Md	€2.5 Md	Change of control Material adverse change
US PRIVATE PLACEMENT NOTES (100% basis)	Shareholders' funds > €650 m	€1,425 M	€1,480 M	Change of control
	Interest cover > 1.5	3.8	3.1	Breach of financial covenants
	Loan-to-value < 55%	28.9%	24.9%	Default of an instalment
	Unsecured loans to Unencumbered Value < 50%	21.5%	9.8%	Change of business
	Secured loans to Value < 30%	12.3%	18.0%	Merger
	Standard & Poor's rating of at least >=BBB-	BBB (3)	BBB (3)	Suspension of payments to creditors Material adverse change

(1) Covenants as of end 2005 are not comparable with covenants as of end 2004 due to changes in Parholding loan, a new syndicated loan (January 26th. 2005) and IFRS impacts.

(2) Summarised information.

(3) End 2005: Stable outlook – End 2004: Negative outlook.

Summary Financial Statements
At 31 December 2005

CONTENTS

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 - Balance sheet

(in thousands of euros)

ASSETS	2005	2004	2003	2002
Property assets	1,350,614,276	1,226,664,555	28,685,160	46,889,041
Other tangible and intangible fixed assets	57,945,578	54,788,803	2,701,808	1,204,878
Fixed asset investments	213,064,435	197,985,734	1,334,978,238	1,057,506,856
Current assets	242,452,572	229,643,284	577,265,218	738,310,162
Cash and cash equivalents	17,859,357	83,401,692	160,752,913	36,566,162
Other	3,272,289	1,175,372	1,355,489	2,291,162
TOTAL ASSETS	**1,885,208,507**	**1,793,659,440**	**2,105,738,825**	**1,882,768,260**

EQUITY AND LIABILITIES	2005	2004	2003	2002
Equity	1,365,574,106	1,393,414,261	1,143,177,655	919,702,669
Provisions	2,814,654	7,403,144	32,476,151	105,335,987
Convertible bonds	–	238,179	213,679,155	213,679,155
Mandatory convertible bonds	–	–	279,022,200	278,982,983
Other non-current liabilities	444,505,375	308,042,080	363,420,161	353,717,625
Current liabilities	72,314,372	84,561,776	73,963,502	11,349,841
TOTAL EQUITY AND LIABILITIES	**1,885,208,507**	**1,793,659,440**	**2,105,738,825**	**1,882,768,260**

B - Summary Profit and Loss Account

(in thousands of euros)

	2005	2004	2003	2002
Net revenue	121,799,332	135,487,018	23,405,279	25,410,707
Other operating income	147,773,759	162,597,166	27,457,094	33,181,248
Operating expense	(106,432,040)	(96,294,852)	(28,829,916)	(37,297,538)
Operating profit (loss)	**41,341,719**	**66,302,314**	**(1,372,822)**	**(4,116,290)**
Financial income	32,709,218	69,563,945	72,954,011	78,417,644
Finance costs, net	(27,797,324)	(34,267,588)	(60,243,146)	(47,388,629)
Net financial income	**4,911,894**	**35,296,357**	**12,710,866**	**31,029,015**
Profit before tax and other income and expense	**46,253,613**	**101,598,671**	**11,338,044**	**26,912,725**
Other income	138,657,344	488,372,483	59,002,283	413,549,174
Other expense	(128,205,720)	(527,588,288)	(88,417,669)	(140,366,887)
Other income (expense), net	**10,451,624**	**(39,215,805)**	**(29,415,386)**	**273,182,287**
Employee profit-sharing	(79,470)	(99,234)	156,835	(2,050,596)
Income tax expense	(6,665,204)	(186,173)	49,601,768	(103,009,547)
NET PROFIT	**49,960,563**	**62,097,459**	**31,681,261**	**195,034,869**

C - Five-Year Financial Summary

(in thousands of euros)

	2005	2004	2003	2002	2001
I. Capital at 31 December					
Share capital	86,127,576	85,974,374	71,618,342	71,420,472	71,391,960
Number of ordinary shares outstanding	43,063,788	42,987,187	35,809,171	35,710,236	35,695,980
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	6,939,508
• on exercise of warrants	–	–	–	–	2,677,444
II. Results of operations					
Net revenue	121,799,332	135,487,018	23,405,279	25,410,707	33,807,001
Profit before tax, depreciation, amortisation and provisions	92,700,375	47,531,707	3,575,048	303,262,125	80,632,274
Income tax expense	6,665,204	186,173	43,278,194	10,652,473	20,656,301
Net profit	49,960,563	62,097,458	31,681,261	195,034,869	51,470,385
Total dividends	90,433,955	88,123,733	64,456,508	42,852,283	35,695,980
III. Earnings per share					
Earnings per share after tax, before depreciation, amortisation and provisions	2.00	1.10	(1.1)	8.19	1.68
Net earnings per share	1.16	1.44	0.88	5.46	1.44
Net dividend per share	2.10	2.05	1.80	1.20	1.00
IV. Employee data					
Number of employees at year-end	65	49	53	59	72
• including building employees	11	5	5	12	25
Total payroll	5,178,661	5,563,184	3,246,037	3,604,233	3,191,770
Total benefits	2,191,720	1,563,631	1,386,619	1,572,760	1,605,183

D - Investments in subsidiaries and affiliates

(in thousands of euros)

SUBSIDIARIES AND AFFILIATES

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

Unquoted shares			**172,763,015**
4,174,368	SCI Washington shares	79,788,878	
200,000	SCI Paul Cézanne shares	34,085,250	
12,674	Coface Immobilier shares	20,111,069	
589,188	SAS Parholding shares	18,400,300	
1,296	Le Courcellor shares	4,828,040	
3,583,075	SNC Amarante shares	3,583,075	
1,490	SCI No. 6 du Courcellor II shares	3,178,105	
274,994	SEGPIM shares	2,987,373	
79,546	Groupe Vendôme Rome SCA shares	2,286,735	
120,629	SAS Iéna shares	2,043,984	
64,056	SAS La Défense shares	1,230,616	
818	SCI Parmentier 2 shares	119,590	
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**
400	Société d'Economie Mixte d'Equipements et d'Aménagement du 15ᵉ shares	5,997	
100	SCI SB 3 shares	1,500	
Property development companies (total)		246	**246**

TOTAL SHARES IN SUBSIDIARIES AND AFFILIATES	**172,770,758**

Auditors' Report

CONTENTS

1. Auditors' report on the consolidated financial statements

Year ended 31 December 2005

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 2005.

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. These consolidated financial statements represent the Group's first financial statements prepared in accordance with IFRSs as adopted by the European Union. They include pro forma comparative information for 2004, prepared in accordance with the same standards, except for IAS 32 and IAS 39 which, in line with the option available to first-time adopters under IFRS 1, have been applied with effect from 1 January 2005.

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:

As explained in notes 2-2 and 6-3 to the consolidated financial statements, all of the Company's property assets have been valued by a qualified independent valuer. To assess the need to recognize any impairment losses, we verified that the rules described in the notes to the consolidated financial statements had been properly applied and compared the independent valuations with the assets' carrying amounts. We obtained assurance that the absence of provisions for impairment was justified.

Notes 2-18 and 6-32 to the consolidated financial statements describe 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 the notes to the consolidated financial statements were appropriate.

The 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 its fair presentation and conformity with the consolidated financial statements.

Neuilly-sur-Seine, 28 March 2006.

Statutory Auditors

PricewaterhouseCoopers Audit
Catherine THURET

Deloitte & Associés
Laure SILVESTRE-SIAZ   Thierry AUBERTIN

2. Auditors' special report on regulated agreements

Year ended 31 December 2005

To the shareholders,

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

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. Under the provisions of Article 92 of the decree of 23 March 1967, it is the responsibility of shareholders to determine whether the agreements are appropriate and should be approved.

AGREEMENTS ENTERED INTO IN 2005

We were not informed of any new agreements entered into during the year that would be governed by Article L.225-38 of the Commercial Code.

Agreements entered into in prior years which remained in force in 2005

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 2005.

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.

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.

Agreement with SCI Paul Cézanne

Comfort letter issued to CADIF in connection with the rollover of the overdraft facility intended to finance work on the Paul Cézanne building. The agreement expired on 30 June 2005, on full repayment of the related borrowings.

Agreements with Segpim

– Tax bond given by Société Foncière Lyonnaise on behalf of Segpim covering for the payment of interest, taxes and penalties up to a maximum of €650,000, following an application of 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

€4,615,000 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, 28 March 2006.

Statutory Auditors

PricewaterhouseCoopers Audit SA
Catherine THURET

Deloitte & Associés
Laure SILVESTRE-SIAZ   Thierry AUBERTIN

3. Report on the procedures of the Board of Directors and internal control procedures

In accordance with Article L.225-37 of the Commercial Code, as amended by Articles 5 I and 7 I of the "Breton Act" (Loi pour la confiance et la modernisation de l'économie) of 26 July 2005, we present below our report on the preparation and organization of the work of the Board of Directors and on internal control procedures, as well as on the restrictions on the Chief Executive Officer's powers decided by the Board.

1. Corporate Governance

1-1. PROCEDURES OF THE BOARD OF DIRECTORS

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 and may sit on Committees of the Board. They receive the same fees as the Directors.

General information about the Directors

– Yves MANSION, Chairman and Chief Executive Officer, born 9 January 1951 (current term expires in 2008);
– Juan José BRUGERA CLAVERO, born 15 October 1946 (current term expires in 2007);
– José Maria GRAU GREOLES, born 12 July 1941 (current term expires in 2006);
– Gabriel CASTELLO, born 10 August 1965 (current term expires 2008);
– Eduardo MENDILUCE FRADERA, born 20 August 1970 (appointed by the Board for a period expiring in 2008, subject to shareholder ratification);
– Pierre LHERITIER, born 15 October 1946 (current term expires in 2008);
– Francisco Emilio RUIZ ARMENGOL, born 31 October 1958 (current term expires in 2008);
– Jean-Jacques DUCHAMP, born 31 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:
– 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 were 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, Honorary Chairman, born 11 May 1935 (current term expires in 2007);
– Tony WYAND, Honorary Chairman, 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 2006);
– Philippe CHAREYRE, born 15 September 1929 (current term expires in 2006).

Directorships held by the members of the Board

Yves MANSION
Directorships in France:
Chairman 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 member of the Audit Committee of EULER HERMES
Member of the Collège de l'Autorité des Marchés Financiers.
Directorships outside France:
Director and member of the Audit Committee of ALCAN (Canada)*

Juan José BRUGERA CLAVERO
Directorships in France:
Director of SOCIÉTÉ FONCIÈRE LYONNAISE
Directorships outside France:
Chief Executive Officer of COLONIAL (Spain)*
Director of MAPFRE (Spain)*

José Maria GRAU GREOLES
Directorships in France:
Director of SOCIÉTÉ FONCIÈRE LYONNAISE
Directorships outside France:
Chairman of TORRE MARENOSTRUM (Spain)*

Gabriel CASTELLO
Directorships in France:
Director of SOCIÉTÉ FONCIÈRE LYONNAISE, SWISS LIFE BANQUE and SWISS LIFE ASSURANCE DE BIENS
Chief Executive Officer and Director of CAIXABANK France, S.A.
Chief Executive Officer and Director of HODEFI S.A.S.*
Directorships outside France:
Director of E-LA CAIXA (Spain)*

Eduardo MENDILUCE FRADERA
Directorships in France:
Director of SOCIÉTÉ FONCIÈRE LYONNAISE
Directorships outside France:
Director of COMPAGNIE IMMOBILIÈRE SERVIHABITAT S.A. (Spain)*

Pierre LHERITIER
Directorships in France:
Director of SOCIÉTÉ FONCIÈRE LYONNAISE
Managing Director of SODEMI S.A.S.* and CEGIPRO S.A.S.*
Member of the Supervisory Board of SCPI Pierre Plus*
Legal Manager of SEFA, SARL* and SOGAL, SARL*

Francisco Emilio RUIZ ARMENGOL
Directorships in France:
Director of SOCIÉTÉ FONCIÈRE LYONNAISE
Directorships outside France:
Director of CAIXA CAPITAL DESARROLLO, S.C.R., S.A.*
CAIXA CAPITAL RISC, SGECR, S.A.*
CAIXA CORP, S.A.*
CATALUNYA DE VALORES SGPS, UNIPESSOAL, LDA*
CRANBERRY DOMINICANA, S.A.*
DESARROLLO FLAMENCO RIVIERA, S.A.*
EDICIONS 62, S.A.*
FLAMENCO FUERTEVENTURA, S.L.*
G.P. RESORT, S.A.*
GRAND P, COMERCIAL, S.A.*
HOTEL CARIBE RESORT, S.L.*
INVERSORA INTERNACIONAL HOTELERA, S.A.*
PORT AVENTURA, S.A.*
SOTELTUR INTERNACIONAL, B.V.*
SOTELTUR, S.L.*
TLANTIMAR, S.A.*
USPA HOTEL VENTURES I, S.A.*
Representative of CAIXA HOLDING, S.A.U. on the Board of CAIXABANK, S.A. (Andorra)*

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

Representative of CAIXA CORP, S.A. on the Board of GOLF MONTECASTILLO, S.A. *
Representative of SOTELTUR, S.L. on the Board of HOTEL OASIS DE LANZAROTE S.L.U.*
Representative of CAIXA CORP, S.A. on the Board of INVERSIONES INMOBILIARIAS OASIS RESORT, S.L. and INVERSIONES INMOBILIARIAS TEGUISE RESORT, S.*

Yves DEFLINE
Directorships in France:
Director of SOCIÉTÉ FONCIÈRE LYONNAISE

Tony WYAND
Directorships in France:
Director of SOCIÉTÉ FONCIÈRE LYONNAISE and SOCIÉTÉ GÉNÉRALE
Member of the Supervisory Board of AVIVA France and AVIVA PARTICIPATIONS
Directorships outside France:
Director of GROSVENOR (UK) and director of UNICREDITO (Italy)*

Jean ARVIS
Directorships in France:
Director of SOCIÉTÉ FONCIÈRE LYONNAISE and ADYAL
Chairman of the Supervisory Board of GROUPE VENDÔME ROME

Jean-Jacques DUCHAMP
Directorships in France:
Director of SOCIÉTÉ FONCIÈRE LYONNAISE, GEFER and SUREN
Chairman of B. IMMOBILIER, S.A.
Member of the PREDICA Financial Services Executive Committee*
Chairman of HOLDING GONDOMAR 2 S.A.S.
Vice-Chairman of the Supervisory Board of UNIPIERRE ASSURANCE SCPI*
Representative of PREDICA at partners' meetings of SCI SEGUR* and SCI SEGUR 2*

Jacques CALVET
Directorships in France:
Non-voting Director of SOCIÉTÉ FONCIÈRE LYONNAISE*, EPI*, COTTIN FRÈRES* and ENJOY*
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 SOCIÉTÉ FINANCIÈRE DES PIMONTS-ICADE S.A.
Honorary Chairman of BNP*
Advisor to the BANQUE DE FRANCE*

Philippe CHAREYRE
Directorships in France:
Non-voting Director of SOCIÉTÉ FONCIÈRE LYONNAISE*
Honorary Chairman and Director of SAGI
Vice-President and Director of SNTE
Director of PEREXIA

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 of ordinary shares and securities with rights to ordinary shares, with or without pre-emptive subscription rights for existing shareholders. 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 or 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 or 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 of an unlisted company 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 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

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

and officers without consideration. 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.
– 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 Commercial Code. The options may not be exercisable for shares representing over 3% of the Company's issued capital at the date of the General Meeting. The authorisation is for a period of thirty-eight months.
– To make share grants without consideration 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 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. The authorisation is for a period of thirty-eight months.

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

Meetings of the Board of Directors

The Board of Directors met five times in 2005, with an average attendance rate of 91%.

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 2005 meetings were as follows:

28 January meeting:
– Report on the Group restructuring, after the General Meeting of 25 November 2004.
– Placing on record of the share issues carried out upon conversion of bonds and exercise of stock options.
– Review of the 2004 financial statements, the Audit Committee's report of 27 January 2005, the Auditors' report; determination of the recommended dividend.
– Review of the Remuneration and Selection Committee's report.
– Membership of the Committees of the Board and allocation of directors' fees.
– Review of the property portfolio.
– Preparation of the Annual General Meeting (implications of the new tax rules concerning the special long-term capital gains reserve and agenda of the AGM).
– Renewal of authorisations to guarantee the commitments of Segpim and Locaparis.
– Information about the extension of the SIIC regime.
– Related party agreements governed by Article L.225-38 of the Commercial Code.

21 April meeting:
– Confirmation of the appointments of the Chairman and Chief Executive Officer and the Managing Director – Powers and remuneration.
– Appointment of Non-Voting Directors – Membership of the Committees of the Board.
– Review of first-quarter 2005 operations and results.

22 July meeting:
– Resignation of a Director – Appointment of a new Director.
– Interim financial statements (Audit Committee's Report and Auditors' Report).
– Review of first-half operations (property acquisition projects reviewed and abandoned, marketing, projects in progress).
– Information about the legislative environment.

29 September meeting:
– Property acquisitions and disposals.
– Interim dividend – Auditors' Report.

24 November meeting:
– Information about the financial statements and results for the first nine months of the year.
– 2006 budget and 2007-2010 business plan.
– Development project.

Internal Rules

A summary of the Board's internal rules, code of ethics 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 the 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 voting and non-voting Director, elected in his own name or as permanent representative of a corporate Director, is required to hold at least 25 SFL shares registered in his name. Directors are required to disclose to the Chairman of the Board in writing twice a year, full details of all SFL shares purchased or sold during the period. In addition, each Director must notify the Chairman of all directorships and executive functions held in 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 is given a copy of the Company's Articles of Association and of the Board's internal rules by the Chairman of the Board.

Twice a year, in January and July, a form is sent to each Director to be used to report to the Company all transactions in SFL shares carried out by the Director concerned in the previous six months. This information is used to prepare any reports that SFL may be required to submit to the French securities regulator on transactions carried out by Directors on the Company's shares.

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 of Committees of the Board.

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 2005, on 27 January and 18 July)

Chairman: José Maria GRAU GREOLES
Members: Jacques CALVET
Philippe CHAREYRE
Yves DEFLINE
Jean-Jacques DUCHAMP
Francisco Emilio RUIZ ARMENGOL

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 enquiries of the Auditors without any member of management being present.

Remuneration and Selection Committee (two meetings in 2005, on 28 January and 24 November)

Chairman: Juan José BRUGERA CLAVERO
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.

1-2. RESTRICTIONS ON THE POWERS OF THE CHIEF EXECUTIVE OFFICER DECIDED BY THE BOARD

At its meeting on 21 April 2005, the Board of Directors decided to continue to combine the positions of Chairman and Chief Executive Officer. Pursuant to this decision, Yves MANSION continued to act as Chairman and Chief Executive Officer, and Alec EMMOTT as Managing Director. No specific restrictions apply to the Chairman and Chief Executive Officer or Managing Director.

2. 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 and internal control objectives

The system of internal control is a process designed to provide reasonable assurance that the following objectives are met:
– Reliability of financial information.
– Effective management of company-specific risks (protection of assets, property-related technical risks, information systems risks).
– Compliance with applicable laws and regulations and internal guidelines.

The system is supported by formal procedures, management accountability across the entire organisation, collective decision-making and segregation of execution and control functions.

The procedure manual includes:
– A code of ethics.
– Detailed delegations of signature and other authority covering all of the Company's activities.
– General and business-specific procedures, together with less formal guidelines which nevertheless form an integral part of the internal control system.

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, two major changes were made, with the implementation of a new information system and the change in our Company's ownership structure, making it necessary to adapt the existing organisation. The accounts of all Group companies are kept on the same internal accounting system, which is integrated in the new management information system that came on stream in April 2004. The consolidation software used by the Group is sold widely on the market, representing a guarantee of reliability and ongoing maintenance.

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 variable remuneration.

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 letters prepared after their audits of the interim and annual financial statements and setting out their observations and recommendations.

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.

In addition, procedure manuals were updated following implementation of the new information system.

In particular, as part of the drive to limit the risk of fraud, payables accounting and payments 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 the new information system, which is 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 were 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 necessary 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 must be published within a very short time-frame 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 monthly 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. 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 also produces a rolling three-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.

2-2-5. 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 values.

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. Since 2004, the internal auditor has been overseeing a risk-mapping exercise covering all the major property restructuring 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 restructuring 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.

2-3. 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 Masterplan. The new 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.

2-6. INTERNAL AUDIT

To strengthen internal control processes, in 2003 SFL created an internal audit function reporting to Group management.

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, in particular 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.

4. Report of the Auditors' report on the report of the Chairman of the Board of Directors

Year ended 31 December 2005

Report of the Auditors, prepared in application of article L.225-235, final paragraph, of the Commercial Code, 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, final paragraph, of the 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 Commercial Code for the year ended 31 December 2005.

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 concerning the internal control procedures related to 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 about internal control procedures related to 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 ís internal control procedures related to 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 Commercial Code.

Neuilly-sur-Seine, 28 March 2006.

Statutory Auditors

PricewaterhouseCoopers Audit
Catherine THURET

Deloitte & Associés
Laure SILVESTRE-SIAZ
Thierry AUBERTIN

Additional Information

CONTENTS

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, on line 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 on line 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.

Members of the Board of Directors, officers and proxy holders 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.

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

Completed on-line/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. There are no shares giving 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 and securities redeemable, exchangeable, convertible or otherwise exercisable 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 redeemable, exchangeable, convertible or otherwise exercisable 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 as of 31 December 2005

As of 31 December 2005, the Company held 179,567 of its own shares, none of which qualify as treasury stock. These shares are stripped of voting rights and the total number of voting rights is therefore 42,884,221.

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

As of 15 March 2005, SFL had approximately 2,700 identified shareholders.

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.

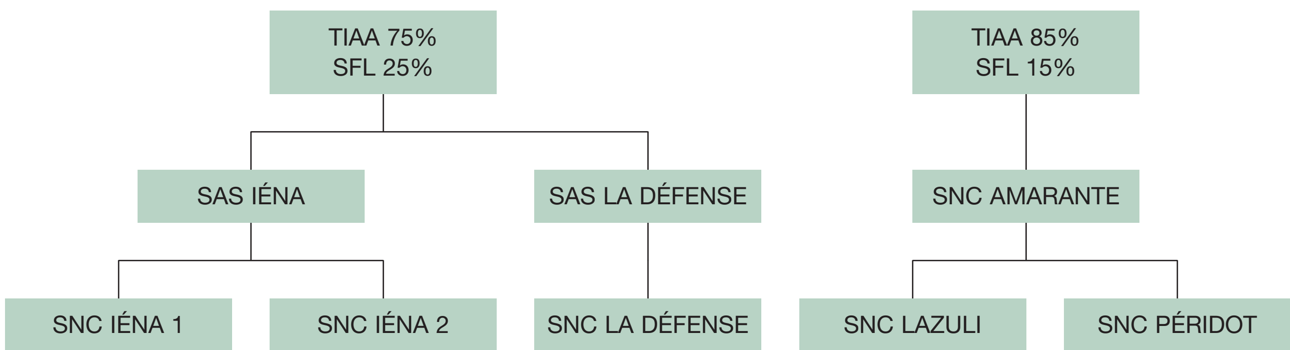
Other main terms of the pact are as follows:
– PRÉDICA has the right to designate one director of SFL, for as long as COLONIAL controls SFL and PRÉDICA's interest represents at least 5%.
– COLONIAL is committed to bying back all the SFL shares originally sold to PRÉDICA, as well as any additional shares 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 the purchased shares retain a certain degree of liquidity.

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 with six months' notice.

Partnerships – Shareholders' pacts

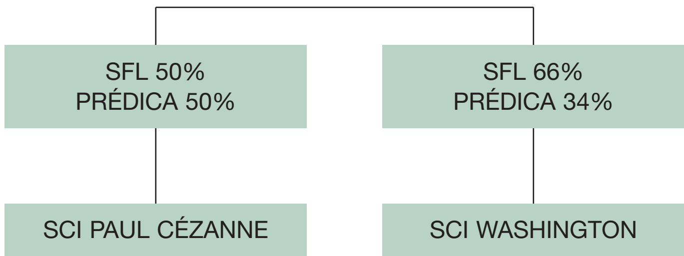
Partner	Joint ventures	Main clauses
TIAA Group (1)	– SFL holds 25% of the capital of Iéna SAS (which in turn holds 100% of Iéna 1 SNC and Iéna 2 SNC) – SFL holds 25% of the capital of La Défense SAS (which in turn holds 100% of La Défense SNC) – SFL held 25% of the capital of Roosevelt SAS (which in turn holds 100% of Roosevelt SNC) (3)	In the case of a change of control of SFL (50%), TIIA has the option of: – either agreeing to the change of control (2), – 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. If the TIIA 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 TIIA Group's stake, on the same terms.
TIAA Group (1)	– SFL holds 15% of SNC Amarante (which in turn holds 100% of Lazuli SNC and Péridot SNC; Tour Framatome)	

(1) Teachers Insurance and Annuity Association of America.
(2) Following COLONIAL's friendly take-over of SFL, the joint venture partners agreed to the change of control, as provided for in the terms of the related shareholder pacts.
(3) On 30 June 2005, SFL sold its entire interest in SAS Roosevelt to TIAA.



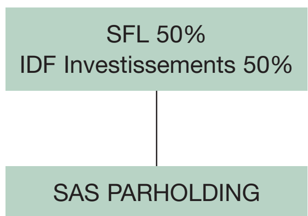
Partner	Joint ventures	Main clauses
PRÉDICA [1]	– SFL holds 50% of SCI Paul Cézanne – SFL holds 66% of SCI Washington	In the case of a change of control of SFL or PRÉDICA (50%) the other partner has the option of: – either agreeing to the change of control [2], – or acquiring all the shares and shareholders' 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 the COLONIAL public tender offer, the partners agreed to the change of control of SFL as provided for under the terms of the shareholders' pacts.



Partner	Joint ventures	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 PRÉDICA (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 the COLONIAL public tender offer, the partners agreed to the change of control of SFL as provided for under the terms of the shareholders' pacts.



1-2. GENERAL INFORMATION ABOUT THE CAPITAL

Share capital

As of 31 December 2005, the issued share capital amounted to €86,127,576 divided into 43,063,788 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). 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.

The Annual General Meeting 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 three successive stock option plans for the management and employees of the Company and its subsidiaries (27 November 1997 plan, 25 February 1999 plan and 6 April 2000 plan).

The options were granted at prices of €25.73, €30.83 and €27.59 respectively.

During 2005, 74,323 options were exercised for new shares carrying rights to the 2005 dividend.

Share equivalents

In 2005, 564 convertible bonds were converted into 2,278 new shares with a par value of €2, carrying rights to the 2005 dividend.

Convertible bonds issued on 31 October 1997

– Number of bonds issued: 1,718,750
– Number of bonds converted: 1,716,348
– Number of bonds redeemed: 2,362
– Number of bonds outstanding: 40
– Issue price: FRF 800 (€121.96)
– Starting date of interest accruals: 31 October 1997
– Term: 7 years
– Annual coupon: 4%
– Redemption premium at maturity: 11.4%
– Yield to maturity: 5.39 %
– Conversion parity: originally 1.01 share with a par value of FRF 50 (€7.62) per bond, adjusted to 4.04 shares with a par value of €2 for 1 bond following the 6 November 2000 stock-split
- Starting date of trading in the bonds: 3 November 1997
- Date delisted: 1 November 2004.

The Board of Directors used the authorisations given at the General Meetings of 17 October 1997 and 16 May 2002 to set up four stock option plans for management and employees as of 31 December 2005, including two plans providing for the issuance of new shares and two providing for the allocation of existing shares bought back for this purpose (see note 5.2).

No other share equivalents are currently outstanding.

Changes in capital

Date	Description	Issues			New capital	
		Number of shares created	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 333,707,450
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 bonds	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	€71,391,840
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 convertible 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 (4)	Exercise of stock options	74,323	€148,646	€3,041,230.46	43,063,788	€86,127,576

(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 2005.

Ownership structure and voting rights as of 31 December 2005

Main shareholders	Business	Total	Total voting rights	Group total	% interest	% voting rights
COLONIAL (1)	Property	34,180,921	34,180,921	34,180,921	79.37%	79.7%
PRÉDICA (2)	Personal insurance (subsidiary of Crédit Agricole)	4,126,400	4,126,400	4,126,400	9.58%	9.62%
Sub-total, main shareholders				**38,307,321**	**88.95%**	**89.33%**
Free-float		4,576,900	4,576,900	4,576,900	10.63%	10.67%
Own shares		**179,567**	**0**	**179,567**	**0.42%**	
Total shares at 31 December 2005				43,063,788	100.00%	
Capital at 31 December 2004		42,987,187				
Shares issued between 1 January and 31 December 2005		76,601				
Total voting rights (7) at 31 December 2005			**42,884,221**			**99.58%**

Disclosure thresholds

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

Pensioenfonds PGGM:
Disclosure on 8 April 2005 of an increase in its interest in the capital and voting rights to more than 2%.

AMBER FUND LIMITED:
Disclosure on 20 July 2005 of a increase in its interest in the capital and voting rights to more than 2%

AMBER FUND LIMITED:
Disclosure on 22 September 2005 of an decrease in its interest in the capital and voting rights to less than 2%.

Amber Master Fund (Cayman) SPC:
Disclosure on 2 December 2005 of an increase in its interest in the capital and voting rights to more than 2%.

The Company has not been informed of any increases or reductions in shareholders' interests to above or below any disclosure thresholds since 1 January 2006.

Main shareholders of the Company as of 31 December 2003 and 2004

	AVIVA Group (3)	Exor Group (4)	Hermes Group (5)	Société Générale	GEH (6)	Own shares	Free float	Total
31/12/2003								
Number of shares	11,245,500	3,590,000	3,661,192	2,603,092	2,539,600	1,256,425	10,913,362	35,809,171
Number of voting rights	11,245,500	3,590,000	3,661,192	2,603,092	2,539,600	0	10,913,362	34,552,746
% interest	31.40%	10.03%	10.22%	7.27%	7.09%	3.51%	30.48%	100.00%
% voting rights (7)	32.55%	10.39%	10.60%	7.53%	7.35%	0	31.58%	100.00%

	COLONIAL (1)	PREDICA (2)	Own shares	Free float	Total
31/12/2004					
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	0	1,095,587	41,982,413
% interest	85.51%	9.60%	2.34%	2.55%	100.00%
% voting rights (7)	87.56%	9.83%	0	2.61%	97.66%

(1) Spanish property company, subsidiary of the CAIXA Group.
(2) Life insurance company, subsidiary of the Crédit Agricole Group.
(3) Former CGNU Group.
(4) Financial holding company, subsidiary of the Agnelli Group.
(5) Asset management company, responsible for managing the British Telecom and Post Office pension funds.
(6) Grosvenor Estate Holdings, manager of the property assets of the Duke of Westminster's family.
(7) No shares carry double voting rights.

Share buyback programme

The General Meeting of 21 April 2005 authorised a share buyback programme with the following objectives:
– 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 and avoid price fluctuations that are not driven by market trends.
– 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 or programme of share grants without consideration for all or certain categories of employees and corporate officers.
– Purchase shares for delivery on exercise of rights attached to share equivalents or under liquidity contracts entitling holders to receive shares immediately or at a future date.
– Purchase shares for delivery in exchange or payment for shares of another company, in connection with any future external growth transactions.
– Carry out any market practices that may be recognised in the future by law or by the securities regulator.

The maximum purchase price for these shares was set at €50. The programme was approved by the Autorité des Marchés Financiers on 25 March 2005 under visa no. 05-188.

As of 31 March 2006, the Company held 179,567 own shares, representing 0.42% of the capital, as follows:
1. 133,000 shares purchased for allocation to SFL Group employees.
2. 23,284 shares purchased under a liquidity contract with an investment firm.
3. No shares were held for delivery on exercise of rights attached to share equivalents.
4. 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 were 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 4 May 2006 authorising the purchase of shares under a further buyback programme. The maximum purchase price for these shares would be set at €65 (seventh 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 March 2006, the authorisation would concern the buyback of up to 4,306,378 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 without consideration, governed by Articles L.443-1 et seq. of the Labour Code or (iii) any stock option plan or programme of share grants without 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 and avoid price fluctuations that are not driven by market trends.
– Permit the issue of debt securities convertible into equity instruments and fulfill the related obligations, including by purchasing.
– Purchase shares for delivery on the exercise of rights attached to share equivalents entitling holders to receive shares immediately or at a future date.
– 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 or demerger would be limited to the equivalent of 5% of the issued capital, i.e. 2,153,189 shares.

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

Transactions in SFL Shares by the Company

Disclosures for the period from 18 March 2005 to 31 March 2006	
Percentage of capital held by the Company and or its subsidiaries	0.42%
Number of shares cancelled in the last 24 months	0
Number of shares held	179,567
Carrying amount of the portfolio	€5,434,984.15
Market value of the portfolio	€8,888,556.50 (as of end March 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	0	139,430				
Average maximum maturity			–	–	–	–
Average transaction price	0	31.66				
Average exercise price	–	–	–	–	–	–
Amounts	0	4,414,172				

1-3. OTHER GENERAL INFORMATION

Insurance

Despite the higher incidence of liability claims in the market, all of SFL's insurance policies covering operating risks were renewed in 2005 with the same levels of cover as in 2004 and without any increase in premiums except for index-linked premiums.

The comprehensive policies for properties in the portfolio have been renewed, substantially on an all-risks basis with limited exclusions. The policies cover reconstruction cost, lost rentals and loss of use.

For certain properties, specific insured values have been renegotiated, based on the properties' physical characteristics and the configuration of the resulting risks, as follows:
– €80 million for the Édouard VII complex
– €85 million for Washington Plaza
– €200 million for the Louvre Business Centre and Louvre Antiques Centre.

The insured value for SCI Paul Cézanne has not been capped.
– For properties which are only partly owned by SFL and/or those managed by a third-party "syndic", insurance cover for failure by the syndic to fulfil its duties has also been renewed.

Under this policy, insurance cover for the properties concerned kicks in solely in the event that the cover taken out by the syndic is inadequate or the syndic 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, property owner liability, terrorist attacks and natural disasters.

Liability insurance has been taken out covering the businesses conducted by SFL and its subsidiaries, as follows:

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, all type of loss, up to €3.05 million.

Cap for losses other than bodily injury: €915,000.
– Principal's liability towards the developer, all risks: €305,000.

Segpim has taken out real estate agent and property manager professional indemnity insurance, covering operating liability up to a maximum of €1.5 million and professional liability, also up to a maximum of €1.5 million.

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

Specific insurance cover has been obtained for "Louvre des Antiquaires – Centre d'Affaires le Louvre public car park manager liability", 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 2005, total insurance premiums for these policies amounted to €1.5 million.

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.

2 - Approbation of Profit and Dividend Policy

2-1. APPROPRIATION OF PROFIT

Net profit for the year totals €49,960,562.98.

The total amount available for distribution is as follows:
– Net profit for the year ended 31 December 2005: €49,960,562.98
– Retained earnings: €115,051,467.46,
Total: €165,012,030.44

Recommended appropriation:

– €15,320.20 to the legal reserve, to raise the amount of this reserve to 10% of the Company's capital;
– €90,433,954.80 to dividends, corresponding to a net dividend per share of €2.10, including the interim dividend of €0.70 par share paid in October 2005.
– €74,562,755.44 to retained earnings.

The dividend will be paid as from 10 May 2006. 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)	2001	2002	2003	2004	2005
Net dividend	1.00	1.20	1.80 (including 1.38 (3) and 0.42 (4))	2.05 (including 0.70 (5) and 1.35 (6))	2.10 (including 0.70 (6) and 1.40 (7))
Tax credit	0.50 / 0.15 (1)	0.60 / 0.12 (2)	0.21 / 0.04 (2)	–	–

(1) Calculated at 50% for individuals and companies qualifying for the affiliation privilege (Article 145 of the General Tax Code) and 15% for other companies.

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

(3) Paid out of tax-exempt profits and not qualifying for the 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) Qualifying for 50% tax relief referred to in paragraph 3-2 of the former article 158 of the General Tax Code (Act nº. 2003-1311 of 30 December 2003, Article 93 of the 2004 Finance Act).

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

3 - Market for the Company's Security

MARKET FOR THE COMPANY'S SHARES

SFL shares have been quoted in Compartment A of the Euronext Eurolist 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)
2004				
July	38.38	36.01	14,447,301	548.989
August	38.10	36.02	54,308	2.022
September	38.50	36.71	181,980	6.837
October	37.73	36.51	18,102	0.666
November	37.75	36.00	4,174,727	158.595
December	40.00	37.37	168,665	6.529
2005				
January	43.83	39.95	14 770	0,626
February	46.09	43.45	46,491	2.051
March	44.50	40.12	92,685	3.864
April	42.25	40.01	845,770	35.454
May	46.70	40.00	63,714	2.808
June	46.30	43.60	209,653	9.472
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

Source: Euronext.

MARKET FOR THE COMPANY'S CONVERTIBLE BONDS

The bonds are quoted on the Premier Marché of Euronext Paris (Sicovam code: 8531).

	Price (€)		Trading volume	
	High	Low	Number of bonds	Amount (in €m)
2004				
July	153.52	130.00	1,662,260	255.189
August	130.00	121.00	21	0.003
September	149.99	144.00	309	0.449
October	155.00	145.00	5,394	0.783

Date of first transaction: 3 November 1997.
Date delisted: 1 November 2004.
Source: Euronext.

4 - Additional Information about Human Resources

4-1. GENERAL EMPLOYEE-RELATED INFORMATION

Total Group employees at 31 December 2005

Employees (with employment contracts)	107
Corporate officer	1

Analysis of employees by type of contract at 31 December 2005

Fixed-term contracts	2
Permanent contracts	105

Employees hired during 2005

Fixed-term contracts*	5
Permanent contracts	8

** Excluding employees hired on fixed-term contracts to replace employees absent on vacation, in accordance with article 26 of the National Collective Bargaining Agreement for Site staff, Caretakers and Building employees.*

Employee departures in 2005

Resignations	4
Expiry of fixed-term contracts*	5
Retirements	2
Terminations	3
Company transfers – Art. L122-12 of the Labour Code	4

** Excluding employees hired on fixed-term contracts to replace absent employees in accordance with article 26 of the National Collective Bargaining Agreement for Site staff, Caretakers and Building employees.*

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	144
Leave to take care of sick children	28
Paternity leave	22
Illness	1,291
Maternity leave	437

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.
– 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 2005.

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 contributes to improving employee health and safety and working conditions.

Specific safety training is organised each year, particularly for our technical teams and building staff, on such matters as incident prevention plans, fire safety and fire drills.

Thanks to this policy, only two workplace accidents occurred in 2005.

Company benefit schemes

In 2005, the SFL Group paid a total of €116,992 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 2005, the SFL Group contributed €9,636 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 97 administrative employees as of 31 December 2005.

Recruitment policy focused mainly on expanding the skill-base in the areas of financial reporting, technical management and marketing.

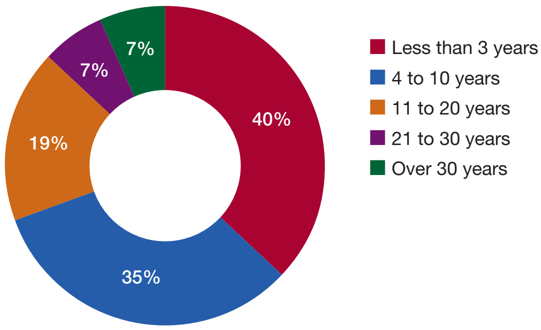
Eight people were hired during the year, as follows:
– A Marketing Director
– An asset manager
– A management accountant
– A Deputy Managing Director
– A Director, Control and Coordination
– A communications assistant
– A technical manager
– A Project Director and Safety Expert

Our ongoing policy of selective asset sales, mainly of residential properties, led to a reduction in the number of building staff. As of 31 December 2005, we had eleven caretakers and building employees on our payroll.

Number of employees at 31 December 2005

	2005	2004
Administrative staff	97	95
Building staff	11	18
Total staff	**108**	**113**

Group employees by years of service at 31 December 2005



An active training policy

Training contributes to expanding the skills base and strengthening employee commitment, innovation and motivation.

For this reason, we continued to implement an active training policy in 2005, spending the equivalent of 2.97% of the total payroll.

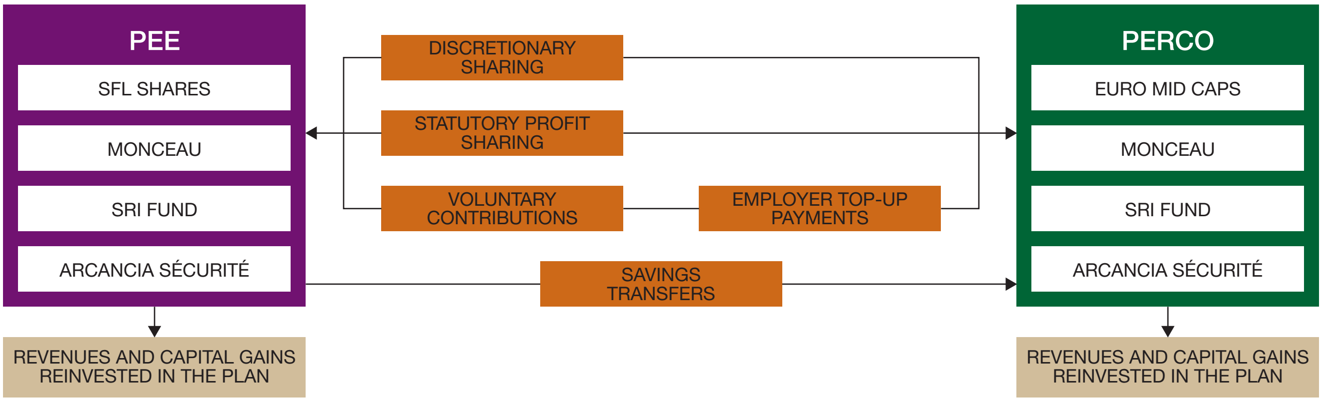
During the year, 88 employees received a total of 3,500 hours' training, mainly in the areas of commercial leases, information systems, safety, accounting and tax, property management, team management and languages.

Enhanced employee savings schemes

In 2005, we introduced a new tax advantageous employee savings scheme, known as a PERCO (Plan d'Epargne Retraite Collectif), enabling each employee to save for his or her retirement with top-up payments from the company.

Forty-five employees participated in the plan during its first year, making voluntary contributions totalling some €85,000.

In addition, a new three-year discretionary profit-sharing agreement was signed.



4-2 REMUNERATIONS AND STOCK OPTION PLANS

Total remunerations and social security taxes

Total Group payroll for the year ended 31 December 2005 amounted to €6,517,285. Social security taxes for the year break down as follows:

– Urssaf (social security)	€2,743,123
– Assedic (unemployment benefit)	€336,217
– Supplementary pension contributions	€1,100,806
– Healthcare and personal risk insurance contributions	€316,434

Stock option plans

As of 31 December 2005, the four stock option plans set up under the authorisations given at the Extraordinary General Meetings of 17 October 1997 (25 February 1999, 6 April 2000 and 21 March 2002 plans) and 16 May 2002 (25 April 2003 plan).

Plans	Price	Expiry date	Options exercisable at 31 December 2005	Number of grantees at 31 December 2005
25 February 1999 plan	30.83	24 February 2009	250	0
6 April 2000 plan	27.59	5 April 2010	39,587	1
Total stock subscription options outstanding at 31 December 2005			**39,837**	
21 March 2002 plan	27.78	20 March 2012	68,000	1
25 April 2003	26.41	24 April 2013	65,000	1
Total stock purchase options outstanding at 31 December 2005			**133,000**	

The number of options received by the ten persons (employees and corporate officers) who received the greatest number of options is mentioned in the table on section 5-2.

5 - Information about the board of Directors and Senior Management

5-1. DIRECTORS AND OFFICERS

SFL Group management

Yves Mansion, 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);
Nathalie Palladitcheff, Chief Financial Officer (since 2000), Secretary of the Board of Directors (since 2001) and Deputy Managing Director (since 2005);
François Sebillotte, Company Secretary (since 2001, previously Director of Group Legal Affairs since 2000);
Franck Dattée, Technical Director (since 2003);
Olivier Rochefort, 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 and Chief Executive Officer

Yves Mansion (2002),

Directorships in France:
Chairman and Chief Executive Officer of SOCIETE FONCIERE LYONNAISE
Legal manager of SCI PAUL CÉZANNE*,
de la SCI WASHINGTON* et de la SCI DE LA SORBONNE*
Member of the Supervisory Board and member of the Audit Committee of EULER HERMES
Member of the Board of Autorité des Marchés Financiers (French securities regulator)

Directorships outside France:
Director and member of the Audit Committee of ALCAN (Canada)*.

Managing Director (Non-Director member):

Alec Emmott (1997),

Directorships in France:
Managing Director of SOCIETE FONCIERE LYONNAISE
Chairman and Chief Executive Officer and Director of SA SEGPIM*
Chairman of SAS LOCAPARIS*
Managing Director and member of the Board of SAS SHE
Director of IEIF and IPD
Legal manager of SCI DU TERETRE*

Directorships outside France
Director of The EUROPEAN ASSET VALUE FUND*, MARTIN CURRIE ABSOLUTE RETURN FUNDS* and MARTIN CURRIE GLOBAL FUNDS* and CROWNSTONE EUROPEAN PROPERTIES LIMITED (Guernsey).

Directors

The Board met five times in 2005. The Chairman is Yves Mansion and the other members fall into the following three groups:

Two former Chairmen of the Company

Tony Wyand (1995),

Directorships in France:
Director of SOCIETE FONCIERE LYONNAISE and SOCIÉTÉ GÉNÉRALE
Member of the Supervisory Board of AVIVA France and AVIVA PARTICIPATIONS

Directorships outside France:
Director of GROSVENOR (UK)
and director of UNICREDITO (Italy)*.

Yves Defline (1997),

Directorships in France:
Director of SOCIETE FONCIERE LYONNAISE

Seven Directors representing the Company's two main shareholders

Juan José Brugera Clavero (2004)

Directorships in France:
Director of SOCIETE FONCIERE LYONNAISE

Directorships outside France:
Chief Executive Officer of COLONIAL (Spain)*
Director of MAPFRE (Spain)*.

(1) Each director's name is followed in brackets by the year of his election to the Board.

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

José Maria Grau Greoles (2004)

Directorships in France:
Director of SOCIETE FONCIERE LYONNAISE

Directorships outside France:
Chairman of TORRE MARENOSTRUM (Spain)*.

Gabriel Castello (2004)

Directorships in France:
Director of SOCIETE FONCIERE LYONNAISE, SWISS LIFE BANQUE and SWISS LIFE ASSURANCE DE BIENS
Chief Executive Officer and Director of CAIXABANK France, SA
Chief Executive Officer and Director of HODEFI SAS*

Directorships outside France:
Director of E-LA CAIXA (Spain)*.

Eduardo Mendiluce Fradera (2005)

Directorships in France:
Director of SOCIETE FONCIERE LYONNAISE

Directorships outside France:
Director of COMPAGNIE IMMOBILIÈRE SERVIHABITAT SA (Spain)*.

Francisco Emilio Ruiz Armengol (2004)

Directorships in France:
Director of SOCIETE FONCIERE LYONNAISE

Directorships outside France:
Director of CAIXA CAPITAL DESARROLLO, S.C.R., S.A*; CAIXA CAPITAL RISC, SGECR, S.A*; CAIXA CORP, S.A*; CATALUNYA DE VALORES SGPS, UNIPESSOAL, LDA*; CRANBERRY DOMINICANA, S.A*; DESARROLLO FLAMENCO RIVIERA, S.A*; EDICIONS 62, S.A*; FLAMENCO FUERTEVENTURA, S.L.*; G.P. RESORT, S.A*; GRAND P, COMERCIAL, S.A*; HOTEL CARIBE RESORT, S.L.*; INVERSORA INTERNACIONAL HOTELERA, S.A*; PORT AVENTURA, S.A*; SOTELTUR INTERNACIONAL, B.V.*; SOTELTUR, S.L.*; TLANTIMAR, S.A*; USPA HOTEL VENTURES I, S.A*;
Representative of CAIXA HOLDING, S.A.U. on the Board of CAIXABANK, S.A (ANDORRA)*;
Representative of CAIXA CORP, S.A on the Board of GOLF MONTECASTILLO, S.A*;
Representative of SOTELTUR, S.L. on the Board of HOTEL OASIS DE LANZAROTE S.L.U.*;
Representative of CAIXA CORP, S.A on the Board of INVERSIONES INMOBILIARIAS OASIS RESORT, S.L. and INVERSIONES INMOBILIARIAS TEGUISE RESORT, S.*.

Pierre Lheritier (2004)

Directorships in France:
Director of SOCIETE FONCIERE LYONNAISE
Managing Director of SODEMI SAS* and CEGIPRO SAS*
Member of the Supervisory Board of SCPI PIERRE PLUS*
Legal Manager of SEFA, SARL* and SOGAL, SARL*.

Jean-Jacques Duchamp (2004)

Directorships in France:
Director of SOCIETE FONCIERE LYONNAISE, GEFER and SUREN
Chairman of B. IMMOBILIER SA
Member of the PREDICA Financial Services Executive Committee*
Chairman of HOLDING GONDOMAR 2 SAS
Vice-Chairman of the Supervisory Board of UNIPIERRE ASSURANCE SCPI*
Representative of PREDICA at partners' meetings of SCI SÉGUR* and SCI SÉGUR 2*.

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 recognized expertise in the areas of property and finance:

Jean Arvis (1987)

Directorships in France:
Director of SOCIETE FONCIERE LYONNAISE and ADYAL
Chairman of the Supervisory Board of GROUPE VENDÔME ROME

Jacques Calvet (Director as from 1999, Non-voting Director since 2005)

Directorships in France:
Non-voting Director of SOCIETE FONCIERE LYONNAISE*, EPI*, COTTIN FRÈRES* and ENJOY*
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*
Advisor to the BANK DE FRANCE*

Philippe Chareyre (Director as from 1987, Non-voting Director since 2005)

Directorships in France:
Non-voting Director of SOCIETE FONCIERE LYONNAISE*
Honorary Chairman and Director of SAGI
Vice-President and Director of SNTE
Director of PEREXIA.

The directors fulfil, in all material respects, the criteria used to define independent directors in the Bouton report on corporate governance.

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

Compliance with the Bouton report independence criteria

SFL's directors fulfil the following independence criteria:
– 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 were not applied by SFL:
– 12-year limit on the number of years as director of the Company;
– Term as director.

Modifications de la composition du Conseil d'Administration

The Board of Directors was notified of the resignation of :
– Francisco CASALS on 3 May 2005.

At the Annual General Meeting of 4 May 2006, shareholders will be invited to:
– Re-elect José Maria Grau GREOLES as Director, for a three-year term expiring at the close of the Annual General Meeting to be held to approve the 2008 financial statements.
– Ratify the appointment as Director of Eduardo MENDILUCE FRADERA, decided by the Board at its meeting on 22 July 2005 to replace Franciso CASALS, following the latter's resignation, for the remainder of Francisco Casals' term expiring at the close of the Annual General Meeting to be held to approve the 2007 financial statements.

5-2. MANAGEMENT REMUNERATION, BENEFITS AND STOCK OPTION PLANS

Remuneration and benefits in kind paid to corporate officers

Chairman and Chief Executive Officer

The gross fixed remuneration paid in 2005 to Yves MANSION, Chairman and Chief Executive Officer, by SOCIETE FONCIERE LYONNAISE, amounted to €330,005.00.

His variable remuneration is tied to growth in net profit. Gross variable remuneration paid to Yves MANSION in 2006 in respect of 2005 totalled €330,000.00.

Yves MANSION also has the use of a company car, representing a benefit in kind.

During the year, Yves MANSION also received director's fees of €24,000 from Group companies.

The total gross remuneration paid to Yves MANSION by SOCIETE FONCIERE LYONNAISE in 2005 breaks down as follows:

– Fixed remuneration	€330,005
– Variable remuneration for 2004 paid in 2005	€300,000
– Benefits in kind	€2,841
– Directors' fees	€34,867*

**Paid in two instalments, in January and July*

Managing Director

The gross fixed remuneration paid in 2005 to Alec EMMOTT, Managing Director, by SOCIETE FONCIERE LYONNAISE amounted to €228,659.63.

His variable remuneration is tied to growth in net profit. Gross variable remuneration paid to Alec EMMOTT in 2006 in respect of 2005 totalled €220,000.00.

Alec EMMOTT also has the use of a company car, representing a benefit in kind.

Alec EMMOTT does not receive any director's fees from the Group companies of which he is a member of the Board.

The total gross remuneration paid to Alec EMMOTT by SOCIETE FONCIERE LYONNAISE in 2005 breaks down as follows:

– Fixed remuneration	€228,660
– Variable remuneration for 2004	€199,186
– Benefits in kind	€4,194

Remuneration and benefits paid to senior management other than corporate officers in 2005

The total remuneration paid by SOCIETE FONCIERE LYONNAISE in 2005 to the persons who were members of the Executive Committee as of 31 December 2005 (excluding corporate officers) was as follows:

– Fixed remuneration	€520,235
– Variable remuneration for 2004	€211,670
– Benefits in kind	€8,595

Stock options granted to corporate officers

	Plan	Number of options granted	Price (in €)	Expiry date	Number of options exercised in 2005	Number of options outstanding at 31/12/2005
Yves MANSION	21/03/2002	100,000	27.78	20/03/2012	100,000*	–
	25/04/2003	100,000	26.41	24/04/2013	–	–
Alec EMMOTT	27/11/1997	12,736	25.73	26/11/2007	–	–
	25/02/1999	17,760	30.83	24/02/2009	–	–
	06/04/2000	39,684	27.59	05/04/2010	35,320	4,364
	21/03/2002	65,000	27.78	20/03/2012	–	65,000
	25/04/2003	65,000	26.41	24/04/2013	–	65,000

** Options exercised without the shares being sold.*

Ten employees other than corporate officers who received the greatest number of options in 2005

	Plan	Number of options granted	Price (in €)	Expiry date	Number of options exercised in 2005	Number of options outstanding at 31/12/2005
Nathalie PALLADITCHEFF	06/04/2000	13,676	27.59	05/04/2010		–
	21/03/2002	33,000	27.78	20/03/2012		–
	25/04/2003	40,000	26.41	24/04/2013		–
Jean-Marc BEZARD	27/11/1997	4,240	25.73	26/11/2007		–
	25/02/1999	972	30.83	24/02/2009		–
	06/04/2000	8,696	27.59	05/04/2010		–
	21/03/2002	9,000	27.78	20/03/2012		–
	25/04/2003	9,000	26.41	24/04/2013		–
Jean-Luc POTIER	27/11/1997	5,808	25.73	26/11/2007		–
	25/02/1999	972	30.83	24/02/2009		–
	06/04/2000	6,544	27.59	05/04/2010		–
	21/03/2002	6,000	27.78	20/03/2012		–
	25/04/2003	6,000	26.41	24/04/2013		–
François SEBILLOTTE	21/03/2002	9,000	27.78	20/03/2012		–
	25/04/2003	15,000	26.41	24/04/2013		–
Jean-Claude BELLEC	27/11/1997	5,816	25.73	26/11/2007		–
	25/02/1999	1,228	30.83	24/02/2009		–
	06/04/2000	8,292	27.59	05/04/2010		–
	25/04/2003	6,000	26.41	24/04/2013		–
Christelle ABILY	27/11/1997	2,720	25.73	26/11/2007		–
	25/02/1999	624	30.83	24/02/2009		–
	06/04/2000	4,808	27.59	05/04/2010		–
	21/03/2002	6,000	27.78	20/03/2012		–
	25/04/2003	6,000	26.41	24/04/2013		–
Jean-Luc HOFER	27/11/1997	4,660	25.73	26/11/2007		–
	25/02/1999	984	30.83	24/02/2009		–
	06/04/2000	6,608	27.59	05/04/2010	3,308	–
Thomas DUPIN DE LACOSTE	21/03/2002	6,000	27.78	20/03/2012		–
	25/04/2003	6,000	26.41	24/04/2013		–
Hervé TABART	27/11/1997	3,964	25.73	26/11/2007		–
	25/02/1999	872	30.83	24/02/2009		–
	06/04/2000	6,104	27.59	05/04/2010	3,104	–
Dominique TERRAC	27/11/1997	3,824	25.73	26/11/2007		–
	25/02/1999	808	30.83	24/02/2009		–
	06/04/2000	5,444	27.59	05/04/2010		–

Auditors' fees:

The fees paid to the Auditors in respect of 2005 were as follows:
– PricewaterhouseCoopers: €468,895 excluding tax (including €448,075 excluding tax in audit fees and €20,820 excluding tax for audit-related work)
– Deloitte & Associés: €297,000 excluding tax (audit fees only).

Directors' interests and fees

	Function (3)	Number of SFL shares held by Directors (1)	Directors' fees paid in respect of 2004 (2) (gross – in €)
Yves MANSION	Chairman	116,700	24,000
Juan José BRUGERA CLAVERO	Director – Committee Chairman	25	24,000
José Maria GRAU GREOLES	Director – Committee Chairman	25	23,500
Jean ARVIS	Director – Committee Member	500	17,500
Yves DEFLINE	Director – Committee Member	362	18,000
Jean-Jacques DUCHAMP	Director – Committee Member	25	18,000
Francisco Emilio RUIZ ARMENGOL	Director – Committee Member	50	18,000
Tony WYAND	Director – Committee Member	1,304	18,000
Eduardo MENDILUCE FRADERA	Director (4)	25	6,000
Gabriel CASTELLO	Director	525	12,000
Pierre LHERITIER	Director	25	12,000
Jacques CALVET	Non-voting Director – Committee Member – former Director	825	17,500
Philippe CHAREYRE	Non-voting Director – Committee Member – former Director	100	18,500
Francisco CASALS	Former Director (5)		5,000
Total		**120,491**	

(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.

(2) One half of the fee allocated to directors remunerates the responsibilities inherent in their membership of the Board, and the other half is based on their attendance rate at Board meetings.

(3) As of 2 March 2006.

(4) Elected to the Board : July 2005.

(5) Resignation : May 2005.

6 - Persons Responsible for the Annual Report and the Audit of the Accounts

6-1. PERSON RESPONSIBLE FOR THE ANNUAL REPORT

Person responsible for the Annual Report

Yves MANSION, Chairman and Chief Executive Officer

Statement by the person responsible for the Annual Report

"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. AUDITORS

Statutory Auditors

Auditors

	First appointed	Renewed on	Term expires*
Statutory Auditors			
Deloitte & Associés			
185C avenue Charles-de-Gaulle - 92200 Neuilly-sur-Seine			
Represented by Laure Silvestre-Siaz	21 April 2005	–	2010
PricewaterhouseCoopers Audit SA			
63 rue de Villiers - 92200 Neuilly-sur-Seine			
Represented by Catherine Thuret	25 April 2003	30 April 2004	2006
Substitute Auditors			
BEAS			
7/9 Villa Houssay - 92200 Neuilly-sur-Seine	21 April 2005	–	2010
Pierre Coll			
4, avenue du Colonel Bonnet - 75016 Paris	30 April 2004	–	2006

** At the close of the Annual General Meeting to be called to approve the financial statements for the year indicated.*

7 - CBRE Asset Valuation Report

SFL's entire property portfolio was valued at 31 December 2005 by CB Richard Ellis Valuation.

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 revenue method, which consists of capitalising net rental revenues and discounting future cash flows.

Each property is analysed in detail, based on the surface of each designated area, lease by lease.

The valuer noted that fourth-quarter 2005 rents on certain units were above or below market rents for the period on similar properties. These differences were taken into account based on 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.

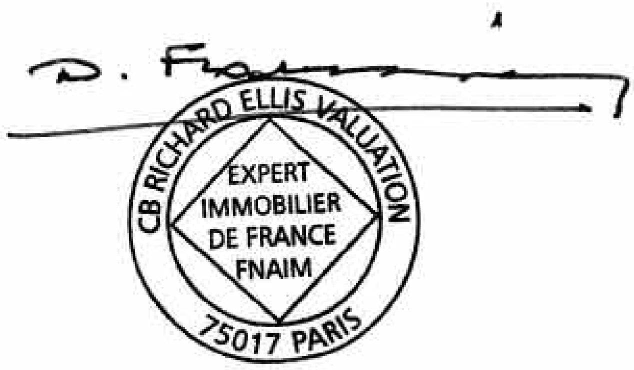
The cost of work scheduled to be carried out in the very short term was taken into account based on information supplied by the Group.

The results of the valuation were checked by making direct comparisons with the price per square meter observed for recent buy-to-let transactions involving occupied and vacant properties.

The appraisal values were determined including transfer costs (calculated at a standard 6% for all properties subject to registration duty) and also excluding transfer costs.

The valuation methods used in 2005 were unchanged from previous years.

On the basis described above, the value of the portfolio at 31 December 2005 is **€2,614,612,406 excluding transfer costs** and **€2,760,957,211 including transfer costs.**



Resolutions and cross-reference table

CONTENTS

1. Proposed resolutions

Presented to the Annual General Meeting (May 4th 2006)

FIRST RESOLUTION

(Approval of the financial statements for the year ended 31 December 2005 and discharge to Directors)

The Annual General Meeting, having considered the Board of Directors' management report and the Auditors' reports, approves the financial statements for the year ended 31 December 2005, showing net profit of €49,960,562.98, 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 2005 financial year.

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.

SECOND RESOLUTION

(Appropriation of profit)

The Annual General Meeting:
– notes that net profit for the year, after tax and provision charges, amounts to €49,960,562.98;
– resolves to transfer an amount of €15,320.20 from net profit to the legal reserve, to raise this reserve to 10% of the new capital;
– notes that profit available for distribution, after the above transfer to the legal reserve and including retained earnings brought forward from the prior year, is as follows:

Net profit for the year ended 31 December 2005	€49,960,562.98
Retained earnings brought forward from the prior year	€115,051,467.46
Transfer to the legal reserve	€15,320.20
Profit available for distribution	€164,996,710.24

– resolves to approve the recommendation of the Board of Directors and to:
  - pay a total dividend of €90,433,954.80, representing a net dividend per share of €2.10. After deducting the interim dividend of €0.70 paid in October 2005, the final dividend will amount to €1.40 per share,
  - appropriate the balance of €74,562,755.44 to retained earnings;

– resolves that the final dividend will be paid as from 10 May 2006 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 50% tax relief referred to in paragraph 3-2 of the former Article 158 of the French General Tax Code *(Act no. 2003-1311 of 30 December 2003, article 93 Finances for 2004)* on the interim dividend,
– individual shareholders resident in France for tax purposes will be eligible for the 40% tax relief referred to in paragraph 3-2 of the new Article 158 of the French General Tax Code *(Act no. 2005-1719 of 30 December 2005, article 76 I Finances for 2006)* on the final dividend.

Dividends paid in the last three years were as follows:

Year	Dividend per share	Tax credit	Total revenue
2002	€1.20	€0.60 (1) €0.12 (2)	€1.80 (1) €1.32 (2)
2003	€1.80 of which €1.38 (3) and €0.42 (4)	€0.21 (1) €0.04 (2)	€2.01 (1) €1.84 (2)

Year	Dividend per share
2004	€2.05 of which €0.70 (5) and €1.35 (6)

(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 (Act no. 2003-1311 of 30 December 2003, article 93 Finances for 2004).

THIRD RESOLUTION

(Approval of the consolidated financial statements for the year ended 31 December 2005)

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 2005, as well as the transactions reflected in these accounts and described in the Board of Directors' management report.

FOURTH 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.

FIFTH RESOLUTION

(Re-election as Director of JOSÉ MARIA GRAU GREOLES)

The Annual General Meeting, having noted that the term as Director of José Maria GRAU GREOLES 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 2008.

José Maria GRAU GREOLES has stated that he will accept his re-election and that he fulfils 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.

SIXTH RESOLUTION

(Ratification of the appointment as Director of EDUARDO MENDILUCE FRADERA)

The Annual General Meeting resolves to ratify the appointment as Director of Eduardo MENDILUCE FRADERA, calle Sant-Guillem 17 SA, Barcelona, Spain, to replace Francisco CASALS following the latter's resignation, decided by the Board at its meeting of 22 July 2005.

Eduardo MENDILUCE FRADERA 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 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 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 fifteenth ordinary resolution of the General Meeting of 21 April 2005 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 €65 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 €279,914,570 based on the number of shares outstanding as of 31 March 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 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.

EIGHTH 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.

2. Cross-Reference Table

The table below provides cross references between the pages in the registration document and the key information required to be disclosed under the rules and instructions issued by the French securities regulator AMF) in application of European Commission Regulation (EC) No. 809/2004.

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In application of Article 28 of European Commission Regulation (EC) nº. 809/2004 on prospectuses, the following information is incorporated by reference in this Registration Document.
– The trend of financial situation and results for years ended 12/31/2004 and 12/31/2003, presented in the Financial Report 2004 in pages 29 to 39 filed with the AMF on 12 April 2005 under nº. D.05-0426;
– The 2003 consolidated financial statements prepared in accordance with French generally accepted accounting principles and the related Auditors' reports, presented on pages 54-89 and 94, respectively, of the 2003 Registration Document filed with the AMF on 7 April 2004 under nº. D.04-0428;
– 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 nº. D.05-0426.