

PARIS EUROPLACE

INTERNATIONAL FINANCIAL MARKETS IN FRANCE

FACTS & FIGURES

June 2007



Executive Summary

Since the launch of the Euro in 1999, the Paris financial marketplace, as a world leading financial center, is constantly innovating and gaining market share both across Europe and worldwide. Building on the tremendous success of the Euro capital markets' developments, the strengths of the French Financial Markets can be demonstrated by a number of key achievements:

Paris is home to many international corporations as stated in the latest "Fortune Magazine" survey which ranks Paris second worldwide (after Tokyo) in terms of the number of major international groups headquartered in the city. [▶See Graph 1](#)

The NYSE-Euronext merger confirms the international dimension of the Paris marketplace by creating the world's leading stock exchange platform with a market capitalization of € 25,000 billion. 80 of the top 100 world corporations (in terms of market capitalization) are listed on the new platform.

Paris is the European leader in privatizations and accounts for more than 45 % of the transactions carried out in Europe over the last 4 years. This success is mainly attributable to the IPOs techniques introduced by the French Government Shareholding Agency (APE).

Most of the investment banking operations are driven by the equity derivatives business. In this field, French banks currently account for 25 % of the world market share and have highly-renowned expertise in side-products, structured products, commodities, securitization...

Paris is a European leader for asset management (€ 2,500 billion in assets under management). French firms have also strengthened their leadership position at an international level. As such, French firms represent 20 % of assets under management. Major French investment firms have built up strong momentum in recent years. The 5 largest firms now rank among the top 25 asset managers in the world, operating not only in Anglo-Saxon countries but also in the new fast-growing Asian markets.

Paris now benefits from competitive real estate investment products which are supported by the creation of a new instrument of listed Real Estate Investment Trusts (REITs) and the launch of OPCIs (Real Estate Mutual Funds).

The quality of French training and research in economics and finance, and more specifically in financial mathematics gives Paris a competitive advantage. France has more than 1,000 financial scientists and 100 academic financial research centers. The large number of young French professionals working in the trading rooms of banks and financial companies – both in France and in leading international financial centers – is attributable to the quality of training in French universities and higher education research establishments.

Paris EUROPLACE has launched a scientific cluster dedicated to "FINANCE & INNOVATION". This cluster gathers all the Paris financial marketplace players, banks, insurance companies, asset management companies, universities, and financial academic research centers. This is another step towards the development of the Paris financial markets. The goal of this cluster is to create high added value and innovative industrial and research projects. It will be fully operational in September 2007.

Finally, France is currently viewed as one of the best business hubs for accessing the Euro zone financial markets, due in large part to the favorable legal environment it provides to international investors. Numerous legal and regulatory changes in recent years have focused on creating a marketplace that is both transparent and reliable, which fully meets international and European standards, and which has the investor protection as its primary goal.

CONTENTS

Executive Summary	p. 1
I. EUROPEAN FINANCIAL MARKETS: OPPORTUNITIES FOR GROWTH AND VALUE CREATION	
★ STRONG ECONOMIC FUNDAMENTALS	p. 2
★ NEW DEVELOPMENTS IN THE EURO CAPITAL MARKETS	p. 2
II. PARIS MARKETPLACE CONTRIBUTION TO EURO FINANCIAL MARKETS	
★ THE PARIS FINANCIAL MARKETPLACE PLAYS A KEY ROLE IN THE FRENCH AND EUROPEAN ECONOMIES	p. 3
The Financial Sector's, a Significant Role in Job Creation in France	p. 3
The Role of the Paris Marketplace in Financing the French Economy	p. 3
★ PARIS - A GLOBAL FINANCIAL CENTER	p. 4
Equity Markets	p. 4
Fixed Income Markets	p. 5
Treasury Securities	p. 5
Corporate Bonds	p. 6
Covered Bonds	p. 6
Securitization and Structured Finance	p. 6
Commercial Paper	p. 6
Interest Rates Derivatives Market	p. 6
Islamic Finance	p. 7
The French Asset Management Industry	p. 7
Private Equity	p. 8
Other Paris Financial Marketplace's Areas of Expertise	p. 9
Investment Banking	p. 9
Real Estate Investment	p. 9
Insurance	p. 10
An Efficient Regulatory Environment	p. 11
III. HOW TO ACCESS	p. 12

Graph 1

A LIST OF THE CAC 40 COMPANIES

ACCOR	CREDIT AGRICOLE SA	LVMH	SUEZ
AIR FRANCE - KLM	DEXIA	MICHELIN	TOTAL
AIR LIQUIDE	EADS	PERNOD-RICARD	UNIBAIL
ALCATEL-LUCENT	EDF	PSA PEUGEOT CITROËN	VALLOUREC
ALSTOM	ESSILOR INTERNATIONAL	PPR	VEOLIA ENVIRONNEMENT
ARCELOR MITTAL	FRANCE TELECOM	RENAULT	VINCI
AXA	GAZ de FRANCE	SAINT GOBAIN	VIVENDI
BNP PARIBAS	GROUPE DANONE	SANOFI-AVENTIS	
BOUYGUES	L'OREAL	SCHNEIDER ELECTRIC	
CAP GEMINI	LAFARGE	SOCIETE GENERALE	
CARREFOUR	LAGARDERE	STMICROELECTRONICS	

Source: NYSE-Euronext, as of June 2007

The CAC 40, which takes its name from Paris Bourse's early automation system Cotation Assistée en Continu (Continuous Assisted Quotation), is a French stock market index. The index represents a capitalization-weighted measure of the 40 most significant values among the 100 highest market caps on the Paris Bourse. Its base value of 1,000 was set on 31 December 1987. As of 1 December 2003, the index has become a free float weighted index.

Although CAC 40 is composed of French companies, about 45 % of their shares are owned by foreign investors. German investors share the largest part of it at 21 %. Japanese, American and British investors are also important owners – this percentage is unusually high. The explanation can be in the fact that CAC 40 companies, or multinational, are more international than any other European market. Many of these companies conduct business outside of France (63 % of the CAC 40 companies' employees are outside of France).

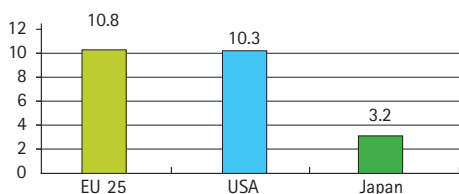
Graph 2

EURO ZONE POPULATION AND GDP

	POPULATION in million of habitants	GDP in € bn
Austria	8.2	245.1
Belgium	10.5	298.5
Finland	5.2	157.2
France	62.8	1,717.9
Germany	82.5	2,241.0
Greece	11.1	181.1
Ireland	4.1	161.3
Italy	58.5	1,423.0
Luxembourg	0.5	29.4
Netherlands	16.3	505.6
Portugal	10.5	148.9
Spain	43.4	905.5
EURO AREA	313.6	8,014.5

Graph 3

**The Weight of the European Economy
(GDP, in thousand € bn)**



Source: OCDE, 2006

**I. European Financial Markets:
Opportunities for Growth and Value
Creation**

Eight years after the introduction of the Euro, the European currency plays a major role in the international capital and foreign exchange markets, and as an international financing currency. There are also signs of its increasing use as an international invoicing and settlement currency.

★ **STRONG ECONOMIC FUNDAMENTALS**

The Euro zone includes 12 countries and over 300 million citizens. It is the largest trading unit in the world economy as it accounts for more than 19 % of world exports.

The efficient macroeconomic structure of the Euro zone has made the European economies more homogeneous and reduced the risk of macroeconomic imbalance. As a result, the Euro zone is characterized by strong economic fundamentals. >See Graph 2

GDP data for Euro zone indicates that economic growth accelerated in 2006, with 2.9 % growth rate, compared to 1.6 % in 2005. Among the strongest and largest European economies, France recorded a growth rate of 2.2 % in 2006, compared to 1.7 % in 2005. 2007, French economy expects a growth rate of 2.0 %. >See Graph 3

Recent data confirm the role of the Euro as an international settlement currency. Between 50 % and 60 % of goods and services traded between the Euro zone countries and the rest of the world were settled in Euros. This is true for both exports and imports. In countries where the use of the Euro as a medium of exchange is particularly significant, such as Central and Eastern European countries, 60 % to 80 % of exports and imports were settled in Euros.

★ **NEW DEVELOPMENTS IN THE EURO CAPITAL MARKETS**

According to BIS statistics, the Euro represents 25 % of total central banks currency reserves in 2006, compared with 64 % for the dollar. This represents a significant increase over the figure of 12.6 % in 1999. Since it allows public-sector investors to diversify their reserve assets, use of the Euro enables countries to protect themselves from wide exchange-rate fluctuations. Moreover, it constitutes a stabilizing factor for the international monetary and financial system as a whole. >See Graph 4

The Euro plays a key role in the international capital markets:

- In 2006, the Euro accounted for almost 41 % of gross issues of long-term international debt securities, compared with 24 % in 2002. Another significant development is the emergence of a corporate bond market in the Euro area, with a substantial increase in volume in the past few years.
- On the equity side, the outstanding amount of listed issued by Euro area residents was € 3,250 billion in 2006.

Today the Euro zone, and more broadly the European Union, have a harmonized financial structure. The implementation of the Financial Services Action Plan (FSAP) defined by the Lisbon European Council will soon be completed. Thereafter, the Lamfalussy process will provide a new institutional architecture for financial regulation and help develop flexible and uniform technical rules.

II. Paris Marketplace Contribution to Euro Financial Markets

With the introduction of the Markets in Financial Instruments Directive (MiFID) in Europe, the increasing role played by investment funds, and the rising international importance of Asian financial centers (India, China, Japan...), the Paris marketplace is prepared to face the challenge of a worldwide financial environment in constant evolution. This hands-on approach explains why Paris ranks among the leading financial centers in the world.

★ THE PARIS FINANCIAL MARKETPLACE PLAYS A KEY ROLE IN THE FRENCH AND EUROPEAN ECONOMIES

The Financial Sector, a Significant Role in Job Creation in France

In France, the financial industry represents 4.8 % of national GDP and 730,000 jobs. This is equivalent to 4.6 % of the working-age population.

The financial sector is currently one of the key French industries for job creation: the number of new jobs created since the introduction of the Euro in 1999 has averaged 40,000 workers per annum. [See Graph 5](#)

[See Graph 6](#)

The Paris area is at the heart of financial activities in France. The economic importance of this region is considerable: 15 % of regional GDP and 6.4 % of regional jobs (i.e. 250,000 employees).

The Paris financial market environment fosters the development of highly technical financial products, based on a long tradition of innovation, which is made possible by availability of highly skilled personnel. This situation has attracted a large number of first class international managers and employees - engineers, IT specialists, mathematicians... - to Paris. As a result, the Paris financial market has been able to develop a unique expertise in the fields of alternative asset management, multi-management, equity derivatives, etc.

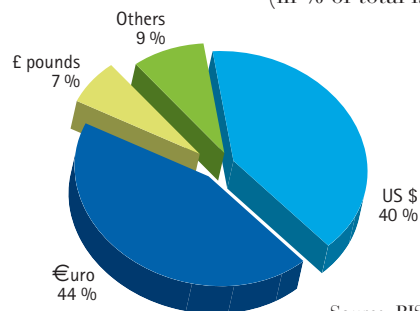
The Role of the Paris Marketplace in Financing the French Economy

New methods of financing the French economy are developing at an increasing pace. The financial markets are progressively playing an important role in providing capital to businesses, the State, and local authorities. It is estimated that, at the end of 2006, the French economy was financed as follows:

Bank finance: loans granted to companies and private individuals accounted for € 1,400 billion, which is equivalent to 80 % of French GDP.

Graph 4

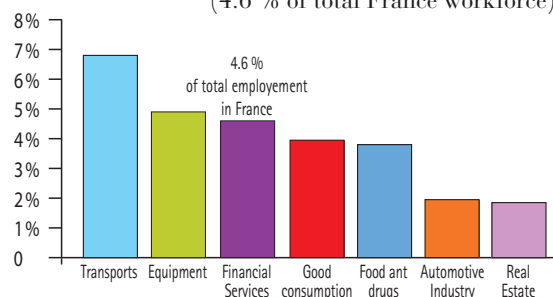
The Euro an International Currency (in % of total issues)



Source: BIS, 2007

Graph 5

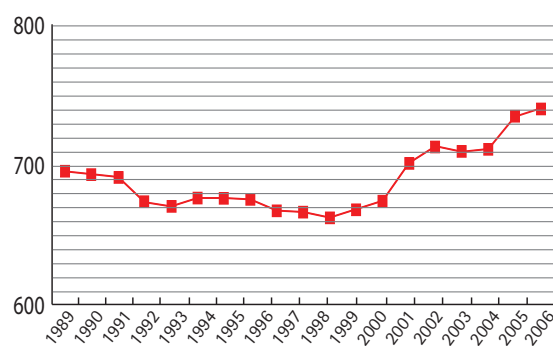
Financial Services Represent (4.6 % of total France workforce)



Source: INSEE, 2006

Graph 6

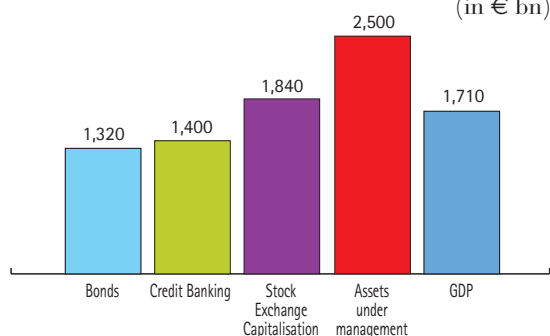
Financial Services Employment (since the launch of the euro in 1999)



Source: INSEE, 2006

Graph 7

French Economy's Financing Sources
(in € bn)



Source: Banque de France, Euronext, Eurostat, AFG, AMF

Market finance: this source of finance is on the rise, as illustrated by the following statistics:

- Fixed income debt: € 1,320 billion (78 % of GDP);
- Market capitalization: € 1,710 billion (100 % of GDP), with some 800 companies listed on NYSE-Euronext in Paris;
- Capital raised on financial markets: € 340 billion in 2006;
- 90 SME stock market IPOs took place in 2006, 57 of which were on Alternext (the Paris market dedicated to growth stocks);
- The private equity capital sector invested more than € 10 billion in growth and innovative companies in 2006, versus € 750 million 10 years ago. 1,250 businesses have benefited and 60,000 new jobs have been created. >See Graph 7

The French asset management industry has € 2,500 billion in assets under management (i.e. 140 % of GDP) and thus plays a crucial role in financing the economy and constitutes a source of highly-skilled jobs. It ranks number two in the world for mutual asset management, after the United States, with over € 1,500 billion in assets under management.

The insurance sector also plays a leading role on the economic front, both in terms of offering insurance services and financing the economy. Life insurance, in particular, is one of the biggest sources of finance for French businesses. 30.2 % of the € 1,400 billion in assets held by insurance companies are invested in corporate bonds and 22.5 % in equities. At the end of September 2006, insurance company assets represented by securities in innovative and strong-growth SMEs were equivalent to € 17.6 billion, double the figure reported two years earlier.

Real estate assets held by institutional investors (insurance companies, listed real estate companies, non-listed funds) amount to some € 125 billion. Investment inflows into the French real estate market have surged from € 1 billion to € 23 billion in 10 years, which represents an annual increase of 30 %. Foreign investors have a strong position in the French financial markets. More than 40 % of the market capitalization of the Paris marketplace is held by international investors. Those investors also own over 60 % of the French State's tradable debt (i.e. € 550 billion).

Dynamic financial markets also help the French State to get financing under the best conditions. At the end of May 2007, the French State's tradable debt outstanding amounted to € 890 billion in the form of Treasury Bonds and OATs. Local authorities (cities and regions) are major issuers of debt securities in the international financial markets.

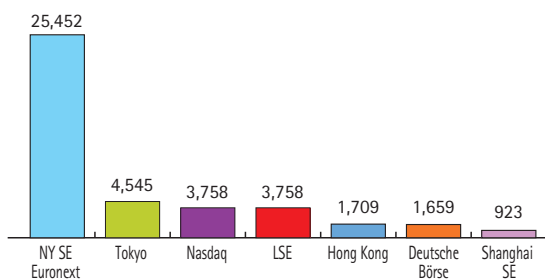
★ PARIS - A GLOBAL FINANCIAL CENTER

Equity Markets

The NYSE-Euronext merger in 2006 is a major event since it gives rise to the premier stock market in the world and comprises 7 national stock exchanges that are based in 6 countries. The new entity is the multi-product stock exchange operator: its listed companies (80 of the world's top 100 listed companies) represent total market capitalization of € 21 trillion. The market capitalization of the new entity exceeds the combined market capitalization of London, Tokyo, NASDAQ and

Graph 8

Stock Exchange Market Capitalisation
(in € bn)



Source: FIBV, 2006

Deutsche Börse. By comparison, 35 of the top 100 global corporations are listed in London and 16 in Tokyo. [See Graph 8](#) [See Graph 9](#) [See Graph 10](#)

Euronext, the prime source of liquidity in Europe Cash transactions

In 2006, Euronext was Europe's leading financial market in terms of the number and value of equity transactions traded via an electronic order book. At the end of 2006, the combined market capitalization of the 1,210 companies listed on Euronext markets was 22 % higher than in 2005, rising to € 2,812 billion.

In 2006, Euronext was the Euro zone's leading market in terms of capital raised by IPO's. The 142 companies recently listed on Euronext have raised a combined € 21.4 billion in new capital. This has boosted market capitalization by € 96 billion.

Alone, Alternext, the market dedicated to small and medium-sized companies, recorded 57 IPO's, including those of two foreign companies. This brings the total number of companies listed on this market to 75. The Alternext All-Share Index, which was launched in September 2006, has advanced by 28 % on an annualized basis.

Advantages expected from the new NYSE-Euronext stock exchange platform:

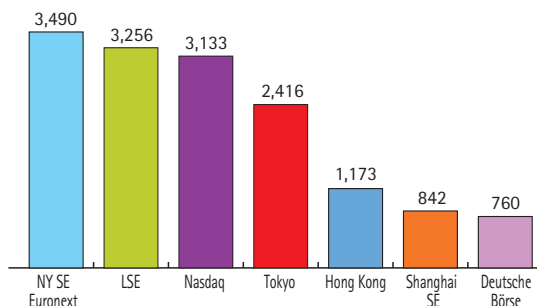
- **International visibility:** today, issuers listed on Euronext markets will benefit from global visibility as opposed to European visibility, notably in the case of companies not listed in the United States. The prices of all the stocks listed on Euronext and the NYSE will be published in a composite list in both zones. Visibility will also be enhanced by the creation of a range of global high-profile indices including large-cap and mid-cap stocks.
- In more general terms, companies listed on NYSE-Euronext stand to benefit from the NYSE's reputed expertise in the field of marketing and promoting listed companies. As a result, the positive impact will extend to more than purely stock exchange aspects.
- **The world's leading source of liquidity:** the creation of a single trading platform will generate a substantial increase in liquidity which can reasonably be expected to increase by 20 % within the next 3 years.
- Moreover, the synergy expected from the merger between the NYSE and Euronext will pave the way for a 10 % to 15 % reduction in commissions over the next two years (the time necessary for the implementation of a joint system). This will represent savings of approximately € 215 million per annum, largely as a result of the introduction of a computer systems integration program aimed at rationalizing the infrastructure and systems used for the trading activities of the new group.
- **A high level of flexibility for investors:** NYSE-Euronext offers international investors a high level of flexibility. The new combine will be able to provide 13 hours of continuous quotations a day in two continents, as well as making it possible to carry out transactions in two of the world's leading currencies (i.e. the US dollar and the Euro).

Fixed Income Markets

Since the launch of the Euro in 1999, the Paris marketplace has gained an enviable reputation for its dynamism throughout the Euro-denominated yield curve.

Graph 9

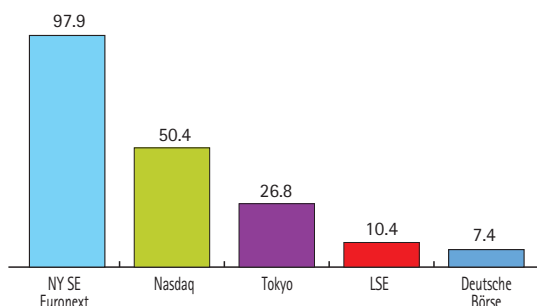
Number of Listed Companies (in € bn)



Source: FIBV, 2006

Graph 10

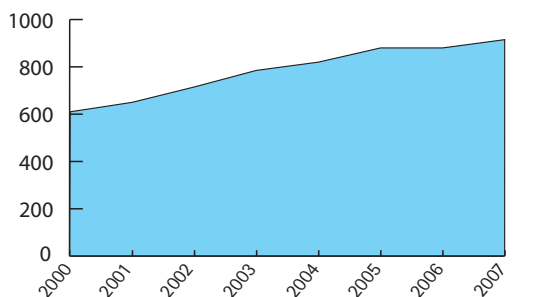
Value of Equity Trading (in € bn)



Source: FIBV, 2006

Graph 11

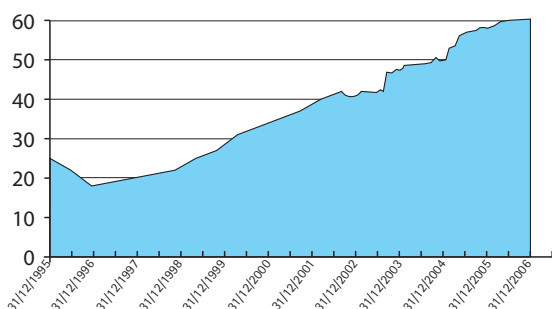
French Government Negotiable Debt
(outstanding in € bn)



Source: AFT, 2007

Graph 12

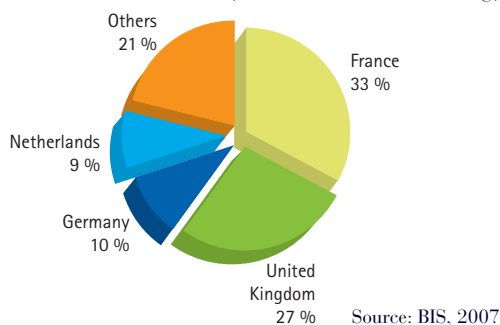
Non-Resident Holdings of French Government Negotiable Debt Securities
(in € bn)



Source: AFT, 2007

Graph 13

European Corporate Bond Market
(in % of total outstanding)



Source: BIS, 2007

TREASURY SECURITIES

Agence France Trésor (the French Treasury), which is responsible for the management of the French State's debt, has been adopting an innovative issuance policy. France was the first Euro zone country to issue a 50-year Sovereign bond. The issue was heavily subscribed to by international investors, who were consequently able to extend the duration of their Euro-denominated portfolios.

The French State was also the first country to issue inflation linked bonds in France, the Euro zone, and the rest of Europe. Inflation-indexed products comprise maturities of up to 30 years. All these products have achieved an excellent performance and are attracting a growing number of investors. For this reason, the French sovereign debt market is the most liquid in the world, after the US market.

On the whole, the French government negotiable debt market represents almost € 920 billion – OATs account for € 630 billion and Treasury bonds for € 290 billion. International investors hold more than 60 % of the French securities, which makes them the biggest investors in the French government negotiable debt market. [See Graph 11](#) [See Graph 12](#)

CORPORATE BONDS

The French corporate bond market is the largest in Europe. It represents an outstanding market value of EUR 250 bn, compared with EUR 180 bn in London and € 80 billion in Frankfurt. [See Graph 13](#)

COVERED BONDS

The covered bond market is expanding rapidly. The outstanding market value has escalated to more than € 160 billion, versus € 30 billion at the end of 2000. This growth is largely due to the size and the importance of the French players such as Crédit Foncier, the second largest European issuer of covered bonds, Dexia Municipal Agency, BNP Paribas Covered Bonds (a recent market entrant), and to changes in French legislation concerning the extension of assets that qualify for refinancing via covered bonds.

In 2006, issuance of covered bonds surged by nearly 40 % to almost € 34 billion over the year as a whole.

SECURITIZATION AND STRUCTURED FINANCE

The French securitization and structured finance market stands out for its dynamism, notably in the ABS and CMBS (mortgage-backed securities) categories. [See Graph 14](#)

The annual average issuance volume in this market has been equivalent to some € 15 billion over the last 3 years. According to the forecasts of Moody's Ratings, this trend is expected to continue and is likely to concern all products.

COMMERCIAL PAPER

The French commercial paper market is the largest in Europe. At the end of 2006, it represented securities in circulation worth € 460 billion. The international issuers are increasingly numerous in this product category, which currently accounts for more than 20 % of issuance. [See Graph 15](#)

At the short end of the yield curve, Paris is one of the foremost centers of euro-denominated liquidity as a result of the dynamism of its interbank market: 10 of the 57 key banks on the European panel used to calculate Eonia and Euribor rates are French. French banks account for approximately 36 % of trading volume on the overnight market.

INTEREST RATES DERIVATIVES MARKET

The combined impact of the expansion of the French derivatives market, product innovation, greater speed in the execution of orders, and the broadening of the Paris area investor base have contributed extensively to transform Paris into a leading interest rates derivatives market.

2006 was a record year for Euronext.LIFFE: Euribor contracts increased by 50 %. These contracts are a benchmark for Euro-denominated derivative products, as testified by the extension of trading hours for this category of contracts, in order to meet growing demand for derivatives contracts from Asia.

Investor appetites are increasing and market expansion is gaining momentum this year: since the beginning of 2007, more than 191 million interest rate derivative contracts have been recorded, which represents an 11.3 % increase relative to the same period in 2006. [See Graph 16](#)

Since the launch of the Euro, the Paris financial market has also gained an excellent reputation for its highly active over-the-counter (OTC) fixed-income and forex instruments market. According to the latest BIS statistics, Paris ranks fourth worldwide.

Average daily trading volume represents \$154 billion, more than 3 times as many as in 1999. Activity has increased in all instruments: interest rate swaps are the most frequent contracts, for a total of US\$ 120 bn or 77 % of total over-the-counter derivatives transactions in the Paris financial market.

Trading in Euro futures contracts has proved to be extremely robust: 47 % of currency futures contracts are on the USD/EUR exchange rate. [See Graph 17](#)

ISLAMIC FINANCE

Islamic finance, which is experiencing extensive growth worldwide, is developing rapidly in Paris, as may be seen in the € 250 million financing of the "Rive Défense" real estate development using "Sharia Compliant" vehicles.

Today, all of France's major banks, including Calyon, Natixis, Société Générale, Crédit Agricole and BNP Paribas offer Islamic financial products, and develop partnerships with the Middle East's principal Islamic financial institutions. In the years to come, the Paris financial market should position itself as a key global actor in Islamic finance.

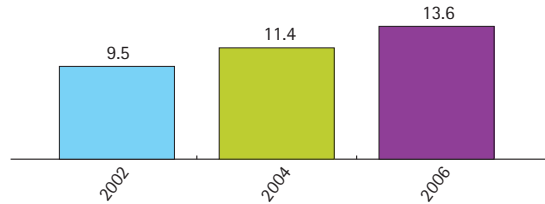
The French Asset Management Industry

The highly-innovative French asset management industry is at the forefront of the development of new types of techniques and products tailored to changes in demand and market conditions: Structured funds, master-feeder funds, private equity funds, alternative investment funds, socially responsible investment funds, real estate funds, managed futures funds...

With nearly € 2,450 billion of assets under management at year's end, the French asset management industry expanded 14 % in 2006, for its fourth consecutive year of double-digit growth. This applies to both collective investment management (up 17 % to nearly € 1,450 billion), and discretionary management, with an estimated growth of 10 %. As a result, the industry has grown by a factor of 5 in the last 10 years, from € 511 billion in 1996 to some € 2,450 billion last year. France and Luxembourg together accounted for more than 90 % of total fund subscriptions in Europe, with 40 % for France and the remainder for other countries via Luxembourg. [See Graph 18](#)

Graph 14

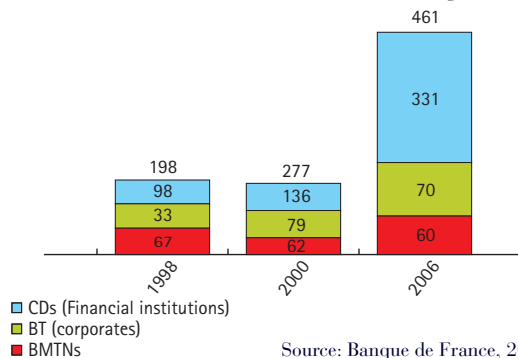
Structured Finance in France (in € bn, volume issued)



Source : MOODY'S 2007

Graph 15

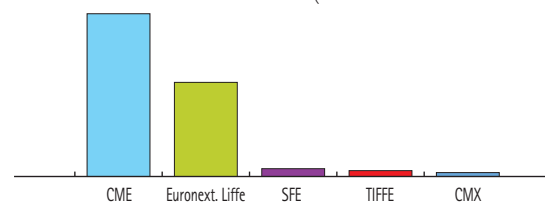
French Commercial Paper Market (outstanding in € bn)



Source: Banque de France, 2006

Graph 16

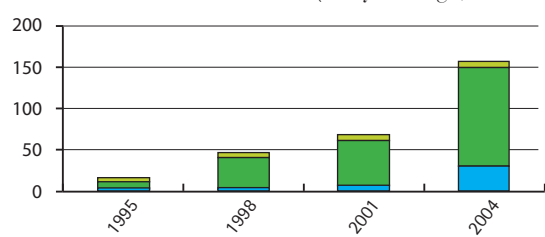
Short Term Derivatives Market (in millions of contrats)



Source: FIBV, 2006

Graph 17

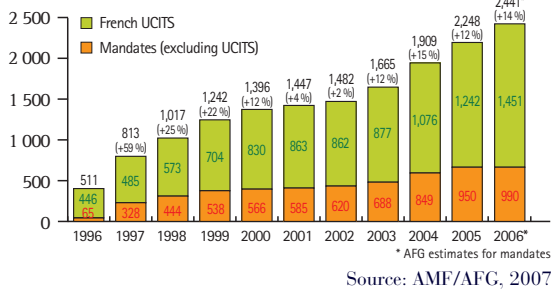
OTC Interest-Rate Derivatives (daily average, in \$ bn)



Source: BIS, 2004

Graph 18

Assets undermanagement in the French Market (in € bn)



An analysis of assets under management in France by fund category shows a steep increase for regulated funds of hedge funds (FoHFs), up to € 26.5 billion. This growth was spurred by the introduction of innovative legislation in France and also by burgeoning demand from institutional investors for FoHFs, which are uncorrelated with general market trends and provide access to new asset classes. [See Graph 19](#)

At the international level, French firms have solidified their leadership position for fund management in Europe. They have more than 20 % of the European market, which is almost as large as the US market in terms of assets under management. Major French management companies have built up strong momentum in recent years. The 5 largest firms now rank among the top 25 asset managers worldwide, operating not only in Anglo-Saxon countries but also in new fast-growing markets in Asia.

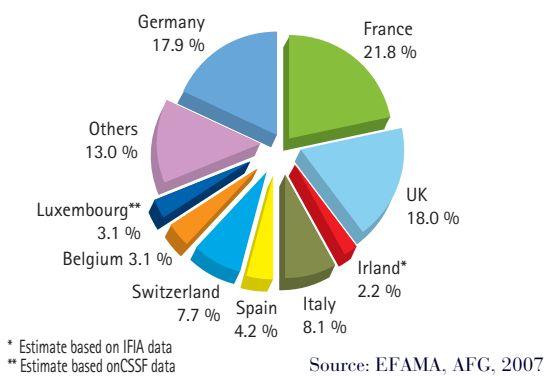
On the other hand, the number of foreign asset management companies operating in Paris is also on the rise: these companies account for 20 % of the total number of companies operating in Paris and have a market share of 18 %.

The combination of the above has turned the Paris financial market into a hub of financial innovation. Innovation is fostered by a highly-pragmatic regulatory system, as attested by recent reforms to commitment ratios and investment rules for UCITS, plus:

- The introduction of Real Estate Mutual Funds (OPCIs), will make it possible to broaden and update the offering of investment products.
- The development of alternative investment funds, where assets under management have doubled in 3 years: € 26.5 billion. [See Graph 20](#)
- As far as concerns private equity funds, the active profile of management teams has been enhanced by highly favorable economic conditions. That said the explosive growth in Paris of these instruments has been underpinned by innovation.
- Socially Responsible Investment (SRI) funds are also expanding rapidly in France. In 2006, assets under management of open SRI funds rose by nearly 30 %, almost reaching € 13 billion. More than 140 SRI funds are now available on the market. [See Graph 21](#)

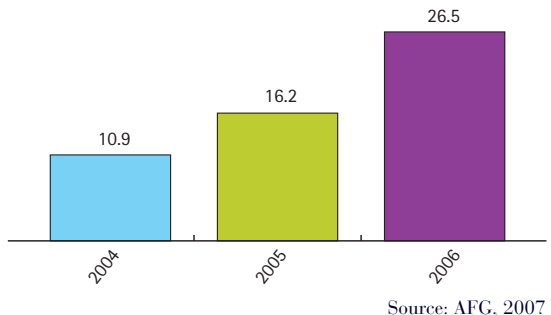
Graph 19

European Asset Management Industry (in € bn)



Graph 20

French Hedge Funds Market (in € bn)



Private Equity

The Paris financial market has for many years been making major advances in the field of financing innovative companies.

In 2006, private equity activity in France gained further momentum. New records were reached: more than € 10.2 billion was invested in 2006, which represents an increase of 26 % compared to 2005. This means that 1,376 businesses in the process of being created, developed, transferred, or turned around were given support in 2006. This translates to a 10 % increase compared to 1,250 in 2005.

In 2006, almost 80 % of financial businesses were SME/SMLs with less than 250 employees and sales under € 50 million. More than 40 % of the companies supported by private equity capital have an innovative or technological profile (information technology, telecoms and communication, medical/biotechnology). New projects still account for the bulk of private equity capital activity: 86 % of total investment. [See Graph 22](#)

Other Paris Financial Marketplace's Areas of Expertise

INVESTMENT BANKING

Largely due to the presence of leading banking sector players with strong positions in European markets (BNP Paribas, Société Générale, Crédit Agricole, Natixis), the French investment banking market is one of the leaders in Europe, even though it is exposed to international competition. [See Graph 23](#)

The Paris marketplace has a number of acknowledged strengths in this area:

- Position as world leader for equity derivatives: 25 % of world credit derivatives activity is carried out by French banks.
- Highly-reputed financial analysis of French stocks: the excellence of the research teams is widely recognized by issuers and by domestic and foreign investors alike.

- The strong presence of French institution in custodian bank services: 6 of the 14 leading global custodians are European, 3 of which are French. As a result of their strong position, French custodian establishments can develop a fully-comprehensive range of services related to this activity.

- A major source of potential issuers: France is a leading developed economy and boasts top-flight global issuers. Because a large number of French and foreign companies are based in Paris, the region is number two in the world for headquarters of major corporations [See Graph 24](#)

France is also the European leader for privatizations. Operations of this kind, which are often large-scale, provide Paris financial markets with new investment opportunities every year: [See Graph 25](#)

- A high level of savings: the saving rate in France emerged at 15.0 % in 2005, compared to 16.5 % in Germany, 5.5 % in United Kingdom and 2 % in United States. As a result, assets under management proved to be substantial. On this front, France is ranked fourth globally.

- Developments in the Euro-based market in Paris, via the intervention of major international banking teams in the field of fixed income and credit derivatives products.

- Increasing M&A (mergers and acquisitions) activity, industrial restructuring in Europe, and a rising level of privatizations.

- The creation of new real estate investment products, in particular through listed real estate companies.

- The quality of training and research: France has access to extremely highly qualified human resources due to the excellent training provided by its universities and higher education establishments. There are more than 150 financial training programs at the third-cycle level. France has more than 100 financial research centers and entities and 1,000 academic researchers in the financial sector.

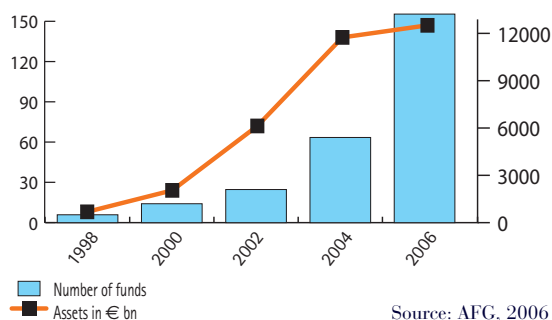
REAL ESTATE INVESTMENT

Investment flows growth is equivalent to 30 % per annum

Real estate assets held by institutional investors in France (insurance

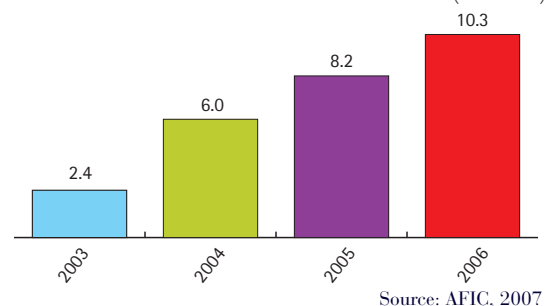
Graph 21

Socially Responsible Investment (SRI) (in € bn)



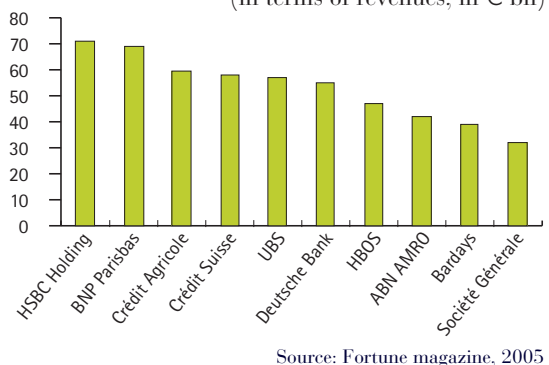
Graph 22

Venture Capital in France (in € bn)



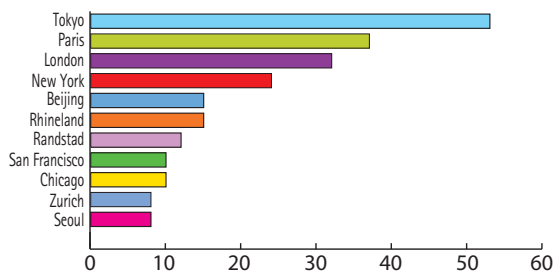
Graph 23

The 10 European Largest Banks (in terms of revenues, in € bn)



Graph 24

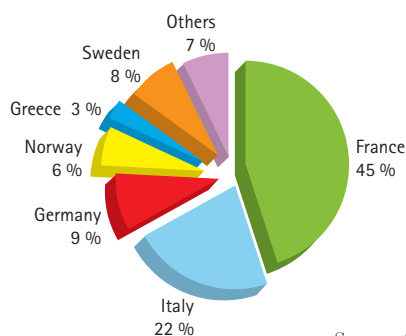
Headquarters Location in the World



Source: Fortune 500, 2006

Graph 25

European Privatization Market 2004-2007
(in % of total raised amounts)



Source: APE, 2007

companies, listed real estate companies, non-listed funds) amount to approximately € 125 billion. Slightly more than 20 % of this figure is accounted for by residential property and the rest by commercial property.

The French real estate investment market is the third largest in Europe, after the United Kingdom (total value of almost € 360 billion) and Germany (€ 270 billion). Investment flows into the French market are increasing rapidly. Within 10 years the amount has jumped from € 1 billion to more than € 23 billion, this represents an annual increase of 30 %.

Real estate appears to be in the process of becoming a financial asset class in its own right (similar to traditional major asset classes such as equities and bonds). Due to the fact that the real estate cycle lags behind those of the equity and bond markets, this sector attracts investor interest as a means of portfolio diversification and performance stabilization, in the same manner as hedge funds and private equity funds.

The introduction of SIIC (French REITs) and OPCI (non-listed funds) tax regimes has boosted investment inflows further and sparked a shift in the ownership of real estate assets from owner-occupants to investors. As a result, the size of the real estate investment market could triple over the medium term.

Leading real estate players

The combined market capitalization of listed French real estate companies amounts to almost € 30 billion. Non-listed funds (SCPI) also rank second in Europe, with assets under management of € 13 billion.

Two of the five leading real estate asset management companies in Europe are French: AXA REIM and IXIS AEW. AXA Investment Managers, the parent company of AXA REIM, has successfully launched the first real estate index (listed real estate companies) tracker fund: EPRA Euro zone.

French banks, notably BNP Paribas and Calyon, are also extremely active issuers of certificates on listed real estate company indices. Furthermore, most leading French banks have created powerful real estate departments by bringing together their financial intermediation and real estate asset management operations.

INSURANCE

France is a key force in the European insurance market. In 2006, the French insurance sector achieved sales of € 176.1 billion (+11.3 %). Sales of companies that specialize in reinsurance amounted to € 7.8 billion. Contributions received outside France by subsidiaries of French insurance and reinsurance groups emerged at € 68.1 billion.

According to the latest figures available for 2005, the French insurance market is the fourth largest in the world (6 % of worldwide contributions), after the United States (33.8 %), Japan (15.2 %) and the United Kingdom (9.1 %). [See Graph 26](#)

Insurance companies play a leading role in Paris financial markets. In 2006, which was a year of stock market buoyancy and low interest rates, the investments of insurance companies rose sharply, due to growth in the personal insurance segment.

Assets under management jumped by € 155 billion, in market value terms, between the ends of these 2 years. The total amount of assets managed (i.e. commitments towards policyholders and shareholders' funds) by French insurance companies is estimated to have reached

€ 1,285.1 billion at the end of 2006 (in market value terms). This represents an increase of almost 14 %.

Insurance companies are thus France's biggest investors. The main beneficiaries are industrial and commercial companies, which account for half of the insurance company investment.

An Efficient Regulatory Environment

The Paris Financial marketplace is very committed to financial innovation. It has been developing for years strong businesses in equity, fixed-income derivatives, and a high competitive advantage in the field of asset management. Regulation has strongly supported these developments.

The modernization of the Paris Financial market Authorities supervising financial activities is one of the major recent reforms. The Autorité des Marchés Financiers - AMF -, being the French Financial Markets Authority has the role to garanty investor protection and ensure the orderly operation of financial markets.

The most recent and important development in the Paris Financial market is the implementation into the French law of the European Directive, Markets in Financial Instruments Directive - MiFID -. It will take effect in November 2007. MiFID pursues several goals, in order to:

- Create a true Single Market in which services can be provided freely and instruments traded across borders.
- Promote the emergence of an efficient, transparent and integrated financial trading infrastructure.
- Establish a high level of investor protection and confidence.
- Strengthen enforcement and supervisory cooperation.

The Paris Financial marketplace has dramatically improved its markets transparency, with the implementation into the French law of the European Transparency and Prospectus Directives. This will reinforce the information issued by companies to the markets.

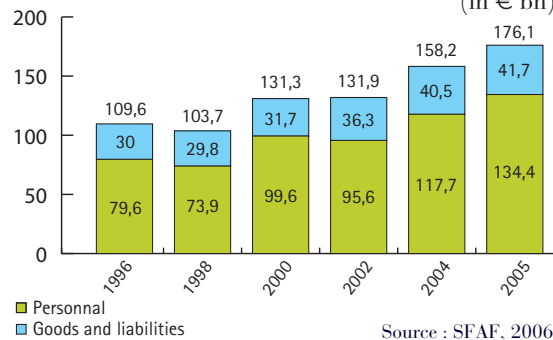
Much progress has been achieved to reinforce international investors' confidence. Today, all listed French companies publish their consolidated statements according to IFRS (International Financial Reporting Standards).

In terms of corporate governance in France (even amongst mid-sized companies), corporate governance methods have made progress in France. The main conclusions that may be drawn from the AMF report published in 2006, which analyzed more than 100 companies listed on the CAC 40 (Eurolist and Alternext indices), are as follows:

- The boards of 80 % of the sample companies, versus 76 % in 2005 include independent managers, and the boards of more than half these companies are largely independent.
- Information on the number and nature of the mandates executed by board members is provided by nearly 90 % of the sample companies.
- Three quarters of the companies specify the attendance rate of managers at board meetings: 83 % on average. In most cases, they specify that all documents, technical files and the information necessary for the accomplishment of management assignments, together with

Graph 26

Change in France Insurance Sales (in € bn)



FRENCH FINANCIAL MARKETS ORGANIZATION

	Banks	Investment Services Cies (brokers)	Investment Funds	Issuers
Agreement (Banque de France)	CECEI (Banque de France)*	CECEI	AMF	AMF
Disclosure, programs of operations	Banking Commission / CECEI (Banque de France)	AMF	AMF	AMF
Prudential control & regulation	Banking Commission (Basel in regulation)	Banking Commission (Banque de France)	AMF	AMF

* sending of documents to the AMF for activity program approval
 + verification of the management integrity.
 * in parallel, request of European passport.

the agenda of a given meeting, are communicated before hand. These documents are usually made available one week in advance.

- Three quarters of the sample companies have an audit and/or remunerations committee. The figure is 10 % higher than it was in 2005.
- The number of companies stating that they assess their board's performance has doubled since 2004.
- In the same manner, virtually all the companies provide detailed and specific information on the remuneration of their managers.

III. HOW TO ACCESS

There are many ways of accessing the French market, depending on the type of activity of the company and its domicile.

- For banks and investment companies: institutions based in Member States of the European Economic Area (EEA) benefit from mutual recognition of authorizations. For countries domiciled outside the EEA, authorization by the CECEI (French Credit Institutions and Investment Firms Committee) is necessary.
- For insurance companies: for companies domiciled in a Member State of the EEA, authorization by the authorities in country of domicile is sufficient. However, they must name a general representative domiciled and resident in France to represent them in the country. For companies wick are not based in the European Economic Area, approval by the French insurance companies committee (Comité des Entreprises d'Assurance - CEA) is necessary.
- For asset management companies: the access procedures have been simplified. The AMF (the French market regulatory body) is the competent authority that grants approval to operate. The AMF takes several factors in considering an application: the legal form of the company, its place of domicile, the type of activity planned (third-party asset management or own-account management)...

As far as tax agreements and treaties between France and foreign countries: France has signed tax conventions with more than 100 countries. According to these conventions, all financial investment are expressly exonerated of any form of taxes:

- Non-resident investors are not subject to any taxation in France for transactions carried out on any instruments traded on the French Financial market, French equities, UCITS, and derivatives markets (Futures and options markets), providing that transactions do not involve a corporate institution liable for tax in France.
- Interest on treasury securities, (OATs, BTANs and BTFs) is exempt from the one-off flat-rate withholding tax.

Paris EUROPLACE offers welcome/assistance services to international companies, banks and other intermediaries who set up their activities in France. Paris EUROPLACE facilitates contacts with public Authorities and provides information related to the French financial sector: operation of markets, organization of the Paris financial market place, taxation applicable to international investors, regulation applicable...

PARIS
EUROPLACE

39, rue Cambon
75039 Paris Cedex 01
Tél. : (33) 1 49 27 11 14
Fax : (33) 1 49 27 11 06

www.paris-europlace.net

