

## c. Consolidated Directors' Report

### 1. Evolution of the business

Throughout 2006 Renta Corporación has kept to its strategic growth and expansion plan, reporting results that confirm the positive evolution of its business model.

2006 has been a year of stiff growth for Renta Corporación. The solid implementation of its business activity has boosted an increase in both turnover and asset volume.

Throughout 2006 the Company has expanded its field of operations, both in terms of the types of product it acquires and promoting its international expansion in Paris and London, while starting up activity in Berlin, a clear growth market.

Ordinary income totals euros 590,035 thousand, an increase on 2005 of euros 269,192 thousand, or 84%.

Consolidated operating profit has totalled euros 77,014 thousand, an increase above 43%, while consolidated profit for the year attributable to shareholders has totalled euros 47,501 thousand, an increase of 46% on last year.

Expansion of the company has brought with it an increase in the number of employees, and, therefore, staff costs, although these are below the growth rates in business volume.

In the face of this growth, the governing bodies of the Company decided to apply for admission to the Stock Exchange, which materialised on 5 April of last year with the listing of the Company on the Madrid and Barcelona Stock Markets. The stock exchange listing included the issuing of new shares, which contributing to recruiting the funds necessary to drive the growth plan. The listing has also led to an increase in the Company's visibility in the national and international markets.

The increase in consolidated profit attributable to shareholders has led to a substantial improvement in basic earnings per share, rising from euros 1.48 to euros 1.97 per share, even with the presence of a larger number of shares in circulation.

The growth in assets managed by the group is reflected in the main balance sheet figures, which reflect an increase in total assets of euros 495,010 thousand against 2005.

2006 has been a year of stiff investment, which is reflected in the figure of euros 710,194 thousand in buildings, land and plots carried under Inventories. This substantial growth, which doubled the figure for Inventories last year, shows the effect of the purchases of buildings throughout 2006, which, at the year end, are in the transformation phase. The same heading carries the amounts paid for the acquisition of investment rights on buildings totalling euros 7,756 thousand.

This investment has been mostly backed by the funds generated by the listing of the Company, representing a significant increase in Net Equity, which totals euros 203,899 thousand, an increase of euros 118,905 thousand on 2005, also supported by the reinvestment of retained earnings.

The increase in Net Equity has led to a significant increase in external borrowing, which has risen from euros 216,129 thousand to euros 507,313 thousand, which has contributed decisively to the increase in the assets managed by the Company.

The Company's directors believe that the business is not facing any significant risks and uncertainties.

## **2. Business outlook**

The consolidation of the activity and positioning of Renta Corporación and its successful orientation towards stiff growth and profitability constitute the basis of its future development plans.

The availability of a top, professional team that is constantly evolving and a growing borrowing capacity are the keys to its development plans.

The Group plans to continue applying these strategies over the next few years in order to favour growth in the Spanish market while maintaining and boosting in the medium-term its business capacity in certain large, liquid international urban markets.

## **3. Research and development**

Due to the nature of the Group's activity, it does not make any investments in research and development.

## **4. Treasury shares**

During 2006 the company has acquired and sold 141,008 and 67,504 treasury shares, respectively.

At 31 December 2006 the parent company held a total of 102,474 treasury shares, representing 0.41% of share capital. The par value of these shares totals euros 102 thousand.

The parent company has set up the respective treasury share reserve at 31 December 2006.

## **5. Subsequent events**

On 15 February 2007 Renta Corporación entered into a syndicated loan agreement for euros 500 million 21 national and international banking entities are participating in the bank syndicate.

This is the Company's first operation in the structured financial market. The borrowing has been structured into two tranches: the first, euros 200 million, maturing in 5 years, with a grace period of 36 months; and the second, euros 300 million, through a revolving line of credit at 5 years. The funds will be allocated to the investment plan and the redefinition of the structure of the Company's current debt.

Access to long-term borrowing will allow for improvements in management, significant cost savings due to decreased formalisation costs, and the application, by Renta Corporación, of interest rate risk management policies, which have been much more difficult to instrumentalise due to the high turnover of the Company's financing operations.

## **6. Human Resources**

The Renta Corporación team is notable for its level of education, mostly university graduates, its professionalism and motivation. People are the real basis of value creation for Renta Corporación, and constitute the foundation for building company differentiation vis-à-vis the competition. Since its first steps as a company it has acknowledged the contribution of its professional as a critical success factor. Thus, it devotes special attention to having an effective, agile, flexible organisation in a professional work environment in terms of procedures and systems, and provides seamless access to ongoing training and knowledge, through the application of an effective human resources policy.

The typical key director is a young, diverse, highly qualified professional with a broad range of professional experiences. Of special note is the major presence of women in general and in positions of responsibility.

The positive evolution of 2006 earnings has also led to an increase in the number of employees. At the 2006 year end staff totals 115 persons, which represents an increase of 21% on 2005

## **7. Environment**

The Company has adopted the measures necessary for the protection and improvement of the environment and the minimisation, as the case may be, of any environmental impact, by complying with current legislation.

The impact of the construction of a building on the environment begins with the manufacture of materials and ends with the management of the waste generated by its demolition, with various phases of construction and use in between. The activity of Renta Corporación is based on the transformation of real estate assets. While it is true that construction generates a large volume of rubble, refurbishing actually minimises it.

In spite of the slight environmental impact involved in these transformations, in comparison with the alternative model of demolition and new construction, all the contracts entered into by Renta Corporación include a specific environmental protection clause that must be signed by the building contractor.