UNEMPLOYMENT WILL CONTINUE TO FALL IN 2006 AND 2007

∉# Our growth scenario for 2006 and 2007 is based on a continued sustained growth in consumer spending at an annual rate of 2% to 2.5%. While we expect the property market boom to exert less downward pressure on the savings rate, this growth is based on the firming of the labour market and, in turn, an increase in disposable income.

∉# Since May 2005, unemployment has been decreasing at an increasingly fast pace. The unemployment rate, as defined by the ILO, has fallen from 10.1% of the active population in May 2005 to 9.1% in May 2006, the lowest level since end-2001. This means 258,000 fewer unemployed in less than a year.

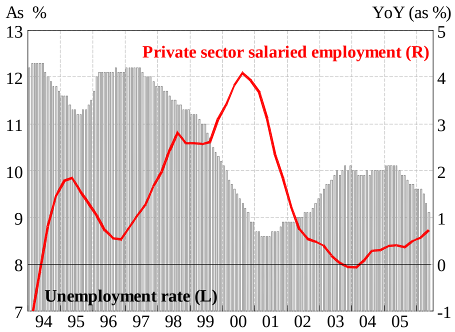
∉# This improvement seems to be sustainable and not simply the result of job subsidies and the "social treatment" of unemployment. The pick-up in private-sector employment that we forecast over the next two years (rising 0.8% annually after 0.4% growth in 2005) should bring the unemployment rate significantly below 9% by the end of this year and to an annual average of 8.5% in 2007.

An in-depth look at a year of rising employment

1- Private-sector employment shows first signs of a pick-up

Although the sluggish GDP growth of 1.2% in 2005 was insufficient to significantly boost employment in the private sector, encouraging signs of a pick-up can now be seen. Depending on the statistics used and the scope considered, the extent of this improvement may vary considerably. The largest survey is that conducted by ACOSS, which covered 17.6 million private-sector employees in the first quarter, compared to 15.5 million for the INSEE survey. ACOSS, like UNEDIC, includes the healthcare and "social services" sectors and "private administrations", and also estimates job creation in "Very Small Companies" (VSC). While INSEE only counted 58,500 net job creations in the private-sector for the 12 months to March 31st 2006, ACOSS and UNEDIC estimated 123,000 and 146,200 job creations respectively. During this period the number of unemployed fell by 184,000.

PICKUP OF EMPLOYMENT,
AFTER A ONE-YEAR DECREASE OF UNEMPLOYMENT



Source: Datastream

Since April 2005, more people are no longer registered with the ANPE (France's national unemployment agency) and this number has been accelerating, rising 6.4% yoy from January to May 2006. This shows that more people have found jobs or have failed to report to the agency, which often means they have found some form of undeclared work.

The number of jobs created in VSC is hard to determine at this point since they are counted relatively late in the year and may have been significantly underestimated for two reasons. For one thing, according to UNEDIC, over 30% of all new businesses were created by former claimant count unemployed. In addition, over 320,000 companies were formed from June 2005 to June 2006. This implies that almost 100,000 unemployed people have found jobs. Secondly, the CNE subsidised employment contract – one of the key measures of the June 2005 Emergency Employment Plan which reduced labour code restrictions to promote hiring in companies with less than 20 employees – has apparently created 40,000 net jobs from August 2005 to March 2006.

2- Potential labour supply almost at a standstill

The ageing of France's population means that we may expect almost no growth of its active population in 2006 and 2007 (see table at bottom of next page).

PROGRESSIVE SLOWDOWN OF THE ACTIVE POPULATION GROWTH RATE

	2002	2003	2004	2005	*2006*	*2007*
Level (thousands	27,197.7	27,371.4	27,518.2	27,638.8	*27,814.4*	*27,937.8*
YoY	1.1%	0.6%	0.5%	0.4%	*0.6%*	*0.4%*

Source: INSEE Projections 2006 - ILO Active population, at year end, Metropolitan France

Despite the widespread media coverage of the decline in unemployment, relatively few long-term unemployed were attracted back into the labour market, although the number of people registering with the ANPE did increase slightly from June to October 2005.

Furthermore, there will normally be fewer opportunities for people to retire below the standard retirement age. The number of people allowed to retire after working the minimum number of years has fallen from over 200,000 in 2003, to 111,800 in 2004 and to 103,000 in 2005. We expect the Fillon Act of 2003 – which allows only people who have worked the requisite number of years or who are severely handicapped to retire early – and the National Senior Employment Action Plan to increase the employment rate of people age 55 and above. Although the proportion of people 55 to 60 who are exempted from looking for work (7%) has increased 25% from April 2000 to April 2006 – due to an increase in the number of qualifying baby boomers and looser requirements – it has been stabilizing since early 2005 and rose only 1.6% yoy in April 2006, compared with a 14.6% increase in April 2000. However, 410,900 people were still exempted at end-April 2006.

3- Impact of new subsidised jobs

2005 was a year of transition in terms of subsidised and non-subsidised non-market employment. Total public employment slowly picked up, rising 0.4% over the year, for a total of 26,000 new jobs.

THE RESULT OF ONE YEAR OF EMPLOYMENT POLICY MEASURES

(Total, end of month)		March 06	March 05	*2006/2005*
State subsidised contracts : market sector		953,407	970,288	*-16,881*
o/w:	Waiver of employer social charges	80,800	145,200	*-64,400*
	Youth employment contracts	114,569	119,688	*-5,119*
	Mixed job-training contracts	541,070	546,400	*-5,330*
	Old 'employment initiative' contracts - CIE	107,000	159,000	*-52,000*
	New 'employment initiative' contracts - CIE (SCP)	109,968	0	*109,968*
	Allowances for business creation (*) and family employment	51,086	60,099	*-9,013*
State subsidised contracts : non-market sector		283,898	280,150	*3,748*
o/w:	'Support measures in employment contracts' CAE (SCP)	158,144	0	*158,144*
	'Prospects contract' - CA (SCP)	29,190	0	*29,190*
	'employment solidarity' / 'consolidated job' contracts - CES/CEC	44,100	201,507	*-157,407*
	Youth jobs (**)	52,464	78,643	*-26,179*
Job training		175,817	26,600	*149,217*
o/w:	In-house and other training (*)	15,750	26,600	*-10,850*
	'integration into social life contract ' - CIVIS (SCP)	160,067	0	*160,067*
Early retirees and other unemployment beneficiaries		167,295	195,387	*-28,092*
Exempted from job seeking – **Annual average for 2005 (***) and 2004**		405,300	400,000	*5,300*

(*) Data at end-December; (**) end-February; (***) end-Q3 2005 / SCP = Social Cohesion Plan

Source: DARES

The new Social Cohesion Plan (SCP), launched in January 2005, has taken up the slack left by the discontinuation of previous subsidised employment plans. As a result, the net impact of government policy on the labour market was practically nil for both the private and public sectors. The decrease in unemployment in 2005 is therefore not the result of a "boom" in subsidised jobs.
Neither has there been any significant change in the number of unemployed who take job training and are no longer counted in the active population or in the number people the ANPE has removed from its list.

THE PEAK OF THE INCREASE IN POWER OF THE "*PLAN DE COHÉSION SOCIALE* " BEHIND US

	May 05	July 05	Sept 05	Nov 05	Total 05	Jan 06	Feb 06	Mar 06	Apr 06	May 06	Total 06
CIE	5,446	8,098	15,827	13,963	86,811	15,029	9,704	6,737	4,523	3,291	41,888
CIVIS	1,087	9,512	21,770	25,360	117,009	19,877	17,446	18,706	12,688	12,155	80,795
CAE	1,450	12,218	24,799	22,357	135,516	28,332	13,639	18,909	13,703	13,291	91,229
CA	127	785	2,302	3,358	15,909	6,979	4,167	4,336	3,565	3,286	23,820

Source: DARES (Monthly entrance flow)

However, the SCP measures have already exceeded their peak job-creation potential. By the summer of 2006 the number of people no longer entitled to benefit from subsidised job contracts will increase relative to the number of new beneficiaries, since these contracts last only 6 to 12 months. With a dozen or so different types of subsidised contracts now available, the government is expecting 370,000 new contracts to be signed in 2006. This would be a new record and would mean a net increase of 32,000 in the number of beneficiaries in 2006, according to INSEE.

Private-sector hiring picks up

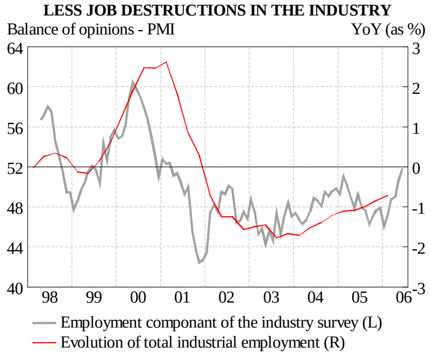
CHANGE IN EMPLOYEE JOBS OVER ONE YEAR

(Thousands or %)	Q1 2006	Q1 2005	Q/Q var.	YoY var.
Industry	3,772.6	3,854.0	-0.6	-2.1
Incl.: Food industry	569.2	573.5	-0.3	-0.7
Energy	233.1	233.6	0.3	-0.2
Consumer goods	609.0	625.2	-0.2	-2.6
Car industry	285.6	294.0	-1.2	-2.9
Equipment goods	764.7	773.5	-0.5	-1.1
Intermediate goods	1,311.0	1,354.2	-0.9	-3.2
Construction	1,355.4	1,310.5	1.0	3.4
Services	10,386.6	10,291.8	0.2	0.9
Incl.: Retail & wholesale	3,036.6	3,022.3	0.3	0.5
Transport	1,071.3	1,071.2	0.1	0.0
Financial services	722.5	716.5	0.0	0.8
Business services	3,304.1	3,248.5	0.2	1.7
Households services	1,977.4	1,961.0	0.3	0.8
Total "Market sector" employees	15,514.6	15,456.3	0.1	0.4

Source: DARES

We expect job creation in the private sector to be significantly boosted in 2006 by the pick-up in French GDP growth since late 2005, and then to slow in 2007, for average annual growth rates of 0.8% in 2006 and 2007. Surveys of business conditions do indicate a brighter outlook for employment.

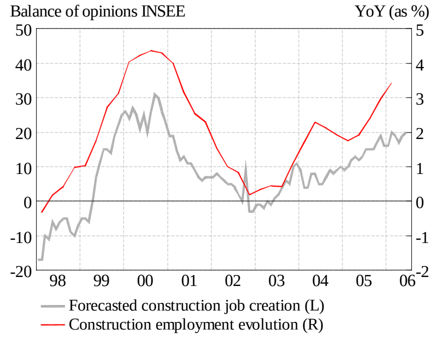
LESS JOB DESTRUCTIONS IN THE INDUSTRY



Source: Datastream

The improvement in the INSEE and PMI survey indices suggests a slowdown in job destruction in the manufacturing sector. Job creation in the construction sector is expected to peak in 2006 and then decline.

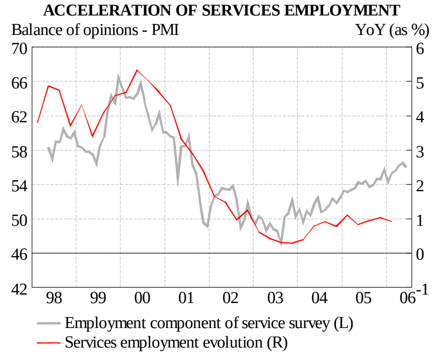
CONSTRUCTION JOB CREATION SLOWDOWN TO COME



Source: Datastream

With the economic outlook more favourable, job creation in the services sector is expected to accelerate. The impact of the SCP measures to promote personal services is slowly beginning to be felt. Since many people have hesitated to take advantage of these measures the Labour Ministry launched a second campaign to promote them in June. The first tangible results appear to be mixed. In five months it is estimated that some 36,000 jobs have been created, that some 531,000 people have paid for their services with the new "universal service employment cheques" (CESU) and that a total of 1.2 million CESU with a face value of EUR 14 have been cashed. Nevertheless, there are two reasons why employment is likely to pick up in the services sector, which remains "underdeveloped" in comparison with the United States and Canada. First of all, the increase in real household disposable income could encourage the consumption of these services. Secondly, CESU are likely to become more and more popular since the number of companies entitled to use these cheques has increased three-fold from February 2005 to February 2006. This take-up is absolutely essential to the future success of this new means of payment.

ACCELERATION OF SERVICES EMPLOYMENT



Source: Datastream

Lastly, non-subsidised employment in the non-market sector is still likely to be buoyed by hiring by local authorities and for public health care provision.

Unemployment should decrease substantially

LABOUR FORCE BREAKDOWN

(CVS, thousands, change over the year)	2002	2003	2004	2005	2006	2007
Labour force trend	150	125	108	67	70	50
Unemployment flexion effect	-24	-32	-4	19	23	20
Retirement effects	48	13	-78	-52	-33	-20
o/w Early retirement	*45*	*12*	*9*	*8*	*10*	*-*
Potential labour supply	174	106	26	34	60	50
Total employment	158	-46	43	99	240	160
o/w private sector employee jobs	*41*	*-59*	*16*	*62*	*150*	*100*
state-subsidized employment	*-11*	*-102*	*-92*	*-36*	*32*	*-*
ILO unemployment rate	162	215	-17	-124	-180	-110
Observed labour force	320	169	26	-25	60	50
Statistical gap	146	63	0	-59	0	0

Sources: INSEE, Société Générale estimates and forecasts

The unemployment rate is expected to fall to 8.8% by end-2006, and then to 8.2% a year later, for average annual unemployment rates of 9.2% in 2006 and 8.5% in 2007, with unemployment nearing its structural level by end-2007.

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